BOND MARKET UPDATE

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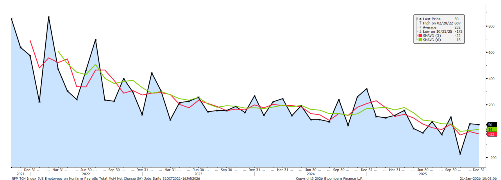
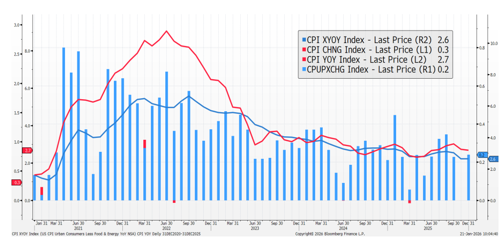
In the 4th Quarter of 2025, total returns for both taxable and tax-free investments were positive. For taxable portfolios, the Barclays Aggregate generated a total return of 1.10% for the quarter, YTD total return is 7.30%. For tax-free portfolios, the Barclays 1-10yr Muni generated a total return of 0.98% for the quarter, YTD total return is 5.14%. The economy continues to show its resilience, inflation continues to be on a sideways pattern (slightly above the Fed's target), and the lack of job growth continues to garner greater attention from the Fed.

Economy

GDP in the 3rd Quarter of 2025 came in with a final Q/Q reading of 4.3%. GDP Q/Q projections for the 4th Quarter of 2025 vary widely, with a range of 1% to 2.9% (the government shutdown has impacted forecasting). AI capex continues to dominate as a contributor to GDP. Consumer spending in the 3rd Quarter came in at 3.5%, much better than expected. Consumer spending in the 4th Quarter is projected to slow to 1.2%. GDP Y/Y projections for 2026 are at 2.1% (most likely to be revised higher). US Unemployment and US Continuing Jobless Claims have elevated slightly in 2025 as job growth continues to remain tempered. The unemployment rate is now 4.4% (low from a historical perspective), but up from a low of 3.4% in early 2023. Inflation has drifted lower over the past several years but has stalled in 2025. Inflation expectations for 2026 are for the continuation of this sideways pattern with the possibility of modest improvement. Tariffs continue to slowly bleed into the CPI, however, much less than originally anticipated. There is hope that if no new tariffs are implemented, goods inflation could peak early in 2026.





FIRST FINANCIAL TRUST LOCATIONS

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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

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

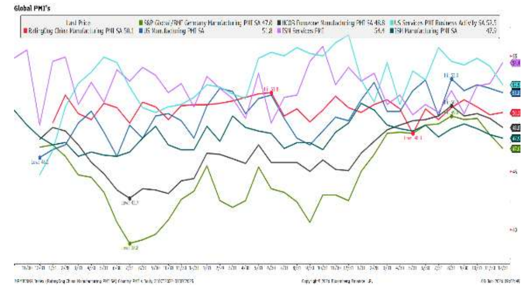
HOUSTON
24080 Hwy 59 N
Kingwood, TX 77339
281-318-4625

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

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

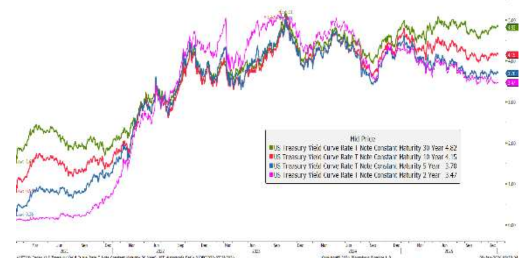
STEPHENVILLE
2201 W. South Loop
Stephenville, TX 76401
254-918-6262

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

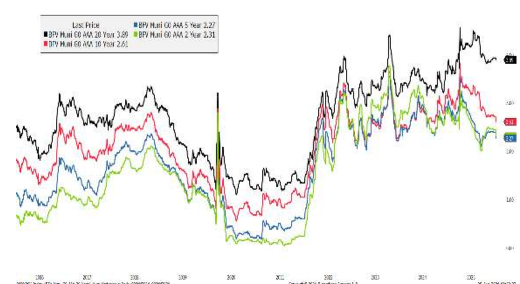


Manufacturing (30% of the US economy) continues to be in the doldrums. ISM Manufacturing early in the year had some prints slightly in expansion territory but quickly regressed and continues to be a drag on the economy. Less restrictive interest rate policy has yet to help this segment of the economy. At some point, Manufacturing 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) and has reaccelerated in the 4th Quarter.

