Private Wealth *perspectives*

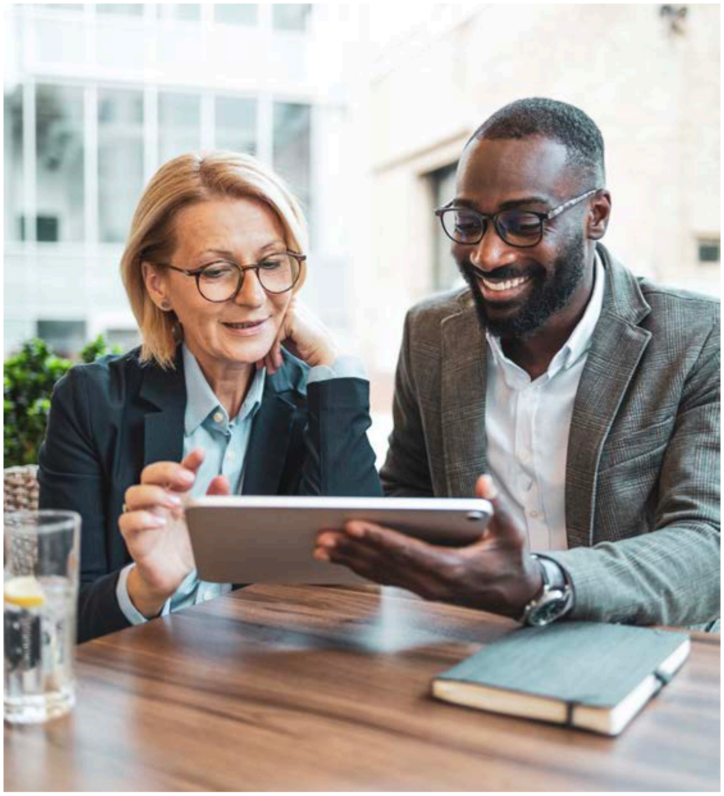
INVESTMENT MANAGEMENT • FINANCIAL AND ESTATE PLANNING • PRIVATE BANKING • FIDUCIARY ADMINISTRATION • RETIREMENT PLAN SERVICES

WELCOME TO THE MID-YEAR EDITION OF PRIVATE WEALTH PERSPECTIVES

As we reach the midpoint of the year, it's an ideal time to pause, reflect, and recalibrate. In this edition, we're bringing you timely insights and strategic guidance to help you navigate the evolving financial landscape with confidence and clarity.

We begin with a look at the often-overlooked topic of **Managing Bonuses within Qualified Retirement Plans.** Learn how to optimize these earnings for tax efficiency and long-term growth, while staying compliant with plan rules and regulations.

For those with more complex financial pictures, we address the challenge of **Managing Liquidity and Securities Based Lending for High Net Worth Individuals.** From balancing investment opportunities to meeting near-term obligations, we'll share strategies to maintain flexibility without compromising growth.



Don't miss our **Mid-Year Economic and Market Outlook.** With policy changes, global uncertainties, and evolving market dynamics, our analysis will help you make informed decisions for the second half of the year.

Finally we dive into Estate Planning, a foundational element of long-term wealth preservation. Whether you're just starting or revisiting your plan, we'll explore key considerations to ensure your legacy is protected and aligned with your goals.

If you have any questions or would like personalized guidance, don't hesitate to reach out to your **First Merchants Advisor** as they are uniquely qualified and positioned to help you achieve a secure financial future.

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HOW TO ADMINISTER BONUSES IN AN EMPLOYER-SPONSORED RETIREMENT PLAN

Who doesn't like getting a bonus? It's safe to say—the bigger, the better. But when it comes to how bonus compensation is treated within an employer-sponsored retirement plan, it's important to understand your requirements when applying employee deferral rates.

Most plan documents define 401(k) compensation as amounts reportable on Form W-2, which typically includes bonuses. At some point during the plan setup, these specifics were chosen by the Plan Sponsor along with eligibility, entry dates, and vesting to name a few.

