Morgan Stanley

INVESTMENT MANAGEMENT

Global Fixed Income Bulletin

Living the High Life Again…but for How Long?

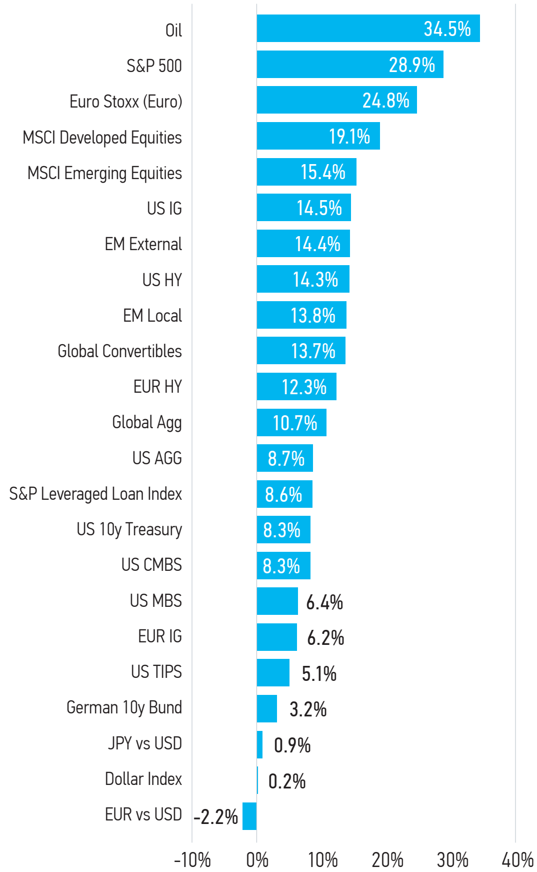
FIXED INCOME | GLOBAL FIXED INCOME TEAM | MACRO INSIGHT | JANUARY 2020

December provided a remarkable ending to a remarkable year. The world's problems seemed to recede as financial markets melted up. While government bond yields continued to rise for the fourth consecutive month following better economic news (and more importantly hopes!) and reduced trade tensions, corporate bonds—both high yield and investment grade—saw meaningful tightening of spreads as did many emerging market bonds. The U.S. dollar reversed course, falling significantly on a trade-weighted basis as well as against most individual currencies. The performance of high yield was particularly notable, generating the third-best monthly performance this cycle. Most impressive was the performance of previous laggards, CCC-rated bonds and the energy sector, with each returning over 5% for the month. How much of this was a one-off due to December illiquidity and how much a start of a new trend remains to be seen.

One should not expect this Christmas present to investors to repeat itself in 2020. Optimism grew and data improved; and trade war concerns seemed to have peaked. And, most importantly, the monetary easing seen in 2019 will likely not be repeated. Indeed, one of the risks for 2020 might be a surprise rise in inflation. Moreover, risk events are still out there: renewed Middle East tensions, Trump's impeachment, disappointing business confidence data, particularly in the U.S., and U.S./China trade, to name just a few examples. While we do not think these issues are likely to change the direction of the global economy, we do not think there is a lot of upside for financial markets in the near term, given current asset prices. A focus on security selection remains of paramount importance to take advantage of pockets of opportunity and avoid overvalued sectors/countries.

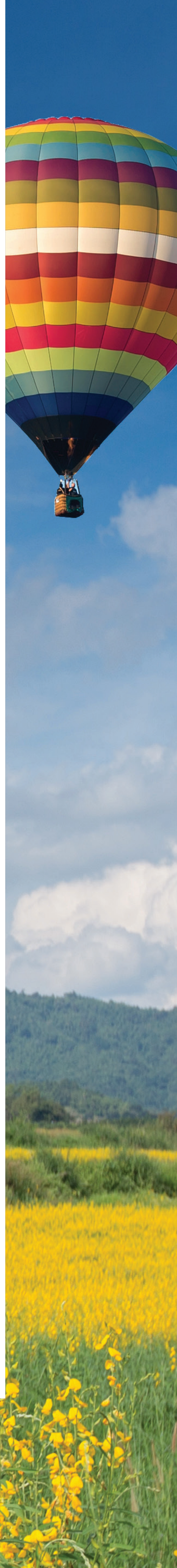
DISPLAY 1

Asset Performance Year-to-Date



Note: USD-based performance. Source: Bloomberg. Data as of December 31, 2019. The indexes are provided for illustrative purposes only and are not meant to depict the performance of a specific investment. **Past performance is no guarantee of future results.** See pages 6 and 7 for index definitions.

