OLD NORTH STATE TRUST

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THE ECONOMY AT A GLANCE

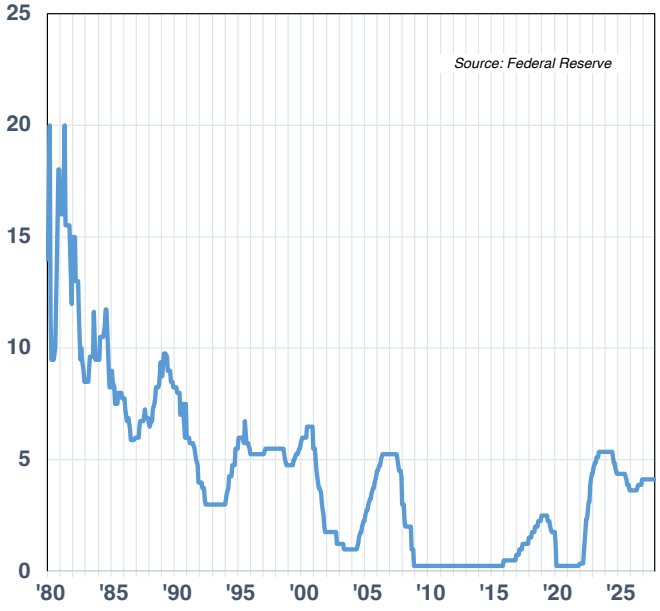
ECONOMIC HIGHLIGHTS

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A NEW FED CYCLE HAS BEGUN

After years of pressure on former Federal Reserve Chairman Jerome Powell to lower rates, the conventional wisdom was that the new Fed chair might be quick to bring interest costs down. Yet the Fed's first interest-rate move under Kevin Warsh was a hike. Yes, conditions have changed since the beginning of the year. There is now a war in Iran, disrupting supply chains and economies throughout the Middle East and sending oil prices up almost 75% year to date. And those higher energy prices are trickling through just about every part of the economy. The bond market has been pushing for higher rates for months, as the 2-year Treasury climbed from 3.5% early in the year to 4.65% recently. What's next for the fed funds rate? Looking at the record over the past 30 years, there has not been a rate-hike cycle with just one change. During that time, the Fed has raised rates during five different periods, in 1994, 1999, 2004, 2016, and 2023. Those five rate cycles averaged 27 months in length, or a little longer than two years. Rates have risen during these up-cycles on average 325 basis points. Will this time be different? We think that's likely. For one thing, rates are starting at a higher level than in previous cycles. In fact, in the previous two up-cycles, the fed funds rate started at zero. For another, we think that percolating inflationary pressures can cool off once the war in Iran is over and oil prices fall back to perhaps the $60-$70 level. Our outlook now calls for one more hike to the fed funds rate this year, and then for the central bank to move to the sideline in 2027.

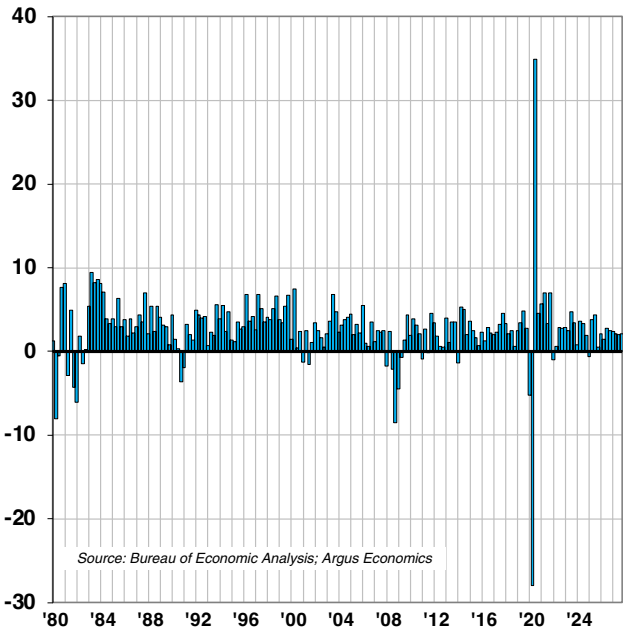
FEDERAL FUNDS TARGET RATE & FORECASTS (%)



