

Monthly Perspectives

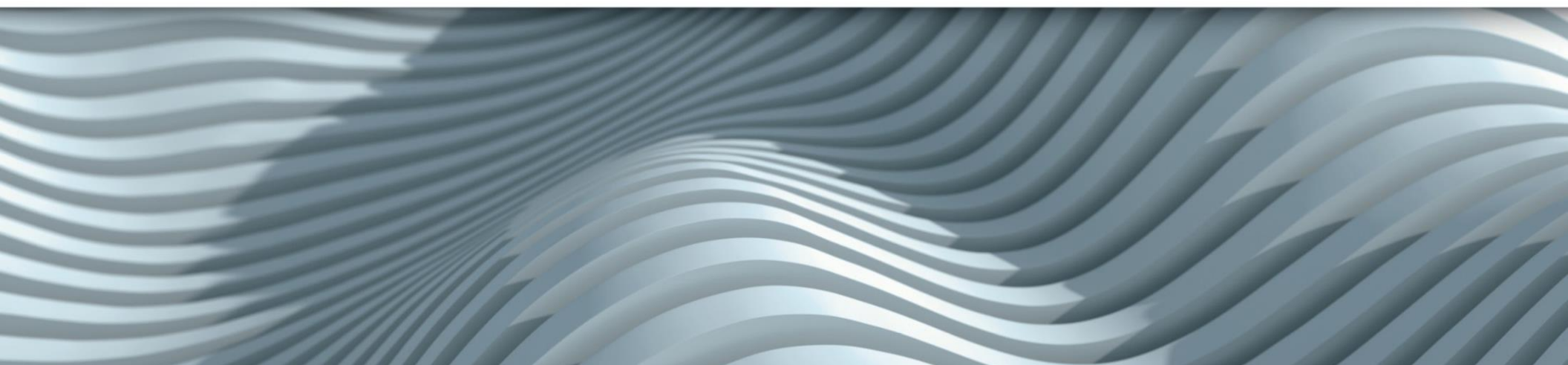
Lisa Shalett

Chief Investment Officer

Head of the Global Investment Office

Morgan Stanley Wealth Management

March 2025



Where Are We: March 2025

- **Starting points matter; 2025 opened with rich valuations, high expectations and high complacency; especially among individual investors.**
 - We declared it an “**Earnings Show Me**” year given substantial dependence on corporate margin expansion against the backdrop of a soft landing (lower growth, less pricing power); multiple expansion exhausted on negative equity risk premiums.
- **Since January, the thesis underpinning the October 2022-February 2025 bull market in US equities has been undermined.**
 - The Fed, having cut policy rates 100bps, has declared “a patient data driven pause” concerned about “sticky inflation”; financial conditions remain very accommodative.
 - DeepSeek announcement has raised questions about gen AI capex cycle spending and ROI.
 - Policy uncertainty has soared around immigration, DOGE and especially tariffs.
- **Accelerating negative economic surprises in the incoming data is raising questions about recession and stagflation.**
- **Markets have more than “roundtripped” since Election Day, completely unwinding the Trump Trade**
 - S&P 500 at ~5500 is -9.5% from all-time high (February 2025) and through its 200 DMA; NASDAQ is in a bear market, down more than 10%. Both major indices have US equities down more than 5% YTD.
 - 10-year Treasury rate yields at 4.30% are down ~50bps since mid-January.
 - The US dollar is down ~6% from multi-year highs.
- **Equity market leadership rotation is evident**
 - Underperformance of the Mag 7 noteworthy; momentum factors have melted; defensives leading
 - Bonds outpacing stocks YTD.
 - European stocks outperforming US stocks by more than 2,000bps YTD.

Source: Morgan Stanley Wealth Management GIC as of March 12, 2025. Equity risk premium is the excess return that an individual stock or the overall stock market provides over a risk-free rate. The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time.

What We Forecast: March 2025

- **GDP:** We are still **forecasting an economic soft landing in the US** (60% probability, **DOWN** from last month).
 - MS & Co. real GDP forecasts have been **CUT** but remain positive at **1.5% in 2025 and 1.2% in 2026**. However, risks to the forecasts are weakening the labor market and a strained consumer. Service sector stability holds the key—tariffs, DOGE cuts and immigration reform could be destabilizing.
 - **Recession odds are up to 15%, stagflation 15% and inflationary boom 10%.**
- **Inflation:** The GIC believes **inflation will remain higher for longer and above the Fed's 2% target**; tariffs are risks.
 - MS & Co. sees CPI averaging **2.8% and 2.4% in 2025 and 2026**, respectively.
- **Fed Policy:** MS & Co. is **expecting one policy cut in 2025, likely in June**—now slightly more **hawkish** than market pricing which has moved back to close to three cuts by year end.
 - We see cycle **neutral rate at ~3.625%**. We believe we are in a new secular rates regime driven by structural changes and structurally higher debts/deficits.
- **Rates:** US Treasury rates appear near fair value. MS & Co. base case for **10-year yields at year end is 4%**.
 - USD weakness persists.
- **Earnings:** Mike Wilson sees 2025 and 2026 S&P500 earnings per share **as \$271/sh and 303/sh, respectively**
 - Earnings growth implies material acceleration for the “493”; **12% this year and 13% next.**
- **Target Prices:** MS & Co. S&P 500 is at **6,500** for this year.
 - Implied price/earnings multiple of 21.5x.
- **Global:** Growth ex-US is in recovery and rebound mode. Central banks are more aggressive in easing and fiscal policy expansionary.

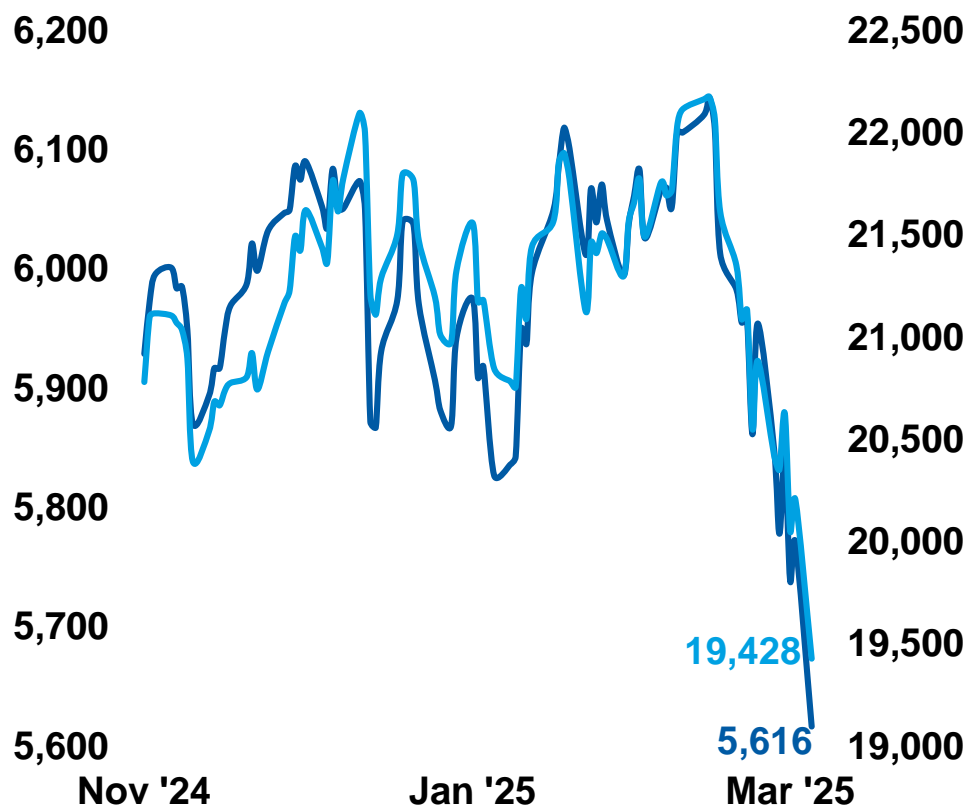
GIC Portfolio Positioning: March 2025

- **2025 is a year of “Great Normalization”** where valuations, rates, volatility and policy mean revert.
 - **Total portfolio returns could average 5-10%.**
 - Earnings growth and positive revisions NOT multiples pace gains.
 - Fiscal policy produces wide dispersion between winners and losers.
 - Momentum factors give way to idiosyncratic exposures....max active stock selection.
 - Stock/bond correlations remain volatile as regimes remain unstable; pursue maximum portfolio level diversification.
- **US Equities: Market Weight**
 - Prefer equal weighted index to cap weighted; max active management at 50-60% of US equity mix
 - Prefer quality cyclicals; GARP: financials, energy, domestic industrials, health care, media
 - Adding mid-cap growth names
- **Rest of World Equities: Slight Overweight**
 - Japan and India favored longer term secular positions
 - EM ex-China overweight; China market weight
 - Europe focus on global brands and secular growth themes in defense, construction engineering and infrastructure
- **Fixed Income: Overweight**
 - Prefer IG corporate and muni
 - Neutral duration
- **Real Assets: Overweight**
 - Gold and industrial commodities
 - Residential REITs
 - MLPs and energy Infrastructure
- **Hedge Funds: Overweight**
 - Equity L/S
 - Multi-Strategy; Absolute Return
- **Privates: Market Weight**
 - Prefer Infrastructure and Real Assets
 - Equity Secondaries

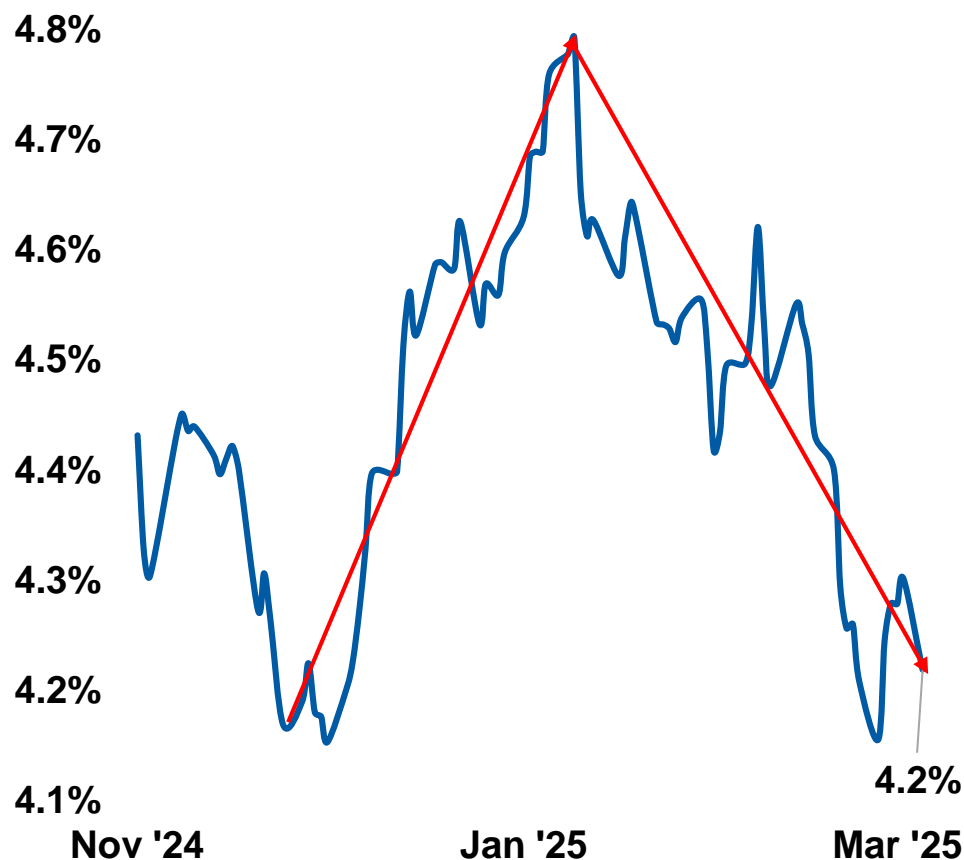
Source: Bloomberg, Morgan Stanley Wealth Management GIC as of March 12, 2025. Mean reversion is the theory suggesting that prices and returns eventually move back toward the mean or average. This mean or average can be the historical average of the price or return, or another relevant average such as the growth in the economy or the average return of an industry.

Since the Election, Stocks Have Entered a Correction and Yields Have More than Round-Tripped

S&P 500 Index (left axis)
Nasdaq 100 Index (right axis)



10-Year US Treasury Yield



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

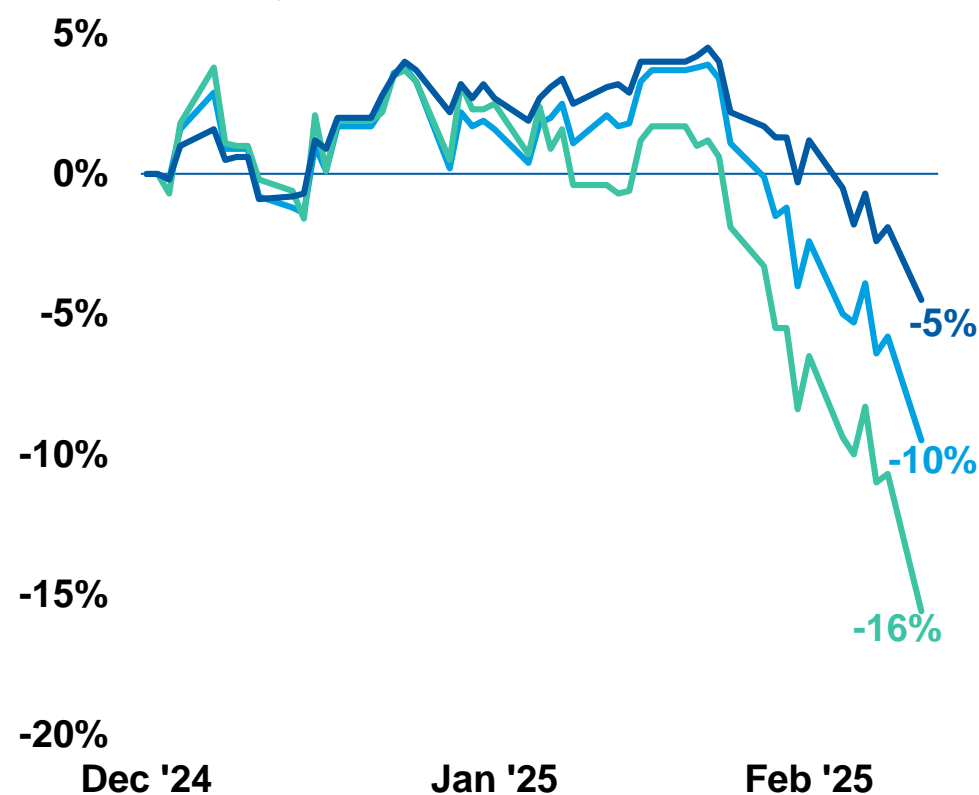
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

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NASDAQ and Mag 7 in Official “Correction”; but Not “Cheap”

S&P 500 Index **NASDAQ Composite Index**
Bloomberg Magnificent Seven Index

December 31, 2024 = 100



S&P 500 Current and Historical Valuations

Sector	NTM P/E	15-Year Avg	Ratio	Relative P/E	15-Year Avg	Ratio (sorted)
Information Technology	25.0x	18.8x	1.33	1.22	1.09	1.11
Industrials	21.8x	17.1x	1.27	1.06	1.01	1.05
S&P 500	20.5x	16.9x	1.21	1.00	1.00	1.00
Materials	19.7x	16.2x	1.22	0.96	0.97	1.00
Financials	16.0x	13.1x	1.22	0.78	0.79	0.99
Staples	22.0x	18.4x	1.19	1.07	1.11	0.97
Consumer Discretionary	24.3x	21.0x	1.16	1.19	1.23	0.97
Health Care	17.7x	15.4x	1.15	0.86	0.92	0.94
Communication Services	18.4x	16.2x	1.14	0.90	0.98	0.92
Utilities	17.4x	16.7x	1.04	0.85	1.00	0.85
Energy	14.1x	19.3x	0.73	0.69	1.12	0.61

