

Open-End Net Fund Flows (\$)	7/18	6/18	YTD (Jul)
Equity	-20.87B	-19.89B	-73.98B
Taxable Bond	14.16B	9.60B	86.96B
Municipal Bond	3.17B	1.37B	13.81B
Hybrid	-6.38B	-7.57B	-29.57B
Taxable Money Market	16.65B	-29.53B	-26.81B

Key Interest Rates	8/31/18	12/29/17	8/31/17
Federal Funds Target Rate	2.00%	1.50%	1.25%
ICE LIBOR (3-Month)	2.32%	1.69%	1.32%
2-Year T-Note	2.63%	1.89%	1.33%
10-Year T-Note	2.86%	2.41%	2.12%
Bond Buyer 40	4.02%	3.87%	3.99%

Commodities/U.S. Dollar	8/18	YTD	12 Mo.
U.S. Dollar Index (DXY)	0.62%	3.28%	2.67%
TR/CC CRB Commodity Index	-0.81%	-0.46%	6.69%
Crude Oil (Barrel)	1.51%	15.52%	47.79%
Natural Gas (per million BTUs)	5.04%	-1.02%	-3.95%
Gold Bullion (Ounce)	-1.81%	-8.23%	-8.87%

Total Return Performance

U.S. Stock Indices	8/18	YTD	12 Mo.
S&P 500	3.26%	9.94%	19.65%
DJIA	2.56%	6.73%	21.00%
NASDAQ 100	6.00%	20.53%	29.14%
S&P MidCap 400	3.19%	8.67%	19.98%
Russell 2000	4.31%	14.26%	25.44%
Russell 3000	3.51%	10.39%	20.24%

U.S. Styles/Market Caps	8/18	YTD	12 Mo.
S&P 500 Growth	4.89%	16.39%	25.68%
S&P 500 Value	1.36%	3.12%	13.23%
S&P MidCap 400 Growth	3.81%	10.19%	22.04%
S&P MidCap 400 Value	2.55%	7.06%	17.79%
Russell 2000 Growth	6.22%	18.50%	30.67%
Russell 2000 Value	2.38%	9.90%	20.08%

Foreign Stock Indices (USD)	8/18	YTD	12 Mo.
MSCI World NET (Ex-U.S.)	-1.89%	-2.26%	4.51%
MSCI Emerging Markets NET	-2.70%	-7.18%	-0.68%
MSCI Europe NET	-2.79%	-2.80%	2.62%
MSCI BRIC NET	-4.12%	-7.53%	-0.53%
MSCI EM Latin America NET	-8.37%	-11.08%	-11.80%
Nikkei 225	2.10%	2.89%	17.64%

Barclays Bond Indices	8/18	YTD	12 Mo.
U.S. Treasury: Intermediate	0.60%	-0.30%	-1.18%
GNMA 30 Year	0.53%	-0.33%	-0.29%
Municipal Bond (22+)	0.41%	-0.23%	1.32%
U.S. Aggregate	0.64%	-0.96%	-0.87%
Intermediate Corporate	0.61%	-0.56%	-0.52%
U.S. Corporate High Yield	0.74%	2.00%	3.34%
Global Aggregate	0.10%	-1.60%	-1.36%
EM Hard Currency Aggregate	-1.37%	-3.72%	-2.76%

Sources: Bloomberg, Barclays, Investment Company Institute

Past performance is no guarantee of future results. Historical performance figures for the indices are for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and an investor cannot invest directly in an index.

Climate

The recovery in bank profits is another indication that the U.S. economy is flourishing following the passage of the Tax Cuts & Jobs Act last December, in our opinion. After all, banks were at the epicenter of the financial crisis in 2008-2009. The Federal Deposit Insurance Corporation (FDIC) announced that U.S. commercial banks and savings institutions insured by the FDIC reported aggregate net income totaling \$60.2 billion in Q2'18, up 25.1% from the \$48.1 billion posted in Q2'17, according to its own release. Of the 5,542 insured institutions that reported, more than 70.0% posted year-over-year growth in quarterly earnings. All major loan categories registered growth in the quarter. The number of institutions on the FDIC's list of "problem banks" stood at 82 in Q2'18, down from 92 in Q1'18. The post-crisis high for the list was 888 in Q1'11.

