

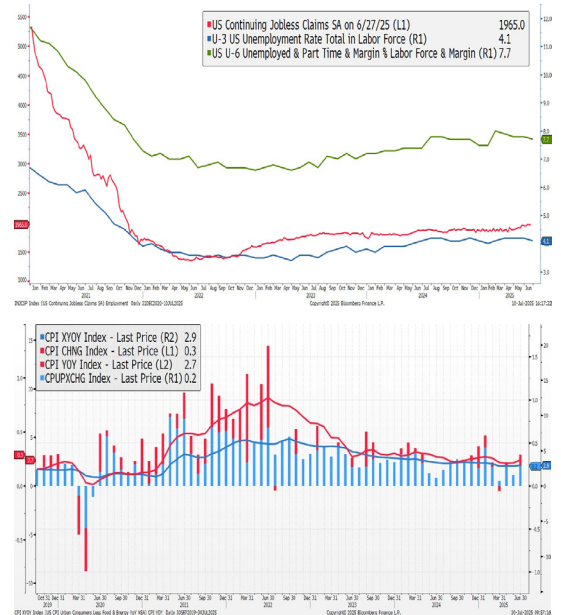
BOND MARKET UPDATE

As of 06/30/25 | Volume 14, Issue 2 | FFTAM.com

In the 2nd Quarter of 2025, total returns for both taxable and tax-free investments were positive. For taxable portfolios, the Barclays Aggregate generated a total return of 1.21% for the quarter, YTD total return is 4.02%. For tax-free portfolios, the Barclays 1-10yr Muni generated a total return of 1.04% for the quarter, YTD total return is 1.75%. The economy continues to show its resiliency and inflation continues to dis-inflate (at a slower pace). Tariff uncertainty reigned in the 2nd Quarter as President Trump unleashed "Liberation Day" tariffs far above anyone's expectations, only to be forced by the markets to back off to a more manageable 10% across the board tariff level.

Economy

GDP in the 1st Quarter of 2025 came in with a final Q/Q reading of -0.5%. GDP Q/Q projections for the 2nd Quarter of 2025 sit at 2.1%. The front running of tariffs is causing distortions in the GDP calculation. Based on the current forecast for Q2, the first half of the year is estimated to grow at 0.80%. GDP Y/Y projections for 2025 have been revised lower again to 1.5%, from previous estimates of 2.1% at the beginning of the year and 1.8% at the end of Q1. US Unemployment and US Continuing Jobless Claims have elevated slightly over the past several years as job growth shows signs of stabilization at lower levels. The unemployment rate is 4.1% (low from a historical perspective), but up from a low of 3.4% in early 2023. Continuing Claims have started a modest uptrend again, indicating that jobs have become harder to find as more individuals have been unsuccessful in finding new employment. Inflation has drifted lower over the past two years but has recently stalled. Expectations that tariffs will bleed into the CPI have not been forthcoming, although we are still early in the process.



ABILENE

400 Pine Street
Suite 300
Abilene, TX 79601
325-627-7100

BEAUMONT

3515 Dowlen Road
Beaumont, TX 77706
409-600-6460

BRYAN/COLLEGE STATION

1716 Briarcrest Dr
Suite 400
Bryan, TX 77802
979-260-2134



ODESSA

3555 Billy Hext Rd
Odessa, TX 79765
432-367-8912

SAN ANGELO

222 S. Koenigheim St
San Angelo, TX 76903
325-659-5987

FORT WORTH

1000 Forest Park Blvd
Suite 200
Fort Worth, TX 76110
682-703-6404

HOUSTON

24080 Hwy 59 N
Kingwood, TX 77339
281-318-4625

Not a Deposit | Not FDIC Insured | Not Insured by Any Federal Government
Agency | Not Guaranteed by The Bank | May Lose Value

STEPHENVILLE

2201 W. South Loop
Stephenville, TX 76401
254-918-6262

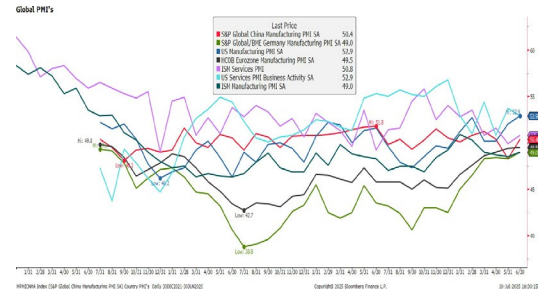
SWEETWATER

201 Elm Street
Sweetwater, TX 79556
325-235-6644

BOND MARKET UPDATE

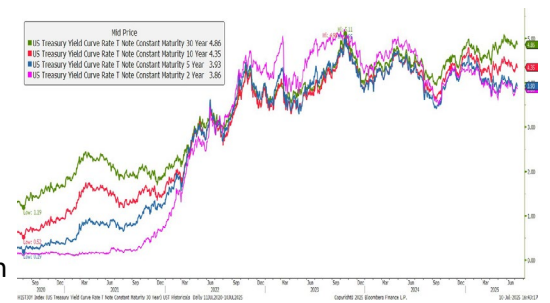
As of 09/30/25 | Volume 14, Issue 3 | FFTAM.com

Manufacturing (30% of the US economy) continues to be in the doldrums. Recently, ISM Manufacturing has had some prints slightly in expansion territory but overall continues to be a drag on the economy. Restrictive interest rate policy continues to weigh heavily on this segment of the economy. At some point, Manufacturing will find a new base at these lower levels and has the potential to be a contributor to GDP growth going forward. The Services ISM (70% of the US economy) is still expanding (reading above 50), but is showing signs of weakness.