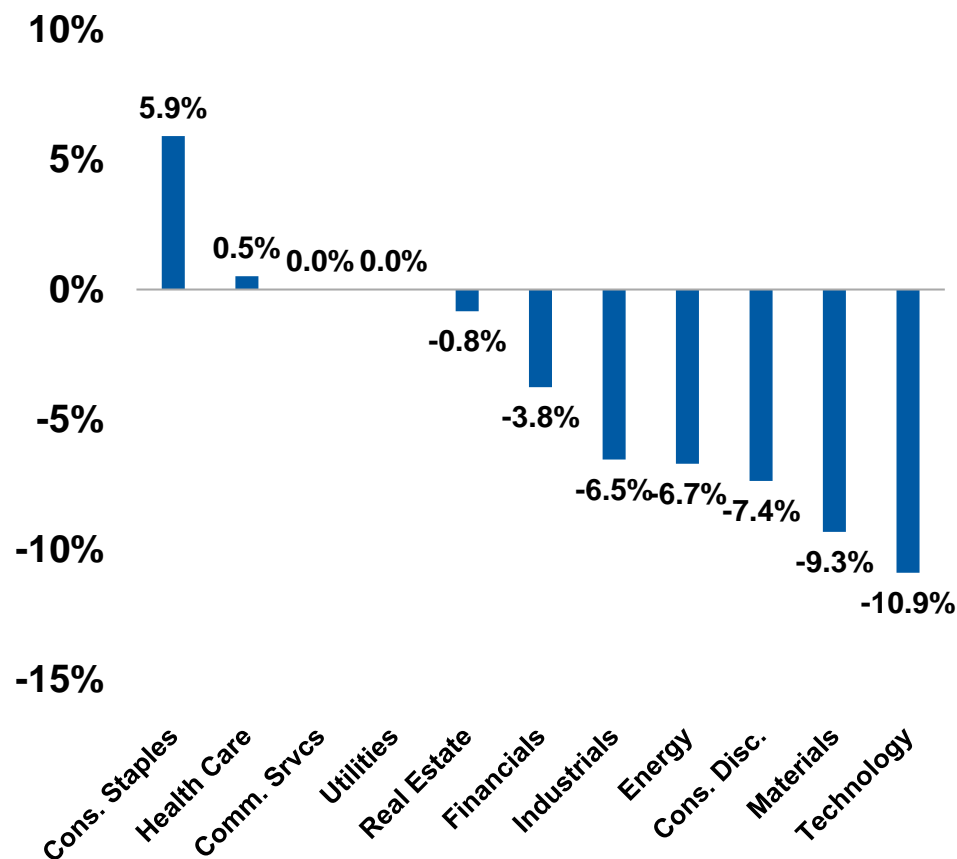
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

Source: Morgan Stanley Wealth Management GIC, Strategas as of March 11, 2025

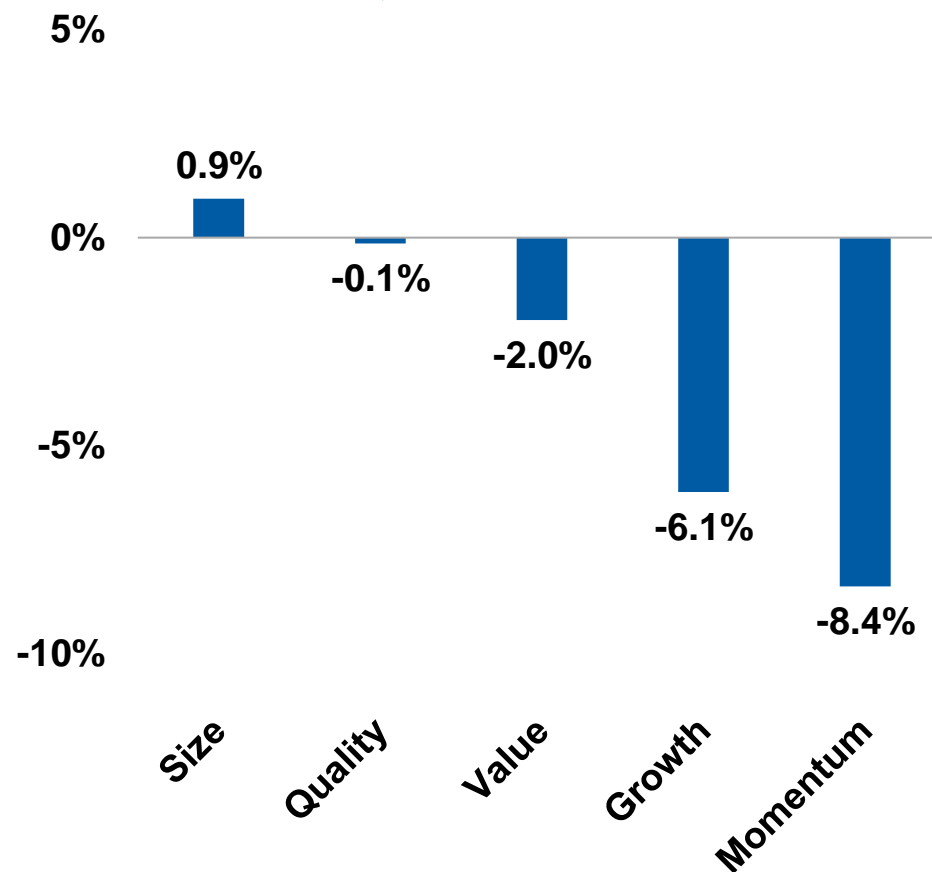
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We Have Seen a Meaningful Rotation...Inside the US

S&P Sector Performance, November 6 to Present



Factor Performance, Year-to-Date



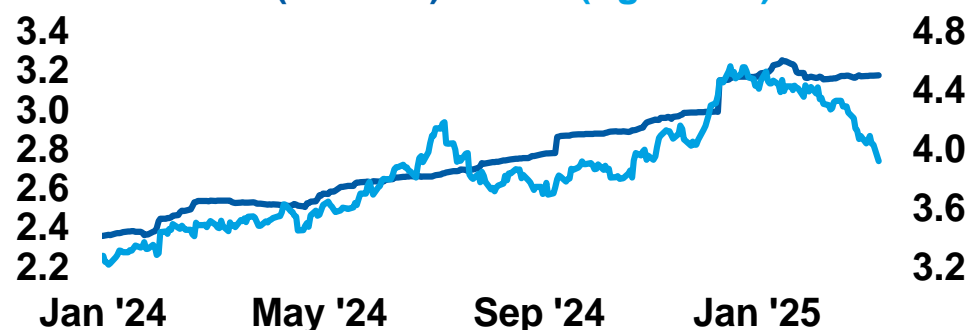
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

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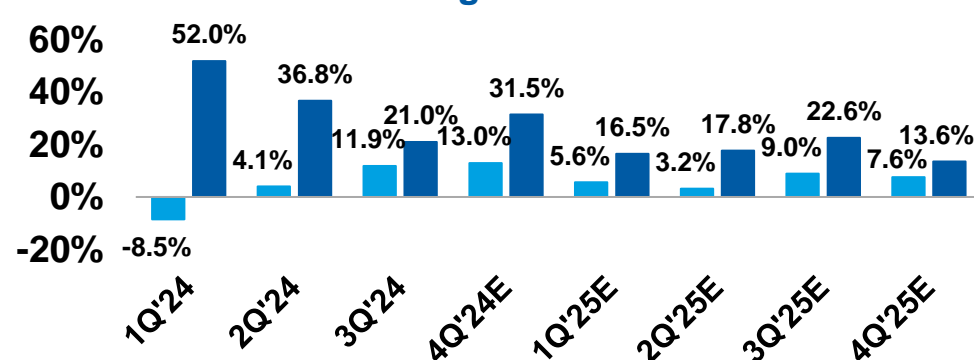
Magnificent Seven Have Begun to Differentiate as Earnings Worries Grow

Bbg. Magnificent Seven Index Relative to S&P 500
Forward EPS (left axis) Price (right axis)



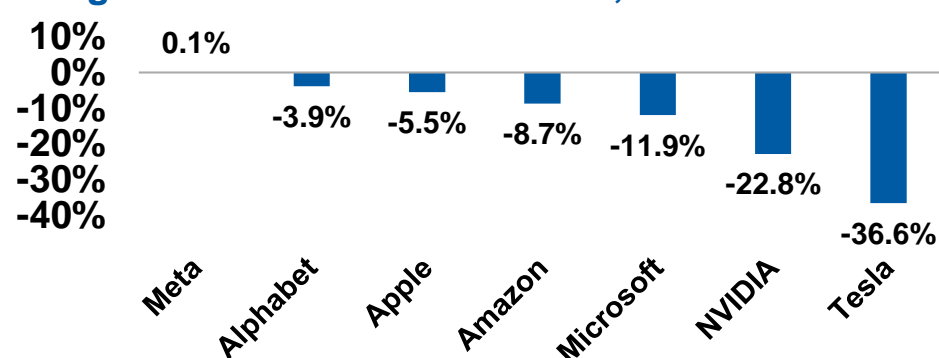
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

Net Income Growth Magnificent 7 S&P 493



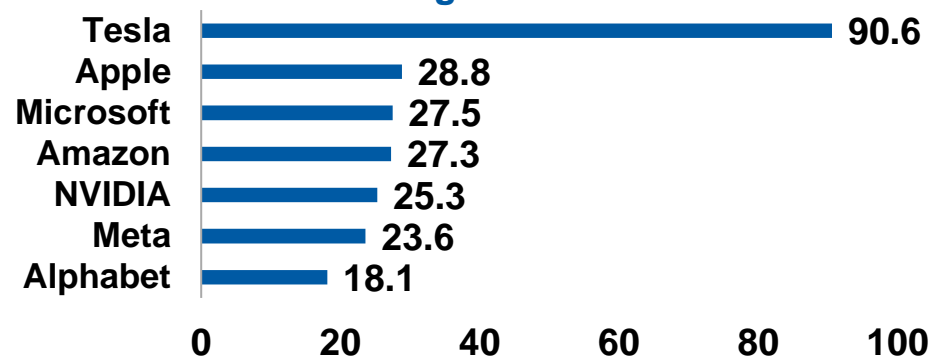
Source: Morgan Stanley Wealth Management GIC, Strategas as of March 11, 2024. Strategas estimates.

Magnificent Seven Performance, Dec. 1 to Present



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

Forward Price-to-Earnings Ratio



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 11, 2025. Forward PEs are Bloomberg consensus.

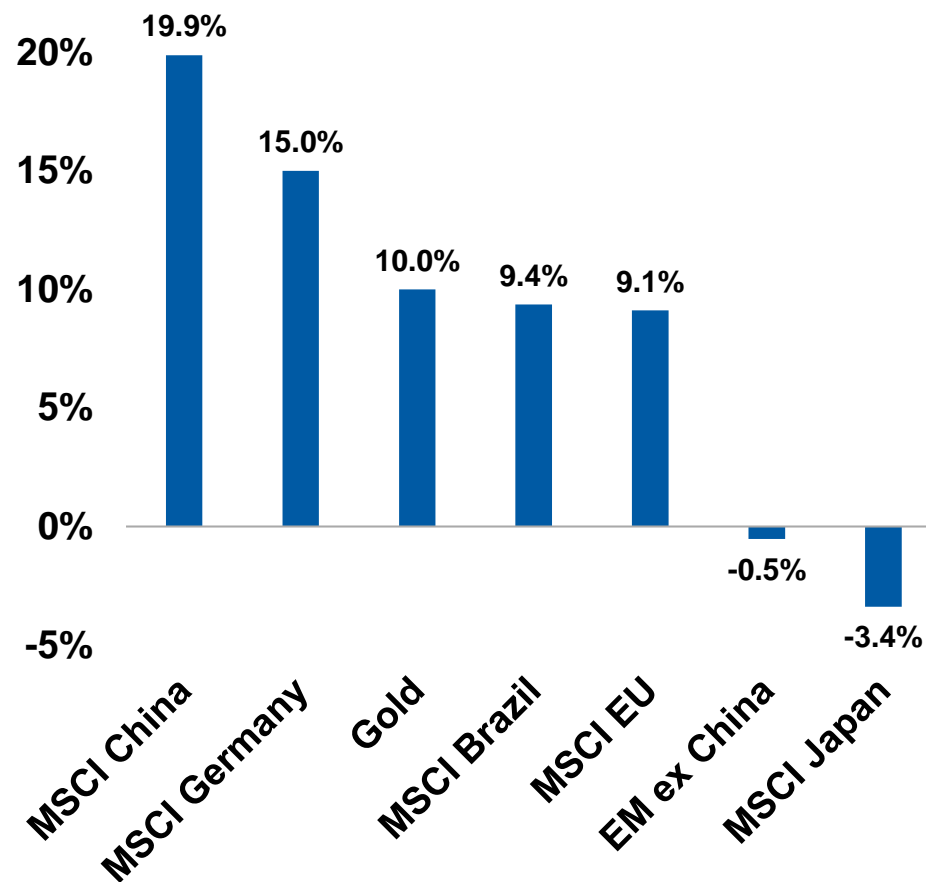
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While the Dynamics Around Rest of World Have Shifted

US Dollar Index



Year-to-Date Performance



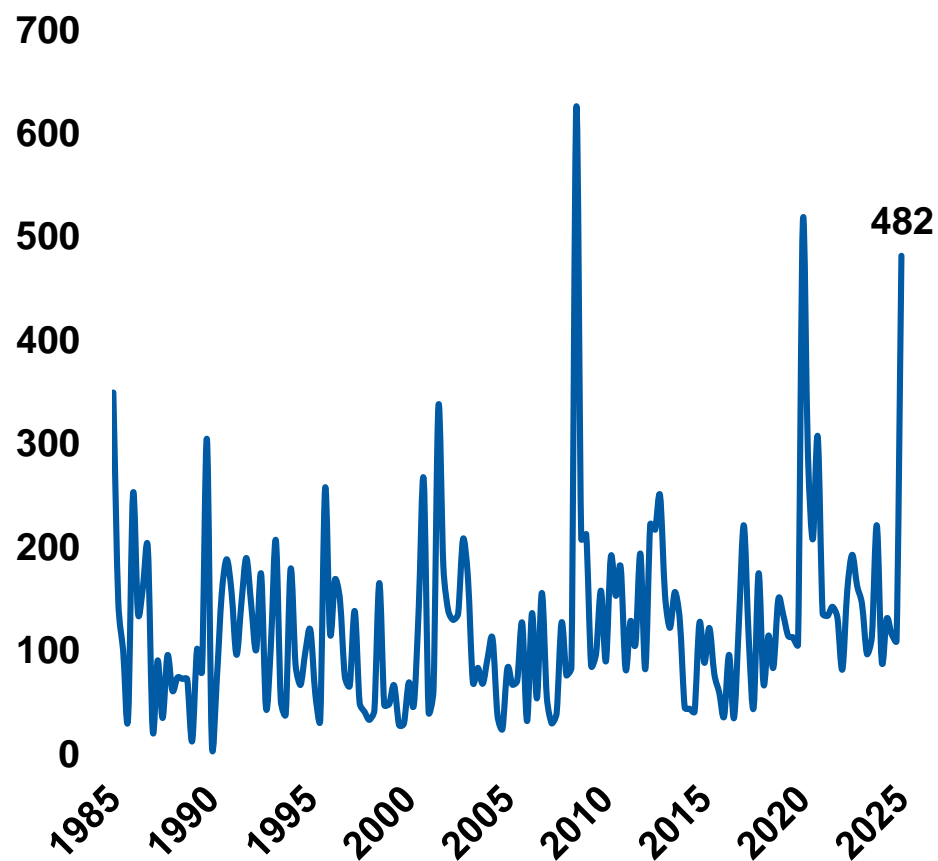
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

