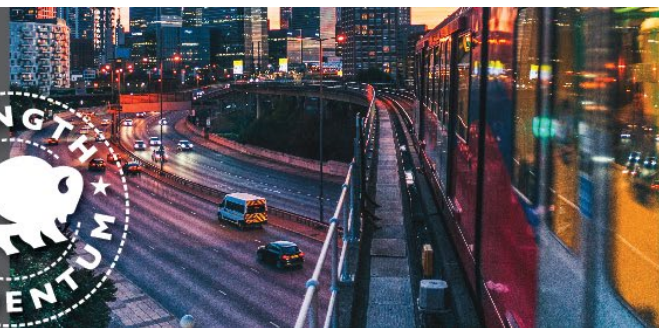


PLAINSCAPITAL BANK

MARKET HIGHLIGHTS



Market Commentary
July 2025

By Andrew Cunningham, CFA, CMT, ChFC

Executive Summary

- Investors are shrugging at policy upheaval and geopolitical risk.
- Investor sentiment and S&P strategist equity index targets have been reset.
- Market sector rotation and leadership favor cyclicals over defensive, high beta over low vol, and mid-caps over small caps.
- Forward sector EPS are within 1% of all-time highs, notably for tech, industrials, financials, and communication services.
- Stock market breadth remains weak, judged by the distance between the S&P 500 index and a new 52-week high is less than 1%, whereas the distance from the median stock in the index and a new 52-week high is greater than 11%.
- Changes in market structure, including greater participation by small retail traders who trade more, tend to be more specific, and embrace close-to-expiry options, may be responsible for structurally weaker breadth readings on markets.
- Institutional traders are being more cautious and could supply additional positive flows to push markets higher in the second half of the year.
- The economy is slowing, but consensus economists' forecasts already fully reflect that.
- The administration has backed away from austerity efforts. It is steering the US economy toward a policy of fiscal and monetary largesse, including trillions of dollars in tax cuts and significant deregulation.
- Stock market seasonal patterns support bullish positioning at least for July.
- Statistically, a strong second half should follow a market with >15% correction, no immediate threat of recession, and monetary policy set to ease.
- Now that the debt ceiling is lifted, the Treasury will need to refill the TGA back to a target level of \$850Bn.
- The liquidity drain from bill issuance may negatively impact credit spreads and raise bond yields.
- The Fed and Treasury are starting several programs to mitigate the negative impacts of falling liquidity and/ or bank reserves.
- Although the administration views the level of policy rates as responsible for US fiscal problems, the market is primarily in charge of setting fair value on bond yields.
- Given the greater influence of price-sensitive buyers in the market, policy decisions need to serve the US fiscal interests but also be sold to the bond market as wise financial policy.
- Still, tariffs are an effective tax that should be deflationary.
- Deflationary taxes, a slowing economy, cooling labor markets, and disinflationary impulses from housing and oil will influence yields and argue for more rate cuts than the market expects.
- Despite the histrionics over yields lately, the correct call is likely no call.
- Yields are largely range-bound between 4to 5%, with ~4.5% serving as the line where markets get nervous, volatility ensues.
- Rising bond yields are more of a global phenomenon rather than a US-only phenomenon.

Dedicated Investment Team

Andrew Cunningham, CFA®, CMT®, ChFC®
Chief Investment Officer
512.457.7534 | andrew.cunningham@plainscapital.com
Central Texas

Stephen Schaller, CFA®, CFP®
Market Manager, Portfolio Manager
713.749.8113 | stephen.schaller@plainscapital.com
Houston/ Coastal Bend

Jerrod Dawson, CFA®
Manager of Investment Strategies and Portfolio Management
214.252.4150 | jerrod.dawson@plainscapital.com
Dallas

Victor Tanguma, AIF®
Senior Portfolio Manager
956.661.5466 | victor.tanguma@plainscapital.com
McAllen/ Rio Grande Valley

Larry Smith
Senior Portfolio Manager
806.791.7256 | larry.smith@plainscapital.com
West Texas

Irene Silva, AWMA®
Portfolio Manager
817.258.3818 | irene.silva@plainscapital.com
Fort Worth

Kendall Parker
Manager of Investment Services
214.252.4165 | Kendall.parker@plainscapital.com
Dallas

Triana Ramon
Analyst
214.252.4166 | [triana.ramon@plainscapital.com](mailto: triana.ramon@plainscapital.com)
Dallas

Morgan Cook
Analyst
817.258.3705 | morgan.cook@plainscapital.com
Fort Worth

Markets at a Glance:

Equity - TR (%)	1M	3M	YTD	1Y
NASDAQ COMPOSITE	4.6	26.0	7.1	11.3
RUSSELL 2000 INDEX	5.2	24.1	2.3	11.9
MSCI EM LATIN AMERICA	3.0	21.2	29.4	7.2
MSCI EM	2.8	20.7	16.2	13.6
S&P 500 INDEX	4.1	19.6	7.5	12.9
MSCI WORLD	3.2	19.2	10.6	14.3
MSCI WORLD x USA	1.5	17.9	19.8	17.0
MSCI EAFE	1.4	17.6	20.4	16.1
MSCI AC ASIA PACIFIC	1.5	17.4	13.0	12.1
S&P500 EQUAL WEIGHTED IX	3.3	16.2	6.5	13.9
DOW JONES INDUS. AVG	4.3	13.3	6.0	14.5
Sectors - TR (%)	1M	3M	YTD	1Y
Information Technology	7.7	32.9	10.0	10.1
Industrials	5.0	22.6	15.3	25.5
Communications	1.2	21.3	9.5	16.8
Consumer Discretionary	1.9	18.5	-2.6	14.6
Materials	3.8	17.7	10.6	6.0
Energy	4.9	15.4	5.1	2.3
Financials	3.6	15.2	9.8	27.6
Utilities	2.6	9.9	10.3	22.1
Real Estate	-0.3	9.6	4.2	11.5
Consumer Staples	-0.6	2.9	6.1	10.7
Healthcare	1.2	1.7	0.2	-5.0
Alternatives - TR (%)	1M	3M	YTD	1Y
BBG Galaxy Bitcoin Index	1.7	40.0	19.2	94.0
S&P LISTED PRIV EQUITY	4.8	21.8	5.1	19.0
ALERIAN MLP INDEX	-0.1	10.1	6.5	11.7
FTSE NAREIT All Eq REITS	-0.5	9.3	2.5	9.1
LS Managed Futures Index	0.3	1.5	-1.1	-3.3

Data source: Bloomberg

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US Style Returns (%) - Russell Indices

