First Trust

Market Watch

Week of January 18th

Stock Index Performance

Index	Week	YTD	12-mo.	2010	5-yr
Dow Jones Industrial Avg. (11,787)	0.96%	1.89%	13.34%	14.06%	4.21%
S&P 500 (1,293)	1.72%	2.90%	15.13%	15.06%	2.23%
NASDAQ 100 (2,323)	2.06%	4.77%	24.08%	20.15%	6.51%
S&P 500 Growth	1.43%	2.28%	15.49%	15.09%	3.40%
S&P 500 Value	2.02%	3.55%	14.88%	15.13%	0.98%
S&P MidCap 400 Growth	2.12%	2.36%	29.53%	30.65%	6.40%
S&P MidCap 400 Value	2.44%	2.96%	21.79%	22.80%	4.60%
S&P SmallCap 600 Growth	2.11%	2.50%	28.60%	28.43%	4.93%
S&P SmallCap 600 Value	2.71%	2.52%	24.60%	25.01%	3.71%
MSCI EAFE	2.71%	1.86%	6.56%	7.75%	1.90%
MSCI World (ex US)	2.22%	1.48%	9.76%	11.15%	4.12%
MSCI World	2.16%	2.29%	11.14%	11.76%	2.11%
MSCI Emerging Markets	1.13%	0.77%	17.10%	18.88%	11.39%

Source: Bloomberg. Returns are total returns. The ***5-yr. return is an average annual.*** One-week, YTD, 12-mo. and 5-yr. performance returns calculated through 01/14/11.

S&P Sector Performance

Index	Week	YTD	12-mo.	2010	5-yr
Consumer Discretionary	0.67%	1.41%	27.61%	27.85%	4.07%
Consumer Staples	0.98%	0.03%	12.05%	14.12%	7.58%
Energy	3.34%	3.82%	20.09%	20.46%	7.42%
Financials	3.23%	4.99%	11.66%	12.18%	-10.17%
Health Care	0.28%	2.16%	1.91%	2.90%	1.84%
Industrials	1.85%	3.04%	23.04%	26.74%	3.69%
Information Technology	2.04%	4.76%	14.97%	10.22%	4.71%
Materials	1.13%	0.81%	18.27%	22.34%	7.52%
Telecom Services	-1.56%	-1.28%	20.00%	18.97%	5.65%
Utilities	0.49%	1.30%	6.23%	5.46%	3.66%

Source: Bloomberg. Returns are total returns. The ***5-yr. return is an average annual.*** One-week, YTD, 12-mo. and 5-yr. performance returns calculated through 01/14/11.

Bond Index Performance

Index	Week	YTD	12-mo.	2010	5-yr
U.S. Treasury: Intermediate	0.11%	0.21%	4.70%	5.29%	5.39%
GNMA 30 Year	0.08%	0.08%	5.89%	6.71%	6.16%
U.S. Aggregate	0.11%	0.13%	5.61%	6.54%	5.71%
U.S. Corporate High Yield	0.43%	1.34%	14.13%	15.12%	9.01%
U.S. Corporate Investment Grade	0.10%	0.12%	7.70%	9.00%	5.98%
Municipal Bond: Long Bond (22+)	-4.09%	-4.70%	-4.48%	1.12%	1.61%
Global Aggregate	0.82%	-0.69%	3.27%	5.55%	6.09%

Source: Barclays Capital. Returns are total returns. The ***5-yr. return is an average annual.*** One-week, YTD, 12-mo. and 5-yr. performance returns calculated through 01/14/11.

Key Rates

As of 01/14

Fed Funds	0.00-0.25%	5-yr CD	2.26%
LIBOR (1-month)	0.26%	2-yr T-Note	0.57%
CPI - Headline	1.50%	5-yr T-Note	1.92%
CPI - Core	0.80%	10-yr T-Note	3.33%
Money Market Accts.	0.64%	30-yr T-Bond	4.53%
Money Market Funds	0.03%	30-yr Mortgage	4.74%
6-mo CD	0.75%	Prime Rate	3.25%
1-yr CD	1.05%	Bond Buyer 40	5.53%

Sources: Bankrate.com, iMoneyNet.com and Bloomberg.

