Morgan Stanley

WEALTH MANAGEMENT

INVESTMENT STRATEGY

Global Investment Committee | April 07, 2025

The GIC Weekly

Tariffs: Firing the "Bazooka" Into the Dark

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Upcoming Catalysts

April 08

NFIB Small Business Optimism

April 09

Japan PPI

China CPI

April 10

US Consumer Price Index

Initial jobless claims

Real average weekly earnings

Continuing claims

April 11

US Producer Price Index

Univ. of Michigan Consumer Sentiment Survey

At face value, the announced "Liberation Day" tariffs increase the effective rate on imports to as much as 17%–22%, the highest in history. If we knew this was the end game, we would be aggressively selling equities and calling for a recession-induced bear market. In fact, our new 2025 base case does reflect deterioration, with recession and stagflation odds rising and soft-landing prospects falling. While earnings are also at risk, the problem with "making the call" right now is that there is time before implementation on April 9, and the administration appears open to bilateral negotiations. We also don't yet fully understand the end game, as maximum revenue collection, reshoring investment and leveling the playing field for US exporters are mutually exclusive. We are convinced that for the average consumer, inflation and demand disruption outweigh any immediate opportunities for new middle-class jobs. That said, with at least a 50% chance that policy will change in the next 90 days, we are taking a wait-and-see approach. **Consider** avoiding panic, while adding excess reserves to ultrashort and short-term fixed income and withholding rebalancing flows to global equities—other than to Japan, which may benefit from inflows to the defensive yen. Now is a good time to add to private investments, and to real assets as an inflation hedge. While S&P 500 technicals are not pretty, long-term investors should consider 5,100–5,500 a defensible entry zone, with equal weighting still preferred.

Following the technical 10%-plus correction in the S&P 500 Index from the Feb. 19 all-time high, the "Magnificent Seven's" near-bear market decline and an index round trip to pre-election levels, equities have been hit hard again. Rather than being a market-clearing event that would provide the certainty many hoped for, Liberation Day revealed a worst-case reciprocal-tariff scenario. Import duties rose from roughly 3% to levels, that if implemented as announced, would bring them to roughly 17% to 22%, the highest in US history and more draconian than those of the 1930s Smoot-Hawley era (see *Chart of the Week*). The baseline announcement was for 10% universal tariffs, but then came the country-specific additions to those placed on our largest trade partners: 54% on China, 24% on Japan, 20% on the European Union (EU) and an ongoing 25% on Canada and Mexico for items not covered in the United States-Mexico-Canada Agreement. At least two other attributes created additional uncertainty. First was how tariffs are calculated—factoring in unfair trade practices, value-added taxes (VATs) and currency intervention. Second was whether they would actually take effect or simply be the opening gambit for negotiations.

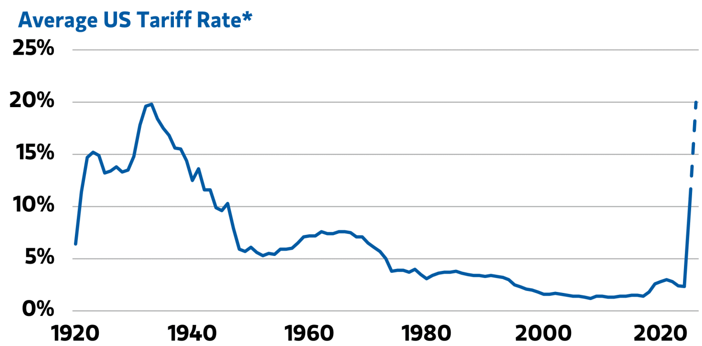
Market reactions were instantaneous, with major US equity indexes down approximately an additional 5% to 7% on Thursday and US Treasury yields falling sharply on lower real-growth estimates, as the two-year and 10-year yields both fell sharply from the prior day. Reduced growth expectations are being incorporated into economists' GDP estimates, which had already fallen from more than 2.0% growth to close to 1.5% and are now being adjusted to around 0.5% to 0.8% over the next several quarters. Critically, however, corporate earnings estimates have yet to be recalibrated. At the same time, inflation expectations are rising, with many economists noting that, if fully executed, the tariffs could add as much as 2.0 to 2.5 percentage points to inflation, taking readings close to 5%—a level that would box the Federal Reserve out from responding, barring a recession. All told, in our view, the odds of a US recession are now up from 25% to 40%, and those for stagflation to 30%, while prospects for a soft landing, our base case, are down to 30%. Morgan Stanley & Co.'s US Economics team has removed its forecast for one Fed rate cut by June and now estimates none for 2025, given concerns about stagflation. Meanwhile, fed funds futures are pricing close to four cuts, a scenario likely embedding recession with a major pickup in unemployment.

The problem for the GIC in "making the call" now is that a lot can still change, and objectives remain unclear. Implementation beyond the 10% that went into effect on Thursday is set for April 9, leaving time for negotiating, and it appears that the administration is open to bilateral talks. In fact, news headlines indicate that Brazil, India, the EU and Israel are already making gestures to negotiate. Our additional struggle is that administration goals are both opaque and mutually exclusive. Are we trying to 1) generate revenues to fund tax cuts; 2) incent onshoring; or 3) open global markets for US exporters? In the first case, if the goal is truly to generate revenues for the purpose of funding tax cuts, who will pay the tariffs? It will either be consumers via higher prices, global corporations via lower profit margins or some combination of the two. In almost every scenario, we anticipate S&P 500 2025 earnings forecasts being cut to a range of $255–$260 per share, likely anchoring index trading around 5,500, plus or minus 5%. The second potential goal—incentivizing onshoring of manufacturing facilities—would take months, if not years, to take effect, and results would likely disappoint in terms of ultimate job creation. Finally, there's the potential goal of curing the trade deficit by opening global markets to US exporters. That setup, whereby the US could fully exploit globalization with no barriers, is the most bullish for corporate earnings. While they would indirectly fund deficit reduction through higher tax revenues, the scenario would require major local concessions from allies and counterparties, with high political prices.

Bottom Line. Liberation Day announcements are forcing investors to acknowledge expectations for lower growth and higher inflation, with tariff-related price increases potentially taking inflation to 5%. With inflation that high, the Fed is unlikely to cut rates absent soaring unemployment. A secondary concern is that if inflation gains are muted because tariffs are not being fully passed on to consumers, profit margins will take the hit. We now see earnings declining further, likely keeping the S&P 500 in approximately a 5,100–5,900 zone. Perhaps the most frustrating thing, however, is that tariffs are a moving target with uncertain objectives. Revenue-generation goals suggest narrow negotiating room and long-lived programs. Incentivization of reshoring comes with a long timeline and probably disappointing job creation, given manufacturing automation. And if the end game is to open markets to more US exports, that could require complex concessions from counterparties. This administration has conditioned us to assume 50% odds that things will change in a week or two. Be patient, vigilant and diversified. **Watch** timing of tariff "walk backs" for a sense of recession odds; the longer they drag on, the worse it is. **Consider** avoiding panic, while adding excess reserves to ultrashort and short-term fixed income and withholding rebalancing flows to global equities —other than to Japan, which may benefit from inflows to the defensive yen. Now is a good time to add to private investments, and to real assets as an inflation hedge. While S&P 500 technicals are not pretty, long-term investors should consider 5,100–5,500 a defensible entry zone, with equal weighting still preferred.

