

PLAINSCAPITAL BANK

ECONOMIC HIGHLIGHTS



Economic Commentary
May 2026
By Jerrod Dawson, CFA

Executive Summary

- The Iran conflict and disruptions around the Strait of Hormuz reshaped the macro backdrop, pushing energy and shipping costs higher and lifting inflation expectations.
- Inflation pressures re-firmed modestly due to energy pass-through, while productivity gains and slowing wage growth continued to help limit broader cost pressures.
- The labor market cooled without deteriorating sharply: payroll growth moderated, job openings moved closer to parity, wage growth slowed, and participation edged lower.
- Consumer spending remained uneven but resilient, supported by employment, higher-income balance sheets, gig income flexibility, and tax-related inflows.
- Fixed income markets repriced toward a higher-for-longer outlook, long-end yields and break evens rose; front-end rates stayed anchored, and credit markets remained orderly.
- Corporate earnings remained constructive, with strong revenue growth and stable margins led by technology and AI investment.
- AI-related capital investment continued at an elevated pace, though rising input costs suggested diminishing near-term efficiency gains and higher monetization hurdles.
- Policy remained cautious: the Federal Reserve held rates steady, emphasized patience amid inflation uncertainty, & highlighted balance-sheet and liquidity tools as stabilizers.
- Overall conditions remain constructive but increasingly fragile, defined by strong headline performance, narrow leadership, and elevated geopolitical risk.

Key Market Results

- U.S. Equities: Major indices advanced through April and into early May, led by the S&P 500 and NASDAQ, with gains concentrated in mega-cap technology and semiconductors.
- International Equities: International markets lagged U.S. equities overall; developed markets were steady while Emerging Markets showed greater dispersion amid energy pressures.
- Fixed Income: Long-end Treasury yields rose as inflation break-evens widened, flattening the curve; front-end rates remained anchored, and credit markets stayed stable.
- Commodities: Energy prices surged on geopolitical disruptions, while precious metals were volatile and industrial metals showed mixed trends.

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	38.5	35.6	↑	↑
Bloomberg Economics US GDP Nowcast	2.7	2.8	↓	↑
Concensus USA Growth Forecast Survey	-24.8	-5.1	↓	↑

Inflation	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Citi Inflation Surprise Index - United States	-13.9	-16.0	↑	↑
Bloomberg Economics US CPI Nowcast	4.2	2.5	↑	↑
Concensus USA Inflation Forecast Survey	64.1	43.1	↑	↓

Employment	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Unemployment Rate	4.3	4.3	→	↑
Conference Board Employment Trend	105.8	105.7	↑	↓

Consumer Spending	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Johnson Redbook Retail Sales y/y	9.6	6.5	↑	↑
Adjusted Retail & Food Service Sales	4.9	3.3	↑	↓
Conference Board Consumer Confidence	92.8	89.0	↑	↑

Corporate Profitability	NTM (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
S&P 500 Est. Sales Growth Rate	7.2	-2.4	↓	↑
S&P 500 Est. EPS Growth Rate	14.3	9.1	↑	↑
NFIB Small Business Optimism	95.8	99.3	↓	→

Government Policy	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Budget/ GDP	-6.0	-5.8	↓	↑
USD Real Effective Exchange Rate	107.4	112.4	↓	↓

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	3.8	3.0	↑	↑

Liquidity	3mo Δ (%)	12mo Δ (%)	Trend q/q	Trend y/y
U.S. Domestic Liquidity	-1.6	-2.1	↓	↓
Global Liquidity Index	-0.9	10.6	↓	↑

