PLAINSCAPITAL BANK

ECONOMIC HIGHLIGHTS



Economic Commentary
November 2026

By: Jerrod Dawson, CFA

Executive Summary

- **Midterm election headlines have generated volatility, but fundamentals remain more important for long-term investors.** Historical experience reinforces the importance of earnings, inflation, growth, and monetary policy rather than election outcomes alone.
- **Economic growth remains positive, but momentum is showing signs of moderating.** Manufacturing and employment continue to support expansion, while restrictive financial conditions and weakness in rate-sensitive sectors point toward potentially slower growth.
- **The labor market remains an important source of stability.** October payrolls increased by 165,000, prior months were revised higher, unemployment edged down to 4.1%, and wage growth remained positive.
- **Manufacturing continues to improve.** The ISM Manufacturing Index rose to 55.5 in October.
- **Capital spending remains a key engine of growth.** Technology, AI infrastructure, data centers, and related power investment continue to support economic activity and corporate revenues.
- **Consumer fundamentals remain supported by employment and income, but the backdrop is becoming less favorable.** Higher borrowing costs and fading policy support are creating more pressure on rate-sensitive and lower-income households.
- **Housing remains one of the clearest areas of economic weakness.** Elevated financing costs continue to constrain affordability, transactions, and construction as restrictive monetary policy works through interest-rate-sensitive sectors.
- **Federal Reserve policy remains restrictive.** Policymakers continue to balance above-target inflation against increasing evidence that higher rates are restraining housing, credit, and other rate-sensitive activity.
- **Credit conditions remain generally consistent with continued expansion.** Higher rates are creating pockets of stress, but broader credit-market indicators have not deteriorated enough to suggest an imminent recession.
- **Corporate earnings remain an important counterweight to slower economic momentum.** Approximately 58% of S&P 500 companies are generating year-over-year earnings growth of at least 10%.

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U.S. Economic Cycle Drivers:

Growth	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Citi Economic Surprise - United States	71.1	25.6	↑	↑
Bloomberg Economics US GDP Nowcast	2.7	2.8	↓	↑
Concensus USA Growth Forecast Survey	-9.7	-8.6	↓	↑

Inflation	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Citi Inflation Surprise Index - United States	0.1	-9.4	↑	↑
Bloomberg Economics US CPI Nowcast	4.0	3.4	↑	↑
Concensus USA Inflation Forecast Survey	13.0	15.0	↓	↓

Employment	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Unemployment Rate	4.1	4.1	↓	↓
Conference Board Employment Trend	108.4	107.9	↓	↑

Consumer Spending	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Johnson Redbook Retail Sales y/y	10.1	8.2	↑	↑
Adjusted Retail & Food Service Sales	6.3	5.9	↓	↑
Conference Board Consumer Confidence	91.7	90.2	↓	↓

Corporate Profitability	NTM (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
S&P 500 Est. Sales Growth Rate	9.6	1.8	↑	↑
S&P 500 Est. EPS Growth Rate	14.8	7.5	↑	↑
NFIB Small Business Optimism	97.9	99.8	↓	↓

Government Policy	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Budget/ GDP	-6.0	-5.1	↓	↓
USD Real Effective Exchange Rate	107.1	107.5	↓	↓

Central Bank Policy Rate	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
U.S. Federal Funds Rate Upper Bound	4.0	3.8	↑	→
U.S. Market Implied Policy Rate 1Y Fwd	4.7	4.1	↓	↑

Liquidity	3mo Δ (%)	12mo Δ (%)	Trend q/q	Trend y/y
U.S. Domestic Liquidity	-3.8	-4.0	↓	↓
Global Liquidity Index	-1.1	3.8	↓	↑

Data source: Bloomberg

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U.S. & Global Economic Highlights

Growth Remains Positive, but the Expansion Is Becoming More Balanced: The U.S. economy continues to expand, though the composition of growth is shifting. Manufacturing and business investment remain constructive, while housing and other interest-rate-sensitive sectors continue to absorb the effects of restrictive financial conditions. The most consistent interpretation remains that growth is slowing within an ongoing expansion rather than the beginning of a recession.

