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THE ECONOMY AT A GLANCE

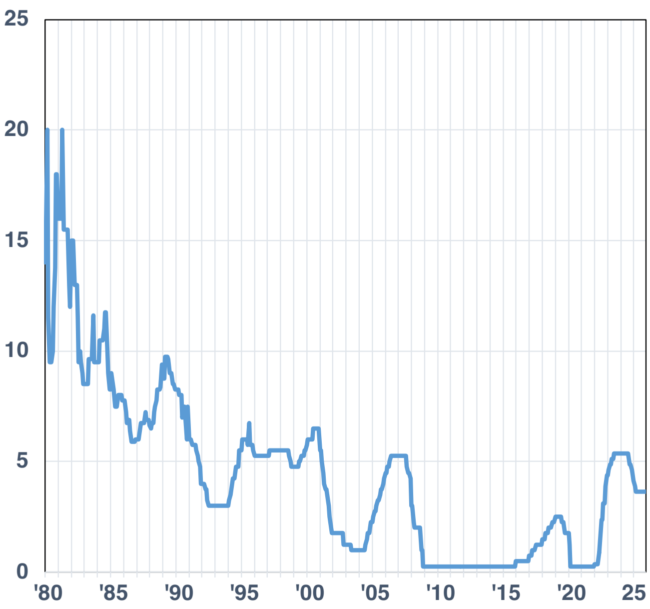
ECONOMIC HIGHLIGHTS

November 18, 2024
Vol. 91, No. 163

FED MAKES SECOND RATE CUT

The Federal Reserve, as expected, has lowered the current fed funds rate by another 25 basis points. The current fed funds target rate is 4.50%-4.75%. This was the second reduction in the rate-cut cycle, which commenced in September after the central bank had hiked rates during 2022 and 2023. The economy remains strong and labor figures remain solid. However, the Fed has shifted its focus from fighting inflation to protecting employment. Since the Fed started raising rates in 2021, PCE inflation has fallen from readings above 7.0% to readings nearing the goal of 2.0%. The latest reading on PCE inflation was 2.1%, though core PCE (ex. food and energy) remains elevated at 2.7%. Meanwhile, the unemployment rate has increased from 3.4% to 4.1% and monthly payrolls gains have slowed from 300k to 100k, excluding the latest report (which included the two hurricanes and the Boeing strike). Indeed, the Fed has lifted its current year-end target for the unemployment rate to 4.4% from 4.0% last June. Based on the Fed's decision, its commentary, and the forecasts of its governors, we are reiterating our interest-rate outlook. We are maintaining our forecast for a 25-basis-point cut at the December meeting and for three additional cuts in 2025. That would bring the fed funds rate down toward 3.5%, which, assuming inflation continues to drop toward 2.0%, will return real, inflation-adjusted rates back toward historical averages.

FEDERAL FUNDS TARGET RATE & FORECASTS (%)



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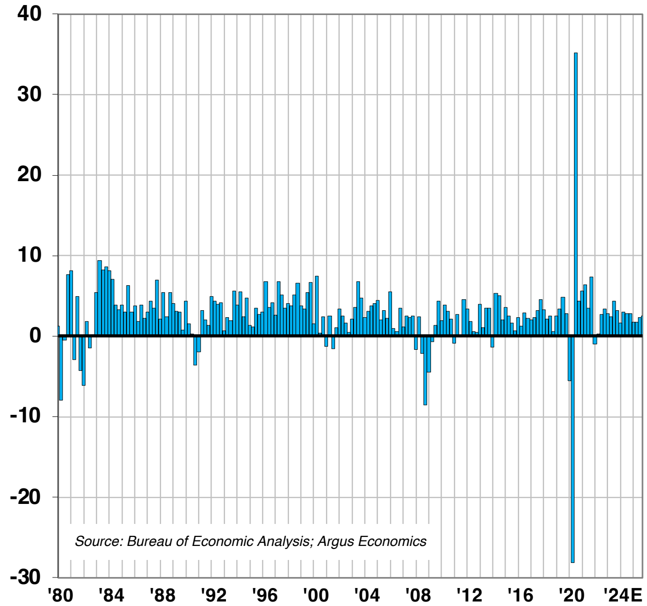
RAISING 4Q GDP GROWTH FORECAST

