First Trust

Quarterly Market Overview

Issue 89, April 2022

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

Investing In Stocks Via Market Capitalization (Cap), Sector And Style In The Current Climate

It May Be Time To Favor Earnings And Revenues Over Themes

For the better part of the past 13 years, the stock market has been in rally mode. Take away the COVID-induced plunge in February-March of 2020 and the sharp correction in Q4'18 and it has been a fairly smooth ride for investors holding equities, in our opinion. Suffice it to say, the easy money has been made. From 3/9/09 (end of the bear market stemming from the financial crisis) through 3/31/22, the S&P 500 Index posted an average annualized total return of 18.00%, according to Bloomberg. The last time we saw such a gain was in the internet-driven 1990s, when the index posted an average annual total return of 18.19%. For those who may not recall what followed, the index delivered an average annual total return of -0.95% from 2000-2009. The financial media often refer to it as the "lost decade" for stocks. Keep in mind, from 1926 through 2021 (96 years), the S&P 500 Index generated an average annual total return of 10.46%, according to Morningstar/Ibbotson Associates. That is the norm. If you were to conduct an internet search for articles discussing where the U.S. stock market is headed, you would come across a few featuring pundits who believe that we are poised to replicate that lost decade (2000-2009). We'll see.

We did not include foreign stocks in our discussion this quarter because the major foreign stock indices have not kept pace with the S&P 500 Index since 3/9/09. We believe at some point they could takeover the leadership role for stocks due to their attractive valuations relative to U.S. equities. They need a catalyst to jumpstart the process. Having said that, we believe it to be prudent for the average investor to maintain at least a 10% weighting in foreign equities for diversification purposes.

Let us address the two elephants in the room: rising interest rates and higher bond yields. Federal Reserve ("Fed") Chairman Jerome Powell's original assessment of inflation, that it would be transitory, has been proven wrong, and he has acknowledged it. Inflation is robust and is likely to persist for the foreseeable future, in our opinion. The Fed has provided a good deal of guidance with respect to future federal funds target rate hikes, perhaps well into 2023, in an effort to temper rising prices. It has also disclosed its intent to begin a new phase of quantitative tightening, or the paring down of its balance sheet of assets, which totaled $8.94 trillion on 3/30/22, according to Bloomberg. The $64,000 question is, will it be too little, too late? Again, we'll see. Bond yields have already adjusted higher in anticipation of what is coming. If medium- and long-term bond yields rise far enough they could become a more competitive alternative to equities based on historical returns. That yield level would need to be closer to 5.00% on Treasuries or higher, in our opinion.

The climate we are in is truly unique due to the fallout from the COVID-19 pandemic, which arrived in the U.S. in Q1'20. The table of performance figures above tells a story. From 2020 through 2021, the S&P 500 Index, large-cap technology stocks and large-cap growth stocks delivered investors the best results. But energy stocks reign supreme so far in 2022.

How Stocks Have Fared During The Covid-19 Pandemic

Large-Cap, Mid-Cap, Small-Cap, Growth & Value Total Returns

12/31/19-12/31/21 | 12/31/21-3/31/22

Category	S&P 500		S&P MidCap 400		S&P SmallCap 600	
	12/31/19-12/31/21	12/31/21-3/31/22	12/31/19-12/31/21	12/31/21-3/31/22	12/31/19-12/31/21	12/31/21-3/31/22
Index	52.34%	-4.60%	41.76%	-4.89%	40.98%	-5.64%
Comm. Services	50.27%	-11.92%	2.12%	-3.75%	52.63%	-8.27%
Consumer Disc.	65.87%	-9.03%	67.26%	-14.52%	76.99%	-16.36%
Consumer Staples	31.38%	-1.01%	34.55%	-2.45%	42.98%	-8.61%
Energy	2.37%	38.99%	2.80%	35.50%	-3.53%	43.38%
Financials	32.50%	-1.48%	30.71%	-1.10%	16.56%	-5.22%
Health Care	43.09%	-2.58%	45.06%	-7.77%	39.26%	-10.28%
Industrials	34.48%	-2.36%	49.62%	-7.71%	40.79%	-6.76%
Info. Tech.	93.56%	-8.36%	54.82%	-8.08%	62.10%	-9.91%
Materials	53.67%	-2.38%	46.30%	8.01%	45.03%	0.93%
Real Estate	42.97%	-6.32%	19.48%	-2.80%	17.46%	-3.54%
Utilities	18.29%	4.77%	3.15%	1.60%	12.47%	-0.86%
Growth	76.16%	-8.60%	45.95%	-9.05%	46.54%	-9.54%
Value	26.54%	-0.17%	35.46%	-0.61%	34.09%	-1.64%

