

PLAINSCAPITAL BANK ECONOMIC HIGHLIGHTS



Economic Commentary
September 2025

By Jerrod Dawson, CFA

Executive Summary

- U.S. FOMC Interest Rate Decision (July 29-30): The FOMC continued its 'wait and see' strategy and left rates unchanged at 4.25–4.50%. For the first time in over 3 decades, the vote had two dissenters.
- U.S. Non-Farm Payrolls (August 1): July payrolls came in at 73,000 jobs created. This number was slightly weaker than expected, with the big news being significant downward revisions to May & June numbers. Unemployment ticked up slightly from 4.1% to 4.2%.
- U.S. GDP Q2 Second Estimate (August 29): GDP was revised upward to a robust 3.3% annualized growth rate.
- Consumer Price Index (CPI) remained steady for July, rising 2.7% year-over-year, down from 2.9% in June; core CPI (excluding food and energy) up 3.1%.
- U.S. Consumer Confidence (August 26): Consumer confidence declined slightly in the most recent survey to 97.4, with significant deviations across political ideology returning.
- U.S. Manufacturing PMI (August 1): U.S. PMI surged in July, indicating robust activity, with manufacturing growth the fastest in 3 years.
- U.S. Durable Goods Orders (August 26): US durable goods orders softened in July. Declining a much less than expected 2.8%.
- U.S. S&P/Case-Shiller Home Price Index (August 26): Home-price growth continued their march higher in June, increasing by 1.9 percent. That's down from May's 2.3 percent year-over-year increase.
- Core Personal Consumption Expenditures (PCE) Price Index steady at 2.6% in July, with a three-month annualized growth of 1.7%.
- Eurozone headline inflation at 2.1% in August; core rate stable at 2.3%.
- US wholesale prices jumped 3.3% year-over-year
- The S&P 500 was up 1.9% in August for a year-to-date return of 9.84%.
- The Bloomberg Aggregate was up 1.2% in August for a year-to-date return of 4.99%.

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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	21.8	-5.2	↑	↑
Bloomberg Economics US GDP Nowcast	0.5	4.5	↓	↓
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	-15.0	-34.0	↑	↓
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	4.3	4.2	↑	↑
Conference Board Employment Trend	106.4	107.7	↓	↓

Consumer Spending	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Johnson Redbook Retail Sales y/y	6.6	5.5	↑	↓
Adjusted Retail & Food Service Sales	3.9	5.0	↓	↑
Conference Board Consumer Confidence	97.4	98.4	↑	↓

Corporate Profitability	NTM (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
S&P 500 Est. Sales Growth Rate	6.2	4.0	↑	↑
S&P 500 Est. EPS Growth Rate	12.4	4.3	↑	↑
Conference Board CEO Confidence	6.3	5.4	↑	↓

Government Policy	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Budget/ GDP	-6.3	-6.9	↑	↓
USD Real Effective Exchange Rate	108.0	110.4	↓	↓

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	2.9	3.5	↓	↑

Liquidity	3mo Δ (%)	12mo Δ (%)	Trend q/q	Trend y/y
U.S. Domestic Liquidity	0.0	1.0	↓	↑
Global Liquidity Index	3.8	16.1	↑	↑

