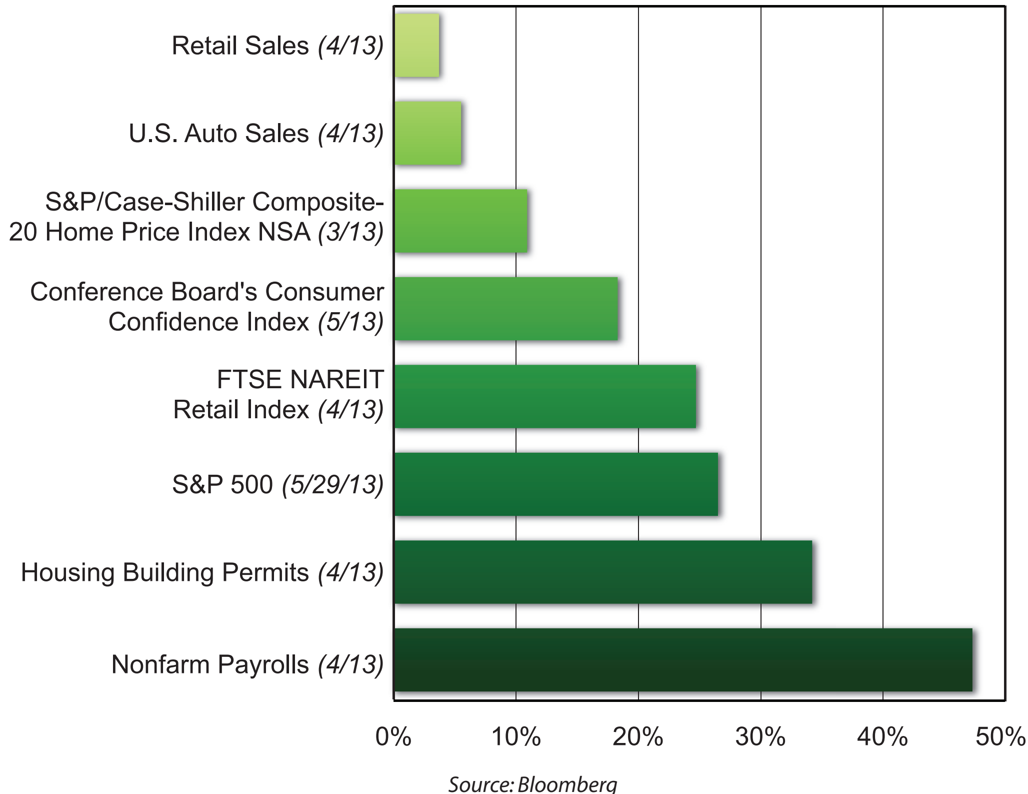
Little Reason To Be Defensive In This Recovery!



Source: Bloomberg

View from the Observation Deck

1. U.S. GDP expanded at an annualized rate of 2.4% in Q1'13. The U.S. has posted 15 consecutive quarters of positive GDP growth.
2. GDP growth has averaged 2.0% since the end of the last recession (6/09-3/13), nearly matching its 2.1% average growth rate for the past 15 years (3/98-3/13), according to Bloomberg.
3. Aside from the GDP statistics, several other pro-business cycle indicators are reflecting notable strength on a year-over-year basis (see chart).
4. The economy has come a long way from 2009-2010 when all we were looking for were "green shoots." This recovery is real.
5. Despite this fact, many investors have assumed a defensive posture in the stock market by favoring these non-cyclical sectors: Health Care, Consumer Staples and Utilities.
6. Those three sectors, out of the 10 major sectors that comprise the S&P 500, posted the highest total returns in Q1'13. Health Care and Consumer Staples are still in the top four y-t-d through 5/30/13.
7. We expect to see some sector rotation from non-cyclical stocks to cyclicals in the second half of 2013 as more investors embrace this recovery. It is already happening in Utilities.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. Past performance is no guarantee of future results. The S&P 500 is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance. The FTSE NAREIT Retail Index is a free float adjusted market capitalization-weighted index that includes all tax qualified REITs listed on the major U.S. exchanges operating in the retail sector.

First Trust

First Trust Portfolios L.P. • 1-800-621-9533 • www.ftportfolios.com • 5/30/13