



Global Investment Committee | March 2026

On the Markets

Exploiting Rotation's Excesses

More than two months into 2026, equity markets remain stuck in the range they established in last year's fourth quarter. The inertia and churn are not products of macro fundamentals, however, as earnings have been solid and macroeconomic developments have surprised to the upside. The good news is that equity markets have broadened significantly amid shifting leadership. Some aspects of the rotation have been reflexive and are apt to disappoint. But others, such as those tied to infrastructure and industrials, seem to have legs. The biggest unknown underpins rotation away from the three-year-old bull market's main driver, as investors wring their hands over the maturation of the GenAI trade. Worries have played out across at least three dimensions.

First, for the Magnificent Seven and the hyperscalers, there is the concern about rising capex. In the past six months, expectations for 2026 and the following two years have continued to accelerate. The dramatic capex projections call into question cycle sustainability and returns on investment. Second, there has been a rush to discount the potential disruption that will arise from successful GenAI deployment, leading to the wholesale repricing of industries like software and business services, with investors moving into areas as diverse as consumer staples and mining and materials. Third, there are the fears of software exposure potentially hidden in private credit portfolios. Here, anxieties have mounted following net asset value markdowns among a few funds that have tainted the valuations of many other players. Some of them, such as the capital markets-centric banks, should benefit from a steeper yield curve, deregulation, an improving IPO environment and efficiency-driven AI adoption.

Ultimately, performance and valuation dispersion in the S&P 500 is close to its widest ever, creating a virtual stock-picker's paradise. This comes as US political and geopolitical risks accelerate, with military action in Iran potentially lasting weeks, fostering the need for vigilance and active risk management. Asset-allocation diversification is one tool we recommend, but in a moment like this, it is insufficient on its own. While we remain constructive and see positive full-year returns, the easy money in this bull market has been made. Now comes the hard part—navigating the last third of the journey. ■

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US ECONOMICS

US Growth: Can Productivity Offset the Immigration Drop?

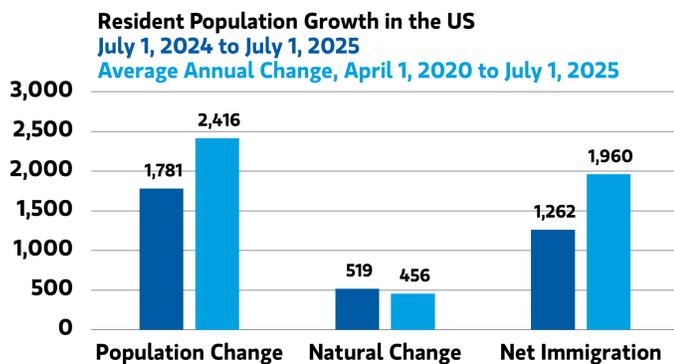
Michael T. Gapen, Chief US Economist, Morgan Stanley & Co. LLC

US potential growth is increasingly shaped by two opposing structural forces: immigration controls that reduce labor supply and thus, hours worked; and productivity gains—potentially AI-driven—that lift output per worker. Recent US census data showing a sharp drop in net immigration shifts the focus to whether productivity gains can make up for it and sustain potential growth.

POPULATION DYNAMICS FLIP. After a surge in immigration lifted population estimates in early 2025, new US census data released in late January shows that net international migration has fallen dramatically from 2.7 million to 1.3 million. With further slowing to 321,000 projected, the US is experiencing the sharpest slowdown in population inflows since the COVID-19 pandemic.

The “vintage 2025” population estimates, which are based on estimates between mid-2024 and mid-2025 and will be incorporated into the January 2026 population data, suggest that US population growth dropped by half, rising by only 1.8 million, or 0.5%. The Census Bureau estimates that “natural change” accounted for the rest of the growth, as 3.6 million births outpaced an estimated 3.1 million deaths (see chart).

Population Growth Has Been Much Slower Than the Average Annual Change Since 2020



Source: Census Bureau, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Feb. 2, 2026

Because immigrants tend to be younger, have higher participation rates and work more hours, the decline in net immigration materially reduces the capacity for hours worked, a key input to potential GDP.

RESULTS ALREADY SHOWING. After the pandemic, hours worked rebounded—fueled by strong immigration—and contributed over 1 percentage point to potential growth in 2022–2023. But with immigration now slowing, the

contribution to growth has dropped to roughly 0.6 of a percentage point presently, returning total hours to the pre-COVID pace. Based on census projections, trend hours worked could slow by another 40 basis points, and potentially more if the labor force shifts toward lower participation from US-born workers.

As a result, we estimate US potential growth has already slipped from 3.0% in 2022 to 2.3% currently, with the risk of falling below 2% in 2026 if immigration controls persist.

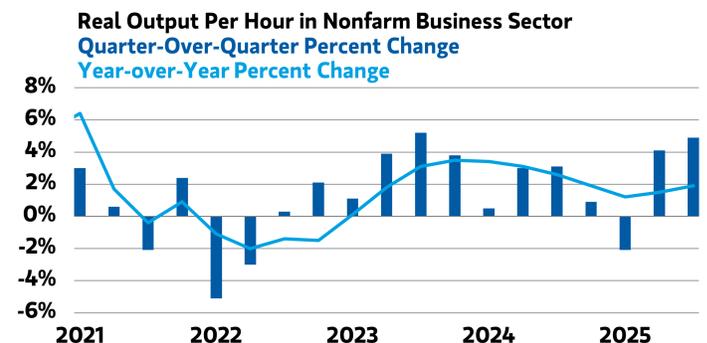
In our initial take on the effects of restrictive immigration policies on the US economy (see “Immigration and the Macroeconomy,” Feb. 20, 2025), our key findings were 1) the surge in immigration helped the US economy to “soft land” following a period of high inflation as the economy exited the pandemic, 2) reduced immigration could mean that slow employment growth coincides with a low unemployment rate and 3) potential growth could slow since less immigration implies slower growth in the labor force and capacity for hours worked.

We were confident in our thinking that growth in trend hours would slow, but that is only part of the story. Immigration controls push potential growth lower while productivity gains push potential growth higher. We leaned in the direction of thinking immigration would weigh on growth in trend hours before AI investment could push productivity higher, but the tug-of-war will ultimately be decided by the data.

Our key cyclical takeaway from immigration controls was that it will be difficult to push the unemployment rate higher with a sharp slowdown in labor supply. The sluggish, low-hire/low-fire labor market in 2025 validated this view.

PRODUCTIVITY AS COUNTERWEIGHT. Recent gains in output per hour—supported by automation, efficiency pressures and early AI adoption—offer some offset to the drop in labor supply and hours worked. However, the current four-quarter productivity trend near 1.9% remains close to our longer-run estimate and has not yet demonstrated a sustained break higher (see chart).

Productivity Is Showing Signs of Life. Will It Continue?



Source: BLS, Haver Analytics, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Sept. 30, 2025

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Although it is too early to conclude whether an AI-driven productivity boom will fully compensate for slowing labor force growth, it certainly *could*—or it could make any slowdown in potential growth short-lived. If the prior technology innovation cycle is any guide, productivity growth could rise by more than trend hours slow. After all, productivity growth accelerated by 100–150 basis points per year during the productivity boom of the 1990s.

Are we seeing that now? No, not yet. The upcoming benchmark revisions to employment will be a key factor. If employment growth is revised sharply lower, it would indicate stronger productivity gains and could reveal a different underlying trend.

BOTTOM LINE. For now, we retain our outlook for further deceleration in potential growth across our forecast horizon in 2026–2027. We think it plausible that potential growth could slip back below 2.0%, or about where it fluctuated after the Great Financial Crisis and before the pandemic. Whether it ultimately does will depend on whether immigration controls are maintained and whether the corporate sector can adopt AI and other cost-saving measures more rapidly than we estimate. Stay tuned. ■

This article was excerpted from the Feb. 2 Morgan Stanley & Co. Research report, "Opposing Forces: How Immigration Controls and AI Productivity Shape Potential GDP." For a copy of the full report, please contact your Financial Advisor.

US EQUITIES

Concerns Over AI Disruption Do Not Compute

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Two months into 2026, the broadening of equity market leadership into small-cap, cyclical and international stocks—and away from mega-cap technology shares—should not come as a surprise. It is consistent with the cycle maturing after an unusual and uneven post-COVID recovery.

What is stunning, however, is the recent indiscriminate selling in sectors perceived to be vulnerable to disruption by generative artificial intelligence (GenAI). Underlying this trade is a contradiction that has punished both the companies providing the “compute” to the frontier large language models (LLMs) and the companies perceived to be negatively impacted by their growing reach. From our vantage point, it’s hard to believe that the market should discount LLM counterparty risk while it also penalizes the software and data industries, which have entrenched distribution and proprietary data competitive advantages.

