PLAINSCAPITAL BANK ECONOMIC HIGHLIGHTS

Economic Commentary
January 2026

By Jerrod Dawson, CFA

Executive Summary

- U.S. economy has entered 2026 with strong policy tailwinds: fiscal stimulus from the OB3 tax bill, ongoing Fed reserve injections, and easing financial conditions.
- Supreme Court ruling on tariffs expected in January; potential refund process and replacement tariff structures could influence Treasury issuance and trade-sensitive sectors.
- Federal Reserve maintained an accommodative stance; balance sheet expansion continued through reserve management purchases, while markets priced multiple rate cuts for 2026.
- Inflation remained muted and range-bound; services inflation moderated, and shelter costs eased amid slowing home price appreciation.
- Labor market showed mixed signals: unemployment at 4.6% in November, but initial jobless claims held near 199,000, indicating limited firing.
- Housing activity stabilized; existing home sales at 4.13 million SAAR in November, mortgage rates ended the year at the lowest levels since COVID, near 6.15%.
- Global backdrop: Japan's 10-year yield surpassed 2% amid policy normalization; Eurozone inflation near 2% y/y; emerging market equities posted strong gains. Commodities surged: gold +65%, silver +148%—largest annual gains since 1979; oil prices declined for a third consecutive year.
- Credit spreads remained tight; the U.S. Treasury curve began to steepen as the term premium stabilized.

Dedicated Investment Team

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

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

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

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

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

Triana Ramon
Analyst
214.252.4166 | triana.ramon@plainscapital.com
Dallas

Morgan Cook
Analyst
817.258.3705 | 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	4.5	10.7	↓	↓
Bloomberg Economics US GDP Nowcast	3.0	1.5	↑	↑
Concensus USA Growth Forecast Survey	-12.0	-30.2	↑	↓

Inflation	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Citi Inflation Surprise Index - United States	-21.3	-15.7	↓	↓
Bloomberg Economics US CPI Nowcast	2.4	3.0	↓	↓
Concensus USA Inflation Forecast Survey	54.9	69.5	↓	↑

Employment	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Unemployment Rate	4.4	4.4	→	↑
Conference Board Employment Trend	104.3	106.1	↓	↓

Consumer Spending	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Johnson Redbook Retail Sales y/y	5.7	6.1	↑	↑
Adjusted Retail & Food Service Sales	3.5	4.1	↑	↑
Conference Board Consumer Confidence	89.1	95.6	↓	↓

Corporate Profitability	NTM (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
S&P 500 Est. Sales Growth Rate	6.9	2.0	↑	↑
S&P 500 Est. EPS Growth Rate	13.7	4.0	↑	↑
NFIB Small Business Optimism	99.0	98.8	↑	↓

Government Policy	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Budget/ GDP	-5.4	-6.3	↑	↑
USD Real Effective Exchange Rate	109.1	112.5	↑	↓

Central Bank Policy Rate	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
U.S. Federal Funds Rate Upper Bound	3.8	4.3	↓	↓
U.S. Market Implied Policy Rate 1Y Fwd	3.2	2.9	↑	↓

Liquidity	3mo Δ (%)	12mo Δ (%)	Trend q/q	Trend y/y
U.S. Domestic Liquidity	-1.5	-1.6	↓	↓
Global Liquidity Index	0.7	21.3	↑	↑

Data source: Bloomberg

US & Global Economic Highlights

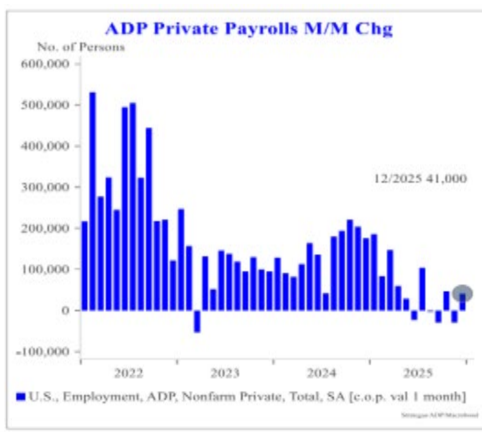
Economic activity strengthened into the year-end, supported by policy tailwinds and resilient consumer spending. Real GDP surged at a 4.3% annualized rate in Q3, the fastest pace in two years, driven by higher personal consumption and government outlays. Nominal GDP growth approached 8% annualized, reinforcing a strong environment for corporate profitability.

