First Trust

# Quarterly Market Overview

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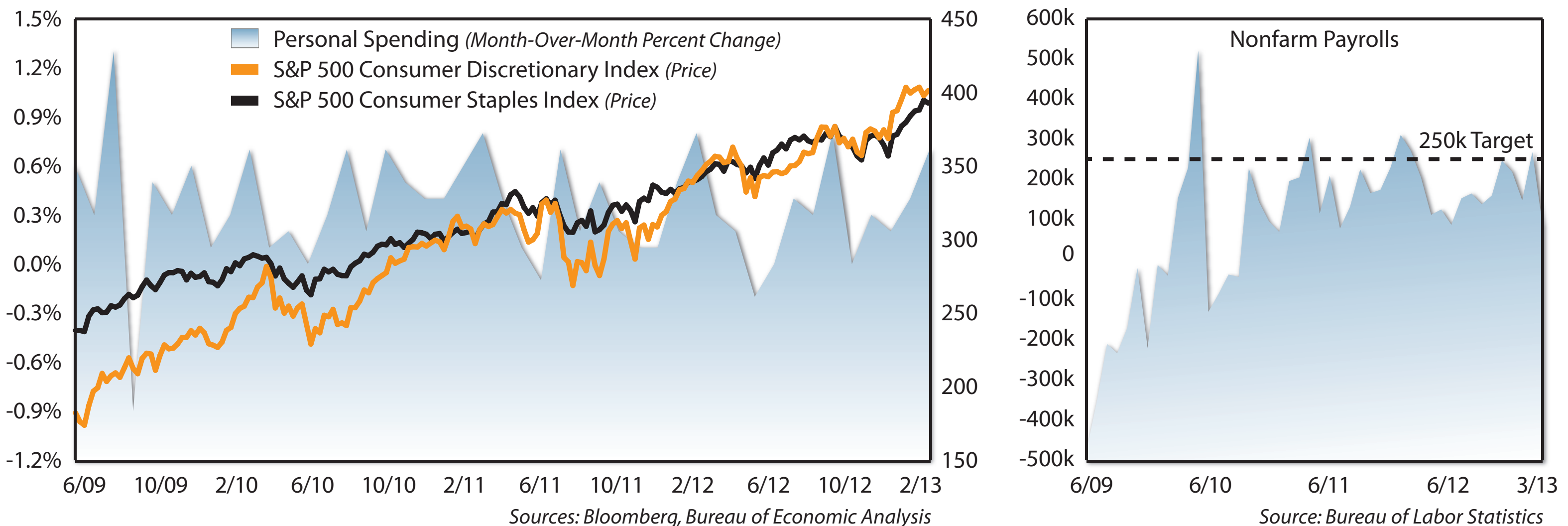
Mr. Carey has over a quarter century of experience as an Equity and Fixed-Income Analyst and is a recipient of the Chartered Financial Analyst (CFA) designation. He is a graduate of the University of Illinois at Champaign-Urbana with a B.S. in Physics. He is also a member of the CFA Society of Chicago and the CFA Institute. As Chief Market Strategist, Bob and his staff supervise approximately $72 billion in assets. Mr. Carey has appeared throughout the United States and Canada as a guest on television and radio programs. These programs include: Bloomberg TV, CNBC and on Chicago's WBBM Newsradio 780's Noon Business Hour. He has been quoted by several publications, including *The Wall Street Journal, The Wall Street Reporter, Bloomberg News Service, and Registered Rep.*

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

## Consumers Are Doing Their Part




When airline pilots have to fly in bad weather conditions or when visibility is poor they are often forced to put their trust in their instruments to guide them through their flight plan. Investing can be a little like that at times. Sometimes investors feel the turbulence from the volatility in the markets and let their emotions take over instead of trusting what their instruments are reading and sticking to their investment plan. Sound a bit too corny? Well, take a moment and research the structure of a target date mutual fund. It won't take long before you bump into a concept called the "Glide Path." It sure sounds aeronautical. A glide path is essentially a formula that shapes the asset allocation mix of a target date portfolio based on the number of years out from the target date. At the start, the mix is more aggressive by favoring equities over fixed-income securities, like a plane powering up to take off. As the investor gets closer to the target date the fund's asset allocation mix tends to shift away from equities to fixed-income securities to temper risk. Sounds like a plane powering down for a landing.