Data source: Bloomberg

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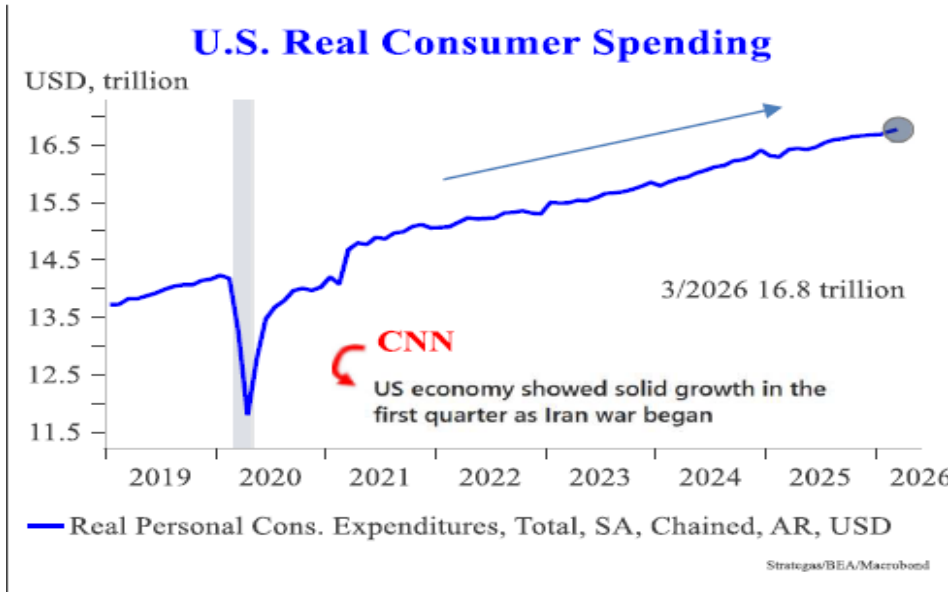
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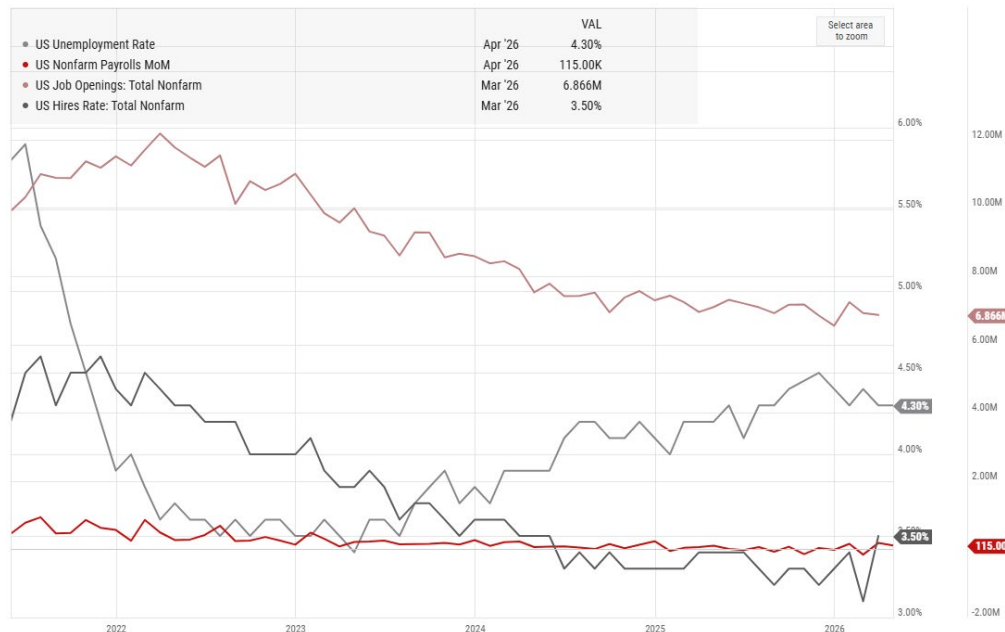
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US & Global Economic Highlights

U.S. economic data through April and early May showed a slowing yet resilient expansion. Activity indicators pointed to moderation rather than contraction, as growth increasingly relied on productivity, capital investment, and income dispersion rather than broad labor acceleration.