U.S. REAL GDP 4Q/4Q % FORECASTS

	2025 e	2026 e	2027 e
Consumer	1.4	1.5	0.8
Capex	0.8	0.8	0.4
Housing	-0.2	0.1	0.3
Trade	0.4	-0.3	-0.2
Inventories	-0.4	0.2	0.1
Govt	0.0	0.1	0.3
4Q/4Q	**2.0**	**2.4**	**1.7**

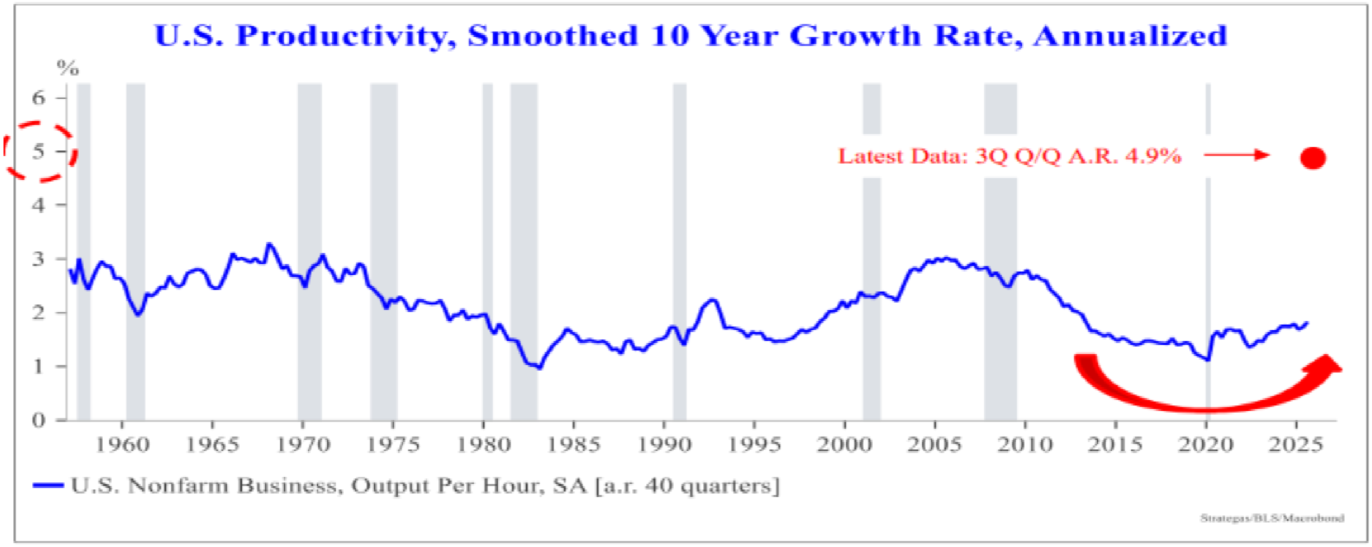
Source: BEA, Strategas Forecasts. e = estimate.

Labor market conditions were mixed. The unemployment rate stayed at 4.6% in November, while initial jobless claims remained near 199,000, indicating limited layoffs despite slower hiring. Job openings remain roughly in line with the total unemployed, suggesting a more balanced labor market compared to earlier in the cycle. Although labor conditions have been uneven, headwinds to hiring have contributed to favorable productivity gains, as shown in the chart below.

