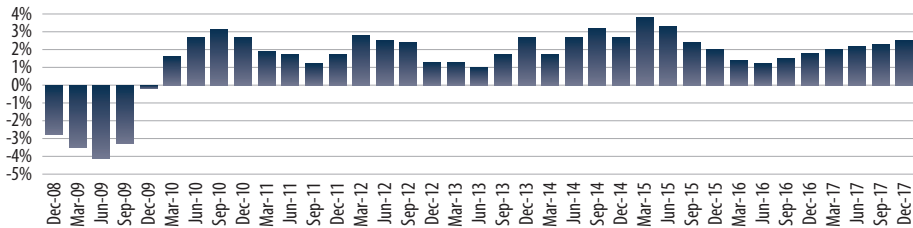


# Investment Grade Viewpoint - Fundamentals Are Strong

Monthly Update from the First Trust Advisors L.P. Investment Grade Team

January 2018

## United States Gross Domestic Product



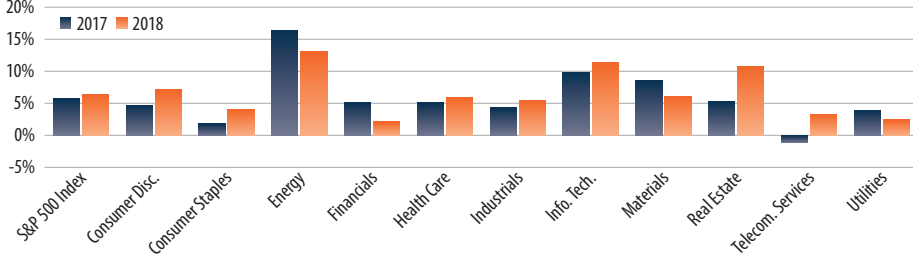
Source: Bloomberg.



US GDP grew 2.5% in 2017, an acceleration from the average rate of 2.2% from the start of the 2009 recovery through the end of 2016. Strong job gains and a low 4.1% unemployment rate have helped fuel consumer spending which drives economic growth. We believe tax reform will lift household and business spending in 2018 and provide a supportive backdrop for corporate bonds.

## S&P 500 & Sector Indices

Estimated Annual Year-Over-Year Revenue Growth Rates as of 1/26/18

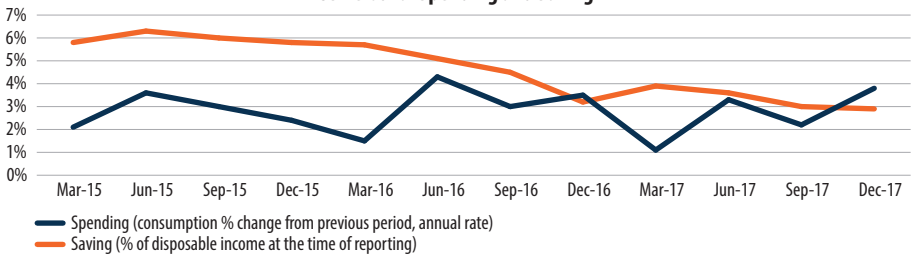


Source: Bloomberg. Consensus estimates using fiscal year revenue.



In several industry groups, 2018 revenue growth expectations exceed those from 2017. Analysts are projecting 6% revenue growth for the S&P 500 Index for all of 2018. Tax cuts, a weaker US dollar (aiding overseas growth), increases in loan demand and companies investing more in capital expenditures are all reasons to remain positive, in our opinion. We expect better top-line results, higher free cash flow and stable to improving debt leverage will characterize many, but not all, corporate balance sheets in the year ahead.

## US Personal Spending and Saving



Source: Bloomberg.



Consumer spending has been robust coming in at 3.8% for 4Q'17 and capital spending increased 6.8%. However, concern is rising over the sustainability of spending conditions as personal savings rates have trended lower. Borrowing costs are also projected to gradually increase as the Fed tightens monetary policy. We will continue monitoring these trends to see how consumers respond to the new, lower tax rates.

All charts are for illustrative purposes only and not indicative of any investment. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance. There can be no assurance that any of the projections cited will occur. The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA and the Internal Revenue Code. First Trust has no knowledge of and has not been provided any information regarding any investor. Financial advisors must determine whether particular investments are appropriate for their clients. First Trust believes the financial advisor is a fiduciary, is capable of evaluating investment risks independently and is responsible for exercising independent judgment with respect to its retirement plan clients.