Texas Capital

2025

A LOOK AHEAD

A MESSAGE FROM OUR PRESIDENT & CEO

ROB C. HOLMES

For the past four years, our team steadily pursued the strategy we laid out in 2021, positioning Texas Capital to serve the best clients in all our markets. Today, our firm offers a wide range of differentiated products and services comparable in scope and superior in client experience to the largest Wall Street banks. High-touch service from our dedicated bankers — who are located near our clients and deeply invested in their success — is a combination without peer in Texas. We have built our firm to be a relevant, trusted partner, focused on delivering solutions for and through our clients' corporate and personal lifecycles — and ensuring our clients will never outgrow our ability to support them. Our strategy reflects our conviction that Texas deserves a full-service, Texas-based financial services firm — and our unbounded confidence in the future of Texas.

TEXAS CAPITAL TODAY

The heart of our platform is our people. Texas Capital has twice as many client-facing professionals — many of them long-experienced bankers with tremendous industry knowledge — as we had four years ago. We are the employer of choice for top-tier bankers in Texas and across the country, with attrition below industry averages and strong employee engagement, based on annual surveys. We have invested aggressively to build an agile, cloud-native technology platform enabling us to onboard clients faster and more efficiently than the largest firms in the nation.

We continue to invest in our treasury services operation and now offer our clients an industry-leading suite of cash management and payments solutions, including our new corporate card program launched last year. For smaller businesses, significant improvements to our SBA lending platform expanded the options we offer to address our clients' capital needs. For larger firms, our investment bank now offers a full range of foreign exchange solutions; a loan syndications team that ranks in the top 10 for U.S. middle market syndicated loan transactions; a sales and trading team that completed more than $100 billion in total trading activity for the year; a new public finance team to serve Texas city, state and county governments, school districts and other tax-exempt organizations; and our new equity research capability, focused initially on the energy sector and aiming to become the dominant sell-side research platform in our state. We recently earned the Energy Transaction of the Year award from *D CEO* for acting as sole manager for a $1.2 billion term loan for HighPeak Energy, a Fort Worth-based publicly traded energy company.

We have built our client-facing teams across nine industry verticals, each with deep sector expertise to ensure we can address the specific needs of each of our clients. Our bankers are also serving clients in far more integrated ways than our firm did four years ago — a symbiosis across all product lines.

This year, we will deliver an enhanced client experience for our private wealth clients with the launch of our Private Bank, previously known as Private Wealth Advisors. This evolution in our wealth management capabilities brings our clients expanded advisory services, a bespoke online banking and investing platform, access to institutional equity research and the same team-based approach to address our clients' unique needs.

We remain committed to maintaining the strongest possible balance sheet so we can support our clients through any market environment. Our firm today has the second-highest ratio of tangible common equity to tangible assets of any U.S. bank with assets over $200 billion.

As we have often said, our firm is defined by our clients. We are proud to report that the broad-ranging capabilities of our operating platform are evident in how the state's best clients are engaging with Texas Capital. Our treasury services business has grown twice as fast as the industry as a whole over the past six quarters. Our conversations about possible mergers and acquisitions for our clients are increasing week by week. In 2024, more than 90% of our new clients chose Texas Capital for multiproduct relationships beyond bank debt.

PREPARING FOR A YEAR OF CHALLENGE AND OPPORTUNITY

A new administration in Washington: The incoming administration will very likely initiate large changes in America's trade and regulatory policies. It is too early to tell whether the President-elect's promise of higher tariffs on imported goods will turn out to be a negotiating tactic to pry open foreign markets for U.S. exporters, or a permanent shift to higher trade barriers. Either way, we believe long-term trends toward more nationalistic industrial policies around the world and a less integrated global economy are likely to intensify over the next four years. Based on the President-elect's first-term actions, and the Supreme Court's overturning of the Chevron doctrine last year, the new administration will also likely reverse some of the regulations businesses have faced over the past four years.

Mixed signals on the economy: The U.S. economy continued to perform relatively well throughout 2024, despite softness in interest rate-sensitive sectors. Consumer spending on restaurant meals, travel and entertainment remains strong. Fiscal policy will almost surely remain stimulative throughout 2025, as funds appropriated for infrastructure and domestic semiconductor manufacturing capacity continue to flow through the economy. Texas CEOs believe the economic outlook for the United States has improved over the past year, with 53% expressing a positive outlook for 2025 compared

with 26% seeing a more negative outlook, based on a survey of more than 750 companies we conducted in October in partnership with The Business Journals. The main wild card is whether trade policy moves by the U.S. and others result in retaliatory actions that undermine business confidence.

