Morgan Stanley

WEALTH MANAGEMENT

INVESTMENT STRATEGY

MIDYEAR OUTLOOK

Global Investment Committee | June 2026

On the Markets

Broadening?

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Entering June, US investors have to be feeling good. In the space of nine weeks, US equity indexes have reversed their first quarter losses as the S&P 500 has surged nearly 20%, delivering an 11% year-to-date return and reaching a new all-time high. And while limited progress has been made on opening the Strait of Hormuz, curing inflation dynamics or easing gasoline prices, corporate earnings have been excellent. In fact, earnings revisions have been so strong that 2026 profit expectations have increased by 9%, boosting full-year consensus forecasts from 14% to the 22%–23% range. Equally heartening, after some unsettling US Treasury market volatility, which took the 10-year yield up through 4.5% and the 30-year close to 5.2%, rates appear to have settled back into their three-year range, digesting the potential that the Federal Reserve will not resume easing this calendar year.

Underpinning the market narrative is increasing enthusiasm for the transformative build-out of generative artificial intelligence (GenAI) infrastructure. That development now extends well beyond the hyperscalers and data center operators to all the enablers of the ecosystem—from semiconductor manufacturers to power-generation suppliers to hardware and software vendors. The sheer scale of spending, having doubled since last year to more than $850 billion, suggests that earnings momentum for key sectors will likely allow for S&P 500 gains of roughly another 10% in the next 12 months. With that in mind, Morgan Stanley & Co. Research recently set its June 2027 price target at 8,300.

But new market highs and positive earnings revisions don't tell the whole story for investors. Unlike prior bull markets driven by capex booms, this one remains exceptionally narrow, with much of the action accruing to only around one-fifth of the benchmark index and an even larger share of companies actually in the red for the year. While some investors are ignoring the concentration, assuming that it will self-cure as economic strength broadens, the GIC is less sanguine that this bull market and business cycle will take on scope and duration beyond the AI build-out. Our pause stems from the fact that this may be the first cycle in over 35 years that leaves the consumer behind. And given that US GDP is still roughly two-thirds driven by consumption, that matters.

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Consider that the University of Michigan's Consumer Sentiment Index is now at its lowest point in its 74-year history. While labor markets are frozen in a "no hire, no fire" standstill and the unemployment rate remains unprovocative, employment anxiety is high and wage growth is slowing. Meanwhile, personal income net of inflation is negative, and consumer spending appears to be funded by one-time tax refunds, dwindling savings and growing credit card balances. At 2.6%, the national household savings rate is at a four-year low and running 70% below the 8.6% long-run average, while the 90-day credit card delinquency rate is at a 15-year high. Given the K-shaped economy, consumer resilience thus increasingly hinges on ongoing financial market gains.

The implication is that understanding the AI story's inflection points takes on added importance. Portfolio consequences are especially heavy, as stock-bond correlations are positive and even regional diversification strategies seem tied to the same "one note." For clients looking for a way forward, we encourage a thematic embrace with laser focus on sustainable, secular growth that complements the AI story—in financials and health care, real assets and commodities, and hedge funds and non-US assets, especially in Japan and Latin America. ■

GLOBAL ECONOMICS

Global Economics: A Fluid Outlook

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

In our midyear outlook, energy and commodity markets, policy choices and the speed of AI adoption combine to define growth through 2027. Per our baseline view, the energy shock will slow the global economy modestly through mid-2026 before growth stabilizes and recovers into 2027.

We see growth near potential across most major economies. AI-driven capex and fiscal spending on energy security and defense provide a firm floor to prolong late-cycle growth. But we are assuming that the conflict in Iran is resolved within the month, limiting the effects to one quarter, and that volatility from energy prices subsides over the balance of the year.

While oil and gas prices push headline inflation higher in 2026, pass-through to core inflation remains limited in most economies. By 2027, those effects should fade, and combined with somewhat slower growth this year, underlying inflation should soften again. Against this backdrop, monetary policy must spend much of 2026 wrestling with the energy shock before converging toward neutral in 2027. But in the US, the debate on where "neutral" is will gain steam over the rest of this year and into next. For now, we see room for two more Federal Reserve rate cuts as inflation softens, but upside surprises to growth or an indication that inflation is not moderating will drive a "no cut" scenario.

US GROWTH. US growth is supported by AI-driven capex and household spending fueled effectively by wealth effects. Consumption is expected to soften in coming quarters as energy prices weigh on disposable income, though underlying consumption trends remain robust. Immigration restrictions and lower labor force participation from demographics have pulled the "breakeven rate" for job creation down to approximately 50,000 per month—about one-fifth of the pace of early 2023. As economic growth broadens and hiring increases modestly late this year and next, the unemployment rate should move modestly lower over 2027. AI-driven capex is forecast to continue, but over time, we expect investment to broaden to non-AI business fixed investment. In the case of a persistent oil price above $150 per barrel, both consumer and business spending would slump.

US MONETARY POLICY. In our baseline, US disinflation resumes in the second half of this year, allowing the Fed to cut rates twice in the first half of 2027. Persistent inflation or faster growth and lower unemployment would take away the cuts in 2027. Core inflation should begin to move lower in the second half after peak tariff effects. The Fed is set to wait for confirmation that tariff inflation will fade and that energy inflation has only modest effects on core. After month-over-month and year-over-year core inflation trends decline, we expect a move toward the Fed's estimate of "neutral." AI productivity could shift this narrative, so we model a scenario where a surge in productivity generates job loss and falling inflation; in that case, we think the Fed would cut much more aggressively.

REST-OF-WORLD GROWTH. In the rest of the world, the inflation forecast is very sensitive to energy prices, even when we assume a rapid de-escalation. We expect exports from the Persian Gulf to carry a risk premium as production normalizes.

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

	GDP (YoY)			Headline CPI (%Y)			Monetary Policy Rate (% p.a.)		
	2025	2026E	2027E	2025E	2026	2027E	2025 EOP	2026E EOP	2027E EOP
Global	**3.5**	**3.2**	**3.4**	**1.9**	**2.7**	**2.2**	-	-	-
G10	**1.8**	**1.4**	**1.7**	**2.6**	**3.2**	**2.1**	-	-	-
US	2.1	2.2	2.5	2.8	2.8	2.4	3.625	3.625	3.125
Eurozone^^	1.5	0.6	1.0	2.7	3.5	2.1	2.00	2.50	2.00
Japan*	1.2	0.4	1.0	3.2	2.2	1.4	0.75	0.75	1.25
UK	1.4	0.8	1.1	3.4	3.2	2.6	3.75	3.75	3.50
Emerging Markets	**4.9**	**4.6**	**4.6**	**1.5**	**2.4**	**2.2**	-	-	-
China**	5.0	4.8	4.7	0.1	0.8	0.6	1.40	1.40	1.40
India	7.5	6.8	7.0	2.2	4.1	4.7	5.25	5.25	5.75
Brazil	2.3	2.0	1.6	5.0	4.7	4.0	15.00	13.00	10.50
Mexico	0.6	1.1	1.7	3.8	4.2	4.0	7.00	6.50	6.50

Note: Global and regional aggregates are GDP-weighted averages, using PPP weights. CPI figures represent period averages. Policy rate indicated is the BOJ's Uncollateralized Overnight Call Rate Upper Limit. ^^ECB Deposit Facility rate; **Seven-day reverse repo rate. Turkey, Egypt, Ukraine and Argentina are excluded when calculating global EM GDP aggregate.
Source: Haver Analytics, IMF, Morgan Stanley & Co. Research as of May 12, 2026

Where AI is a dominant swing factor in the US, energy is the dominant swing factor in Europe; Asia is exposed to both trends to differing degrees. Europe's quick pass-through of energy costs to core inflation (and growth) means it may see the largest inflation and growth sensitivity in the short term. European core inflation may remain stubbornly elevated because of the persistent dual exposure to oil and liquefied natural gas. Exposure in Asia, like the US, is more anchored in growth than inflation because Asia, broadly, uses fiscal policy to smooth energy prices; all of Asia experiences a growth deceleration in the second quarter, with growth stalling in much of Emerging Asia, where fiscal supports and reserves are fewer.

