

2026 OUTLOOK

Global Investment Committee | December 2025

On the Markets

Picking and Choosing

Typically one of the strongest months for US equities, November ended with the S&P 500 Index roughly in line with its level at the end of September, and down close to 1% from its 6,891 all-time closing high on Oct. 28. We view the pause as a healthy one, following one of the most extraordinary six-month surges in decades, when the benchmark rebounded nearly 40% from early April's post-Liberation Day low. For the year to date, it is now up approximately 16%. The dearth of economic data releases during the longest US government shutdown in history, which prompted the equity market's pause, also shook it from its complacency, as did growing debate around several issues that we think will punctuate 2026, when we see the bull market continuing into its fourth year.

In 2025, fears of headwinds from immigration action and tariff policy reform evolved into a broadening bull case—tied to faith in stimulus from monetary easing and the One Big Beautiful Bill Act, financial deregulation and an anticipated surge in capex and AI-related productivity gains. 2026, however, is apt to be a lumpier ride. In our view, idiosyncratic navigation and execution will produce winners and losers, demanding greater emphasis on picking and choosing. After all, much of 2025 has been about upside surprises regarding economic resilience, and that scenario has baked high expectations into 2026 earnings forecasts. Notably, projections begin with the market already at a historically rich price/earnings ratio of 22.5 times on earnings-per-share-growth assumptions of 14%–15%.

So, what are the issues that may make 2026 a more volatile ride for the S&P 500 on its way to a return of around 10%? Beyond the usual headwinds that may arise from intensifying policy debates that often characterize a midterm election year, the GIC believes there are at least six issues for investors to focus on.

1. The path of Federal Reserve rate cuts and Fed leadership succession. Markets are priced for, and consensus forecasts, the Fed cutting rates by 25 basis points on Dec. 10 and delivering roughly three more 25-basis-point cuts in 2026, bringing the policy rate to a neutral 3% by next October. This forecast embeds a benign soft-landing scenario, where US GDP moderates and stays at a slightly slower, but nonrecessionary, pace than the long-term average amid easing inflation pressure.

Lisa Shalett

Chief Investment Officer
Head of the Global Investment Office
Morgan Stanley Wealth Management

Daniel Skelly

Senior Investment Strategist
Morgan Stanley Wealth Management

TABLE OF CONTENTS

- 4 Global Economics: At the Crossroads**
A wider-than-usual range of potential outcomes leads us to consider two upside scenarios and a mild downside one.
- 6 US Economics: Emerging From Policy Uncertainty**
After near-term pressures subside, US growth should accelerate while inflation declines in the second half.
- 8 Global Equities: Earnings and Policy Tailwinds Support US Outperformance**
As the US shines, we see a similar, positive narrative for Japan.
- 11 Global Credit: Smells Like Animal Spirit**
As secular forces converge, corporate aggression is returning.
- 13 Commodities: Metals Over Energy**
Supply conditions—whether surpluses or deficits—have come to the fore.
- 15 G10 Rates: The Double-Breaking Putt**
Look for global fixed income to pivot from policy easing to normalization.
- 17 Foreign Exchange: Some Things Change, Some Things Stay the Same**
With US dollar weakness likely to continue in coming months, look for a rebound in the second half of 2026.
- 19 Has the Muni Market Turned the Corner?**
In our Q&A, Morgan Stanley & Co.'s Mark Schmidt discusses recent municipal bond outperformance and upcoming drivers.

ON THE MARKETS

Little risk of economic growth running hotter, inflation rising or the labor market deteriorating faster is priced. It is critical for investors to contextualize their expectations for the stimulative power of the remaining Fed cuts, as we are unlikely to come close to unwinding the roughly 500-basis-point rate-hiking cycle that began in 2022. The implication is that “easing” may only offer modest relief to the lackluster housing market, small-cap stocks and floating-rate private market borrowers.

The flip side is a situation where Fed Chair Powell’s successor is more of an ideologue aligned with doves in the Trump administration. Although that could initially be far more bullish for those market segments and ease Treasury financing concerns, the yield curve would likely steepen significantly on concerns about central bank independence, inflation and US dollar debasement. The net result of all this is Morgan Stanley & Co.’s forecast for the 10-year US Treasury yield to end 2026 at 4.05%, near its current level—a scenario that caps equity valuation enhancement (with stock gains thus equaling earnings growth) and suggests that the strongest total returns for fixed income investors in 2026 will be in the three-to-seven-year “belly of the curve.”

2. Pace and capacity absorption of the generative AI (GenAI) infrastructure boom. While the macro trend around capex and diffusion to the corporate enterprise is likely to continue apace in 2026, we anticipate increasing dispersion for the Magnificent Seven stocks and the related ecosystem, the market cap of which collectively accounts for more than 40% of the S&P 500. Several factors are likely to start to bite—including pressure related to increased debt financing, circular ownership arrangements with large language model providers, the need to demonstrate viable revenue models and potential constraints of energy transmission and generation. We also expect earnings quality debates to intensify as companies set depreciation schedules on capex investments that may have two-to-three-year useful lives versus six-to-seven-year accounting standards.

Not only does this set up a backdrop emphasizing stock selection and new equity market leadership, but we believe that AI adoption will take center stage in 2026, given margin expansion dreams baked into forecasts. While MS & Co.’s strategists are extremely constructive in this regard, the GIC is more measured, as we expect the strongest gains to be in financial services, health care and business services. Given the importance of data quality, depth and breadth to GenAI success, we see unscaled players being at a major disadvantage in the adoption race. Overall, this calls for active risk management and a 50/50 maximum investor balance between active and passive exposure.

3. The health of the US consumer against a weakening labor market. The GIC has written extensively about the “K-shaped” economy and the implications of increasing income and

wealth inequality, especially as those dynamics cut across older and younger US demographic segments. While wealth effects will continue to be a support in 2026, we remain hypervigilant regarding the reality that growth of consumption, which accounts for two-thirds of the US economy, is driven by those with the highest marginal propensity to spend (the bottom 60% by income). Even with tax cuts, labor market insecurity, as proxied by historically low consumer confidence, could weigh on spending—given “affordability constraints,” credit card balances that have been growing at twice the rate of labor income gains and already-below-average savings rates. “Tariff bonus checks” could be a temporary quick fix with clear political appeal ahead of midterm elections, but they risk undermining credibility on debt and deficit reduction. The implication is that consumer-linked sectors will demand selectivity.

4. Inflation. Markets and the consensus unequivocally express high confidence that inflation is tamed. In fact, one-year inflation swaps have gone from forecasting year-ahead inflation of 3.4% in midsummer to 2.6% today. Falling energy and rental-housing prices have been key. But as was the case in 2021, stimulus—especially direct giveaway checks if they are pursued—could prove “hot” for demand in key areas, coming at a time when small and midsized companies that have so far absorbed tariff increases could choose to pass them on. Structural factors around pockets of the labor market, electricity generation, health care costs and regional housing market imbalances sustain our interest in being overweight real assets in 2026.

5. Maturation of private credit and private equity businesses as they manage through the excesses of 2021–2022 vintages. Concerns about “credit cockroaches” are likely to persist in 2026, constituting an idiosyncratic workout through payment-in-kind balances and liquidity-management exercises for businesses that may ultimately be in default given the speed with which GenAI has changed the rules of the game for smaller software companies. Furthermore, tariffs are complicating the strategies of industrial middle market players and others who are just subscale. The implication is a preference for private credit secondaries or high yield as substitutes for direct lending, with asset backed and distressed favored for 2026 vintages. For private equity, while the improving backdrop for animal spirits is a welcome relief in 2026, we see distributions for 2021–2022 vintages remaining unsatisfying, keeping secondaries in the space bid as well. 2026 vintages are likely to be better in venture and growth equity, where new business models are being built in GenAI’s wake, utilizing it rather than being victimized by it.

6. International exposure. Global diversification paid major dividends for investors in 2025, given the nearly 10% drawdown for the US dollar and repricing of recovery potential in the rest of the world, as a broad embrace of monetary and fiscal stimulus programs has countered

ON THE MARKETS

America First policy. New geopolitical alignments and priorities continue to suggest opportunities for regional winners—at average valuations that are still a fraction of those of the US—in Japan, China, India, Latin America and even Europe, especially if a ceasefire in Ukraine initiates a reconstruction program. While we expect currencies to be relatively stable next year, we remain highly diversified given the complex headwinds for US markets.

In sum, we believe 2026 sets up to be a rewarding but volatile year, when active risk management is advised for the fourth year of the bull market and second year of the presidential term. We stay at maximum portfolio diversification, and maximum active management in equities

and fixed income, with blended portfolios likely to deliver another 7% to 12% for the year.

Enjoy the included perspectives from our MS &Co. Research colleagues.

Everyone on the GIC and in the Global Investment Office at Morgan Stanley Wealth Management wishes you and your friends and family a joyous holiday season! ■

GLOBAL ECONOMICS

Global Economics: At the Crossroads

Seth Carpenter, Chief Global Economist, Morgan Stanley & Co. LLC

We believe the range of outcomes for global growth and inflation in 2026 is unusually wide. With that in mind, we use scenarios to frame the picture. Our base case sees continued disinflation and growth settling near potential in 2027, though “potential” itself might improve. The scenarios are anchored in the US because that is where we see the greatest variance in potential outcomes; we craft two upside scenarios that contrast the forces of stronger spending and rising productivity, while the downside scenario is mild. These scenarios have very different outcomes for growth, inflation and monetary policy—it is these differences that we think will be central to market debates for the coming quarters.

US GROWTH. In the US, growth has been strong because of resilient consumption—boosted by healthy balance sheets and rising wealth—and business spending, especially artificial intelligence (AI)-driven capex. Indeed, these two factors were the reason we didn’t call for a recession earlier this year when markets pulled back on trade policy fears. For the forecast period, the US remains the most likely economy to drive material upside to global growth. Conversely, if there were to be a material slowdown, it would probably have to come from a miscalculation about US growth. Consequently, our global scenarios are driven by US-led shocks.

The same factors that have driven US resilience should continue to underpin a constructive baseline for growth across the forecast horizon, though the sequential path is unlikely to be linear. In the first quarter of 2025, US GDP printed negative growth, followed by an exceptionally strong print in the second quarter.

This volatility came from swings in trade, inventories and supply chains. We expect this noise to persist for a couple more quarters, amplified by the government shutdown, which could further distort fourth quarter 2025 and first quarter 2026 data. After absorbing trade and government-linked impulses, we expect growth to pick up and move toward an improving growth rate of potential output. The exact path will depend on the strength of the consumer amid a slowing labor market and on when AI adoption meaningfully increases productivity gains.

For now, the Federal Reserve’s conundrum is whether to take a signal from the slowing labor market or solid spending. Our baseline forecasts take elements from both, with the Fed cutting to neutral on rising unemployment but the US economy recovering smartly in the second half. We use scenarios to frame key tensions in the Fed’s decision-making process. For example, our two upside scenarios contrast stronger demand and productivity. Both feature faster growth than the baseline, but in the first, the Fed shifts from policy easing to eventual rate hikes as jobs catch up to aggregate demand and inflation never abates. In the second, productivity drives disinflation, so the Fed can eventually cut despite solid growth. In contrast, the downside scenario reflects the possibility that lags from past monetary policy depress growth further, tariffs have a larger drag on output and immigration stunts growth more than we have modeled. Even in this scenario, however, we think that a recession would be mild—to the extent that the Fed would not need to cut to zero.

GLOBAL GROWTH. Outside the US, in most cases, we see economies moving toward trend growth by the end of our forecast horizon, with policy rates moving to neutral as the timing and sequence vary (see table).

Morgan Stanley & Co. Global GDP, Inflation and Monetary Policy Rate Forecasts

	GDP (YoY)			Headline CPI (%Y)			Monetary Policy Rate (% p.a.)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E EOP	2026E EOP	2027E EOP
Global	3.4	3.1	3.3	1.9	2.0	2.1	-	-	-
G10	1.6	1.3	1.6	2.6	2.3	2.1	-	-	-
US	2.0	1.7	2.0	2.8	2.8	2.4	3.625	3.125	3.125
Eurozone ^{^^}	1.4	1.0	1.2	2.1	1.7	1.7	2.00	1.50	1.50
Japan*	1.0	0.6	1.1	3.2	1.7	2.0	0.75	0.75	1.25
UK	1.4	0.9	1.6	3.4	2.2	2.1	3.75	2.75	3.00
Emerging Markets	4.7	4.5	4.4	1.5	1.8	2.1	-	-	-
China**	5.0	4.8	4.6	0.0	0.2	0.7	1.40	1.30	1.30
India	7.1	6.4	6.5	2.3	4.0	4.0	5.25	5.25	5.75
Brazil	2.3	2.0	1.8	5.0	4.0	3.9	15.00	11.50	10.00
Mexico	0.5	1.4	2.3	3.8	3.9	3.9	7.00	6.50	6.50

Note: Global and regional aggregates are GDP-weighted averages, using PPP weights. CPI figures represent period averages. *Policy rate indicated is the BOJ’s Uncollateralized Overnight Call Rate Upper Limit. ^{^^}ECB Deposit Facility rate; **Seven-day reverse repo rate. Turkey, Egypt, Ukraine and Argentina are excluded when calculating global EM GDP aggregate.

