PLAINSCAPITAL BANK

ECONOMIC HIGHLIGHTS

Economic Commentary
March 2026
By Jerrod Dawson, CFA

Executive Summary

- Labor softened, while overall activity stayed steady.
- Manufacturing and services indicators continued to expand.
- The conflict in the Middle East increased the risk of oil supply disruptions.
- Payrolls declined, and wage growth slowed, indicating cooling demand.
- Housing sentiment improved despite persistent affordability issues.
- Inflation remained persistent due to new energy and shipping pressures.
- Global growth indicators were mixed but mostly steady.
- The Fed remained patient as inflation persisted.
- Policy debates centered on balance-sheet runoff and rate timing.
- Refund flows started but fell short of expectations.
- Later refund waves should encourage increased spending.
- The Texas Senate race grew highly visible and competitive.
- Global officials monitored energy-driven inflation pressures.
- U.S. financial conditions remained broadly supportive and stable.
- Tariff actions proceeded with anticipated revenue exceeding $100 billion.
- Q4 earnings increased by 14% alongside a 9% rise in revenue.
- Tech-driven gains supported by broader industrial involvement.
- 2026 EPS forecasts remain steady as 2027 estimates increase.
- Margins stayed stable amid productivity and supply gains.
- Credit favored utilities, energy, and real estate sectors.
- Staples and healthcare seemed fairly costly.
- Key risks arise from energy and shipping disruptions.
- Productivity and policy measures help counteract inflation pressures.

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

Economic Cycle Drivers:

Growth	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Citi Economic Surprise - United States	32.0	16.3	↑	↑
Bloomberg Economics US GDP Nowcast	2.6	2.0	↑	↑
Concensus USA Growth Forecast Survey	-5.1	-21.1	↑	↓

Inflation	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Citi Inflation Surprise Index - United States	-12.8	-23.3	↑	↓
Bloomberg Economics US CPI Nowcast	3.2	3.0	↑	↑
Concensus USA Inflation Forecast Survey	43.1	62.6	↓	↑

Employment	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Unemployment Rate	4.4	4.5	→	↑
Conference Board Employment Trend	105.4	104.3	↑	↓

Consumer Spending	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Johnson Redbook Retail Sales y/y	6.2	5.7	↑	↑
Adjusted Retail & Food Service Sales	3.2	3.2	↓	↓
Conference Board Consumer Confidence	91.2	92.9	↓	↓

Corporate Profitability	NTM (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
S&P 500 Est. Sales Growth Rate	7.4	4.0	↑	↑
S&P 500 Est. EPS Growth Rate	15.4	2.1	↑	↑
NFIB Small Business Optimism	99.3	99.0	↑	↓

Government Policy	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Budget/ GDP	-5.4	-6.3	↑	↑
USD Real Effective Exchange Rate	106.9	115.1	↓	↓

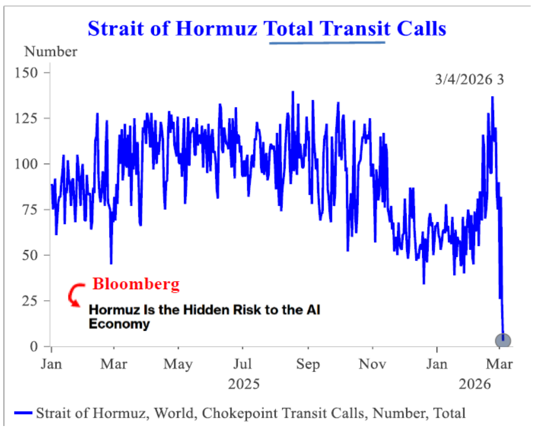
Central Bank Policy Rate	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
U.S. Federal Funds Rate Upper Bound	3.8	3.8	→	↓
U.S. Market Implied Policy Rate 1Y Fwd	3.4	3.2	↑	↓