3Q Earnings Growth Supportive For Equities

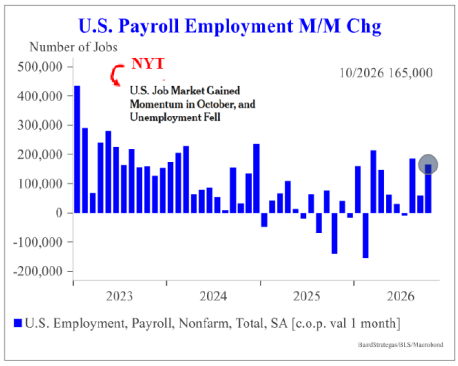
S&P 500 3rd Quarter Earnings Scorecard

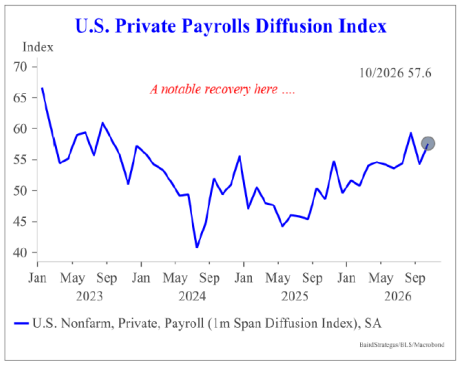
	Sales Growth (Y/Y%)			Earnings Growth (Y/Y%)			# Reported
	Apr. 1	Oct. 1	Today	Apr. 1	Oct. 1	Today	
S&P 500	7.9%	11.6%	12.5%	21.3%	30.6%	31.0%	121/500
Discretionary	5.8%	5.2%	5.4%	6.4%	3.3%	4.0%	15/47
Staples	5.2%	6.0%	6.3%	7.8%	3.2%	4.7%	7/34
Energy	-1.0%	16.4%	23.4%	18.0%	114.7%	135.7%	4/21
Financials	3.4%	5.2%	5.2%	3.5%	5.2%	6.8%	36/76
Health Care	4.2%	4.0%	4.4%	10.5%	5.1%	1.6%	8/60
Industrials	7.4%	11.2%	11.8%	16.3%	18.5%	20.2%	25/83
Materials	30.0%	9.2%	9.7%	29.8%	30.9%	32.4%	4/24
Real Estate	27.8%	10.3%	10.0%	3.7%	3.8%	4.0%	3/30
Technology	26.7%	39.5%	39.9%	44.1%	66.5%	66.9%	12/75
Communications	11.1%	12.8%	15.5%	49.9%	49.0%	37.7%	5/19
Utilities	11.2%	9.3%	7.9%	7.5%	6.0%	7.9%	2/31

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

Data as of 10/27/26

Labor Market Stability Continues to Support the Consumer: October payrolls increased by 165,000. Prior months were revised higher, unemployment edged down to 4.1%, and wage growth remained positive. These conditions continue to support household income and spending. Hiring has slowed from earlier-cycle strength, but the available evidence remains more consistent with normalization than with broad labor-market deterioration.





Manufacturing Improvement Provides an Important Counterweight: The ISM Manufacturing Index rose to 55.5 in October, reinforcing the improving trend in industrial activity. Manufacturing strength matters more as consumer momentum and housing activity have become less reliable. Equipment demand, technology infrastructure, and factory-related investment continue to provide support.

Capital Spending and AI Infrastructure Remain Central Growth Drivers: Technology investment, artificial intelligence infrastructure, data centers, semiconductor demand, and related power investment continue to support economic activity and

