Morgan Stanley

Third Quarter 2025

The 545 Group

Investment Insights

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.

Greg Vaughan
Managing Director, Private Wealth Advisor

Mark Douglass
Managing Director, Private Wealth Advisor

Jason Bogardus
Managing Director, Private Wealth Advisor

Katie Partridge
Executive Director, Private Wealth Advisor

Dan Soares
Executive Director, Private Wealth Advisor

Greetings,

We hope your holidays were relaxing, and here's to a healthy and prosperous new year! Reflecting on 2025, the S&P 500 achieved its third consecutive above-average yearly gain, driven by resilient corporate earnings, anticipation of further Federal Reserve rate cuts, momentum in artificial intelligence (AI), and fear of missing out (FOMO) sentiment. Notably, the S&P 500 concluded the year with an eight-month winning streak, a feat not seen since 2017. As we move into 2026, we observe both positive indicators and areas of caution:

Positives:

- Corporate Earnings Growth: Projections indicate a 10-12% growth in 2026 and 8-10% in 2027, supported by robust economic fundamentals.
- AI-Driven Productivity Gains: The integration of AI continues to enhance productivity across sectors, contributing to economic growth.
- Monetary Policy: Expectations of favorable monetary policy with potential rate cuts could stimulate economic activity.
- Fiscal Policy: The One Big Beautiful Bill Act (OBBB) is anticipated to provide fiscal stimulus, supporting economic expansion.
- Retail Liquidity: There is significant liquidity in money market funds, providing a buffer and potential for investment.
- IPO and M&A Activity: An uptick in initial public offerings and mergers and acquisitions is anticipated, reflecting business confidence.

Cautions:

- Market Sentiment: With widespread predictions of a continued rally, there is a risk of over-optimism.
- Performance Concentration: A significant portion of last year's S&P 500 returns came from technology mega caps, indicating potential vulnerability.
- Valuations: Current valuations are high, leaving little room for disappointment.
- AI Valuations: Venture capital investment in AI startups reached over $200 billion in 2025, raising concerns about potential overvaluation.
- Investor Euphoria: As asset classes hit new highs, there is a risk of complacency, particularly with gold's 65% increase in 2025.
- Credit Warnings: The wave of corporate and private debt in AI and data-center infrastructure could pose risks.
- Wildcards: Potential government shutdowns, Supreme Court decisions on tariffs, and the next Federal Reserve Chair announcement could introduce volatility.

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Outlook and Positioning

We maintain a cautiously optimistic outlook but anticipate higher volatility and lower returns compared to the past three years. Our firm's target for the S&P 500 is 7800, based on a 22 multiple of projected S&P earnings of $356 in 2027. In this environment, we advocate for balanced portfolios focused on risk management and diversification across fixed income, global equities, and alternatives. We recommend maintaining existing asset class allocations for clients who can withstand volatility and using market fluctuations to deploy new capital with a defensive bias. In fixed income, we suggest slightly extending maturities in anticipation of further rate cuts. In equities, we advise caution against overconcentration in mega-cap technology names and recommend a focus on global exposure and high-quality large- and mid-cap stable growth sectors with reasonable valuations. In alternatives, we see opportunities in reflationary assets such as natural resources and infrastructure, which can serve as a portfolio ballast for income generation and inflation protection.

On the estate front, we are monitoring the administration's tax and spending bill to evaluate gifting strategies. In philanthropy, stock market appreciation offers opportunities for gifting lower-cost positions with unrealized gains into Donor Advised Funds or utilizing Tax-Deferred Exchange strategies. In lending, we are watching for refinancing opportunities amid lower rates. For risk management, we are evaluating single stock hedging strategies with zero-cost collars. Thank you for your continued trust and business. We are always here to review and discuss strategy on any of the above going forward.

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Outlook and Opportunities[2]

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	Underweight	Money market fund yields have dropped 75bps since last June. Further potential Fed rate cuts could further erode cash yields. We are deploying surplus cash into diversified portfolios.
Investment Grade Bonds	In-Line	We are reducing short-duration exposure and moving toward the "belly of the curve" to capture decent coupons with lower price volatility.
Opportunistic Bonds	In-Line	Non-US$ yields are decent, central banks have begun to cut rates and there is room for spread tightening as economic growth improves. Currency impact is a tailwind for US dollar investors.
US Stocks	Overweight	We see opportunity to rotate portfolios up in quality, including reloading in "Mag 7" names, where prospects for achieving ambitious earnings growth forecasts in 2026 are higher.
Non-US (Developed) Stocks	In-Line	Opportunities to simultaneously enjoy monetary, fiscal and currency-related stimulus. The outlook is improving in Japan. Exported deflation from China and lower global oil prices help.
Emerging Market Stocks	Overweight	China stimulus is likely enough to help stabilize any short-term downturns. The US-China trade conflict remains a wild card, and we expect the "bazooka" of China stimulus may come in light of ongoing trade tensions.
Alternative Investments	In-Line	Real assets, natural resources, and infrastructure funds look interesting. Select private equity, credit, venture and one-off private deals are attractive.