We are raising our fourth-quarter 2024 forecast for U.S. GDP growth to 2.8% from 2.3%. The most-significant change to our model is that we expect Personal Consumption Expenditures (PCE) to rise 3.4%, up from a previous 4Q expectation of 2.4%. We expect holiday retail sales to increase approximately 3% to almost $1 trillion, helped by low unemployment and the strength consumers showed in 3Q. We expect continuing growth from the huge services category, which represents about 45% of GDP. The ISM Services PMI is a good indicator. It rose to a two-year high in October. A small offset to our 4Q GDP forecast is that higher mortgage rates are likely to make housing a bigger drag than we expected. We are lifting our full-year 2024 GDP estimate to 2.6% from 2.5%. We still expect 2.0% growth in 2025, with quarterly estimates of 1.7%, 1.7%, 2.3%, and 2.5%. Four indicators driven by a broad array of timely data support our assessment that the economy is healthy and growing. On November 7, the Federal Reserve Bank of Atlanta's GDP Nowcast was estimating 4Q growth of 2.5%. On November 8, the Federal Reserve Bank of New York's Staff Nowcast for 4Q was for 2.1% growth. The Weekly Economic Index tracked by the Federal Reserve Bank of Dallas is based on 10 daily and weekly indicators of consumer behavior, the labor market, and production. If, for example, an index value of 2% persisted for an entire quarter, the index would suggest that quarter's GDP would be 2% higher than a year ago. For the week ended November 2, the index was 1.65%, with a 13-week moving average of 2.03%. The Chicago Fed National Activity Index (CFNAI) looks at 85 indicators. It slipped to -0.28 in September from -0.01 in August. The three-month moving average was little changed at -0.19. The CFNAI Diffusion Index improved to -0.16 in September from -0.21 in August. These readings suggest the economy is growing slightly below average -- but not contracting.

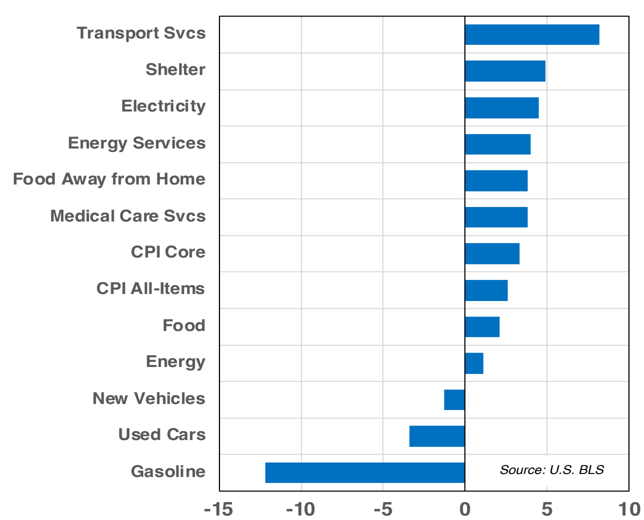
GDP TRENDS & OUTLOOK (% CHANGE)



INFLATION REMAINS AN ISSUE

Two important inflation reports -- Consumer Price Index (CPI) and Producer Price Index (PPI) -- were released recently. Both indicated that overall pricing pressures continue their downward trek, but both also confirmed that inflation remains above the Fed's 2%. We expect pricing pressures to ease further as the housing market cools off, supplies of new vehicles are replenished, and the price of oil stays below $90 per barrel.

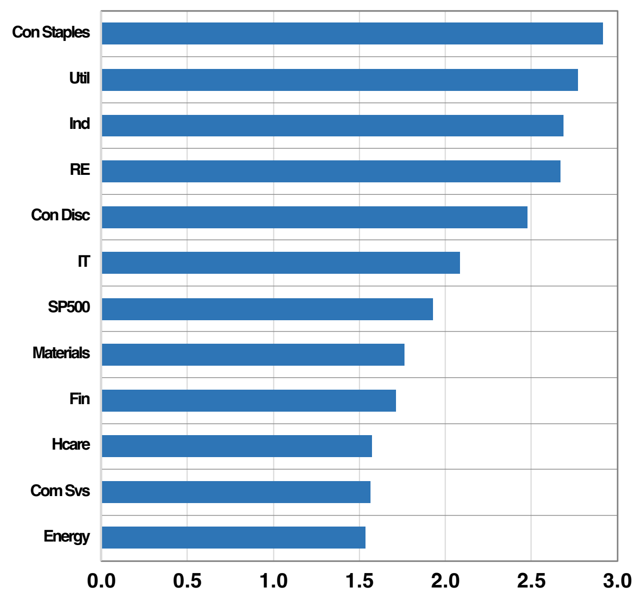
INFLATION FACTORS (% CHANGE Y/Y)