Chart of the Week: Tariff Levels Revisit Smoot-Hawley

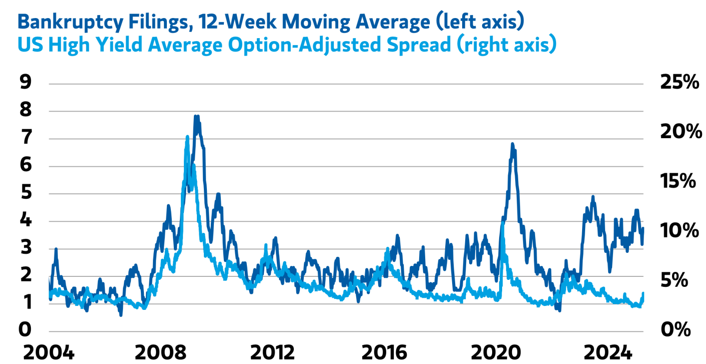
Most investors expected that Liberation Day would produce a 10% universal tariff, with reciprocal tariffs—coming on the heels of previously announced actions on autos and steel, and threats around semiconductors and pharmaceuticals—having a minor incremental impact. But the administration in Washington negatively surprised global investors, returning aggregate tariffs to a range close to 20%–22%, in line with peak Smoot-Hawley rates in the 1930s. While this may simply be the opening gambit for negotiations, as many hope, this level of regressive taxation threatens lower growth and higher inflation, at least in the short run. Expect corporate earnings forecasts to come down as we navigate disruption.



*Dashed line shows estimate. Source: Bloomberg as of April 4, 2025

Fixed Income Insight: High Yield Bond Spreads Finally Cracking?

For most of the past cycle, high yield spreads have remained resilient, reflecting disciplined issuance, better balance sheet quality and cash flow stability, and economic momentum. That spread stability has markedly contrasted with the weakening financial fortunes of small-cap equities, with which they are often correlated. It has also contrasted with the level of bankruptcies, which have risen meaningfully and are typically associated with widening spreads. But last week's Liberation Day tariff shocks have raised consensus expectations around recession odds, and spreads have finally started to increase—up 50 basis points on an option-adjusted basis according to Bloomberg indexes. At approximately 385 basis points, this bears watching, as spreads above 400 basis points have historically been associated with earnings recessions.



Note: Bankruptcy data is for US companies with liabilities of at least $50 million. Source: Bloomberg as of April 3, 2025

Market Factor Data Points (for the week ending April 4, 2025)

Report	Period	Consensus	Actual	Prior	Trend
US construction spending	Feb. '25	0.3%	0.7%	-0.5%	↑
US JOLTS Survey	Feb. '25	7,658,000	7,568,000	7,762,000	↓
ISM Manufacturing Index	Mar. '25	49.5	49.0	50.3	↓
ADP National Employment Report	Mar. '25	120,000	155,000	84,000	↑
US initial jobless claims	Wk. of Mar. 29	225,000	219,000	225,000	↓
US continuing claims	Wk. of Mar. 22	1,870,000	1,903,000	1,847,000	↑
ISM Services Survey	Mar. '25	52.9	50.8	53.5	↓
US nonfarm payrolls	Mar. '25	140,000	228,000	117,000	↑
US unemployment rate	Mar. '25	4.1%	4.2%	4.1%	↑
US average hourly earnings	Mar. '25	0.3%	0.3%	0.2%	↑
US labor force participation rate	Mar. '25	62.4%	62.5%	62.4%	↑

Color coding shows how actual data compares with consensus estimates. Green implies better than expected, red implies worse than expected. Trend shows the one-period change between actual and prior reports. Source: Morgan Stanley Wealth Management GIC

Macro Factor Heat Map (as of April 4, 2025)

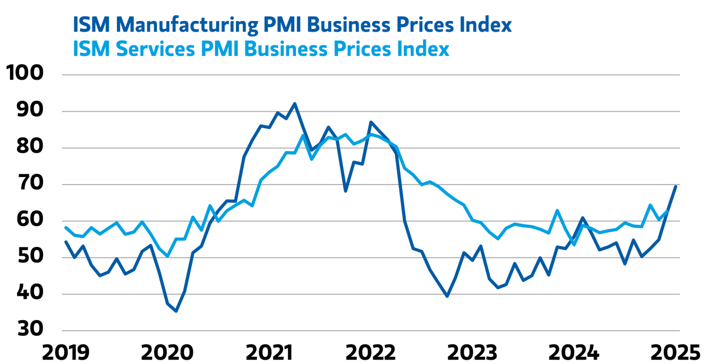
	Economic Growth	Rates	Inflation / Deflation	Liquidity	Sentiment And Risk	Valuation	Earnings	GIC Conclusion
Europe	↑	↑	↑	↑	↓ Increasing Sentiment	↑ Decreasing P/E Ratio	↑	Inflation Threat Has Abated
China	↑	↓	↓ Decreasing CPI	↓	↓	↑	↓	Recent Stimulus Should Help Markets Rebound
Japan	↑	↑	↑	↓	↓	↓ Decreasing P/E Ratio	↓	Fundamentals Improving on Margins With Inflation at Decade Highs
Brazil	↓	↓	↑	↑	↓	↑	↑	Weak FX and De-anchored Inflation Expectations Should Lead to More Rate Hikes

Risk Asset Positive	Neutral	Risk Asset Negative

Note: Text in a factor box denotes a color; In Europe, Sentiment and Risk increased from Risk Off to Neutral due to increasing investor sentiment. Moreover, Valuation increased from Risk Off to Neutral due to a decrease price/earnings ratio; In China, Inflation/Deflation fell from Neutral to Risk Off due to the most recent reading at deflationary levels; In Japan, Valuation increased from Neutral to Risk On due to a decreasing price/earnings ratio; for further explanation of the chart, see page 10.
Source: Morgan Stanley Wealth Management GIC

