First Trust
Quarterly Market Overview
Issue 80, January 2020

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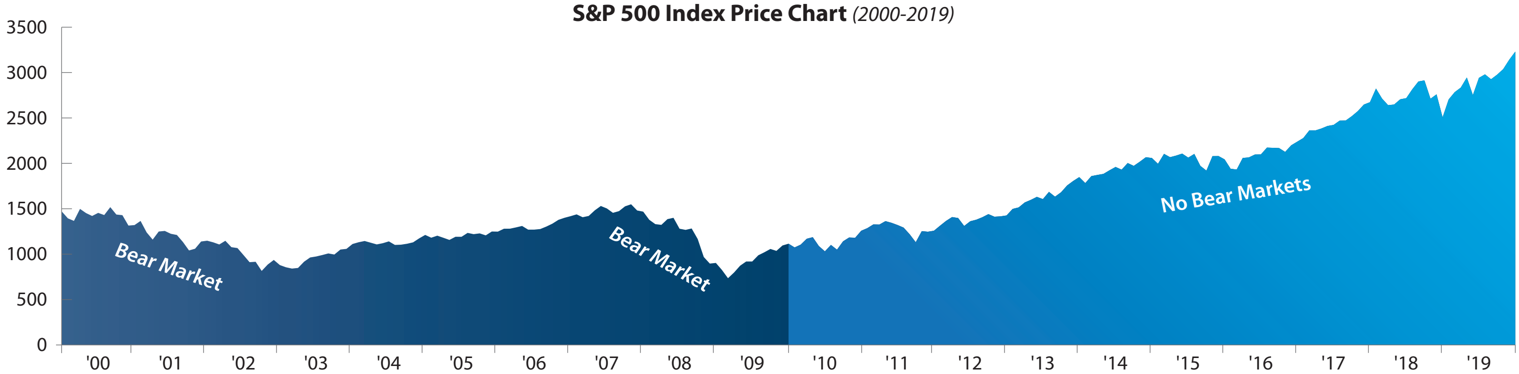
We invite you to visit Bob's Market Commentary Blog at www.ftportfolios.com for more insight.

A tale of two decades for the S&P 500 Index

S&P 500 Index Price Chart *(2000-2019)*



Source: Bloomberg. Month-End data points. Past performance is no guarantee of future results.

2000-2009

From 12/31/99-12/31/09, the S&P 500 Index ("index") posted a price-only cumulative return (does not include dividends) of -24.10%, according to Bloomberg. The index was down 9.10% on a cumulative total return basis (includes dividends), or an average annual total return of -0.95%. This period has been characterized by some in the financial media as the lost decade. For comparative purposes, from 1926-2019, the index generated an average annual total return of 10.20%, according to Morningstar/Ibbotson Associates.

As indicated in the chart, investors endured two bear markets from 2000-2009. A bear market is defined as a price decline of 20% or more from the most recent peak. Both bear markets were severe. From 3/24/00-10/09/02, the index posted a cumulative total return of -47.38%, according to Bloomberg. The epicenter of this bear market was technology/internet-related stocks. The S&P 500 Information Technology Index plunged 82.29% over that period on a total return basis. Ouch! The second bear market lasted from 10/09/07-3/09/09. The index posted a cumulative total return of -55.25% over the period, according to Bloomberg. This bear market coincided with the 2008-2009 financial crisis. The S&P 500 Financials Index plunged 81.68% over that period on a total return basis. That warrants a second ouch!

We believe that some retail investors, and probably more than we would like to imagine, may have turned their backs on stocks for good or at least cut back their exposure due to the stress incurred from these two bear markets. And for some, it may have been a newfound lack of trust in the financial system that was the proverbial straw that broke the camel's back. While each perspective offered a compelling reason to reassess the risk-return dynamic inherent in the stock market, for those who did, shunning stocks after 2009 proved counterproductive in hindsight.

Data from the Investment Company Institute (ICI), indicates that retail investors funneled a net $276.86 billion into Domestic Equity mutual funds from 2000-2009. This figure would change dramatically over the following decade, and it wasn't for the better, in our opinion. Investors, on the other hand, poured a net $802.90 billion into Bond mutual funds from 2000-2009.

2010-2019

From 12/31/09-12/31/19, the index posted a price-only cumulative return of 189.73%, according to Bloomberg. The index was up 256.66% on a cumulative total return basis, or an average annual total return of 13.55%. The 13.55% compares favorably to the aforementioned 10.20% average annual total return since 1926. At the close of 2019, the index was still setting all-time highs.

ICI data indicates that retail investors liquidated a net $1.56 trillion from Domestic Equity mutual funds from 2010-November 2019 (most recent data available). Over the same period, Bond mutual funds reported net inflows totaling $1.25 trillion. The $1.56 trillion of net outflows is a staggering figure considering the rebound in the stock market.