While many of these “disrupted sectors” managed to rally initially after an AI model provider presented key partnerships with several leading software and data businesses at a well followed event last week, we think that their eventual recovery will play out gradually over time.

MARKET DISSONANCE IS NOT NEW. While our college textbooks suggest the purity of market efficiency, we have seen anomalies in every cycle. The emerging and likely temporary dissonance across tech-related areas today reminds us of a market anomaly in 2023: the inherent contradiction between bullish views on both the packaged food and beverage segment and the pharmaceutical companies selling GLP-1 anti-obesity medicines.

If the total addressable market (TAM) of GLP-1s, which suppress appetites, was as large as forecast—upward of \$100 billion in annual sales—logically, there could be little doubt that the companies whose sales were a byproduct of calorie consumption would be negatively impacted. In other words, both industries could not work at the same time; it was a zero-sum game.

Our intuition proved correct. Since May 2023, when a large trial showed sustained weight loss and significant health benefits from GLP-1 medication, the packaged food sector has declined 21%, while the biopharma sector is up 50%. This dispersion was rational, as the earnings power of the packaged food companies stagnated while that of the GLP-1 providers more than doubled (see chart). Although other

factors were also likely at play, including shifting consumer preferences, increased e-commerce grocery spending and new policy agendas, simply put, packaged food companies faced a nearly impossible task against a wave of anti-obesity drugs.

Earnings Power: GLP-1 Producers Versus Packaged Food Companies



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Dec. 31, 2025

SOFTWARE AT THE CENTER OF THE STORM. Recently, software stocks have been trading at multiyear lows as new AI tools have exacerbated existential fears for the software industry as a whole. Once again, we are observing dissonance across interrelated sectors and themes—only this time, the view is bearish rather than bullish. As in the case with GLP-1s, innovation, or technology disruption, is the key vector cutting across these stocks; to be fair, dissonance often arises early in innovation cycles when past data and models offer investors no clear guidance.

Here are some of the disconnects we see:

- How can the market push software stocks to multiyear lows on AI tool optimism while also driving hyperscaler credit spreads to multiyear highs on AI tool and funding skepticism?
- How can the stocks of ratings agencies and capital markets providers lag the market while debt issuance to fund AI data-center spending continues to grow?
- Similarly, how can power providers in the utilities sector lag amid the growing data-center build-out and increasingly extreme power bottlenecks?
- How can the Magnificent Seven, albeit with differentiation within the group, be underperforming the market if AI use cases for the Fortune 100 are rising, seemingly validating the return on investment?

LONG-TERM OPPORTUNITIES EMERGE. While we use the more balanced term of “dissonance” to describe the current market, Nvidia CEO Jensen Huang recently pushed back in less uncertain terms: “There’s this notion that the software industry is in decline and will be replaced by AI ... It is the most illogical thing in the world.”

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As in the battle of GLP-1s versus potato chips three years ago, dissonance tends to break at some point. Without attempting to call the trough, we doubt that year-to-date price trends will persist.

Over two months, sectors deemed “AI-disrupted” have shed roughly \$700 billion of market capitalization. If you include the hyperscalers that are enabling the build-out of LLMs by providing data centers and compute, the total climbs to more than \$1.8 trillion lost (see table).

Sector Losses in 2026 Amid AI-Disruption Trades

Category	Performance	EPS	P/E	Market Cap
	YTD (%)	Revision (%)	Change (%)	Change YTD (\$ b)
Financial Data	-17.8	-0.8	-17.2	-58.7
Consulting	-20.2	0.3	-20.5	-89.1
Health Care Data	-26.8	0.0	-26.9	-29.8
SaaS*	-29.2	1.9	-30.1	-34.6
Real Estate	-14.9	-2.4	-13.1	-17.8
Wealth Management	-7.6	2.0	-9.7	-21.3
Alternative Asset Manager	-30.3	-1.0	-29.6	-144.0
Average/Sum	-21.0	0.0	-21.0	-702.4
Hyperscaler	-11.6	1.9	-11.9	-1,133.6

*Software as a Service

Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Feb. 26, 2026

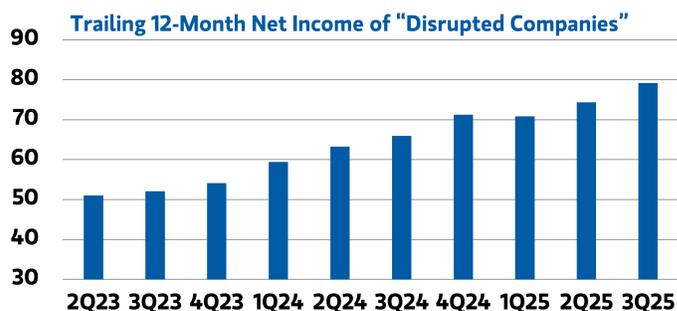
We also have seen broad selling in companies that sell access to data, as this moat is now perceived to be impaired due to the ability of LLMs to scrape the internet and synthesize the results. This view ignores the irony that these same companies were previously given premium valuations for having asset-light businesses with recurring data subscriptions. It also assigns an elevated probability of success to emerging AI-native startups that face high compute costs and cash burn. While we expect GenAI to be around for good—and in fact AI has existed for decades—we aren’t as convinced that these emerging companies will have a 100% success rate.

Investors can debate terminal valuation multiples, but the fact is that unlike our example with GLP-1s and packaged food companies, most of the companies that are viewed as likely to be disrupted by AI are not yet seeing fundamental deterioration. In fact, in aggregate, trailing 12-month (TTM) net income is up 1.5 times over the past three-plus years since the famous launch of Chat GPT in November 2022 (see chart).

So far, 2026 earnings revisions for this group are still positive at 0.2%, indicating that the AI disruption isn’t yet weighing on profits. If this persists, valuations on stocks that have been most susceptible to this rotation should stabilize. We think

this creates an opportunity to identify industries where competitive dynamics are strong—protected by regulatory or distribution moats—or where AI adoption could improve earnings power.

Profits in AI-Disrupted Industries Have Been Rising



Note: AI-disrupted companies are represented by a market-cap-weighted basket of industries: financial data, consulting, health care data, software, real estate brokerage, wealth management and alternative asset management.

Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Feb. 26, 2026

- **Wealth management/brokerage:** This industry is benefiting from the strong wealth effect created by the equity and housing markets since COVID. Access to data is highly limited and regulated, making it difficult for LLMs to disintermediate the advisor-client relationship. In fact, “Act 1” has already played out with the rise of the “robo advisor” in the 2010s.
- **Software:** While there will likely be winners and losers in software, current fundamentals remain strong, with the consensus expectation for earnings growth of 15% annualized in 2026–2028. Overall pricing power and therefore gross margins may moderate due to weakening competitive moats, but early evidence suggests that software engineering is the most concrete AI productivity use case. So, it is plausible that there will be a material margin offset driven by R&D efficiencies or operating leverage driven by faster “go-to-market” strategies for new products.
- **Health care/financial data:** One of the more surprising areas of weakness has been companies that operate in insurance, clinical trials, real estate and other privacy-sensitive, data-oriented sectors. Like wealth management, these industries require high levels of trust and authentication; legal risk would also be high in the event that an AI agent has a “hallucination” that results in false or inaccurate results. Notably, while LLMs are good at aggregating and analyzing publicly available data, companies that own the distribution around proprietary data are unlikely to give it away. In this scenario, could GenAI be just another paid distribution channel for these companies?

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We still find more questions than answers. AI as a technology is not new, but the latest GenAI LLMs have driven rapid adoption by lowering barriers to use and introducing natural language as the interface instead of computer code. Where the intelligence curve and scaling laws go from here is anybody's guess.

However, it is highly unlikely that the business model for GenAI companies includes putting its Fortune 100 customers out of business. Further, history tells us that markets tend to overshoot to the downside in periods of uncertainty, as investors overextrapolate narrative-driven fears. Usually, it

pays to take the other side of that trade as dissonance does eventually break. Long-term investors should be disciplined—GenAI is going to change how certain industries monetize data—but they should also be on the lookout for opportunities in stocks that have been oversold. Our base case is that GenAI adoption is a higher probability outcome than GenAI displacement.

In sum, we expect that corporate America will ultimately forge a collaborative relationship with GenAI tools, one defined by chronic interdependence rather than targeted obsolescence. ■

EMERGING MARKETS

Will EM Continue to Emerge?