To be fair, it may have been years since the plan was established, and the number of details can be overwhelming. If there's been staff turnover, important information might not have been passed along. Still, it's vital that the plan is administered according to its terms—doing otherwise could jeopardize the plan's qualified status and lead to costly penalties and corrections.

Let's break it down:

If bonuses are excluded from eligible compensation, they may not be deferred upon. Do not defer—ever.

If bonuses are included in eligible compensation, you'll need to determine how deferrals should be handled. Typically, one of two approaches will apply:

1. Bonuses are treated the same as regular wages: No flexibility here. If an employee is deferring 3% pretax, then 3% pretax must be taken from their bonus. Employer matching may also apply. Remember: consistency is required across regular pay and bonuses.

2. Bonuses may be treated differently than regular wages: Here, there's flexibility. For example, an employee might defer 3% pretax on regular wages and 6% on bonuses—or none at all. Bonuses are often considered "irregular pay," and many enrollment forms or participant websites allow employees to make this distinction. If no distinction is made, the standard deferral rate applies to both. Documentation is key.

We've seen a rise in administrative missteps around this issue. "I didn't know" is a common refrain. If your current plan structure doesn't align with your goals or procedures, consider amending it to help avoid compliance headaches down the road.

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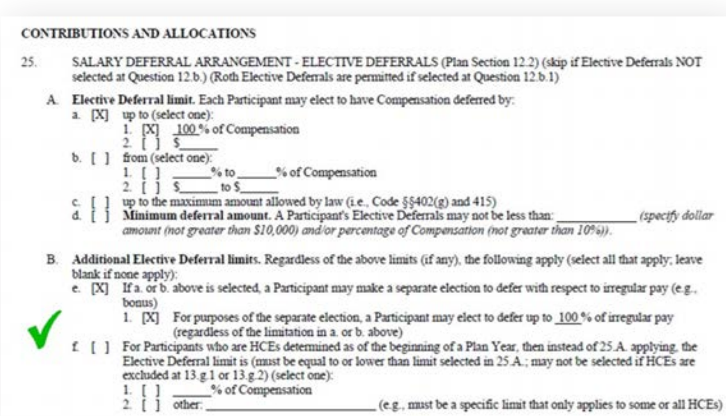

CONTRIBUTIONS AND ALLOCATIONS

25. SALARY DEFERRAL ARRANGEMENT - ELECTIVE DEFERRALS (Plan Section 12.2) (skip if Elective Deferrals NOT selected at Question 12.b.) (Roth Elective Deferrals are permitted if selected at Question 12.b.1)

A. **Elective Deferral limit.** Each Participant may elect to have Compensation deferred by:
- a. [X] up to (select one):
  - 1. [X] 100 % of Compensation
  - 2. [ ] $______
- b. [ ] from (select one):
  - 1. [ ] ______% to ______% of Compensation
  - 2. [ ] $______ to $______
- c. [ ] up to the maximum amount allowed by law (i.e., Code §§402(g) and 415)
- d. [ ] **Minimum deferral amount.** A Participant's Elective Deferrals may not be less than: ____________ *(specify dollar amount (not greater than $10,000) and/or percentage of Compensation (not greater than 10%)).*

B. **Additional Elective Deferral limits.** Regardless of the above limits (if any), the following apply (select all that apply; leave blank if none apply):
- e. [X] If a. or b. above is selected, a Participant may make a separate election to defer with respect to irregular pay (e.g., bonus)
  - 1. [X] For purposes of the separate election, a Participant may elect to defer up to 100 % of irregular pay (regardless of the limitation in a. or b. above)
- f. [ ] For Participants who are HCEs determined as of the beginning of a Plan Year, then instead of 25.A. applying, the Elective Deferral limit is (must be equal to or lower than limit selected in 25.A.; may not be selected if HCEs are excluded at 13.g.1 or 13.g.2) (select one):
  - 1. [ ] ______% of Compensation
  - 2. [ ] other: ______________________ (e.g., must be a specific limit that only applies to some or all HCEs)

