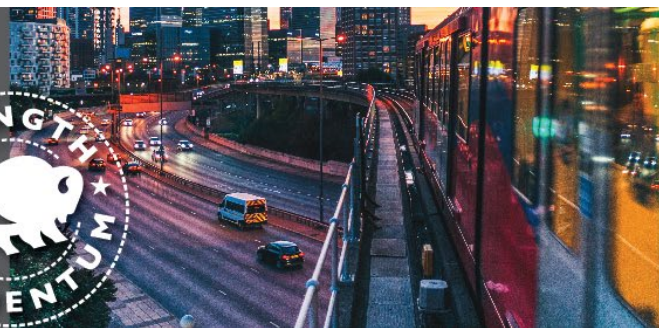


PLAINSCAPITAL BANK

# MARKET HIGHLIGHTS



Market Commentary  
December 2025

By Andrew Cunningham, CFA, CMT, ChFC

## Executive Summary

- AI bubble fears, and uncertainty on Fed policy triggered S&P 500 breakdown below trend support in November.
- The Market rebounded out of weakness with rotation into financials and cyclicals.
- Small caps and equal-weight S&P hit new all-time highs.
- Technology faces concentration risk, driving nearly half of earnings growth.
- S&P 500 earnings expected to grow 14–15% in 2026.
- Valuation multiples may expand if margins rise and the Fed eases.
- Investor sentiment has turned markedly bullish, and year end equity strategist forecasts have become increasingly aggressive.
- Productivity gains and fiscal incentives are key themes for the 2026 outlook.
- Recession risk is low, but geopolitical and inflation risks persist.
- Treasury bills dominate issuance, raising rollover and volatility risks.
- Heavy bill reliance pressures Fed for deeper rate cuts.
- Despite Fed cuts, 10-year yields remain elevated on inflation risk.
- Global central banks diverge U.S. cuts, others plan hikes in 2026.
- Curve steepening likely as long-term rates resist policy influence.
- MBS spreads compressed to multi-year lows amid strong liquidity.
- Fed unlikely to repurchase MBS; supply risks could widen spreads.
- Mortgage rates fell ~75 bps, supporting housing activity recovery.
- Funding stress eased post-QT, but rising Japan yields pose a risk.
- Duration overweight maintained; vigilance needed as global rates trend higher.

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## Markets at a Glance:

Equity - TR (%)	1M	3M	YTD	1Y
MSCI EM LATIN AMERICA	5.6	12.4	49.7	35.0
NASDAQ COMPOSITE	-0.7	7.5	20.0	21.7
MSCI EM	-2.5	6.6	29.1	28.0
RUSSELL 2000 INDEX	-1.8	5.8	11.9	2.3
S&P 500 INDEX	-0.3	5.4	16.4	14.5
DOW JONES INDUS. AVG	0.0	4.5	12.4	7.1
MSCI WORLD	-0.7	4.2	18.9	16.4
MSCI AC ASIA PACIFIC	-2.7	4.1	24.1	23.7
MSCI WORLD x USA	-1.4	2.5	26.1	24.7
MSCI EAFE	-1.8	1.8	25.6	24.8
S&P500 EQUAL WEIGHTED IX	-1.0	1.1	9.6	2.9
Sectors - TR (%)	1M	3M	YTD	1Y
Healthcare	8.8	17.1	17.1	11.1
Communications	6.7	14.4	34.6	41.0
Information Technology	-3.2	7.1	22.2	24.3
Utilities	-2.8	5.1	19.8	12.0
Consumer Discretionary	-1.1	1.3	3.7	7.6
Energy	0.5	1.1	6.3	-3.7
Industrials	-1.9	0.5	16.4	7.4
Real Estate	-2.9	-0.7	4.5	-3.9
Financials	-1.1	-1.0	9.9	4.4
Consumer Staples	-1.3	-1.5	4.0	0.0
Materials	-1.5	-4.2	6.2	-5.4
Alternatives - TR (%)	1M	3M	YTD	1Y
ALERIAN MLP INDEX	4.6	1.6	10.0	6.9
FTSE NAREIT All Eq REITS	-2.0	0.3	3.6	-4.2
LS Managed Futures Index	-1.3	0.2	-1.2	-1.7
S&P LISTED PRIV EQUITY	-4.5	-8.9	-2.3	-5.9
BBG Galaxy Bitcoin Index	-21.0	-21.3	-6.5	-4.1

