First Trust — Quarterly Market Overview

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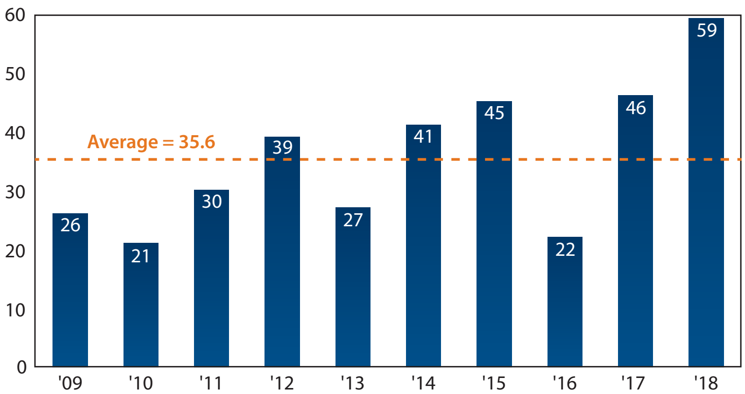
We invite you to visit Bob's Market Commentary Blog at www.ftportfolios.com for more insight.

Unfortunately, health care is still a political hot potato

Center for Drug Evaluation and Research (CDER) New Drug Approvals



Source: U.S. Food & Drug Administration (FDA)

S&P 500 Index, S&P 500 Health Care & Subsector Indices
(Y-T-D, 1-Year and Average Annualized Total Returns thru 3/29/19)

	Y-T-D	1-Year	3-Year	5-Year	10-Year	15-Year
S&P 500	13.65%	9.50%	13.51%	10.91%	15.92%	8.57%
Health Care	6.59%	14.89%	12.57%	11.29%	16.35%	9.77%
Biotechnology	2.60%	0.58%	4.85%	7.20%	16.22%	11.83%
Pharmaceuticals	6.06%	18.02%	10.02%	8.75%	14.51%	8.26%
Managed Health Care	0.70%	15.56%	22.52%	23.87%	26.99%	15.34%
Equipment	13.71%	25.96%	22.16%	18.27%	16.99%	9.45%

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

The next U.S. presidential election is scheduled for November 3, 2020. That is a little over 19 months from now. Many candidates have officially declared and are already out campaigning. Nearly all of them are Democrats. While recent election cycles have lengthened due to earlier launch dates, it did not always work this way. In the election of 1960, John F. Kennedy did not announce his candidacy until 11 months prior to the general election, and Bill Clinton's formal announcement came a little over a year before the 1992 general election, according to *The New York Times*. When it comes to wedge issues, however, it seems that some things never change. Even at this early stage of the 2020 primary election cycle, Democrats across the board are pounding the table on health care and the need for a public option, likely involving Medicare or Medicaid. Sound familiar? Think back to as recently as the Affordable Care Act ("Obamacare"), which was signed into law on March 23, 2010. In December 2009, Democratic senators were pushing for an expansion of Medicare and Medicaid and more stringent federal regulation of the insurance industry, according to *The New York Times*. In August 2013, the *Las Vegas Sun* reported that then Senate Majority Leader Harry Reid (Democrat) from Nevada admitted that Obamacare was designed to fail in order to pave the way for a single-payer national health care system. Republicans have fought Obamacare and the notion of a single-payer system since before its passage. In July 2017, analysis from *Newsweek* found that there have been at least 70 Republican-led attempts to repeal, modify or curb the Affordable Care Act since March 2010, and that figure included the dramatic last-minute, thumbs-down vote on the "skinny repeal" from Senator John McCain. That was a narrow and frustrating defeat for President Trump. Not to be outdone by the Democrats, President Trump still contends that the Republicans will draft a health care plan that will replace the Affordable Care Act, just not before the 2020 general election. While we acknowledge that health care is not likely to be the only industry targeted by the Democrats on the campaign trail (add Technology, Financials and Energy to the mix), it will likely take center stage, in our opinion.