Charts in Focus: Inflation Update

Surveys Point to Higher Prices for Businesses

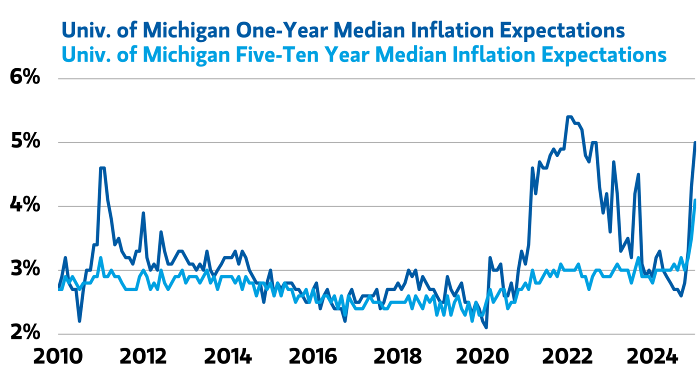


Source: Bloomberg as of March 31, 2025

Inflation Swaps Have Ticked Up Recently

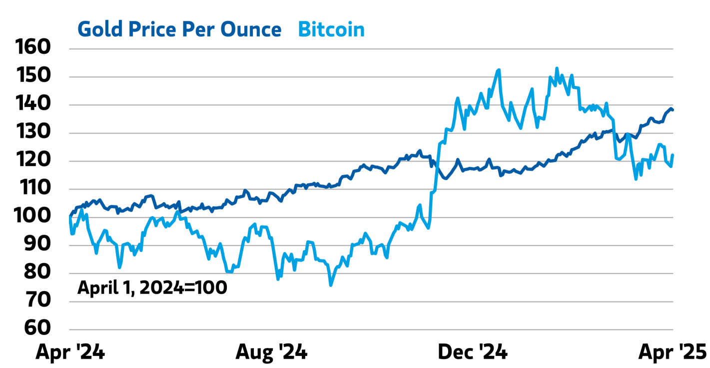
Source: Bloomberg as of April 1, 2025

Consumer Inflation Expectations Have Jumped



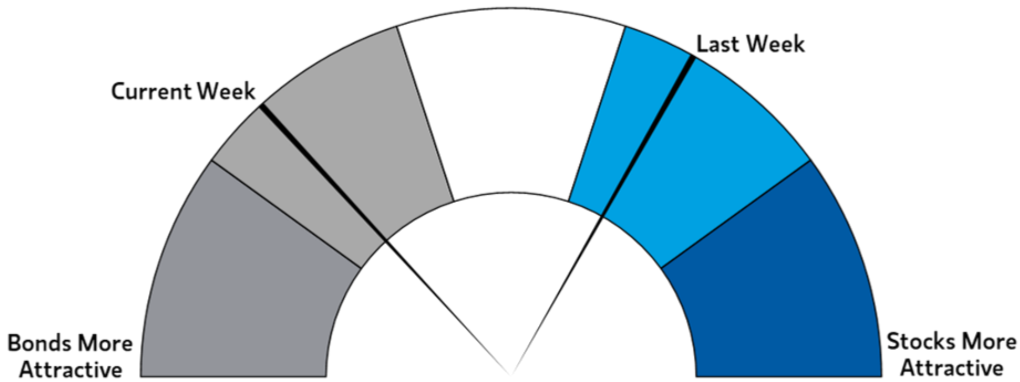
Source: Bloomberg as of March 31, 2025

Gold Has Surpassed Bitcoin Amid "Flight to Safety"



Source: Bloomberg as of April 1, 2025

Short-Term Stock and Bond Indicator



	MACRO		POLICY		FUNDAMENTALS		SENTIMENT & TECHNICALS	
	Growth	Inflation	Rates	Liquidity	Valuation & Market	Earnings	Sentiment	Technicals
Current	Neutral	Very Negative	Neutral	Very Negative	Neutral	Neutral	Neutral	Neutral
Last Week	Very Positive	Neutral	Neutral	Neutral	Very Negative	Neutral	Very Positive	Neutral

CATEGORY	INDICATOR	READING
Growth	PMI (+)	Neutral
	Durable Goods (+)	Neutral
	Retail Sales (+)	Neutral
	Manufacturing Hours Worked (+)	Neutral
Inflation	Commodity Prices (+)	Risk Off
Rates	Yield Curve: 10-Yr./Three-Mo.(+)	Risk Off
	Yield Curve: Two-Yr./Three-Mo.(+)	Risk Off
	Pace of Interest Rate Hikes (+)	Risk Off
	Term Premium Model (+)	Risk On
Liquidity	High Yield Spreads (-)	Risk Off
	Investment Grade Spreads (-)	Neutral
	Financial Conditions (+)	Risk Off
Valuation & Market Behavior	S&P 500 Earnings/Baa Yield (+)	Risk Off
	Large vs. Small Performance (-)	Risk On
	High- vs. Low-Quality Performance (-)	Neutral
	High- vs. Low-Beta Performance (+)	Risk Off
	S&P 500 Forward Price/Earnings Ratio (+)	Risk Off
Earnings	Earnings Revisions Breadth (+)	Neutral
Sentiment	Global Risk Demand (+)	Neutral
	Implied Currency Volatility (-)	Risk Off
	Five-Yr. Macro Sensitivity (-)	Risk On
Technicals	% Stocks Above 200-Day Moving Avg. (+)	Neutral
	Cumulative Advance/Decline (+)	Neutral
	S&P 500 Put/Call Ratio (-)	Risk Off
	Emerging Market Fund Flows (+)	Neutral
	Smart Money Flow Index (+)	Neutral

Note: + Indicates that a rise in the indicator is linked to a more favorable outlook for risk assets;
- indicates that a rise in the indicator is linked to a less favorable outlook for risk assets.
Color coding is set in accordance with the impact on risk assets.

Positive for Stocks Relative to Bonds
Neutral
Negative for Stocks Relative to Bonds

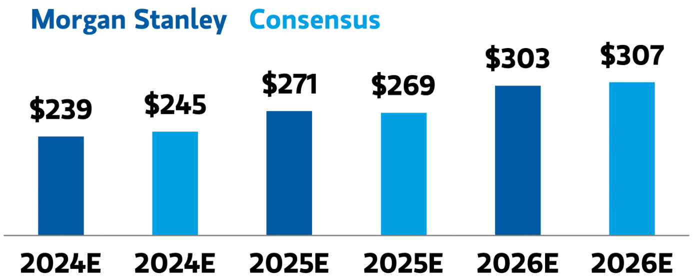
Note: Commodity prices are represented by the Bloomberg Commodity Index; pace of interest rate hikes by the Morgan Stanley Pace of Rate Hikes Index; high yield spreads by the Bloomberg Aggregate US High Yield Index; investment grade spreads by the Bloomberg US Aggregate Index; financial conditions by the Morgan Stanley Financial Conditions Index; global risk demand and implied currency volatility by the Morgan Stanley Standardized Global Risk Demand Index. For more information on our Term Premium Model, please refer to our special report, Using the Term Premium to Manage Portfolio Duration, March 2016. Earnings revisions breadth is defined as the number of positive analyst revisions minus the number of negative analyst revisions divided by the total number of revisions.
Source: Morgan Stanley Wealth Management GIC, Morgan Stanley & Co., Haver Analytics, Bloomberg, FactSet as of April 4, 2025

Asset Class Performance (as of April 4, 2025)

