Private Wealth *perspectives*

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

Mid Year 2026 Intro

As we move into the second half of 2026, investors, business owners, families, and nonprofit leaders continue to navigate an environment defined by both opportunity and uncertainty. Economic growth has remained resilient, yet questions surrounding interest rates, tax policy, inflation, philanthropy, and global events remind us that thoughtful planning remains essential.

In this edition of Perspectives, we explore several areas that are influencing financial decision-making today. You'll find our Mid-year Investment Perspectives and insights on the forces shaping markets and the economy. We also examine how trusts can provide flexibility amid an evolving tax landscape, highlight the potential benefits of Cash Balance Plans for business owners seeking to accelerate retirement savings, and discuss the economic trends nonprofit organizations should be monitoring as they balance mission, funding, and long-term sustainability.

While the topics vary, they share a common theme: proactive planning can help turn uncertainty into opportunity. We hope these articles provide practical insights and actionable ideas as you evaluate your own financial, business, and charitable goals.

Thank you for the trust you place in our team. As always, we welcome the opportunity to serve as a resource and partner in *Helping You Prosper.*

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What Nonprofit Leaders Should Watch in the Economy Right Now

As we move through 2026, nonprofit leaders are navigating an environment that appears steady on the surface but is growing more complex underneath. Growth continues, yet cost pressures persist. Funding remains available, but less predictable. For executive teams and boards, the challenge is not simply understanding what is happening — it is knowing where to focus.

From my perspective working alongside nonprofit organizations across the region, three economic themes are rising to the top of nearly every strategic conversation.

Balancing Mission Delivery with Persistent Cost Pressure

While inflation has moderated from its peak, it continues to run above long-term targets, hovering around 3% and affecting everything from wages to utilities to program delivery.

What I hear most consistently from nonprofit leaders is this: demand has not slowed. In many cases, it has increased. At the same time, the cost to deliver services has shifted fundamentally upward.

This creates a difficult reality. Organizations are being asked to do more with resources that feel increasingly constrained.

In my experience, this is where strong financial discipline becomes a strategic advantage. The organizations navigating this environment most effectively share a few common practices:

- Regularly revisiting budgets and underlying assumptions
- Building flexibility into operating plans
- Engaging finance committees in forward-looking scenario planning

This is not about pulling back from mission. It is about ensuring long-term sustainability so that mission can continue to expand over time.

A New Era for Cash and Capital Strategy

Interest rates remain elevated compared to the past decade, with the Federal Reserve holding rates in the 3.5% to 3.75% range as it balances inflation concerns with economic growth.

For nonprofits, this creates both pressure and opportunity.

On one hand, the cost of borrowing remains high. Whether it involves a line of credit, a facility expansion, or bridge financing, capital decisions now require considerably more scrutiny than they did just a few years ago.

On the other hand, for the first time in many years, organizations are able to earn meaningful returns on cash held in reserve.

In conversations with clients, this dynamic has elevated the importance of treasury management. Nonprofits are beginning to think differently about how they structure cash, segmenting operating funds, reserves, and longer-term assets in a way that balances liquidity, safety, and yield.

This shift may seem technical, but the practical impact is real. In today's environment, thoughtful cash management can help offset rising costs and strengthen overall financial resilience.

Navigating a More Unpredictable Funding Environment

Perhaps the most consistent concern I hear from nonprofit executives involves funding stability.

Government funding has become less predictable, competition for grants is intensifying, and donor behavior continues to evolve. We are also seeing a notable trend in which total philanthropic dollars remain strong, but are flowing from fewer donors. That concentration risk deserves serious attention.

In this environment, the quality of relationships matters more than ever. Organizations that are succeeding are not simply focused on raising more — they are focused on deepening engagement across multiple fronts:

- Strengthening donor communication and transparency
- Educating donors on more sophisticated giving strategies
- Expanding recurring and diversified revenue streams

Revenue diversification is one of the most important strategic priorities for nonprofit leaders today. It is not about replacing what works. It is about building a more durable and balanced funding model for the long term.