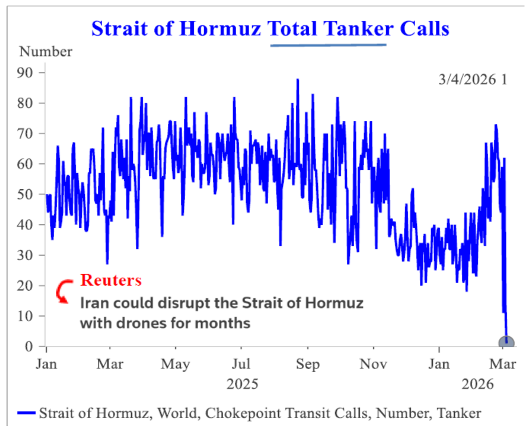
Liquidity	3mo Δ (%)	12mo Δ (%)	Trend q/q	Trend y/y
U.S. Domestic Liquidity	1.7	1.5	↑	↑
Global Liquidity Index	3.1	16.7	↑	↑

Data source: Bloomberg

US & Global Economic Highlights

February showed softer labor signals combined with resilient activity. Manufacturing remained positive, with ISM Manufacturing steady at 52.4 and ISM Services rising to 56.1, while vehicle sales increased to 15.75 million SAAR. Naturally, the month ended with hostilities in the Middle East, raising concerns about oil disruption and costs. As of now, oil transit through the Strait of Hormuz (20-30% of global oil production) has been significantly reduced.



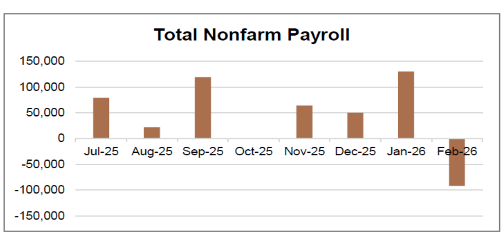


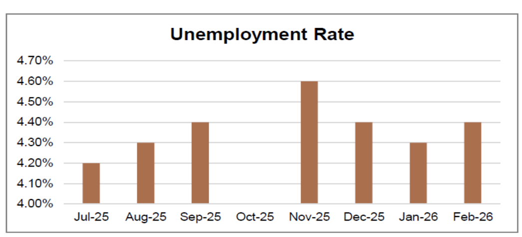
Labor weakens non-farm payrolls, decreasing by 92k, with a 69k downward revision; unemployment rose to 4.4%; AHE slowed to 3.8% year-over-year; hours stayed at 34.3; and participation declined. The drop in payrolls, combined with softer wage growth, indicates that labor demand is cooling more broadly, especially in previously resilient sectors. Meanwhile, low initial jobless claims continue to suggest layoffs are limited, supporting the view that the labor market is gradually easing rather than sharply deteriorating.

February 2026

	Actual	Consensus	Surprise	Prior
Nonfarm Payroll Employment	-92,000	60,000	-152,000	126,000
Two-Month Net Revision	-69,000	-	-	-
Unemployment Rate	4.40%	4.30%	0.10%	4.30%
Average Hourly Earnings YoY	3.80%	3.70%	0.10%	3.70%
Average Weekly Hours All Employees	34.30	34.30	0.00	34.30
Labor Force Participation Rate	62.00%			62.10%

Notable Employment Changes	
Health Care	-28,000
Information	-11,000
Social Assistance	9,000
Federal Government	-10,000





While labor markets continued to show signs of strain, housing markets demonstrated further improvement in both sentiment and data transfer. Housing seemed to stabilize

