Top (from left to right): Fitzroy Whyte, John Vessa, Richard Frank, Corey Fleisher, Jeffrey Winik, Jeffrey Di Napoli. Bottom (from left to right): Hugo Rea; Client Service Associate, Dawn Mazzey; Registered Client Service Associate, Diana Patrascu; Director of Investments, Iraida Gonzalez; Group Director, Katherine Khouri; Director of Business Strategy

Q2 2023

EXECUTIVE SUMMARY

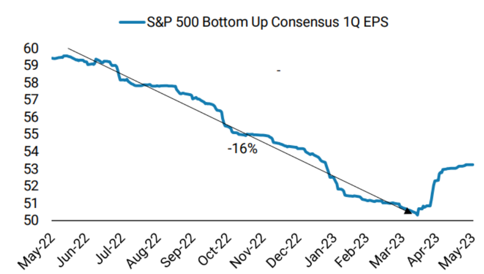
We believe that market dynamics have been disappointing to both bulls and bears lately. While we have disagreed with bearish predictions that the S&P 500 would retest the October lows of 2022, we would hardly call trading around 2021's average price level exuberant. To some degree, the last 18 months have felt like a ride to nowhere. We are still below the 2021 highs and above the 2022 lows. We believe that markets have held up for several reasons despite all the negative headlines. For one, investors came into 2023 already bearishly positioned. The attractive yields of treasuries, money markets and other cash equivalents led investors to further reduce their allocations to equities. In our opinion, this has spared us any meaningful pullback in the first half of this year. In addition, the passing of the debt ceiling, excitement around artificial intelligence (AI), and a Fed pause have also helped. During the month of June alone, markets appeared overbought to us thanks to investors' fear of missing out on what they hoped to be the start of a new bull market. However, we find it difficult to justify reaching new highs from current levels in the near term as the Fed may not be done tightening as quickly as investors think. Given the possibility of tighter financial conditions, additional rate hikes, and still narrow market breadth, fixed income may provide better opportunities until equity prices reset.

Current Thoughts

- We prefer staying balanced as opposed to outright defensive.
- We advise investors to remain diversified across styles, asset classes and geographies as a way to potentially hedge against a wider range of outcomes.
- We expect the US economy to have a soft landing but do not anticipate any Fed cuts until next year.
- Tighter liquidity conditions may slow both economic and corporate profit growth, capping the future upside for equities from current levels.
- We see opportunities in core fixed income and municipal bonds as upcoming maturities leave investors exposed to the possibility of reinvesting at lower rates.
- We continue to like private credit as banks are likely to lend less going forward.
- We have become neutral on small caps given their relative underperformance since the March bank failures.
- We expect labor demand to slow but remain healthy, keeping unemployment levels contained.
- While we see stress in the office and retail sectors within real estate, we believe the overall housing market remains healthy due to the ongoing shortage of total homes for sale.
- We recommend investors rebalance portfolios that have become overly concentrated.
- We see alternative investments as portfolio diversifiers for eligible investors.

Thus far, markets have proven the most bearish of predictions wrong. We believe they were already de-risked coming into the year as 2022's sell-off was so profound. As of March 31, 2023, there was nearly $19.6 trillion sitting in cash and short-term assets, just below the all-time high of $19.9 trillion at the end of 2021.[1] This confirms that investors remained underweight equities and were bearishly positioned. However, some of these investors have recently felt encouraged to play catch up. While economic and corporate profit growth have slowed, the degree to which they have done so has been less than feared so far. Services remain strong and the job market remains resilient. While still negative, Q2 earnings growth rates have so far tracked ahead of the expected -6.8% level. The significant pullback we saw in the market last year caused analysts to finally cut their estimates lower, setting up a low bar for this year.

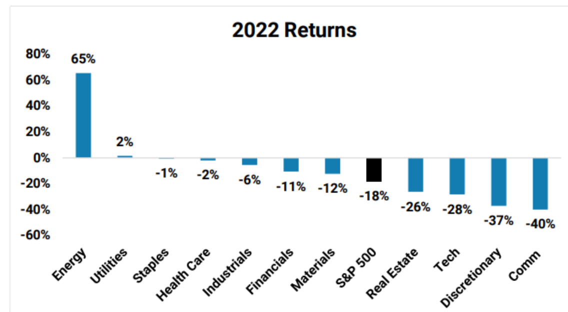
Exhibit 46: 1Q EPS Estimates De-rated by 16% Into Reporting Season, Setting a Low Bar



Source: FactSet, Morgan Stanley Research.