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Emerging market assets are having quite a year thus far—so much so that clients are asking whether it is sustainable. For markets and asset prices, the US dollar’s trajectory will be a key factor determining the length of the rally. Solely from an economics perspective, we think that EM economies are in a fundamentally strong position, which provides a solid basis for the performance to continue.

Last year, we often wrote about the stabilizing force of central bank orthodoxy and historically high real rates. In that context, growth and inflation have generally done quite well across EM. The Federal Reserve’s rate cuts to date have eased pressures on EM central banks, opening the door a bit wider for the virtuous cycle to last. But EM economies are naturally heterogeneous, and it’s worth taking a look across regions.

LATIN AMERICA. Politically, Latin America has a lot at stake in 2026, with elections looming in Brazil, as well as in Colombia and Peru, following the voting in Chile late last year. Most of our client conversations start with a binary focus: Will the leftward shift from the previous election cycle reverse in the new elections, as we saw in Chile? But taking a step back, the fundamentals of resilient economic growth and contained inflation suggest that whoever wins will have little incentive to make dramatic changes. Years of orthodox central banking and cautious fiscal policy have laid a foundation for Latin American economies to continue to perform, and we suspect that trend will persist. Questions are thus likely to shift to what types of fiscal reforms are possible and whether additional interest rate cuts from the central banks can trigger a deeper virtuous cycle.

ASIA. In Asia, a more complicated external story is manifest, with export-driven economies facing US tariffs on the one hand but a huge tailwind from the AI capex boom on the other. Korea and Taiwan have accelerated to above-trend growth on the back of strong exports, and that outcome is extending as we pass the peak in US tariffs. Moving past peak

tariffs is also supporting an acceleration in nontech exports, which should support the region more broadly. However, Chinese growth remains subdued, albeit stable, though deflationary pressures persist. Chinese exports are exerting downward pressure on growth across the region, while moderate consumer demand is keeping domestic inflation negative. That said, we are generally constructive on Asia EM, but the virtuous cycle looks to be less robust than in Latin America.

CEEMEA. The economies we cover in the Central and Eastern Europe, Middle East and Africa (CEEMEA) region sit between Asia and Latin America, both literally and figuratively. By and large, the region has also seen orthodox monetary regimes restrain inflation in recent years and, with a few exceptions, CEEMEA economies have combined that discipline with stable fiscal outlooks to support growth. South Africa is a prime example, given its central bank’s recent de facto lowering of its inflation target to 3% per year from a range of 3% to 6%—reflecting growing confidence in low inflation. The coalition government’s restrained fiscal stance has reinforced the trend. The read-across for assets in fixed income and equities has been positive, and of note, we estimate that risk premiums have fallen as confidence has broadened.

Overall, we share the market’s bullishness on EM. We expect another solid year of growth ahead, with limited fiscal and inflation risks. Heterogeneity will always exist ... and therein lies part of what makes EM interesting. If there is a theme across EM underpinning the strong performance, it is the US dollar. As the dollar weakens, it provides support broadly. Our baseline view is for the Fed to cut rates twice more this year and for the decline generally to continue. But persistently strong growth in the US means that if inflation does not start to show a downtrend in the next couple months, those rate cuts will come into question, and with them, the outlook for the dollar. ■

This article was excerpted from the Feb. 22 Morgan Stanley & Co. Research report, “Will EM Continue to Emerge?” For a copy of the full report, please contact your Financial Advisor.

CREDIT

Mapping Software Exposure in Leveraged Credit

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As markets assess the potential implications of an increasingly AI-enabled world, the long-term viability of software companies has come under growing scrutiny. At the World Economic Forum in Davos in January, the CEO of Anthropic commented on the future of software development, suggesting that artificial intelligence is close to being able to perform the majority of software engineering tasks. Along with recent releases of advanced AI models, this has driven significant weakness in companies perceived as at risk of business disruption.

In the equity market, the S&P Software Index is down 21% for the year to date through February, and the broader S&P 500 Index up approximately 1%. Stocks potentially more exposed to AI disruption have done even worse. That equity market weakness has been bleeding into credit, especially among US leveraged loans and business development companies (BDCs). Negative loan performance contrasts with positive excess and total returns among high yield (HY) bonds, which are less exposed to the space.

While the aggregate move in credit has been relatively shallow compared with equity indexes, dispersion beneath the surface has been significant. Approximately 21% of software industry sector loans have recently experienced double-digit price declines for the year to date, and 22% of the software universe by count recently traded at distressed levels below \$80, up from 12% at year-end 2025. In collateralized loan obligations (CLOs), underperformance has been concentrated lower in the capital structure, with BB ratings tranches and equity lagging amid concerns around net asset value (NAV) erosion and market value overcollateralization, while investment grade tranches have remained relatively resilient.

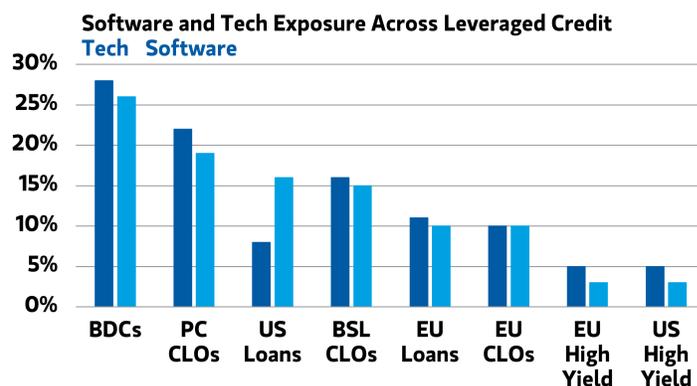
UNDERSTANDING THE RISKS. For credit markets broadly, understanding the risks around the software sector is both important and challenging. Important, because the sector has seen significant growth in recent years, with much of it skewed toward lower credit ratings and high leverage. Challenging, because unlike the equity market, leveraged credit exposure is massively skewed toward financial-sponsor-backed private credit structures, which means limited access to financials or business fundamentals needed to assess exposure to AI-driven disruption.

Our equity colleagues' views suggest that the risk of large, systemic disruption across the software sector is limited in the near term; as a result, we do not expect a surge in

defaults. However, for credit investors, two important factors differentiate the sector from equities: 1) Credit exposure is heavily skewed toward private, sponsor-backed companies, unlike the more established public issuers covered by our equity counterparts; and 2) the valuation correction in credit to date has been shallower, even on a beta-adjusted basis.

With the above premise in mind, and acknowledging that it will take time to fully assess the key beneficiaries and those who could be disadvantaged, we detail aggregate exposure across different segments of the leveraged credit ecosystem in both the US and Europe, focusing on loans, high yield bonds, CLOs and BDCs where data are available (see first chart). While we use sector composition and NAVs of companies in BDC portfolios to assess software exposure in private credit, we caution that the most recent granular data available is only as of the third quarter of 2025. It is also important to note that sector definitions are not necessarily consistent across different data sources and segments of the leveraged credit market.

Software and Tech Exposure Across the Leveraged Credit Asset Market: High Yield Market Least Exposed



Source: PitchBook LCD, Morningstar, S&P Global, ICE BofA, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Feb. 9, 2026

Overview of Software Exposure

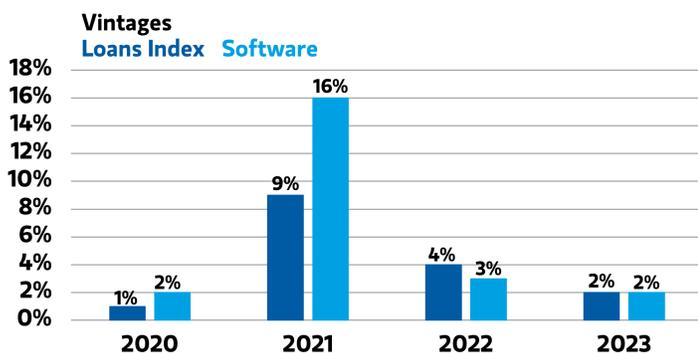
1) Within the US, public BDCs have the highest software sector exposure, at 26%. Private credit CLOs and US loans are more exposed than broadly syndicated loan (BSL) CLOs, which have benefited from sector concentration limits and proactive manager reduction. HY is most insulated, with less than 5% exposure; notably, that HY exposure is also skewed toward better-quality names and AI infrastructure enablers.

