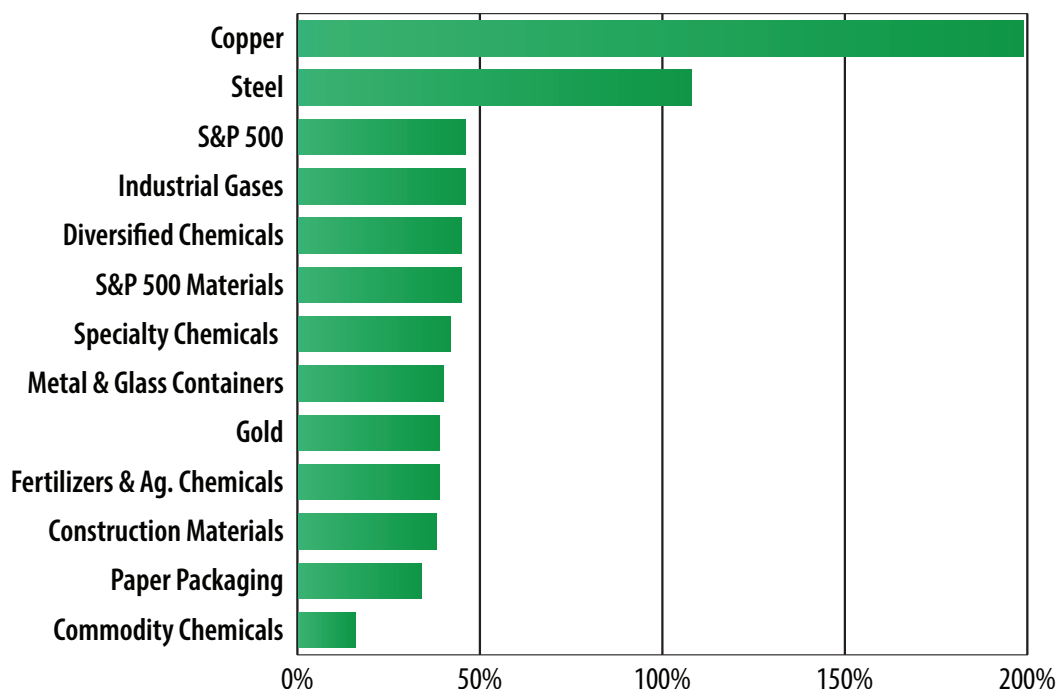


A Snapshot of Materials Stocks

S&P 500, S&P 500 Materials/Subsector Index Total Returns (12/31/19-10/26/21)



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

View from the Observation Deck

1. With all of the focus being placed on the negotiations in Congress regarding the multi-trillion dollar infrastructure spending bill and Build Back Better Act, we thought it would be interesting to check in on the status of the materials sector.
2. On the surface, providing the bills pass, Materials should be a potential beneficiary of the capital earmarked for traditional infrastructure needs in the coming years. You can't fix or build roads and bridges without materials.
3. Of the 11 sectors that comprise the S&P 500 Index, Materials had the second smallest weighting at 2.51% as of 10/27/21, just above the 2.43% weighting in Utilities, according to Bloomberg.
4. The S&P 500 Materials Index closed trading on 10/27/21 with a trailing 12-month price-to-earnings (P/E) ratio of 20.31, according to Bloomberg. Its 2022 year-end P/E estimate was 16.41. These valuations are far more modest than the 26.13 trailing 12-month P/E on the S&P 500 Index and its 20.47 year-end P/E estimate for 2022.
5. Investors funneled an estimated net \$15.34 billion into Natural Resources (Materials) mutual funds and exchange-traded funds (ETFs) for the 12-month period ended 9/30/21, according to Morningstar.
6. As indicated in the chart above, with the exception of the 199.11% total return on Copper stocks and the 108.39% total return on Steel stocks, most of the subsectors have posted total returns ranging from 33.00% to 46.00% since the start of this decade. The S&P 500 Index and S&P 500 Materials Index posted total returns of 45.83% and 44.90%, respectively.
7. Lastly, materials could get a boost from higher-than-expected inflation levels should they persist, in our opinion. Federal Reserve Chairman Jerome Powell has modified his outlook on inflation from being transitory, or short-lived, to now extending into 2022. The Consumer Price Index stood at 5.4% in September on a trailing 12-month basis, its highest mark since 2008, according to data from the Bureau of Labor Statistics.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. The S&P 500 Materials Index is a capitalization-weighted index comprised of S&P 500 stocks representing the materials sector.

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 professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.