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Investing in the Return of American Industry

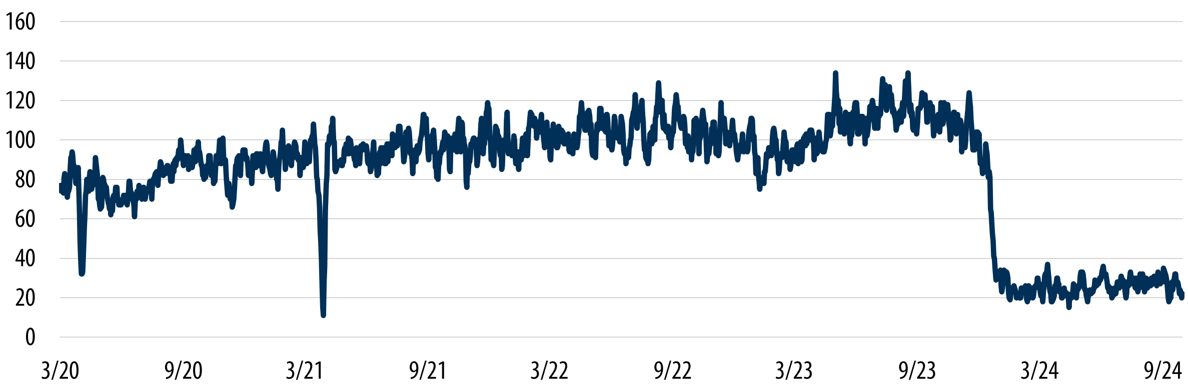
A renaissance of American industry is underway, in our opinion, arising from elevated risks to global supply chains, increased trade protectionism, and U.S. industrial policies offering substantial incentives to shift manufacturing onshore. While small- and mid-capitalization ("cap") U.S. industrial stocks have performed relatively well recently, we view U.S. reindustrialization as a largely untapped secular growth opportunity that may continue to flourish over the next decade. Below, we unpack several key drivers for the return of American manufacturing, followed by a brief discussion of why we believe the First Trust RBA American Industrial Renaissance® ETF (AIRR) is well-positioned to benefit.

COVID-19, Geopolitical Stress, and the Realignment of Supply Chains

The COVID-19 pandemic caused global trade chaos and exposed significant supply chain vulnerabilities. Industries ranging from pharmaceuticals to automobile manufacturing faced prolonged shortages of necessary components, resulting in delayed production and low inventories.[1,2]

More recently, as effects of the pandemic have diminished, the outbreak of wars and other geopolitical stressors have destabilized supply chains. For example, attacks on shipping vessels in the Red Sea have caused a 79% decrease in Suez Canal transits over the past year (Chart 1), increasing container rates (Chart 2), and reducing global shipping capacity by as much as 20% as vessels are diverted to safer routes.[3,4,5] Additionally, tensions between Taiwan and China have continued to raise concerns about the stability of the global semiconductor supply chain, as Taiwan plays a crucial role in manufacturing advanced chips for industries ranging from consumer electronics to defense.

Chart 1: Suez Canal Daily Container Ship Crossings (7-Day Rolling Average)



Source: Bloomberg. Data from 3/1/20-9/6/24. **There is no guarantee that past trends will continue.**

Chart 2: Geopolitical Events Have Impacted Container Rates – WCI Composite Container Freight Benchmark Rate

Source: Bloomberg. Data from 10/2/14-9/26/24. **There is no guarantee that past trends will continue.**

Considering these issues, many U.S.-based companies have begun reevaluating existing supply chains and expanding manufacturing onshore. A recent survey of North American manufacturing executives found that 90% of companies have relocated production in the last five years.[6] And despite a recovering economy, U.S. imports from 14 low-cost countries in Asia fell 14% from 2022 to 2023.[7] After decades of expanding globalization, we believe the tide has begun to shift in the opposite direction.

[1] John's Hopkins University, The Pandemic and the Supply Chain: Addressing Gaps in Pharmaceutical Production and Distribution, November 2020.