REST-OF-WORLD MONETARY POLICY. Monetary policy diverges in 2026 before converging toward neutral in 2027. We see the Fed on hold this year and cutting next, while the European Central Bank hikes twice in 2026 before unwinding those hikes in 2027. The Bank of Japan continues with its pre-set hiking path, with a hike in June this year and a subsequent rate rise in 2027. For China, with very low interest rates amid high deflationary pressures, the risk of higher rates remains distant given the amount of reflation required to drive such an outcome.

Across emerging markets, the picture is more mixed. The CE3 (Poland, Czech Republic and Hungary) follows the eurozone closely, while South Africa similarly follows the contours of the oil shock. Asia ex Japan is broadly stable in 2026 but starts to see dispersion in 2027, as the delayed effects of oil and food prices pass through, though in India, rate hikes are more demand led than supply-shock driven. In Latin America, we see the Central Bank of Brazil continuing its cutting cycle, even as the rest of Latin America remains largely on hold.

ALTERNATIVE SCENARIOS. We model four alternative scenarios: an AI productivity surge, upside aggregate demand and two oil scenarios—a permanent risk premium in the price and a "demand destruction" scenario that is recessionary.

A severe re-escalation that leads to widespread physical shortages of energy and drives oil prices through $150 per barrel for a sustained period would likely drive a global recession. A milder re-escalation taking us to a multiquarter sustained price level of approximately $100 per barrel might come from the market pricing a structural risk premium and result in a growth drag with persistently higher inflation. For Europe and some other regions, even the baseline is skewed in that direction.

The two upside growth scenarios distinguish between aggregate demand and aggregate supply. In the aggregate demand scenario, US capex and consumer spending prove stronger than expected, and faster growth, lower unemployment and rising inflation push the Fed to raise rates. In the AI productivity surge scenario, AI disrupts the labor market, causing a wave of layoffs, though growth holds up. With falling inflation and rising unemployment, the Fed cuts rates aggressively to stimulate the economy to take up the newly developed slack. ■

This article was excerpted from the May 12 Morgan Stanley & Co. Research report, "A Fluid Outlook." For a copy of the full report, please contact your Financial Advisor.

US ECONOMICS

US Economics: Capex Over Consumption

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

The US economy has been hit by another supply shock just as "animal spirits" were improving. The Middle East conflict and rise in oil prices mark a fourth shock in recent years, following the pandemic, the Russia-Ukraine conflict and the 2025 tariff shock. The broader theme is familiar: The economy continues to shift away from efficiency and benign globalization toward resilience, supply chain security and geopolitical competition over key resources. The Middle East conflict has added energy security and diversification to this list.

Our baseline is benign de-escalation of the oil disruption, but uncertainty is elevated. The US is insulated, but not isolated, from the energy shock. Much of the oil flowing through the Strait of Hormuz is destined for Asia and Europe, but higher gasoline prices will still act as a tax on US consumers and keep inflation in focus. The oil shock is large enough to affect inflation, though not yet growth; transmission typically occurs through reduced real purchasing power, potential wealth effects and weaker business spending. So far, only the first is evident, suggesting a modest drag on spending rather than a broader downturn.

Morgan Stanley & Co. US Economic Forecasts

	2024	2025	2026E	2027E
Real GDP (% Q4/Q4)	**2.4**	**2.0**	**2.3**	**2.6**
Private Consumption	3.4	2.1	1.8	2.1
Gross Fixed Investment	0.9	5.6	7.0	8.0
Government Consumption	3.6	-1.2	2.1	1.3
GDP Contribution (percentage points)				
Final Domestic Demand	2.8	2.3	2.2	2.7
Net Exports	-0.5	0.4	-0.4	-0.4
Inventories	-0.2	-0.2	0.1	0.2
CPI (% Q4/Q4)	**2.7**	**2.7**	**3.4**	**2.0**
Core PCE* (% Q4/Q4)	**3.0**	**2.9**	**2.8**	**2.3**
Policy Rate (%)**	**4.375**	**3.625**	**3.625**	**3.125**
Unemployment Rate (% labor force)**	4.1	4.5	4.3	4.1
Labor Force Participation Rate (%)**	62.5	62.5	61.8	61.7
General Govt. Balance (% of GDP)	-6.9	-5.4	-6.3	-6.1
Gross Govt. Debt (% of GDP)	123.6	125.2	125.1	125.6
Current Account Balance (% of GDP)	-4.0	-3.6	-2.9	-3.2

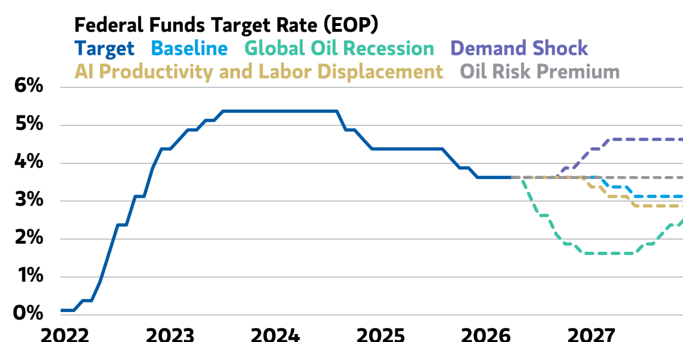
*Personal Consumption Expenditures Index **End of Period
Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of May 12, 2026

RESILIENT ECONOMIC GROWTH. Real GDP growth should remain resilient despite slower real consumption growth in 2026. The main headwind this year is higher energy prices, while we see a recovery in investment and consumption in 2027 as the energy drag fades. We expect fourth-quarter consumption growth to slow by 30 basis points in 2026 relative to 2025 before reaccelerating in 2027. In our forecast, the fiscal policy impulse to households via higher tax refunds has effectively been neutralized by higher gasoline prices; capex growth outpaces consumption growth; artificial intelligence (AI)-related investment remains strong; and while reshoring evidence is limited, policy continues to favor domestic investment.

MODEST JOB GROWTH. The labor market is expected to be balanced but fragile. Slower labor supply and demand should leave job growth modest, with unemployment broadly stable. A small drop in demand could push payroll growth negative. That said, a "low hire" labor market normally does not stay that way for long: Either hires pick up or layoffs rise. We expect the former and look for modestly stronger employment growth than we saw in 2025. The other concern with labor markets is AI displacement. We see AI as primarily a capex and productivity story rather than a labor-displacement one: AI-related labor effects are minimal, while productivity gains are concentrated in high-AI-exposure industries.

INFLATION RISE AND FED POLICY. In our forecast, inflation stays above target before easing in 2027. Energy prices push the headline Personal Consumption Expenditures Price Index to slightly above 4% year over year in mid-2026 before it decelerates. Core inflation sees limited second-round effects but remains well above target through 2026, only falling toward target in 2027.

Different Scenarios for the Fed Policy Rate



Source: Federal Reserve Bank, Haver Analytics. Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of May 12, 2026

We forecast that the Federal Reserve will stay on hold through 2026 at 3.50%–3.75% (see chart), as elevated inflation and resilient activity raise the bar for rate cuts and delay normalization. Fed communication has shifted in the direction of patience, and officials require firm evidence of disinflation to ease. We think they will get it in the form of 1)

an end to tariff pass-through, 2) limited second-round effects from energy, 3) modest further disinflation in shelter and 4) stable inflation expectations. Our inflation forecast has the year-over-year rate of inflation subsiding fairly rapidly in early 2027, and we see 25-basis-point Fed rate cuts in March and June, for a terminal target range of 3.0%–3.25%. Risks tilt in the direction of no Fed cuts.