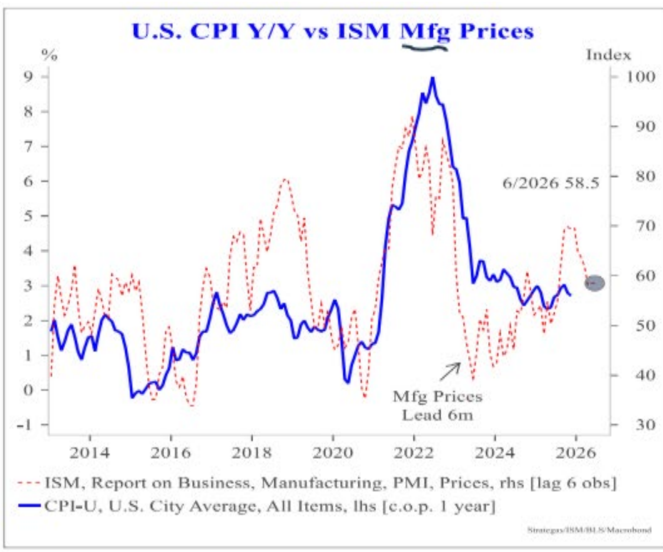


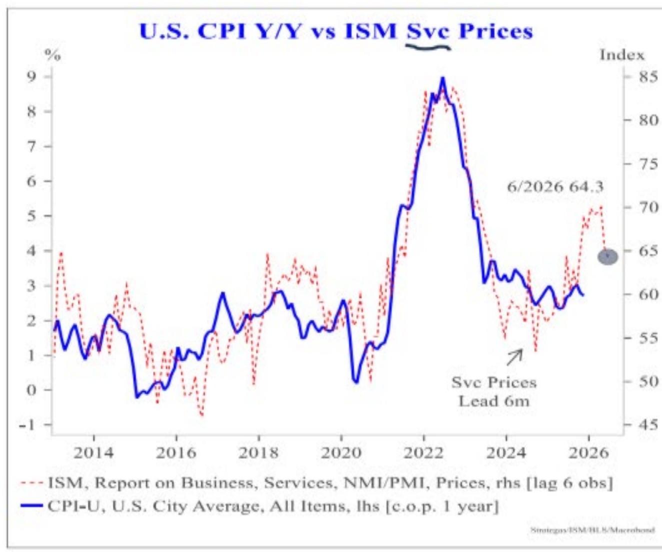
Critical points for the economy

- Economic activity picked up toward the end of the year due to policy tailwinds.
- Real GDP increased by 4.3% annualized in Q3, the fastest in two years.
- Nominal GDP neared 8%, bolstering the outlook for corporate profitability.
- Unemployment remains at 4.6% with jobless claims close to 199,000.
- Labor market remains balanced; productivity gains compensate for slower hiring trends.
- Inflation remained within range; services stay high, while the contribution from goods is minimal.
- Housing remained stable; mortgage rates dropped to 6.15% by the end of the year.
- New $200B mortgage rule could reduce ownership costs and boost growth.



Inflation readings stayed within a narrow range. Services inflation slowed but remains elevated, while goods inflation contributed less to overall price rises. Shelter costs decreased as home prices slowed, and market-based inflation expectations remained steady.



