PLAINSCAPITAL BANK

ECONOMIC HIGHLIGHTS

Economic Commentary
June 2026

By: Jerrod Dawson, CFA

Executive Summary

- **The May employment report reinforced economic resilience.** Payrolls rose to +172,000 with unemployment steady at 4.3%, confirming a stable labor market and alleviating near-term recession concerns.
- **The Federal Reserve remains on hold—but easing expectations faded.** Sticky inflation and firm labor conditions pushed rate cuts further out, with policy discussions shifting toward the possibility of renewed tightening if inflation persists.
- **Inflation remains above target and is highly sensitive to energy markets.** Oil volatility tied to Middle East tensions continued to shape inflation expectations and complicated the policy outlook.
- **Geopolitical risk—particularly involving Iran—remained a central market driver.** Concerns about the Strait of Hormuz and energy supply disruptions influenced commodity prices, inflation expectations, and broader risk sentiment throughout the month.
- **Consumer spending held up, but underlying conditions diverged.** Higher-income households continued to drive activity, while lower-income consumers faced rising pressure from energy costs and weakening real income growth.
- **Corporate earnings remained strong but increasingly concentrated.** Profit growth continued to be led by AI-related technology and semiconductors, reinforcing narrow leadership dynamics across equity markets.
- **AI remained the dominant structural driver across markets.** Capital expenditure trends, data center investment, and upcoming mega-IPOs (e.g., SpaceX, OpenAI) underscored the scale and persistence of the AI cycle.
- **Market structure signals pointed to elevated positioning risk.** Declining active manager outperformance, elevated retail optimism, and heavy options activity suggest that flows, rather than fundamentals, increasingly influence markets.
- **Capital markets activity is reaccelerating at scale.** The anticipated wave of large IPOs highlights significant demand for capital and may create meaningful shifts in liquidity and positioning across markets.
- **** Bottom line: strong trend but rising sensitivity.** The combination of robust growth, persistent inflation, concentrated leadership, and geopolitical uncertainty leaves markets well supported—but increasingly dependent on continued momentum and stable macroeconomic conditions.

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US Economic Cycle Drivers:

Growth	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Citi Economic Surprise - United States	55.4	29.4	↑	↑
Bloomberg Economics US GDP Nowcast	2.5	3.0	↓	↓
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	3.0	-12.8	↑	↑
Bloomberg Economics US CPI Nowcast	4.0	3.2	↑	↑
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	4.4	→	→
Conference Board Employment Trend	107.0	107.1	↑	↑

Consumer Spending	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Johnson Redbook Retail Sales y/y	9.1	6.8	↑	↑
Adjusted Retail & Food Service Sales	4.9	3.3	↑	↓
Conference Board Consumer Confidence	93.1	91.0	↑	↓

Corporate Profitability	NTM (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
S&P 500 Est. Sales Growth Rate	7.6	-2.0	↓	↑
S&P 500 Est. EPS Growth Rate	15.1	9.2	↑	↑
NFIB Small Business Optimism	95.9	98.8	↓	↓

Government Policy	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Budget/ GDP	-6.0	-5.8	↓	↑
USD Real Effective Exchange Rate	107.1	110.9	↑	↓

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	4.0	3.3	↑	↑

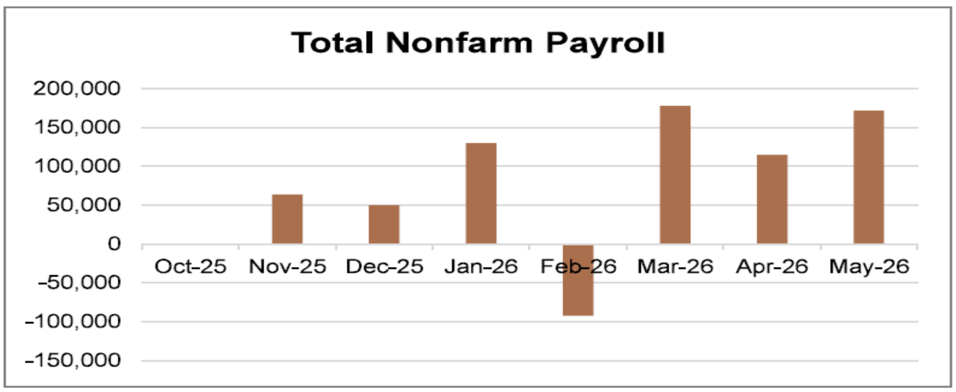
Liquidity	3mo Δ (%)	12mo Δ (%)	Trend q/q	Trend y/y
U.S. Domestic Liquidity	-3.2	-4.1	↓	↓
Global Liquidity Index	-3.3	8.5	↓	↑

