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# OLD NORTH STATE TRUST

## THE ECONOMY AT A GLANCE

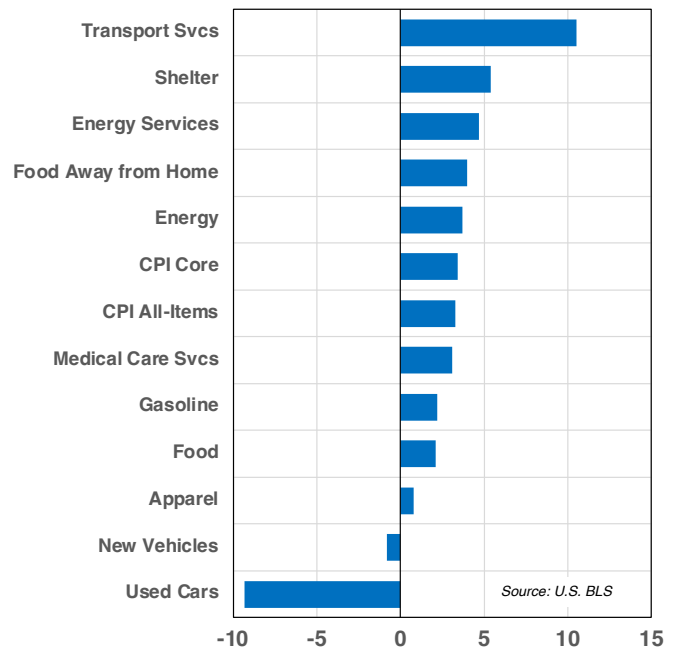
### ECONOMIC HIGHLIGHTS

July 1, 2024  
 Vol. 91, No. 95

#### MORE PROGRESS ON INFLATION

Two important inflation reports recently indicated that overall pricing pressures have retreated from peaks in 2022. But inflation remains above the Fed’s target of 2.0%. Let’s take a deeper dive into the Consumer Price Index (CPI). According to the latest report, the overall inflation rate in May of 3.3% was lower than the prior month’s 3.4%. That good news was supported by a decline in the core CPI rate. The core CPI excludes the impact of food and energy and rose at an annual pace of 3.4% over the past year, lower by 20 basis points compared to the prior month. What’s propping up core CPI? Transportation Services and Shelter. These elements of the index have prices that don’t typically fall sharply. Meanwhile, pricing pressures for automobiles and food eased somewhat. The other inflation report was the Producer Price Index (PPI). The PPI measures pricing trends farther up the supply chain, at the manufacturing level. Here, we also saw a modest decline in the rate of inflation. The PPI final demand annual rate through May was 2.2%, compared to 2.3% in April, and the prices for both processed and unprocessed goods for intermediate demand outright declined. Looking ahead, the June 2022 CPI rate marked the peak reading for the index this cycle, and we expect pricing pressures to continue to ease as the housing market cools, supplies of new vehicles are replenished, and the price of oil stays below \$90 per barrel.