Data source: Bloomberg

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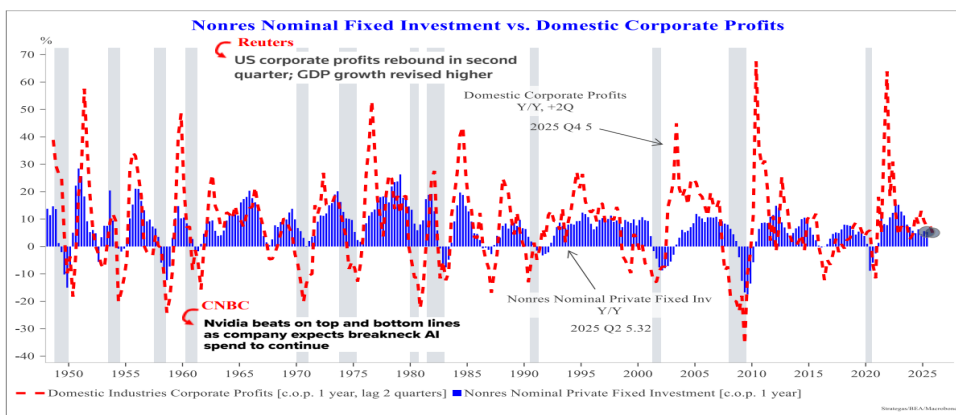
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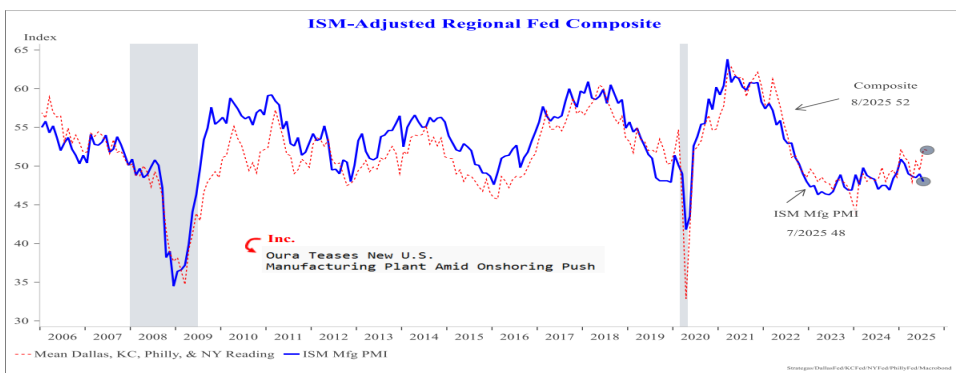
US & Global Economic Highlights

August was punctuated by a resilient US economy with Q2 GDP revised up to 3.3%, driven by consumption and a sharp drop in imports following Q1's tariff-driven surge. Inflation remains in check, with headline CPI up to 2.7% y/y. Core CPI (excludes food and energy) was up 3.1%. These favorable growth metrics should continue to support markets. Still, we would like to see some broadening of the growth to reach sectors like housing, which can help combat the lack of breadth in equity markets and increase valuation challenges.

A district court ruled that Trump doesn't have the authority to levy tariffs. This is being fact-tracked and appealed, but will increase uncertainty until it is resolved, adding headwind to growth. This said, with inflation pressures ostensibly in check and signs of potential softness in the labor market, the Fed seems to have room to cut rates later this month.



Following several years of generally weak manufacturing, there are signs that things are set to turn. PPI (producer prices) remain stable, and capacity utilization numbers are poised to rise.



While job growth showed some cooling in August (just 73,000 jobs added), consumer spending and earnings momentum helped buoy investor attitudes. The more significant data point was a meaningful downward revision to the prior month's results. The unemployment rate ticked up 1/10 to 4.3%, and labor force

Critical points for the economy

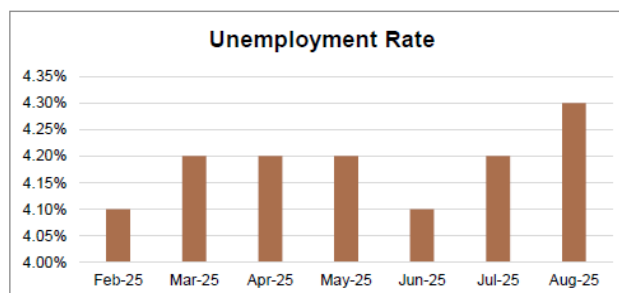
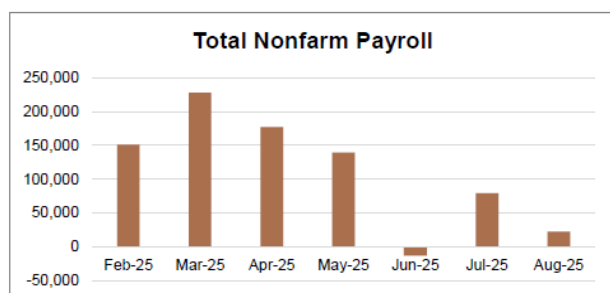
- August was punctuated by a resilient US economy with Q2 GDP revised up to 3.3%, driven by consumption and a sharp drop in imports following Q1's tariff-driven surge.
- A district court ruled Trump doesn't have the authority to levy tariffs.
- Job growth showed some cooling, but consumer spending and earnings momentum helped buoy investor attitudes.
- The more significant data point was a meaningful downward revision to the prior month's results.
- Consumers remain healthy but cautious.
- Real income trends are improving, but elevated inflation and policy uncertainty are weighing on sentiment.
- Average hourly earnings are outpacing inflation, providing increased purchasing power which should help to solidify consumer confidence.

participation dipped to 62.2%. Importantly for consumer spending, average hourly earnings held firm, and the diffusion index showed more firms increasing employment than cutting.