Inflation, interest rates and the Federal Reserve: Inflation remained more stubborn during 2024 than Fed decision-makers and most commentators expected. Housing prices, labor costs and higher import barriers will put ongoing upward pressure on inflation in the near term. Further out, America's rising national debt and slow growth in the working-age population may lead people to adjust their long-term inflation expectations upward. This means we could perhaps expect higher inflation rates — possibly closer to 3%, rather than the Fed's target of 2% in the mid-term. As of year-end 2024, market pricing implies the Fed will lower the Fed funds rate from its current range of 4.25%–4.50% by one to two 25-basis-point cuts during 2025. Investors have become significantly less bullish on rate cuts since the election, with Fed funds futures now implying that the Fed funds rate will bottom out just below 4% in 2026 — higher than Fed decision-makers predicted in their December press release. If investors continue to revise their expectations for the future path of interest rates upward, financial markets could face negative surprises in 2025. At the same time, falling interest rates are already producing signs of recovery in the commercial real estate industry. Declining rates will also force companies to rethink how to maximize yields on their cash holdings.

Will policymakers address the national debt? Federal interest payments now exceed America's spending on national defense — historically a harbinger of disarray and decline for great powers of the past. Exploding federal spending on interest and entitlement programs is already crowding out federal investment in science and technology as well as national security, and it could increasingly crowd out private-sector investment and business formation if policymakers fail to reverse it. Neither the President-elect, nor leaders of the incoming Congress from either party, have indicated that they will heavily prioritize slowing the growth rate of federal spending in 2025 — other than the 4% of spending that goes to non-defense federal personnel costs.

A historic tax debate about to start: The scheduled expiration of most provisions of the 2017 Tax Cut and Jobs Act (TCJA) at the end of 2025 ensures that, in the coming months, Congress and the new administration will face a consequential debate over federal tax policy. Republicans in Congress want to renew most TCJA provisions. However, the power of Senate Democrats to block tax legislation through Senate filibuster rules means Republicans will likely have to pass their preferred plan through the budget reconciliation process, forcing them to make hard choices among their priorities. The Vice President-elect's proposal to increase the child tax credit to help working-class families, for example, may require offsetting measures to increase tax revenues. Republicans may also introduce new measures to disincentivize business investments abroad. We will watch this space very closely.

The challenge and opportunity of immigration reform: The election result leaves no doubt that the American people demand stricter border enforcement. The President-elect's plans to step up enforcement and increase deportation of undocumented immigrants will create considerable political tension in 2025 and may lead to or exacerbate labor shortages. At the same time, the President-elect says he believes in welcoming enterprising immigrants to the United States, legally — this suggests the possibility that he might support pro-growth immigration reform legislation.

A growing demographic whirlwind: Very slow growth in the working-age population, potentially reinforced by greater immigration restrictions, ensures that U.S. businesses will face severe labor shortages in the years and decades ahead. Employers will face growing pressure to compete effectively for talent and to automate business processes through AI, robotics and other technologies.

AI goes mainstream: We expect to see mass adoption of AI-powered technologies by businesses around the world in 2025. Companies that do not have well-designed, high-quality data capabilities will quickly hit a wall with AI rollouts. Those best prepared will widen their competitive advantages over everyone else.

Geopolitical shocks ahead? U.S. allies, including adversaries like China, Russia, Iran and North Korea, will be watching intently to see how the President-elect handles the ongoing wars in Ukraine and the Middle East — and how much commitment he demonstrates to our NATO allies, Israel and Taiwan. Businesses should be prepared for a wide range of international surprises and accompanying volatility in foreign exchange rates. Geopolitical stresses — plus ongoing lackluster performance of the European and Chinese economies — mean it will remain a good time to do business in the U.S. compared to almost all other regions and countries.

Our state's fundamentals remain strong.

The Texas Miracle, alive and well: The migration of great companies and talented people to Texas from less business growth-friendly states continues to be robust and almost entirely one-way. Our state's fundamentals remain strong. We have the fastest pace of business formation of any state, the busiest ports and goods-moving infrastructure and the most New York Stock Exchange-listed companies and Tier 1 universities. Texas is rapidly adding finance-sector jobs while New York loses them, making the rise of "Y'all Street" (a term we coined in connection with the launch of our sales and trading floor, coincidentally) a growing reality, not just a slogan. Texas businesses continue to be far more bullish on Texas than on the national economy. Our survey of Texas CEOs shows that almost 80% have a positive outlook on the Texas economy for 2025, while just 8% have a negative outlook, an even stronger result than last year. The greatest threat to the Texas Miracle is our worsening home affordability challenge, which should be a top-tier priority for the upcoming legislative session and for cities across the state. Still, we believe there is no better place in the world to build a business, own a home or raise a family than Texas.

As always, I am grateful for the trust you place in Texas Capital and grateful to our colleagues for their steadfast determination to earn your trust every day. Our firm is prepared to serve and support our clients through any economic or geopolitical challenge that the new year presents. We hope Texas Capital will be your first call.

With my best wishes for your success in 2025,

Rob C. Holmes

President & Chief Executive Officer
Texas Capital Bancshares, Inc. and Texas Capital

Texas Capital

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