Lingering Uncertainty and the American Industrial Renaissance

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Equity market volatility has surged in 2025 amid the Trump administration's rapidly evolving tariff policies and global retaliatory measures. While volatility can be unsettling, we believe long-term investors can capitalize on market dislocations by targeting investment themes with strong secular growth drivers. In our view, U.S.-focused manufacturing and industrial stocks, many of which can be found in the First Trust RBA American Industrial Renaissance® ETF (AIRR), are well-positioned to outperform as policy uncertainty fades.

Secular Forces Propelling the Growth of American Industry

In last fall's Inside First Trust ETFs (published prior to Election Day), we argued that a resurgence of American industry was being supported by a reorientation of global supply chains, rising geopolitical tensions, increasing trade protectionism, and U.S. industrial policies offering substantial incentives to shift manufacturing onshore. The new Trump administration has further accelerated this trend, in our view, albeit with different strategies than its predecessor. According to the White House, corporations have announced trillions of dollars of investments in U.S. manufacturing projects since Inauguration Day, including Project Stargate ($500 billion), Apple ($500 billion), NVIDIA ($500 billion), IBM ($150 billion), Taiwan Semiconductor Manufacturing Company (TMSC) ($100 billion), Johnson & Johnson ($55 billion), Roche ($50 billion), Bristol Myers Squibb ($40 billion), Eli Lilly and Company ($27 billion), and many others.[1] In our opinion, these companies will rely heavily on the US industrial sector to pull off these massive projects.

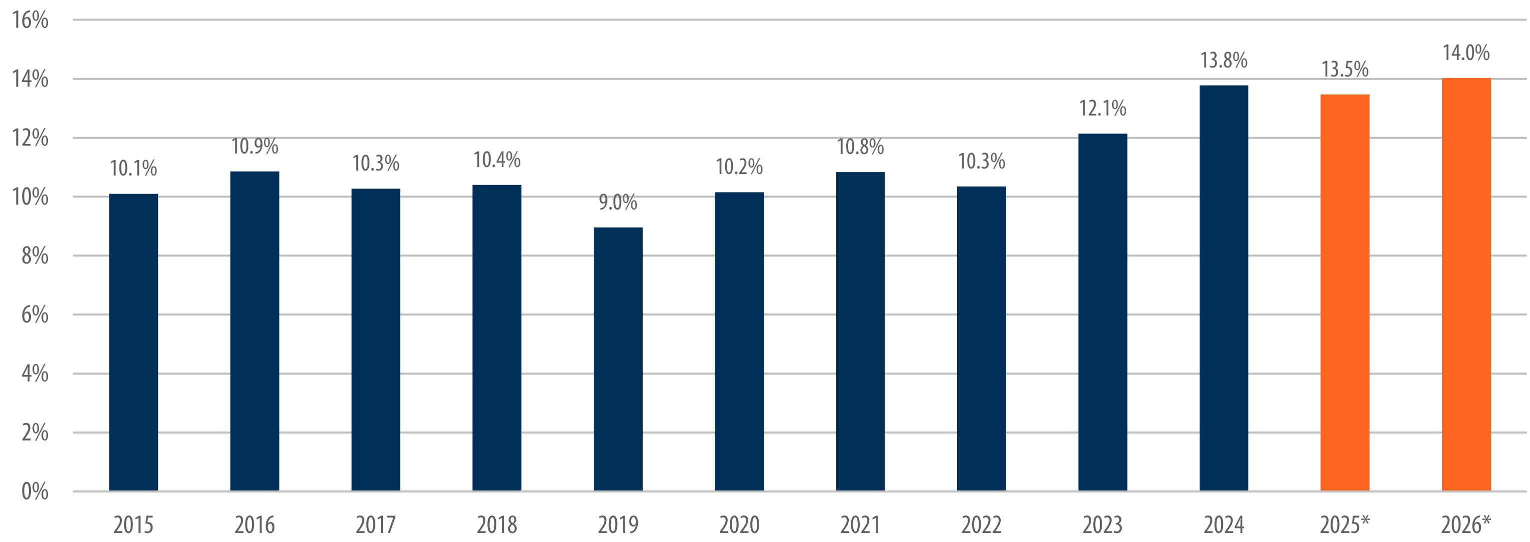
The Uncertain Impact of Tariffs

The size and scope of the Trump administration's "Liberation Day" tariff policies caught many investors by surprise, creating a surge of equity market volatility. Assessing the long-term implications of these policies is challenging as they have evolved unpredictably over the past several weeks. But as clarity emerges, we believe certain U.S. industrial companies, including many of AIRR's holdings, may be more insulated from some of the negative impacts of tariffs. For example, a U.S. company that generates most of its revenue domestically may be less impacted by retaliatory tariffs on its exports. Approximately 93% of the revenue generated by AIRR's holdings is derived domestically.[2] Meanwhile, such companies may also gain pricing power versus foreign rivals that are subject to tariffs on U.S. sales, in our opinion.