Critical points for the economy

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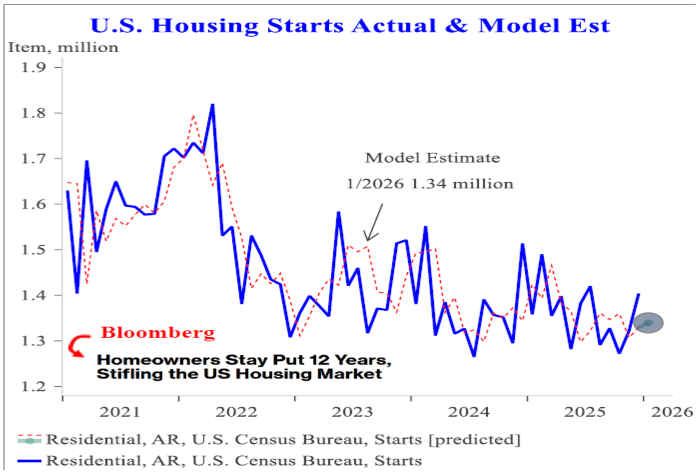
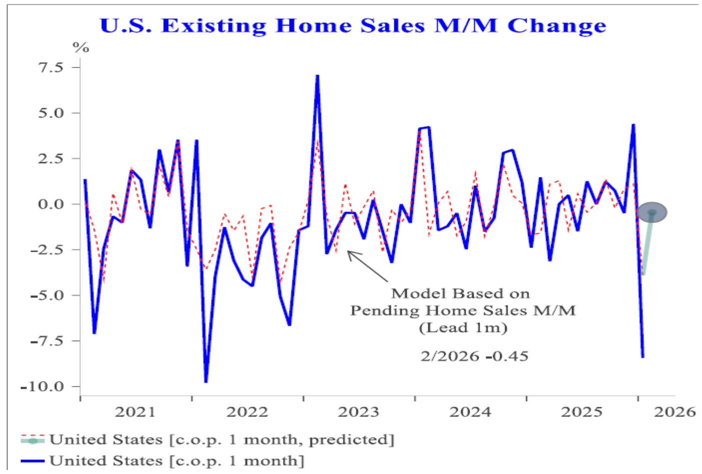
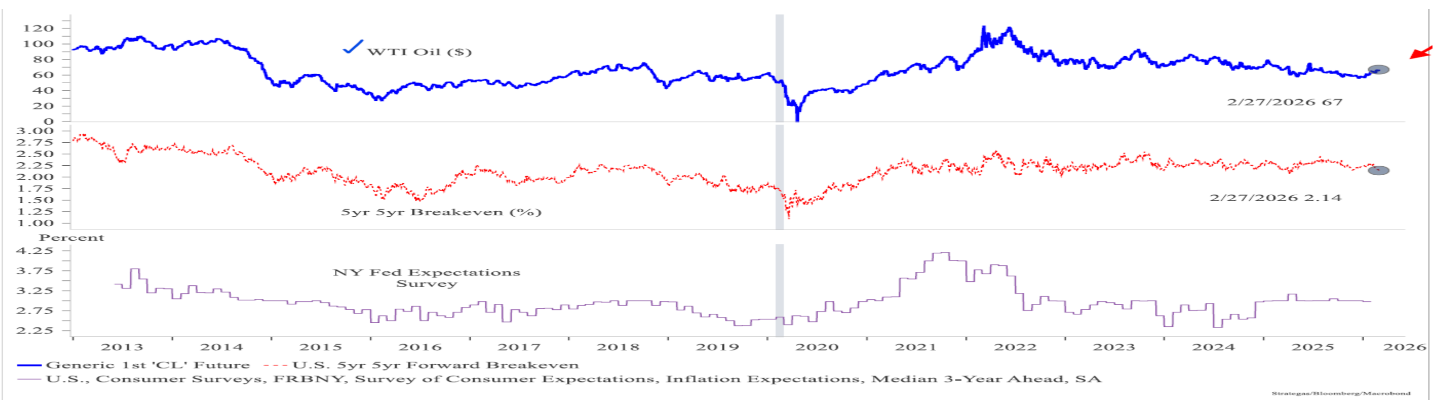
- Payrolls declined and wage growth slowed, indicating cooling demand.
- Housing sentiment improved despite persistent affordability issues.
- Inflation remained persistent due to new energy and shipping pressures.
- Global growth indicators were mixed but mostly steady.
- The government shutdown caused a modest but damaging GDP slowdown.

tentatively as the FHFA and Case-Shiller home price indices increased toward the end of the year, although affordability issues persisted.





Inflation remained above target, driven by new energy and shipping pressures from the Middle East conflict; however, preliminary Q4 productivity at 2.8% and unit labor costs at 2.8% helped stabilize cost trends. Abroad, emerging markets and Asia outperformed; Europe was mixed but showed signs of improvement; Japan remained strong; and China stayed soft with targeted support.