Source: Haver Analytics, IMF, Morgan Stanley & Co. Research as of Nov. 16, 2025

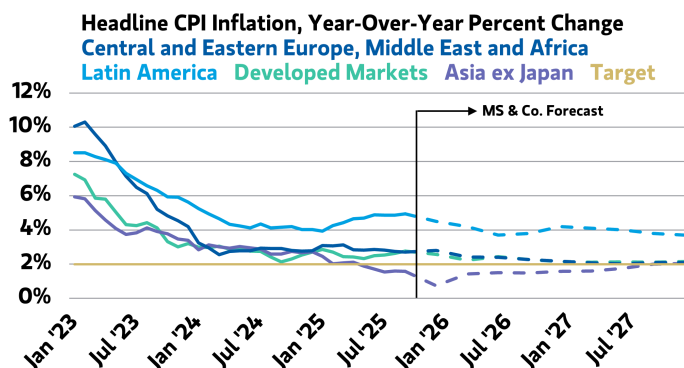
ON THE MARKETS

Meaningful deviations from these baselines likely come from alternative scenarios in the US and the spillovers that are created. Globally, growth has crept lower since the COVID shock, but we expect stabilization by 2027. In our baseline, the global economy decelerates modestly further in 2026 before stabilizing in 2027. As noted, we expect US growth to slow markedly in the next two quarters, but the low-hire/low-fire labor market should allow for some reacceleration in the second half of 2026. We expect momentum in consumer and business spending to endure and easier monetary and fiscal policy to contribute. In particular, even though the growth rate of AI-driven capex could come down a touch—in line with Morgan Stanley & Co. Research analyst estimates—aggregate investment spending should maintain and eventually pick up. We forecast growth at 1.8% (4Q/4Q) in 2026 and 2.0% in 2027; importantly, we see potential GDP growth picking up as AI adoption drives productivity growth.

Going forward, we expect the eurozone and China to continue at roughly their current rates of growth. With some additional front-loaded policy support, we forecast real GDP growth of 5.0% (4Q/4Q) in China in 2026. As fiscal policy stimulus fades, we forecast 4.5% (4Q/4Q) in 2027. We believe deflationary pressures will continue but abate gradually over the forecast period. Eurozone growth should remain moderate at 1.1% (4Q/4Q) in 2026 and edge up to 1.3% in 2027; the boost from German fiscal policy should be partially offset by consolidation in France and Italy.

INFLATION. We believe global disinflation will continue more slowly (see chart). For the US, we see core personal consumption expenditures (PCE) inflation rising into the first quarter of 2026 on the effects of tariffs and immigration restriction before resuming its gradual descent toward target. In our baseline, core PCE inflation is 2.6% per year at the end of 2026 and 2.3% per year at the end of 2027.

We Expect a Convergence in Inflation Rates Over Our Forecast Horizon



Note: CEEMEA excludes Turkey and Egypt; Latin America excludes Argentina.
Source: National statistical agencies, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Nov. 16, 2025

For the eurozone, we see headline inflation undershooting the European Central Bank's (ECB) 2% per year target because of a persistent output gap. There, inflation is projected to remain at 1.7% per year at the end of 2026 and in 2027. Although headline and core inflation in Japan have been above target for the past couple quarters, the underlying trend has been a bit weaker, and we forecast inflation to edge below 2% per year in late 2026 but rise back to the 2% target in 2027. For China, by contrast, even though core Consumer Price Index (CPI) inflation will be positive in our forecast, the GDP deflator (a more relevant measure for China) is projected to hover below 0%, as excess capacity dissipates only gradually.

MONETARY POLICY. In our forecast, monetary policy generally moves toward neutral across economies. In our baseline, the Fed eases in April 2026, assuming job gains near zero and only a modest further rise in core inflation. We expect an extended pause at 3.00%–3.25%. Despite expectations for a new Fed Chair in the second quarter of 2026, we presume that modest turnover within the Federal Open Market Committee will leave the reaction function roughly unchanged.

Recent communications suggest that the ECB plans to stay at the current policy rate. As slack develops in our forecast, however, we expect that the ECB will revise inflation forecasts below target, and we anticipate it easing twice, in March and June 2026, bringing the policy rate down to 1.50%. For the Bank of England (BOE), evidence is mounting that a soft economy is leading to falling inflation, so we forecast rates to fall to 2.75% before an extended pause; that said, by the fourth quarter of 2027, we see a tighter labor market supporting enough inflation for the BOE to raise rates back to 3.00%. We anticipate the Bank of Japan (BOJ) going in the opposite direction, in December 2025, as downside risks from the US diminish. With trend inflation rising, we expect the BOJ to move close to neutral and forecast the policy rate rising to 1.25% in the third quarter of 2027.

Across emerging markets, the picture is more mixed. Notably, we see the Central Bank of Brazil beginning its rate-cutting cycle in the first quarter of 2026 and expect 500 basis points of cuts. By contrast, in our baseline, the Bank of Mexico holds rates at 6.50% for the entire forecast period following recent easing. In the Central & Eastern Europe, Middle East and Africa region (CEEMEA), we forecast further cuts across the horizon, while Asia ex Japan mostly sits on hold given already low rates and the broad Asian disinflation impulse. ■

This article was excerpted from the Nov. 16 Morgan Stanley & Co. Research report, "At the Crossroads." For a copy of the full report, please contact your Financial Advisor.

US ECONOMICS

US Economics: Emerging From Policy Uncertainty

Michael T. Gapen, Chief US Economist, Morgan Stanley & Co. LLC

With economic activity moderating after tariffs, our “slow growth, sticky inflation” outlook for 2025 was largely realized. Notably, despite immigration controls having slowed labor supply, labor demand cooled more, nudging the unemployment rate higher, to 4.3%. Meanwhile, inflation firmed, with headline and core Consumer Price Index (CPI) inflation rising to 3.0% per year in September.

That said, the US economy modestly outperformed our expectations, which we attribute to two sources. First, although the effective tariff rate is 16%, actual tariff rates have risen more slowly due to front-loading of imports, supply chain management, deal-making and delayed price pass-through to consumers. Second, equity market appreciation was strong, supporting growth in household net worth and consumption by high-income/high-wealth households. We had already penciled in strong growth rates for artificial intelligence (AI)-related capex, and much of this spending goes to intermediate goods while coming out of imports.

The US economy remains “K-shaped,” with divergent paths. Upper-income households are faring better than low- and middle-income households, as household net worth has risen considerably over the past five years, supporting upper-income cohorts. Low- and middle-income cohorts consume primarily from labor market income, and purchasing power has been reduced by higher inflation. Meanwhile, AI-related business spending is surging while non-AI business spending has stepped back. This means industries are split: Sectors like technology and finance are experiencing strong growth, while consumer-facing industries, particularly those that cater to lower-income households, are not.

Looking into 2026–2027, the policy backdrop is largely set. Immigration policy is clear and unlikely to change, and while trade policy is still a mixed bag, we see a low risk of return to embargo-level tariffs. On the fiscal side, with the passage of the One Big Beautiful Bill Act, large deficits are likely to remain a feature of the US economy. The deregulatory agenda is proceeding, but it takes time and may have more industry-level than macroeconomic effects.

Near-term downside risk should give way to medium-term upside risk. Tariff pass-through is not over and should continue in the first half of 2026. So far, the corporate sector has footed the bill for tariffs and is still in the process of passing them through to consumers. If it can, then inflation should remain firm, reducing real purchasing power of cohorts who consume mainly out of labor market income. If firms cannot pass along tariffs, we would expect to see

greater cost control, which could include layoffs. A weak labor market could lead to a reversal in equity market gains and tighter credit conditions. This remains the key near-term risk for the economy.

We expect real US GDP growth to accelerate in the second half of 2026 after a weak first half (see table). Higher prices and slower labor income growth are likely to weigh on consumption in the near term, but as inflation comes down and the fiscal bill boosts income, consumption should reaccelerate in the second half of the year. We forecast growth in nonresidential fixed investment to pick up in the second half into 2027 while cyclically suppressed business investment categories recover. Growth rates of AI-related spending should moderate as spending levels rise.

Morgan Stanley & Co. US Economic Forecast

	2024	2025E	2026E	2027E
Real GDP (% Q4/Q4)	2.4	1.6	1.8	2.0
Private Consumption	3.4	1.8	1.6	1.8
Gross Fixed Investment	0.9	5.0	3.0	5.0
Government Consumption	3.6	-1.4	2.1	1.6
GDP Contribution (percentage points)				
Final Domestic Demand	2.8	2.0	2.1	2.0
Net Exports	-0.4	-0.1	0.0	0.0
Inventories	0.0	-0.3	-0.4	0.0
CPI (% Q4/Q4)	2.7	2.9	2.6	2.5
Core PCE* (% Q4/Q4)	3.0	3.0	2.6	2.3
Policy Rate** (%)	4.375	3.625	3.125	3.125
Unemployment Rate (% labor force)**	4.1	4.5	4.5	4.4
Labor Force Participation Rate (%)**	62.5	62.3	62.1	62.0
General Govt. Balance (% of GDP)	-6.9	-5.8	-6.3	-6.0
Gross Govt. Debt (% of GDP)	123.6	124.3	125.4	126.3
Current Account Balance (% of GDP)	-4.0	-3.8	-2.9	-3.1

*Personal Consumption Expenditures Index **End of Period
Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Nov. 16, 2025

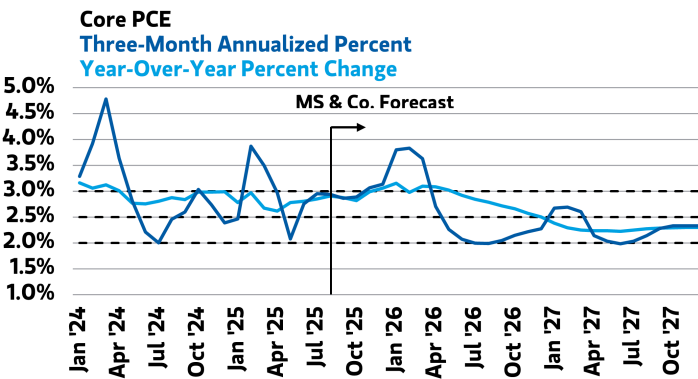
We anticipate a slow-growing economy demanding less labor and immigration controls fostering a sharp reduction in available labor supply. We forecast employment growth to average 55,000 to 60,000 per month in 2026 and 2027. With a much lower breakeven rate, the unemployment rate rises only slowly through the second quarter of 2026. Thereafter, modest, above-trend growth pushes the unemployment rate down through the second half of 2026 and 2027.

Tariffs should continue to gradually push inflation. There has been a clear tariff-driven push to core goods prices since June this year, but it has been less pronounced than anticipated. Recent inflation dynamics suggest that the tariff pass-through will likely be more gradual and prolonged than we initially

ON THE MARKETS

thought, boosting inflation until the first quarter of 2026 and keeping it substantially above target in 2025 and 2026 (see chart). Softer labor markets and continued rent disinflation should keep services gradually decelerating.

The Tariff Push Continues, Peaking in the First Quarter of 2026



Source: BEA, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Nov. 16, 2025

We expect 25-basis-point Federal Reserve rate cuts in January, April and June of 2026 as the central bank takes its policy stance close to neutral. These cuts would mean a terminal target range of 3.00%–3.25%. If the unemployment rate is drifting higher, we think the Fed will respond with rate cuts.

However, like the economy, the Fed is divided. The hawks are likely to see moderate activity, strong AI spending and elevated asset markets and think monetary policy should lean against the wind. The doves are likely to see weak labor demand and a softer consumer, and to believe policy should be at neutral sooner rather than later. We think the latter argument will win out. ■

This article was excerpted from the Nov. 16 Morgan Stanley & Co. Research report, "At the Crossroads." For the full article, please contact your Financial Advisor.