Data source: Bloomberg

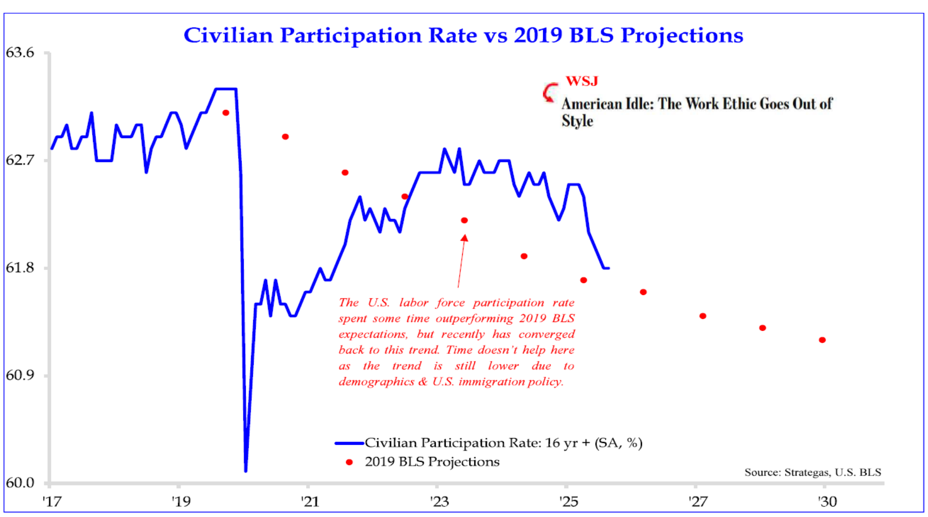
US & Global Economic Highlights

U.S. economic activity remained resilient through May, with multiple indicators pointing to a reacceleration in growth. Manufacturing and services activity both improved, as ISM indices returned to expansion territory, signaling stronger momentum heading into the third quarter. High-frequency data likewise point to improving GDP trends despite ongoing geopolitical uncertainty.

Labor market conditions remained stable and supportive of continued expansion. Non-farm payrolls increased by 172,000 in May, beating expectations, while unemployment held steady at 4.3%. Hiring broadened modestly across sectors, with continued strength in healthcare and government and stabilization in cyclical labor segments. Wage growth remained contained, rising about 3.4% year-over-year.



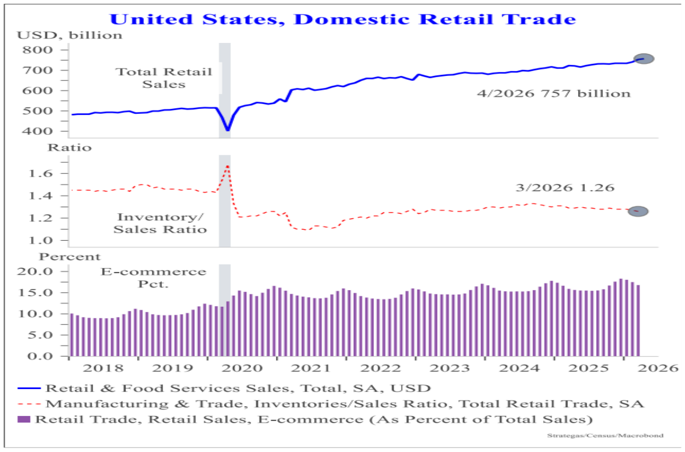
While headline labor market data remained firm, underlying dynamics point to more moderate income growth. Labor income gains have leveled off, and real disposable income has declined in recent months. Labor force participation also remained below pre-pandemic levels, reflecting ongoing demographic and structural constraints.

