

# PLAINSCAPITAL BANK ECONOMIC HIGHLIGHTS



Economic Commentary  
August 2025

By Jerrod Dawson, CFA

## Executive Summary

- U.S. FOMC Interest Rate Decision (July 30): Rates unchanged at 4.25–4.50%.
- U.S. FOMC Meeting Minutes (July 9): Released for June 17–18 meeting.
- U.S. Non-Farm Payrolls (July 1): June payrolls +147,000, unemployment 4.1%.
- U.S. GDP Q2 Advance Estimate (July 30): Projected 1.5% growth.
- U.S. Consumer Confidence (July 29): Reflected cautious sentiment.
- U.S. Manufacturing PMI (July 1): Showed robust performance, rising prices.
- U.S. Tariff Deadline Extension (July 7): Extended to August 1, 15% tariff for Japan, 30% for EU/Mexico.
- ECB Interest Rate Decision (July 24): Rates unchanged at 2.0% deposit facility.
- Eurozone GDP Q2 Flash Estimate (July 30): Subdued growth.
- Eurozone Inflation Flash Estimate (July 1): Stable near 2% target.
- China Inflation and Trade Data (July): Deflationary pressures persisted.
- Brazil Mid-Month CPI (July 24): Reflected tariff pressures.
- Mexico Economic Activity (July 22): Impacted by U.S. trade ties.
- IMF World Economic Outlook Update (July 28): Global growth revised to 3.0% for 2025, 3.1% for 2026.

## Dedicated Investment Team

Andrew Cunningham, CFA®, CMT®, ChFC®  
Chief Investment Officer  
512.457.7534 | [andrew.cunningham@plainscapital.com](mailto:andrew.cunningham@plainscapital.com)  
Central Texas

Jerrod Dawson, CFA®  
Manager of Investment Strategies and Portfolio Management  
214.252.4150 | [jerrod.dawson@plainscapital.com](mailto:jerrod.dawson@plainscapital.com)  
Dallas

Kendall Parker  
Manager of Investment Services  
214.252.4165 | [Kendall.parker@plainscapital.com](mailto:Kendall.parker@plainscapital.com)  
Dallas

Stephen Schaller, CFA®, CFP®  
Market Manager, Portfolio Manager  
713.749.8113 | [stephen.schaller@plainscapital.com](mailto:stephen.schaller@plainscapital.com)  
Houston/ Coastal Bend

Victor Tanguma, AIF®  
Senior Portfolio Manager  
956.661.5466 | [victor.tanguma@plainscapital.com](mailto:victor.tanguma@plainscapital.com)  
McAllen/ Rio Grande Valley

Larry Smith  
Senior Portfolio Manager  
806.791.7256 | [larry.smith@plainscapital.com](mailto:larry.smith@plainscapital.com)  
West Texas

Irene Silva, AWMA®  
Portfolio Manager  
817.258.3818 | [irene.silva@plainscapital.com](mailto:irene.silva@plainscapital.com)  
Fort Worth

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](mailto:morgan.cook@plainscapital.com)  
Fort Worth

## US Economic Cycle Drivers:

### U.S. Economic Cycle Drivers

Growth	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Citi Economic Surprise - United States	8.0	-8.3	↑	↑
Bloomberg Economics US GDP Nowcast	1.6	1.9	↓	↑
Consensus USA Growth Forecast Survey	-41.2	-48.2	↑	↓

Inflation	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Citi Inflation Surprise Index - United States	-33.0	-18.7	↓	↓
Bloomberg Economics US CPI Nowcast	2.8	2.3	↑	↓
Consensus USA Inflation Forecast Survey	74.5	70.7	↑	↑

Employment	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Unemployment Rate	4.2	4.2	↑	→
Conference Board Employment Trend	107.6	107.9	↓	↓

Consumer Spending	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Johnson Redbook Retail Sales y/y	5.4	6.7	↓	↑
Adjusted Retail & Food Service Sales	3.9	5.1	↓	↑
Conference Board Consumer Confidence	97.2	85.7	↑	↓

Corporate Profitability	NTM (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
S&P 500 Est. Sales Growth Rate	6.2	4.7	↑	↑
S&P 500 Est. EPS Growth Rate	11.6	4.5	↑	↑
Conference Board CEO Confidence	5.8	5.0	↑	↓

Government Policy	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Budget/ GDP	-6.3	-6.9	↑	↓
USD Real Effective Exchange Rate	108.7	111.0	↓	↓

Central Bank Policy Rate	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
U.S. Federal Funds Rate Upper Bound	4.5	4.5	→	↓
U.S. Market Implied Policy Rate 1Y Fwd	3.1	3.5	↑	↓

Liquidity	3mo Δ (%)	12mo Δ (%)	Trend q/q	Trend y/y
U.S. Domestic Liquidity	-0.8	1.1	↓	↑
Global Liquidity Index	2.7	19.3	↑	↑

