Second Quarter 2018

The 545 Group

Investment Insights

We are pleased to offer this quarter's "Investment Insights" newsletter summarizing our team's current views and opinions on relevant economic, geopolitical and capital market events. Please contact us if you would like to discuss the investment climate and your portfolio in more detail. As always, thank you for your business.

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Global Economy

Global economic growth is in the later-cycle but remains on stable footing, anchored by; i) GDP growth tracking in line with Morgan Stanley's 3.9% 2018E forecast; ii) continued strong corporate earnings: iii) high levels of employment, notably in the US; and, iv) Euro Zone and Japan Manufacturing PMI topping estimates in June. [1] So far, the Trump Administration tariff's impact has fallen short of what could be expected in a trade war and the economic impact has been limited. The markets have looked through protectionist trade rhetoric as political posturing but we continue to monitor this situation closely. After a long period of easy monetary policy around the globe, we are now entering a period where financial conditions will begin to tighten. As a takeaway from discussions with the entire Morgan Stanley global economic and strategy teams, Andrew Sheets notes that, "following a nine-year stretch where markets generally outperformed the real economy as monetary policy eased, there was widespread belief that we could now be in a phase where the economy outperforms the markets as policy tightens." [2] We are also closely watching upcoming US mid-term elections in the US, a shaky Italian political situation's impact on the future of the EU, and oil prices. Net-net, Morgan Stanley analysts tend to agree that a positive economic backdrop seems intact through 2019, however, investors should expect more market volatility at this stage of the global economic recovery.

Global Stocks

After a long stretch of low market volatility, 2018 has seen the volatility pick up greatly in the global stock markets, with several 10% corrections in different indices, including one 10% correction in the S&P 500 index. Earnings growth continues to be strong, however, tightening financial conditions with higher interest rates have compressed valuation multiples, resulting in generally flat markets on a YTD basis. With continued interest rate hikes from the Federal Reserve, ongoing trade tensions creating uncertainty for economic and earnings growth and geopolitical concerns, Morgan Stanley Chief Investment Officer Michael Wilson believes significant price volatility will persist in equity markets during Q3. He notes, "We think defensive posturing will continue to pay off until the Fed eventually decides to pause its rate hikes, which we expect it will do in September. Once that happens, we could experience a strong finish to the year, a typical pattern in midterm election years." [3] In conclusion, we are cautiously optimistic but recommend using market pullbacks to put new capital to work. We remain in-line US and Japanese stocks, overweight European stocks, and have moved to an in-line position in Emerging Market stocks due to ongoing trade-protectionism issues between the US and China.

Global Bonds

Global bonds have posted underwhelming returns during the first half of 2018. The 10-year US Treasury yield remained range-bound between 2.6% and 3.1%. We maintain short average duration as we expect higher interest rates over the course of the next year. We remain overweight inflation protection strategies and underweight high yield. [1]

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Outlook and Opportunities

This section summarizes the 545 Group's current views on the relative attractiveness of major asset classes. We base these tactical weightings on our assessment of each asset class's relative attractiveness compared to that asset class's historical risk-adjusted return as well as other opportunities available across the investing landscape. These weightings do not consider each client's unique profile, preferences and/or constraints and therefore may not be applicable to you.

Asset Class	Weighting	Rationale
Cash	Under	While still near historically low-yields, money market funds now offer more compelling yields. Maintain as a reserve for new and opportunistic purchases
Investment Grade Bonds	In-Line	We continue to maintain shorter-duration maturities given extremely low yields and higher rates later this year.
Opportunistic Bonds	In-Line	Underweight high yield due to tight spreads. Overweight inflation-protected securities given GDP growth prospects and anticipated rate increases
US Stocks	In-Line	US stocks have done exceptionally well since the global financial crisis, but may be in latter stages of a cyclical bull market. The Trump/Republican pro-growth agenda is helping, but trade protectionism is hurting
Non-US (Developed) Stocks	Over	We remain overweight Japan and Europe. Morgan Stanley believes populist movements around the world could fuel more fiscal policy action
Emerging Market Stocks	In-Line	A looming trade battle with China has put pressure on the entire emerging market sector. While inexpensive, we do not believe EM will lead global equities as it has done of late
Alternative Investments	In-Line	Certain Private Equity sectors, particularly Asia, may be attractive for investors who can accept liquidity constraints Selectively, MLP's appear undervalued assuming oil price stability continues Underweight traditionally structured Hedge Funds

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Charts of the Quarter

The following charts substantiate the views outlined in this quarterly piece.