CLARITY, STRATEGY, LEGACY: THE POWER OF PRIVATE BANKING

In an increasingly complex financial world, high-net-worth clients and their families, business owners and executives, and professional services leaders are looking for more than one-off financial transaction. They seek trusted, long-term partnerships that understand the full picture of their lives and enterprises. For many clients, their Private Banker becomes a trusted advisor to spouses, children, or business successors, ensuring your values and vision endure long after major transitions

No two clients have the same priorities—and Private Bankers understand that deeply. Whether you're a multigenerational family stewarding inherited wealth, an executive preparing for retirement, or a business owner managing succession planning, your Private Banker often serves as the entry point to deliver custom lending and deposit strategies aligned to your life, business, and goals. When preserving wealth across generations, expanding a business, or navigating a liquidity event, working with a Private Banker gives you direct access to personalized financial strategies, discreet support, and a collaborative advisory network. Working closely with the broader wealth management team, including wealth advisors, wealth managers, and portfolio managers, your Private Banker ensures every financial decision is connected to the bigger picture.

Liquidity is often the key to opportunity. Private bankers are particularly skilled in assessing strategic credit and liquidity planning and can offer sophisticated credit solutions. One such solution includes Securities-Based Lending (SBL) that allow clients to access capital while preserving their long-term investment strategies.

Securities-Based Lending allows clients to borrow against the value of eligible investment accounts, such as a diversified portfolio of stocks, bonds, and mutual funds, without selling assets. This strategy helps preserve tax efficiency and market exposure, while providing fast access to funds for major expenses or opportunities. Many common use cases include the following scenarios:

- Real estate acquisitions without liquidating assets
- Business investment or expansion, especially for owner-operators
- Bridge financing for anticipated liquidity events
- Tax planning by deferring capital gains or avoiding taxable events

When used strategically, SBL enhances your financial flexibility, particularly when time-sensitive decisions arise.

For entrepreneurs, physicians, attorneys, and other professionals, financial planning is closely tied to both personal and business concerns. One of the key advantages of working with a Private Banker is their ability to serve as a central point of contact across all areas of your personal financial life. Our connection to your Wealth Advisor, Commercial Relationship Manager, and external professionals creates a unified approach that ensures nothing gets lost between teams or advisors. We work in lockstep with commercial relationship managers to support your personal cash flow, capital needs, and partner transitions, ensuring your financial strategy evolves as your business does. By being well-connected within the bank's broader ecosystem, your Private Banker can bring in the right expertise at the right time to assist with practice buy in financing to your firm/practice and help with overall personal balance sheet management.

From wealth preservation and lending solutions to balance sheet management with professionals, executives, and intergenerational families, Private Banking offers a unique combination of tailored advice and relationship-driven services. By being proactive and forward-thinking, our Private Banking team is designed to evolve with you and your families over time. We look forward to serving you.

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NAVIGATING CROSSCURRENTS: STIMULUS, TRADE SHIFTS, AND POLICY RISKS

As we reach the midpoint of 2025, investors are navigating an environment defined by sharp policy pivots, stubborn economic crosscurrents, and renewed geopolitical tension. What began as a year of cautious optimism quickly gave way to elevated volatility as markets contended with the unexpected re-emergence of tariff threats, a Federal Reserve forced into a holding pattern, and high-stakes fiscal policy debates. Even so, markets have shown resilience. The S&P 500 recovered from a steep spring selloff to finish the first half up 6.2%. International stocks performed even more strongly, with the MSCI All Country World ex-U.S. index gaining 17.9%, aided by a 10.8% decline in the U.S. dollar. Bonds also delivered solid results: the U.S. Aggregate Bond Index rose 4.02% as the 10-year Treasury yield eased to 4.23% to close out June from 4.57% at the start of the year.

Global headlines also threw investors a curveball in early June when a brief military confrontation between Israel and Iran reignited concerns about geopolitical risk and sparked a temporary rise in oil prices. Fortunately, a ceasefire was brokered quickly, and oil markets calmed as disruptions failed to materialize. Still, it was a reminder that geopolitical tensions can flare unexpectedly, especially in energy markets.