1M

	Value	Core	Growth
Large	3.5	4.1	4.5
Mid	4.6	3.6	3.2
Small	6.5	5.2	4.0

YTD

	Value	Core	Growth
Large	7.7	7.5	7.0
Mid	6.2	6.6	10.3
Small	2.4	2.3	2.3

US Factor Returns (%)	1M	3M	YTD	1Y
S&P 500 High Beta	8.3	39.7	14.0	16.8
MSCI Growth	4.4	26.1	7.1	13.3
MSCI Momentum	2.9	20.4	11.8	13.4
MSCI Value	4.5	19.5	10.8	12.9
MSCI Size	3.3	17.2	6.6	15.4
MSCI Quality	2.2	15.1	5.9	7.4
MSCI High Dividend Yield	2.4	11.4	6.5	11.3
Commodities TR (%)	1M	3M	YTD	1Y
Copper	13.2	26.5	36.2	21.4
Silver	0.8	19.0	23.6	13.7
WTI Oil	4.4	13.5	-4.0	-10.4
Gold	-0.2	4.5	26.4	40.0
BBG Commodities Index	0.2	3.2	4.3	2.5
Wheat	0.3	-3.1	-5.3	-12.8
Sugar	2.2	-5.2	-3.4	-10.0
Natural Gas	-9.0	-15.0	-7.2	-2.7

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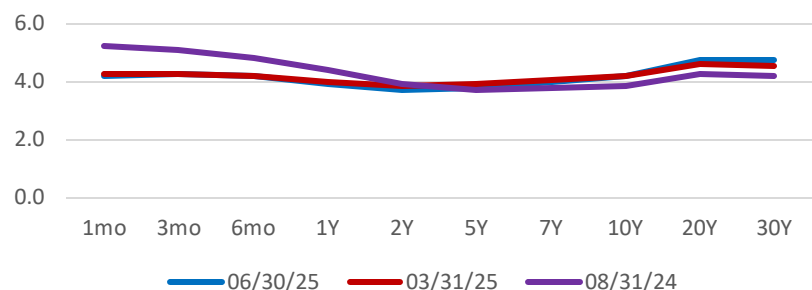
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Index Characteristics	FWD ERP	P/E TTM	P/S TTM	Div Yield
S&P 500	2.8%	26.7	3.2	1.3
MSCI EAFE	4.9%	17.0	1.6	3.1
MSCI EM	6.3%	16.0	1.6	2.8

US Treasury Yield Curve



Fixed Income - TR (%)	1M	3M	YTD	1Y
U.S. Corporate High Yield	1.5	6.3	4.7	9.7
10 - 20 Yrs	2.0	3.9	4.9	4.9
Corporate	1.3	3.9	3.8	5.4
US Agg 1-7 Yrs.	0.9	1.7	3.7	5.8
1-3 Yr	0.6	1.1	2.8	5.4
Municipal Bond Index	0.8	0.9	-0.3	1.0

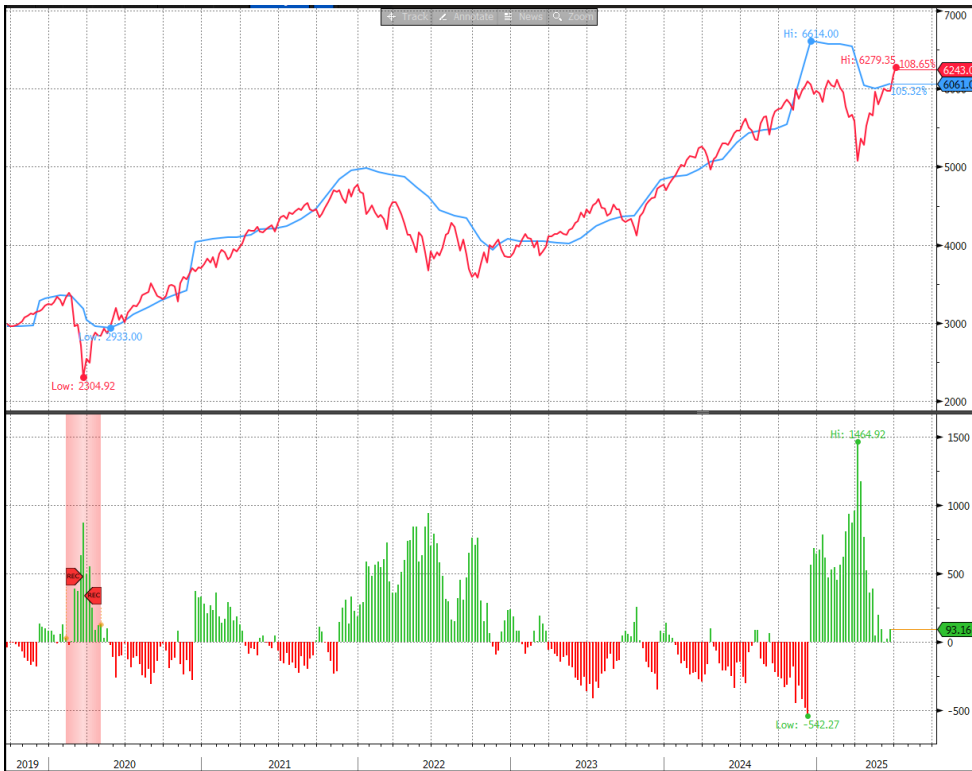
Interest Rates (%)	06/30/25	06/30/25	03/31/25	08/31/24
US Fed Funds Effective Rate	4.33	4.33	4.33	5.33
US Generic Govt 1 Mth	4.21	4.21	4.30	5.26
US Generic Govt 3 Mth	4.29	4.29	4.29	5.11
US Generic Govt 12 Mth	3.97	3.97	4.02	4.40
US Generic Govt 5 Yr	3.80	3.80	3.95	3.70
US Generic Govt 10 Yr	4.23	4.23	4.21	3.90
BBG Tax Muni AGG YW	5.26	5.26	5.23	4.96
BBG UA Corporate YW	4.99	4.99	5.15	4.94
BBG U.S. Corp HY YW	7.06	7.06	7.73	7.30

Data source: Bloomberg

Equity Highlights

President Trump is implementing one of the most ambitious and far-reaching shifts in economic policy in decades. Yet, investors have so far responded to geopolitical events and these efforts with indifference. Perhaps investors are hedging their bets, with some saying, "a new golden age is dawning," while others believe, "the end is nigh, we are doomed." Or, less dramatically, perhaps investors are collectively viewing the policy upheaval as sound and fury, signifying little. The dollar has fallen against developed market currencies, and US bonds have underperformed the global market, but US stocks continue to be priced with a premium, with no sign of alarm.