#### INFLATION FACTORS (% CHANGE Y/Y)

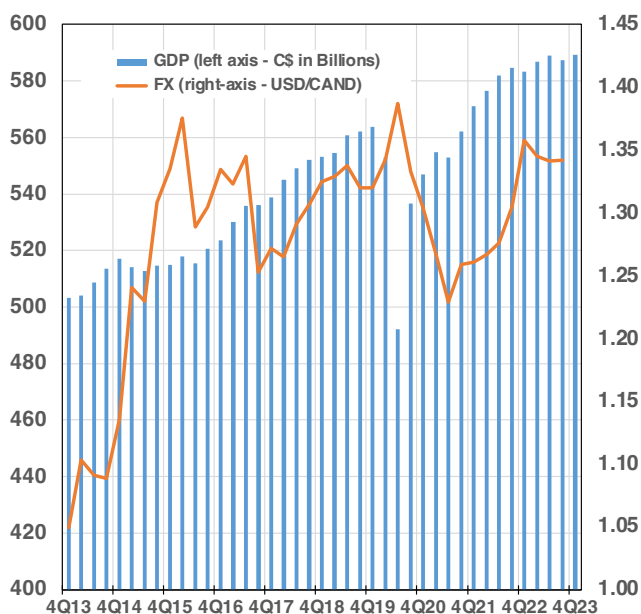


# ECONOMIC HIGHLIGHTS (CONTINUED)

## BANK OF CANADA LOWERS TARGET RATE

In early June, the Bank of Canada lowered its benchmark interest rate by 25 basis points to 4.75%, its first downward move in four years and with the central bank noting the following. “With continued evidence that underlying inflation is easing, Governing Council agreed that monetary policy no longer needs to be as restrictive.” Consumer price inflation in Canada decelerated to 2.7% in April, below the central bank’s forecast of 2.9%, though still above their 2% target. Policymakers have said that inflation easing likely will be uneven due to global tensions, a greater-than-expected rise in housing prices, and wage growth that is outpacing productivity. The central bank still sees price inflation staying near 3% until mid-2024, before gradually easing. The Canadian economy added 27,000 jobs in May, yet unemployment still rose to 6.2%. Meanwhile, Canada’s GDP grew by a slower-than-forecasted 1.7% in the first quarter (after growth of only 1% in the fourth quarter). The consensus of Canadian economists is that there will be another rate cut in July, though uncertainty remains as to how many additional rate cuts will occur by the end of 2024.

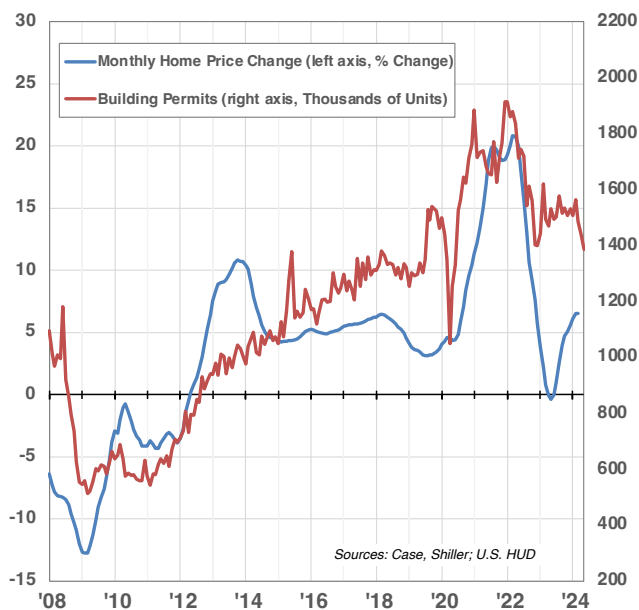
CANADA ECONOMIC TRENDS



## HOUSING SENTIMENT SLUMPS

Mortgage rates near 7% are pushing prospective buyers to the sidelines and could turn housing to a drag on 2Q GDP after a strong contribution to 1Q growth. “Millions of potential homebuyers have been priced out of the market by elevated home prices and interest rates,” according to The State of The Nation’s Housing report, which was published recently by Harvard’s Joint Center for Housing Studies. Fannie Mae’s Home Purchase Sentiment Index for May dropped by 2.5 points to an all-time survey low of 69.4. Just 14% of consumers said that it is a good time to buy a home, down from 20% in April. Based on the June 20 GDPNow estimate from the Atlanta Fed, residential fixed investment is expected to be a small drag (about 5 basis points) on 2Q GDP after contributing 57 basis points to GDP growth in 1Q. Residential fixed investment is poised to decline by an annualized 1.3% in 2Q after 15.4% growth in 1Q, according to the Nowcast. High mortgage rates are a challenge, but we remain bullish on the sector because demographics point to strong demand amid a decades-long shortage of affordable homes.

