Morgan Stanley

WEALTH MANAGEMENT

INVESTMENT STRATEGY

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On the Markets

Reflections and Projections at Midyear

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US equity markets have experienced strong gains in the first half of 2026, driven primarily by robust earnings growth rather than valuation increases. Despite various challenges, including geopolitical tensions and inflation concerns, corporate earnings and economic growth have surpassed expectations, supporting market performance. The passive S&P 500 index has risen 9.3% for the year to date, powered by year-over-year first quarter earnings gains above 25%. This has led to upward revisions of full-year earnings growth forecasts, with the consensus rising from 13%–14% to 23%–25%. Expansion has also caused the average forward price/earnings (P/E) multiple to decline roughly 10% from peak levels, to 20 times.

Although the decline in P/E ratios has been a welcome development, given recent valuation concerns, concentration risk is still a dominant feature of this bull market and of the AI trade, as market leadership radically churns. Consider that this past quarter was one of the weakest in four years for the “Magnificent Seven” stocks, which were down about 10%, on average, as value caught up to growth and equal-weighted indexes outperformed their capitalization-weighted brethren. Still, approximately 10 stocks, mostly in the semiconductor industry, have accounted for roughly 85% of year-to-date S&P 500 returns, with the PHLX Semiconductor Sector Index up nearly 90% in the second quarter. This concentration has also impacted emerging markets like Taiwan and Korea.

While these results are in line with our constructive, “cyclical broadening” call and Morgan Stanley & Co.’s midyear 2027 target for the S&P 500 of 8,300, it has not been an easy journey. On the contrary, the S&P 500 fell more than 7% in the first quarter through late March amid US-Iran tensions and oil price spikes. Markets began rebounding strongly by April, however, driven by semiconductor industry momentum and easing geopolitical concerns, which combined to fuel the strongest quarterly return for the index since 2021.

Results have not come without controversy, however. June brought renewed pressure from inflation worries, a new Federal Reserve chair, a shift in market expectations for Fed rate cuts to hikes by December, and record equity and debt issuance. It has become clearer that the US economy is “running hot,” with nominal

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growth again well above the 5% 80-year average. Real GDP growth rebounded to 2.1% in the first quarter and is expected to accelerate to 2.5%–2.6% in the second quarter, supported by strong capex, manufacturing expansion and robust consumer spending, despite a K-shaped economy with declining savings and wage growth below inflation. Meanwhile, the labor market remains tight, with unemployment at 4.2%. Inflation appears to have peaked, with core personal consumption expenditures at 3.3%, but sticky components such as import prices and AI-related inputs are keeping inflation pressures elevated. US Treasury yields have increased, flattening the yield curve. Risks now include the potential for tighter financial conditions and weaker liquidity. US Treasury real yields have risen meaningfully, with the two-year real rate recently at a four-year high close to 2% and the 10-year real rate near a one-year high close to 2.2%.

Looking forward, we anticipate a US equity market that continues its June churn behavior for another couple months before reestablishing positive momentum during the fourth quarter and into year-end, as it becomes more apparent that economic slowing catalyzed by fading fiscal stimulus is leading to lower interest rates.

The GIC recommends profit-taking in semiconductor names, including among those based in emerging markets, and a shift toward AI-implementation beneficiaries and sectors that benefit from broader economic growth. The AI adoption cycle is maturing, with a shift from training to inference workloads, leading to hybrid technology architectures and increased competition between hyperscalers and semiconductor makers. Signs include subscription pricing wars, declining graphics processing unit (GPU) prices and open-source adoption—suggesting a fragmented supply chain and rebalancing of market leadership. In addition, we are adding to fixed income for the first time in 18 months, with a preference for rates over investment grade credit, as well as for intermediate duration over the short end. ■

GLOBAL MACRO

America, Frontier Market

Andrew Sheets, Global Head of Fixed Income Research , Morgan Stanley & Co. International plc+

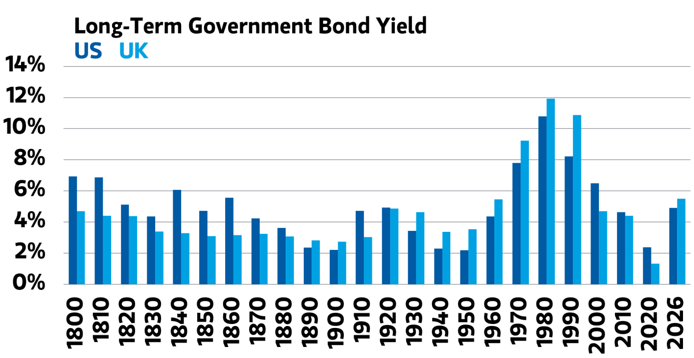
If you were a global investor at the end of the 18th century looking for a stable, low-risk home for your capital, it would have been entirely reasonable to avoid the newly minted United States of America.

By the standards of modern finance, the young republic was not a developed market in waiting. It was a frontier economy: volatile, debt-burdened, institutionally fragile, resource-rich, politically combustible and astonishingly unequal. Its currency had collapsed, its public finances were suspect, its citizens resisted taxation and its growth prospects were extraordinary. In 1810, 70% of the country was under 25.

FROM MESSY TO DYNAMIC. That is one of the revelations in Gordon Wood's "Empire of Liberty," which focuses on the early days of the new country (1789–1815). Wood's America is not the marble republic of statues and myth. It is speculative, messy and full of motion. The US succeeded not by escaping the dysfunctions we associate with emerging or frontier markets, but by turning them into a source of dynamism.

Start with capital. Early America needed it desperately. Roads, canals, land purchases and the government all required credit, and there was never enough of it. The country was rich in land and poor in liquidity, a classic emerging market mismatch. And what the young country couldn't borrow or invent it misappropriated, lifting intellectual property from its former masters in Britain.

It Took Nearly 100 Years, but by the 1890s the US Was Borrowing at Lower Rates Than the UK



Note: Approximate yield at the start of each decade. Yields represent long-term government bonds/consols where possible.
Source: NBER, HSUS, Bloomberg, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Committee as of June 28, 2026

NOT A SMOOTH JOURNEY. What Alexander Hamilton understood given this challenge was the importance of confidence: that debts would be honored, contracts enforced and taxes, however unpopular, collected. His financial program was an attempt to solve the emerging market problem before the phrase existed—persuading investors that a new state, born in revolution and nearly bankrupted by war, could be trusted. To Hamilton, public credit was the foundation of independence.

To many Jeffersonians, however, his system looked like an attempt to smuggle a British financial order back into a country that had just fought to expel it. The early republic's debates over debt, banks, speculation and taxation sound contemporary because the underlying question is perennial in frontier markets: Can a society embrace credit and foreign capital without being captured by it?

The US was not starting from zero. It inherited legal traditions, habits of self-government and a culture of contract and property. Those foundations instilled confidence that disputes could be adjudicated and debts pursued, and that rules would not be arbitrary. Early America was risky, but it was not lawless.

Still, all did not go smoothly. There was no Federal Reserve, FDIC or even a uniform national currency. Business was conducted with foreign coins, notes issued by private banks, IOUs and optimism. Bank failures were common. In 1808, the Farmers Exchange Bank in Rhode Island issued over $600,000 of notes against less than $90 in specie. You almost have to admire the audacity.

ENERGY UNLEASHED. Yet the same instability that made early America risky also made it unusually open. Land was the country's great asset class: a source of migration, ambition, speculation and opportunity, at least for white settlers. It also produced bubbles, administrative strain, the expansion of slavery and the violent dispossession of Native peoples. The Louisiana Purchase in 1803 was a risky, leveraged acquisition of distressed real estate, doubling the scale of the American experiment before anyone had quite figured out how the original version was supposed to work.

Wood is especially good on the familiar energy unleashed by this world. The engine of growth was not an aristocracy of polished grandees, but the "middling sort": shopkeepers, artisans, tavern owners, mechanics, farmers, merchants and speculators. Many were convinced that in America, birthright mattered less than hustle. Commentators of the time complained about the degraded press, political polarization, hostility to expertise and the vulgarity of a society obsessed with getting ahead. None of this sounds especially distant.

What saved America from the usual traps of frontier economies was not immaculate stability. It was adaptability. Its Constitution was amended. Political power changed hands despite animosity. Bankruptcy law allowed for failure, competition was ferocious and economic power was too diffuse to be easily monopolized. The early republic's genius lay less in resolving its contradictions than in creating ways to fight over them without destroying the whole.

LOOKING FORWARD. That is the useful lesson for America at 250. We tend to look backward for reassurance, imagining that the country once possessed a unity, prudence and institutional solidity that we have since lost. Wood suggests something different: The US was turbulent from the start. Its legitimacy was contested, its finances distrusted, its politics venomous, its expansion intertwined with slavery and Native dispossession and its future uncertain.

Emerging markets become developed markets not because they stop having crises, but because they build credibility through them. They learn which institutions matter, which bargains endure, which debts must be paid and which moral liabilities compound when deferred. America was not born orderly, rich or secure. It was born in the mud, financed on fragile credit, driven by speculation and sustained by an almost irrational confidence in the future.