Market Indicators

As of 01/14

TED Spread	15 bps
Investment Grade Spread (A2)	172 bps
ML High Yield Master II Index Spread	513 bps

Sources: Bloomberg and Merrill Lynch via Bloomberg.

Weekly Fund Flows for the Week Ended 1/05/11

Estimated Flows to Long-Term Mutual Funds

	Current Week		Previous	
Domestic Equity	-$4.229	Billion	$493	Million
Foreign Equity	$2.416	Billion	$2.289	Billion
Taxable Bond	$2.693	Billion	$2.468	Billion
Municipal Bond	-$2.146	Billion	-$2.827	Billion

Change in Money Market Fund Assets

	Current Week		Previous	
Retail	-$6.58	Billion	$2.91	Billion
Institutional	$4.39	Billion	-$15.08	Billion

Source: Investment Company Institute

Factoids for the week of January 10th – 14th

Monday, January 10, 2011
Moody's reported that the *global speculative-grade* default rate stood at 3.1% in December, down from 3.3% in November. The rate stood at 13.1% in Q4'09. Moody's is now forecasting a default rate of 1.9% by December 2011. The *U.S. speculative-grade* default rate stood at 3.3% in December, down from 3.5% in November. The rate stood at 14.1% in Q4'09. Moody's is now forecasting a default rate of 2.1% by December 2011. The default rate on senior loans stood at 1.87% (by amount) in December, down from 2.25% in November, according to Standard & Poor's LCD. The default rate by number fell from 3.27% in November to 2.86% in December. Loan managers expect the default rate to be 1-3% in 2011.

Tuesday, January 11, 2011
The price-only return of the cap-weighted S&P 500 in 2010 was 12.78%, but the average stock in the index was up 19.25%. Bespoke Investment Group broke the index down into deciles by market cap to see which groups lifted the index higher. The worst performing deciles were 1-4, with the largest companies posting the smallest gain, up 8.9%. The smallest companies in the index were up 24.2%. The best performers were the seventh decile, up 28.1%.

Wednesday, January 12, 2011
A study from mergermarket.com revealed that commercial real estate mergers and acquisitions totaled $60.1 billion worldwide in 2010, up 23.7% from the $48.6 billion consummated in 2009, according to REIT.com. Total transactions rose from 235 to 251. In the U.S., real estate M&A activity increased 189.5% from $3.8 billion in 2009 to $11.0 billion in 2010. The number of deals rose from 20 to 36.

Thursday, January 13, 2011
The S&P Valuation and Risk Strategies research group reported that the top 50 publicly traded companies globally, excluding financials, are holding approximately $1.08 trillion in cash and equivalents, according to Standard & Poor's. That amount is close to the total cash holdings for the entire S&P 500 Index. Seventeen of the top 50 are based in the U.S. and account for $458.2 billion of the $1.08 trillion. Seventeen of the companies are based in Europe and account for $287.7 billion of the total. Thirteen are based in Asia and Australia and account for $270.1 billion. The remaining three are based in Brazil, Mexico and Saudi Arabia.

Friday, January 14, 2011
Morgan Stanley did an analysis of rolling 10-year returns since 1926 on two types of investment portfolios – one with 90% bonds and 10% cash and the other with 90% stocks and 10% cash, according to *USA TODAY*. It found that the worst one-year return for the 90% bonds/10% cash mix was a loss of 14.3%. The worst one-year return for the 90% stocks/10% cash mix was a loss of 60.7%. More importantly, it found that the average annual return of the rolling 10-year periods for the 90% bonds/10% cash mix was 5.5%, vs. 10.0% for the 90% stocks/10% mix. Morgan Stanley noted that a strategy featuring zero stock exposure is best suited for someone with a short time horizon or a very low tolerance for risk.