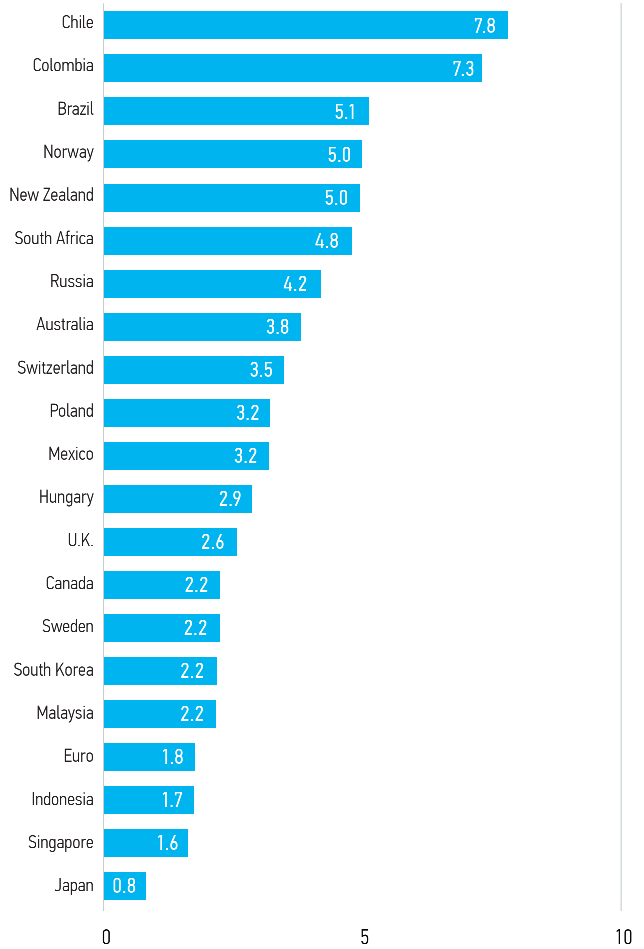
The views and opinions expressed are those of the Portfolio Management team as of January 2020 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**



DISPLAY 2

Currency Monthly Changes Versus U.S. Dollar

(+ = appreciation)



Source: Bloomberg. Data as of December 31, 2019. Note: Positive change means appreciation of the currency against the USD.

DISPLAY 3

Major Monthly Changes in 10-Year Yields and Spreads

COUNTRY	10-YR YIELD LEVEL (%)	MONTH CHANGE (BPS)	10-YR SPREAD (BPS)	MONTH CHANGE (BPS)
			(Spread over USTs)	
United States	1.88	+10		
United Kingdom	0.87	+17	-101	+7
Germany	-0.19	+18	-206	+7
Japan	-0.01	+6	-189	-4
Australia	1.31	+27	-57	+17
Canada	1.64	+18	-24	+8
New Zealand	1.64	+35	-24	+24
EUROPE			(Spread over Bunds)	
France	0.12	+17	30	-1
Greece	1.45	+1	164	-17
Italy	1.41	+18	160	+1
Portugal	0.44	+4	63	-13
Spain	0.47	+5	65	-12
EM	**INDEX LOCAL YIELD (%)**	**MTD CHANGE (BPS)**	**USD SPREAD (BPS)**	**MTD CHANGE (BPS)**
EM External Spreads			275	-32
EM Local Yields	5.33	-6		
EM Corporate Spreads			267	-21
Brazil	6.25	+2	214	-25
Colombia	5.95	-16	161	-27
Hungary	1.19	+7	81	-16
Indonesia	7.14	-8	141	-22
Malaysia	3.35	-4	82	+12
Mexico	6.94	-19	172	-22
Peru	4.52	-10	81	-20
Philippines	4.30	0	69	-17
Poland	1.89	+10	27	-1
Russia	6.12	-15	130	-29
South Africa	9.52	-16	294	-27
Turkey	11.70	-33	403	-42
Venezuela	–	–	14292	+1141
CREDIT			**SPREAD (BPS)**	**MTD CHANGE (BPS)**
U.S. IG			93	-12
EUR IG			93	-10
U.S. HY			336	-34
EUR HY			292	-35
SECURITIZED				
Agency MBS			75	-6
U.S. BBB CMBS			257	+9

Positive Neutral Negative

Source: Bloomberg, JP Morgan. Data as of December 31, 2019.