Enjoy the fireworks. And let them be a reminder that national maturity is not the absence of volatility. It is the capacity to turn that volatility into renewal. ■

This article was excerpted from the June 28 Morgan Stanley & Co. Research report, "America, Frontier Market." For a copy of the full report, please contact your Financial Advisor.

ARTIFICIAL INTELLIGENCE

Chipflation

Shawn Kim, Equity Analyst, Morgan Stanley & Co. International plc+

Artificial intelligence (AI) infrastructure demand is proving remarkably insensitive—or inelastic—to rising costs. Sharp price increases on items ranging from copper to gas turbines to memory have done little to slow the build-out. Here, we focus on the market for semiconductor memory—essentially the chips that store and process data for computers and smartphones—where the price signal is loudest and traveling furthest.

STRUCTURAL RESET. The memory price move is a genuine discontinuity. For decades, memory got cheaper with almost metronomic reliability; the price of a gigabyte (GB) of dynamic random access memory (DRAM), the most common type of computer memory, fell roughly tenfold every five years from 1957 to 2020, the purest expression of Moore's Law in the cost data. That era has ended. Memory prices have risen more than sixfold over the past year, and the memory market is on track to grow from approximately $220 billion in 2025 to $890 billion in 2026, according to TrendForce forecasts. That incremental $600 billion or more is larger than the entire stand-alone total addressable market (TAM) for smartphones, personal computers (PCs) or servers. This is not a normal cyclical upswing; it is a structural reset in the price behavior of a foundational input.

It is tempting to call this a supply problem, given three main suppliers in two countries and a multiyear lead time to add capacity. But that inverts cause and effect. The surge exists because AI has created a sudden, price-inelastic leap in memory demand; without it there is no cost shock. What makes the jump durable is that supply cannot respond quickly—installing tools, qualifying processes and ramping yield is a two-year sequence—and the three companies that make around 90% of DRAM and effectively all high bandwidth memory (HBM) are rationally steering scarce leading-edge wafers—the silicon base for chips—toward higher-margin HBM and server DRAM. Inelastic demand meeting inflexible supply is what turns a cyclical upswing into a structural reset.

IS THIS INFLATION IN THE CONVENTIONAL SENSE? Bit supply—the total data capacity that can be produced—is growing at only about 30% a year, capped by the availability of extreme ultraviolet lithography (EUV) tools and wafer capacity, while revenue is rising roughly fourfold. Almost the entire spending surge is therefore price, not volume.

We expect total DRAM wafer capacity to expand around 30% by 2027, but with AI prioritization still leaving consumer markets short. In 2027, PC DRAM will likely fall some 15% short of demand (roughly 58 million units) and smartphone DRAM 12% short of demand (134 million units). HBM is the mechanism—it consumes three to four times the wafer capacity per usable bit of conventional DRAM and is expected to rise from around 6% of leading-edge memory wafers in 2023 to about 34% by 2028. A two-tier market is forming: Hyperscalers lock in supply through long-term agreements and prepayments, while everyone else competes for a smaller, more volatile residual pool.

HOW CRAZY COULD IT GET? To shield gross margins based on memory cost alone, we estimate like-for-like prices would need to rise roughly 34% for smartphones, 67% for PCs, 83% for servers and 14% for storage. A 67% increase in the average selling price for PCs would be the strongest in the market's history, eight to nine times higher than even COVID-era inflation. Companies simply do not pass all of this increase through to buyers, which is why it surfaces instead as margin pressure, specification cuts and delayed launches.

When price effects are "muted in CPI," this is not the same as "absent": Rather, "chipflation" largely bypasses the inflation measures that markets and central banks watch most closely. Memory is rarely bought by households directly. It is an intermediate input, embedded in capital goods and services. Because computing carries a small weight in consumption baskets, it does not announce itself in headline CPI. For now, the effect is strong in producer prices—with electronic components up about 30% year over year—and in corporate cost of goods sold, cloud bills, capital expenditure budgets and delayed technology deployment. It transmits through business-to-business channels with a lag and surfaces in consumer-facing prices only at the far end of the chain.

POLICY IMPLICATIONS. Conventional inflation is a demand-management problem, and central banks have instruments for it. Chipflation is a supply problem: No interest rate decision will add a semiconductor fabrication plant. The longer memory prices stay elevated, the more the cost compounds through the industries that depend on these chips. Policy can mitigate—expanding trusted supply and improving resilience—but cannot quickly resolve a shortage that requires years of construction to address.

Inelastic demand and an invisible inflation channel reinforce one another. Because AI buyers do not flinch at higher memory prices, suppliers have every incentive to keep allocation tight and pricing firm. And because the resulting inflation hides in capex lines and cloud invoices rather than turning up on the supermarket shelf, there is little public pressure to resolve it. ■

This article was excerpted from the June 7 Morgan Stanley & Co. Research report, "Chipflation." For a copy of the full report, please contact your Financial Advisor.

GLOBAL EQUITIES

Unlocking Biopharma's Next Step: AI and Productivity

Sean Laaman, Ph.D., Equity Analyst, Morgan Stanley & Co. LLC

Artificial intelligence (AI) is shifting drug development from a slow, trial-and-error process to a more data-driven model, improving how drugs are discovered, developed and tested. Historically, overall industry productivity has been low, and AI can potentially increase success rates, reduce timelines and lower costs.

While the potential for AI to improve drug development is exciting, the critical issues for investors are what the magnitude of the improvement will be, when to expect it and how to position portfolios accordingly.

IMPROVING R&D RETURNS. AI is emerging as a structural force in drug development, with the potential to materially improve returns on biopharma research and development (R&D).

We estimate AI-driven approaches can compress discovery timelines from roughly 4.5 years to 1.5 years; reduce early-stage R&D costs by 25%–60%; and shorten preclinical timelines by 30%–50%, with early evidence of improved success rates in Phase 1 and Phase 2 clinical trials, when drugs are first tested on humans for safety and effectiveness. Against the current backdrop of rising R&D spending, persistent late-stage attrition and decade-long development cycles, AI represents the most credible path to structurally increasing biopharma productivity and capital efficiency.

Importantly, AI should be viewed not as a replacement for biology, but as a decision-enhancement layer that improves outcomes at every step of the pipeline, shifting failure earlier, increasing signal quality and optimizing execution. Today's drug development model remains highly inefficient, with about 90% of assets failing and timelines often exceeding 10 years. AI directly addresses these inefficiencies through better target selection, more efficient molecule design and smarter clinical trial execution, transforming development into a more data-driven system that prioritizes higher-probability candidates.

REAL-WORLD DATA. Early case studies suggest that AI-enabled platforms can accelerate target-to-investigational new drug (IND) timelines by more than 60%, improve preclinical filtering efficiency (reducing the number of low-quality candidates entering the clinic) and drive meaningful cost savings across the development continuum. These gains have the potential to expand the number of viable drug candidates while simultaneously increasing capital efficiency—a combination that is historically difficult to achieve in biotech.

That said, AI's impact is not uniform and is emerging first in the highest-friction parts of the workflow—target identification, molecule design and clinical trial optimization—where data scale and pattern recognition drive the greatest advantage (see table). These areas are already delivering measurable gains and are likely to drive near-term investment results, well ahead of full system-wide transformation.

Where AI Delivers First (Near-Medium Term)

Area	What Improves	Timeline	Impact
Target Identification	Better drug targets using large-scale biology data	Near-term (1-3 years)	Higher quality pipeline starts
Molecule Impact	Faster and improved design of drug candidates	Near-to-midterm (1-5 years)	Shorter preclinical timelines, lower cost
Patient Selection/ Trial Design	Smarter clinical trials, better outcomes	Midterm (2-6 years)	Higher success rates, reduced trial risk

Source: Morgan Stanley & Co. Research, Company data, Morgan Stanley Wealth Management Global Investment Office as of June 8, 2026

DOES EFFICIENCY BRING GREATER SUCCESS? While early-stage efficiency gains are increasingly visible, the key debate is whether these translate into a sustained uplift in clinical success rates, particularly at the Phase 2 inflection point. We believe AI can improve early-stage success rates and compress development timelines, but evidence of system-wide probability of success expansion remains limited, with late-stage validation still to come. As a result, the opportunity is real but not fully derisked, and the timing of value realization remains uneven.

IMPLICATIONS FOR INVESTORS. From an investment perspective, what matters is not whether AI works, but where value is already visible versus where it remains contingent on future clinical proof, and what is priced into equities.

- In the near term, the most actionable exposure, in our view, remains in "pick and shovel" enablers—companies that provide the data, tools and infrastructure—where adoption is already translating into revenue and is less dependent on binary outcomes.
- AI-native platforms may offer the most direct upside exposure to clinical validation, but valuations already reflect wide dispersion tied to different Phase 2 success assumptions, making them inherently higher beta.
- Large-cap biopharma companies stand to benefit meaningfully from AI-driven productivity gains due to ramping up AI investments and data moats, and the impact is likely over the medium to long term.