Leading with Intention

If there is one overarching theme worth emphasizing, it is this: the current environment rewards intentional leadership.

The organizations that will thrive are those willing to step back, reassess assumptions, and align their financial strategy as thoughtfully as they align their mission strategy.

While uncertainty remains, so does opportunity — the opportunity to strengthen operations, deepen relationships, and build a more resilient foundation for the future.

At First Merchants, we are privileged to work alongside nonprofit leaders doing exactly that every day. While the economic landscape will continue to evolve, strong partnerships and proactive planning remain constant drivers of success.

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Practical Benefits of Trusts: Planning for an Uncertain Tax Landscape

For many individuals, families, and business owners, estate planning is not simply about the transfer of wealth at death. Rather, it is a process centered on control, continuity, and the preservation of family intent across generations. While a last will and testament remains a foundational document, trusts continue to play an increasingly central role in modern estate planning due to their flexibility, privacy, and efficiency.

One practical advantage of a trust is the ability to avoid probate. Probate proceedings are, by design, public in nature and may require the disclosure of sensitive financial and familial information. For many clients, particularly business owners or those with concentrated wealth, preserving confidentiality is of the utmost importance. Assets administered through a properly funded trust typically pass outside of probate, thus allowing decisions to occur efficiently and out of the public eye.

In addition to privacy, trusts offer administrative efficiency. Unlike probate proceedings, which often involve court oversight, statutory timelines, and administrative costs, a trust allows a successor trustee to act immediately upon incapacity or death. This can be particularly important where ongoing investment management, real estate holdings, or farm operations require uninterrupted oversight.

Trusts also allow for a high degree of control over the timing and structure of distributions. This is often critical in situations involving minor beneficiaries, blended families, or beneficiaries who may benefit from structured or protected distributions. Through the use of discretionary standards, staged distributions, and spendthrift provisions, a trust can address a wide range of family dynamics and risk profiles.

Equally important is the role trusts play in incapacity planning. A revocable trust allows for the seamless transition of asset management to a successor trustee in the event the grantor becomes unable to manage his or her affairs. This avoids the need for court-appointed guardianship proceedings and provides continuity during what is often a stressful period for families.

Beyond these traditional benefits, trusts have become increasingly important as a tool for navigating an evolving federal transfer tax landscape. Under current law, as modified by the One Big Beautiful Bill Act ("OBBBA"), the federal estate and gift tax exemption is $15 million per individual, or $30 million for a married couple, with a top rate of 40 percent on amounts exceeding that threshold.

This historically high exemption has significantly reduced the number of estates subject to federal estate tax. For many families, the focus has shifted away from transfer tax minimization toward income tax planning, basis management, and state-level tax considerations. However, this environment should not be viewed as permanent. As with any federal tax framework, these provisions remain subject to future legislative change.

For example, recently proposed legislation such as the Strengthen Social Security by Taxing Dynastic Wealth Act ("Dynastic Wealth Act") could fundamentally alter the current framework. Among other changes, the proposal would reduce the estate tax exemption to approximately $3.5 million per individual, increase the top transfer tax rate to 45 percent, and limit lifetime gift tax exemptions to $1 million.

The practical implications of such changes are significant. Families who are currently outside the federal estate tax system could become subject to meaningful transfer tax exposure. For example, an estate valued at $10 million may pass free of federal estate tax under current law but could incur substantial tax liability under a reduced exemption framework.

This divergence between current law and proposed legislation underscores a fundamental principle of estate planning – uncertainty must be anticipated and managed. Relying exclusively on a single set of tax assumptions may result in less than optimal outcomes if the legislative environment changes.

It is in this context that the flexibility of trusts becomes particularly valuable. Well-drafted trust instruments can incorporate mechanisms designed to adapt to changes in tax law. Additionally, irrevocable trusts created under current law may allow clients to take advantage of today's elevated exemption levels while removing future appreciation from the taxable estate. Even in a high-exemption environment, this type of forward-looking planning can provide meaningful long-term benefits.