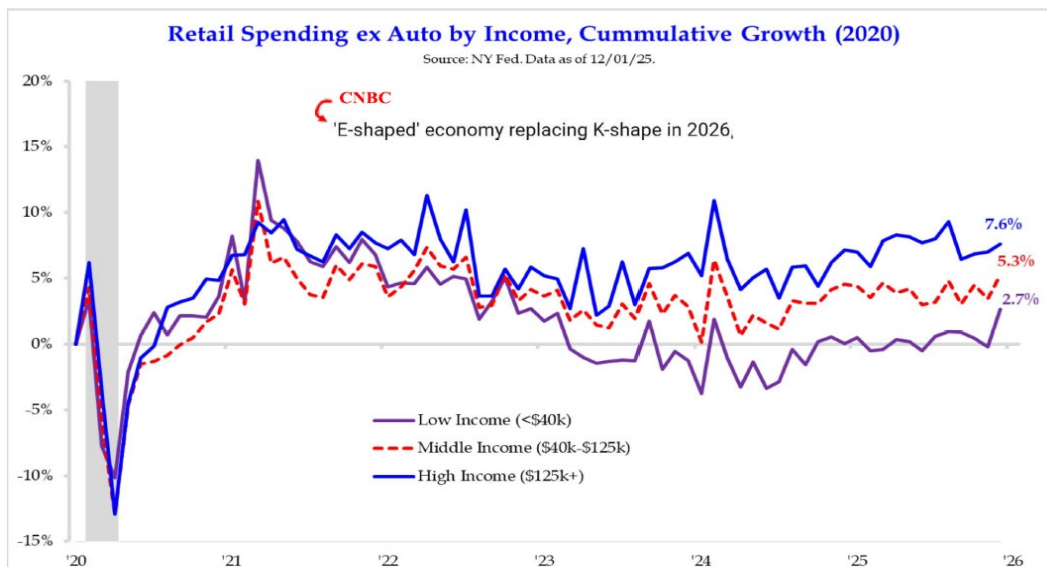
The labor market continued to ease, with no signs of acute stress. Payroll growth moderated, job openings declined toward parity with the number of unemployed workers, and wage growth slowed further. Importantly, layoffs remained contained, indicating that firms are adjusting through hiring restraint rather than outright job cuts. Participation slipped modestly amid structural labor constraints.



Critical points for the economy

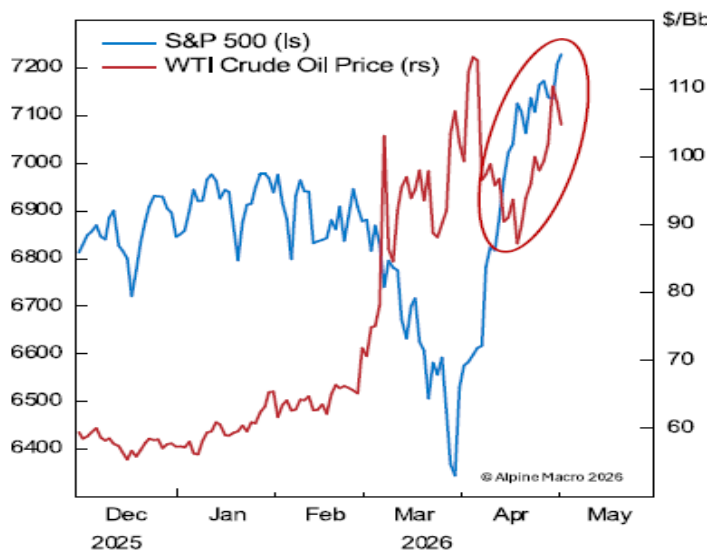
- US growth slowed but remained resilient through early May.
- Activity is moderated, avoiding contraction and shifting growth drivers.
- The labor market eased without signs of acute stress.
- Payroll growth slowed; layoffs stayed low and contained.
- Wage growth slowed, and job openings approached unemployment levels.
- Consumer spending on durable goods; higher-income households drove discretionary demand.
- Lower-income households faced pressures from food, energy, and housing costs.
- Inflation firmed modestly, led by energy and transportation.
- Global conditions mixed; divergence widened across major economies. Investment in AI-supported growth despite rising input costs.

Consumer activity remained uneven yet durable. Higher-income households continued to benefit from asset appreciation and income stability, supporting discretionary spending, while lower-income households faced ongoing pressure from elevated food, energy, and housing costs. Near-term support came from tax-related inflows, gig-economy income, and still-available credit, though delinquency data suggested that stress remains concentrated among more rate-sensitive borrowers.



Inflation dynamics firmed modestly over the period, led by energy and transportation costs tied to Middle East disruptions. Headline measures showed renewed pressure, while services inflation stayed sticky. Offsetting forces included productivity gains, softer wage growth, and easing supply pressures for goods outside energy-linked categories. Inflation expectations edged higher at longer horizons.

