

Get Tax-Smart

WEBINAR SERIES

How Tax Reform May Influence US Markets

June 20, 2018



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Chief Economist

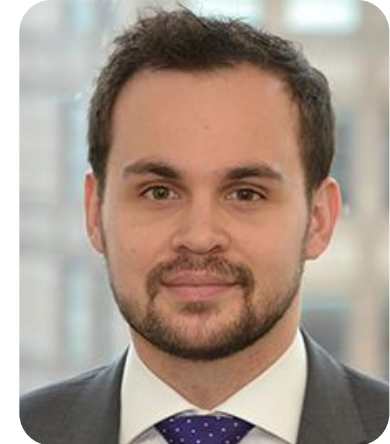
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J.P. Morgan Asset Management

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**Will tax reform support
economic expansion?**

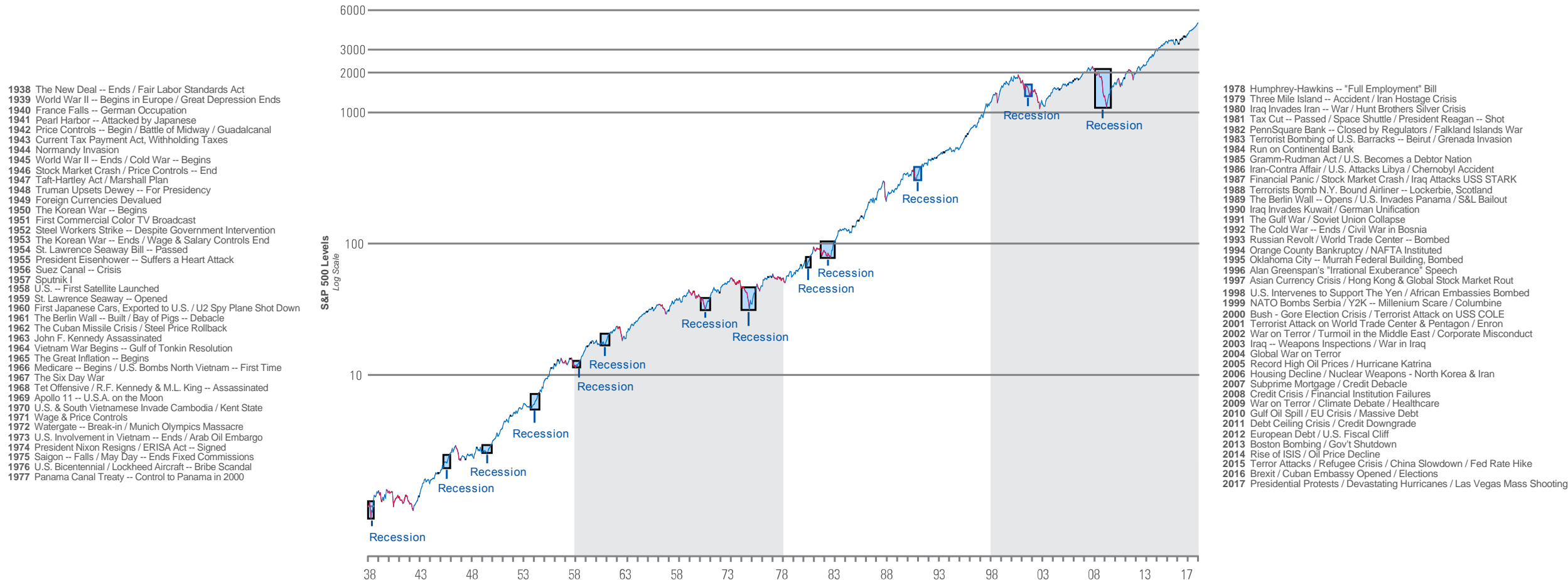
**\$1.5 Trillion in
repatriated assets**

**10% earnings boost for
S&P 500 companies**

**0.25% increase in
US GDP growth**

The US Equity Market Has Been Resilient

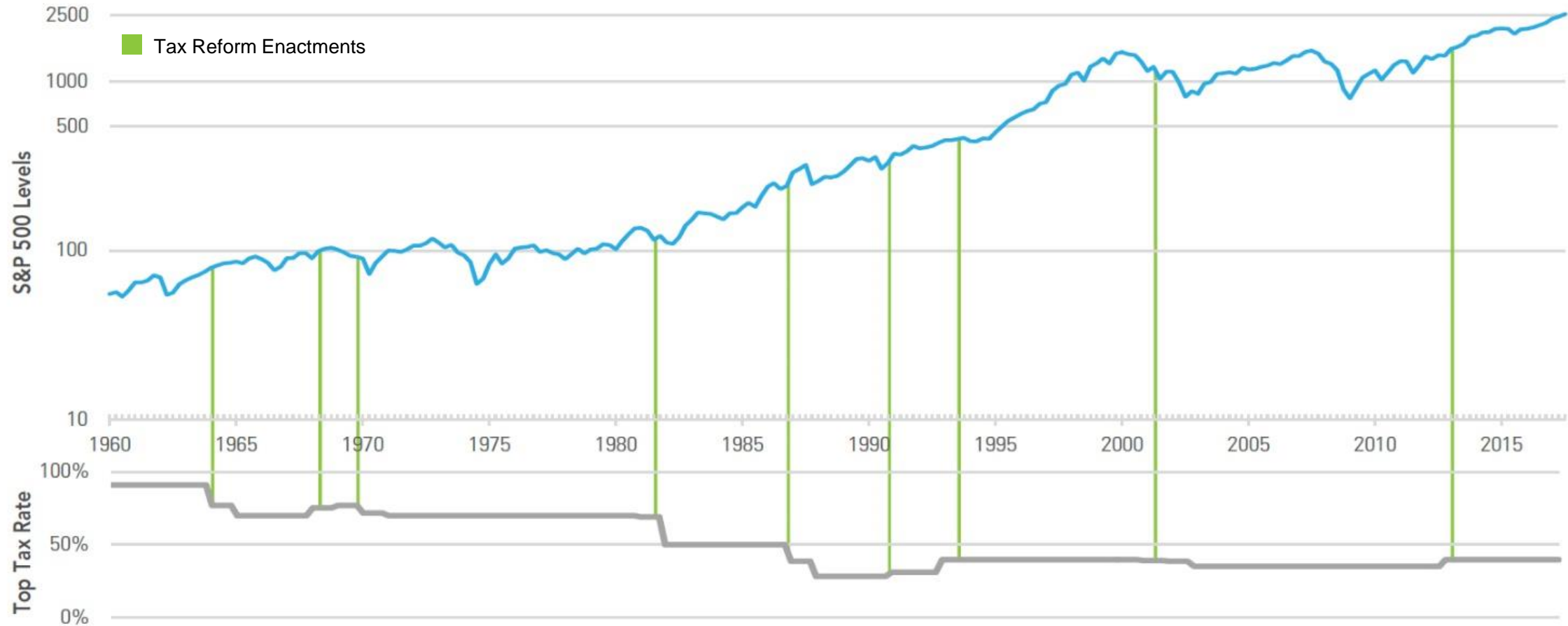
Standard & Poor's 500 Stock Index



Sources: Crandall, Pierce & Company, Standard & Poor's Corporation; National Bureau of Economic Research.