Data source: Bloomberg

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## US Style Returns (%) - Russell Indices

### 1M

	Value	Core	Growth
Large	0.5	-0.4	-1.2
Mid	-0.5	-1.5	-4.8
Small	-0.8	-1.8	-2.7

### YTD

	Value	Core	Growth
Large	13.6	15.9	17.9
Mid	9.5	9.4	8.7
Small	11.2	11.9	12.5

US Factor Returns (%)	1M	3M	YTD	1Y
MSCI Value	0.8	10.7	26.5	16.5
MSCI Growth	0.1	8.1	20.3	23.7
MSCI Quality	1.2	7.0	15.0	12.4
S&P 500 High Beta	-3.8	5.8	25.3	17.8
MSCI High Dividend Yield	0.3	1.8	11.0	4.0
MSCI Momentum	-3.8	1.7	14.9	12.1
MSCI Size	-1.5	1.0	9.2	2.4
Commodities TR (%)	1M	3M	YTD	1Y
Silver	5.0	30.5	66.8	59.3
Gold	3.8	21.8	57.5	57.0
Copper	-1.7	11.2	22.6	20.4
Natural Gas	4.8	11.1	-3.8	0.6
BBG Commodities Index	-0.1	6.0	8.7	9.1
Wheat	2.1	-1.4	-12.1	-12.3
WTI Oil	-4.8	-6.7	-14.5	-12.6
Sugar	0.6	-10.4	-12.5	-17.9

Data source: Bloomberg

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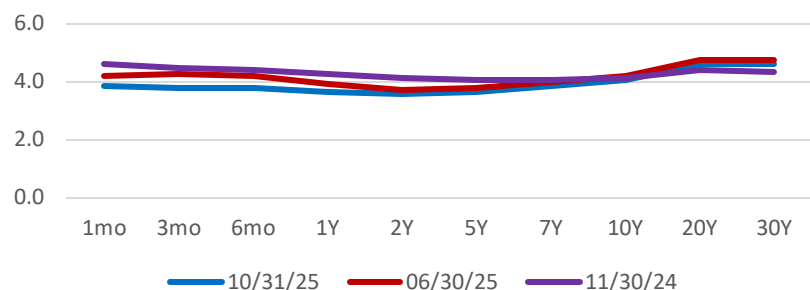
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Index Characteristics	FWD ERP	P/E TTM	P/S TTM	Div Yield
S&P 500	2.8%	26.9	3.3	1.2
MSCI EAFE	4.8%	16.2	1.6	3.0
MSCI EM	6.0%	16.1	1.6	2.5