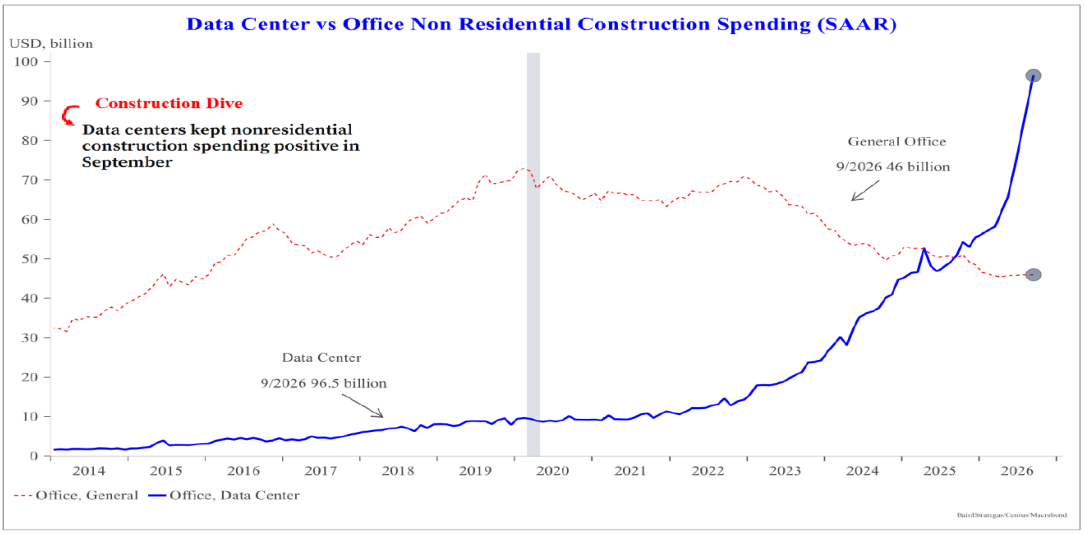
Critical points for the economy

- Expansion continues, but momentum is moderating
- Labor conditions remain supportive
- Manufacturing is improving
- AI and capital spending remain key growth engines
- AI investment durability bears watching
- Consumer strength is becoming less even
- Housing remains rate-constrained
- Inflation trends are improving gradually
- Credit markets show limited broad stress
- Global growth remains uneven
- Mid-cycle slowdown remains the base case

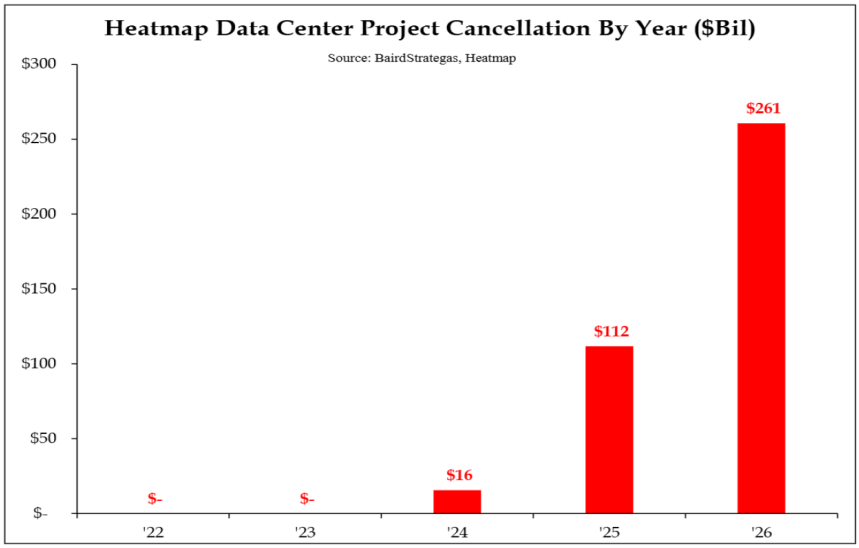
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corporate revenues. The scale of this buildout has made capital spending one of the economy's most important growth engines and helped offset weakness in traditional rate-sensitive sectors.



The Durability of the AI Investment Cycle Deserves Closer Attention: The principal risk is not that AI-related spending is weak, but that exceptionally strong investment growth becomes harder to sustain. Recent technology-market volatility and signs of data-center project delays and cancellations suggest that investors and businesses are becoming more selective. A moderation in this cycle would narrow one of the economy's most important sources of support.



Consumer and Housing Conditions Are Becoming Less Favorable: Employment and income continue to support consumer fundamentals, but higher borrowing costs and waning policy support are putting more pressure on rate-sensitive and lower-income households. Housing remains one of the clearest weak points, as elevated financing costs constrain affordability, transactions, and construction.

