

Open-End Net Fund Flows (\$)	11/19	10/19	YTD (Nov)
Equity	-37.58B	-43.29B	-301.83B
Taxable Bond	26.42B	21.16B	191.49B
Municipal Bond	8.54B	7.15B	84.25B
Hybrid	-2.37B	-2.66B	-44.51B
Taxable Money Market	43.21B	70.80B	497.09B

Key Interest Rates	12/31/19	6/28/19	12/31/18
Federal Funds Target Rate	1.75%	2.50%	2.50%
ICE LIBOR (3-Month)	1.91%	2.32%	2.81%
2-Year T-Note	1.57%	1.76%	2.49%
10-Year T-Note	1.92%	2.01%	2.69%
Bond Buyer 40	3.63%	3.70%	4.09%

Commodities/U.S. Dollar	12/19	YTD	12 Mo.
U.S. Dollar Index (DXY)	-1.91%	0.23%	0.23%
TR/CC CRB Commodity Index	5.17%	9.42%	9.42%
Crude Oil/WTI (per Barrel)	10.68%	34.46%	34.46%
Natural Gas (per million BTUs)	-3.95%	-25.51%	-25.51%
Gold Bullion (Ounce)	3.92%	18.87%	18.87%

Total Return Performance

U.S. Stock Indices	12/19	YTD	12 Mo.
S&P 500	3.01%	31.48%	31.48%
DJIA	1.87%	25.34%	25.34%
NASDAQ 100	3.99%	39.46%	39.46%
S&P MidCap 400	2.81%	26.17%	26.17%
Russell 2000	2.88%	25.49%	25.49%
Russell 3000	2.88%	31.01%	31.01%

U.S. Styles/Market Caps	12/19	YTD	12 Mo.
S&P 500 Growth	2.93%	31.13%	31.13%
S&P 500 Value	3.11%	31.92%	31.92%
S&P MidCap 400 Growth	2.51%	26.29%	26.29%
S&P MidCap 400 Value	3.12%	26.01%	26.01%
Russell 2000 Growth	2.29%	28.43%	28.43%
Russell 2000 Value	3.50%	22.36%	22.36%

Foreign Stock Indices (USD)	12/19	YTD	12 Mo.
MSCI World NET (Ex-U.S.)	3.19%	22.49%	22.49%
MSCI Emerging Markets NET	7.46%	18.42%	18.42%
MSCI Europe NET	3.91%	23.77%	23.77%
MSCI BRIC NET	7.71%	22.80%	22.80%
MSCI EM Latin America NET	10.33%	17.46%	17.46%
Nikkei 225	2.17%	22.37%	22.37%

Bloomberg Barclays Bond Ind.	12/19	YTD	12 Mo.
U.S. Treasury: Intermediate	-0.03%	5.22%	5.22%
GNMA 30 Year	0.14%	5.86%	5.86%
Municipal Bond (22+)	0.26%	10.26%	10.26%
U.S. Aggregate	-0.07%	8.72%	8.72%
Intermediate Corporate	0.43%	10.14%	10.14%
U.S. Corporate High Yield	2.00%	14.32%	14.32%
Global Aggregate	0.58%	6.84%	6.84%
EM Hard Currency Aggregate	1.66%	12.13%	12.13%

Sources: Bloomberg, Bloomberg Barclays, Investment Company Institute

Past performance is no guarantee of future results. Historical performance figures for the indices are for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and an investor cannot invest directly in an index.

Climate

At the risk of sounding like a broken record, the combination of low interest rates, low inflation, strong job growth, regulatory reform and a more favorable U.S. corporate tax structure following the passage of the Tax Cuts and Jobs Act of 2017 makes the current climate an attractive one for investors, in our opinion. Minus tax reform, which took effect in 2018, and regulatory reform, which has been driven by the Trump administration since it took power in 2017, investors have been prospering in a low rate/low inflation/strong job growth climate for the better part of the last decade. Very little has changed in that regard. One thing in particular that has created some uncertainty in the markets is the extent of the potential fallout from the implementation and escalation of trade tariffs by the Trump administration. That effort is now 21 months old and counting. The mid-December announcement that the U.S. and China had struck a "Phase 1" deal is encouraging.