ASSET CLASS	ANNUALIZED RETURNS (%)							YIELD	VALUATION		VOLATILITY (%)		CORRELATION TO GLOBAL EQUITIES	
CASH	YTD	1-Yr	2024	3-Yr[1]	5-Yr[1]	10-Yr[1]	20-Yr[1]	Current YTM	Current YTM	Avg YTM[3]	30 Days	20 Yrs.[1]	30 Days	20 Yrs.[1]
90-Day US Treasury Bills	1.1	5.2	-	-	-	-	-	-	-	1.07	0.1	0.42	0.09	-
GLOBAL EQUITIES								Current Div. Yld.	Current P/E2	Avg. P/E3				
US Large-Cap Growth	-18.7	-0.6	33.4	10.1	20.1	15.1	12.2	0.68	22.6	19.4	36.2	15.7	0.94	0.93
US Large-Cap Value	-7.5	-0.9	14.4	6.6	16.1	8.8	8.0	2.24	14.8	14.2	27.5	15.3	0.94	0.94
US Mid-Cap Growth	-16.4	-3.9	22.1	6.2	14.9	10.1	10.2	0.64	22.9	21.2	41.3	17.7	0.94	0.92
US Mid-Cap Value	-11.3	-5.1	13.1	3.8	16.7	7.6	8.6	2.12	13.6	15.7	29.8	17.2	0.95	0.92
US Small-Cap Growth	-19.2	-10.4	15.2	0.8	10.8	6.1	8.1	0.65	31.8	28.4	34.6	20.2	0.90	0.86
US Small-Cap Value	-16.3	-9.2	8.1	0.0	15.3	6.1	6.8	2.49	14.4	16.9	31.2	19.6	0.89	0.85
Europe Equity	4.7	1.5	2.4	8.0	13.8	6.3	5.9	3.13	12.9	13.1	26.1	18.3	0.80	0.95
Japan Equity	-3.7	-4.5	8.7	5.7	9.2	5.6	4.7	2.39	12.5	15.4	19.9	15.2	0.36	0.73
Asia Pacific ex Japan Equity	-3.7	2.1	4.7	0.5	10.2	4.2	6.7	3.82	15.1	14.6	23.0	19.5	0.70	0.90
Emerging Markets	1.8	6.7	8.1	1.9	8.4	4.1	6.4	2.65	11.9	11.7	15.2	20.7	0.61	0.87
GLOBAL FIXED INCOME								Current YTM	Current Spread	Avg. Spread3				
Short-Term Fixed Income	2.5	6.3	3.8	2.8	1.3	1.8	2.6	3.96	21.7	25.0	2.4	1.9	-0.56	0.02
US Fixed Income	3.7	6.4	1.3	0.5	-0.4	1.5	3.2	4.45	39.4	48.0	4.5	3.6	-0.46	0.10
International Fixed Income	4.7	3.6	-4.2	-3.5	-2.4	-0.2	1.2	2.61	32.5	47.0	8.2	7.8	-0.16	0.42
Inflation-Protected Securities	4.5	6.8	1.8	0.1	2.4	2.5	3.5	-	-	-	4.9	5.9	-0.29	0.21
High Yield	-0.7	6.3	8.2	5.0	7.3	5.0	6.6	8.38	426.7	468.0	5.4	9.2	0.93	0.76
Emerging Markets Fixed Income	4.4	3.6	-2.4	2.7	2.3	1.3	3.7	6.18	258.05	302.0	7.8	11.8	0.40	0.70
ALTERNATIVE INVESTMENTS								Current Div. Yld.						
Real Estate/REITs	-3.3	2.3	1.6	-3.6	6.2	2.7	5.2	4.32	-	-	18.2	18.6	0.87	0.85
Master Limited Partnerships[4]	-6.1	23.7	50.7	26.4	42.9	10.9	-	-	-	-	40.0	17.8	0.88	0.73
Commodities ex Prec. Metals	0.1	-2.8	0.8	-4.5	14.0	1.2	-2.0	-	-	-	17.8	17.7	0.78	0.51
Precious Metals	10.8	24.4	25.3	15.0	14.2	8.6	9.0	-	-	-	20.3	19.4	0.65	0.22
Hedged Strategies[5]	0.1	2.7	5.3	1.9	4.4	1.9	-	-	-	-	3.2	5.2	0.64	0.80
Managed Futures[6]	-0.8	-2.8	3.8	1.4	2.0	0.4	-	-	-	-	2.9	6.3	0.21	0.19
S&P 500	-13.4	-0.1	25.0	9.1	18.6	12.5	10.2	1.44	18.2	15.9	30.34	14.8	0.98	0.96
Russell 2000	-17.8	-9.8	11.5	0.5	13.3	6.3	7.5	1.56	20.4	21.6	32.68	19.5	0.90	0.87
MSCI EAFE	1.7	0.3	4.3	6.6	12.3	5.9	5.7	3.03	13.0	13.5	22.64	16.6	0.77	0.97
MSCI AC World	-8.7	0.8	18.0	7.4	15.7	9.4	8.2	1.92	15.8	14.7	24.99	15.6	1.00	1.00

Note: Performance values calculated using USD. 1. As of Mar 31, 2025. 2. Forward P/E using Next 12-month earnings 3. 20-year average as of Mar 31, 2025. 4. Volatility and Correlation: June 30, 2006 – Present. 5. Volatility and Correlation: Jan. 31, 1998 – Present Hedged strategies consist of hedge funds and managed futures 6. Volatility and Correlation: Feb. 28, 1998 – Present. Standard deviation (volatility) is a measure of the dispersion of a set of data from its mean.
Source: FactSet, Bloomberg, Morgan Stanley Wealth Management GIC

S&P 500 Earnings Estimates



Source: FactSet, Morgan Stanley & Co. Research as of April 4, 2025

MS & Co. S&P 500 Price Target: Year-End 2025

LANDSCAPE	EARNINGS	PRICE/EARNINGS MULTIPLE	PRICE TARGET	UPSIDE/ DOWNSIDE
Bull Case	$329	22.5	7,400	45.8%
Base Case	$303	21.5	6,500	28.1%
Bear Case	$248	18.5	4,600	-9.3%
Current S&P 500 Price			5,074	

Note: Estimated year-end 2025 forward earnings are used to project a price target which takes into account MS & Co.'s year-end 2026 base case earnings forecast of $303.
Source: FactSet, Morgan Stanley & Co. Research as of April 4, 2025

S&P 500 Sector Performance and Valuation (as of April 4, 2025)

	TOTAL RETURN						
INDEX NAME	WTD (%)	YTD (%)	1-YEAR (%)	DIVIDEND YIELD (%)	BETA	20-YEAR AVG. FORWARD 12-MO. PE	FORWARD 12-MO. P/E*
S&P 500	***-9.05***	***-13.42***	***-0.08***	***1.44***		15.97	18.23
Energy	-14.10	-6.33	-15.25	3.67	0.43	13.65	12.81
Materials	-8.19	-6.63	-13.42	2.11	0.67	15.35	18.05
Industrials	-9.39	-10.16	-3.31	1.51	0.84	16.52	19.43
Consumer Discretionary	-7.98	-20.54	1.34	0.78	1.33	20.15	22.89
Consumer Staples	-2.19	1.25	11.37	2.47	0.18	17.70	21.16
Health Care	-6.44	-1.22	-3.11	1.80	0.38	15.07	16.19
Financials	-10.19	-8.19	9.02	1.59	0.74	12.75	14.58
Information Technology	-11.39	-22.63	-3.96	0.78	1.57	18.30	21.55
Telecommunication Services	-8.38	-14.28	2.89	0.89	1.09	15.61	16.30
Utilities	-4.44	-0.79	18.40	3.05	0.28	15.88	16.79
Real Estate	-5.78	-3.48	6.32	3.71	0.46	16.39	16.58