What History Can Tell Us

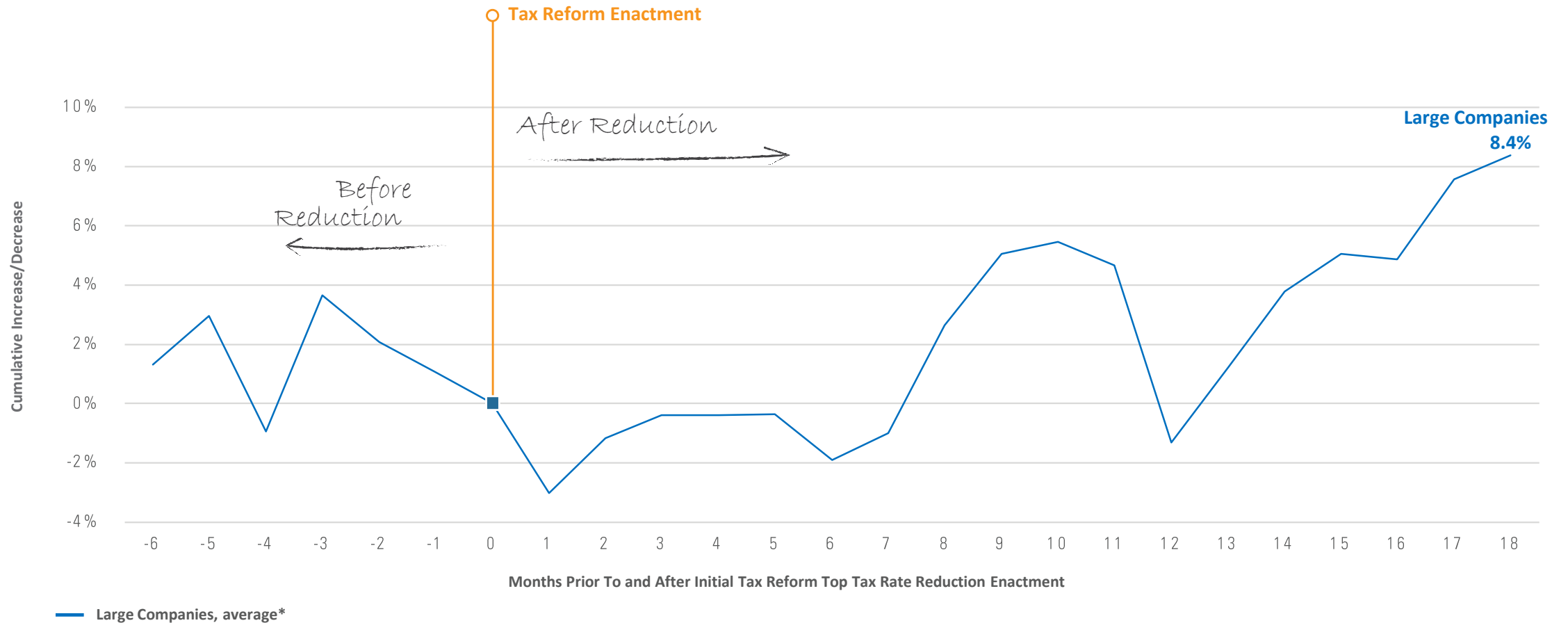
Indexed S&P 500 levels for periods of Top Tax Rate changes



Sources: Bloomberg, Department of Treasury (<https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/WP-81.pdf>), Savos calculations. Data as of 12/01/2017.

A Drop in Personal Tax Rates Hasn't Moved Markets

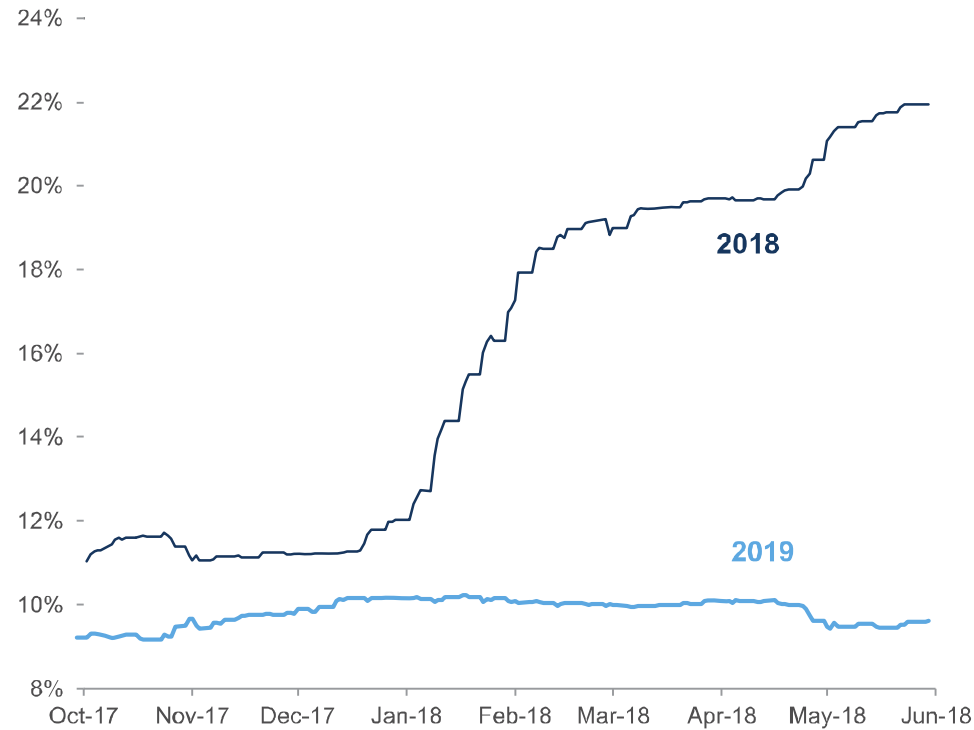
S&P 500® Index performance near decrease in top tax rates (since 1964)



*Large companies represented by the S&P 500®. Average refers to average performance over five periods of top rate decreases from 1964 through 2002. Sources: Bloomberg, Savos calculations. Data as of 12/01/2017.

The Response to Tax Reform, So Far

Consensus EPS revisions in response to tax reform



Sources: FactSet, Goldman Sachs Global Investment Research.

Companies with high effective tax rates have outperformed



Source: Goldman Sachs Global Investment Research.



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Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

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US Outlook:

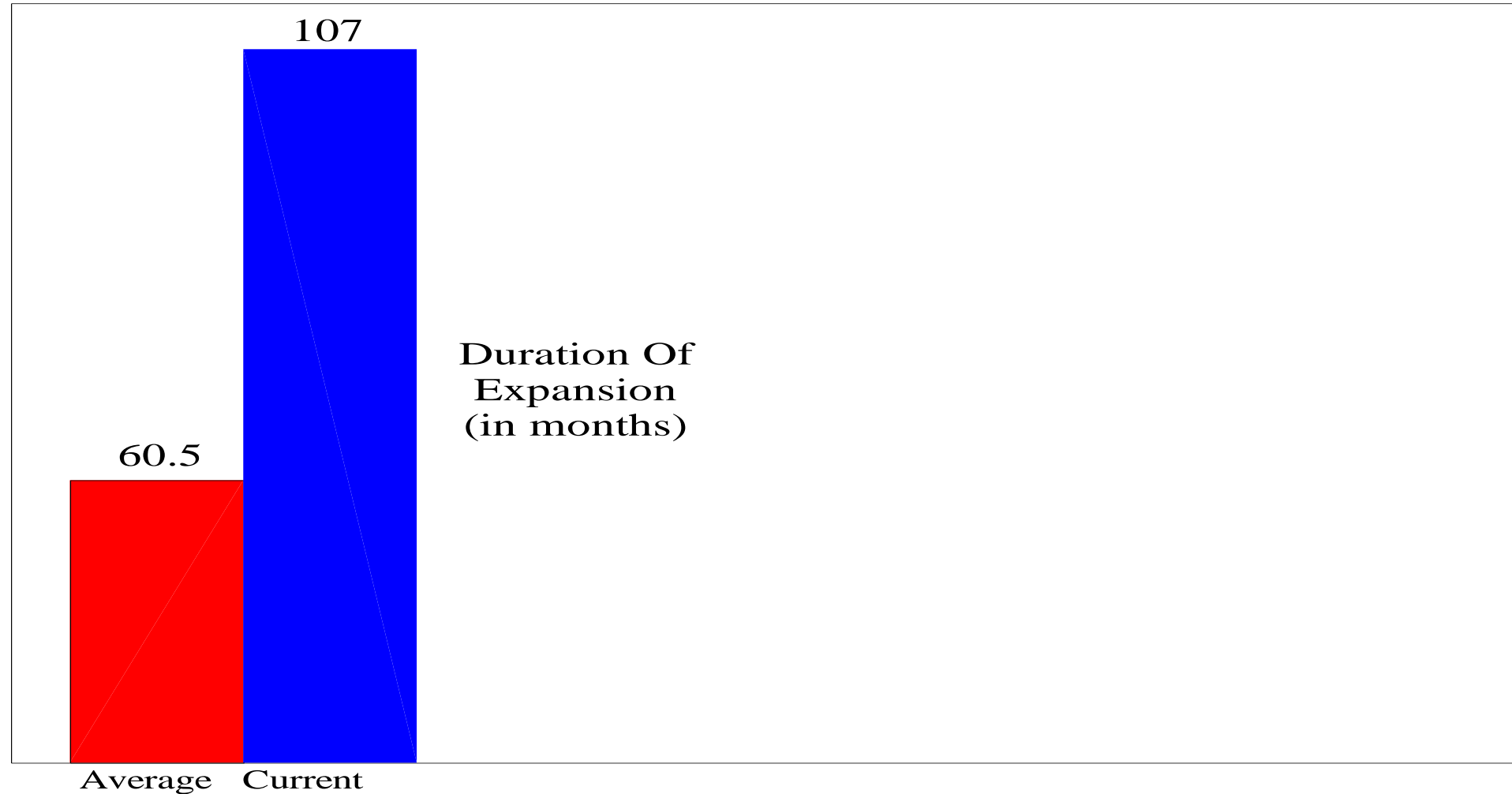
Fiscal Policy Provides Near-term Jolt to Growth