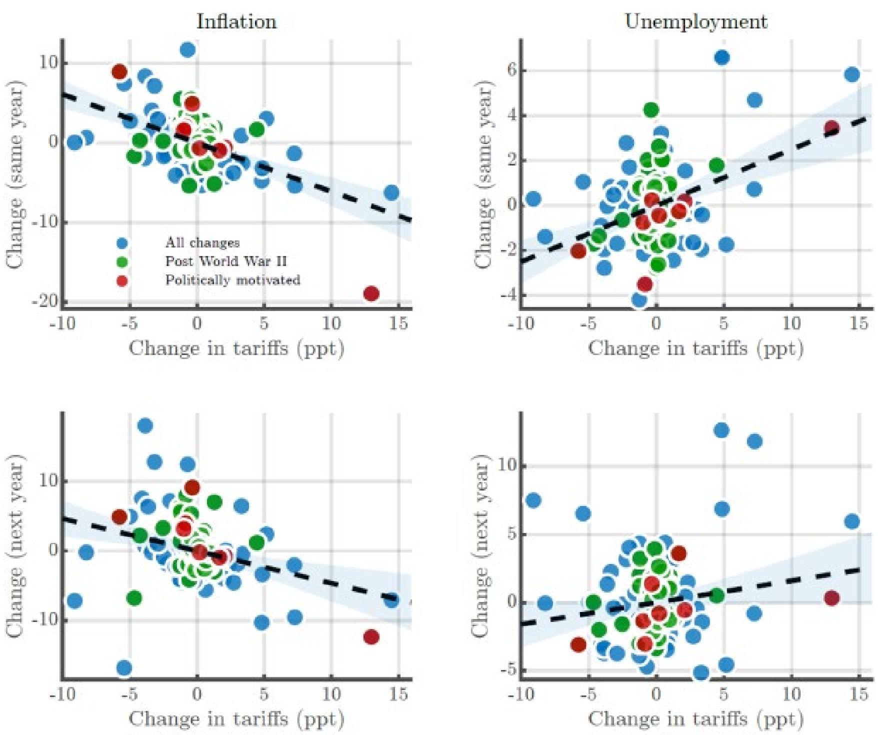


Housing indicators stabilized. Existing home sales reached 4.13 million SAAR in November, while mortgage rates ended the year near 6.15%, down from mid-year highs. Mortgage spreads to Treasuries remain above historical norms, leaving room for improvement as financial conditions ease. Trump announced a new directive for Fannie Mae and Freddie Mac to purchase $200 billion in mortgages. This, coupled with anticipated deregulation, should help lower the cost of homeownership and could act as a catalyst for further growth.

Policy Highlights

Globally, policy normalization continued in Japan, with Japanese bonds responding: the 10-year JGB yield rose to its highest level in decades, surpassing 2%. Eurozone inflation remained steady around 2% year over year, and inflation in emerging markets has recently slowed significantly, primarily due to Chinese deflation, with rates falling below those of developed economies in late 2025. Despite Chair Powell's insistence that short-term risks to inflation are higher, the San Francisco Fed has released research challenging that view and instead highlighting the negative impact of tariffs on inflation and unemployment.