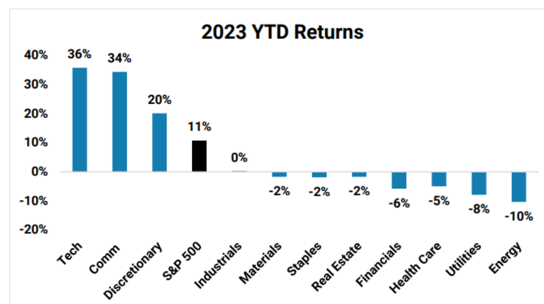
As a whole, equity markets need to thank the handful of large index stocks that have been responsible for most of the strong performance we've seen so far. As investors have acknowledged that growth is slowing, they have crowded around several mega cap names. Excitement around artificial intelligence (AI) has also encouraged investors to allocate to the largest players involved in the theme. However, underneath the surface, many stocks and sectors are actually down or at least lagging the S&P 500. The concentration in indices has been both a blessing and a curse for investors and has given increased importance to diversification in order to avoid being caught wrong footed at any given time in the investment cycle. 2022 was characterized by the normalization in excess demand experienced by many companies during the pandemic-related lockdowns. Many stocks within the consumer discretionary, communication services and technology sectors have given back most of their stimulus induced outperformance. The payback for their overearning between 2020 and 2021 was exacerbated by the fastest rise in interest rates that we've seen in decades. However, many of these stocks have now not only regained their footing, but they have also generated the bulk of the market's year to date returns.

Exhibit 3: After A Challenging Year for Tech, Comm Services and Discretionary in 2022...



Source: Bloomberg, Morgan Stanley Research

Exhibit 4: This Year Has Been the Opposite with Those Groups Leading and Energy Lagging

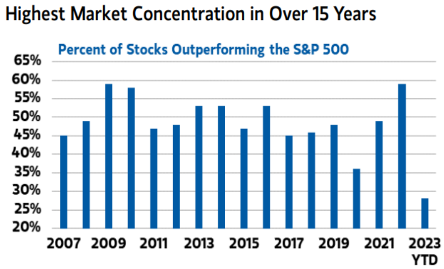


Source: Bloomberg, Morgan Stanley Research

While we don't think any one company or sector is immune to a slowdown, we do believe that the worst of the interest rate hikes are behind us and that many of these stocks were de-risked going into this year. While this isn't the first time that we've seen this, the breadth of index winners has rarely been this narrow. The top 10 names in the S&P 500 have not only accounted for 36% of the index's value, but so far this year only 28% of stocks have outperformed the index.[2]

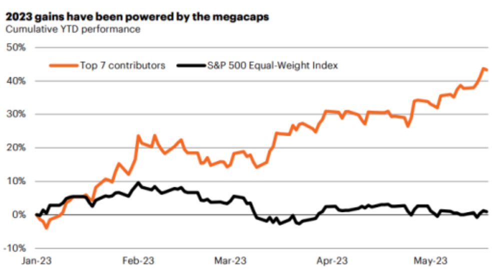
[1] Investment Company Institute data, Federal Reserve, and Bloomberg

[2] The GIC Weekly – June 5, 2023 (Morgan Stanley Publication)



Source: Bloomberg as of May 18, 2023

The divergence between the market-cap-weighted index and the equal-weighted index, has exceeded 1,000 basis points year to date. This is much more extreme than what we've experienced in previous years. Even as the dominance of passive index funds has grown over the last 25 years, 48% of stocks still managed to outperform the index, on average, in any given year.[2] However, almost the entirety of the S&P 500's YTD returns can be attributed to seven of the largest stocks in the index.



Source: Bloomberg Finance, L.P., as of May 19, 2023. Top seven contributors to return in 2023 through May 19 are AAPL, MSFT, NVDA, GOOG, AMZN, META, and TSLA. The above is a market-cap-weighted index of those seven stocks.