Global conditions remained mixed. Europe showed tentative improvement in sentiment but remained vulnerable to energy costs. Japan saw firmer inflation and rising yields alongside relative economic stability. China's recovery remained uneven, supported by targeted policy measures, while emerging markets showed dispersion amid shifting energy and global liquidity conditions.



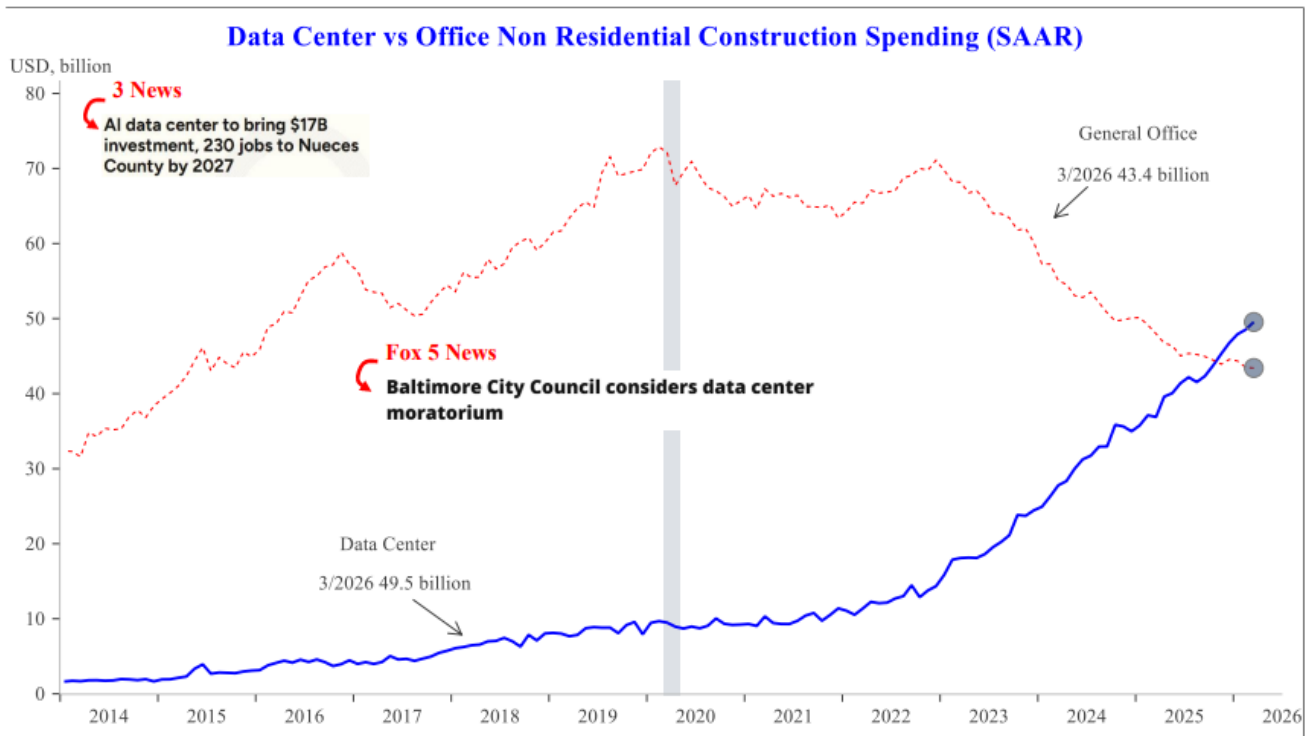
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Corporate activity and investment continued to offset softer macroeconomic trends. Capital spending on artificial intelligence and data infrastructure remained elevated and supportive of growth, though rising input costs suggested that efficiency gains may be increasingly constrained. The divergence between nominal investment growth and real output suggests that pricing pressures absorb an increasing share of incremental spending.



Overall, the macro backdrop remained constructive but increasingly sensitive. Growth slowed in a controlled manner, inflation risks shifted higher marginally due to energy shocks, and global divergence widened. The expansion continued, but with less margin for policy error and greater reliance on productivity, capital intensity, and stable financial conditions.