Ultimately, while the current transfer tax landscape is favorable, it should not be viewed as permanent. Legislative proposals such as the Dynastic Wealth Act underscore that estate planning must be grounded in both technical discipline and forward-looking flexibility. Properly structured trusts provide not only immediate benefits, but also a durable framework capable of responding to legislative change, thus ensuring that wealth transfer objectives are preserved regardless of how the tax environment evolves.

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The Often-Overlooked Asset: Liquidity

While investment performance often dominates financial headlines, one of the most valuable assets for affluent families is often overlooked: liquidity.

Periods of market volatility, changing interest rates, and economic uncertainty serve as important reminders that access to cash and credit can be just as important as long-term investment returns. Whether it's funding a real estate purchase, supporting a business opportunity, assisting family members, or responding to an unexpected event, liquidity provides flexibility when it matters most.

Many high-net-worth individuals have significant wealth tied to investment portfolios, business interests, or real estate holdings. While these assets may contribute meaningfully to long-term wealth creation, they are not always readily available when immediate cash needs arise.

A thoughtful liquidity plan can help ensure that funds are accessible without requiring the sale of investments at an inopportune time. Maintaining an appropriate balance between deposits, available credit, and longer-term investments allows families to respond confidently to both planned and unexpected events.

Private Banking clients often benefit from reviewing three key questions:

1. Do I have adequate liquid reserves for unexpected needs or opportunities?
2. Is my cash positioned appropriately across operating, reserve, and strategic accounts?
3. Do I have established borrowing capacity before I need it?

Establishing lending solutions before a liquidity event occurs can be particularly valuable. Whether through a mortgage, home equity solution, securities-based line of credit, or other customized lending structure, proactive planning can provide flexibility and peace of mind when opportunities arise.

Just as diversification plays an important role in investing, diversification of liquidity sources can strengthen an overall financial strategy. Deposits, credit facilities, and investment assets each serve a distinct purpose and work together to support financial goals.

At its core, liquidity planning is about preserving options. In an uncertain environment, having access to cash and credit may be one of the most important financial advantages a family can possess.

Is your liquidity strategy aligned with your current needs and goals? Your Private Banking team can help review deposit balances, borrowing capacity, and cash management solutions to ensure your banking relationship continues to support your broader financial objectives.

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The Power of Cash Balance Plans for Business Owners

Cash Balance Plan is a type of retirement plan designed to help business owners save significantly more for retirement than they can through a traditional 401(k) alone. While it is technically a defined benefit pension plan, it doesn't look or feel like the old-fashioned pension plans many people think of. Instead, each participant has a hypothetical account balance that grows each year through company contributions and a guaranteed interest credit, making it much easier to understand and track.

For business owners who are looking to accelerate retirement savings, a Cash Balance Plan can be an incredibly powerful tool. Depending on age, income, and plan design, owners may be able to contribute tens of thousands or even hundreds of thousands of dollars annually on a tax-deductible basis. These contributions are generally much higher than the limits allowed in a 401(k) plan, making a Cash Balance Plan especially attractive for owners who have strong cash flow, are behind on retirement savings, or want to reduce their current tax burden.

Another major advantage is flexibility when paired with a 401(k) plan. Many successful business owners maximize their 401(k) contributions and still have additional income they would like to shelter from taxes. A Cash Balance Plan can work alongside the 401(k), creating a powerful retirement strategy that allows for substantially larger deductible contributions while helping owners build retirement wealth more quickly.

Cash Balance Plans can also be an effective tool for business succession and retirement planning. Business owners who are within 10 to 15 years of retirement often find these plans particularly valuable because contribution limits generally increase with age. This allows owners to "catch up" on retirement savings during their highest earning years while potentially lowering taxable income at the same time.