Rates



Taxable - YTD for 2025, 2yr, 5yr, and 10yr U.S. risk free rates (nominal) are down approximately 77bps, 66bps, and 40bps, respectively. The UST yield curve is now mostly upward sloping as the Fed has been active in lowering the cash rate. The 10yr to 2yr UST spread currently resides at a positive 70bps. 10yr TIPS are priced at 1.88%. This rate has remained elevated for the past several years and shows that monetary policy is still somewhat restrictive. 30yr mortgage rates have moved down slightly and sit at 6.42%.



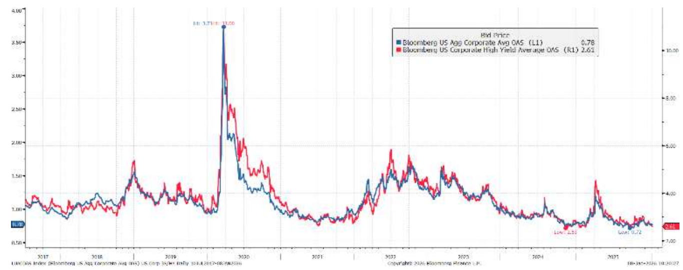
Tax-Free - YTD for 2025, 2yr, 10yr, and 20yr AAA tax-free rates are mixed, approximately -38bps, -40bps, and +30bps, respectively. The tax-free yield curve is nicely upward sloping, encouraging longer duration positioning. The 20yr to 2yr AAA tax-free spread currently resides at a positive 150bps. Tax-free rates on the longer part of the curve continue to be attractive. **Currently, it is possible to buy excellent credits and get 6.25% Tax Equivalent Yields. It is highly recommended to lock in these rates now while this opportunity exists.**

The Fed

The Fed had two meetings in the 4th Quarter, October and December. At both meetings the Fed cut the cash rate by 25bps, taking the cash rate to a range of 3.50% to 3.75%. At the December press conference, the Fed communicated that inflation continues to remain above the Fed's 2% target, however, the continued weakness in the job market still outweighs the slightly above target inflation conditions. Powell did communicate that according to their models, there is the possibility that tariff related inflation peaks early in 2026 if no new tariffs are implemented. Powell also communicated that current interest rate policy is now at the upper end of what Fed members believe is a neutral policy interest rate. This is an important shift in communication. It implies that the January meeting will not be in play, however, it is our view that March will be a live meeting for a cut if conditions stay status quo.

Credit

Credit risk was slightly positive versus risk free in the 4th Quarter of 2025. For the quarter, IG spreads widened by roughly 4bps and HY spreads tightened by roughly 1bp. YTD, IG spreads are 2bps tighter and HY spreads are 21bps tighter. Risk premiums have reversed all the widening that happened early in the 2nd Quarter. Spreads for both IG and HY are at decade tights.



Looking Forward

The economy continues to remain resilient and the uptick in consumer spending is encouraging. AI capex has been a major contributor to growth and expectations for 2026 remain healthy. The Fed continued to ease monetary policy and is now at the top end of its range of what it views as a neutral policy rate. Views of what is a neutral policy stance vary, but center somewhere between 2.50% and 3.50%. Due to the government shutdown, we don't think any change in policy will happen at the January FOMC meeting. However, if job growth continues to be lackluster, the March FOMC meeting will be a live meeting with a good probability of a 25bps cut. At some point in the 1Q of 2026, President Trump will announce his pick for Fed Chair. That Fed Chair will most likely have to commit to slightly easier monetary policy. At a minimum, we think there is a very high probability that the cash rate will reach the 2.875% midpoint rate sometime in 2026. This rate also just happens to be the midpoint of neutral by FOMC members. 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. We still think credit will perform well in 2026, but excess returns will be muted due to credit spreads at historically tight levels. 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.