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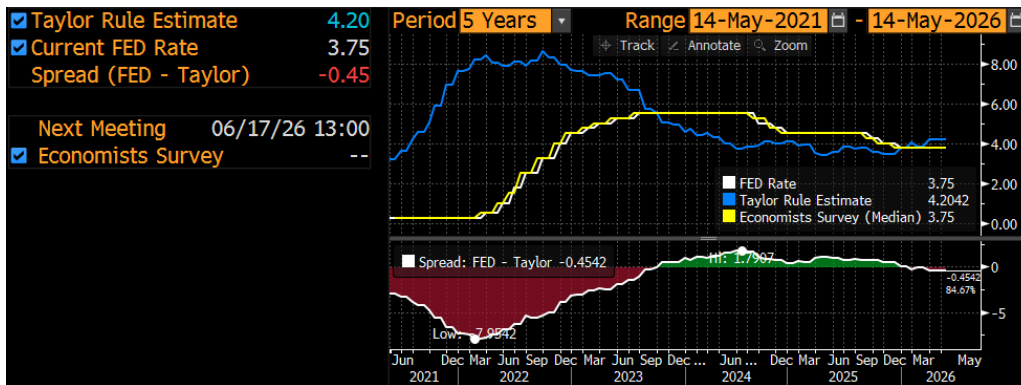
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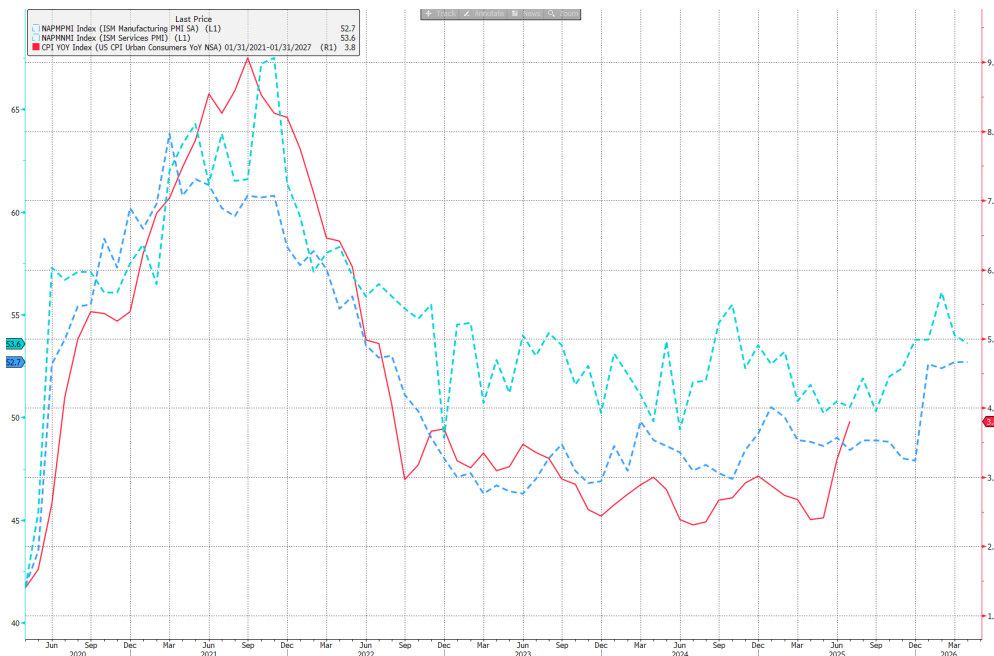
Monetary Policy & Fed Outlook Highlights

Monetary policy remained firmly on hold through April and early May, as the Federal Reserve emphasized patience amid a more complex inflation-and-growth trade-off. Policymakers maintained restrictive settings while monitoring energy-driven inflation risks and evidence of a gradual cooling in the labor market.

Inflation uncertainty continued to restrain policy flexibility. While underlying inflation showed signs of moderation, renewed energy and transportation costs linked to Middle East disruptions lifted headline measures and inflation expectations at longer horizons. As a result, Fed communication reflected a higher threshold for near-term rate cuts.



