2024 4TH QUARTER

Economic and Financial Market Commentary

The U.S. economy is diversified and remains resilient with 3.0% GDP growth reported in the second quarter. Consumer spending continues to be a primary driver of U.S. economic activity as individuals benefit from growth in consumer net worth and rising disposable income. Inflation is decelerating on an annual basis, although ongoing high prices remain an issue for many Americans. The positive news on economic growth and inflation is being somewhat offset by moderation in the labor market, leading to a change in Federal Reserve monetary policy.

Economy (page 1)

- *Labor Market:* Moderation in job openings relative to unemployed
- *Fed Monetary Policy:* First interest rate cut since 2020

Investments (page 2)

- *Fixed Income Yields:* Decline in interest rates in anticipation of further Fed easing
- *Equity Earnings and Valuations:* Corporate earnings are key to further price upside

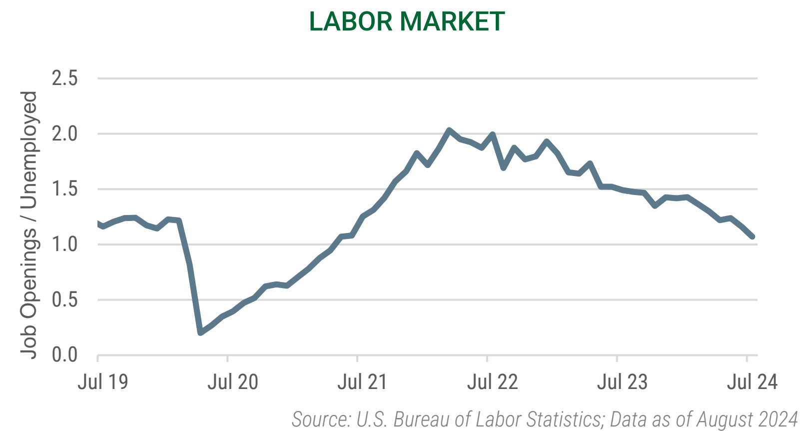
Election (page 3)

- In response to questions about the market impact of the upcoming election, we show historical stock market returns if investing based on presidency.

LABOR MARKET

There are signs of moderation in labor as indicated by the deceleration in overall job growth. In the first quarter, the U.S. economy created 267,000 jobs on average per month.[1] Overall, job growth slowed as the year progressed. Although the pace of hirings slackened, there are few indications that corporate layoffs are occurring because initial unemployment claims remain muted.[2] The recent rise in the unemployment rate to 4.1% is primarily due to an increase in workers entering the labor force.[3]

The employment market was considered tight over the last few years with job openings far exceeding the level of unemployed.[4] This led to high wage growth and contributed to the steep rise in inflation. As illustrated in the "Labor Market" graph, the relative number of jobs available compared to the number of people unemployed and looking for work is approaching parity. At the current reading of 1.1, we are above average but well below the 2022 peak. Most of the decline is a result of reductions in job openings, from 12.2 million to 8.0 million.[5] We believe a further reduction in the job openings per unemployed ratio would likely come from an increase in the number of unemployed people, creating pressure on consumption.



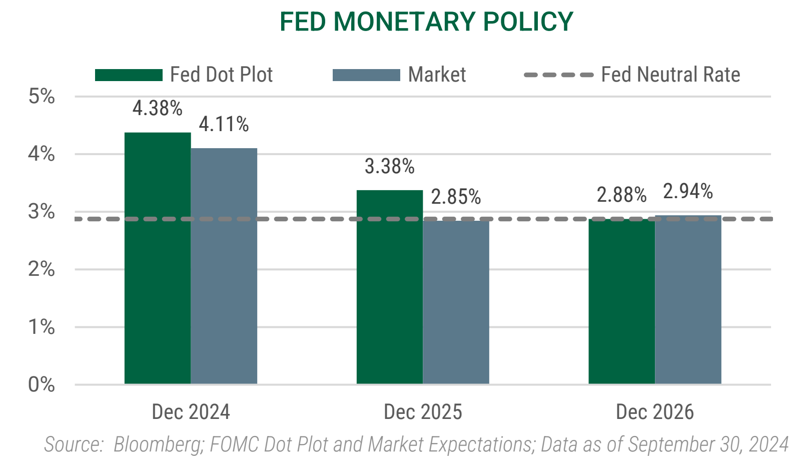
Source: U.S. Bureau of Labor Statistics; Data as of August 2024

FED MONETARY POLICY

The Federal Reserve operates with a dual mandate of price stability and maximum employment. For most of the last two years, risks were skewed toward inflation over the labor market, which led to the Fed maintaining a restrictive monetary policy. Inflation continues to slow with core personal consumption expenditures (PCE) of 2.8%.[6] Although still above the Fed target, prices are trending toward the 2.0% level, allowing flexibility in monetary policy. Concerns about inflation will likely persist as individuals typically compare current prices to levels from several years ago.