Perhaps the biggest takeaway from the previous two bull and subsequent bear markets is that investors can be irrational to the upside (bubbles) as well as to the downside (bursting of bubbles). We are encouraged by the fact that the stock market has proven itself to be resilient time and time again. The S&P 500 Index has never failed to fully recover the losses sustained in a bear market.

Aside from the normal checks and balances that exist in the markets, with respect to equities, we believe that corporate earnings determine the direction of stock prices over time. As we noted above, the index posted a cumulative total return of 256.66%. The earnings-per-share (EPS) for the S&P 500 Index stood at $58.94 in 2009, according to Bloomberg. Fast-forward a decade and the estimated EPS for 2019 was $160.90 as of 1/3/20, or an estimated increase of 172.99%. When you factor in the low level of interest rates and bond yields over the past decade it is no wonder that capital sought out opportunities in the stock market for higher returns. We touch on this on page 2 of this newsletter. Looking ahead, S&P 500 Index earnings are projected to grow in both 2020 and 2021. Bloomberg's consensus EPS estimates were $175.60 for 2020 and $194.40 for 2021 as of 1/3/20.

The current economic expansion, which provides the underpinnings to the securities markets over time, is the longest in U.S. history. Brian Wesbury, Chief Economist at First Trust Advisors L.P. , notes that, while the expansion will not last forever, he does not see it ending anytime soon.

Continued

One way in which the current bull market stands out from other recent bull markets

Interest rates in the U.S. have remained at extremely low levels since the end of 2008. The Federal Reserve ("Fed") lowered the federal funds target rate (upper bound) from 5.25% in September 2007 to 0.25% in December 2008. It eased monetary policy dramatically to stimulate economic activity and help mitigate any potential fallout stemming from the 2008-2009 financial crisis. While the Fed did transition back to tightening monetary policy in December 2015, eventually lifting the federal funds target rate (upper bound) from 0.25% to 2.50% by December 2018, it did revert back to an easing bias in July 2019 to counter some weak patches in the economy, such as the manufacturing sector. The Fed initiated three rate cuts in the second half of 2019, taking the rate down to 1.75%. Persistently low interest rate levels have been accompanied by historically low bond yields, particularly with respect to government bonds and other investment-grade debt, and the lower yields have influenced total returns, in our opinion.

The adjacent table features the performance returns of the S&P 500 Index and the ICE BofAML 7-10 Year U.S. Treasury Index over the past five equity bull markets, including the current one. In addition to having different investment objectives, these two indices represent asset classes that occupy opposite ends of the risk spectrum. Our intent is not to show that stocks outperform government bonds in bull markets, it is to point out by a factor of how much they have outperformed relative to the level of bond yields achieved in recent bull markets. We are looking to provide investors with a fresh perspective to help them set realistic performance expectations moving forward.

It has been said in the financial media that this is the "most hated" bull market in history, yet it has been one of the most prosperous for investors. It is important to note that for the purposes of this piece, we concur with Yardeni Research, Inc. that the longest bull market in U.S. history was from 12/4/87-3/24/00. There are some who believe that, due to a 19.92% decline in the S&P 500 Index between July 1990 and October 1990, which conveniently rounds to 20%, the bull market had properly ended in 1990, according to CNN. We do not subscribe to the argument for rounding up. For those who do, then the current bull market ended in Q4'18, when the index declined in price by 19.78% from 9/20/18-12/24/18.

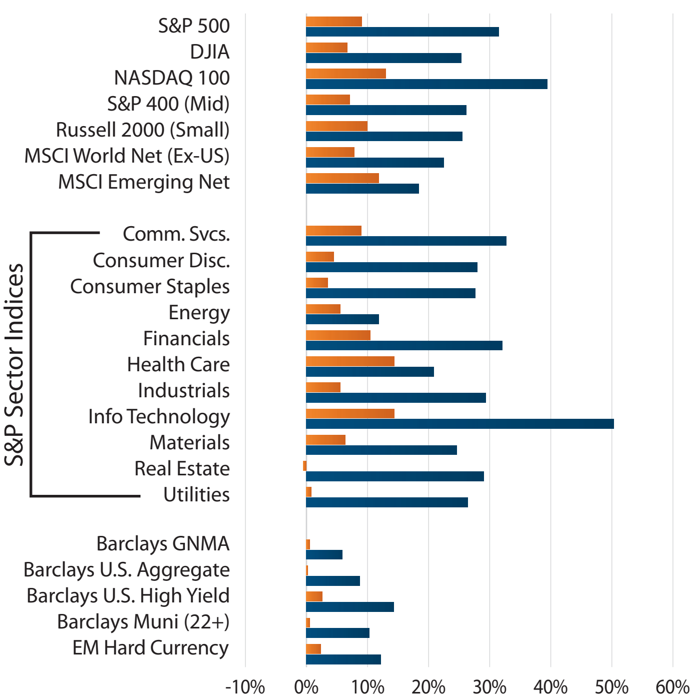
Equity Bull Markets
(S&P 500 Index vs. ICE BofAML 7-10 Year U.S. Treasury Index)