Data source: Bloomberg

The data and commentary provided herein is for informational purposes only. No warranty is made with respect to any information provided. It is offered with the understanding that Hilltop Holdings Inc., PlainsCapital Corporation, Hilltop Securities and PlainsCapital Bank (collectively "PCB") are not, hereby, rendering financial and/or investment advice, and use of the same does not create any relationship with PCB. This is neither an offer to sell nor a solicitation of an offer to buy any securities that may be described or referred to herein. PCB does not provide tax or legal advice. Please consult your own tax or legal advisor regarding your specific situation. Whether any of the information contained herein applies to a specific situation depends on the facts of that particular situation. Investment and estate planning and management decisions may have significant financial consequences and should be made only after consulting with professionals qualified to offer legal, accounting and taxation advice. Neither this document nor any portion of its content's supplements, amends or modifies any account agreement with PCB. Unless otherwise noted:

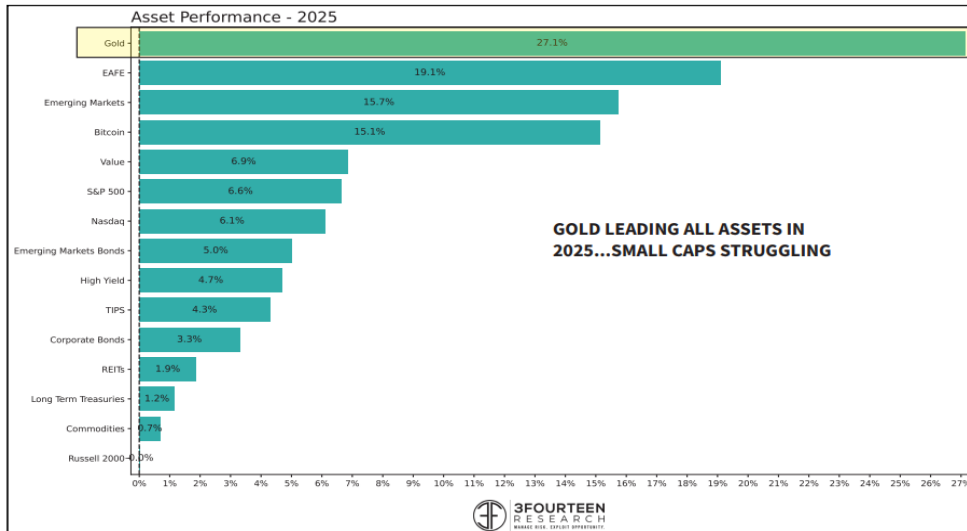
\*All economic release data referenced from public sources believed to be accurate

\*The source of data for all charts/graphs included in this presentation is Bloomberg LP.

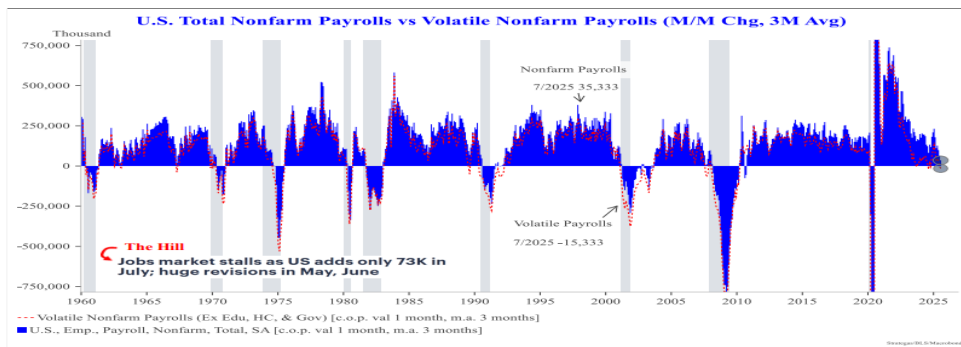
\*Figures quoted represent monthly changes (m/m) and are seasonally adjusted

## US & Global Economic Highlights

The July data marked a subtle but meaningful shift in the U.S. economic narrative. While growth rebounded strongly in the second quarter, the labor market lost momentum, inflation continued to ease, and early signs of global trade rebalancing emerged. Markets interpreted the weak July payrolls report and soft inflation figures as confirmation that the Federal Reserve may soon begin cutting rates. Still, the economic picture remains nuanced—income growth is holding up, price pressures are easing but not gone, and capital markets remain broadly resilient.



Nonfarm payrolls rose just 73,000 in July, far below expectations, and revisions to prior months erased 258,000 jobs from the record. The unemployment rate edged up to 4.2%, and labor force measures were unchanged. Yet compensation remains steady, with average hourly earnings up 3.9% y/y and Q2's Employment Cost Index showing real gains. Meanwhile, consumer price data revealed that disinflation continues across both goods and services, while producer prices and import costs remained subdued.

