First National
WEALTH MANAGEMENT

To Our First National Wealth Management Clients:

As many of us have witnessed, signs of current inflationary pressures are visible at the gas pump, the car dealership, in the grocery aisles and lumber yards, and in the seemingly relentless appreciation of home prices. Adding to the list of inflation fears is the offer of higher wages, a standard solution for many businesses that have struggled to entice willing employees back into the workforce post-pandemic. Economists, consumers and investors tend to treat inflation as an unnerving and unwelcome guest that stays too long and eventually brings the party to an abrupt end. The culprit is assumed to be inevitably higher interest rates that materialize to slow down the economy by making money more expensive for corporate and individual borrowers. Higher interest rates are typically portrayed as an evil force that benefits savers but erodes corporate profits and signals the beginning of a downturn in financial markets.

History suggests that periods of inflation accompanied by a rise in interest rates are not necessarily a threat to the health of the stock market and are often the result of temporary forces that are neither fiendish nor unwanted. In fact, the relationship between rising interest rates and the stock market over the last few decades has been "positively correlated" meaning that higher stock markets have often been preceded by a rise in rates.

The reason for inflationary pressures is the compelling factor. As the economy emerges from the malaise of the COVID pandemic, demand has substantially increased for goods and services, many of which are in short supply. This source of demand is a sign of a healthy economy, one that is firmly in the stage of recovery and not a symptom of economic stress. As manufacturing increases and the supply of goods and services eventually meets demand, inflationary pressures will begin to fade as will the necessity for higher interest rates.

Periods of pronounced inflation are not new to the history of the U.S. economy and have occurred six times with conviction since the end of World War II, sometimes lasting for multiple years and, at other times, for only a year. In several cases, rising energy and gas prices proved to be the villain and, at more difficult periods of time, war was the cause of supply shortages that lead to price increases for all sorts of materials. The fact remains that, in every instance, the disruption that inflation visited on financial markets was temporary and proved to be an opportunity for long term investors.

One of our goals here at First National Wealth Management is to use history as a proven guide to make responsible decisions for you, our clients, and serve as a reminder that markets have a remarkable capacity to look toward the future and ignore the economic challenges of present day. We thank you for allowing us the privilege of managing your wealth, and we welcome the opportunity to hear your thoughts through whatever form of communication you prefer.

All the best,

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Quarterly Market Review: July-September 2021

The Markets (third quarter through September 30, 2021)

Overall, the third quarter was a roller-coaster ride for the market. The Dow, the Russell 2000, the Nasdaq, and the Global Dow lost value, while the S&P 500 was able to eke out a quarterly gain. Treasury yields, the dollar, and crude oil prices ended the third quarter higher, while gold prices dipped lower. Financials, information technology, communication services, and health care ended the quarter in the black. Energy, industrials, and materials fell by at least 4.5%. Despite the downturns, the benchmark indexes remain well ahead of their 2020 closing values, led by the S&P 500, which ended the quarter nearly 15.0% over last year's pace.

The yield on 10-year Treasuries fell 30 basis points. Crude oil prices increased $14.17 per barrel, or 24.0%, in the third quarter. The dollar lost nearly 1.0%, while gold prices advanced 3.6%. The national average retail price for regular gasoline was $3.175 per gallon on September 27, up from the August 30 price of $3.139 and higher than the June 28 price of $3.091.

July kicked off the third quarter with large caps outperforming small caps. The S&P 500, the Dow, and the Nasdaq advanced, reaching record highs along the way, while the small caps of the Russell 2000 fell over 3.5%. Treasury yields, the dollar, and crude oil prices also declined. Gold prices advanced. By the end of the month, over 80% of the S&P 500 companies that reported earnings exceeded expectations. COVID cases surged as the Delta variant spread across the country. Inflation figures continued to rise. The Consumer Price Index rose 0.9%, the Producer Price Index climbed 1.0%, both import and export prices advanced 1.0%, and retail sales increased 0.6%. The Federal Reserve noted that the economic recovery remained on track. Second-quarter gross domestic product advanced at an annualized rate of 6.5%, according to the initial estimate from the Bureau of Economic Analysis. Health care led the market sectors, followed by real estate, utilities, information technology, and communication services. Financials and energy lagged.

Equities continued their strong showing in August, recording several record highs during the month. Strong corporate earnings reports and improving economic conditions helped bolster investor confidence, despite the increasing prevalence of the Delta variant. Growth stocks outpaced value shares. Financials and communication services led the market sectors, while energy lagged. The Nasdaq paced the indexes, climbing 4.0%, followed by the S&P 500 (2.9%), the Russell 2000 (2.1%), the Global Dow (2.1%), and the Dow (1.2%). Ten-year Treasury yields jumped 7 basis points to close the month at 1.30%. The dollar rose by 0.6%, while crude oil prices fell 7.2% to $68.51 per barrel on the last business day of the month. Gold prices changed little, trading at $1,817.50 per ounce. The jobs sector improved, adding 943,000 new jobs. Wage gains were strong, while unemployment claims dipped.