The chart directly above is a relevant real-time depiction of the analogy we presented. The time period chosen reflects data following the end of the most recent recession in the U.S., which was June 2009, according to the National Bureau of Economic Research. Since consumer spending accounts for as much as 70% of annual economic output in the U.S., we thought a comparison between equities tied to spending on discretionary goods/services and consumer staples would be ideal. The shaded area of the chart shows the monthly percentage change in overall personal spending, and the pattern looks rather choppy, like turbulence. The two lines in the chart, whose patterns resemble a couple of planes taking off, represent the price-only performance of the two benchmark indices that track the major companies operating in the discretionary and staples sectors.

At first glance, the price action for these two indices appears to have ascended to around the same point. Discretionary stocks, however, had a longer journey coming out of the recession. From 6/09 through 2/13, the price-only return for the S&P 500 Consumer Discretionary Index was 120.2% (cumulative) and 24.0% (annualized), compared to a gain of 64.9% (cumulative) and 14.6% (annualized) for the S&P 500 Consumer Staples Index. Since discretionary stocks are cyclical in nature, their outperformance relative to consumer staples, which are defensive in nature, while in the midst of an economic expansion is understandable. From 6/09 through 12/12, the average U.S. GDP growth rate was 2.0%, according to the Bureau of Economic Analysis (BEA). While modest when compared to the 20- and 30-year averages of 2.5% and 2.9%, respectively, it is still respectable growth, in our opinion, when you consider that the U.S' s nominal GDP (seasonally adjusted) rose from approximately $3.3 trillion in 1982 to $15.9 trillion in 2012, according to the BEA and Haver. The U.S. economy is huge!

Investors still seem skittish about the prospects for the economy and the stock market. The Q4'12 annualized GDP growth rate of 0.4% triggered a shift in market sentiment away from cyclical stocks into defensive sectors. The top three performing sectors (price-only) in Q1'13 were Health Care (+15.22%), Consumer Staples (+13.77%) and Utilities (+11.84%). Consumer Discretionary ranked 4th, up 11.76%. While still positive, March's nonfarm payroll number was poorly received by investors. Ironically, the 88,000 jobs created was only 2,000 less than the 90,000 monthly average from 6/09 through 3/13 (see chart). Perhaps it's because the nonfarm payroll number has only surpassed the 250,000 mark (touted as minimum number needed to bring unemployment down) only four times. The bottom line is that the economy is growing. Investors should ignore the turbulence and stay the course, in our opinion.