Stock Market

The S&P 500 Index ("index") closed at 3,230.78 on 12/31/19, 0.29% below its all-time closing high of 3,240.02 on 12/27/19, according to Bloomberg. A Bloomberg survey of 21 equity strategists found that their average 2020 year-end price target for the S&P 500 Index was 3,318 as of 12/17/19, according to its own release. The highest estimate was 3,500. The lowest estimate was 3,000. With a target of 3,650, Brian Wesbury, Chief Economist at First Trust Advisors L.P., is more bullish than all of the strategists surveyed by Bloomberg. The S&P 500 Index posted a total return of 3.01% in December. Ten of the 11 major sectors that comprise the index were up on a total return basis. The top-performer was Energy, up 6.03%, while the worst showing came from Industrials, down 0.09%. In 2019, the index posted a total return of 31.48%. The 31.48% total return was the 18th highest yearly return since 1926 (94 years), according to data from Morningstar/ Ibbotson Associates. All 11 major sectors were up on a total return basis in 2019. The top-performer was Information Technology, up 50.29%, while the worst showing came from Energy, up 11.81%. The S&P 500 Index posted a notably higher total return (31.48%) than the S&P MidCap 400 Index (26.17%) and the Russell 2000 Index (25.49%) in 2019. It was the third consecutive year in which large-capitalization (cap) stocks outperformed both mid- and small-cap stocks. We just closed out the first 20 years of this millennium. The following shows the average annual total returns of a few major domestic and foreign equity indices from 12/31/99-12/31/19 (highest to lowest per Bloomberg): 9.79% (S&P SmallCap 600); 9.49% (S&P MidCap 400); 6.68% (MSCI Emerging Markets Net in USD); 6.05% (S&P 500); and 3.45% (MSCI World ex-U.S. Net in USD).

Bond Market

The yield on the benchmark 10-year Treasury note (T-note) closed trading on 12/31/19 at 1.92%, up 14 basis points (bps) from its 1.78% close on 11/29/19, according to Bloomberg. The yield stood 48 bps below its 2.40% average for the 10-year period ended 12/31/19. For those investors still concerned about the prospects for an inverted yield curve, the spread between the 2-year T-note and the 10-year T-note closed 2019 at 35 basis points (1.57% vs. 1.92%), according to data from Bloomberg. For comparative purposes, the average spread was 117 bps (3.33% vs. 4.50%) for the 30-year period ended 12/31/19. The yield curve, while not inverted, remains fairly flat. We will monitor this scenario moving forward. Look for the number of defaults in the high yield corporate bond market to rise in 2020, but remain below the historical average. Moody's reported that its global speculative-grade default rate stood at 2.8% in November, according to its own release. It sees the rate rising to 3.7% by the end of November 2020. Moody's puts the historical average default rate at 4.1% since 1983. The bottom line is that bond investors continue to prosper in the current climate (see Bloomberg Barclays Bond Indices).

Takeaway

When the Federal Reserve lowers interest rates to stimulate economic growth it is essentially encouraging individuals and companies to assume more risk. It is incentivizing investment while simultaneously disincentivizing saving. The most recent trailing 12-month rate on the Consumer Price Index (Headline Rate) was 2.1% as of November, according to the Bureau of Labor Statistics. Any savings or fixed income products that yield below that 2.1% rate of inflation are generating a negative real rate of return (yield minus inflation), an indication that the current level of interest income isn't keeping pace with the rising cost of living. And this is before factoring in the impact from any taxes.