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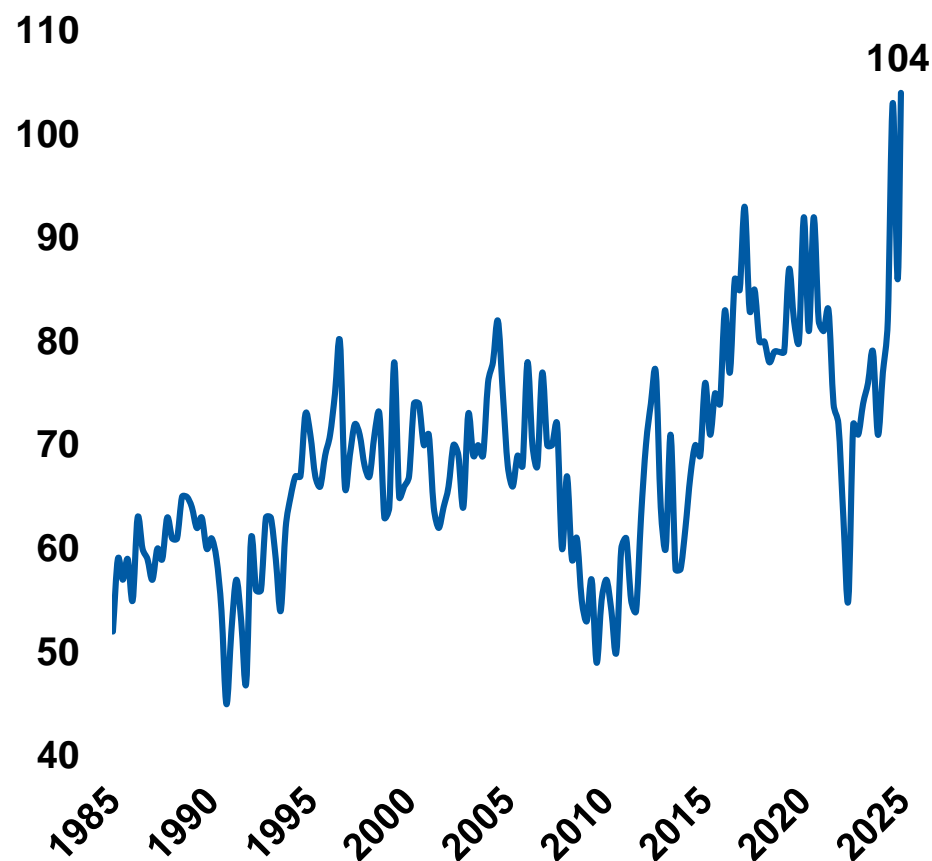
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Policy Uncertainty Is the Unifying Theme

US Economic Policy Uncertainty Index



NFIB Small Business Uncertainty Index



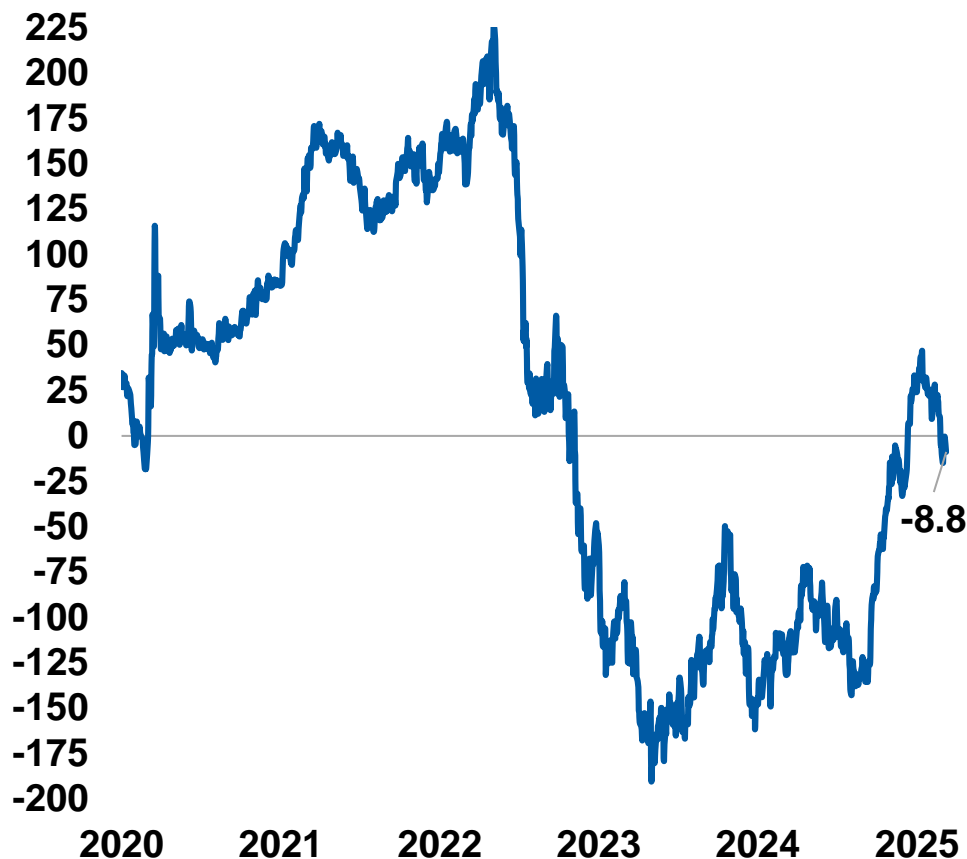
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

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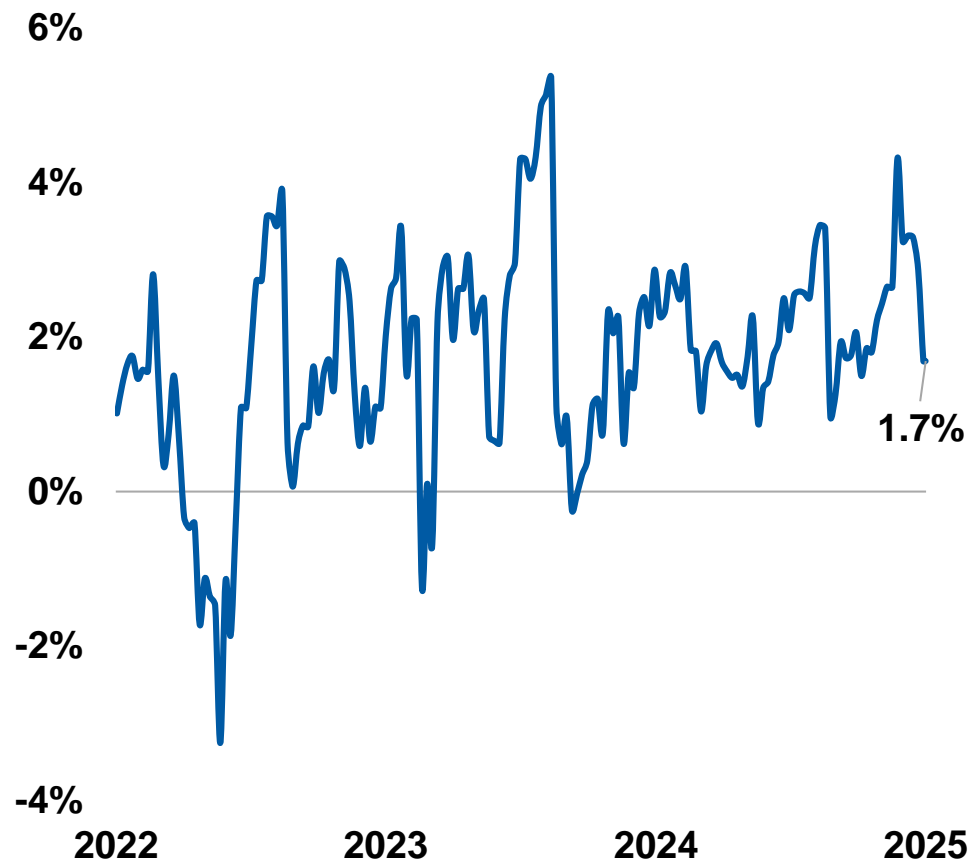
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Fed's Preferred Yield Curve Gauge Has Disinverted; Q1 GDP Forecasts Falling

Three-Month/10-Year US Treasury Yield Curve



Bloomberg US GDP Nowcast



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

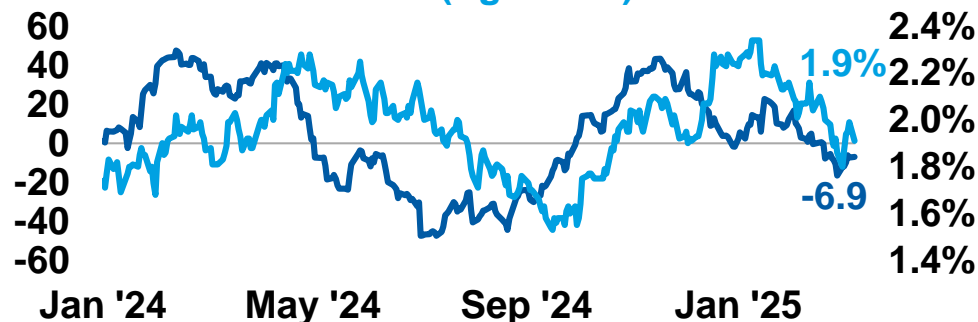
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

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But Re-Pricing of US Treasury Yields Is Being Driven on Multiple Dimensions...

Citi US Economic Surprise Index (left axis)

10-Year US Real Yield (right axis)



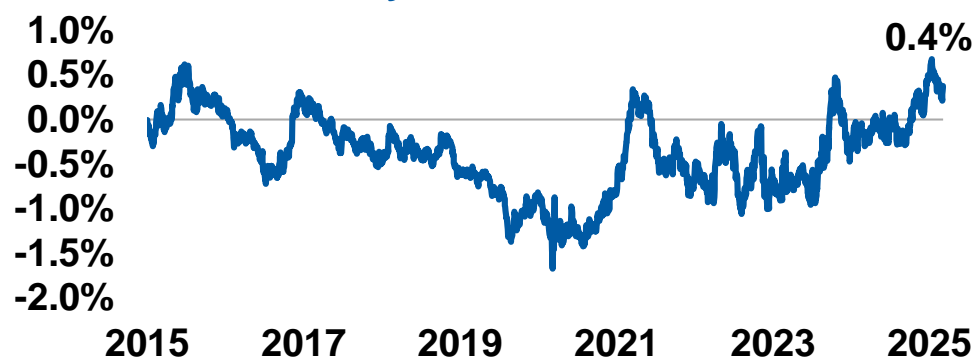
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

Two-Year US Breakeven



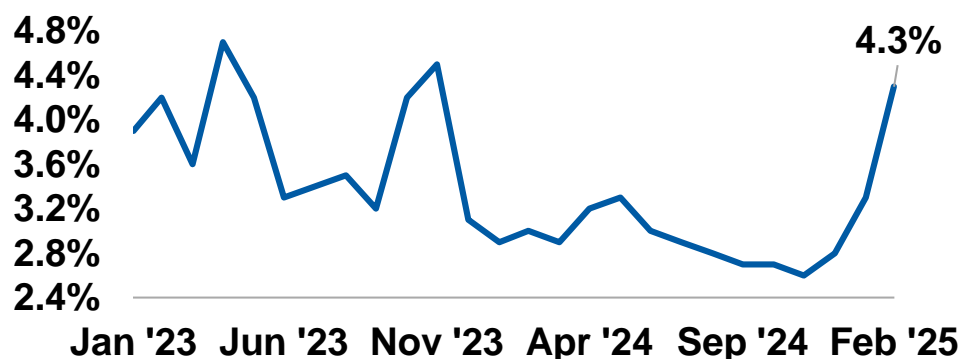
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

10-Year US Treasury Term Premium



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025. Term premium is the excess yield that investors require to commit to holding a long-term bond instead of a series of shorter-term bonds.

UMich One-Year Ahead Inflation Expectations



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

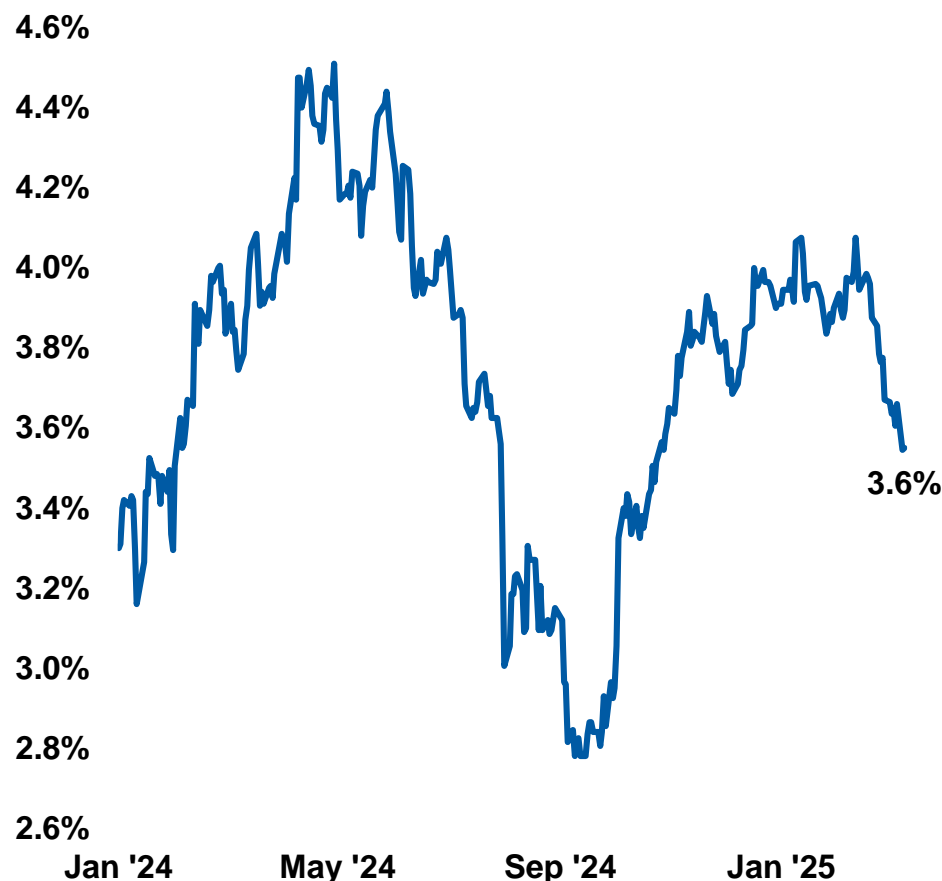
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Fed Expectations Have Shifted Radically