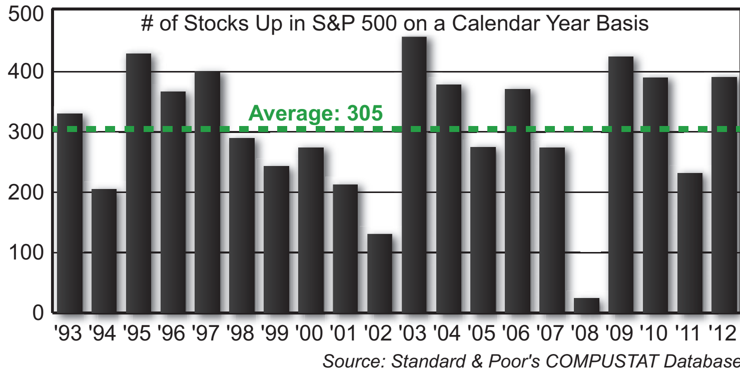
Continued

# Painting A Picture Via Blog Posts

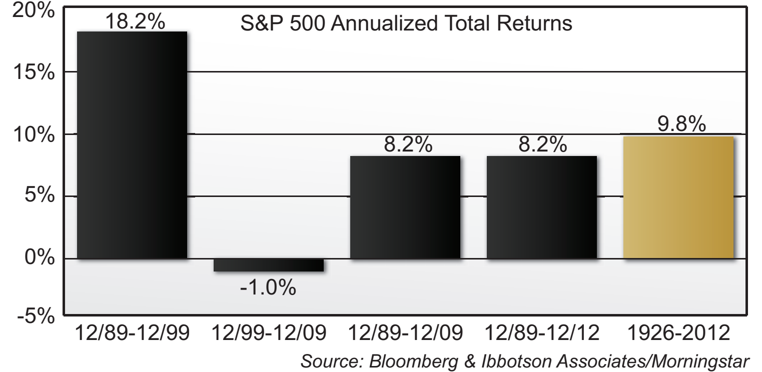
You may have noticed the invitation at the end of Bob Carey's bio to visit his "Market Commentary Blog" at ftportfolios.com. Every Tuesday and Thursday Bob posts a topical perspective about the markets featuring a chart accompanied by observations. The topics covered include the following: fixed-income, the broader stock market, commodities, conceptual and thematic observations, sectors/subsectors, foreign stocks and bonds and equity income. The blog also offers other forms of market insights, including Bob's "Weekly Video Commentary." What makes the Tuesday and Thursday posts special is that they are retail-approved. There is no mention of any First Trust products. The goal is simply to front-load as much timely insight as we can. We do provide an archive so that previous posts can be accessed.

We have put together an example of how one could piece together various posts to gain a better understanding of what is transpiring in the markets. The following four charts (as they appear in the archive/*dated*) lend some interesting historical perspective to the S&P 500...

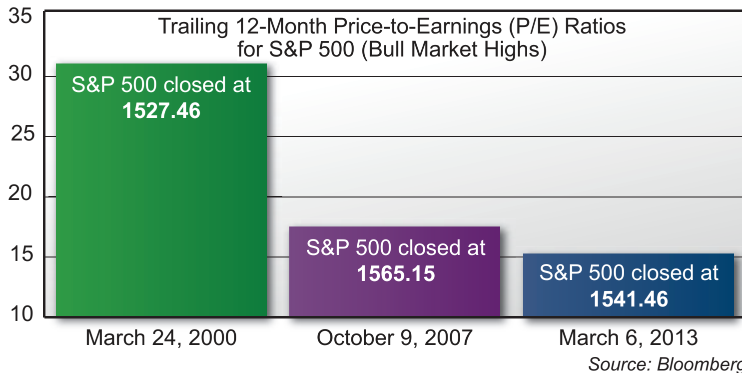
**Nearly 40% of the stocks in the S&P 500 are down in a given year** *(1/15/13)*