#### US Treasury Yield Curve



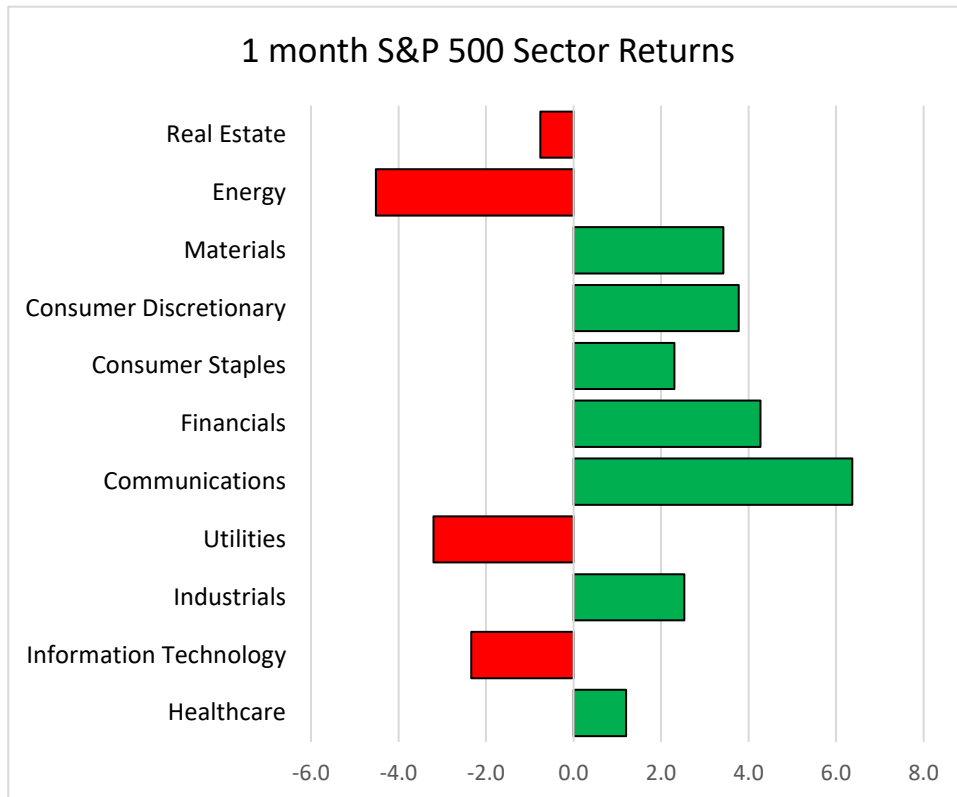
Fixed Income - TR (%)	1M	3M	YTD	1Y
10 - 20 Yrs	-0.1	4.0	11.2	8.5
Municipal Bond Index	0.1	3.9	4.1	3.1
Corporate	-0.3	2.4	7.9	6.3
US Agg 1-7 Yrs.	0.4	1.7	6.6	6.4
U.S. Corporate High Yield	0.1	1.5	7.6	7.3
1-3 Yr	0.3	1.3	5.0	5.4

Interest Rates (%)	10/31/25	09/30/25	06/30/25	11/30/24
US Fed Funds Effective Rate	3.86	4.09	4.33	4.58
US Generic Govt 1 Mth	3.90	4.10	4.21	4.61
US Generic Govt 3 Mth	3.80	3.93	4.29	4.49
US Generic Govt 12 Mth	3.68	3.61	3.97	4.28
US Generic Govt 5 Yr	3.69	3.74	3.80	4.05
US Generic Govt 10 Yr	4.08	4.15	4.23	4.17
BBG Tax Muni AGG YW	5.02	5.11	5.26	5.06
BBG UA Corporate YW	4.82	4.81	4.99	5.05
BBG U.S. Corp HY YW	6.78	6.70	7.06	7.14

Data source: Bloomberg

## Equity Highlights

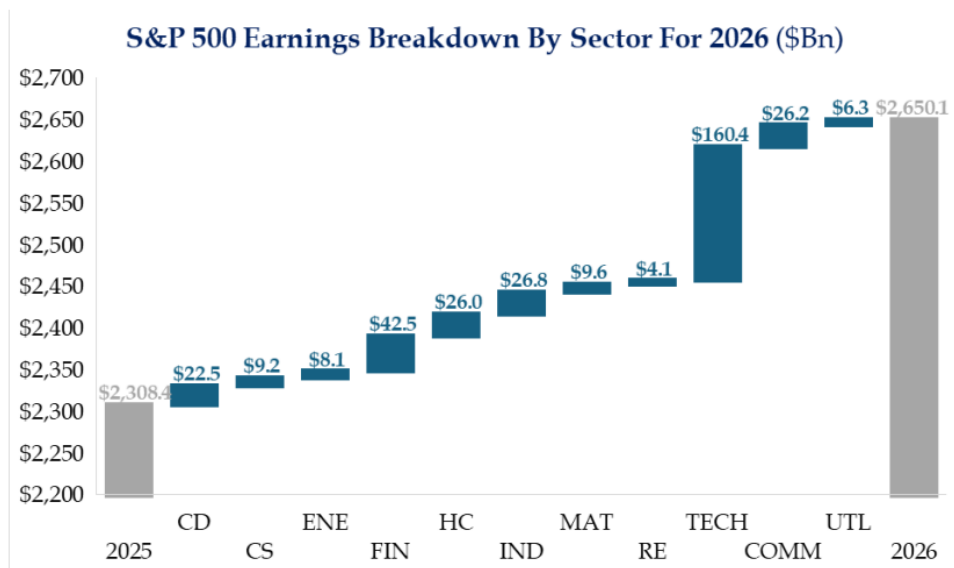
U.S. equities experienced increased volatility in November as skepticism about the AI investment surge grew. Concerns over weak end-user demand and doubtful profitability for large-scale AI infrastructure spending led to a break below key trend support in the S&P 500. The Fed's indication that a December rate cut was not assured added to fears, shifting the focus from optimism about strong balance sheets to worries about circular financing and inflated valuations. Despite these challenges, markets quickly rebounded, boosted by sector rotation into financials, cyclicals, and small caps, showing resilience beyond technology.