OIL: THE SWING FACTOR. Risks to the outlook overall remain two-sided, with oil as the key near-term swing factor. A spike through $150 per barrel could trigger sharper demand destruction and a mild recession. In this scenario, we forecast that the Fed would ease by 200 basis points. In our oil-price premium scenario, with oil prices persistently high, second-round inflation risks arise, keeping the Fed on hold. We also consider other scenarios that lead to different Fed paths.

If the event of stronger aggregate demand effects and firming core inflation, the Fed would hike. In the AI productivity scenario that brings labor displacement and rising unemployment, the Fed reduces rates by more than our baseline. ■

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GLOBAL EQUITIES

Global Equities: Developed Markets to Outperform, Lean Into US

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Reassessing global equities at midyear, the dominant story is one of earnings durability in the face of macro uncertainty, and with returns increasingly an earnings story, this also means the outlook remains positive. All told, we see the developed markets (DM) outperforming the emerging markets (EM). And keep in mind the AI theme is not only about the US; it's global, too (see sidebar).

Global Equity Index Forecast Summary

Index	June 2027 Base Case Index Target (% upside from May 8)	MS & Co. Base Case EPS Forecast Year Over Year (%) 2026	2027	2028
S&P 500	8,300	339	380	429
	12%	*23%*	*12%*	*13%*
MSCI Europe	2,700	154	163	174
	11%	*11%*	*6%*	*7%*
TOPIX	4,300	210	225	246
	12%	*12%*	*7%*	*9%*
MSCI Emerging Markets	1,800	125	136	141
	9%	*40%*	*9%*	*4%*

Source: Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of May 12, 2026

US: Strong Earnings Drive the Rolling Recovery

The rolling recovery in earnings that began after Liberation Day—April 2, 2025, when President Trump imposed the most severe tariff regime in nearly a century—continues to mature. The recovery in profits is underpinned by the strongest median S&P 500 Index earnings per share (EPS) surprise in four years, at 6%, and a sharp rebound in earnings revisions breadth.

Our midyear 2027 S&P 500 target of 8,300—that's 20.5 times $404 forward EPS—comes from improved earnings, not from an expanding price/earnings (P/E) multiple. In fact, we are projecting slight multiple compression, in part because prospects for near-term rate cuts coming from the Federal Reserve have faded. Another reason for a dampening P/E is that the rolling recovery is maturing.

All told, we are increasing our year-end 2026 target from 7,800 to 8,000, reflecting earnings durability. In line with our view, a broadening in earnings is materializing and remains underappreciated: The forward EPS growth for the median S&P 1500 stock has accelerated from 8% at the start of the year to 12%.

As for sectors and styles, we see cyclicals outperforming defensives, which is consistent with our rolling recovery and earnings acceleration thesis. Small-cap earnings are inflecting higher—22% expected earnings growth—but the prospect of less accommodative monetary policy this year means small-caps remain equal weight relative to large-caps for now. In terms of sector preferences, we favor financials, industrials and consumer discretionary.

Earnings Strength Has Boosted US Equities

Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of May 29, 2026

Europe: Beyond the Pendulum

European earnings growth ex energy is proving resilient to typical midyear downgrades. We have added upside to our MSCI Europe Index forecast, raising our June 2027 target to 2,700. We reduced the target multiple from 17 to 16 given the skew of earnings growth to energy.

EU equities have generally been in more of a holding pattern than US stocks given the disruption in the Strait of Hormuz. While earnings have so far been resilient, our analysis points out a broadening downside if the strait remains closed beyond two months.

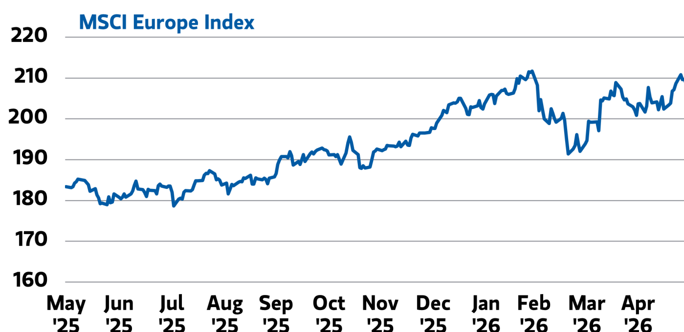
If and when the strait reopens, we expect a tactical catch-up in EU equities, particularly in cyclical sectors. That said, seasonality does not favor Europe. In 10 of the last 11 years, EU equities traded choppy and either sideways or down in the summer months.

The more durable upside is likely toward year-end and in the first quarter of next year.

This period could coincide with more meaningful Russia-Ukraine ceasefire negotiations, more evidence of German fiscal execution and a continued material rise in mergers and acquisitions supported by easing competition commission rules.

Among industries and sectors, we recommend overweighting semiconductors, energy, utilities, tobacco, banks and telecom, as well as select AI-related pockets of capital goods and metals & mining. Amid Europe's high stock dispersion, idiosyncratic (stock-specific) momentum strategies are working well. So too are factors such as consensus earnings and price target revisions breadth.

European Stocks Have Been in More of a Holding Pattern Than US Stocks



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of May 29, 2026

Asia/Emerging Markets: Separating the Secular From the Cyclical

The MSCI Emerging Markets Index is enjoying a strong cyclical upswing in profits, with 40% EPS growth expected this year. However, we don't see it as the beginning of a secular bull market. Valuations are elevated, capital returns lag developed market peers, and concentration and geopolitical risks argue against making passive index investments. Our new 12-month base case target is 1,800. The message for global investors: Stay neutral on EM over the cycle and prioritize alpha through active theme and stock selection.

Emerging Market Equities Are Enjoying a Profit Upswing

Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of May 29, 2026

AI: Reshaping Leadership

Beyond earnings, there is the AI factor. AI is not a narrow US tech story; it is reshaping sector leadership and regional relative value simultaneously. In the US, AI adoption/"run it lean" and an AI capex cycle that continues to show momentum are key drivers of our constructive view on earnings. We see the hyperscalers as an attractive relative-value trade at reasonable valuations.

In Europe, we believe AI productivity and return on investment are low hanging fruit. While Europe only has pockets of exposure to AI capital spending, should the market return to a focus on disruption risks, the MSCI Europe Index has high weightings of relatively hedged real assets, 38%, and goods, 16%.

In Asia/emerging markets, AI is helping to power this year's exceptional 40% earnings growth forecast, with current estimates revisions driven by information technology and energy. AI is also reshaping the index. Taiwan has displaced China as EM's largest market, and Korea has overtaken India to become the third largest, driven by the supercycle in memory chips and the infrastructure needed to power A.

For Japan, our base case is constructive, and we forecast the TOPIX to reach 4,300 by June 2027. That said, risks surrounding the Middle East could weigh on corporate earnings through higher raw materials costs, energy prices and logistical expenses. Accordingly, our base-case EPS assumptions remain two-to-three percentage points below consensus forecasts.

The dispersion between our bull and bear cases has widened. Our base case forward P/E is 17.5. In the bear case, a global oil-led recession could cause the P/E to fall as low as 12, equivalent to the bottom 4% of the past 10 years' range. Conversely, in our bull case, we believe the earnings multiple could expand to 18, corresponding to the top 4% of the past decade's range.