Economic Resilience Tested by Policy Uncertainty

The U.S. economy began the year on relatively stable footing, with inflation steadily cooling into the mid-2% range and unemployment hovering near 4% amid healthy wage growth. That stable footing was soon tested in early April by a new, less predictable shock as President Trump announced a sweeping set of tariffs, including a 10% universal tariff plus punitive reciprocal tariffs against many trading partners. Dubbed "Liberation Day," the reported levies and subsequent escalation with China were set to push the U.S. effective tariff rate from under 3% in 2024 to over 25%, according to Oxford Economics.

The immediate market reaction was swift and negative as investors priced in a rising risk of recession. Equities sold off sharply, high yield bond spreads blew out, and the U.S. dollar tumbled as global investors sought safe-haven assets outside the U.S., like the Euro and Japanese Yen. Businesses reliant on global supply chains began contingency planning, and importers warned that broad tariffs would act as a stealth tax on consumers by raising costs on everything from electronics to apparel and construction materials. However, by early May, a temporary de-escalation—driven by a 90-day pause on reciprocal tariffs—helped spark the market recovery as recession fears receded.

Even so, the average U.S. tariff rate remains elevated, on track to reach levels not seen since the 1930s absent lasting trade agreements. The unpredictable and fluid nature of trade policy continues to weigh on business and consumer confidence—many firms are deferring investments and hiring until clearer "rules of the road" emerge. Meanwhile, hard real-time data remains more resilient than soft survey data suggests, but there are signs of cooling growth as job openings dip, retail sales cool, and inflation readings start to tick higher.

A Fed Forced to Wait

Coming into the year, markets had been convinced that the Federal Reserve was poised to continue to ease its policy rate lower sometime in mid-2025 after its initial round of cuts in late 2024. Early-year speeches from several Fed officials reinforced this view, suggesting that as inflation cooled, monetary policy could finally ease after years of restrictive rates.

But the reemergence of tariff risks complicated the picture dramatically. Chair Jerome Powell and his colleagues made clear that while they remained focused on bringing inflation sustainably back to target, they could not ignore the possibility that new tariffs would serve as an exogenous price shock—raising costs without necessarily improving growth. While unemployment remains in check, the labor market has continued to soften as job gains slipped to an average monthly pace of 130k in the first half of 2025 compared to closer to 200k in the past two years. This leaves the Fed in a delicate balancing act: inflation isn't fully tamed, but keeping policy too tight as growth slows could induce a sharper downturn.

For now, the Fed appears content to maintain its holding pattern, awaiting clearer signals. Barring a significant deterioration in economic data, the additional fiscal stimulus now coming on line gives the Fed even more reason to be cautious about prematurely easing policy, though it does face some political pressure to act sooner. President Trump has ramped up public rhetoric calling for rate cuts and is weighing options for Fed leadership beyond Chair Powell, whose term expires next May. While the central bank has a long history of guarding its independence, these developments add a layer of complexity to an already delicate policy environment.

The Fiscal Front: A "Big Beautiful Bill" with Big Questions

Outside of trade, the major policy development of the summer has been the passage of the One Big Beautiful Bill Act (OBBBA), a sweeping fiscal package combining tax cuts, industrial policy, and infrastructure investment. The legislation extends key provisions of the 2017 tax cuts and introduces new exemptions for overtime and tipped income, while also boosting federal spending on manufacturing incentives, border security, and defense.

Policymakers hope the bill will reinvigorate U.S. competitiveness in sectors like semiconductors and advanced manufacturing. However, it also phases out clean energy credits and trims social safety net programs to partially offset costs. The Congressional Budget Office estimates the bill will add $3.4 trillion to federal deficits over the next decade.

Market response has been mixed. Equities rallied on the near-term growth boost and tax relief, but Treasury yields have pushed higher not only on inflation fears but also on the sheer volume of debt issuance required to finance the package. Traders have begun demanding higher premiums to hold longer-dated U.S. government debt, and some volatility has emerged in auctions of 10- and 30-year Treasuries. For now, the U.S. retains its status as the world's safe haven, but the debate over fiscal sustainability is no longer abstract—it's directly influencing bond markets.