The views and opinions expressed are those of the Portfolio Management team as of January 2020 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

Fixed Income Outlook

December's returns added to an already stellar year. Only developed-market government bonds sold off in December, as one would expect given the improving economic data and renewed optimism that the economic malaise that had consumed the world for the previous two years was coming to an end. Indeed, if we view the last two years as a "mini" recession, this economic expansion is not 10 years old; it could be much younger! While that is a bit of an exaggeration, it does point out that the economic data could improve for several years, as in the late 1990s and 2005-2006.

Corporate bonds of all flavors had outsized returns in December, particularly CCC-rated bonds and energy-related companies. In many ways this was understandable given their poor performance in November and for the year as a whole. The U.S. dollar also sold off notably, but for the year as a whole the currency still appreciated, on a trade-weighted basis. A weaker dollar would be a welcome development for the global economy and hopefully a harbinger of good news on the trade front in 2020. But with a mercurial President Trump still directing policy, there are reasons to be cautious, with renewed Middle Eastern tensions certainly a reminder of potential pitfalls in the months ahead.

December's Christmas present to investors should not be construed in general as a down payment on further gifts. Credit spreads have tightened closer to cycle lows without a lot of "new news" in December. Most bonds, both government and corporate, do not appear "cheap." That makes us a bit nervous about the market's ability and willingness to absorb supply in Q1. However, this does not mean we are bearish as fundamentals are quite solid. The general macro environment is improving, absent some surprisingly weak U.S. business confidence indicators (e.g., the ISM and CEO confidence indicators). This makes us more confident that global yields have bottomed and credit is well supported, albeit on the expensive side of fair value. With central banks likely to be firmly on hold in 2020, lagged effects of monetary easing should still support the economy. Fiscal policy is likely to be neutral to easy, inflation stable to slightly higher; and the environment is likely to be positive for nongovernment bonds. But we would like to see wider spreads, and/or even stronger fundamentals, before increasing risk exposure further to credit. A small credit long, based on solid and/or improving fundamentals, a more meaningful EM long and modest underweight interest rate risk (concentrated in the U.S., core Europe, Japan and UK) look appropriate.

For the first time in a while, U.S. exceptional economic and financial market outperformance is abating. It is not yet clear if this will be a 2020 trend or merely a blip, but, it does bode well for a weaker dollar story and stronger emerging market (EM) currencies, the largest laggards in 2019. EM FX is one area where we are comfortable holding more risk as we enter 2020.

In summary, fundamentals are good; government bonds look rich but are supported by still accommodative central banks; credit spreads seem expensive; and emerging markets generally look like a better value than developed markets. For spreads to rally further we will require good economic data, confirming the current optimism, and confirmation that central banks will not rescind on their wait-and-see strategy; holding back on tightening policy until inflation rises to, or above, target levels. The least vulnerable area of fixed income remains securitized credit which seems immune to many of the forces potentially buffeting financial markets given the strength of the household sector, although, even here, after a strong 2019, valuations are no longer exceptionally attractive and are unlikely to repeat 2019's performance.

The views and opinions expressed are those of the Portfolio Management team as of January 2020 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