GLOBAL EQUITIES

Global Equities: Earnings and Policy Tailwinds Support US Outperformance

Michael Wilson, Chief Investment Officer and Chief US Equity Strategist, Morgan Stanley & Co. LLC

Marina Zavolock, Chief European Equity Strategist, Morgan Stanley & Co. International plc+

Jonathan Garner, Chief Asia and Emerging Market Equity Strategist, Morgan Stanley Asia (Singapore) Pte+

On the global stage, we continue to prefer US equities, based largely on our expectations for earnings strength. We forecast a 14% 2025-2027 compound annual growth rate (CAGR) in earnings per share (EPS) for the S&P 500 Index, outpacing Japan's TOPIX at 12%, the MSCI Emerging Markets Index at 11% and the MSCI Europe Index at 5%. Supporting our constructive view on US earnings and cash flow growth are positive operating leverage, increasing pricing power, easy year-over-year comparisons for the average stock, efficiency gains driven by artificial intelligence (AI) and growth-positive tax and regulatory policies. The US also benefits from an atypical policy cycle in which fiscal policy, monetary policy and deregulation are all working in a procyclical way. That seldom happens at a time when the economy is not in or coming out of a recession.

Our out-of-consensus view that the US equity market is entering an early-cycle environment suggests that small-cap stocks and economically sensitive sectors should see outsized earnings growth relative to large-cap stocks. We also expect attractive returns in Japan over the next 12 months, driven by Takaichi administration beneficiaries in defense, infrastructure and intellectual property, as well as ongoing deflation and reform. In Europe, we see a continued catch-up trade to the US but lagging and below-consensus earnings growth. In the emerging markets, we prefer financials, industrials and select e-commerce/internet companies, with a market preference for India, Brazil and United Arab Emirates.

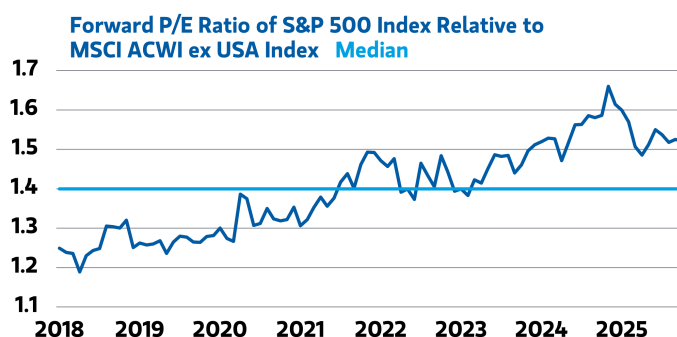
While the US trades at a valuation premium versus the rest of the world, we think that this is justified by attractive structural tailwinds and relative earnings strength. Furthermore, this valuation gap is not as wide as it was a year ago. Specifically, the S&P 500's relative forward price/earnings (P/E) ratio versus the MSCI All Country World ex USA Index has compressed by nearly 10% since late last year, coming closer to the historical median (see chart).

At the S&P 500 level, we expect the market multiple to decline modestly relative to recent levels but to stay elevated versus history, at 22 times earnings. Our analysis shows that it's quite uncommon to see significant valuation compression in periods of above-median earnings growth and accommodative monetary policy. We expect slight multiple

compression in both Japan, from 16.0 to 15.0, and EM, from 13.9 to 13.0. Meanwhile, we see multiple expansion in Europe from 15.2 to 16.0, as the US broadening trend and AI adoption fuel investor expectations of a more meaningful outer-year earnings recovery.

AI adoption is an important global theme. The number of companies citing quantifiable benefits from AI adoption related to cost and revenue has been rising steadily based on our analysis of 7,400 earnings transcripts. We have also seen a return of mergers and acquisitions, with announced volumes in this year's third quarter up 43% and large strategic transactions leading the way. Finally, we expect demand for computing and subsequently power to continue to intensify amid the AI capex cycle, supporting investment ideas tied to the powering GenAI theme.

S&P 500 Versus MSCI ACWI ex US Relative Valuation Has Consolidated Over the Past Year



Source: FactSet, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Nov. 12, 2025

US: The Rolling Recovery Leads to a Broadening

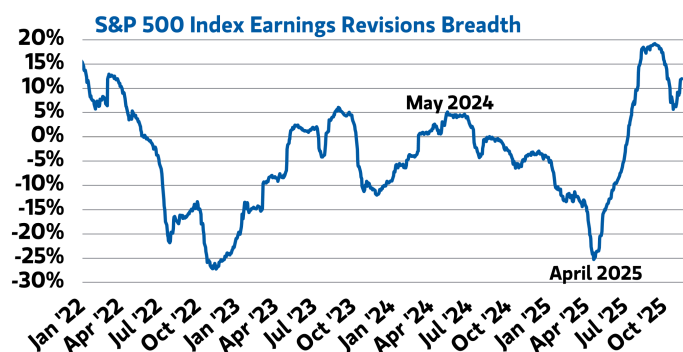
Our out-of-consensus US equity outlook a year ago was for a tougher first half of 2025 and a better second half. This stance was driven by our view that policy sequencing from the new Trump administration would be growth-negative to start before becoming growth-positive around midyear. Policy developments in 2025 generally followed this cadence, though they came to fruition in a faster and more dramatic manner than we had expected.

In this sense, the market's capitulation around Liberation Day in early April marked the end of a three-year rolling recession and the start of a rolling recovery. In other words, this event represented the trough rate of change in many key metrics we track following the 2022–2025 rolling recession during which small-cap earnings declined by 20%; every S&P 500 sector experienced negative earnings growth, though at different times; and important economic gauges remained in contraction.

ON THE MARKETS

Entering 2026, we believe that the rolling recovery has begun, and that we're in the midst of a new bull market and earnings cycle, especially for many of the lagging areas of the index. We think that most of the elements of a classic early-cycle environment are with us today—compressed cost structures that set the stage for positive operating leverage, a historic rebound in earnings revisions breadth (see chart) and pent-up demand across wide swaths of the market/economy that were mired in the preceding rolling recession.

Earnings Revisions Breadth Is Rebounding Once Again



Source: FactSet, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Nov. 12, 2025

Early supporting evidence of an earnings recovery can be found in the third quarter results: a 2.2% S&P 500 revenue beat rate, twice the average; and 8% EPS growth for the median stock in the Russell 3000 Index, the strongest growth in four years. It's worth noting that our post-COVID framework assumes that we have entered a new inflationary regime, and this likely means hotter but shorter cycles.

The missing ingredient for the typical broadening in stock performance that happens early in a new business cycle is rate cuts that are more significant than the market expects. While there's uncertainty around this happening in the short term, during the next six to 12 months we think that moderate weakness in lagging labor data and the administration's desire to "run it hot" will lead to an accommodative monetary policy backdrop involving both rates and the balance sheet. This, in addition to the stronger earnings backdrop that we expect for the average/median stock, supports broadening leadership in 2026—an out-of-consensus view based on our conversations with investors.

The bottom line is that we raise our 12-month S&P 500 price target to 7,800, which is 22 times forward EPS of \$356. This expectation incorporates higher-than-consensus EPS throughout our forecast horizon. We see EPS of \$272, or 12% growth, in 2025; \$317, or 17% growth, in 2026; and \$356, or 12% growth, in 2027. Key drivers of our bullish earnings/cash flow view include a return of positive operating leverage, greater pricing power, AI-driven efficiency gains, accommodative tax and regulatory policies that facilitate a

public-to-private growth transition and contained interest rates across the curve. We expect valuation to compress modestly versus current levels but to stay elevated relative to history at a 22 P/E ratio.

Our work shows that it's rare to see meaningful multiple compression in periods of above-median EPS growth (7%-8%) and accommodative monetary policy. In line with our call for a broadening in leadership amid a healthy EPS environment, we see small caps outperforming large caps and cyclicals outperforming defensives. We reiterate our overweight stance in financials and industrials and upgrade consumer discretionary goods from underweight to overweight. Health care remains our preferred exposure to quality growth.

Global Equity Index Forecast Summary

Index	December 2026 Base Case Index Target (% upside from Nov. 14)	MS & Co. Base Case EPS Forecast Year Over Year (%)		
		2025	2026	2027
S&P 500	7,800	272	317	356
	14%	12%	17%	12%
MSCI Europe	2,430	137	142	152
	4%	-2%	4%	7%
TOPIX	3,600	190	220	240
	7%	4%	16%	9%
MSCI Emerging Markets	1,400	87	98	108
	-1%	10%	13%	10%

Source: FactSet, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Nov. 16, 2025

Europe: Playing Catch-Up

We have 4% upside to our new end-2026 MSCI Europe target (local currency), 8% when considering dividends and buybacks. This upside is driven by a further expansion in Europe's multiple, while 2026 earnings growth once again disappoints an overextended consensus, in our view. Europe continues to follow the path of lingering uncertainty in which anticipation of a future V-shaped recovery is reflected in multiples pushing well above historical averages—as long as the US recovery is expanding. In reality, however, while there are idiosyncratic pockets of European earnings growth, the single greatest constraint to broad-based growth remains expanding Chinese competition in global manufacturing coupled with Europe's largely "old economy" exposure. On the domestic front, we see subdued infrastructure spending in Germany, continued political overhang in France and slow progress on the Savings and Investment Union agenda.

With about a quarter of European equities' revenues exposed to the US, it is difficult to expect the region to be down alongside our expectations for the US. The S&P 500 has been up by mid-teens or higher in 15 of the past 35 years and, in 14

ON THE MARKETS

of those 15 years, European equities were also up. We expect European equities to benefit from the halo effect of a 2026 broadening in the US late-cycle environment, even if this is more through multiple expansion than earnings growth and despite persistent fiscal risks at home and still-elevated policy risks abroad.

Structurally, we see challenges. Consensus earnings growth expectations for 2026 are far too high, in our view, at 12.7% versus our 3.6% estimate. We estimate that about 60% of Europe's earnings downgrades in recent years have been driven by sectors that are highly exposed to China. Next year is not set up well in this regard, with consensus for many of these sectors embedding a dramatic V-shaped growth recovery following years of earnings declines.

Despite our structural caution relative to the US and China, we believe that European equities offer plenty of idiosyncratic opportunities under the surface of the index. Europe's stock-level dispersion continues to break above historical and seasonal averages, and we expect dispersion to keep rising structurally as is typical in a late-cycle environment. We especially like banks, tobacco, defense, diversified financials, food retailers, utilities and software. Conversely, we would avoid pulp and paper, chemicals, luxury goods, autos, transportation and discretionary retail.

The bull case for Europe is in AI adoption, where Europe lags the US. That said, as the narrative begins to shift from enabler growth to adopter return on investment (ROI), we remind that our analysis indicates that European AI adopters with neutral-to-high pricing power are showing earnings outperformance relative to MSCI Europe, their respective sectors and, from the perspective of return on equity (ROE), even US-equivalent adopters. Adoption ROI is critical to the outlook for Europe considering adopter or adopter/enabler exposure sits at more than two-thirds of the MSCI Europe Index weight. And considering the starting point of European returns, demographic challenges and productivity, the adoption ROI phase of the AI cycle could be Europe's moment.

Asia/EM: Prefer Japan to Emerging Markets

For Asia/EM, we think that six dimensions of global macro risk and opportunity should continue to impact performance: US growth; the US dollar; China reflation; US interest rates; multipolar world dynamics; and AI capex and semiconductor chip demand. There will continue to be twists and turns and

interplay in each. Understanding what is in the price for divergent scenarios in each dimension is more important for investors than overly anchoring on specific baseline forecasts. We advise investors to focus on dynamic stock selection in the form of our five core focus lists for global emerging markets, Asia Pacific ex Japan, China, Japan and Asia thematics.

We have raised our base case target for Japan. Our TOPIX target is 3,600, derived from a 15 times forward P/E ratio and ¥240 EPS for 2027. This is around three percentage points above consensus for Japan EPS, with reflation and return on equity (ROE) improvement ongoing and likely boosted by fiscal and regulatory reforms under the Takaichi administration. Revisions breadth is firmer than for EM in aggregate, and the market has strength in depth in both domestic and export-earnings stocks. Structural domestic flows to equities in the form of buybacks and inflows to individual savings accounts, as well as another revision of the Corporate Governance Code, are also attractive features.

After a strong year in 2025, we expect that EM will begin to lose relative performance momentum in 2026 and instead focus on stock selection. Our team's expected US dollar stabilization limits further easing of financial conditions. Our MSCI Emerging Markets target is 1,400, a 1% gain, which is derived from 13.0 times forward P/E and EPS of \$108 in 2027. Our earnings forecast is around six percentage points below consensus. We remain modestly overweight India, Singapore and Brazil, versus underweights in Indonesia, Saudi Arabia and Taiwan. We hold an equal-weight stance on China, expecting deflation risk to be persistent in 2026 before gradual reflation becomes more evident until 2027.

For India, in contrast, our economics team is anticipating a cyclical recovery in 2026 with strong credit growth after cuts in interest rates and the goods and services tax. For Brazil, next year's presidential elections are likely to have a major impact on the market trajectory, but we continue to like the combination of high ROE and low valuations.