The lower risk of inflation and increased focus on the labor market combined to change the Fed's view on monetary policy. The Federal Reserve began its easing cycle with a 0.50% reduction in September. As portrayed in the "Fed Monetary Policy" chart, the Fed and market anticipate further interest rate cuts over the next two years, moving toward its long-term neutral rate.

We believe the U.S. economy, which has been resilient in the face of higher interest rates, will only see a modest benefit to lower yields. The change in policy doesn't materially change our outlook for a soft landing or the risk of a recession. One sector that may benefit is the housing market, which could see demand improvement on any decline in mortgage rates.



Source: Bloomberg; FOMC Dot Plot and Market Expectations; Data as of September 30, 2024

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Market Return Data as of 9/30/2024 — *Source: Morningstar Direct; Data as of September 30, 2024*

Asset Class	Index	Total Return 3 Month (%)	Total Return YTD (%)	Total Return 1 Year (%)	Annualized 3 Year (%)	Annualized 5 Year (%)
Global Equities:	Diversified Equity Benchmark[7]	6.97	19.01	32.98	8.75	13.20
Domestic Equities:	S&P 500 TR USD	5.89	22.08	36.35	11.91	15.98
	Russell 2000 TR USD	9.27	11.17	26.76	1.84	9.39
International Equities:	MSCI EAFE NR USD	7.26	12.99	24.77	5.48	8.20
	MSCI EM NR USD	8.72	16.86	26.05	0.40	5.75
Fixed Income:	Bloomberg US Govt/Credit Interm TR USD	4.17	4.68	9.45	0.17	1.26
	Bloomberg Muni Inter-Short 1-10 TR USD	2.72	2.03	7.18	0.58	1.37

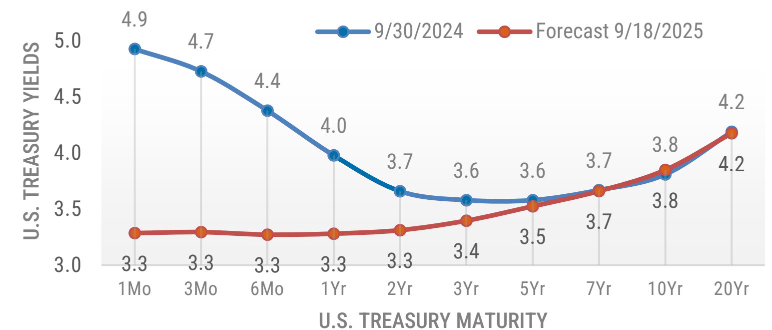
FIXED INCOME YIELDS

An easing of Fed monetary policy typically leads to solid returns in risk assets with stocks outperforming bonds and bonds outperforming cash. As shown in the "Market Return Data" table above, markets anticipated the change in policy with all asset classes producing strong year-to-date returns.

In the bond market, the Federal Reserve historically controls the short end of the curve with long-term interest rates impacted by expected inflation. The "Interest Rates" graph highlights market expectations for Treasury maturities of less than three years to see a material decline in yields over the next year. Intermediate (5–7 years) and long-term interest rates (10–30 years) are expected to see slight changes according to the forward curve.

Effectively, the bond market has moved ahead of itself and priced in further interest rate cuts by the Fed. Lower yields across all maturities remains a possibility, although it would likely occur in an outright economic contraction. Conversely, if the Federal Reserve is too aggressive in reducing interest rates in a growing economy, it runs the risk of reigniting inflation. We consider supply chain disruption and ongoing fiscal deficits as potentially inflationary and continue to monitor geopolitical risk for any economic impact.

INTEREST RATES



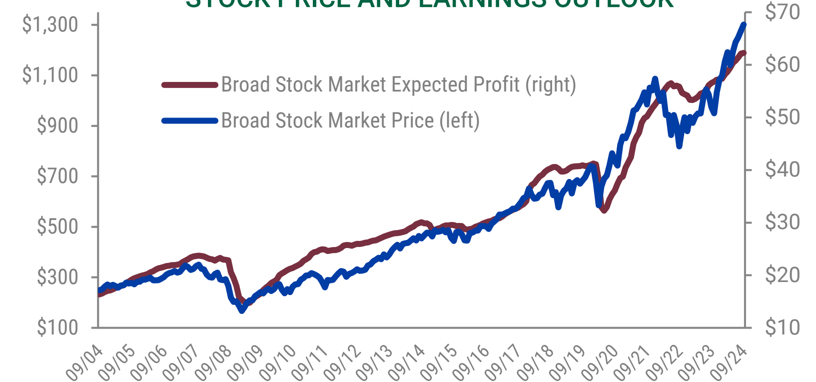
Source: Bloomberg and ustreasuryyieldcurve.com; Data as of September 30, 2024