In Asia/EM, concentrate on energy, materials, industrials, and semiconductors and memory chips. Avoid autos, consumer IT services/e-commerce and downstream commodity-exposed industries. We prefer North Asia over South Asia and Australia; Brazil over the rest of Latin America; and Greece, Hungary and Saudi Arabia over the rest of the Eastern Europe, Middle East and Africa (EEMEA) region. We also have a structural overweight in Japan. ■

This article was excerpted from the May 12 Morgan Stanley & Co. Research report, "Constructive, Not Complacent." For a copy of the full report, please contact your Financial Advisor.

US CORPORATE CREDIT

US Corporate Credit: Writing Bigger Checks

Vishwas Patkar, Head of US Corporate Credit Strategy, Morgan Stanley & Co. LLC

US credit markets will enter the second half of 2026 at a crossroads: strong fundamentals and robust demand at elevated yields versus surging supply that is set to accelerate further alongside rising "animal spirits." Valuations are tight relative to history but look "normal" in the context of the past three years.

THE GOOD NEWS FIRST. Corporate fundamentals are quite strong, whether one looks at leverage, cash-flow generation, margins or liquidity. Adding to that, earnings have been nothing short of stellar, with earnings per share (EPS) for the past 12 months tracking at approximately 18% for companies in the S&P 500 Index.

The macroeconomic outlook remains healthy, as Morgan Stanley & Co.'s economists expect over 2% growth in the US, underpinned by a resilient high-income consumer and surging artificial intelligence (AI) capex. The micro outlook is even better, with expected EPS for the S&P 500 at 23% this year and 12% next year, according to MS & Co. Research's equity strategists. Monetary policy is a mixed bag, as we expect Federal Reserve rate cuts to get pushed out to the first half of 2027. Yet the bar for rate hikes remains high, making the setup for credit demand quite healthy.

In fact, demand for credit from "yield buyers" has been a defining feature of this cycle, especially demand from insurance companies buoyed by fixed annuity sales. Furthermore, mutual fund and exchange-traded fund inflows have been robust so far this year. Notably, overseas demand for credit remains steady despite market concerns about a weaker US dollar.

THE FLIP SIDE. A credit cycle that was largely benign for the past few years is showing clear signs of heating up: Supply is surging broadly, set to hit a new high in investment grade credit and up more than 50% year over year in high yield. Corporate sentiment is improving, driving increased capital markets activity, with mergers and acquisitions volume up 20% year over year. AI capex—a key driver of increased issuance—is expected to accelerate further; MS & Co. Research equity analysts have penciled in $1.1 trillion of hyperscaler spending in 2027, up from $800 billion in 2026.

PUTTING IT TOGETHER. We see this tension of strong fundamentals and demand versus rising supply and corporate animal spirits resolving in a credit market that lags other asset classes that have better demand-supply dynamics, such as agency mortgage-backed securities and securitized credit, as well as equities that are more directly levered to the strong earnings cycle. That said, with investor demand proving to be very robust and relatively inelastic to spreads at high all-in yields, the absolute move in credit spreads is quite benign.

The medium-term playbook remains similar to that of 1997–1998 and 2005: a strong economy with robust earnings, a cycle that has room to run and credit modestly wider and lagging equities amid strong supply.

LOOKING AHEAD. We see investment grade spreads modestly wider at 90 basis points by the second half of 2027 and generally flat excess returns, driven largely by long-end underperformance. We have brought in our high yield spread forecast from 300 basis points to 275 basis points, reflecting a strong earnings cycle and tailwinds from modest bull steepening of the yield curve. Our forecast for loans is mixed: While macro is turning more supportive, the micro story is more nuanced, especially in software, where we see prolonged underperformance and price declines. Across scenarios, we continue to see high yield in the sweet spot.

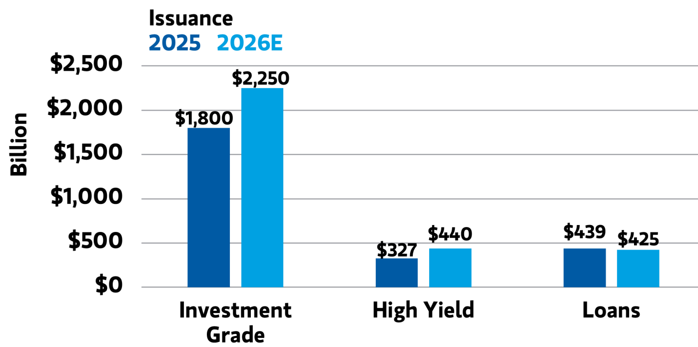
US Credit Spread Forecasts for 2027

	2Q27 Forecast		
	Bull	Base	Bear
Index Spread (basis points)			
Investment Grade	70	**90**	125
High Yield	230	**275**	425
Leveraged Loans	390	**440**	575
Total Return			
Investment Grade		**7.0%**	
High Yield		**7.4%**	
Leveraged Loans		**6.6%**	
Defaults - 12 Month			
High Yield	1.5%	**3.5%**	5.5%
Leveraged Loans	2.5%	**5.5%**	8.0%

Note: US IG (HY) and leveraged loan spreads forecast for the Bloomberg Barclays US Corporate IG (HY) Bond and PitchBook LSTA Leveraged Loan indexes. Leveraged loan default rate includes hard defaults and distressed exchanges from Moody's.
Source: Bloomberg, Dealogic, PitchBook LCD, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of May 15, 2026

Our supply forecasts remain strong, with investment grade credit set for a record year at $2.25 trillion, up 25% from 2025. We have marked up our high yield issuance estimate from $410 billion to $440 billion to reflect growing needs for AI financing (see chart).

Strong Supply Forecasts for US Investment Grade and High Yield Credit



Source: Dealogic, PitchBook LCD, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of May 12, 2026

We find BB-rated loans attractive for carry, with spreads more reasonable than in high yield. Within high yield, we are overweight data center debt and favor B over BB credits as a way to take on more risk through a strong and broadening earnings environment. Within investment grade credit, we prefer banks and utilities and would be underweight technology. ■

This article was excerpted from the May 12 Morgan Stanley & Co. Research report, "Constructive, Not Complacent" and the May 19 report, "Financing the Future." For a copy of the full reports, please contact your Financial Advisor.

FOREIGN EXCHANGE

A Bit More Slack for the Greenback

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

We expect modest US dollar weakness to continue in the coming months, with the US Dollar Index (DXY), recently in the 98–99 range, bottoming at 95 in the third quarter of 2026. This move is likely to be limited in size and duration, however, marking the final phase of the cyclical dollar sell-off that began in early 2025, with the DXY retracing its losses to finish 2027 at around 100.

In our view, the macroeconomic backdrop supports a softer US currency. Growth remains resilient, core inflation is easing toward trend and supportive fiscal, monetary and regulatory policies are sustaining strong risk appetite, particularly for US equities.

INITIAL DOLLAR SOFTNESS. US interest rates and rate differentials are expected to decline in the coming months, with the European Central Bank (ECB) and the Bank of Japan hiking to levels closer to US fed funds and continuing the medium-term trend of rate convergence between the US and the rest of the world (ROW).

We also expect the DXY's discount to rate differentials to widen modestly. Continued investor debate over the dollar's long-term safe-haven status suggests a higher equilibrium level of the risk premium in the currency, all else equal. This should be reflected in a greater discount to rates-implied fair value.

As US and ROW front-end rates converge, currency hedging costs fall, encouraging more hedging flows that amplify US dollar weakness. This interaction between rate differentials and hedging costs creates convexity in both bullish and bearish dollar scenarios.

RECOVERY ON THE WAY. Despite this near-term weakness, we do not view the decline as structural. As we approach the end of 2026 and start 2027, we expect the US currency to bottom and begin recovering for a few reasons.

First, we think US growth outperformance will ultimately prove an important magnet for capital into the US, which creates a sustainable bottom for the DXY. Second, we see scope for investors to add euro-negative risk premium into that currency as we approach the French presidential election in spring 2027.