On the other hand, many companies have global supply chains and could face higher input costs from imported intermediate goods, putting pressure on profit margins. According to the National Institute of Standards and Technology (NIST), imports account for roughly 17% of the supply chain for U.S. manufacturers.[3] Hypothetically, if the average tariff rate on these imported intermediate goods increased by 20%-30%, input costs would increase by roughly 3.4%-5.1%, assuming foreign exporters were able to pass along the full cost of these tariffs. To maintain profit margins, companies would likely need to increase prices.

After the first Trump administration began imposing tariffs in 2018, profit margins for AIRR's holdings did decrease in 2019, but largely recovered, and then expanded in the years that followed (see Chart 1). Whether current supply and demand dynamics will enable U.S. industrial firms to protect margins by raising prices remains to be seen. But so far, 2025 and 2026 profit margin estimates suggest AIRR's holdings may be well-equipped to navigate tariff pressures.

Chart 1: AIRR: EBITDA Margin



Source: FactSet. As of 5/16/2025. *Estimates for 2025 and 2026. "EBITDA margin" is a financial metric that divides a company's EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) by its total revenue, expressed as a percentage. There is no guarantee that past trends will continue, or projections will be realized.

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.

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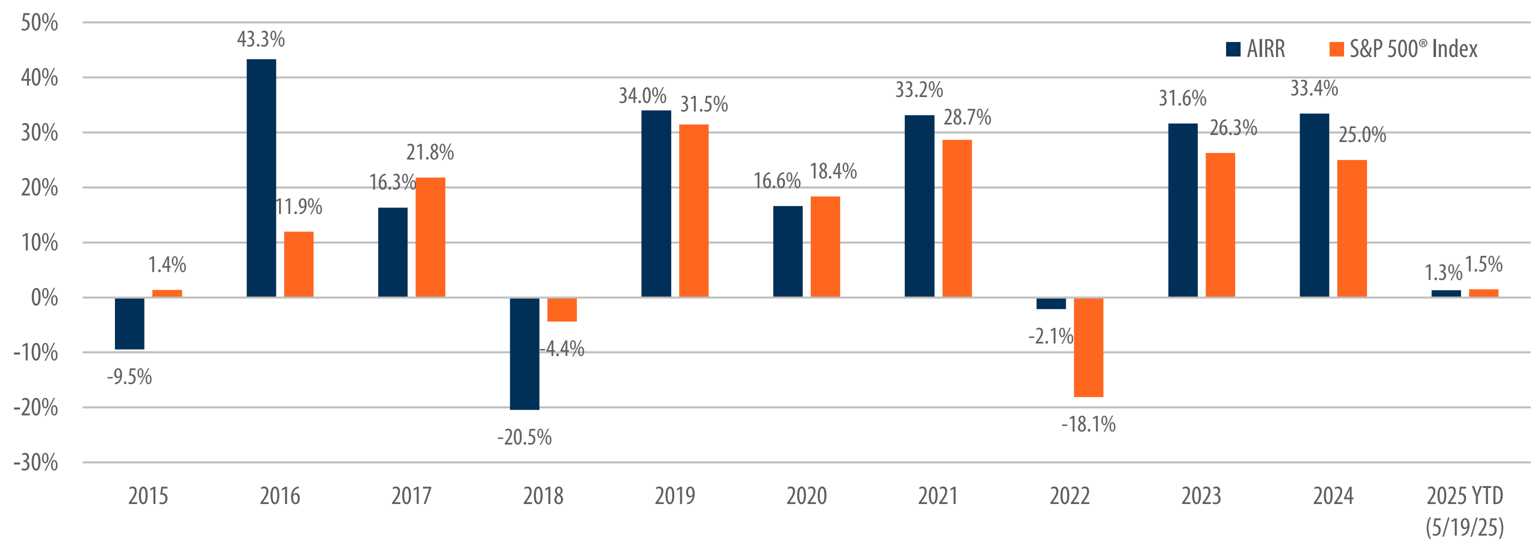
Echoes of 2018?