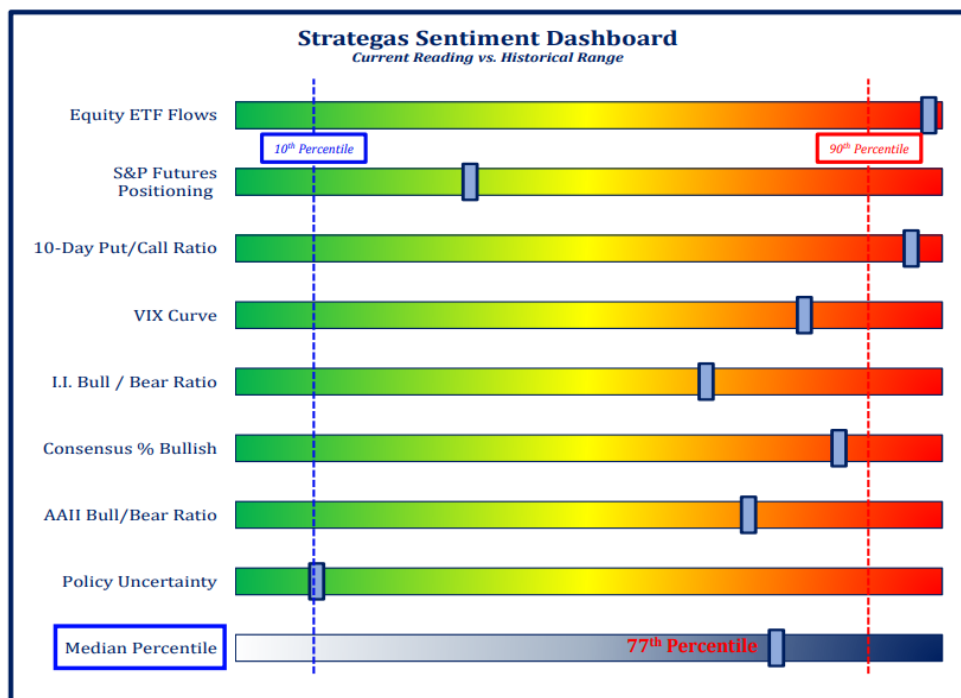
Earnings expectations stay strong into 2026, with consensus forecasts predicting S&P 500 earnings growth of 14–15%. Technology is expected to contribute almost half of this growth, creating concentration risk, while financials, health care, and industrials are likely to drive broader expansion. Sales growth appears more evenly spread across sectors, easing some concerns. Valuation multiples are broadly expected to contract, but historical trends and margin expansion—projected to reach an all-time high of 14.7%—indicate the potential for multiple expansion if recession risks stay under control and Fed policy becomes more accommodative.

