First Trust

Quarterly Market Overview

Issue 67, October 2016

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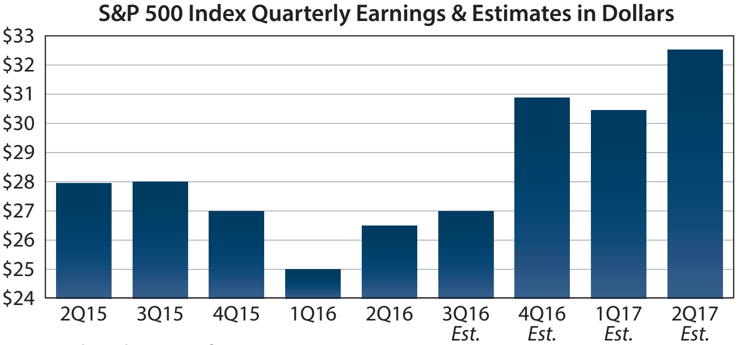
We invite you to visit Bob's Market Commentary Blog at www.ftportfolios.com for more insight.

Looking ahead to 2017

S&P 500 Index Quarterly Earnings & Estimates in Dollars



Source: Bloomberg. As of 10/11/16.

S&P 500 & S&P 500 Sectors *(Estimated Annual Y-O-Y Revenue Growth Rates)*

	2016	2017	2018
S&P 500 Index	2.0%	6.4%	6.0%
Consumer Discretionary	5.8%	5.3%	6.0%
Consumer Staples	0.9%	3.9%	4.0%
Energy	-16.2%	27.1%	12.2%
Financials	1.2%	3.9%	4.1%
Health Care	7.8%	7.1%	5.7%
Industrials	-0.1%	2.6%	4.2%
Information Technology	1.5%	6.2%	6.5%
Materials	-2.6%	4.3%	3.5%
Real Estate	12.2%	4.8%	5.2%
Telecomm. Services	4.2%	6.0%	6.8%
Utilities	2.5%	3.3%	2.6%

Source: Bloomberg. As of 10/7/16.
Consensus estimates using fiscal year revenue from each company.

From 3/9/09 through 9/30/16, the S&P 500 Index posted a cumulative total return of 276.11%, according to Bloomberg. The current U.S. bull market in stocks is the second longest on record, according to Bespoke Investment Group. It stood at 2,763 days as of 9/30/16. The longest bull market in stocks lasted from 12/4/87 through 3/24/00, or 4,494 days, according to Bespoke. For those investors who might be a bit concerned that this bull market is getting a little long in the tooth, we would like you to factor in to your thinking that it is still 1,731 days shy of the longest bull market ever. That equates to 4.7 years. While we do not know if it has that kind of staying power, we do believe that some of the forward-looking estimates for corporate earnings and top-line revenue growth, at least as they pertain to the S&P 500 Index, are reasons to be optimistic about the prospects for stocks in 2017 (see chart and table).

As indicated in the chart showing the actual as well as estimated quarterly earnings for the S&P 500 Index, earnings for Q1'16, Q2'16 and Q3'16 (Est.) reflect some weakness relative to the previous three quarters (Q2'15, Q3'15 & Q4'15). Some of the softness in earnings is related to the plunge in the price of crude oil since mid-2014. From 6/20/14 through 2/11/16, the price of a barrel of crude oil fell from $107.26 per barrel to $26.21 per barrel, or a decline of 75.6%, according to data from Bloomberg. The sell-off in crude oil has had a negative impact on the earnings of the energy companies in the S&P 500 Index. The S&P 500 Energy Index's earnings declined by 58.7% (y-o-y) in 2015 and were expected to decline by 47.5% (y-o-y) in 2016 as of 10/15/16, according to consensus estimates from analysts tracked by Bloomberg. There is a silver lining to this story. After crude oil bottomed on 2/11/16, it rallied from that day's closing price of $26.21 per barrel to $48.24 per barrel at the close of the trading session on 9/30/16, or a gain of 84.1%. The Organization of the Petroleum Exporting Countries (OPEC) announced on 9/28/16 that its members would reduce crude oil production from around 33.24 million barrels per day (bpd) to a range of 32.5 to 33.0 million bpd, according to Reuters. Iranian Oil Minister Bijan Zanganeh estimates that output will drop by around 700,000 bpd. This is the first OPEC deal since 2008. The cut in production could help stabilize the crude oil market moving forward, in our opinion. As indicated in the table above, top-line revenue growth in the energy sector is expected to rebound markedly in 2017.