Source: Morgan Stanley & Co. Research

Equity Market Relative Valuation (as of April 4, 2025)

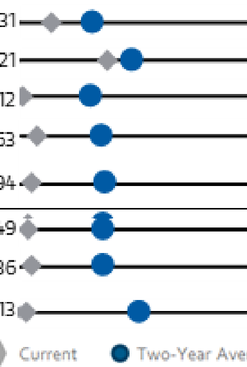
	Forward 12 Months									
	Price/Earnings		Price/Cash Flow		Price/Sales		Price/Book Value		Equity Risk Premium	
	Level	%-ile	Level	%-ile	Level	%-ile	Level	%-ile	Level	%-ile
US Equities (Russell Indices)										
Large-Cap Growth	22.3	77%	17.4	74%	4.2	92%	7.9	78%	48	7%
Large-Cap Value	15.2	87%	10.6	82%	1.6	88%	2.3	96%	259	3%
Mid-Cap Growth	22.6	79%	17.1	75%	1.8	55%	6.7	83%	42	5%
Mid-Cap Value	14.3	51%	9.6	70%	1.3	80%	1.9	86%	299	4%
Small-Cap Growth	30.9	71%	11.7	52%	1.5	79%	2.3	15%	-76	4%
Small-Cap Value	15.9	56%	6.6	21%	0.8	47%	0.7	1%	227	6%
International Equities										
Europe	13.9	69%	8.8	79%	1.5	99%	1.9	97%	461	0%
Japan	13.4	77%	8.1	87%	1.0	98%	1.2	93%	626	1%
Asia Pacific ex Japan	15.5	77%	11.2	74%	2.7	91%	1.7	86%	222	4%
Emerging & Frontier Markets	11.8	83%	5.7	2%	1.4	93%	1.6	89%	849	17%
Total Equities										
US	18.3	82%	13.3	78%	2.3	89%	3.3	87%	147	5%
International	14.3	72%	9.2	84%	1.5	99%	1.8	98%	697	28%
Emerging Markets	11.8	83%	5.7	2%	1.4	93%	1.6	89%	849	17%

Note: Dark blue, light blue and gray fill denotes whether the group is relatively attractive, neutral or unattractive to other groups under the same metric.
Source: Bloomberg

Government Debt Monitor & Fixed Income Spread Dashboard

US				
	YIELD (%)			TOTAL RETURN (%)
Treasury Benchmark	Current	ΔWTD	ΔYTD	YTD
3-Month	4.24	-0.05	-0.07	1.14
2-Year	3.65	-0.26	-0.59	1.96
5-Year	3.71	-0.27	-0.67	3.95
10-Year	3.99	-0.26	-0.57	5.32
30-Year	4.41	-0.22	-0.37	5.92
2-Yr./10-Yr. Spread (bp)	34.23	0.48	1.49	-
10-Yr. TIPS Breakeven (bp)	219.40	-17.49	-14.48	-
Interest Rate Volatility† (bp)	125.71	28.88	59.13	-

		DURATION (YRS.)	YIELD-TO-WORST	OAS (BP)	OAS RANGE** RICH	CHEAP
INVESTMENT GRADE	MBS*	5.81	4.76	38	31	82
	AAA	4.36	4.22	40	21	57
	AA	6.01	4.23	15	12	80
	A	7.04	4.95	94	63	136
	BBB	7.00	5.36	134	94	185
HIGH YIELD	BB	3.86	6.83	280	149	346
	B	3.48	8.41	433	236	541
	CCC	3.28	12.09	812	513	1,058



Unless stated, indexes utilized are FTSE Broad Investment Grade, FTSE High Yield, and FTSE Global Indexes †Interest Rate Volatility measured by Merrill Lynch Option Volatility Estimate (MOVE) Index *MBS distills high grade agency-rated mortgage-backed securities, a substantial subsector of investment grade indexes. **OAS stands for Option-Adjusted Spread or spread over the Treasury. Grey diamond denotes current OAS; blue circle denotes two-year average.
Source: Bloomberg as of April 4, 2025

Government Debt Monitor & Benchmark Returns

Global				
	YIELD (%)			TOTAL RETURN (%)*
10-Year Govt. Bond	Current	ΔWTD	ΔYTD	YTD
France	3.33	-0.10	0.00	0.95
Germany	2.58	-0.15	0.00	-0.31
Japan	1.19	-0.35	0.11	1.09
Spain	3.27	-0.09	0.00	0.27
UK	4.45	-0.24	-0.11	2.43
US Tax Exempt				
10-Year AAA Muni	2.95	0.79	0.64	1.26
10-Yr. Muni/UST Ratio	73.91	-8.14	-12.41	-

	TOTAL RETURN (%)		
Index	YTD	MTD	2024
Bloomberg Barclays US Aggregate	3.69	0.88	1.25
Bloomberg Barclays US MBS	4.11	1.02	1.20
Bloomberg Barclays US IG Corporate	2.65	0.33	2.13
Bloomberg Barclays Municipal	1.26	1.48	1.05
Bloomberg Barclays US High Yield	-0.73	-1.71	8.19
Bloomberg Barclays Global Aggregate	4.22	1.54	-1.69
JPMorgan Emerging Market	1.86	-0.48	5.73

*Global total returns reflect Citigroup 7- to 10-year bond indexes and Muni total returns reflect Bloomberg Municipal Bond Index Total Return
Source: Bloomberg as of April 4, 2025

Morgan Stanley & Co. Forecasts (as of April 4, 2025)

	REAL GDP GROWTH (%)			10-YR. GOVT. BOND YIELD (%)		HEADLINE INFLATION (%)		
	2024E	2025E	2026E	Q2 '25E	Q4 '25E	2024E	2025E	2026E
Global	3.2	3.0	2.9			2.4	2.2	2.0
US	2.8	2.0	1.4	4.35	4.00	3.0	2.7	2.4
Eurozone	0.8	1.0	1.1			2.4	2.4	1.8
UK	0.9	0.9	1.5	4.20	3.95	2.5	3.2	2.0
Japan	0.1	1.5	0.8	1.05	1.10	2.7	2.9	1.5
Emerging Markets	4.5	4.2	4.1			2.2	1.9	1.9
China	5.0	4.5	4.2			0.2	0.1	0.2