### Critical points for the equity markets:

- AI bubble fears, and uncertainty on Fed policy triggered S&P 500 breakdown below trend support in November.
- The Market rebounded out of weakness with rotation into financials and cyclicals.
- Small caps and equal-weight S&P hit new all-time highs.
- Technology faces concentration risk, driving nearly half of earnings growth.
- S&P 500 earnings expected to grow 14–15% in 2026.
- Valuation multiples may expand if margins rise and the Fed eases.
- Investor sentiment has turned markedly bullish, and year end equity strategist forecasts have become increasingly aggressive.
- Productivity gains and fiscal incentives are key themes for the 2026 outlook.
- Recession risk is low, but geopolitical and inflation risks persist.



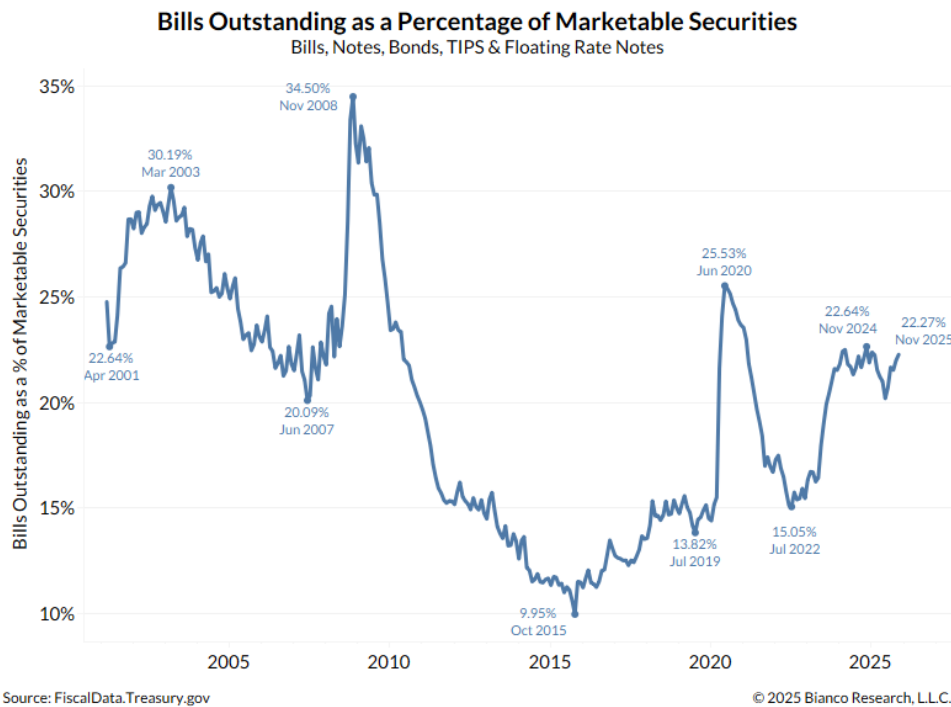
Sentiment indicators show has turned markedly bullish and year end strategist forecasts have become increasingly aggressive, with median S&P targets around 7,600, suggesting double-digit gains. Positioning among traders and institutional managers leans aggressive. The market's ability to shift leadership from mega-cap tech to financials and cyclicals highlights longer term structural strength and lowers systemic risk associated with index concentration. But the sentiment and positioning picture points to a choppy market until there is some amount of healthy reset.



Looking ahead, emerging themes include productivity improvements driven by fiscal incentives, reduced Fed independence due to funding pressures, and ongoing diversification of market leadership. Risks mainly involve geopolitical tensions, especially U.S.-China trade relations, and the possibility of inflationary pressures if productivity does not keep pace with fiscal expansion. Although the chances of a recession remain low, caution is advised as valuations depend on sustained earnings growth and supportive policies.

## US Fixed Income Highlights

Treasury issuance continues to rely heavily on short-term bills, which now comprise nearly 70% of total issuance, although notes remain the most significant component of outstanding debt. This dependence on bills reduces near-term financing costs but increases rollover risk, particularly if inflation prompts the Fed to raise rates. The approach highlights political pressure for more aggressive rate cuts, even as long-term yields stay high due to inflation expectations and risk premiums.