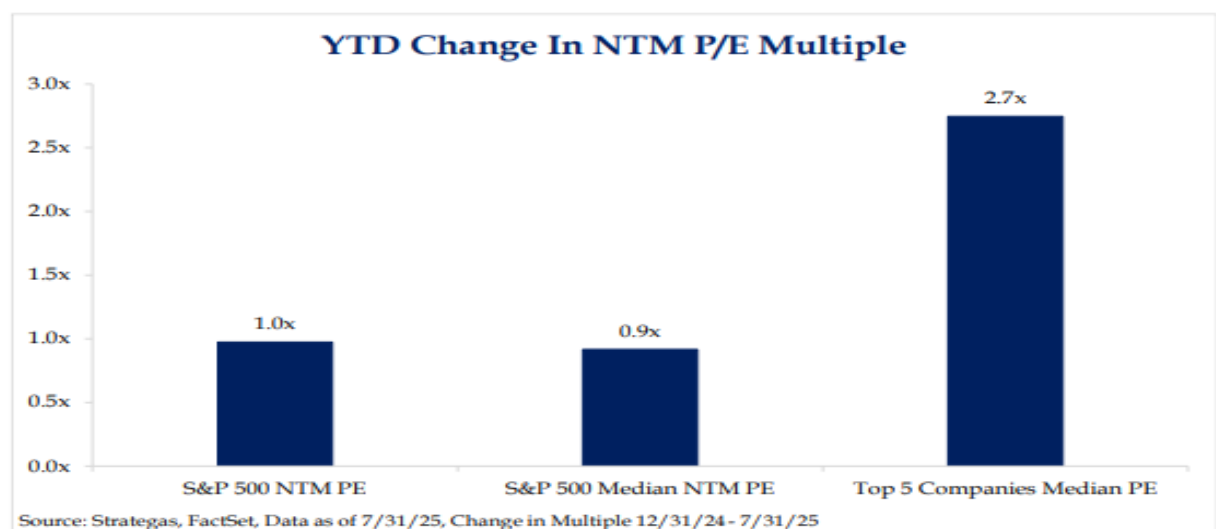
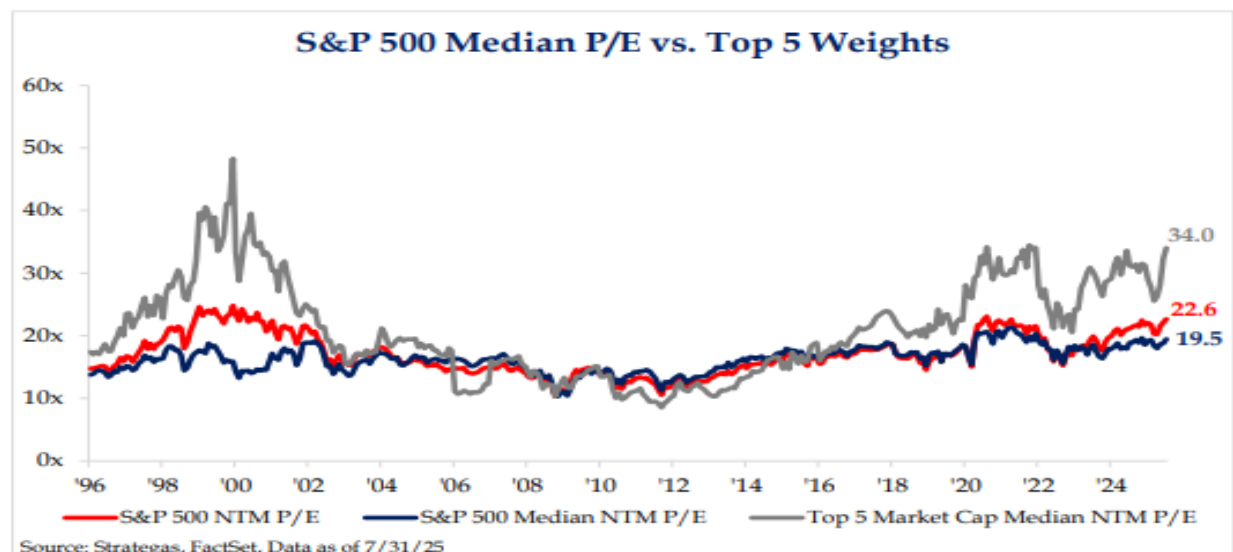


Corporate earnings growth has been solid, with forward guidance suggesting a stronger second half. And although trade frictions elevate global growth uncertainty, the IMF has upgraded its outlook for 2025 slightly, led by China and emerging markets. Altogether, the data support the view that the U.S. economy is