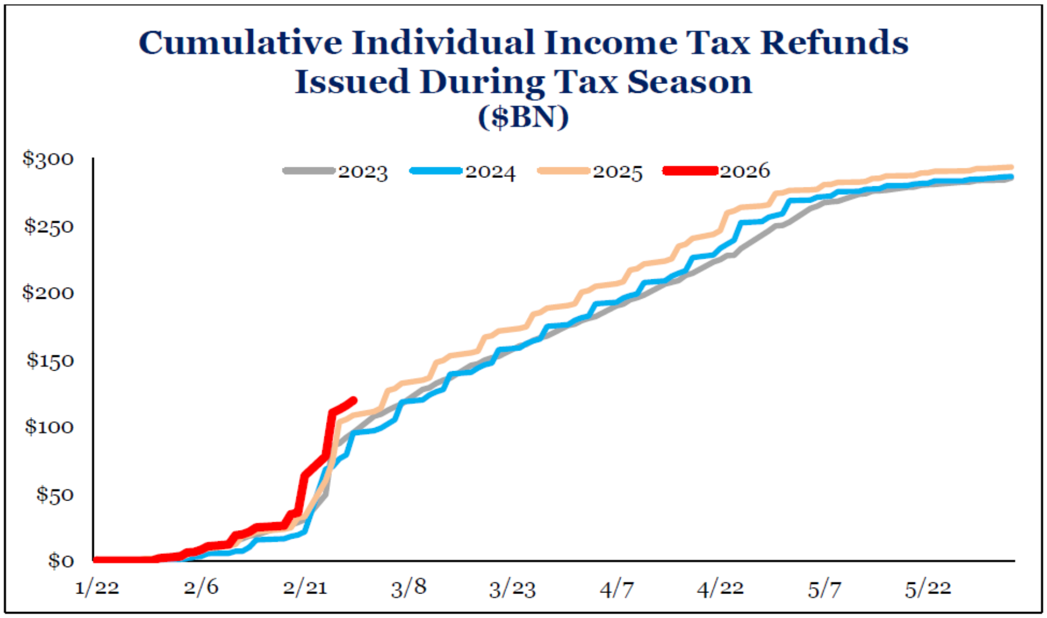
Of course, the winds have shifted with the outbreak of the conflict in the Middle East, but for February, global signals were mixed yet generally stable. Europe showed tentative improvements in sentiment indicators; Japan's inflation rose along with long-term yields climbing above 2%; China's economy continued to soften but benefited from targeted stimulus measures; and emerging markets strengthened on improving earnings revisions and a softer U.S. dollar.

On the political front, Congress has once again caused a government shutdown. As previously reported, these kinds of actions usually don't have long-term, significant effects. However, the shutdown last quarter was estimated to have shaved nearly 1% off GDP. This is a regrettable, self-inflicted wound that affects millions of Americans.

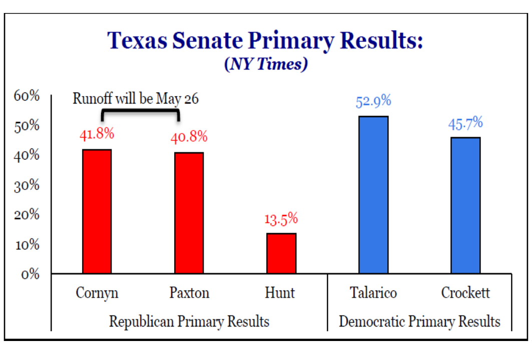
Monetary Policy & Fed Outlook Highlights

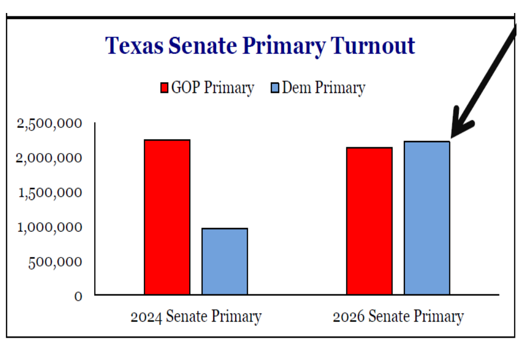
The Federal Reserve maintained a patient, data-dependent approach as inflation, although lower, remains persistent, and geopolitical risks have made the outlook more complex. Policy discussions focused on the trade-offs related to balance-sheet runoff, market functioning, and the timing of future rate cuts.

Refund flows linked to OB3 started but were weaker than initial expectations, which decreased short-term consumption urges; later waves in the season are expected to perform better.



As we say, “Everything is bigger in Texas,” and the midterm elections are living up to this saying. Democrats have nominated James Talarico, while the Republicans have a runoff in May between incumbent John Cornyn and Attorney General Ken Paxton. This is a high-profile, high-dollar race that promises to be fascinating, with significant implications for which party will control Congress.