Period	Indices	Cum. TR	Avg. Ann. TR
3/9/09 - 12/31/19	S&P 500 Index	497.95%	17.97%
	7-10 Yr U.S. Treas.	50.44%	3.85%
10/9/02 - 10/9/07	S&P 500 Index	120.57%	17.13%
	7-10 Yr U.S. Treas.	16.77%	3.15%
12/4/87 - 3/24/00	S&P 500 Index	841.39%	19.97%
	7-10 Yr U.S. Treas.	174.83%	8.56%
8/31/82 - 8/25/87	S&P 500 Index	244.90%	28.18%
	7-10 Yr U.S. Treas.	100.00%	14.91%
10/31/74 -10/31/80	S&P 500 Index	130.73%	14.94%
	7-10 Yr U.S. Treas.	29.36%	4.38%

Source: Bloomberg, Yardeni Research, Inc. (dates) Cum. TR - Cumulative Total Return, Avg. Ann. TR - Average Annualized Total Return. Past performance is no guarantee of future results.

To our point, the following reflects the outperformance multiple of the S&P 500 Index over the ICE BofAML 7-10 Year U.S. Treasury Index for the periods in the table (using Cumulative Total Returns): *9.87x* (3/9/09-12/31/19); *7.19x* (10/9/02-10/9/07); *4.81x* (12/4/87-3/24/00); *2.45x* (8/31/82-8/25/87); and *4.45x* (10/31/74-10/31/80). The S&P 500 Index has nearly outperformed the ICE BofAML 7-10 Year U.S. Treasury Index by 10-fold in the current bull market, well above the multiples posted in other recent bull markets. Here were the average yields registered by the 10-year Treasury-note (T-note) for the periods in the table: *2.47%* (3/9/09-12/31/19); *4.38%* (10/9/02-10/9/07); *6.99%* (12/4/87-3/24/00); *10.14%* (8/31/82-8/25/87); and *8.59%* (10/31/74-10/31/80), according to Bloomberg. Looking ahead, investors need to factor in the low level of bond yields when setting performance expectations. Again, low bond yields can potentially curb total returns over time. The yield on the 10-year T-note closed 2019 at 1.92%.

Total returns for *Q4* and past 12 months (12/31/19)



Sources: Bloomberg and Barclays. Past performance is no guarantee of future results.

A Look Ahead:

A year-over-year earnings comparison in U.S. dollar terms. The S&P 500 Index dollar figures reflect the 11 major sectors on a weighted-adjusted basis.

Index (Weighting In S&P 500)	Q1'20E	Q1'19A	Q2'20E	Q2'19A	2020E	2019E
Communication Svcs. (10.4%)	**2.25**	2.09	**2.38**	2.14	**9.69**	8.51
Consumer Disc. (9.8%)	**9.62**	9.13	**11.39**	10.15	**44.47**	38.78
Consumer Staples (7.2%)	**7.17**	6.99	**8.03**	7.63	**32.04**	29.92
Energy (4.3%)	**5.65**	3.75	**6.65**	5.47	**25.73**	21.06
Financials (13.0%)	**9.38**	10.97	**9.48**	10.33	**38.47**	40.58
Health Care (14.2%)	**17.78**	14.19	**18.47**	14.80	**73.58**	58.60
Industrials (9.1%)	**8.59**	8.44	**10.74**	9.31	**40.70**	36.23
Information Tech. (23.2%)	**16.26**	14.07	**16.97**	15.48	**73.64**	63.61
Materials (2.7%)	**4.59**	4.05	**5.97**	5.08	**20.90**	17.52
Real Estate (2.9%)	**1.32**	1.43	**1.38**	2.12	**5.65**	6.62
Utilities (3.3%)	**4.26**	2.09	**3.62**	3.39	**16.56**	15.72
S&P 500 Index	**40.29**	37.99	**43.43**	40.14	**175.52**	158.14
S&P 400 Index (Mid-Cap)	**25.36**	24.14	**28.64**	25.37	**114.21**	98.80
S&P 600 Index (Small-Cap)	**11.42**	6.97	**14.12**	10.52	**56.49**	38.42

Source: S&P Dow Jones Indices (12/30/19). Sector weightings as of 12/31/19. There is no guarantee past trends will continue or projections will be realized.