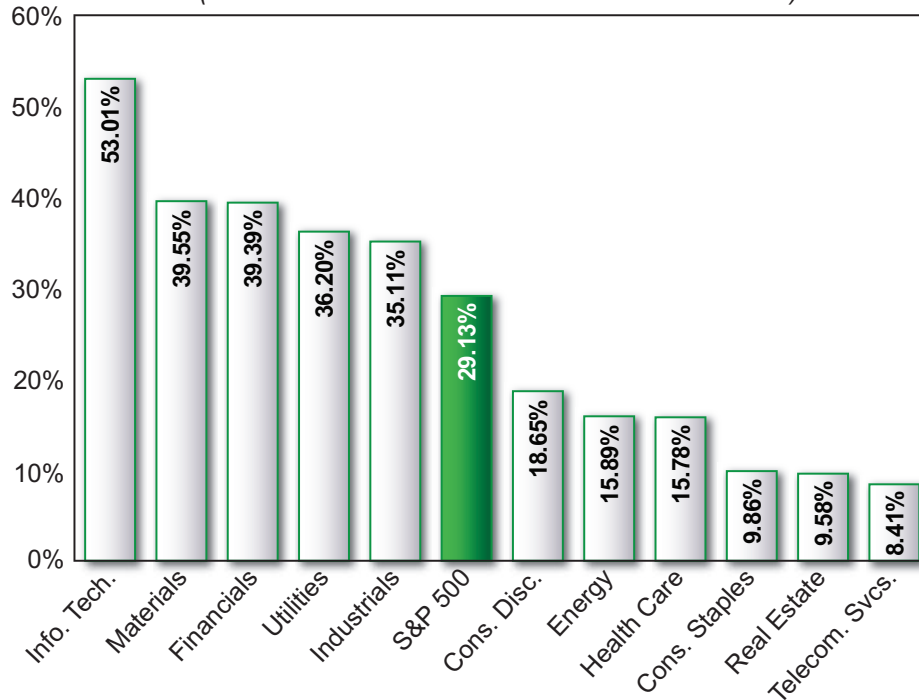


How The S&P 500 Index Has Performed Since The Federal Reserve Began Hiking Interest Rates On 12/16/15

S&P 500 Index and S&P 500 Sector Index Returns
(Cumulative Total Returns from 12/16/15-10/31/17)



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

View from the Observation Deck

1. Today's post updates the one from 7/11/17 ([click here to view](#)). The only index in the chart that failed to post a gain since 7/11/17 was Consumer Staples.
2. The Federal Reserve (the "Fed") has increased the federal funds target rate a total of four times since 12/16/15. Each one of the rate hikes was for 0.25%, or 25 basis points. The target rate (upper bound) currently stands at 1.25%.
3. As of 11/2/17, the federal funds futures market puts the probability of another quarter-point rate hike at its December 13th meeting at 87.5%, according to Bloomberg.
4. As indicated in the chart, the S&P 500 Index posted a cumulative total return of 29.13% from 12/16/15 through 10/31/17. Five sector indices significantly outperformed the broader index.
5. The last time that the Fed tightened monetary policy was from 6/30/04 through 6/29/06. Over that 24-month period, the Fed raised the target rate 17 times for a total of 4.25 percentage points. Again, each rate hike totaled 25 basis points. The target rate rose from 1.00% to 5.25%. The S&P 500 Index posted a cumulative total return of 15.74% over that 24-month period.
6. While nobody knows how long the current bull market in stocks will run, we believe that the direction of stock prices is driven by corporate earnings over time.
7. Since the Fed began raising rates on 12/16/15, S&P 500 Index quarterly earnings (EPS in \$) have risen from \$24.78 (revised down from \$24.86 in the 7/11/17 post) in Q1'16 to \$30.67 in Q2'17, according to Bloomberg. As of 11/2/17, its consensus earnings estimates for Q3'17 and Q4'17 were \$31.34 and \$34.62, respectively.
8. Brian Wesbury, Chief Economist at First Trust Advisors L.P., believes that the Fed rate hikes to date have not made U.S. monetary policy tight, just less loose.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration 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 Dow Jones Internet Composite Index is a modified capitalization-weighted index that tracks companies involved in Internet-related activities. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks (currently 505) used to measure large-cap U.S. stock market performance.

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