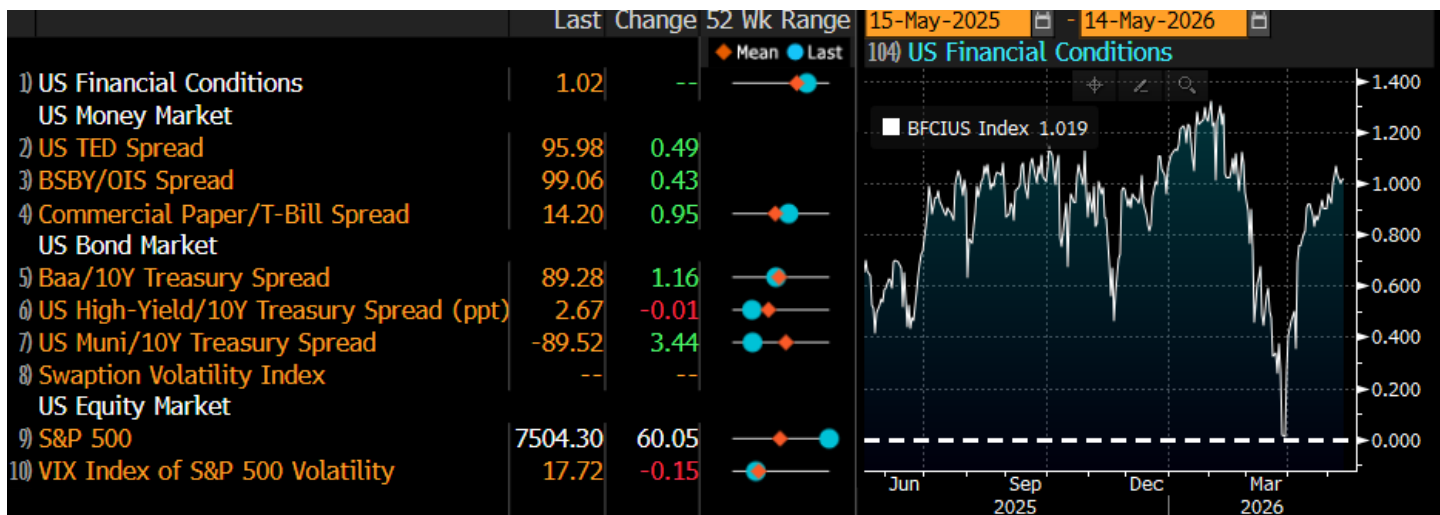
Labor market conditions were viewed as sufficiently stable to allow patience. Slower hiring, easing wage growth, and declining job openings reduced overheating risks without signaling recession. This balance reinforced the Committee's preference to wait for clearer evidence of sustainable disinflation before adjusting policy.



Critical points for policy

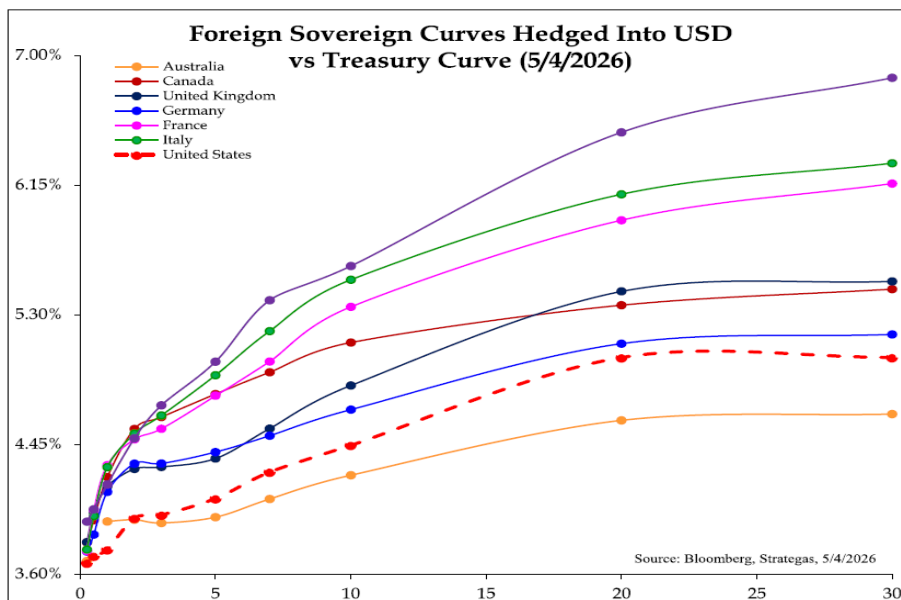
- Monetary policy remained on hold amid complex inflation-growth tradeoffs.
- Federal Reserve maintained a restrictive stance while emphasizing patience.
- Inflation uncertainty limited flexibility and raised easing thresholds.
- Energy-driven inflation lifted headline measures and expectations.
- Labor market stability supported wait-and-see policy approach.
- Slowing hiring and wages reduced overheating without recession signals.
- Liquidity tools managed temporary funding and market pressures.
- Balance sheet policy viewed as an active financial conditions lever.