It is our hope that investors block out the rhetoric and noise from the politicians over the next 19 months and focus on the fundamentals of Health Care. As of 3/29/19, Bloomberg's consensus 2019 earnings growth rate estimate for Health Care was 7.4%, tied with Industrials for the 3rd-highest of the 11 major sectors that comprise the S&P 500 Index. The top two were Consumer Discretionary and Financials at 11.4% and 7.7%, respectively. The estimate for the S&P 500 Index was 4.7%. The outlook for top-line growth is also encouraging. As of 3/29/19, Bloomberg's consensus 2019 revenue growth rate estimate for Health Care was 8.1%, the 2nd-highest of the 11 major sectors. Communication Services had the highest estimate at 9.4%. The estimate for the S&P 500 Index was 4.4%. Health Care is unique relative to other sectors in the sense that it can offer investors the potential for growth as well as provide a defensive posture during periods of economic weakness or recession. The table above showing the upward trend in new drug approvals would be an example of a growth opportunity in Health Care. The 59 drug approvals in 2018 were an all-time high for a calendar year, according to FierceBiotech. The new drug pipeline is deep. In 2018, there were 7,201 Investigational New Drug (IND) applications on the FDA's books, up 25% from a decade ago, according to FierceBiotech. According to *Money*, Health Care spending in the U.S. rose to $3.5 trillion in 2017, up 3.9% from 2016. Spending is expected to rise to $5.6 trillion in 2026, according to CNN. That suggests another $2-plus trillion in spending from 2017's levels. That is a growth opportunity. Over time, the demand for medical care has tended to be driven more by need than price, even if it means borrowing to help cover the costs. A survey by Gallup and West Health, a health care nonprofit, found that Americans borrowed approximately $88 billion in 2018 to cover health care expenses, according to *Money*. One of the ways in which to help mitigate the rising cost of health care is to consider investing in the companies that provide said care. The table above and to the right shows the returns posted by the sector and its subsectors spanning as far back as 15 years.

Continued

How income-producing equity-oriented strategies have fared in this millennium

This millennium has literally been testing investors' nerves since day one. Remember Y2K? Just three months later (March 2000), we witnessed the popping of the internet bubble, which kicked off a lengthy and punishing bear market in stocks (March 2000-October 2002). While in the midst of that bear market, we endured the 9/11 terrorist attacks in September 2001, which led to the invasion of Iraq in March 2003. The U.S. has been at war in the Middle East ever since. A few years later, we encountered the financial crisis, which triggered yet another lengthy and punishing bear market in stocks (October 2007-March 2009). All of these significant events occurred in the first decade of the new millennium. That would test the resolve of any investor, in our opinion. Hindsight, with the help of mutual fund capital flows, tells us that one of the ways in which investors responded to two deep bear markets and other potential headwinds was to swap, at least to some degree, the pursuit of capital appreciation for that of either current income or growth and income. In other words, de-risk a bit.

While many investors gravitated towards fixed-income securities, others opted for equity income-producing opportunities. We feature four of them in the adjoining table. Perhaps the biggest fallout from the aforementioned events was the plunge in interest rates. At the start of 2000, the federal funds target rate (upper bound) was 5.50%, according to the Federal Reserve ("Fed"). It fell to a low of 0.25% in December 2008 and remained at that level until December 2015. Today, it stands at 2.50%. Ironically, as some investors were seeking to de-risk their portfolios, the Fed was cutting interest rates to incentivize risk-taking. As indicated by the AATRs returns in the table, a little extra risk paid off.

Income-Producing Stock Indices vs. S&P 500 Index
Annual & Average Annual Total Returns (2000-2018)

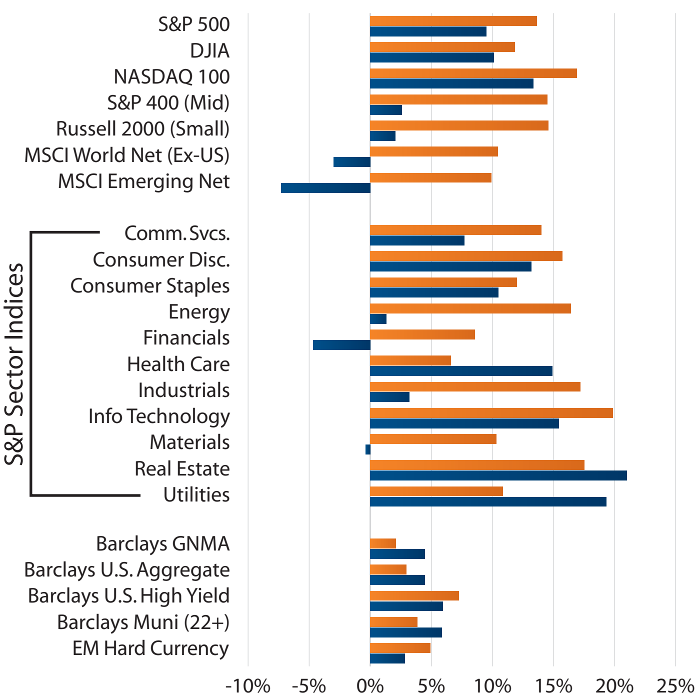
Period	Equity REITs	Dividend-Payers	Utilities	BuyWrite	S&P 500 Index
2000	26.37%	10.13%	57.19%	7.40%	-9.10%
2001	13.93%	10.82%	-30.45%	-10.92%	-11.89%
2002	3.82%	-9.87%	-29.99%	-7.64%	-22.10%
2003	37.13%	25.37%	26.26%	19.37%	28.68%
2004	31.58%	15.46%	24.28%	8.30%	10.88%
2005	12.16%	3.69%	16.84%	4.25%	4.91%
2006	35.06%	17.30%	20.99%	13.33%	15.79%
2007	-15.69%	-2.07%	19.38%	6.59%	5.49%
2008	-37.73%	-21.88%	-28.98%	-28.65%	-37.00%
2009	27.99%	26.56%	11.91%	25.91%	26.46%
2010	27.95%	19.35%	5.46%	5.86%	15.06%
2011	8.28%	8.33%	19.91%	5.72%	2.11%
2012	19.70%	16.94%	1.29%	5.20%	16.00%
2013	2.86%	32.27%	13.21%	13.26%	32.39%
2014	28.03%	15.76%	28.98%	5.64%	13.69%
2015	2.83%	0.93%	-4.84%	5.24%	1.38%
2016	8.63%	11.83%	16.28%	7.07%	11.96%
2017	8.67%	21.73%	12.11%	13.00%	21.83%
2018	-4.04%	-2.73%	4.11%	-4.77%	-4.38%
AATRs	**10.77%**	**9.69%**	**7.41%**	**4.25%**	**4.86%**