Stock Market

The S&P 500 Index ("index") closed at 2,901.52 on 8/31/18, 0.43% below its all-time high of 2,914.04 set on 8/29/18, according to Bloomberg. The index posted a total return of 3.26% in August. Nine of the 11 major sectors that comprise the index were up on a total return basis. The top-performer was Information Technology, up 6.93%, while the worst showing came from Energy, down 3.30%. YTD through 8/31/18, the index posted a total return of 9.94%. Eight of the 11 sectors were up on a total return basis. The top-performer was Information Technology, up 21.03%, while the worst showing came from Consumer Staples, down 4.34%. Earnings season has essentially ended. With 99% of S&P 500 Index companies having reported Q2'18 results, 80% of them topped their earnings estimates, according to FactSet. If the 80% beat rate holds up after the remaining few companies report, it will rank as the highest percentage since FactSet began tracking such data in Q3'08. There has been a lot of activity in the IPO market in 2018. Renaissance Capital reported that a total of 134 equity IPOs (market caps in excess of \$50 million) have been priced in the U.S. so far this year (as of 8/31), up 45.7% from the same period a year ago. The 134 companies raised a combined \$34.4 billion, up 55.1% from the same period a year ago. The most active sectors by far have been health care and technology. Goldman Sachs estimates that U.S. companies are poised to repurchase more than \$1 trillion of stock in 2018, according to CNBC. Companies have already announced share buybacks totaling \$754 billion, with technology firms accounting for 40% of the total, according to David Kostin, chief U.S. equity strategist at Goldman Sachs. August is the busiest month of the year for buybacks, accounting for 13% of annual activity. Overall, U.S. equities have dominated foreign equities in 2018 (see tables showing total return performance). From 12/29/17 through 8/31/18, total U.S. equity market capitalization (cap) as a share of total World equity market cap rose markedly from 36.60% to 40.16%, according to Bloomberg.

Bond Market

The yield on the benchmark 10-year Treasury note (T-note) closed trading on 8/31/18 at 2.86%, down 10 basis points (bps) from the close on 7/31/18, according to Bloomberg. The yield stood 34 bps higher than its 2.52% average for the 10-year period ended 8/31/18. Fixed-rate bond yields continue to hover at historically low levels despite the fact that U.S. economic growth is accelerating, as evidenced by the 4.2% annualized real GDP growth rate posted in Q2'18. August's solid nonfarm payroll number of 201,000 only reinforces the notion that interest rates and bond yields should at least be inching higher across all maturity levels moving forward, in our opinion. In July 2018, Moody's reported that its global speculative-grade default rate stood at 2.8%. It sees the rate declining to 2.0% in July 2019. We believe that a declining default rate at this later stage of the current economic expansion is a positive sign for Corporate America.

