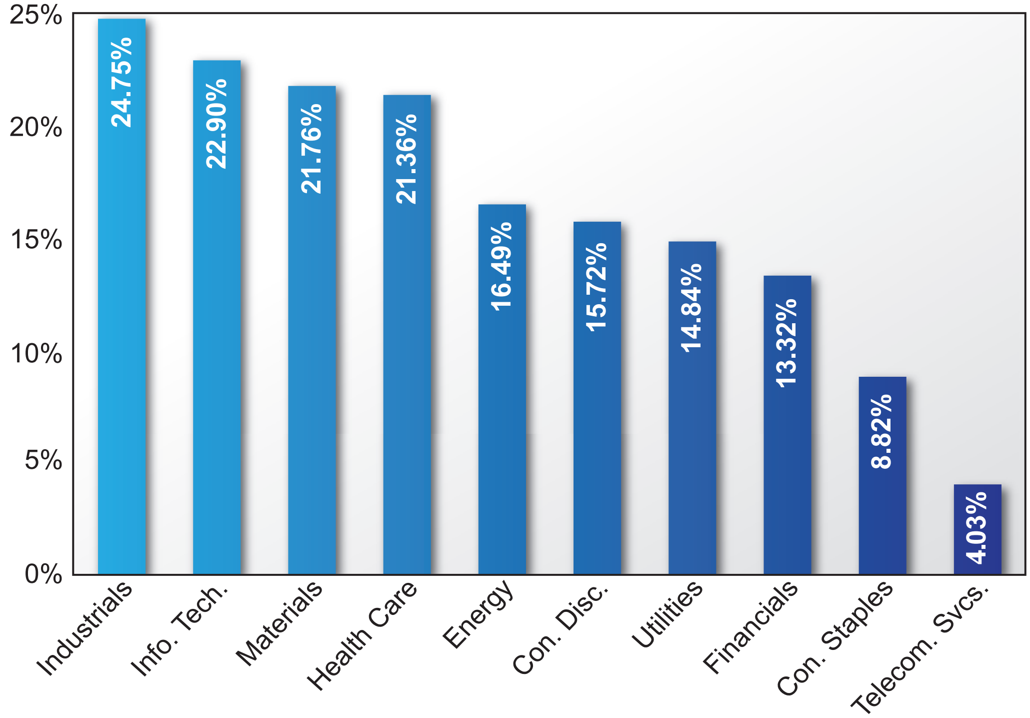
Cyclical Sectors Quietly Leading The Market Higher

S&P 500 Sectors - Total Returns (5/28/13-5/28/14)



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

View from the Observation Deck

1. Real GDP (U.S.) for Q1'14 was just revised lower from 0.1% to -1.0%. Brian Wesbury, Chief Economist at First Trust Advisors L.P., has been steadfast in his belief that the weakness was largely weather-related.
2. Wesbury sees real GDP growing at around 3.0% for the remainder of 2014. The International Monetary Fund is forecasting global growth rates of 3.6% and 3.9% for 2014 and 2015, respectively, according to Bloomberg.
3. Despite these optimistic growth projections, some investors continue to seek out defensive-oriented, income-producing securities, such as utility stocks and investment-grade bonds.
4. While the top performing major S&P 500 sector year-to-date is Utilities, up 12.51%, it ranks 7th out of 10 for the 12-month period ended 5/28 (see chart). In fact, nearly all of the defensive sectors have lagged the cyclicals.
5. We believe that investors are overreacting to the plunge in economic activity in Q1'14 and are simply taking advantage of the decline in interest rates as a result of said weakness.
6. As we have previously noted, we believe that corporate earnings determine the direction of stock prices over time, especially when the market is trading at all-time highs.
7. Bloomberg's (2014 & 2015) estimated earnings growth rates for the 10 major S&P 500 sectors are as follows (as of 5/29): Health Care (16.95% & 11.79%); Information Technology (16.07% & 10.84%); Telecom. Services (12.87% & 6.65%); Energy (10.90% & 6.05%); Consumer Discretionary (9.54% & 17.49%); Industrials (6.30% & 11.91%); Materials (5.64% & 19.02%); Consumer Staples (4.15% & 9.20%); Utilities (-0.74% & 3.08%); and Financials (-1.65% & 11.94%).

The chart and performance data referenced are for illustrative purposes only and not indicative of any actual investment. The index performance data excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. There can be no assurance that any of the projections cited will occur. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance, while the 10 major S&P 500 Sector Indices are capitalization-weighted and comprised of S&P 500 constituents representing a specific sector.