Rates

Taxable - YTD for 2025, 2yr, 5yr, and 10yr U.S. risk free rates (nominal) are down approximately 52bps, 58bps, and 34bps, respectively. The UST yield curve is now mostly upward sloping, unfortunately, below the current cash rate. The 10yr to 2yr UST spread currently resides at a positive 51bps. Real rates have risen substantially since 2022. Currently, 10yr TIPS are pricing at 1.98%. This rate has remained elevated for the past several years and shows that monetary policy is still somewhat restrictive. In tandem, mortgage rates have been volatile. 30yr mortgage rates currently sit at 6.95%, and have been range bound between 6.50% and 7% for most of the year.



Tax-Free - YTD for 2025, 2yr, 10yr, and 20yr AAA tax-free rates are mixed, approximately -21bps, +8bps, and +53bps, respectively. The tax-free yield curve is nicely upward sloping. The 20yr to 2yr UST spread currently resides at a positive 155bps. Tax-free rates are at the highest levels over the past 10 years. It is our view that the 15yr to 20yr part of the curve is extremely attractive. **This is a great time to lock in tax-free income for an extended period of time! Fill this bucket now!**



The Fed

The Fed had two meetings in the 2nd Quarter, May and June. At both meetings, the Fed elected to do nothing, keeping the cash rate at a range of 4.25% to 4.50%. At the June press conference, the Fed communicated that policy is in a good place and, in their view, still slightly restrictive. The Fed acknowledged the effects of tariffs on CPI have been minimal so far, but will need to see more data before any decision on future policy can be made. One thing is clear, the Fed will not be raising rates anytime soon. Cash rates will stay the same or move lower in the future based on how inflation readings and the employment data play out.

ABILENE

400 Pine Street
Suite 300
Abilene, TX 79601
325-627-7100

BEAUMONT

3515 Dowlen Road
Beaumont, TX 77706
409-600-6460

BRYAN/COLLEGE STATION

1716 Briarcrest Dr
Suite 400
Bryan, TX 77802
979-260-2134



ODESSA

3555 Billy Hext Rd
Odessa, TX 79765
432-367-8912

SAN ANGELO

222 S. Koenigheim St
San Angelo, TX 76903
325-659-5987

FORT WORTH

1000 Forest Park Blvd
Suite 200
Fort Worth, TX 76110
682-703-6404

HOUSTON

24080 Hwy 59 N
Kingwood, TX 77339
281-318-4625

Not a Deposit | Not FDIC Insured | Not Insured by Any Federal Government
Agency | Not Guaranteed by The Bank | May Lose Value

STEPHENVILLE

2201 W. South Loop
Stephenville, TX 76401
254-918-6262

SWEETWATER

201 Elm Street
Sweetwater, TX 79556
325-235-6644

BOND MARKET UPDATE

As of 09/30/25 | Volume 14, Issue 3 | FFTAM.com

Credit

Credit risk was positive versus risk free in the 2nd Quarter of 2025. Spreads were tighter for both Investment Grade (IG) and High Yield (HY). For the quarter, IG spreads tightened by roughly 11bps and HY spreads tightened by roughly 57bps. YTD, IG spreads are flat and HY spreads are 8bps tighter as of this writing. Risk premiums early in the quarter expanded significantly (as seen in the graph) only to fully reverse as President Trump reversed course from "Liberation Day" tariffs.



Looking Forward

The economy continues to remain resilient, however, there is no doubt the non Artificial Intelligence (AI) economy is slowing. The Fed continues to be in a wait and see mode due to the uncertainty pertaining to the inflationary effects of tariffs. This debate is starting to take center stage within the Fed as more members are suggesting the effects are transitory. It is also interesting that Powell communicated that if the tariffs were not in place, the Fed would be lowering interest rates as they feel the current rate is still slightly restrictive. With that being said, tariffs are in place and these next few months will be important as inflationary data (the CPI) will take center stage. If July and August prints are reasonable, it is very likely the Fed will cut in September. In addition, we have started to see several individuals start to jockey for the new Fed Chairmanship as Powell's term will end in May of 2026. There is no doubt in my mind that the new Chair will have to commit to an easier monetary policy stance to get the nomination. There is a high probability over the next year and a half that the cash rate will be 100bps lower at a minimum. Use this time to lock in rates. We continue to be void of High Yield, and continue to build up our US Treasury and Agency MBS/CMBS exposure in lieu of the excellent credit performance over the past several years. Forward returns continue to look attractive. As always, we run a high-quality portfolio that looks to take advantage of opportunities as they present themselves. We have been active in seeking those opportunities and feel good about the changes that have been made.

ABILENE

400 Pine Street
Suite 300
Abilene, TX 79601
325-627-7100

BEAUMONT

3515 Dowlen Road
Beaumont, TX 77706
409-600-6460

BRYAN/COLLEGE STATION

1716 Briarcrest Dr
Suite 400
Bryan, TX 77802
979-260-2134



ODESSA

3555 Billy Hext Rd
Odessa, TX 79765
432-367-8912

SAN ANGELO

222 S. Koenigheim St San
Angelo, TX 76903
325-659-5987

FORT WORTH

1000 Forest Park Blvd
Suite 200
Fort Worth, TX 76110
682-703-6404

HOUSTON

24080 Hwy 59 N
Kingwood, TX 77339
281-318-4625

Not a Deposit | Not FDIC Insured | Not Insured by Any Federal Government
Agency | Not Guaranteed by The Bank | May Lose Value

STEPHENVILLE

2201 W. South Loop
Stephenville, TX 76401
254-918-6262

SWEETWATER

201 Elm Street
Sweetwater, TX 79556
325-235-6644