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.

The Bank of New York Mellon operates in the UK through its London branch (UK companies house numbers FC005522 and BR000818) at One Canada Square, London E14 5AL and is subject to regulation by the Financial Conduct Authority (FCA) at 12 Endeavour Square, London, E20 1JN, UK and limited regulation by the Prudential Regulation Authority at Bank of England, Threadneedle St, London, EC2R 8AH, UK. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

The Bank of New York Mellon SA/NV, a Belgian limited liability company, registered in the RPM Brussels with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorized and regulated as a significant credit institution by the European Central Bank (ECB) at Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany, and the National Bank of Belgium (NBB) at Boulevard de Berlaimont/de Berlaimontlaan 14, 1000 Brussels, Belgium, under the Single Supervisory Mechanism and by the Belgian Financial Services and Markets Authority (FSMA) at Rue du Congrès/Congresstraat 12-14, 1000 Brussels, Belgium for conduct of business rules, and is a subsidiary of The Bank of New York Mellon.

The Bank of New York Mellon SA/NV operates in Ireland through its Dublin branch at Riverside II, Sir John Rogerson's Quay Grand Canal Dock, Dublin 2, D02KV60, Ireland and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon SA/NV, Dublin Branch is subject to limited additional regulation by the Central Bank of Ireland at New Wapping Street, North Wall Quay, Dublin 1, D01 F7X3, Ireland for conduct of business rules and registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E.

The Bank of New York Mellon SA/NV is trading in Germany as The Bank of New York Mellon SA/NV, Asset Servicing, Niederlassung Frankfurt am Main, and has its registered office at MesseTurm, Friedrich-Ebert-Anlage 49, 60327 Frankfurt am Main, Germany. It is subject to limited additional regulation by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany) under registration number 122721.

The Bank of New York Mellon SA/NV operates in the Netherlands through its Amsterdam branch at Strawinskylaan 337, WTC Building, Amsterdam, 1077 XX, the Netherlands. The Bank of New York Mellon SA/NV, Amsterdam Branch is subject to limited additional supervision by the Dutch Central Bank ('De Nederlandsche Bank' or 'DNB') on integrity issues only (registration number 34363596). DNB holds office at Westeinde 1, 1017 ZN Amsterdam, the Netherlands.

The Bank of New York Mellon SA/NV operates in Luxembourg through its Luxembourg branch at 2-4 rue Eugene Ruppert, Vertigo Building – Polaris, L- 2453, Luxembourg. The Bank of New York Mellon SA/NV, Luxembourg Branch is subject to limited additional regulation by the Commission de Surveillance du Secteur Financier at 283, route d'Arlon, L-1150 Luxembourg for conduct of business rules, and in its role as UCITS/AIF depositary and central administration agent.

The Bank of New York Mellon SA/NV operates in France through its Paris branch at 7 Rue Scribe, Paris, Paris 75009, France. The Bank of New York Mellon SA/NV, Paris Branch is subject to limited additional regulation by Secrétariat Général de l'Autorité de Contrôle Prudentiel at Première Direction du Contrôle de Banques (DCB 1), Service 2, 61, Rue Taitbout, 75436 Paris Cedex 09, France (registration number (SIREN) Nr. 538 228 420 RCS Paris - CIB 13733).
The Bank of New York Mellon SA/NV operates in Italy through its Milan branch at Via Mike Bongiorno no. 13, Diamantino building, 5th floor, Milan, 20124, Italy. The Bank of New York Mellon SA/NV, Milan Branch is subject to limited additional regulation by Banca d'Italia - Sede di Milano at Divisione Supervisione Banche, Via Cordusio no. 5, 20123 Milano, Italy (registration number 03351).

The Bank of New York Mellon (International) Limited is registered in England & Wales with Company No. 03236121 with its Registered Office at One Canada Square, London E14 5AL. The Bank of New York Mellon (International) Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Regulatory information in relation to the above BNY Mellon entities operating out of Europe can be accessed at the following website: https://www.bnymellon.com/RID.

The Bank of New York Mellon has various subsidiaries, affiliates, branches and representative offices in the Asia-Pacific Region which are subject to regulation by the relevant local regulator in that jurisdiction. Details about the extent of our regulation and applicable regulators in the Asia-Pacific Region are available from us on request. Among others, The Bank of New York Mellon, Singapore Branch is subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch (a banking corporation organized and existing under the laws of the State of New York with limited liability) is subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. The Bank of New York Mellon, Seoul Branch is subject to regulation by the Financial Services Commission, the Financial Supervisory Service and The Bank of Korea.

Whilst The Bank of New York Mellon (BNY Mellon) is authorised to provide financial services in Australia, it is exempt from the requirement to hold, and does not hold, an Australian financial services license as issued by the Australian Securities and Investments Commission under the Corporations Act 2001 (Cth) in respect of the financial services provided by it to persons in Australia. BNY Mellon is regulated by the New York State Department of Financial Services and the US Federal Reserve under Chapter 2 of the Consolidated Laws, The Banking Law enacted April 16, 1914 in the State of New York, which differs from Australian laws.

The Bank of New York Mellon Securities Company Japan Ltd, subject to supervision by the Financial Services Agency of Japan, acts as intermediary in Japan for The Bank of New York Mellon and its affiliates, with its registered office at Marunouchi Trust Tower Main, 1-8-3 Marunouchi, Chiyoda-ku, Tokyo 100-1005, Japan.

BNY MELLON