While the fundamentals of these companies remain strong, we find that many investors are overexposed by owning them both outright and indirectly through passive vehicles. 2022 taught us how passive strategies and algorithms programmatically buy more of the leading stocks on the way up but also sell more on the way down. This phenomenon has caused the degree to which certain stocks outperform or underperform to become more extreme. Therefore, being overly concentrated in any given cohort can potentially put entire portfolios at risk. With regards to AI, we are optimistic about its long-term potential in making companies more efficient. However, the idea that it will drive a productivity boom that boosts earnings across the board and catalyzes the entire market to new highs will take longer to play out than what the market has priced in for this year. While there are individual stocks that can benefit from increased spending on AI this year, we do not advise clients to buy entire thematic baskets or make outsized bets. In addition, such tactics can cause investors to miss out on good value in the parts of the broader market that have not yet participated in the rally. We believe that active management is more likely to decipher the disruptors from the disrupted. It also remains to be seen what impacts AI might have on labor markets and how disinflationary this technology might be.

Another factor that has helped drive equities higher has been hopes for a Fed cut. The market cheered the move lower in the Producer Price Index (PPI) in addition to both import and export prices surprising to the downside. The market continued to rally in June after this was followed by the Fed announcing they will pause rate hikes temporarily. However, this reversed once Federal Reserve Chairman, Jerome Powell, made it clear that the move was just a brief respite rather than an indication that the Fed is done hiking. In fact, following June's FOMC meeting, officials indicated they see additional rate increases totaling 0.5 percentage points through the end of 2023. We believe current equity prices did not reflect this possibility and might be ripe for some disappointment. Before the meeting, fed fund futures were pricing in earlier and more frequent cuts than what we viewed as realistic given the slow downtrend in inflation. The Fed reiterated that while inflation has been coming down, it is still "well above" where it should be. Powell acknowledged that policy operates with a lag, and it will take time to realize how much policy will impact inflation. While the ISM and regional manufacturing PMIs are largely all at contractionary levels, the services PMIs remain in expansion. Consumer spending has remained surprisingly resilient this year due to the strong incremental fiscal support provided by the government. Over the past 12 months, our rates strategists estimate the fiscal deficit has increased by an incremental $1 Trillion. This amounts to an approximate 4 percent lift to nominal GDP.[3] This stimulus has come in many forms including the Inflation Reduction Act (IRA), the draining of the Strategic Petroleum Reserves (SPR) which has materially lowered gasoline prices, and the extensions on the student loan payment moratorium, Supplemental Nutrition Assistance Program (SNAP) and various Medicaid programs. Many of these programs have expired or will do so shortly. For instance, student loan repayments are expected to resume, which will limit buying power. The

[2] The GIC Weekly – June 5, 2023 (Morgan Stanley Publication)

[3] US Equity Strategy: Weekly Warm-up: June 20, 2023 (Morgan Stanley Publication)

expiration of SNAP, which occurred at the end of March, is already flowing through to the lower end consumer. This has already translated into much weaker earnings for dollar stores and auto parts retailers in addition to the recent spike in low end consumer delinquencies. As the recent debt ceiling deal has placed caps on additional fiscal spending, we see this as a headwind that may not be priced into earnings estimates. While we expect services demand to slow, we do not see any material deterioration as likely given the strength in the labor market. While this too is expected to weaken, we believe it will still remain resilient. Given the hiring challenges during the pandemic and the continuing shortage of labor, companies are more likely to hold on to employees in order to remain prepared during periods of high demand. Again, as services make up 70% of the economy, this cohort of workers is less likely to be displaced by AI. We are also encouraged that consumers still have an excess savings buffer that is much better than what we've seen historically this late in the cycle. The ratio of household net worth to disposable income remains elevated versus history and the ratio of debt to disposable income remains low relative to historical levels. While these measures could fall as the year progresses, they would be doing so from historically healthy starting points that should limit the likelihood of any sharp or long consumption slowdown.

The housing market has also remained resilient. Despite the issues surrounding commercial real estate, namely offices and retail, the supply environment should keep the overall housing market healthy over the near term. This explains why prices have remained relatively stable despite a challenging affordability backdrop. In fact, US housing starts and building permits for May surprised considerably to the upside.