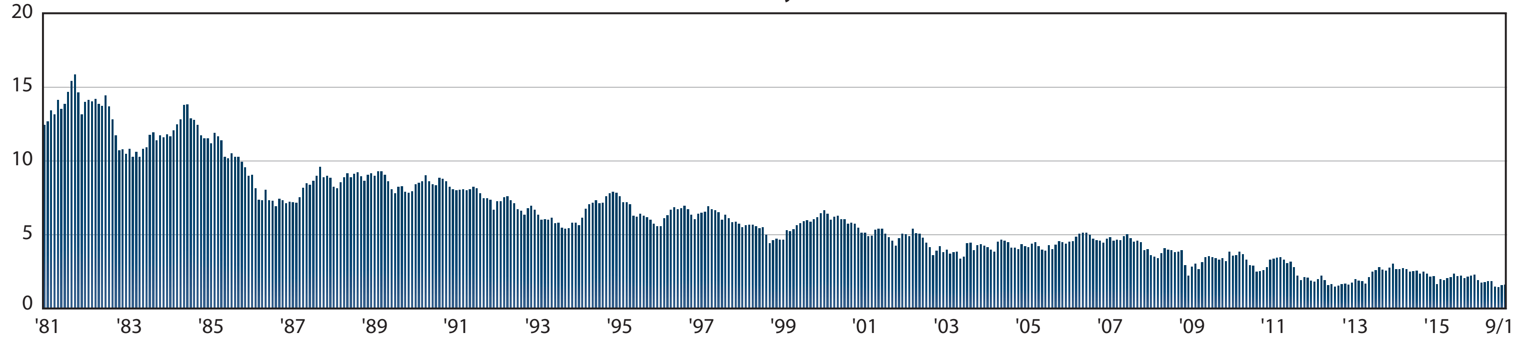
As of 9/30/16, the S&P 500 Index stood 1.00% below its all-time closing high of 2,190.15, established on 8/15/16. As we have noted many times before, we believe that corporate earnings drive the direction of stock prices over time, especially when the major market indices are trading at or near their all-time highs. In order for corporate earnings to grow, companies need to increase their revenues, cut costs, or a combination of the two. This deep into a bull market, however, investors are likely going to want to see some top-line revenue growth, and that is what is shown in the table above for both 2017 and 2018. While we only show quarterly earnings estimates through Q2'17 in the chart, using Bloomberg consensus estimates extending through the end of 2017, the S&P 500 Index is selling at price-to-earnings (P/E) ratios of 18.07 for 2016 and 15.98 for 2017. For the 50-year period ended 9/30/16, the average P/E for the S&P 500 Index was 16.60, according to Bloomberg. If the earnings that are forecasted materialize in 2017, then stocks do not appear to be overvalued, in our opinion.

Multiple surveys have revealed that many older Americans are afraid of running out of money, according to Fox Business. A recent study by Transamerica found that 43% of workers 50 and older claim that their greatest retirement-related fear is outliving their savings. A survey released in 2015 by the American Institute of CPAs found that 57% of those financial planners polled listed running out of money as their clients' primary retirement concern. A study of over 3,000 baby boomers by Allianz found that 60% of them were more afraid of outliving their savings than dying. Roughly 30% of Americans 55 and older have no retirement savings. Perhaps the most telling survey results come from the 2016 Wells Fargo Retirement Study. It found that nearly six out of 10 (59%) people it surveyed said they are *more focused on avoiding loss than maximizing the growth of their investments for retirement*, according to Business Wire. It appears that one of the Federal Reserve's goals of getting investors to assume a bit more risk by keeping interest rates artificially low has been shunned by many, in our opinion.

Continued

Low interest rates didn't happen overnight

10-Year Treasury Note Yield



Source: Bloomberg. Monthly data from 12/31/80 - 9/30/16.