Rate Cuts Priced Through December 2025



December 2025 Fed Funds Futures Implied Rate



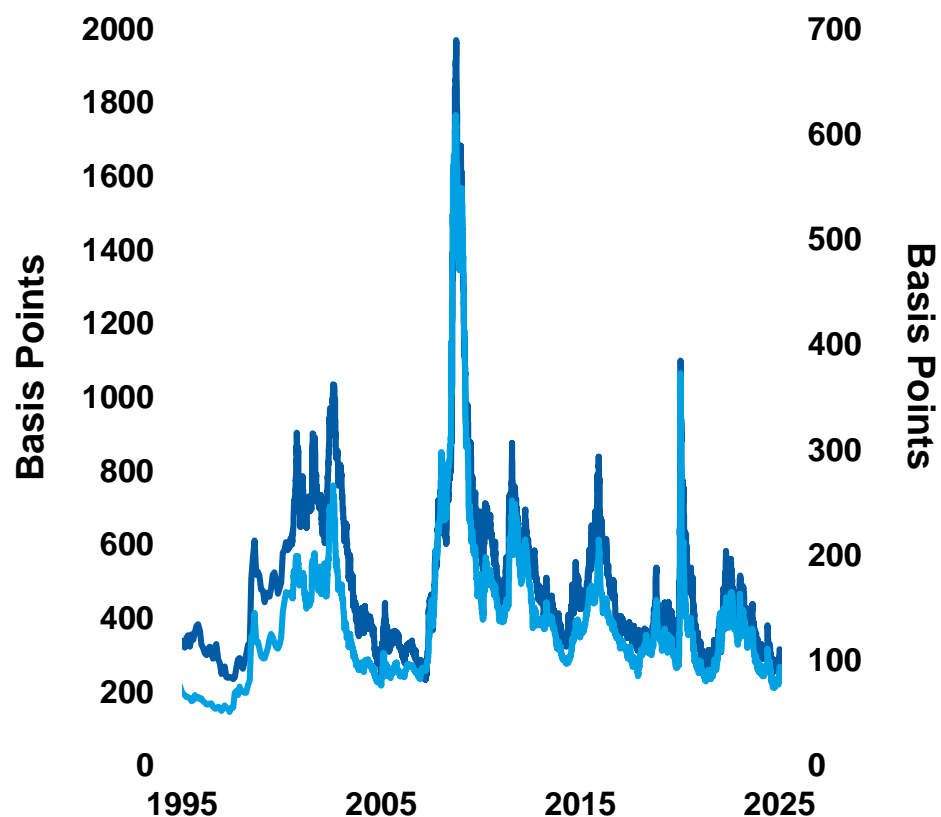
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

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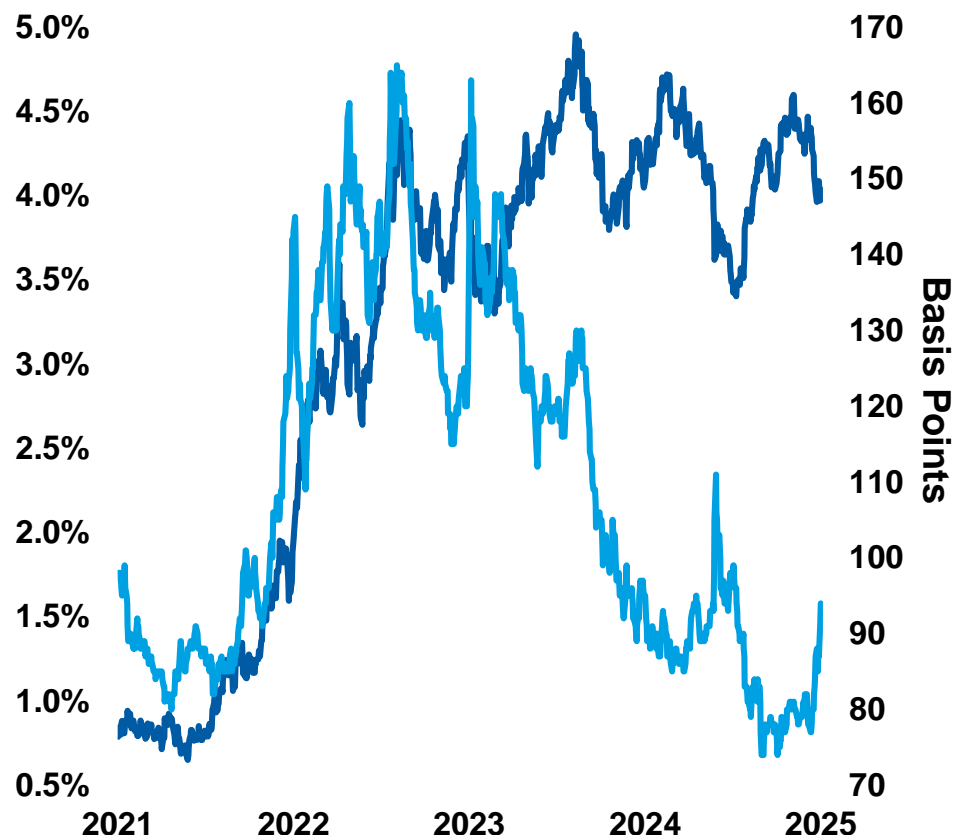
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But Credit Is Not Screaming Recession

High Yield Credit Spreads (left axis)
Investment Grade Credit Spreads (right axis)



5-Year US Treasury Yield (left axis)
Investment Grade Credit Spreads (right axis)

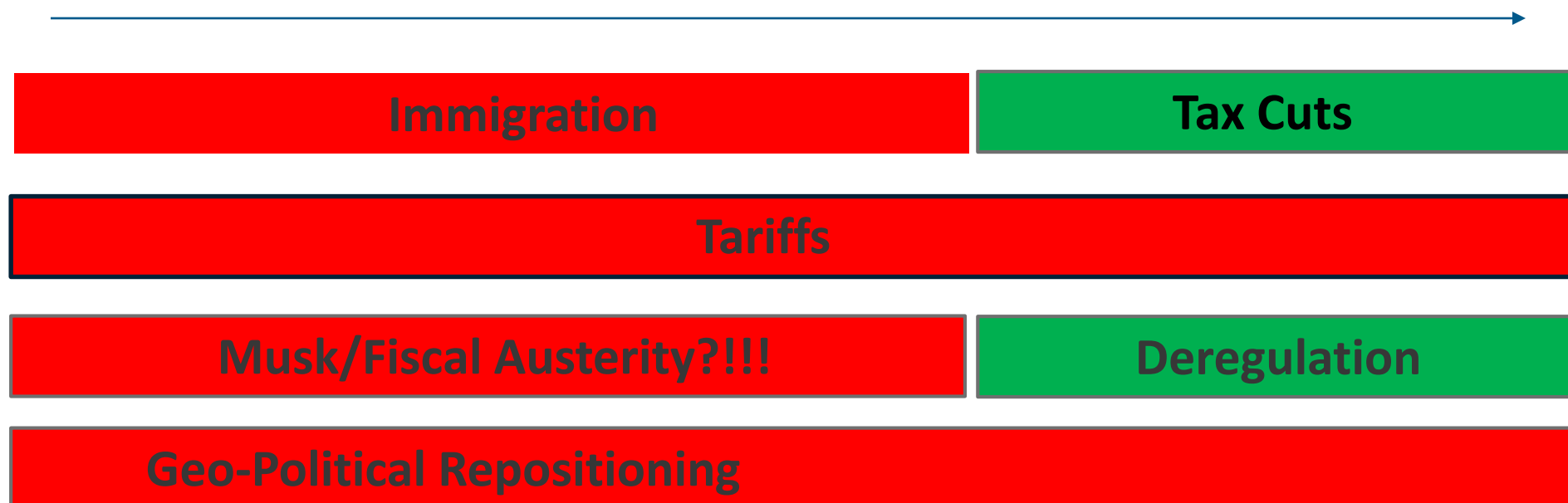


Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 11, 2025

Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 11, 2025

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Policy Sequencing Matters; It Has Been Everything, Everywhere, All at Once

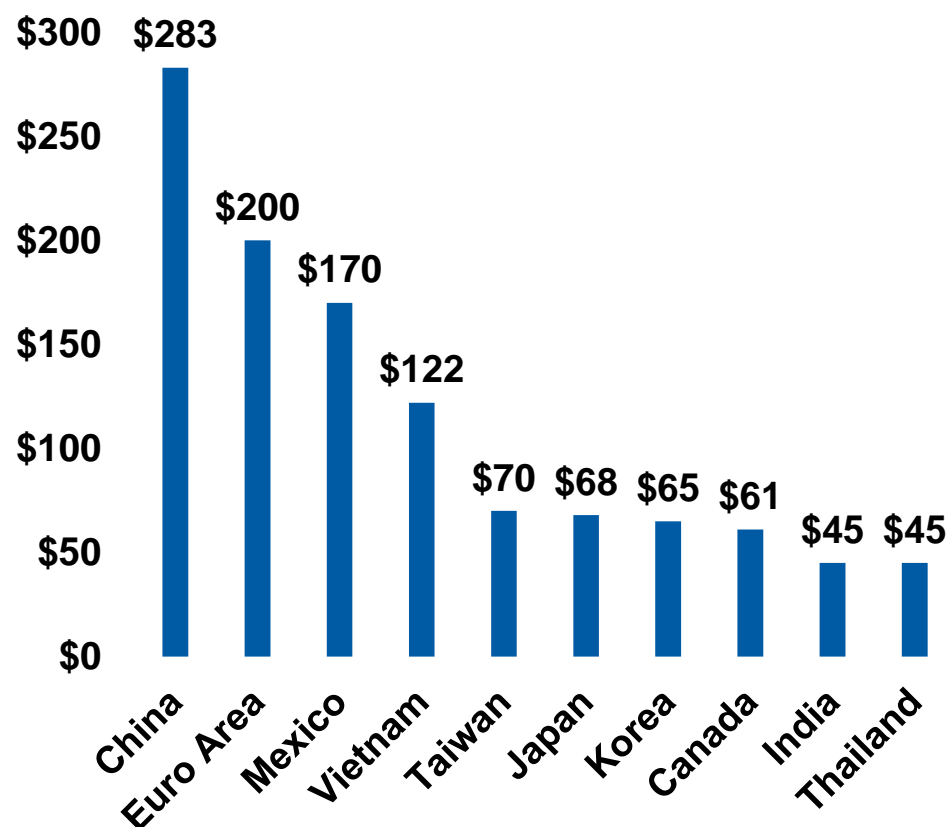
1H 2025**2H 2025****2026**

Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 12, 2025

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Tariff Approach Has Been Unpredictable; Implications Idiosyncratic

Trade Surplus With US, 12-Month Trailing Sum



Industry Group	Transcript Mentions	Imports	Sensitivity to Trade Policy Uncertainty	Pricing Power	Overall Exposure
Consumer Discretionary Distribution & Retail					
Consumer Durables & Apparel					
Technology Hardware & Equipment					
Consumer Staples Distribution & Retail					
Capital Goods					
Household & Personal Products					
Semiconductors & Semiconductor Equipment					
Automobiles & Components					
Health Care Equipment & Services					
Materials					
Pharmaceuticals Biotechnology & Life Sciences					
Food Beverage & Tobacco					
Energy					
Transportation					

More Potential Exposure

Modest Potential Exposure

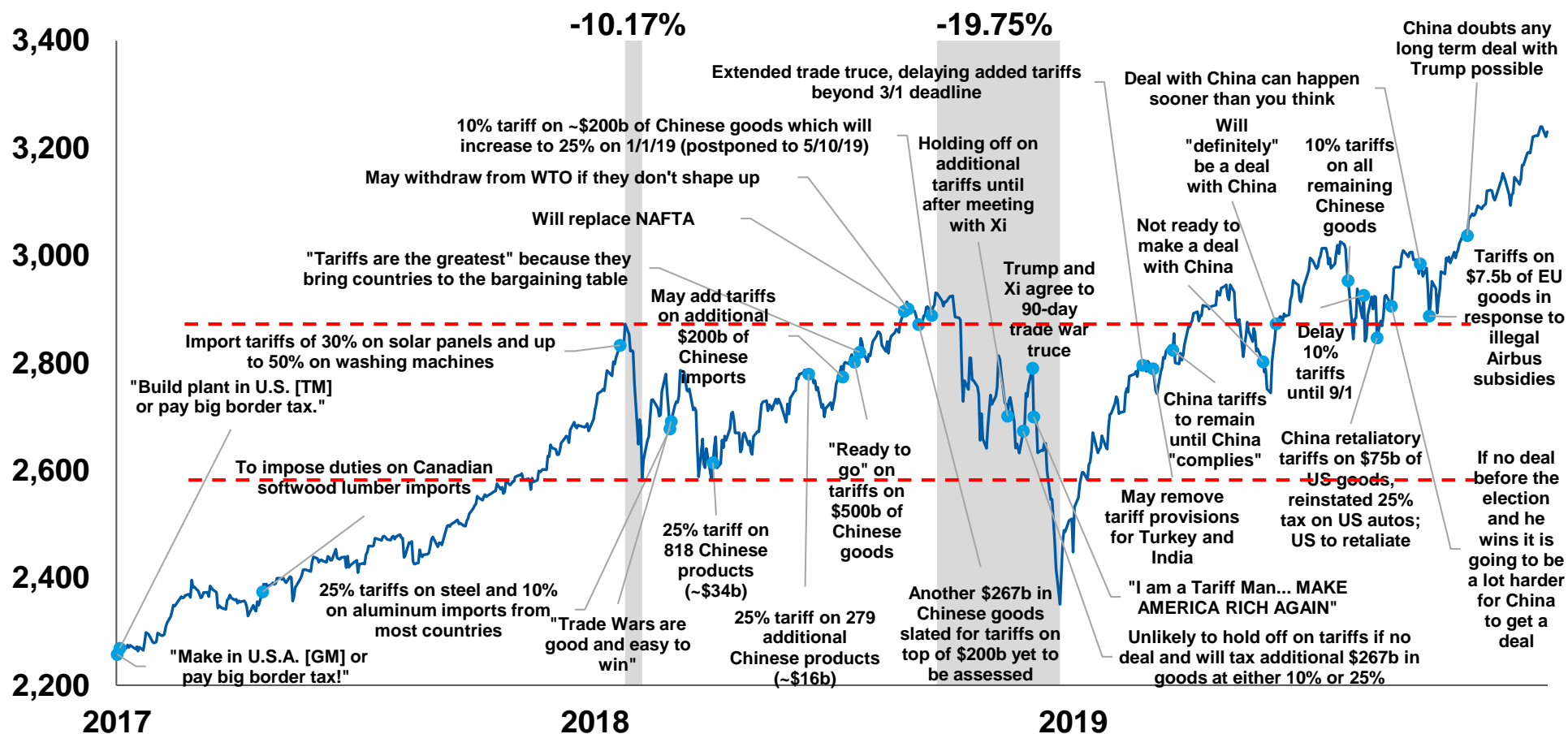
Limited/Minimal Potential Exposure

Source: Morgan Stanley Wealth Management GIC, MS & Co. Research as of November 31, 2024

Source: Morgan Stanley Wealth Management GIC, Bloomberg as of February 10, 2025

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Tariffs for Trump 1.0 Produced Rangebound and Volatile Trading

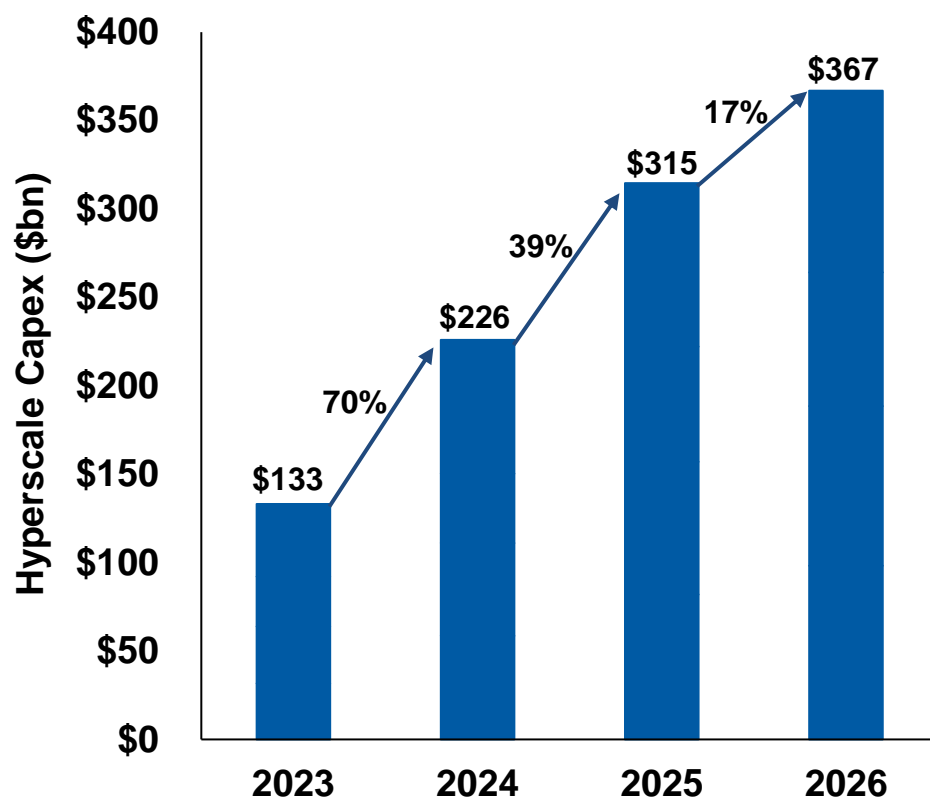


Source: Morgan Stanley Wealth Management GIC, Biryini Associates, Inc. as of March 4, 2025.