We also remain skeptical of long-term bearish narratives around the dollar's reserve status. While concerns persist, there is little evidence of a broad shift away from US assets. Without a credible alternative, the US dollar's dominance is likely to continue, implying this is a cyclical, not structural, downturn.

NEAR-TERM OUTPERFORMANCE FOR OTHERS. Cyclical currencies should outperform during the dollar's decline, though gains versus the greenback will likely be broad-based. Nordic currencies and the Swiss franc should lead European gains while the British pound lags, and in the dollar bloc, the Australian dollar and New Zealand dollar should outperform the Canadian dollar. In emerging markets, the supportive risk backdrop should prove a generally positive catalyst, with higher carrying currencies in Latin America and the Central and Eastern Europe, Middle East and Africa (CEEMEA) region outpacing peers in Asia ex Japan.

We forecast the euro-US dollar exchange rate rising above 1.20 this summer and reaching 1.23 in the third quarter, though we see this as the end of the cyclical upswing. The euro is then expected to begin underperforming the US currency, and on crosses reflect the increase in euro-negative risk premium ahead of the French presidential election and a reduction in carry from ECB rate cuts back to 2%.

Morgan Stanley & Co. Foreign Exchange Forecasts

Currency vs. US Dollar	2026			2027			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Euro	1.19	1.23	1.20	1.18	1.16	1.15	1.14
Japanese Yen	160	160	157	159	156	153.84	151.69
British Pound	1.36	1.39	1.38	1.36	1.34	1.32	1.30
Swiss Franc	0.76	0.73	0.74	0.74	0.75	0.77	0.78
Swedish Krona	8.99	8.62	8.67	8.73	8.79	8.87	8.95
Norwegian Krone	9.08	8.70	8.83	8.90	9.05	9.27	9.48
Canadian Dollar	1.36	1.35	1.35	1.36	1.36	1.36	1.36
Australian Dollar	0.72	0.74	0.75	0.74	0.733	0.72	0.710
New Zealand Dollar	0.59	0.61	0.62	0.61	0.60	0.61	0.61

Source: Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of May 12, 2026

We see the Japanese yen lagging in terms of cross-currency pairs in the second half of this year, alongside the greenback, and the dollar-yen exchange rate largely holding steady versus the dollar around current levels. Several factors, including persistently attractive carry for investors with long dollar-yen positions and elevated energy prices, suggest limited yen gains for now.

SCANDINAVIA LEADS. In Europe, the Swedish krona will likely find itself a global and regional leader, with the euro-krona rate falling to 10.40 by year-end and approaching a five-year low in 2027. The euro-Norwegian krone should follow a similar trajectory, while the Swedish krona catches up with the Norwegian currency, which has outperformed year to date, and the exchange rate falls about 2%.

The euro versus the Swiss franc should fall to 0.89 by year-end and trend further lower into 2027, aided by rate compression in 2027, additional election risk premium and what we think is investors' underestimation of the Swiss National Bank's tolerance of modest currency strength. Meanwhile, the British pound should find itself lagging its European peers, thanks in part to continued investor focus on the UK fiscal and political outlook.

THE DOLLAR BLOC. The Australian and New Zealand currencies should see roughly equal gains, with the Australian versus US dollar rate rising to 0.75 and that of New Zealand versus the US rising to 0.62 by year end. Both will be aided by the weaker US currency and supported risk appetite, but more accommodative monetary policy in Australia than the market expects and limited fiscal tailwinds in New Zealand should temper the gains. The US versus Canadian dollar is expected to trade sideways at around 1.35–1.36, lagging commodity bloc peers due to the weaker US currency and continued investor uncertainty over renegotiations of the US-Mexico-Canada Agreement. ■

This article was excerpted from the May 12 Morgan Stanley & Co. Research report, "Constructive, Not Complacent." For a copy of the full report, please contact your Financial Advisor.

MUNICIPAL BONDS

Keeping Cool With Munis

Mark T. Schmidt, CFA, Strategist, Morgan Stanley & Co. LLC

The economy is running hot, and municipal bonds may be a way for investors to keep cool.

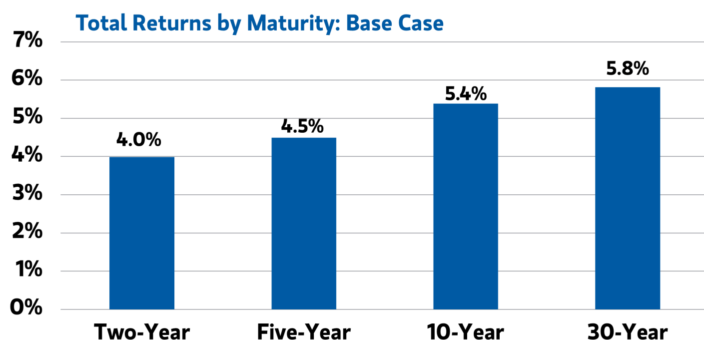
Despite a resilient US economy, there are still plenty of late-cycle signals as well as an unusual energy shock with uncertain feed-through to US inflation. We expect demand for munis to rise $50 billion beyond our earlier forecast, as investors rebalance portfolios and seek a late-cycle haven. We now anticipate about $200 billion in inflows for 2026.

Meanwhile, supply is on track to meet our full-year target of $600 billion–$625 billion—but not exceed it. For the asset class overall, we forecast a total return of 5% this year.

Given our expectations for an unusually favorable macroeconomic backdrop, with support for munis as a "haven," it feels like 1996. Growth is accelerating, inflation may mellow and the Federal Reserve should eventually cut rates—an ideal recipe for positive muni performance.

As demand rises, ratios between municipal bond yields and US Treasury yields should tighten. A key consideration is that several factors are likely to prompt high net worth investors to favor munis over other options.

Municipal Bonds: Forecast for Total Returns



Source: Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of May 18, 2026

ATTRACTING HIGH NET WORTH INVESTORS. Among those factors is the environment for alternative investments, which have looked risky. Private credit industry challenges have made retail alts funds less attractive than before, dulling the appeal of a new asset class that had competed for the marginal high net worth investor dollar. Then there's the equity market, with stocks potentially hitting new highs. Although this would be backed up by solid earnings growth, investors may want to lock in record gains and de-risk by rebalancing into munis.

Additionally, municipal bond tax risk feels remote. Divided government looks probable for several years, making it less likely that munis' tax exemption enters into either the policy discussion or investors' frame of mind.

ACCELERATING FLOWS. We expect flows to accelerate across mutual funds, ETFs and separately managed accounts (SMAs), as investors add about $200 billion to the municipal bond asset class this year. With ratios tightening, banks and insurance companies may sell munis on the margin.

Led by energy prepay and housing bonds, new issue volumes have been steady at around $11 billion–$13 billion per week. Supply-chain limitations, not economic uncertainty, are likely holding capex back for local governments and infrastructure enterprises. We expect supply to remain in this steady range until favorable summer reinvestment technicals reassert themselves, driving spreads and ratios tighter.

Record earnings growth means another good year is in store for government tax collections. Strength in mergers and acquisitions, initial public offerings and overall capital gains are likely to support municipal tax collections—good news for governments large and small. It should also ensure that spreads for California and New York bonds stay subdued.

SECTORS AND STRATEGY. In terms of sectors, gas/energy prepay bonds remain our top pick, followed by housing. Prepay bonds benefit from liquidity, credit diversification and excellent duration-adjusted spread. We continue to expect additional SMA buyers over the next 12 months, providing a technical tailwind.

