FirstNational Wealth Management

Located at The First National Bank in Sioux Falls®

On behalf of First National Wealth Management, thank you for the continued confidence you have placed in us. 2022 marked our 105th year in business providing Trust and Wealth Management services in Sioux Falls.

We are committed to the continuing success of our partnership, and we hope you find value in this 2022 market and economic review. Should you have any questions regarding this material or anything else, please contact us.

CLIENT-CENTERED FOCUS

In 2022, we continued investing in our comprehensive financial planning service, which allows us to provide in-depth financial planning to our Wealth Management clients, building on our reputation as a premier provider of services under the fiduciary standard. We also increased our delivery of original personal finance content, including our award-winning podcast, Common Cents on the Prairie™, which recently surpassed 25,000 total downloads. Thank you for listening! If you haven't checked it out yet, you can find the podcast on our website (fnbsf.com), on YouTube, or on your favorite podcast app. As it has been for more than 100 years, our goal is to be your most trusted financial partner and to make your lives easier and better.

2022 MARKET REVIEW

Data from 1/1/2022 – 12/31/2022. Source: FactSet, Avantis Investors. Past performance is no guarantee of future results.

These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

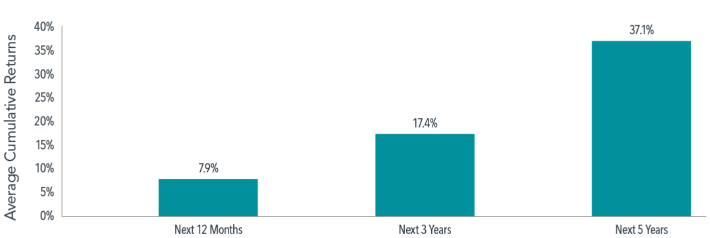
2022 MARKET REVIEW

The coronavirus pandemic eased in 2022 but remained a global concern, as did the supply chain issues that accompanied it. Inflation reached a 40-year high in the U.S., and the Federal Reserve pursued a series of interest rate increases to combat rising prices. Other central banks quickly followed suit. Russia's invasion of Ukraine in February brought political instability and rising energy prices, among other risks. Against this backdrop, both equity and bond markets suffered double-digit declines for the year.

Inflation was front and center all year long. The U.S. experienced the highest price increases in four decades, peaking at 9.0% year over year in June. In response, central banks around the world aggressively increased interest rates. By November, inflation eased to 7.1% in the U.S., still far above the Fed's 2.0% target. Supply chain issues related to the pandemic and the war in Ukraine eased, and commodity and fuel costs declined in the back half of the year. However, other components, such as shelter, grew more quickly. While trending in the right direction, inflation remains far too high for consumers and policymakers alike.

With both fixed income and equities declining on the year, the traditional 60% stock/40% bond portfolio performed poorly. 2022 was the worst year in history for many bond indices, but performance of the 60/40 portfolio didn't crack the top five peak-to-trough drawdowns over the last century. While painful, the 19% peak drawdown was only two-thirds of the 30% peak-to-trough drawdown investors endured during the recessionary bear market of 2007–2009. Fortunately, the 60/40 strategy saw some recovery late in the year and ended down 14% for 2022. The good news for investors is that performance tends to be much stronger following declines of 10% or more. Since 1926, returns for a 60/40 portfolio have grown by an average of 7.9%, 17.4%, and 37.1% over the subsequent one-, three-, and five-year periods (as seen below).

Performance of a 60/40 portfolio (60% S&P 500 Index/40% 5-year US Treasury notes) following a decline of 10% or more: January 1926 – December 2022



MAJOR WORLD INDICES

As of December 31, 2022

Index	One Year	Five Years*	Ten Years*
Equity Retuns (%)			
S&P 500 (US Stocks)	-18.11%	9.42%	12.56%
Russell 2000 (US Small Cap Stocks)	-20.44%	4.13%	9.01%
MSCI ACWI ex USA (International Stocks)	-15.57%	1.40%	4.34%
MSCI Emerging Markets (EM Stocks)	-20.09%	-1.40%	1.44%
Fixed Income Retuns (%)			
Bloomberg Barclays Global Aggregate Bond (Total Bond Market)	-16.25%	-1.65%	-0.44%
Bloomberg Barclays US Aggregate Bond (US Bond Market)	-13.01%	0.02%	1.06%
ICE BofAML Three-Month US Treasury Bill (Short-Dated Bond Index)	1.50%	1.25%	0.74%
REIT and Commodity Retuns (%)			
S&P North American Natural Resources Sector TR (Commoditites)	34.07%	7.13%	4.05%
Dow Jones US Real Estate Index	-25.28%	4.00%	6.63%