Figure 1: [4] Morgan Stanley & Co. Real GDP Forecasts

	2017	2018E			2019E			2020-22
	Base	Bear	Base	Bull	Bear	Base	Bull	Base
GLOBAL	**3.7**	**3.1**	**3.9**	**4.3**	**2.4**	**3.8**	**4.5**	**3.4**
G10	**2.3**	**1.6**	**2.2**	**2.6**	**0.4**	**2.0**	**2.7**	**1.3**
US	2.3	2.0	**2.7**	3.1	0.4	**2.2**	2.8	1.2
EA	2.5	1.8	**2.1**	2.3	0.5	**1.9**	3.1	1.2
Japan	1.7	0.5	**1.3**	1.6	0.3	**1.5**	2.0	1.1
UK	1.8	0.6	**1.2**	1.7	-0.1	**1.0**	1.8	1.4
EM	**4.8**	**4.2**	**5.0**	**5.6**	**3.7**	**5.0**	**5.8**	**4.8**
China	6.9	6.2	**6.6**	6.8	5.6	**6.4**	6.7	5.6
India	6.4	6.5	**7.5**	8.2	6.5	**7.7**	8.5	7.3
Brazil	1.0	2.1	**2.7**	3.1	1.8	**3.4**	4.0	2.3
Russia	1.5	-0.5	**1.8**	3.0	-1.0	**1.7**	3.1	1.8

Source: IMF, Morgan Stanley Research forecasts; Note: The above aggregates are PPP-weighted.

Figure 2: [3] Morgan Stanley & Co. 12-Month Forward Price Targets for Major Equity Regions

Index	Current Price	MS Base Case Jun-19	MS Base Case (Old)	MS Tgt Fwd P/E Jun-19	Current Fwd P/E	MS Top-down Base Case EPS/Growth			Consensus Forecast EPS/Growth		
						Dec-18	Dec-19	Jun-20	Dec-18	Dec-19	Jun-20
S&P 500	2,698	2,750 2%	2,750 2%	16.5	16.5	156.0 17%	164.0 5%	168.0 5%	159.9 20%	175.6 10%	184.2 10%
MSCI Europe	1,628	1,700 4%	1,700 4%	14.5	14.5	109.4 9%	113.8 4%	117.2 5%	108.2 8%	117.0 8%	121.8 8%
TOPIX	1,773	1,720 -3%	1,720 -3%	14.0	14.0	120.9 4%	118.7 -2%	122.8 3%	125.2 8%	134.6 8%	138.7 8%
MSCI EM	1,144	1,160 1%	1,160 1%	12.0	11.9	88.7 10%	92.7 5%	96.6 7%	94.1 16%	104.2 11%	110.5 11%

Source: MSCI, RIMES, IBES, Bloomberg, FactSet, Morgan Stanley Research forecasts; MSCI Europe and Topix EPS and growth forecasts are local currency. S&P 500 and MSCI EM EPS and growth forecasts are in USD terms. Earnings numbers above are estimates of trailing 12-month earnings as of the last day of each calendar period referenced. For example, Jun-20 earnings are trailing 12-month estimates for the period ending June 30, 2020, or forward 12-month estimates as of June 30, 2019. Data of May 9, 2018

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The 545 Group at Morgan Stanley Private Wealth Management

Our investment team's roots at Morgan Stanley date to 1979 when Morgan Stanley entered the private wealth management industry. We have each spent the majority – if not all – of our careers at Morgan Stanley, a unique differentiator in an industry of constant change. Collectively, we represent over 100 years of experience structuring, implementing and managing wealth for sophisticated investors, their families and their related charitable entities. [5] This team of private wealth advisors, analysts, traders, portfolio reporting experts and customer service associates has built a nationally recognized practice focused on catering to the needs of ultra-wealthy investors.