Simply put, a Cash Balance Plan is one of the most powerful retirement planning opportunities available to business owners. It provides the potential for large tax deductions, accelerated retirement savings, and a structured approach to building long-term financial security. For profitable businesses with consistent cash flow, it can be an excellent complement to an existing 401(k) plan and a highly effective way to prepare for retirement.

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2026 Midyear Investment Perspectives

Growth, Rates, and the AI Divide

As expected, 2026 has been a study in resilience: inflation and affordability came back to the fore, a new Chair took the helm at the Fed, and the economy appears to have reaccelerated. The black swan event we did not expect, however was the coordinated war in the Middle East, which carried significant consequences for oil and other commodity prices. Yet despite that complicated backdrop, corporate earnings expectations strengthened, helped by an AI capital spending cycle that has proven even more powerful than many optimistic forecasts anticipated. That combination, geopolitical stress on one side and accelerating earnings support on the other, has defined the year so far and sets up a second half where the central question is whether profit growth can continue to broaden beyond the companies most directly tied to the AI buildout.

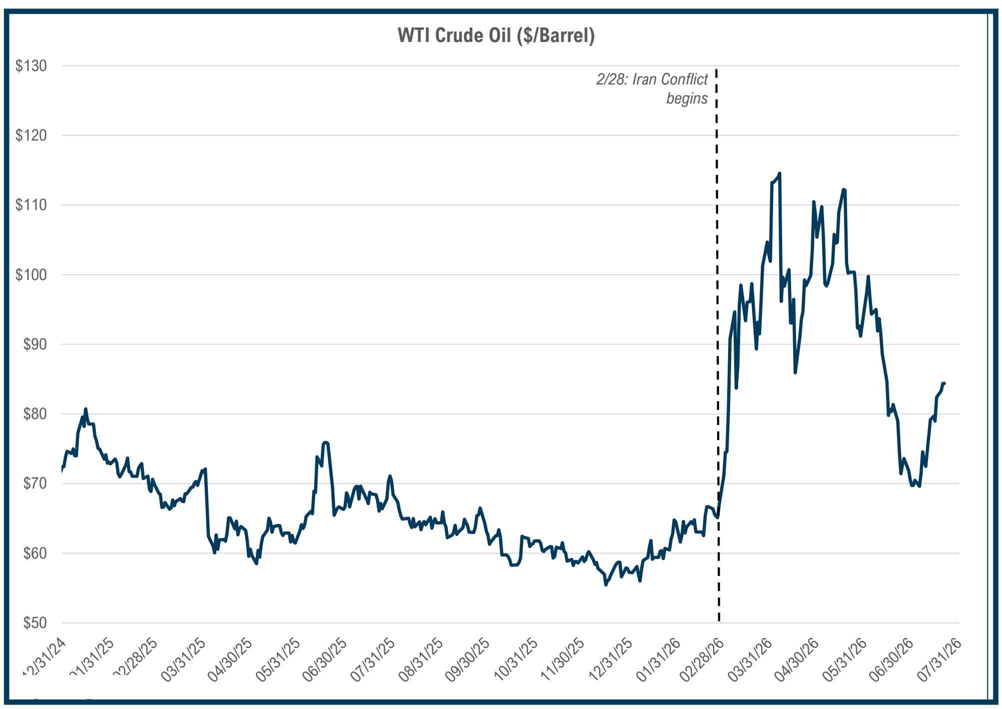
U.S. equities entered the summer with solid gains, helped by resilient earnings and continued enthusiasm for AI infrastructure. International stocks remained competitive, supported by valuation discounts and capital flowing back toward non-U.S. markets. Bonds, meanwhile, benefitted from attractive starting yields, but saw returns tempered by a backup in interest rates.

The first half reminded investors how quickly geopolitics can move from background concern to market driver. The Iran War briefly turned energy from a portfolio footnote into one of the dominant macro variables. Oil prices and shipping costs rose as investors focused on the Strait of Hormuz, declining fuel stockpiles, and the possibility that a regional conflict could become a broader inflation shock. Energy prices do not stay contained inside commodity markets; they ripple through the input costs of all manufactured goods, the food supply chain, and services.

