PRIVATE WEALTH MANAGEMENT

Morgan Stanley

Third Quarter 2024

The 545 Group

Investment Insights

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We are pleased to offer this quarter's "Investment Insights" newsletter summarizing our team's current economic, geo-political and capital market views and opinions. 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.

Observations

The S&P 500 ended the third quarter of 2024 up more than 20% on the year and 5% on the quarter, close to the 5,767 all-time high: the best nine-month start to a year since 1997. While the summer months are historically subdued, we witnessed bouts of volatility instigated by the unwind of the Japanese Yen carry trade, mixed US labor market and wage growth data, moderating inflation, a 50-basis point Federal Reserve rate cut in September and continued geopolitical instability. Morgan Stanley's global GDP growth forecasts continue to call for 2-3% economic growth through 2025. Perhaps more interestingly, both Morgan Stanley "top down" and Wall Street consensus "bottom up" corporate earnings forecasts point to 30-35% cumulative earnings growth potential through 2026. We believe corporations will have to harness efficiencies and market penetration through effective deployment of AI tools and strategies to achieve this exceptional earnings growth rate.[1]

Speaking of AI, it is worth noting the "Magnificent Seven" stocks peaked on July 10. Since then, stock market performance has broadened: the equal-weighted S&P 500 index has outperformed the traditional market capitalization-weighted version. All 11 sectors have posted positive returns in 2024, led by Utilities (+30.6%), Communication Services (+25.6%), and Financials (+21.9%). This is a departure from 2023 where leadership came almost exclusively from a handful of technology stocks. Outside of the US, non-US indices continue to lag, with MSCI Emerging Markets posting a 17.1% return followed by MSCI EAFE (+13.6%) and Japan (+12.4%).[2]

Responses

Going forward, we would not be surprised to see heightened volatility given US Presidential election uncertainty and concerns over the S&P 500's relatively rich 22.3x forward P/E ratio. That said, investors who have missed out on this year's strong equity markets may contribute to positive equity inflows between now and year-end. Similarly, investors who have enjoyed 5+% money market yields may reposition portfolios toward stocks in anticipation for another 175 to 200 basis points of Fed accommodation through 2026. We recommend maintaining existing equity allocations for clients who can withstand market volatility. For investors who are underweight stocks, where appropriate we recommend you consider deploying capital on a disciplined and opportunistic basis with a defensive bias focused on quality, stable growth, and reasonable valuations. In addition, real assets such as natural resources, infrastructure, and real estate (single family / industrial, not commercial) may be attractive for income generation and as an inflation hedge.[1]

We believe it is critically important at this stage of the market cycle to like what you own and avoid emotional reactions to news flow. There is much "noise" in the background: we are listening for "signal". Decent global economic growth forecasts, lower economic recession odds, moderating inflation, the revolutionary implications of the AI revolution, the need for massive infrastructure spend, high expected corporate earnings growth, and more accommodative central bank policy all bode well for equity investors. That said, it is critical to remain nimble if the "signal" changes. Lastly, we continue to selectively evaluate new private equity, venture capital, private credit and hedge fund solutions to drive returns and portfolio diversification.

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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	In-Line	Money market funds continue to yield 5%+, providing a compelling absolute yield for cash equivalents. Subject to change as Fed cuts rates late-2024 or early-2025.
Investment Grade Bonds	Over	Stronger-than-expected future economic growth leading to curve normalization/steepening.
Opportunistic Bonds	Under	Limited upside and much downside to investments in riskier bonds given market environment.
US Stocks	In-Line	Valuation concerns offset by optimism regarding GDP and corporate earnings growth. Focus is secular-growth equities with quality balance sheets.
Non-US (Developed) Stocks	In-Line	Weak currencies and dovish central banks are concerns but second half economic rebound should benefit select sectors notably exporters.
Emerging Market Stocks	In-Line	Tug-of-war between China economic growth concerns and government intervention. Cautious optimism in Brazil, India, and Mexico but potential volatility due to currency fluctuations.
Alternative Investments	In-Line	Private equity valuation concerns, private credit appears relatively stable, hedge funds looking potentially attractive after years of underperformance. Real assets, natural resources, and infrastructure funds look interesting.

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Charts of the Quarter

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

Chart 1: S&P 500 Equal-Weight Less S&P 500, Quarterly Percent Change[3]

