Pinnacle FINANCIAL PARTNERS

2Q 2026

ECONOMIC OVERVIEW

Improving Outlook with Risk of Volatility

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Review of 2Q 2026

The S&P 500 rose 14.38% in the second quarter of 2026 and 10.19% on a year-to-date basis, with much of the return driven by the continued outperformance of information technology shares. The equity markets, which spent most of the past year focused on a few companies, have become more balanced. The Dow Jones Industrial Average almost matched S&P 500 year-to-date performance with a return of 9.76%.

President Trump continues his strategy of doing bold things that are damaging to the economy in the short-term, including his tariff strategy and following Israel into a war with Iran. Despite his aggressive tariffs, the U.S. trade deficit continues to widen, reaching $77.6 billion in May from an average of $62.3 billion over the prior six months. Even if you trust the Iranian government and believe they will abide by a negotiated agreement, the ceasefire is fragile. At quarter end, oil prices had almost fallen back to where they were pre-conflict only to jump once again as fighting restarted.

We still see risks in the second half of this year due to volatility in commodity prices, as well as Iran's attempts to close the Strait of Hormuz to improve their negotiating leverage as four different factions within the Iranian government assert their positions and vie for power. The most recent breakdown between the U.S. and Iran centered on the use of a route through the strait close to Oman where Iran had less ability to control traffic and toll ships. Two competing oil and gas pipelines will lessen the importance of the Strait of Hormuz over the coming years.

U.S. GDP Estimates

2024 Act.	2025E	1Q 2026E	2Q 2026E	3Q 2026E	4Q 2026E	2026 Est.	2027 Est.
2.8%	1.9%	1.6%	1.7%	2.3%	2.6%	2.1%	2.6%

Source: Pinnacle Financial Partners

Many economists have raised their second half growth expectations due to the decline in oil prices and the potential for disinflation as prices of are slowly rolled back to reflect lower energy costs. We continue to see the risks in a rosier second half economic forecast and believe that free trade in the strait of Hormuz is in worse shape today than prior to the war. We expect further recrimination and conflict.

While a glut of oil in the Middle East will cause oil prices to move lower in the short-term, we see the potential for additional conflict with Iran as many countries are not happy with the current negotiated ceasefire. We have raised our GDP growth forecast slightly and revised our inflation forecast to reflect these changes.

The U.S. economy has been remarkably resilient in the face of all these challenges, but the damage of short-term economic trends will affect our forecast for the balance of 2026 and 2027. We see lasting damage from the conflict in the bond market as yields have climbed higher. The ten-year Treasury rate was at 3.99% on February 27, and at quarter end yields stood at 4.46%

Unemployment Rate

2025 Est.	1Q 2026E	2Q 2026E	3Q 2026E	4Q 2026E	2026 Est.	2027 Est.
4.4%	4.3%	4.4%	4.5%	4.5%	4.5%	4.4%

Source: Pantheon Economics

In June Kevin Warsh presided over his first FOMC meeting as Chairman. The Committee is balancing a weakening consumer consumption outlook against rapid capital expenditures around artificial intelligence, which along with the Iranian conflict are causing inflation to rise while GDP growth falls. The FOMC cut the Federal Funds rate by 1.75% in 2024 and 2025 but is now on the sidelines, and their path forward remains unclear. Falling oil prices might allow them more time to adjust their policy moving forward. We believe that the FOMC is more hawkish today and not investor friendly.

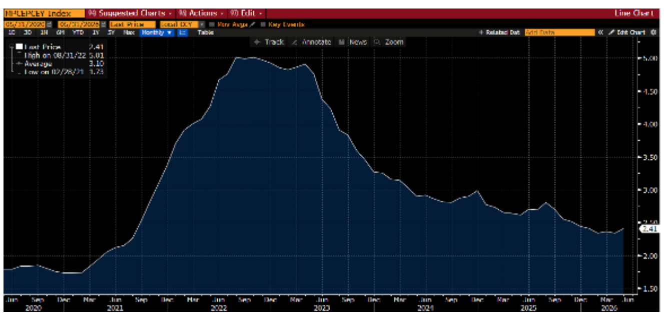
U.S. Core PCE YoY

2025 Est.	1Q 2026E	2Q 2026E	3Q 2026E	4Q 2026E	2026 Est.	2027 Est.
2.9%	3.2%	3.3%	2.8%	2.7%	2.8%	2.7%

Source: Pantheon Economics

The new FOMC chair is also attempting to change how the Committee communicates with investors. When Ben Bernanke was chairman of the FOMC he instituted a new policy that all the FOMC governors would cast their votes and that the FOMC's statement would reflect the outcome of the group in a democratic manner. The downside of this method is that FOMC governors now give conflicting speeches about rates and inflation showing the committee is deeply divided. In Kevin Warsh's view, that detracts from the process. He believes the FOMC over communicates with investors via their televised reading of the statement Q&A and discussion of the dot plot, which at times has conflicted with how Powell was answering questions. Warsh wants the markets to interpret his communications and keep discussion and dissention private in the Committee meeting.