Total Return by Asset Class as of 6/30/2026

Asset Class	1Q 2026	2Q 2026	1H 2026 (↓)
Emerging Market Equity*	-0.17%	24.05%	23.85%
U.S. Small Cap Equities	0.89%	21.49%	22.57%
U.S. Mid Cap Equities	2.50%	14.47%	17.34%
Commodities	24.41%	-8.08%	14.36%
U.S. Large Cap Equities	-4.33%	15.20%	10.21%
International Developed Equity*	-1.24%	10.82%	9.44%
U.S. Dollar Index	1.67%	1.23%	2.91%
Emerging Market Bonds*	-1.35%	3.42%	2.03%
U.S. High Yield Bond	-0.55%	2.45%	1.89%
Cash & Cash Equivalents	0.88%	0.92%	1.81%
U.S. Aggregate Bond	-0.05%	0.67%	0.62%
U.S. Short/Inter. Gov./Credit	-0.02%	0.43%	0.40%
Global Aggregate Bond*	-1.07%	0.87%	-0.21%

*International returns in USD - Source: Factset

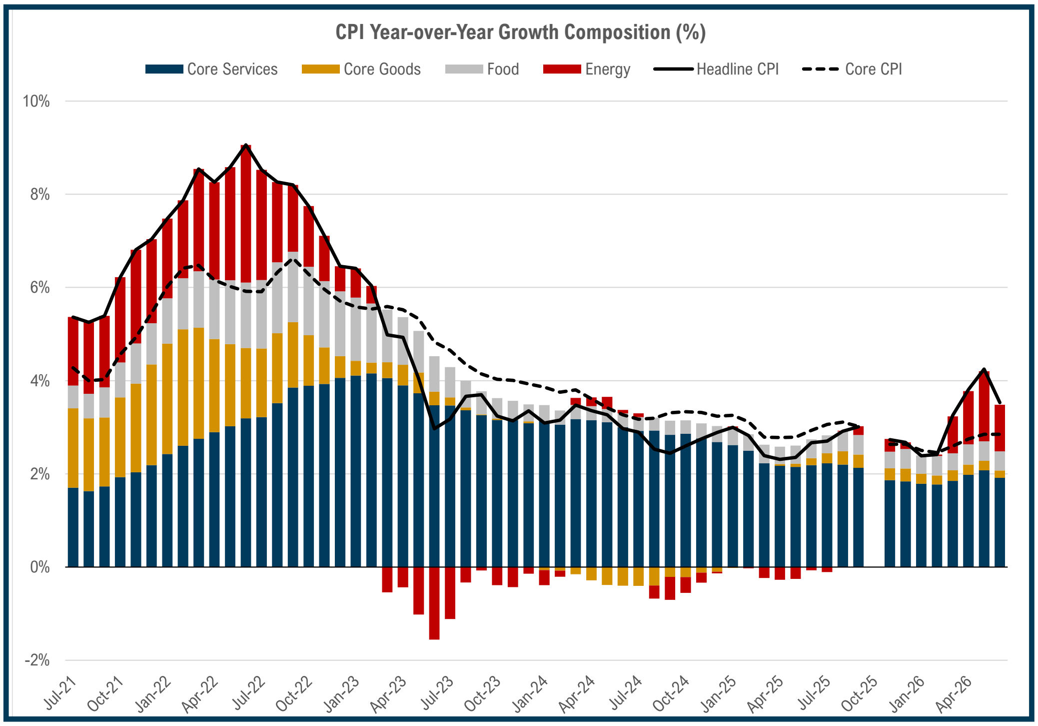


Source: Factset

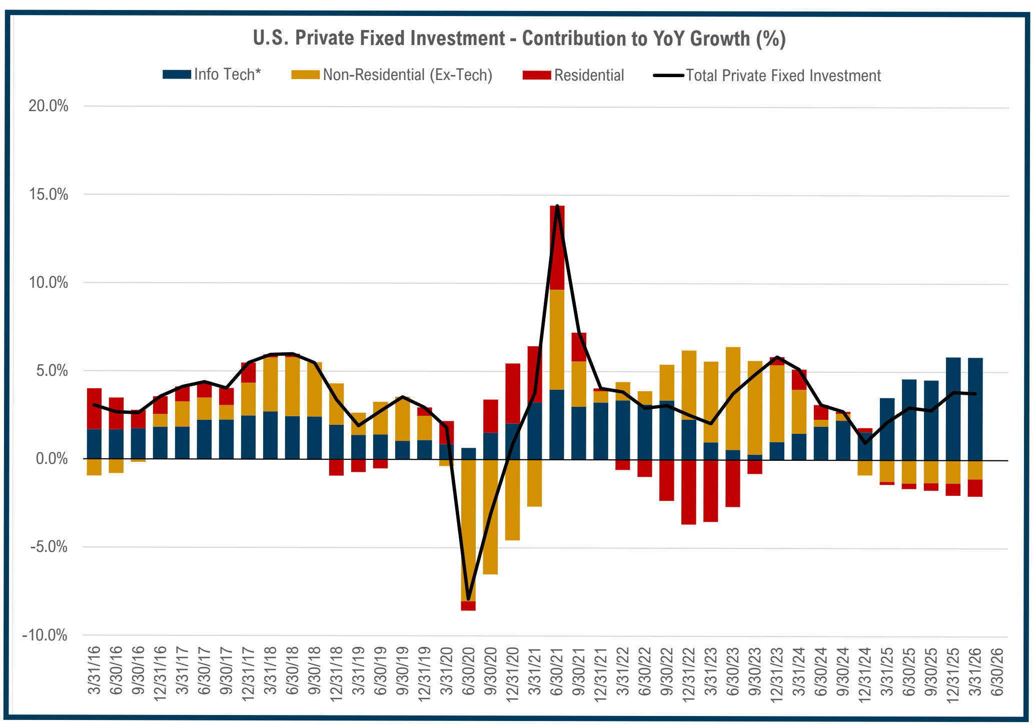
Encouragingly, financial markets absorbed the initial shock from the Middle East conflict better than many investors expected. Oil prices retreated from their wartime highs as supply conditions proved more resilient than initially feared, helping to ease pressure on consumers and inflation. More recently, though, renewed tensions have reminded investors that geopolitical risks rarely disappear altogether. Energy markets have adapted well so far, but the durability of that resilience, and its implications for inflation and monetary policy, remains an open question heading into the second half of the year.

That changing backdrop was reflected in recent inflation data. Consumer prices rose 3.5% in June from a year ago, down from 4.2% in May and below expectations, as core CPI eased to 2.6% from 2.9%. The report suggested that underlying inflation pressures kept moderating even after this spring's energy shock. For the Federal Reserve, however, one favorable reading is unlikely to resolve the broader policy challenge. June's data eased some of the immediate pressure, but renewed volatility in oil prices reinforces the need for patience until policymakers gain greater confidence that underlying inflation is still cooling and that any energy-driven price pressures prove temporary rather than becoming embedded more broadly throughout the economy.