	MONTHLY REVIEW	OUTLOOK
Developed Markets	Developed market sovereign bond yields rose once again in December, particularly in Australia, New Zealand, and Canada.[1] Markets reacted positively to progress around geopolitical risks such as Brexit and U.S./China trade negotiations. On the central bank front, the European Central Bank and Bank of Japan are set to continue their purchase programs of fixed income assets through 2020, albeit at a slower pace. In the U.K., the Conservative Party achieved a significant victory at the December elections, winning 364 out of 650 seats and a far larger majority than was anticipated. This result means that the incumbent Prime Minister, Boris Johnson, now has a strong mandate to govern the country and negotiating the UK's exit from the EU. Andrew Bailey was announced as the new Governor of the BoE, to replace Mark Carney who steps down at the end of January.[2]	Challenges remain to global growth in 2020. Central banks have become more accommodative, particularly in the U.S. and Eurozone, but further accommodation is unlikely unless the growth and inflation outlook deteriorate. Despite recent positive developments, the three major risks we see to the outlook remain Brexit, the U.S./China trade disputes, and weakness in the manufacturing and trade sectors undermining the consumer sector.
Emerging Markets	Risk sentiment improved as a "phase one" trade deal between the U.S. and China appeared to be in the making. EM currencies strengthened versus the dollar, leading the way for EM fixed income. Dollar-denominated sovereign debt outpaced corporate debt as both segments were driven by higher-yielding countries and companies. Commodity prices also rose in the period with broad gains in energy, metals, and agriculture products.[3]	Our baseline scenario envisions a global economic backdrop only marginally better than in 2019, thus leaving global monetary policy accommodation largely in place. Though we see a widening emerging market (EM) - developed market (DM) growth differential supporting EM assets, we expect EM fixed income to deliver more subdued returns relative to 2019, given our views on current valuations and limited scope for aggressive monetary policy accommodation in the developed world.

[1] Source: Bloomberg. Data as of December 31, 2019. [2] Source: Bloomberg. Data as of December 31, 2019. [3] Source: JP Morgan. Data as of December 31, 2019.

The views and opinions expressed are those of the Portfolio Management team as of January 2020 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

	MONTHLY REVIEW	OUTLOOK
Credit	December saw corporate spreads tighten in the U.S. and Europe. Risk-free yields ended the month higher, continuing the post-summer trend: the U.S. 10-year closed 10bp higher at 1.88%, and the German 10-year closed 18bp higher at -0.19%.[4] The key drivers of tighter spreads in December were (1) a U.S./China "phase one" trade deal being reported; (2) a Tory victory in the UK election, potentially reducing Brexit uncertainty; (3) macroeconomic data continuing to stabilize with economic surprise indices ticking higher, especially in the Eurozone; (4) minimal negative corporate news; and (5) Little supply in a month of strong demand.	We expect 2020 to be a year of two halves, with credit initially well supported by the improving economic backdrop, reduced political risk and strong demand for credit. As we move to the second half of 2020, we expect the uncertainty experienced in recent years to repeat, impacting confidence that the economy is rebounding. Whether the cause is fear of a recession, political volatility, or liquidation of credit positions creating a weak technical, we believe the result will be a year of two halves that warrants active management of credit, and reducing risk following periods of spread tightening by rotating to higher-quality, shorter-maturity credit.
Securitized Products	Securitized market activity was fairly quiet in December, and securitized assets generally performed well during the month. Consumer credit conditions remain especially healthy, with historically low unemployment, rising wages and healthy spending rates, and increasing home sales, which are being supported by low mortgage rates.	We enter 2020 with a positive outlook for securitized market opportunities. Agency MBS has cheapened meaningfully over the past two years and looks attractive on a risk-adjusted basis for the first time in many years. Securitized credit opportunities also look attractive as fundamental credit conditions remain very positive for residential and consumer lending markets in both the U.S. and Europe. Securitized markets performed well in 2019, but still underperformed corporate credit markets due to less benefit from the rally in interest rates and less spread tightening relative to corporate credit markets in 2019. We believe returns in 2020 will be driven more by cash-flow carry and fundamental performance rather than a general decline in yields. With this backdrop, we expect securitized markets to outperform in 2020, given the wider risk-adjusted spreads, and lower duration-risk profile.

[4] Source: Bloomberg Barclays. Data as of December 31, 2019.