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DeepSeek Is Watershed Event; Capex Arms Race; Transition to AI Adoption

Hyperscale Capex of Four Large-Cap Companies in the S&P 500

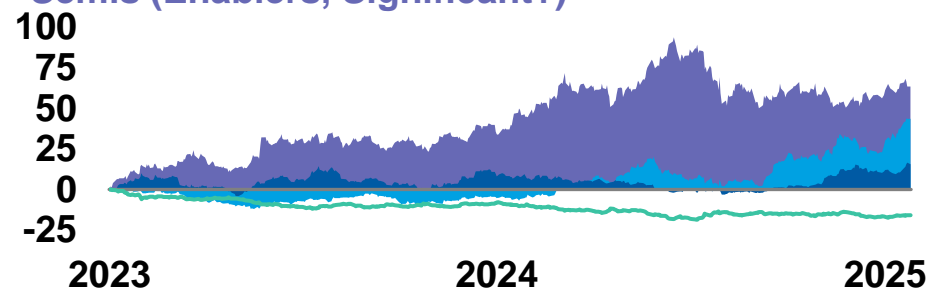


Note: 2025 and 2026 are estimates from company reports.

Source: Morgan Stanley Wealth Management GIC, Company data as of February 7, 2025

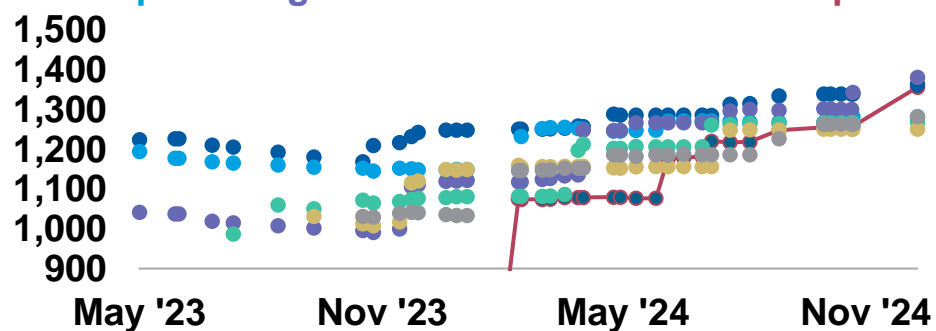
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Adopters (Significant+) Disrupted (Significant+) Power (Enablers, Significant+) Semis (Enablers, Significant+)



Source: Morgan Stanley Wealth Management GIC, MS & Co. Research as of January 27, 2025

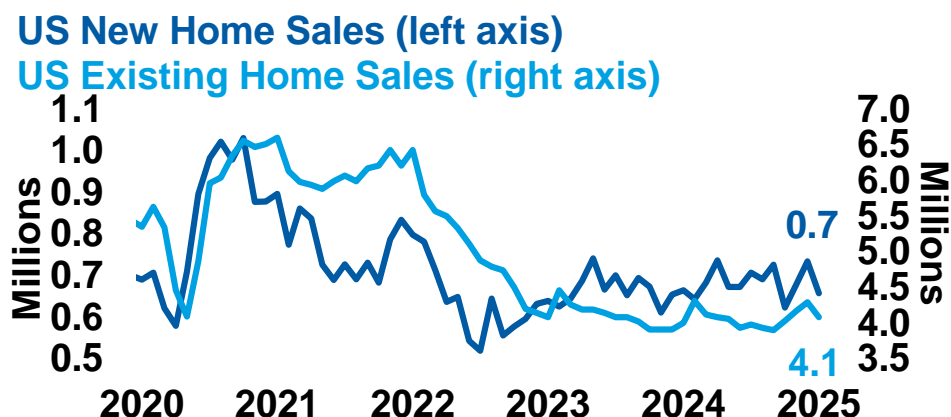
AI Model Elo Scores by Company



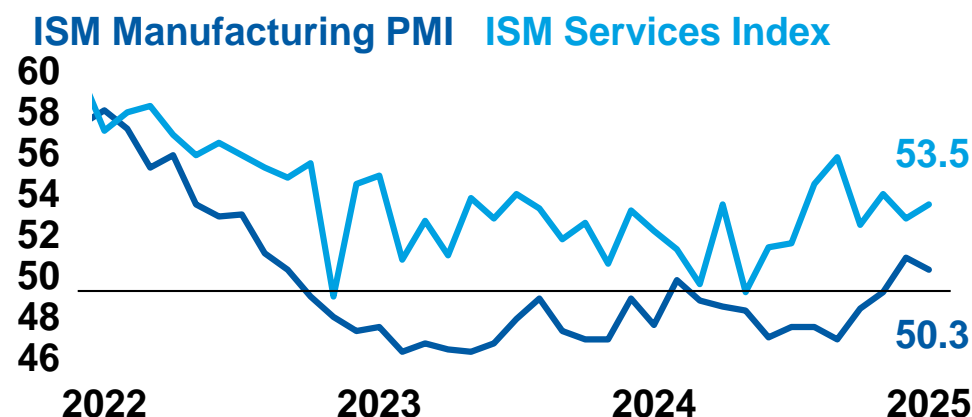
Note: The Elo rating system is a method for calculating the relative skill levels of models. LLMs gain points for winning matches and lose points for losing.

Source: Morgan Stanley Wealth Management GIC, MS & Co. Research as of January 1, 2025

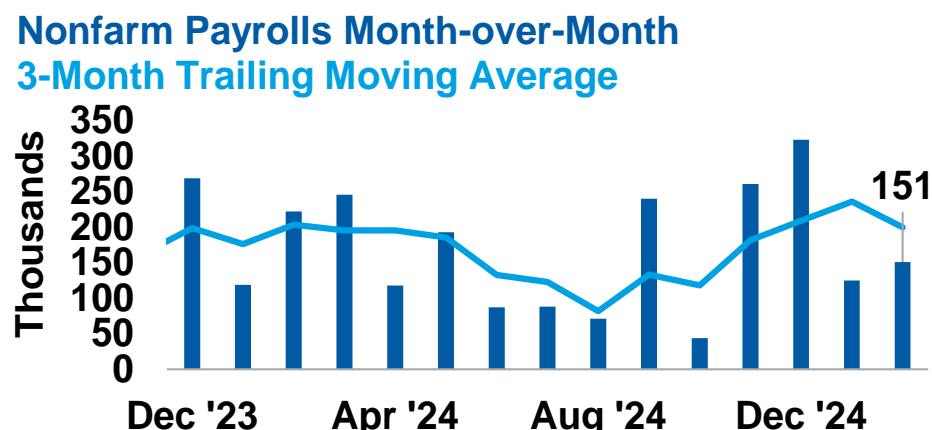
Challenge 2025: Economic Soft Landing?



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of January 31, 2025



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of February 28, 2025



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of February 28, 2025

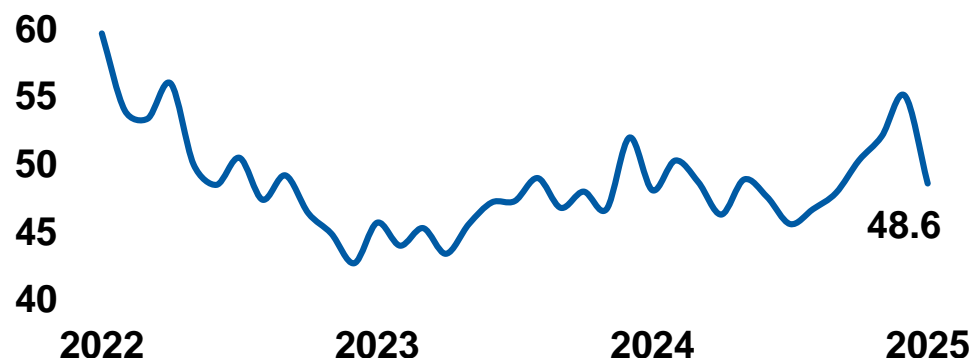


Source: Morgan Stanley Wealth Management GIC, Bloomberg as of January 31, 2025

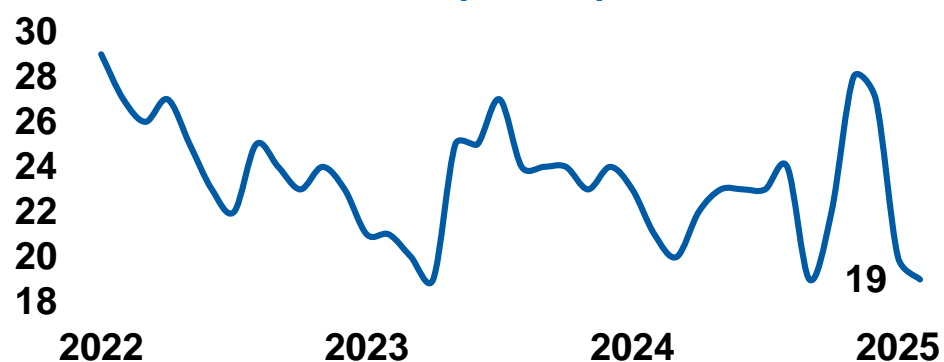
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Challenge 2025: Manufacturing Reviving?

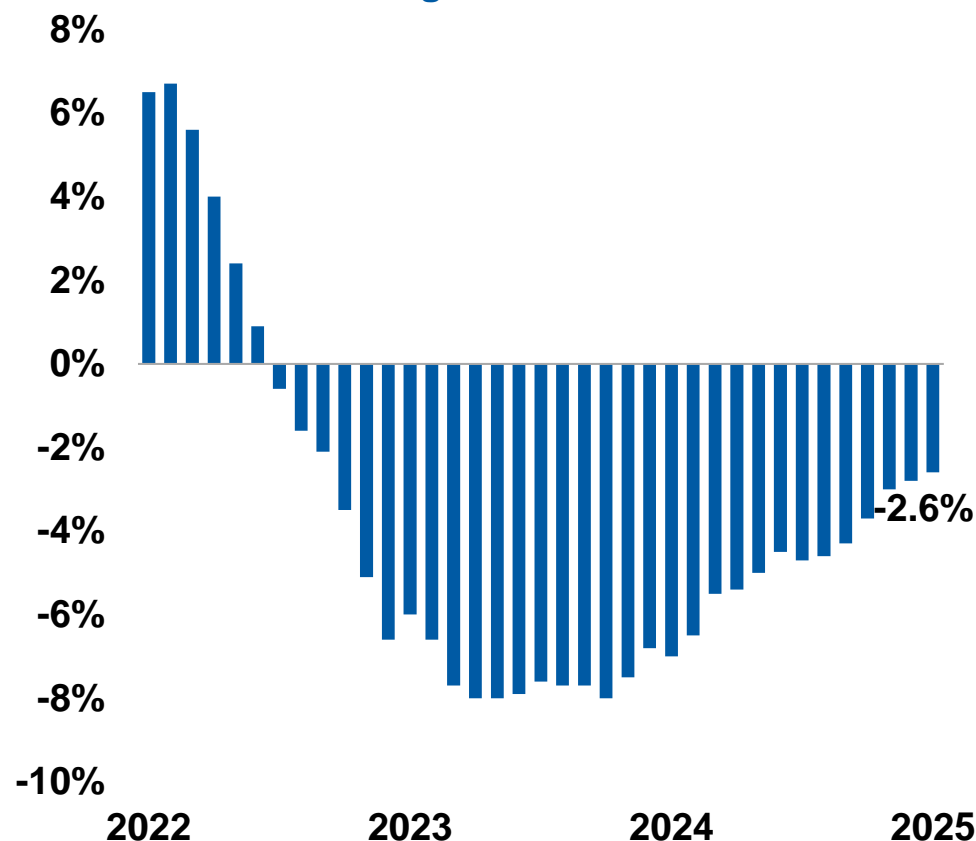
ISM Manufacturing PMI, New Orders



NFIB Small Business Capital Expenditure Plans



Conference Board US Leading Index, Year-Over-Year Change



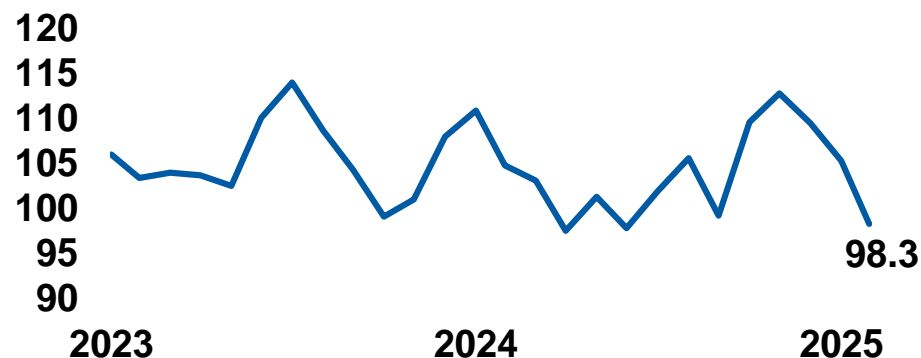
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of February 28, 2025

Source: Morgan Stanley Wealth Management GIC, Bloomberg as of January 31, 2025

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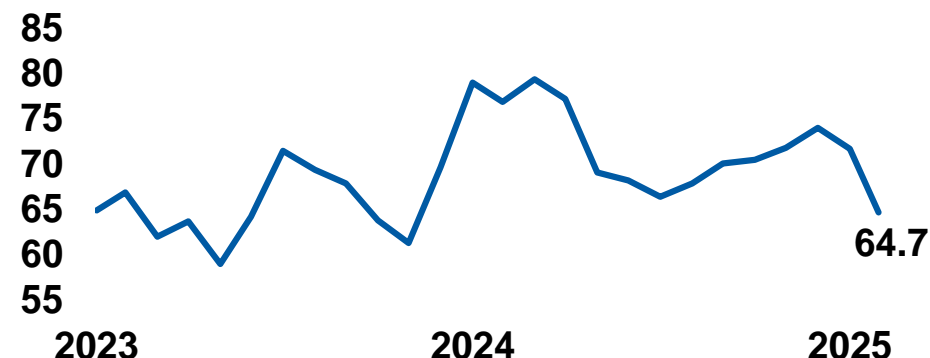
Challenge 2025: Consumption and Services Softening?

