Morgan Stanley

WEALTH MANAGEMENT

INVESTMENT STRATEGY

Global Investment Committee | August 2026

On the Markets

Capital Discipline Slowly Returns

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For passive US equity investors, July may have seemed like yet another frustrating month, with the flattish, still-range-bound S&P 500 Index closing at 7,490, below its June 2 all-time high. But we think market action was highly constructive, and in fact, likely represents the "pause that refreshes" the bull market.

For starters, investors appeared to be wringing out the excesses of June, which saw semiconductor makers surge, as crowded momentum trades, client margining and leveraged ETFs amplified price movements. After rising more than 90% from late March through June, the PHLX Semiconductor Sector Index fell 21% in July, returning some rationality to the AI-ecosystem narrative. Meanwhile, exceptionally strong earnings revisions and second quarter profit realization across most sectors enhanced broadening. (Earnings for the period are on pace to be up 31% year over year.) The equal-weighted S&P 500 extended its outperformance of the capitalization-weighted index, helping the latter deconcentrate from historic levels in January. The rotation and churn also helped improve aggregate valuations, as the dominant Magnificent Seven stocks continued to underperform. With that megacap cohort down around 12% since the end of May, the benchmark's forward price/earnings ratio has eased to 20 times.

Perhaps most important is the reason behind the rerating. It is not that investors have lost interest in the AI story or that they are fundamentally questioning its impact or duration, as spending estimates continue to grow. Rather, it's that investors are demanding more clarification on monetization strategies amid capex acceleration and free-cash-flow deterioration. This, in turn, has driven performance dispersion and idiosyncratic risk, as investors attempt to parse winners and losers. In our view, this healthy dynamic is exactly the type of market disciplining that prevents bubbles.

Equally impressive is that credit markets have finally signaled indigestion with AI-linked debt. While aggregate spreads for the investment grade corporate bond universe remain well behaved, investors have begun to price in risk premiums for those with weaker balance sheets and negative free cash flow. As with equities, this capital discipline is healthy.

Finally, it's important to note the negative action on the long end of the US Treasury curve. Since the recent Middle East conflict began, fed funds futures have

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repriced from anticipation of central bank cuts to hikes. For the most part, this was digested in stride and in a much better fashion than 2022's hawkish pivot. But here too, more seems to be going on, as long rates around the developed world are now repricing.

The 10- and 30-year US Treasury bond sell-offs were a source of disappointment, taking the 10-year yield up to approximately 4.7%, and the 30-year yield to nearly 5.3%. In our view, the steepening of the yield curve and the fact that most of the move has come in the real component and the term premium suggest that the market is coming to terms with a new central bank policy framework—one that acknowledges that rates are not the only tool that may or may not be contributing to inflation and imbalances. New Fed Chair Warsh is clearly serious about eliminating unorthodox practices and reducing reliance on forward guidance and the economy's dependence on the Fed's balance sheet. With stocks still rallying in the face of higher long-term rates, financial conditions are undoubtedly not restrictive!

These complex crosscurrents require active risk management and highly diversified portfolios. But the fact that markets are engaging in this level of self-cleansing and normalization without a correction testifies to the economy's strength and resilience. In our book, the bull market just passed another critical hurdle. ■

EMERGING MARKETS

Latin America's Unfinished Business

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Halfway through the year, Latin America has delivered enough to keep the bull case we outlined in January alive, but not enough to ensure it. The region has outpaced most other emerging markets, and several encouraging policy shifts have materialized. External conditions and second quarter earnings will influence how far and how quickly markets can move in the near term, but in our view, the next leg up will depend mainly on whether governments can deliver credible fiscal and structural reform. Across the region's asset classes, we still think investors are being paid to position for a favorable outcome, but country and instrument selection matter.

EXTERNAL FACTORS. The main near-term headwind is external rather than domestic. Competition for capital remains intense, and with the Federal Reserve on hold and the US dollar still firm, investors have been reluctant to chase EM carry and value, however attractive Latin America may look. We would offer two counterweights. First, we do not think this backdrop will last indefinitely. Our US economists expect the Fed backdrop to become more supportive over time, removing one of the main obstacles to broader capital rotation into the region and further monetary easing in some economies. Second, even if external conditions worsen before they improve, we believe Latin America is better positioned to absorb the pressure than in previous cycles. Central banks have built well-earned policy credibility, while external balance sheets are more resilient too. Even if the Fed raises rates this year, our Latin America economists expect that only Peru will need to follow.

DOMESTIC DRIVERS. Domestic policy will determine the scale of the medium-term upside. The policy direction over the past year has been encouraging, opening the door to more market-friendly policies and, in several cases, closer alignment with the US. The change in Venezuela is the clearest example, creating an opening for economic normalization and renewed investment. Brazil's October election is the next major test of whether that pattern extends to the region's largest economy. For now, the polls remain relatively close.

Markets, however, need more than a change in direction. Monetary discipline has largely been achieved, but fiscal consolidation is still lagging across much of the region and remains the main constraint on further progress. Argentina has shown what is possible once fiscal adjustment takes hold. Colombia, Chile and Ecuador are best positioned to follow, we think, while similar progress in Mexico or Brazil would be a bigger surprise.

Stronger fiscal policy, particularly when paired with broader structural reform, would create room for deeper rate-cutting cycles, with investment and growth following in time. In our view, the current weakness across several economies is therefore less a stand-alone growth problem than a consequence of this sequencing.

We hear three common pushbacks that deserve attention. The first is that Latin America lacks a seat at the AI table, with no frontier labs, few hyperscalers and no obvious exposure to the theme dominating global markets. We think that misreads Latin America's opportunity. The region was never likely to lead the development of frontier AI, but it is a critical supplier to the build-out, providing the commodities, energy and hardware manufacturing that the AI capex cycle requires, regardless of where the models are trained. We flagged Mexico's booming IT/hardware exports to the US in a recent report. Chile provides another illustration: its recent election result should accelerate a shift toward more orthodox policy, arriving just as its copper and lithium exposure puts it directly in the path of the global AI-linked capex cycle.

The second concern is El Niño, which poses a genuine risk to food inflation and fiscal accounts in several economies this year. Even so, the aggregate macro impact on the region should be limited, with the main effects concentrated at the country and individual security level.

The final issue is trade uncertainty, particularly delays to the United States-Mexico-Canada Agreement review. This is a risk to Mexico's longer-term growth outlook, although the current manufacturing cycle provides a near-term offset.

FLEXIBLE APPROACH. Navigating the region requires flexibility, with both country and instrument selection playing central roles. In equities, we are most constructive on Brazil and Argentina, both levered to energy, with a more neutral stance on Chile and Mexico. We are overweight energy, materials and utilities, and underweight consumers/domestics across all markets as a play on the AI-capex cycle. In fixed income, we prefer Colombia through the currency, Peru through long-dated local bonds and Mexico via US dollar bonds. We also see value in Argentina, Ecuador and Venezuela US dollar sovereign debt.

Six months in, Latin America has earned the benefit of the doubt, but not a final verdict. Fiscal delivery and Brazil's election will shape the outcome at year-end. ■

This article was excerpted from the Aug. 2 Morgan Stanley & Co. Research report, "Latin America's Unfinished Business." For a copy of the full report, please contact your Financial Advisor.

ARTIFICIAL INTELLIGENCE

Power Struggle: AI, Data Centers and Local Backlash

Michelle M. Weaver, CFA, Equity Strategist, Morgan Stanley & Co. LLC

With community pushback against data-center construction accelerating in 2026, costs and timelines have come under pressure, with implications not only for geographic distribution and economic growth but for both fixed income and equity markets. In order to gauge potential impacts, it's important to first examine the politics around the pushback and what's driving the opposition at the local level.

Indeed, it is becoming impossible to separate politics from the data-center build-out. Heading into 2026, we highlighted "The Politics of Energy" as one of our 10 thematic predictions to watch—in particular the emergence of the risk of backlash against data-center growth as a wedge issue ahead of the midterm elections. So far, this has played out: Third parties report that an estimated $156 billion of projects were cancelled or delayed in 2025 and $130 billion in the first quarter of this year.