Putting these together, we believe the most effective way to position for AI in drug development today is to own enablers, selectively track AI-native platforms for clinical inflection and underwrite large-cap productivity gains with appropriate skepticism. The key proof point for the entire drug development ecosystem will be Phase 2 signal quality, which will determine whether early efficiency gains translate into durable increases in R&D productivity.

If AI-derived programs fail to demonstrate meaningfully superior Phase 2 outcomes by 2027, we would expect a material reset in probability of success assumptions and valuation multiples across AI-linked biotech, particularly for platform-driven companies. AI is clearly widening the top of the funnel, accelerating timelines and improving early-stage decision-making, but the ultimate value creation will depend on whether it can produce consistently better clinical outcomes, not just faster ones. ■

This article was excerpted from the June 8 Morgan Stanley & Co. Research report, "Unlocking Biopharma's Next Step: AI as a Productivity Engine." For a copy of the full report, please contact your Financial Advisor.

US POLICY

Deal or No Deal: The US Trade Agenda

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US trade policy is no longer just about goods balances or market access. Rather, it is likely to be leveraged to reward regional alignment with the US and limit the influence of competitor nations. Here we discuss how tariffs have moved from policy shock to policy framework and offer details on the bilateral negotiations underway with China, Mexico, Canada and Europe.

TARIFF TABLE STAKES. Since the announcement of the "Liberation Day" tariffs in 2025, Morgan Stanley Wealth Management's US Policy team has maintained that tariffs are not a temporary negotiating tool but an enduring feature of the current policy regime. This view has been informed in part by the US fiscal backdrop.

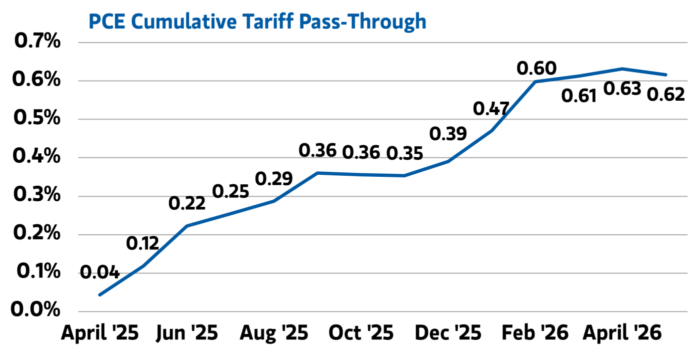
The One Big Beautiful Bill Act (OBBBA) passed last year is estimated to add roughly $4 trillion to the federal deficit over 10 years, contributing to the US debt-to-GDP ratio's rise above 100% this year and reinforcing the need for new revenue sources as debt-service costs continue to increase. To date, that thesis has largely played out. Even after the Supreme Court's February 2026 decision invalidated the International Emergency Economic Powers Act (IEEPA) tariff regime, the administration moved quickly to preserve tariff revenues through alternate means, including via Section 122 and Section 232 provisions and proposed Section 301 actions. While the renewal of Section 122 is unlikely, the Committee for a Responsible Federal Budget estimates that their quick utilization has helped the US government recoup more than half of the lost IEEPA revenue.

If implemented and made permanent, the proposed Section 301 tariffs, along with recent adjustments to Section 232 steel, aluminum and copper tariffs, will raise an estimated $970 billion over 10 years, directly offsetting Section 122 tariffs and maintaining the average effective tariff rate at around 11%. The result of these potential changes is a trade policy framework that looks less like a temporary disruption and more like a durable revenue, industrial policy and geopolitical instrument.

INFLATION IMPACT. While the road to tariff stability is slowly being paved, we emphasize that the final outcomes remain uncertain. That said, other areas of tariff-related policy are becoming clear. Specifically, the tariff changes have largely been absorbed by the consumer, though Morgan Stanley & Co. economists expect tariff pass-through to personal consumption expenditures (PCE) inflation to fade over the coming months.

While the inflation pass-through from the IEEPA tariff regime continued through the first half of 2026, it decelerated after the February Supreme Court decision, with goods more exposed to tariffs rising less in April than goods less exposed. MS & Co. estimates that tariffs have added 62 basis points to inflation for the year to date but that core goods inflation will normalize as the tariff impulse fades (see chart).

Tariff Pass-Through Is Likely to Fade



Source: Morgan Stanley &Co. Research, Morgan Stanley Wealth Management Global Investment Office as of May 31, 2026

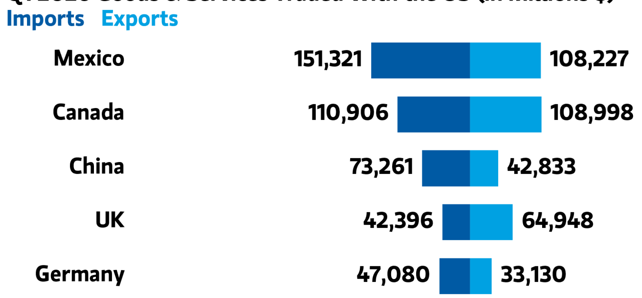
BILATERAL NEGOTIATIONS. The next phase of the trade agenda is likely to be defined by bilateral trade negotiations. China remains the center point of US trade policy, but the administration is also focused on the 2026 review of the US-Mexico-Canada Agreement (USMCA), European energy and defense purchases and a growing list of deals aimed at redirecting supply chains toward countries aligned with US industrial and national security priorities.

World Trade Organization data from 2025 clearly indicates a decoupling of the US and China, with US imports from China declining by 29%. The result is that China has fallen from top US trade partner to third in less than 10 years. Meanwhile, the US has sought to expand trade relationships with its closest neighbors. Today, Mexico and Canada have overtaken China and compete for the top position (see chart).

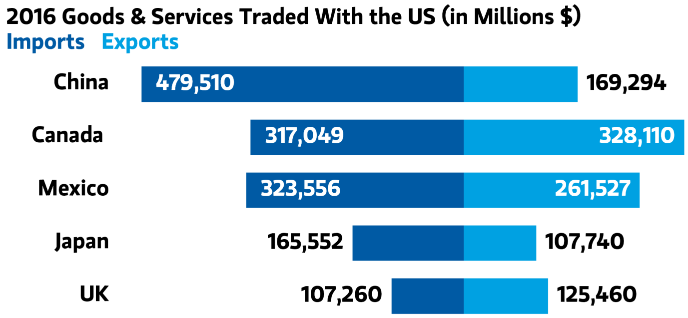
The continued decoupling between China and the US reflects the latter's efforts to diversify supply chains amid economic competition and national security concerns. Severing the nations' interdependence, however, is challenging. Notably, last month's Beijing Summit, between Presidents Trump and Xi, resulted in near-term deescalation, with negotiations repricing downside risks to China-exposed equities. The agreement reduced pressures on import costs and supply chains, supporting rare-earth minerals, semiconductors, technology hardware and agriculture. In addition, both countries agreed to continued communication, with the creation of the US-China Board of Trade and the US-China Board of Investment, aimed at fostering a more nuanced approach to tariffs and addressing investment-related irritants.

The US-China Trade Partnership Is Weakening

Q1 2026 Goods & Services Traded With the US (in Millions $)



2016 Goods & Services Traded With the US (in Millions $)



Source: Haver Analytics, Morgan Stanley Wealth Management global Investment Office as of June 22, 2026

While China remains the central target of US trade policy, the sell-off in both China- and Mexico-exposed equities suggests investors are increasingly considering broader supply chain risk rather than just risks pertaining to China. Mexico-exposed stocks have underperformed more sharply than China-exposed stocks, rising 21.6% since 2024 versus the S&P 500 Index's 55.4%. But China-exposed stocks have also lagged, gaining 31.5% over the same period, underscoring that countries positioned to benefit from decoupling are not immune to markets pricing trade policy risk.

That distinction matters as the administration turns from China to North America. Mexico's rise as a top US trade partner has been a direct consequence of supply chain diversification, but its deeper integration with the US also increases its exposure to the next round of negotiations. The 2026 USMCA review is likely to serve as a referendum on the strength of US leadership in Western Hemisphere trade dynamics.

TENSIONS OVER USMCA. The USMCA replaced the North American Free Trade Agreement (NAFTA) in 2020, preserving duty-free treatment for most qualifying goods while tightening North American rules of origin and strengthening labor provisions, particularly in the auto industry. The agreement includes a 16-year sunset clause, with the first major review date on July 1, 2026. On that date, the US announced that it does not support an extension, triggering the agreement's annual review process while leaving the deal in force until 2036 absent a future renewal or withdrawal. The administration committed to these serial annual reviews, but they mean that ongoing negotiations are likely to be protracted as each year offers opportunities for more scrutiny and increased policy uncertainty.

We expect a protracted debate into the fall, with the US increasing pressure on Mexico and Canada to make concessions in exchange for the core duty-free components of the deal and reduced industry-specific tariffs for non-USMCA-covered goods and services.