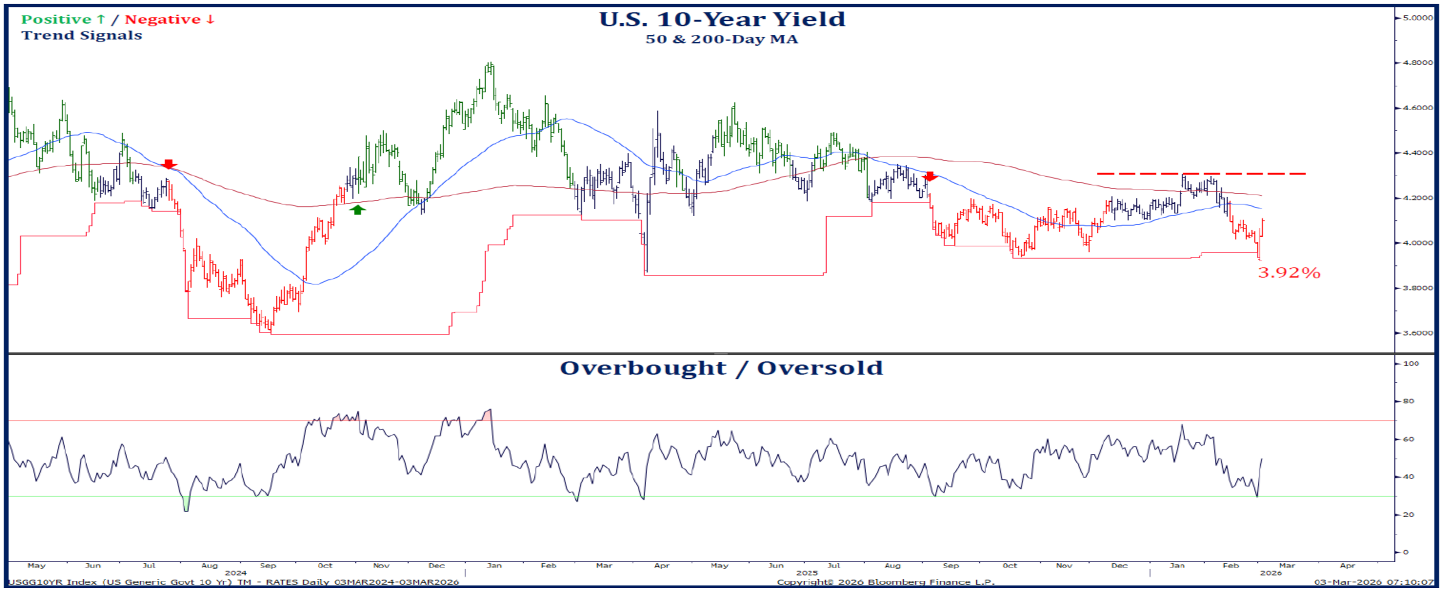




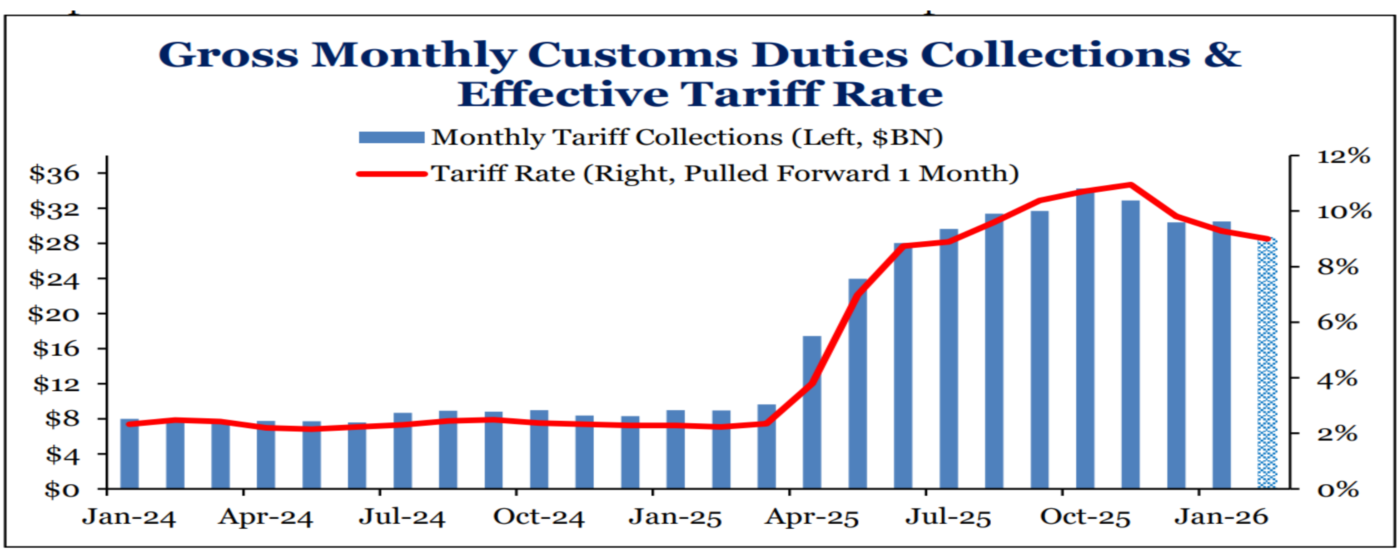
Critical points for policy

- The Fed remained patient as inflation persisted.
- Policy debates centered on balance-sheet runoff and rate timing.
- Refund flows started but fell short of expectations.
- Later refund waves should encourage increased spending.
- The Texas Senate race grew highly visible and competitive.
- Global officials monitored energy-driven inflation pressures.
- U.S. financial conditions remained broadly supportive and stable.
- Tariff actions proceeded with anticipated revenue exceeding $100 billion.

Global policymakers monitored spillovers from rising energy costs into inflation expectations, while U.S. financial conditions remained broadly supportive, with stable credit markets. Rates have traded within a relatively narrow range, and credit risks have stayed stable.



Finally, on the tariff front, after a Supreme Court setback last month on using the MFN (most-favored-nation) rationale, the Trump administration is moving forward with more direct but longer process workarounds under section 301 and section 122 authority. We still expect over $100 billion in tariff revenue for 2026, with tariff rates in the 10-15% range (ironically, the rate Trump said he wanted from the start).



Corporate Profitability Highlights

Earnings growth stayed strong until February. The Q4 season showed about 14% EPS growth and roughly 9% revenue growth, with Technology leading and broader participation in Industrials and Materials. 2026 EPS forecasts remained positive, while 2027 estimates rose sharply, supporting valuations but raising expectations for future performance.