August 2025

	Actual	Consensus	Surprise	Prior
Nonfarm Payroll Employment	22,000	76,500	-54,500	79,000
Two-Month Net Revision	-21,000	-	-	-
Unemployment Rate	4.30%	4.30%	0.00%	4.20%
Average Hourly Earnings YoY	3.70%	3.70%	0.00%	3.90%
Average Weekly Hours All Employees	34.20	34.30	-0.10	34.20
Labor Force Participation Rate	62.30%			62.20%

Notable Employment Changes	
Health Care	31,000
Social Assistance	16,000
Federal Government	-15,000
Manufacturing	-12,000



Consumers remain healthy but cautious. The savings rate has held near 4.5%, and spending growth remains positive, although it has shown some moderation. Real income trends are improving, but elevated inflation and policy uncertainty are weighing on sentiment. Consumer confidence surveys softened with large divergencies based on political ideology. While some cautionary signs have emerged around job creation, most importantly, average hourly earnings are outpacing inflation. This provides some increased purchasing power and should help to solidify consumer confidence if these trends remain.

Consumer

Series M/M %	4/1/2025	5/1/2025	6/1/2025	7/1/2025
Retail Sales & Food	-0.11	-0.79	0.90	0.51
Nominal Consumer Spend.	0.21	-0.03	0.34	n/a
Real Consumer Spend.	0.05	-0.20	0.06	n/a
Pers. Saving Rate %	5.00	4.50	4.50	n/a

Surveys

Series Index Level	5/1/2025	6/1/2025	7/1/2025	8/1/2025
Conf Board Confidence	98.4	95.2	97.2	n/a
U of Mich Sentiment	52.2	60.7	61.7	58.6

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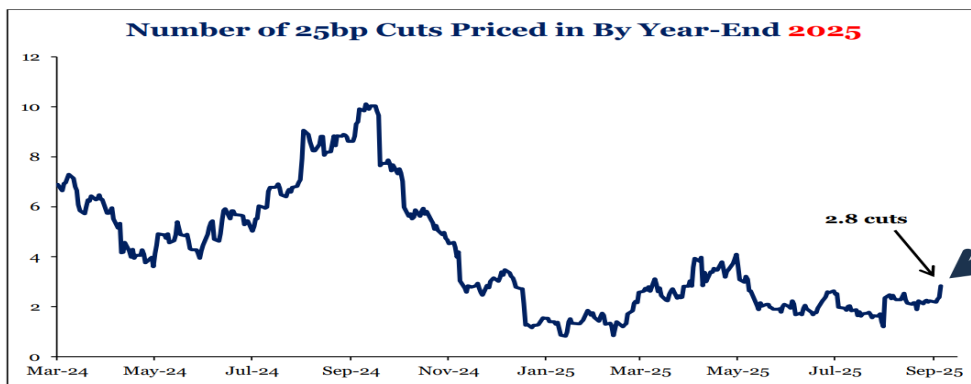
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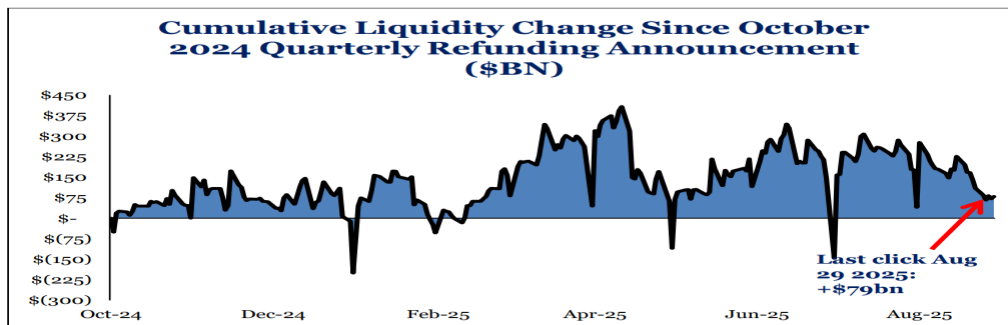
Monetary Policy & Fed Outlook Highlights

