

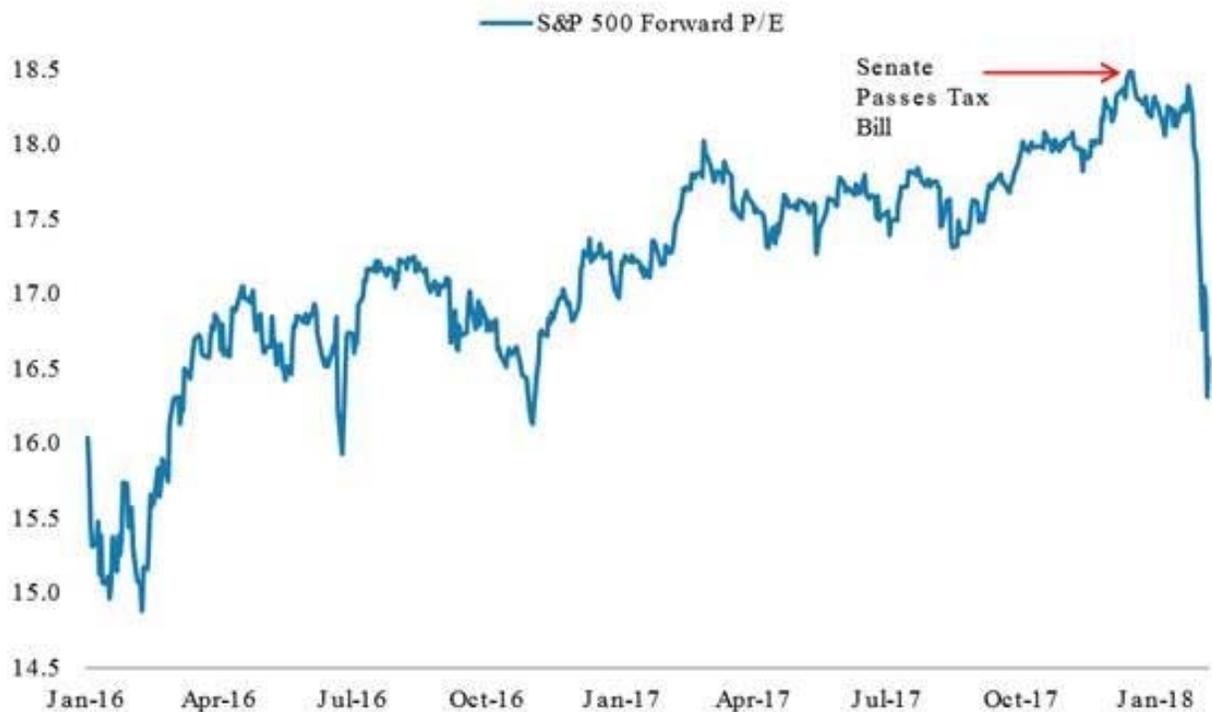
# P/E Tailwind Is Over; Time To Pick Stocks

Dear Clients and Friends:

Thank you to our friends at Morgan Stanley (MS) who published the following chart depicting the recent decline in the forward P/E Ratio of the S&P 500 Index. MS Strategist Mike Wilson believes the P/E cycle high has been reached and that future index moves will come from a combination of higher earnings per share (EPS) and lower multiples. If that is the case—which we believe—then attractive equity returns will have to come from active stock picking. In summary, the absence of a multiple tailwind means the easy money has been made and passive equity index outperformance has likely peaked.

## Chart: S&P 500 Index Forward Price-to-Earnings Ratio

**Exhibit 2: US Equity Market P/E Multiples Peaked on December 18 - The Day Before Senate Passed Tax Bill**



Source: Bloomberg, Morgan Stanley Research.

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