Following a strong July and August, September saw the market struggle with volatility. Traders had other concerns to deal with, including slowing economic growth, elevated inflation, supply-chain disruptions, a global energy crunch, and China's regulatory restrictions. In addition, investors are facing the prospects of the Federal Reserve beginning to wind down its stimulus measures. Each of the benchmark indexes lost value, with the Nasdaq falling more than 5.0% and the S&P 500 dipping 4.8%. Among the market sectors, energy climbed 8.5%, while the remaining sectors ended well in the red. Crude oil prices rose more than 9.0% to close the month over $75.00 per barrel. The dollar and 10-year Treasury yields advanced, while gold prices declined.

Key Dates/Data Releases

10/1: Markit PMI Manufacturing Index

10/5: International trade in goods and services, Markit Services PMI

10/8: Employment situation

10/12: JOLTS

10/13: Consumer Price Index, Treasury budget

10/14: Producer Price Index

10/15: Retail sales, import and export prices

10/18: Industrial production

10/19: Housing starts

10/21: Existing home sales

10/26: New home sales

10/27: Durable goods orders, international trade in goods

10/28: GDP

10/29: Personal income and outlays

Stock Market Indexes

Market/Index	2020 Close	As of September 30	Monthly Change	Quarterly Change	YTD Change
DJIA	30,606.48	33,843.92	-4.29%	-1.91%	10.58%
Nasdaq	12,888.28	14,448.58	-5.31%	-0.38%	12.11%
S&P 500	3,756.07	4,307.54	-4.76%	0.23%	14.68%
Russell 2000	1,974.86	2,204.37	-3.05%	-4.60%	11.62%
Global Dow	3,487.52	3,958.34	-2.59%	-1.08%	13.50%
Fed. Funds	0.00%-0.25%	0.00%-0.25%	0 bps	0 bps	0 bps
10-year Treasuries	0.91%	1.52%	22 bps	8 bps	61 bps
US Dollar-DXY	89.84	94.25	1.70%	2.07%	4.91%
Crude Oil-CL=F	$48.52	$75.03	9.52%	2.07%	54.64%
Gold-GC=F	$1,893.10	$1,758.20	-3.26%	-0.69%	-7.13%

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Latest Economic Reports

- **Employment:** The pace of job gains slowed in August, as 235,000 new jobs were added, well off the pace set in July (943,000) and June (938,000). Through the first eight months of the year, monthly job growth has averaged 586,000. The unemployment rate declined by 0.2 percentage point to 5.2% in August. The number of unemployed persons edged down to 8.4 million, following a large (782,000) decrease in July. Both measures are down considerably from their highs at the end of the February-April 2020 period. However, they remain above their levels prior to the COVID-19 pandemic (3.5% and 5.7 million, respectively, in February 2020). In August, notable job gains occurred in professional and business services (74,000), transportation and warehousing (53,000), private education (40,000), and manufacturing (37,000). Employment in retail trade declined 29,000. Among the unemployed, the number of permanent job losers declined by 443,000 to 2.5 million in August but is 1.2 million higher than in February 2020. The number of persons on temporary layoff, at 1.3 million, was essentially unchanged in August. The number of persons not in the labor force who currently want a job declined by 835,000 in August to 5.7 million but remains higher than the level in February 2020 (5.0 million). The labor force participation rate in August, at 61.7%, was unchanged over the month and has remained within a narrow range of 61.4% to 61.7% since June 2020. The employment-population ratio, at 58.5%, was little changed in August. This measure is up from its low of 51.3% in April 2020 but remains below the figure of 61.1% in February 2020. In August, 13.4% of employed persons teleworked because of the pandemic, little changed from the prior month. In August, 5.6 million persons reported that they had been unable to work because their employer closed or lost business due to the pandemic, which is up from 5.2 million in July. Average hourly earnings rose $0.17 to $30.73 ($0.11/$30.54 in July). Earnings have increased 4.3% since August 2020. The average work week in August was 34.7 hours, unchanged since June 2021.
- The number of claims for unemployment insurance fell in September. According to the latest weekly totals, as of September 18 there were 2,802,000 workers receiving unemployment insurance benefits, down from the August 14 total of 2,862,000. The unemployment rate for the week ended September 18 was 2.0%, down 0.1 percentage point from the August 14 rate of 2.1%. During the week ended September 11, Extended Benefits were available in 9 states/territories: Alaska, California, Connecticut, the District of Columbia, Illinois, Nevada, New Jersey, New Mexico, and Texas; 44 states reported 1,059,248 continued weekly claims for Pandemic Unemployment Assistance benefits, and 46 states reported 991,813 continued claims for Pandemic Emergency Unemployment Compensation benefits.
- **FOMC/interest rates:** The Federal Open Market Committee met in September. While noting that the economy has continued to recover, the ongoing spread of the coronavirus, particularly the Delta variant, may be slowing the pace of recovery. With the goals of maximum employment and inflation running at 2.0%, the Committee decided to maintain the current target range for the federal funds rate at 0.00%-0.25%. However, the FOMC indicated that it may begin scaling back its purchases of securities as early as this November.
- **GDP/budget:** According to the third and final estimate from the Bureau of Economic Analysis, the economy accelerated at an annual rate of 6.7% in the second quarter of 2021 after advancing 6.3% in

