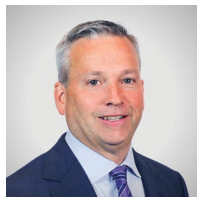


MARKET MINUTE

With McGAREL



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Chief Investment Officer

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Past performance is no guarantee of future results.

The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Index data is for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future.

Earnings per share (EPS) is the monetary value of earnings per outstanding share of common stock for a company during a defined period of time, often a year.

Forward Price-to-Earnings is the price of a stock divided by estimated forward earnings.

There is no assurance any forecasts will be achieved.

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, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

The S&P 500 Index (Index) closed at 6,840 on October 31, 2025, near its all-time-high reached only three days earlier. A little more than three years ago, on October 12, 2022, the Index bottomed for the year at 3,577, having fallen 24% from the December 31, 2021 close of 4,766. Since that bottom, including dividends, the Index has now returned 100%. What a comeback!

Throughout 2022, the market fell as the Federal Reserve raised rates seven times for a total of 4.25%, and investors became convinced a recession was likely and earnings declines would follow.

Earnings did fall in 2023, but just slightly. Then earnings grew 10% in 2024 and are expected to finish this year with another 11% growth in earnings.

It's pretty simple. We didn't have a recession. Stocks are higher because earnings grew and are expected to continue to grow. Yet, Chart 1 below is still breathtaking: stocks are up 100%, while earnings, even including the full estimate for this year, are up only 18%. Stock prices have significantly outpaced earnings growth over the last three years, resulting in significant multiple expansion. [Chart 2].

Current forecasts calls for 2026 S&P 500 Index earnings to grow 13%. If realized, that implies a forward P/E multiple of 23x next year's earnings today. Chart 2 also illustrates that valuations at these levels are rare, and, like hiking at very high altitudes, valuations don't stay at those levels very long.

Our simple message is this: **investors are taking on more risk today in the equity markets than almost any other time over the last three years.** While there is still a lot of good news regarding company profits and a relatively strong economy, we believe stocks have no room for multiple expansion and the forecasted, outsized earnings growth next year is imperative for the market to continue moving higher. In the lower expected return environment we anticipate going forward, we believe it's important for investors to remember that in the long run, valuation plays a significant role in investment performance. We encourage investors to review their equity allocation to ensure it is appropriate for the current environment of stretched valuations and lower expected future returns.

Chart 1: S&P 500 Index Return vs Earnings-Per-Share (EPS) Growth

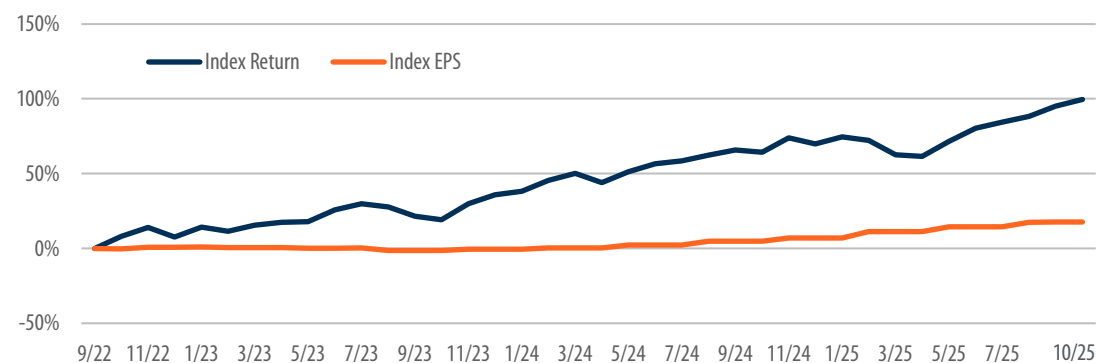
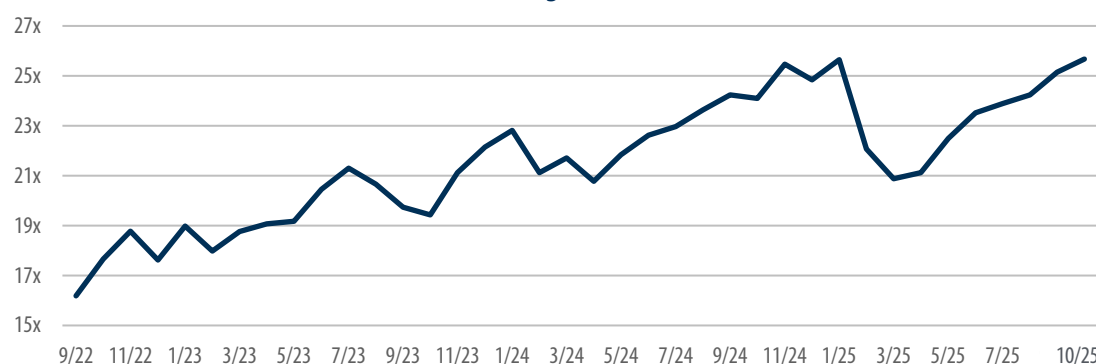


Chart 2: S&P 500 Index Forward Price-to-Earnings (P/E)



Source for charts: Bloomberg. Data from 9/30/22 - 10/31/25. The charts are for illustrative purposes and does not represent any actual investment.