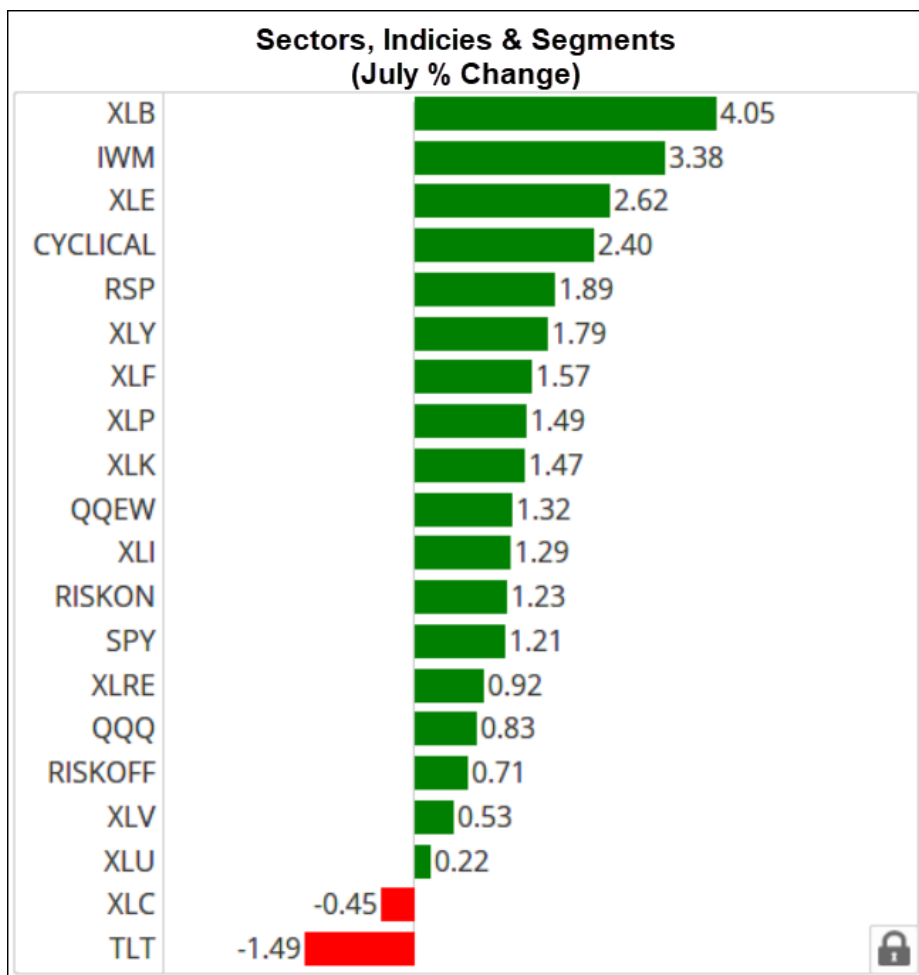
The first half of the year has been filled with bearish challenges. As we enter the second half, investors have successfully processed what seemed like bearish illusions (tariffs, recession, inflation, budget legislation, oh my!) and have climbed a wall of worry. According to AAI sentiment data, the July spread between the percentage of bulls and bears has not been this bullish since January 2025. Likewise, Wall Street strategists capitulated in April on overly bullish index price targets that had outpaced the actual index price level in the fourth quarter of 2025. As we have mentioned before, the index price being ahead of the forecast level is a bullish sign, indicating that institutional money is flowing in. These significant drops in target prices often coincide with market bottoms, offering another bullish tailwind.



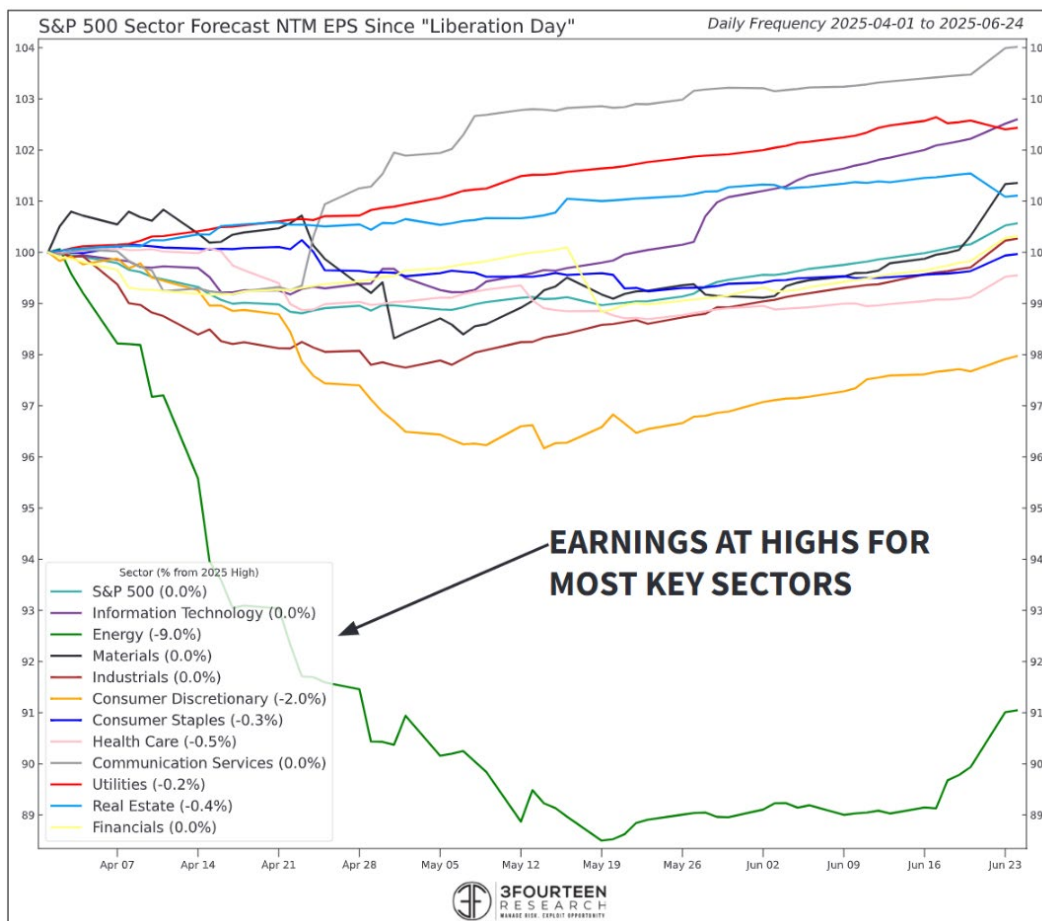
The market and sector rotation entering the second half of 2025 is not happening at the expense of market leaders. Nor is the switch to international stocks over US ones, nor the shift from value stocks to growth stocks, nor is it the so-called "end of US exceptionalism," as many had feared.

Critical points for the equity markets:

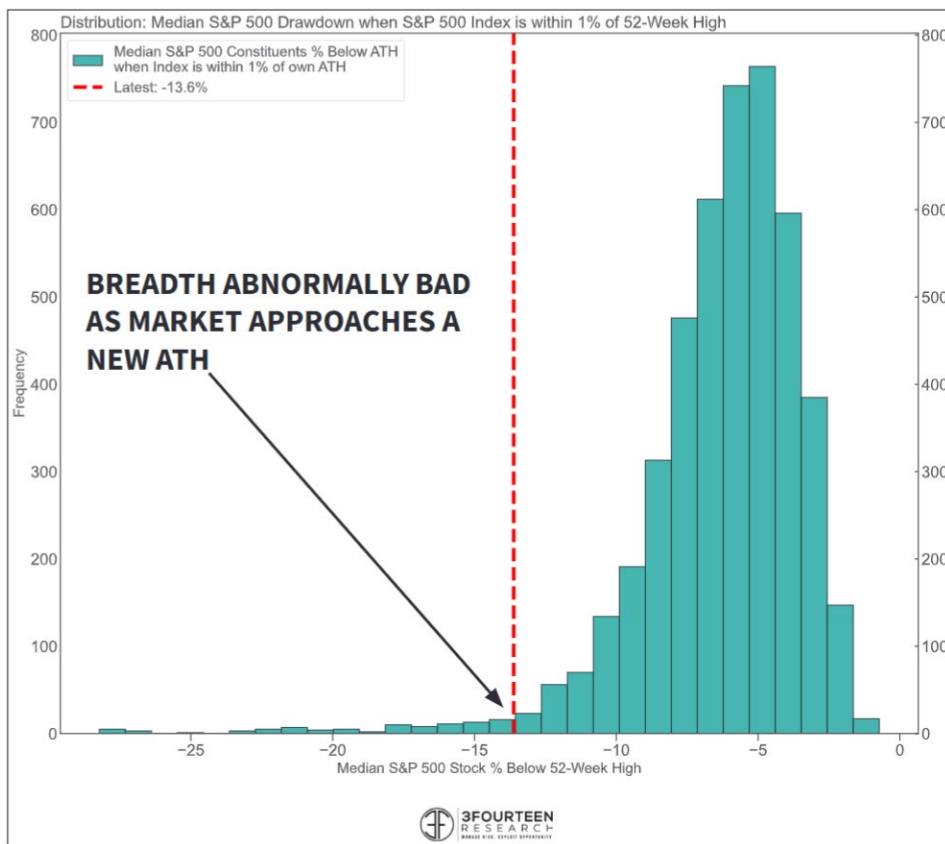
- Investors are shrugging at policy upheaval and geopolitical risk.
- Investor sentiment and S&P strategist equity index targets have been reset.
- Market sector rotation and leadership favor cyclicals over defensive, high beta over low vol, and mid-caps over small caps.
- Forward sector EPS are within 1% of all-time highs, notably for tech, industrials, financials, and communication services.
- Stock market breadth remains weak, judged by the distance between the S&P 500 index and a new 52-week high is less than 1%, whereas the distance from the median stock in the index and a new 52-week high is greater than 11%.
- Changes in market structure, including greater participation by small retail traders who trade more, tend to be more specific, and embrace close-to-expiry options, may be responsible for structurally weaker breadth readings on markets.
- Institutional traders are being more cautious and could supply additional positive flows to push markets higher in the second half of the year.
- The economy is slowing, but consensus economists' forecasts already fully reflect that.
- The administration has backed away from austerity efforts. It is steering the US economy toward a policy of fiscal and monetary largesse, including trillions of dollars in tax cuts and significant deregulation.
- Stock market seasonal patterns support bullish positioning at least for July.
- Statistically, a strong second half should follow a market with >15% correction, no immediate threat of recession, and monetary policy set to ease.



In addition to MTD returns, six of these sectors have forward EPS within 1% of an all-time high: Tech, Industrials, Financials, Communication Services, Healthcare, and Utilities. The first four are more cyclical sectors, and having momentum and forward earnings moving higher is an additional bullish tailwind for market forward returns.

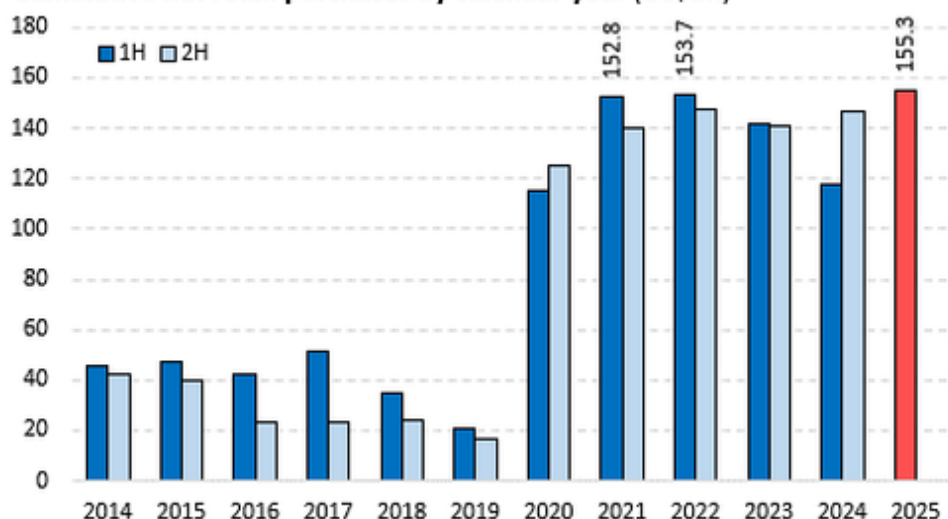


Despite the many bullish indicators to be encouraged by, what risks are visible in today's market that could undermine the more optimistic outlook for returns? Breadth remains relatively weak, showing that only a small number of stocks are pushing the market higher. To that point, the distance between the S&P 500 index and a new 52-week high is less than 1%, whereas the distance from the median stock in the index and a new 52-week high is greater than 11%. The market structure has shifted post-COVID, which is probably the main reason for concentrated leadership over the past three years; however, there are signs of excess and speculation. This level of poor breadth is now at an extreme level; however, it is also worth noting that changes in market structure may be leading to what would usually be interpreted as poor breadth. In other words, the recent past may no longer present the best comparison point to the current market landscape. On the other hand, "this time is different" is a famous last word.



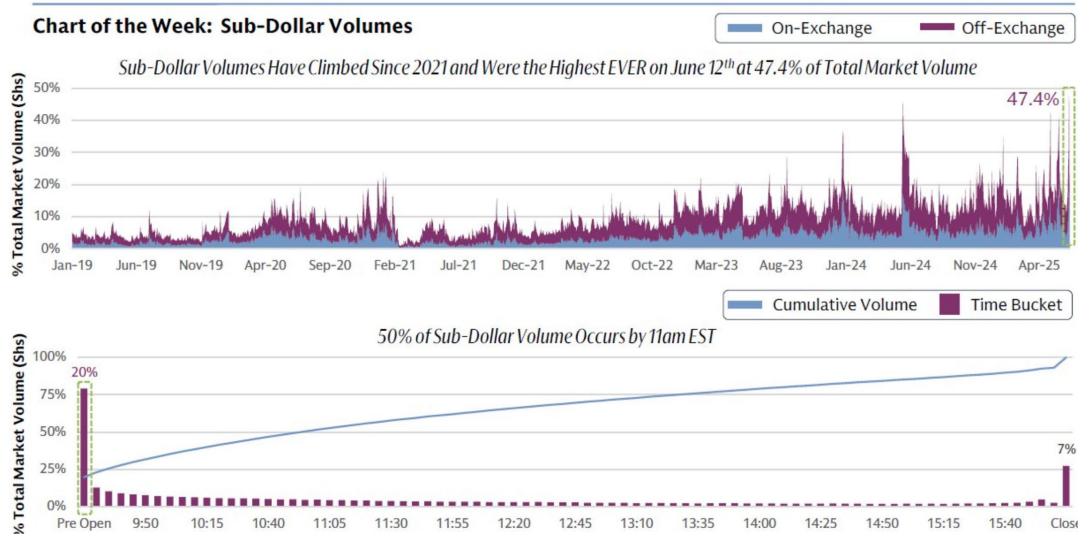
Regarding changes in market structure, retail traders have become a more significant force in the markets, influencing market dynamics. In the past, professional investors dominated the trading markets, with the majority of volume originating from large asset management firms and other institutional investment firms. Following the pandemic 'meme stock mania,' retail investors were observed to have an outsized impact. This cohort shuns the set-it-and-forget approach, speculates with very close-to-expiry or zero-dated options, and crowdsources due diligence. Today's retail trader is more likely to buy dips than professional investors, believing that the market is always higher one and five years forward. This year, even as Trump unleashed a storm of volatility early in Q2 2025, and as markets nearly entered bear market territory, retail flows into stocks and ETFs reached a record high in the first half of the year.