Trade Outlook: Progress, Posturing, and Possible Pullbacks

Trade policy remains a central swing factor for both inflation and corporate sentiment. The original 90-day tariff pause—scheduled to end July 9—was recently extended to August 1, giving negotiators additional time to finalize deals. There have been some positive reports of progress toward agreements with major trading partners like China and the E.U., but the details remain sparse and the headlines remain volatile. Additionally, the recent passage of OBBBA may also give the White House more scope to lean in more aggressively in trade negotiations, bolstered by stronger domestic economic positioning.

A breakthrough trade détente that meaningfully lowers tariff barriers would lift a significant cloud over the business environment and could relieve some inflationary pressure, providing positive support to financial market momentum in the second half. Conversely, if negotiations falter and tariff rates snap back to their prior punitive levels, the inflation impact would deepen and likely force the Fed to maintain a tighter stance for longer.

Looking Ahead: Balancing Risk and Opportunity

Heading into the second half, investors face a complex yet manageable landscape. Economic fundamentals remain sound, supported by a tight labor market, improving earnings, and fiscal tailwinds. Additionally, sustained investment in artificial intelligence also remains a key growth pillar for U.S. equities and offers promising potential for future productivity gains for the

economy. Yet the outlook is clouded by uncertainty around trade policy, monetary timing, and long-term fiscal sustainability.

Key risks include a renewed backup in yields if deficit concerns mount, persistent inflation that delays Fed easing, or global tensions that destabilize energy markets. On the flip side, more durable trade deals, stabilizing inflation, and continued strength in corporate earnings could extend the recent recovery.

As always, we believe in staying diversified, focusing on quality assets, and maintaining a long-term perspective while recognizing that near-term volatility may remain elevated. This year's first half was a powerful reminder that markets can recover quickly when fears subside—but also that policy surprises and geopolitical events can upend sentiment just as fast.

We remain committed to helping you navigate these crosscurrents thoughtfully and with discipline. If you have any questions or would like to discuss your portfolio or plan, please reach out to our team.

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THE IMPORTANCE OF ESTATE PLANNING: SECURING YOUR LEGACY AND YOUR LOVED ONES' FUTURE

Estate planning is a crucial yet often overlooked aspect of financial and personal well-being. It involves the preparation of tasks that serve to manage an individual's asset base in the event of their incapacitation or death. Estate planning often falls on the need-to-do but never-get around-to list for lots of reasons – not having sufficient time to complete or pushing it aside because nothing will happen now. In addition, many associate estate planning with the wealthy, yet it is a vital process for individuals of all income levels.

At its core, estate planning ensures that your assets—such as property, investments, and personal belongings—are distributed according to your wishes. Without a clear plan, state laws will determine how your estate is divided, which may not align with your intentions. A well-structured estate plan can also help minimize taxes and legal fees, preserving more of your wealth for your beneficiaries.

A comprehensive estate plan typically includes several legal documents, each serving a specific purpose:

Last Will and Testament: This document outlines how your assets should be distributed after your death. It allows you to name beneficiaries, appoint an executor to manage your estate, and designate guardians for minor children. Without a will, state laws determine how your estate is divided, which may not reflect your intentions.

Revocable Living Trust: A trust allows you to transfer ownership of your assets into a legal entity that you control during your lifetime. Upon your death, the assets are distributed according to the trust's terms, often avoiding probate. Trusts are especially useful for complex estates, privacy concerns, or managing assets for minors or individuals with special needs.

Durable Power of Attorney (POA): This document designates someone to handle your financial affairs if you become incapacitated. The agent can pay bills, manage investments, and make legal decisions on your behalf. Without a POA, your family may need to go through court proceedings to gain control of your finances.

Healthcare Power of Attorney (Healthcare Proxy): This appoints someone to make medical decisions for you if you're unable to do so. It ensures that someone you trust is advocating for your healthcare preferences during critical moments.

Beneficiary Designations: Certain assets—like life insurance policies, retirement accounts, and payable-on-death bank accounts—pass directly to named beneficiaries. Keeping these designations up to date is crucial, as they override instructions in your will.