[2] Cox Automotive, New-Vehicle Inventory Falls Below 1 Million in September, Prices Hit All-Time High, October 2021.

[3] Bloomberg. Data from 3/1/20-9/6/24.

[4] Bloomberg. Data from 10/2/14-9/26/24.

[5] Maersk, The Ongoing Ripple Effects of Red Sea Shipping Disruptions, July 2024.

[6] Boston Consulting Group, Harnessing the Tectonic Shifts in Global Manufacturing, September 2023.

[7] Kearney, Made in America: Here to Stay? 2024 Reshoring Index Report.

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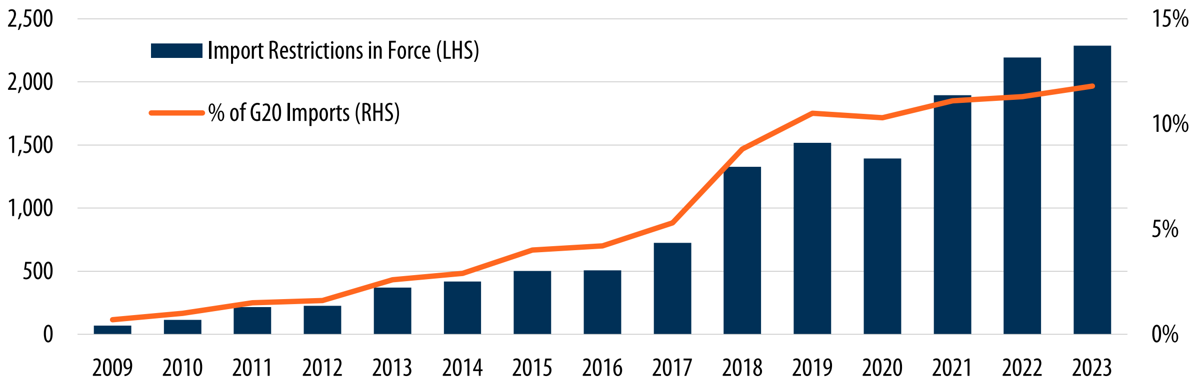
Trending Trade Protectionism

Tariffs were a signature policy tool of the of the Trump administration's approach to trade with China, but almost four years into the Biden administration, most of these tariffs remain in place.[8] In fact, President Biden announced an additional $18 billion in new tariffs on Chinese goods earlier this year. With massive fiscal deficits ahead and bipartisan support for tariffs, the next administration—whoever that ends up being—has little incentive to drastically change course on Chinese tariffs, in our opinion.

Beyond the relationship between the U.S. and China, trade protectionism is also on the rise around the world. G20 nations now have thousands of import restrictions in place, compared to just a few dozen in 2009 (Chart 3).[9] The percentage of imports in G20 nations that were covered by import restrictions doubled from 2017 to 2023, from 6% to 12%.[10] In our view, the increased cost of protectionism provides another important incentive for reshoring manufacturing.