Conference Board Consumer Confidence



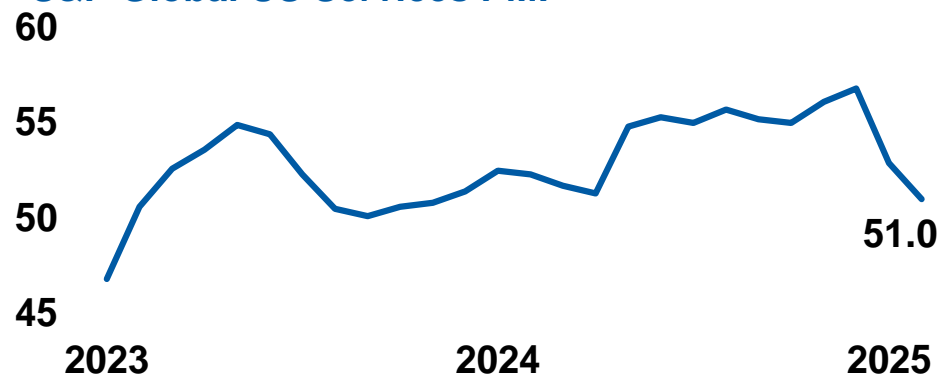
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of February 28, 2025

University of Michigan Consumer Sentiment



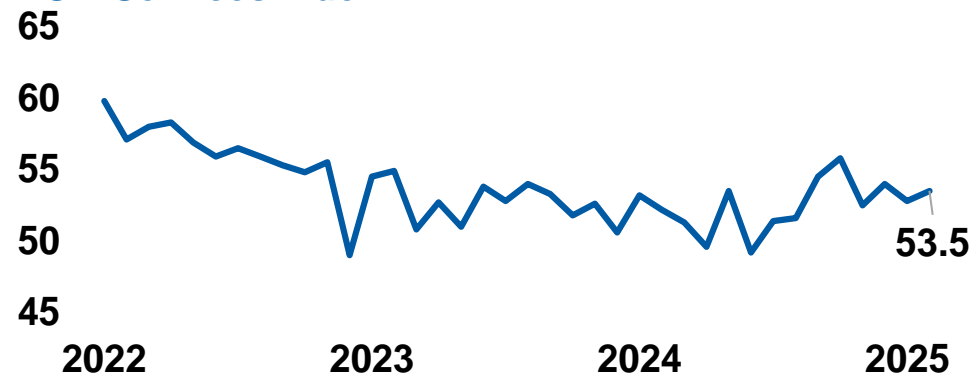
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of February 28, 2025

S&P Global US Services PMI



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of February 28, 2025

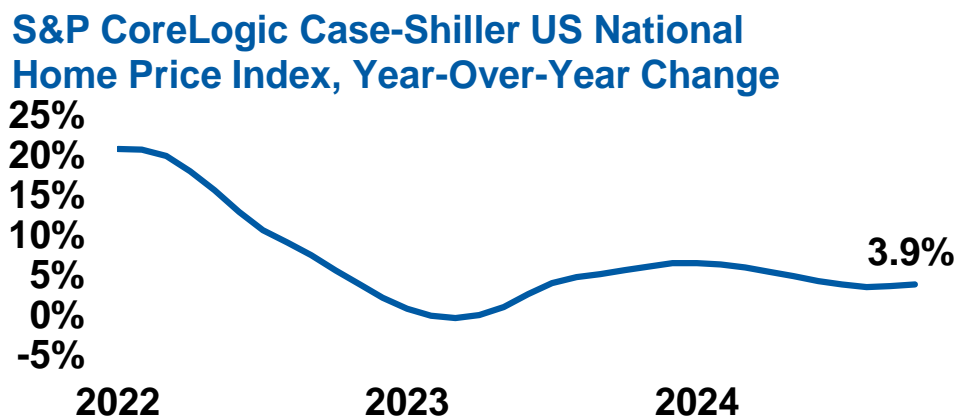
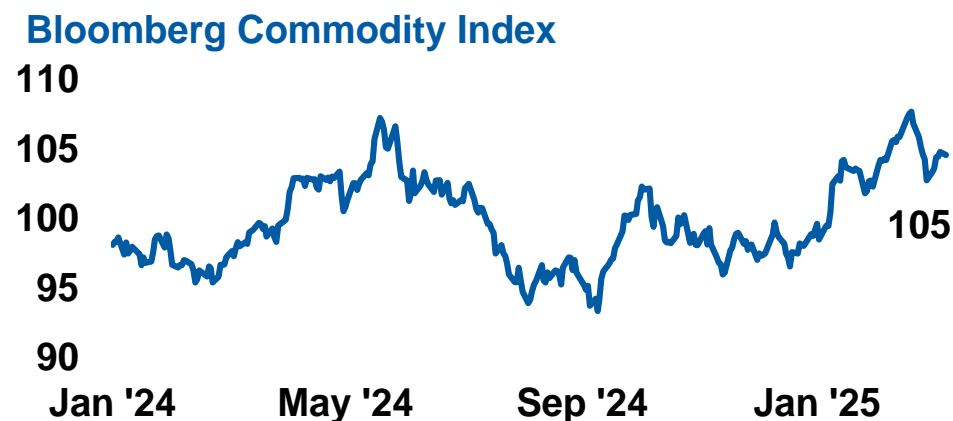
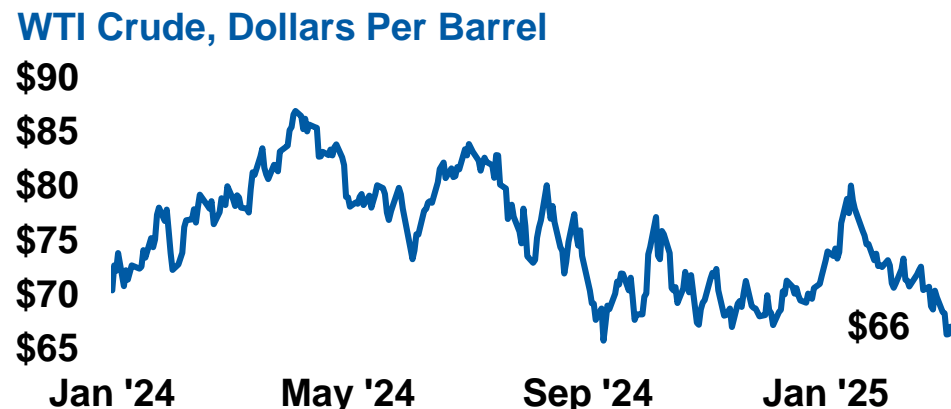
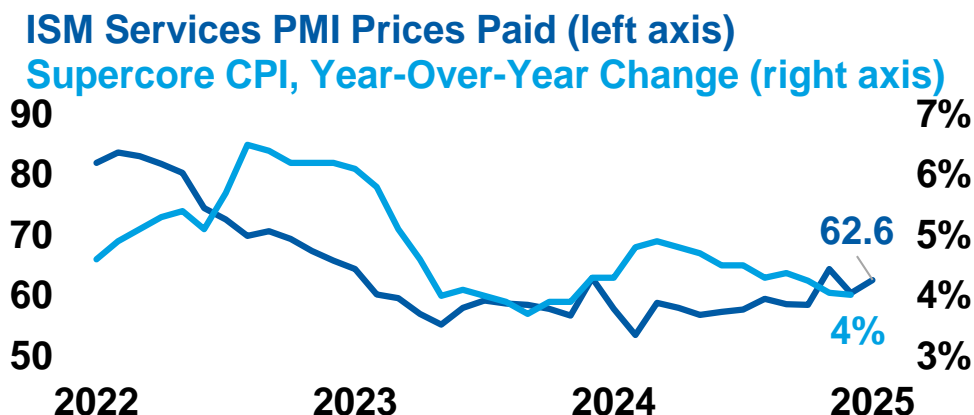
ISM Services Index



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of February 28, 2025

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Challenge 2025: Inflation Returning to Target....Will It or Won't it?



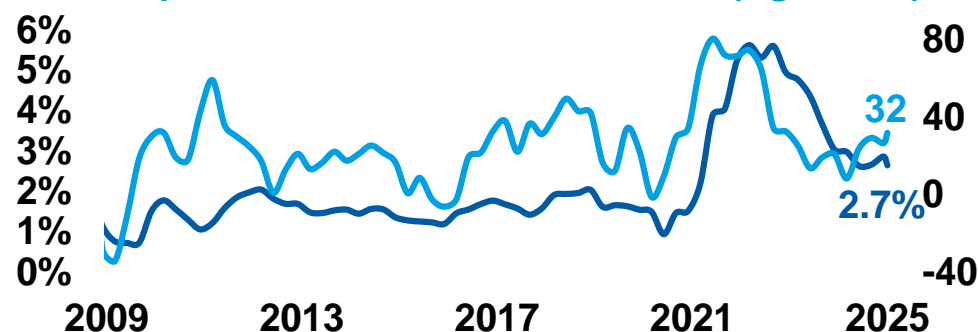
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

Source: Morgan Stanley Wealth Management GIC, Bloomberg as of December 31, 2024

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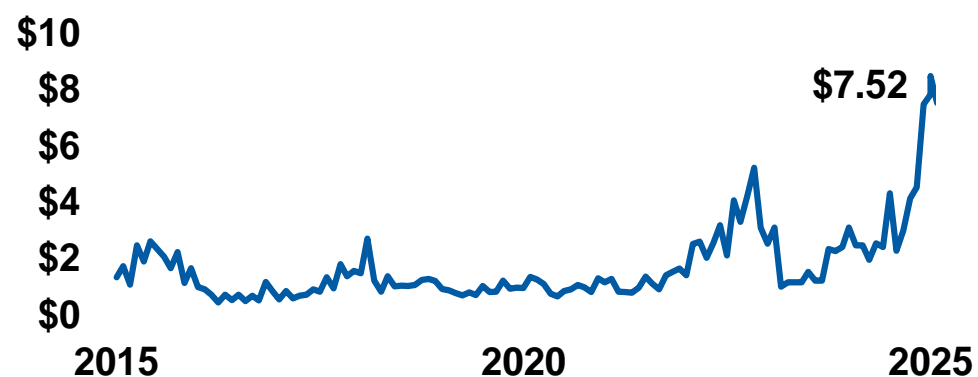
Challenge 2025: Inflation Returning to Target....Will It or Won't it?

PCE Index, Year-Over-Year (left axis)
Philadelphia Fed Diffusion, Prices Paid (right axis)



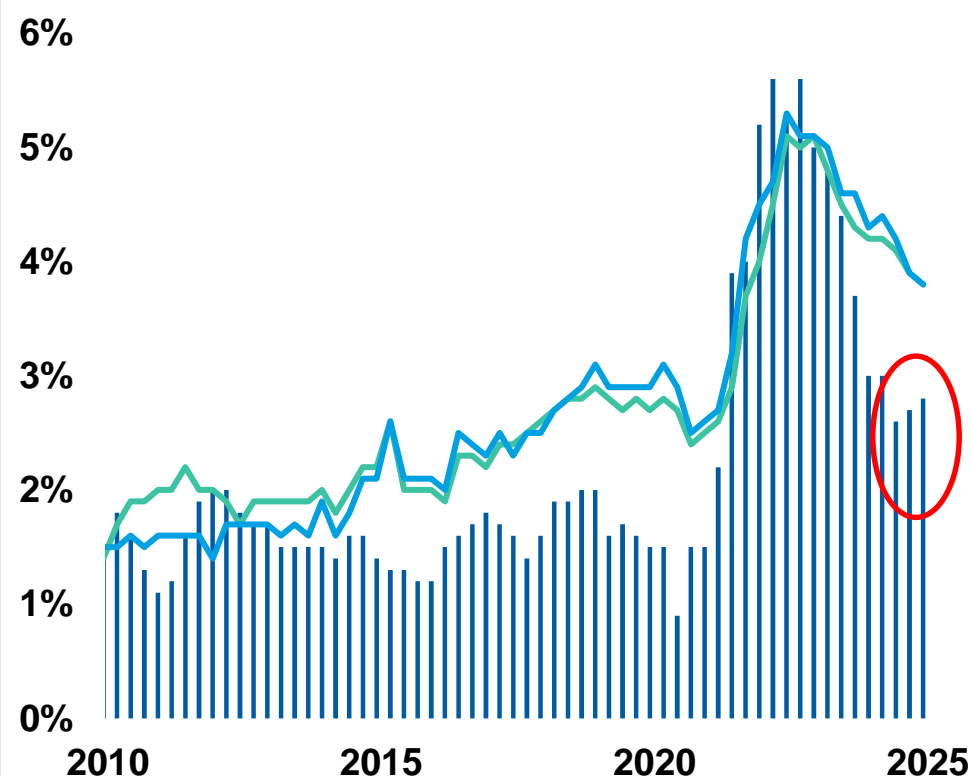
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of December 31, 2024

Egg Prices by the Dozen in US Midwest



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 7, 2025

Year-Over-Year Change
PCE Core Inflation
Employment Cost Wages and Salaries
Employment Cost Index

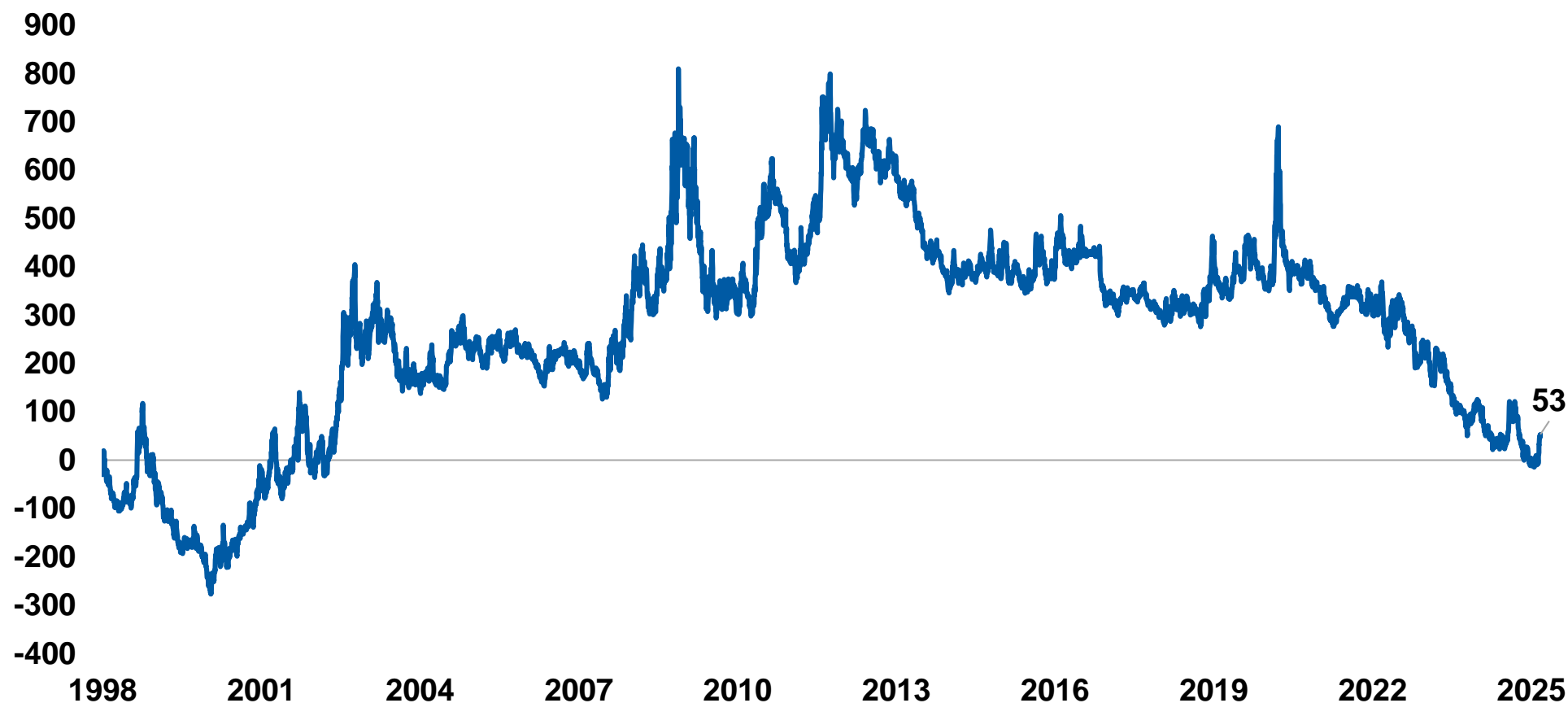


Source: Morgan Stanley Wealth Management GIC, Bloomberg as of January 31, 2025

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Equity Risk Premiums Have Normalized a Bit on the Correction

Morgan Stanley Equity Risk Premium



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 7, 2025. **Equity risk premium** is the excess return that an individual stock or the overall stock market provides over a risk-free rate. The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time.