2) In loans, software exposure is skewed toward B-/CCC range and largely private names. Disruption risks aside, the software sector is challenged from other fronts, namely that a lot of debt in the sector was underwritten in the weakest vintages of 2021 (see second chart). Leveraged buyout (LBO) deals over these vintages were done with higher-than-typical

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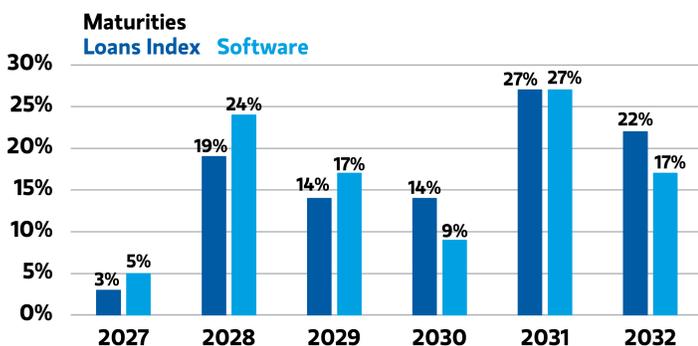
leverage, with interest rates very low at the time. Finally, while we cannot track fundamental metrics for much of the sector, we note that the maturity wall for software loans is significantly more front-loaded than it is for the rest of the borrower base (see third chart).

Software Vintages Are Skewed to 2021, When Rates Were Very Low and New Issue Leverage Elevated



Source: LCD Morningstar, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Feb. 9, 2026

Software Maturities Are More Front-Loaded Than the Rest of the Borrower Base



Source: LCD Morningstar, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Feb. 9, 2026

3) Given that CLOs are the largest holders of loans, they unsurprisingly have meaningful software exposure. That said, exposure within BSL CLOs is lower than that of the loan market, reflecting modest underweight positioning by CLO managers to software and information technology services, in light of collateral pool diversification requirements. The negative impact is mitigated further by the marginally higher-quality skew of software loans held in CLOs relative to the overall loan market, due to active portfolio management. In private credit CLOs, the exposure to software and services is higher (19%) than for the BSL counterpart (15%), with wider dispersion across managers.

4) In the European loan market, software exposure is lower than in the US, at approximately 10%, which has helped the

region's relative performance. Similar to US loans, however, the quality mix of these issuers is worse than it is for the overall market, and the majority of names are currently leveraged above the threshold for their respective ratings. Within EU CLOs, exposure broadly mirrors the overall loan universe, at around 10%, with a skew toward US-based issuers. While the exposure is more than that of US CLOs, it is likely to be a source of price dispersion while the theme plays out.

NEAR-TERM THOUGHTS. Sentiment regarding the software sector is likely to stay weak, and it is unclear what the "positive circuit breaker" could be. We think that AI disruption is a relatively "new" risk for investors to navigate and that it marks an evolution in the process of AI diffusion. Until recently, much investor dialogue was focused on the risk of excessive capex, overbuild and bubble concerns. We are now seeing the other end of the spectrum—in other words, AI technology improving very rapidly. From a pure sentiment and risk-assessment standpoint, we hypothesize that investors will need some time (or a more meaningful price correction) before feeling comfortable taking incremental risk in the sector. We also think that this is a situation whereby companies experiencing price declines might have very healthy financials, ex ante, but may not have the ability to disprove disruption concerns.

Defaults are likely to stay low for now, but price declines could broaden and get worse. We are still in the early days of AI adoption, and it will likely take time to figure out which companies are actually at risk of complete disruption. The companies viewed as exposed could themselves talk about investing in/adopting AI to get ahead of the curve, with sponsor cash injections potentially providing some liquidity support. In effect, we don't expect an immediate rise in defaults, but rather price declines that are likely to get worse and persist for a while. If defaults do rise, we expect a skew toward distressed exchanges rather than bankruptcies, at least initially.

THINKING MEDIUM TERM. Disruptions in major sectors can spill over if persistent and large. While AI disruption might be a software-specific concern for now, we think that it is a large enough sector that any significant stress in the space could spill over into the broader loan market. Looking back, while the US loan market has not seen such sector stress in a large enough industry, the HY market has some helpful reference points.

In particular, energy sector weakness during the 2015–2016 period is noteworthy, given the similarities in concentration and growth of software versus energy from 2010 to 2014. Heading into the onset of the oil price downturn that started in 2014, the energy sector had grown rapidly from 2010, driven by debt financing of shale capex from exploration and production (E&P) companies. In 2014, energy represented

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roughly 15% of the HY index, comparable to the 16% software exposure in the leveraged loan index today. Similar to the software sector in loans, the growth in energy also skewed toward lower quality.

As oil prices fell sharply in 2014–2015 on supply concerns and weak global growth, energy sector spreads widened significantly. From the tights, they widened by roughly 1,200 basis points at the peak of the crisis. The early part of the sell-off was more of a decompression trade, whereby energy underperformed meaningfully, but other sectors mostly held up well. As the sell-off intensified into 2015 and early 2016, however, the weakness was eventually broad-based. HY ex energy spreads went from lows of around 400 basis points to roughly 750 basis points at the widest in early 2016.

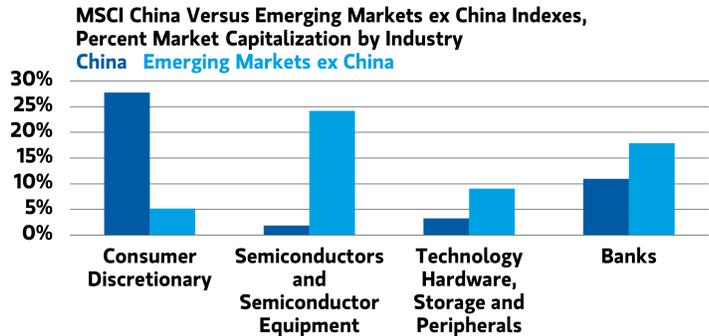
To be clear, we don't want to overstate spillover risks based on one historical episode. However, this is a helpful reminder that disruption in industries that are heavily represented can often create portfolio performance issues that can reverberate through broader markets. So, keeping macro drivers aside, the high concentration of software exposure alone is enough to influence our thinking on loans versus bonds. ■

This article was excerpted from the Feb. 9 Morgan Stanley & Co. Research report, "Mapping Software Exposure in Leveraged Credit." For a copy of the full report, please contact your Financial Advisor.

Short Takes

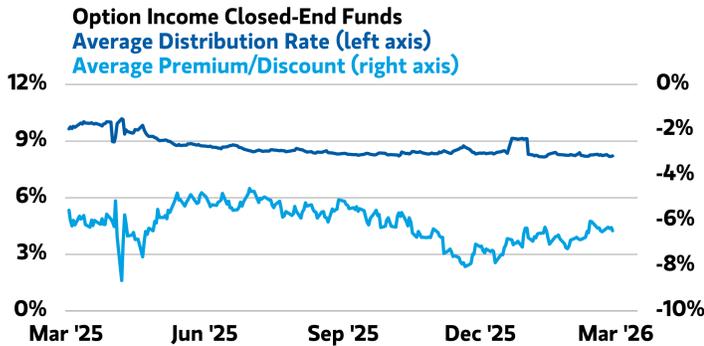
China Lagging the Rest of Emerging Markets

The MSCI China Index has risen about 15% in US dollar terms over the past year through February, well below the eye-catching 66% gain in the MSCI Emerging Markets ex China Index. Why? The gap is partly driven by different industry exposure. For example, the consumer discretionary sector accounts for much more of the MSCI China Index, and with domestic demand under pressure, sector profitability remains constrained. In addition, Chinese equities have much less exposure to segments that benefit from the global AI capex cycle, like semiconductors and tech hardware, as well as to banks, which have delivered a 40% return globally. Overall, Chinese equities offer less leverage to global growth and more exposure to structurally softer domestic demand.—*Alfredo Pinel, CAIA and Sonny Mendez*



Source: FactSet, Morgan Stanley Wealth Management Global Investment Office as of Feb. 20, 2026

As Equity Volatility Picks Up, Option Income CEFs Offer Solid Discounts and Distributions

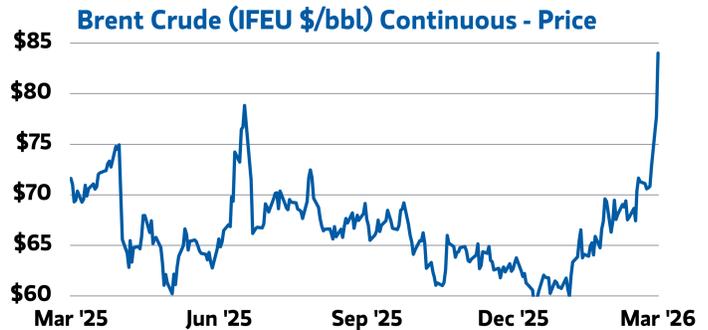


Source: Morningstar, Morgan Stanley Wealth Management Global Investment Office as of Feb. 27, 2026