VALUE SECTORS

Investors hunting for stocks that reasonably balance long-term growth prospects and value characteristics might look at companies in the Financial, Information Technology, and Communication Services sectors. These are among the groups currently selling for PEGY ratios -- (price/earnings)/(growth+yield) -- near or below the S&P 500's ratio of 1.9. To generate the ratios, we use the P/E ratio for each sector based on forward earnings for the numerator. For the denominator, we average the growth rates for the past five years along with two years of forward estimates, this to achieve a smoother earnings growth-rate trend. We add the current yield to approximate total return. Sectors with favorable growth and valuation characteristics, in addition to the three listed above, include Energy and Materials. Premium-valued sectors with low growth rates include Consumer Staples and Real Estate.

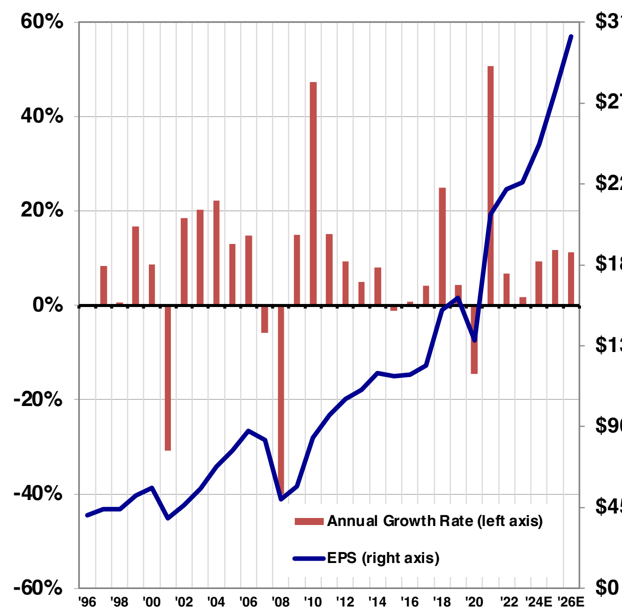
SECTOR PEGY RATIOS



ARGUS RAISES EPS FORECASTS

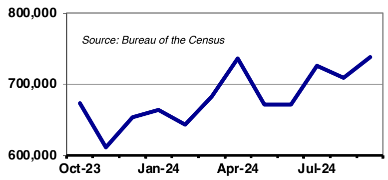
Based on our outlook for continued economic growth through 2025, we are raising our 2025 and 2026 forecasts for S&P 500 earnings from continuing operations. For 2025, we are raising our forecast for S&P 500 earnings from continuing operations to $276, from $265. Whereas our prior forecast assumed high-single-digit growth, our revised forecast models full-year EPS growth of 11.8%. Key drivers of our more-positive outlook include all three of the negative sectors for 3Q24 swinging to full-year growth in 2025. That includes mid-single-digit growth in Energy earnings, and low-double-digit growth in Materials and Industrials. We also look for continued double-digit growth in key large sectors including Communication Services, Information Technology, Healthcare, and Discretionary. We look for a return to more-normal mid-single-digit growth in Utilities and to low-single-digit growth in Staples. For 2026, we are raising our forecast to $307 from a preliminary outlook in the $285 range. Whereas our prior forecast assumed high-single-digit growth, our revised forecast models full-year EPS growth of 11.2%. For 2026, we are keeping in place several of the above-average growth assumptions in our 2025 forecast, while moderating the overall growth outlook slightly. We expect the AI transformation to continue to drive growth in Communication Services, IT, and Consumer Discretionary. We look for growth to slow in defensive sectors, but pick up in Energy.