Source: Morgan Stanley & Co. Research

Tactical Asset Allocation Reasoning

Global Equities	Weight Relative to Model Benchmark	
US	Overweight	The recent correction in both the Nasdaq Composite Index and the S&P 500 Index provides some relief to overstretched valuations, while the Federal Reserve's policy pause and the DeepSeek events have cooled the GenAI fever breaking the bull case. The uncertainty shock to confidence around Trump 2.0's rapid-fire policy agenda is leading to cuts in GDP that should translate through to negative earnings revisions. But a soft landing is still the base case as long as the labor market holds. We are buying equal-weighted indexes, large-cap value and mid-cap growth names.
International Equities (Developed Markets)	Underweight	Recent outperformance has been catalyzed as responses to the "America First" agenda have driven fiscal stimulus and worries about the impact of tariffs is cooling rest-of-world inflation. We view weak currencies as a potential positive for US dollar investors and are likely to upgrade once tariff policy is solidified in Q2.
Emerging Markets	Overweight	China stimulus, while potentially insufficient to address the challenges of the country's secular bear market, is likely enough to help stabilize the downturn in the short term. The US-China trade conflict under President Trump remains a wildcard, and we expect the "bazooka" of China stimulus may come in light of ongoing trade tensions. Given that valuations in the region are already nondemanding, we are inclined to be patient and wait for recovery.
Global Fixed Income	**Weight Relative to Model Benchmark**	
US Investment Grade	Overweight	Stronger-than-anticipated economic growth is preserving the strength of corporate cash flows. While interest rates have backed up to reflect "higher-for-longer" expectations, yield spreads have remained well behaved. With geopolitical uncertainty high and equity valuations broadly rich, we like coupons of bonds with index-matching durations.
International Investment Grade	Market-Weight*	Yields are decent, central banks have begun to cut rates and there is room for spread tightening as economic growth improves.
Inflation-Protection Securities	Market-Weight*	Real yields have sold off and are now bordering on cheap relative to the past two years. The securities could be a potential buy in a stagflationary environment.
High Yield	Market-Weight*	We have eliminated our exposure to the equity-like asset class to reduce equity beta of portfolios. High yield bonds rallied aggressively after the unprecedented provision of liquidity from the Fed and fiscal stimulus from Washington. However, we believe there is currently limited upside. Ultra-tight spreads may be the result of increasing competition for capital with private credit financial sponsors and general partners and may not fully reflect adequate compensation for default risk.
Alternative Investments	**Weight Relative to Model Benchmark**	
REITs	Market-Weight	We expect higher stock-bond correlations, which places a premium on the diversification benefits of investing in real assets. Nevertheless, with real interest rates positive and services inflation remaining quite sticky, we would need to be selective in adding to this asset class broadly. We are focused on interesting opportunities aimed at solving the residential housing shortage.
Commodities	Market-Weight	Global reflation, tense geopolitics, especially in the Middle East and ongoing fiscal spending suggest decent upside potential for precious metals and industrial commodities, including energy-related.
MLP/Energy Infrastructure	Overweight	We previously increased exposure to real assets, with a preference for energy infrastructure and MLPs. Competitive yields and expectations for continued capital discipline amid stable oil and gas prices underpin our decision, as does hedging against geopolitical risks.
Hedged Strategies (Hedge Funds and Managed Futures)	Overweight	We recently added to equity hedged positions noting the pickup in idiosyncratic risk, falling borrowing costs and rising volatility. The current environment appears constructive for hedge fund managers, who are frequently good stock pickers and can use leverage and risk management to potentially amplify returns. We prefer very active and fundamental strategies, especially high quality, low beta, low volatility and absolute return hedge funds.

*The GIC asset allocation models' benchmarks do not include any exposure to this asset class.
Source: Morgan Stanley Wealth Management GIC as of April 4, 2025

Macro Factor Heat Map Key

	Economic Growth	Rates	Inflation / Deflation	Liquidity	Sentiment and Risk	Valuation	Earnings	Conclusion
Dark Blue	Economic growth robust	Steep yield curve	Low-moderate and rising inflation	Liquidity robust in economy / banking system	Shorter-term sentiment and technicals bearish	Risk assets attractively valued	Earnings outlook robust	Confluence of factors supports a risk-on investment approach
Light Blue	Economic growth neutral	Normal yield curve	Low-moderate and declining inflation; moderate inflation; higher and falling inflation	Liquidity neutral in the economy / banking system	Shorter-term sentiment and technicals neutral	Risk assets neutral	Earnings outlook neutral	Confluence of factors supports a neutral investment approach
Gray	Economic growth anemic	Flat/inverted yield curve	Very high/low inflation/deflation; high and rising inflation	Liquidity low in economy / banking system	Shorter-term sentiment and technicals bullish	Risk assets are richly valued	Earnings outlook anemic	Confluence of factors supports a risk-off investment approach
Up	Growth accelerating	Yield curve steepening	Inflation rising	Liquidity increasing	Sentiment becoming more bullish	Valuations rising	Earnings outlook improving	
Down	Growth declining	Yield curve flattening	Inflation falling	Liquidity decreasing	Sentiment becoming more bearish	Valuations falling	Earnings outlook worsening	
Signal Horizon	One to three years	One to three years	One to three years	One to three years	One to three months	Six months to two years	Six months to two years	
Inputs	• Industrial production • Unemployment • Total return • Earnings revisions • Home prices • OECD LEI (China and Brazil) • MS & Co. ARIA (US)	• 10-year vs. 2-year government bond yield spread	• Consumer Price Index	• M1 growth • Private credit growth • Libor-OIS spread	• MS US Equity Risk Indicator (US) • MS Combined Market Timing Indicator (Europe) • MS Global Risk Demand Index • Relative strength index • Members above / below moving average. • Index above / below moving average • Consumer confidence	• Forward price/earnings ratio • Price/book ratio • Equity risk premium • High yield option-adjusted spread	• Earnings revisions breadth • Earnings surprise • Return on equity	• Weighted average z-score of all factors

Source: Morgan Stanley Wealth Management GIC

Disclosure Section

The **Global Investment Committee (GIC)** is a group of seasoned investment professionals from Morgan Stanley & Co. and Morgan Stanley Wealth Management who meet regularly to discuss the global economy and markets. The committee determines the investment outlook that guides our advice to clients. They continually monitor developing economic and market conditions, review tactical outlooks and recommend asset allocation model weightings, as well as produce a suite of strategy, analysis, commentary, portfolio positioning suggestions and other reports and broadcasts.

Index Definitions

For index, indicator and survey definitions referenced in this report please visit the following: https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions

Definitions

Equity risk premium is the excess return that an individual stock or the overall stock market provides over a risk-free rate. The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time.