When equity volatility rises, one area that yield-oriented fund investors turn to is the option income category. Such funds, employing “buy-write” or “covered call” strategies, seek to offer attractive distributions while harvesting option gains and targeting partially mitigated net asset value (NAV) volatility. In the case of closed-end funds (CEFs), an additional feature is availability at a discount to NAV, which increases market price distribution rates for new investors. As of Feb. 27, seven of the 23 US-listed option income CEFs were trading at a discount greater than 8%. Meanwhile, 13 offered a distribution rate above 8%. The broad category, featuring a variety of geographic and sector exposures, has produced a 19.1% average NAV total return over the past year.—*Yukyung Choi*

Oil Prices Rise as Tanker Traffic Is Disrupted

US-Israel operations targeting Iran have renewed concerns that disruption or closure of the Strait of Hormuz could significantly raise oil prices. About 20% of global oil supply travels from the region through the Strait, with current disruptions to tanker traffic flow lifting Brent crude futures roughly 15% since the conflict began. According to Morgan Stanley & Co. Research analysts, further upside could be shorter lived than some assume, as oil market fundamentals are soft, and the physical market appears well supplied. The team also highlights that despite prior tensions and brief transit delays, the waterway has never technically closed and cited nine episodes over the past 50 years when military action or threats did not close the Strait.—*Joe Logan, CFA*



Source: FactSet, Morgan Stanley Wealth Management Global Investment Office as of March 3, 2026

US POLICY

Supreme Court Decision on Tariffs: Not the Final Word

Monica Guerra, Investment Strategist, Morgan Stanley Wealth Management
 Daniel Kohen, Associate, Morgan Stanley Wealth Management

The US Supreme Court last month struck down President Trump’s authority to impose tariffs under the International Emergency Economic Powers Act (IEEPA). The ruling vacated the April 9 “Liberation Day” regime that levied a 10% universal tariff. However, removal of the IEEPA tariffs does not directly affect tariff deals struck by the administration, including those with the UK, the European Union, Japan, South Korea, Indonesia and others.

The decision was consistent with our expectation, as was the president’s action after the ruling, when he quickly imposed a 10%–15% tariff using Section 122 of the Trade Act of 1974. Importantly, Section 122 allows temporary universal tariffs of up to 15% when the US has “large and serious balance-of-payments deficits.” The tariffs can last a maximum of 150 days, at which point Congress must approve an extension for the tariffs to continue.

TARIFFS BY OTHER MEANS. President Trump has also announced an expansion of product-specific tariffs under “Section 232” and more “Section 301” tariffs on China since the start of his second term (see table). Many of these product-specific tariffs have already been put into place, while others are in the pipeline.

In recent months, a number of everyday agricultural, industrial and consumer products received tariff exemptions, and the new tariffs could also include carve-outs, lowering effective tariff rates below headline tariff rates. Carve-outs for consumer items, which have faced higher effective tariff rates, would likely support faster goods disinflation and consumer-related stocks.

TARIFF-RATE WHIPLASH. According to the Yale Budget Lab, before the IEEPA tariffs were struck down, the overall average effective tariff rate was 16%, the highest since 1936. The Supreme Court’s decision brought down the effective rate to 9.1%, but the Section 122 tariffs raised it to 13.7%. Even if the Section 122 tariffs are not extended and the rate reverts to 9.1%, that is still three times higher than the average effective tariff rate at the start of Trump’s second term.

Tariff-rate whiplash was felt across markets on Feb. 20, with US stocks initially rallying over 1% on the potential for looser trade policy and then pulling back on the announcement of Section 122 tariffs and ending the day up 0.7%.

ON BUDGETS AND DEFICITS. While equity markets were bullish overall on the ruling, we highlight that it invalidated an estimated \$175 billion in IEEPA tariff revenue collected so far under Trump and calls into question future revenues. Without IEEPA tariffs, the Committee for a Responsible Federal Budget estimates that revenues would be reduced by \$1.9 trillion through fiscal year 2036 and debt would increase by \$2.4 trillion over the same period, on a conventional basis, assuming past tariffs are refunded and none of the revenue is replaced (see chart).

The imposition of Section 122 tariffs would mostly close that revenue gap, but it is not clear what will happen to the tariffs after the 150-day limit. We think structural fiscal policy pressures will continue, and we still expect a trend toward higher long-term US Treasury bond yields given the implication for greater deficit expansion and debt issuance.

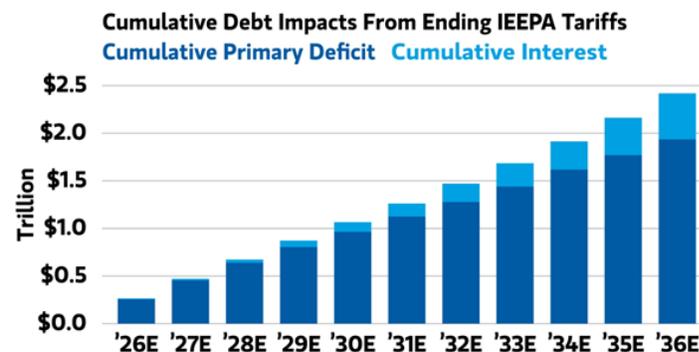
Furthermore, the potential for tariff refunds may introduce fresh uncertainty for budgets and deficits. A path for refunds was not explicitly addressed in the Supreme Court decision and could require lower court adjudication. ■

Removing IEEPA Tariffs Could Increase US Government Debt by \$2.4 Trillion

Trump Turns to Other Means of Imposing Tariffs

	Section 232	Section 338	Section 122	Section 301
Usage	National security	Response to foreign discrimination of US products	Balance of payments authority	Unfair trade practices
Targets	Any country or product	All countries	All deficit countries	China (others can be added)
Max Rate	Determined by USTR	50%	15%	Determined by USTR
Time to Implement	Up to 270 days	30 Days	Immediate	Weeks to months
Potential Limits	None	None	150 Days	Four-year review

Note: USTR refers to United States Trade Representative.
 Source: Morgan Stanley Wealth Management Global Investment Office as of Feb. 26, 2026



Source: Committee for a Responsible Federal Budget CBO, US Census Bureau, US Customs and Border Protection, Morgan Stanley Wealth Management Global Investment Office as of Feb. 20, 2026

JAPAN

Japan's Election: Could Policy Stability Spur the Economy?

Takeshi Yamaguchi, Chief Japan Economist, Morgan Stanley MUFG Securities Co., Ltd.

Masayuki Inui, Economist, Morgan Stanley MUFG Securities Co., Ltd.

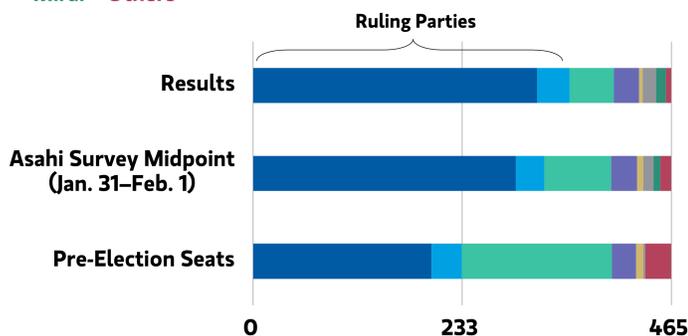
When a landslide national election victory backed by broad public support coincides with strong US-Japan relations, a long-lasting and stable administration becomes more likely in Japan. If the Takaichi administration achieves this, it would provide a tailwind for the economy, especially for domestic capex.

TWO REQUIRED CONDITIONS. In Japan, prime ministers frequently change and cabinets often end prematurely, but history shows that when 1) a ruling party achieves a sweeping national election victory backed by broad public support and 2) Japan enjoys solid relations with the US, long-term administrations tend to emerge. Examples include the second and later Abe administrations (December 2012–September 2020), the Nakasone administration (November 1982–November 1987) and the Koizumi administration (April 2001–September 2006).

The landslide victory of the ruling Liberal Democratic Party (LDP) in the Lower House election on Feb. 8 has fulfilled the first condition (see chart). The LDP won 316 seats, more than two-thirds of 465 seats in the House of Representatives, marking the first time since the end of World War II that a single party has surpassed this threshold on its own.