Jared S. Franz, PhD
Economist

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How Old Is the Current Expansion, Really?

Measured using duration, it is quite old



Source: BEA, CG calculations

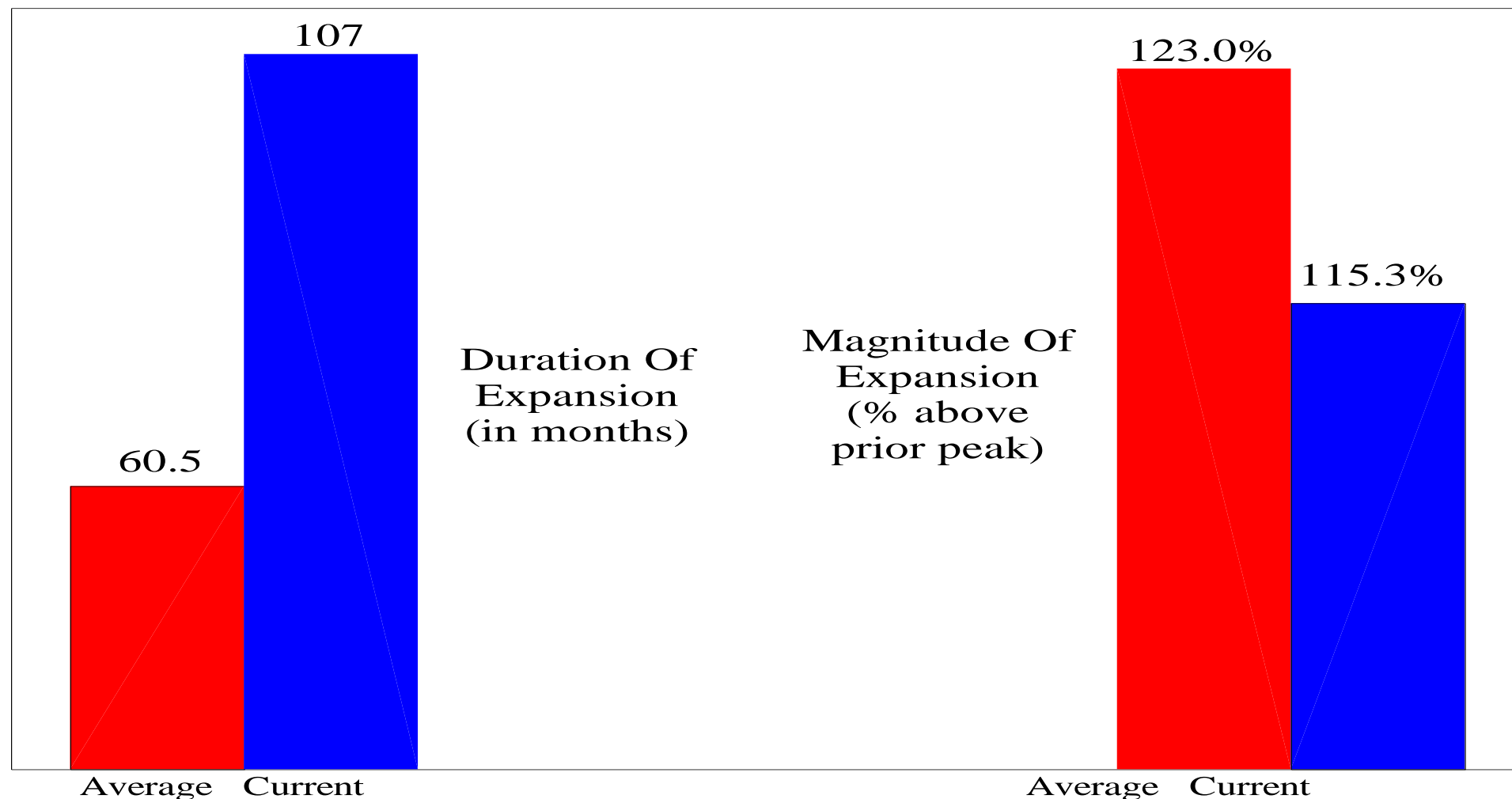
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How Old Is the Current Expansion, Really?