Dying without a will or estate plan can lead to lengthy and costly probate proceedings. These legal processes can delay the distribution of assets and create unnecessary stress for your loved ones. It also allows the court, not you, to determine the disposition of your assets.

Estate planning is not just about death—it also prepares you for the unexpected. If you become incapacitated due to illness or injury, having a durable power of attorney and healthcare proxy ensures that trusted individuals can make financial and medical decisions on your behalf. This foresight can provide peace of mind and prevent confusion or disputes during critical moments.

In today's digital age, estate planning must also account for your online presence and digital assets. These include email accounts, social media profiles, online banking and investment accounts, cloud storage, digital subscriptions, rewards programs, and cryptocurrency. Without proper planning, these assets can become inaccessible or vulnerable after your death. A digital estate plan should include: (1) a secure inventory of digital assets and passwords, (2) a designated digital executor, and (3) clear instructions for managing or closing digital accounts.

One of the most profound yet often underestimated benefits of estate planning is its ability to preserve and promote family harmony. The loss of a loved one is an emotionally charged time, and without a clear plan in place, even the closest families can experience tension, confusion, or conflict over the distribution of assets and responsibilities. A well-crafted estate plan helps prevent these issues by providing clarity and structure. When your wishes are documented in legally binding documents—such as a will, trust, and healthcare directives—there is less room for misunderstanding or disagreement. This clarity can be especially important in blended families, families with complex financial situations, or when certain heirs have special needs or unique circumstances.

Moreover, estate planning encourages open communication. Discussing your intentions with your family in advance can foster transparency, reduce surprises, and give loved ones the opportunity to ask questions or express concerns. These conversations, while sometimes difficult, can strengthen trust and understanding among family members.

In addition, naming neutral third parties—such as a professional trustee or executor—can help reduce the emotional burden on family members and minimize the potential for disputes. This impartiality can be especially valuable when managing sensitive decisions or distributing sentimental assets.

Ultimately, estate planning is not just about transferring wealth—it's about protecting relationships. By taking the time to plan thoughtfully and communicate openly, you can leave a legacy of unity, respect, and peace for the people you care about most. Estate planning is a gift to your family and a safeguard for your legacy. It empowers you to make informed decisions about your future, protect your assets, and ensure your loved ones are cared for according to your wishes. Starting the process today can bring clarity, security, and peace of mind for years to come.

Partnering with a trusted financial institution can make all the difference in creating a thoughtful and effective estate plan. First Merchants Private Wealth Advisors offer a comprehensive suite of services that align your financial goals with your legacy planning needs. Our approach is grounded in three key strengths: (1) As fiduciaries, First Merchants Private Wealth Advisors are legal and ethically obligated to act solely in your best interest; (2) First Merchants Private Wealth Advisors' investment management expertise ensures your estate plan is supported by a personalized strategy to grow, protect, and align your wealth with your long-term legacy goals; and (3) With expert guidance from First Merchants Private Wealth Advisors, retirement income strategies can be aligned with your long-term legacy goals to help achieve financial security today while building a meaningful estate for tomorrow.

We explore key developments shaping the estate planning landscape and the steps you should consider navigating them effectively. We stress-test portfolios to evaluate how market volatility might impact estate liquidity and funding for obligations like taxes or charitable bequests; we utilize defensive strategies by considering the creation and funding of trusts to shield assets from creditors and market fluctuations; and we revisit asset allocation to ensure investment strategies align with both personal and estate planning objectives.

Estate planning is more than a financial task—it's a deeply personal process that protects your legacy, supports your loved ones, and brings clarity during life's most uncertain moments. By thoughtfully organizing your legal, financial, and digital affairs, you ensure that your wishes are honored and your family is spared unnecessary stress and conflict.

Working with a trusted partner like First Merchants Private Wealth Advisors can make all the difference. Their team offers not only expert guidance in investment and retirement planning, but also provides trust administration, estate settlement, and private banking services. These offerings ensure that your estate is managed professionally, efficiently, and in full alignment with your estate plan—giving you and your family peace of mind today and confidence for the future.

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