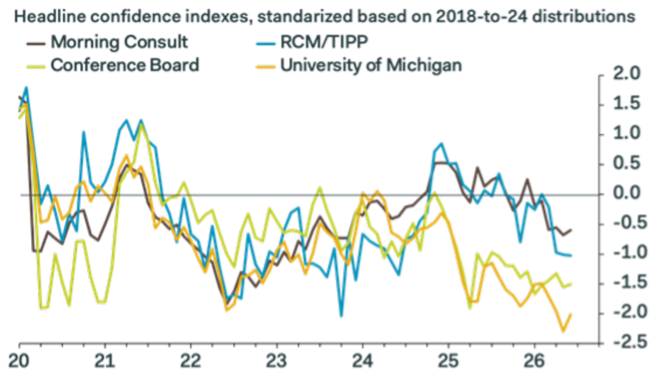
Dallas Trimmed Mean Annual Inflation



Source: Pantheon Economics

Core personal consumption expenditure (PCE) inflation has been above the FOMC's 2% target for more than six years. Year-over-year, it's running at 3.4%, and CPI year-over-year was last reported at 4.2%. At quarter end, the Federal Fund futures showed that the FOMC would raise rates by 0.28% over the next year. We believe these readings are credited by volatility in the bond market driven by the fickle nature of the equity markets. Warsh has given several talks about moving away from traditional inflation gauges and he has been a vocal critic of Core PCE index. He favors "Trimmed Mean" inflation gauges like the Dallas Trimmed Mean PCE index which, unlike core indices, permanently omit food and energy and dynamically filter out extreme price increases and decreases each month. By removing the top and bottom 8% of data, the index is currently 2.41% as of May which should be comforting to FOMC officials.

Consumer Confidence

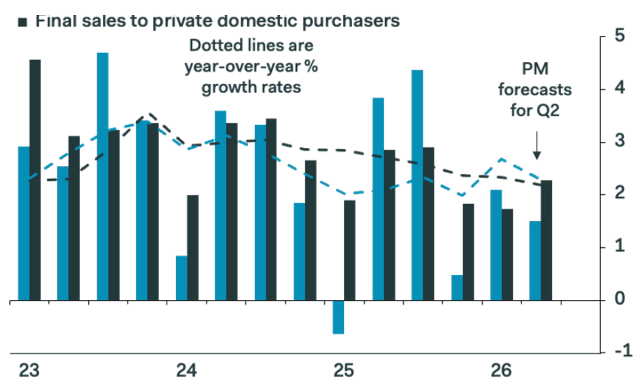


Source: Pantheon Economics

Economic Outlook

Our overall outlook for the U.S. economy is improving, and recession risks have dropped to 45%. The labor markets seem to have stabilized so far in 2026. After six months of data, hiring is improving at the margins, and the labor market seems more balanced overall. We continued to see large corporate reductions in force occurring but the fear that AI would leave droves of workers unemployed has not turned out to be the case.

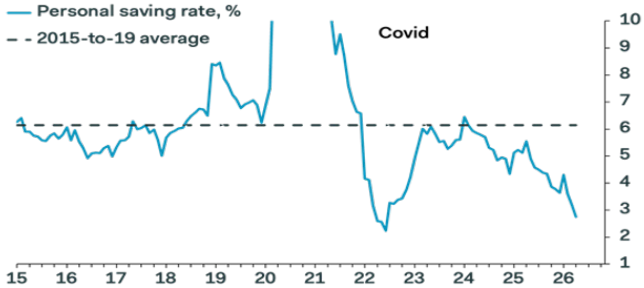
U.S. GDP q/q% Annualized



Source: Pantheon Economics

AI is increasing worker productivity as companies roll out AI tools to help employees manage their email inbox and workflow. We have lowered our terminal unemployment rate number from 4.8% to 4.6% to reflect this. Overall, we see some disinflation in the second half of the year as the fundamental demand for crude oil has softened. A.I. will increase productivity, and consumer spending growth will moderate, which should allow the FOMC to stand pat for the balance of 2026 before adjusting rates in 2027. We still believe the FOMC needs to lower rates by 0.25-0.50%, but the massive amount of capital expenditure around A.I. is causing price levels to remain uncomfortably high, and certain semiconductor prices, like DRAM, are growing exponentially, with prices up 700% since 2022.

Personal Savings Rate



Source: Pantheon Economics

Consumer spending growth remains our principal concern and accounts for about 70% of U.S. GDP. Consumers continued to be buffeted by multiple rounds of inflation starting with a complacent Federal Reserve coming out of the pandemic that believed inflation was transitory given the huge increase in the money supply. The second of round of inflation occurred in 2022 following the Russian invasion of Ukraine and resulting sanctions. At quarter end, U.S. WTI prices have almost done a round trip from $65 a barrel the day prior to the start of the conflict. It traded around $115 as the conflict intensified and at quarter end is currently $69.