HOUSING MARKET TRENDS

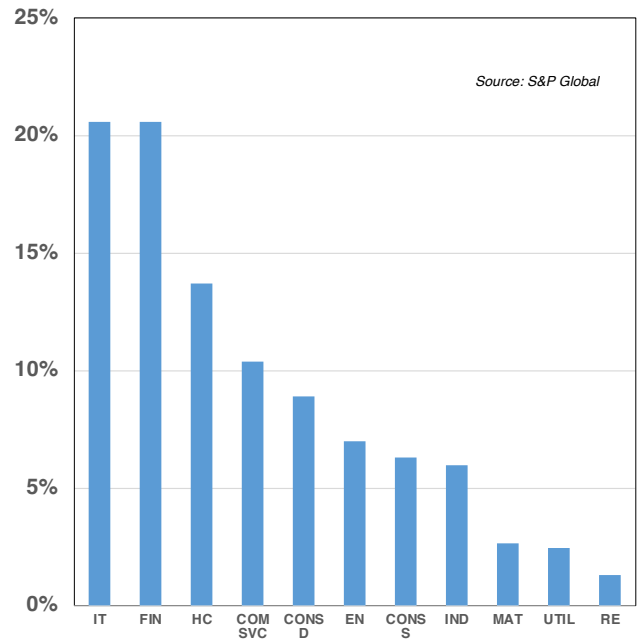


# FINANCIAL MARKET HIGHLIGHTS

## NOT ALL SECTORS ARE EQUAL

When it comes to focusing on sectors of the S&P 500, we think it makes sense to focus primarily on a few key sectors that can actually make a difference in terms of earnings and portfolio performance. The Real Estate sector, which accounts for about 2% of S&P 500 capitalization, is expected to contribute only 1% of S&P 500 EPS during the 2Q24 EPS period. The Materials sector is another 2% market weight that generates a thin 3% of total earnings. We don't think clients should be spending a lot of time on deep dives trying to get these sectors right. The groups that really make a difference are going to be Information Technology, which is expected to account for 21% of the earnings; and Financial and Healthcare, which are expected to account for 20% and 14%, respectively. Perhaps not surprisingly, these are three sectors in which the United States enjoys competitive advantages versus other nations. At the next tier, the Industrial, Consumer Discretionary and Communication Services sectors all appear in line, with market cap weights and earnings contributions in the 9%-10% range. We note that the Energy sector punches above its weight, accounting for less than 4% of total market capitalization but generating 7% of S&P 500 profits.

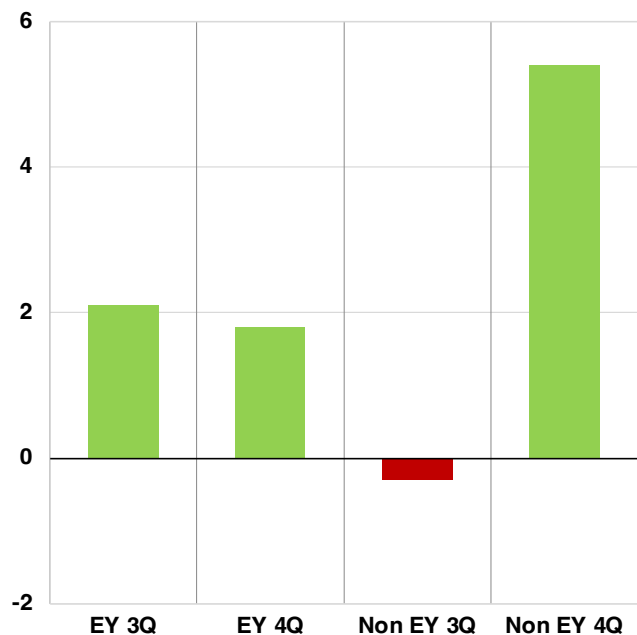
## OPERATING EARNINGS CONTRIBUTION



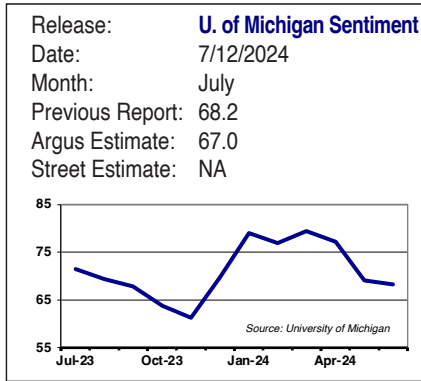
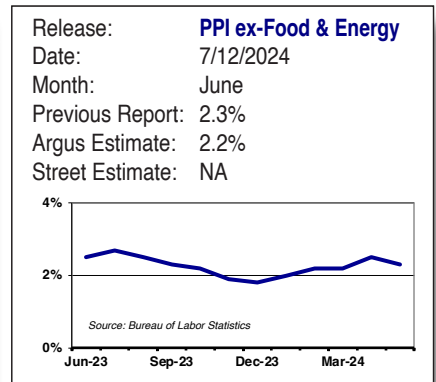
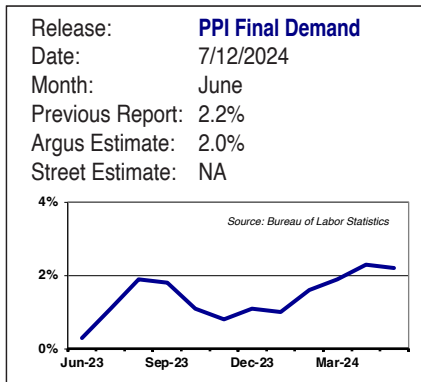
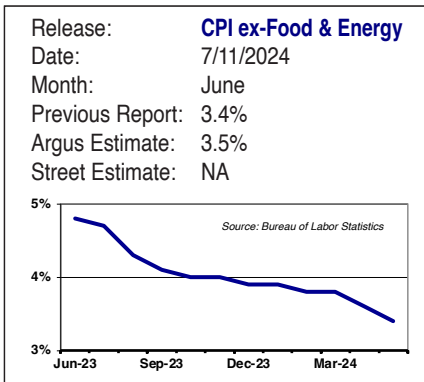
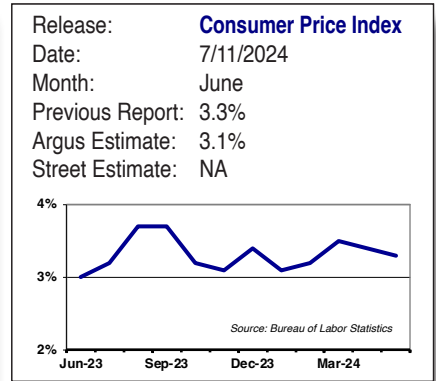
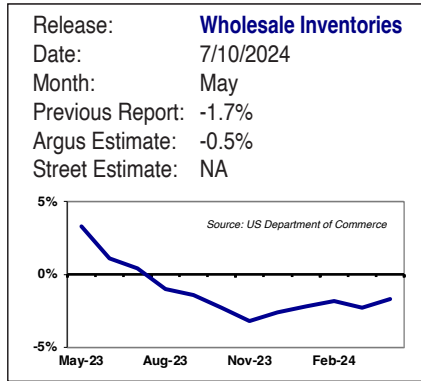
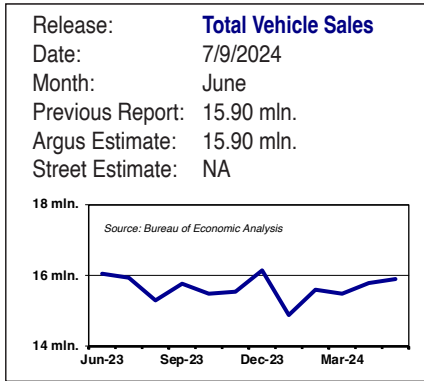
## ELECTION YEAR RETURNS MIXED