Cumulative net retail purchases by calendar year (US\$bn)



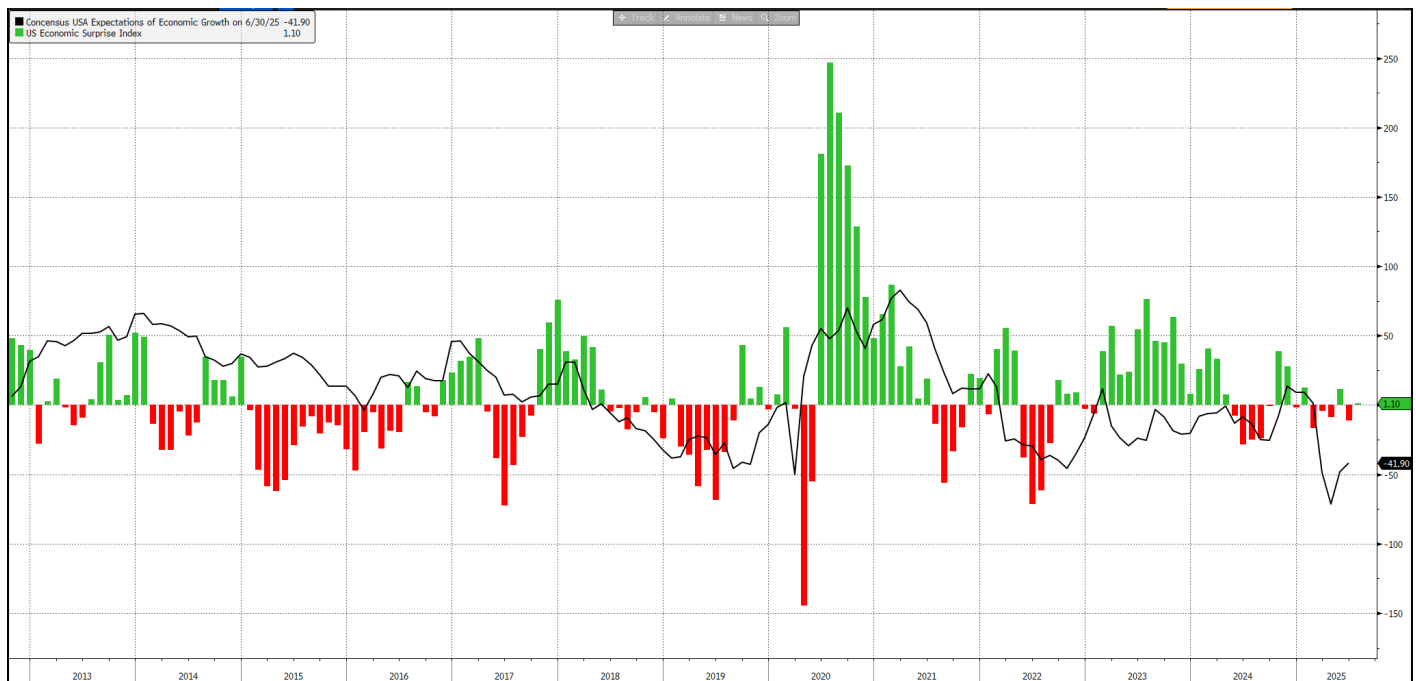
In addition, the volume of penny stocks (stocks with prices below \$1.00), a market sector notorious for fraud and speculation, accounted for more than 47% of the total market volume in early June.

Chart of the Week: Sub-Dollar Volumes



Examining this mosaic shows that retail traders are increasing their market activity, but they are also taking on much higher risks. Meanwhile, professional money managers stay cautious. Institutional sentiment reflects ongoing worries about an economic slowdown, potential inflation increases, or geopolitical crises, causing them to keep below-average stock allocations in their portfolios.

Polls of institutional advisors continue to reveal elevated concerns over policy and the US economy. How much of a risk is recession? The economy is slowing, but consensus economists' forecasts already fully reflect that. The hard economic data, represented by the US economic surprise index, is failing to confirm the consensus economist expectation of a scenario on the same level as 2020 or 2022, with both positive surprises from growth and record stimulus from the one big bill. Markets may not receive absolute good news, but rather marginally better news than expected, which is actually what drives incremental returns.

