

FACTOR PERFORMANCE

Stocks roared back in 1Q 2019, leading to size (smaller stocks) outperforming all factors in the first quarter. Small-caps benefited from higher exposure to the U.S. economy and overall higher market betas. Despite its history of generally working during recoveries, value was the worst factor during the last 12 months and nearly at the bottom in the first quarter as the yield curve continued to flatten or invert and economic data signaled weaker growth. Investors continued to pour money into quality stocks as firms that are profitable, have better balance sheets and are more stable are likely to hold up better if the economy enters a slowdown. After a fantastic 4Q 2018, the low volatility factor underperformed in 1Q 2019, but remained the top factor over the last year, as high-beta and high-growth securities generally outperformed in the first quarter. The momentum factor lagged the broader market over the last year mainly due to a large underweight to the low volatility factor in 4Q 2018 and a shift to an overweight in 1Q 2019, which led to muted upside during the rally.

Value: Lowest price-to-book

Momentum: Highest 12 month price change

Quality: Highest return-on-equity

Size: Lowest market capitalization

Low Volatility: Lowest 1 year price variability

Dividend Yield: Highest dividend yield

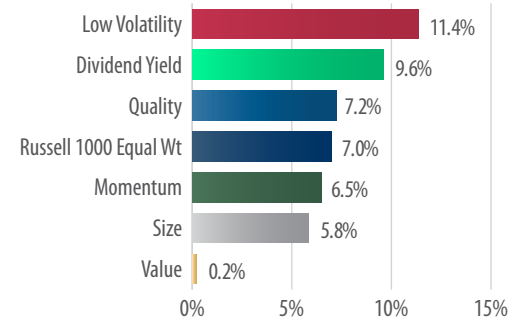
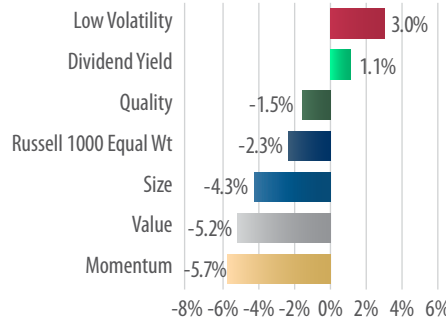
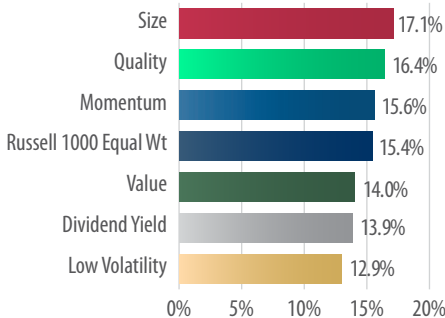
	Apr '18	May '18	Jun '18	Jul '18	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	12-Month
Top	Dividend Yield 1.09%	Momentum 5.31%	Dividend Yield 1.80%	Low Volatility 3.10%	Momentum 6.58%	Russell 1000 Equal Wgt 0.01%	Low Volatility -4.68%	Low Volatility 4.30%	Low Volatility -8.26%	Size 13.33%	Momentum 4.47%	Low Volatility 1.38%	Low Volatility 11.37%
2	Value 1.06%	Size 5.15%	Russell 1000 Equal Wgt 1.38%	Quality 2.71%	Size 4.32%	Low Volatility -0.48%	Dividend Yield -5.19%	Dividend Yield 3.54%	Momentum -9.18%	Value 12.62%	Quality 4.43%	Momentum 1.29%	Dividend Yield 9.58%
3	Russell 1000 Equal Wgt 0.70%	Russell 1000 Equal Wgt 2.36%	Quality 1.23%	Dividend Yield 2.64%	Quality 3.76%	Quality -0.55%	Value -7.32%	Quality 2.68%	Dividend Yield -9.56%	Russell 1000 Equal Wgt 10.66%	Size 4.20%	Russell 1000 Equal Wgt 0.81%	Quality 7.25%
4	Size 0.69%	Dividend Yield 2.11%	Low Volatility 1.11%	Value 2.26%	Russell 1000 Equal Wgt 2.59%	Momentum -0.70%	Russell 1000 Equal Wgt -8.05%	Russell 1000 Equal Wgt 1.85%	Russell 1000 Equal Wgt -9.64%	Quality 10.65%	Russell 1000 Equal Wgt 3.46%	Quality 0.77%	Russell 1000 Equal Wgt 6.98%
5	Momentum 0.34%	Quality 1.96%	Size 0.75%	Russell 1000 Equal Wgt 2.16%	Low Volatility 2.36%	Dividend Yield -0.98%	Quality -8.71%	Value 1.72%	Quality -9.78%	Dividend Yield 10.64%	Low Volatility 3.34%	Dividend Yield 0.65%	Momentum 6.47%
6	Low Volatility 0.30%	Value 1.83%	Value 0.52%	Size 1.46%	Value 1.60%	Value -1.67%	Size -9.38%	Size 1.63%	Size -11.24%	Momentum 9.26%	Value 2.44%	Size -0.83%	Size 5.83%
Bottom	Quality -0.47%	Low Volatility 1.51%	Momentum -0.33%	Momentum 1.31%	Dividend Yield 1.46%	Size -2.08%	Momentum -10.74%	Momentum 0.58%	Value -11.74%	Low Volatility 7.79%	Dividend Yield 2.26%	Value -1.20%	Value 0.21%