Instances of local opposition have grown louder across state lines, as lawmakers at the federal level are now introducing legislation toward this end. If realized—or if local opposition, even if contained at the state level, continues to grow—then we see a greater risk of artificial intelligence (AI) capex falling short of our $877 billion estimate for 2026, carrying an array of potential consequences across equity sectors and the macro backdrop.

MORATORIUMS: SLOWING NOT REVERSING. Data-center moratoriums have precedent and are expanding at the state and local level. A growing number of localities have passed or proposed guardrails and restrictions on data-center projects, including infrastructure cost-sharing requirements, ratepayer-protection initiatives. Restrictions have mostly been in the form of temporary moratoriums, impacting future projects or those lacking vested status. Furthermore, although the explicit public opposition has tended to concentrate more in blue states and among Democratic-leaning voters, we're seeing state-wide data-center moratorium proposals emerge roughly evenly in states with Democratic trifectas (executive branch and both legislative chambers), Republican trifectas and divided governments (see table). Importantly, most efforts are aimed at slowing—not reversing—the build-out, as many of these policy initiatives are temporary.

Proposed State-Level AI Data-Center Moratorium Bills and Political Breakdown

State	Bill(s)	Status	Description	Governor	Senate	House	Alignment
Delaware	SB 353	Introduced	Moratorium through Jan. 31, 2027, on applications and permits for data centers able to use 100 MW or more.	Matt Meyer (D)	D	D	Aligned
Georgia	HB 1059	Introduced	Forbids local governments from permitting data centers until Dec. 31, 2028.	Brian Kemp (R)	R	R	Aligned
Maine	LD 307/ HP 207	Vetoed	Creates Maine Data Center Coordination Council and temporarily limits certain data centers over 20 MW until November 2027.	Janet Mills (D)	D	D	Aligned
Maryland	HB 120	Failed	Prohibits construction or permitting of new data centers under stated co-location/generation conditions.	Wes Moore (D)	D	D	Aligned
Michigan	HB 5594/ HB 5595	Introduced	Local governments and state agencies may not permit/approve certain new data centers until April 1, 2027.	Gretchen Whitmer (D)	D	R	Divided
Minnesota	HF 4888/ SF 4298	Failed	Bans new data-center permits until a Public Utilities Commission report, no earlier than July 2027.	Tim Walz (D)	D	NP	Divided
New Hampshire	HB 1265	Failed	Establishes a one-year moratorium on data-center construction.	Kelly Ayotte (R)	R	R	Aligned
New York	A11560/ S10642	Enacted	Places a one-year moratorium on large data-center permits and adds service-classification, energy-efficiency and host-community provisions.	Kathy Hochul (D)	D	D	Aligned
Oklahoma	SB 1488	Failed	Establishes a moratorium on data-center construction until November 2029 and requires a study.	Kevin Stitt (R)	R	R	Aligned
Pennsylvania	SB 1359/ HB 2533	Introduced	Creates a statewide three-year moratorium on hyperscale data centers and impact studies, or authorizes municipal moratoriums.	Josh Shapiro (D)	R	D	Divided
South Carolina	H 5526	Introduced	Blocks state/local acceptance or action on data-center applications until a comprehensive oversight framework is enacted.	Henry McMaster (R)	R	R	Aligned
South Dakota	SB 232	Failed	Imposes a one-year moratorium on construction or expansion of hyperscale data centers.	Larry Rhoden (R)	R	R	Aligned
Vermont	S.205	Introduced	Creates a moratorium on AI data centers until 2030 and requires a report on impacts.	Phil Scott (R)	D	D	Divided
Virginia	HB 1515	Continued	Prohibits final local approval for a new data center until interconnection requests are fulfilled or July 1, 2028.	Abigail Spanberger (D)	D	D	Aligned
Wisconsin	SB 1061/ AB 1099	Failed	Prohibits data-center operation until 14 listed conditions are satisfied.	Tony Evers (D)	R	R	Divided

Source: NSCL, MultiState, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as a July 14, 2026

Consumer survey data reflects the idea that the public broadly supports some limitation on data-center construction. In a recent Morning Consult survey, roughly half of respondents said they believe AI data centers negatively affect electricity prices and the power grid (see chart), while concerns about water prices and the environment are close behind. Since October 2025, a larger share of consumers view AI data centers as having a negative impact across most dimensions, with the biggest increases in concern related to water prices and the environment. In May 2026, for the first time since October 2025, more respondents to Morning Consult's monthly survey favored halting data-center construction, at roughly 45%, over continuing to build while expanding energy supply, at around 38%.

Do these risks imperil the US position in the global AI race? If local policy efforts are either made permanent and continue to expand and/or are reflected at the federal level, then we think the US risks not keeping pace with China on the global AI competitive landscape. In our view, however, the geopolitical realities are hard to ignore, making it less likely that the federal government will meaningfully obstruct the US data-center build-out. We think a conditional build-out is therefore more likely: Given the integration of data centers into the physical layer of AI competition, projects may be heavily scrutinized, delayed or made contingent on environmental or community-focused concessions.

EFFICIENCY LEVERS. We view community benefits and local economic trade-offs as increasingly important. That said, we think there are three key levers to improve data-center efficiency and address community concerns:

Utilization. Improving utilization of existing data-center capacity is one of the most immediate ways to increase efficiency, particularly as many facilities operate at only 30%–40% utilization despite their high capital intensity. Better use of existing infrastructure can reduce the need for incremental capacity additions and improve the overall return on deployed capital.

Power. Data centers can address power constraints through on-site generation, demand response and grid-support services. By combining renewables and storage, shifting noncritical workloads and using uninterruptible power supply batteries to support grid frequency, operators can improve resilience, lower grid strain and potentially create new revenue streams.

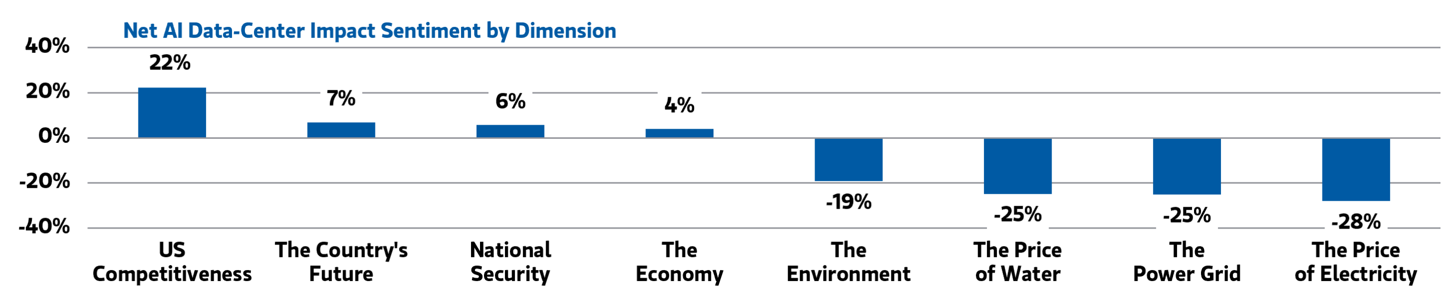
Water. Water efficiency is becoming a growing community and operational priority, with policy shifting from outright restrictions toward standards, disclosures, incentives and performance benchmarks. This creates opportunities for enablers such as liquid cooling, water recycling, wastewater treatment, desalination and ultra-pure water-recovery technologies, all of which can reduce consumption and help operators meet tighter sustainability requirements.

ECONOMIC IMPACT AND MARKET IMPLICATIONS. The economic risk from data-center growth is not a sudden nationwide electricity-price shock, but a stickier and more regional electricity-inflation impulse. National electricity Consumer Price Index inflation remains elevated versus its pre-COVID trend, and we expect it to settle at 4%–5% year over year in the medium term, as data-center demand adds to underlying pressure.

The strongest evidence is regional: Data-center-heavy markets, particularly the South Atlantic/Northern Virginia market, are seeing faster residential electricity inflation and higher wholesale power prices. The consumer impact is likely to be uneven and regressive, with affordability pressure most acute in regions where data-center load growth collides with already-elevated electricity burdens, transmission constraints and slower grid expansion.

EQUITIES. We see the elevated political risk environment shifting cost allocation toward large load customers and creating bottlenecks around interconnection and labor. With an estimated 38-gigawatt potential shortfall in power through 2028, we expect data centers to trend toward on-site generation as an attractive solution to address long lead times (five-plus years in some regions).