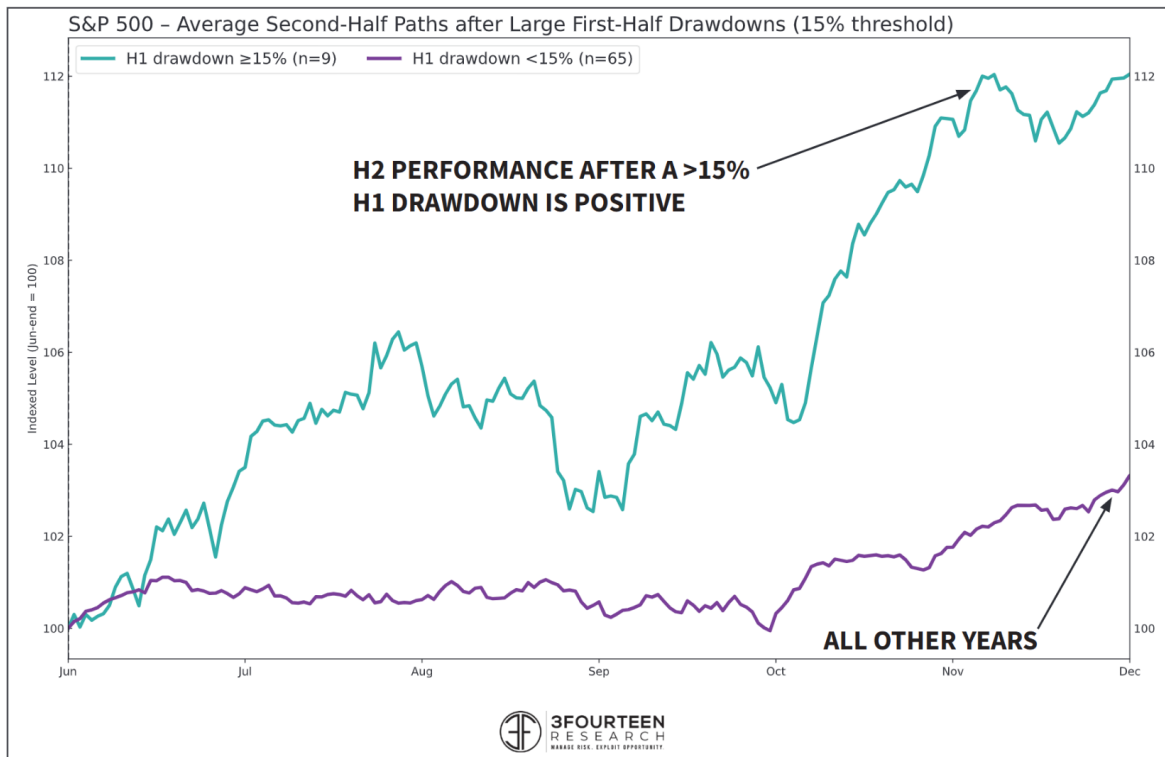


Regarding trade, President Trump has threatened to impose sweeping 25% tariffs on goods from a group of trading partners via social media, with the implementation reportedly delayed until August 1. This threat extended to a dozen countries, including Japan, South Korea, South Africa, Indonesia, Thailand, and Cambodia, with similar 25% tariff threats issued consecutively. The president did soften his stance somewhat, saying that the deadline was “not 100% firm” and indicating a possible adjustment in rates. He added, “We are not going to be unfair,” and showed a willingness to reward countries that offer “additional concessions.” The responsibility for any economic downturn or budget deficit blowout now firmly rests with his administration. Our baseline expectation is that negotiations will conclude favorably, even if uncertainty remains throughout the rest of the summer.

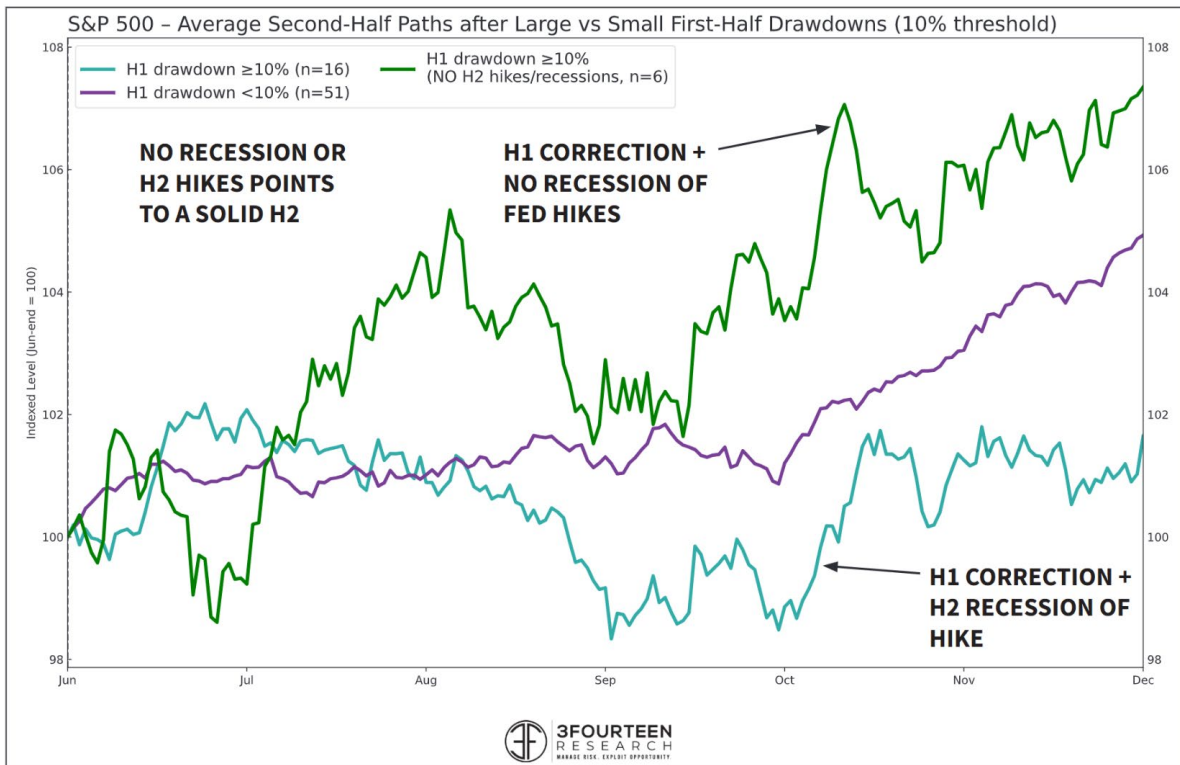
The administration has backed away from austerity efforts. It is steering the US economy toward a policy of fiscal and monetary largesse, including trillions of dollars in tax cuts, significant deregulation, and initiatives to bring back industries considered vital for national defense. The high debt levels and large procyclical deficits continue to indicate fiscal dominance over monetary policy, necessitating the monetization of deficits and the implementation of financial repression to keep bond yields low. This suggests a portfolio strategy that focuses on protecting against currency devaluation rather than protection against drawdown, while recognizing that although the overall trend for risky assets is upward, the trajectory will not be smooth.

Looking ahead, retail may be overdoing it, but they might also be right. First-half correction bear markets usually predict robust performance in the second half. Sentiment has been reset, and growth expectations, due to extremely high policy uncertainty, are too low. Consensus forecasts for inflation now match potential increases from base rates. This all positions the market to expect better-than-expected growth and earnings, along with disinflation signals from housing, oil, and labor markets, creating a Goldilocks environment of growth, stable inflation, and market optimism.

Stock market seasonal patterns support bullish positioning at least for July. It has been several decades since Yale Hirsch wrote the catchy phrase, “Sell in May and go away,” in the Stock Trader’s Almanac. In recent years, the seasonality has shifted toward a topping pattern in late July. “In late July, say goodbye.” We are not sure it has the same ring to it, but we’ll keep trying. Seasonality in the stock market is now positive on average until the end of July, and so far, the market aligns with this seasonal pattern. Additionally, most technical patterns confirm the seasonal trend, lending further legitimacy to it this year.



Digging a little deeper into the analysis, is explicit Fed tightening expected? Is a recession materializing? With these two additional factors, plus record fiscal stimulus, we may approximate the more sanguine green line scenario, shown below.



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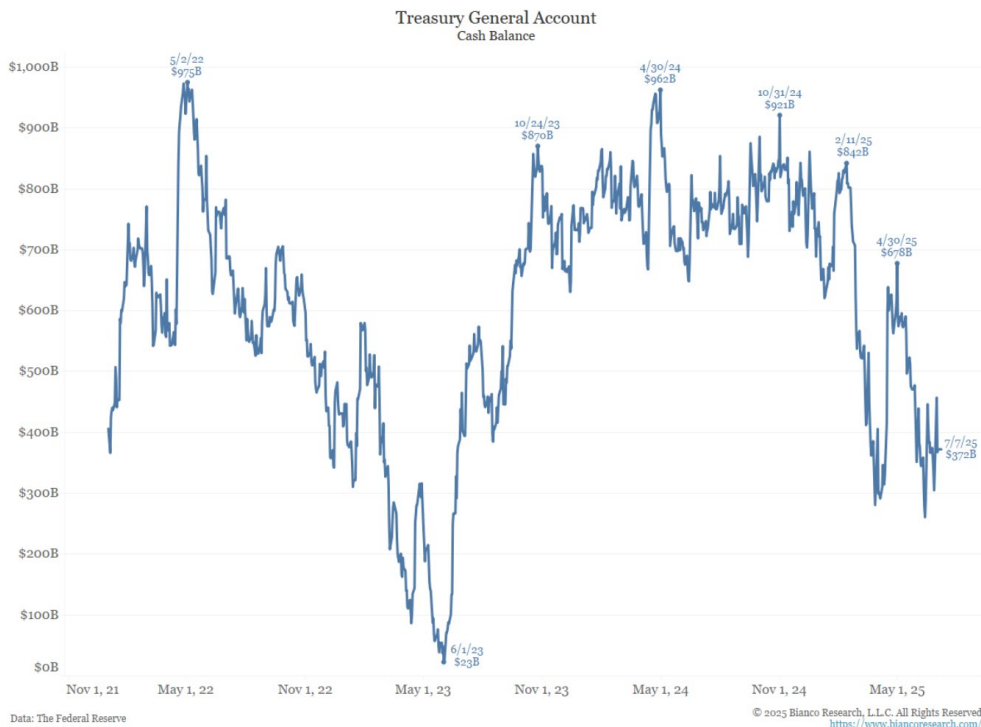
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US Fixed Income Highlights