We believe one of the central themes to emerge will be preventing the transshipment of goods from China, or the import of Chinese goods into the US through indirect channels. The US and Mexico have already begun discussions on this topic, with Mexico agreeing to increase tariffs on China-linked imports in exchange for increased import commitments from the US in support of Mexican manufacturing. This dynamic is critical for Mexico as the US accounts for 80% of Mexican exports.

The US-Canada side of the agreement is different, with the transshipment story less foundational, despite US criticism of Canada's trade activity with China. Rather, the focus is expected to be on energy, autos, lumber, steel, aluminum and agricultural trade. The Canadian trade surplus with the US reached its highest level since before President Trump first imposed tariffs in February 2025. Higher exports of crude oil as well as passenger cars and light trucks drove up exports to the US, supporting Canada's position as top US trade partner.

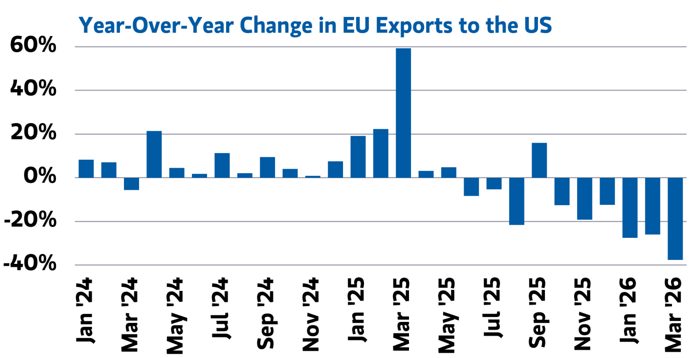
Canada has faced lower effective tariff rates than most major US trading partners, with an average effective tariff rate of 3.35% versus the overall average of 7.03%. This is due to a major share of its exports through March 2026 remaining largely duty-free, given USMCA compliance. Despite this advantage, trade policy uncertainty has weighed heavily on Canadian trade and investment decisions. We expect the next phase of trade risk for Canada to be less about broad tariff escalation and more about whether industry-specific industrial policy gradually erodes the value of preferential access under USMCA.

DEALMAKING WITH EUROPE. Europe may not sit at the center of the tariff debate like China or have the same supply chain immediacy for the US as Mexico and Canada, but it is becoming one of the administration's most important negotiating fronts. The trade discussion between the US and the European Union (EU) is less about decoupling and more about using tariffs to extract concessions on energy purchases, defense spending, digital regulation and industrial competitiveness. Europe's growing reliance on US natural gas and renewed focus on defense spending make it a natural venue for dealmaking.

The European Parliament recently approved legislation implementing the EU's tariff commitments under the EU-US Framework Agreement on Reciprocal, Fair and Balanced Trade, also known as the Turnberry Agreement, struck in July 2025. Under the framework, the EU agreed to lower barriers on certain US exports, while the US maintained a 15% all-inclusive tariff ceiling on most EU exports. The recent vote reduces escalation risk and supports US exporters in energy, defense, agricultural, seafood and industrial goods. Steel, aluminum and copper remain clear outliers at roughly 50%, keeping input-cost pressure alive. However, because of exemptions, most favored nation (MFN)-only treatment, product mix and the temporary Section 122 regime, the effective trade-weighted tariff rate is closer to 11%–12%.

That stabilization matters because recent US-EU trade flows have already weakened meaningfully, falling approximately 38% from March 2025 to March 2026 (see chart). While the decline in EU exports to the US is not unprecedented in magnitude, with exports declining approximately 25% during the Great Financial Crisis, the current episode is distinct. Unlike prior downturns, which were largely tied to synchronized demand shocks, the recent weakness appears directly linked to tariff policy, front-loaded shipments ahead of implementation and subsequent trade-flow adjustment.

EU Year-Over-Year Exports to the US Have Declined



Source: Eurostat, Bloomberg, Morgan Stanley Wealth Management Global Investment office as of March 31, 2026

INVESTMENT PERSPECTIVE. The US trade agenda is evolving from tariff shock into a more durable policy framework, with implications that cut across inflation, margins, fiscal revenues and supply chain strategy. Tariffs have helped raise revenue and strengthen negotiating leverage, but they also leave consumers and import-sensitive companies exposed to higher costs, even as the near-term inflation impulse begins to fade.

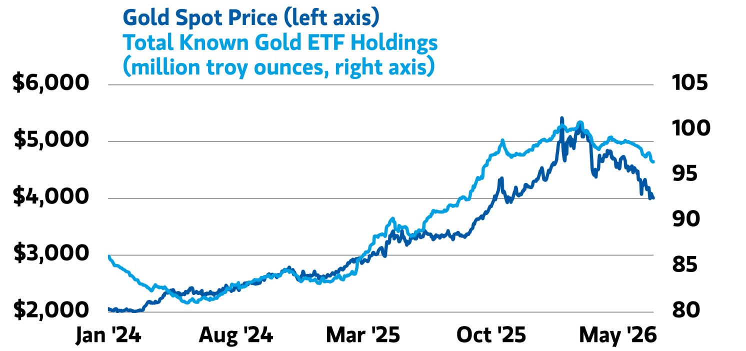
For investors, the key distinction is no longer simply which countries face tariffs, but which sectors and industries can absorb, pass through or benefit from the elevated tariff costs. Companies tied to reshoring, domestic capex, defense, energy, agriculture and strategic supply chains may be better positioned, while auto manufacturers, retailers, consumer goods companies, industrial importers and globally integrated manufacturers remain more vulnerable to policy uncertainty and margin pressure. ■

This article was excerpted from the June 25 Morgan Stanley Wealth Management report, "US Policy Pulse: Deal or No Deal: Markets and the US Trade Agenda." For a copy of the full report, please contact your Financial Advisor.

Short Takes

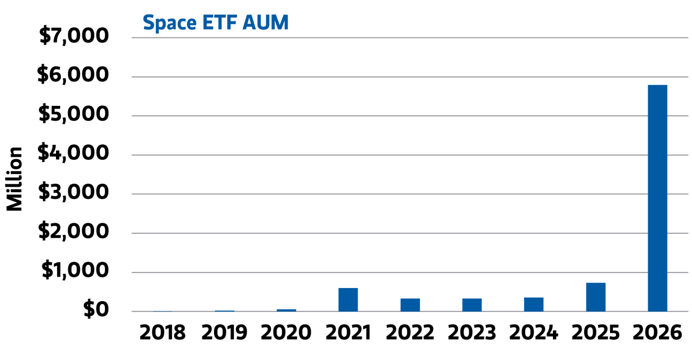
Is Gold's Weakness an Opportunity?

The spot price for gold has dropped 26% since its peak in January, as outflows from gold exchange-traded funds (ETFs) have accelerated. The metal initially fell alongside equities during the Iran war, likely reflecting profit-taking after a period of strong price momentum. Recently, a more-hawkish-than-expected Federal Reserve has tested market sentiment; inflation swaps—a market-based measure of inflation expectations—have declined sharply, while real yields and the US dollar have moved higher, creating a more challenging backdrop for gold. Even so, Morgan Stanley & Co. Research remains constructive, with a price target of $5,200 for year-end 2026, implying 27% upside, despite the difficult near-term conditions.—*Alfredo Pinel, CAIA and Sonny Mendez*



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of June 30. 2026

One Giant Leap for Space ETFs

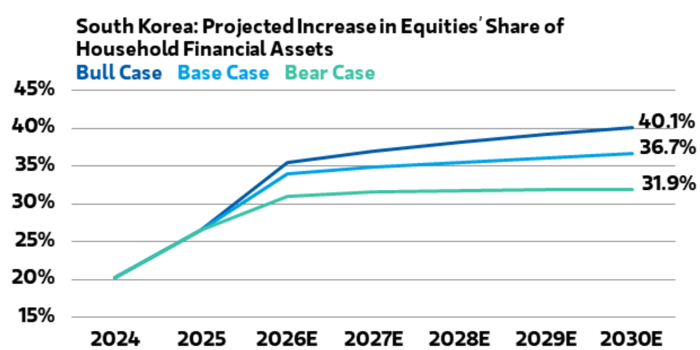


Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of June 30, 2026

SpaceX not only launched a record-breaking IPO but also likely drove a burst of growth in "space ETFs" in the first half of 2026. The first ETF with a thematic tilt to space came to market back in 2018, and as recently as year-end 2025, there were still only three to choose from. But alongside SpaceX's debut, 19 space ETFs have achieved liftoff over the past six months. A hefty $4.1 billion has flowed into this cohort of funds for the year to date. These include 11 leveraged and inverse funds directly related to SpaceX. —*Michael Suchanick*