Our study of monthly and quarterly returns since 1980 found that in the third quarter of election years, stocks rise on average 2.1%. That compares to a non-election year decline of -0.3%. Not bad. However, in the fourth quarter of election years, we found that stocks gain only 1.8%, compared to gains of 5.4% in non-election years. Why? Investors generally favor continuity, and an election year offers a real opportunity for change in direction. This has been an important year for elections around the globe and for democracy as well. In India, Narendra Modi was re-elected Prime Minister, but his party lost its parliamentary majority. Mexican voters elected its first woman president, Claudia Sheinbaum. South Africans returned African National Congress candidate Cyril Ramaphosa to the presidency, but only after a last-minute broad-based coalition emerged to finalize the deal. French and English voters are headed to the polls and will determine the fates of their parliaments. At Argus, our bullish outlook for stocks in 2024 is not necessarily based on a particular winner in this fall's U.S. presidential race, but rather on the expectation that the time-tested and time-honored election process will produce a leader for the country.

## STOCK MARKET RETURNS IN 2H OF ELECTION YEARS (% CHANGE IN S&P 500)



# ECONOMIC TRADING CHARTS & CALENDAR



*Previous Week's Releases and Next Week's Releases on next page.*

## ECONOMIC TRADING CHARTS & CALENDAR (CONTINUED)

### Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
1-Jul	ISM Manufacturing	June	48.7	49.0	49.0	NA
	ISM New Orders	June	45.4	47.0	47.0	NA
	Construction Spending	May	10.0%	7.8%	NA	NA
3-Jul	ISM Services Index	June	53.8	52.5	52.0	NA
	Trade Balance	May	-\$74.6. Bil.	-\$74.0. Bil.	-\$71.2. Bil.	NA
	Factory Orders	May	1.3%	1.8%	NA	NA
5-Jul	Nonfarm Payrolls	June	272 K	175 K	185 K	NA
	Unemployment Rate	June	4.0%	4.1%	4.0%	NA
	Average Weekly Hours	June	34.3	34.3	34.3	NA
	Average Hourly Earnings	June	4.1%	4.0%	NA	NA

### Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
16-Jul	Retail Sales	June	2.3%	NA	NA	NA
	Retail Sales ex-autos	June	2.5%	NA	NA	NA
	Business Inventories	May	1.0%	NA	NA	NA
	Import Price Index	June	1.1%	NA	NA	NA
17-Jul	Industrial Production	June	0.1%	NA	NA	NA
	Capacity Utilization	June	78.2%	NA	NA	NA
	Housing Starts	June	1,277 K	NA	NA	NA
18-Jul	Leading Index	June	-0.5%	NA	NA	NA

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