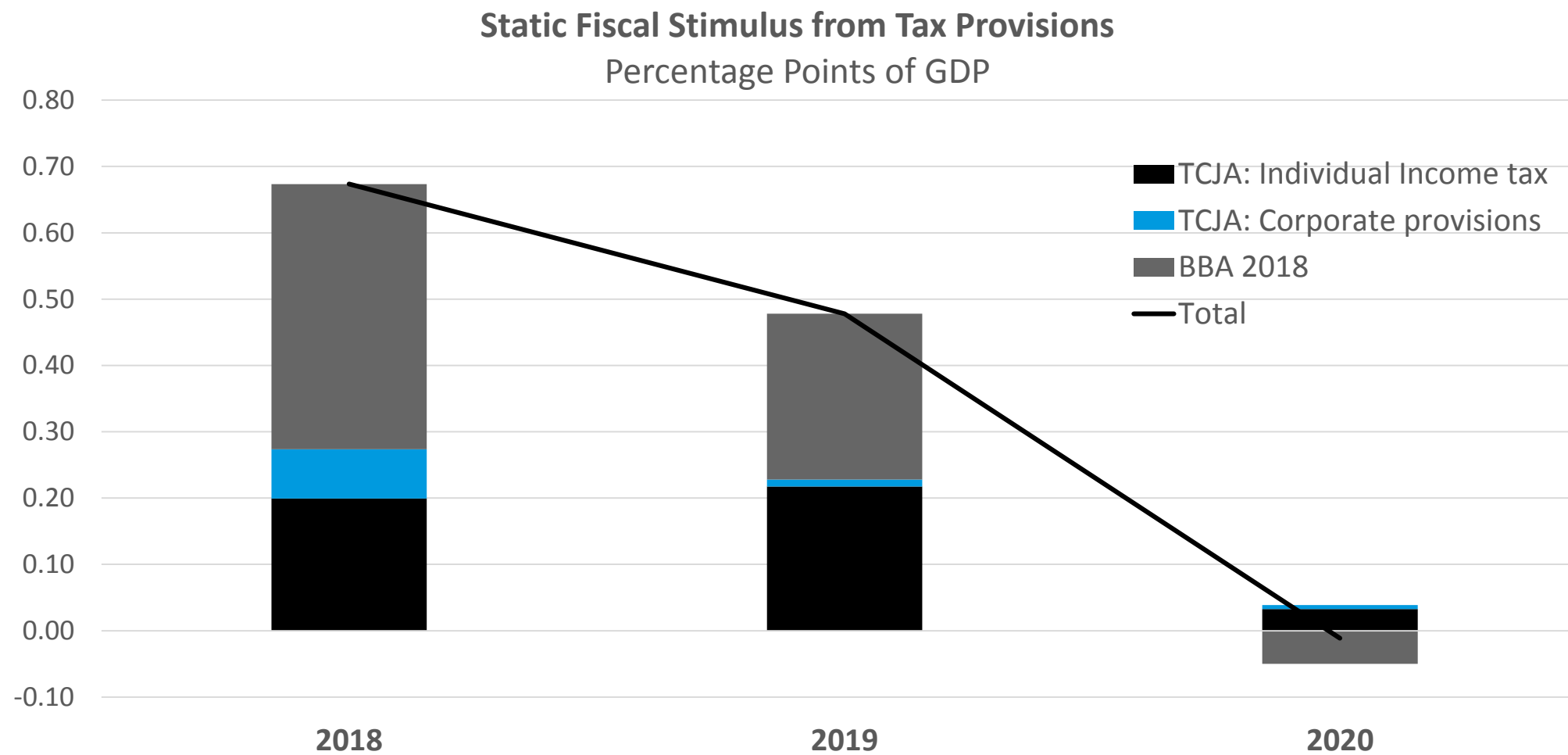
But measured using magnitude, it is just past middle-aged



Source: BEA, CG calculations

Near-Term Growth Boost from Fiscal Policy...