THE U.S. ECONOMY: A GOOD MYSTERY

"If you too like a good mystery, then you like the U.S. economy." Those were the words of Tom Barkin, the president of the Federal Reserve Bank of Richmond in a speech last month. Mr. Barkin, who will be a voting member on the rotating Federal Open Market Committee (FOMC) in 2027, shared his "deductions" on four mysteries in the U.S. economy, which are: remarkable resilience despite a slew of challenges; strong investment; the steady labor market; and stubborn inflation. These happen to be themes in our forecast for GDP to grow 2.2% (up from 2.1%) in 2026 and 2.2% again in 2027. We expect consumer spending to grow about 2% in both years, which is a solid performance considering inflation, modest wage growth, and rising interest rates. We are making a small reduction to our already cautious outlook for housing. We expect strong investment in Artificial Intelligence to continue, even with rising borrowing costs. Why? Companies anticipate returns on these investments that are substantially higher than their cost of capital. One thing we find mysterious is that new car sales have been strong amid high prices and rising rates. This could be because new car buyers tend to be from the affluent part of the K-shaped economy. A number of banks are experiencing weak demand for housing-related loans, and are generating business by offering attractive rates on car loans to buyers with strong credit. As for Mr. Barkin's sleuthing, he sees 4.1% unemployment and a record 59 months below 4.5% as a key to the economy's resilience. He notes strong earnings as a clue to strong business investment, and the delicate balance of slow labor demand and slow labor supply growth as clues to the steady labor market. As for inflation, the mystery, Barkin said, is not whether the Fed will get it back to 2%, but how.

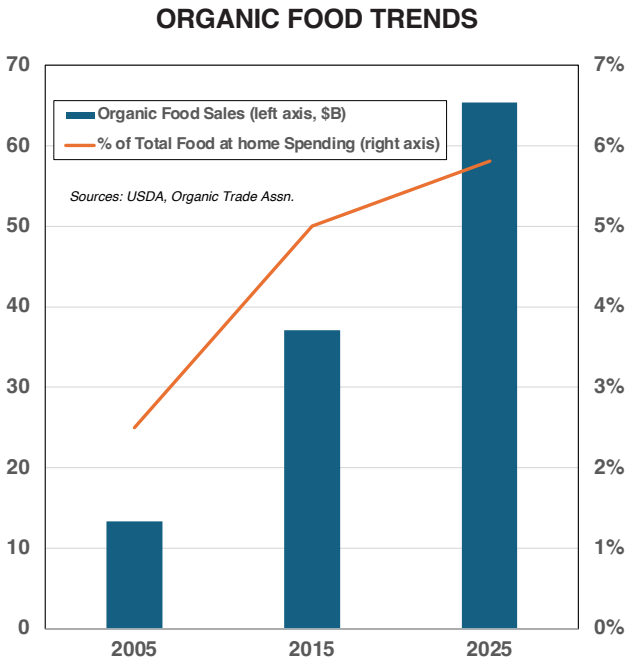
GDP TRENDS & OUTLOOK (% CHANGE)