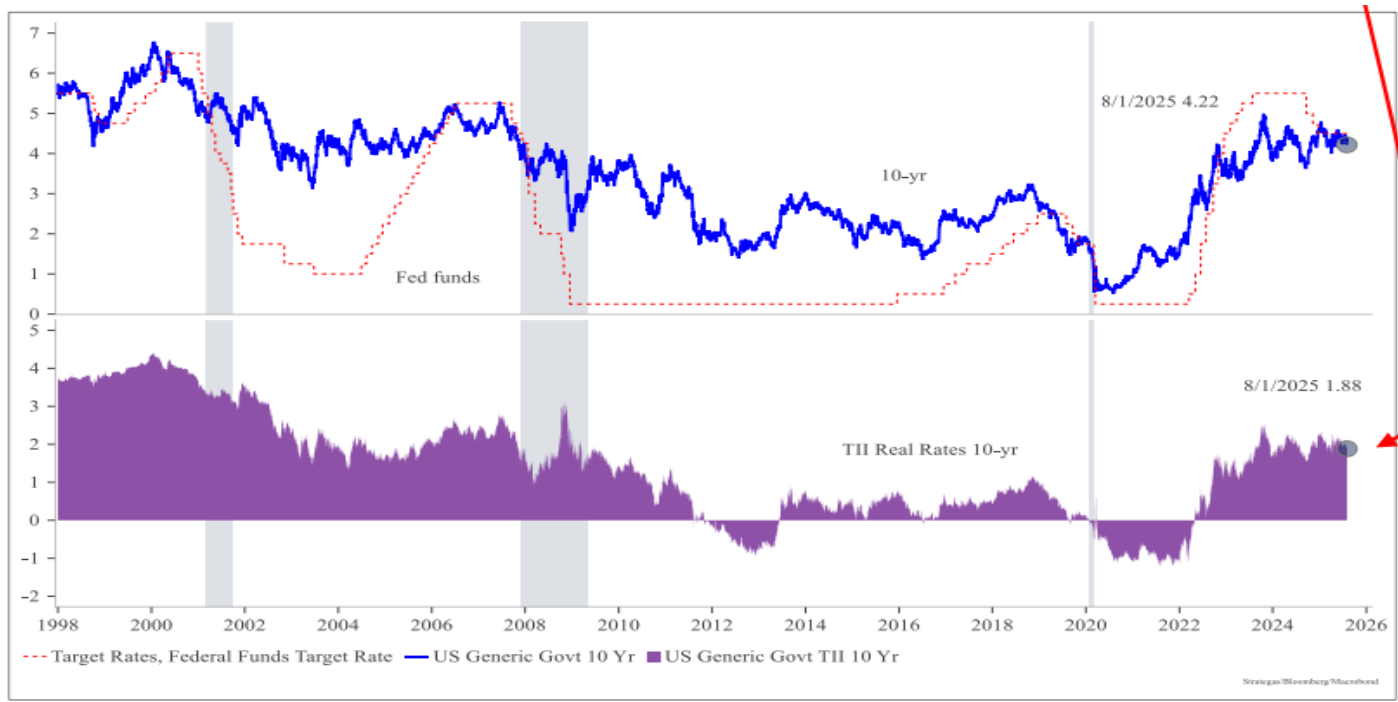
## Critical points for the economy

- Growth rebounded strongly in the second quarter, the labor market lost momentum, inflation continued to ease, and early signs of global trade rebalancing emerged.
- Nonfarm payrolls rose just 73,000 in July, far below expectations, and revisions to prior months erased 258,000 jobs from the record. The unemployment rate edged up to 4.2%, and labor force measures were unchanged.
- Consumer price data revealed that disinflation continues across both goods and services, while producer prices and import costs remained subdued.
- Trade frictions elevate global growth uncertainty. The IMF has slightly upgraded its outlook for 2025, driven by China and emerging markets.
- Altogether, the data support the view that the U.S. economy is gradually cooling without stalling—giving the Fed room to act if labor conditions continue to soften.

