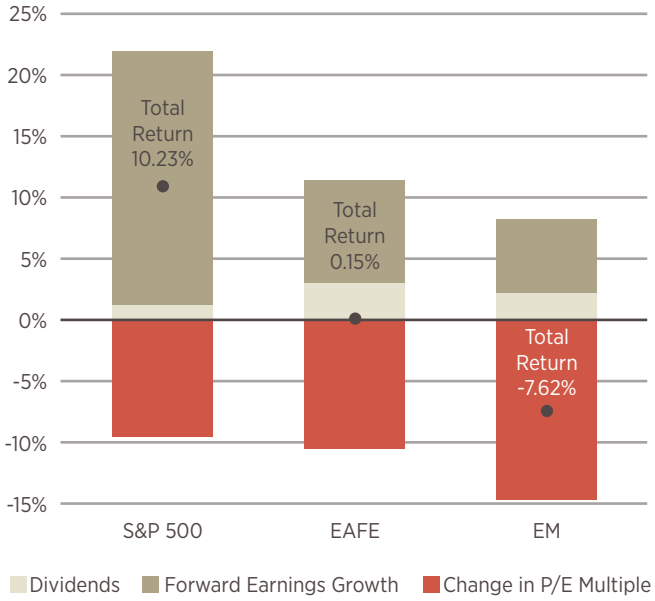
Chart of the Month

For stock market returns so far in 2018, location matters. US stocks have enjoyed a great year while many international markets have struggled. The following chart breaks down the returns for US, developed, and emerging markets into three components: dividends, growth in earnings expectations, and the change in P/E multiples (what investors are willing to pay for a given level of earnings).

Typically, dividend yields are fairly steady from year to year. A large portion of the volatility from the equity markets comes from changes in P/E multiples and this year they have contracted across the board. It is not unusual for P/E multiples to shrink when interest rates rise as investors find it relatively less attractive to hold equities.

That leaves earnings expectations as the biggest difference between the three markets. US earnings estimates received a massive boost this year due to the tax bill passed earlier this year which significantly reduced corporate tax rates. However, this change is a one-time benefit. Given our outlook for additional increases in interest rates we anticipate the P/E multiple will have continued downward pressure and market returns will be dependent on earnings growth.



Source: Bloomberg, Through 9/26/2018

The Advisor Survey:

Pam Smith, CRPC®, ChFC®, Senior Vice President

The Trump administration has recently rekindled an old economic idea to index capital gains. What are the potential impacts on investors?

Under current law, investors pay capital gains on the difference between the sale price of an asset and its purchase price. The proposal is that the cost basis of the investment should appreciate each year with the rate of inflation. Advocates for this change argue that it would free up significant amounts of capital that is essentially locked into highly appreciated securities. Many investors hold highly appreciated investments purely to avoid having to pay a large tax even if they don't believe that the investment still is a good one. Opponents point out that this would result in a large reduction in federal revenue and that the benefits almost exclusively flow to the top 1% of households. At 6 Meridian, we spend considerable time with our clients examining how to address highly appreciated securities including using these securities for charitable gifting.

	Source: FactSet 2018	September	YTD	2017	Benchmark
Stocks	United States	0.6%	10.6%	21.8%	S&P 500
	Intl Developed	0.9%	-1.0%	25.6%	MSCI EAFE
	Emerging Markets	-0.5%	-7.4%	37.8%	MSCI Emerging Markets
Bonds	US Investment Grade	-0.6%	-1.6%	3.5%	Barclays US Aggregate
	Intl Investment Grade	-1.1%	-3.0%	10.5%	Barclays Global Aggregate xUSD
	Global High Yield	1.4%	-0.6%	10.4%	Barclays Global High Yield
	Emerging Markets $	1.3%	-2.3%	8.2%	Barclays Emerging Markets USD Aggregate
Other	Commodities	1.9%	-2.0%	1.7%	Bloomberg Commodity
	Gold	-0.7%	-8.5%	13.2%	Gold New York Spot ($/oz)
	Oil	4.8%	21.1%	12.5%	Crude Oil WTI/Global Spot NYMEX

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