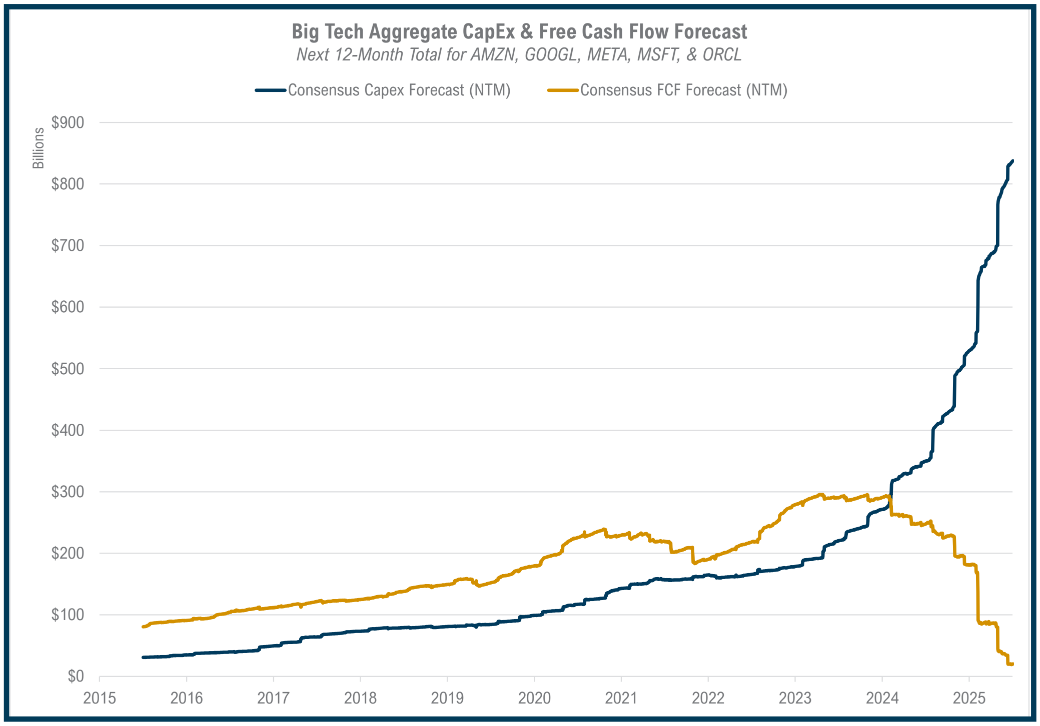
For many households, prices at the pump remain one of the most tangible barometers of inflation, and the recent relief there has been welcome. Average hourly earnings have risen 3.5% over the past year, essentially matching headline inflation. That marks an improvement from the temporary squeeze on purchasing power earlier this year, when surging energy prices outpaced



Source: US Bureau of Labor Statistics & Bloomberg



Source: Bureau of Economic Analysis, Factset, & FMPWA wages. Even so, many families still feel the cumulative effects of several years of elevated costs for housing, food, insurance, and other everyday necessities. Inflation has moderated meaningfully, but the higher overall price level continues to shape how consumers view the economy and their own financial well-being.



Affordability will also shape the political backdrop as the midterm elections approach. Energy costs, housing, insurance, taxes, trade, immigration, healthcare, regulation, and federal deficits are all likely to receive more attention. Artificial intelligence is also moving from a market discussion to a political one as data-center growth raises questions about electricity costs, grid reliability, national security, and the distribution of AI's economic benefits. The investment question is whether policy outcomes improve or worsen inflation, labor market conditions, business confidence, credit conditions, and corporate earnings.

The current economy is less a single engine than two engines running at different speeds. One is powered by AI-related capital spending, high-end services, and large companies with strong balance sheets. Data centers, semiconductors, memory, networking, and power infrastructure are all benefiting from the AI buildout, helping support jobs, revenues, earnings revisions, and market leadership.

The second engine has not stalled; it is simply moving more slowly as it works through higher borrowing costs, tighter credit, and elevated household expenses. Mortgage affordability remains difficult, commercial real estate refinancing is still challenging, and autos and smaller businesses remain exposed to higher financing costs. Aggregate consumption can look fine while many households feel more constrained.

Corporate earnings have been the clearest support beneath the market's resilience. After back-to-back years of double-digit earnings growth, S&P 500 profits are now expected to grow roughly 25% in 2026, up from expectations of about 15% at the start of the year. Revisions of that magnitude are unusual outside the early stages of recovery from a downturn, making this cycle notable: expectations are accelerating without a traditional recession-and-rebound setup.