FINANCIAL MARKET HIGHLIGHTS

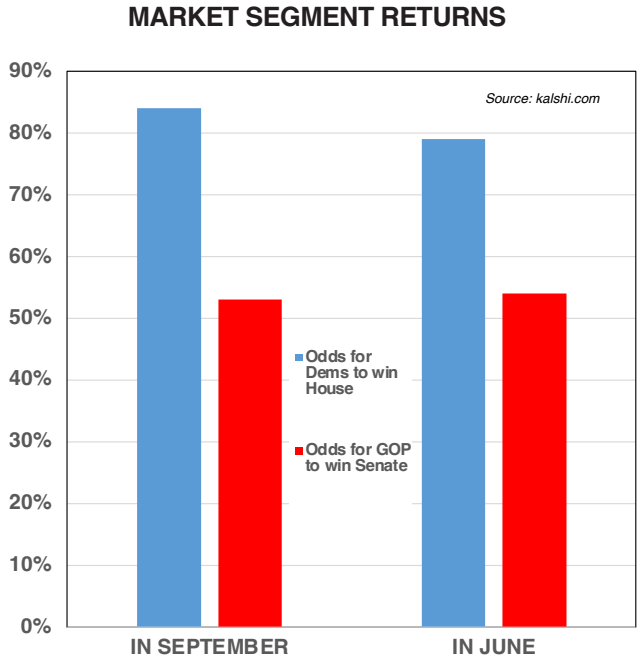
OPPORTUNITIES IN ORGANIC FOOD

The demand for organic food in America is rapidly increasing as consumers and families have made fundamental changes in health consciousness. The numbers indicate that organic food has transitioned from a niche lifestyle into an important economic driver. Drilling down, sales of organic food have grown at a compound annual rate of 9% over the past 20 years, to last year's total of $65 billion. As a percentage of the overall food-at-home spending category, organic food's share has increased from 2.5% to 5.8% during that time, as overall spending on food has increased at a 4% rate. Several factors are driving the trend. For one, diet has become a key component of personal wellness, and consumers are increasingly focusing on cleaner ingredients and nutrient density. For another, the price gap between conventional and organic goods has shrunk in recent years. For a third, mainstream retailers have caught on to the trend and are stocking more organic options; more than one-half of organic food sales now occur through mass-market retailers, supermarkets, or big-box club stores. We think the organic food trend, driven in part by younger generations that prioritize authenticity and ethical production, is durable and likely to continue into the foreseeable future.



GRIDLOCK ALERT

Midterm elections are coming this November. Currently, the Republican Party has control of all three major national political branches: the Presidency, the Senate, and the House of Representatives. But that is likely to change, as incumbent parties tend to lose votes in midterm elections, particularly when voter approval for the president is low, as is now the case. Indeed, the latest forecasts from prediction markets website Kalshi give the Democrats a better-than-80% chance to take over the House of Representatives, while the GOP is poised to narrowly hold on to the Senate. Historically in midterm election years, stocks have stumbled in early autumn on the prospect for change. The average S&P 500 return in the third quarter of midterm election years since 1980 is -1.5%, including a 5% slide in 3Q22. However, once the results are in, investors often respond positively to the likelihood of potential Washington gridlock (equating to low odds for major legislation affecting taxes, trade, regulations, the economy, or the markets) for the next two years. This positive sentiment often is reflected in relative outperformance in the final months of a midterm year, as 4Q S&P 500 returns have averaged 4.1% since 1980, including an 8% pop in 4Q22.