The Ruling Coalition's Major Gains Exceeded the Projections of Many Pre-Election Polls

2026 Japan House of Representatives Elections, Number of Seats
 LDP Ishin (JIP) CRA (CDP/Komei) DPFP JCP Sansei
 Mirai Others



Source: Asahi Shimbun, NHK, MIC, House of Representatives, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Feb. 9, 2026

Although the situation in the Upper House remains unchanged, with the ruling coalition lacking a majority there, any bill rejected by the Upper House can be passed again by a

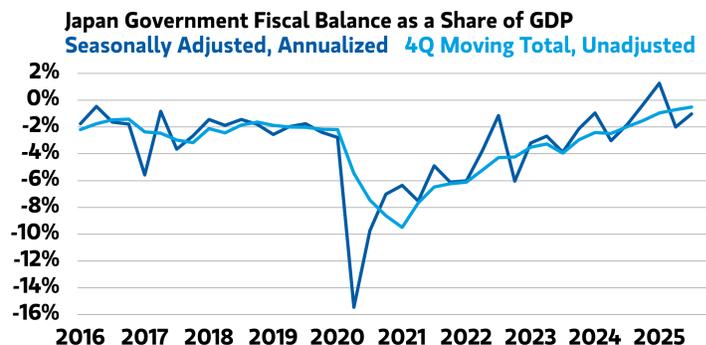
two-thirds majority in the Lower House (although constitutional amendments require a two-thirds majority in both chambers). We expect Prime Minister Takaichi's political base to strengthen and her influence within the ruling party to grow.

Regarding the second requirement of strong US-Japan relations, President Trump expressed his "complete and total endorsement" of Prime Minister Takaichi and the coalition government on Feb. 5, just before the election. The prime minister is scheduled to visit the White House on March 19 for her first meeting with the US president since taking office, and the two leaders are expected to reaffirm strong bilateral cooperation in economic security. Coordination is also reported to be underway on three initial investment projects in the US totaling \$550 billion: gas-fired power generation for data centers, a deep-sea port for crude-oil shipments and a synthetic-diamond production facility. If so, these projects are likely to be announced by both governments in conjunction with the visit, drawing significant market attention.

The Takaichi administration currently satisfies the two key conditions for becoming a long-term government. A stable, long-lasting administration can more easily advance medium- to long-term growth strategies. Should the Takaichi administration indeed become such a government, we believe that reduced policy uncertainty would positively affect economic activity, particularly private domestic capex.

FISCAL CONCERN OVERDONE? We continue to believe that some of the concern over Japan's fiscal policy is excessive. The Takaichi administration's fiscal stance is not expansionary but rather proactive, and we do not agree with the view that the government will shift toward large-scale fiscal expansion akin to modern monetary theory now that the election is over. Many LDP lawmakers take a conservative approach and place strong emphasis on fiscal discipline. In addition to Japan's fiscal fundamentals having improved significantly (see chart), the LDP's platform clearly states its commitment to steadily lowering the government debt-to-GDP ratio and implementing both expenditure and revenue reforms.

Fiscal Balance Improves Significantly on Recovering Nominal GDP Growth



Source: Bank of Japan, Cabinet Office, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of Feb. 9, 2026

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CONSUMPTION TAX REPRIEVE. We believe the likelihood has increased that the current consumption tax on food products will be removed. During the nationally televised press conference in which she announced the dissolution of the Lower House, Prime Minister Takaichi went so far as to call a zero-percent consumption tax on food items “my personal long-held aspiration.” If she were to withdraw the zero-tax proposal after the election, it would likely put her in a politically difficult position, and we consider such a reversal to be unlikely.

In our view, it is important to keep in mind the possibility that making the zero-consumption tax on food permanent could eventually prompt discussions about raising the standard 10% consumption tax rate. The National Council is formally tasked with a bipartisan discussion of “integrated social security and tax reform,” and this phrase has, in practice, long been synonymous with raising the consumption tax. In line with Prime Minister Takaichi’s stance, it is likely that no tax hikes will be implemented during the first two years. We think, however, debate over raising the standard rate from 10% to 12% sometime from the third year onward could emerge.

SHIFT TO NATIONAL SECURITY. Now that inflation countermeasures have been implemented, the Takaichi administration is likely to shift its focus in earnest toward national security. Budget allocations are expected to increase in areas linked to security, including economic security; food, energy, resource, health care and infrastructure resilience; cybersecurity; and crisis-response and strategic investments. We are focusing on 17 strategic sectors, including artificial intelligence (AI), semiconductors, shipbuilding and space, and we look for multiyear budget commitments and new budget frameworks tied to these investments.

Within this year, revisions to the three key defense documents are scheduled, including the National Security Strategy, in which a new defense-spending target will be discussed and will likely draw strong market attention. We are particularly focused on how broadly the scope of security-related expenditures will be defined. In addition, the establishment of a National Intelligence Agency is planned for July.

STEADY RATES. On monetary policy, our view remains that an April rate hike would be premature, given the Bank of Japan’s need to carefully assess the pass-through from wages to prices. Our base case continues to be a rate hike in June, accompanied by the announcement of a slower pace of future Japanese Government Bond purchase reductions at the same time.

As corporate pricing behavior continues to evolve, the BOJ has become more attentive than before to how exchange rates affect prices. However, at this stage, even with the yen’s depreciation so far, import prices remain stable. It is almost certain that the headline Consumer Price Index will fall below 2% in the near term, and politically, the risk that a sharp rise in import prices could undermine the Takaichi cabinet’s approval ratings has declined. ■

This article was excerpted from the Feb. 9 Morgan Stanley & Co. Research report, “Lower House Election: Stable and Long-term Administration Would be a Tailwind for Economic Activity.” For a copy of the full report, please contact your Financial Advisor.

Q&A

Putting the 2026 Markets in Perspective

Amid stock rotations and sector sell-offs, volatility is now a feature of the equity market. For investors, it is important to sort through all the noise to find the signal. According to Henry McVey, partner and head of Global Macro and Asset Allocation at KKR, though concern over potential disruption from artificial intelligence (AI) has weighed on many sectors, it may actually be a healthy development. He recently sat down with Dan Skelly, head of Market Research and Strategy at Morgan Stanley Wealth Management, to discuss the forces behind today's complicated investing environment. Below is an edited version of their Feb. 12 conversation.

Dan Skelly (DS): You've been positive on the macroeconomic picture for some time. Can you walk us through your high-level views on the US for 2026?

Henry McVey (HM): I think the economy is going to be strong. The Big Beautiful Bill should encourage capex; consumers are going to get upward of \$120 billion in tax refunds; and we're in a productivity boom similar to that of the 1990s.

What's different now compared with past years is that the optimistic view is already priced into the markets. The embedded earnings growth for the S&P 500 Index is currently around 16%, which is a big number—the historical average is about 11%—and unfortunately, this is against a backdrop of valuations that are also historically elevated.

While I think markets can move higher this year, the margin for error is narrower, and when you don't have much valuation wiggle room, you have to think differently. As a result, I expect more broadening in the market, with the equal-weighted S&P 500 continuing to outperform the market-cap-weighted index.

DS: What do you think is driving the rise in productivity? Is it too soon for it to be AI?

HM: Right now, I think most of the productivity gains still stem from the changes that happened during COVID. The pandemic was a catalyst for digitalization, automation and machine learning across all sectors. Although companies didn't have any choice at the time, now they have accrued the benefits—which you can see in profit margins. Additionally, we are starting to see small signs that AI is having a positive impact on productivity, and I believe gains from this year through 2028 will be more AI driven.

Regardless of whether productivity gains come from post-pandemic investments or AI, it can be hard to adjust to the idea of higher productivity because for so long, essentially from 2010 to 2020, productivity was stuck around 1%; now we're talking about gains of more than double that.

DS: What are some of the key trends you see outside of the US, and what are your preferred markets?

HM: We manage around \$750 billion at KKR, with roughly a third of that in private equity, followed by infrastructure and then private credit. From that perspective, we see many opportunities in Asia, particularly in Japan, which is our most active market in the region.

KKR was started back in the 1970s when US conglomerates needed to be "fixed up," and many were underperforming; that's exactly what's happening in Japan today—it's a corporate-reform story. Large companies with household names might have anywhere from 100 to 1,000 subsidiaries. Looking ahead, I think the reelection of Prime Minister Takaichi in February and the LDP getting a supermajority in the lower house will only accelerate the corporate reform story in Japan.

Korea has picked up on the corporate reform theme as well. But while in Japan 40% of companies trade below book value, in Korea, that number is 70%. The market may be a little riskier than Japan, but it's an interesting opportunity.

For diversification, we see other themes in Asia. One is rising consumption, and here we like India. The country essentially offers a 10% nominal GDP growth environment. So if you get a reasonable valuation on entry, you can compound returns. In Southeast Asia, we tend to be selective: We've been active in the Philippines, Singapore and a few other markets, mainly through infrastructure and around data and logistics.