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

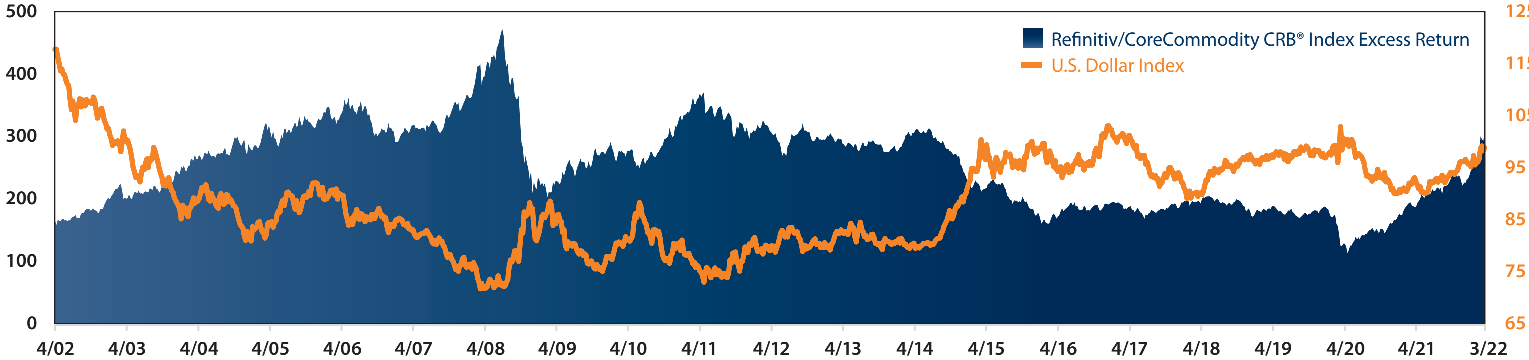
Projections For Earnings/Revenues Using S&P 500 Indices

- Consensus *earnings* growth rate estimates on the S&P 500 Index 2022, 2023 and 2024 were 10.4%, 9.7% and 9.3%, respectively.
- Consensus *revenue* growth rate estimates on the S&P 500 Index for 2022, 2023 and 2024 were 9.9%, 5.2% and 4.3%, respectively.
- Consensus *earnings* growth rate estimates on the S&P 500 Pure Growth Index for 2022, 2023 and 2024 were 5.6%, 12.6% and 13.7%, respectively.
- Consensus *revenue* growth rate estimates on the S&P 500 Pure Growth Index for 2022, 2023 and 2024 were 13.3%, 12.1% and 10.9%, respectively.
- Consensus *earnings* growth rate estimates on the S&P 500 Pure Value Index for 2022, 2023 and 2024 were 4.1%, 6.3% and 6.5%, respectively.
- Consensus *revenue* growth rate estimates on the S&P 500 Pure Value Index for 2022, 2023 and 2024 were 6.8%, 2.7% and 0.9%, respectively.
- The S&P 500 Index sectors with the highest consensus *earnings* growth rate estimates for 2022, 2023 and 2024 were as follows: 93.2% Energy (2022), 26.1% Consumer Discretionary (2023) and 16.3% Consumer Discretionary (2024).
- The S&P 500 Index sectors with the highest consensus *revenue* growth rate estimates for 2022, 2023 and 2024 were as follows: 24.0% Energy (2022), 10.7% Consumer Discretionary (2023) and 8.4% Consumer Discretionary (2024).

Source: Bloomberg. As of 4/8/22. *Note: The S&P 500 Pure Growth and S&P 500 Pure Value Indices are style-concentrated. They track the performance of stocks exhibiting the strongest growth and value characteristics.*

A 20-Year Snapshot Of Commodity Prices & The U.S. Dollar

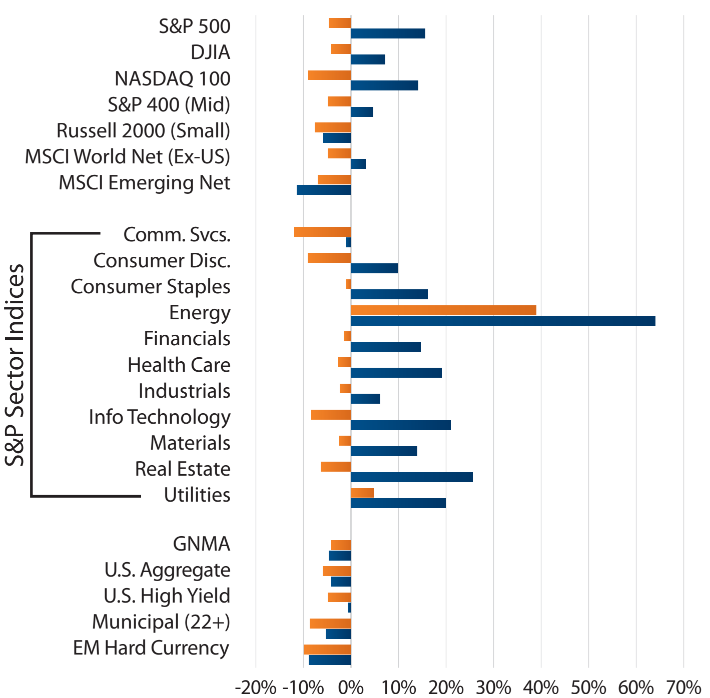
Refinitiv/CoreCommodity CRB® Index Excess Return vs. U.S. Dollar Index



