First Trust

Quarterly Market Overview

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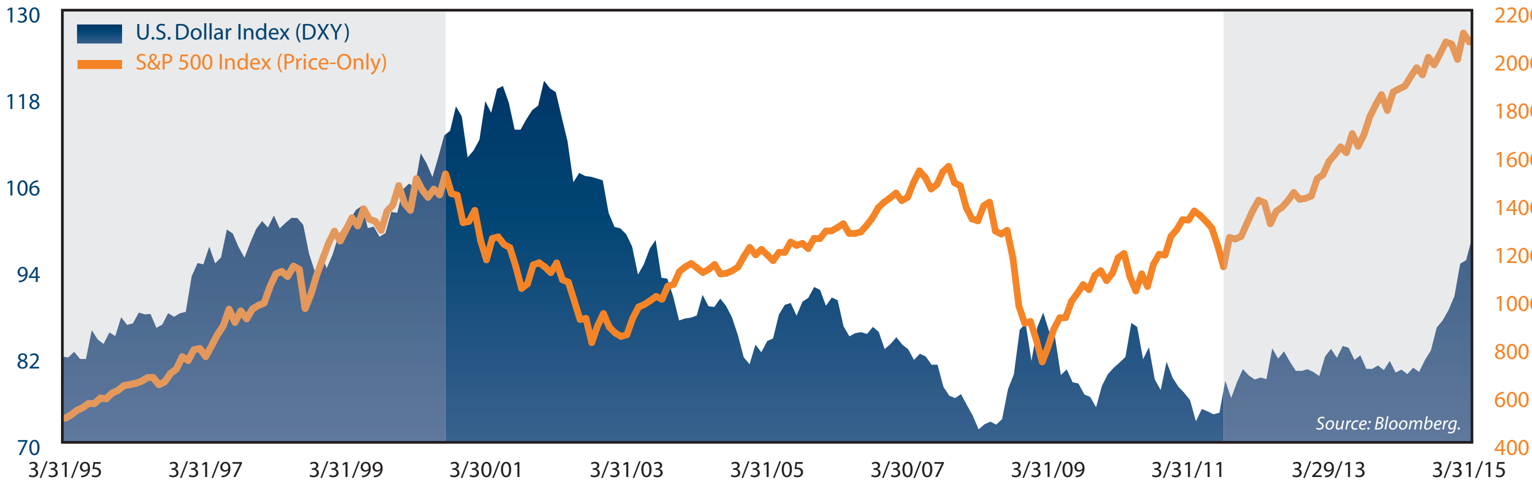
Mr. Carey has over a quarter century of experience as an Equity and Fixed-Income Analyst and is a recipient of the Chartered Financial Analyst (CFA) designation. He is a graduate of the University of Illinois at Champaign-Urbana with a B.S. in Physics. He is also a member of the CFA Society of Chicago and the CFA Institute. Bob is the Chief Market Strategist at First Trust Advisors L.P., which manages or supervises approximately $114.60 billion in assets as of 3/31/15. 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.

How often were you concerned about the relative strength of the U.S. dollar over the past 5-, 10- or 20-years?



This story has been building momentum over the past nine months. From 6/30/14-3/31/15, the U.S. dollar surged in value against a basket of major currencies. The U.S. Dollar Index (DXY) rose by 23.3% over that period. That spike in the dollar's value is depicted at the far right of the blue mountain chart. While most U.S. investors probably think of a strengthening dollar in terms of its potential impact on the value of any foreign securities they may be holding, we have also been fielding inquiries as to how it may impact U.S. securities, particularly stocks. Some investors were paying attention a few years ago when U.S. stocks were rallying off the weakness in the dollar. In the chart, we show the dollar's relative strength over the past 20 years, as measured by the U.S. Dollar Index. We shaded the chart in two spots to highlight extended periods when the S&P 500 and the dollar were simultaneously in rally mode. The unshaded area in the middle of the chart captures a number of instances when the dollar was generally weakening, yet the S&P 500 rallied. So as not to insinuate that stock values always rise, one can clearly see the two painful bear markets that ran from 3/00-10/02 and 10/07-3/09. A report released on 4/10/15 by Citi Research, a division of Citigroup Global Markets, concluded the following about the dollar's influence on equities: "The dollar generally has not determined stock price direction for the broad market but there is some correlation with large and small caps, though the relationship is not consistent."

