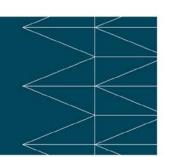
## ETF INSIGHTS WITH RYAN ISSAKAINEN OF FIRST TRUST



Lia Koopman, Managing Director, BNY Mellon Ryan Issakainen, Senior Vice President, ETF Strategist, First Trust April 2020

**Lisa Koopman (LK):** Hi, I'm here with Ryan Issakainen from First Trust. Thank you so much for joining me today.

Ryan Issakainen (RI): Thanks for having me.

**LK:** A year ago, at the conference at the start of 2019, First Trust had one of the most bullish forecasts for equities, which turned out to be a very good call. What is First Trust's outlook for stocks in 2020?

RI: Yes, so our expectation for U.S. equities is that we'll start to see some earnings growth this year. A lot of the things that supported stronger equity markets last year, in terms of really business friendly regulations, corporate tax reform, some of the things that really have supported equity markets over the last few years, are still tailwinds. But now we've got some of the uncertainty removed that we had last year. So, our expectation is that we won't see much earnings multiple expansion, but we expect to have low double-digit earnings growth and so we expect about a 10, 11% return for the S&P 500.

LK: Given your outlook, how should Investment Advisors be positioning equity ETF portfolios?

RI: So, 2019 was a really unusual year in that investors were pretty risk averse, and that's evident by looking at money market assets, which increased by over half a trillion dollars last year. That was the most we've seen since 2012. A lot of the equity flows went into defensively oriented strategies like low volatility, and yet the market, the S&P 500, was up about 31.5% last year. Much of those returns were driven by some of the largest companies in the S&P, with really strong returns like Apple and Microsoft, and our expectation is that the markets this year in 2020 are not likely to have the same sort of returns that we had in those top 10 holdings. Those have an average P/E of about 30% higher than the broader market, so we expect sources of return to come from things like value, like dividend yield These are areas where we saw investors shift to towards the end of last year, and our expectation is that we'll see that shift continue in 2020.

**LK:** What about fixed income? How would you recommend allocating client portfolios?



RI: When we look at where rates are now, we think it's a very small probability that the Fed moves rates either higher or lower. So, the short end of the yield curve we think is going to end up ending the year off where we are currently, but that doesn't mean the longer end of the yield curve will also stay anchored. If we have a strong economy like we expect, and especially if we see inflation start to move higher, we do think that the risk is to the upside for interest rates, and so when we look at bond portfolios, investors really aren't being compensated to extend that duration. There's not much income to really offset potential for losses, and so we think investors should bias their allocation from a rate perspective to shorter duration. We also think from a credit perspective and evaluation perspective, there's really not that many opportunities. One of the opportunities we see would be in mortgages. Mortgage spreads are wider than they normally are, and so a fund like our LMBS, the First Trust Low Duration Opportunities ETF, we think has some opportunities to take advantage of that. Within below investment-grade, we think senior loans from a valuation perspective are much more attractive than high yield, so something like our First Trust Senior Loan ETF (ticker: FTSL), we think there's opportunity there as well.

**LK:** First Trust has grown its fixed income ETF lineup with actively managed strategies and now has more in actively managed fixed income ETF assets than any other ETF sponsor. Why have active fixed income ETFs been more successful in asset gathering than active equity ETFs?

RI: I think the simplest reason why actively managed fixed income has taken off while actively managed equity has not within the ETF space is that there's been a higher success rate in outperforming activity is passive when it comes to fixed income. Our product development at First Trust, we try to focus on areas where there's greater opportunities to add value, and so when it comes to fixed income, we think there's, especially from a risk management perspective, more opportunities. Our objective when we launch any ETF, whether active or passive, is to introduce innovation. We want to have superior tools for investment professionals to have better outcomes for their clients. Of course, alongside that, we have to have innovation within our products, and it's crucial, it's critical to have great partnerships in doing that. Instrumental in our product buildout has been BNY Mellon. Your firm has done a tremendous job in supporting the infrastructure that allows our innovative ETFs to work as we expect them to, and that partnership has been really crucial for our success.

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