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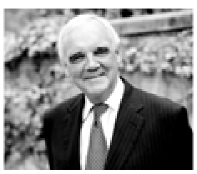

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[5] *Experience by advisor: Greg Vaughan, 34 years; Bob Dixon, 37 years; Mark Douglass, 24 years, Jason Bogardus, 15 years.*

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This newsletter contains forward looking statements and there can be no guarantees they will come to pass. Historical data shown represents past performance and does not guarantee comparable future results. The information and statistical data contained herein have been obtained from sources believed to be reliable but in no way are guaranteed by Morgan Stanley as to accuracy or completeness.

Interest in 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, local tax-exemption typically applies if securities are issued within one's city of residence.

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made. **NOTE:** High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

International investing may not be suitable for every investor and is subject to additional risks, including currency fluctuations, political factors, withholding, lack of liquidity, the absence of adequate financial information, and exchange control restrictions impacting foreign issuers. These risks may be magnified in emerging markets.

An investment cannot be made directly in a market index.

The MSCI ACWI All Country World Index is a weighted index designed to provide a broad measure of equity-market performance throughout the world. As of January 2009, this index contains stocks from 46 different countries. There are 23 countries classified as developed markets and 23 countries considered emerging markets. Typically the index is built first at the country level, and then the 46 indexes are aggregated into the MSCI All Country World Index.

The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe*. With 445 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe. The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 320 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. As of June 30, 2014, the **MSCI EAFE Index** consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 30, 2014, the **MSCI Emerging Markets Index** consists of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.
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TOPIX is a capitalization related index that lists all firms in the "first section" of the TSE, a section that organizes all large firms on the exchange into one group. An investor cannot invest directly in a market index.

Barclays Capital Global Aggregate Bond: This index provides a broad-based measure of the global investment-grade, fixed-rate debt markets.

Barclays Capital US Corporate High Yield Bond: This index is composed of fixed-rate, publicly issued, non-investment grade debt.

Barclays U.S. Aggregate Bond Index covers the USD-denominated, investment-grade (rated Baa3 or above by Moody's), fixed-rate, and taxable areas of the bond market. This is the broadest measure of the taxable U.S. bond market, including most Treasury, agency, corporate, mortgage-backed, asset-backed, and international dollar-denominated issues, all with maturities of 1 year or more. An investment cannot be made directly in a market index.

The Lipper Short Term Muni Index consists of municipal debt issues with dollar-weighted average maturities of one to five years. Number of Index Components: 10. An investment cannot be made directly in a market index.

The Citi High Yield Market Index is a broad measure of the North American high yield market. An investment cannot be made directly in a market index.

An investment in alternative investments can be highly illiquid, is speculative and not suitable for all investors. Investing in alternative investments is only intended for experienced and sophisticated investors who are willing to bear the high economic risks associated with such an investment. Investors should carefully review and consider potential risks before investing. Some of these risks may include:

- 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 the fund and none is expected to develop;
- volatility of returns;
- restrictions on transferring interests;
- 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
- manager risk.

Individual funds will have specific risks related to their investment programs that will vary from fund to fund.

Private equity interests may be highly illiquid, involve a high degree of risk and be subject to transfer restrictions.

Stocks of small and 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.

Master Limited Partnerships (MLPs) are (rolled-up) 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. Because of their narrow focus, MLPs maintain exposure to price volatility of commodities and/or underlying assets and tend to be more volatile than investments that diversify across many sectors and companies. MLPs are also subject to additional risks including: investors having limited control and rights to vote on matters affecting the MLP, limited access to capital, cash flow risk, lack of liquidity, dilution risk, conflict of interests, and limited call rights related to acquisitions.

Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors or Private Wealth Advisors do not provide tax or legal advice. Clients should consult their tax advisor for matters involving taxation and tax planning and their attorney for matters involving trust and estate planning and other legal matters.

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Sources used in this publication:

[1] Morgan Stanley Research: Lisa Shalett, *The GIC Weekly,* June 25, 2018
[2] Morgan Stanley Research: Michael Wilson, *Fireworks or Duds?,* June, 2018
[3] Morgan Stanley Research: *Global Strategy Mid-Year Outlook,* May 2018
[4] Morgan Stanley Research: *Global Macro Mid-Year Outlook,* May 2018

CRC # 2170670, 7/18