<u>Risk Considerations</u>

Important note regarding economic sanctions. *This report may reference jurisdiction(s) or person(s) that are the subject of sanctions administered or enforced by the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC"), the United Kingdom, the European Union and/or by other countries and multi-national bodies. Any references in this report to jurisdictions, persons (individuals or entities), debt or equity instruments, or projects that may be covered by such sanctions are strictly incidental to general coverage of the relevant economic sector as germane to its overall financial outlook, and should not be read as recommending or advising as to any investment activities in relation to such jurisdictions, persons, instruments, or projects. Users of this report are solely responsible for ensuring that their investment activities are carried out in compliance with applicable sanctions.*

Equity securities may fluctuate in response to news on companies, industries, market conditions and general economic environment.

MLPs

Master Limited Partnerships (MLPs) are limited partnerships or limited liability companies that are taxed as partnerships and whose interests (limited partnership units or limited liability company units) are traded on securities exchanges like shares of common stock. Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in MLP interests are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. Individual MLPs are publicly traded partnerships that have unique risks related to their structure. These include, but are not limited to, their reliance on the capital markets to fund growth, adverse ruling on the current tax treatment of distributions (typically mostly tax deferred), and commodity volume risk. The potential tax benefits from investing in MLPs depend on their being treated as partnerships for federal income tax purposes and, if the MLP is deemed to be a corporation, then its income would be subject to federal taxation at the entity level, reducing the amount of cash available for distribution to the fund which could result in a reduction of the fund's value.

MLPs carry interest rate risk and may underperform in a rising interest rate environment. MLP funds accrue deferred income taxes for future tax liabilities associated with the portion of MLP distributions considered to be a tax-deferred return of capital and for any net operating gains as well as capital appreciation of its investments; this deferred tax liability is reflected in the daily NAV; and, as a result, the MLP fund's after-tax performance could differ significantly from the underlying assets even if the pre-tax performance is closely tracked.

Investing in foreign markets entails greater risks than those normally associated with domestic markets, such as political, currency, economic and market risks. **Investing in currency** involves additional special risks such as credit, interest rate fluctuations, derivative investment risk, and domestic and foreign inflation rates, which can be volatile and may be less liquid than other securities and more sensitive to the effect of varied economic conditions. In addition, international investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with **emerging markets and frontier markets**, since these countries may have relatively unstable governments and less established markets and economies.

Alternative investments may be either traditional alternative investment vehicles, such as hedge funds, fund of hedge funds, private equity, private real estate and managed futures or, non-traditional products such as mutual funds and exchange-traded funds that also seek alternative-like exposure but have significant differences from traditional alternative investments. Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are appropriate only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative Investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing. Certain of these risks may include but are not limited to: Loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; Lack of liquidity in that there may be no secondary market for a fund; Volatility of returns; Restrictions on transferring interests in a fund; Potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; Absence of information regarding valuations and pricing; Complex tax structures and delays in tax reporting; Less regulation and higher fees than mutual funds; and Risks associated with the operations, personnel, and processes of the manager. Further, opinions regarding Alternative Investments expressed herein may differ from the opinions expressed by Morgan Stanley Wealth Management and/or other businesses/affiliates of Morgan Stanley Wealth Management.

Certain information contained herein may constitute forward-looking statements. Due to various risks and uncertainties, actual events, results or the performance of a fund may differ materially from those reflected or contemplated in such forward-looking statements. Clients should carefully consider the investment objectives, risks, charges, and expenses of a fund before investing. Alternative investments involve complex tax structures, tax inefficient investing, and delays in distributing important tax information. Individual funds have specific risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice. Interests in alternative investment products are offered pursuant to the terms of the applicable offering memorandum, are distributed by Morgan Stanley Smith Barney LLC and certain of its affiliates, and (1) are not FDIC-insured, (2) are not deposits or other obligations of Morgan Stanley or any of its affiliates, (3) are not guaranteed by Morgan Stanley and its affiliates, and (4) involve investment risks, including possible loss of principal. Morgan Stanley Smith Barney LLC is a registered broker-dealer, not a bank

It is important to note that only eligible investors can invest in alternative investment funds and that in order for an FA/PWA to engage a prospective investor in general discussions about Alternative Investments and specifically with regards to Private Funds, the prospective investor will need to be pre-qualified through the Reg D system.

Alternative investment securities discussed herein are not covered by the protections provided by the Securities Investor Protection Corporation, unless such securities are registered under the Securities Act of 1933, as amended, and are held in a Morgan Stanley Wealth Management Individual Retirement Account.

Managed futures investments are speculative, involve a high degree of risk, use significant leverage, have limited liquidity and/or may be generally illiquid, may incur substantial charges, may subject investors to conflicts of interest, and are usually appropriate only for the risk capital portion of an investor's portfolio. Before investing in any partnership and in order to make an informed decision, investors should read the applicable prospectus and/or offering documents carefully for additional information, including charges, expenses, and risks. Managed futures investments are not intended to replace equities or fixed income securities but rather may act as a complement to these asset categories in a diversified portfolio.

Hedge funds may involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds, often charge high fees which may offset any trading profits, and in many cases the underlying investments are not transparent and are known only to the investment manager.

Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

Physical precious metals are non-regulated products. Precious metals are speculative investments, which may experience short-term and long term price volatility. The value of precious metals investments may fluctuate and may appreciate or decline, depending on market conditions. If sold in a declining market, the price you receive may be less than your original investment. Unlike bonds and stocks, precious metals do not make interest or dividend payments. Therefore, precious metals may not be appropriate for investors who require current income. Precious metals are commodities that should be safely stored, which may impose additional costs on the investor. The Securities Investor Protection Corporation ("SIPC") provides certain protection for customers' cash and securities in the event of a brokerage firm's bankruptcy, other financial difficulties, or if customers' assets are missing. SIPC insurance does not apply to precious metals or other commodities.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate. **Bonds rated below investment grade** may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in high-yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio. **Interest on municipal bonds** is generally exempt from federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax-exemption applies if securities are issued within one's state of residence and, if applicable, local tax-exemption applies if securities are issued within one's city of residence.

Treasury Inflation Protection Securities' (TIPS) coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation.

Ultrashort bond funds Ultra-short bond funds are mutual funds and exchange-traded funds that generally invest in fixed income securities with very short maturities, typically less than one year. They are not money market funds. While money market funds attempt to maintain a stable net asset value, an ultra-short bond fund's net asset value will fluctuate, which may result in the loss of the principal amount invested. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk.

Ultrashort-term fixed income asset class is comprised of fixed income securities with high quality, very short maturities. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk.

Duration, the most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio would be to changes in interest rates. Generally, if interest rates rise, bond prices fall and vice versa. Longer-term bonds carry a longer or higher duration than shorter-term bonds; as such, they would be affected by changing interest rates for a greater period of time if interest rates were to increase. Consequently, the price of a long-term bond would drop significantly as compared to the price of a short-term bond.