Chart 3: Import Restrictions Among G20 Countries

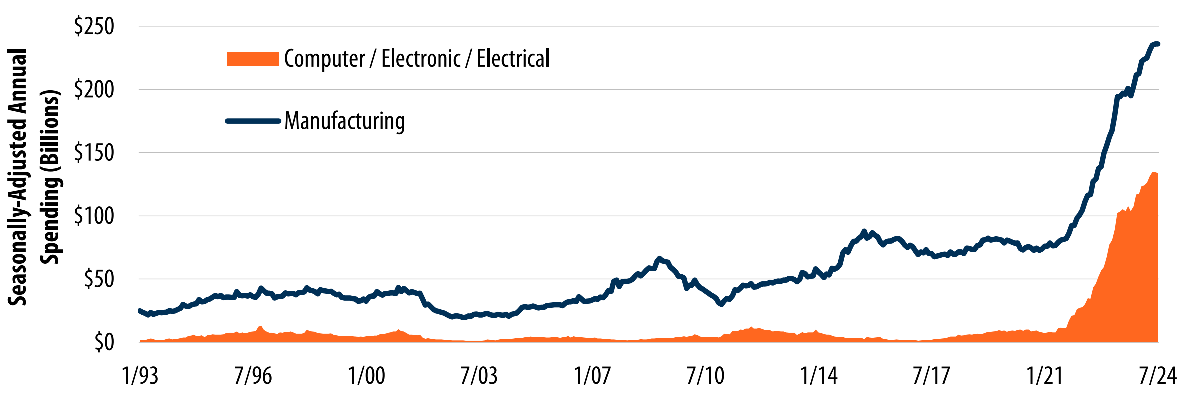


Source: World Trade Organization. Data from 2009-2023. **There is no guarantee that past trends will continue.**

New Industrial Policies Seek to Boost American Manufacturing

Over the past few years, the U.S. federal government has sought to incentivize American manufacturing with new laws and unprecedented levels of fiscal spending. For example, the CHIPS and Science Act was passed in 2022, authorizing $52.7 billion in financial incentives for semiconductor companies to increase domestic manufacturing. Over the past three years, construction spending on computer, electronic, and electrical plants (including semiconductors) grew by more than 1,000%, accounting for 79% of the increase in factory construction over that period (Chart 4).[11] Additionally, some semiconductor manufacturers such as Micron, have announced multi-year plans for further investments.[12] By 2030, the U.S. Department of Commerce expects the U.S. to produce 20% of the world's leading edge logic chips, up from 0% today.[13]

Chart 4: Construction Spending on Manufacturing



Source: U.S. Census Bureau. Data from 1/31/93-7/31/24, most recent data available. **There is no guarantee that past trends will continue.**

The Department of Energy's Loan Programs Office (LPO) also seeks to increase domestic manufacturing by providing attractive lending terms for projects in certain targeted categories, such as electric vehicles, renewable energy, and related infrastructure. This program was expanded substantially as part of the Inflation Reduction Act in 2022.[14] As of August 2024, the LPO had issued $43.9 billion in loans and loan guarantees, with roughly $210 billion of remaining loan authority as of September 2024.[15,16]

[8] Tax Foundation, Tariff Tracker: Tracking the Economic Impact of the Trump-Biden Tariffs, June 2024.

[9] World Trade Organization, Report on G20 Trade Measures (Mid-May to Mid-October 2023), December 2023.

[10] World Trade Organization, G20 Trade Policy Direction Becoming More Restrictive Amid Continued Slow Trade Growth, December 2023.

[11] National Institute of Standards and Technology, CHIPS for America Funding Updates, September 2024.

[12] Micron, Micron Announces Historic Investment of up to $100 Billion to Build Megafab in Central New York, October 2022.

[13] U.S. Department of Commerce, Remarks by U.S. Secretary of Commerce Gina Raimondo: Investing in Leading-Edge Technology: An Update on CHIPS Act Implementation, February 2024.

[14] Department of Energy, Loans Programs Office, Inflation Reduction Act of 2022, September 2023.

[15] Department of Energy, September 2024.

[16] Department of Energy, September 2024.

A Strategy for Investing in the Return of American Industry

The First Trust RBA American Industrial Renaissance® ETF (AIRR) is well-positioned to benefit from the expansion of domestic manufacturing over the next several years, in our view. The portfolio provides exposure to small- and mid-cap industrial stocks from the Russell 2500® Index, with positive earnings estimates over the next 12 months, and at least 75% of sales generated domestically. Additionally, 10% of the portfolio is reserved for community banks located in traditional manufacturing hubs. Individual constituents are capped at a maximum weight of 4%, and the portfolio is rebalanced quarterly.