EQUITY EARNINGS AND VALUATIONS

Our focus on company fundamentals is based on our conviction that future earnings are an important determinant of equity returns. Major price declines coincide with recessions and a significant contraction in corporate profitability. We emphasize the Next Twelve Months (NTM) profit estimates. The close relationship between fundamentals and price is portrayed in the "Stock Price and Earnings Outlook" chart. As illustrated, profits have rebounded strongly and reached all-time highs. Equity prices over the last two years have also recovered and risen above the earnings outlook, which may indicate we are due for a pause in stock returns.

One additional concern with the stock market is the current valuation of U.S. large-cap equities. This sub-asset class remains expensive relative to historic averages with the S&P 500 P/E at 21.6x.[8] U.S. small- and mid-cap equities and international stocks remain less expensive and have more upside compared to large multi-national companies. The key to further price appreciation is a continuation of economic growth, leading to profit expansion. Productivity remains high with companies potentially benefitting from artificial intelligence and other expense minimization efforts.

STOCK PRICE AND EARNINGS OUTLOOK



Source: Factset, S&P 1500, September 30, 2024

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ELECTIONS AND POLITICS

Investors commonly allow personal beliefs and prior experiences to influence investment decision-making. Our role is to maximize the chances of success by helping clients stay objective and avoid these biases. One investor bias we frequently see is using political views as a rationale either to invest or avoid investing altogether. As highlighted in the "Heavy Opportunity Cost" graph, investing in the stock market only when one political party is in power results in significantly less asset growth than a buy-and-hold strategy regardless of who holds the presidency. We understand that divisive political rhetoric may be alarming, but agreement or disagreement with the current political environment is not a sound investment strategy.

Most of the current political discussions are noise and insignificant from an investment perspective. We typically say that politics don't matter, but certain policies could affect the broader economy. We monitor tax policy, deficit spending and debt levels, trade and tariffs, regulation, and immigration, but focus on policies that become law. With the forthcoming election, most candidate proposals won't be passed, especially if we end up with a divided Congress.

The expiration of the 2017 Tax Cuts and Jobs Act at the end of 2025 means that the next president and Congress will face a significant fiscal cliff. Inaction could result in one of the largest nominal tax hikes in U.S. history,[9] potentially weighing on consumer and business spending in 2026. Because tax policy potentially has a material economic impact, this will be an area to assess next year.

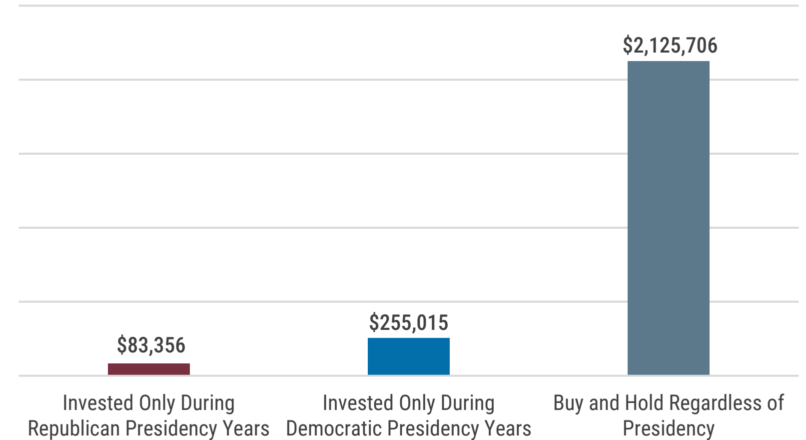
FEDERAL DEFICITS

Over the long-term, the lack of plans by either political party to address the federal government deficit is concerning. The Congressional Budget Office predicts a 2024 budget deficit of around $1.9 trillion in 2024 and continued high levels over the next 10 years. The "Federal Deficits" chart highlights the projected growth in revenues and expenditures and the persistent high deficit level. With federal government debt rising, it's becoming increasingly expensive to service that debt, and interest costs are projected to soon eclipse defense spending.