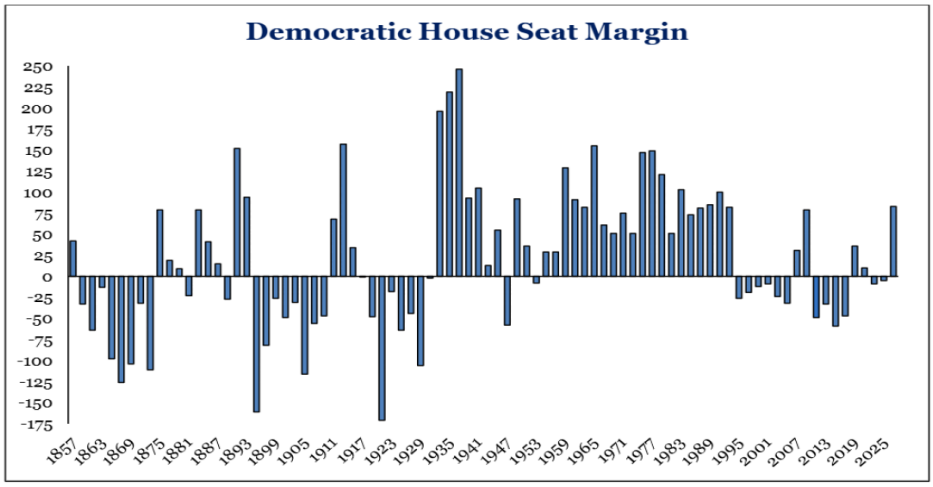
Bottom Line: The economic backdrop remains consistent with continued expansion, but growth is increasingly reliant on manufacturing, business investment, and AI-related capital spending. Labor conditions and generally contained credit stress remain supportive, while housing, uneven consumer conditions, restrictive financial policy, and questions about the durability of the AI investment cycle have narrowed the margin for error. Current evidence continues to favor a mid-cycle slowdown rather than a recession.

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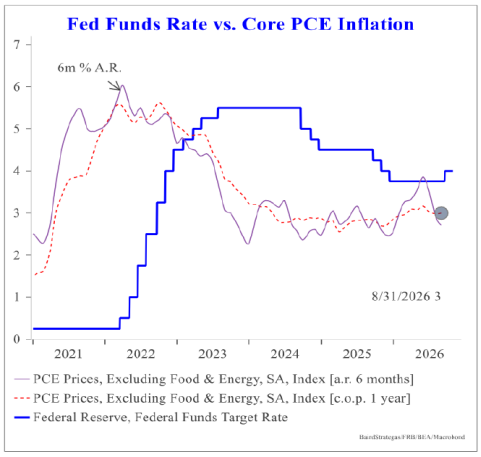
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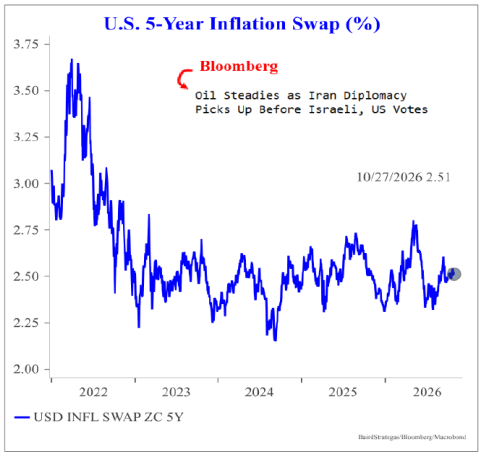
Monetary Policy & Fed Outlook Highlights

Midterm Elections Add Another Layer of Policy Uncertainty: The 2026 midterm elections delivered a Democratic sweep of both the House and the Senate, creating a divided government for the remainder of President Trump's term. Changes in congressional composition will now shape expectations for taxes, spending, deficits, regulation, and Treasury financing, all of which can affect longer-term interest rates and financial conditions. For the Federal Reserve, however, the more important drivers remain inflation, employment, and economic growth. Election-related volatility may therefore influence markets around the edges, but should not be mistaken for a change in the Fed's underlying reaction function.



Policy Is Restrictive: The Federal Reserve held rates unchanged at its October 28 meeting, with the federal funds rate at 4.00%–4.25%. However, a third consecutive month of hotter-than-expected inflation has reopened the debate over additional rate increases, with multiple officials signaling a December hike and a 50-basis-point move under active discussion. The question is no longer simply how long restrictive settings should remain in place, but whether further tightening is necessary.





The Fed Remains Data-Dependent: Resilient employment and manufacturing reduce the urgency to ease, while softer housing, consumer credit, and select financial indicators argue against an aggressive tightening path. The result is a

Critical points for policy

- Policy remains restrictive
- The Fed remains data-dependent
- Long yields reflect more than Fed policy
- Treasury supply and term premium matter
- Financial conditions are restraining demand
- Credit stress remains contained
- Gradual recalibration remains the base case

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meeting-by-meeting approach in which inflation, labor conditions, and financial stability carry greater weight than predetermined guidance.