In our opinion, AIRR provides exposure to several key industries that may benefit from the reindustrialization of America. For example, as of 9/30/24, AIRR's largest allocation was to Construction & Engineering stocks (26.2%), many of which provide critical services for planning and building new factories and related infrastructure.[17] Other portfolio holdings include companies that provide specialized building materials, machinery, and infrastructure components. Many investors have insignificant exposure to these stocks, considering AIRR's holdings constituted just 0.07% of the S&P 500® Index, as of 9/30/24.[18]

Over the past couple years, the prevailing narrative for investors has been focused on the disruptive potential of artificial intelligence. We agree that artificial intelligence ("AI") and other technology-related themes offer exciting long-term opportunities. But given the trends outlined above—shifting global supply chains, elevated trade protectionism, and supportive government spending programs—combined with more reasonable valuations (AIRR's forward price-to-earnings ("P/E") ratio was 17.8, as of 9/30/24[18]), we believe the reindustrialization of America is another compelling theme that should not be overlooked.

[17,18]FactSet as of 9/30/2024.

Performance Summary (%) as of 9/30/24

AIRR Performance*	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since Fund Inception
Net Asset Value (NAV)	9.18	29.12	44.86	22.44	22.95	15.37	13.55
Market Price	9.49	29.06	44.93	22.45	22.98	15.38	13.56
Index Performance**							
Richard Bernstein Advisors American Industrial Renaissance® Index	9.38	29.85	45.90	23.35	23.88	16.24	14.41
S&P 500® Industrials Index	11.55	20.20	35.89	13.40	13.76	11.73	11.31
Russell 2500® Index	8.75	11.30	26.17	3.47	10.43	9.50	8.64
S&P 500® Index	5.89	22.08	36.35	11.91	15.98	13.38	13.27

Performance data quoted represents past performance. Past performance is not a guarantee of future results and current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares when sold or redeemed, may be worth more or less than their original cost. You can obtain performance information which is current through the most recent month-end by visiting www.ftportfolios.com.

Inception Date: 3/10/2014. Total Expense Ratio: 0.70%.

*__NAV__ returns are based on the fund's net asset value which represents the fund's net assets (assets less liabilities) divided by the fund's outstanding shares. **Market Price** returns are determined by using the midpoint of the national best bid offer price ("NBBO") as of the time that the fund's NAV is calculated. Returns are average annualized total returns, except those for periods of less than one year, which are cumulative.

**Performance information for each listed index is for illustrative purposes only and does not represent actual fund performance. Indexes do not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Indexes are unmanaged and an investor cannot invest directly in an index.

You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. Contact First Trust Portfolios L.P. at 1-800-621-1675 or visit www.ftportfolios.com to obtain a prospectus or summary prospectus which contains this and other information about a fund. The prospectus or summary prospectus should be read carefully before investing.

Risk Considerations

You could lose money by investing in a fund. An investment in a fund is not a deposit of a bank and is not insured or guaranteed. There can be no assurance that a fund's objective(s) will be achieved. Investors buying or selling shares on the secondary market may incur customary brokerage commissions. Please refer to each fund's prospectus and Statement of Additional Information for additional details on a fund's risks. The order of the below risk factors does not indicate the significance of any particular risk factor.

Unlike mutual funds, shares of the fund may only be redeemed directly from a fund by authorized participants in very large creation/redemption units. If a fund's authorized participants are unable to proceed with creation/redemption orders and no other authorized participant is able to step forward to create or redeem, fund shares may trade at a premium or discount to a fund's net asset value and possibly face delisting and the bid/ask spread may widen.

Community banks were significantly impacted by the decline in the subprime mortgage lending market in the U.S. which brought about legislative and regulatory changes, changes in short-term and long-term interest rates, inflation and changes in government monetary and fiscal policies. Unlike larger national or other regional banks that are more geographically diversified, a community bank's financial performance may be highly dependent upon the business environment in certain geographic regions of the U.S. and may be adversely impacted by any downturn or unfavorable economic or employment developments in its local market and the U.S. as a whole.