AIRR seeks investment results that correspond generally to the price and yield (before the fund's fees and expenses) of an equity index called the Richard Bernstein Advisors American Industrial Renaissance® Index. The fund is comprised of small- and mid-capitalization U.S. industrial stocks that have positive 12-month forward earnings estimates and at least 75% of revenue generated from U.S. customers, along with a small (roughly 10%) allocation to regional banks located in traditional manufacturing hubs. This cyclical exposure can create short term volatility as the economic cycle ebbs and flows. In 2018, as the first Trump administration began unveiling new tariff policies, AIRR declined by over 20% as economic uncertainty plagued investors. However, as clarity emerged, AIRR outperformed the S&P 500® Index in five of the next six calendar years, despite having no exposure to the information technology sector, the best performing sector during that stretch (see Chart 2).

Chart 2: Calendar Year Total Returns: AIRR vs. S&P 500® Index



Source: Bloomberg. Data from AIRR's inception 3/10/2014-5/19/2025.

Today's economic landscape differs meaningfully from 2018, in our opinion. This time around, new tariffs may be broader and more impactful, raising the risk of an economic slowdown or recession. Due to its cyclical exposure, AIRR could face challenges in an economic downturn.

However, we believe there are several potential catalysts on the horizon that could provide tailwinds for AIRR, including:

- **Interest Rate Cuts:** The Federal Reserve may lower interest rates this year, with markets already beginning to anticipate monetary easing. Small- and mid-capitalization stocks, like those in AIRR, are historically sensitive to interest rate shifts, which may provide a supportive backdrop for AIRR.
- **"One Big Beautiful Bill":** The proposed budget reconciliation bill currently making its way through Congress includes a temporary provision that could allow 100% expensing for the construction of certain factories started by 2028.[4] Another proposed provision temporarily restores 100% bonus depreciation for short-lived investments from 2025 through 2029.
- **U.S. Reindustrialization and Artificial Intelligence Data Centers:** We believe the long-term demand for goods and services offered by the U.S. industrial sector has inflected higher due to the acceleration of U.S. reindustrialization and the buildout of artificial intelligence data centers.

If history is a guide, we may encounter increased volatility in the coming months, as tariff and trade negotiations heighten the risk of an economic slowdown. But eventually, we believe trade deals will be finalized, and the administration will settle on long-term tariff rates. As this uncertainty subsides and companies begin to fulfill commitments to strengthen supply chains by reshoring the production of critical products and technologies to the U.S., we believe AIRR may be well-positioned for sustainable, above-average growth.

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Performance information for each index shown in the charts 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.

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Performance Summary (%) as of 3/31/25

Fund Performance*	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since Fund Inception
Net Asset Value (NAV)	-11.37	-11.37	1.57	17.54	27.95	13.88	12.01
Market Price	-11.36	-11.36	1.70	17.56	28.01	13.87	12.01
Index Performance**							
Richard Bernstein Advisors American Industrial Renaissance® Index	-11.21	-11.21	2.33	18.41	28.92	14.74	12.86
S&P 500® Industrials Index	-0.19	-0.19	5.65	10.27	19.27	10.82	10.53
Russell 2500™ Index	-7.50	-7.50	-3.11	1.78	14.91	7.46	7.54
S&P 500® Index	-4.27	-4.27	8.25	9.06	18.59	12.50	12.44

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Fund Inception Date: 3/10/2014. Total Expense Ratio: 0.70%. The Investment Advisor has implemented fee breakpoints, which reduce the fund's investment management fee at certain assets levels. Please see the fund's Statement of Additional Information for full details.

*__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. The fund's performance reflects fee waivers and expense reimbursements, absent which performance would have been lower.

**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.

[1] The White House, May 2025. References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

[2] FactSet, as of 5/19/25.

[3] National Institute of Standards and Technology, October 2024.

[4] The Tax Foundation, May 2025. These provisions are not yet law and may be subject to change. This material is for informational purposes only and should not be considered tax or legal advice. Please consult your tax advisor regarding your specific circumstances.

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. For example, changes in governmental fiscal and regulatory policies, disruptions to banking and real estate markets, actual and threatened international armed conflicts and hostilities, and public health crises, among other significant events, could have a material impact on the value of the fund's investments.

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.

First Trust Advisors L.P. (FTA) is the adviser to the First Trust fund(s). FTA is an affiliate of First Trust Portfolios L.P., the distributor of the fund(s).

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DEFINITIONS

The **Russell 2500™ Index** is an unmanaged market-cap weighted index that includes the smallest 2,500 companies from the Russell 3000 Index.

The **S&P 500® Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

The **S&P 500® Industrials Index** is an unmanaged index which includes the stocks in the industrials sector of the S&P 500® Index.