We are broadly equal-weight muni duration, though we would stay selective in maturities beyond 20 years. While a strong economy should keep credit quality intact, tight spreads make us favor investment grade over high yield, and coupon spreads over credit spreads. ■

This article was excerpted from the Morgan Stanley & Co. Research May 12 report, "Constructive, Not Complacent," and the May 18 report, "Keep Cool and Buy Munis." For copies of the full reports, please contact your Financial Advisor.

HOUSING

US Housing: Nowhere to Go But Up?

James Egan, Strategist, Morgan Stanley & Co. LLC

The US housing market is stuck in neutral. Existing home sales volumes are at their lowest level in decades. New home sales volumes are down 5% in the first quarter on a year-over-year basis, for the softest first three months of the year since 2017. Meanwhile, single-unit housing starts are down 6% to start the year and have come down 19% since local peaks in 2022. Nationally, home prices continue to climb, but the pace of the increase has slowed to just 0.7% year over year.

With the 10-year US Treasury yield—the benchmark rate for residential mortgages—likely to be above 4% throughout the forecast horizon, we expect little affordability relief. Housing reform at the federal level will remain in focus, and while some form of intervention appears likely, we do not think it will have much impact on housing activity or prices in the next year or two.

SUPPRESSED DEMAND. The combination of challenged affordability and geopolitical uncertainty/volatility should keep demand suppressed, while climbing for-sale inventory should continue to weigh on price appreciation (see table). At the same time, accelerating weakness in new home pricing and stubbornly elevated inventories there should keep building volumes muted. All told, we expect the housing market to deliver similar results to what we have been seeing: low single-digit growth in prices and sales, while housing starts contract in the short term before gaining some momentum out into 2027.

Our affordability outlook assume a 30-year mortgage rate that finishes 2026 at 6.25% before ending 2027 at 6.125%. Affordability, as defined by mortgage payment as a percentage of income, improves over the forecast horizon as income growth exceeds price appreciation, but it remains near its most challenged in decades.

LOCKED IN. Affordability is also affected by the “lock-in” effect. About 75% of the mortgage universe has a rate below 6%, which stifles demand. Just think about the advantageous financial position these households are in. For example, the monthly payment on the median-priced home in 2016 was 13.6% of median household income.

If we assume that homeowners refinanced during the period of record-low mortgage rates in 2020 and 2021 and that their income has grown at the same pace as median household income, their payment would only be 7.8% of their income today. After accounting for higher mortgage rates and home prices, the median purchaser today can expect a payment closer to 22% of their income. Exchanging that seasoned mortgage payment for today’s median would mean increasing monthly servicing costs by over $1,300, or roughly 200%.

That said, some volume of housing transactions has to occur regardless of where affordability is. For 10 quarters now, existing home sales as a percentage of housing stock have been bouncing around 40-year lows. We expect support at these levels to hold.

Single-unit building volumes continue to be the softest major housing metric, down a further 6% in the first quarter after falling 7% year over year in 2025. Single-unit housing starts are down 19% from local peaks in 2022. That has allowed the backlog in units under construction to clear.

HIGH HOME INVENTORY. The decrease in homes being built has not led to more new homes being sold. The inventory of new homes available for sale has climbed to its highest levels since 2008, and elevated new home inventory has weighed on pricing. Despite homebuilders offering rate buydowns that prop up home prices all else equal, new home prices have fallen below existing home prices for the first time in the multidecade history of our data. With new home inventory elevated, homebuilder confidence near its lowest levels since the Great Financial Crisis and new home prices continuing to fall, it is difficult to see a material rebound in housing starts in 2026.

As inventory growth has outpaced demand, price appreciation has decelerated. As we approach 0% nationally, we expect home prices to find a floor. There simply is not enough for-sale inventory to meaningfully drive prices down. We also do not expect distress to be severe enough for forced selling, which is typically indicative of larger price corrections. ■

This article was excerpted from the May 15 Morgan Stanley & Co. Research report, “A Balancing Act.” For a copy of the full report, please contact your Financial Advisor.

Morgan Stanley & Co. 2026 and 2027 US Housing Forecasts

	Percent Change				Actual Values			
	2024A	2025A	2026E	2027E	2024A	2025A	2026E	2027E
Home Price Appreciation (HPA)	4%	1%	2%	2%				
Existing Home Sales	-1%	1%	0%	3%	4,060,000	4,080,000	4,100,000	4,250,000
New Home Sales	3%	-1%	-1%	6%	685,000	679,000	675,000	715,000
Single-Unit Housing Starts	7%	-7%	1%	3%	1,060,000	942,000	950,000	980,000

Source: Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of May 15, 2026

Please refer to important information, disclosures and qualifications at the end of this material.

Q&A

Emerging Market Equities: Can It Last?

After a 30% gain in 2025, emerging market equities have returned a remarkable 25% for this year through May. According to Alison Shimada, senior equity portfolio manager and head of the Total Emerging Markets team at Allspring Global Investments, this may well be the start of a multiyear cycle for these increasingly complex and technology-oriented markets. She recently discussed her outlook and the evolution of emerging market equity investing with Alfredo Pinel, global strategist at Morgan Stanley Wealth Management. Below is an edited version of their May 19 conversation.

Alfredo Pinel (AP): Let's start with the outperformance. We haven't seen this type of performance from emerging markets since the years following the Great Financial Crisis and the 2000–2008 cycle led by the BRICs (Brazil, Russia, India and China). What do you think is driving the current outperformance, and how durable is it?

Alison Shimada (AS): I think those are the questions on people's minds at this moment. Most people haven't been heavily involved with emerging markets since the last upswing 15 years ago—and so the outperformance has been a surprise.

The drive for investors to look outside the US started last year with greater policy uncertainty in the US and a decline in the dollar. That was a high-level signal to diversify. There's been a preponderance of allocations to the US, particularly to the technology sector, which has provided most of the earnings growth and capital appreciation.

It's said that every decade, market leadership changes. I think the most recent phase, with the US leading, was longer because of the pandemic. I'm not expecting a collapse of the US market, but it can't be the only one that substantially outperforms. I think emerging markets will have a multiyear cycle, and there are a multitude of reasons for it.

AP: You've been managing portfolios in emerging markets for 20 years and global equities before that. How are companies in the emerging markets index different today from the early 2000s? And is the current story broad-based or just an AI infrastructure trade?

AS: When we think about the sectors that led emerging markets in the 2000s through the 2008 market peak, energy and materials were dominant at about 29% of the index. So were financials. But there was low representation from the tech and consumer sectors. I think what most people remember when they look back was a volatile, highly cyclical equity market.

Since then, the emerging markets have been maturing. The larger countries like India, China, Korea, Taiwan, Brazil, Poland and those in the Middle East are all going up the same trajectory. There have also been structural changes: younger, growing populations in many countries, aging societies in others and the financialization of savings—with households routing their savings into domestic markets.

In terms of companies, financials are still 18%–19% of the benchmark, but technology is now extremely large at the moment at 40% of the index, while energy and materials sectors have dropped to around 9%. During the bull market in the early 2000s, technology was centered in the developed markets, but now emerging markets are at the center of technology. That is a very big change, and it's not a sideshow: Tech is critical to their development. Even if there is a tech pullback, it will remain a value-added area within emerging markets.

So emerging economies have become more complex. They aren't simply commodities and export stories anymore. That to me is why people need to consider exposure to them; the majority of global GDP now comes from emerging markets.

AP: Turning to specific countries, India has a great secular growth story, but its equity market has been underperforming emerging markets for the past couple years—possibly this has been its worst underperformance ever. What do you think is driving this disconnect, and how are you thinking about India now?

AS: India did well from 2021 through 2024, but that pushed valuations into expensive territory. Over the past year, investors have also begun to focus more on AI, and they see India as a bit of an anti-AI play or lagging on AI. So, I'd say valuations and lack of direct AI exposure in India drove capital into AI-heavy countries, including in North Asia.