In terms of sector exposure, we continue to hold a core overweight in financials, consumer discretionary/e-commerce, communication services and industrials/defense versus underweights in energy and materials. ■

This article was excerpted from the Nov. 16 Morgan Stanley & Co. Research report, "The Year of Risk Reboot." For a copy of the full report, please contact your Financial Advisor.

GLOBAL CREDIT

Global Credit: Smells Like Animal Spirit

Andrew Sheets, Global Head of Corporate Credit Research, Morgan Stanley & Co. International plc+

In a year dominated by headlines, it can be easy to miss larger shifts below the surface. 2025 will rightfully be remembered as a year that was about “trade,” with one’s success largely dependent on navigating the chaotic days into and out of Liberation Day. But it was also about something else. The cycle of corporate aggression has started to turn.

It’s been a long time coming. Since COVID, government deficits ballooned, interest rates whipsawed and equity markets soared. But companies were staid. Across the US, Europe and Asia, investment grade (IG) and high yield (HY) leverage moved sideways. Net issuance was modest. The 2023–2024 period saw the lowest level of corporate mergers and acquisitions (M&A) in more than three decades.

This is now changing as secular forces converge. Technology capital spending is booming and increasingly funded through the debt markets. There is tolerance for easier financial conditions, as the Federal Reserve lowers rates despite above-target inflation, deficits rise despite high levels of debt and regulatory policy eases despite strong markets. M&A has returned, making up for unusually low recent activity and powered by those easy financial conditions. It smells a lot like animal spirit.

THINK 2005 OR 1997–1998. We believe that the playbook is 2005 or 1997–1998, when corporate aggression was increasing without the cycle ending. Both periods saw rising debt issuance, rising M&A and wider credit spreads even as equity markets rose. Beyond this, there are notable similarities and differences.

The 1997–1998 period was more similar to the current scale of tech spending and our equity strategists’ bullish stock market forecast. It was more different in that it featured a 200-basis-point decline in the 10-year US Treasury yield, narrow federal deficits and lower inflation.

The 2005 story was more similar to the current one given a weaker low-end consumer but strong structural forces—then China, now artificial intelligence (AI)-related spending—along with above-target inflation and range-bound yields. Central bank policy was different as the Fed hiked throughout 2005.

These periods offered distinct challenges. In both, credit underperformed an equity/government bond barbell, as corporate management started to take more risk. Idiosyncratic issues in single companies and sectors rose, a

reason we have resumed screening for leveraged buyout candidates. But 1997–1998 and 2005 were also too soon to “hang it up.” Index-level short trades were often frustrating, and the overall market cycle still had room to run.

HIGHER SUPPLY. Supply will be central to how this plays out. This is a strong regional theme and an important differentiator for our views across US, Europe and Asia credit. We forecast net supply to rise the most in US investment grade, up 60% in 2026. We view the shift in the US as predominantly a technology story, as credit should help to fill a \$1.5 trillion financing gap for AI spending that we project through 2028.

Notably, this is a technical problem rather than a credit problem, as these issuers generally have strong balance sheets and significant debt capacity. But tech issuers have also shown themselves to be less price-sensitive given the strategic importance of these projects—a dynamic that can still reprice the broader market. Large issuers who are less sensitive to price is a new dynamic that credit markets haven’t contended with in a long time.

The story differs in other areas and regions. In the US, we see M&A and tech capex driving the most upside in IG supply. Europe and Asia should lag in aggression. HY supply in the US is apt to come from rising leveraged buyout/M&A activity and should be partially offset by strategic acquisitions removing debt from the market. This is one reason IG credit in Europe and high yield in the US and Europe outperform US IG excess returns in our forecasts.

STILL-STRONG DEMAND. What about demand? All-in yields for credit remain elevated, and these yields, rather than tight spreads, are driving strong demand. Our base case is that both supply and demand are healthy in 2026, with a more negative skew in US IG and a more neutral skew elsewhere. In our bear case, a larger drop in yields drives even more supply. The bull case may be regulatory, with favorable changes toward banks and insurance companies driving more appetite.

At a macro level, 2026 doesn’t look that much different from what we expected in 2024 or 2025. For the year ahead, Morgan Stanley & Co.’s economists see global growth holding up, inflation coming down and central banks modestly easing policy further. It is the micro that’s shifting more, in our view, and greater animal spirits should give the credit market a different feel. Higher supply, lower front-end yields and more aggression should push US IG spreads wider (see table) even as growth holds up and equities rise. Europe should outperform, especially in the first half, on less aggression, less supply and relatively better regional growth trends early in 2026.

Key 2026 Forecasts: Spreads, Returns and Default Rates

	Spread to Govt. Debt		2026 Total Return	2026 Default Rate
	Current (as of Nov. 14)	2026 YE Estimate		
US Investment Grade	82	95	4.7%	n.m.
US High Yield	283	300	8.5%	3.0%
US Leveraged Loans	396	425	6.1%	4.0%
Europe Investment Grade	82	90	4.3%	n.m.
Europe High Yield	276	280	5.0%	3.0%
Asia Investment Grade	62	80	6.7%	n.m.

Source: Dealogic, Bloomberg, PitchBook LCD, Moody's Bond Radar, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Nov. 16, 2025

Stable GDP, rate cuts, broadening earnings growth and relatively less net supply should help high yield to outperform investment grade in both the US and Europe. Similar to 2025—or 2005—single-name and sector dispersion should remain a key theme. With steep credit

curves and steepening yield curves, carry and roll could be a surprisingly large driver of total and excess returns.

One version of the bull case is that growth holds up but the animals don't arrive. M&A disappoints. Tech companies moderate their spending, or fund more via cash flow and private markets. A second version is that demand surprises to the upside, either because yields stay higher than we expect, or regulatory shifts drive more demand than we expect.

The most significant risk for global credit remains recession, which would argue for wider spreads on economic grounds and weaker demand as yields fall. It would mean our spread forecasts are too optimistic and our call for HY over IG is wrong. A milder bear case is that aggression and supply are stronger than we think, creating conditions closer to the second half of 1998 through the second half of 1999. Then, the US IG credit spread averaged 111 basis points, up 30 basis points from recent levels, despite strong growth equity performance. ■

This article was excerpted from the Nov. 16 Morgan Stanley & Co. Research report, "The Year of Risk Reboot." For a copy of the full report, please contact your Financial Advisor.

COMMODITIES

Commodities: Metals Over Energy

Martijn Rats, Equity Analyst and Global Commodities Strategist, Morgan Stanley & Co. International plc+

Amy Gower, Commodities Strategist, Morgan Stanley & Co. International plc+

Julia Rizzo, Equity Analyst and Commodities Strategist, Morgan Stanley C.T.V.M. S.A.+

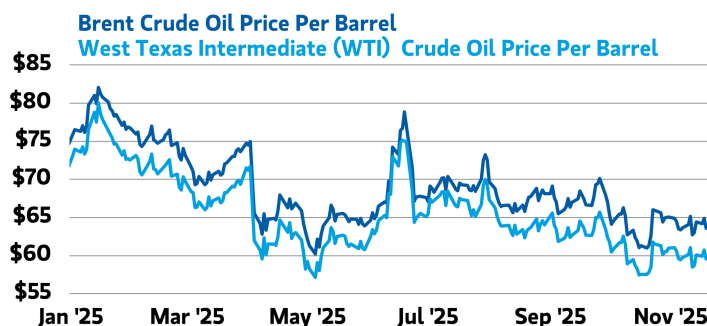
Supply conditions, whether surpluses or deficits, have come to the fore. As oil supply increases from many different sources, supplies in metals and agriculture are generally tight for reasons both local and global. One exception to this narrative is gold—our top pick in precious metals—where demand dominates the story.

ENERGY. Global oil inventories have built during the course of 2025, causing a steady weakening in oil prices. However, a few factors have still provided support: First, locations matter, and so far, inventory has built mostly away from the key pricing centers. Second, the diesel market is tight. Finally, sanctions have caused refiners in key countries to shy away from Russian oil, shifting demand to Brent- and Dubai-linked grades instead.

That said, the underlying balance in the market remains weak, and our modeling suggests that this will get worse in coming quarters before it gets better. This is driven by several factors.

- Demand has entered its seasonally weak part of the year.
- Non-OPEC supply continues to grow, with a large cluster of new fields starting up in Brazil, Guyana, Argentina, Canada, Norway and Angola, among others.
- OPEC supply has grown too: Since March, OPEC has unwound production cuts of roughly 2.6 million barrels per day (mb/d).

Oil Prices Have Weakened on Rising Inventories



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Nov. 19, 2025

All of this points toward a surplus of about 2 mb/d across 2026, temporarily reaching some 3 mb/d in the first half. To store such quantities of oil, the forward curve will need to be in sufficient contango to make storage economics attractive.

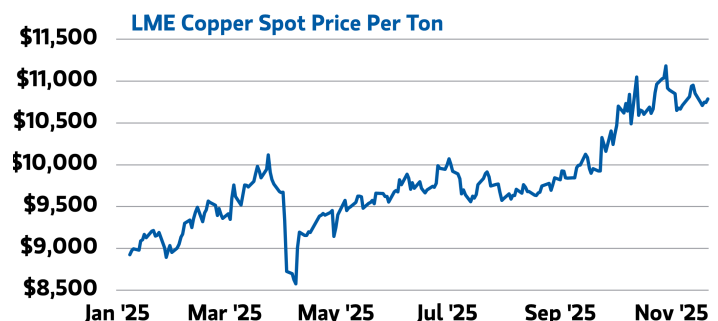
This surplus is not open-ended, so the back end of the forward curve will likely remain anchored in the \$65–\$70 per barrel range. However, we expect that creating this contango will still require the front-month price to fall to \$60. We suspect that Brent will trade around this level next year before starting to recover from mid-2027 onward.

BASE METALS. We see numerous top-down tailwinds for the metals complex that make it hard to be too bearish across any of our coverage. In particular, more rate cuts ahead, a Federal Reserve that appears more tolerant of inflation and generally low inventories drive our upward-skewed price outlook. China's base metals demand indicators (ex property) have surprised positively, supported by exports of steel, electric vehicles, solar panels and appliances, and consumption measures. On top of that, with visible inventories low across many metals, there is less room to absorb unexpected disruptions.

We prefer copper and aluminum within the base metals complex, with both facing supply challenges. Copper mines around the world are being impacted by seismic issues, mud slides, rock falls, lower grades and other challenges, meaning that the 2025 disruption allowance of 5% has already been hit. This has pushed 2025 into a small deficit, which should widen further in 2026. In aluminum, China is hitting its capacity cap while smelters elsewhere are competing with artificial intelligence (AI)-companies for power, meaning that restarts of idled capacity are less likely despite “spot” smelter margins looking positive.

US tariff expectations also support copper demand. We estimate that the US has imported roughly an additional 600 kilotons of copper in 2025, driven first by expectations of 50% import tariffs that supported front-loading, and more recently by a 5% premium for the US-based COMEX over the London Metals Exchange (LME), caused by investor flows and expectations for a 15% import tariff from 2027. As long as the US does not unequivocally rule out copper import tariffs, this incentive to send metal to the US is likely to remain, keeping ex US markets tight and supporting LME prices.

Supply Dynamics and Tariff Expectations Have Supported Copper



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Nov. 21, 2025

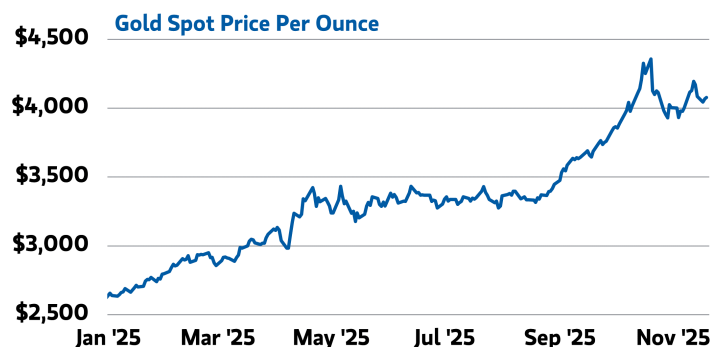
ON THE MARKETS

However, high prices also bring demand destruction risks. As copper prices have risen toward \$11,000 per ton, the China Yangshan copper premium has been falling, indicating some price sensitivity, while some of China's base metals end-use indicators have also been moderating.