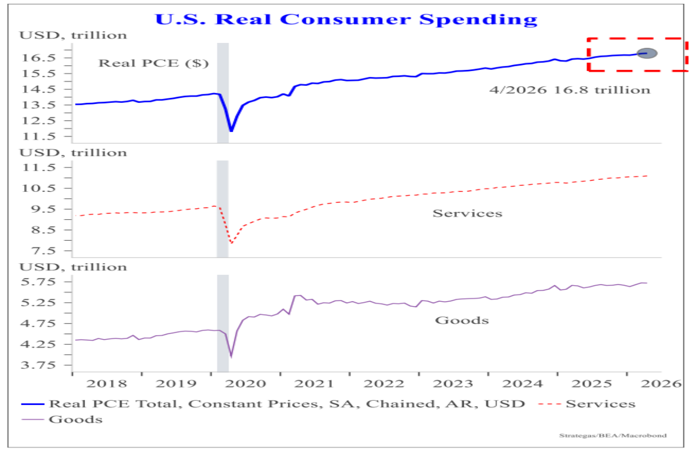


Critical points for the economy

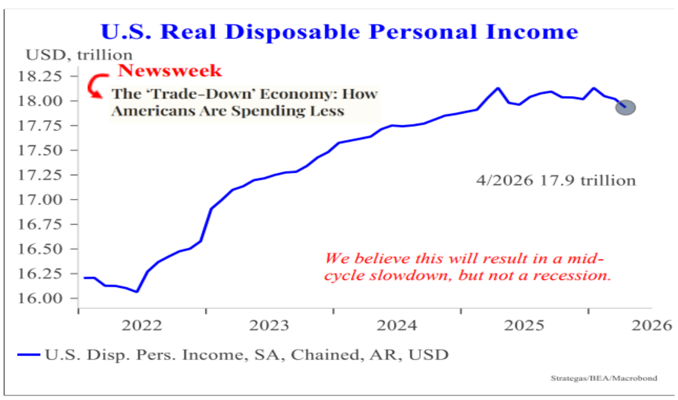
- U.S. economic activity reaccelerated, with ISM indices returning to expansion and signaling improved Q3 momentum
- Labor market remained stable, with +172k payrolls and unemployment steady at 4.3%
- Wage growth remained contained (~3.4% YoY), helping anchor inflation expectations
- Real income growth softened, with declining disposable income and weaker labor income trends
- Consumer spending held firm but increasingly reliant on higher-income households
- Lower-income consumers showed signs of strain amid elevated energy costs
- Inflation remained elevated (~3.8%), driven largely by energy market volatility
- Business investment accelerated, led by AI, data center, and semiconductor spending
- Global growth remained uneven, with U.S. outperforming developed markets and EM supported by commodities
- Geopolitical tensions (Middle East) continued to influence energy prices and macro stability

Consumer activity continued to show resilience, though increasingly supported by higher-income households. Spending remained stable overall, aided by strong asset prices and wealth effects. Still, signs of strain are emerging among lower-income consumers due to elevated energy costs and limited real income growth.