In the near-term, the rise in the value of the dollar is expected to have some influence on corporate earnings results for Q1'15. Earnings reporting season commenced on 4/8/15. As of the third week in March, nearly 20% of S&P 500 companies had warned investors on their Q1'15 earnings, with at least 49 companies mentioning that the dollar's strength did influence results, according to Reuters. In that release, Wolfgang Koester, chief executive of FiREapps, a foreign exchange data analytics firm, estimated that North American public companies could give up more than $25 billion in revenues in Q1'15, due to currency-related volatility. Koester estimates that the strong dollar dinged earnings by approximately $18.66 billion in Q4'14. If the dollar continues to rally moving forward, we believe that some companies could move to implement currency hedging strategies to help mitigate the hit to earnings. Reuters noted that while hedging can help multinational companies with currency issues, most firms do not hedge 100% of their exposure.

While many factors can influence the value of a fiat currency at any given time, such as trade, central bank monetary policy, wars and geopolitical events, investors should always try to keep an eye on the bigger picture, in our opinion. Despite all of the fluctuations in the dollar since 2007, which includes the 2008-2009 financial crisis, global nominal GDP still rose from $57.46 trillion in 2007 to $77.30 trillion in 2014, or an increase of $19.85 trillion, according to the International Monetary Fund. For comparative purposes, nominal GDP in the U.S., which is the world's largest economy, stood at $17.70 trillion at the close of 2014, according to Bloomberg. World economic output has expanded by an amount larger than the size of the U.S. economy in just the past seven years. That is amazing considering the turbulent times we have experienced, in our opinion.

In closing, a lot of investors are funneling capital into foreign investment products these days that have currency hedging capabilities, while others are steering clear of the stocks of U.S. multinationals that tend to generate a significant percentage of their revenues from foreign sales. We encourage investors to do whatever they feel is in their best interests. Just don't forget to keep an eye on the big picture.

Continued

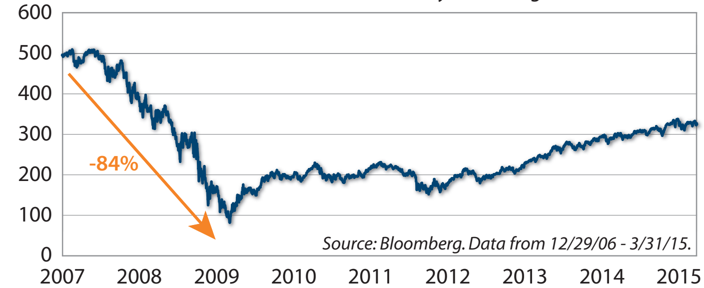
Checking in on the recovery in Financials

As indicated in the first chart on the right, from 2/20/07 through 3/6/09, the S&P 500 Financials Index plunged 84.0% from peak-to-trough (see chart). The all-time high for the index was established on 2/20/07. As of 3/31/15, the index stood 36.2% below its all-time high. The S&P 500 Banks Index, which is not featured in the chart, declined by 88.2% (price-only/excluding dividends), from 2/20/07 through 3/5/09, according to Bloomberg. The U.S. banking industry shouldered a lot of the blame for the 2008-2009 financial crisis, and rightly so, in our opinion. With this in mind, we have been paying close attention to any gains being made, or not, by the banking industry in the current recovery.

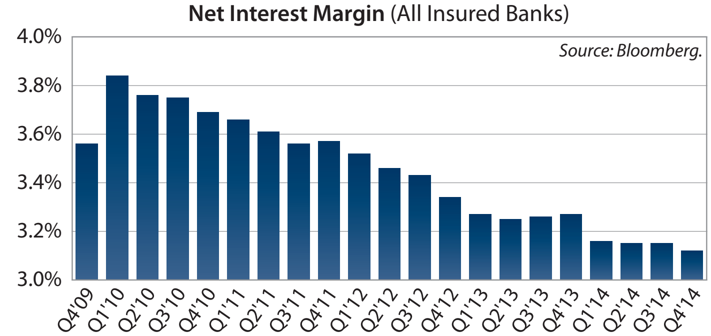
One area where progress has been absent is in the amount of net interest margin (NIM) being generated by the banks. For the traditional bank model, NIM is essentially the spread between the interest earned from the bank's loan portfolio and the amount of interest the bank pays on its deposits. The second chart to the right shows that NIM has been falling fairly steadily since 2011, due largely to the low interest rate climate in the U.S. , in our opinion. Conventional thought seems to suggest that banks are poised for better times as soon as the Federal Reserve decides to begin raising the benchmark federal funds target rate, which has stood at 0-0.25% since 12/08. Brian Wesbury, Chief Economist at First Trust Advisors, believes the Fed will begin to tighten rates in June 2015. Many pundits believe it will come later in 2015, or even 2016.

Financials still represent a potential deep value opportunity for investors at this stage of the recovery, in our opinion. Keep an eye on the Fed and interest rates.