Finally, we think intra-Asia trade has great potential. Asia has half the regional trade that Europe and the US have, and with deglobalization, that is a potential opportunity. For us, that is mostly an infrastructure play, but we're also providing some financing through our private credit business.

DS: In the past year, we've had massive shifts in policy and alliances. When you think about US-China relations, do you expect a year of more tension or one of cooperation?

HM: While they are geopolitical rivals, I think both countries are looking to take the temperature down this year. China's willingness to negotiate around rare earths back in October was an important change, in my view. President Trump has also been signaling a de-escalation.

Structurally, I think that the US-China relationship is changing. When China joined the WTO in 2000, the predominant view was that it would be a big consumption economy and integrate into global markets. That's not where we are now.

DS: What is different structurally?

HM: I have been in the financial services business since 1991, and the current environment feels very different. I believe we're in a regime change. It's being driven by several factors.

ON THE MARKETS

First, we have high geopolitical risk—instead of that integration hoped for. Second, deficits are rising, especially in the developed world, as governments spend more on national security and on getting reelected. Meanwhile, the energy transition is now more complicated as it has also become a national security item, particularly with AI. And finally, I think inflation will find a higher “resting heart rate.”

DS: What are the investment implications?

HM: The good news is that it probably makes credit a more competitive asset class. But the flip side is that yield curves should continue to steepen, and you have to invest accordingly. I think this trend goes beyond sector calls; we have been focusing on what I call collateral-based cash flows and securities that do well in a higher nominal GDP environment, like infrastructure and asset-based finance.

Most people are used to investing in a low-growth, low-inflation environment with tight fiscal and loose monetary policies—what we saw in 2010–2020. The playbook then was to find super-long duration in both bonds and equity. Now it's a different world. Commodity and defense stocks are telling us it is. This change is not a six-week or six-month trade but rather a shift that began four or five years ago and that we believe will continue to the end of the decade.

DS: Where does the private market fit into your macro view? And what is your take on the concerns that have been raised regarding specific vintages and one-off credit default events?

HM: I think one of the key tenets to private market investing is consistency. In my view, linear deployment, sensible position sizing and avoiding over leveraging are critical.

During COVID, we leaned into investments initially, when it felt difficult—and then we pulled back in 2021, when sentiment and valuations were stretched. But not everyone did, which resulted in the overconcentration that is reflected in private credit as well as certain private equity valuations.

Despite the many recent headlines, we don't think credit is in crisis—we think it is normalizing. Default and loss rates were previously “too good” in both private and public credit. For investors, results depend on who you partner with: You want to get the illiquidity premium—a higher return in exchange for the lower liquidity in private markets—and it's incumbent on the firm you work with to deliver that through portfolio construction and by keeping losses down.

In the private markets broadly, the environment has become more difficult, which requires a different approach. Now that central banks are no longer suppressing rates, we think the bifurcation between the top and bottom performers will widen. We've tried to create a strategy that can excel in this environment. Ultimately, you have to make tilts in your business just like you do in your portfolio.

DS: As KKR continues to expand in wealth management, what are some of the investment trends you're seeing?

HM: First, most investors don't own enough infrastructure. The asset class is set to continue growing, and it provides access to all the mega-trends we've been talking about.

On the private equity side, I think a lot of investors have long-term capital that can be used to harness the illiquidity premium. Private equity can also complement public equity. For example, the S&P 500 is still highly concentrated in seven stocks, while private market managers can build diversified portfolios, with good exposure to industrials and other sectors. I think diversified private equity can be a core part of a portfolio.

For individual investors, as well as endowments and institutions, private markets can serve a role, but it's critical to have the right allocation and to partner with firms that have sound underwriting, operational improvement and exit strategies. Looking back on how other financial industries have evolved, like mutual funds and hedge funds, when they mature, the firms that stay true to their mission typically do well. Those that don't get shaken out.

DS: We've recently seen a “bear raid” on certain corporate sectors that are viewed as vulnerable to AI. What is your view on the AI disruption theme?

HM: Last year, the stocks of AI enablers kept going up with no problems. Now, I think investors are becoming more discerning—we see it in the private markets as well. This is a healthy development overall, in my view, and it may help prevent a longer-term bear market in the future. Some of the software companies that have been sold off started with bad capital structures and then took on too much leverage; they just aren't great companies.

I think AI will be transformative for parts of health care, parts of industrials and parts of financial services. In the meantime, we're going to go through a period of volatility. However, the volatility itself is creating some great opportunities. An index that tracks high-quality companies is in a bear market, down 20%, as an example. As AI continues to evolve, there will be some losers that can't build moats around their businesses, but there will also be some extraordinary outcomes for firms that leverage technology to bring AI productivity to bear.

I don't think the S&P 500 is going out of business because of AI, but this is not a time for bottom-fishing. It's a time to focus on quality and free-cash-flow conversion. ■

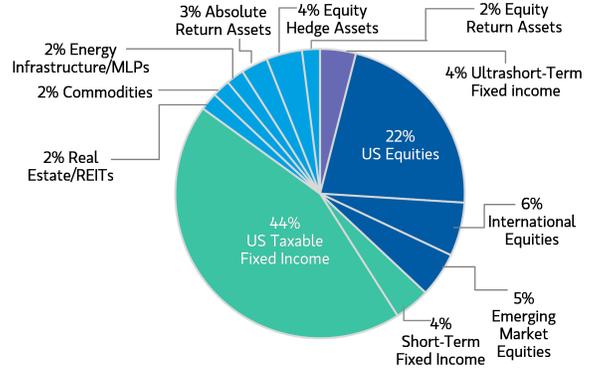
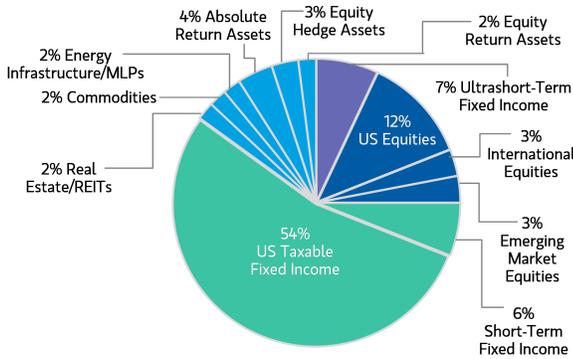
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ON THE MARKETS

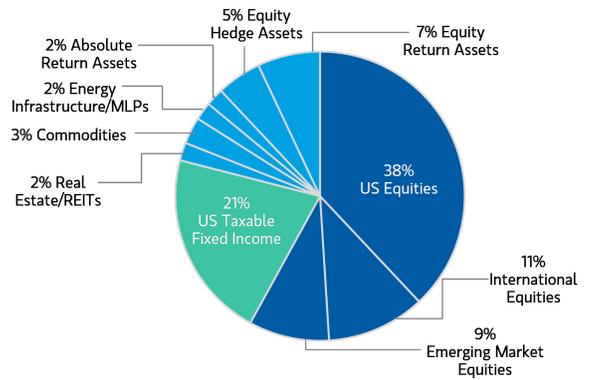
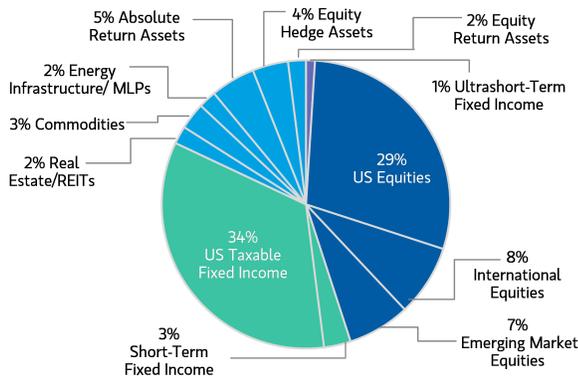
Global Investment Committee Tactical Asset Allocation

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.

