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

Sizing Up The U.S. Equities Markets In Terms Of Potential Tailwinds And Headwinds

Potential Tailwinds

- **Corporate Earnings** – On the second page of this newsletter, we show a breakdown of the earnings-per-share estimates, in dollars, for the S&P 500 Index, its 11 sectors, the S&P MidCap 400 Index and the S&P SmallCap 600 Index. The three major indices all project solid earnings growth for 2022. We acknowledge that year-over-year comparisons to 2021's outsized results could be challenging depending on the severity of the COVID-19 pandemic.
- **Global Speculative-Grade Bond Default Rate** – Is already well below its historical average and is expected to remain below. If there was danger on the horizon for Corporate America it would likely be reflected in this default rate. Moody's reported that its global speculative-grade default rate stood at 1.7% in December. Moody's puts the historical average default rate at 4.1% ('83-'21). Its baseline scenario sees the default rate rising to 2.4% by December 2022.
- **Mergers & Acquisitions (M&A) Activity** – CEOs and executives have been risk-on with respect to acquiring other companies and the pundits expect that it will continue. Refinitiv reported that global M&A activity jumped 64% year-over-year to a record \$5.8 trillion in 2021. The U.S. accounted for \$2.5 trillion of that total.
- **Stock Buybacks** – S&P 500 Index stock buybacks totaled a record high of \$234.64 billion (preliminary) in Q3'21 (previous high was \$222.98 in Q4'18), according to S&P Dow Jones Indices. DataTrek Research reported that companies have the means to increase buybacks in 2022 despite already sitting at record levels.
- **Stock Dividends** – S&P 500 Index companies distributed a record \$130.04 billion in dividend payments in Q3'21, according to S&P Dow Jones Indices. Global dividends increased by 22.0% year-over-year to \$403.5 billion in Q3'21, as measured by the Janus Henderson Global Dividend Index. That is an all-time high for a third quarter. Globally, 90% of companies either raised their dividend payout or maintained it. Janus Henderson estimates that global dividend payments will total \$1.46 trillion for 2021. It expects the level of dividend payouts to surpass the pre-pandemic peak by year-end 2021.
- **Wall Street Strategists** – Are still optimistic. A Bloomberg survey of 19 equity strategists found that their average 2022 year-end price target for the S&P 500 Index was 4,950 as of 12/16/21. The highest and lowest estimates were 5,330 and 4,400, respectively. The S&P 500 Index closed 2021 at 4,766.18.
- **2022 Mid-Term Elections** – The Republicans look poised to possibly win a majority in the House and Senate. Checks and balances begets gridlock.
- **COVID-19 Pandemic** – Some health experts believe that the fast spreading Omicron variant may peak in the U.S. in January 2022. Providing no new variants surface after Omicron, the possibility of a full reopening of the U.S. economy, and perhaps some critical foreign economies, could provide a shot in the arm of another kind (consumer and investor sentiment).

Potential Headwinds

- **COVID-19 Pandemic** – Investors need to be open-minded to the notion that this pandemic, in all its potential forms, may continue to disrupt all aspects of our daily lives. We have been told by health care experts that, like the common cold and flu, this virus is here to stay.
- **Inflation** – Federal Reserve ("Fed") Chairman Jerome Powell has changed his expectations on inflation from characterizing it as transitory to it being more persistent in nature. One key measure of inflation is the Consumer Price Index (CPI). The CPI stood at 7.0% on a trailing 12-month basis in December 2021, up from 1.4% in December 2020, according to data from the Bureau of Labor Statistics. The CPI has not been this elevated since 1982. A 7.0% CPI is high enough to begin to compete with the historical gains generated by common stocks. Not good. The Fed announced it is reducing (tapering) its purchases of Treasuries and mortgage-backed securities by \$30 billion per month. At that pace, it should be done buying bonds in the open market by the end of March 2022. This program has been successful at pushing down intermediate and longer maturity bond yields and keeping them artificially low to help stimulate economic activity, such as housing. The Fed also foresees hiking short-term interest rates three times in 2022. The federal funds target rate (upper bound) is currently at 0.25%. Its 30-year average is 2.52%, according to Bloomberg. The threat from inflation moving forward is that it remains elevated or trends even higher, forcing the Fed to act more drastically with respect to monetary policy.
- **Supply-Chain Disruptions/Bottlenecks** – Expect them to persist at least into late 2022. Semiconductor shortages are negatively impacting many industries. The backlog of container ships waiting to unload their cargo in the ports of Los Angeles and Long Beach, California, is not shrinking. The bottlenecks are contributing to the higher inflation levels in the U.S. Inflation is defined as "too much money chasing too few goods," and too many goods are sitting out at sea in container ships. The delays are also racking up added expenses for those companies waiting for their goods.
- **Build Back Better Act (BBB)** – President Joe Biden's social spending bill has been unable to win enough support within his own party to pass. Attempts have been made to pare it down so that it is less costly. The Democrats have even discussed splitting it up into smaller bills. The money needed to fund this plan was supposed to come from higher taxes. That is the part we believe could potentially impact sentiment/behavior in the stock market.
- **Valuations (P/Es)** – Multiple expansion is nothing new. In this ongoing climate of low interest rates and bond yields, equity investors have been willing to pay more for a dollar's worth of earnings. The trailing 12-month price-to-earnings (P/E) ratio on the S&P 500 Index, however, stood at 26.20 on 12/31/21, according to Bloomberg. That is well above its 17.21 average P/E over the past 50 years.
- **Stock Market Correction** – The S&P 500 Index experiences a 10.00% -19.99% selloff every 22 months or so. Last one ended on 3/23/20. We could be due.