The Federal Reserve left interest rates unchanged at its last meeting. However, for the first time in 30+ years, two FOMC members dissented in favor of an immediate cut, and markets interpreted the decision as setting the stage for easing in September. The Federal Reserve maintained its cautious stance in July amid tariff-driven inflation risks. However, weak labor data boosted market expectations for a September rate cut, with futures implying an over 90% chance of a 25-basis-point reduction this month. Fed Chair Jerome Powell emphasized a data-dependent approach, noting that businesses were beginning to pass tariff costs to consumers. As noted, dissent within the FOMC is growing, with some members advocating for earlier cuts to prevent a deeper labor market slowdown, while others prioritize inflation control. The gyrations in market expectations for the number of rate cuts over the next 12 months reflect the Fed's delicate balancing act between its inflation and employment mandates.



Financial Conditions & Credit Trends

With the passage of the OBBB (One Big Beautiful Bill), Congress raised the debt ceiling, and since then \$200 billion in liquidity has been drained from the system (i.e., tightening conditions). While this is manageable, investors expect a larger liquidity drain in September, which will increase tightening pressures and the need for rate cut relief.



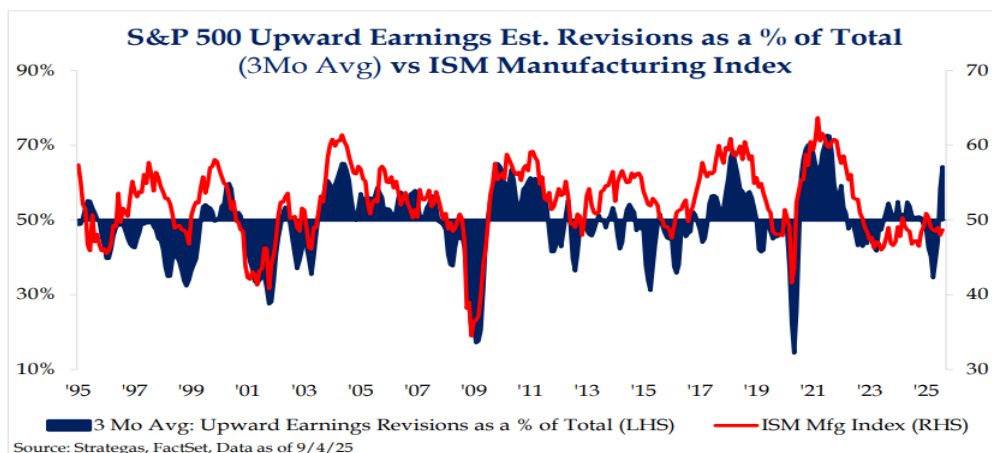
Global trade dynamics shifted significantly in August as the U.S. implemented new tariffs for most of its major trading partners. Adding to these challenges, a US court of appeals ruled Trump doesn't have the authority to implement tariffs. This leaves many of these negotiations in limbo until we hear from the US Supreme Court.