Inflation Keeps Near-Term Easing Off the Table: October CPI rose 0.4% month-over-month on a headline basis and 0.3% on a core basis — hotter than expected for the third consecutive month. Services inflation, energy costs, and trade-related uncertainty continue to complicate the outlook. NY Fed survey data show that 1-year inflation expectations remain elevated at 3.9%. Policymakers will likely need sustained evidence of improvement before materially easing restraint.





Long-Term Yields Reflect More Than the Fed: Longer-term Treasury yields are being shaped by resilient nominal growth, inflation uncertainty, the term premium, and substantial government financing needs, with the 10-year yield at about 5.0% after early November's CPI-driven selloff. As a result, long yields may remain elevated even if the Federal Reserve eventually stabilizes or reduces the policy rate.

Bottom Line: The Federal Reserve is navigating a more complex phase of the tightening cycle than previously anticipated. A third consecutive month of inflation above forecast has reopened the question of additional rate increases, with a December hike now widely expected. Labor conditions and resilient growth limit the case for rapid easing, while the Democratic sweep of Congress introduces a new fiscal and political backdrop. The most likely path is continued restrictive policy, with long-term borrowing costs remaining influenced by Treasury supply, fiscal conditions, and the term premium as much as by the federal funds rate.

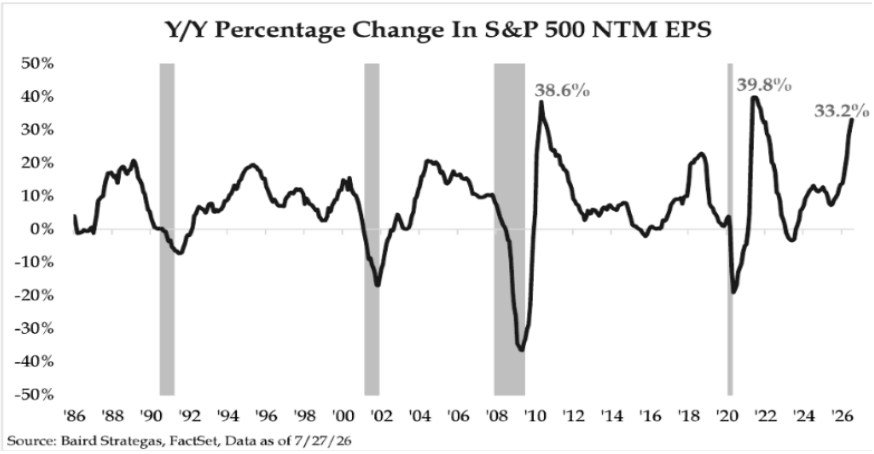
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Corporate Profitability Highlights

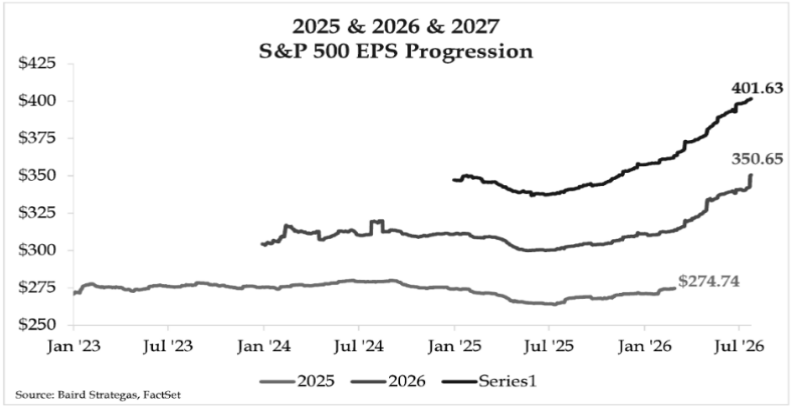
Earnings Growth Remains Broad: Corporate profitability continues to provide a meaningful counterweight to slower economic momentum. With about 88% of S&P 500 companies reporting, aggregate year-over-year earnings growth is running at about 26%, modestly below the 27% consensus estimate entering the season. The breadth of improvement suggests that the earnings backdrop is healthier than a narrow focus on a few large technology companies would imply.

NTM EPS GROWTH IS 3rd HIGHEST ON RECORD



Profit Strength Extends Beyond Mega-Cap Technology: Technology remains an important earnings driver, but profit participation has broadened across the index, with beats across hardware and semiconductors, software, health care, utilities, and industrials. This diversification is constructive because it reduces reliance on a small number of companies and provides a firmer fundamental base during periods of technology-market volatility.