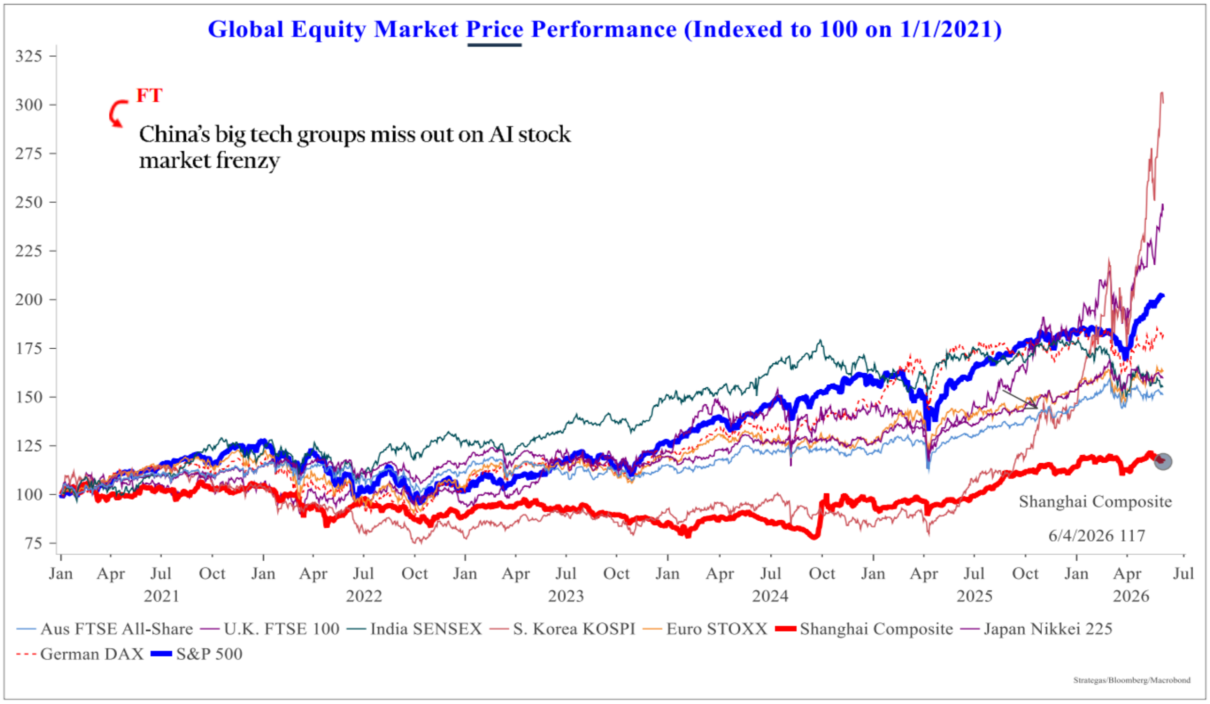


Inflation pressures remained above target and were persistent. Consumer price inflation continued to run near 3.8% year-over-year, with energy markets the primary driver of volatility. While some corporate indicators suggest moderation in pricing pressures, global supply dynamics and geopolitical risks continue to pose upside inflation risks.