In a Recent Survey, Consumers Cited Data-Center Impacts on Electricity Prices and the Power Grid



Source: Morning Consult, AlphaWise Web Intelligence, MS & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of May 2026

We think publicly traded colocation data-center REITs are largely insulated from the political pushback, as they are much smaller than the hyperscale/AI-training data centers and are considered critical infrastructure.

FIXED INCOME. Pushback can clearly weigh on the timing and intensity of the capex cycle, either drawing it out over a longer period or curtailing total investment needs. The AI build-out has shaped the market narrative across several forms of credit (corporate, securitized, private) via several key vectors, including 1) significant debt supply in different channels, 2) increased fundamental exposure to the AI story on the back of a growing data-center debt sector and hyperscaler concentration and 3) AI disruption fears in vulnerable sectors, which has driven performance tiering. The extent to which the pushback delays or constrains the build-out will be meaningful across multiple fixed-income asset classes, including credit and municipal.

On the credit front, drawing out the cycle amid a reduction in investment needs could ultimately reduce supply. When we consider lower capex and associated financing needs in addition to the fact that almost the entire "delta" in corporate supply this year has come from the AI ecosystem, sustained pushback could mean a notable issuance reversal.

Furthermore, capex front-loading could add to the already-building supply pressures in the market in the nearer term.

Regarding municipals, we see the pushback as credit-positive; expect more supply. Pushback means more-balanced tax-incentive deals. That could drive billions of dollars in property-tax revenue—a credit positive. Higher costs could encourage more developers to seek tax-exempt capital, and more municipal utilities to prepay energy needs. Altogether, that could drive $100 billion in incremental muni supply.

With lower compute built out, the disruption timeline also gets pushed back, allowing companies and sponsors more runway to come up with refinancing solutions. As a result, actual defaults in this scenario might be lower than expected, and the year-to-date laggards like private credit/business development companies (BDCs) and loans might gain traction as an "anti AI" trade. ■

This article was excerpted from the July 14 Morgan Stanley & Co. Research report, "Power Struggle: AI, Data Centers & Local Backlash." For a copy of the full report, please contact your Financial Advisor.

US CREDIT

Private Credit: Pressures Contained, Not Resolved

Vishwanath Tirupattur, Chief Fixed Income Strategist and the Director of Quantitative Research, Morgan Stanley & Co. LLC

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

When we addressed private credit back in mid-March, the noise was loud. Redemption requests across private business development companies (BDCs) and semi-liquid private credit funds were rising; public BDCs (the market's visible proxy) were at meaningful discounts to net asset value (NAV); and software exposure facing potential AI-driven disruption had emerged as a fault line. We argued that credit risks in private credit were significant but not systemic, framing the volatility earlier this year as a reset in pricing and sentiment rather than the start of a disorderly credit unwind with broad systemic consequences. As we advance into second quarter earnings season, the decibel level has eased, but the chatter has not disappeared.

Here, we reassess the landscape to see what has changed and what has not, to mark our thesis to market and to consider how AI-driven disruption may continue to shape outcomes in private credit, particularly in the software sector.

EVOLVING DYNAMICS. Though our broader framework remains intact, several dynamics have evolved. Pressure on public BDC NAVs has eased modestly, reflecting an improving valuation environment, while BDC debt spreads have tightened and broadly retraced prior widening. The Morgan Stanley index of liquid investment grade public BDC debt, which had widened to approximately 280 basis points at the peak of market anxiety in late March, recently compressed to around 200 basis points, effectively returning to start-of-year levels and signaling a move toward normalization in market risk perception.

More importantly, market access for BDCs across both public and private channels has improved meaningfully, marking a clear inflection relative to conditions a quarter ago. Critically, we have not seen a widespread or disorderly unwind. Portfolio performance, while under pressure at the margin, has not triggered forced deleveraging, and BDCs continue to operate with multiple well-established liquidity levers. In our view, this reinforces a key distinction: Liquidity stress, while present and unevenly distributed, is not translating into solvency risk.

MIXED SIGNALS. Nevertheless, not all signals have improved. Private credit fundamentals have softened on the margin, though broad deterioration remains limited. In our sample of first quarter BDC filings, headline nonaccrual rates inched up and payment-in-kind (PIK) income stayed elevated, with a growing share of BDCs reporting high PIK concentrations. Beyond BDCs, leverage was broadly stable, interest coverage improved and credit rating actions remained balanced.

Redemption pressures have persisted, and a subset of private BDCs and credit funds that had resisted redemption limits has now joined peers in implementing caps. That said, while media focus has centered on outflows predominantly from retail investors, the underlying flow situation is more balanced. Evidence of reengagement and incremental allocation to private credit by institutional investors is growing, suggesting divergence in behavior across investor cohorts. We estimate that retail investors account for roughly 20% of private credit assets under management, while institutional investors represent around 80%. This portrays a system that's adjusting rather than destabilizing, with pressures contained, albeit not fully resolved.

On realized defaults, software loans in private credit portfolios have remained relatively resilient to date, with Fitch Ratings reporting a 2.3% trailing 12-month default rate versus 5.7% for US private credit more broadly. That said, this outperformance may understate growing refinancing risk, as elevated leverage and weaker interest coverage increase vulnerability—especially in the face of AI-driven disruption. At the same time, the recent underperformance of software loan prices reflects a shift in market behavior. Unlike the broad-based repricing in the first quarter, recent weakness has been increasingly selective, with a wider dispersion in outcomes across issuers. This suggests investors are looking more closely at business model resilience, exposure to AI-related disruption and underlying credit quality, rather than indiscriminately repricing the sector.

Against this backdrop, we continue to expect that refinancing pressure, not payment default, will be the primary catalyst for a default pickup. Gains in private credit defaults are likely to be concentrated in software and skewed toward distressed exchanges instead of formal bankruptcies, with recoveries in the 70%–80% range, supported by private credit's smaller lender groups and stronger covenant structures.

STILL SIGNIFICANT BUT NOT SYSTEMIC. In our view, despite the persistently negative news flow around private credit, we expect second quarter earnings reports to signal stabilization rather than continued deterioration, as we believe valuations reflect much of the bearish narrative. From here, the focus likely shifts to the durability of that stabilization: whether improving market conditions persist through the earnings cycle, or whether underlying pressures—particularly around liquidity, asset quality and the risk of AI-driven disruption—resurface. We maintain our broader view that credit risks in private credit are significant but not systemic. ■

This article was excerpted from the July 12 Morgan Stanley & Co. Research report, "Private Credit: Pressures Contained, Not Resolved." For a copy of the full report, please contact your Financial Advisor.

GLOBAL EQUITIES

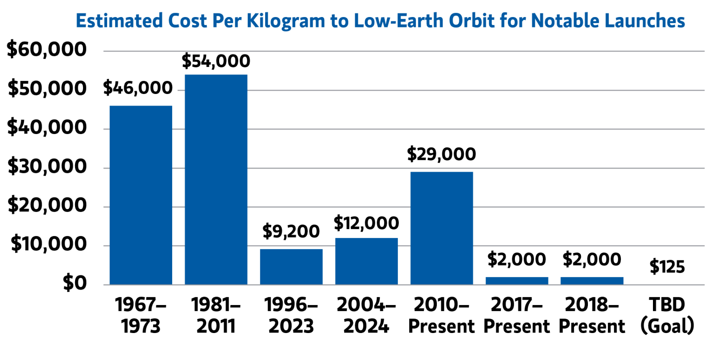
The Next Orbit of the Space Economy

Jane Yu Sullivan, CFA, CAIA, Investment Strategist, Morgan Stanley Wealth Management

For decades, space was a government-led frontier and represented scientific discovery and geopolitical prestige. Today, it is increasingly becoming essential infrastructure for the modern economy. Falling launch costs (see chart), technological advances, rising demand for connectivity and a growing defense focus are helping transform space into a broader commercial ecosystem.

With the global space economy widely expected to exceed $1 trillion over the coming decade, we believe investment opportunities extend beyond rockets to include various parts of the value chain, such as materials, communications infrastructure and end-market applications.