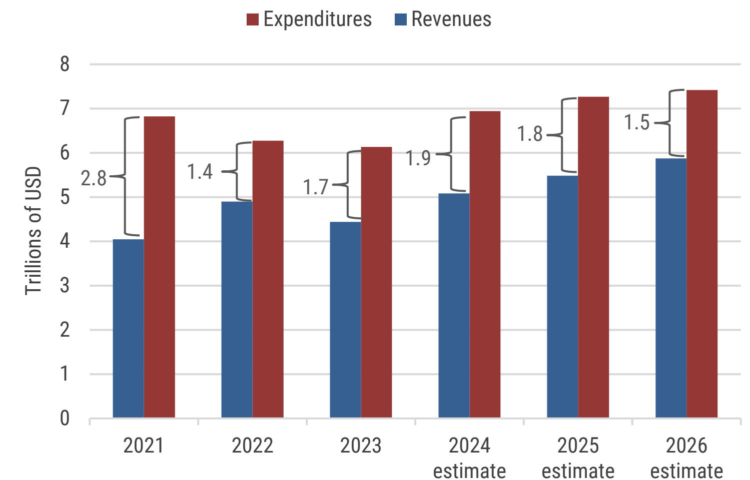
Unlike most other expenditures, there is no direct contribution to the economy from debt repayments. In addition, increased Treasury issuance to fund the deficit could lead to higher interest rates and a larger budget deficit. Looking ahead, failing to resolve deficits will likely result in lower economic growth and higher interest rates.

PORTFOLIO DIVERSIFICATION

The most important decision that impacts the investor return/risk experience is asset allocation. To achieve return goals with the least amount of risk possible, we invest in four primary asset classes: cash, bonds, equities and alternatives. We believe diversification lowers portfolio risk and balances the portfolio against various market outcomes. Macro-economic uncertainty, political noise and geopolitical risk may be creating anxiety about your investment portfolio. We recommend meeting with your team to review asset allocation and address any concerns.



Source: Bloomberg and Goldman Sachs Asset Management. As of August 31, 2024.



Source: U.S. Office of Management & Budget; retrieved from Federal Reserve Economic Data October 3, 2024

Sources:

[1] Visa Business and Economic Insights; U.S. Economic Outlook; September 12, 2024
[2] U.S. Employment and Training Administration; Initial Claims; October 3, 2024
[3] U.S. Bureau of Labor Statistics; Unemployment Rate; Data as of September 2024
[4] U.S. Bureau of Labor Statistics; Job Openings, Total Nonfarm, Unemployment Level; Data as of August 2024
[5] U.S. Bureau of Labor Statistics; Job Openings, Total Nonfarm; Data as of August 2024
[6] U.S. Bureau of Economic Analysis; PCE excluding Food and Energy; Data as of Q2 2024
[7] Benchmark consists of Russell 3000 (76%), MSCI ACWI ex US (20%) and FTSE EPRA/NAREIT Global (4%)
[8] FactSet; Price-to-forward earnings (P/E) ratio of S&P 500; Data as of September 30, 2024
[9] T. Rowe Price; "Why U.S. fiscal policy will matter even more after the election"; August 2024

First National Advisers, LLC Commentary Team:
Kurt Spieler CFA®, Rick Frevert, Scott Summers CFA®

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Bloomberg Intermediate US Government/Credit Index: The index is a broad-based flagship benchmark that includes investment grade, US dollar-denominated, fixed-rate Treasuries, government-related and corporate securities, within a 2-10 year maturity range.

Bloomberg Municipal Short-Intermediate 1-10 Years: Index that measures the performance of US municipal bonds with time to maturity of between one and ten years.

MSCI EAFE - Developed International: This index reflects the performance of small- to large-cap stocks across the developed regions of Europe, Australasia, and the Far East (EAFE). The index was developed by Morgan Stanley Capital International (MSCI) in 1969 and lists 926 stocks from 21 countries in the EAFE.

MSCI Emerging Market: An index used to measure equity market performance in global emerging markets, consisting of 23 economies including Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

MSCI All Country World Index (ACWI): This index is designed to track broad global equity-market performance.

FTSE European Public Real Estate Association (EPRA)/National Association of Real Estate Investment Trusts (NAREIT): This index tracks the performance of listed real estate companies in both developed and emerging markets.

Russell Indices: The Russell 3000 is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S. traded stocks which represent about 98% of all U.S. incorporated equity securities. The Russell 2000 index measures the performance of approximately 2,000 of the smallest companies in the Russell 3000 index.

S&P Indices: The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. Other popular indices include the S&P MidCap 400, which represents the mid-cap range of companies and the S&P SmallCap 600, which represents small-cap companies. The S&P 1000 is a combination of the S&P 400 and 600, representing the small and mid-cap market. The S&P 500, S&P MidCap 400 and S&P SmallCap 600 combine to create a U.S. all-capitalization index known as the S&P Composite 1500.

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U.S. government bonds and Treasury bills are guaranteed by the federal government and, if held to maturity, offer fixed rates of return and guaranteed principal. U.S. government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury bills are certificates reflecting short-term obligations of the U.S. government.

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