**Annualized*

Equity Market Recap

The S&P 500 Index fell to a two-year low in September; at one point, the Index had given back 50% of its post-pandemic rally. After the sharp drop in the first half of the year, led by technology stocks, the stock market rebounded somewhat.

Despite the rally, the S&P 500 fell 18.1% for the year — its worst annual return since the financial crisis in 2008. Likewise, global stock markets ended with their largest declines since the financial crisis. Developed international stocks, as represented by the MSCI World ex USA Index, lost 15.6%; emerging markets declined even further, with the MSCI Emerging Markets Index down 20.1%.

Fixed Income Observations

Benchmark U.S. Treasuries posted their worst annual returns in decades, with 10-year Treasury notes losing 16.3% — a second straight annual loss. The last time investors saw back-to-back losses was in the late 1950s. The yield curve, which charts the difference in yield between long-dated and short-dated bonds, was inverted at year's end.

TAX UPDATE

Standard deductions for 2023 increase: singles get $13,850 and married couples can deduct $27,700 plus $1,500 for each spouse age 65 and older. Head of households get $20,800 plus $1,850 for those 65 and older.

Tax rates for individuals are unchanged, but the brackets at each rate are wider due to inflation.

The lifetime estate and gift tax exemption increased to $12.92 million in 2023, with $25.84 million available to couples, and the annual gift tax exclusion increased to $17,000 per recipient (up from $16,000). The amount of lifetime estate and gift tax exemption is set to be cut in half at the start of 2026 under current law. Retirement plan contribution limits are higher in 2023. The max 401(k), 457, and 403(b) contribution is $22,500. Those age 50 and older can contribute an additional $7,500. The max contribution for a traditional IRA and Roth IRA increased to $6,500 plus $1,000 catch up for those 50 and older.

President Biden signed a $1.7 trillion legislative package, Secure 2.0, in January 2023. The provisions include raising the RMD age to 73 starting in 2023 and to 75 starting in 2033, reducing tax penalties, and eliminating required distributions from Roth 401(k) plans.

REASONS FOR OPTIMISM

One of the most fundamental ideas in investing is the discount rate. The concept is simple: in order to know what an investment is worth today, you must have an expected rate of return to "discount" the future gains on the investment. The higher the expected return, the lower the current price must be. In a year where inflation spiked well above recent norms and central bank targets, these expectations spiked with it. The effect? A market reset for both stocks and bonds.

While painful at the outset, the cause of last year's fall in prices is the exact reason for future optimism: higher return expectations. Yields on bonds more than doubled, and the outlook for global stock markets has improved across the board. Economic activity has steadily improved as countries work through the lingering effects of the pandemic and Russian aggression in Ukraine. No one knows how the coming year will play out, but we welcome an environment with higher expectations and appropriately priced assets.

THANK YOU

Once again, thank you for your continued trust in us. As we look to the future, we know there will be good years for markets and bad — and while we can't know the sequence in advance, we can prepare for it.

We prepare by planning ahead for any potential short-term cash needs so that we are not forced to sell at a bad time. We get to know your goals early in our relationship to make sure that your investments are suitable for your risk tolerance and time horizon. We study stock and bond market fundamentals and valuations (we won't bore you with the details), and we are always ready to act on opportunities.

In the end, the best investment portfolio for you is the one you can stick with in good times and bad. Doing so allows you to sit confidently, and it allows the magic of compounding to grow your wealth.

Please contact your administrator if you would like to schedule a time to visit with us about your portfolio or other ways we could serve your financial needs. In the meantime, we will stay focused on finding the best opportunities we can and adjusting your investments accordingly.

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*Measured by the Dow Jones Total Stock Market Index