PRECIOUS METALS. We maintain a positive outlook for gold into 2026, with strong physical demand and macro factors providing support. The biggest shift in gold demand this year has been from exchange-traded funds (ETFs), which have nearly fully reversed four years of net selling and added the most gold since 2020. We expect this to continue into 2026 as interest rates fall, while central banks are still adding gold to their reserves, albeit at a slower pace, and jewelry demand is showing some stabilization. Demand for real assets as a hedge against upside inflation surprises and ongoing economic uncertainty provide additional support, with many investors rethinking what the right level of gold exposure is.

The recent pullback offers buying opportunities, in our view, with a forecast of \$4,500 per troy ounce by mid-2026. Downside risks include further price volatility, which may drive more selling in favor of other asset classes, or any moves from central banks to reduce their gold reserves.

Strong ETF Demand Has Helped Drive Gold Prices



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Nov. 19, 2025

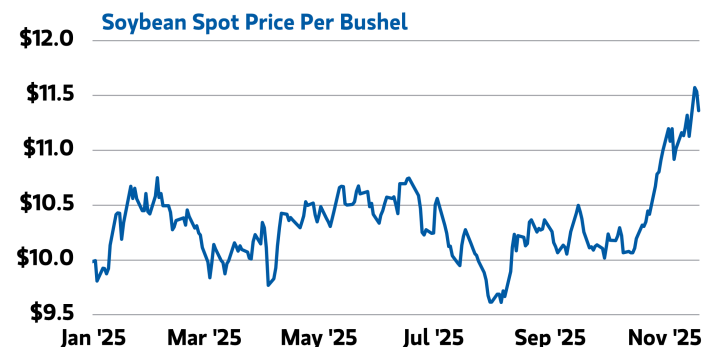
AGRICULTURE. For grain markets in 2026, we expect tighter credit conditions, rising interest rates and reduced availability of subsidized loans; combined with elevated input costs relative to commodity prices, these conditions should slow Brazil's acreage expansion and keep global soybean output

below consensus. Additionally, the onset of a La Niña year introduces heightened risk for dry weather for South American crops, which has historically exerted downward pressure on grain yields. These dynamics point to tighter global supply balances, which should provide a supportive backdrop for higher soybean and corn prices.

Global soybean balances should tighten from a comfortable 2024–2025 base. Our below-consensus Brazil outlook should be partially offset by strong US yields but should be enough to flip the 2025–2026 crop toward a deficit. In corn, we expect global output to rise to 1,274 metric tons on strong US and Argentina crops, but solid demand—near 1,282 and up 2.7% for the year—should keep the deficit in place.

With spot prices near cost floors and inventories set to decline, forward curves should keep steepening as markets should pay a premium to secure future supply. We forecast soybean at \$11.7 per bushel and corn at \$4.7 per bushel on a 12-to-18-month view, above current futures prices. We prefer soy over corn on skew given higher sensitivity to Brazil and a faster-tightening soy balance, while corn's path remains most sensitive to realized US yields and final carryout. ■

Global Soybean Output Has Recently Been Below Consensus Expectations



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Nov. 21, 2025

This article was excerpted from the Nov. 16 Morgan Stanley & Co. Research report, "The Year of Risk Reboot." For a copy of the full report, please contact your Financial Advisor.

INTEREST RATES

G10 Rates: The Double-Breaking Putt

Matthew Hornbach, Global Head of Macro Strategy, Morgan Stanley & Co. LLC

In 2026, we expect global fixed income markets to pivot from monetary easing to policy normalization, as central banks move toward equilibrium. With relative value and term-premium rebuilding driving performance, we suggest an overweight stance toward most government bonds over the first six months of the year

US. We expect the Federal Reserve to complete its handoff from easing monetary policy to achieving a neutral stance. We set our baseline path for the policy rate and Treasury yields to the probability-weighted US economic and monetary policy outlook from our economists; this puts the policy rate at 3.625% in the first quarter of 2026 and 3.125% for the second through fourth quarters, as growth cools toward potential, and inflation, as measured by core personal consumption expenditures (PCE), approaches 2.6% per year by year-end.

We see the 10-year Treasury yield reaching 3.75% in the first half of the year before rebounding to just above 4.00% at year-end (see table). The two-year Treasury yield, meanwhile, should follow the policy path and outperform on the curve, while the 30-year is broadly stable in our forecast, at 4.45% in the first half, before rising to 4.75% by year-end. In our view, the yield curve will steepen on the front-end impulse, then edge wider as the long end rebuilds risk premium.

We expect that macro conditions will be a glide path, not a cliff, with sequential activity firming into the second half after a soft start. That should leave 4Q/4Q real GDP in the mid-1% range and unemployment in the mid-4% area. Disinflation is expected to continue but not in a linear way, which would keep the Fed comfortable holding the policy rate near neutral while signaling opportunistic disinflation. Quantitative tightening (QT) should remain on autopilot, and we think Fed guidance will become more two-sided into year-end.

EUROZONE. We see pressure for the European Central Bank (ECB) to ease further, an out-of-consensus view. In our forecast, the ECB takes the deposit rate to 1.50% in first half 2026 and keeps official rates mildly accommodative through our forecast horizon. For a comparison, the consensus has recently priced around half of a 25-basis-point cut.

On the growth side, we remain concerned about the lagged impact of tariff tensions. But more importantly, we expect the German government to fall short of its fiscal easing targets significantly, providing less support to the economy than assumed by others.

On the inflation side, in 2025 we have seen ECB forecasts being revised down sequentially, and further downgrades might be the catalyst for a resumption of the easing cycle. In our view, wage growth is already below levels consistent with price stability. The miss is not going to be large, however, warranting only risk-management cuts and, with a continuation of QT, a far cry from the previous decade of negative yields and large quantitative easing (QE) balances.

In our baseline scenario, two-year and 10-year German yields drop to as low as 1.50% and 2.30%, respectively, before rebounding slightly by the end of 2026. After this year of European government bond spread compression, we broadly project sideways spread moves in 2026, with the low-deficit countries outperforming the high-deficit ones.

UK. We expect UK inflation to move close to the 2% per year target, while growth remains below potential in 2026. This backdrop should support further policy easing by the Bank of England, with the policy rate, known as Bank Rate, projected to reach 2.75% by end-2026, a level consistent with neutral rate estimates but below recent market pricing.

Accordingly, we see scope for the curve to bull steepen before the market fully discounts the end of the easing cycle and reintroduces some term premium in short-dated rates. We expect the 10-year gilt yield to end 2026 and 2027 at 3.90% and 4.15%, respectively, both below recent market-implied forward rates.

Morgan Stanley & Co. Base Case Government Bond Yield Forecasts

	Two-Year		Five-Year		10-Year		30-Year	
	Q2 '26	Q4 '26	Q2 '26	Q4 '26	Q2 '26	Q4 '26	Q2 '26	Q4 '26
US	2.50	2.60	3.00	3.25	3.75	4.05	4.45	4.75
Germany	1.50	1.60	1.80	1.95	2.30	2.45	2.95	3.10
Japan	1.15	1.15	1.25	1.25	1.60	1.65	3.30	3.25
UK	3.15	3.05	3.35	3.30	3.95	3.90	4.75	4.70
Australia	3.40	3.50	3.70	3.75	4.30	4.40	5.00	5.15
New Zealand	2.45	2.75	3.15	3.40	4.15	4.30	5.10	5.25
Canada	2.45	2.70	2.75	2.95	3.25	3.35	3.55	3.70

Source: Morgan Stanley & Co. Research as of Nov. 16, 2025

ON THE MARKETS

JAPAN. Our economists expect the Bank of Japan (BOJ) to deliver another 25-basis-point hike in December 2025, but they do not anticipate additional hikes in 2026, as the Consumer Price Index (CPI) excluding fresh food is projected to slow below 2% per year, with food inflation stabilizing. In their view, the BOJ will resume tightening in 2027, supported by sustainable wage growth and a recovery in private consumption.

We expect short-to-medium-term rate expectations to be repriced lower and the Japanese Government Bond (JGB) curve to rally into the first quarter, as our US economists see rising downside risks for the US economy, with tariff effects gradually passing through to consumers. That said, as the US economy recovers into the fourth quarter, we expect the market to gradually price in rate hikes.

THE DOLLAR BLOC. We see yield curves drifting steeper as central banks assess the effects of the easing they have delivered over the past year, as the Fed cuts and the US

Treasury curve steepens notably. The Canadian curve should begin flattening first as the Bank of Canada assesses that further cuts from its current level are not necessary; Australia and New Zealand curve flattening is set to begin later as the Reserve Bank of Australia and (likely) the Reserve Bank of New Zealand both conclude that further easing is warranted. We expect a continued expansionary fiscal stance in Australia to keep term premiums wider than in Canada and New Zealand, where net issuance is likely to decline through 2027. ■

This article was excerpted from the Nov. 16 Morgan Stanley & Co. Research report, "The Year of Risk Reboot." For a copy of the full report, please contact your Financial Advisor.

FOREIGN EXCHANGE

Foreign Exchange: Some Things Change, Some Things Stay the Same

Matthew Hornbach, Global Head of Macro Strategy, Morgan Stanley & Co. LLC

For currencies, 2026 should be a tricky year: In some cases, we expect big changes in trend, while in other cases, we expect important themes to continue for longer. But ultimately, we think that nimble investors watching for key signals can navigate these waters effectively.

BREAKS WITH THE PAST. On one hand, we expect 2026 to bring many pivots and key breaks in trend. US dollar weakness should continue in the coming months, but then we expect the currency to bottom and rebound around the second quarter, ending the dollar bear market. The US currency should finish the year close to its recent level and continue to rise into 2027.

European currencies, which led the G10's gains in 2025, should shift increasingly to "laggard" status, while the Antipodeans, the Australian dollar and the New Zealand dollar, shift to the front of the pack.

Leadership within currency blocs should also change. We expect the Australian dollar to outperform the New Zealand dollar, with the differential breaking to a near-15-year high, before the latter jumps ahead, ultimately emerging as the top performer in 2026.

Among funding currencies, the Swiss franc appears more attractive than the Japanese yen for the first half, but we expect the yen to emerge as the funder of choice later in the year.

CONTINUING THEMES. On the other hand, we expect some key themes to stay the same. Risk currencies should continue to trade on the front foot throughout 2026, aided by a buoyant US equity market and declining global interest rates. Oil-sensitive currencies like the Canadian dollar and the Norwegian krone, despite being risk sensitive, will likely continue to face drags versus their peers (the Swedish krona, and Australian and New Zealand dollars) thanks to another consistent theme expected in 2026—the failure of oil prices to rise. And, with low realized volatility implied in the forecast profile, we think that carry—the interest rate earned from holding currency—will remain an important factor driving total returns through the year.

US DOLLAR REGIME SHIFT. A key factor explaining both the pivots and consistencies relates to what we think the market regimes will be for 2026. Initially, we think that the US dollar bear regime will continue, with falling real rates, widening break-even rates reflecting rising inflation expectations, broad-based US currency weakness and buoyant risk appetite. Much of 2025 was explained by the dollar bear regime, and

the decline in US rates due to the Federal Reserve continuing to cut keeps us in this regime.

But as 2026 evolves and long-end US rates begin rebounding, we think that the carry regime is more likely: Unlike the bear regime, with falling real rates and widening breakevens both putting downward pressure on the dollar, the carry regime involves more mixed forces, as higher real rates counterbalance the negativity in the dollar from wider breakevens.

The result? The regime shift from US dollar bear to carry means that the US currency turns around, and funding currencies, particularly the yen, lose their luster meaningfully. However, risk currencies should remain at the forefront, thanks to their greater correlation to consistently widening breakevens.

The decline and rebound of the US dollar reflect both the shift in rate differentials relative to market expectations and the shift in risk premium: The dollar-negative risk premium, which is the discount at which the dollar trades versus fundamentals, has played a key role in the currency's poor showing in 2025. Initially, we see scope for some additional rise in this risk premium, aided by near-term worries about the US labor market, a refocus on the composition of the Federal Open Markets Committee and continued Fed cuts reducing currency-hedging costs. But we don't expect a return to the magnitude of risk premium seen in the second quarter this year, and on net, we see a reversal putting the risk premium closer to zero by the end of 2026.

It's important to emphasize that we continue to think the dollar-negative risk premium will prove amplifying to the dollar's moves based on rate differentials. Compression in rate differentials for the US versus the rest of the world (RoW) reduces hedging costs, raising the incentive to hedge, which adds to US dollar selling beyond what is spurred by any decline in the dollar's fair value.

Higher US rates versus the RoW have the opposite effect. For this reason, we think that investors should remain prepared for convex moves in the US dollar, which is particularly evident in our bull and bear cases, where the move in US/RoW rate differentials is more pronounced.