Launch Costs Are Declining Rapidly



Note: One representative launch was selected for each period. Values are not period averages.
Source: Orbital Radar, Morgan Stanley Wealth Management Global Investment Office as of June 10, 2026

WHY SPACE MATTERS NOW. Several long-term themes are boosting the strategic importance of space-derived capabilities. A more multipolar world, for instance, is driving investment in national security and space-based defense. At the same time, AI is increasing the value of satellite-generated data by transforming imagery and sensor data into actionable insights, and also helping to enhance space capabilities themselves.

Together, these forces are helping transform space from a specialized industry into an increasingly important element of global infrastructure.

MORE THAN ROCKETS. Public attention often centers on high-profile companies behind rockets and satellites, but we believe the opportunity set is broader and frame it through three interconnected layers: access, infrastructure and applications.

- **Access: build and transport.** Access represents the industrial foundation of the space economy: the materials, manufacturing capabilities and technologies required to physically reach and operate in space. Launch vehicles and satellites depend on a relatively small group of specialized inputs, including radiation-hardened semiconductors, advanced components and critical minerals. The US remains heavily reliant on imports for certain key materials, which highlights a strategic vulnerability for the domestic space industrial base and, by extension, national security. Given this setup, companies positioned to support supply-chain diversification may stand to benefit. This layer also includes companies that assemble these inputs into spacecraft and launch systems and ultimately deliver them to orbit. The large military contractors that have contracts to supply the US government remain deeply embedded in this layer, while emerging companies are also playing a growing role in launch services and space manufacturing.
- **Infrastructure: operate and connect.** Infrastructure includes satellite constellations, Earth observation platforms and ground-based communications networks that enable connectivity and data transmission. Active satellites have grown dramatically in recent years, and these larger, denser constellations can provide broader global coverage and lower-latency connectivity, helping to make space-based services more reliable and accessible. Earth observation is another rapidly expanding component of this ecosystem. Satellites collect vast amounts of imagery and sensor data that can support a variety of applications, such as crop monitoring, shipping analysis, disaster assessment and weather forecasting. In addition, perhaps an underappreciated aspect of the space value chain is the terrestrial footprint. Ground stations, gateway facilities and related infrastructure play an important role in enabling satellites to transmit data and connect with end users on Earth. Demand for this supporting infrastructure is likely to grow alongside orbital networks, creating opportunities for infrastructure providers including hyperscalers.
- **Applications: monetize outcomes.** Innovations in the space economy can create value not only through launches or satellites themselves, but also through the efficiencies, services and decisions they enable on Earth. The applications layer extends beyond the traditional aerospace and space sectors. Satellite imagery can be impactful in agriculture, for instance, helping producers monitor crop health and improve yield forecasts. Telecommunications companies can tap into expanding satellite networks to broaden communications services to remote and underserved regions, while insurers may draw on satellite data to assess disaster damage and model climate-related risks. AI is likely to further increase the value of these applications, identifying patterns and generating insights that would be difficult or costly to produce manually.

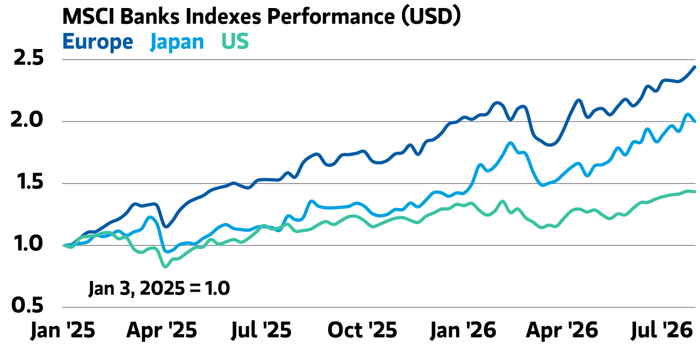
RISKS AND CONSIDERATIONS. While the long-term outlook for the space economy appears compelling, there is uncertainty around monetization and potential infrastructure oversupply, while projected opportunities such as in-space manufacturing remain speculative. As constellations grow larger and orbital activity increases, congestion and space debris could also raise operating costs and complicate mission planning. ■

This article was excerpted from the June 25 Morgan Stanley Wealth Management report, "The Next Orbit of the Space Economy." For a copy of the full report, please contact your Financial Advisor.

Short Takes

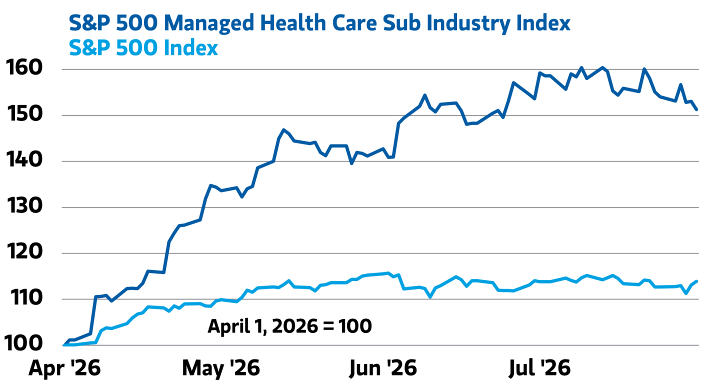
Banks' Low-Key Climb

Amid the high-profile AI-driven rally, banks have been quietly outperforming the broader equity market: The MSCI ACWI Banks Index has outperformed the MSCI ACWI Index by a remarkable 35 percentage points from the end of 2024 through July 2026. Regionally, European banks have set the pace: The MSCI Europe Banks Index has risen 146% in US dollar terms since the end of 2024. Japanese banks have also delivered strong returns, while US banks have posted more modest performance. Higher interest rates have been key to banks' leadership. To stem inflation, central banks began raising rates from historical lows in 2021 and 2022, which has boosted banks' net interest income, a core driver of industry profitability.—*Alfredo Pinel, CAIA*



Source: FactSet, Morgan Stanley Global Investment Office as of July 31, 2026

From Cost Savings to Revenue Upside: AI's Expanding Role in Managed Care

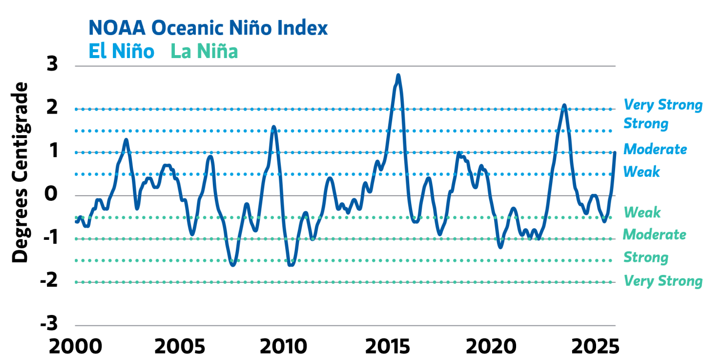


Source: FactSet, Morgan Stanley Wealth Management Global Investment Office as of July 31, 2026

While the biggest winners from AI have yet to be determined, MS & Co.'s health care research team sees managed care organizations (MCOs) as an underappreciated area where AI could create long-term value. AI is moving beyond pilot programs and becoming embedded in core insurance operations, as companies look to improve efficiency by automating manually intensive processes. The team notes that providers and insurers collectively spend about $80 billion annually on administrative tasks, and the 2025 CAQH Index Report estimates automation could generate roughly $20 billion in yearly savings. Beyond cutting costs, AI may also help improve medical loss ratios and create new revenue opportunities through enhanced AI-enablement capabilities as MCOs develop their own AI product streams.—*Joe Logan, CFA*

Waking Up to El Niño

El Niño is officially underway, and evidence is mounting that it could be the strongest episode since 1950. The National Ocean and Atmospheric Administration has put the odds of at least a strong event at 81% when intensity peaks in December–February. By causing Pacific Ocean temperatures to rise, El Niño leads to extreme weather events, notably floods and droughts, which in turn impact agriculture and commodity supplies—and prices. According to a July 13 from MS & Co. Research, "El Niño Risks Rising into 2026/27," most corporate earnings and inflation effects should land in 2027, making the next few months a window for investors to assess individual securities. Some sovereign credit spreads could also come under pressure, depending on El Niño's severity.—*Adam O'Rourke and Lucy Chen*