Beyond interest rates, officials emphasized the importance of balance-sheet and liquidity tools. Temporary funding pressures stemming from tax flows and market volatility were addressed through repo operations, bill purchases, and standing facilities, all designed to maintain ample reserves and stable funding conditions. Indicators for funding market health all point to spreads in line with historic norms and overall healthy financial conditions.



Debate over the longer-term role of the Fed’s balance sheet reemerged, with testimony highlighting that balance sheet size and guidance can influence financial conditions even without changes to the policy rate. Communication itself was framed as an active policy lever.

Global central bank divergence remained notable. While the Fed stayed sidelined, several foreign central banks faced sharper inflation-energy tradeoffs, increasing the risk of asynchronous tightening abroad and spillovers into global rates and currency markets.



Overall, the policy outlook remained cautious and asymmetrical. Inflation risks—particularly from energy shocks—limited the Fed’s ability to ease, while stable financial conditions reduced urgency to tighten further. Markets remained sensitive to shifts in guidance, liquidity signals, and geopolitical developments.

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Corporate Profitability Highlights

Corporate earnings trends remained broadly constructive throughout the first-quarter reporting season, though dispersion across sectors and companies became more pronounced. Aggregate results showed solid revenue growth and stable margins, supported by pricing power, productivity gains, and continued capital investment.

S&P 500 1st Quarter Earnings Scorecard							
	Sales Growth (Y/Y%)			Earnings Growth (Y/Y%)			# Reported
	Jan. 1	Apr. 1	Today	Jan. 1	Apr. 1	Today	
S&P 500	7.5%	9.0%	10.5%	14.4%	14.4%	27.8%	314/500
Discretionary	7.4%	8.1%	9.2%	6.3%	1.9%	38.4%	28/48
Staples	6.5%	6.3%	6.7%	6.6%	1.9%	6.0%	21/36
Energy	-3.3%	0.6%	3.6%	1.3%	5.5%	-3.9%	12/22
Financials	5.8%	6.7%	7.4%	16.7%	17.8%	23.9%	61/76
Health Care	6.3%	5.8%	7.2%	5.5%	-8.9%	-5.0%	34/58
Industrials	5.8%	6.3%	8.4%	7.6%	4.9%	11.7%	61/79
Materials	6.6%	6.7%	9.7%	23.3%	21.6%	35.0%	18/26
Real Estate	7.6%	9.1%	10.9%	13.1%	12.6%	15.4%	25/31
Technology	20.1%	27.0%	28.7%	35.8%	46.3%	51.9%	33/73
Communications	9.6%	11.6%	13.4%	-2.7%	-2.4%	55.1%	9/20
Utilities	7.7%	8.5%	8.9%	8.8%	6.6%	10.2%	12/31

Source: Strategas, I/B/E/S data from Refinitiv (Current Reading Is Highlighted If Greater Than January 1st Estimate)

Technology and AI-linked industries continued to lead earnings growth, benefiting from sustained demand for data infrastructure, cloud services, and semiconductor capacity. Hyperscalers and capital-equipment providers drove a disproportionate share of earnings momentum, reinforcing concentration in overall profit growth.

Outside of technology, earnings momentum was more mixed. Industrials and materials showed improving trends tied to infrastructure and automation demand, while consumer-oriented sectors reflected uneven volumes and margin pressure from wage, energy, and transportation costs.

Margin trends remained stable overall, supported by productivity improvements and easing non-energy supply constraints. However, rising input costs tied to energy, freight, and insurance began to reappear in corporate commentary, heightening sensitivity to further geopolitical disruptions.