the first quarter. Consumer spending, as measured by personal consumption expenditures, increased 12.0% in the second quarter after rising 11.4% in the prior quarter. The personal consumption price index (prices for consumer goods and services) rose 6.5% in the second quarter after climbing 3.8% in the first quarter. Excluding food and energy, the price index increased 6.1%. In the second quarter, fixed investment climbed 3.3% following a 13.0% increase in the first quarter, and residential fixed investment fell 11.7% after increasing 13.3% in the first quarter. Exports rose 7.6% in the second quarter after decreasing 2.9% in the first quarter. Imports (which are a negative in the calculation of GDP) increased 7.1% in the second quarter (9.3% in the first quarter).

- The Treasury budget deficit was $170.6 billion in August following the July deficit of $302.1 billion. Following the latest increase, the budget deficit through the first 11 months of the current fiscal year widened to $2.7 trillion, roughly 10.9% lower than last year's deficit over the same period. Compared to last fiscal year, government expenditures have increased 4.0% to $6.3 trillion, while receipts have increased 18.0% to $3.6 trillion.
- **Inflation/consumer spending:** Prices at the consumer level continued to advance in August. According to the latest Personal Income and Outlays report, consumer prices rose 0.4% in August after edging up 0.4% in July. Prices have increased 4.3% since August 2020. Excluding food and energy, consumer prices rose 0.3% in August (0.3% in July) and 3.6% since August 2020. Personal income increased 0.2% in August, while disposable (after-tax) personal income increased 0.1%. Consumer spending rose 0.8% in August following a -0.1% dip in July.
- The Consumer Price Index climbed 0.3% in August following a 0.5% jump in July. Over the 12 months ended in August, the CPI rose 5.3%. Prices less food and energy rose 0.1% in August, the smallest increase since February 2021. Energy prices increased 2.0%, mainly due to a 2.8% rise in gasoline prices. Food prices increased 0.4% (0.7% in July), and new vehicle prices rose 1.2% (1.7% in July). Over the 12 months ended in August, energy prices have risen 25.0%, food prices have increased 3.7%, and prices for used cars and trucks have climbed 31.9%.
- Prices that producers receive for goods and services continued to climb in August, increasing 0.7% after rising 1.0% in both June and July. Producer prices increased 8.3% for the 12 months ended in August, the largest yearly gain since November 2010 when 12-month data was first calculated. In August, prices for services rose 0.7% (1.1% in July), and prices for goods moved up 1.0% (0.6% in July). Producer prices less foods, energy, and trade services advanced 0.3% in August (0.9% in July) and have risen 6.3% since August 2020, the largest 12-month increase since August 2014.
- **Housing:** Existing home sales fell 2.0% in August following two consecutive monthly gains. Over the past 12 months, existing home sales dropped 1.5%. The median existing-home price was $356,700 in August ($359,900 in July), up 14.9% from August 2020. Total housing inventory at the end of August dropped 1.5% from July's supply and is down 13.4% from one year ago. In August, unsold inventory sat at a 2.6-month supply at the present sales pace, the same figure recorded in July but down from 3.0 months in August 2020. Sales of existing single-family homes also decreased in August, falling 1.9% after increasing 2.7% in July. Year over year, sales of existing single-family homes fell 2.8%. The median existing single-family home price was $363,800 in August, down from $367,000 in July.
- New single-family home sales increased for the second consecutive month in August, advancing 1.5% after climbing 1.0% in July. Despite the recent monthly increases, sales of new single-family homes have decreased 24.3% from August 2020. The median sales price of new single-family houses sold in August was $390,900 ($390,500 in July). The August average sales price was $443,200 ($446,000 in July). The inventory of new single-family homes for sale in August represents a supply of 6.2 months at the current sales pace, up slightly from the July revised estimate of 5.7 months.
- **Manufacturing:** Industrial production increased 0.4% in August after advancing 0.8% (revised) the previous month. Late-month shutdowns related to Hurricane Ida held down the gain in industrial production by an estimated 0.3 percentage point. Manufacturing output rose 0.2% in August after rising 1.6% in July. In August, mining fell 0.6%, reflecting hurricane-induced disruptions to oil and gas extraction in the Gulf of Mexico. The output of utilities increased 3.3%, as warm temperatures boosted demand for air conditioning. Total industrial production in August was 5.9% higher than its year-earlier level and 0.3% above its pre-pandemic (February 2020) level.
- New orders for durable goods increased 1.8% in August after advancing 0.5% in July (revised). Transportation drove the August increase, with new orders climbing 5.5% after decreasing 0.4% in July. Excluding transportation, new orders edged up 0.2%. Excluding defense, new orders advanced 2.4% after dipping 0.5% in July. New orders for nondefense aircraft and parts jumped 77.9% in August after falling 36.3% the previous month. Goods declined 8.0% following a 1.6% increase in July. New orders for capital goods reversed a 3.1% drop in July, increasing 6.7% in August. The advance was driven by a 9.0% rise in orders for nondefense capital goods. New orders for defense capital goods fell 8.3%.
- **Imports and exports:** August import prices decreased for the first time since October 2020. The import

