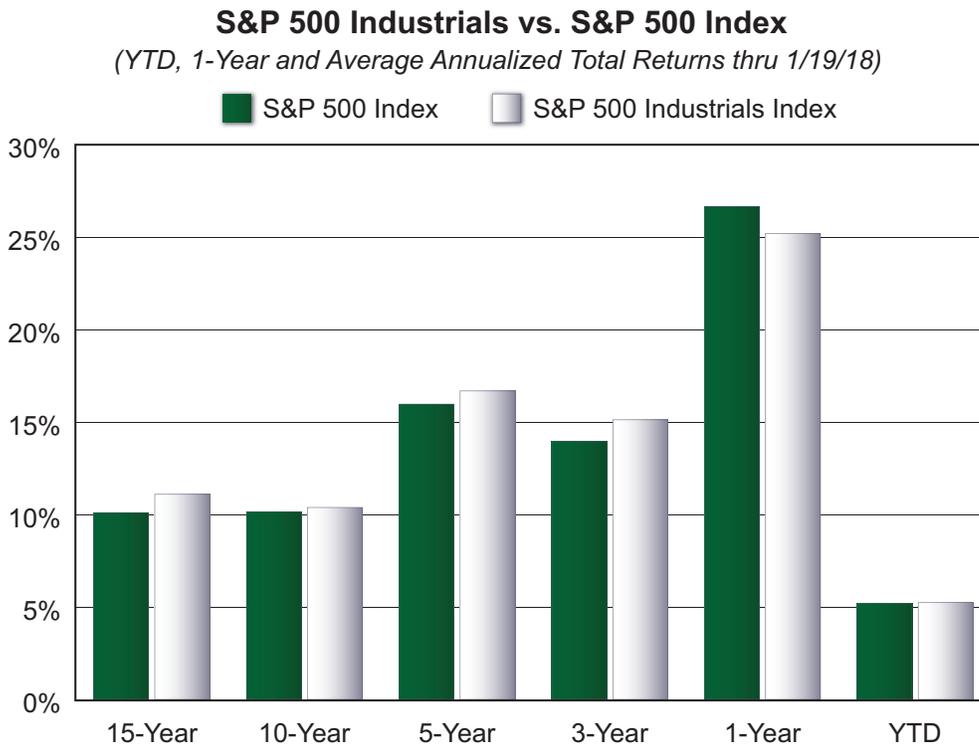


A Passage of Tax Reform Could Provide a Boost to Industrials



Source: Bloomberg.
Past performance is no
guarantee of future results.

View from the Observation Deck

1. After Congress passed the Tax Cuts and Jobs Act (TCJA) on 12/20/17, President Donald Trump signed it into law on 12/22/17.
2. President Trump touted tax reform as a tax cut for the middle class, but the biggest boost to the U.S. economy and markets could come from the reduction in the federal corporate tax rate from 35% to 21%, in our opinion.
3. While a tax cut of this magnitude should be a win-win scenario for all sectors, Industrials has the second highest effective tax rate at 29.7% (includes deductions) paid by the 11 major sectors, according to S&P Global Data and Bloomberg.
4. In addition to the anticipated tax savings, Industrials may also benefit from a TCJA provision allowing for full expensing of equipment purchases (100% bonus depreciation), according to the Tax Foundation. It is a temporary provision that will begin to be phased out after 2022. The Tax Foundation believes that "full expensing for equipment is one of the most pro-growth aspects of tax reform."
5. Lastly, the passage of the TCJA gave President Trump his first major legislative victory. That was critical for getting Trump's \$1 trillion U.S. infrastructure initiative up for consideration in 2018, in our opinion.
6. The S&P 500 Industrials Index outperformed the S&P 500 Index in five of the six periods featured in the chart. Industrials topped the broader market for the 15-year, 10-year, 5-year, 3-year and year-to-date periods ended 1/19/18.
7. The returns were as follows (S&P 500 Index vs. S&P 500 Industrials): 15-year average annualized (10.10% vs. 11.09%); 10-year average annualized (10.15% vs. 10.38%); 5-year average annualized (15.97% vs. 16.68%); 3-year average annualized (13.96% vs. 15.12%); 1-year (26.64% vs. 25.20%) and year-to-date (5.20% vs. 5.23%).

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance. The S&P 500 Industrials Index is a capitalization-weighted index comprised of S&P 500 constituents representing the industrials sector. 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.