Source: Bloomberg. Past performance is no guarantee of future results. The Equity REITs, Dividend-Payers, Utilities and BuyWrite total returns reflect the performance of the FTSE Nareit All Equity REITs Index, S&P 500 Dividend Aristocrats Index, S&P 500 Utilities Index and the CBOE S&P 500 BuyWrite Index (Covered Calls), respectively.

A Little Table Talk

- The only income-producing equity strategy in the table that lagged the S&P 500 Index from 2000-2018 was the CBOE S&P 500 BuyWrite Index (Covered Calls).
- With respect to down years, the FTSE Nareit All Equity REITs Index had the fewest with three. The S&P 500 Index had the most with five.
- The FTSE Nareit All Equity REITs Index staged an impressive recovery from the severe downturn it took in 2007-2008 (real estate bubble burst/financial crisis).
- The S&P 500 Dividend Aristocrats Index is comprised of companies that have increased their dividends in each of the last 25 years. A proxy for div.-paying stocks.
- The S&P 500 Utilities Index benefitted from the extended low rate climate, falling natural gas prices and growing industrial demand for electricity.
- The CBOE S&P 500 BuyWrite Index tends to perform best on a relative basis when the total return on the S&P 500 Index ranges from 0% to 10%, in our opinion.

Total returns for *Q1* and past **12 months** (3/29/19)



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

A Look Ahead:

A year-over-year earnings comparison in U.S. dollar terms. The S&P 500 Index dollar figures reflect the 11 major sectors on a weighted-adjusted basis.

Index (Weighting In S&P 500)	Q2'19E	Q2'18A	Q3'19E	Q3'18A	2019E	2018E
Communication Svcs. (10.1%)	**2.18**	3.90	**2.23**	2.12	**8.86**	11.78
Consumer Disc. (10.1%)	**10.58**	10.47	**11.74**	10.49	**42.02**	39.84
Consumer Staples (7.3%)	**7.65**	7.63	**8.07**	7.82	**30.22**	29.35
Energy (5.4%)	**6.34**	6.66	**7.36**	8.44	**25.81**	30.61
Financials (12.7%)	**9.28**	9.11	**9.44**	9.22	**37.26**	31.26
Health Care (14.6%)	**16.70**	12.49	**16.91**	13.14	**66.38**	50.04
Industrials (9.5%)	**10.45**	9.70	**10.48**	9.83	**39.48**	37.43
Information Tech. (21.2%)	**15.43**	14.59	**17.06**	16.69	**67.45**	63.70
Materials (2.6%)	**6.12**	6.63	**5.53**	5.16	**21.44**	21.58
Real Estate (3.1%)	**1.30**	1.45	**1.31**	1.68	**5.17**	6.40
Utilities (3.3%)	**3.44**	3.49	**5.07**	5.13	**15.83**	15.41
S&P 500 Index	**40.88**	38.65	**43.20**	41.38	**165.34**	151.60
S&P 400 Index (Mid-Cap)	**27.92**	25.06	**29.82**	27.42	**112.65**	95.98
S&P 600 Index (Small-Cap)	**12.87**	10.07	**14.03**	10.06	**52.27**	38.98

Source: Standard & Poor's (3/28/19). Sector weightings as of 3/29/19.
There is no guarantee past trends will continue or projections will be realized.

As of 9/28/18, the Global Industry Classification Standard (GICS) was reconstituted and the Telecommunications Services sector was renamed Communication Services. GICS sector information for periods prior to 9/28/18 may not necessarily be comparable to the reconstituted sectors.
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