price index declined 0.3% in August following increases of 0.4% in July and 1.1% in June. Import prices rose 9.0% over the 12 months ended in August (10.1% for the 12 months ended in July). This is the smallest 12-month increase since March 2021. Import fuel prices fell 2.3% in August — the first monthly decrease since October 2020. The August downturn in fuel prices was mostly driven by a 2.4% decline in petroleum prices. Despite the decline in August, import fuel prices advanced 56.5% for the year ended in August. Nonfuel import prices dipped 0.1% in August after ticking up 0.1% in July. Export prices increased 0.4% in August after increases of 1.1% in July and 1.2% in June. For the year ended in August, the price index for exports rose 16.8%. Agricultural export prices rose 1.1% in August following a 1.7% decline in July. Nonagricultural exports rose 0.2% in August after increasing 1.4% in July.

- The international trade in goods deficit was $87.6 billion in August, up $0.8 billion, or 0.9%, from July. In August, exports increased $1.1 billion, or 0.7%, while imports rose $1.9 billion, or 0.8%. For the 12 months ended in August, exports have risen 25.6%, while imports have increased 17.8%.
- The latest information on international trade in goods and services, out September 2, was for July and showed that the goods and services trade deficit decreased by 4.3% to $70.1 billion. July exports rose 1.3%, while imports declined 0.2%. Year over year, the goods and services deficit increased $131.0 billion, or 37.1%, from July 2020. Exports increased $205.0 billion, or 16.8%. Imports increased $336.0 billion, or 21.3%.
- **International markets:** Whether it's transitory or not remains to be seen, but several countries are experiencing accelerated inflation. Germany, Europe's largest economy, saw inflation grow at a record pace in September, climbing 4.1% following a 3.4% jump in August. French inflation hit a near 10-year high of 2.7% in September. Like the case in many countries, surging energy prices are driving the inflation spike in France. Nevertheless, if inflation continues to climb, pressure will be on the European Central Bank to determine how to proceed with its asset purchases going forward. China, the world's second largest economy, is attempting to contain the financial fallout from the default or bankruptcy of mega-developer Evergrande. Also last month, the People's Bank of China, which has targeted bitcoin since 2013, declared that all crypto-related activities are illegal in China. For September, the STOXX Europe 600 Index fell about 3.8%; the United Kingdom's FTSE declined 0.8%; Japan's Nikkei 225 Index rose 3.5%; and China's Shanghai Composite Index was essentially unchanged from August.
- **Consumer confidence:** According to the latest report from The Conference Board, consumer confidence declined in September for the third consecutive month. The Consumer Confidence Index® stands at 109.3, down from 115.2 in August. The Present Situation Index, based on consumers' assessment of current business and labor market conditions, fell to 143.4 in September from 148.9 the previous month. The Expectations Index, based on consumers' short-term outlook for income, business, and labor market conditions, registered 86.6 in September, down from 92.8 in August. According to the report, consumer confidence waned, as the spread of the Delta variant deepened concerns over the state of the economy and short-term growth prospects. Nevertheless, consumer confidence is still high by historical levels, while these declines in confidence suggest consumers have grown more cautious and are likely to curtail spending going forward.

Eye on the Month Ahead

Heading into the fourth quarter of 2021, several economic indicators have improved, while a few have waned. Real estate and manufacturing slowed from the pace set earlier in the year. GDP posted strong data for the second quarter, although some estimates suggest that the third quarter will not be quite as strong. On the jobs front, there were nearly 11 million jobs available but nearly 8.7 million unemployed actively looking for work, further widening the gap between job openings and hires.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no *guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.*

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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