South Korea's Renaissance Hits Home

South Korean households' stock market participation has increased significantly in what may be an inflection point in their risk appetite. Based on a June 11 report by Morgan Stanley & Co. Research, household equity holdings surged 48% in 2025 versus a prior decade-long average of about 7%. This shift follows decades of accumulating wealth mainly from real estate and a bias toward cash and deposits. MS & Co. Research analysts expect retail investor engagement to continue and have raised their KOSPI target to 9,000 by mid-2027. Rising household participation, policy tailwinds and improving market structure are pillars of South Korea's "renaissance"—a multiyear deepening of the equity market, according to MS & Co. analysts.—*Jane Yu Sullivan, CFA, CAIA*



Source: Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of June 11, 2026

US ECONOMICS

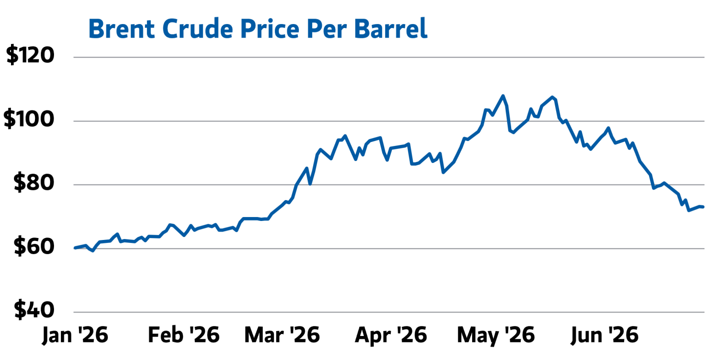
The Road Map to Potential Rate Hikes

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

Following the June Federal Open Market Committee (FOMC) meeting, we maintained our forecast for the Federal Reserve to stay on hold in 2026 despite nine FOMC participants having submitted a projection for at least one rate hike this year.

FACTORS SUPPORTING OUR NO-HIKE OUTLOOK. We retained our baseline outlook for no hikes for several reasons. First, our inflation forecast is more sanguine than that of the average FOMC participant. We believe tariff pass-through is ending, paving the way for substantial disinflation in core goods over the next year. In addition, the recently signed memorandum of understanding (MOU) between the US and Iran has helped push oil prices back toward preconflict levels (see chart). We also look for further moderation in shelter inflation and some payback from residual seasonality into year-end. On net, and following the release of May personal consumption expenditures (PCE) inflation, our forecast for fourth-quarter-over-fourth-quarter headline and core PCE inflation, of 3.2% and 3.0%, this year is substantially below that of the median FOMC participant.

Oil Prices Have Fallen in Recent Weeks



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of June 30, 2026

Second, we suspect that participants' stated projections may overstate inflation pressures. In March, FOMC participants had to form their inflation projections shortly after the Iran conflict began. Without knowing its duration, they likely underestimated the extent to which inflation would firm in subsequent months. We think the Fed may have been overstating inflation pressures in June since forecasts were likely formed before the MOU took hold. Nine participants submitted forecasts of fourth-quarter-over-fourth-quarter headline inflation of 3.5% to 3.6%, while eight submitted forecasts between 3.7% and 4.2%. This suggests the average inflation forecast lies above the median forecast. We think these are too high in light of the subsequent decline in energy prices.

Third, we believe most of the nine dots indicating projections for rate hikes this year were submitted by Federal Reserve Bank presidents, who may not be voters, rather than by board members; we also think it is likely that the majority of voters on the committee prefer the status quo policy-setting despite the evolution of the outlook. These voters are likely more comfortable with this outlook given incoming data since the conclusion of the June meeting.

Finally, consumer spending has softened, in both as-reported and revised data, and we view recent payroll gains through May as outsized, due in part to a catch-up effect in hiring following the implementation of protectionist trade policies last year. If the Fed is patient, we expect FOMC voters to prefer the current policy stance over a more restrictive one.

DATA THAT COULD CHANGE OUR OUTLOOK. That said, our forecast for monetary policy in 2026 depends on several conditioning assumptions that may not hold, and we detail how data could evolve in a way that leads us to change our outlook in favor of rate hikes. We focus most of our attention on our outlook for the data flow in June through August given that the Fed will see it before it meets in September. If the Fed wants to raise rates in July, it seems unlikely that any data between now and then will sway the central bank's thinking. Hence, we frame the data road map in terms of what may kick the Fed into action in September, or keep it on hold longer.

On the inflation front, the Fed's projections assume monthly run rates that persisted from April 2025 through December 2025, which could result from core goods inflation closer to 0.2% month over month on account of elongated tariff pass-through or more robust second-round effects from higher energy prices. This would mean a month-over-month core inflation rate around 0.3%. In our forecast, core CPI and PCE inflation run slightly below 0.2% month over month, on average, in the three releases between June and August. Hence, upside surprises to core could change our thinking.

In addition, oil futures prices point to substantial payback in energy prices in June and July, with energy prices in PCE inflation set to fall by about 5.0% and 2.6%, respectively. Should the MOU between the US and Iran not hold and subsequent hostilities reclose the Strait of Hormuz, our forecast for monthly headline CPI declines, and roughly flat readings on headline PCE inflation might not materialize. This would represent a higher probability of our oil risk premium scenario, where headline inflation remains firm and second-round effects on core inflation materialize.

In the labor market, we project average increases of 50,000 to 60,000 per month over the summer (total nonfarm and private), which should keep the unemployment rate roughly steady near recent levels. Should payroll gains outperform our expectations and push the unemployment rate below the median FOMC participants' estimate of the longer-run neutral rate (4.2%), then the Fed may decide a more restrictive stance is needed to prevent labor market overheating. We think a move below 4.0% unemployment by September would increase cause for concern that the labor market is much stronger than thought.

Finally, we acknowledge that economic data may not be the deciding factor for some FOMC participants. A year ago, the Fed viewed its policy stance as inappropriate in light of its view that downside risk to employment outweighed upside risk to inflation. Some of the nine projections for rate hikes may reflect a reversal in this risk-management approach; the participants may see the distribution of risks as skewed sufficiently in the direction of firmer inflation and view the current policy stance as inappropriate. In other words, subjective assessments about the distribution of outcomes around the modal path may be enough for hikes, diminishing the influence of incoming data.

For now, we retain our forecast for no rate hikes from the Fed this year. While incoming data since the June FOMC has made us marginally more comfortable in this view, we remain attentive to the data and will adjust our views accordingly as the economy evolves. ■

This article was excerpted from the June 26 Morgan Stanley & Co. Research report, "The Data Road Map to Rate Hikes." For a copy of the full report, please contact your Financial Advisor.

CROSS-ASSET STRATEGY

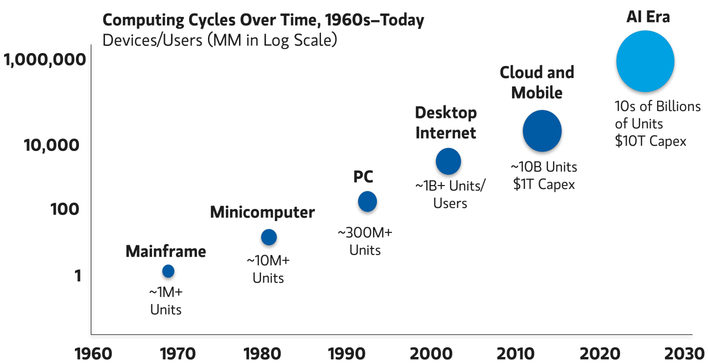
Financing AI: Is Capital the Constraint?

Michael J. Cyprys, CFA, CPA, Equity Analyst, Morgan Stanley & Co. LLC

Artificial intelligence (AI) infrastructure is evolving from hyperscaler-funded capital expenditure into a multi-asset financing ecosystem. We believe the constraint is not capital availability but how markets intermediate AI investment across equity, credit, securitization and private capital—with power and compute the real bottlenecks.

A STEP-CHANGE. Like prior waves of technology, AI is expected to scale compute capacity by roughly 10 times, driving a step-change in infrastructure investment. The mobile internet followed a similar path, expanding compute by around 10 times and supporting roughly $1 trillion of cloud and network capex, while reshaping market leadership as new platform companies emerged and disrupted incumbents (see chart).

Every Tech Cycle Delivers 10 Times More Compute



Source: Morgan Stanley & Co. Research, Company data; Morgan Stanley Wealth Management Global Investment Office as of May 29, 2026

We believe AI could be larger and last longer than prior cycles because it requires a broader infrastructure footprint and is progressing at a faster pace. Investment spans semiconductors, servers, networking, data centers, power, cooling and related infrastructure. At the same time, model capabilities, inference demand and enterprise adoption continue to grow rapidly, creating a need for sustained incremental capacity. Across model development, usage and spend, the trajectory continues to surprise to the upside, underscoring the difficulty of forecasting exponential growth in real time.

In the first four years of this build-out, aggregate capex is tracking above $1 trillion, roughly 10 times higher than early-cycle cloud spending. Looking ahead, hyperscaler capex is expected to exceed $1 trillion annually by 2027, with compute capacity increasingly becoming a key constraint to further AI scaling. These dynamics suggest we are still in the early stages of a cycle, and as the infrastructure build-out broadens, funding will likely need to extend beyond hyperscaler balance sheets, making public and private capital markets critical enablers of the next phase of AI deployment.