S&P 500 EPS TRENDS & ESTIMATES

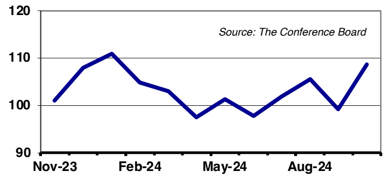


ECONOMIC TRADING CHARTS & CALENDAR

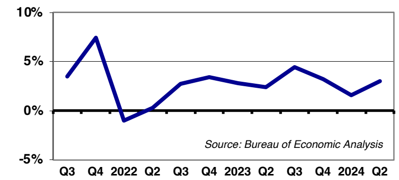
Release: **New Home Sales**
Date: 11/26/2024
Month: October
Previous Report: 738000
Argus Estimate: 705000
Street Estimate: 735000



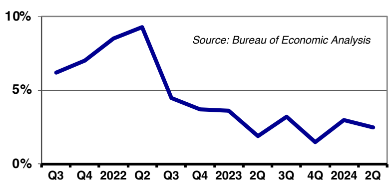
Release: **Consumer Confidence**
Date: 11/26/2024
Month: November
Previous Report: 108.7
Argus Estimate: 111.0
Street Estimate: 113.5



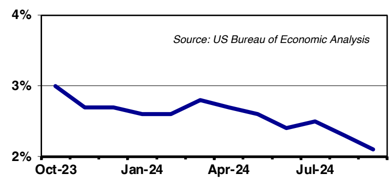
Release: **GDP Annualized QoQ**
Date: 11/27/2024
Month: 3Q
Previous Report: 2.8%
Argus Estimate: 2.8%
Street Estimate: 2.8%



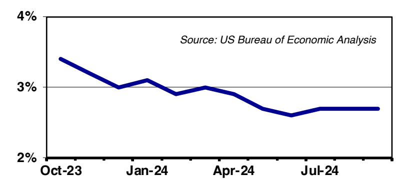
Release: **GDP Price Index**
Date: 11/27/2024
Month: 3Q
Previous Report: 1.8%
Argus Estimate: 1.8%
Street Estimate: NA



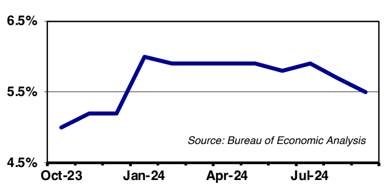
Release: **PCE Deflator**
Date: 11/27/2024
Month: October
Previous Report: 2.1%
Argus Estimate: 2.5%
Street Estimate: 2.3%



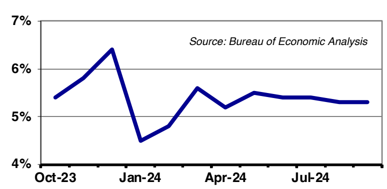
Release: **PCE Core Deflator**
Date: 11/27/2024
Month: October
Previous Report: 2.7%
Argus Estimate: 2.8%
Street Estimate: 2.8%



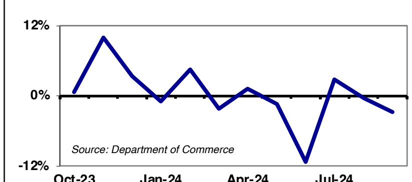
Release: **Personal Income**
Date: 11/27/2024
Month: October
Previous Report: 5.5%
Argus Estimate: 5.6%
Street Estimate: NA



Release: **Personal Spending**
Date: 11/27/2024
Month: October
Previous Report: 5.3%
Argus Estimate: 5.4%
Street Estimate: NA



Release: **Durable Goods Orders**
Date: 11/27/2024
Month: October
Previous Report: -2.8%
Argus Estimate: 3.5%
Street Estimate: NA



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
19-Nov	Housing Starts	October	1,354K	1,290K	1,335K	NA
21-Nov	Existing Home Sales	October	3.84 Mln.	'3.90 Mln.	3.88 Mln.	NA
	Leading Index	October	-0.5%	-0.3%	-0.3%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
2-Dec	ISM Manufacturing	November	46.5	NA	NA	NA
	ISM New Orders	November	47.1	NA	NA	NA
	Construction Spending	October	4.6%	NA	NA	NA
4-Dec	ISM Services Index	November	56.0	NA	NA	NA
	Factory Orders	October	-1.6%	NA	NA	NA
5-Dec	Trade Balance	October	-$84.4 Bil.	NA	NA	NA
6-Dec	Nonfarm Payrolls	November	12 K	NA	NA	NA
	Unemployment Rate	November	4.1%	NA	NA	NA
	Average Weekly Hours	November	34.3	NA	NA	NA
	Average Hourly Earnings	November	4.0%	NA	NA	NA
	Total Vehicle Sales	November	16.04 mln.	NA	NA	NA
	U. of Michigan Sentiment	December	73.0	NA	NA	NA