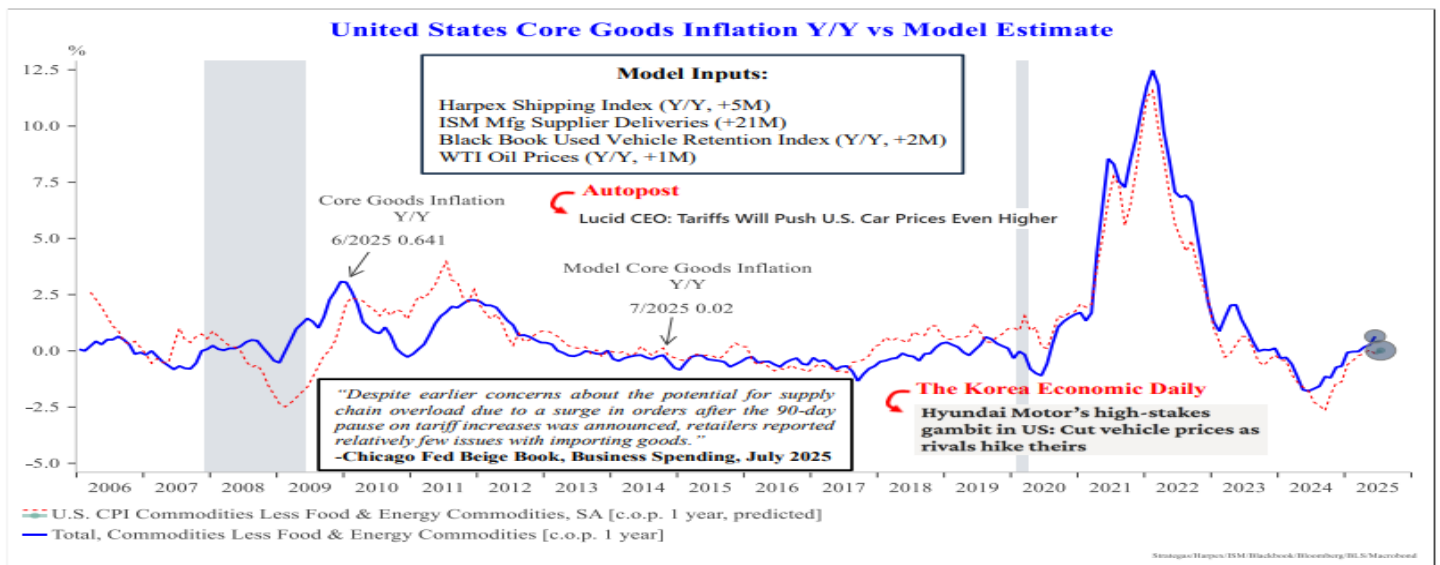
gradually cooling without stalling—giving the Fed room to act if labor conditions continue to soften. While earnings growth has been solid, markets have outpaced earnings, stretching valuations.



Inflation pressures continue to ease, though the path remains uneven. The June Consumer Price Index showed headline prices rising 0.3% on the month, up slightly from May. That uptick was primarily driven by higher energy and food costs, while core inflation rose just 0.2%—its smallest gain since February. Shelter inflation, a key driver over the past two years, also cooled to 0.2%, providing further evidence that housing-related cost pressures are fading. Notably, used car prices, apparel, and airfares all declined. While inflation remains contained, the Fed continues to stay on the sidelines in terms of easing conditions, with Real Rates (see below) a key metric.

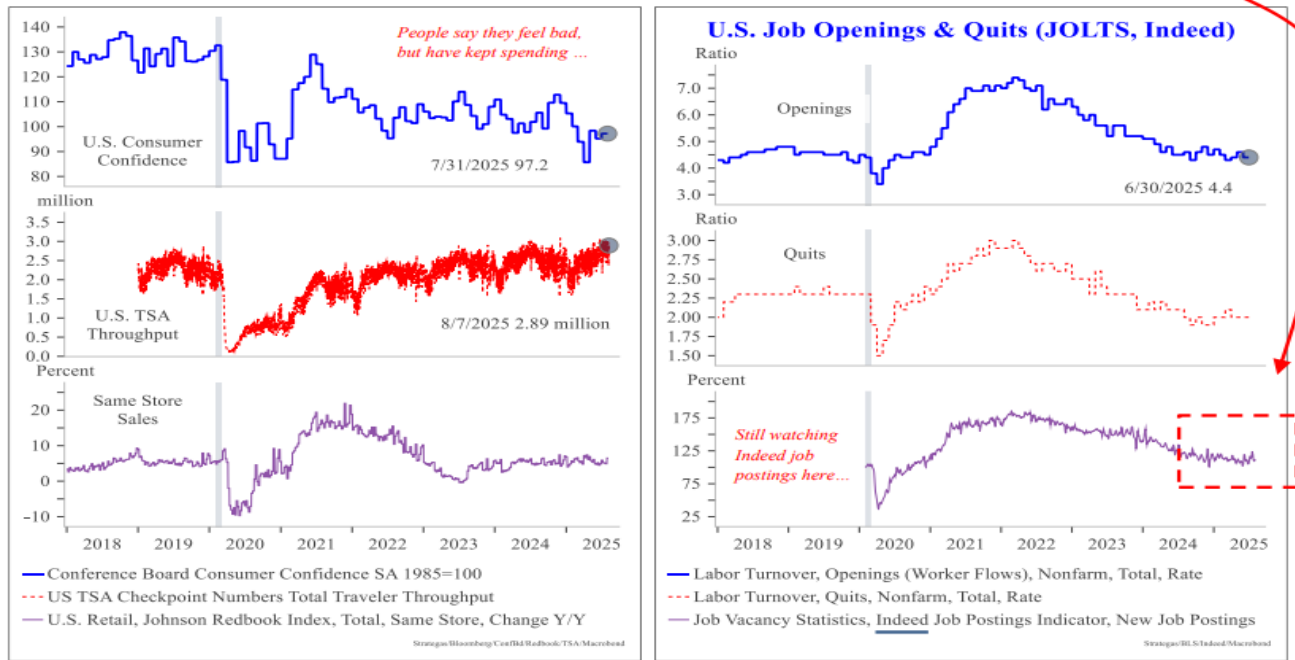


At the producer level, price pressures have stabilized. The Producer Price Index for final demand was flat in June, while core PPI is now running at just 2.5% y/y. Meanwhile, import prices are still deflationary on a year-over-year basis (–0.2%), reflecting lower global input costs. Export prices rose modestly, helped by firming demand abroad and a slightly weaker dollar.