Data as of 12/31/19

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	3240.02	12/27/2019	1022.58	7/2/2010	3230.78	-0.29%	31.48%	1.82%
S&P 500 Growth	1961.13	12/27/2019	528.55	7/2/2010	1952.62	-0.43%	31.13%	1.19%
S&P 500 Value	1287.32	12/26/2019	486.55	7/2/2010	1285.77	-0.12%	31.92%	2.52%
S&P MidCap 400	2067.33	12/26/2019	692.52	2/8/2010	2063.02	-0.21%	26.17%	1.73%
S&P MidCap 400 Growth	968.55	12/26/2019	297.73	2/8/2010	966.00	-0.26%	26.29%	1.07%
S&P MidCap 400 Value	685.45	12/20/2019	251.27	7/6/2010	683.70	-0.25%	26.01%	2.45%
S&P 100	1447.47	12/27/2019	463.84	7/2/2010	1442.17	-0.37%	32.21%	1.87%
DJIA	28645.26	12/27/2019	9686.48	7/2/2010	28538.44	-0.37%	25.34%	2.23%
NASDAQ 100	8778.31	12/26/2019	1728.34	7/2/2010	8733.07	-0.52%	39.46%	0.97%
Russell 2000	1740.75	8/31/2018	586.49	2/8/2010	1668.47	-4.15%	25.49%	1.43%
Russell 2000 Growth	1117.18	8/31/2018	320.69	2/8/2010	1087.46	-2.66%	28.43%	0.72%
Russell 2000 Value	2049.42	8/22/2018	804.33	10/3/2011	1926.49	-6.00%	22.36%	2.17%
Russell 3000	1898.24	12/26/2019	602.36	7/2/2010	1892.25	-0.32%	31.01%	1.76%
MSCI World Net (ex U.S.) (USD)	6487.64	1/25/2018	3249.15	5/25/2010	6424.93	-0.97%	22.49%	3.34%
MSCI Emerging Markets Net (USD)	573.23	1/26/2018	296.24	1/21/2016	527.56	-7.97%	18.42%	2.64%
Ibovespa/Brazil (USD)	43619.40	4/8/2011	9077.09	1/21/2016	28693.26	-34.22%	26.49%	2.92%
RTS/Russia (USD)	2123.56	4/8/2011	628.41	1/20/2016	1548.92	-27.06%	56.08%	6.47%
S&P BSE 500/India (USD)	245.12	1/24/2018	95.89	9/3/2013	219.97	-10.26%	6.63%	1.20%
Shanghai Composite/China (USD)	832.07	6/12/2015	314.68	12/3/2012	438.02	-47.36%	23.76%	2.22%
KOSPI/South Korea (USD)	2.42	1/29/2018	1.24	5/25/2010	1.90	-21.64%	4.46%	1.87%
Hang Seng (USD)	4241.01	1/26/2018	2087.46	10/4/2011	3619.08	-14.66%	13.64%	3.52%
MSCI Euro (USD)	1544.35	1/26/2018	814.62	6/1/2012	1398.27	-9.46%	23.90%	3.40%
S&P 500 Consumer Discretionary	991.94	12/27/2019	225.69	2/8/2010	986.29	-0.57%	27.94%	1.28%
S&P 500 Consumer Staples	649.97	12/27/2019	262.40	7/2/2010	646.97	-0.46%	27.61%	2.68%
S&P 500 Energy	737.09	6/23/2014	371.08	7/2/2010	456.46	-38.07%	11.81%	3.82%
S&P 500 Utilities	329.42	9/26/2019	141.65	6/1/2010	328.36	-0.32%	26.40%	3.21%
S&P 500 Financials	512.59	12/26/2019	151.85	10/3/2011	511.39	-0.23%	32.09%	1.95%
S&P 500 Banks	381.56	12/26/2019	105.73	8/22/2011	380.11	-0.38%	40.63%	2.55%
FTSE NAREIT All Equity REITs	802.35	10/21/2019	317.99	2/9/2010	779.34	-2.87%	28.65%	3.62%
S&P 500 Health Care	1194.33	12/23/2019	324.13	7/1/2010	1188.20	-0.51%	20.82%	1.64%
S&P 500 Pharmaceuticals	748.06	12/27/2019	268.30	6/4/2010	746.76	-0.17%	15.09%	2.51%
NYSE Arca Biotechnology	5400.34	9/27/2018	942.13	12/31/2009	5067.45	-6.16%	20.43%	0.26%
S&P 500 Information Technology	1614.70	12/27/2019	328.07	7/2/2010	1611.17	-0.22%	50.29%	1.25%
Philadelphia Semiconductor	1864.49	12/26/2019	307.49	8/31/2010	1849.63	-0.80%	63.25%	1.60%
S&P 500 Telecom Services	183.85	7/1/2016	100.96	5/26/2010	181.64	-1.20%	32.69%	1.25%
S&P 500 Industrials	693.70	11/26/2019	234.50	7/2/2010	687.60	-0.88%	29.32%	1.98%
S&P 500 Materials	401.59	1/26/2018	170.73	7/2/2010	385.85	-3.92%	24.58%	2.10%
Philadelphia Gold & Silver	228.95	4/8/2011	38.84	1/19/2016	106.92	-53.30%	52.89%	0.84%
TR/CC CRB Commodity	370.56	4/29/2011	155.01	2/11/2016	185.79	-49.86%	9.42%	N/A
ICE BofAML Perpetual Preferred	287.97	12/30/2019	132.55	5/6/2010	287.94	-0.01%	17.41%	4.98%
ICE BofAML U.S. High Yield Constrained	467.02	12/31/2019	226.12	2/12/2010	467.02	0.00%	14.41%	6.04%

Past performance is no guarantee of future results. Historical performance figures for the indices are for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and an investor cannot invest directly in an index.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial advisors are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.