The Treasury General Account (TGA), essentially the Treasury's private checkbook, is used to pay its bills. When the country's debt ceiling is reached, this checkbook can be used to provide 'extraordinary measures' to help meet debt obligations. In 2023, the TGA was nearly drained during the debt ceiling episode. Once the ceiling was lifted, the Treasury worked to rebuild the TGA balance to about \$800 billion by issuing almost \$1.1 trillion in Treasury bills. In 2025, the TGA decreased by only \$370-520 billion, leading fixed income analysts to estimate a smaller need for Treasury bill issuance than in the 2023 rebuild. Nonetheless, this will be a liquidity drain on markets in Q3 2025, assuming no offsetting influence from reverse repos.



The impact on funding markets, according to Joseph Wang, a former senior trader at the Fed's Open Market Desk, is that the upcoming wave of treasury bill issuance this quarter will reduce bank reserves held at the RRP and potentially halt the Fed's Quantitative tightening. In other words, a larger supply of T-bills may push rates higher, making them more attractive to money market fund managers who park client cash in the Fed's reverse repo facility (RRP). QT is being tapered to \$5 billion per month; the supplementary leverage ratio (SLR) will be lowered, and issuance will focus on bills rather than notes to mitigate a potential liquidity squeeze following the debt ceiling. In case of an emergency, there is discussion of 'buyback' programs, effectively a version of QE, where additional bill issuance would be used to buy back coupons to cap long-term yields at some determined level.

The current administration remains convinced that much of the US fiscal problems, especially a large budget deficit, can be fixed by lowering interest rates, partly through FOMC rate decisions and partly by the Treasury issuing less long-term debt. If only life were that simple, according to Bill Dudley at the New York Fed.

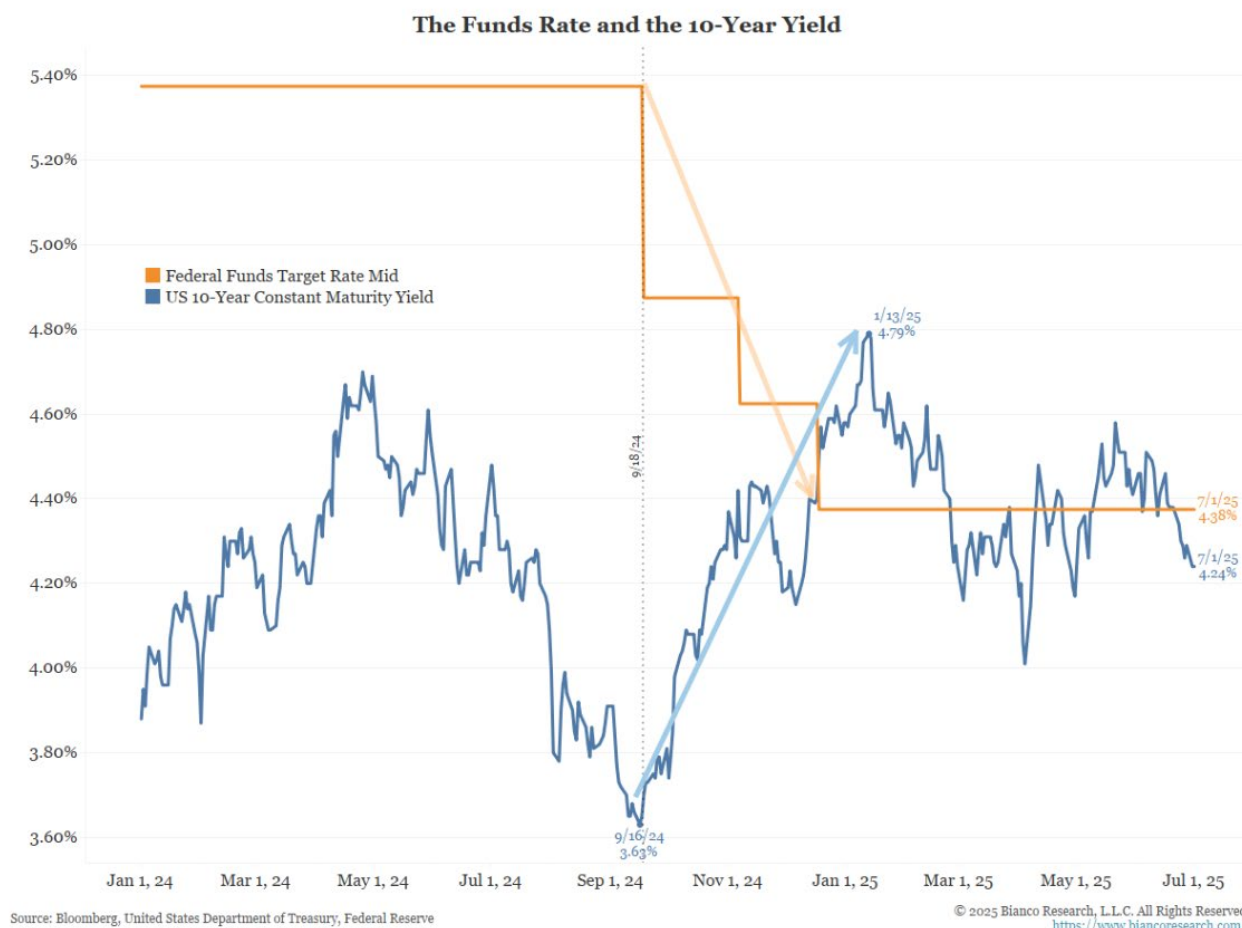
Critical points for the fixed-income markets:

- Now that the debt ceiling is lifted, the Treasury will need to refill the TGA back to a target level of \$850Bn.
- The liquidity drain from bill issuance may negatively impact credit spreads and raise bond yields.
- The Fed and Treasury are starting several programs to mitigate the negative impacts of falling liquidity and/or bank reserves.
- Although the administration views the level of policy rates as responsible for US fiscal problems, the market is primarily in charge of setting fair value on bond yields.
- Given the greater influence of price-sensitive buyers in the market, policy decisions need to serve the US fiscal interests but also be sold to the bond market as wise financial policy.
- Still, tariffs are an effective tax that should be deflationary.
- Deflationary taxes, a slowing economy, cooling labor markets, and disinflationary impulses from housing and oil will influence yields and argue for more rate cuts than the market expects.
- Despite the histrionics over yields lately, the correct call is no call.
- Yields are largely range-bound between 4to 5%, with ~4.5% serving as the line where markets get nervous, volatility ensues.
- Rising bond yields are more of a global phenomenon rather than a US-only phenomenon.