The majority of $25 and $1000 par **preferred securities** are "callable" meaning that the issuer may retire the securities at specific prices and dates prior to maturity. Interest/dividend payments on certain preferred issues may be deferred by the issuer for periods of up to 5 to 10 years, depending on the particular issue. The investor would still have income tax liability even though payments would not have been received. Price quoted is per $25 or $1,000 share, unless otherwise specified. Current yield is calculated by multiplying the coupon by par value divided by the market price. Some $25 or $1000 par **preferred securities** are QDI (Qualified Dividend Income) eligible. Information on QDI eligibility is obtained from third party sources. The dividend income on QDI eligible preferreds qualifies for a reduced tax rate. Many traditional 'dividend paying' perpetual preferred securities (traditional preferreds with no maturity date) are QDI eligible. In order to qualify for the preferential tax treatment all qualifying preferred securities must be held by investors for a minimum period – 91 days during a 180 day window period, beginning 90 days before the ex-dividend date.

The initial interest rate on a **floating-rate security** may be lower than that of a fixed-rate security of the same maturity because investors expect to receive additional income due to future increases in the floating security's underlying reference rate. The reference rate could be an index or an interest rate. However, there can be no assurance that the reference rate will increase. Some floating-rate securities may be subject to call risk.

The market value of **convertible bonds** and the underlying common stock(s) will fluctuate and after purchase may be worth more or less than original cost. If sold prior to maturity, investors may receive more or less than their original purchase price or maturity value, depending on market conditions. Callable bonds may be redeemed by the issuer prior to maturity. Additional call features may exist that could affect yield.

Principal is returned on a monthly basis over the life of a **mortgage-backed security**. Principal prepayment can significantly affect the monthly income stream and the maturity of any type of MBS, including standard MBS, CMOs and Lottery Bonds. Yields and average lives are estimated based on prepayment assumptions and are subject to change based on actual prepayment of the mortgages in the underlying pools. The level of predictability of an MBS/CMO's average life, and its market price, depends on the type of MBS/CMO class purchased and interest rate movements. In general, as interest rates fall, prepayment speeds are likely to increase, thus shortening the MBS/CMO's average life and likely causing its market price to rise. Conversely, as interest rates rise, prepayment speeds are likely to decrease, thus lengthening average life and likely causing the MBS/CMO's market price to fall. Some MBS/CMOs may have "original issue discount" (OID). OID occurs if the MBS/CMO's original issue price is below its stated redemption price at maturity, and results in "imputed interest" that must be reported annually for tax purposes, resulting in a tax liability even though interest was not received. Investors are urged to consult their tax advisors for more information.

Asset-backed securities generally decrease in value as a result of interest rate increases, but may benefit less than other fixed-income securities from declining interest rates, principally because of prepayments.

Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

Virtual Currency Products (Cryptocurrencies)

Buying, selling, and transacting in Bitcoin, Ethereum or other digital assets ("Digital Assets"), and related funds and products, is highly speculative <u>and may result in a loss of the entire investment</u>. Risks and considerations include but are not limited to:

Digital Assets have only been in existence for a short period of time and historical trading prices for Digital Assets have been highly volatile. The price of Digital Assets could decline rapidly, ***<u>and investors could lose their entire investment</u>***.

Although any Digital Asset product and its service providers have in place significant safeguards against loss, theft, destruction and inaccessibility, there is nonetheless a risk that some or all of a product's Digital Asset could be permanently lost, stolen, destroyed or inaccessible by virtue of, among other things, the loss or theft of the "private keys" necessary to access a product's Digital Asset.

Digital Assets may not have an established track record of credibility and trust. Further, any performance data relating to Digital Asset products may not be verifiable as pricing models are not uniform.

Environmental, Social and Governance ("ESG") investments in a portfolio may experience performance that is lower or higher than a portfolio not employing such practices. Portfolios with ESG restrictions and strategies as well as ESG investments may not be able to take advantage of the same opportunities or market trends as portfolios where ESG criteria is not applied. There are inconsistent ESG definitions and criteria within the industry, as well as multiple ESG ratings providers that provide ESG ratings of the same subject companies and/or securities that vary among the providers. Certain issuers of investments may have differing and inconsistent views concerning ESG criteria where the ESG claims made in offering documents or other literature may overstate ESG impact. ESG designations are as of the date of this material, and no assurance is provided that the underlying assets have maintained or will maintain and such designation or any stated ESG compliance. As a result, it is difficult to compare ESG investment products or to evaluate an ESG investment product in comparison to one that does not focus on ESG. Investors should also independently consider whether the ESG investment product meets their own ESG objectives or criteria. There is no assurance that an ESG investing strategy or techniques employed will be successful. Past performance is not a guarantee or a dependable measure of future results.

Companies paying **dividends** can reduce or cut payouts at any time.

Investing in smaller companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity.

Stocks of medium-sized companies entail special risks, such as limited product lines, markets, and financial resources, and greater market volatility than securities of larger, more-established companies.

Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations.

Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets.

Credit ratings are subject to change.

REITs investing risks are similar to those associated with direct investments in real estate: property value fluctuations, lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions. Because of their narrow focus, **sector investments** tend to be more volatile than investments that diversify across many sectors and companies. **Technology stocks** may be especially volatile. Risks applicable to companies in the **energy and natural resources** sectors include commodity pricing risk, supply and demand risk, depletion risk and exploration risk. **Health care sector stocks** are subject to government regulation, as well as government approval of products and services, which can significantly impact price and availability, and which can also be significantly affected by rapid obsolescence and patent expirations.

Direct indexing may only be appropriate for people who have a considerable amount to invest in a taxable account and want a level of customization they couldn't otherwise obtain through a portfolio of funds or individual securities. If you invest in a tax-deferred account, such as a 401(k) or IRA, the tax-harvesting benefits of direct indexing may provide no additional benefit to you. There is no guarantee that you will maximize value by tax-loss selling; holding onto slumping stock may have resulted in value greater than that obtained through tax-loss harvesting via direct indexing. In addition, you will incur asset-based fees and expenses in a direct indexing account that may be higher than those for other investments, as well as transaction costs arising from customization and frequent rebalancing.

IRS rules stipulate that if a security is sold by an investor at a **tax loss**, the tax loss will not be currently usable if the investor has acquired (or has entered into a contract or option on) the same or substantially identical securities 30 days before or after the sale that generated the loss. This so-called "wash sale" rule is applied with respect to all of the investor's transactions across all accounts.

Artificial intelligence (AI) is subject to limitations, and you should be aware that any output from an IA-supported tool or service made available by the Firm for your use is subject to such limitations, including but not limited to inaccuracy, incompleteness, or embedded bias. You should always verify the results of any AI-generated output.

Rebalancing does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Investors should consult with their tax advisor before implementing such a strategy.

The **indices** are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. The indices are not subject to expenses or fees and are often comprised of securities and other investment instruments the liquidity of which is not restricted. A particular investment product may consist of securities significantly different than those in any index referred to herein. Comparing an investment to a particular index may be of limited use.

The **indices selected by Morgan Stanley Wealth Management** to measure performance are representative of broad asset classes. Morgan Stanley Smith Barney LLC retains the right to change representative indices at any time.

Disclosures

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RSI1743958864217 04/2025