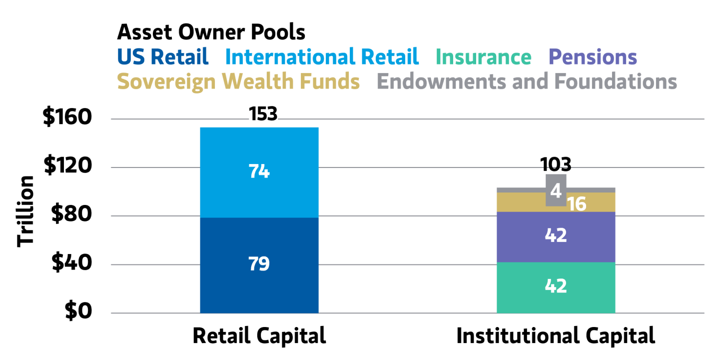
FINANCING THE BUILD-OUT. We believe the AI infrastructure cycle represents not only the next compute cycle, but also the next major capital markets evolution. The scale, duration and infrastructure-like characteristics of AI investment increasingly require financing structures that extend beyond hyperscaler balance sheets and traditional corporate capex funding. In our view, the key challenge is not whether sufficient global capital exists, but how financial markets evolve to intermediate that capital across public equity, credit, securitized products, bank capital, private infrastructure and alternative financing channels.

The AI build-out should be supported by a diverse set of capital pools and financing channels. These may include approximately $256 trillion of asset-owner capital; potentially $2.6 trillion of annual public equity issuance capacity and $17 trillion of annual debt and loan market issuance capacity; nearly $8 trillion of money market liquidity; about $5 trillion of private market funds waiting to be deployed; and some $2.5 trillion of bank balance sheet capacity.

Importantly, each capital pool is appropriate for different parts of the AI infrastructure stack, with investor mandates, liquidity needs, duration, collateral and return requirements shaping where capital is most likely to flow. This is all while power and compute capacity remain the true bottlenecks.

DEEP POOLS OF GLOBAL CAPITAL. Concerns have surfaced around the ability of capital markets to finance a $10 trillion AI build-out, but we view these as overdone. We acknowledge that $10 trillion is large in absolute terms, but global capital pools are deep and diversified (see chart), and spending should unfold over a multiyear build-out cycle rather than all at once.

Global Capital Pools Total $256 Trillion



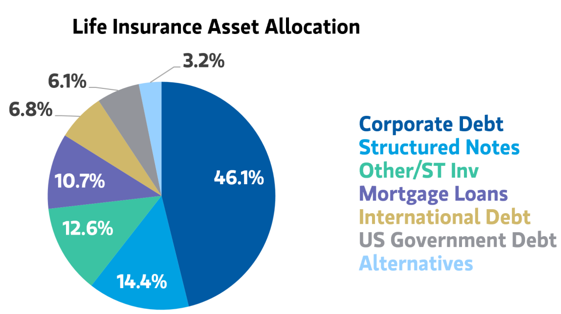
Note: Data as of December 2024, except sovereign wealth funds as of March 2026 and international foundations as of December 2025.
Source: Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of June 30, 2026

With global retail and institutional capital pools at an estimated $256 trillion, a $10 trillion AI investment cycle would represent around 4% of identified asset-owner capital. Global equity market capitalization provides another reference point, at $159 trillion, with the US alone at about $76 trillion. Even though not all of this capital is available for AI, the aggregate pool appears large enough to support the AI build-out provided that the underlying economics remain attractive.

Importantly, the AI financing need should not require meaningful liquidation of existing asset-owner holdings, as funding is more likely to come through gradual portfolio reallocation, new issuance, maturing fixed income portfolios, private capital deployment and structured financing channels. In particular, large institutional investors continually receive principal repayments and coupon cash flows from sizable bond portfolios, creating recurring reinvestment capacity that can be redirected toward newly issued AI-related debt, infrastructure and private market opportunities over time. Further, continued strong retail demand for annuities—driven by aging demographics and demand for income and guaranteed retirement solutions—should continue to support insurance company demand for attractive investment-grade fixed income and long-duration assets, including asset-based and structured solutions.

DIFFERENT BUYERS, DIFFERENT INVESTMENTS. These capital pools are not interchangeable, as portfolio construction and asset allocation mandates should shape which parts of the AI build-out each investor pool is best positioned to finance. Insurance balance sheets are naturally a better fit for long-duration, income-oriented credit and structured products, making them a logical source of demand for investment grade credit, asset-backed and commercial mortgage-backed securities, private credit and asset-based finance tied to contracted data center cash flows (see chart). Pension funds and sovereign wealth funds can take a broader portfolio approach, with allocations across public equity, private equity, infrastructure, real assets and private credit, making them appropriate to participate across both corporate growth and longer-duration AI infrastructure projects.

Insurance Capital Skews Toward Fixed Income



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

ADDRESSING CONCENTRATION RISK. Financing activity is increasingly concentrating around a relatively small group of hyperscalers and highly rated technology issuers, which over time could create portfolio-construction and single-name exposure considerations for some asset owners. That said, institutional capital pools remain substantial, including around $42 trillion of insurance assets, $42 trillion of pension assets and $16 trillion of sovereign wealth fund capital. Further, concentration constraints vary meaningfully across institutions and are likely less relevant for some investors. In our view, investors also have tools available to help mitigate concentration risk if needed, including purchasing single-name or basket hedging through credit default swaps and other hedging structures.

GROWING PRIVATE SECONDARY MARKET. We acknowledge that some investors may face constraints in increasing their private market allocations in the near term, given muted distributions and ongoing challenges in distributions to paid-in capital across portions of private markets. However, we increasingly see liquidity and portfolio management solutions emerging through the rapid expansion of the private secondary market. Secondary transaction volume exceeded $200 billion in 2025 for the first time, up roughly 40% year over year; this was driven by both limited partner (LP)-led sales and general partner (GP)-led continuation vehicles and has compounded at around 20% annually since 2013.

Looking ahead, the secondaries market continues to broaden beyond traditional buyout strategies and appears well positioned to support LP and GP liquidity needs, with over $200 billion of available funds ready to be invested. We believe secondary liquidity solutions, combined with an improving distribution backdrop over time, should help return meaningful liquidity to asset owners and support continued capital deployment into AI infrastructure and related private market opportunities. ■

This article was excerpted from the May 29 Morgan Stanley & Co. Research report, "AI: Financing the Next 10x Tech Cycle—Is Capital the Constraint?" For a copy of the full report, please contact your Financial Advisor.

Q&A

The Wide World of Sports Investing

Investing in sports has taken off as teams and leagues have become more profitable, pursuing media rights, corporate sponsorships and global expansion. Sports teams are no longer "trophy" assets, explains Mark Affolter, partner and co-head of sports, media and entertainment at Ares. As soccer's World Cup was underway across North America, he discussed the expanding universe of sports investing with Morgan Stanley & Co.'s lead analyst for media and entertainment, Sean Diffley. Below is an excerpt from their conversation on June 22.

Sean Diffley (SD): Let's start with the development of sports investing itself. What has taken sports from entertainment to an investable asset class?

Mark Affolter (MA): I think a combination of factors has come together over the past five years. COVID caused liquidity and cash-flow constraints in sports overall and essentially catalyzed the move. Since then, I would go so far as to say that sports has become an institutionalized asset class.

First and foremost over that time, the sports league regulatory framework has allowed for more direct investing in team stakes. The National Football League (NFL), for example, approved a select group of institutional capital providers, including Ares, to invest directly for the first time in team stakes. There are also opportunities now in Major League Baseball (MLB) and the National Hockey League (NHL). From an investment perspective, the beauty of team stakes, particularly in closed leagues, which rarely expand—like those in North America—is that there's a high degree of scarcity value.

Another development is the rising cash flows. Revenues and profits associated with sports clubs, teams and the broader ecosystem have shown great growth. And on the team and league side, in particular, the cash flows look like infrastructure flows: They are underpinned by long-tail contractual revenues coming from media rights deals and auctions, as well as long-tail corporate sponsorship revenues. We believe these have improved the overall financial profile of the asset class.

The profiles of the owners have also changed. They're surrounding themselves with more sophisticated management teams—individuals who have business-building or private equity backgrounds—and as a result, they're finding ways to pull growth-revenue levers. I think that's changed the dynamics quite a bit and really accelerated growth in the asset class.

SD: Are there any misconceptions about sports investing today?

MA: I think the biggest misconception is the idea that sports teams and leagues are "trophy" assets. That implies that the investment opportunity is around intrinsic, emotional value as opposed to economic fundamentals. In fact, we find the profitability, cash flows and balance sheets associated with sports clubs—the economic fundamentals—to be really compelling, and sports teams generally have high organic growth potential.

SD: Aside from team ownership, how can investors gain exposure to sports?