Current market conditions risk is the risk that a particular investment, or shares of the fund in general, may fall in value due to current market conditions. As a means to fight inflation, the Federal Reserve and certain foreign central banks have raised interest rates; however, the Federal Reserve has recently lowered interest rates and may continue to do so. Recent and potential future bank failures could result in disruption to the broader banking industry or markets generally and reduce confidence in financial institutions and the economy as a whole, which may also heighten market volatility and reduce liquidity. Ongoing armed conflicts between Russia and Ukraine in Europe and among Israel, Hamas and other militant groups in the Middle East, have caused and could continue to cause significant market disruptions and volatility within the markets in Russia, Europe, the Middle East and the United States. The hostilities and sanctions resulting from those hostilities have and could continue to have a significant impact on certain fund investments as well as fund performance and liquidity. The COVID-19 global pandemic, or any future public health crisis, and the ensuing policies enacted by governments and central banks have caused and may continue to cause significant volatility and uncertainty in global financial markets, negatively impacting global growth prospects.

A fund is susceptible to operational risks through breaches in cyber security. Such events could cause a fund to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures and/or financial loss.

Depositary receipts may be less liquid than the underlying shares in their primary trading market and distributions may be subject to a fee. Holders may have limited voting rights, and investment restrictions in certain countries may adversely impact their value.

Equity securities may decline significantly in price over short or extended periods of time, and such declines may occur in the equity market as a whole, or they may occur in only a particular country, company, industry or sector of the market.

An index fund will be concentrated in an industry or a group of industries to the extent that the index is so concentrated. A fund with significant exposure to a single asset class, or the securities of issuers within the same country, state, region, industry, or sector may have its value more affected by an adverse economic, business or political development than a broadly diversified fund.

A fund may be a constituent of one or more indices or models which could greatly affect a fund's trading activity, size and volatility.

There is no assurance that the index provider or its agents will compile or maintain the index accurately. Losses or costs associated with any index provider errors generally will be borne by a fund and its shareholders.

Industrials and producer durables companies are subject to certain risks, including the general state of the economy, intense competition, consolidation, domestic and international politics, excess capacity and consumer demand and spending trends. They may also be significantly affected by overall capital spending levels, economic cycles, technical obsolescence, delays in modernization, labor relations, and government regulations.

Market risk is the risk that a particular security, or shares of a fund in general may fall in value. Securities are subject to market fluctuations caused by such factors as general economic conditions, political events, regulatory or market developments, changes in interest rates and perceived trends in securities prices. Shares of a fund could decline in value or underperform other investments as a result. In addition, local, regional or global events such as war, acts of terrorism, spread of infectious disease or other public health issues, recessions, natural disasters or other events could have significant negative impact on a fund.

A fund faces numerous market trading risks, including the potential lack of an active market for fund shares due to a limited number of market makers. Decisions by market makers or authorized participants to reduce their role or step away in times of market stress could inhibit the effectiveness of the arbitrage process in maintaining the relationship between the underlying values of a fund's portfolio securities and a fund's market price.

An index fund's return may not match the return of the index for a number of reasons including operating expenses, costs of buying and selling securities to reflect changes in the index, and the fact that a fund's portfolio holdings may not exactly replicate the index.

A fund and a fund's advisor may seek to reduce various operational risks through controls and procedures, but it is not possible to completely protect against such risks. The fund also relies on third parties for a range of services, including custody, and any delay or failure related to those services may affect the fund's ability to meet its objective.

A fund that invests in securities included in or representative of an index will hold those securities regardless of investment merit and the fund generally will not take defensive positions in declining markets.

High portfolio turnover may result in higher levels of transaction costs and may generate greater tax liabilities for shareholders.

The market price of a fund's shares will generally fluctuate in accordance with changes in the fund's net asset value ("NAV") as well as the relative supply of and demand for shares on the exchange, and a fund's investment advisor cannot predict whether shares will trade below, at or above their NAV.

Securities of small- and mid-capitalization companies may experience greater price volatility and be less liquid than larger, more established companies.

Trading on an exchange may be halted due to market conditions or other reasons. There can be no assurance that a fund's requirements to maintain the exchange listing will continue to be met or be unchanged.

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Definitions

Forward Price-to-Earnings (P/E) is the price of a stock divided by the forecasted earnings per share of the company over the next 12 months.

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