US DOLLAR VERSUS PEERS. The US Dollar Index (DXY) should reflect this year of two halves, initially falling to 94 by the second quarter of 2026, 2% below consensus and the lowest level since 2021. But the rebound in the second half should see it returning to roughly recent levels. This places our end-2026 forecast about 5% above consensus estimates, and we estimate that there is further room to run into 2027 as well. Timing the US dollar's pivot into the carry regime may prove the critical determinant of investors' foreign exchange returns next year.

Morgan Stanley & Co. Foreign Exchange Forecasts

Currency vs. US Dollar	2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Euro	1.20	1.23	1.19	1.16	1.15	1.15	1.14	1.14
British Pound	1.35	1.36	1.32	1.29	1.28	1.28	1.27	1.26
Japanese Yen	140	140	143	147	145	142	140	138
Chinese Renminbi	7.05	7.00	7.03	7.05	7.03	7.00	6.98	6.95

Source: Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Nov. 16, 2025

We expect the euro to continue its uptrend against the US dollar thanks in large part to dollar weakness, rising to 1.23 by next spring before turning lower to 1.16 by year-end. The rebound in US growth and the end of the Fed cutting cycle should increasingly contrast with developments in Europe, where the European Central Bank will likely need to cut into accommodative territory, confirming investors' perception of Europe's weaker return profile. Falling local rates amid growth weakness will likely boost the euro's popularity as a funding currency.

Against the yen, the dollar should roughly follow the contours of the US bond market, falling to 140 in short order thanks to not only the increase in the dollar-negative risk premium but also a meaningful fall in front-end rates in the coming months, as our interest rate strategy colleagues expect. While we think the US dollar will then rebound against the yen to end the year at 147, the Japanese currency should lag risk-sensitive peers even more, keeping cross-yen trades attractive, particularly on a total return basis.

EMERGING MARKETS HOLDING UP. Our forecasts suggest continued gains for most emerging market (EM) currencies through the middle of 2026, and with the inclusion of carry total returns, they should generally hold up through year-end 2026 even as the DXY turns higher again.

From a top-down perspective, we think that the EM asset class will be supported by a number of factors. First, global growth should maintain a solid pace through the year at around 3.0%–3.2%, while equity markets should generally move higher. Second, although investors have increased exposure to EM this year, local-currency government bonds

are still an underowned asset class from a global perspective, given the modest inflows seen on a multiyear basis.

Finally, EM valuations remain attractive on a risk-adjusted basis as real yields at the index level are high relative to those of developed markets, while premiums for fiscal risks are no longer a phenomenon reserved for EM.

There are, as always, substantial regional and inter-country differences. Asia ex Japan is split between the relatively high-yielding markets of the Indian rupee and Indonesian rupiah; and the low-yielding Chinese yuan, South Korean won, New Taiwan dollar, Thai baht and Malaysian ringgit. The latter are more likely to outperform given export exposure and valuations while Indonesia's currency lags on policy uncertainty and limited bond inflows.

In Central and Eastern Europe, the Middle East and Africa (CEEMEA), we see the Turkish lira, Hungarian forint, and Egyptian pound outperforming through the middle of the year while the South African rand likely lags. In Latin America, elections will drive much of the investor debate, with the Chilean peso likely to outperform and the Colombian peso lagging. The Brazilian real and Mexican peso should come in the middle of the EM pack through to the middle of the year. ■

This article was excerpted from the Nov. 16 Morgan Stanley & Co. Research report, "The Year of Risk Reboot." For a copy of the full report, please contact your Financial Advisor.

Q&A

Has the Muni Market Turned the Corner?

After lagging for much of 2025, the US municipal bond market has turned around. Despite record supply, tax-free bonds rallied in September, outperforming the broad fixed income market in the third quarter. Spurred initially by Federal Reserve easing, investors have returned in force for a combination of historically high tax-equivalent yields and strong credit fundamentals. According to Mark Schmidt, Morgan Stanley & Co.'s head of municipal bond research, "Demand is meeting the moment." On Nov. 18, he spoke with Morgan Stanley Wealth Management fixed income analyst Daryl Helsing about current dynamics in the muni market and his outlook for 2026. The discussion ranged from the positive effects of US economic growth and increasing household wealth to the risk in elevated default rates. The following is an edited version of their conversation.

Daryl Helsing (DH): How do you view the recent shift in municipal bond performance, and do you expect the outperformance to continue in 2026?

Mark Schmidt (MS): What's truly remarkable about the outperformance in the past few months is that it has come in the face of record supply—and we don't think that's going to change. We expect record supply next year, along with very strong fund flows and demand from separately managed accounts (SMAs). That should keep valuations about where they are through next year.

The third quarter was the best outperformance we've seen in three years, but we can't have that all the time. Our forecast calls for a return that exceeds US Treasuries by around 0.5% in 2026. The key point for investors is that we expect good total returns of 5% on tax-exempt munis, balanced by performance on both the front end and the long end of the yield curve.

DH: Elevated supply has been a key theme in the municipal bond market in 2024 and 2025. What do you see driving this trend?

MS: First, everything costs more. Construction inputs, labor and other expenses are 30% higher than five or six years ago. Also, because the economy has grown so much, governments have money to spend: Tax collections are up by close to 10% in key states this year, and, given our economists' and strategists' very bullish call for the economy and markets in 2026, we expect tax collections to be up 6% to 8% next year as well. When revenues are growing, governments feel more confident investing in the future. In fact, there's a positive correlation between revenue growth and municipal bond supply.

It's important to keep in mind that supply is not at a record as a percent of GDP. Supply could be far greater than it is now before we would hit that record, set in the early 2000s.

DH: How do you view the broader fiscal health of state and local governments? And what can we expect as far as credit rating trends?

MS: Credit ratings and credit quality aren't always the same thing, and that's because credit ratings are backward-looking. They rely on audited financial information, which doesn't come out right away. From a ratings point of view, we think that downgrades and upgrades will be about equal next year. That's a slight drift downward from 2024 and 2025.

However, from a credit quality point of view, we think that state and local governments fundamentally are in very good shape. One way to illustrate this is pension funding. About 15 to 20 years ago, there were widespread concerns that pension-funded ratios were far too low. Fast-forward to today and public pensions are about 85% funded, one of the highest levels in decades. Based on our strategists' forecast for the equity market, they could reach 88% or 89% soon. In fact, about one-quarter of public plans are approaching 100% funding, which means that they could derisk their portfolios if they wanted to.

So, the key drivers of state and local credit quality remain intact. On the margin, though, the record stimulus provided to municipal credits in the wake of COVID has been spent down, so we expect the pace of rating upgrades to slow and the pace of downgrades to normalize.

DH: Turning to opportunities, what sectors do you find most attractive heading into 2026?

MS: We like transportation, housing and the energy prepay space. In transportation, credit quality is very strong, and underlying demand trends are holding up. We tend to favor airports, managed lanes and toll roads. The only sector that we would express some caution on is mass transit.

We think that 2026 will be another big year for the housing finance agency market. Every state has a housing finance agency that provides affordable mortgages and lower-cost rental apartments. Because housing is central to the American dream, we think policy support for the agencies will remain very strong.

Finally, we like energy prepayment bonds, which allow municipal utilities to lock in discounted prices on long-term energy supplies. They are complex bonds and pay investors a premium for that. We think they also offer attractive spreads with less duration. The market for energy prepay bonds is expected to grow from around \$100 billion currently, and it's one we are paying close attention to.

ON THE MARKETS

DH: What is your view on high yield municipals? Is this generally a good time for investors to be reaching for yield, or would you be more cautious?

MS: I would lean toward quality. We think that distressed and default rates in the high yield muni market will remain relatively elevated, at 6% to 8%. Investors also don't need high yield as much as they used to, because investment grade yields are still high. In fact, if you're looking at high yield municipal bonds, also consider longer-maturity investment grade offerings. At maturities of 20 years or more, investment grade municipal bonds offer close to the yield on shorter-maturity high yield issues.

DH: When it comes to yield curve positioning, where do you see the best performance potential? And does that tie into a preference for a bullet or barbell portfolio approach?

MS: I like munis across the curve to start 2026. I don't have a strong preference for how I would build a portfolio from a duration point of view, and that's because we see the year progressing in two distinct halves. In the first half, the Federal Reserve is likely to be cutting rates, and in the second, we see rates being on hold. In fact, if growth accelerates, the Fed could even hike rates by the end of next year.

Overall, we expect yields to be range-bound and the curve to steepen, but mostly in a bullish way. On net, that's a good outlook for most maturities, though we don't have especially high conviction in any single part of the curve.

DH: Finally, what are your expectations for demand conditions next year, and what should the composition look like across investment vehicles?

MS: We're not worried about a lack of demand for municipal bonds because household wealth has grown so much. In fact, it has increased by over \$50 trillion in the past six years or so.

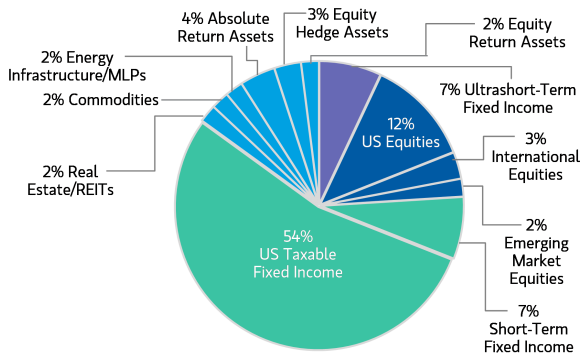
Looking across investment vehicles, investors increasingly prefer exchange-traded funds (ETFs) and SMAs to traditional open-end mutual funds. Our forecasts assume that for every dollar of demand for traditional open-end mutual funds, there will be more than three dollars of demand for ETFs, and more than five dollars of demand for SMAs.

Why does the investment vehicle itself matter? From an investor's point of view, there are a few things to keep in mind. First, ETFs and SMAs buy different kinds of bonds than mutual funds do. They may not pursue credit spread quite as aggressively as mutual fund portfolio managers. That's one reason why our excess return forecasts are relatively modest, although our total return forecasts are good. In addition, investors should pay attention to how capital gains and tax-loss harvesting are treated: SMAs, mutual funds and ETFs all take very different approaches to those two key portfolio maintenance tasks. ■

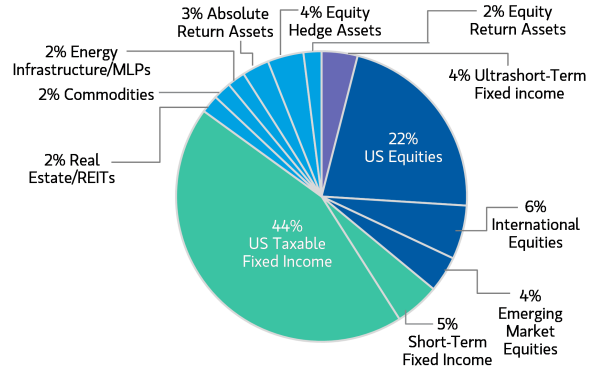
Global Investment Committee Tactical Asset Allocation

The Global Investment Committee provides guidance on asset allocation decisions through its various allocation models. The five models below include allocations to traditional assets, real assets and hedged strategies. They are based on an increasing scale of risk (expected volatility) and expected return.