MA: The ecosystem is much broader than just team and league stakes. We think of all the adjacencies as part of the opportunity set—entities like ticketing platforms, stadium management and equipment- and gear-related businesses. Not only are they key stakeholders, but they also index to the same growth and profitability that team and league stakes do. So they offer more opportunities to invest in the same fundamentals but enable investors to construct portfolios with a high degree of diversity. At Ares, we have flexible capital, investing up and down the balance sheets of these entities.

We look at the entire sports ecosystem as representing between $2 trillion and $3 trillion in opportunities. In contrast, focusing on just North American professional sports teams represents closer to $300 billion to $500 billion of that total addressable market.

SD: What do you think makes sports assets attractive from an investment perspective compared with more traditional asset classes?

MA: While I would emphasize the scarcity value—the limited number of teams—the resiliency and value associated with sports assets start with the loyal customer base, if you will—the fans. Having lifetime viewership associated with your fans—essentially inelastic demand—drives revenue growth. It creates opportunities for corporate sponsorships and media rights as well as for growth through globalizing the brand. The loyalty of the fan base also helps make the asset class much less correlated with macroeconomic, capital market, geopolitical and technology risks.

SD: Some sports teams and leagues have seen significant appreciation over the past few years. How do you determine whether a sports asset is undervalued or fairly valued?

MA: Valuation is about the underlying fundamentals, in our opinion: the revenues, the cash-flow profile and the market reach. They differ by team and by league.

In thinking about leagues, whether they're open or closed is very important. Closed leagues have a set number of teams and may expand once or twice every 30, 40 or 50 years. In some cases, that lowers risk versus an open league.

On a league-by-league basis, the underlying cost structure, including whether or not there are salary caps, can take some variability out of the cash flows and profits. The NFL is an example: Just under 50% of league revenues are shared with the players under a long-term collective bargaining agreement that is roughly coterminous with the media rights agreements. This promotes a high degree of visibility and reduces cash flow uncertainty. I think that dynamic in particular has increased the appeal of investing and driven some of the valuation increase we've seen.

If you look back 15 years at the profitability of professional sports teams in North America, the median was essentially break even. Today, their EBITDAs (earnings before interest, taxes, depreciation and amortization) are somewhere between $50 million and $100 million. The improved margins have been driven in large part by media rights. They continue to be incredibly valuable in driving subscriber retention and growth for streaming platforms. As the distribution points have expanded, the sports audience has widened, and consumption trends are positive. As a result, media rights are all that much more valuable to the streaming platforms.

SD: What is your outlook for media rights and the potential for more sponsorships and partnerships across sports more broadly?

MA: The consumption trends continue to be very positive across all the major demographics, including the youngest demographic—which has the highest lifetime value. That underpins the value that the streaming platforms are ascribing to the content. So I continue to believe that there is upside, at least for the most valuable leagues with the widest audiences. I also think there are opportunities within some of the streaming platforms that are just starting to participate more actively in media rights auctions.

On the flip side are two factors that we're watching. One is the complexity for the consumer. Consumers have to take out more and more subscriptions to get access to sports—and it's creating some noise.

The other factor is the challenged regional sports network dynamic, which has affected MLB and, to a lesser extent, the NHL and NBA. However, there is an opportunity here for those leagues to take the rights, manage them in-house and distribute them on a direct-to-consumer basis, turning the revenues into more subscription-driven and advertising-driven growth.

SD: Where do you see the biggest opportunities today? Are there underappreciated areas across the sports landscape?

MA: One area of sports that we have spent a lot of time on recently is cricket. I think it's a unique opportunity. It is the second-most-viewed sport on a global basis. I see opportunity there to drive further growth through media rights on an international basis.

Also, women's sports have been growing for at least the past five years, if not longer. Whether it's the National Women's Soccer League (NWSL) or the Women's National Basketball Association (WNBA)—probably the two most notable examples in the US—the trends are positive. The ratings and demographics are positive, attendance is growing, the fan base is energized and participation at the amateur and youth level is growing, which is driving a new and larger fan base. I think the leagues are also getting more sophisticated in delivering engaging content to tap into some of those trends.

On the WNBA, we believe it is past the inflection point in terms of its economic model, and the biggest driver of that has been the renewal of media rights. The NWSL is also notable for renewing its media rights at around 40 times, though from a lower base. I think hosting the World Cup this summer should energize the North American audience around soccer going forward—providing a positive tailwind for women's professional soccer in the US.

Another important opportunity we see is real estate development across the sports ecosystem. Sports facilities anchored by stadiums, arenas or training facilities, along with mixed development projects, have taken hold in North America. The opportunities are increasing globally too. I think real estate investments are a great way for us to play the sports ecosystem and also drive organic growth—that flywheel effect associated with sports teams.

SD: What do you think the biggest trends in sports investing will be over the next five to 10 years?

MA: We think the real estate development opportunity in and around sports facilities will be compelling in the future as well. As a result, in addition to private equity in sports, we think pools of real estate and infrastructure capital could become much more prevalent players in the sports ecosystem.

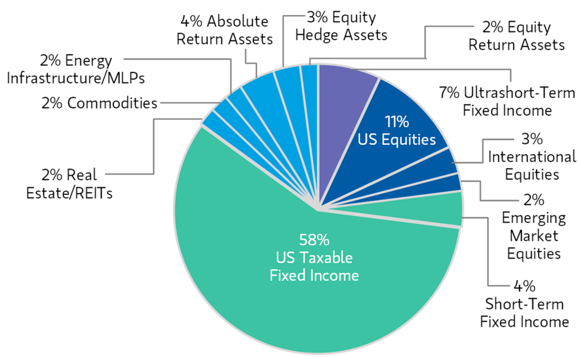
I also think that further globalization will be a trend. We've been heavily focused on sports in North America and to a lesser extent in Western Europe. But there are compelling opportunities in Asia-Pacific—cricket being a good example of that. And there will be other opportunities in Europe: I think we're going to see the NBA leverage its brand to create a centralized, professional basketball league in Europe. That's just one example. I think we'll see many more brand-extension opportunities that investors will be able to lean into. ■

Mark Affolter is not an employee of Morgan Stanley Wealth Management or its affiliates. Opinions expressed by him are his own and may not necessarily reflect those of Morgan Stanley Wealth Management or its affiliates.

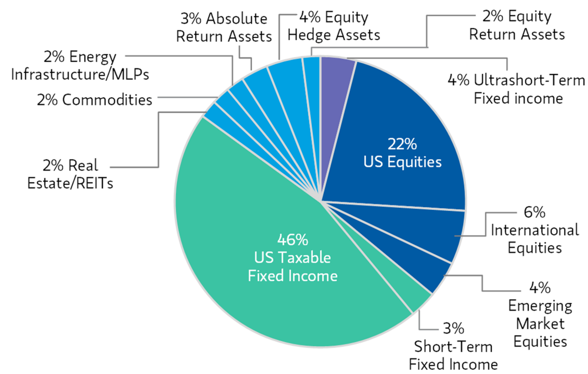
Global Investment Committee Tactical Asset Allocation

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.

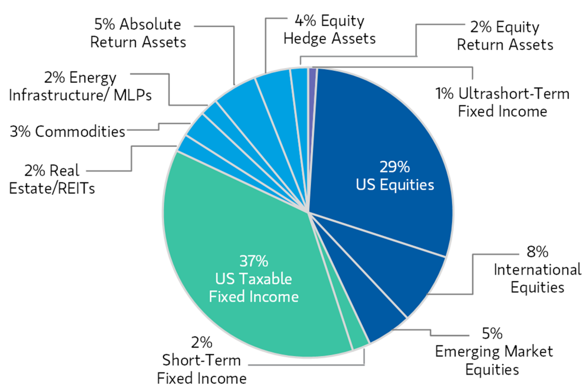
Wealth Conservation



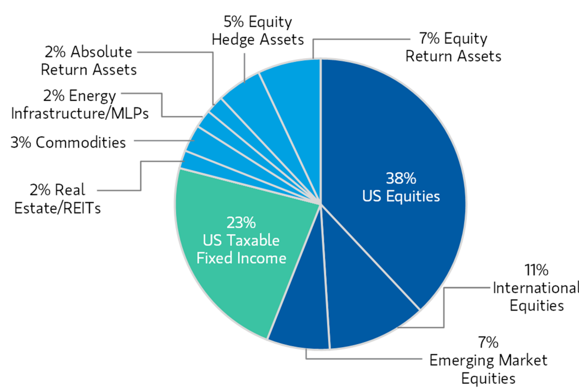
Income



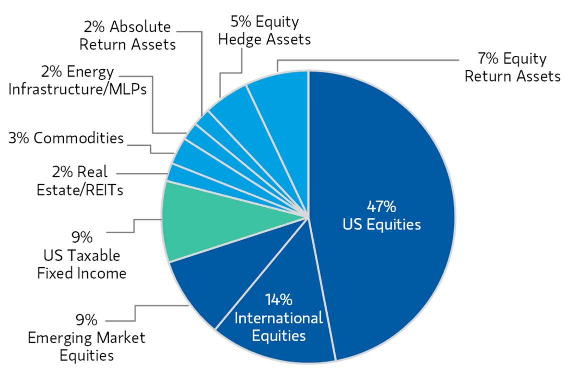
Balanced Growth



Market Growth



Opportunistic Growth



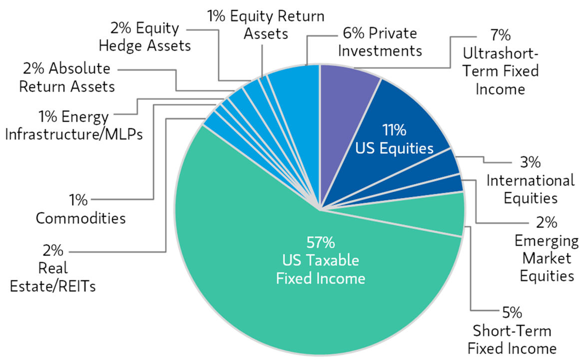
Key

- Ultrashort-Term Fixed Income
- Fixed Income & Preferreds
- Equities
- Alternatives