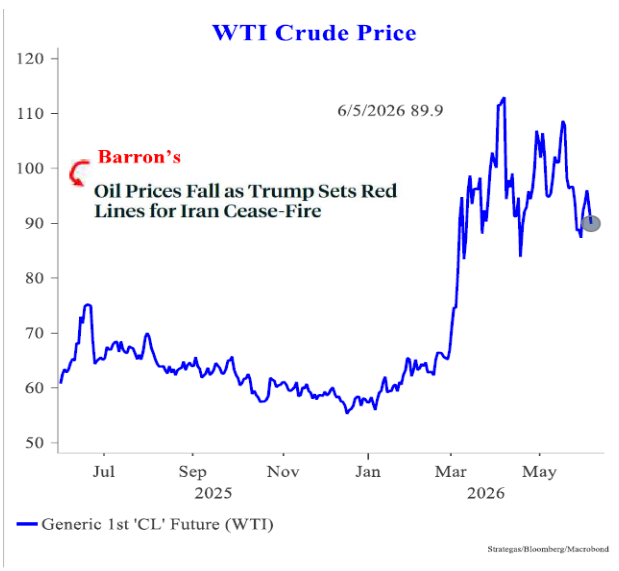


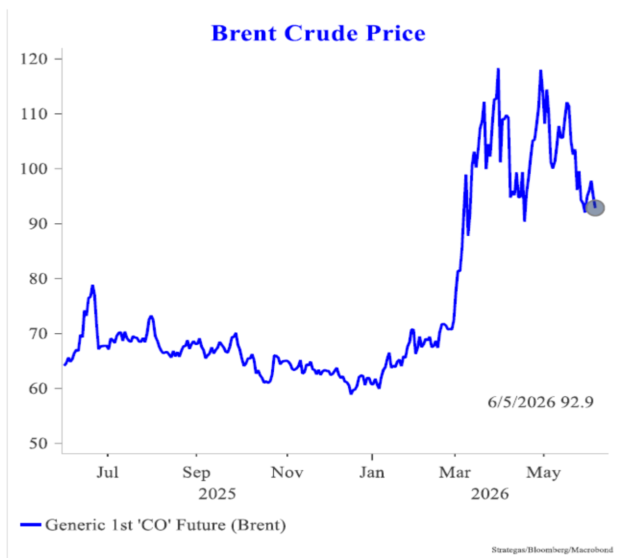
Business investment remained another key area of strength, particularly in technology and artificial intelligence. Capital expenditures tied to data centers, semiconductors, and digital infrastructure continued to expand, supporting overall economic growth and offsetting weakness in more cyclical sectors.

Globally, economic conditions remained mixed. The U.S. outperformed most developed markets, while emerging markets benefited from commodity exposure and stronger relative growth. Central banks worldwide have shifted to a more cautious stance, with some regions still under pressure to tighten policy amid persistent inflation.



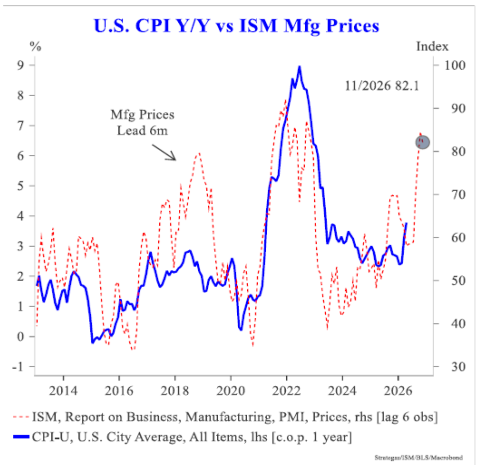
Geopolitical developments continued to influence global economic conditions significantly. Ongoing tensions in the Middle East, particularly those involving Iran and energy supply routes, continued to affect commodity prices, inflation expectations, and global trade dynamics.

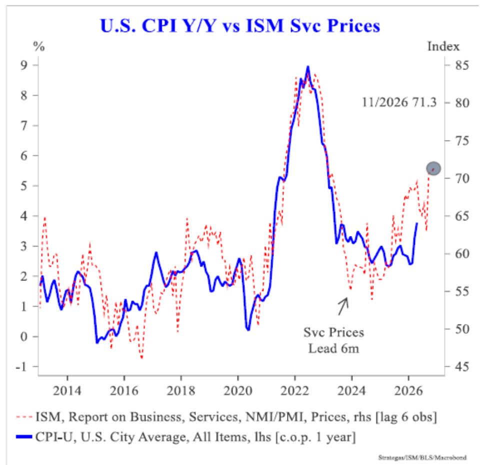




Monetary Policy & Fed Outlook Highlights

Federal Reserve policy remained firmly in a holding pattern through May as policymakers balanced resilient growth against a recent spike in inflation pressures stemming from geopolitical tensions in the Middle East. With economic data continuing to come in stronger than expected, the Fed maintained a cautious, data-dependent stance.