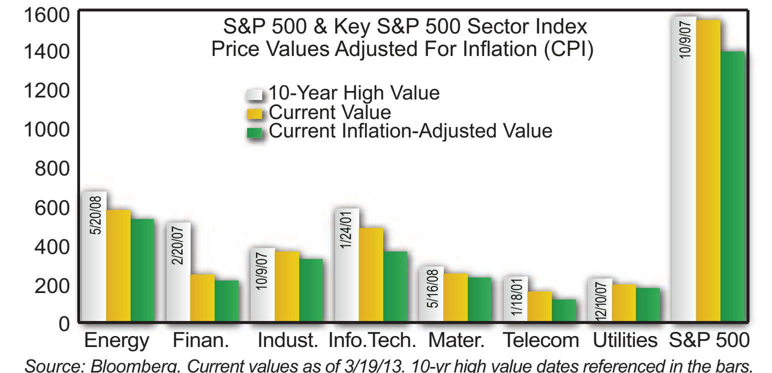

**The "Lost Decade" in the S&P 500 was a reversion to the mean** *(1/29/13)*



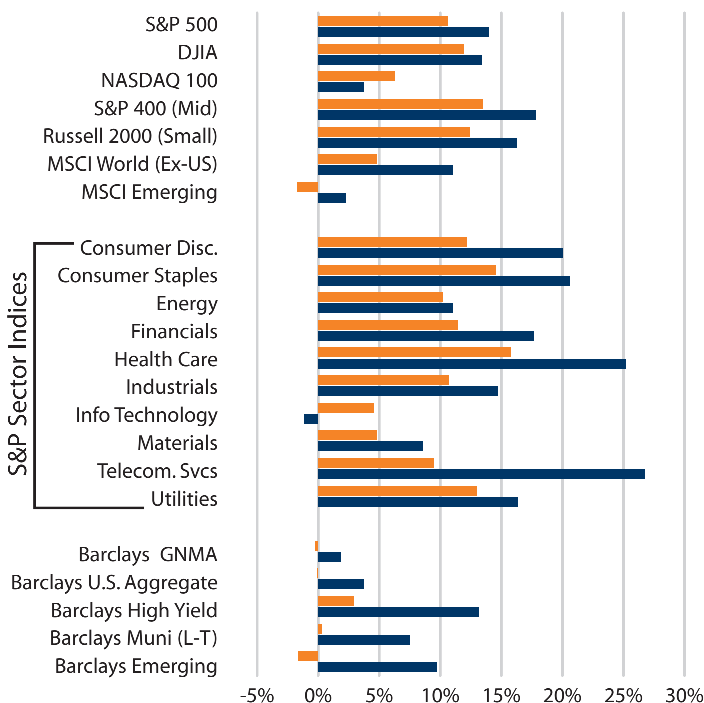

**The S&P 500 is almost back to its all-time high but its P/E is lower** *(3/7/13)*




**The S&P 500 is 11.37% below its high on an inflation-adjusted basis** *(3/21/13)*




## Total returns for *Q1* and past **12 months** (3/28/13)




## A Look Ahead:

### The outlook for earnings (year-over-year comparison in $)...

| | **Q2'13E** | Q2'12A | **Q3'13E** | Q3'12A | **2013E** | 2012A |
|---|---|---|---|---|---|---|
| Financials | **4.84** | 4.38 | **4.85** | 4.27 | **19.48** | 16.44 |
| Information Technology | **8.90** | 8.14 | **9.24** | 6.90 | **37.93** | 32.69 |
| Health Care | **9.12** | 8.02 | **9.34** | 7.93 | **36.44** | 31.53 |
| Consumer Staples | **5.98** | 5.48 | **6.29** | 5.73 | **24.10** | 22.59 |
| Consumer Discretionary | **6.17** | 5.30 | **6.41** | 5.73 | **24.84** | 22.27 |
| Industrials | **6.38** | 6.17 | **6.49** | 5.75 | **25.07** | 22.28 |
| Telecom. Services | **2.27** | 2.29 | **2.38** | 2.09 | **8.36** | 3.38 |
| Energy | **11.81** | 12.21 | **12.38** | 10.13 | **47.62** | 44.30 |
| Utilities | **2.69** | 2.68 | **4.15** | 3.66 | **12.45** | 11.97 |
| Materials | **4.99** | 4.46 | **4.04** | 3.19 | **17.69** | 14.67 |
| S&P 500 Index | **27.44** | 25.43 | **28.42** | 24.00 | **111.06** | 96.82 |
| S&P 400 Index (Mid-Cap) | **15.97** | 13.74 | **17.14** | 14.13 | **64.60** | 54.54 |
| S&P 600 Index (Small-Cap) | **7.08** | 5.51 | **7.86** | 5.58 | **29.15** | 21.62 |

Source: Standard & Poor's (4/4/13)