Critical points for policy

- The Federal Reserve left interest rates unchanged at its last meeting.
- The Federal Reserve maintained its cautious stance in July amid tariff-driven inflation risks.
- Weak labor data boosted market expectations for a September rate cut, with futures implying an over 90% chance of a 25-basis-point reduction this month.
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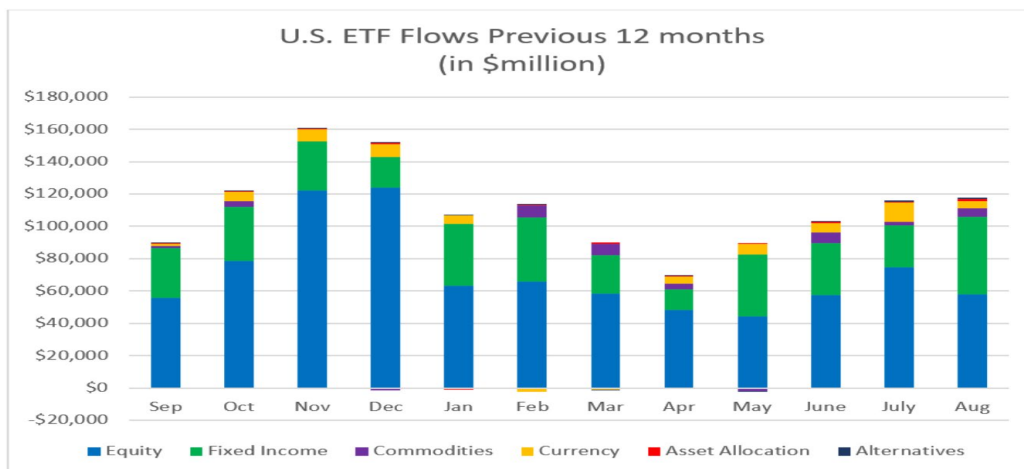
Corporate Profitability Highlights

The US corporate earnings backdrop remains a bright spot, with S&P 500 upward earnings revisions edging higher. For Q3 2025, the estimated (year-over-year) earnings growth rate for the S&P 500 is currently 7.5%. If 7.5% is the actual growth rate for the quarter, it will mark the ninth consecutive quarter of earnings growth for the index.



These positive earnings revisions have resulted in a perceived 'risk on' environment and positive fund flows across multiple asset classes.

Asset Class	AUM	August Flows	YTD Flows
Equity	\$9,678,939	\$57,701	\$454,489
Fixed Income	\$2,101,595	\$48,375	\$259,188
Others	\$466,496	\$11,753	\$72,622
Total	\$12,247,031	\$117,829	\$786,299



Source: FactSet

Performance generally follows earnings over time, and the improving earnings outlook has helped drive stock prices higher. The S&P 500 rose 2.03% in August and 15.9% over the past 12 months. Technology and Communication Services led gains, with healthcare the biggest laggard. Large caps outperformed small and midcaps again.