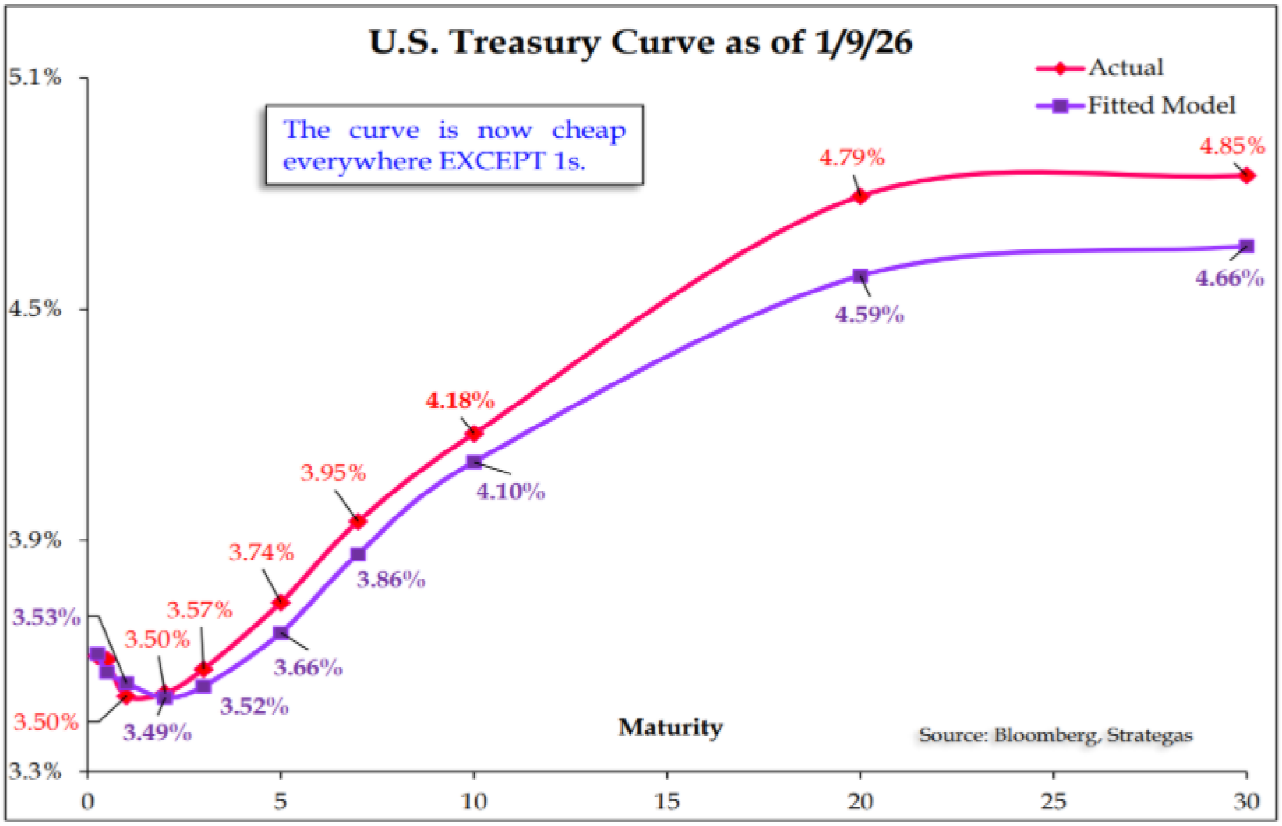
Figure 4: Tariff changes and the economy, United States



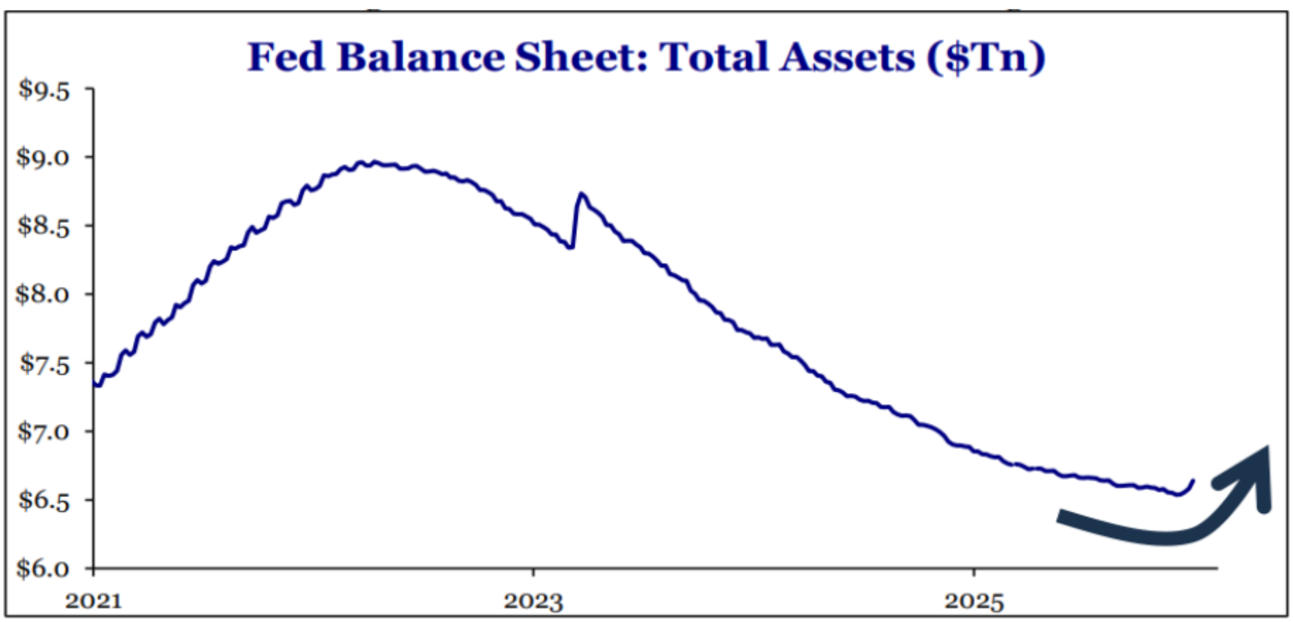
The Federal Reserve's policy stayed supportive through the end of the year, with balance sheet growth continuing via Reserve Management Purchases (RMPs). The Fed shifted MBS principal repayments into Treasury bills as a duration-management strategy to meet issuance needs. These activities are expected to remain high through April to counteract liquidity withdrawals related to taxes. In simple terms, the Fed has maintained an accommodative stance, which should help boost stocks in the new year. The shape of the yield curve also reflects this story.