While one must be very selective, there are interesting areas to play in India. Number one is favorable demographics, which is supportive of financial services, certain areas of consumption and autos. I also think India realizes from the Iran war that it needs a more aggressive stance on building out energy infrastructure. So I expect a refocus on this area, as well as increasing investment in financial assets over hard assets.

I'm very positive about India in the sense that it has an effective government in place for the first time in a number of years. The government has built out services in rural areas to bring people out of poverty; institutionalized and standardized government regulation; and chosen certain sectors like energy and utilities to focus on.

Going forward, the emphasis in emerging markets will broaden out. However, some consolidation within India's stock market here would be helpful to lower valuations a bit

more. To me, earnings growth and valuations are always key to emerging markets; India's not cheaper than other markets at the moment, and that's a negative.

AP: You mentioned the financialization of assets in emerging markets as a structural shift. What do you think the implications are for equity markets and capital formation over time?

AS: This is something that's commonly overlooked as a driver of capital markets. In India, for example, automated flows—taken out of people's paychecks—go into mutual funds. These are consistent flows regardless of market conditions. This is very supportive to the markets.

Over the past three to five years, I've seen a realization in emerging markets—including China and Korea—that retail investors are the backbone of domestic markets rather than the foreigners coming in and out to trade. Governments are seeing the benefit of providing good financial education and having their own citizens invested.

I also see a shift away from physical assets like gold and property. In China, for example, people were heavily geared to property, but there's been improvement recently in their understanding of the stock market—that it's not a casino. I expect that more household savings will head toward the markets in the future, both in emerging and developed markets.

AP: China has become quite differentiated, and its correlations with other markets have plummeted. How are you balancing what appear to be good, long-term fundamentals at Chinese companies against the negative macroeconomic backdrop?

AS: We're relatively positive on China, and several people on our team have long-standing experience in the country. A few years ago, China was deemed "uninvestable," and recently, it has been considered somewhat of a "safe haven." I think China is neither—but perhaps in between. Never underestimate countries with an extremely high level of intelligence of financial capital and a centralized government that can mobilize people very quickly. While you're looking the other way, they can be developing all sorts of things.

That's what led to the DeepSeek moment in early 2025. I think China is moving into the upper echelon of cutting-edge technology, much as Japan did 30 years ago, to avoid complete commoditization of the economy—things like humanoid robotics, self-driving, automation, and even EVs and battery technology, though these are becoming a bit more commoditized.

As for the property market in China, we've seen bubbles like this before—for example, in Southeast Asia in the late '90s and early 2000s. They just built too much, and that has to unravel—it takes seven to 10 years to work through. For China, I think it will probably take another year or two to bottom out. However, that doesn't mean the Chinese economy isn't strong. It has a very tiered economy, a large service industry and a strong industrial base in a variety of sectors.

There are some difficulties. Consumption has been slow to return. China's access to AI is not complete without advanced computer chips from the US, but it can develop technology on its own—and more elite students are likely to stay in China now.

AP: There's been more fragmentation of the global economy over the past few years. When you invest in companies, how are you thinking about risks like geopolitics and supply chains? And is this creating opportunities for active management?

AS: Back in 2016–2020, all you had to do was buy five Chinese internet stocks, and I don't think experience mattered that much. Even last year you could have invested in an emerging markets ETF, and it would have been fine—everything was moving up. But now, with the war in Iran, US tariffs and all sorts of elections going on, we are in a different situation. If you want to have steady returns, you need to pick the stocks correctly. I think emerging markets absolutely require active management at this point in time.

We take a bottom-up approach with a top-down view. There are similarities in the 24 countries in the MSCI EM index, but there are differences as well, so you have to make judgements on a country basis rather than an asset class basis. Our approach involves having a strong country view combined with stock selection that's guided by shareholder return, which we think is an early indicator of better corporate governance and quality. This has been a very consistent way to invest in emerging markets.

AP: With the world becoming less globalized, do you see consumers in emerging markets shifting to local brands and "national champions?" Do you think that poses a longer-term challenge for multinationals that have benefited from emerging markets growth in the past 20 years or longer?

AS: Yes, there is a shift to local brands, and it's partially dependent on cost to consumers. I think multinationals went into emerging markets just seeing big populations, without varying income levels. Now, there are more barriers to entry and higher costs in servicing overseas markets for multinationals.

The local brands are also very strong, and there is much more competition for the consumer wallet today, from white goods, or household appliances, to alcohol to beverages to consumer staples. This may have been an evolutionary process: Local companies learned from watching multinational brands.

What's interesting to me is that relatively few emerging market brands have gone outside of their local markets. I think there's opportunity for those with lower costs that can operate well at a large scale. I'm thinking specifically of brands coming out of China and Korea as examples—bubble tea, fast food, cosmetics and entertainment brands. Culturally, consumers are very interested.

AP: What worries you about emerging markets that you feel is not appreciated by markets today?

AS: The current risks for emerging markets are inflation, which would raise the cost of inputs, and the possibility of rising rates. But these are not any more severe than what we see in the US or other parts of the world. Emerging markets have handled geopolitics well, and we don't see any systemic risks for them.

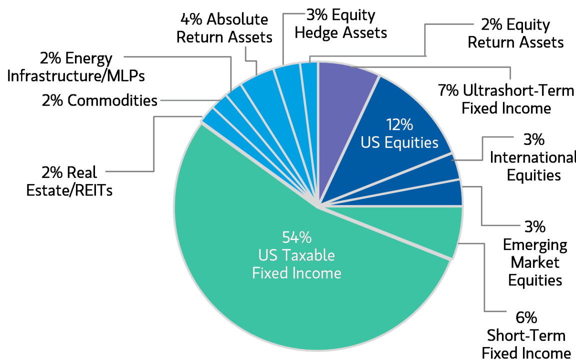
As far as what can hold back emerging markets, not a lot worries me. I think they are trending well, and I am more positive on emerging markets than last year and many years before that. Investors are focusing on earnings and fundamentals, and looking for better quality companies, which is very logical. Perhaps one underappreciated risk is simply that many people have a backward-looking and outdated view of emerging markets. China, India, countries in the Middle East, Korea, Taiwan—these are sophisticated economies now. Things are very, very different today. ■

Alison Shimada is not an employee of Morgan Stanley Wealth Management or its affiliates. Opinions expressed by her are her own and may not necessarily reflect those of Morgan Stanley Wealth Management or its affiliates.

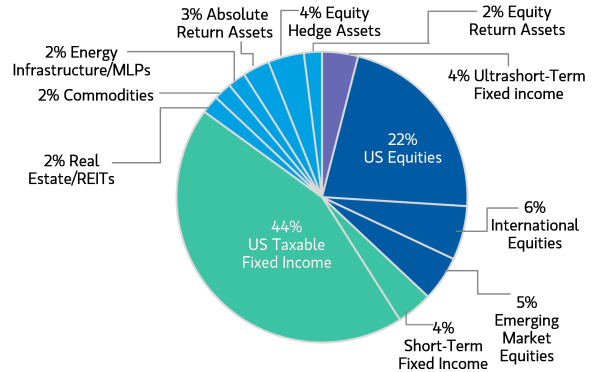
Global Investment Committee Tactical Asset Allocation

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.