AI is a major part of that story, but not the only part. Technology and communication services remain important drivers, yet every S&P 500 sector is currently expected to post positive earnings growth this year. Materials, consumer discretionary, energy, financials, and utilities are also expected to deliver double-digit gains. That breadth matters because it suggests the market is not relying solely on multiple expansion or a handful of mega-cap technology stocks, even though AI remains the dominant growth engine.

The AI buildout is still the most important earnings story within that broader profit recovery. It is not simply a replay of the late-1990s internet bubble, when many companies were valued on distant hopes with little current earnings support. Today's AI cycle is being funded largely by highly profitable companies, and many immediate beneficiaries are producing real revenue, margin, and earnings growth. J.P. Morgan's Michael Cembalest estimates that since ChatGPT launched in November 2022, 42 AI-related stocks have contributed roughly three-quarters of S&P 500 price returns, nearly 90% of earnings growth, and three-quarters of capital spending and R&D growth.

Still, "real" does not mean "risk-free." The market has moved from asking whether AI matters to whether the return on AI spending will justify the scale. Tech giants are committing hundreds of billions of dollars to infrastructure. That spending may continue to rise into 2027, but the growth rate is likely to slow from extraordinary levels. For AI infrastructure companies already priced for very strong growth, deceleration can matter even if absolute growth remains strong.

The sustainability question depends heavily on the AI labs and enterprise adopters. If AI models translate into durable revenue, productivity gains, and cash flow, the infrastructure cycle can remain well supported. If adoption takes longer, pricing falls faster, or monetization proves uneven, investors may begin to separate the strongest beneficiaries from the more speculative ones. Memory shortages, advanced packaging capacity, power availability, grid interconnection delays, and data-center construction timelines can raise costs or limit how quickly projects come online. The AI buildout remains one of the decade's most important themes, but it is entering a phase where execution and capital discipline matter more.

The IPO calendar will be another test of risk appetite. SpaceX's record IPO and the potential public listings of AI leaders such as OpenAI and Anthropic are not central to the outlook, but they are useful signals of whether investors are willing to absorb large new equity supply at elevated valuations.

For the second half, the constructive path begins with earnings. If energy prices resume easing, inflation moderates, and the Fed gains more flexibility, markets would have a stronger foundation for gains to broaden beyond the largest AI beneficiaries. Continued double-digit earnings growth from financials, utilities, energy, materials, and consumer discretionary would help reduce the market's dependence on AI infrastructure leaders. Additionally, the promise of higher productivity growth may eventually prove a boon to the rest of the economy.

The risk case is also clear. With hostilities in the Middle East already flaring anew, a more prolonged conflict could keep headline inflation elevated and lead the Fed to remain on hold for longer or even push toward rate hikes. Long-term yields could back up again if inflation or deficit concerns rise. AI-related stocks could become more volatile if capital spending expectations slow, component shortages intensify, enterprise adoption disappoints, or investors question whether the labs can generate enough cash flow to justify the infrastructure being built around them. A heavier IPO and issuance calendar could also test market's ability to digest surging equity supply.

Fixed income remains useful in this environment. Higher starting yields provide a real income cushion, and bonds can still play a stabilizing role in diversified portfolios. But rate volatility argues for balance across maturities, and tight credit spreads argue against reaching too aggressively for yield.

For long-term investors, the conclusion is not to ignore AI, politics, inflation, or geopolitics. It is to avoid letting any one of them dominate portfolio construction. AI remains a major long-term theme, but

portfolios should not depend on a single investment cycle. The Iran War showed how quickly energy can reenter the inflation story. The Fed's caution showed that rate relief is not guaranteed. The market's narrow leadership showed that strong index returns can still mask meaningful dispersion.

As we move through the second half of the year, we believe the emphasis should remain on quality, valuation discipline, balance-sheet strength, and diversification. The upcoming elections will shed light on the issues that are most in focus for Americans. The investment landscape remains attractive, but equity markets are increasingly vulnerable to changes in the AI story. In a market shaped by AI investment, energy risk, policy uncertainty, strong but demanding earnings expectations, and elevated valuations, selectivity matters more than momentum.

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