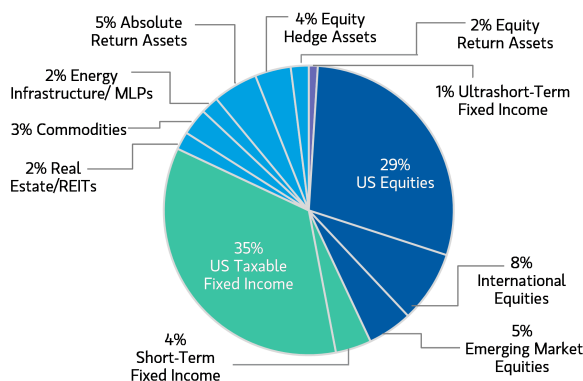
Wealth Conservation



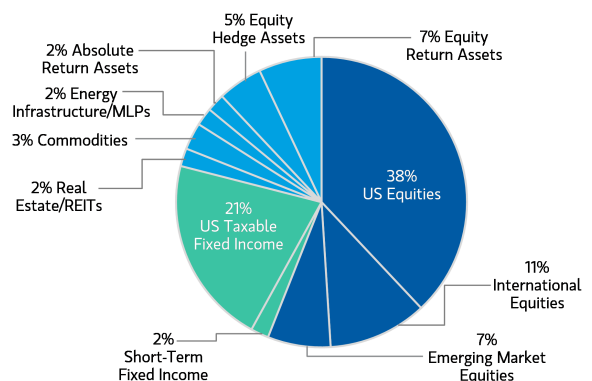
Income



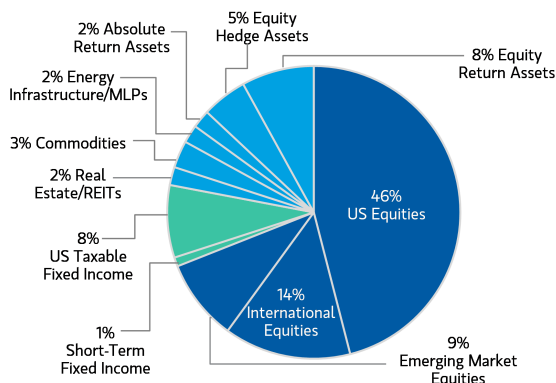
Balanced Growth



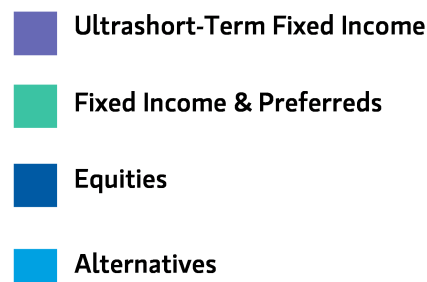
Market Growth



Opportunistic Growth



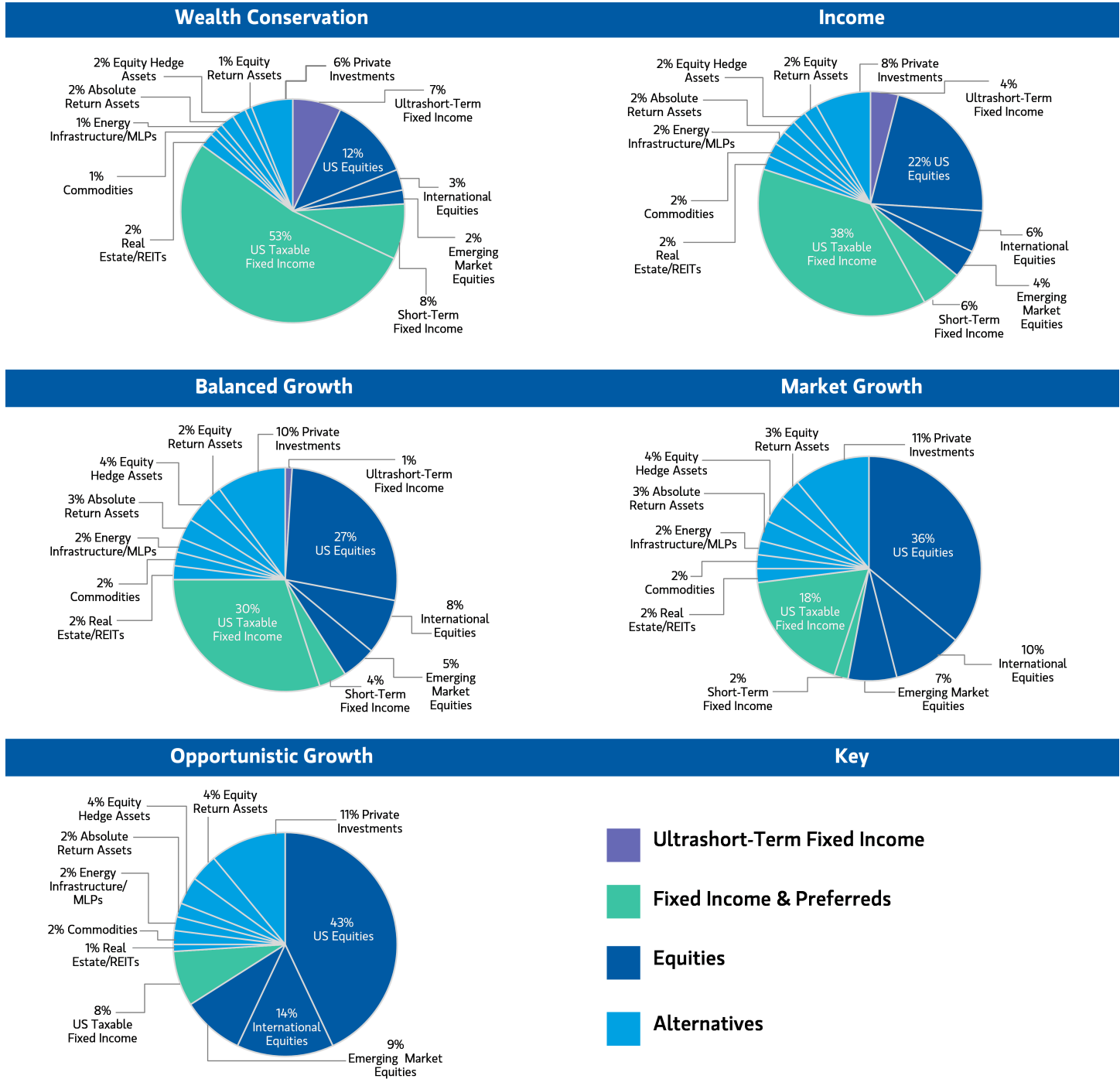
Key



Source: Morgan Stanley Wealth Management GIC as of Dec. 1, 2025

ON THE MARKETS

The Global Investment Committee provides guidance on asset allocation decisions through its various allocation models. The five models below include allocations to traditional assets and alternative investments, including privates, and are recommended for investors with over \$10 million in investable assets. They are based on an increasing scale of risk (expected volatility) and expected return.



Source: Morgan Stanley Wealth Management GIC as of Dec. 1, 2025

Tactical Asset Allocation Reasoning

Global Equities		Weight Relative to Model Benchmark
US	Overweight	Although US large-cap stocks, as measured by the S&P 500 Index, were recently up approximately 35% from their April 8 closing low, for one of the swiftest six-month rebounds outside of a recession recovery, they have materially trailed small-cap, micro-cap and unprofitable tech. While we don't see a recession in 2026, we also don't see a strong enough boom to lift all those boats, and we sense that the crosscurrents of stimulus will continue to favor BIG over small. We see opportunity to rotate portfolios up in quality, including reloading in "Mag 7" names, where prospects for achieving ambitious earnings growth forecasts in 2026 are higher. We added to our Overweight on Oct. 15.
International Equities (Developed Markets)	Underweight	Recent outperformance has been catalyzed as responses to the "America First" agenda have driven fiscal stimulus and concerns about tariffs have been cooling rest-of-world (ROW) inflation. This is creating ROW opportunities to simultaneously enjoy monetary, fiscal and currency-related stimulus. The outlook is improving in Japan. Exported deflation from China and lower global oil prices help.
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 remains a wild card, 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. A weaker US dollar and lower global energy prices are positives for Latin America and Southeast Asia.
Global Fixed Income		Weight Relative to Model Benchmark
US Investment Grade	Underweight	The Fed easing cycle, including some assumptions around the loss of Fed independence in 2026, has been baked into the US Treasury yield curve, with another four to five 25-basis-point rate cuts discounted. As a result, we are materially reducing short-duration exposure and moving toward the "belly of the curve" to capture decent coupons with lower price volatility. We see the long end continuing to be plagued by structural imbalances that show up as widening term premiums, with the two-year/30-year portion of the curve remaining in a steepening pattern.
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. Currency impact is a tailwind for US dollar investors.
Inflation-Protection Securities	Underweight	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 stagflation 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 among 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	Underweight	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	Overweight	Gold may be part of a secular growth story around collateralizing stablecoins and other cryptocurrencies as fiat currencies lose appeal. 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 Dec. 1, 2025

Disclosure Section

Important Information

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.

This material is primarily authored by, and reflects the opinions of, Morgan Stanley Smith Barney LLC (Member SIPC), as well as identified guest authors. Articles contributed by employees of Morgan Stanley & Co. LLC (Member SIPC) or one of its affiliates are used under license from Morgan Stanley.

Seth Carpenter, Michael T. Gapen, Jonathan Garner, Amy Gower, Daryl Helsing, Martijn Rats, Julia Rizzo, Mark Schmidt, Michael Wilson and Marina Zavolock are not members of the Global Investment Committee and any implementation strategies suggested have not been reviewed or approved by the Global Investment Committee

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

The views and opinions and/or analysis expressed in the Q&A section are those of the MSREI team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm").

Forecasts and/or estimates provided herein are subject to change and may not actually come to pass. Information regarding expected market returns and market outlooks is based on the research, analysis and opinions of the authors or the investment team. These conclusions are speculative in nature, may not come to pass and are not intended to predict the future performance of any specific strategy or product the Firm offers. Future results may differ significantly depending on factors such as changes in securities or financial markets or general economic conditions.

This material has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable. However, no assurances are provided regarding the reliability of such information and the Firm has not sought to independently verify information taken from public and third-party sources.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy.

Important note regarding economic sanctions. *This report may involve the discussion of country/ies which are generally the subject of selective sanctions programs administered or enforced by the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC"), the European Union and/or by other countries or multi-national bodies. The content of this presentation is for informational purposes and does not represent Morgan Stanley's view as to whether or not any of the Persons, instruments or investments discussed are or may become subject to sanctions. Any references in this report to entities or instruments that may be covered by such sanctions should not be read as recommending or advising on any investment activities involving such entities or instruments. Users of this report are solely responsible for ensuring that your investment activities in relation to any sanctioned country/ies are carried out in compliance with applicable sanctions.*

Glossary

Alpha is the excess return of an investment relative to the return of a benchmark index.

Artificial Intelligence (AI) A field of study that seeks to train computers to process large amounts of unstructured information in a manner similar to human intelligence, capable of performing tasks such as learning and problem solving.

Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.

Correlation This is a statistical measure of how two securities move in relation to each other. This measure is often converted into what is known as correlation coefficient, which ranges between -1 and +1. Perfect positive correlation (a correlation coefficient of +1) implies that as one security moves, either up or down, the other security will move in lockstep, in the same direction. Alternatively, perfect negative correlation means that if one security moves in either direction the security that is perfectly negatively correlated will move in the opposite direction. If the correlation is 0, the movements of the securities are said to have no correlation; they are completely random. A correlation greater than 0.8 is generally described as strong, whereas a correlation less than 0.5 is generally described as weak.

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.

Price to forward earnings calculates the price-to-earnings ratio that uses projected future earnings.

Real Gross Domestic Product (GDP) is the GDP of the country measured at current market prices and adjusted for inflation or deflation.

Volatility This is a statistical measure of the dispersion of returns for a given security or market index. Volatility can either be measured by

ON THE MARKETS

using the standard deviation or variance between returns from that same security or market index. Commonly, the higher the volatility, the riskier the security.

Hedged Strategy Definitions

Absolute return: This type of investing describes a category of investment strategies and mutual funds that seek to earn a positive return over time—regardless of whether markets are going up, down, or sideways—and to do so with less volatility than stocks.

Equity Hedge is a hedge fund investment strategy with a typical goal of providing equity-like returns while limiting the impact of downside market movements and volatility on an investor's portfolio. Managers utilize long and short positions, primarily in equity and equity-related instruments, to achieve this goal.

Risk Considerations

The sole purpose of this material is to inform, and it in no way is intended to be an offer or solicitation to purchase or sell any security, other investment or service, or to attract any funds or deposits. Investments mentioned may not be appropriate for all clients. Any product discussed herein may be purchased only after a client has carefully reviewed the offering memorandum and executed the subscription documents. Morgan Stanley Wealth Management has not considered the actual or desired investment objectives, goals, strategies, guidelines, or factual circumstances of any investor in any fund(s). Before making any investment, each investor should carefully consider the risks associated with the investment, as discussed in the applicable offering memorandum, and make a determination based upon their own particular circumstances, that the investment is consistent with their investment objectives and risk tolerance.

Alternative Investments

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.

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.

Hedge Funds of Funds and many funds of funds are private investment vehicles restricted to certain qualified private and institutional investors. They are often speculative and include a high degree of risk. Investors can lose all or a substantial amount of their investment. They may be highly illiquid, can engage in leverage and other speculative practices that may increase volatility and the risk of loss, and may be subject to large investment minimums and initial lockups. They involve complex tax structures, tax-inefficient investing and delays in distributing important

ON THE MARKETS

tax information. Categorically, hedge funds and funds of funds have higher fees and expenses than traditional investments, and such fees and expenses can lower the returns achieved by investors. Funds of funds have an additional layer of fees over and above hedge fund fees that will offset returns.

Private Real Estate: Risks of private real estate include: illiquidity; a long-term investment horizon with a limited or nonexistent secondary market; lack of transparency; volatility (risk of loss); and leverage.