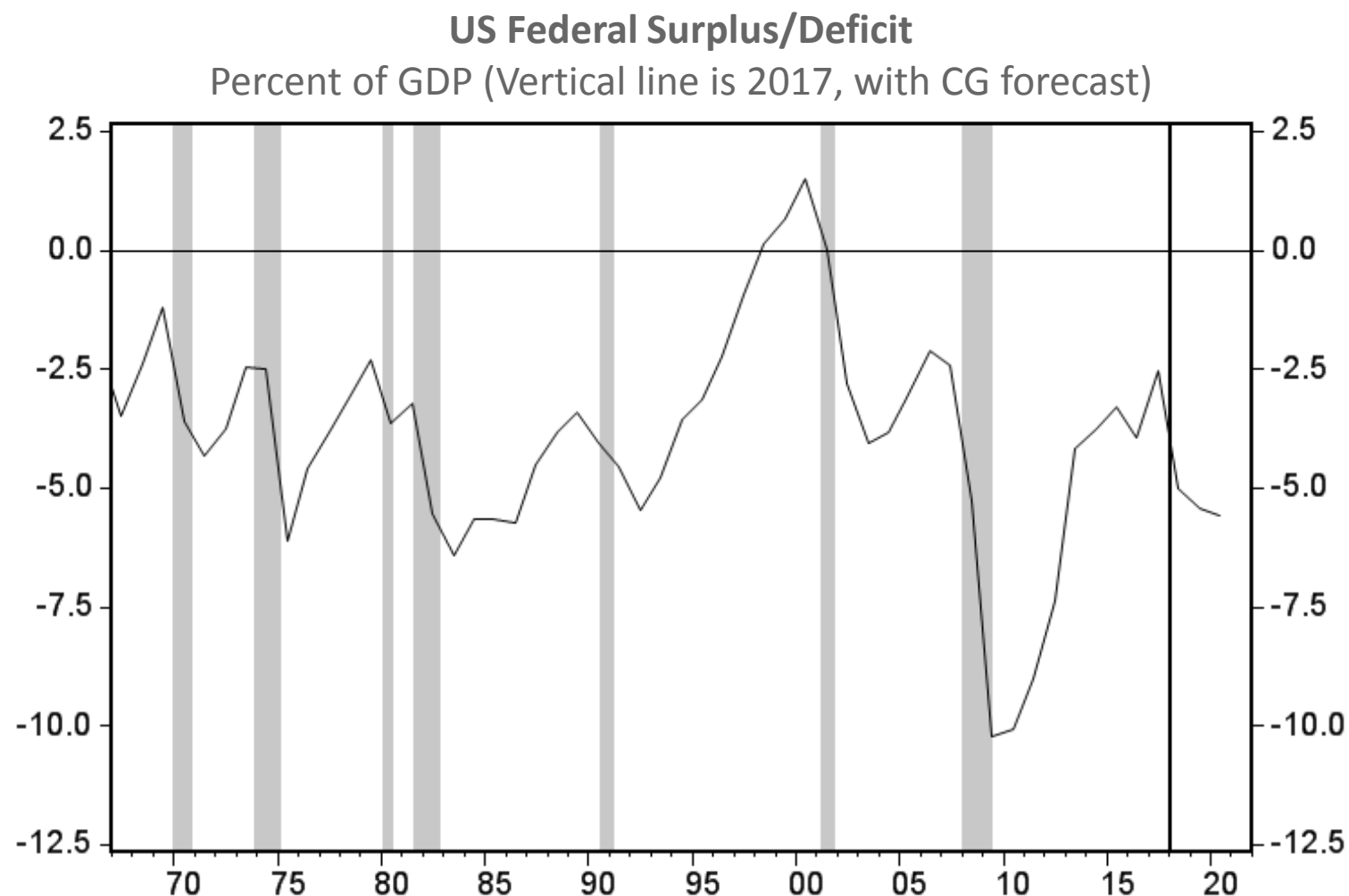
A meaningful acceleration in 2018



Source: CBO, Macroeconomic Advisers, CG calculations

...at the Expense of Fiscal Space

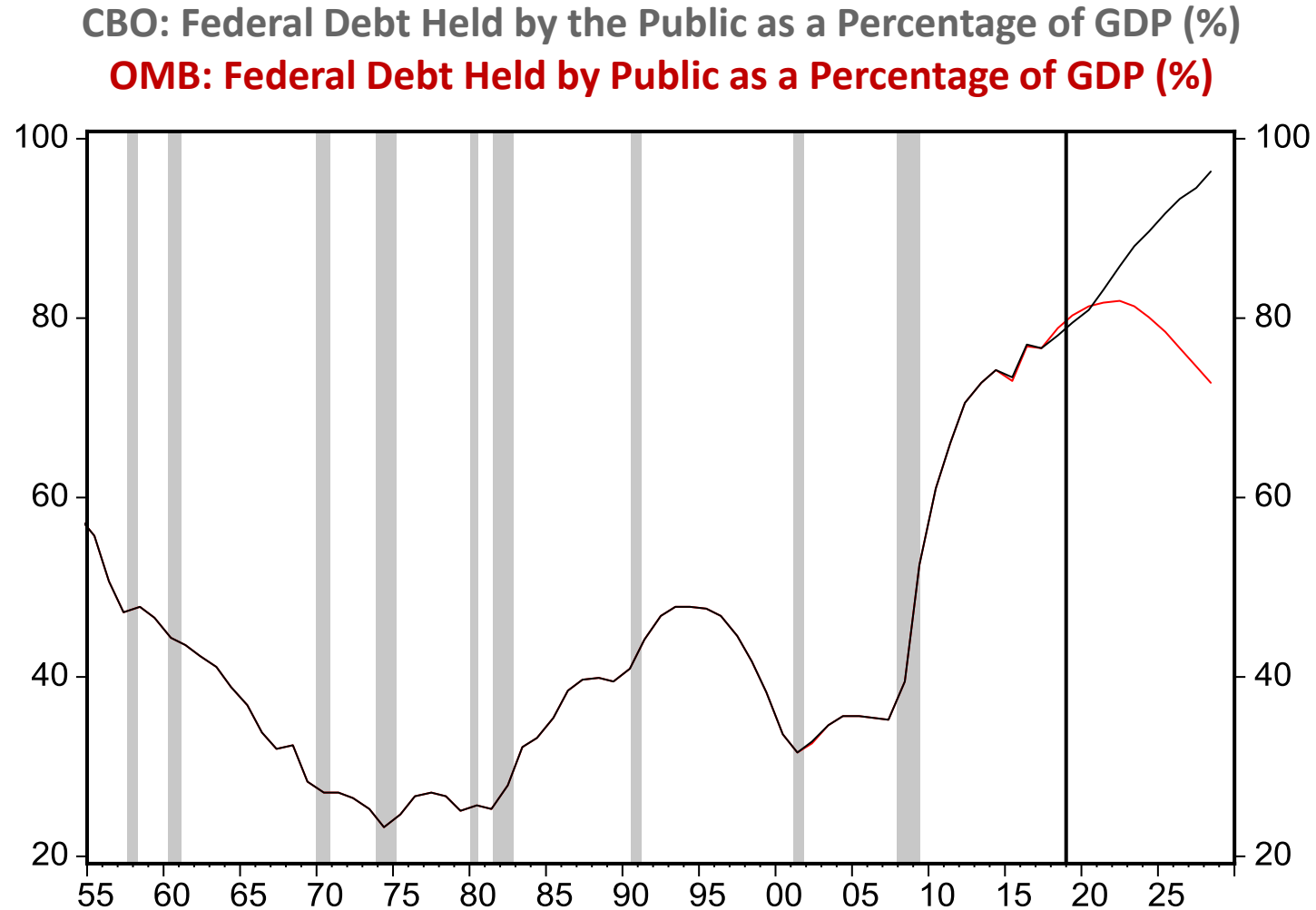
Fiscal deficits set to widen to -5.5% in 2020



Source: Haver, Macroeconomic Advisers, CG calculations

But Differing Views on Debt Trajectory

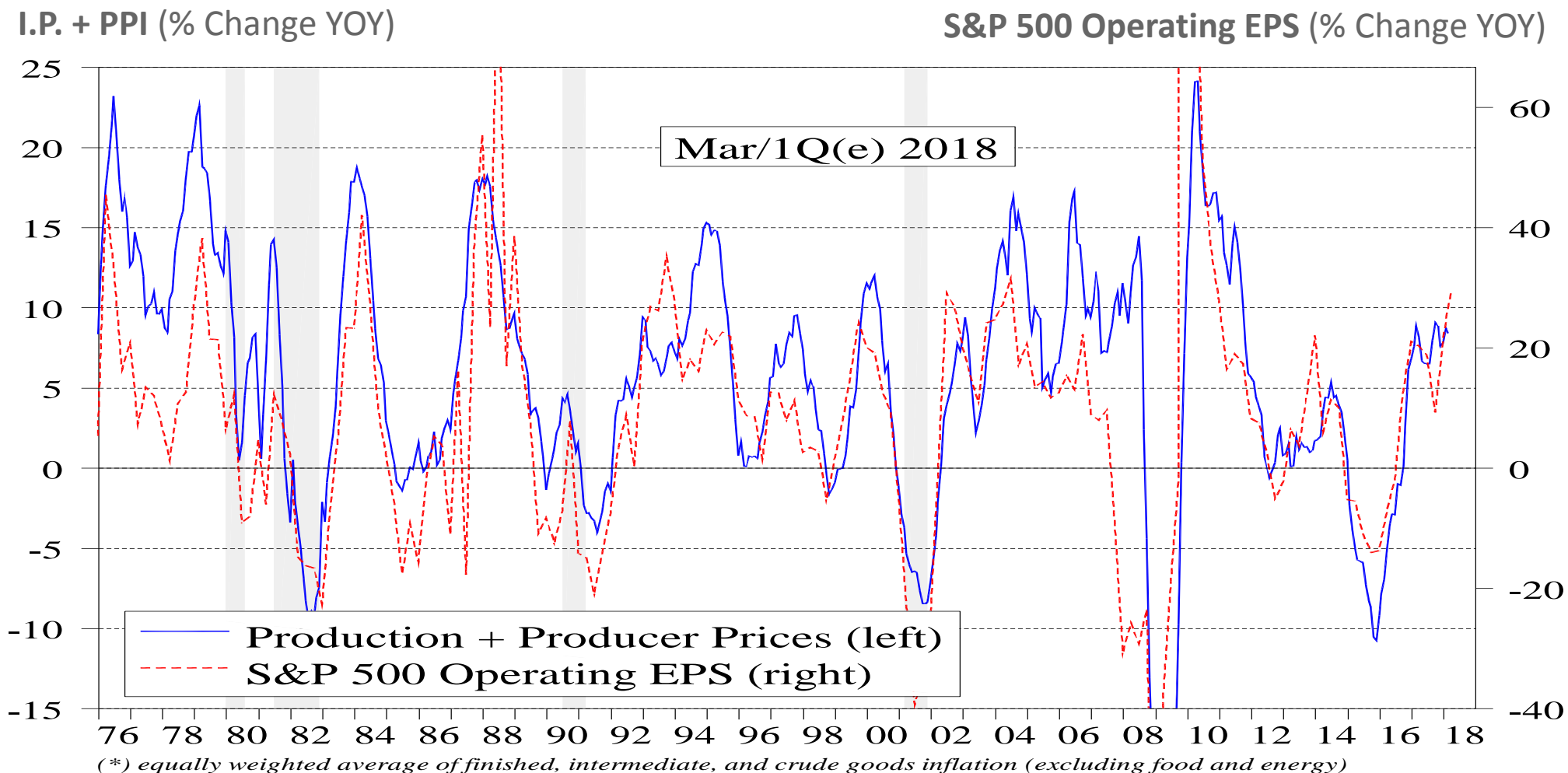
Near-term deficit boost growth to above 3% in OMB forecast, not so from CBO