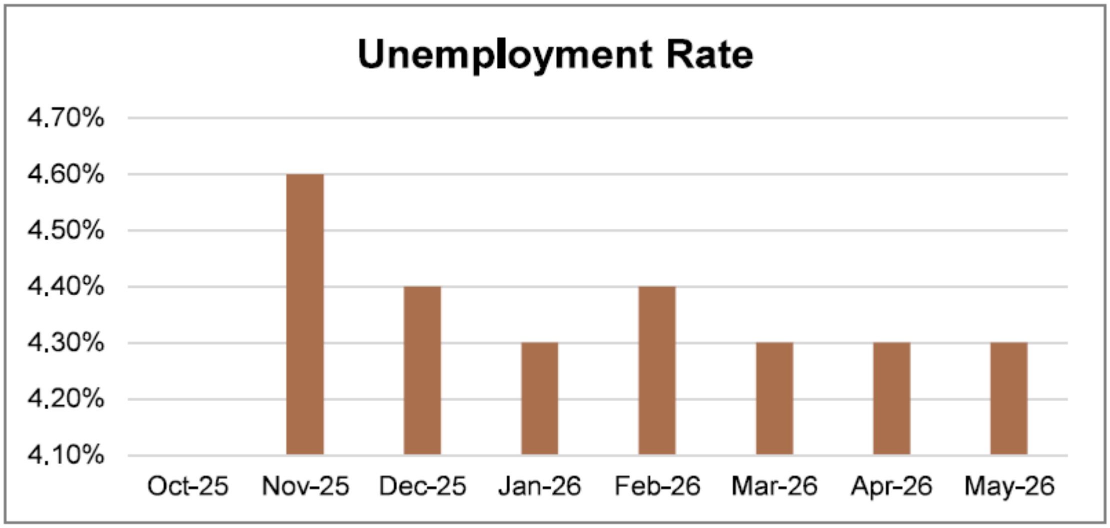
Rate-cut expectations were pushed further out during the month as inflation remained above target and labor market conditions showed little meaningful deterioration. Market pricing increasingly reflects a higher-for-longer policy environment.

The May employment report reinforced the Fed's ability to remain patient. Solid job creation, stable unemployment, and contained wage growth reduced the urgency to ease and limited near-term recession concerns. Policymakers emphasized flexibility and reduced reliance on forward guidance, as economic uncertainty remains elevated.

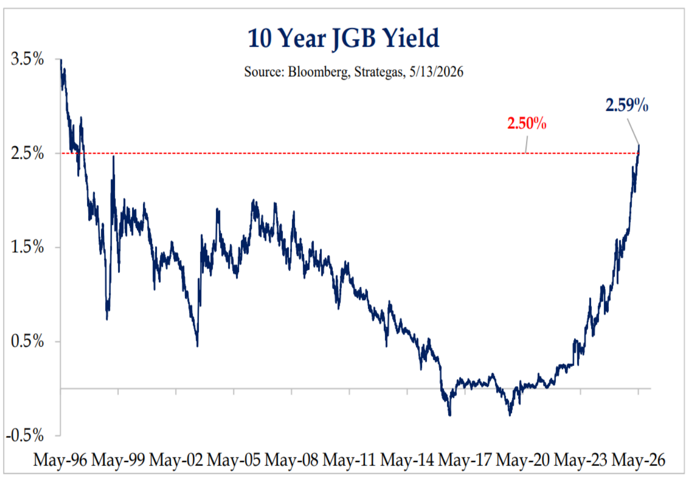
Critical points for policy

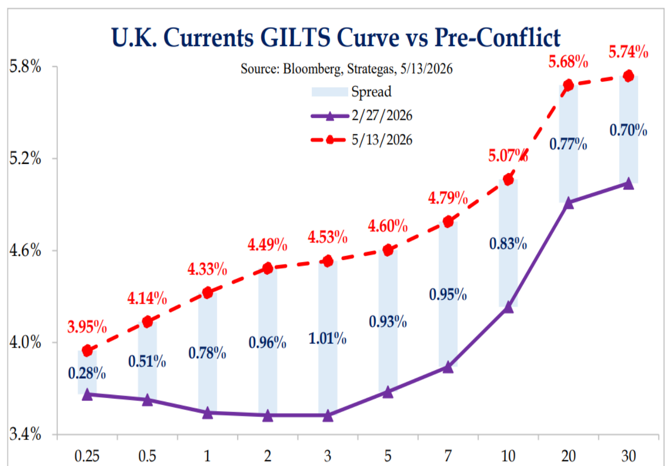
- Fed maintained a "higher-for-longer" stance amid resilient growth and persistent inflation
- Rate cut expectations were pushed further out as economic data exceeded expectations
- Strong labor market conditions reduced urgency for near-term policy easing
- Policy outlook became increasingly data-dependent with less reliance on forward guidance
- Inflation pressures tied to energy and geopolitics complicated the easing path
- Risks skewed two-sided: stronger growth could drive tightening; weakness could reintroduce cuts
- System liquidity improved post-June drain, supporting near-term financial conditions
- Nearly $500B in excess liquidity remains despite ongoing balance sheet normalization
- Global central banks faced similar constraints, with some regions still considering tightening
- Diverging policy paths reflect differences in inflation persistence and growth resilience