The views and opinions expressed are those of the Portfolio Management team as of January 2020 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

Risk Considerations

Fixed-income securities are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. Certain **U.S. government securities** purchased by the strategy, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the U.S. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **Public bank loans** are subject to liquidity risk and the credit risks of lower-rated securities. **High-yield securities (junk bonds)** are lower-rated securities that may have a higher degree of credit and liquidity risk. **Sovereign debt securities** are subject to default risk. **Mortgage- and asset-backed securities** are sensitive to early prepayment risk and a higher risk of default, and may be hard to value and difficult to sell (**liquidity risk**). They are also subject to credit, market and interest rate risks. The **currency market** is highly volatile. Prices in these markets are influenced by, among other things, changing supply and demand for a particular currency; trade; fiscal, money and domestic or foreign exchange control programs and policies; and changes in domestic and foreign interest rates. Investments in **foreign markets** entail special risks such as currency, political, economic and market risks. The risks of investing in **emerging market** countries are greater than the risks generally associated with foreign investments. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks. **Restricted and illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). Due to the possibility that prepayments will alter the cash flows on **collateralized mortgage obligations (CMOs)**, it is not possible to determine in advance their final maturity date or average life. In addition, if the collateral securing the CMOs or any third-party guarantees are insufficient to make payments, the portfolio could sustain a loss.

INDEX DEFINITIONS

The indexes shown in this report are not meant to depict the performance of any specific investment, and the indexes shown do not include any expenses, fees or sales charges, which would lower performance. The indexes shown are unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

The **Bloomberg Barclays Euro Aggregate Corporate Index (Bloomberg Barclays Euro IG Corporate)** is an index designed to reflect the performance of the euro-denominated investment-grade corporate bond market.

The **Bloomberg Barclays Global Aggregate Corporate Index** is the corporate component of the Barclays Global Aggregate index, which provides a broad-based measure of the global investment-grade fixed income markets.

The **Bloomberg Barclays U.S. Corporate Index (Bloomberg Barclays U.S. IG Corp)** is a broad-based benchmark that measures the investment-grade, fixed-rate, taxable corporate bond market.

The **Bloomberg Barclays U.S. Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

The **Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index** tracks agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage. Introduced in 1985, the GNMA, FHLMC and FNMA fixed-rate indexes for 30- and 15-year securities were backdated to January 1976, May 1977 and November 1982, respectively. In April 2007, agency hybrid adjustable-rate mortgage (ARM) pass-through securities were added to the index.

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.

Euro vs. USD—Euro total return versus U.S. dollar.

German 10YR bonds—Germany Benchmark 10-Year Datastream Government Index; **Japan 10YR government bonds**—Japan Benchmark 10-Year Datastream Government Index; and **10YR U.S. Treasury**—U.S. Benchmark 10-Year Datastream Government Index.

The **ICE BofAML European Currency High-Yield Constrained Index (ICE BofAML Euro HY constrained)** is designed to track the performance of euro- and British pound sterling-denominated below investment-grade corporate debt publicly issued in the eurobond, sterling

The **ICE BofAML U.S. Mortgage-Backed Securities (ICE BofAML U.S. Mortgage Master) Index** tracks the performance of U.S. dollar-denominated, fixed-rate and hybrid residential mortgage pass-through securities publicly issued by U.S. agencies in the U.S. domestic market.

The **ICE BofAML U.S. High Yield Master II Constrained Index (ICE BofAML U.S. High Yield)** is a market value-weighted index of all domestic and Yankee high-yield bonds, including deferred-interest bonds and payment-in-kind securities. Its securities have maturities of one year or more and a credit rating lower than BBB-/Baa3, but are not in default.

The **ISM Manufacturing Index** is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

Italy 10-Year Government Bonds—Italy Benchmark 10-Year Datastream Government Index.

The **JP Morgan CEMBI Broad Diversified Index** is a global, liquid corporate emerging markets benchmark that tracks U.S.-denominated corporate bonds issued by emerging markets entities.

The **JPMorgan Government Bond Index—**Emerging markets **(JPM local EM debt)** tracks local currency bonds issued by emerging market governments. The index is positioned as the investable benchmark that includes only those countries that are accessible by most of the international investor base (excludes China and India as of September 2013).

The **JPMorgan Government Bond Index Emerging Markets (JPM External EM Debt)** tracks local currency bonds issued by emerging market governments. The index is positioned as the investable benchmark that includes only those countries that are accessible by most of the international investor base (excludes China and India as of September 2013).

