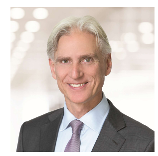
22 May 2020 – Market Update

Coronavirus: Pausing for Breath

SOLUTIONS & MULTI-ASSET | GLOBAL BALANCED RISK CONTROL TEAM | MARKET PULSE |



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Over the past three months, as the world has struggled to come to terms with the COVID-19 pandemic, we have shared our views with clients through a series of weekly notes. As investors, we have always focused on the likely economic and investment implications of the coronavirus, rather than speculating over potential vaccines or treatments.

After a period of extreme volatility, during which the VIX[1] exceeded 80 in mid-March, volatility has come down, with the VIX sitting at 29[2] at the time of writing; still high by historical standards, but clearly less extreme than we have seen in recent weeks.

This week we pause for breath, with a brief update of our latest portfolio positioning, both at the broad asset class level, and in terms of tactical preferences within those broad asset classes.

As markets seek direction, we maintain our overall defensive positioning within Global Balanced Risk Control (GBaR) portfolios, as we believe the risk of a further downward leg for equities remains high. Of the four factors we monitor to determine the right time to move decisively back into risk assets, only one factor - effective monetary and fiscal policy – supports such a move:

1. **Credible steps to contain the virus, and flattening of the infection rate curve:** Strategies like test and trace are crucial. A growing number of European countries are easing lockdown, whilst US lockdown restrictions are being eased in some states, perhaps prematurely. Further progress is still required.

[1] The VIX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 Index options. Often referred to as the fear index or the fear gauge, it represents one measure of the market's expectation of stock market volatility over the next 30-day period.
[2] The VIX was 82.69 as of close 16 March 2020 and 29.53 as of close 21 March 2020.

2. **Extreme valuations:** According to our analysis, equity valuations based on our bull, bear and base cases remain comfortably above our assessment of fair value, across developed regions, increasing the likelihood of further downside as second-order effects begin to take hold in Phase 2 of the crisis.
3. **Extreme positioning:** We are concerned that investors have been driven by greed, whereas investors being driven by fear is typically a more reliable indicator of extreme positioning. Nevertheless, we are monitoring this factor closely, given cash that may be sitting on the sidelines, available for investment.
4. **Effective monetary and fiscal policy:** Governments and central banks continue to take unprecedented measures to support the global economy, in the face of the damage done by the COVID-19 crisis.

Consequently, we still do not believe the time is right to meaningfully increase exposure to risk assets. However, there is another potential reason for us to adjust the broad asset allocation of GBaR portfolios; our risk-targeting discipline. Based on 20-day realised volatility, with a 95% confidence interval, risk for many GBaR portfolios has gravitated towards the lower bound of their respective target volatility ranges. Therefore, this week we have increased equity exposure moderately, not due to a fundamental change in our forward-looking expectations, but in order to position volatility towards the mid-point of each portfolio's target range.

Tactical Preferences

Within developed equities, we prefer the US over Europe and Japan, whilst in emerging market equities we remain overweight Asia. At a sector level, we retain our position in global consumer staples. We are underweight listed real estate. Within fixed income, we remain overweight long-duration US Treasuries, given their "safe haven" status, but underweight European sovereigns. We prefer high quality credit over high yield. Finally, we remain overweight gold, another "safe haven" asset.

Asset Class	--	-	=	+	++
Equity					
US			■		
Eurozone		■			
UK			■		
Japan		■			
Asia ex Japan				■	
China				■	
Emerging Markets			■		
LatAm			■		
Global Consumer Staples				■	
Global Infrastructure			■		
Global Property		■			

Asset Class	--	-	=	+	++
Fixed Income					
IG Credit			■		
US High Yield		■			
European High Yield		■			
EM Sovereign Debt HC			■		
EM Sovereign Debt LC		■			
US Treasuries				■	
US Inflation			■		
German Bunds		■			
EU Peripheral Bonds		■			
JGBs			■		
Commodities					
Gold				■	

Source: MSIM GBaR team, as of 20 May 2020. For informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The tactical views expressed above are a broad reflection of our team's views and implementations, expressed for client communication purposes.

We have provided the latest effective asset allocation weights of each of our five Luxembourg SICAV funds in the following table, as of 21 May 2020.

	VOLATILITY P.A. [1]	EQUITY %	FIXED INCOME %	COMMODITIES %	CASH %*	
					PHYSICAL	SYNTHETIC*
MS INVF Global Balanced Risk Control Fund of Funds (EUR)	4% – 10%	24.8	51.6	4.3	13.0	6.3
MS INVF Global Balanced Income Fund (EUR)	4% – 10%	26.5	49.4	4.4	12.2	7.4
MS INVF Global Balanced Fund (EUR)	4% – 10%	25.4	48.3	4.4	6.9	14.9
MS INVF Global Balanced Defensive Fund (EUR)	2% – 6%	10.4	69.3	3.4	6.9	10.0
MS INVF Multi-Asset Risk Control Fund (USD)	4% - 10%	23.6	60.1	4.2	3.2	8.9

*Synthetic cash created from derivatives positions.
We have provided the effective weights for 21 May 2020 at the time of publication. Weights may deviate marginally from these weights after publication due to data revisions.

Source: Global Balanced Risk Control team, Morgan Stanley Investment Management. Allocations are subject to change on a daily basis and without notice. For information only and not a recommendation to buy or sell specific investment strategy. MS INVF standards for Morgan Stanley Investment Funds. [1.] Volatility targets are indicative ranges. There is no assurance that these targets will be attained.

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There is no assurance that the Strategy will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Accordingly, you can lose money investing in this portfolio. Please be aware that this strategy may be subject to certain additional risks. There is the risk that the Adviser's **asset allocation methodology and assumptions** regarding the Underlying Portfolios may be incorrect in light of actual market conditions and the Portfolio may not achieve its investment objective. Share prices also tend to be volatile and there is a significant possibility of loss. The portfolio's investments in **commodity-linked notes** involve substantial risks, including risk of loss of a significant portion of their principal value. In addition to commodity risk, they may be subject to additional special risks, such as risk of loss of interest and principal, lack of secondary market and risk of greater volatility, that do not affect traditional equity and debt securities. **Currency fluctuations** could erase investment gains or add to investment losses. **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. **Equity and foreign securities** are generally more volatile than fixed income securities and are subject to currency, political, economic and market risks. Equity values fluctuate in response to activities specific to a company. Stocks of **small-capitalization companies** carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. The risks of investing in **emerging market** countries are greater than risks associated with investments in foreign developed markets. **Exchange traded funds (ETFs)** shares have many of the same risks as direct investments in common stocks or bonds and their market value will fluctuate as the value of the underlying index does. By investing in exchange traded funds ETFs and other **Investment Funds**, the portfolio absorbs both its own expenses and those of the ETFs and Investment Funds it invests in. Supply and demand for ETFs and Investment Funds may not be correlated to that of the underlying securities. **Derivative instruments** can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the portfolio's performance. A **currency forward** is a hedging tool that does not involve any upfront payment. The use of **leverage** may increase volatility in the Portfolio. **Diversification** does not protect you against a loss in a particular market; however, it allows you to spread that risk across various asset classes.

INDEX DEFINITIONS

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