Source: CBO, OMB, Haver, Capital Strategy Research

Corporate Earnings Should Grow Solidly in 2018

Economic conditions alone suggest +15% growth; tax cuts will add more



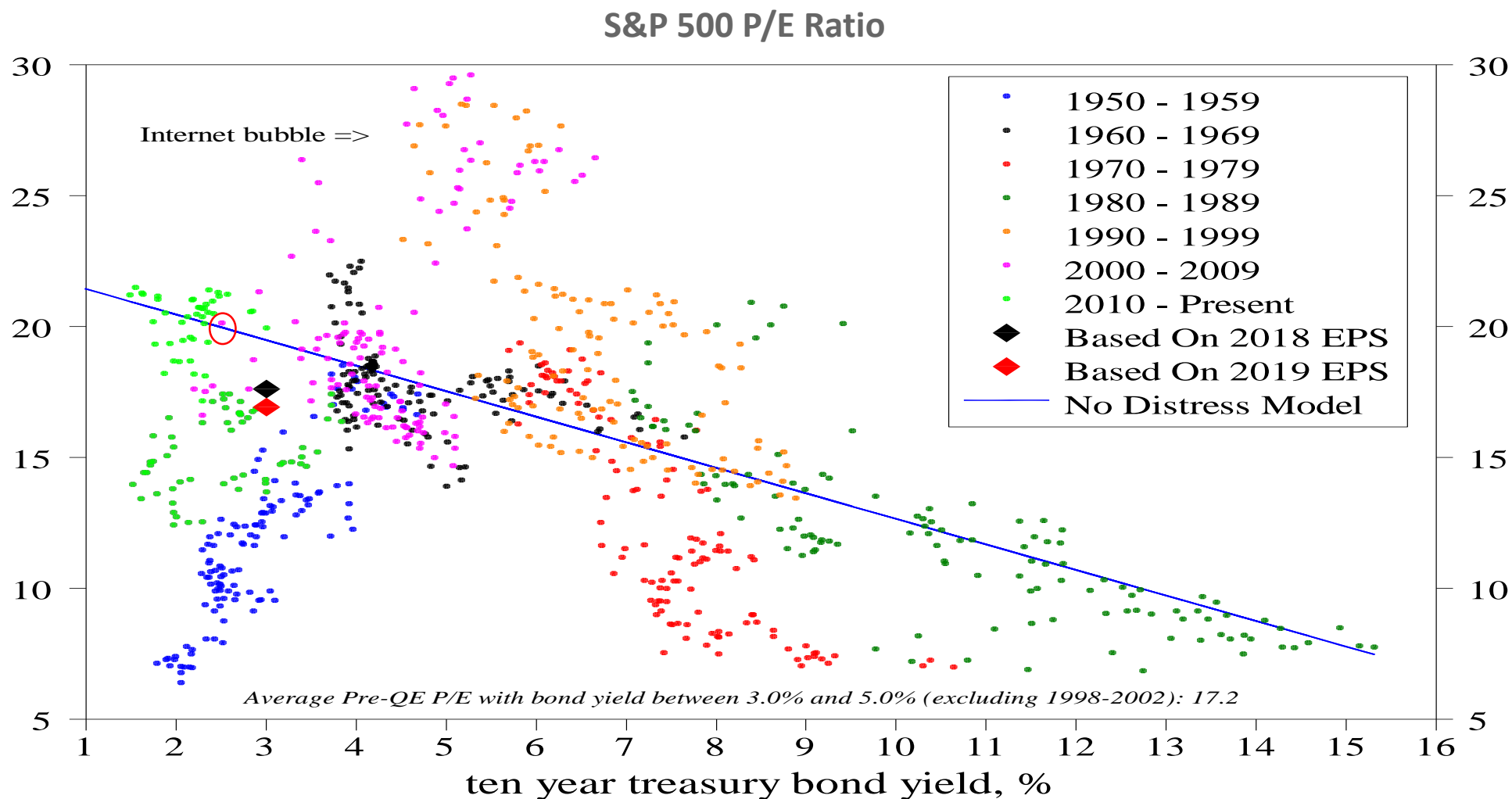
Source: BLS, Federal Reserve, S&P

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Equity Market Valuations Remain High

Solid EPS growth will help, but the market may still move sideways for some time



Source: S&P, Federal Reserve, CG Calculations

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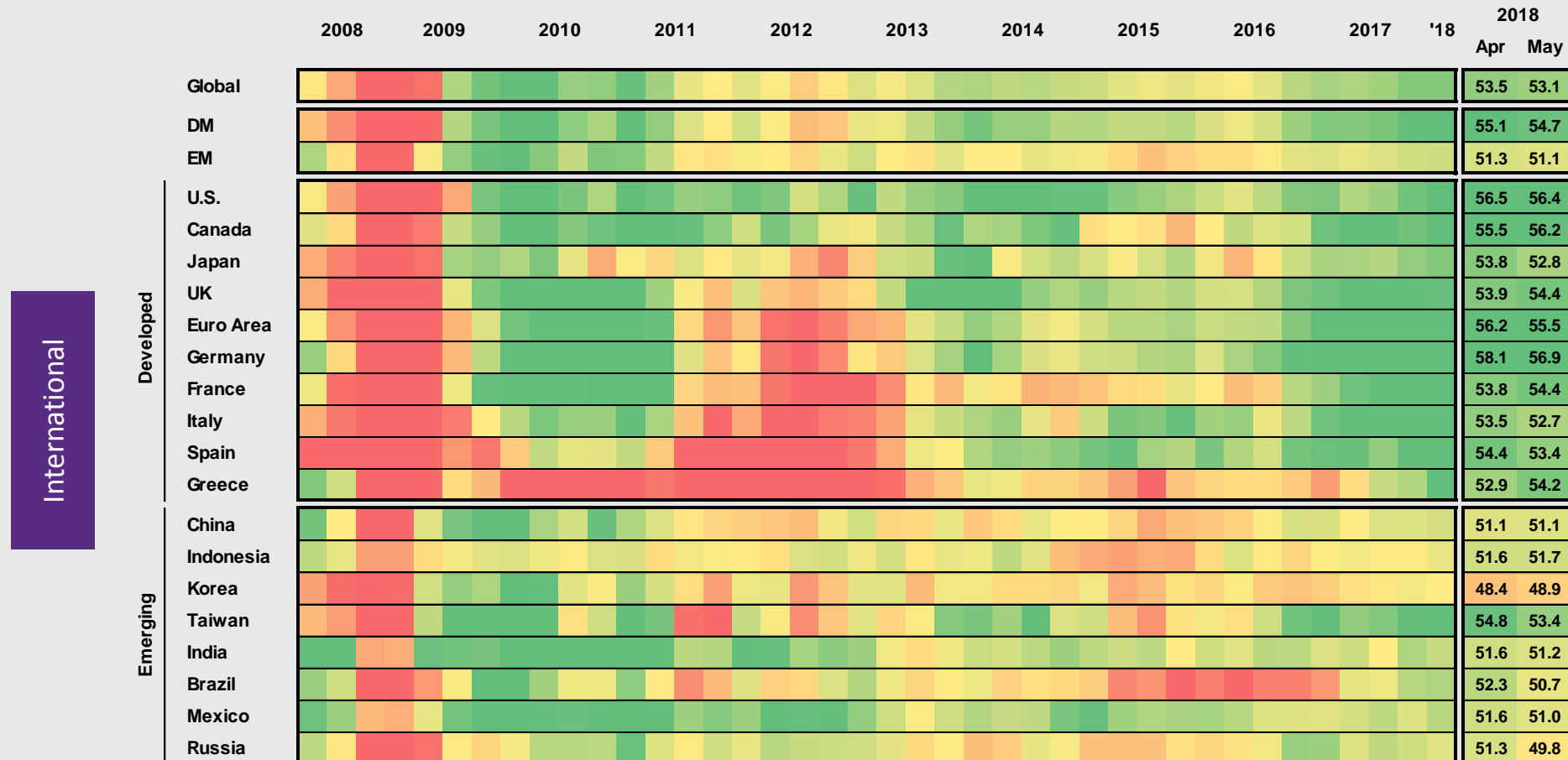
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Global Outlook