The views and opinions expressed are those of the Portfolio Management team as of January 2020 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

The **JP Morgan Emerging Markets Bond Index Global (EMBI Global)** tracks total returns for traded external debt instruments in the emerging markets and is an expanded version of the EMBI+. As with the EMBI+, the EMBI Global includes U.S. dollar-denominated Brady bonds, loans and eurobonds with an outstanding face value of at least $500 million.

The **JP Morgan GBI-EM Global Diversified Index** is a market-capitalization weighted, liquid global benchmark for U.S.-dollar corporate emerging market bonds representing Asia, Latin America, Europe and the Middle East/Africa.

JPY vs. USD—Japanese yen total return versus U.S. dollar.

The **National Association of Realtors Home Affordability Index** compares the median income to the cost of the median home.

The **Nikkei 225 Index (Japan Nikkei 225)** is a price-weighted index of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.

The **MSCI AC Asia ex-Japan Index (MSCI Asia ex-Japan)** captures large- and mid-cap representation across two of three developed markets countries (excluding Japan) and eight emerging markets countries in Asia.

The **MSCI All Country World Index (ACWI, MSCI global equities)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

MSCI Emerging Markets Index (MSCI emerging equities) captures large- and mid-cap representation across 23 emerging markets (EM) countries.

The **MSCI World Index (MSCI developed equities)** captures large and mid-cap representation across 23 developed market (DM) countries.

Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector.

The **S&P 500® Index (U.S. S&P 500)** measures the performance of the large-cap segment of the U.S. equities market, covering approximately 75 percent of the U.S. equities market. The index includes 500 leading companies in leading industries of the U.S. economy.

The **S&P/LSTA U.S. Leveraged Loan 100 Index (S&P/LSTA Leveraged Loan Index)** is designed to reflect the performance of the largest facilities in the leveraged loan market.

The **S&P GSCI Copper Index (Copper)**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark for investment performance in the copper commodity market.

The **S&P GSCI Softs (GSCI soft commodities) Index** is a sub-index of the S&P GSCI that measures the performance of only the soft commodities, weighted on a world production basis. In 2012, the S&P GSCI Softs Index included the following commodities: coffee, sugar, cocoa and cotton.

Spain 10-Year Government Bonds—Spain Benchmark 10-Year Datastream Government Index.

The **Thomson Reuters Convertible Global Focus USD Hedged Index** is a market weighted index with a minimum size for inclusion of $500 million (US), 200 million euro (Europe), 22 billion yen, and $275 million (Other) of convertible bonds with an equity link.

U.K. 10YR government bonds—U.K. Benchmark 10-Year Datastream Government Index. For the following Datastream government bond indexes, benchmark indexes are based on single bonds. The bond chosen for each series is the most representative bond available for the given maturity band at each point in time. Benchmarks are selected according to the accepted conventions within each market. Generally, the benchmark bond is the latest issue within the given maturity band; consideration is also given to yield, liquidity, issue size and coupon.

The **U.S. Dollar Index (DXY)** is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.

DISTRIBUTION

This communication is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

United Kingdom: Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA, authorised and regulated by the Financial Conduct Authority. **Dubai:** Morgan Stanley Investment Management Limited (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158). **Germany:** Morgan Stanley Investment Management Limited Niederlassung Deutschland, Grosse Gallusstrasse 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Ireland:** Morgan Stanley Investment Management (Ireland) Limited. Registered Office: The Observatory, 7-11 Sir John Rogerson's, Quay, Dublin 2, Ireland. Registered in Ireland under company number 616662. Regulated by the Central Bank of Ireland. **Italy:** Morgan Stanley Investment Management Limited, Milan Branch (Sede Secondaria di Milano) is a branch of Morgan Stanley Investment Management Limited, a company registered in the U.K., authorised and regulated by the Financial Conduct Authority (FCA), and whose registered office is at 25 Cabot Square, Canary Wharf, London, E14 4QA. Morgan Stanley Investment Management Limited Milan Branch (Sede Secondaria di Milano) with seat in Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy, is registered in Italy with company number and VAT number 08829360968. **The Netherlands:** Morgan Stanley Investment Management, Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. Telephone: 31 2-0462-1300. Morgan Stanley Investment Management is a branch office of Morgan Stanley Investment Management Limited. Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom. **Switzerland:** Morgan Stanley & Co. International plc, London, Zurich BranchI Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered with the Register of Commerce Zurich CHE-115.415.770. Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland, Telephone +41 (0) 44 588 1000. Facsimile Fax: +41(0)44 588 1074.