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of May 31, 2026

GLOBAL MACRO

Asia's Defense Spending: Shifting Into a Higher Gear

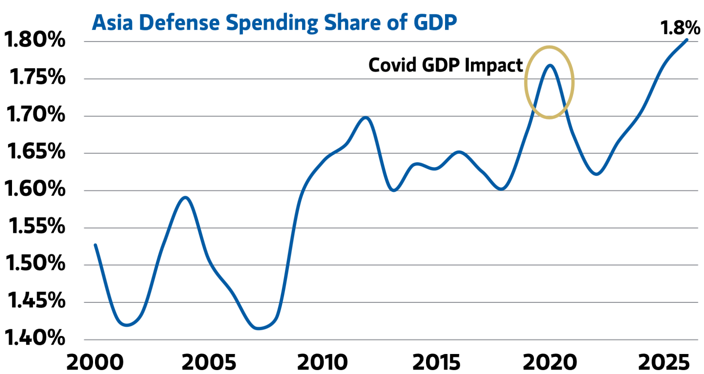
Chetan Ahya, Chief Asia Economist, Morgan Stanley Asia Limited

Since the start of the Russia-Ukraine war in 2022, Asia's defense spending has inflected higher. Tracking at a compound annual growth rate (CAGR) of 6.6% over the past four years, from 4.5% in 2012–2022, we believe it is poised to accelerate even faster.

For 2026, we estimate that Asia's overall defense spending could reach $700 billion, a rise of 10% year over year, as tensions in the Middle East lead to an acceleration in spending, keeping the uptrend alive. Policymakers are also currently committing to higher spending over the medium term—which we believe will anchor a capex supercycle.

HOW IT BREAKS DOWN. Even prior to the Middle East conflict, policymakers in China and India had wanted to spend more on defense. China is growing its defense capex budget by more than the pace of its nominal GDP, while India has already raised budgeted defense spending by 18%, again outpacing nominal GDP growth. Along with shifts elsewhere in Asia, these measures should lift defense spending to 1.8% of GDP in 2026, the highest ratio since at least the early 1990s (see chart).

Defense Spending in Asia Reaches 1.8% of GDP



Source: SIPRI, CEIC, budget documents, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of July 7, 2026

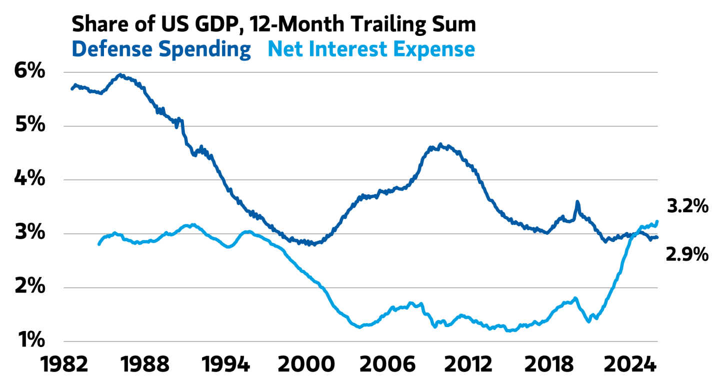
Meanwhile, policymakers in Japan, Korea and Taiwan have indicated that they plan to raise defense spending over the medium term to 2%, 3.5% and 5% of GDP, respectively. (Japan's 2% is based on 2022 GDP but expected to be reached in FY2027; adjusted for GDP increases, we estimate it will be 1.5% of FY2027 GDP.) For Japan, we believe investment in a broad range of sectors, which is expected to be announced under the government's growth strategy, will also be included as part of defense spending.

THE MAIN DRIVERS. We see two reasons for the rise in Asian defense spending overall.

First, geopolitical tensions have increased significantly, with the Russia-Ukraine war marking a turning point. The Caldara-Iacoviello Geopolitical Risk Index, which measures the number of news articles covering geopolitical tensions, has risen meaningfully since 2022, while the number of state-based conflicts has also picked up, according to the Uppsala Conflict Data Program (UCDP). Underpinning this trend is a global shift: After reaping the post-World War II peace dividend, we are transitioning to a multipolar world, where every economy is beginning to spend more on security.

Second, the Trump administration has been encouraging its allies to share more of the defense burden. In a recent speech, Defense Secretary Pete Hegseth reiterated the call for select Asian economies to step up defense spending to 3.5% of GDP. From a fiscal policy standpoint, this comes at a time when US defense spending relative to GDP has dropped below interest payments to GDP (see chart).

US Interest Payments to GDP Exceed Defense Spending



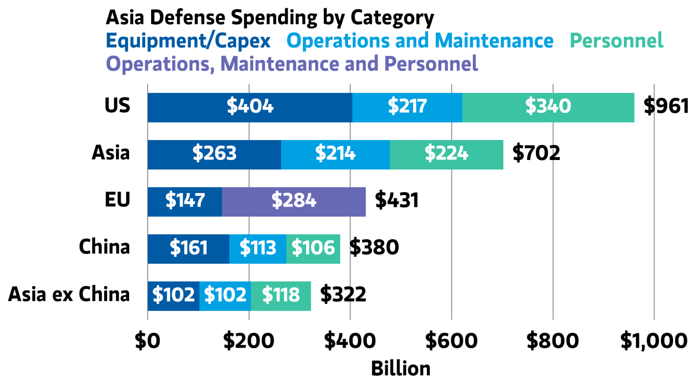
Source: Haver Analytics; Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of May 31, 2026

SPENDING SCENARIOS. Assuming that China's defense spending rises modestly to 2% of GDP over the next several years—our conservative assumption given that no targets have been announced—while that of North Asian economies and India goes to 2.5% of GDP, Asia's defense spending would rise to $1 trillion by 2030 from the current $700 billion (see chart). This would lift Asia's defense spending overall to 2.1% of GDP in 2030, and Asia ex China's spending to 2.3% of GDP.

Under an alternative scenario, if the North Asian economies of Japan, Korea and Taiwan were to lift their spending to 3.5% of GDP, defense spending in Asia would increase further to $1.2 trillion—which would be 2.3% of GDP for Asia and 2.8% for Asia ex China.

Moreover, the capex-related components within defense spending will drive this growth, as policymakers allocate more to defense capex. We estimate that capex will grow from $260 billion in 2026 to $460 billion in 2030 under the first scenario above and to $570 billion based on the second scenario. This is why we have identified defense as one of the four pillars of an industrial and capex supercycle in Asia (see our April 27 report, "Headed Towards an Industrial Supercycle").

Asia's 2026 Defense Spending Surpassed $700 billion



Source: SIPRI, CEIC, budget documents, Morgan Stanley & Co. Research, Morgan Stanley Wealth Management Global Investment Office as of July 7, 2026

SPILLOVER TO EXPORTS. We expect that the region will also benefit from modest support through a rise in defense exports. Asia is a production powerhouse, and as defense capex rises over the medium term, its manufacturing capabilities should mean that it will be able to capitalize on expanded export opportunities. Based on Stockholm International Peace Research Institute data, China, Korea and Australia are already ranked as the 4th, 10th and 17th largest defense exporters globally.

Meanwhile, policymakers in India and Taiwan have indicated that they will be looking to boost defense exports, with set targets over the medium term.

ADDRESSING INVESTOR CONCERNS. The prospect of higher defense spending in Asia has raised two important questions for investors. The first is whether there is enough fiscal space. Public debt has risen relative to pre-COVID levels, and the rise in defense spending is also taking place as economies face the challenges of aging populations and other competing expenditures.

But when we look at the trend in interest payments to GDP versus defense spending, interestingly, most developed market economies in Asia, along with China, have relatively low interest payments at the starting point; emerging Asian economies will face a bigger challenge on this front.

There is also concern that defense spending will be a drag on Asian economies because defense tends to be a relatively low-productivity sector. There are a few offsets, however. Historically, important innovations have been built by or for the military, with some subsequently finding civilian applications. Prominent examples include GPS, the internet and unmanned aerial vehicles, which led to the development of drones. As another offset, AI is expected to help lift productivity on a structural basis. ■

This article was excerpted from the July 7 Morgan Stanley & Co. Research report, "The Viewpoint: Defense Spending—Shifting Into a Higher Gear." For a copy of the full report, please contact your Financial Advisor.