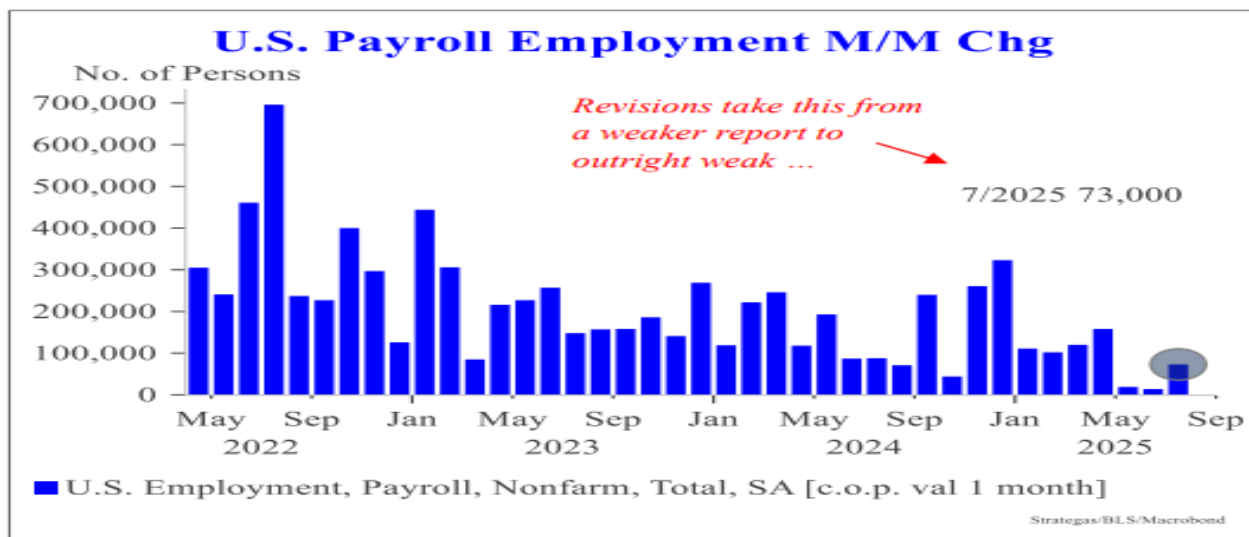
Household behavior continues to reflect caution. The personal savings rate held steady at 4.5% in June, signaling that consumers remain measured despite improving real income trends. While strong Q2 growth offered reassurance, leading indicators suggest that the economy may be returning to a slower, more sustainable pace as the effects of earlier policy tightening continue to work through the system.

## U.S. CONSUMER HAS BEEN HELPED BY THE LABOR MKT ... MONITORING HERE



### Labor Market & Income Trends

Labor market conditions softened noticeably in July. Nonfarm payrolls rose just 73,000, a significant slowdown from prior months, and revisions to May and June payrolls removed over a quarter-million jobs from the previous record. While employment gains were concentrated in health care and social assistance, most other major sectors saw little or no growth. The unemployment rate edged up to 4.2%, and the number of long-term unemployed rose to 1.8 million.



Source: <https://www.strategasrp.com/Document/Index?strResearchProductID=NebJBI3DOMhVF8DC0Yx7TQ%3d%3d>

Despite the slowdown in hiring, wage growth remains firm. Average hourly earnings rose 0.3% in July, pushing the year-over-year rate to 3.9%. More broadly, the Employment Cost Index for Q2 showed compensation increasing 1.0% over the quarter and 3.6% from a year ago, with real wage growth estimated at 0.8%. Benefit costs also rose steadily. These