Japan: For professional investors, this document is circulated or distributed for informational purposes only. For those who are not professional investors, this document is provided in relation to Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")'s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This is not for the purpose of a recommendation or solicitation of transactions or offers any particular financial instruments. Under an IMA, with respect to management of assets of a client, the client prescribes basic management policies in advance and commissions MSIMJ to make all investment decisions based on an analysis of the value, etc. of the securities, and MSIMJ accepts such commission. The client shall delegate to MSIMJ the authorities necessary for making investment. MSIMJ exercises the delegated authorities based on investment decisions of MSIMJ, and the client shall not make individual instructions. All investment profits and losses belong to the clients; principal is not guaranteed. Please consider the investment objectives and nature of risks before investing. As an investment advisory fee for an IAA or an IMA, the amount of assets subject to the contract multiplied by a certain rate (the upper limit is 2.20 percent per annum (including tax)) shall be incurred in proportion to the contract period. For some strategies, a contingency fee may be incurred in addition to the fee mentioned above. Indirect charges also may be incurred, such as brokerage commissions for incorporated securities. Since these charges and expenses are different depending on a contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This document is disseminated in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, The Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association.

U.S.

A separately managed account may not be suitable for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required. For important information about the investment manager, please refer to Form ADV Part 2.

Please consider the investment objectives, risks, charges and expenses of the funds carefully before investing. The prospectuses contain this and other information about the funds. To obtain a prospectus please download one at morganstanley.com/im or call 1-800-548-7786. Please read the prospectus carefully before investing.

The views and opinions expressed are those of the Portfolio Management team as of January 2020 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

Morgan Stanley Distribution, Inc. serves as the distributor for Morgan Stanley Funds.

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A BANK DEPOSIT

Hong Kong: This document has been issued by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this document have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this document shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore:** This document should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"), (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This publication has not been reviewed by the Monetary Authority of Singapore. **Australia:** This publication is disseminated in Australia by Morgan Stanley Investment Management (Australia) Pty Limited ACN: 122040037, AFSL No. 314182, which accept responsibility for its contents. This publication, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

IMPORTANT INFORMATION

EMEA: This communication has been issued by Morgan Stanley Investment Management Limited ("MSIM"). Authorised and regulated by the Financial Conduct Authority. Registered in England No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market. Prior to investing, investors should carefully review the strategy's/product's relevant offering document. There are important differences in how the strategy is carried out in each of the investment vehicles.

A separately managed account may not be suitable for all investors.

Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing.

The views and opinions are those of the author or the investment team as of the date of preparation of this material and are subject to change at any time due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment teams at Morgan Stanley Investment Management (MSIM) or the views of the firm as a whole, and may not be reflected in all the strategies and products that the Firm offers.

Forecasts and/or estimates provided herein are subject to change and may not actually come to pass. Information regarding expected market returns and market outlooks is based on the research, analysis and opinions of the authors. These conclusions are speculative in nature, may not come to pass and are not intended to predict the future performance of any specific Morgan Stanley Investment Management product.

Certain information herein is based on data obtained from third party sources believed to be reliable. However, we have not verified this information, and we make no representations whatsoever as to its accuracy or completeness.

This communication is not a product of Morgan Stanley's Research Department and should not be regarded as a research recommendation. The information contained herein has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This material is a general communication, which is not impartial and has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. All investments involve risks, including the possible loss of principal. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

MSIM has not authorised financial intermediaries to use and to distribute this document, unless such use and distribution is made in accordance with applicable law and regulation. Additionally, financial intermediaries are required to satisfy themselves that the information in this document is suitable for any person to whom they provide this document in view of that person's circumstances and purpose. MSIM shall not be liable for, and accepts no liability for, the use or misuse of this document by any such financial intermediary.

This document may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this document in another language, the English version shall prevail.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without MSIM's express written consent.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

All information contained herein is proprietary and is protected under copyright law.

Explore our site at **www.morganstanley.com/im**

© 2020 Morgan Stanley. All rights reserved.

CRC 2916018 Exp. 1/31/2021 9772779_KC_0120