In June, President Trump posted on Truth Social, “Too Late Jerome Powell is costing our country hundreds of billions of dollars. He is truly one of the dumbest and most destructive people in government, and the Fed board is complicit.” The general opinion on Trump's attacks, along with his stated goal of installing a chair who favors lower rates, threatens to increase inflation expectations and, therefore, push up longer-term bond yields. Any sign that the Fed might give in to the President's demands would only exacerbate the situation. To counteract the Trump administration's influence and preserve market confidence, the Fed will need to err on the side of caution, keeping short-term rates higher than it otherwise would.

Bill Dudley of the New York Fed emphasizes that even if technocrats cut rates, market forces still shape long-term yields. If investors view the move as prudent, long-term yields may fall further. However, the main scenario is the opposite. If President Trump attempts to persuade policymakers to push yields significantly lower than what the market considers reasonable, long-term yields could rise sharply. Think back to last year when the Fed was cutting rates due to fears of a resurgence of inflation and the UK's Liz Truss moment.

The orange line below shows the FOMC policy rate, which begins to decline in September 2024. The blue line represents the 10-year UST yield, which rises exactly in tandem with the policy rates, increasing from a low of 3.63% to a high of 4.79% on January 13, 2025.



The market appears to have rejected policymakers' decisions, marking one of the most significant rejections in 60 years. Bond market participants do not set bond prices and yields arbitrarily; instead, fundamentals such as inflation expectations, growth outlooks, and supply needs influence the fair value assigned to bond yields. The administration's call for the Fed to lower rates to 1%, asking the Fed Chairman to “make up a lower rate,” risks repeating last year's mistakes.

The other side of this debate is that tariffs are a tax, and tax effects tend to be deflationary for an economy that is already slowing. Supporters of this view see negligible risk of further yield increases, as the secondary effects—if yields spike—would lead to a much slower housing market, likely pushing the economy into recession. A decline in equity markets would, in turn, decrease growth and bond yields, since 10-year UST yields reflect overall growth and inflation. This argument is less about yields breaking down over the long term and more about bond yields stabilizing around the 4% level, with a natural ceiling near 5.5%. A yield of approximately 4.5% on the 10-year UST would serve as a dividing line, potentially causing volatility in equity markets. It all favors active management in portfolios and using bonds for income rather than relying on long-term bonds for portfolio insurance and diversification alongside stocks. It also supports more rate cuts than the Fed Funds futures suggest, up to three by year-end. Although this runs counter to the consensus, analyzing the yield curve spreads, especially the FFR/10Y and FFR/2Y, indicates that more cuts are justified rather than higher rates for longer. Lastly, considering the strength of regional banks in equities, many wonder if the FOMC has ever cut rates when regional banks are near all-time highs. The answer is “yes”: 1992, 1995, and 1996.

A final argument against the consensus view that the risk of a US yield breakout stems from a loss of confidence in policymakers is that if this were the case, investors would only see a spike in US yields. Instead, it is more of a global phenomenon than a US-specific issue. Even more surprisingly, with the recent rise in 30-year bond yields, the US remains one of the calmer markets. Japan and Germany have been significantly impacted. The best approach to yields might be to do nothing, as this could be a trading range. Although this is contrarian, there is little benefit in merely rehashing consensus opinions on markets.

Change in Yields (bps): Today vs. Start of 2025			
Country	2 Year	10 Year	30 Year
Japan	0.14	0.36	0.68
Germany	-0.25	0.28	0.52
Netherlands	-0.22	0.23	0.51
Denmark	-0.12	0.43	0.49
Portugal	-0.38	0.24	0.46
Belgium	-0.30	0.22	0.45
Canada	-0.24	0.18	0.37
France	-0.14	0.13	0.36
Spain	-0.27	-0.44	0.35
Switzerland	-0.08	0.13	0.30
U.K.	-0.53	0.02	0.26
Italy	-0.36	-0.03	0.16
U.S.	-0.35	-0.18	0.14
Australia	-0.28	-0.18	0.02
Norway	-0.54	-0.04	-
Sweden	-0.31	-0.03	-
Average	-0.26	0.08	0.36
Median	-0.27	0.13	0.37

Source: Strategas Research Partners

Asset Class Return Rank

Asset Class	2021	2022	2023	2024	2025	10Y Cumulative	10Y Annualized
Gold	(4.2)	(0.8)	12.7	26.7	26.2	122.32	11.67
Developed International Stocks	11.5	(14.4)	18.5	3.5	20.8	82.21	7.34
Bitcoin (Digital Assets)	58.3	(63.9)	153.7	122.5	19.2	2150.78	74.35
Emerging Market Stocks	(3.6)	(20.6)	9.0	6.5	16.8	76.26	6.35
International Agg Bond Market	(9.3)	(22.1)	5.6	(6.5)	10.7	2.70	(0.28)
US Large Cap Growth Stocks	27.5	(32.7)	55.0	25.6	8.9	211.84	18.25
US Large Cap Stocks	26.4	(19.2)	26.5	24.3	7.3	145.96	13.46
US Mid Cap Stocks	22.5	(17.5)	17.1	15.2	7.2	114.66	10.54
USD Emerging Market Bonds	(2.2)	(18.7)	10.6	5.5	6.3	36.58	3.19
US Corporate High Yield Bonds	3.8	(11.0)	11.6	8.0	4.9	53.21	5.06
US TIPS	5.7	(12.3)	3.8	1.7	4.4	28.70	2.69
US Corporate Investment Grade Bonds	(1.8)	(18.0)	9.4	0.9	3.9	32.23	2.78
Commodities	41.5	19.4	(6.2)	2.2	3.6	76.26	6.63
US Agg Bond Market	(1.9)	(13.1)	5.7	1.4	3.5	18.07	1.63
US REITs	40.7	(26.3)	11.8	4.8	3.0	65.78	5.12
Preferred Shares	7.2	(18.2)	9.2	7.2	3.0	37.03	3.28
US Small Cap Stocks	14.6	(20.5)	16.9	11.4	2.4	95.35	8.52
Cash (\$)	(0.1)	1.4	5.0	5.2	2.2	18.59	1.84
20Y+ US Treasury	(4.6)	(31.3)	2.8	(8.1)	1.3	1.21	(0.83)
Agriculture	22.4	2.5	7.7	33.5	(3.2)	41.71	3.45

Highest Return	58.3	19.4	153.7	122.5	26.2	2150.78	74.35
Lowest Return	(9.3)	(63.9)	(6.2)	(8.1)	(3.2)	1.21	(0.83)
% Asset Classes Positive	60%	15%	95%	90%	95%	100%	88%

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