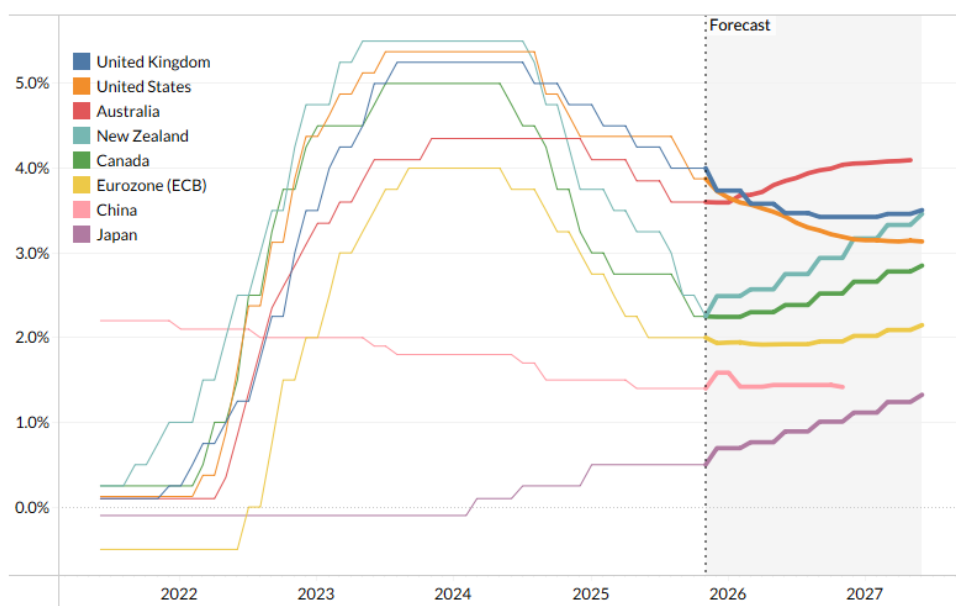
Despite a 150-basis-point Fed rate-cut cycle, 10-year yields have increased, underscoring the limited impact of short-term policy on long-term bonds. Futures prices indicate continued Fed easing through 2026, while global central bank forecasts point to diverging paths—several major economies are expected to raise rates next year, in contrast to U.S. and U.K. rate cuts. This divergence could keep upward pressure on global yields and lead to steeper yield curves.

### Critical points for the fixed-income markets:

- Treasury bills dominate issuance, raising rollover and volatility risks.
- Heavy bill reliance pressures Fed for deeper rate cuts.
- Despite Fed cuts, 10-year yields remain elevated on inflation risk.
- Global central banks diverge U.S. cuts, others plan hikes in 2026.
- Curve steepening likely as long-term rates resist policy influence.
- MBS spreads compressed to multi-year lows amid strong liquidity.
- Fed unlikely to repurchase MBS; supply risks could widen spreads.
- Mortgage rates fell ~75 bps, supporting housing activity recovery.
- Funding stress eased post-QT, but rising Japan yields pose a risk.
- Duration overweight maintained; vigilance needed as global rates trend higher.