The biggest risk we see for the remainder of the year is liquidity. The degree to which it can decline from here remains a major unknown. So far, liquidity has remained stubbornly strong as the Fed and FDIC stepped in to prevent a deposit flight during March's regional banking events. The FDIC guaranteed all depositor funds, including those that were previously uninsured while the Fed issued a new loan program for banks to pledge US treasuries, agency mortgages and other qualifying assets at par value in exchange for loans with maturities of up to one year. This liquidity line essentially eliminated the need for banks to sell high-quality securities at a loss to meet deposit withdrawal shortfalls. While this injection of reserves is far from a traditional Quantitative Easing program, it did spare the S&P 500 from potential downside if no action had been taken to avert a crisis. It also added liquidity to the system by allowing banks to continue operating and extending credit, albeit with tighter standards. In other words, this extra liquidity boost may have kept asset prices higher than they would have been otherwise. Going forward, the liquidity dynamic is set to become much less accommodative. While the passage of the debt ceiling may have spared us a pullback, it will likely lead to a sizable treasury issuance of $1 trillion or more to replenish the Treasury General Account (TGA) or cash reserves that were depleted during the political negotiations. Some analysts have warned that this flood of new bills could drain bank reserves at a time when regulators are expected to increase the average bank's capital requirements. Less liquidity at a time when economic data slows can exacerbate negative sentiment from both businesses and consumers. Given the strong upside we've seen so far from markets, this backdrop makes any potential upside from here more limited in the near term.

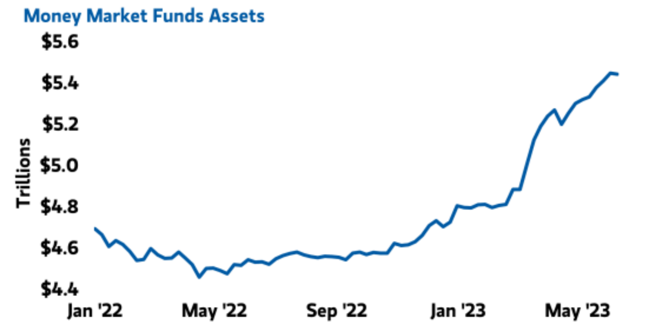
International & EM

Regardless of macro views, we have always found value in maintaining allocations outside of the US. For one, we believe active management has been able to capitalize on high-quality businesses at more attractive valuations. We continue to like businesses that are less cyclical such as luxury and healthcare. Many of these companies have inelastic demand and continue to see growth from abroad. Europe has surprised to the upside as a mild winter reduced energy demand and lowered energy prices. The ECB delivered a 25-basis point rate hike on June 15th. Despite a recent decline in core inflation, it has deemed the underlying inflationary pressures as too high. Nevertheless, fiscal policy remains more supportive than in the US and the ECB has less work to do than the Fed. International equities may see a pause in performance if the dollar continues to strengthen but there are reasons for optimism thereafter. Consumption, labor demand and wage growth remain strong while earnings revisions have moved back into positive territory.

Within Emerging Markets, our view is more balanced. So far, China's recovery has disappointed while geopolitics continue to present greater risks. China's State Council failed to issue specific support measures and banks offered only modest rate cuts. The developments from Beijing seemed to fall short of the stimulus actions investors expected in order to recharge the economy. While many still see China as a self-help story, the timing and degree of stimulus is now even more unclear. We remain positive on the Chinese consumer which continues to spend both domestically and abroad. Consumption is likely to improve and may serve as a bright spot in an uneven recovery. Travel in and out of China has been muted thus far but may be poised for a pickup. Other EM countries such as India have benefitted from companies moving their supply chains in order to lessen their dependance on China. Overall, we remain neutral on EM given the difficulty in predicting the dollar's strength in addition to the unknown degree of slowing global growth we may see from the Fed's tightening. However, we do note that if China's reopening finally manages to pick up sufficient steam, EM may be poised to outperform in the second half of the year.

Fixed Income & Rates

Our expectation for a soft landing and a peak in rates provides an attractive entry point for high quality credit. We are not making bets on whether the Fed will deliver 50 more basis points in rate hikes this year, as they indicated they might, depending on inflation, or whether they will keep rates steady for the remainder of this year. Regardless, of what they do, we believe the bond market will be early to price in a 2024 cut before it occurs. We would take advantage of a potential peak in rates by locking in today's yields. So far, money market funds, short-term U.S. Treasury securities, and certificates of deposit (CDs) have been attractive places to park cash while the Fed hiked rates. Money market fund assets alone have reached a peak of roughly \$5.5 trillion as their yields have moved higher in response to the Fed's rate hikes.



Source: Bloomberg, Morgan Stanley Wealth Management GIO. Data as of June 14, 2023.

However, once many of these securities begin to mature, investors may be forced to reinvest proceeds at much lower rates once the central bank begins to cut rates. We favor higher quality credits within investment grade and would barbell higher yielding bonds on the shorter and intermediate end of the curve with longer duration municipals. Munis sold off after banks increased their selling in order to shore up their balance sheets after March's meltdown. Long-term municipal valuations are attractive on a spread basis, compared to similar maturity US Treasuries and corporate bonds. Lastly, limited supply should provide an additonal level of technical support.