A 20-Year Snapshot Of Global Equities (A Tale Of Two Decades)

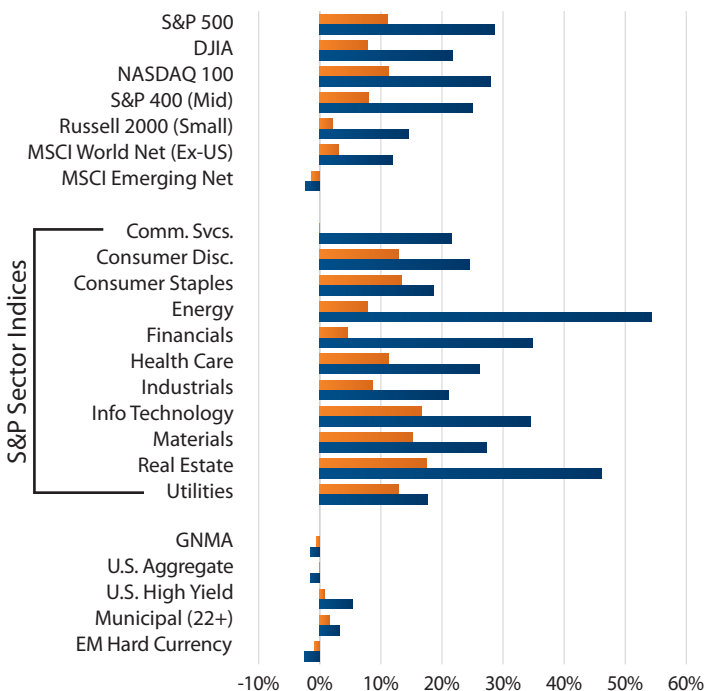
- In 10 of the past 20 calendar years, at least one of the four major U.S. stock indices in the table outperformed all of the major foreign stock indices featured.
- Seven of those years of outperformance occurred in last decade. The NASDAQ 100 Index accounted for five of the seven.
- The top-performer for the 20-year period captured in the table was the NASDAQ 100 Index, with an average annual total return of 13.31%.
- The S&P 500 Index posted an average annual total return of 9.52% for the period, below its 10.46% average generated from 1926-2021 (Morningstar/Ibbotson).
- Emerging market stock indices had a strong showing over the first 10 years, particularly the BRIC countries (Brazil, Russia, India & China) and Latin America.
- Over the first 10 years covered in the table, the U.S. Dollar Index (DXY) plunged by 31.32% (Bloomberg). The weakness in the dollar boosted the returns for U.S. investors owning unhedged foreign stocks. Over the second 10-year period, DXY rose by 19.32%. That gain reduced the returns on unhedged foreign stocks.

