First Trust

Quarterly Market Overview

Issue 64, January 2016

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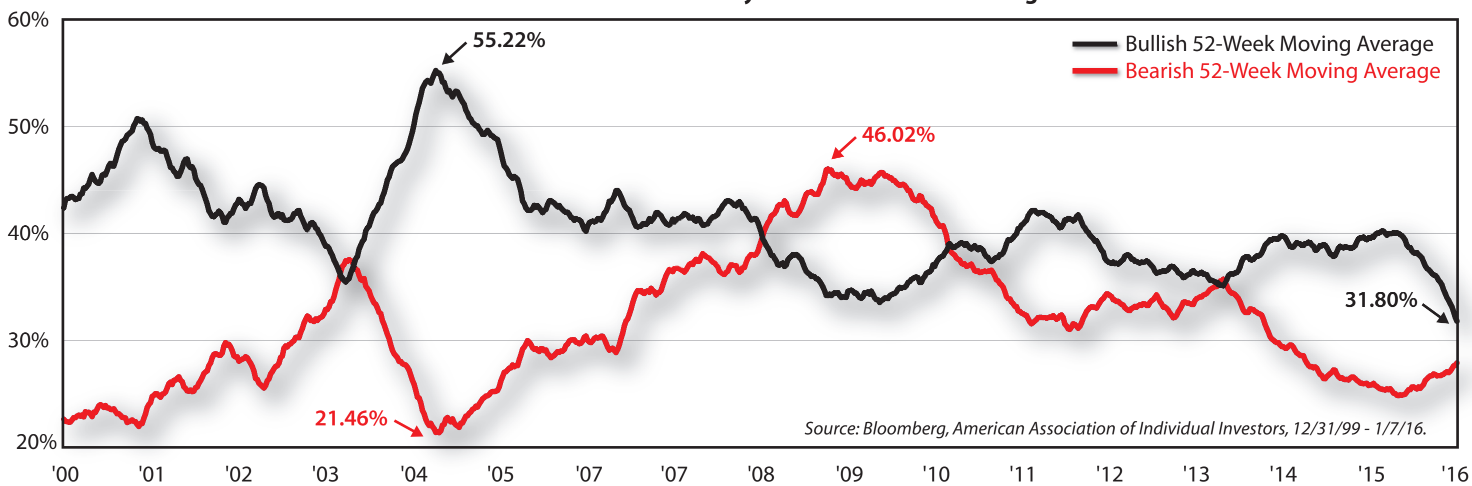
We invite you to visit Bob's Market Commentary Blog at www.ftportfolios.com for more insight.

U.S. investors are not bullish right now and that could translate into opportunity

AAII Investor Sentiment Survey: Bullish & Bearish Readings



In July 1987, the American Association of Individual Investors (AAII) began polling its own members in an effort to gain insight into the moods of individual investors. Each week they ask their members if they are bullish, neutral or bearish on the stock market looking out six months. We have chosen to focus on the bullish and bearish readings in the chart. The AAII states that its members tend to be affluent with a median portfolio valued in excess of $1 million. While considered affluent, the typical member has only a moderate level of investment knowledge, according to the AAII. From 7/23/87 (inception) through 1/7/16, the weekly AAII Bullish and Bearish sentiment readings averaged 38.67% and 30.27%, respectively.

As indicated in the chart above, the 52-week moving average, which helps smooth out some of the sharper fluctuations over time, for the Bullish sentiment reading was 31.80% on 1/7/16, below the historical average of 38.67% since inception. We extended a week into 2016 in an effort to capture the effects of the sell-off in the stock market in early 2016. The actual weekly survey release on 1/7/16 showed that the Bullish reading stood at 22.17%, well below its 52-week moving average of 31.80% and its historical average of 38.67% since 7/23/87.

The 52-week moving average for the Bearish sentiment reading in the chart was 27.89% on 1/7/16, below the historical average of 30.27% since inception. The actual weekly survey release on 1/7/16 showed that the Bearish reading stood at 38.26%, well above its 52-week moving average of 27.89% and its historical average of 30.27% since 7/23/87.

When sentiment readings notably fall below or rise above their respective historical norms, some investors may interpret the moves as signals to either buy or sell stocks. A contrarian might view the current readings as a signal to buy, considering Bullish levels are down and Bearish levels are up.

Two issues weighing heavily on investor sentiment...