Our principal concern around the U.S. consumer is that overall spending growth is slowing. While it held up in the second quarter, the personal savings rate has declined at a record pace as consumers spent on higher energy and food prices. The K-shaped economy has meant bifurcated consumer spending. Households with incomes above $125,000 have continued to spend while less fortunate households retrench and have divergent credit and lending trends. Higher end consumers have continued to keep spending, supported by record high equity markets and home prices, while lower end consumers continued to have higher delinquencies on mortgages and auto loans. We believe most of the consumer spending growth we have experienced in 2026 was driven by larger tax refund checks because of the Big Beautiful Bill, and those funds were spent in the first and second quarters. At of the end of the first quarter, the national seasonally adjusted mortgage rate sat around 4.44% and is estimated to continue climbing.

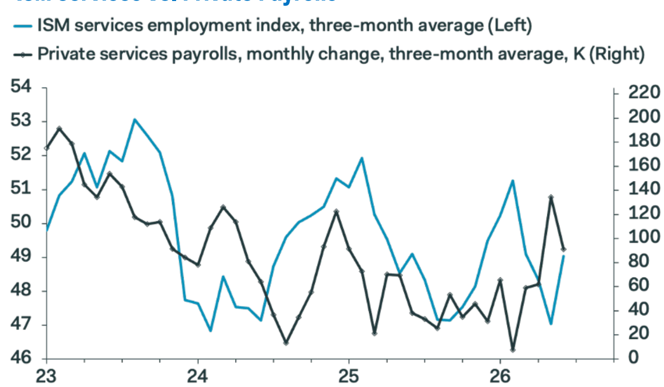
Overall consumer confidence has fallen to levels not seen since the pandemic. Even though energy prices have fallen back toward levels seen prior to the Iranian conflict, consumers will have to see lower prices to reverse this trend. Since the start of the conflict, energy and transport costs have risen significantly, fertilizer prices have jumped 30-40% and grocery costs have risen 3-6%. It will take months to unwind this spike in inflation, and that assumes that energy prices remain calm.

One of the last effects of the Iranian conflict is that the entire yield curve has shifted upward and flattened due to the risk of inflation and risk off atmosphere of the public markets. Higher borrowing rates for businesses are a side effect due to the perceived increase in risk with U.S. allies and decoupling with the European Union. We believe that the FOMC should look through the inflation spikes and be prepared for weaker data later this year. As part of this, the energy and shipping constraints will make it more difficult to buildout A.I. data centers, which could impact the ability of A.I. companies to spend their capex effectively. There are also concerns that A.I. buildout will have excess capacity.

The midterm elections are coming up this November, and as of quarter end the Democrats are predicted to pick up two seats in the senate and six in the house. Control of both will be determined in this election, according to Real Clear Politics. This outcome would limit President Trump's legislative success in the last two years of his second term.

K-shaped economic retail sales continue to be held up by wealthier Americans (homeowners), but overall spending growth has slowed from 5.7% in 2024 to 3.5%% in 2025. With the surge in energy prices, which will permeate all areas of the economy, we now expect growth to slow further in 2026, with estimates in the 1.4-1.7% range. As we look into 2027 and 2028, GDP growth year-over-year will be modest. The rapid consumer spending growth we saw following the pandemic is behind us. Overall, consumers are much more cautious as they deal with increased costs for essentials and are delaying major purchases.

ISM Services VS. Private Payrolls



Source: Pantheon Economics

Portfolio Strategy

At quarter end the S&P 500 traded at 25.5x, up from last quarter's readings 23.8x earnings. The index is currently estimated to be trading at 18.8x 2027 earnings, which is also up from 17.7x last quarter. We expect strong S&P earnings growth of 10+%, which has helped the market move higher. The S&P 500 equal-weight performance for the year to date was 12.1%, showing that the number of stocks moving higher has broadened since the first quarter.

The best performing sectors for the quarter were Information Technology, up 12.19%; Consumer Healthcare, up 9.27%, and Consumer Discretionary, up 6.41%. The worst performing sectors in the quarter were Energy, down 9.95%; Communications, down 8.62%; and Utilities, down 0.97%.
The best performing sectors on a year-to-date basis were Industrials, up 20.15%; Information Technology, up 19.75%; and Materials, up 11.96%. The worst performing sectors on a year-to-date basis were Financials, down 1.31%; Consumer Discretionary, down 0.77%; and Communications, up 0.80%.

The S&P 500 sectors currently trading below the S&P 500 at the end of the second quarter are Financials at 17.0x, Utilities at 20.2x and Energy 20.2x.