Alex Dryden
J.P. Morgan Asset Management



Global Purchasing Managers' Index for manufacturing, quarterly



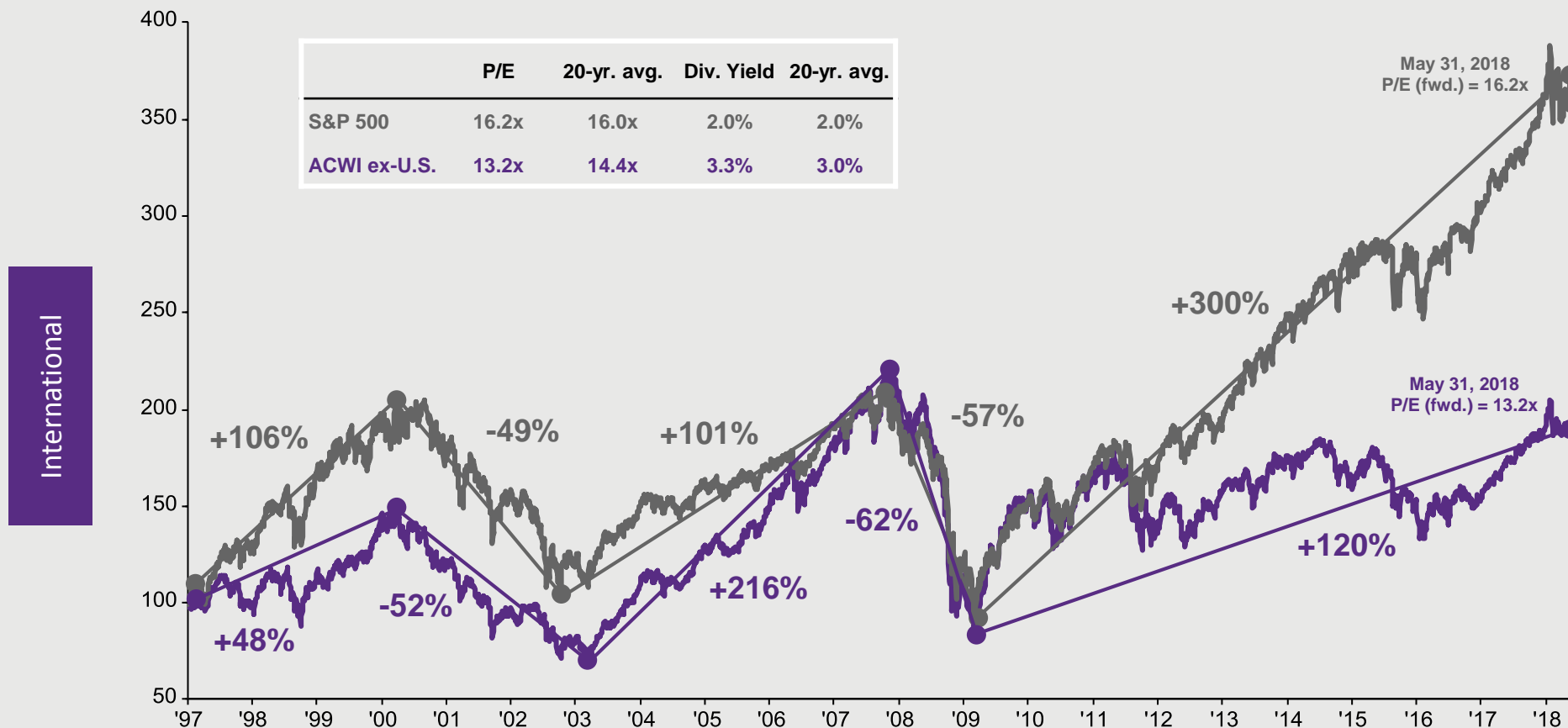
Source: Markit, J.P. Morgan Asset Management.

Heatmap colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown. Heat map is based on quarterly averages, with the exception of the two most recent figures, which are single month readings. Data for Canada, Indonesia and Mexico are back-tested and filled in from December 2007 to November 2010 for Canada and May 2011 for Indonesia and Mexico due to lack of existing PMI figures for these countries. DM and EM represent developed markets and emerging markets, respectively. Past performance is not a reliable indicator of current and future results.

Guide to the Markets – U.S. Data are as of May 31, 2018.

MSCI All Country World ex-U.S. and S&P 500 Index

Dec. 1996 = 100, U.S. dollar, price return



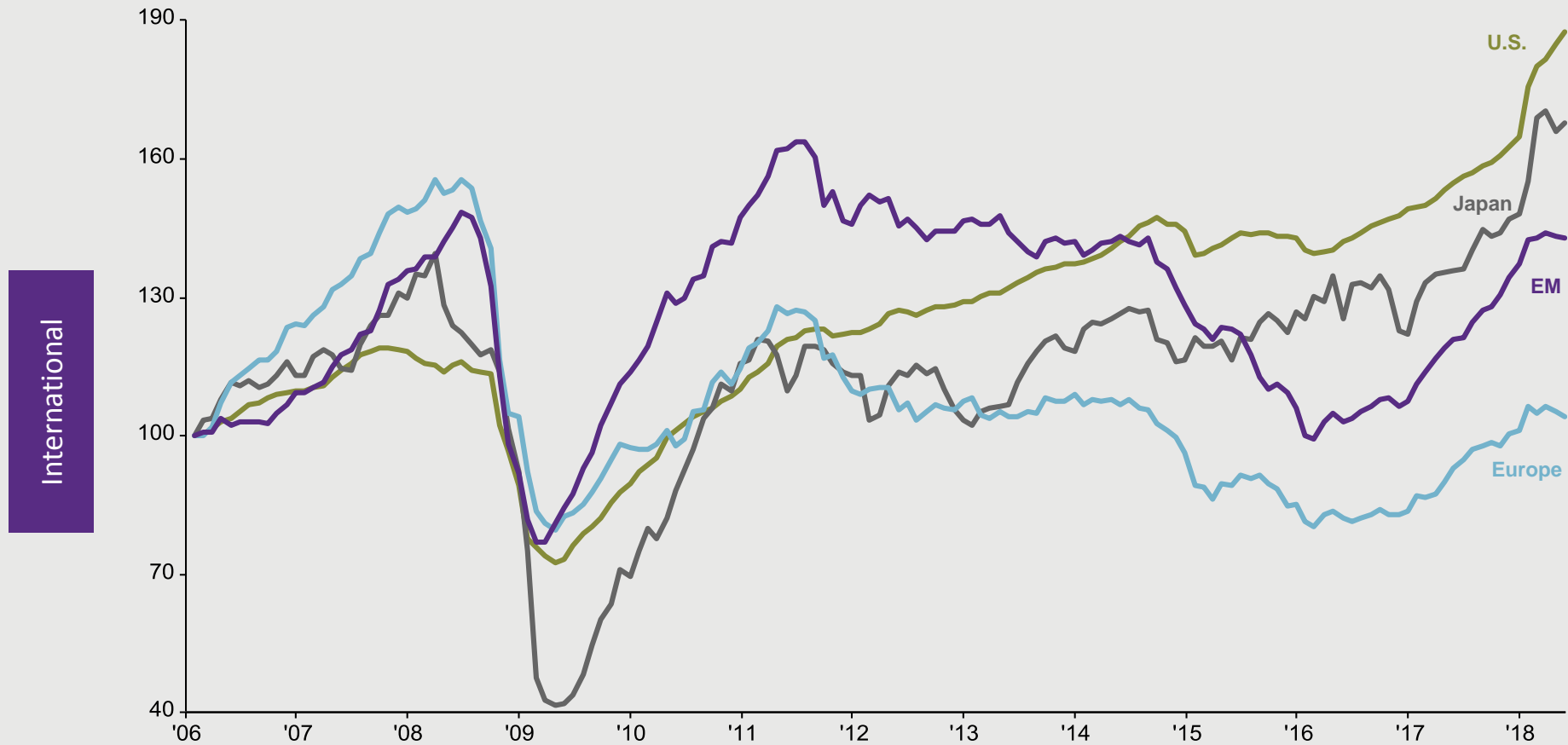
Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.

Forward price to earnings ratio is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on price movement only, and do not include the reinvestment of dividends. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by FactSet Market Aggregates. Past performance is not a reliable indicator of current and future results.

Guide to the Markets – U.S. Data are as of May 31, 2018.