Forward-looking risks are increasingly two-sided. Continued labor market strength or renewed inflation pressures could prompt a more hawkish stance, while any meaningful slowdown in growth would reopen the path to easing.



Global central banks face similar constraints, and several regions still consider policy tightening amid persistent inflationary pressures. Diverging policy paths reflect differences in growth resilience and inflation persistence.





Corporate Profitability Highlights

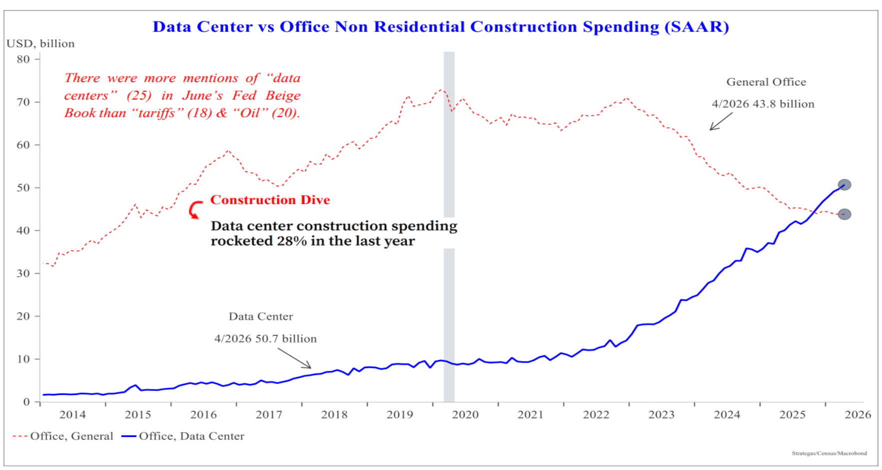
Corporate earnings trends remained strong through May, supported by continued economic resilience and robust demand tied to artificial intelligence and digital infrastructure investment. Earnings growth continued to outpace expectations, reinforcing upward revisions across key sectors. Unlike previous growth surges, total returns are relatively consistent with earnings growth.

	EPS Growth %	Total Return %
1995	16%	38%
1996	11%	23%
1997	7%	33%
1998	0%	29%
1999	20%	21%
1995-1999	67%	220%

	EPS Growth %	Total Return %
2021	40%	29%
2022	5%	-18%
2023	0%	26%
2024	14%	25%
2025	15%	18%
2021-2025	79%	85%

Profit growth remained highly concentrated in a narrow group of sectors, particularly technology, semiconductors, and AI-enabled businesses. These sectors continued to drive a disproportionate share of overall index earnings and market performance.

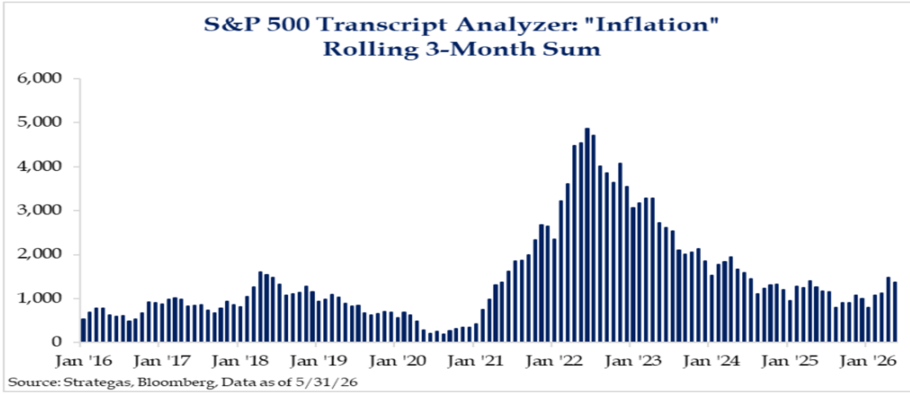
Artificial intelligence remained the dominant driver of corporate investment and profitability trends. Capital expenditures on data centers, computing capacity, and software infrastructure continued to accelerate, supporting revenue growth expectations for leading firms.