S&P 500 Financials Index *(Price-Only/Excluding Dividends)*



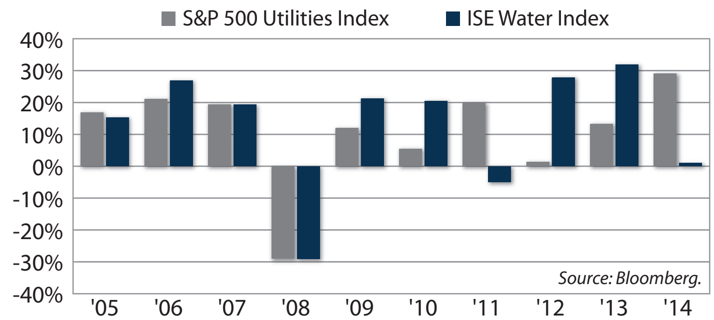
Net Interest Margin (All Insured Banks)



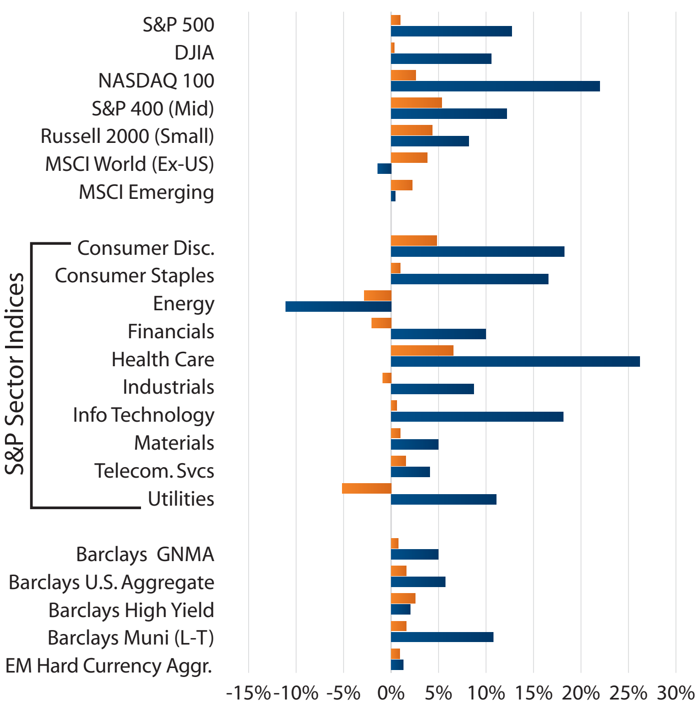
Investors who like electric utility stocks may want to consider pairing them with this utility...

The S&P 500 Utilities Index was the top performing sector index in 2014, with a total return of 28.98%, according to Bloomberg. The ISE Water Index, which combines the stocks of water utility and water infrastructure companies, posted a meager total return of 0.97%. From 2005-2014, however, the ISE Water Index posted an average annual total return of 11.31%, compared to 9.63% for the S&P 500 Utilities Index. A 50/50 split between the two indices would have produced an average annual total return of 10.47%. For comparative purposes, from 1926-2014, the S&P 500 posted an average annual total return of 10.12%, according to Ibbotson Associates/Morningstar. As indicated in the chart, over that 10-year span, each index generated the highest annual total return of the two a total of 5 times. The key takeaway, in our opinion, is that the two indices posted similar total returns in just three of the 10 calendar years (2005, 2007 and 2008). Returns varied substantially in the seven remaining years, which helps make a case for investing in both water and electric utilities.

Annual Total Returns (2005-2014)



Total returns for *Q1* and past 12 months (3/31/15)



A Look Ahead:

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

	Q2'15E	Q2'14A	**Q3'15E**	Q3'14A	**2015E**	2014A
Financials	**5.64**	5.84	**5.74**	5.70	**22.63**	21.96
Information Technology	**9.82**	8.52	**10.27**	8.66	**42.74**	37.01
Health Care	**11.54**	9.54	**11.80**	8.98	**45.91**	35.79
Consumer Staples	**6.30**	6.32	**6.51**	6.44	**24.92**	24.16
Consumer Discretionary	**7.60**	6.95	**7.99**	6.90	**30.30**	27.70
Industrials	**7.82**	7.12	**8.28**	7.07	**30.38**	26.83
Telecom. Services	**2.84**	2.92	**2.87**	2.75	**11.07**	7.21
Energy	**4.29**	11.94	**4.91**	12.56	**18.87**	42.93
Utilities	**2.94**	2.64	**4.44**	4.52	**13.66**	13.22
Materials	**4.85**	4.49	**4.03**	3.91	**17.22**	15.86
S&P 500 Index	**29.13**	29.34	**30.49**	29.60	**118.38**	113.02
S&P 400 Index (Mid-Cap)	**18.46**	16.76	**19.82**	13.09	**75.01**	58.87
S&P 600 Index (Small-Cap)	**8.19**	6.90	**8.82**	6.78	**33.49**	26.79

Source: Standard & Poor's (4/1/15)