Alternatives

Manager and fund selection has become increasingly important in selecting alternative investments. The dry powder that fund managers amassed while valuations were elevated should position them well to deploy capital at attractive prices. While private markets are not immune to valuation markdowns, we believe that certain pockets of private markets are well positioned to capitalize on dislocations that may arise given the economic backdrop. For instance, while there has been stress in the commercial real estate market given regional bank turmoil, experienced managers have been able to raise rents in properties across other subsectors and negotiate inflation protected rent escalators. Meanwhile, private credit is likely to become an even bigger source of capital as banks are forced to lend even less. As the cost of capital rises, many companies will continue to depend on them for funding assistance. As the direct lending space has grown, we look for larger managers with scale, experience across various credit cycles, and competitive advantages in deal sourcing. We do expect fundraising to become more difficult for managers and see an increased need for co-investments. Managers with dry powder and experience across sectors are well positioned as others depend on them for extra capital in order to close deals. We favor managers which have experience in distressed markets and dislocations. We also like the ability of secondaries focused managers that can take advantage of forced selling at depressed prices. Portfolio companies that rely on credit facilities may be calling more capital than anticipated from investors. As uncertainty is on the rise, we remind eligible investors that such tools are available to help mitigate risk and diversify portfolios.

To Sum Up

We believe the second quarter has seen a sharp move from fear to greed, with investors jumping back into the market at an inopportune time. While we are optimistic on AI, we do not see it as a justified catalyst to push the entire market higher as rates have also increased once again. Given the concentration in market performance this year, we urge investors to trim some of these winners if their portfolios have become overly concentrated. While we believe there may not be many more hikes ahead of us, we do believe inflation will stay high enough to prevent any premature rate cuts from the Fed this year. Inflation, while on the right track, will have a slow and uneven journey down. We are cognizant to not fight the Fed and note that all of this tightening will continue to impact the economy in different ways as we've seen with regional banks. So far, much of it has been offset, leaving liquidity ample. We believe the market will start to accept that this may reverse, setting up a potentially better entry point into equities once again.

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They may be highly illiquid with significant lock-up periods and no secondary market, can engage in leverage and other speculative practices that may increase volatility and the risk of loss, and may be subject to large investment minimums.

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International investing may not be appropriate 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.

Duration, the most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio would be to changes in interest rates. Generally, if interest rates rise, bond prices fall and vice versa. Longer-term bonds carry a longer or higher duration than shorter-term bonds; as such, they would be affected by changing interest rates for a greater period of time if interest rates were to increase. Consequently, the price of a long-term bond would drop significantly as compared to the price of a short-term bond.

This material contains forward looking statements and there can be no guarantees they will come to pass. 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. There is no guarantee that the investments mentioned will be in each client's portfolio.

Technical analysis is the study of past price and volume trends of a security in an attempt to predict the security's future price and volume trends. Its limitations include but are not limited to: the lack of fundamental analysis of a security's financial condition, lack of analysis of macroeconomic trend forecasts, the bias of the technician's view and the possibility that past participants were not entirely rational in their past purchases or sales of the security being analyzed. Investors using technical analysis should consider these limitations prior to making an investment decision.

Equity securities may fluctuate in response to news on companies, industries, market conditions and the general economic environment. Companies cannot assure or guarantee a certain rate of return or dividend yield; they can increase, decrease or totally eliminate their dividends without notice.

Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies.

Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be riskier than an investment in a company with more modest growth expectations.

Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

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Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustration purposes only and do not show the performance of any specific investment. Reference to an index does not imply that the portfolio will achieve return, volatility or other results similar to the index. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error target, all of which are subject to change over time.

For index, indicator and survey definitions referenced in this report please visit the following: https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions

Interest on 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. The tax-exempt status of municipal securities may be changed by legislative process, which could affect their value and marketability.

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.

Real estate investments are subject to special risks, including interest rate and property value fluctuations, as well as risks related to general and economic conditions.

Risks of private real estate include: illiquidity; a long-term investment horizon with a limited or nonexistent secondary market; lack of transparency; volatility (risk of loss); and leverage.

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.

Asset Allocation, Diversification and Rebalancing do not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Investors should consult with their tax advisor before implementing such a strategy.

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