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

Wealth Conservation



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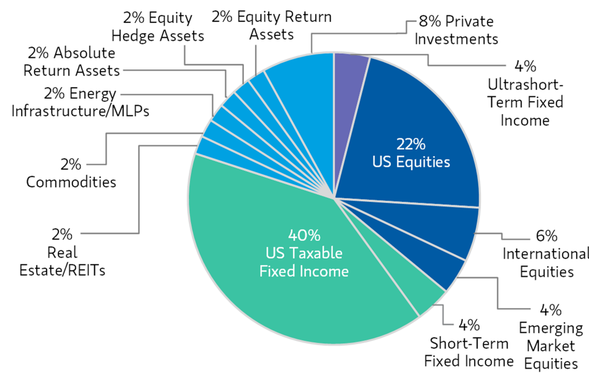
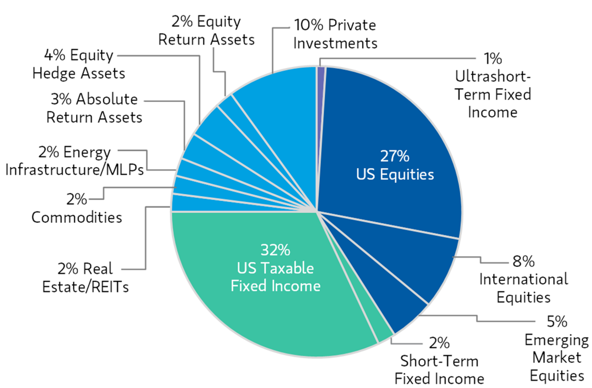
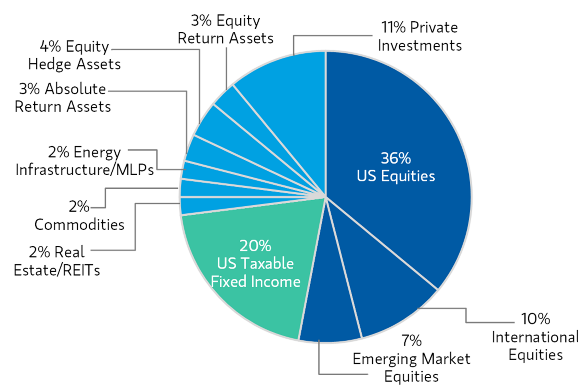


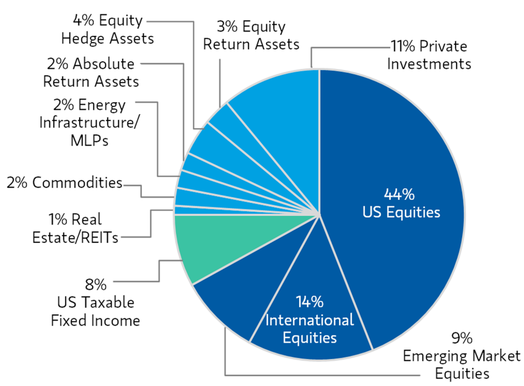
Balanced Growth



Market Growth



Opportunistic Growth



Key

- Ultrashort-Term Fixed Income
- Fixed Income & Preferreds
- Equities
- Alternatives

Source: Morgan Stanley Wealth Management GIC as of July 1, 2026

Tactical Asset Allocation Reasoning

Global Equities	Weight Relative to Model Benchmark	
US	Overweight	The productivity-boom thesis catalyzed by the GenAI-capex build-out, along with aggressive fiscal and regulatory stimulus, has become very much consensus. Forecasts are ambitious and embed an expectation for cyclical broadening that takes "S&P 493" earnings growth from 6%–8% in 2025 to 24%–26% in 2026. In a market that is already expensive, concentrated and complacent, this suggests the aperture for upside surprise is narrow, and markets are apt to be quite brittle in the face of exogenous shocks. With midterm-election-related policy already hitting a fever pitch, potential for these undiscounted events to occur is rising. Thus, while we are bullish (with MS & Co.'s 2Q2027 S&P 500 Index target at 8,300), we prefer stock-picking to simply owning the cap-weighted index. Favor financials, health care, select industrials and energy.
International Equities (Developed Markets)	Underweight	Fiscal stimulus, a response to the "America First" agenda, has helped to drive recent outperformance. This is creating rest-of-world (ROW) opportunities that may simultaneously enjoy monetary, fiscal and currency-related stimulus. The outlook is improving in Japan, as corporate restructuring occurs alongside a reflationary surge three decades in the making.
Emerging Markets	Overweight	The "new Monroe Doctrine" creates opportunities not only for pro-business political stability in Latin America, but also for direct investment. For Asia, strategic realignment opportunities continue to surface, as the US turns away and the US-China trade conflict has effectively reached a one-year truce, fostering opportunities. India remains a recommended secular growth long. The GIC reduced its oveweight after a signifincant rally in semiconductor names, which skewed index composition.
Global Fixed Income	**Weight Relative to Model Benchmark**	
US Investment Grade	Underweight	The GIC maintains close-to-neutral views in investment grade. In the first half of 2026, solid growth, supported by fiscal stimulus, and inflationary pressures supported a higher-for-longer interest rate environment. Should the Fed maintain a "hold" versus enacting a hike as its next move, investors could find some value in IG. As a point of caution, we do anticipate a surge in IG corporate issuance, on the back of increasing capex and rising M&A deal activity. Given the picture, we recommend limited short-duration exposure and moving toward the “belly of the curve” to capture decent coupons with lower price volatility. We see the long end continuing to be plagued by structural imbalances that show up as widening term premiums.
Opportunistic Fixed Income	Market-Weight	High yield is competing effectively, with better liquidity, greater transparency and more favorable credit quality than private credit. In ROW and emerging market debt, yields are decent, and there may be modest room for spread tightening, as economic growth improves.
Alternative Investments	**Weight Relative to Model Benchmark**	
Real Assets	Overweight	We expect higher stock-bond correlations, which place a premium on the diversification benefits of investing in real assets. Nevertheless, with real interest rates positive and services inflation remaining quite sticky, we would need to be selective in adding to this asset class broadly. We are focused on industrial metals, energy infrastructure and interesting opportunities aimed at solving the residential housing shortage.
Hedged Strategies	Overweight	We added to equity hedged positions early in 2026, noting the pickup in idiosyncratic risk and rising stock level dispersion. The current environment appears constructive for hedge fund managers, who are frequently good stock-pickers and can use leverage and risk management to potentially amplify returns. We prefer very active and fundamental strategies, especially high-quality, low-beta, low-volatility and absolute return/market neutral strategies.

Note: Opportunistic Fixed Income includes Inflation-Linked Securities, High Yield Fixed Income, International Fixed Income and Emerging Market Fixed Income. The GIC asset allocation models' benchmarks do not include exposure to Opportunistic Fixed Income. Real Assets includes Real Estate/REITs, Commodities and Energy Infrastructure/MLPs. Hedged Strategies include Absolute Return Assets, Equity Hedge Assets and Equity Return Assets.
Source: Morgan Stanley Wealth Management GIC as of July 1, 2026

Disclosure Section

Important Information

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

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Glossary

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

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

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

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

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

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

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

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

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.

Annuities are long term tax-deferred retirement savings vehicles. Annuities are generally subject to surrender charges. A surrender charge is a penalty you have to pay if you sell or withdraw money from an annuity before it matures. The time before an annuity's maturity is called the surrender period and usually lasts for several years after purchase. Surrender charges reduce the value of your annuity and its returns. Early withdrawals will reduce the death benefit and cash surrender value.

Under current law, a nonqualified annuity that is owned by an individual is generally entitled to tax deferral. IRAs and qualified plans—such as 401(k)s and 403(b)s—are already tax-deferred. Therefore, a deferred annuity should be used only to fund an IRA or qualified plan to benefit from the annuity's features other than tax deferral. These include lifetime income and death benefit options.

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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