US EQUITIES

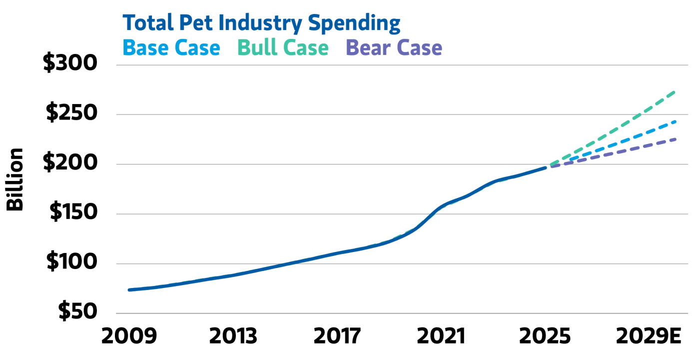
Petriarchy 2026: Slower Growth Ahead?

Simeon Gutman, CFA, Equity Analyst, Morgan Stanley & Co. LLC

After several years of outperformance, beginning with COVID and accompanied by subsequent inflation, the pet industry is entering a more mature growth phase. Drawing on our latest AlphaWise survey data and economists' forecasts, we expect the industry to stay in neutral as stickier inflation drives higher costs for pet ownership and more selective consumer spending.

Even so, key growth drivers are intact, and we expect pet spending to continue rising (see chart). Emotional attachment to pets is high, the veterinarian is still central to the ecosystem and digitally positioned players are best placed to capitalize on evolving shopping trends. We continue to see scope for selective valuation-multiple expansion among the stocks of companies best positioned to capture share in an increasingly competitive environment.

Pet Spending Expected to Rise



Source: Bureau of Economic Analysis, Morgan Stanley & Co. Research estimates, Morgan Stanley Wealth Management Global Investment Office as of May 29, 2026

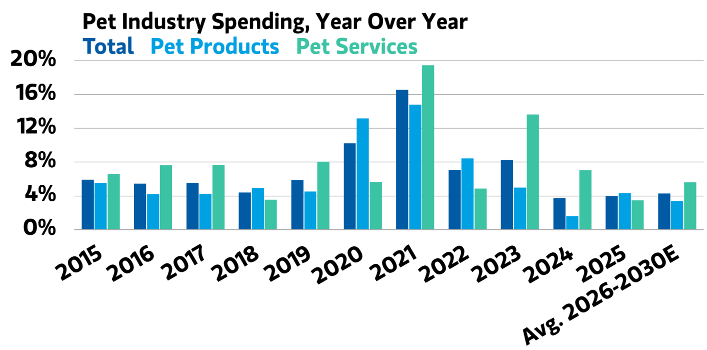
Our proprietary bottom-up pet industry model is driven by three primary factors:

- pet ownership, which we forecast is converging toward broader household formation growth;
- "premiumization," supported by pet humanization trends—treating pets as family members—and younger consumers increasingly starting pets on premium food;
- pricing, where we believe most of inflation's benefits were realized by companies during the COVID period.

NORMALIZING GROWTH. For 2026, we forecast below-average total pet industry growth of approximately 3.6% and for 2025–2030, a roughly 4.1% compound annual growth rate (CAGR), which we believe is below broader industry expectations.

Our outlook reflects the normalization of key tailwinds that helped drive the 8.9% industry CAGR in 2019–2025. Growth has already moderated materially from the fast COVID pace (see chart) due in part to slowing spend-per-pet growth.

Growth in Pet Spending Moderating After COVID Peak



Source: Bureau of Economic Analysis, Morgan Stanley & Co. Research estimates, Morgan Stanley Wealth Management Global Investment Office as of May 29, 2026

INFLATION'S IMPRINT. The persistence of inflation has had several effects on the pet industry. First, spending is increasingly shifting toward value and essential categories over discretionary purchases. We view pet acquisition as discretionary and ongoing pet care spending and maintenance as largely nondiscretionary.

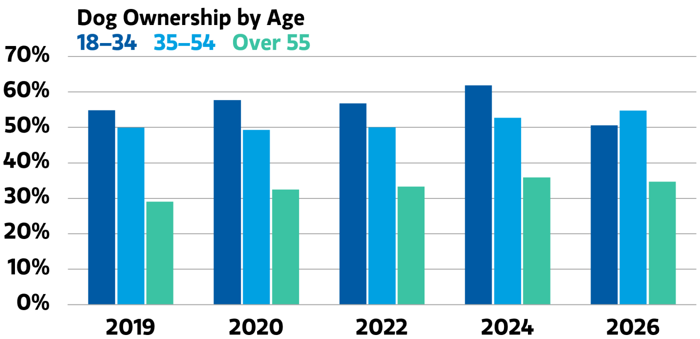
In addition, younger consumers are facing greater financial pressure, which is weighing on pet ownership formation and discretionary spending, although this cohort remains important to the long-term growth of the industry.

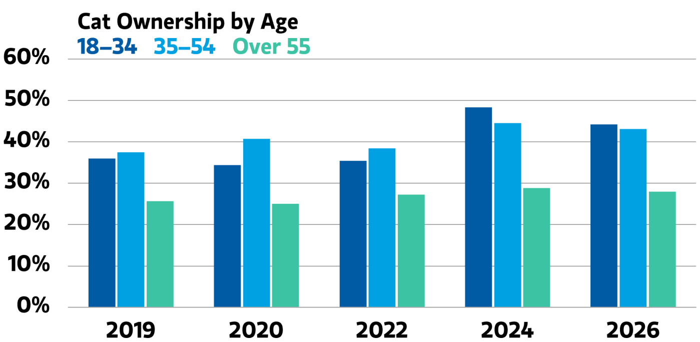
Finally, consumers may be gravitating toward lower-cost pets amid persistent inflation and elevated cost-of-care dynamics.

CATS: THE NEW TOP DOG? While overall pet ownership was relatively stable in our 2026 survey, at 67% versus 69% in 2024, Gen-Z cat ownership is above pre-COVID levels, while Gen-Z dog ownership has declined below 2019 levels (see charts). In our view, this may reflect consumers gravitating toward lower-cost pets, particularly as dogs entail higher ongoing spending across food, accessories and health care. Over time, this shift could represent a modest headwind to broader pet-industry spending growth.

PREMIUMIZATION MODERATING. The spread between premium and mid-tier cat and dog food growth is narrowing, but we still expect premium products to remain a primary driver of total cat and dog food growth of 3.6% CAGR for 2025–2030, supported by ongoing pet humanization and younger consumers increasingly starting pets on premium food offerings. We find that consumers continue to prioritize health-focused ingredients and functional benefits when purchasing pet food.

Dog Ownership Among Gen Z Has Ticked Down … While Cat Ownership Is Above Pre-COVID Levels





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

SERVICES VERSUS PRODUCTS. Consumers are spending a greater share of wallet on services versus products. We forecast pet service spending to increase around 119%, from approximately $48 billion in 2019 to $105 billion in 2030, and pet products spending to increase 86% over the same period, from $74 billion to $138 billion. We believe this reflects the recurring and nondiscretionary nature of pet maintenance spending, particularly across veterinary and health care services.

Relative to other nondiscretionary spending categories, such as rent, transportation and health care, pet services continue to take a greater share of consumer budgets and outpace broader Consumer Price Index trends.

HIGHER-REVENUE VET SERVICES. Vet services is one of the fastest-growing segments within pet spending, supported by pet humanization, aging pets, greater diagnostics penetration and higher-value therapeutics. However, growth is increasingly being driven by higher revenue per visit, reflecting ongoing pricing activity and corporate consolidation across the industry. Our AlphaWise survey data suggests routine care trends are below pre-COVID levels. Similarly, our quarterly AlphaWise US Vet Survey shows clinic patient volume softened modestly in the first quarter of 2026, following muted trends through much of 2025.

E-COMMERCE PENETRATION STABILIZING. The next phase of growth in e-commerce will likely favor players positioned around subscriptions; online pharmacy and health care penetration; and broader digital care ecosystems. As recurring consumables are already highly penetrated online at around 79%, store traffic is increasingly skewing toward higher-touch categories: treats, toys, accessories, fresh food and experiential services such as grooming.