TRAILING PERIOD PERFORMANCE (AS OF 29/3/19)

3 MONTHS

6 MONTHS

1 YEAR

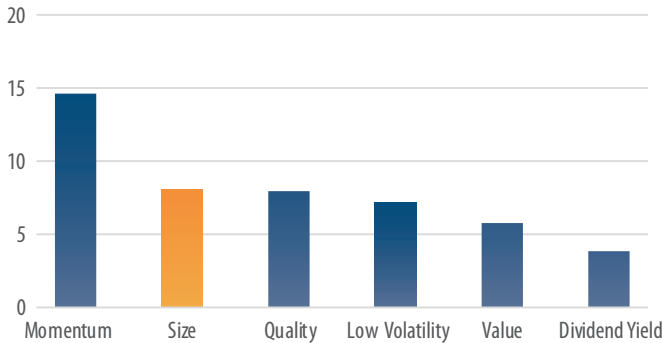


Data Sources: Clarifi & Capital IQ PIT data. Universe: largest 1,000 U.S. firms with \$1 million in average daily volume over the last 3 months. Top 30% of stocks by factor are selected. Stocks are then equally weighted. Past performance is no guarantee of future results. These examples are for illustrative purposes and do not represent any actual investment.

The views and opinions expressed are for informational purposes only. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities (in any jurisdiction to any person to whom it is not lawful to make such an offer) and should not be considered specific legal, investment or tax advice.

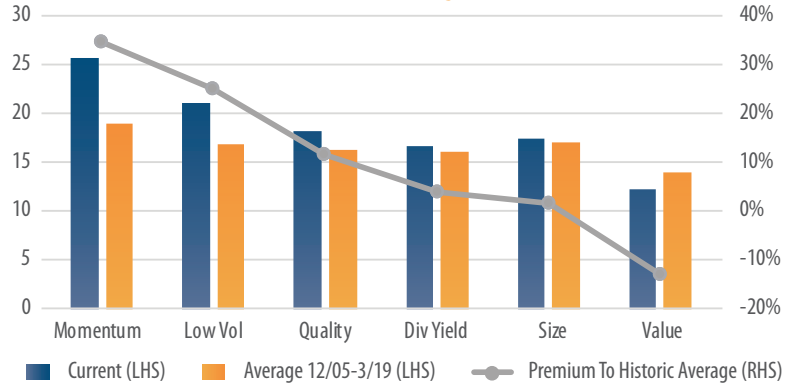
OUTLOOK

Median Next 12 Months EPS Growth



Source: Bloomberg. Data as of 29/3/19. The median next 12 months forward EPS growth rate is used for each factor. Each factor is comprised of the top 30% of stocks from a universe of the largest 1,000 U.S. stocks with at least \$1 million dollars in average daily volume. There can be no assurance any forecast will be realized.

