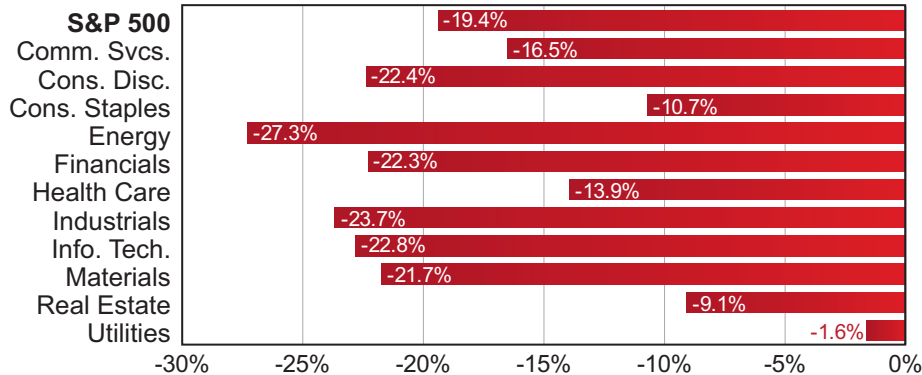
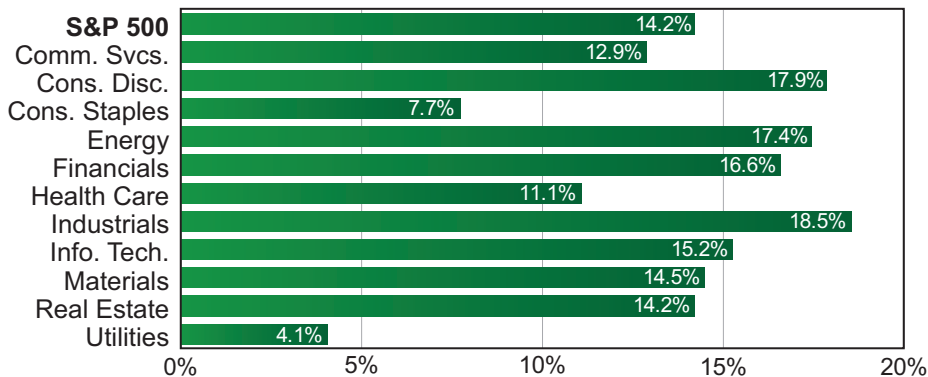


The Recent Correction And Subsequent Rebound In The S&P 500 Index

S&P 500 Index & Sector Index Total Returns (9/20/18-12/24/18)



S&P 500 Index & Sector Index Total Returns (12/24/18-1/30/19)



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

View from the Observation Deck

1. The two charts in today's blog post are a tale of two markets. The first chart captures the correction in the S&P 500 Index, while the second chart shows the rebound underway.
2. A correction is defined as a price decline of 10.00% to 19.99%. The -19.4% total return posted by the S&P 500 Index came very close to bear market territory, which is defined as a price decline of 20.00% or more. On a price-only basis (dividends not included), the S&P 500 Index declined by 19.8% in the period, according to Bloomberg.
3. Concerns over slower global economic growth moving forward, the unsettled trade conflict between the U.S. and China, the plunge in crude oil prices in Q4'18 and the uncertainty over how many times the Federal Reserve ("Fed") might raise its benchmark lending-rate in 2019, despite the absence of any serious inflationary pressures, all likely contributed to the correction from 9/20/18 (all-time closing high) through 12/24/18, in our opinion.
4. The sharpest part of the sell-off was from 11/7/18 through 12/24/18. The S&P 500 Index declined by 16.0%, according to Bloomberg. In addition to the factors mentioned in the previous point, this period also happens to have coincided with year-end tax-selling season.
5. In the first chart, the sectors that sold-off the most were clearly more cyclical in nature. The sectors that declined the least were more defensive in nature. In the second chart showing the rebound, the cyclicals are the one's outperforming.
6. Our take all along has been that investors should not be spooked by corrections in the market, particularly when the issues of the day can be remedied. The Fed, for example, has already signaled that it intends to be patient with respect to any additional tightening of monetary policy in 2019.
7. In his Monday Morning Outlook piece released on 12/31/18, Brian Wesbury, Chief Economist at First Trust Advisors L.P., stated that those investors who remain invested in stocks in the year ahead should earn substantial rewards. So far, so good.

This chart is for illustrative purposes only and not indicative of any actual investment. There can be no assurance that any of the projections cited will occur. 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 (currently 505) used to measure large-cap U.S. stock market performance, while the 11 major S&P 500 Sector Indices are capitalization-weighted and comprised of S&P 500 constituents representing a specific sector. As of 9/28/18, the Global Industry Classification Standard (GICS) was reconstituted and the Telecommunications Services sector was renamed Communication Services. GICS sector information for periods prior to 9/28/18 may not necessarily be comparable to the reconstituted sectors.

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