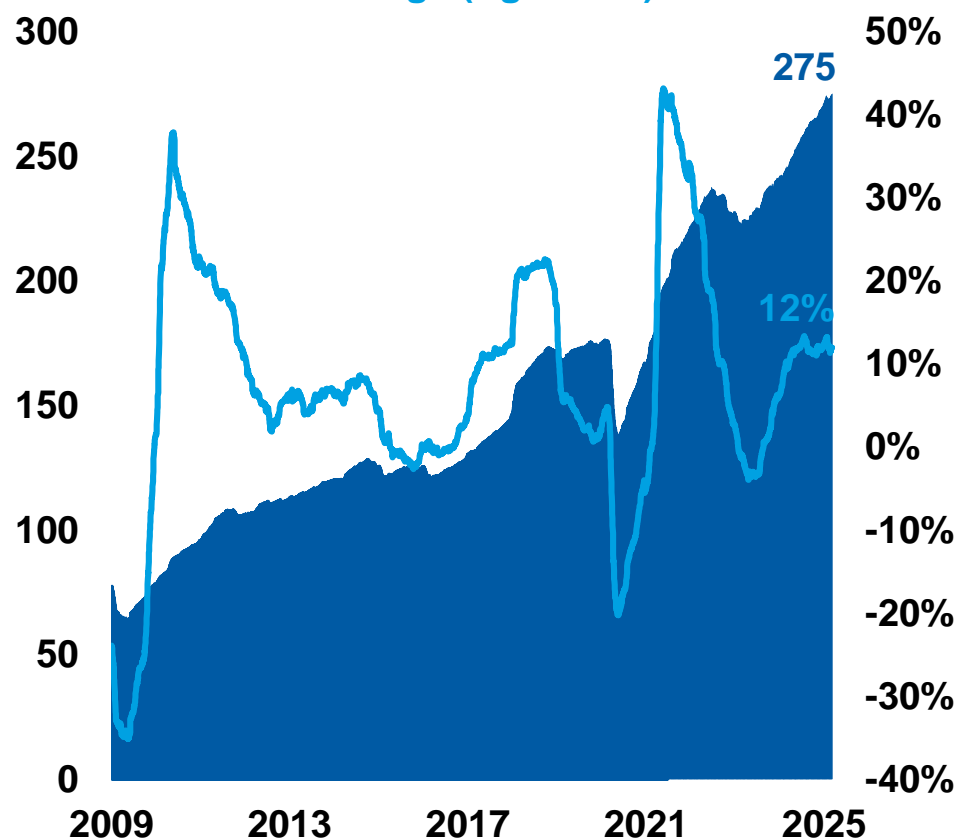
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2025 Challenge: US Stocks Still Expensive on Ambitious Earnings Forecast

S&P 500, Forward 12-Month Price/Earnings Ratio



S&P 500 Earnings-per-Share (left axis)
Year-Over-Year Change (right axis)



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

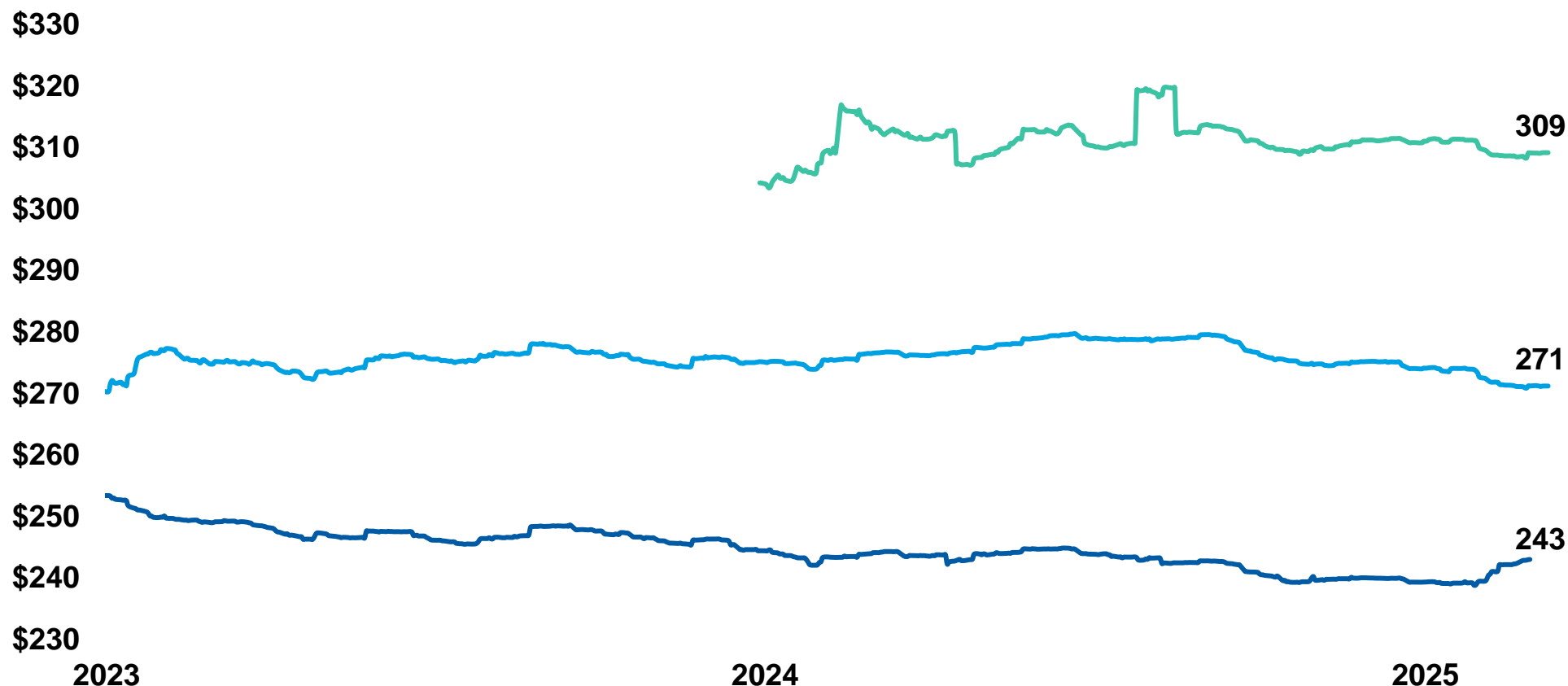
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

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Earnings Revisions Are Negative But Still Bake in 12% Growth in 2025

S&P 500 Earnings Estimates

2024 2025 2026

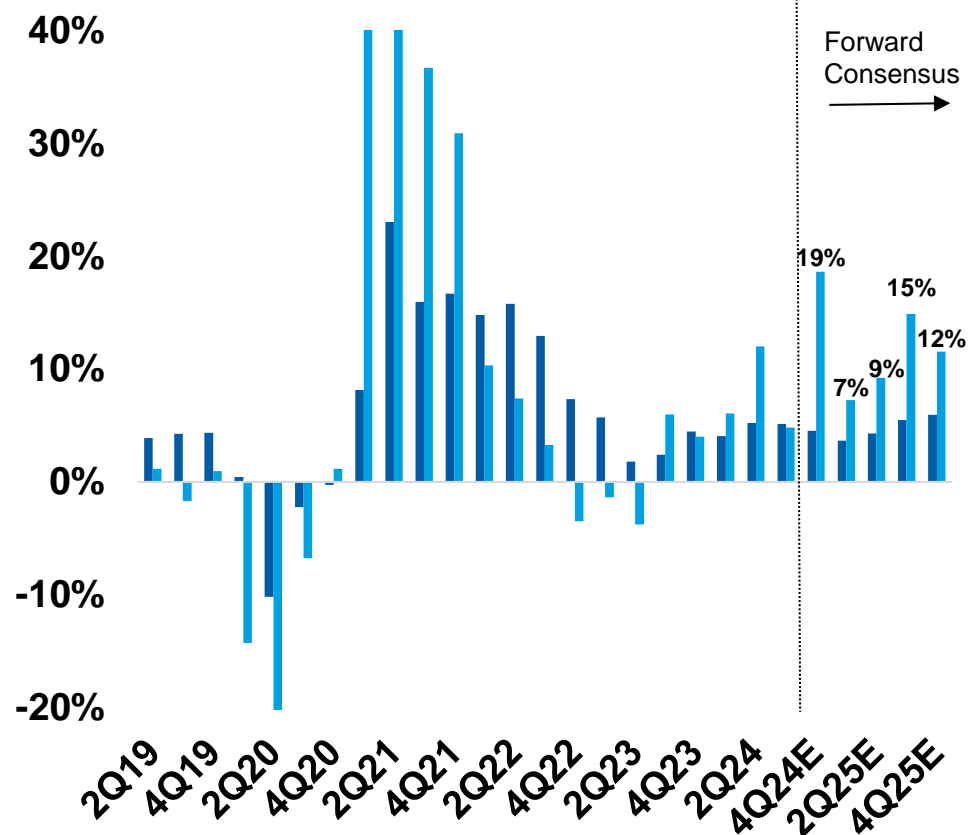


Source: Morgan Stanley Wealth Management GIC, FactSet as of March 10, 2025. Estimates are consensus.

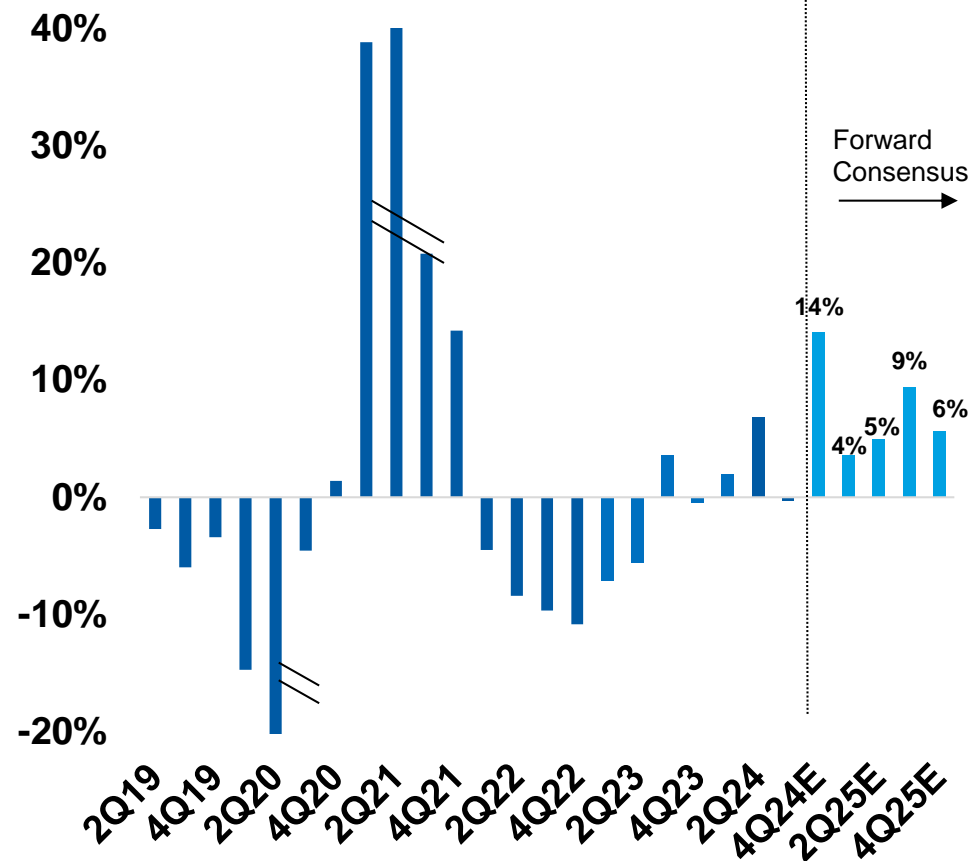
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Expectations Are Back-End Loaded

S&P 500 SPS Year-Over-Year
S&P 500 EPS Year-Over-Year



S&P 500 Operating Leverage



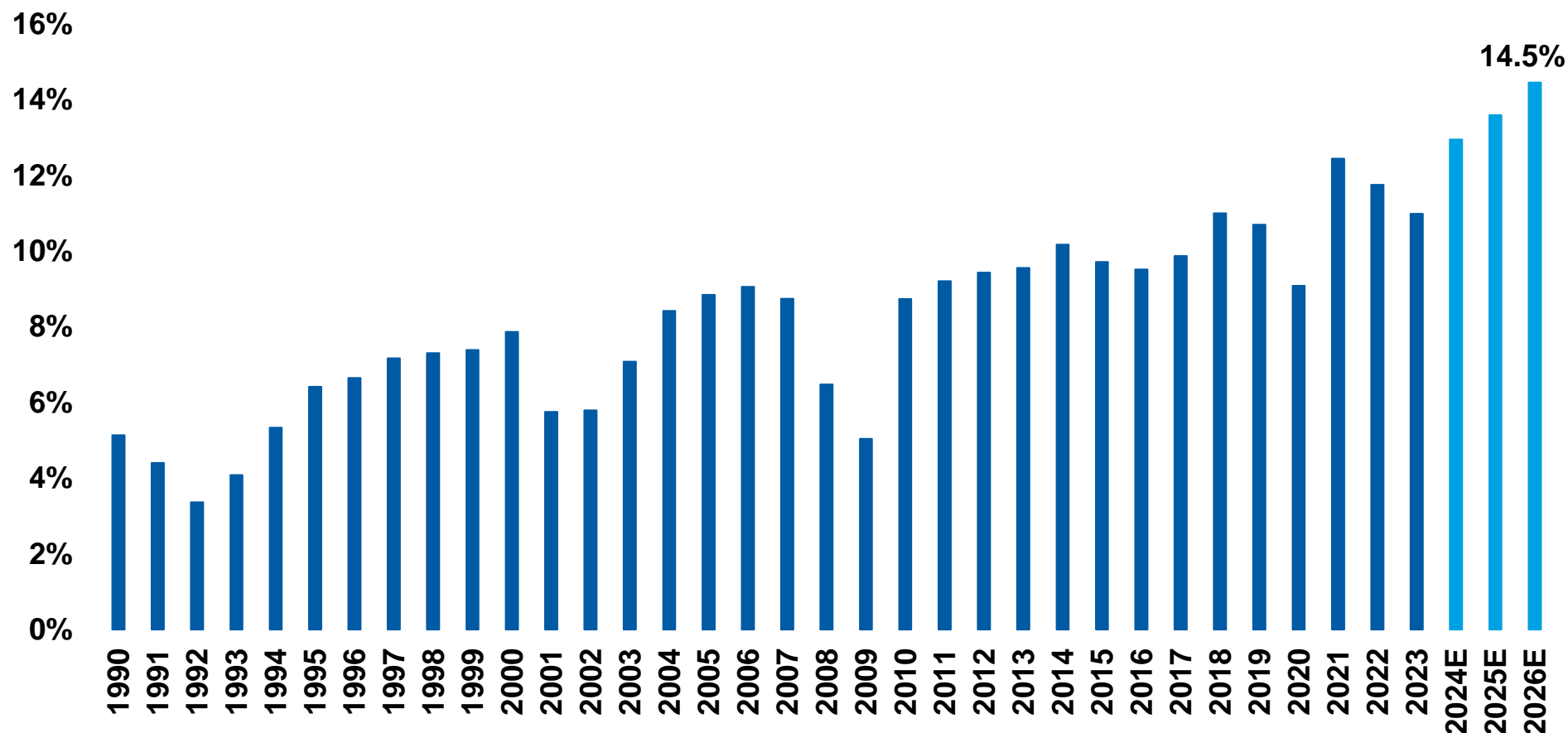
Source: Morgan Stanley Wealth Management GIC, MS & Co. as of March 11, 2025

Source: Morgan Stanley Wealth Management GIC, MS & Co. as of March 11, 2025

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Can S&P 500 Margins Continue to Expand to Historical Records?