Critical points for policy

- Japanese bond yields reached their highest level in decades.
- Eurozone inflation stayed near 2%, while emerging markets slowed.
- Fed research warns tariffs raise inflation and unemployment risks.
- Fed kept an accommodative stance by expanding the balance sheet through RMPs.
- Futures suggest the Fed funds rate could drop to 3% by the end of the year.
- OB3 tax bill will deliver $150 billion in consumer refunds in early 2026.
- Combined fiscal and monetary impulse shifts to a $650 billion net stimulus.
- Supreme Court tariff decision could affect refunds and Treasury issuance.



Market-implied expectations suggest several rate cuts in 2026. Futures prices indicate the federal funds rate could decrease from 4.25% in the first quarter to around 3.00% by year's end, driven by softer labor trends and steady inflation expectations. Additional stimulus is likely from Fed balance sheet expansion.



Fiscal policy remains a key influence as we head into 2026. The OB3 tax bill provisions are expected to deliver around $150 billion in consumer refunds from February to April, along with business incentives aimed at promoting higher capital spending. Some estimates indicate that the combined fiscal and monetary stimulus will shift from $548 billion in austerity measures in 2025 to about $650 billion in net stimulus in 2026.

Tallying Up the Economic Costs and Benefits of US Economic Policy

Economic Lever	2025	2026	Notes
Fed Balance Sheet	-212	340	QT in 2025 ended. Fed balance sheet is now expanding
Tariffs	-189	-110	More tariffs coming, but mid-year comps go negative y/y
Fiscal Policy	-147	220	Tax cuts for consumers, businesses hit in 2026, net of total tax revenues
Financial Deregulation	0	200	SLR implemented, 2026 GSIB changes proposed
Estimate	**-548**	**650**	**Shock & Awe Economic Policy Is Coming In 2026**

The Fed is cutting rates on top of this swing from $548bn in austerity last year to $650bn in net stimulus this year.

Trade policy developments remain a key focus. A Supreme Court ruling on tariff authority is expected in January, which could influence refund procedures and replacement structures under Sections 122 and 301. Equity markets have partly priced in a reduction of tariff risk, while Treasury issuance might increase by 10–15% if refunds receive broad approval.