- The energy sector enjoyed a 10.5-year boom from the start of 2004 through June 2014. The boom was global in scope. Oil producing nations were reaping huge financial gains due to the sharp increase in the price of crude oil, which began 2004 at around $33 per barrel and peaked in 2014 at $107 per barrel in June. The price of crude oil did climb as high as $145 per barrel in July 2008. From June 2014 through December 2015, the price of a barrel of crude oil plunged from $107 to $37. The financial media has covered the oil story extensively and cites such reasons for the reversal in oil prices as the strong U.S. dollar, the tempering of China's economic growth rate and its influence on the overall slowdown in global growth, and the market share battle that the Organization of the Petroleum Exporting Countries (OPEC) is still waging against U.S. oil producing companies, particularly those operating in the shale regions. OPEC is keeping its production levels high in an effort to drive the price of crude oil lower, thus making it tougher for U.S. producers to turn a profit.
- China, which is the world's second largest economy, reported a real GDP growth rate of 6.8% (year-over-year) in Q4'15, according to Bloomberg. Aside from the third quarter of 2015's 6.9% growth rate, the last time that GDP growth was below the 7.0% mark for a quarter was Q1'09. China's economy was expanding at an annual pace in excess of 10% in 2010. China's government is seeking to transition from a manufacturing-based to a services-based economy, according to *The Diplomat*. China's slower growth climate, which was a stated goal in 2012, has resulted in China purchasing fewer commodities than in past years. The surge in volatility in China's equities markets in recent months is also likely impacting investor sentiment. The Shanghai Composite Index rose from 2,048.33 (6/30/14) to 5,166.35 (6/12/15), and then plunged to 3,125.00 (1/7/16), according to Bloomberg.

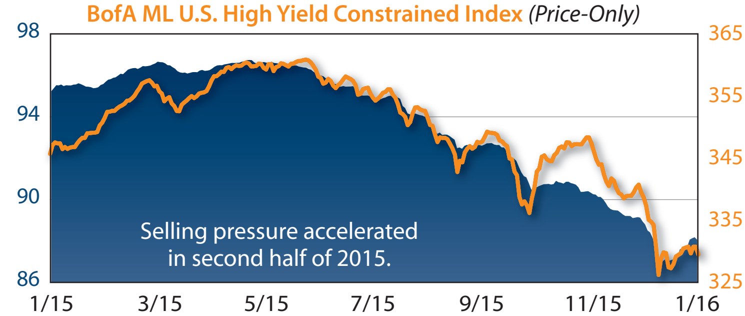
Leveraged Loans (Senior Loans) and High Yield Corporate Bonds

Due primarily to hard times in the energy and metals and mining sectors, since mid-2014, the U.S. high yield corporate bond and leveraged loan (senior loan) markets, both of which are speculative-grade in nature, posted negative returns.

From 6/30/14-1/7/16, the BofA Merrill Lynch U.S. High Yield Constrained Index posted a total return of -7.79%, according to Bloomberg. On a price-only basis, which does not include interest payments, the average value of the securities in the index went from a 5.65% premium to par value on 6/30/14 to an 11.66% discount to par value on 1/7/16, according to Bloomberg. From 6/30/14-1/7/16, the S&P Leveraged Loan 100 Index posted a total return of -4.09%, according to Bloomberg. On a price-only basis, the average value of the securities in the index went from a 1.05% discount to par value on 6/30/14 to an 11.94% discount to par value on 1/7/16, according to Bloomberg.

While high yield corporate bonds and leveraged loans stood at similar discounts to par value (11.66% vs. 11.94%) on 1/7/16, it was high yield corporate bonds that traded at a premium on 6/30/14, just prior to the plunge in crude oil and raw materials prices. High yield corporate bonds tend to be fixed-rate securities, while leveraged loans tend to be floating-rate securities indexed to short-term interest rates. With short-term interest rates hovering near historic lows since late 2008, it is understandable that longer maturity, fixed-rate high yield corporate bonds would have been more appealing to investors than lower-yielding leveraged loans. Looking ahead, investors should take note of the Federal Reserve's interest rate hike on 12/16/15 as well as its own comments regarding the potential for more hikes in 2016.

S&P/LSTA U.S. Leveraged Loan 100 Index vs. BofA ML U.S. High Yield Constrained Index *(Price-Only)*



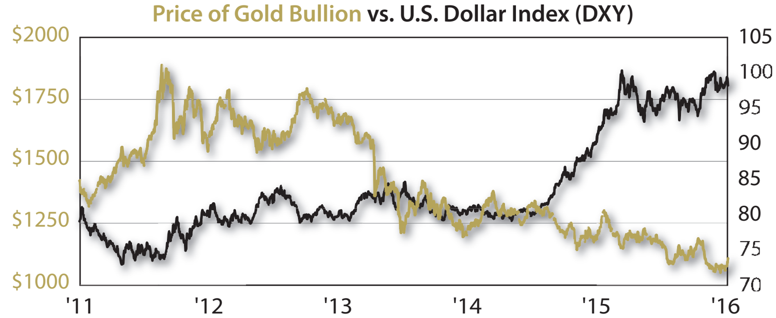
Source: Bloomberg, 1/7/15 - 1/7/16.