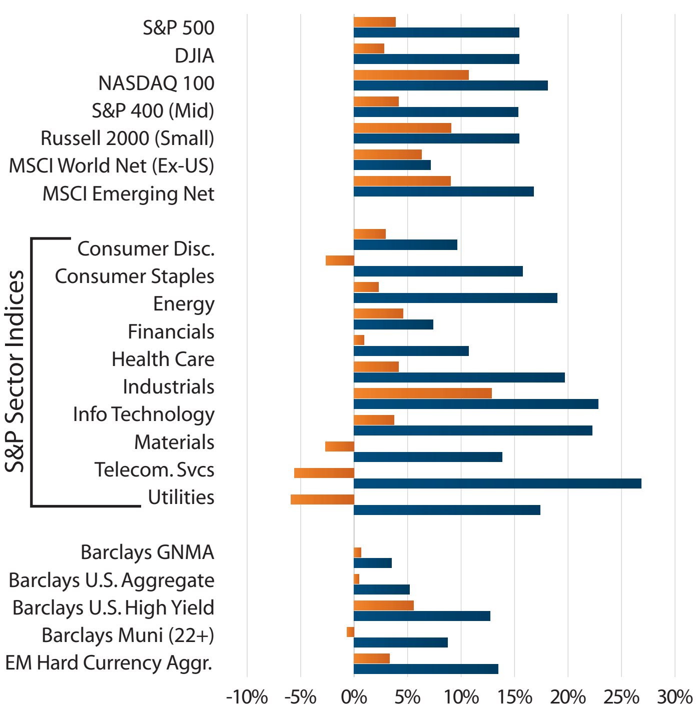
From 12/31/80 through 9/30/16, the average yield on the 10-year Treasury note (T-note) was 6.19%, while inflation averaged 3.10% (thru 8/31/16), as measured by the Consumer Price Index (CPI), according to Bloomberg. That translates into an average real rate of return (yield minus inflation rate) of 3.09%. We'll revisit this metric again. We chose 1981 as our starting point because it was the year in which the yield on the 10-year T-note hit an all-time closing high of 15.84% (9/30/81). The CPI averaged 10.50% in 1981. After 9/30/81, interest rates began a 35.75-year decent, though we acknowledge there were 13 calendar years in which the yield on the 10-year T-note rose on a year-over-year basis. Having said that, the yield on the 10-year T-note closed at an all-time low of 1.36% on 7/8/16, according to data from Bloomberg. Its yield stood at 1.60% at the close of 9/30/16.

This is a good place to revisit the concept of real rate of return. As we noted, the average real rate of return for the period depicted in the chart was 3.09%, but that is not what investors are getting in today's climate. As of 9/30/16, the yield on the 10-year T-note closed at 1.60%, while the latest CPI reading was 1.10% (8/31/16). That produces a real rate of return of 0.50%, which is 2.59 percentage points below the chart's average of 3.09%. The bottom line is that Treasury bondholders are accepting far less for their capital in the current climate and are barely outpacing the rate of inflation. Perhaps there is something to the survey finding from the 2016 Wells Fargo Retirement Study (referenced at the bottom of page one) in which nearly 60% of respondents said they are more focused on avoiding losses than maximizing their investments for retirement.

A climate of persistently low interest rates has consequences. In March 2015, Swiss Re released a report that stated that the Federal Reserve's low interest rate policy cost savers an estimated $470 billion in interest income between 2008 and 2013. Based on Swiss Re's math, by the close of 2016, savers will have been shortchanged by an estimated $752 billion, according to Money Morning. Swiss Re noted that the segments of the population suffering the most are folks nearing retirement and retirees.

While there is no exact rule of thumb when it comes to the amount of money that retirees should withdraw from their savings annually to live on during their retirement years, 4.00% is considered to be a conservative approach, according to Morningstar. While that sounds reasonable, for those risk averse retirees who would rather not have to tap into their capital, consider that the last time the yield on the 10-year T-note closed at or above the 4.00% mark was on 10/14/08 (4.08%), according to Bloomberg. That was eight years ago. As we noted, the yield on the 10-year T-note stood at 1.60% on 9/30/16, less than half of the 4.00% level that is targeted by many retirees. There seems to be a lot of stress lately about the potential for rising interest rates moving forward. Considering how little investors are earning on Treasuries these days, one would think it should be the other way around.

Total returns for Q3 and past 12 months (9/30/16)



Sources: Bloomberg and Barclays. Past performance is no guarantee of future results.

A Look Ahead:

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

	Q4'16E	Q4'15A	**Q1'17E**	Q1'16A	**2016E**	2015A
Consumer Discretionary	**8.79**	8.34	**8.16**	7.70	**33.20**	30.44
Consumer Staples	**6.74**	6.00	**6.50**	5.71	**25.26**	24.32
Energy	**2.11**	-8.20	**3.43**	-2.71	**-0.95**	-13.71
Financials	**6.32**	5.03	**6.49**	5.47	**23.41**	23.01
Health Care	**12.87**	9.30	**13.53**	10.49	**47.16**	38.72
Industrials	**7.48**	7.09	**6.46**	5.88	**27.96**	28.00
Information Technology	**13.13**	10.99	**11.21**	8.03	**39.81**	37.97
Materials	**3.94**	0.35	**4.81**	1.57	**14.24**	8.49
Real Estate	**1.26**	1.31	**1.18**	2.55	**6.47**	5.45
Telecom. Services	**2.87**	3.46	**3.15**	2.80	**10.70**	12.15
Utilities	**2.98**	0.16	**3.61**	3.66	**13.83**	11.25
S&P 500 Index	**31.14**	23.06	**30.48**	23.97	**110.16**	100.45
S&P 400 Index (Mid-Cap)	**20.58**	10.50	**18.82**	13.28	**69.31**	55.49
S&P 600 Index (Small-Cap)	**9.98**	4.69	**9.24**	5.36	**30.78**	19.66

Source: Standard & Poor's (9/29/16)