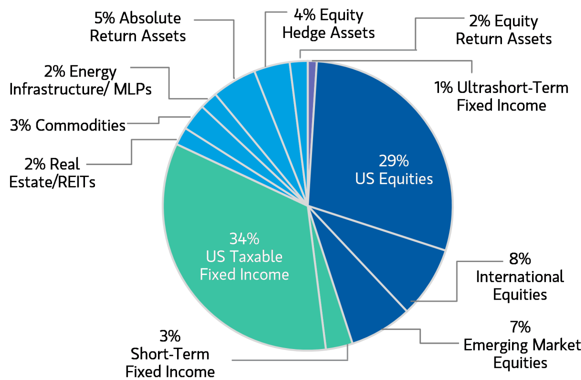
Wealth Conservation



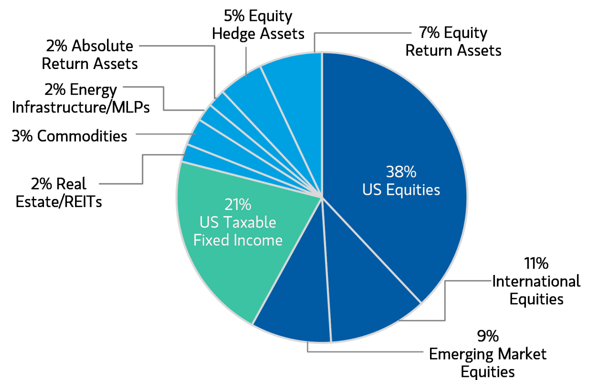
Income



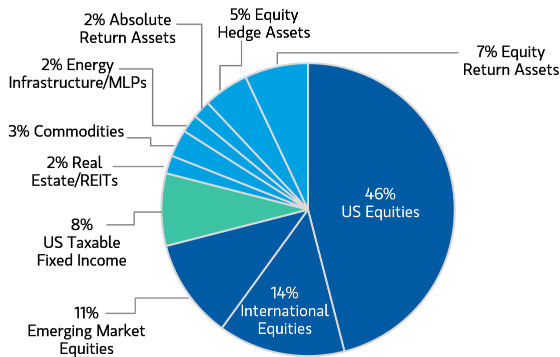
Balanced Growth



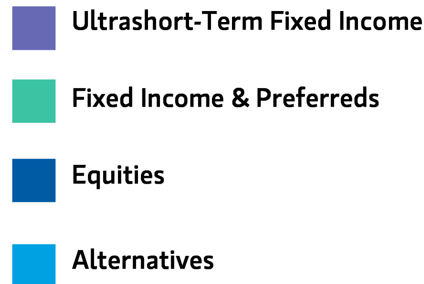
Market Growth



Opportunistic Growth

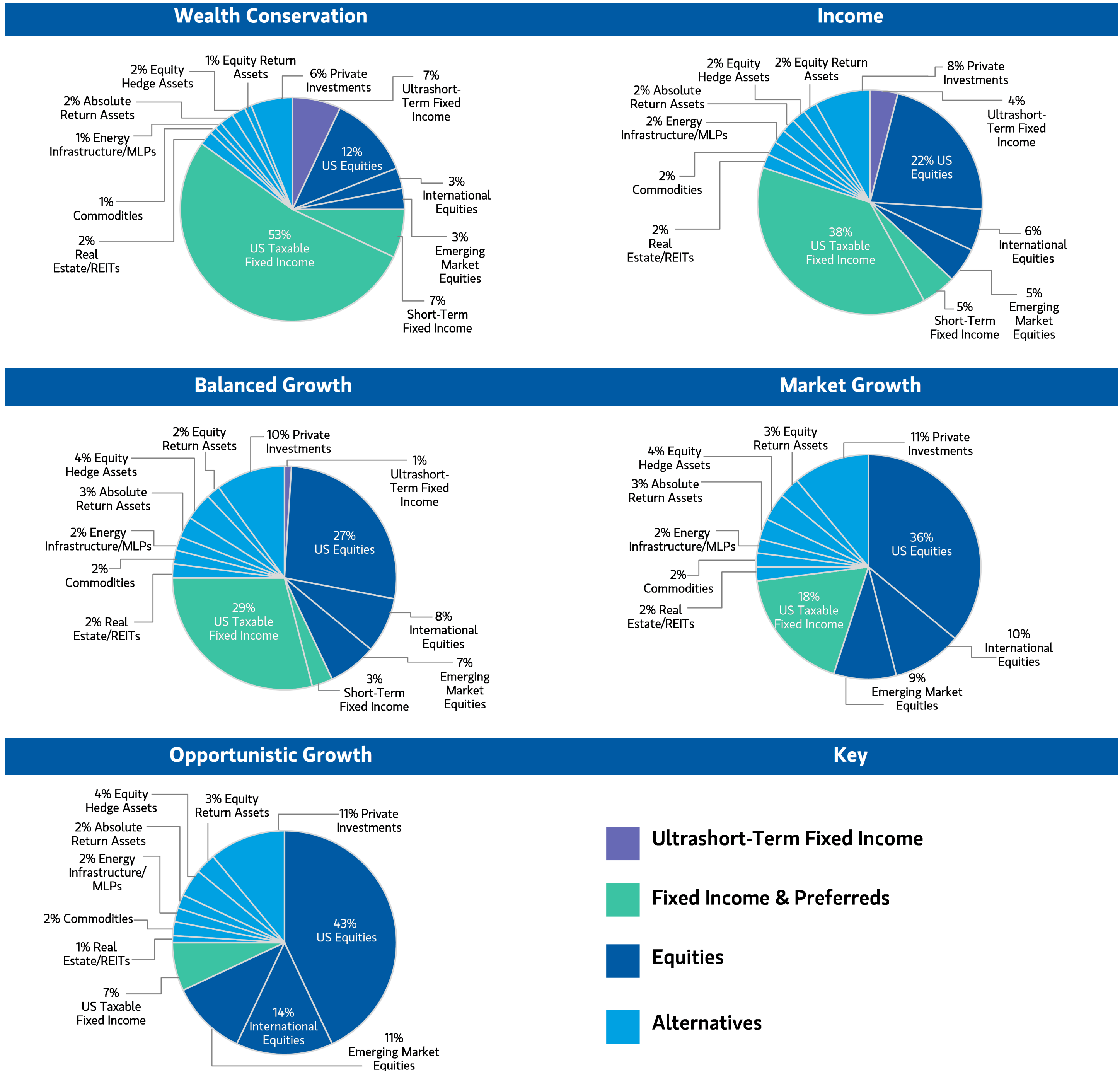


Key



Source: Morgan Stanley Wealth Management GIC as of June 2, 2026

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 June 2, 2026

Disclosure Section

Important Information

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

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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.

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 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 economics. ETFs investing in physical commodities and commodity or currency futures have special tax considerations. Physical commodities may be treated as collectibles subject to a maximum 28% long-term capital gains rates, while futures are marked-to-market and may be subject to a blended 60% long- and 40% short-term capital gains tax rate. Rolling futures positions may create taxable events. For specifics and a greater explanation of possible risks with ETFs¸ along with the ETF's investment objectives, charges and expenses, please consult a copy of the ETF's prospectus. Investing in sectors may be more volatile than diversifying across many industries. The investment return and principal value of ETF investments will fluctuate, so an investor's ETF shares (Creation Units), if or when sold, may be worth more or less than the original cost. ETFs are redeemable only in Creation Unit size through an Authorized Participant and are not individually redeemable from an ETF.

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

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

Master Limited Partnerships (MLPs) are limited partnerships or limited liability companies that are taxed as partnerships and whose interests (limited partnership units or limited liability company units) are traded on securities exchanges like shares of common stock. Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in MLP interests are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. MLPs carry interest rate risk and may underperform in a rising interest rate environment.

International investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with **emerging markets** and **frontier markets**, since these countries may have relatively unstable governments and less established markets and economies.

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

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in high-yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

Interest on municipal bonds is generally exempt from federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax-exemption applies if securities are issued within one's state of residence and, if applicable, local tax-exemption applies if securities are issued within one's city of residence.

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

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

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

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 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.
- 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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