Global earnings

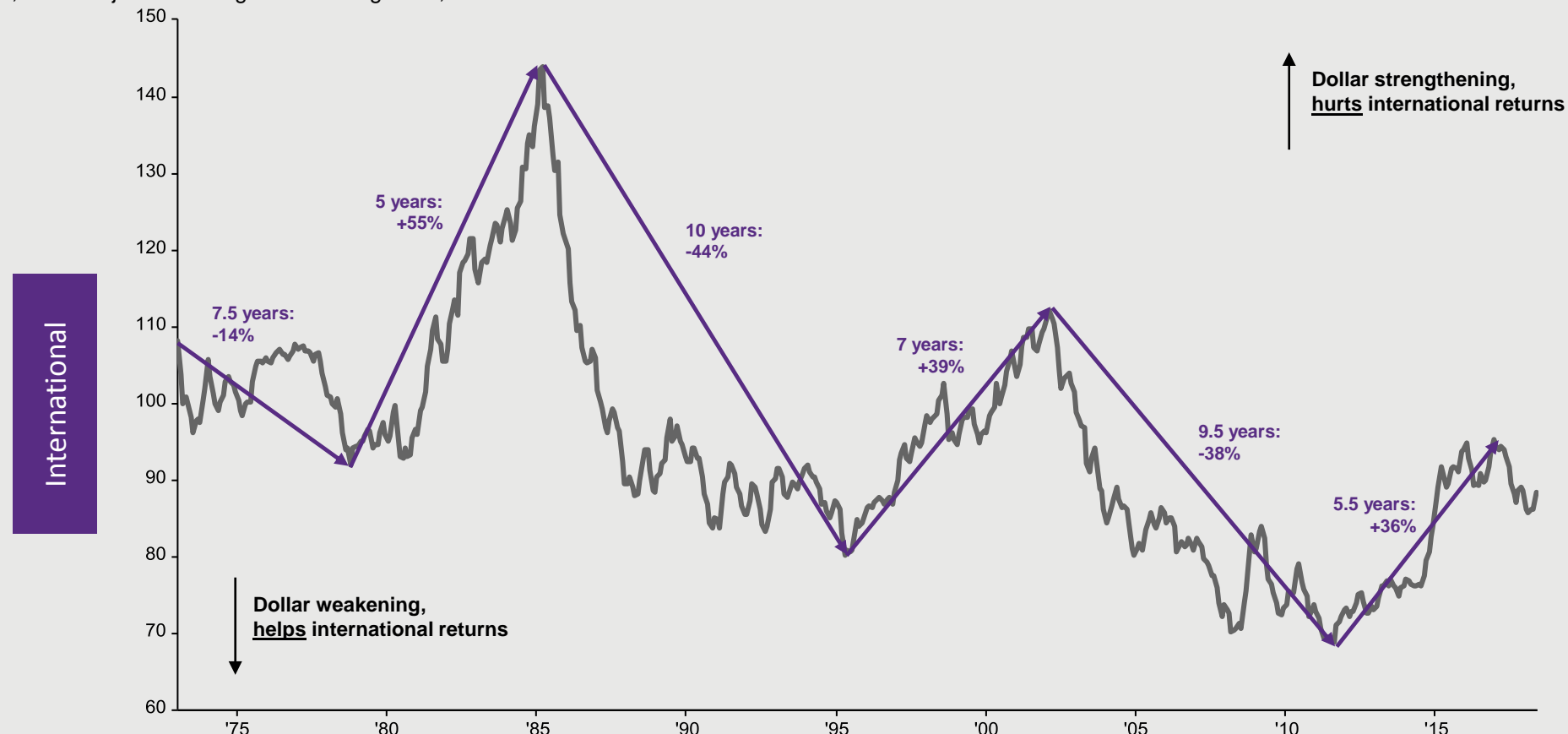
EPS, U.S. dollar, next 12 months, Jan. 2006 = 100



Source: FactSet, MSCI, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of May 31, 2018.

U.S. dollar in historical perspective

Index level, nom. major trade-weighted exchange rate, Mar. 1973=100



Source: FactSet, J.P. Morgan Asset Management; (Left) Federal Reserve; (Right) MSCI.

Currencies in the nominal major trade-weighted U.S. dollar index are: Australian dollar, British pound, Canadian dollar, euro, Japanese yen, Swedish krona and Swiss franc. Past performance is not a reliable indicator of current and future results.

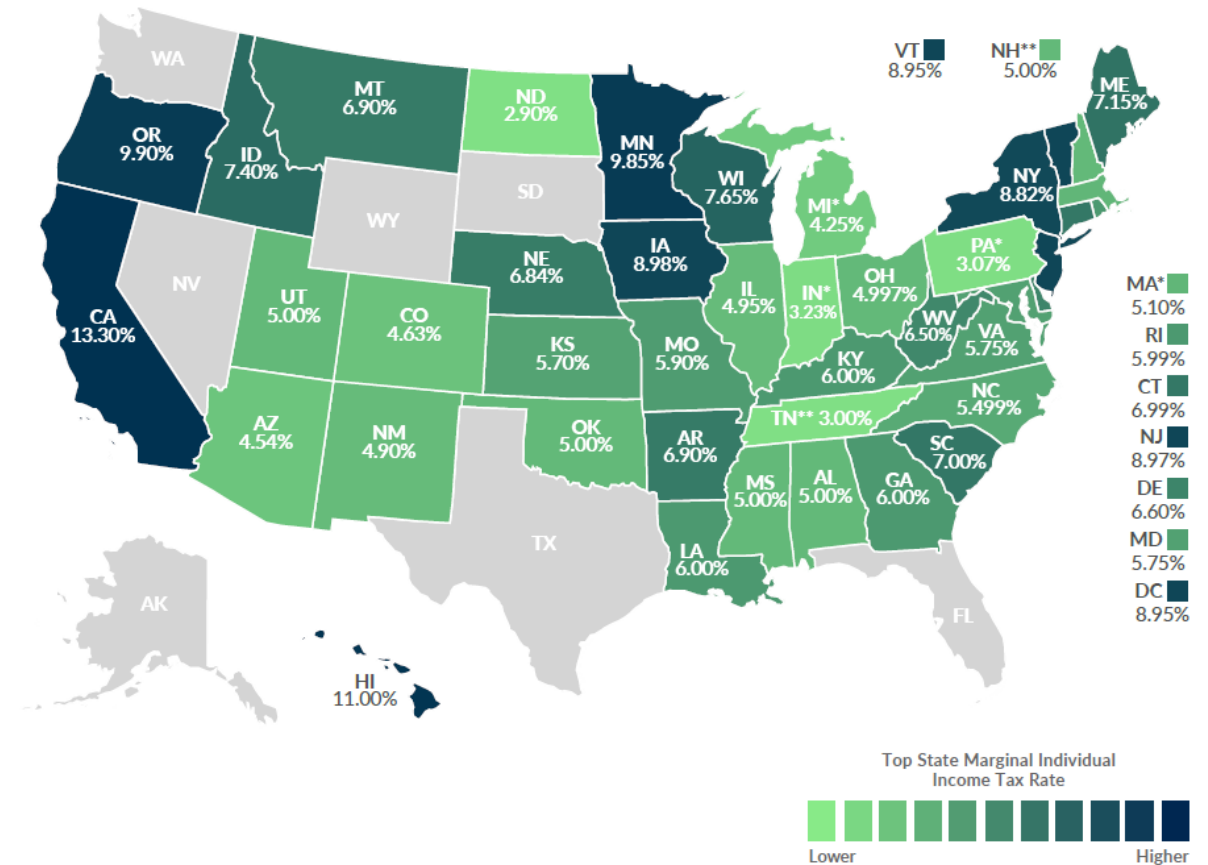
Guide to the Markets – U.S. Data are as of April 30, 2018.

Summary and Questions



Summary and Key Takeaways

- Significant unknowns about the short- and long-term implications
- Prepare clients for some rotation in the equity markets
 - Potential volatility
 - Somewhat higher turnover
- More personalization needed for effective tax-management
 - Clients from high-tax vs. low-tax states



* State has flat income tax. ** State only taxes interest and dividends income. Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included. Source: Tax Foundation, state tax statutes, forms, and instructions; Bloomberg BNA.

Questions?



More insights available at assetmark.com/gettaxsmart.

Contact us at **844-540-0972** or reach out to your AssetMark Consultant.



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