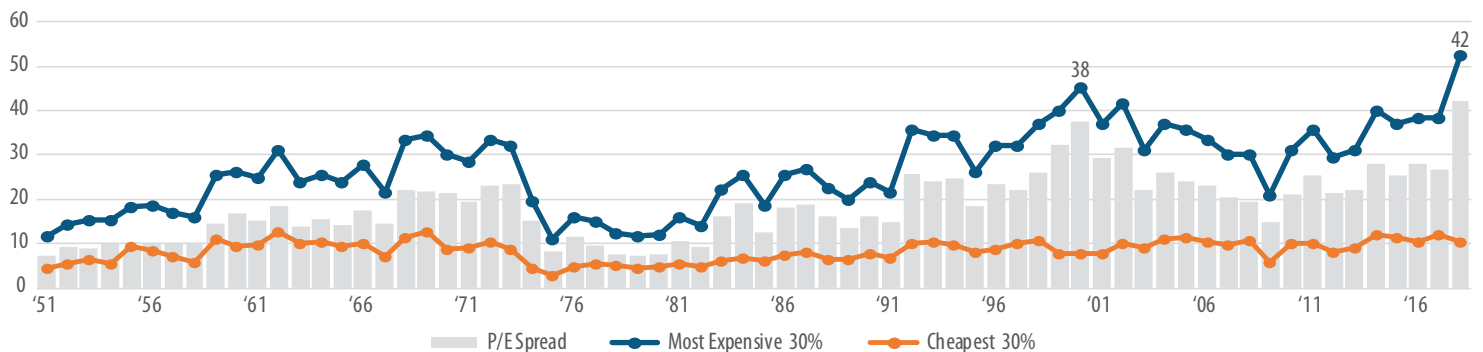
Forward Price-to-Earnings Ratio



Source: Bloomberg. Monthly data is calculated from 12/2005-3/2019. The median monthly forward price-to-earnings ratio is used for each factor. Each factor is comprised of the top 30% of stocks from a universe of the largest 1,000 U.S. stocks with at least \$1 million dollars in average daily volume. There can be no assurance any forecast will be realized.

- We recommend the size factor based on higher-growth rates than many large-cap peers, more exposure to a stronger domestic economy and cheaper valuations relative to its historical average than most other factors.
- For a patient investor, we recommend an overweight to the value factor due to valuation. As of the end of 2018, the value factor traded at its steepest discount to the most expensive stocks since 1951¹. The most expensive stocks now trade at 52.6x trailing earnings versus 10.4x for the cheapest 30% of stocks by price-to-earnings ratio, a 42-turn spread, as of 31/12/18. This eclipses the previous spread high set in 2000, which was a 38x spread. The S&P 500 Value Index went on to outperform the S&P 500 Growth Index by over 22% over the next 3 years from 2000 to 2002. While the value factor does trade at a steep discount relative to its historical average, it does lack a catalyst, is highly out-of-favor and tends to not do as well during an economic slowdown. To buffer against potential continued underperformance and recession risk, we recommend using a multi-factor model that combines value with quality to favor stocks that are not only cheap but also have strong balance sheets, are highly profitable and have stable fundamentals.

Price-to-Earnings Ratio



Data is from the Kenneth French Data Library. The universe is All NYSE, AMEX, and NASDAQ stocks with a market cap. The sum of earnings for the most expensive 30% with positive earnings of stocks is compared to the cheapest 30% of stocks. Price-to-earnings is used to determine expensive versus cheap.

¹ Kenneth French Data Library.

OUTLOOK (CONT'D)

- Although the momentum factor has the strongest projected growth rates, we currently have a cautious to neutral stance towards momentum due to the factor being expensive relative to its historical average. In addition, depending on the signal length and any adjustments made to the factor, the momentum factor has shifted from a high market beta to a low market beta over the last six months ended 29/3/19. In our opinion, the secondary factor exposures are likely to drive a large portion of the momentum factor's return over the next quarter and year. In addition, constant monitoring of other rewarded exposures and risks is key to implementing the momentum factor well. Historically, the momentum factor's exposure to the securities which are also included in the low volatility factor has oscillated and is currently above trend.

Low Volatility & Momentum Holdings Overlap



Data Sources: Clarifi & Capital IQ PIT data. Universe: largest 1,000 U.S. firms with \$1 million in average daily volume over the last 3 months. Top 30% of stocks by the momentum and low volatility factors are selected and compared for overlap.

- Despite poor performance in the first quarter, we maintain an underweight to the low volatility factor due to expensive valuations and below average fundamentals and growth rates.

WHY LOOK AT FACTOR ATTRIBUTION?