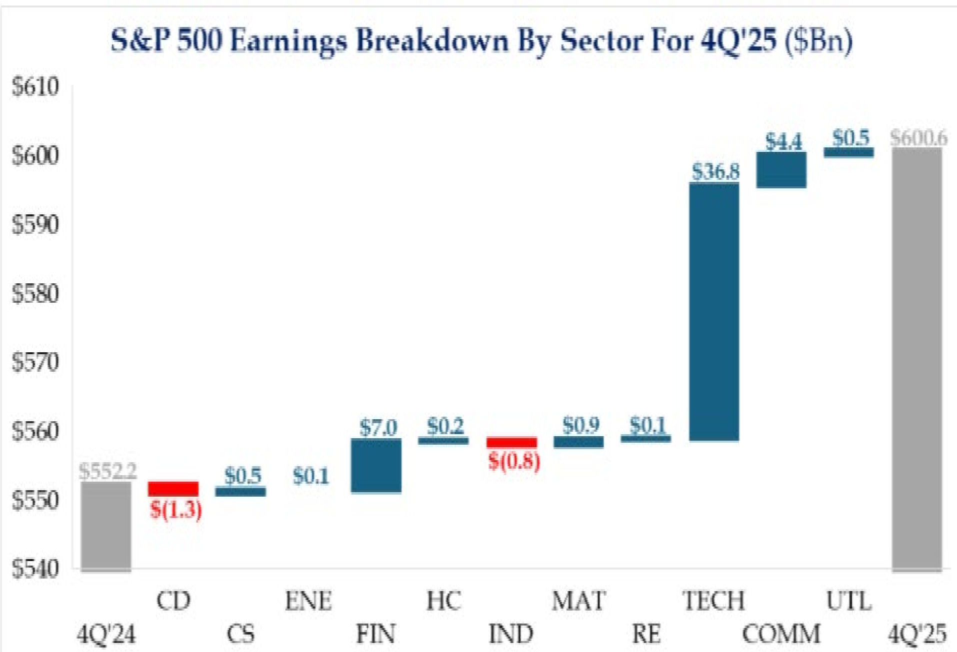
Tariffs That Can Be Refunded From A SCOTUS Ruling

IEEPA-based tariffs	FY 2026	FY 2025	Total since Feb 2025
China/Hong Kong, (fentanyl)	$7.74	$30.13	$37.87
Mexico, (fentanyl)	$0.92	$5.56	$6.48
Canada (fentanyl)	$0.47	$1.95	$2.42
'Reciprocal' all countries, all goods	$27.38	$54.36	$81.74
Brazil, punitive	$0.61	$0.36	$0.97
India, punitive	$1.58	$0.41	$1.99
Japan, post-trade deal tariffs	$1.66	$0.37	$2.03
TOTAL	**$40.36**	**$93.14**	**$133.50**

Corporate Profitability Highlights

Corporate operating profitability remains near cycle highs; the projected next 12-month S&P 500 operating margin is about 20.5%. Investment-grade corporate spreads are roughly 0.78% OAS, and financing conditions are generally supportive. Policy tailwinds in the first half of 2026 include FY26 federal refunds estimated at around $517.3 billion (+44% year-over-year), with retail sales typically picking up as refunds are received.

Corporate profitability remains a stabilizing force as we approach 2026, with margins near all-time highs and earnings growth largely resilient despite mixed macro signals. Consensus projects the S&P 500's 12-month operating margin at around 20%, highlighting a historically strong environment for corporate fundamentals. This strength is driven by a mix of solid nominal GDP growth—approaching 8% annualized in Q3—and ongoing consumer spending strength, even as labor market indicators show mixed signals. Real GDP and GDI stay near 2% year-over-year, which should support revenue growth without reigniting inflation pressures.



Sector composition continues to favor growth-oriented industries. While Technology remains a key profit driver, fueled by AI-driven investments and a surge in data center construction, which has increased by over 200% since late 2022, there are signs of sector rotation into materials and industrials. Financials also play a significant role, while Consumer Staples and Real Estate sectors underperform relative to their index weight. This focus highlights both potential and risk, as leadership remains narrow.

Critical points for Corporate Profitability:

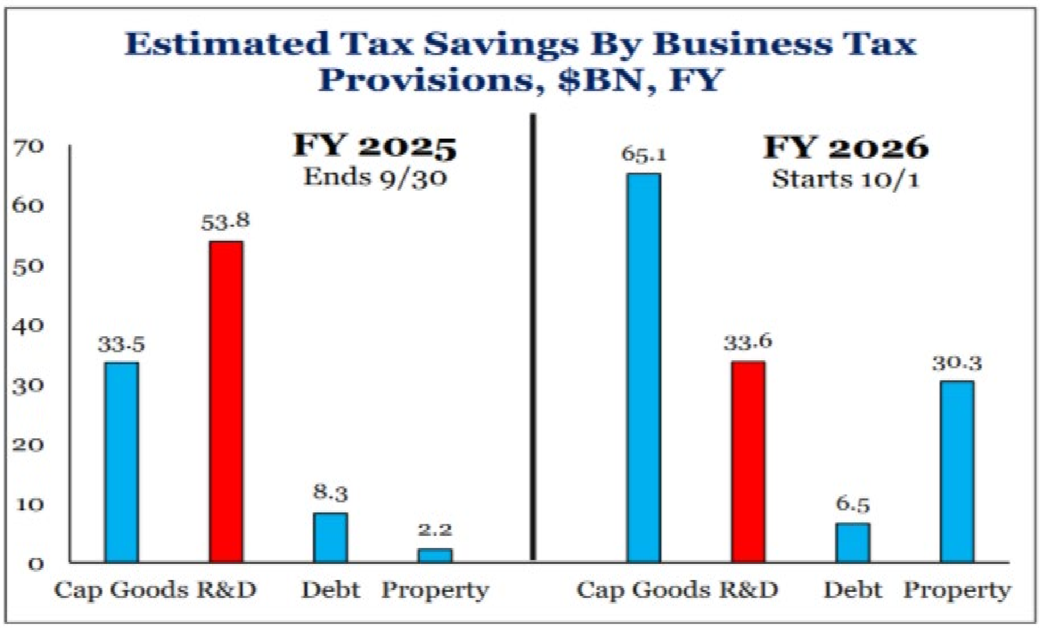
- The estimated operating margin for the S&P 500 is around 20.5%.
- IG corporate spreads are at 0.78% OAS; financing remains constructive.
- FY26 federal refunds projected at $517 billion, up 44% year-over-year.
- Corporate profitability stays strong despite mixed macro signals.
- Nominal GDP growth approaching 8% supports revenue and earnings.
- Technology fuels profits, boosted by AI and data center growth.
- OB3 tax bill increases household cash flow and boosts retail sales.
- Deregulation and fiscal incentives maintain corporate capital expenditure momentum.
- Tariff rulings might provide benefits but have a delayed impact on EPS.

Internals confirming the pro-cyclical leadership tone

Fewer stocks above the 200-day than the S&P itself.

% Stocks Above 200-Day MA by S&P 500 Sector		
Financials	79%	Remains broad, stay the course.
C. Discretionary	79%	Notable improvement to start 2026.
Healthcare	78%	Best in years... be a buyer of pullbacks, strategic turn.
Industrials	78%	Also still very much involved in this rally, highest % since last summer.
Energy	77%	Sustained improvement here over recent months.
Materials	77%	Best in several years, emerging strength & improving trends.
S&P 500	**68%**	**Highest in roughly 5 months, broadening continues.**
Technology	62%	More split than most realize... < 55% would be troubling.
Utilities	58%	Strong for last two years, but now weakening some...take note.
Comm. Services	45%	The sector is at new highs (GOOGL), but internals remain weak.
Real Estate	45%	Still on the wrong side, though modest improvement of late.
C. Staples	35%	Very oversold and bouncing, but clearly not the leadership.

Policy developments offer further tailwinds. The recently passed OB3 tax bill is expected to significantly boost household cash flow, with federal tax refunds projected to rise 44% year-over-year to about $517 billion in FY26. Many forecasts expect retail sales to speed up as refunds arrive in Q2, supporting growth for consumer-related sectors. Meanwhile, deregulation and fiscal incentives should continue to drive corporate capex momentum.



Tariff uncertainty remains a key focus. Supreme Court rulings on IEEPA-based tariffs are expected in Q1. While potential refunds could benefit importers, if they happen, investors should expect a multi-month claims process—limiting immediate EPS impact but offering a positive upside for 2026.

Source: BLS, BEA, Census Bureau, Federal Reserve, Strategas Research, Bloomberg.