Critical points for profitability

- Corporate earnings remained constructive but showed increasing sector dispersion.
- Revenue growth stayed solid, supported by pricing power and investment.
- Technology and AI sectors continued to dominate earnings growth.
- Hyperscalers and semiconductor firms drove concentrated profit expansion.
- Industrials and materials improved alongside infrastructure and automation demand.
- Consumer sectors faced uneven demand and rising cost pressures.
- Margins stayed stable despite emerging energy and freight cost pressures.
- Corporate guidance became more cautious, emphasizing cost discipline.
- Capital spending in AI supported growth but faced rising input costs.
- Balance sheets remained healthy with manageable leverage and refinancing needs.

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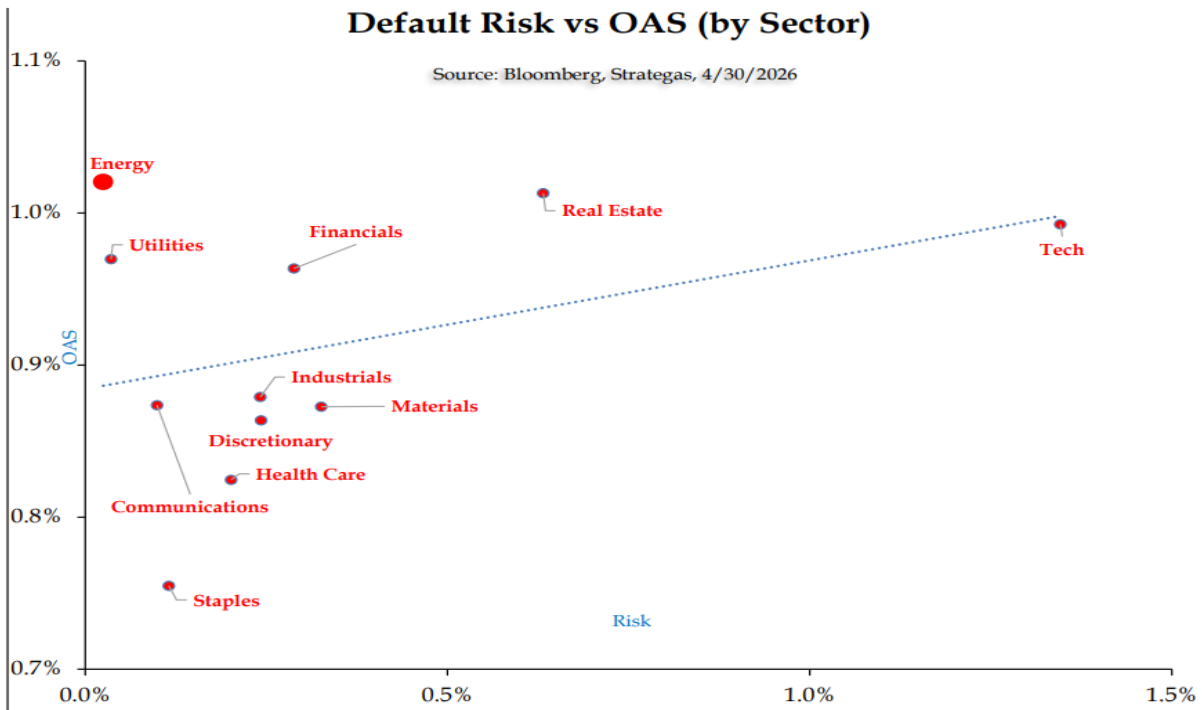
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Guidance patterns turned more cautious at the margin. While companies largely maintained full-year outlooks, management commentary emphasized cost discipline, selective pricing actions, and capital-allocation efficiency over volume-driven growth.

Capital expenditure remained a key differentiator. Investment tied to artificial intelligence and automation continued to support revenue visibility and operating leverage, though rising equipment, labor, and energy costs suggested diminishing incremental efficiency gains over time.



From a balance-sheet perspective, corporate credit quality remained stable. Leverage metrics were contained, refinancing needs were manageable, and cash balances were adequate, supporting orderly credit markets despite higher rates and inflation uncertainty.

Overall, profitability conditions remained favorable but less forgiving. Earnings growth continued, yet the margin for error narrowed as input costs, valuation sensitivity, and capital intensity increased, reinforcing a more selective earnings backdrop in the future.

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