First Trust

Weekly Market Commentary

Week Ended October 12, 2018

US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	2.263 (5.4 bps)	GNMA (30 Yr) 6% Coupon:	105-23/32 (4.23%)
6 Mo. T-Bill:	2.434 (2.9 bps)	Duration:	4.01 years
1 Yr. T-Bill:	2.646 (4.0 bps)	Bond Buyer 40 Yield:	4.27 (+4 bps)
2 Yr. T-Note:	2.853 (-3.2 bps)	Crude Oil Futures:	71.34 (-3.00)
3 Yr. T-Note:	2.941 (-4.1 bps)	Gold Spot:	1,217.05 (13.42)
5 Yr. T-Note:	3.015 (-5.4 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	3.161 (-7.1 bps)	U.S. High Yield:	6.77 (12 bps)
30 Yr. T-Bond:	3.335 (-6.9 bps)	BB:	5.58 (10 bps)
		B:	7.02 (11 bps)

U.S. government bonds rose during the holiday-shortened week after falling sharply the week before. The selloff in Treasurys that sent the yield on the benchmark U.S. 10-year Treasury note to its highest level since May 2011 paused on Tuesday to begin the week. The 10-year yield rose on Wednesday, however, after the Labor Department announced that the Producer Price Index rose 0.2% in September. The increase in September was in line with consensus forecasts but was a pickup from a 0.1% decline in August and no change in July. U.S. government bonds then rallied on Thursday after the Labor Department said that the Consumer Price Index rose 0.1% in September, which was below the consensus forecast of a 0.2% increase. The softer-than-expected inflation data eased concerns that the Federal Reserve may raise rates faster than previously expected and pushed U.S. government bond yields lower. Meanwhile, a two-day selloff in stocks also contributed to the bond rally. Major economic reports (related consensus forecasts, prior data) for the upcoming week include: Monday: September Retail Sales Advance MoM (0.6%, 0.1%), October Empire Manufacturing (20.0, 19.0); Tuesday: September Industrial Production MoM (0.2%, 0.4%); Wednesday: October 12 MBA Mortgage Applications (N/A, -1.7%), September Housing Starts (1,210k, 1,282k); Thursday: October 13 Initial Jobless Claims (210k, 214k), September Leading Index (0.5%, 0.4%); Friday: September Existing Home Sales (5.29m, 5.34m).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	25,339.99(-4.17%)	Strong Sectors:	Utilities, Cons. Staples,
S&P 500:	2,767.13 (-4.07%)		Info Tech
S&P Midcap:	1,871.25 (-4.90%)	Weak Sectors:	Financials, Industrials
S&P Smallcap:	965.38 (-5.40%)		Materials
NASDAQ Comp:	7,496.89 (-3.74%)	NYSE Advance/Decline:	301 / 2,706
Russell 2000:	1,546.68 (-5.22%)	NYSE New Highs/New Lows:	10 / 396
		AAII Bulls/Bears:	30.6% / 35.5%

Equities had their worst week since March after the S&P 500 Index fell over 4%. The index was negative for six straight trading days before finally finishing in the green last Friday. Utilities and Consumer Staples were the strongest sectors, returning -1.3% and -1.9% respectively. There were only 31 stocks with a positive return in the S&P 500 Index last week. The top performer was **L Brands Inc.,** which announced a positive surprise in same store sales giving the clothing retailer a 10% return last week. **Starbucks Corp.** was also positive last week after it was reported that activist investor Bill Ackman's Pershing Square Capital Management had purchased a $900m stake in the company. **Fluor Corp.** was the worst performing stock in the S&P 500 Index last week returning -20.4%. The global engineering firm announced preliminary 3Q earnings and revenue that were well below analyst expectations. **International Paper Co.**, **Westrock Co.** and **Packaging Corp Of America** all fell at least 12% last week. A BMO analyst downgraded the containerboard industry because of a looming capacity surge after a large Chinese firm announced they were converting existing U.S. plants for additional production. Overall, we remain positive on equities. Despite the sell-off last week the strong economic picture remains. According to Bloomberg, corporate earnings are projected to grow 24% over the next 12 months in the S&P 500 Index, giving the index a 16x forward P/E ratio close to historical averages. Real GDP for the year is projected to be over 3% for the first time since 2005. Employment remains strong, consumer confidence remains strong and the Federal Reserve remains accommodative with a target rate of 2.25%. Stocks will go up and they will go down. We believe staying disciplined with a longer-term focus remains the best way to invest.