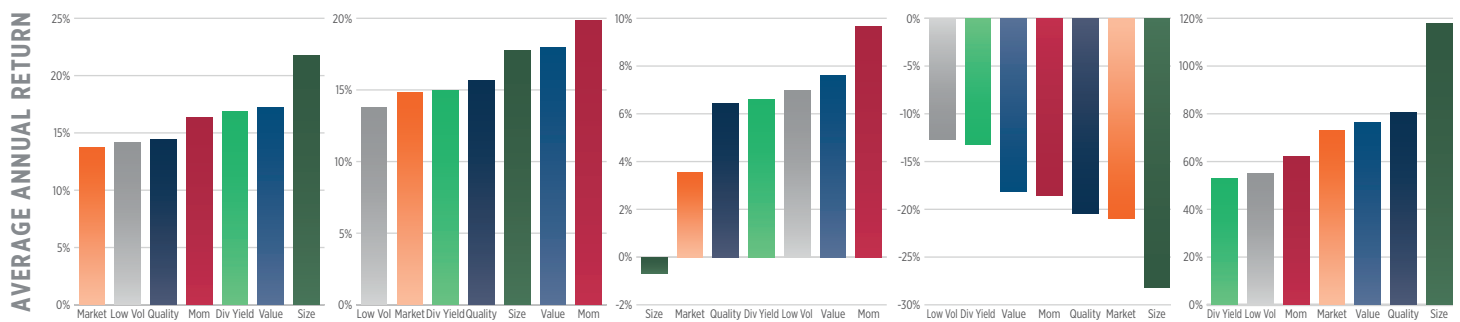
Traditionally, investors have looked at style boxes, regions, and sectors for attribution analysis. Recently, however, factor analysis has become another way to benchmark performance. Factors tend to drive a large portion of a portfolio's return. When factor investing is implemented well, we believe it can lead to more robustly constructed portfolios, better explanations of returns, and higher risk-adjusted returns.

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.

Historically, rewarded factors have provided either higher returns or higher Sharpe ratios than the benchmark. Despite this, all rewarded factors are cyclical and experience periods of underperformance. In addition to behavioral biases, investor risk appetite and economic cycles can drive factor performance. The value and size (small stocks) factors tend to perform better in a risk-taking environment, while the low volatility and dividend yield factors tend to perform best in a risk-averse environment. The momentum factor tends to do best when trends persist in a market. The quality factor is more of a risk-adjusted return factor and tends to provide more stable absolute performance over a market cycle relative to other factors. One way to look at risk is through the economic cycle – recovery, expansion, late expansion, and recession. We split recession into two periods, early and late, as equities tend to lead before the economy bottoms.

ECONOMIC CYCLES AND FACTOR PERFORMANCE

	Recovery	Expansion	Late Expansion	Early Recession	Late Recession
Economy	High Growth Off Bottom	Continued Stable Growth	Slowing Growth	Negative Growth	Negative Growth
Fed Policy	Accommodative	Neutral	Tightening	Accommodative	Accommodative
Sentiment	Risk-on	Risk-on	Switching From Risk-on to Risk-off	Risk-off	Switching From Risk-off to Risk-on
Equities	High Equity Returns	High Equity Returns	Lower Equity Returns	Negative Returns	Highest Returns
Top Factors	Size and Value	Momentum and Value	Early: Momentum Late: Low Volatility, and Dividend Yield	Low Volatility and Dividend Yield	Size and Value



Market: all NYSE, AMEX, and NASDAQ traded stocks

Quality: Highest operating profitability

Size: Lowest market capitalization

Value: Lowest price-to-book

Momentum: Highest 12 month price change lagged

Dividend Yield: Highest dividend yield

Low Volatility: Lowest trailing 60-day variance

one month

We define economic cycles as follows:

Recovery – 18 months following the end of a recession. Expansion – time between recovery and late-expansion. Late expansion – last 18 months before peak economic growth. Early recession – start of a recessionary period until 3 months before it ends. Late recession – last 3 months before the economy bottoms. Business cycle dates were sourced from the National Bureau of Economic Research.

Data source for performance: Kenneth R. French data library using the CRSP database, July 1963 through August 2016 (for purposes of this analysis we ended the expansion 18 months prior to the most recent available data as it has yet to be determined whether we have entered late expansion). Universe includes all NYSE, AMEX & NASDAQ stocks. Top 30% of stocks by factor are selected. Stocks are then market cap weighted. Past performance is no guarantee of future results. This example is for illustrative purposes and does not represent any actual investment.

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 and the Internal Revenue Code. First Trust has no knowledge of and has not been provided any information regarding any investor. Financial advisors must determine whether particular investments are appropriate for their clients. First Trust believes the financial advisor is a fiduciary, is capable of evaluating investment risks independently and is responsible for exercising independent judgment with respect to its retirement plan clients.

The views and opinions expressed are for informational purposes only. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities (in any jurisdiction to any person to whom it is not lawful to make such an offer) and should not be considered specific legal, investment or tax advice.