First Trust

Quarterly Market Overview

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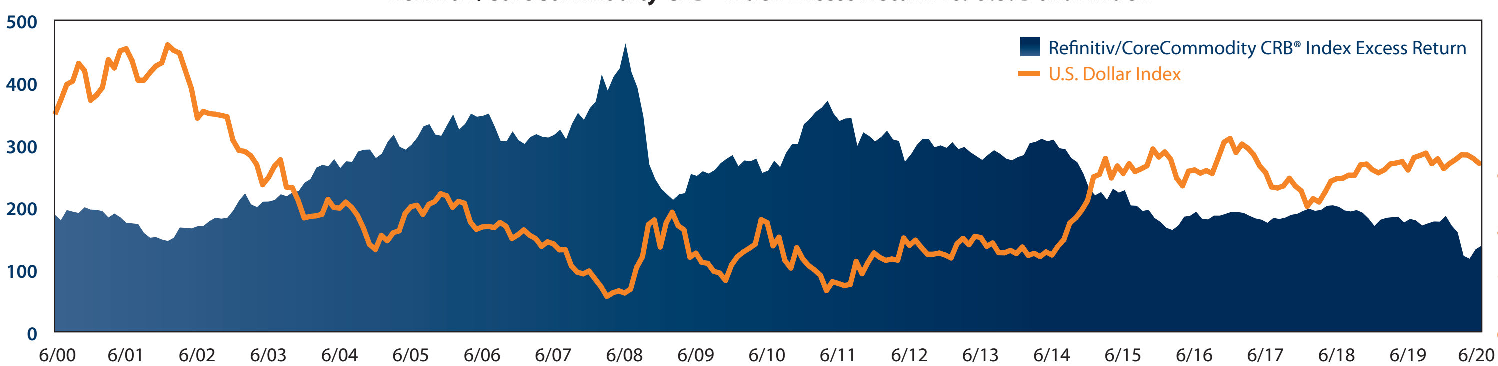
We invite you to visit Bob's Market Commentary Blog at www.ftportfolios.com for more insight.

The last 20 years has been a tale of two decades for commodities

Refinitiv/CoreCommodity CRB® Index Excess Return vs. U.S. Dollar Index



Source: Bloomberg. Monthly data points from 6/30/00 through 6/30/20. ***Past performance is no guarantee of future results.***

If you are considering investing in commodities you might want to keep one eye on the U.S. dollar

We have noted in the past that stocks, as measured by the S&P 500 Index, endured a lost decade right after having posted a very prosperous decade. From 1990-1999, the S&P 500 Index ("index") posted an average annual total return of 18.19%, well above its 10.20% average annual total return from 1926-2019 (94 years), according to Bloomberg and Morningstar/Ibbotson Associates. From 2000-2009, however, the index delivered an average annual total return of -0.95%. Investors that held index funds that tracked the S&P 500 Index lost a cumulative 9.10% or so over the decade. We are happy to report that the index bounced back to post an average annual total return of 13.55% from 2010-2019.

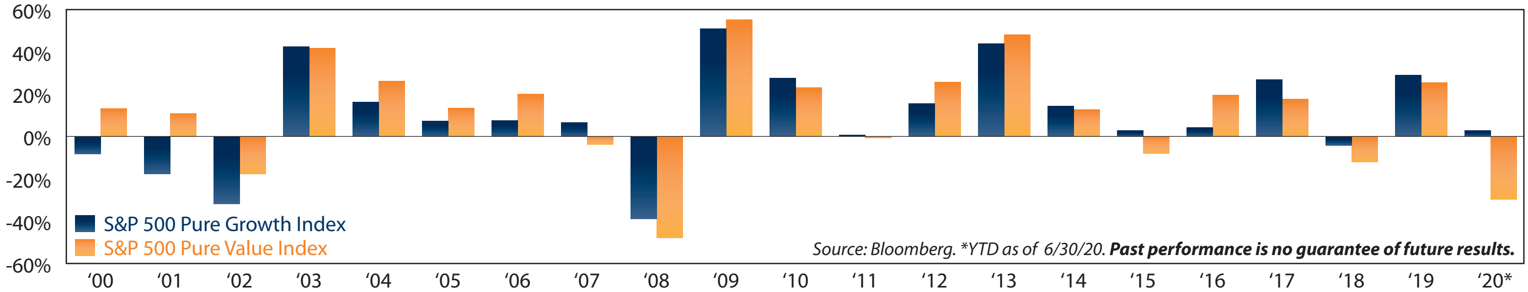
Something similar happened with commodities. From 2000-2009, commodity prices rose by an average of 6.03% per year, or a cumulative price increase of 79.71%, as measured by the Refinitiv/CoreCommodity CRB® Index Excess Return, according to Bloomberg. The Refinitiv/CoreCommodity CRB® Index Excess Return is an arithmetic average of commodity futures with monthly rebalancing. The next decade (2010-2019), however, commodity prices declined by an average of 4.13% per year, or a compounded price decline of 34.44%. That qualifies as a lost decade. The chart above provides a visual perspective of what transpired. The other thing the chart does is depict the relationship between the U.S. dollar, as measured by the U.S. Dollar Index, and commodity prices. The U.S. Dollar Index (DXY) indicates the general international value of the U.S. dollar relative to a basket of major world currencies. Most commodities tend to be priced in U.S. dollars as it remains the world's reserve currency. A weakening U.S. dollar tends to bolster commodity prices (see downward trending orange line in chart from 6/00 through 6/09), while a strengthening U.S. dollar tends to depress commodity prices (see upward trending line from 6/11 through 6/20). When the U.S. dollar is strong relative to foreign currencies, as has been the case for much of the last decade, foreign buyers of commodities tend to receive less when exchanging their weaker currency for U.S. dollars, which means they have less money to spend on a particular commodity. That impacts the demand side of the equation. Like most, the marketplace for commodities is a function of supply and demand over time. Many factors can influence the value of a fiat currency at any given time, including trade, inflation, central bank monetary policy, wars and geopolitical events.