Source: Bloomberg. Weekly data points from 4/5/02-3/25/22. **Past performance is no guarantee of future results.**

The last time that we discussed commodities in our Quarterly Newsletter was in July 2020 (archived at ftportfolios.com). At that time, we pointed out that commodity prices had delivered disappointing results over the previous decade or so. That was an unusually lengthy downcycle for prices. Despite not knowing precisely which catalyst(s) might emerge to jumpstart this asset class, we nonetheless believed that commodity prices were likely poised to rebound. As it turns out, mid-2020 was an opportune time to garner some exposure to commodities. From 6/30/20 to 3/31/22, the Refinitiv/CoreCommodity CRB®Index Excess Return rose by 113.95%, according to Bloomberg. For comparative purposes, the S&P 500 Index posted a total return of 50.00%. Are we in the early stages of a commodities supercycle? A supercycle is defined as a sustained period of increasing demand for commodities, usually lasting over a decade, according to The Motley Fool. While that could be a big ask considering the chaotic global climate we are in, investors should most definitely factor in the potential upside from the $1.2 trillion **Infrastructure Investment and Jobs Act** signed into law by President Joe Biden last November. Spending is expected to target U.S. roads, bridges, rails, ports, airports and more. The money is due to be spent over a 10-year period. Supercycle aside, some pundits are bullish on commodities. JPMorgan recently announced that it believes prices could have 40% upside from current levels, according to Business Insider. It cited the bump stemming from Russia's invasion of Ukraine and the premise that investors are underallocated to the space. Surging inflation is providing commodity prices with a substantial tailwind. Commodities just posted their best quarter (Q1'22) in 30 years, according to *Barron's*. The trailing 12-month rate on the Consumer Price Index stood at a robust 8.5% in March 2022. That is four times the usual 2.0% target sought by the Federal Reserve. *Barron's* does not expect high inflation to abate anytime soon, especially if COVID-19, the Russia/Ukraine war plus the accompanying sanctions, and supply chain shortages persist. Lastly, commodity prices have risen despite a strong U.S. dollar. The dollar often acts as a safe haven for capital during periods of geopolitical uncertainty, like now. Normally, as indicated in the chart above, there tends to be an inverse relationship between the two. Since most commodities are largely transacted in U.S. dollars, a weaker dollar provides foreign buyers of commodities the potential to purchase more of a commodity due to the favorable exchange rate and vice versa.

Total returns for Q1 and past 12 months (3/31/22)



Sources: Bloomberg and Bloomberg Fixed Income Indices. ***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)	**Q2'22E**	Q2'21A	**Q3'22E**	Q3'21A	**2022E**	2021E
Communication Svcs. (9.4%)	**3.06**	3.15	**3.18**	3.06	**12.61**	12.44
Consumer Disc. (12.0%)	**12.77**	11.46	**14.53**	10.18	**50.22**	45.25
Consumer Staples (6.1%)	**9.00**	9.06	**9.75**	9.31	**36.43**	35.12
Energy (3.9%)	**14.42**	5.75	**13.70**	9.50	**53.33**	31.08
Financials (11.1%)	**10.65**	15.92	**10.93**	12.48	**43.40**	59.26
Health Care (13.6%)	**24.19**	18.98	**25.18**	21.56	**96.99**	78.09
Industrials (7.9%)	**10.78**	8.67	**11.71**	8.95	**41.98**	31.88
Information Tech. (28.0%)	**25.61**	21.86	**27.64**	23.52	**111.33**	93.50
Materials (2.6%)	**9.78**	8.73	**8.74**	8.03	**35.01**	30.52
Real Estate (2.7%)	**1.58**	2.12	**1.69**	2.03	**6.45**	8.00
Utilities (2.7%)	**3.78**	3.14	**5.37**	4.76	**17.32**	15.27
S&P 500 Index	**55.53**	52.05	**58.71**	52.02	**225.50**	208.19
S&P MidCap 400 Index	**45.76**	37.00	**47.80**	38.04	**183.19**	153.83
S&P SmallCap 600 Index	**22.92**	16.68	**24.05**	17.16	**92.34**	74.35

Source: S&P Dow Jones Indices (12/29/21). Sector weightings as of 3/31/22.
There is no guarantee past trends will continue or projections will be realized.

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