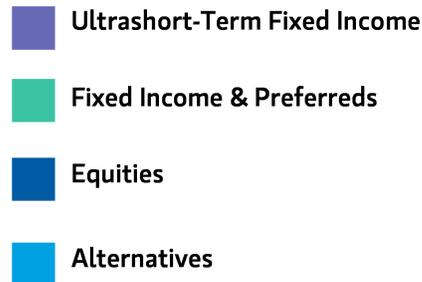
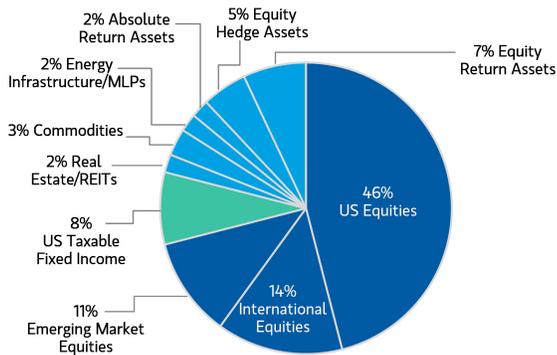
Wealth Conservation **Income**



Balanced Growth **Market Growth**



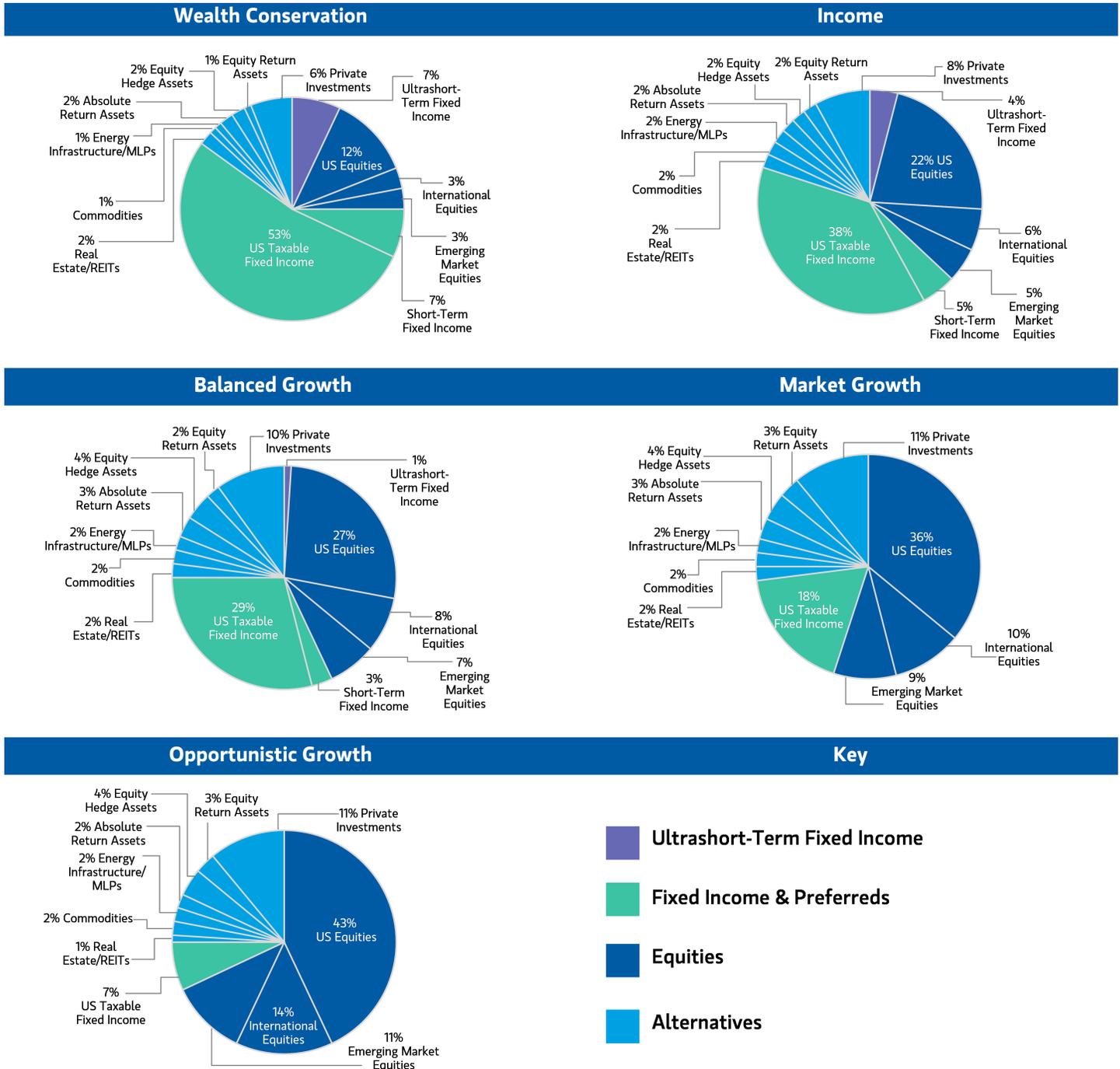
Opportunistic Growth **Key**



Source: Morgan Stanley Wealth Management GIC as of March 3, 2026

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 March 3, 2026

Tactical Asset Allocation Reasoning

Global Equities		Weight Relative to Model Benchmark
US	Overweight	The disinflation boom thesis catalyzed by the GenAI capex buildout, along with aggressive monetary, fiscal and regulatory stimulus, is now very much consensus. Forecasts are ambitious and embed an expectation for cyclical broadening that takes S&P "493" earnings growth from 6%–8% in 2025 to 14%–16% in 2026. In a market that is already expensive, concentrated and complacent, this suggests the aperture for upside surprise is narrow, and markets are apt to be quite brittle in the face of exogenous shock. With midterm-election-related policy already hitting a fever pitch, potential for these undiscounted events to occur is going up. Thus, while we are bullish (with an S&P 500 Index target at 7,500 to 7,800), we prefer stock picking to simply owning the cap-weighted index. Favor financials, health care and select industrials and energy.
International Equities (Developed Markets)	Underweight	Recent outperformance has been catalyzed as responses to the "America First" agenda have driven fiscal stimulus and China's record export push has been cooling rest-of-world (ROW) inflation. This is creating ROW opportunities that may simultaneously enjoy monetary, fiscal and currency-related stimulus. The outlook is improving in Japan as corporate restructuring occurs alongside a reflationary surge three decades in the making.
Emerging Markets	Overweight	The US-China trade conflict, now in a one-year truce, has created opportunities. China exports are booming and delivering helpful goods deflation to the ROW, where central banks are responding with rate cuts. Surging industrial commodity prices alongside falling energy prices are a perfect brew for emerging markets, especially as forces continue to bias the US dollar weaker, helping dollar-denominated debt servicing. The "new Monroe Doctrine" creates additional opportunities not only for pro-business political stability in Latin America but for direct investment. For Asia, strategic realignment opportunities continue to surface as the US turns away. India remains a recommended secular growth long.
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 two 25-basis-point rate cuts discounted. Stealth QE in the form of reserve management purchases of T-bills by the Fed and MBS QE by Fannie Mae and Freddie Mac are easing financial conditions materially, putting pressure on the long end of the curve as inflationary pressures build. A final note of caution is our forecast for a surge in IG corporate issuance, which we see on the back of increasing capex and rising M&A deal activity. As a result, we are continuing to reduce 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.
Opportunistic Fixed Income	Market-Weight	High Yield is competing effectively with better liquidity, transparency and credit quality than private credit. In ROW and emerging market debt, 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.
Alternative Investments		Weight Relative to Model Benchmark
Real Assets	Overweight	We expect higher stock-bond correlations, which place 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 industrial metals, energy infrastructure and interesting opportunities aimed at solving the residential housing shortage.
Hedged Strategies	Overweight	We recently added to equity hedged positions, noting the pickup in idiosyncratic risk, falling borrowing costs and rising stock level dispersion. 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/market neutral hedge funds.

Note: Opportunistic Fixed Income includes Inflation-Linked Securities, High Yield Fixed Income, International Fixed Income and Emerging Market Fixed Income. The GIC asset allocation models' benchmarks do not include exposure to Opportunistic Fixed Income. Real Assets includes Real Estate/REITs, Commodities and Energy Infrastructure/MLPs. Hedged Strategies include Absolute Return Assets, Equity Hedge Assets and Equity Return Assets.

Source: Morgan Stanley Wealth Management GIC as of March 3, 2026

ON THE MARKETS

Disclosure Section

Important Information

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

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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.

Term premium is the excess yield that investors require to commit to holding a long-term bond instead of a series of shorter-term bonds.

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.

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

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large investment minimums and initial lockups. They involve complex tax structures, tax-inefficient investing and delays in distributing important 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

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subject to interest rate and inflation risk, as well as the opportunity risk of other more potentially lucrative investment opportunities.

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.

Derivative instruments. Options, futures contracts, options on futures contracts, forward contracts, swaps and structured products are examples of derivative instruments. Risks of derivative instruments include imperfect correlation between the value of the instruments and the underlying assets; risks of default by the other party to certain transactions; risks that the transactions may result in losses that partially or

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completely offset gains in portfolio positions; and risks that the transactions may not be liquid. Please see the fund's prospectus for additional information.

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.

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.

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- 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.
- 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.

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RSI1772576768430 03/2026