Annual Total Returns (USD) Of Major Global Equity Indices (2002-2021)

	S&P 500	S&P MidCap 400	S&P SmallCap 600	NASDAQ 100	MSCI BRIC	MSCI Emerg. Markets	MSCI Europe	MSCI Latin America	MSCI Pacific ex-Japan	MSCI World ex-USA
2002	-22.10%	-14.51%	-14.63%	-37.52%	-12.73%	-6.17%	-18.38%	-22.50%	-6.42%	-19.89%
2003	28.68%	35.62%	38.79%	49.49%	91.32%	55.82%	38.54%	73.52%	45.77%	33.11%
2004	10.88%	16.48%	22.65%	10.75%	16.89%	25.55%	20.88%	39.44%	28.46%	14.72%
2005	4.91%	12.56%	7.68%	1.89%	44.19%	34.00%	9.42%	50.00%	13.81%	9.49%
2006	15.79%	10.32%	15.12%	7.28%	56.36%	32.14%	33.72%	43.15%	32.02%	20.07%
2007	5.49%	7.98%	-0.30%	19.24%	58.87%	39.42%	13.86%	50.40%	30.73%	9.04%
2008	-37.00%	-36.23%	-31.07%	-41.57%	-59.40%	-53.33%	-46.42%	-51.41%	-50.50%	-40.71%
2009	26.46%	37.38%	25.57%	54.61%	93.12%	78.51%	35.83%	103.77%	72.81%	29.99%
2010	15.06%	26.64%	26.31%	20.14%	9.57%	18.88%	3.88%	14.66%	16.91%	11.76%
2011	2.11%	-1.73%	1.02%	3.66%	-22.85%	-18.42%	-11.06%	-19.35%	-12.79%	-5.54%
2012	16.00%	17.88%	16.33%	18.35%	14.54%	18.22%	19.12%	8.66%	24.57%	15.83%
2013	32.39%	33.50%	41.31%	36.92%	-3.53%	-2.60%	25.23%	-13.36%	5.49%	26.68%
2014	13.69%	9.77%	5.76%	19.40%	-2.85%	-2.19%	-6.18%	-12.30%	-0.47%	4.94%
2015	1.38%	-2.18%	-1.97%	9.75%	-13.46%	-14.92%	-2.84%	-31.04%	-8.47%	-0.87%
2016	11.96%	20.74%	26.56%	7.27%	12.12%	11.19%	-0.40%	31.04%	7.85%	7.51%
2017	21.83%	16.24%	13.23%	32.99%	41.75%	37.28%	25.51%	23.74%	25.88%	22.40%
2018	-4.38%	-11.08%	-8.48%	0.04%	-13.41%	-14.57%	-14.86%	-6.57%	-10.30%	-8.71%
2019	31.49%	26.20%	22.78%	39.46%	22.80%	18.42%	23.77%	17.46%	18.36%	27.67%
2020	18.40%	13.66%	11.29%	48.88%	17.65%	18.31%	5.38%	-13.80%	6.55%	15.90%
2021	28.71%	24.76%	26.82%	27.51%	-11.25%	-2.54%	16.30%	-8.09%	4.68%	21.82%
20-Yr. Avg. Annual Return	9.52%	10.56%	10.73%	13.31%	10.67%	9.59%	6.25%	7.75%	9.17%	8.06%

Source: Bloomberg. Foreign equity indices are calculated on a "Net" basis to reflect any withholdings. Past performance is no guarantee of future results.

Total returns for Q4 and past 12 months (12/31/21)



Sources: Bloomberg and Bloomberg Fixed Income Indices. Past performance is no guarantee of future results.

A Look Ahead:

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

Index (Weighting In S&P 500)	Q1'22E	Q1'21A	Q2'22E	Q2'21A	2022E	2021E
Communication Svcs. (10.2%)	3.00	3.10	3.18	3.15	13.01	12.32
Consumer Disc. (12.5%)	10.13	10.29	13.38	11.46	51.19	40.37
Consumer Staples (5.9%)	8.48	7.85	9.12	9.06	36.68	34.58
Energy (2.7%)	9.80	3.32	9.87	5.75	38.95	29.32
Financials (10.7%)	10.80	14.80	10.79	15.92	44.04	53.81
Health Care (13.3%)	23.67	18.69	23.59	18.98	94.32	79.94
Industrials (7.8%)	8.85	5.77	11.31	8.67	43.36	31.74
Information Tech. (29.2%)	24.79	21.07	25.23	21.86	108.07	94.00
Materials (2.6%)	8.44	5.84	9.18	8.73	33.11	30.94
Real Estate (2.8%)	1.41	1.49	1.56	2.12	6.17	7.03
Utilities (2.5%)	4.60	4.63	3.70	3.14	17.05	15.73
S&P 500 Index	51.46	47.41	54.35	52.05	220.11	201.85
S&P MidCap 400 Index	41.39	32.91	44.39	37.00	175.48	149.22
S&P SmallCap 600 Index	20.41	14.61	22.35	16.68	89.70	68.63

Source: S&P Dow Jones Indices (12/29/21). Sector weightings as of 1/4/22. There is no guarantee past trends will continue or projections will be realized.

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