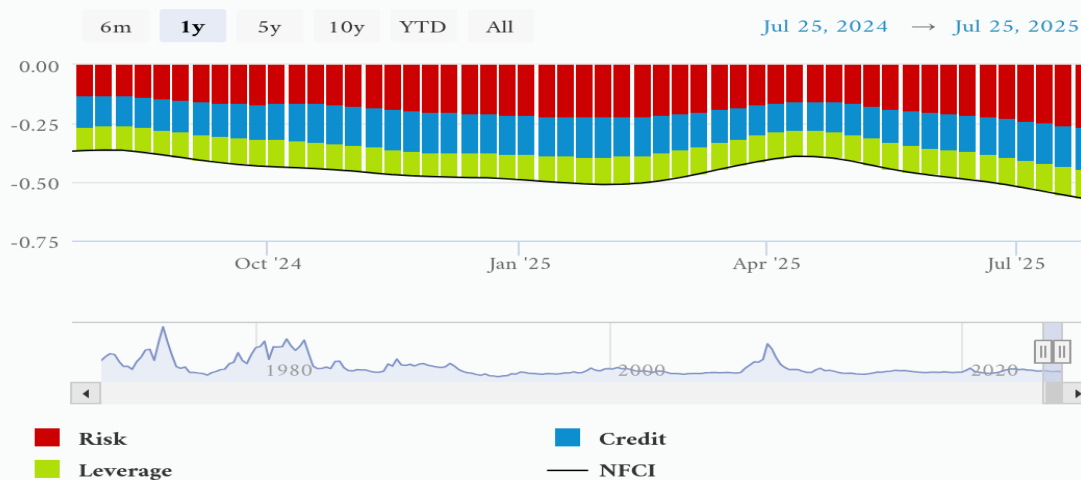
figures suggest that even as job growth slows, income gains are providing households with a modest buffer against economic uncertainty.

Labor force participation was unchanged at 62.2%, and the employment-population ratio held at 59.6%—both just below year-ago levels. Overall, the July employment data paint a picture of a labor market that is no longer overheating but remains fundamentally intact.

## Financial Conditions & Credit Trends

Financial conditions remained supportive in July, despite growing signs of economic deceleration. The Chicago Fed's National Financial Conditions Index fell to  $-0.57$ , one of its loosest readings this year. Credit remained widely available to high-grade borrowers, and spreads in both investment-grade and high-yield markets stayed tight by historical standards.

### National Financial Conditions Index (NFCI)



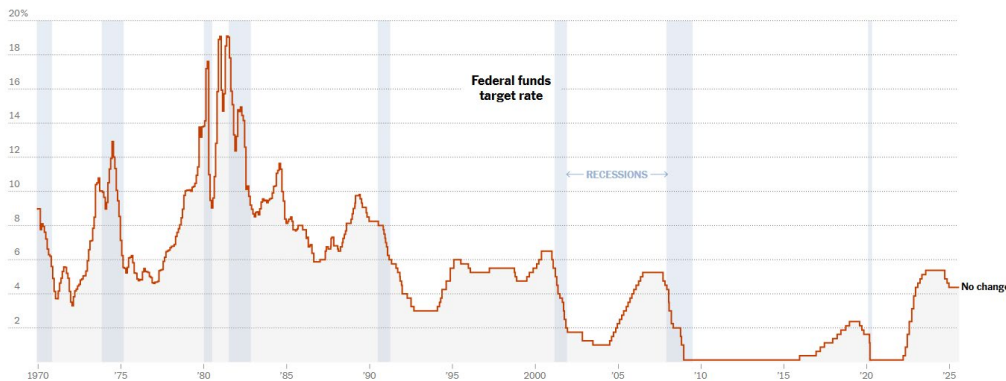
**Source:** Federal Reserve Bank of Chicago, *National Financial Conditions Index (NFCI)*, Primary News Source, August 2025.  
<https://primarynewssource.org/sourcedocument/federal-reserve-bank-of-chicago-national-financial-conditions-index-nfci-29/>

However, spreads (the gap between top-tier and lower-rated credits) have widened. As uncertainty surrounding tariffs and global demand increased, investors began demanding higher risk premiums for issuers exposed to cyclical industries or foreign markets. Volatility metrics like the ICE BofA MOVE Index remained subdued, signaling investor confidence that the Fed will respond if needed.

Private credit activity remains elevated, though leveraged structures are drawing scrutiny. Recent commentary from major banks and private credit funds suggests that while overall exposure is still manageable, some areas—particularly in real estate and consumer lending—warrant closer monitoring.

## Monetary Policy & Fed Outlook

The Federal Reserve left interest rates unchanged at its July meeting, holding the target range at 4.25–4.50%. However, two FOMC members dissented in favor of an immediate cut, and markets interpreted the decision as setting the stage for easing in September.



**Source:** Federal Reserve. By Karl Russell <https://www.nytimes.com/live/2025/07/30/business/federal-reserve-interest-rates>

**Note:** The rate since December 2008 is the midpoint of the federal funds target range.

Incoming data are pushing the Fed closer to action. Core inflation has slowed to 2.9% y/y, while both PPI and import prices signal softening upstream cost pressures. Meanwhile, job creation has cooled, and unemployment is rising gradually. These developments have fueled market expectations: futures now imply an 80–90% probability of a rate cut in September and more than one cut by year-end.

Fed officials remain divided, with some citing the risk of cutting too soon while others point to the importance of preventing a deeper labor market slowdown. The political backdrop has also grown louder, with pressure from the White House complicating perceptions of central bank independence. Nevertheless, the economic case for easing has become stronger.