KEY ECONOMIC FORECASTS

- The $32 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in Artificial Intelligence. Nvidia CFO Colette Kress estimated, in May, that AI infrastructure spending is on track to reach $3 - $4 trillion annually by the end of this decade.
- Real Potential GDP – the sustainable speed limit of the US economy is poised to increase to 2.1%, on average, through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the labor force from an aging population and reduced immigration.
- Our 2026 gross domestic product growth forecast is 2.2% (up from 2.1%). Our 2027 forecast is unchanged at 2.2%. In an August 2026 speech, Tom Barkin, President of the Federal Reserve Bank of Richmond, cited the low 4.1% unemployment rate and a record 59 months with unemployment below 4.5% as a keys to the economy's resilience despite a "slew of challenges." President Barkin noted, "With jobs, consumers aren't feeling as much pressure to cut back."
- Argus expects S&P 500 EPS to rise almost 25% to $340 in 2026 and increase about 15% to $390 in 2027. EPS is helped by an increase in operating margins to about 19% this year. Growing tech giants such as MSFT and NVDA have higher margins than Dow stalwarts such as Walmart and Caterpillar. Argus expects the S&P 500 to trade in a range of 6,900-8,450 over the next 12 months. Our year-end 2026 price target for the S&P 500 is 8,000 based on a multiple of 20.5-times our 2027 EPS estimate.
- The Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate is 7.45%, below the average of 9.2% since 1949, but up from 6.7% in January. Unemployment is low at 4.1%. Inflation remains elevated at 3.4% in August, but it is below the recent peak of 4.2% in May.
- Gasoline prices at $4.50 a gallon are straining consumers pre-holiday spending. Inflation will be a key issue in fall elections for control of Congress. Looking ahead to 2027, the EIA outlook calls for a recovery in oil supply and ultimately a surplus. If that's the case, West Texas Intermediate likely will resume its secular downtrend. Our preliminary 2027 outlook is $70 a barrel down from $80 in 2026.
- The yield on the 10-year Treasury bond has jumped to about 5.0% from 3.95%, on February 27, before the escalation of the conflict with Iran. The 10-year has a bigger and more direct effect on the economy than an equivalent move in the fed funds rate.
- Gold, the ancient safe-haven asset, is likely to remain at high levels, in a range of $4,000 - $6,000 in 2026, amid buying by central banks, global uncertainty and concerns about the budget deficit.
- The Federal Open Market Committee voted 12-0 in September to raise the federal funds target by a quarter point to 3.75%-4.0%. Argus Fixed Income Strategist Kevin Heal expects one more hike this year before the central bank moves to the sideline in 2027. We expect the dollar to be to be flat-to-firmer over the next year helped by higher rates and demand for shares of innovative U.S. companies.
- What could go right? Low unemployment, strong S&P 500 earnings, ongoing innovation, spending by wealthy consumers, massive capital investment in Artificial Intelligence, and productivity gains.
- Risks: Higher interest rates, a pause in investment by AI companies, a weak housing market, inflation/strains on affordability, hostilities with Iran, and U.S. budget deficits raising national debt.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
17-Sep	Housing Starts	August	1,309K	1,300K	1,310K	**1,275K**
18-Sep	Industrial Production	August	1.1%	1.7%	NA	**1.4%**
	Capacity Utilization	August	76.3%	76.5%	76.4%	**76.3%**
	Leading Index	August	0.2%	-0.1%	0.1%	**-0.1%**
24-Sep	New Home Sales	August	607K	615K	610K	NA
25-Sep	Durable Goods Orders	August	13.0%	5.4%	NA	NA
29-Sep	Consumer Confidence	September	89.4	89.0	NA	NA
30-Sep	GDP Annualized QoQ	2Q "Final"	1.5%	1.5%	1.5%	NA
	GDP Price Index	2Q "Final"	6.4%	6.4%	NA	NA
	PCE Deflator	August	3.7%	3.8%	3.7%	NA
	PCE Core Deflator	August	3.3%	3.4%	3.4%	NA
	Personal Income	August	3.7%	3.8%	NA	NA
	Personal Spending	August	5.9%	6.2%	NA	NA
1-Oct	ISM Manufacturing	September	54.6	55.00	NA	NA
	ISM New Orders	September	53.7	54.0	NA	NA
	ISM Prices	September	71.1	71.0	NA	NA
	Construction Spending	August	-3.8%	-3.6%	NA	NA
2-Oct	Nonfarm Payrolls	September	162K	115K	107K	NA
	Unemployment Rate	September	4.1%	4.0%	4.2%	NA
	Average Weekly Hours	September	34.4	34.4	34.3	NA
	Average Hourly Earnings	September	3.1%	3.1%	NA	NA
	Factory Orders	August	9.9%	6.6%	NA	NA

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