Fiona Boal, Head of Commodities and Real Assets at S&P Dow Jones Indices, noted the following in one of her recent pieces: "Perhaps no other investable asset has been as severely affected by the COVID-19 pandemic as oil – not equities, not bonds, not currencies, and not even other commodities." Boal said the way oil has performed is a reminder that commodities are not "anticipatory" assets. They are assets that reflect current, real-world, supply and demand conditions. We believe that in addition to the COVID-19 pandemic, the Trump administration's launching of trade tariffs against the major trading partners of the U.S., particularly China, in Q1'18, and the oil price war between Saudi Arabia and Russia (production was increased to depress prices in part to damage U.S. shale producers) earlier this year have also provided significant headwinds to oil prices by negatively impacting demand. In the first half of 2020, the price of a barrel of WTI crude oil plunged 35.69%, according to Bloomberg. Oil can be a sizable component in any broad basket of commodities. As of Q1'20, the energy sector constituted 39% of the Refinitiv/CoreCommodity CRB® Index Excess Return, according to its own release.

The U.S. Dollar Index closed trading at a reading of 97.39 on 6/30/20, down 5.28% from its 2020 closing high of 102.82 on 3/20/20, according to Bloomberg. Goldman Sachs believes the recent drop in the dollar may just be the beginning of a larger downtrend, driven, in part, by a recovery in the global economy, according to *Forbes*. It estimates that the dollar could decline by more than 20% from its recent peak on 3/20/20, providing the global economic recovery advances. The last time the U.S. Dollar Index was below a reading of 85 was in September 2014. Goldman sees a weaker dollar making the goods and services of some companies more competitive on the global market, including those that sell oil and other commodities. In hindsight, even investors with longer time horizons have had little reason to allocate much capital to commodities over the past decade. Looking ahead, a medical breakthrough on COVID-19, some stronger global economic growth and a weaker U.S dollar could turn the tide for commodities, in our opinion. Keep an eye on the dollar.

Investors have largely favored growth stocks over value stocks since 2014

A snapshot of total returns : S&P 500 Pure Growth Index vs. the S&P 500 Pure Value Index



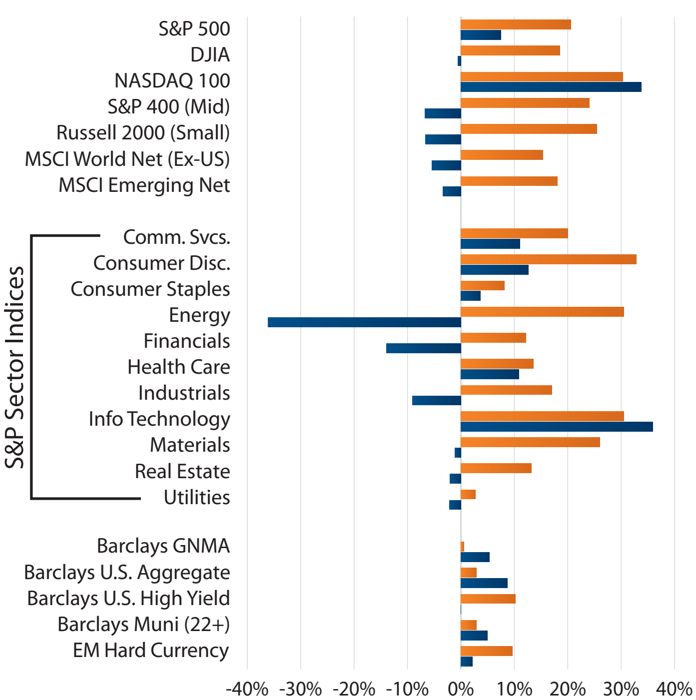
*Source: Bloomberg. *YTD as of 6/30/20.* ***Past performance is no guarantee of future results.***