2026 FULL-YEAR EARNINGS GROWTH EXPECATIONS NOW SIT AT ROUGHLY 27.7%, 2027 AT 14.5%



Margins Remain Historically Strong: Healthy pricing, productivity, operating discipline, and a mix of earnings toward higher-margin businesses continue to support corporate margins. Elevated financing, energy, labor, and trade-related

Critical points for Corporate Profitability:

- Earnings growth remains broad
- Profit growth extends beyond mega-cap technology
- Margins remain historically strong
- AI investment supports revenues and productivity
- Capital-spending returns are under greater scrutiny
- Credit conditions remain broadly constructive
- Valuations raise the hurdle for further gains
- Profitability remains a key economic support

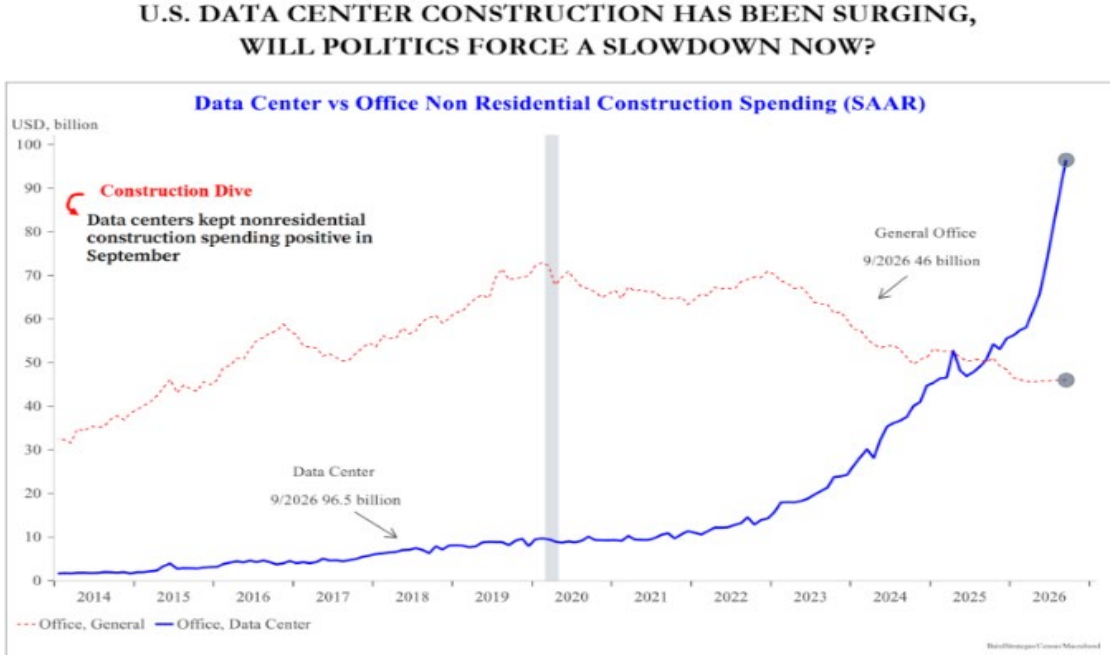
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costs remain risks, but current profitability does not yet signal broad margin compression.



AI Infrastructure Continues to Support Corporate Activity: Data-center construction spending has surged well above that of traditional office construction — surpassing it for the first time at the end of 2025 — supporting revenues across semiconductors, utilities, electrical equipment, industrial construction, cloud infrastructure, and financing. This breadth of spending helps explain why the AI investment cycle is influencing activity well beyond the technology sector.