Takeaway

As has been the case since the start of the bull market in stocks in March 2009, we continue to favor equities over bonds. We believe that lower individual and corporate federal tax rates, accelerating real GDP growth, rising corporate profits and sustained job creation in the U.S. lend support to our bias for overweighting equities relative to bonds in the current climate. U.S. multinationals have offshore cash and equivalent holdings totaling an estimated \$3 trillion, according to Reuters. U.S. balance of payments data indicates that \$300 billion was repatriated in Q1'18, according to Reuters. The Federal Reserve reported that companies have chosen to return the bulk of that capital to shareholders, according to Bloomberg.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	2914.04	8/29/2018	676.53	3/9/2009	2901.52	-0.43%	9.94%	1.80%
S&P 500 Growth	1772.00	8/29/2018	363.99	3/9/2009	1768.39	-0.20%	16.39%	1.24%
S&P 500 Value	1195.51	1/26/2018	307.16	3/9/2009	1142.34	-4.45%	3.12%	2.49%
S&P MidCap 400	2050.23	8/29/2018	404.62	3/9/2009	2044.70	-0.27%	8.67%	1.50%
S&P MidCap 400 Growth	958.54	8/29/2018	174.44	11/20/2008	958.14	-0.04%	10.19%	1.13%
S&P MidCap 400 Value	680.56	8/29/2018	144.98	3/9/2009	677.08	-0.51%	7.06%	1.89%
S&P 100	1291.51	8/29/2018	322.13	3/9/2009	1286.90	-0.36%	10.33%	1.90%
DJIA	26616.71	1/26/2018	6547.05	3/9/2009	25964.82	-2.45%	6.73%	2.12%
NASDAQ 100	7660.18	8/29/2018	1036.51	11/20/2008	7654.55	-0.07%	20.53%	0.95%
Russell 2000	1740.75	8/31/2018	343.26	3/9/2009	1740.75	0.00%	14.26%	1.30%
Russell 2000 Growth	1117.18	8/31/2018	190.73	3/9/2009	1117.18	0.00%	18.50%	0.61%
Russell 2000 Value	2049.42	8/22/2018	469.32	3/9/2009	2045.10	-0.21%	9.90%	2.02%
Russell 3000	1732.12	8/29/2018	389.61	3/9/2009	1726.09	-0.35%	10.39%	1.78%
MSCI World Net (ex U.S.) (USD)	6487.64	1/25/2018	2131.84	3/9/2009	5967.32	-8.02%	-2.26%	3.21%
MSCI Emerging Markets Net (USD)	573.23	1/26/2018	164.51	10/27/2008	483.99	-15.57%	-7.18%	2.67%
Ibovespa/Brazil (USD)	43619.40	4/8/2011	9077.09	1/21/2016	18543.54	-57.49%	-19.72%	3.79%
RTS/Russia (USD)	2123.56	4/8/2011	498.20	1/23/2009	1092.29	-48.56%	-1.41%	5.45%
S&P BSE 500/India (USD)	245.12	1/24/2018	57.52	3/9/2009	223.61	-8.77%	-3.87%	1.12%
Shanghai Composite/China (USD)	832.07	6/12/2015	249.66	11/4/2008	398.50	-52.11%	-19.81%	2.47%
KOSPI/South Korea (USD)	2.42	1/29/2018	0.63	11/20/2008	2.08	-14.21%	-9.37%	1.95%
Hang Seng (USD)	4241.01	1/26/2018	1420.72	10/27/2008	3553.13	-16.22%	-4.59%	3.60%
MSCI Euro (USD)	1544.35	1/26/2018	682.47	3/9/2009	1345.60	-12.87%	-3.32%	3.44%
S&P 500 Consumer Discretionary	931.43	8/29/2018	125.72	3/9/2009	929.23	-0.24%	19.37%	1.18%
S&P 500 Consumer Staples	605.24	1/26/2018	199.80	3/9/2009	551.48	-8.88%	-4.34%	2.95%
S&P 500 Energy	737.09	6/23/2014	304.81	3/5/2009	547.58	-25.71%	4.75%	2.78%
S&P 500 Utilities	287.82	11/14/2017	113.81	3/9/2009	269.70	-6.30%	3.33%	3.45%
S&P 500 Financials	501.29	1/26/2018	81.74	3/6/2009	469.32	-6.38%	2.37%	1.77%
S&P 500 Banks	372.05	2/1/2018	49.02	3/5/2009	350.09	-5.90%	4.13%	2.06%
FTSE NAREIT All Equity REITs	725.61	8/1/2016	163.57	3/6/2009	697.95	-3.81%	4.70%	3.87%
S&P 500 Health Care	1072.53	8/29/2018	252.84	3/5/2009	1071.38	-0.11%	13.31%	1.54%
S&P 500 Pharmaceuticals	689.38	8/20/2018	214.50	3/3/2009	681.22	-1.18%	9.60%	2.49%
NYSE Arca Biotechnology	5342.46	8/30/2018	541.77	3/9/2009	5335.97	-0.12%	26.60%	0.27%
S&P 500 Information Technology	1329.47	8/29/2018	198.51	11/20/2008	1327.21	-0.17%	21.03%	1.09%
Philadelphia Semiconductor	1445.90	3/12/2018	171.32	11/20/2008	1401.20	-3.09%	13.15%	1.65%
S&P 500 Telecom Services	183.85	7/1/2016	88.10	3/9/2009	153.99	-16.24%	-3.36%	5.51%
S&P 500 Industrials	678.74	1/26/2018	132.83	3/9/2009	645.72	-4.86%	2.59%	1.97%
S&P 500 Materials	401.59	1/26/2018	108.33	3/2/2009	371.60	-7.47%	-0.66%	1.93%
Philadelphia Gold & Silver	228.95	4/8/2011	38.84	1/19/2016	66.24	-71.07%	-21.90%	0.88%
TR/CC CRB Commodity	378.55	9/2/2008	155.01	2/11/2016	192.96	-49.03%	-0.47%	N/A
ICE BofAML Perpetual Preferred	259.60	8/30/2018	51.79	3/9/2009	259.46	-0.05%	1.10%	5.57%
ICE BofAML U.S. High Yield Constrained	425.99	8/29/2018	130.37	12/12/2008	425.71	-0.07%	1.94%	6.54%

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