PRICING OVER VOLUME. Credit card and AlphaWise survey data suggest that industry growth is increasingly being driven by pricing rather than units, while share is shifting away from pet specialty retailers. Our survey data further supports the potential for ongoing share gains within mass retail and digital pure-pet businesses. ■

This article was excerpted from the May 29 Morgan Stanley & Co. Research report, "Petriarchy 2026: 'Furcasting' Slower Growth." For a copy of the full report, please contact your Financial Advisor.

Q&A

Shining a Light on Gold, Dr. Copper and Other Metals

From supply shocks to electrification to the AI build-out, structural shifts have dramatically altered supply and demand for commodities in the 2020s. Even the shorter-term ups and downs of interest rate cycles are having major effects, notes Amy Gower, lead metals and mining commodity strategist at Morgan Stanley & Co. Research. She recently discussed her outlook with Morgan Stanley Wealth Management investment strategist Kevin Demers. Here is an edited excerpt of their conversation on July 13.

Kevin Demers (KD): Let's start with the big picture. What are the structural changes affecting the commodities markets today?

Amy Gower (AG): I would highlight a few themes since the pandemic that have changed the outlook for metals supply and demand.

First, in 2020–2021, the narrative shifted toward electrification—EVs (electric vehicles), renewable energy and the associated grid investment. This was when copper and aluminum started to break away as their demand outlooks shifted higher. This also resulted in a strong cycle for lithium, used in EV batteries. Although there's been some volatility in these trends since then, they kick-started the focus on electricity-conducting metals.

Another big theme has been securing supply chains. COVID was a reminder of how severe supply chain disruptions can be. Then we had the supply shocks of the Russia-Ukraine war, followed by US tariffs and more recently, events in the Middle East. As we've had more and more supply shocks, companies and even governments are thinking more about inventory management—this could drive a shift from "just-in-time" to "just-in-case" inventory.

The past couple of years have been all about AI, of course. This has driven outperformance in the metals that have high data-center intensity. And because of this, traditional correlations between metals—like copper and gold, or copper and aluminum—have broken down, while new relationships have emerged. The most important of these is copper and the equities of the Magnificent Seven, which are spending a disproportionate amount of the data-center capex.

Finally, there have been the many ups and downs of interest rate cycles since the pandemic. Commodities in general are nonyielding assets, meaning they're less competitive as portfolio assets when interest rates rise; also, rates affect the cost of capital for downstream investment—for metals, these would include construction and autos, which are key demand sectors. So, higher interest rates tend to have a negative effect on the complex, and lower rates quite a positive one.

KD: What do you think are the most important themes right now for metals, both in the near and long term?

AG: On a six-month basis, I think the interest rate outlook is going to be most important. On a two-year basis, it's AI and the pace of the build-out.

KD: Precious metals were standouts in 2025. What do you think drove the rally, and what is behind the recent pullback?

AG: We had a confluence of events last year that created almost perfect conditions for precious metals.

If we take gold, there had already been a structural shift in demand a few years earlier when the Russia-Ukraine war broke out and central banks started to buy more gold. They went from buying 500 tonnes a year to about 1,000 tonnes. Then, as we moved into an interest-rate-cutting environment in late 2024 and early 2025, ETFs started to buy—they purchased 800 tonnes of gold last year, while central banks bought 860 tonnes, meaning ETFs were nearly as big a buyer as central banks.

We also had some overarching themes that supported gold—including fiat-currency debasement fears. And then I think the price performance drove many investors who hadn't previously considered gold to look more closely at it.

Silver didn't have central bank buying as gold did, but it had its own structural shift in demand from the solar industry—and the metal was already in a deficit. Then the ETFs reengaged, and there wasn't enough silver to go around.

This year, central bank gold-buying has been met with ETF selling, due to the higher rate environment.

KD: Do you think central bank gold-buying will last?

AG: When we see changes in central bank behavior, they tend to be structural. In 2011, central banks flipped from being net sellers to net buyers. And then they proceeded to buy about 500 tonnes a year for the next decade. So, we do think of this as a structural theme, perhaps not at 1,000 tonnes a year forever onward but above 500.

KD: How are tariffs affecting metals, and how do you expect the situation to play out over the next year or two?

AG: The US tariff in place at the moment is a Section 232 tariff on aluminum. This has had a huge impact on the premium paid for delivery to the US Midwest. At times, the all-in aluminum price for the region has been around $6,000 a tonne compared with $3,500 on the LME (London Metal Exchange). So, the tariff has meant a significant uplift in cost for US aluminum users—and a big drop in imports to the US. The Middle East conflict added upside price pressure to both the Midwest premium and LME aluminum prices, and we've seen destocking through the US aluminum supply chain.

In copper, we're waiting for a decision from the US on a 15% tariff that could take effect in January 2027. There are already some tariffs on semi-fabricated products like copper wire, but currently, refined copper can come into the US tariff-free.

This situation has created an incentive to send copper to the US ahead of the potential tariff, which has been very supportive for copper prices. If we add up how much the US has overimported for the year to date, it's around 2% of annual demand—an amount not dissimilar to how much copper is going into data centers.

We think the US supports having this large stockpile of copper. So we expect the administration will either defer the decision on the copper tariff—perhaps reconsidering it in six or nine months—or enact it before year-end, although there is a scenario where the tariff is ruled out completely.

KD: We are seeing this desire to stockpile resources elsewhere too. How do you factor in this trend? Are any metals particularly important in this move?

AG: The news flow around strategic stockpiling, bilateral agreements and strategic offtakes is surging. Much of it has centered on the US, with Project Vault, which is a stockpiling initiative, and the Orion Critical Minerals Consortium, which focuses on taking stakes and securing offtake of minerals. But we're also seeing developments in Europe, South Korea, Australia, India and elsewhere.

So far, countries seem to be starting with rare earths as well as tungsten and gallium, rather than copper or aluminum. Perhaps that's because they don't need large quantities to have security of supply. But I expect this conversation to widen over time.

We have to bear in mind that the lead times can be longer on government initiatives than company-led ones. So the impact may be felt in later years and reflected in our supply-demand models then. But it's something we'll increasingly have to take into account.

KD: How big of a demand shock is the data-center build-out? Are there metals other than copper that could see a real demand increase?

AG: Copper is the most obvious beneficiary. Data-center demand is up from 1.5% of copper demand last year to about 2.1% at the moment. While that may sound small, in commodities, we care about the marginal tonne or marginal barrel: The last piece of demand sets the price. And that 2.1% of total demand means about 30% demand *growth*.

The other part of the AI build-out is all the grid infrastructure that comes with it. As countries around the world look to upgrade their grids, that means more copper and aluminum. In general, anything that can conduct electricity should be supported by data-center growth, including silver.

The build-out also has secondary effects on metals. For example, US data centers are outcompeting many other industries for power, and in some cases, they have outbid aluminum smelters. The result is that where there's less power available, there may also be less US-produced aluminum.

KD: Is China still the biggest driver of commodity demand? How does its role today influence commodity prices globally?

AG: Demand growth drivers are spreading across the world now as more countries focus on grid upgrades, but we are still very dependent on China for most metals—in copper and aluminum, China still accounts for more than 50% of demand. Also, if China were to do a big grid investment program, it would be one of the larger ones in the world.

What has changed in the past few years is that China's construction industry has declined steadily. But manufacturing has picked up as China pivots to exports. Vehicle exports are up 60% this year. Solar cell battery exports are also up in the double-digits, along with air conditioners and washing machines. So, we see China consuming metals to make products that then serve growth in other markets.

KD: Amid these demand drivers, there are some notable supply risks in 2026. How are you factoring El Niño into your outlook, and what metals could be most exposed to it?

AG: Copper is the first one we would highlight for El Niño risk. Copper mine supply is already very challenged: It has been down about 1.6% year to date, and we're anticipating that it will be roughly flat for the year.

There are two producing countries we are watching closely: Chile, which is the single largest producer, and Zambia. In Chile, you have the risk that El Niño brings more floods, mudslides and infrastructure damage, which can affect mining activity and shipments. In Zambia, you have the risk of drought, which can cause shortages in the hydropower that many mines rely on to keep running.

For aluminum and zinc, we see the potential for drought and hydropower shortages in the Yunnan region of China where many smelters are located. There is more renewable energy in that region now compared with a few years ago, but we are still keeping an eye on it.

In lithium production, there is risk around the salt evaporation ponds in Chile; more rainfall can dilute the brine and make the process take longer.