One of the most common questions we receive about investing in equities is the following: Growth or Value? One way to begin the process of answering this question is to do a head-to-head snapshot of performance. The chart above features year-to-date and annual total returns of the S&P 500 Pure Growth and S&P 500 Pure Value Indices since the start of the millennium. We chose these benchmarks because they have no overlapping constituents. The S&P 500 Pure Growth Index (109 companies) is a style-concentrated index designed to track the performance of stocks that exhibit the strongest growth characteristics based on three factors: sales growth, the ratio of earnings-change to price, and momentum. It includes only those components of the parent index that exhibit strong growth characteristics, and weights them by growth score. The S&P 500 Pure Value Index (103 companies) is a style-concentrated index designed to track the performance of stocks that exhibit the strongest value characteristics based on three factors: the ratios of book value, earnings, and sales to price. It includes only those components of the parent index that exhibit strong value characteristics, and weights them by value score.

From 12/31/99-6/30/20, the S&P 500 Pure Value Index posted an average annual total return of 8.18%, compared to 7.05% for the S&P 500 Pure Growth Index, according to Bloomberg. It does not come as a surprise that value topped growth. The slight edge that value stocks have enjoyed over growth stocks through the decades is they tend to offer higher dividend payouts, which translates into greater compounding providing the dividends are reinvested. There are 20 calendar years in the chart. Each of the two styles outperformed the other 10 times. Growth has a huge edge through the first half of 2020. From 12/31/19-6/30/20, the S&P 500 Pure Growth Index posted a total return of 2.75%, compared to -29.83% for the S&P 500 Pure Value Index, according to Bloomberg. The disparity between the returns has everything to do with the economic fallout from the COVID-19 pandemic, in our opinion. The companies that are benefitting the most from the shelter-at-home mandate are mostly tech-related. As of 6/30/20, the largest sector weighting in the S&P 500 Pure Growth Index was Information Technology at 38.6%, according to S&P Dow Jones Indices. The largest sector weighting in the S&P 500 Pure Value Index was Financials at 33.6%. Just glancing at the returns of these two sectors as weighted in the S&P 500 Index lends some perspective. In the first half of 2020, the S&P 500 Information Technology Index posted a total return of 14.95%, compared to -23.65% for the S&P 500 Financials Index, according to Bloomberg.

Since we believe that the COVID-19 pandemic is the primary reason for the huge disparity in the performance of these two indices in 2020, perhaps the most obvious catalyst that could potentially draw investors back to value stocks would involve some effective therapeutics to treat the virus, an FDA-approved vaccine, or both. While there are no guarantees, the most optimistic case from the medical community calls for a vaccine to gain approval by year-end. The key takeaway is that we need to reopen the entire economy so that all industries have the chance to prosper, like before the shutdown. That might bring value stocks back to life.

Total returns for Q2 and past 12 months (6/30/20)



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 (per share). The S&P 500 Index dollar figures reflect the 11 major sectors on a weighted-adjusted basis.

Index (Weighting In S&P 500)	Q3’20E	Q3’19A	Q4’20E	Q4’19A	2020E	2019A
Communication Svcs. (10.8%)	**1.75**	1.91	**2.14**	2.11	**7.12**	8.25
Consumer Disc. (10.8%)	**5.46**	10.51	**7.82**	9.68	**16.22**	39.48
Consumer Staples (7.0%)	**7.72**	7.72	**7.79**	8.17	**29.30**	30.50
Energy (2.8%)	**-1.05**	6.41	**0.01**	0.46	**-13.35**	16.09
Financials (10.1%)	**6.08**	10.39	**6.37**	11.75	**16.35**	43.44
Health Care (14.6%)	**16.43**	13.44	**17.44**	13.19	**62.41**	55.62
Industrials (8.0%)	**4.11**	9.60	**6.22**	8.12	**15.23**	35.48
Information Tech. (27.5%)	**16.38**	15.25	**20.47**	18.12	**65.55**	62.92
Materials (2.5%)	**3.43**	4.22	**3.82**	3.69	**13.87**	17.05
Real Estate (2.8%)	**0.89**	1.71	**1.08**	1.74	**4.44**	7.00
Utilities (3.1%)	**5.11**	5.06	**3.41**	3.09	**15.32**	15.66
S&P 500 Index	**30.89**	39.81	**35.74**	39.18	**109.06**	157.12
S&P 400 Index (Mid-Cap)	**17.68**	23.28	**22.47**	22.19	**64.32**	94.98
S&P 600 Index (Small-Cap)	**5.99**	8.78	**10.74**	4.41	**-3.54**	30.68

Source: S&P Dow Jones Indices (6/29/20). Sector weightings as of 6/30/20.
There is no guarantee past trends will continue or projections will be realized.

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