S&P 500 4th Quarter Earnings Scorecard

	Sales Growth (Y/Y%)			Earnings Growth (Y/Y%)			# Reported
	Oct. 1	Jan. 1	Today	Oct. 1	Jan. 1	Today	
S&P 500	6.0%	7.3%	9.0%	7.7%	8.9%	14.3%	479/500
Discretionary	3.0%	4.4%	5.6%	-1.9%	-2.8%	-0.2%	42/48
Staples	3.3%	4.1%	4.2%	5.4%	1.6%	3.7%	30/36
Energy	-3.0%	-2.4%	-0.2%	0.6%	1.7%	3.6%	22/22
Financials	4.0%	6.4%	6.7%	4.7%	6.7%	10.4%	74/76
Health Care	8.1%	8.9%	10.9%	4.4%	0.7%	0.9%	59/60
Industrials	6.2%	6.2%	8.5%	0.7%	-1.7%	17.2%	79/79
Materials	6.1%	3.6%	4.1%	10.1%	8.2%	13.1%	26/26
Real Estate	6.2%	6.8%	8.6%	0.9%	0.8%	2.0%	31/31
Technology	13.7%	18.1%	21.4%	19.2%	26.5%	33.8%	67/71
Communications	7.7%	8.6%	10.9%	7.1%	7.3%	14.6%	20/20
Utilities	6.4%	6.1%	11.4%	10.5%	3.8%	3.6%	29/31

Margins stayed stable thanks to productivity gains and easing supply disruptions. In credit, utilities, energy, and real estate appeared attractive on a risk-adjusted basis; staples and healthcare seemed costly; and tech spreads widened slightly toward fair value.

Source: Strategas, Bloomberg, Data as of 3/4/26

Looking ahead, key risks include disruptions in energy and shipping due to the Iran conflict and the potential passthrough of inflation. Offsets consist of productivity gains, policy measures such as transport insurance and escorts, and additional OPEC+ supply. We expect continued sector variation, with a positive but selective environment as earnings breadth grows and policy remains a crucial factor.

Critical points for profitability

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