Status/Outlook for Default Rates: Moody's reported that the global speculative-grade default rate stood at 3.4% in December, up from 2.9% in November, according to its own release. Moody's puts the historical average default rate at 4.2% since 1983. In 2015, there were 108 defaults, up from 55 in 2014. Energy and metals and mining issuers accounted for over 30% of the 108 defaults. The U.S. speculative-grade default rate also stood at 3.4% in December, up from 3.0% in November. The default rate on senior loans stood at 1.19% in December, up from 1.09% in November, according to S&P Capital IQ. The historical average has been 2.79% since December 2002. *The high yield corporate bond market has more than three times the exposure to Energy than does the leveraged loan market, according to S&P Capital IQ.*

Investors' anxiety levels may be up but gold bullion isn't

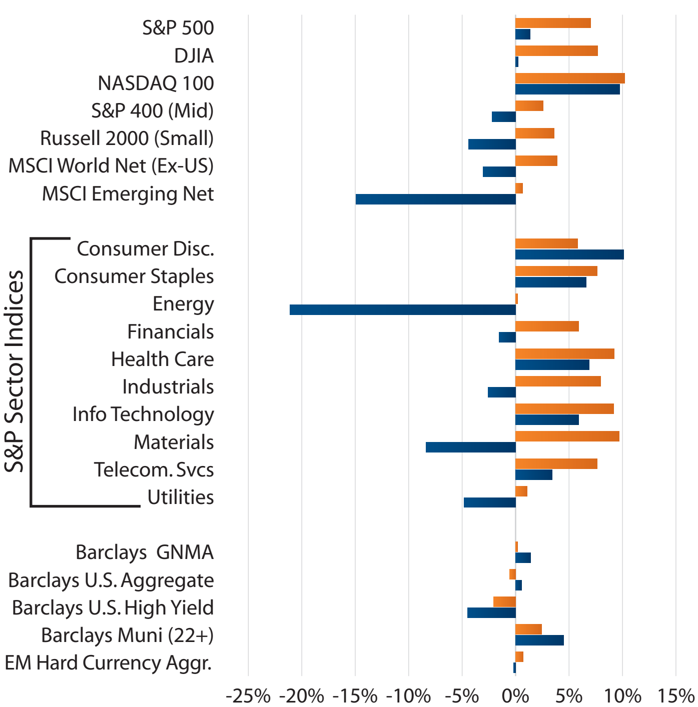
How bad is it? That might be a normal reaction to a sharp sell-off in the stock market. While the answer isn't always obvious, there is one barometer of fear that is an obvious place to begin a search for an answer: gold. If investors are truly scared of holding risk in a given climate they might shift some of their capital to gold. In the current climate, investors are enduring a second sharp sell-off in the equities markets in less than a six-month period, yet there has been no upward move in the price of gold bullion. The chart to the right reflects the fluctuations in the price of gold and the change in the relative value of the U.S. dollar against a basket of major currencies since the end of 2010. While some investors did opt for gold in 2011, a year in which a sharp sell-off occurred in the stock market, investors have not flocked to gold bullion this time around. Perhaps they find the strong U.S. dollar reassuring.

Price of Gold Bullion vs. U.S. Dollar Index (DXY)



Source: Bloomberg, 12/31/10 - 1/7/16.

Total returns for *Q4* and past **12 months** (12/31/15)



Past performance is no guarantee of future results.

A Look Ahead:

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

	Q1'16E	Q1'15A	**Q2'16E**	Q2'15A	**2016E**	2015E
Consumer Discretionary	**7.34**	6.41	**8.66**	7.61	**34.30**	30.30
Consumer Staples	**5.91**	5.71	**6.50**	6.38	**26.03**	24.38
Energy	**3.05**	-0.48	**3.98**	-0.51	**16.20**	-2.77
Financials	**5.81**	6.18	**6.03**	5.82	**24.31**	23.30
Health Care	**12.45**	10.15	**13.01**	9.68	**52.03**	40.90
Industrials	**6.34**	6.21	**7.79**	6.96	**29.95**	28.26
Information Technology	**10.30**	9.15	**10.44**	8.86	**45.15**	38.90
Materials	**4.58**	3.09	**5.21**	3.79	**18.16**	11.07
Telecom. Services	**3.12**	2.90	**3.11**	2.94	**12.18**	11.42
Utilities	**3.81**	3.84	**3.09**	2.97	**14.36**	13.67
S&P 500 Index	**28.84**	25.81	**31.02**	26.14	**125.56**	106.38
S&P 400 Index (Mid-Cap)	**17.26**	14.34	**20.08**	14.83	**79.84**	63.41
S&P 600 Index (Small-Cap)	**7.97**	4.93	**9.07**	5.45	**36.67**	23.28

Source: Standard & Poor's (12/30/15)