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FIRST Trust ADVISORS L.P.

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Monday Morning Outlook

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Dow 14,500

Last year, we predicted that the Dow Jones Industrial Average would finish 2006 at 12,500 - up roughly 15% for the year. When the dust settled, and the Dow closed 2006 at 12,463, we counted our lucky stars.

For 2007, we predicted a 12% gain in the Dow to 14,000 at year-end. This was a smaller gain than in 2006, but we were still more optimistic than the consensus. For the S&P 500, we expected a push to 1,600.

With roughly six months left in 2007, this forecast now looks too conservative. At 13,906, the Dow is up 11.6% so far this year (12.9%, reinvesting dividends). At 1,552, the S&P 500 is up 9.5% (10.5%, with dividends).

The catalyst behind the recent surge is not private equity deals, but a clear rebound in economic activity. Instead of succumbing to the housing slowdown, and crumbling at the feet of sub-prime loan problems, economic growth has turned the corner.

Purchasing managers' indices, and data on employment, wages, and business spending, point to a 3.5% real GDP growth rate in the second quarter. Our models continue to forecast 3%+ real growth for the rest of this year and into 2008.

Robust productivity and strong global growth allow US companies to boost revenues and profits faster than GDP growth. We foresee profit growth of roughly 10% annually, and our capitalized profit models show that the US equity market is still undervalued by roughly 15%.

This valuation is calculated by discounting economy-wide corporate profits with the 10-year Treasury bond yield. We do not use the current 5.1% rate, but instead 6% - a more appropriate level given today's real growth and inflation environment. In other words, higher interest rates will not alter our view that stocks are undervalued.

Given these models, and the already buoyant market, it is time to lift our year-end Dow forecast to 14,500 and our S&P 500 outlook to 1,625. For 2008, we expect a further 13% gain, which pushes the Dow to 16,500 and the S&P 500 to 1,835.

This does not mean all will go smoothly. We remain convinced that the Fed will hike rates in the fourth quarter. Combined with rising inflation, this means some temporary indigestion for investors. But because we already assume higher interest rates in our stock market model, this will not change our view and the market will recover from rate hike indigestion quickly.

In addition, with the political season heating up, the market will most likely experience some turbulence as the odds of tax hikes, protectionism and government regulation, wax and wane.

There is always a chance that the market will ignore these threats and not look back until it is fairly valued. But some increased volatility in the second half of this year would not be a surprise.

Trading this volatility is tough, but any downdrafts should be viewed as buying opportunities. Profits and the economy look solid. In the end, this is the fundamental reason we remain bullish on the US equity market.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-16 / 7:30 am	Empire State Mfg Index - Jul	18.0	**18.0**		25.8
7-17 / 7:30 am	PPI - Jun	+0.2%	**+0.2%**		+0.9%
7:30 am	"Core" PPI - Jun	+0.2%	**+0.1%**		+0.2%
8:15 am	Industrial Production - Jun	+0.5%	**+0.7%**		+0.0%
8:15 am	Capacity Utilization - Jun	81.6%	**81.7%**		81.3%
7-18 / 7:30 am	CPI - Jun	+0.2%	**+0.2%**		+0.7%
7:30 am	"Core" CPI - Jun	+0.2%	**+0.2%**		+0.1%
7:30 am	Housing Starts - Jun	1.450 Mil	**1.459 Mil**		1.474 Mil
7-19 / 7:30 am	Initial Claims - Jul 14	312K	**315K**		308K
9:00 am	Leading Indicators - Jun	+0.0%	**+0.0%**		+0.3%
11:00 am	Philly Fed Survey - Jul	14.5	**14.0**		18.0