## Global Economic Outlook & Trade

Global growth remains fragile but is showing signs of stabilization. The IMF raised its 2025 global GDP forecast to 3.0%, citing improved conditions in China, Brazil, and Southeast Asia. China's projected growth was revised up to 4.8%, helped by domestic stimulus and easing tensions with the U.S. Emerging market economies are expected to expand at a 4.1% clip. In contrast, advanced economies—including the U.S. and euro area—are likely to grow just 1.5% and 1.0%, respectively.

Global trade volumes are rebounding modestly. Export prices from the U.S. rose 0.5% in June, supported by firm external demand and a weaker dollar. Still, trade policy remains a key risk. New tariffs introduced in early August are expected to lift practical U.S. trade

### Critical points for policy

- The Federal Reserve left interest rates unchanged at its July meeting, holding the target range at 4.25–4.50%.
- Incoming data are pushing the Fed closer to action.
- Job creation has cooled, and unemployment is rising gradually.
- These developments have fueled market expectations: futures now imply an 80–90% probability of a rate cut in September and more than one cut by year-end.
- Fed officials remain divided, with some citing the risk of cutting too soon while others point to the importance of preventing a deeper labor market slowdown.
- The political backdrop has also grown louder, with pressure from the White House complicating perceptions of central bank independence.

The data and commentary provided herein is for informational purposes only. No warranty is made with respect to any information provided. It is offered with the understanding that Hilltop Holdings Inc., PlainsCapital Corporation, Hilltop Securities and PlainsCapital Bank (collectively "PCB") are not, hereby, rendering financial and/or investment advice, and use of the same does not create any relationship with PCB. This is neither an offer to sell nor a solicitation of an offer to buy any securities that may be described or referred to herein. PCB does not provide tax or legal advice. Please consult your own tax or legal advisor regarding your specific situation. Whether any of the information contained herein applies to a specific situation depends on the facts of that particular situation. Investment and estate planning and management decisions may have significant financial consequences and should be made only after consulting with professionals qualified to offer legal, accounting and taxation advice. Neither this document nor any portion of its content's supplements, amends or modifies any account agreement with PCB. Unless otherwise noted:

\*All economic release data referenced from public sources believed to be accurate

\*The source of data for all charts/graphs included in this presentation is Bloomberg LP.

\*Figures quoted represent monthly changes (m/m) and are seasonally adjusted



barriers from ~3% to 15% on average. While a last-minute U.S.–EU agreement helped avert a broader escalation, uncertainty continues to weigh on global manufacturing and investment plans.

Investor sentiment in Asia and Europe has turned more cautious in response to these developments. Equity markets in Taiwan, Korea, and Germany declined following the tariff news, and business surveys show a drop in forward capital spending plans. The net effect is likely to be a slower pace of global recovery in the second half of the year.

### Corporate Earnings & Market Sentiment

Second-quarter corporate earnings reflect a market in transition. S&P 500 profits are expected to grow just 2.5% year-over-year, as margin pressure and weak overseas demand weigh on results. However, guidance for the second half of the year has improved, with many firms signaling a rebound in revenue growth as inflation cools and policy support increases.

Sector performance remains mixed. Technology, communication services, and health care have led the rebound, while energy, materials, and consumer cyclicals continue to lag. The outlook for industrials is primarily dependent on trade dynamics, as many firms in the sector face supply chain adjustments and margin compression due to tariffs.

Investor sentiment has improved modestly. With inflation easing and the Fed likely to pivot, equity markets are pricing in a soft-landing scenario. However, market breadth remains narrow, and volatility could increase if labor or inflation trends reverse course unexpectedly.

### Investment Takeaway

The July data showed some cooling and increased the prospects of a Fed rate cut at the next FOMC meeting. Slower job growth, softer inflation, and the prospect of Fed easing suggest that a soft landing remains achievable—but risks are growing. Investors should remain focused on high-quality companies with resilient earnings, strong pricing power, and flexibility in their supply chains. Rate-sensitive sectors such as real estate and utilities may benefit from monetary easing, while global cyclicals face continued headwinds.

Portfolio positioning should emphasize balance and diversification, incorporating a mix of defensiveness to mitigate trade and political risks, while maintaining long-term upside exposure in the event of disinflation and a supportive Fed policy.

### Critical points for profitability

- Second-quarter corporate earnings reflect a market in transition.
- Guidance for the second half of the year has improved, with many firms signaling a rebound in revenue growth as inflation cools and policy support increases.
- Sector performance remains mixed.
- Investor sentiment has improved modestly. With inflation easing and the Fed likely to pivot, equity markets are pricing in a soft-landing scenario.
- Investors should remain focused on high-quality companies with resilient earnings, strong pricing power, and flexibility in their supply chains.
- Rate-sensitive sectors such as real estate and utilities may benefit from monetary easing, while global cyclicals face continued headwinds.