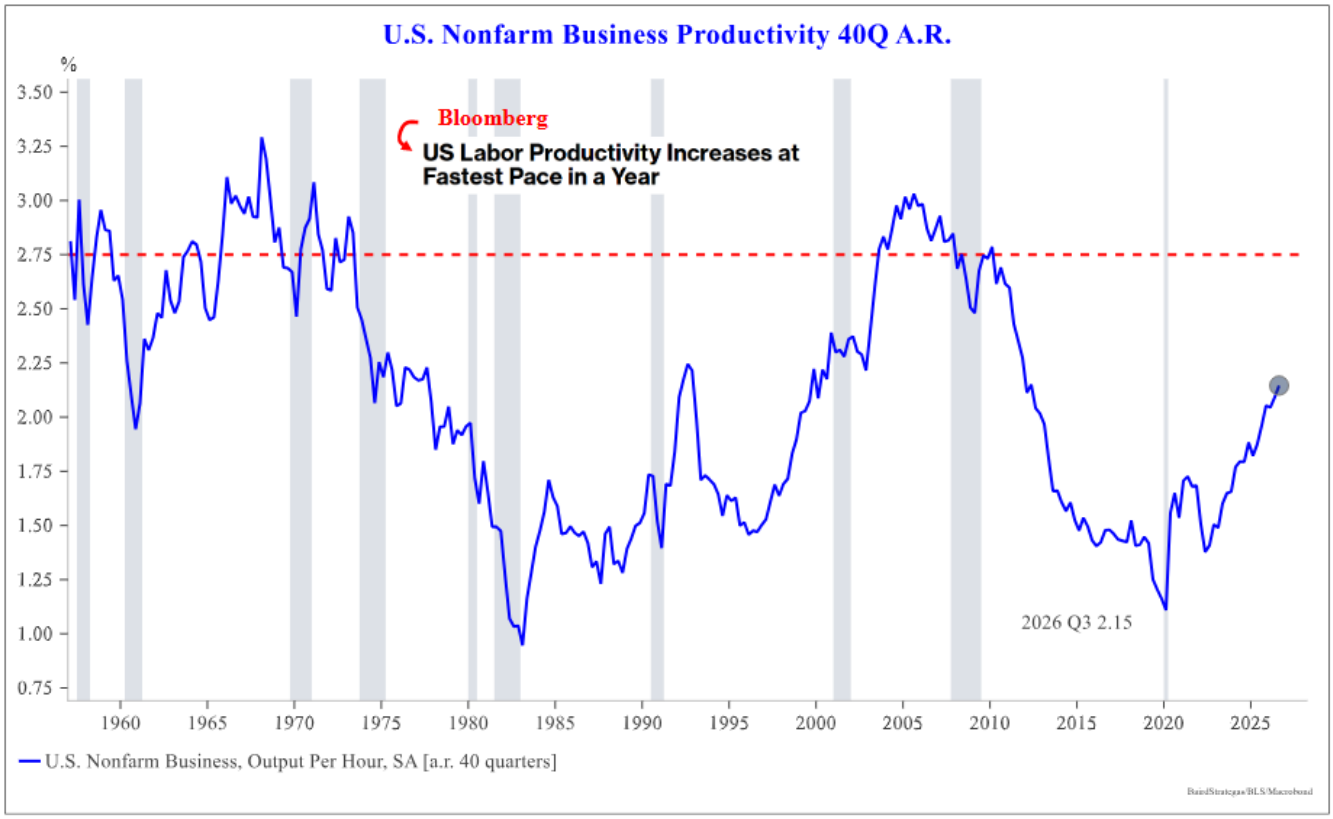
The Productivity Payoff Is Emerging, but More Investment May Be Needed: Nonfarm business productivity accelerated to a 3.6% annualized rate in the third quarter — the fastest pace in a year — suggesting that capital spending is beginning to translate into measurable efficiency gains. The recent improvement supports the case that technology investment is yielding real economic benefits. Sustaining that trend will require continued deployment, adoption, and monetization, not capital spending alone.

Valuations Leave Less Room for Disappointment: Strong earnings support equities, but elevated valuations raise the hurdle for further gains. The S&P 500's trailing P/E of 25.6x is above its five-year average of 23.9x, and price-to-book and price-to-sales ratios are near five-year highs. Market reaction to earnings beats has been notably muted. This environment favors selectivity over assuming broad multiple expansion.

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FURTHER AI INVESTMENT IS LIKELY NEEDED TO KEEP THE TREND IN PRODUCTIVITY RISING TOWARD PRIOR BOOM LEVELS



Bottom Line: Corporate profitability remains a strong support for the economic and market outlook. Earnings growth is broad, at about 26% year-over-year, margins remain healthy, and AI-related capital spending continues to lift revenues and investment. However, elevated valuations and the scale of technology capital commitments have raised the bar for future results. The outlook remains constructive, but future market gains will likely depend more on realized earnings and cash-flow returns than on further valuation expansion.

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