Corporate margins remained resilient despite ongoing cost pressures. Although wage growth and input costs have moderated, companies continue to show pricing power in select industries, helping offset elevated energy and supply chain costs. However, dispersion across companies and sectors remains elevated. Firms outside technology- and energy-related segments face greater pressure from higher input costs, uneven demand, and limited pricing flexibility.

Critical points for Corporate Profitability:

- Corporate earnings remained strong, with continued upward revisions across key sectors
- EPS growth (~10.6%) significantly outpaced revenue growth (~4.2%), supporting margins
- Profit growth remained highly concentrated in AI, technology, and semiconductor sectors
- AI-driven capital expenditures continued to accelerate, supporting forward earnings visibility
- Margins remained resilient despite cost pressures, supported by selective pricing power
- Dispersion widened across sectors, with non-tech industries facing greater margin pressure
- Consumer-facing sectors showed early signs of demand softness and margin compression
- Capital markets activity reaccelerated, with a strong pipeline of large-scale IPOs
- Market structure (passive flows, index concentration) continued to influence performance dynamics
- Active managers faced increasing difficulty keeping pace with concentrated market leadership



Consumer-facing industries show growing signs of margin pressure as underlying demand becomes more uneven. Higher-income consumers continue to support spending, while lower-income households are cutting back on discretionary purchases.

Capital markets activity is reaccelerating, highlighted by a wave of large-scale IPOs expected across high-growth technology sectors. These developments reflect strong investor demand but may also prompt shifts in capital allocation among equities.

IPO	SpaceX	Anthropic	OpenAI
Valuation	• $1.75t	• $965bn (Series H)	• $852bn (March raise)
Capital Raise (% company)*	• $75bn (4%) • Greenshoe ($11.25bn)	• $60-65bn est. (6.2-6.7%)	• $60bn est. (7%)
Sector	• Communications (75%) ▪ Wireless Telecom • Industrials (25%) ▪ Aerospace	• Information Technology ▪ Software	• Information Technology ▪ Software
Financials**	• Revenue: $4.7bn (Q1) • Net income: $-4.3bn	• Revenue: $47bn (+422%) • Net income: $559mn	• Revenue: +$20bn (ARR) • Net income: $-14bn
Timing	• Listing: June 12, 2026	• Confidential S-1 filed (6/1) • Listing: Expected Fall 2026	• Listing: Expected 4Q2026
Index Timeline	• Nasdaq:15-days post-IPO • MSCI: 10-days post-IPO • Russell: 5-days post-IPO • S&P Dow Jones: • Total Market: Immediate • S&P 500:12-months	• Nasdaq:15-days post-IPO • MSCI: 10-days post-IPO • Russell: 5-days post-IPO • S&P Dow Jones: • Total Market: Immediate • S&P 500:12-months	• Nasdaq:15-days post-IPO • MSCI: 10-days post-IPO • Russell: 5-days post-IPO • S&P Dow Jones: • Total Market: Immediate • S&P 500:12-months
Key Strategic Considerations	• xAI merger • Anthropic partnership • Musk control structure (85% votes)	• AMZN stake (up to 21%)*** • GOOGL stake (14-15%)	• MSFT stake (27%)*** • MSFT revenue share, 20% • $38bn before 2030

Market structure dynamics continue to shape corporate valuation and performance. Passive flows and index concentration remain key drivers, while active managers face growing difficulty keeping pace with benchmark returns.