## Most Central Banks Look to Hike Rates in 2026

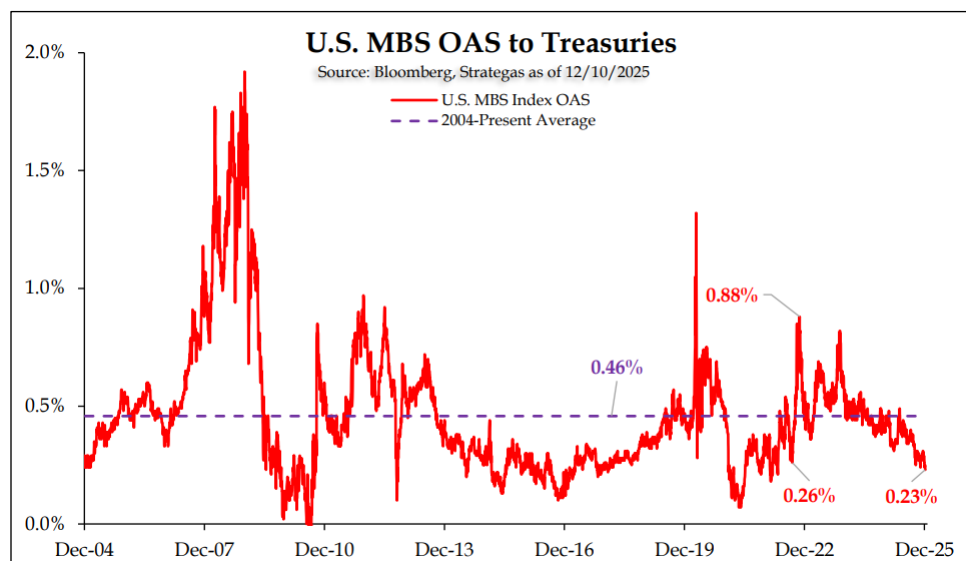
Official Central Bank Rates



Source: Bloomberg

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Credit markets have generally tightened, with MBS spreads dropping to multi-year lows amid lower volatility and ample liquidity. However, with the Fed ending its balance sheet runoff and unlikely to resume MBS purchases, supply risks emerge. Any move toward outright MBS sales could further widen spreads. Mortgage rates have declined about 75 basis points over the past year, supporting housing activity, but increased supply might also push spreads higher. The modified MBS duration has increased to nearly 6 years, heightening sensitivity to curve steepening.



Funding market stress has eased after QT's conclusion as SOFR spreads normalize, lowering systemic risk. However, rising Japanese yields remain a global wildcard, with 10-year JGBs approaching 2%, and worst-case scenarios suggest significant increases in interest costs. While not the baseline outlook, persistent upward pressure on global rates could challenge fixed income valuations. Currently, spreads remain tight, liquidity remains strong, and duration-overweight positions are maintained, but vigilance is needed as 2026 nears.

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## Asset Class Return Rank

Asset Class	2021	2022	2023	2024	2025	10Y Cumulative	10Y Annualized
Gold	(4.2)	(0.8)	12.7	26.7	63.7	159.83	14.61
Developed International Stocks	11.5	(14.4)	18.5	3.5	30.1	91.57	8.14
Emerging Market Stocks	(3.6)	(20.6)	9.0	6.5	29.6	89.10	7.47
US Large Cap Growth Stocks	27.5	(32.7)	55.0	25.6	20.0	222.91	19.40
US Large Cap Stocks	26.4	(19.2)	26.5	24.3	16.3	154.97	14.38
US Small Cap Stocks	14.6	(20.5)	16.9	11.4	14.2	107.16	9.71
USD Emerging Market Bonds	(2.2)	(18.7)	10.6	5.5	13.7	43.98	3.89
US Mid Cap Stocks	22.5	(17.5)	17.1	15.2	10.6	118.03	10.88
International Agg Bond Market	(9.3)	(22.1)	5.6	(6.5)	10.1	2.11	(0.33)
US Corporate High Yield Bonds	3.8	(11.0)	11.6	8.0	8.1	56.43	5.38
US Corporate Investment Grade Bonds	(1.8)	(18.0)	9.4	0.9	7.8	36.16	3.17
US Agg Bond Market	(1.9)	(13.1)	5.7	1.4	7.0	21.60	1.97
US TIPS	5.7	(12.3)	3.8	1.7	6.8	31.02	2.91
Commodities	41.5	19.4	(6.2)	2.2	5.6	78.24	6.83
Preferred Shares	7.2	(18.2)	9.2	7.2	5.1	39.20	3.50
20Y+ US Treasury	(4.6)	(31.3)	2.8	(8.1)	4.7	4.57	(0.51)
Cash (\$)	(0.1)	1.4	5.0	5.2	4.0	20.42	2.02
US REITs	40.7	(26.3)	11.8	4.8	3.2	65.92	5.13
Agriculture	22.4	2.5	7.7	33.5	(1.3)	43.61	3.65
Bitcoin (Digital Assets)	58.3	(63.9)	153.7	122.5	(6.5)	2125.06	70.17

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