An investment in an **exchange-traded fund** involves risks similar to those of investing in a broadly based portfolio of equity securities traded on an exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock and bond prices. Investing in an international ETF also involves certain risks and considerations not typically associated with investing in an ETF that invests in the securities of U.S. issues, such as political, currency, economic and market risks. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economies. ETFs investing in physical commodities and commodity or currency futures have special tax considerations. Physical commodities may be treated as collectibles subject to a maximum 28% long-term capital gains rates, while futures are marked-to-market and may be subject to a blended 60% long- and 40% short-term capital gains tax rate. Rolling futures positions may create taxable events. For specifics and a greater explanation of possible risks with ETFs, along with the ETF's investment objectives, charges and expenses, please consult a copy of the ETF's prospectus. Investing in sectors may be more volatile than diversifying across many industries. The investment return and principal value of ETF investments will fluctuate, so an investor's ETF shares (Creation Units), if or when sold, may be worth more or less than the original cost. ETFs are redeemable only in Creation Unit size through an Authorized Participant and are not individually redeemable from an ETF.

Investors should carefully consider the investment objectives and risks as well as charges and expenses of an exchange-traded fund or mutual fund before investing. The prospectus contains this and other important information about the mutual fund. To obtain a prospectus, contact your Financial Advisor or visit the mutual fund company's website. Please read the prospectus carefully before investing.

An investment in a **money market fund (MMF)** is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. The price of other MMFs will fluctuate and when you sell shares they may be worth more or less than originally paid. MMFs may impose a fee upon sale or temporarily suspend sales if liquidity falls below required minimums. During suspensions, shares would not be available for purchases, withdrawals, check writing or ATM debits.

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. MLPs carry interest rate risk and may underperform in a rising interest rate environment.

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.

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, since these countries may have relatively unstable governments and less established markets and economies.

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-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.

Although they are backed by the full faith and credit of the U.S. Government as to timely payment of principal and interest, **Treasury Bills** are subject to interest rate and inflation risk, as well as the opportunity risk of other more potentially lucrative investment opportunities.

ON THE MARKETS

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.

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

Credit ratings are subject to change.

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.

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.

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.

CDs are insured by the FDIC, an independent agency of the U.S. Government, up to a maximum of \$250,000 (including principal and accrued interest) for all deposits held in the same insurable capacity (e.g. individual account, joint account, IRA etc.) per CD depository. Investors are responsible for monitoring the total amount held with each CD depository. All deposits at a single depository held in the same insurable capacity will be aggregated for the purposes of the applicable FDIC insurance limit, including deposits (such as bank accounts) maintained directly with the depository and CDs of the depository. For more information visit the FDIC website at www.fdic.gov.

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

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.

ON THE MARKETS

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

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.

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.

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.

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.

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.

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 and may result in a loss of the entire investment. 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, and investors could lose their entire investment.
- Certain Digital Asset funds and products, allow investors to invest on a more frequent basis than investors may withdraw from the fund or product, and interests in such funds or products are generally not freely transferrable. This means that, particularly given the volatility of Digital Assets, an investor will have to bear any losses with respect to its investment for an extended period of time and will not be able to react to changes in the price of the Digital Asset once invested (for example, by seeking to withdraw) as quickly as when making the decision to invest. Such Digital Asset funds and products, are intended only for persons who are able to bear the economic risk of investment and who do not need liquidity with respect to their investments.
- Given the volatility in the price of Digital Assets, the net asset value of a fund or product that invests in such assets at the time an investor's subscription for interests in the fund or product is accepted may be significantly below or above the net asset value of the product or fund at the time the investor submitted subscription materials.
- Certain Digital Assets are not intended to function as currencies but are intended to have other use cases. These other Digital Assets may be subject to some or all of the risks and considerations set forth herein, as well as additional risks applicable to such Digital Assets. Buyers, sellers and users of such Digital Assets should thoroughly familiarize themselves with such risks and considerations before transacting in such Digital Assets.
- The value of Digital Assets may be negatively impacted by future legal and regulatory developments, including but not limited to increased regulation of such Digital Assets. Any such developments may make such Digital Assets less valuable, impose additional burdens and expenses on a fund or product investing in such assets or impact the ability of such a fund or product to continue to operate, which may materially decrease the value of an investment therein.
- Due to the new and evolving nature of digital currencies and the absence of comprehensive guidance, many significant aspects of the tax treatment of Digital Assets are uncertain. Prospective investors should consult their own tax advisors concerning the tax consequences to them of the purchase, ownership and disposition of Digital Assets, directly or indirectly through a fund or product, under U.S. federal income tax law, as well as the tax law of any relevant state, local or other jurisdiction.
- Over the past several years, certain Digital Asset exchanges have experienced failures or interruptions in service due to fraud, security breaches, operational problems or business failure. Such events in the future could impact any fund's or product's ability to transact in Digital Assets if the fund or product relies on an impacted exchange and may also materially decrease the price of Digital Assets, thereby impacting the value of your investment, regardless of whether the fund or product relies on such an impacted exchange.
- 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.
- Investors in funds or products investing or transacting in Digital Assets may not benefit to the same extent (or at all) from "airdrops" with respect to, or "forks" in, a Digital Asset's blockchain, compared to investors who hold Digital Assets directly instead of through a fund or product. Additionally, a "fork" in the Digital Asset blockchain could materially decrease the price of such Digital Asset.

ON THE MARKETS

- Digital Assets are not legal tender, and are not backed by any government, corporation or other identified body, other than with respect to certain digital currencies that certain governments are or may be developing now or in the future. No law requires companies or individuals to accept digital currency as a form of payment (except, potentially, with respect to digital currencies developed by certain governments where such acceptance may be mandated). Instead, other than as described in the preceding sentences, Digital Asset products' use is limited to businesses and individuals that are willing to accept them. If no one were to accept digital currencies, virtual currency products would very likely become worthless.
- Platforms that buy and sell Digital Assets can be hacked, and some have failed. In addition, like the platforms themselves, digital wallets can be hacked, and are subject to theft and fraud. As a result, like other investors have, you can lose some or all of your holdings of Digital Assets.
- Unlike US banks and credit unions that provide certain guarantees of safety to depositors, there are no such safeguards provided to Digital Assets held in digital wallets by their providers or by regulators.
- Due to the anonymity Digital Assets offer, they have known use in illegal activity, including drug dealing, money laundering, human trafficking, sanction evasion and other forms of illegal commerce. Abuses could impact legitimate consumers and speculators; for instance, law enforcement agencies could shut down or restrict the use of platforms and exchanges, limiting or shutting off entirely the ability to use or trade Digital Asset products.
- 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.
- Investors should be aware of the potentially increased risks of transacting in Digital Assets relating to the risks and considerations, including fraud, theft, and lack of legitimacy, and other aspects and qualities of Digital Assets, before transacting in such assets.
- The exchange rate of virtual currency products versus the USD historically has been very volatile and the exchange rate could drastically decline. For example, the exchange rate of certain Digital Assets versus the USD has in the past dropped more than 50% in a single day. Other Digital Assets may be affected by such volatility as well.
- Digital Asset exchanges have limited operating and performance histories and are not regulated with the same controls or customer protections available to more traditional exchanges transacting equity, debt, and other assets and securities. There is no assurance that a person/exchange who currently accepts a Digital Asset as payment will continue to do so in the future.
- The regulatory framework of Digital Assets is evolving, and in some cases is uncertain, and Digital Assets themselves may not be governed and protected by applicable securities regulators and securities laws, including, but not limited to, Securities Investor Protection Corporation coverage, or other regulatory regimes.
- Morgan Stanley Smith Barney LLC or its affiliates (collectively, "Morgan Stanley") may currently, or in the future, offer or invest in Digital Asset products, services or platforms. The proprietary interests of Morgan Stanley may conflict with your interests.
- The foregoing list of considerations and risks are not and do not purport to be a complete enumeration or explanation of the risks involved in an investment in any product or fund investing or trading in Digital Assets.

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.

Hyperlinks

This material may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the material refers to website material of Morgan Stanley Wealth Management, the firm has not reviewed the linked site. Equally, except to the extent to which the material refers to website material of Morgan Stanley Wealth Management, the firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of Morgan Stanley Wealth Management) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through the material or the website of the firm shall be at your own risk and we shall have no liability arising out of, or in connection with, any such referenced website.

By providing links to third-party websites or online publication(s) or article(s), Morgan Stanley Smith Barney LLC ("Morgan Stanley") is not implying an affiliation, sponsorship, endorsement, approval, investigation, verification with the third parties or that any monitoring is being done by Morgan Stanley of any information contained within the articles or websites. Morgan Stanley is not responsible for the information contained on the third-party websites or your use of or inability to use such site. Nor do we guarantee their accuracy and completeness. The terms, conditions, and privacy policy of any third-party website may be different from those applicable to your use of any Morgan Stanley website. The information and data provided by the third-party websites or publications are as of the date when they were written and subject to change without notice.

Disclosures

Morgan Stanley Wealth Management is the trade name of Morgan Stanley Smith Barney LLC, a registered broker-dealer in the United States. This material has been prepared for informational purposes only and is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Past performance is not necessarily a guide to future performance. The author(s) (if any authors are noted) principally responsible for the preparation of this material receive compensation based upon various factors, including quality and accuracy of their work, firm revenues (including trading and capital markets revenues), client feedback and competitive factors. Morgan Stanley Wealth Management is involved in many businesses that may relate to companies, securities or instruments mentioned in this material.

This material has been prepared for informational purposes only and is not an offer to buy or sell or a solicitation of any offer to buy or sell any security/instrument, or to participate in any trading strategy. Any such offer would be made only after a prospective investor had completed its own independent investigation of the securities, instruments or transactions, and received all information it required to make its own investment decision, including, where applicable, a review of any offering circular or memorandum describing such security or instrument. That

ON THE MARKETS

information would contain material information not contained herein and to which prospective participants are referred. This material is based on public information as of the specified date, and may be stale thereafter. We have no obligation to tell you when information herein may change. We make no representation or warranty with respect to the accuracy or completeness of this material. Morgan Stanley Wealth Management has no obligation to provide updated information on the securities/instruments mentioned herein.

The summary at the beginning of the report may have been generated with the assistance of artificial intelligence (AI).

The securities/instruments discussed in this material may not be appropriate for all investors. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Morgan Stanley Wealth Management recommends that investors independently evaluate specific investments and strategies, and encourages investors to seek the advice of a financial advisor. The value of and income from investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies and other issuers or other factors. Estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates, and Morgan Stanley Wealth Management does not represent that any such assumptions will reflect actual future events. Accordingly, there can be no assurance that estimated returns or projections will be realized or that actual returns or performance results will not materially differ from those estimated herein. This material should not be viewed as advice or recommendations with respect to asset allocation or any particular investment. This information is not intended to, and should not, form a primary basis for any investment decisions that you may make. Morgan Stanley Wealth Management is not acting as a fiduciary under either the Employee Retirement Income Security Act of 1974, as amended or under section 4975 of the Internal Revenue Code of 1986 as amended in providing this material except as otherwise provided in writing by Morgan Stanley and/or as described at www.morganstanley.com/disclosures/dol.

Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors do not provide legal or tax advice. Each client should always consult his/her personal tax and/or legal advisor for information concerning his/her individual situation and to learn about any potential tax or other implications that may result from acting on a particular recommendation.

This material is primarily authored by, and reflects the opinions of, Morgan Stanley Smith Barney LLC (Member SIPC), as well as identified guest authors. Articles contributed by employees of Morgan Stanley & Co. LLC (Member SIPC) or one of its affiliates are used under license from Morgan Stanley. This material is disseminated in Australia to "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813).

Morgan Stanley Wealth Management is not incorporated under the People's Republic of China ("PRC") law and the material in relation to this report is conducted outside the PRC. This report will be distributed only upon request of a specific recipient. This report does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors must have the relevant qualifications to invest in such securities and must be responsible for obtaining all relevant approvals, licenses, verifications and or registrations from PRC's relevant governmental authorities.

If your financial adviser is based in Australia, Switzerland or the United Kingdom, then please be aware that this report is being distributed by the Morgan Stanley entity where your financial adviser is located, as follows: Australia: Morgan Stanley Wealth Management Australia Pty Ltd (ABN 19 009 145 555, AFSL No. 240813); Switzerland: Morgan Stanley (Switzerland) AG regulated by the Swiss Financial Market Supervisory Authority; or United Kingdom: Morgan Stanley Private Wealth Management Ltd, authorized and regulated by the Financial Conduct Authority, approves for the purposes of section 21 of the Financial Services and Markets Act 2000 this material for distribution in the United Kingdom. Morgan Stanley Wealth Management is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.

This material is disseminated in the United States of America by Morgan Stanley Wealth Management. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

This material, or any portion thereof, may not be reprinted, sold or redistributed without the written consent of Morgan Stanley Smith Barney LLC.

© 2025 Morgan Stanley Smith Barney LLC. Member SIPC.

RSI1764635354915 12/2025