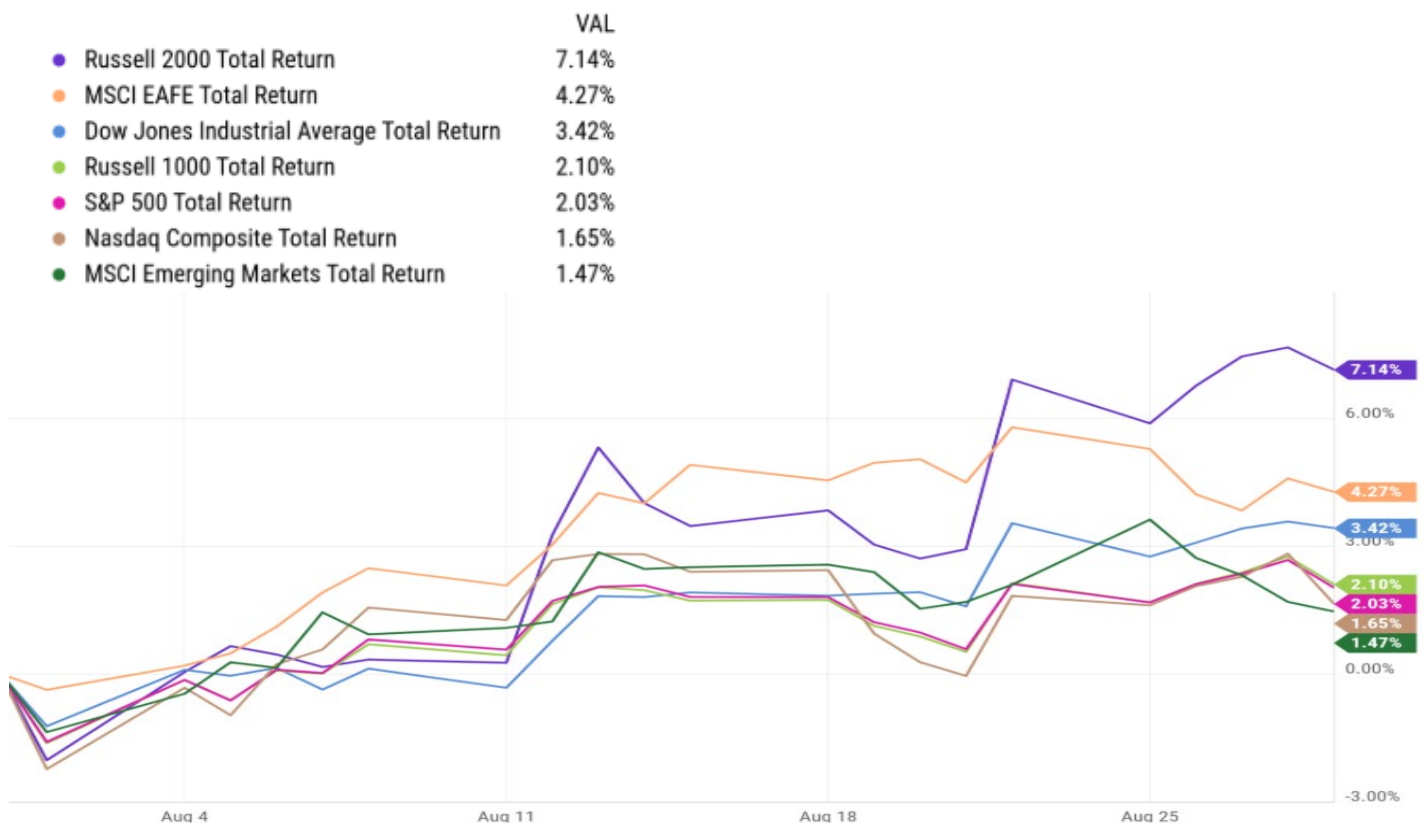
Critical points for profitability

- The US corporate earnings backdrop remains a bright spot, with S&P 500 upward earnings revisions edging higher.
- Performance generally follows earnings over time, and the improving earnings outlook has helped drive stock prices higher.
- International markets experienced substantial gains, led by China.
- Positive earnings revisions in international stocks supported this rally.
- Markets remain narrow as the Magnificent 7 continues to drive disproportionate portions of the index returns, making valuations expensive. The P/E ratio for stocks in general, and the 'Mag7' in particular, is becoming frothy.

International markets experienced substantial gains, led by China. The MSCI China index has increased by over 20% year-to-date, helping to boost overall emerging market index performance as well. A pause in trade disputes, a weakening US dollar, positive manufacturing data, and a robust tech sector all contributed to these gains. Additionally, positive earnings revisions in international stocks supported this rally.



Major Index Returns



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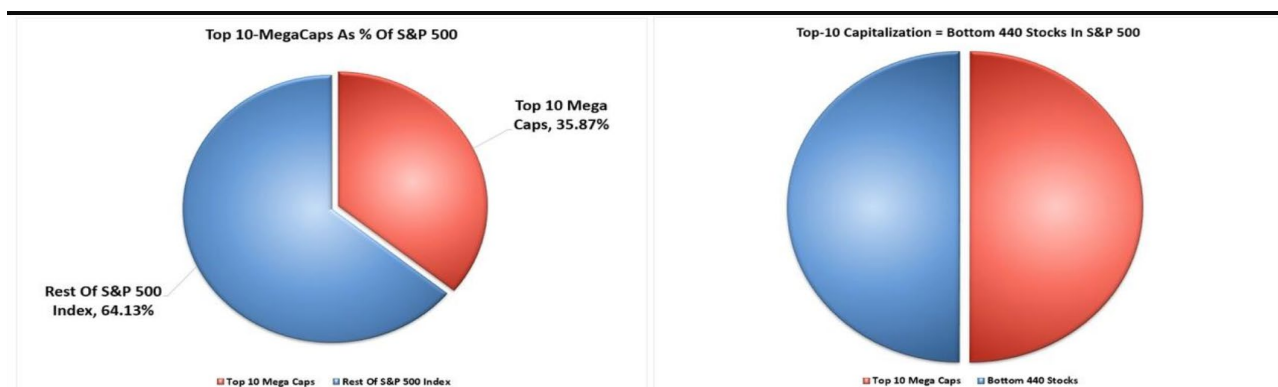
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Index	1 Month Total Returns	3 Month Total Returns	6 Month Total Returns	1 Year Total Returns
Russell 2000	7.1%	14.9%	10.2%	8.2%
MSCI EAFE	4.3%	5.1%	14.9%	14.5%
Dow Jones Industrial Average	3.4%	8.2%	4.8%	11.4%
Russell 1000	2.1%	9.7%	9.3%	16.2%
S&P 500	2.0%	9.6%	9.2%	15.9%
Nasdaq Composite	1.6%	12.4%	14.2%	22.0%
MSCI Emerging Markets	1.5%	9.9%	16.9%	17.7%