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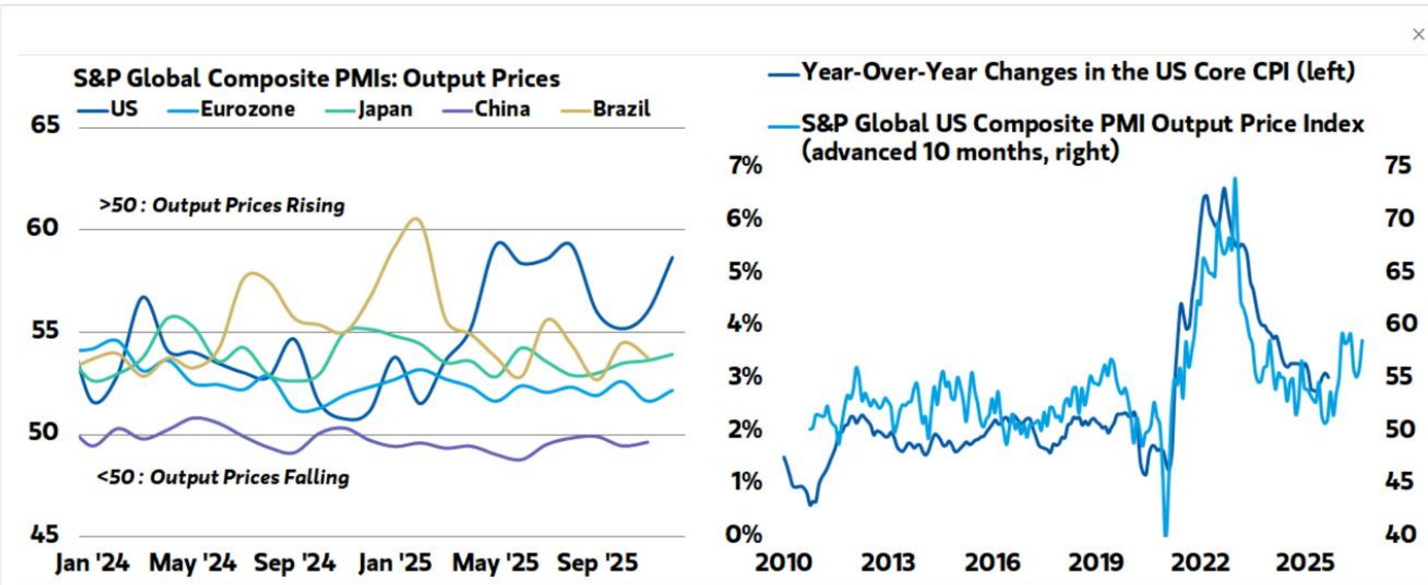
Charts of the Quarter[23]

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

Chart 1: Tariff Pressures Could Push Inflation Higher in 2026[3]



Source: Morgan Stanley Wealth Management GIO, Haver Analytics as of Jan. 2, 2026

Chart 2: Morgan Stanley & Co Outlook: S&P 500[3]

	Current Level	Dec.-2026 Target	Implied Change (%)	Current P/E Ratio	12-Month Forward P/E Ratio	MS & Co. Top-Down EPS Estimates			Bottom-Up Consensus EPS Estimates		
						2025E	2026E	2027E	2025E	2026E	2027E
Base	**6642**	**7800**	**17%**	**26.4x**	**22.0x**	**272**	**317**	**356**	**270**	**307**	**351**
						12%	*17%*	*12%*	*11%*	*14%*	*14%*
Bear	6642	5600	-16%	26.4x	20.0x	268	281	280	270	307	351
						10%	*5%*	*0%*	*11%*	*14%*	*14%*
Bull	6642	9000	35%	26.4x	23.0x	274	338	393	270	307	351
						13%	*23%*	*16%*	*11%*	*14%*	*14%*

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.

Greg Vaughan
Managing Director, Private Wealth Advisor
Gregory.Vaughan@morganstanleypwm.com
+1 (650) 234-5952
NLMS#1290664

Mark Douglass
Managing Director, Private Wealth Advisor
Mark.Douglass@morganstanleypwm.com
+1 (650) 234-5929
NLMS#1297982

Jason Bogardus
Managing Director, Private Wealth Advisor
Jason.Bogardus@morganstanleypwm.com
+1 (650) 234-5915
NLMS#1297673

Katie Partridge
Executive Director, Private Wealth Advisor
Katie.Partridge@morganstanleypwm.com
+1 (650) 234-5926
NLMS#1310711

Dan Soares
Executive Director, Private Wealth Advisor
Daniel.Soares@morganstanleypwm.com
+1 (650) 234-5957
NLMS#1806044

The 545 Group
Morgan Stanley Private Wealth Management
2725 Sand Hill Road
Menlo Park, CA 94025

Experience by advisor: Greg Vaughan, 44 years; Mark Douglass, 37 years; Jason Bogardus, 24 years; Dan Soares, 15 years; Katie Partridge, 10 years.

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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.

Diversification does not guarantee a profit or protect against loss in a declining financial market.

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.

Sources used in this publication:

1 Factset, December 2025
2 MS Research, December 2025
3 Morgan Stanley GIC Chart Book: December 2025

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