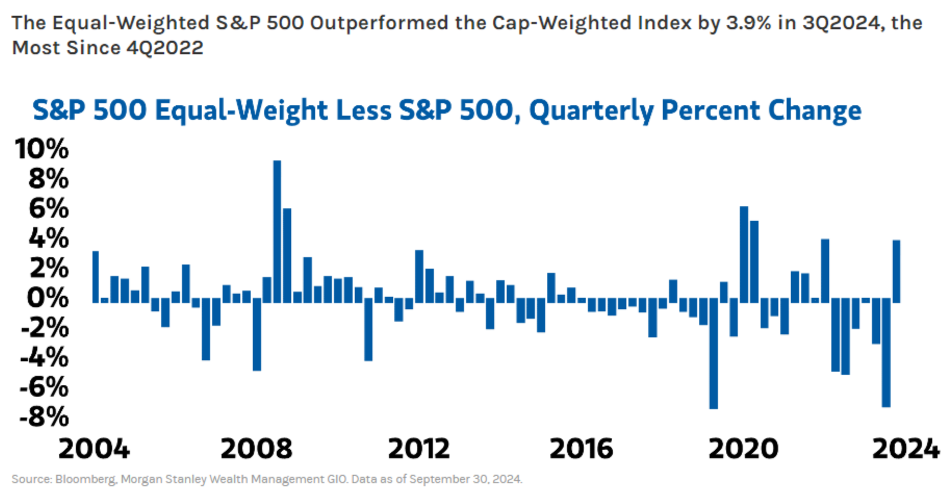
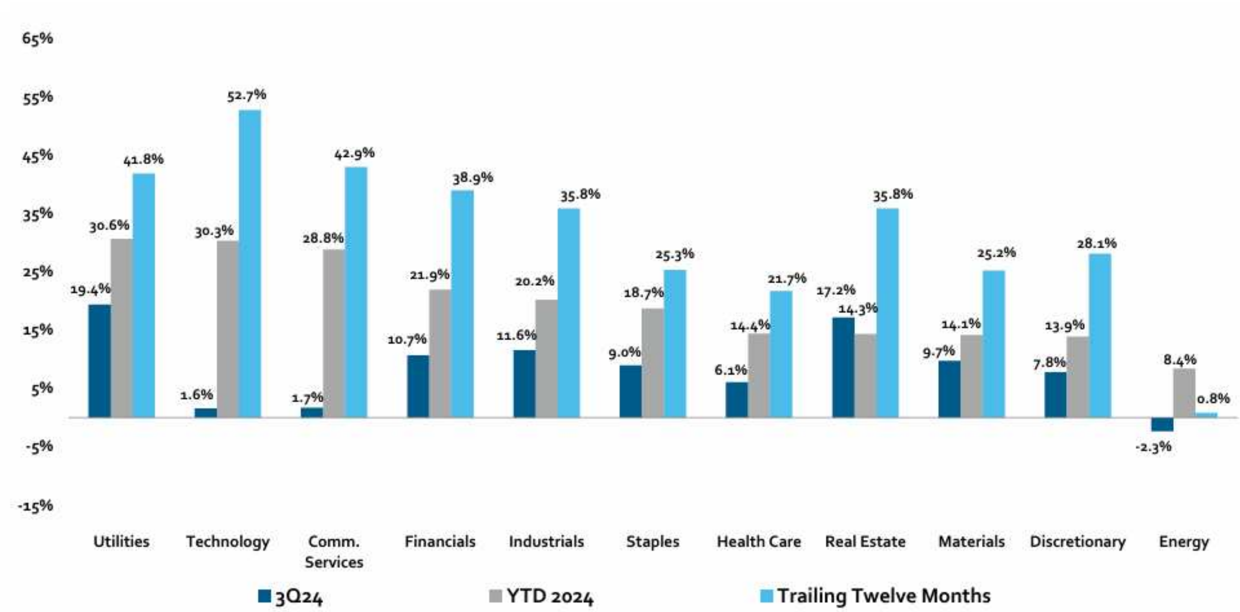


Chart 2: S&P 500 Sector Total Returns[3]



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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 80 years of experience structuring, implementing and managing wealth for sophisticated investors, their families and their related charitable entities. 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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This material does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The strategies and/or investments discussed in this material may not be suitable for all investors. Morgan Stanley Wealth Management recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

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.

Options may not be suitable for all investors
Before engaging in the purchase or sale of options, clients should understand the nature and extent of their rights and obligations and be aware of the risks involved, including, without limitation, the risks pertaining to the business and financial condition of the issuer of the underlying security/instrument. Options investing, like other forms of investing, involves tax considerations, transaction costs and margin requirements that can significantly affect clients' potential profits and losses. The transaction costs of options investing consist primarily of commissions (which are imposed in opening, closing, exercise and assignment transactions), but may also include margin and interest costs in particular transactions. Transaction costs are especially significant in options strategies calling for multiple purchases and sales of options, such as multiple leg strategies, including spreads, straddles and collars. Prior to opening an options account you should receive and review the "Characteristics and Risks of Standardized Options" (ODD) booklet published by the Options Clearing Corporation. Clients may not enter into options transactions until they have received, read and understood the ODD Disclosure Document. Prior to investing in options you should determine that options are a suitable investment for you based on your investment needs and risk profile and have discussed transaction costs with your Financial Advisor or Private Wealth Advisor. A copy of the ODD is also available online at: http://www.theocc.com/about/publications/publication-listing.jsp.
Supporting documentation for any claims (including any claims made on behalf of options programs or the options expertise of sales persons), comparisons, recommendations, statistics, or other technical data, will be supplied upon request.
Past performance is no guarantee of future results.

Investors should carefully consider the investment objectives and risks as well as charges and expenses of a mutual fund before investing. To obtain a prospectus, contact your Financial Advisor or visit the fund company's website. The prospectus contains this and other important information about the mutual fund. Read the prospectus carefully before investing.

Treasury and Government Money Market: You could lose money by investing in the Fund. Although the Fund seeks to preserve your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

You could lose money by investing in a Money Market Fund. Because the share price of the Fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The Fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

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An investment cannot be made directly in a market index.

The MSCI All Country World Index (ACWI) is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. An investment cannot be made directly in a market index.

The Russell 1000® Growth Index measures the performance of the large- cap growth segment of the US equity universe. An investment cannot be made directly in a market index.

The MSCI Europe IMI index captures large, mid and small cap representation across 16 Developed Markets countries in Europe. With 1,372 constituents, the index covers approximately 99% of the free float-adjusted market capitalization across the Developed Markets countries of Europe. An investment cannot be made directly in a market index.

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 Europe, Australia, Far East (MSCI EAFE) Index is a capitalization-weighted index that tracks the total return of common stocks in 21 developed-market countries within Europe, Australia and the Far East. An investment cannot be made directly in a market index.

The MSCI Emerging Markets Index is a free-float-adjusted market-capitalization index that is designed to measure equity market performance in developed and emerging markets, excluding the United States. An investment cannot be made directly in a market index.

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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.

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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: "On the Markets" Shallett, Skelly *et al* October 2024
2 S&P Global website (www.spglobal.com)
3 Morgan Stanley GIC Chartbook

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