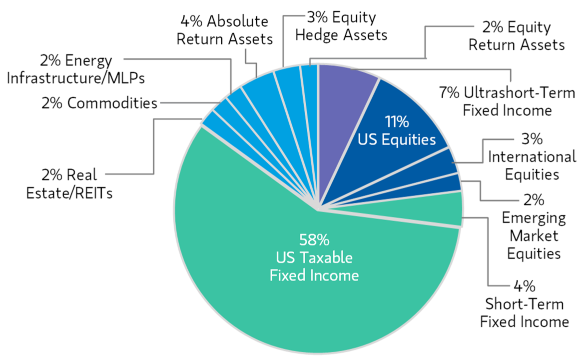
KD: Given all the crosscurrents we've discussed, what is your top pick in metals?

AG: Our top picks now are copper and gold. At the other end of the spectrum, we are more bearish on iron ore and aluminum. ■

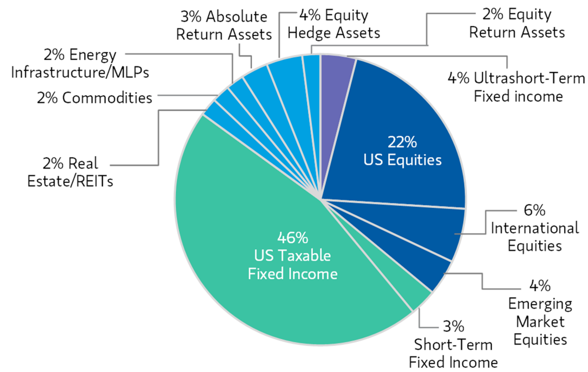
Global Investment Committee Tactical Asset Allocation

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.

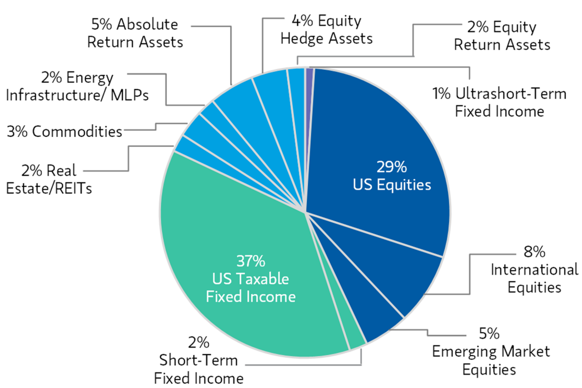
Wealth Conservation



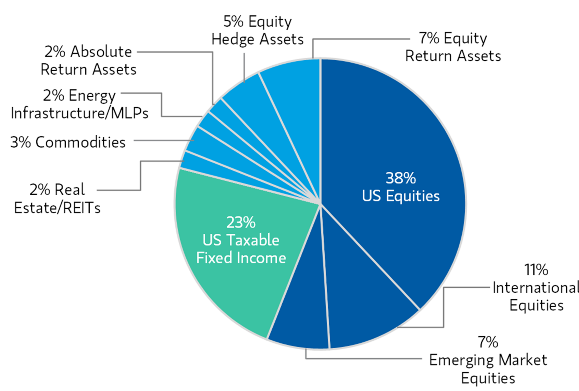
Income



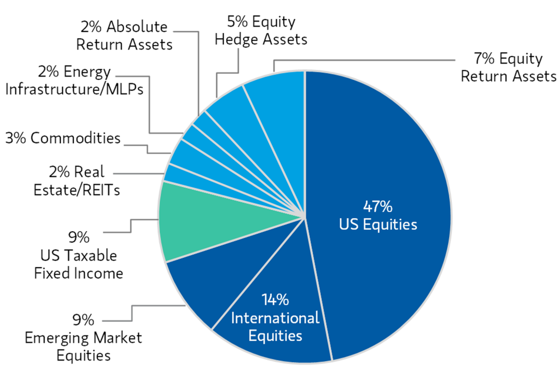
Balanced Growth



Market Growth



Opportunistic Growth



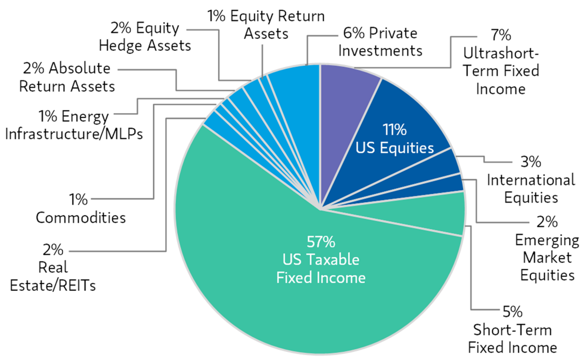
Key

- 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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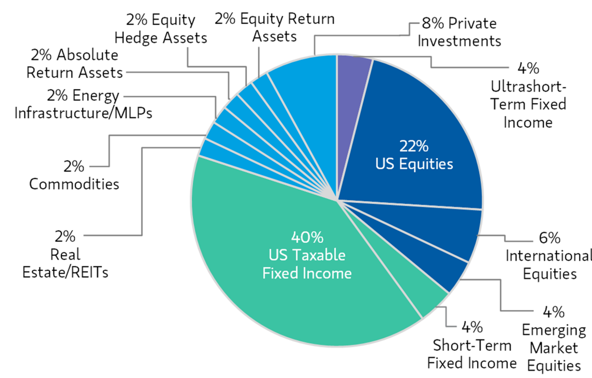
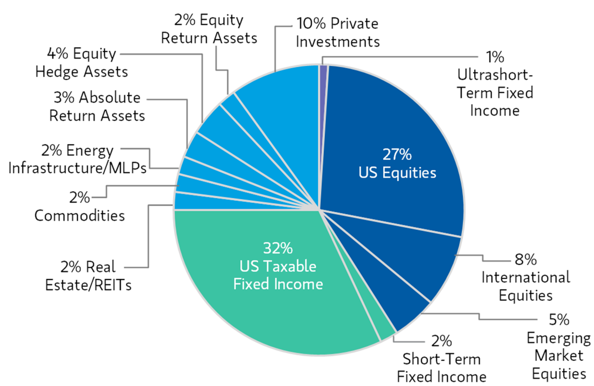
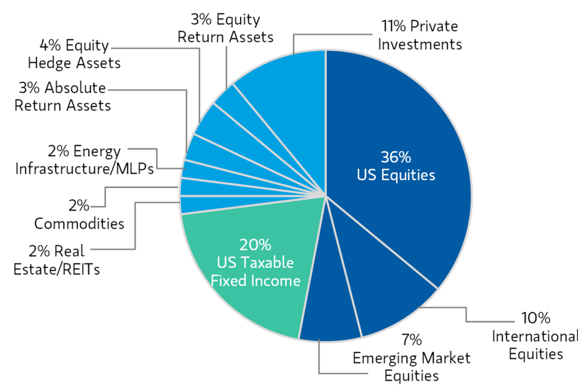


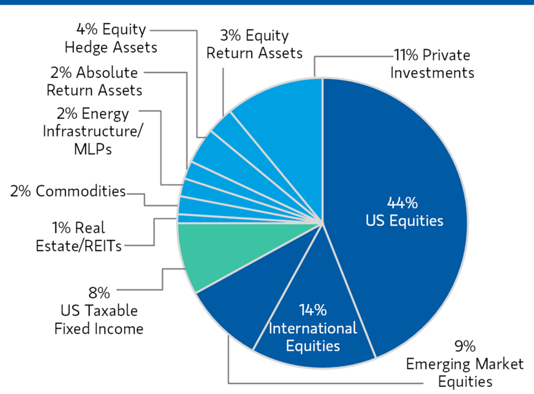
Balanced Growth



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

Additional Index Definitions

OCEANIC NIÑO INDEX This index is NOAA's standard three-month running average of sea surface temperature anomalies in the Niño 3.4 region.

PHLX SEMICONDUCTOR SECTOR INDEX This index tracks the 30 largest US-listed companies involved in designing, manufacturing and selling semiconductors.

S&P MANAGED HEALTH CARE SUB INDUSTRY INDEX This index tracks public companies in the managed care sector, such as health maintenance organizations (HMOs) and Health insurance providers.

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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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RSI1785870571822 08/2026