Investment Takeaways

From a seasonality perspective, August tends to be a relatively weak month for equity returns. However, a substantial GDP revision and positive earnings news kept markets on a positive trajectory in August, helping investors overcome this negative trend. Looking ahead to September, which has historically been the worst month for stock investors, all attention is on the Fed and its impending rate cut decision.



Meanwhile, markets remain narrow as the Magnificent 7 continues to drive disproportionate portions of the index returns, making valuations expensive. The P/E ratio for stocks in general, and the 'Mag7' in particular, is becoming frothy. Additionally, the potential for a government shutdown (see graphic below) adds to these headwinds, making September look set to be an exciting month. Given these challenges, investors should ensure their portfolios align with their risk appetite and haven't increased their risk exposure through heavy positions in overextended stocks. We recommend watching for opportunities in the value sector, where the gap between growth and value stock prices hovers around all-time highs (see chart below). This indicates that, over the long term, investors are likely to be rewarded for leaning into the value space.



Source: Bloomberg & Strategas Research, 8/8/2025. Annualized trailing returns. *

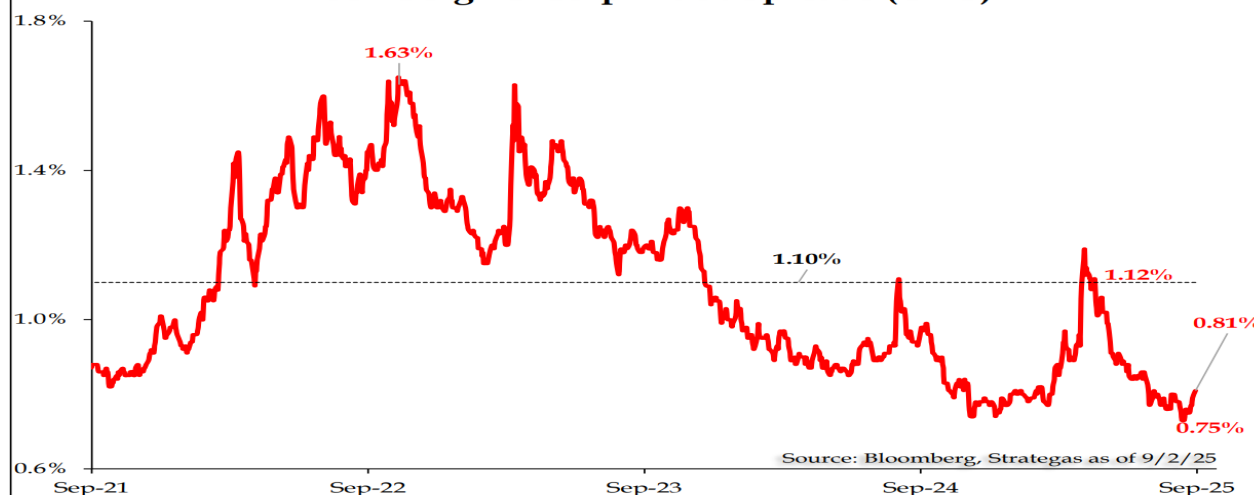
Fixed Income

In general, corporate spreads are moving higher. Investment-grade corporate spreads have increased by approximately 10 bps over the last month. The 10-year treasury is inching upward as well, but not yet to troubling levels. Overall, corporate credit spreads remain very low, pressuring long-term return prospects. That being said, as investors have seen over the last several years, spreads can remain historically low for extended periods. Interest rates were down in August and stayed below January 1 levels. The Bloomberg Agg was up 1.99% in August and is up 3.1% over the last year.

Bond Fund Performance



Bloomberg IG Corp Index Spreads (OAS)



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