S&P 500 Operating EPS Margin



Source: Morgan Stanley Wealth Management GIC, FactSet as of March 12, 2025. Estimates are FactSet.

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What Happens to Earnings and Multiples From Here?

BULLISH CONSENSUS
S&P 500 Index, 12-Month Forward Price/Earnings Ratio
MS/GIC
S&P 500 Index, Next Twelve Month EPS

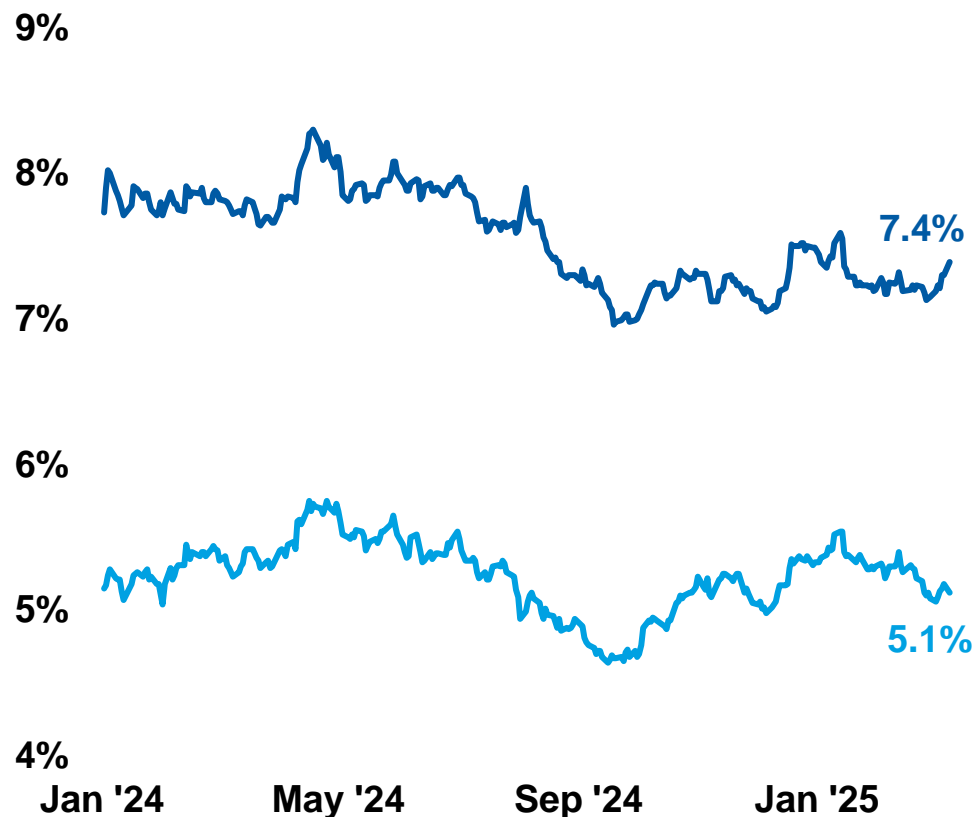
	17	18	19	20	21	22	23	24	25	26
\$310	5,270	5,580	5,890	6,200	6,510	6,820	7,130	7,440	7,750	8,060
\$300	5,100	5,400	5,700	6,000	6,300	6,600	6,900	7,200	7,500	7,800
\$290	4,930	5,220	5,510	5,800	6,090	6,380	6,670	6,960	7,250	7,540
\$280	4,760	5,040	5,320	5,600	5,880	6,160	6,440	6,720	7,000	7,280
\$270	4,590	4,860	5,130	5,400	5,670	5,940	6,210	6,480	6,750	7,020
\$260	4,420	4,680	4,940	5,200	5,460	5,720	5,980	6,240	6,500	6,760
\$250	4,250	4,500	4,750	5,000	5,250	5,500	5,750	6,000	6,250	6,500
\$240	4,080	4,320	4,560	4,800	5,040	5,280	5,520	5,760	6,000	6,240
\$230	3,910	4,140	4,370	4,600	4,830	5,060	5,290	5,520	5,750	5,980
\$220	3,740	3,960	4,180	4,400	4,620	4,840	5,060	5,280	5,500	5,720

Source: Morgan Stanley Wealth Management GIC as of March 17, 2025

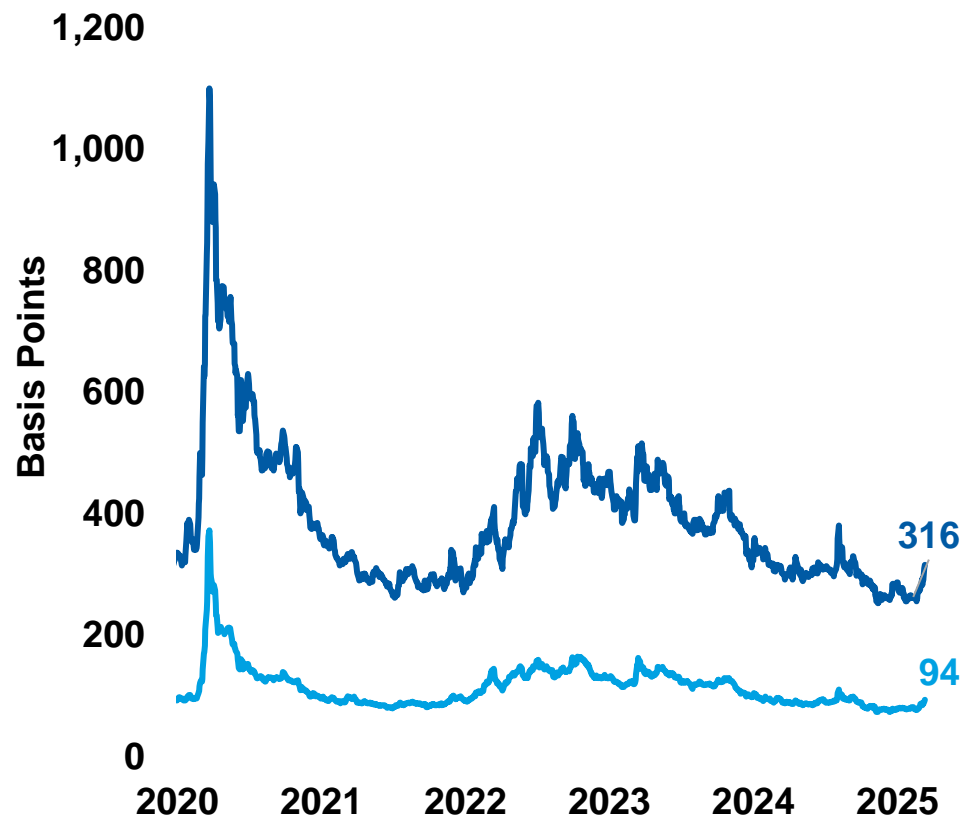
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If Stocks Can Grind Out Only 5-7%; Rather Own Credit

High Yield Yield to Worst
Investment Grade Yield to Worst



High Yield Credit Spreads
Investment Grade Credit Spreads



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

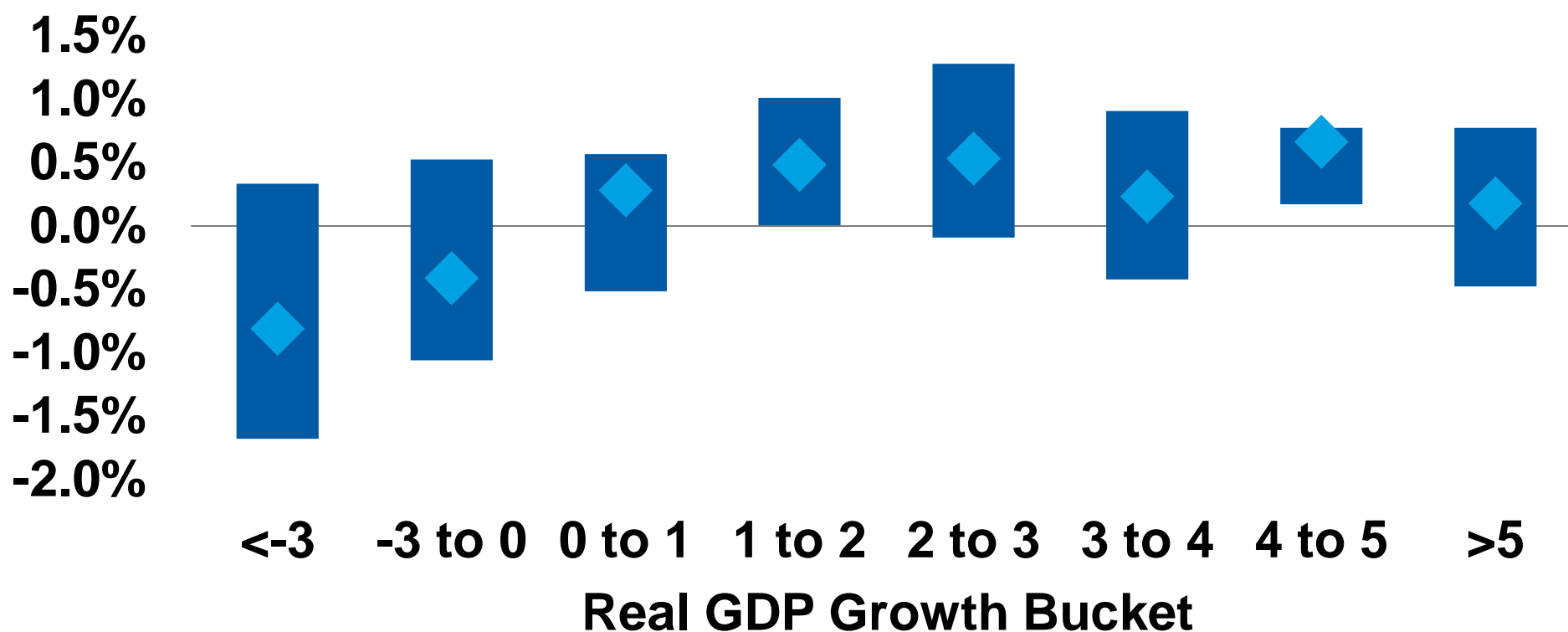
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 11, 2025

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Soft Landing Is the Sweet Spot for IG Credit

IG Credit Performance vs. GDP: 1948-2024

Quarterly IG Excess Returns Median

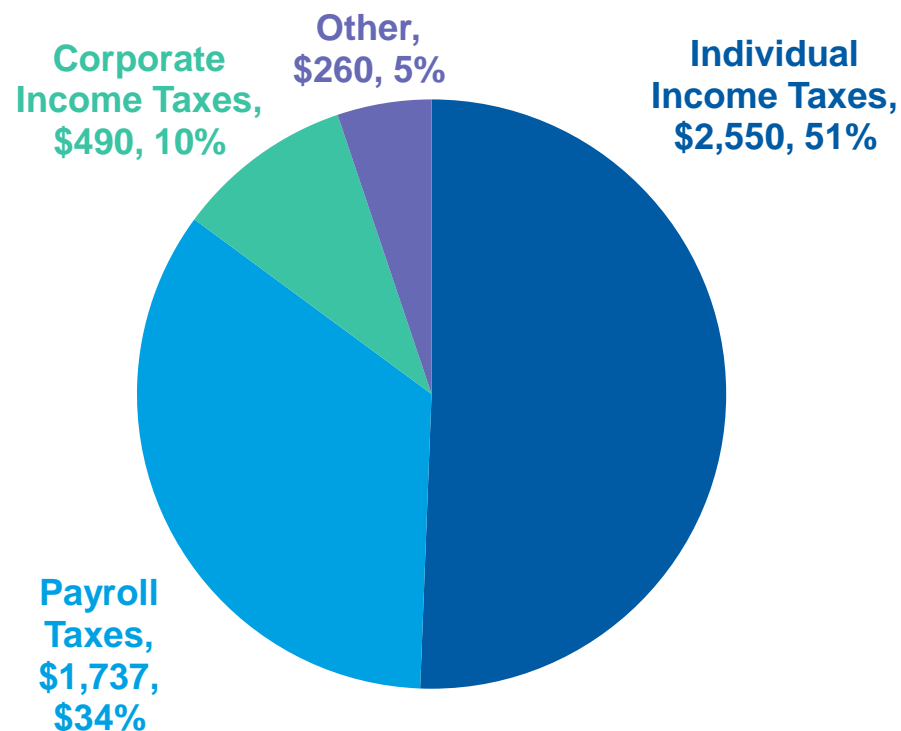


Source: Morgan Stanley Wealth Management GIC, MS & Co. as of January 14, 2025

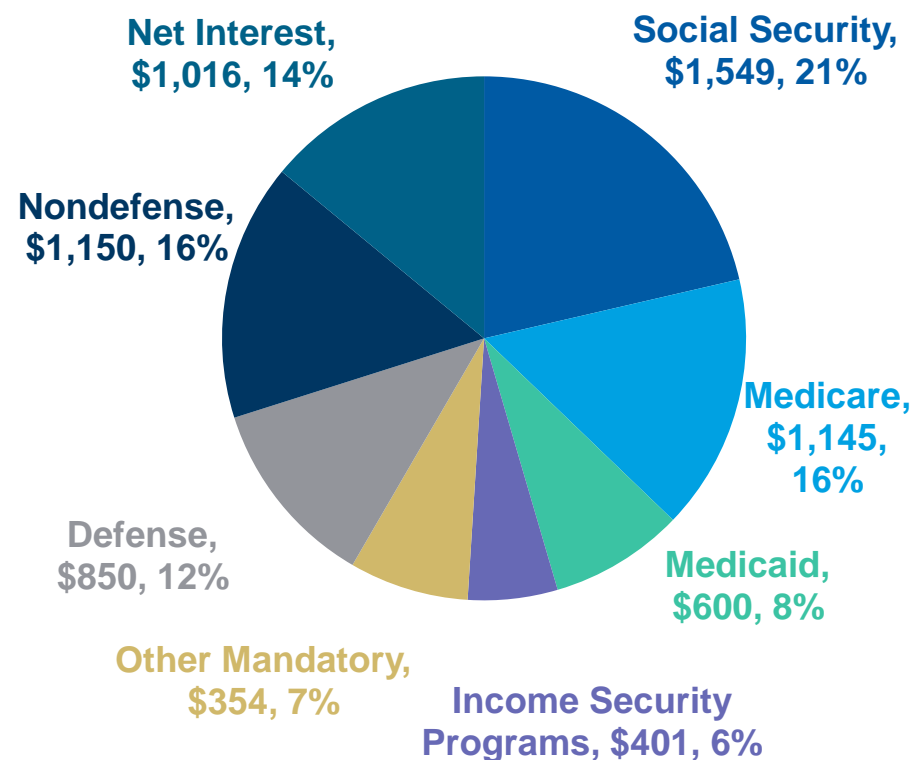
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We Are Skeptical About the Potential for DOGE

2025 Projected US Federal Revenues (Billion)
\$5,038



2025 Projected US Federal Spending (Billion)
\$7,245



Source: Morgan Stanley Wealth Management GIC, CBO as of January 31, 2025

Source: Morgan Stanley Wealth Management GIC, CBO as of January 31, 2025

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Best Case Scenarios Still Add to Debt Pile

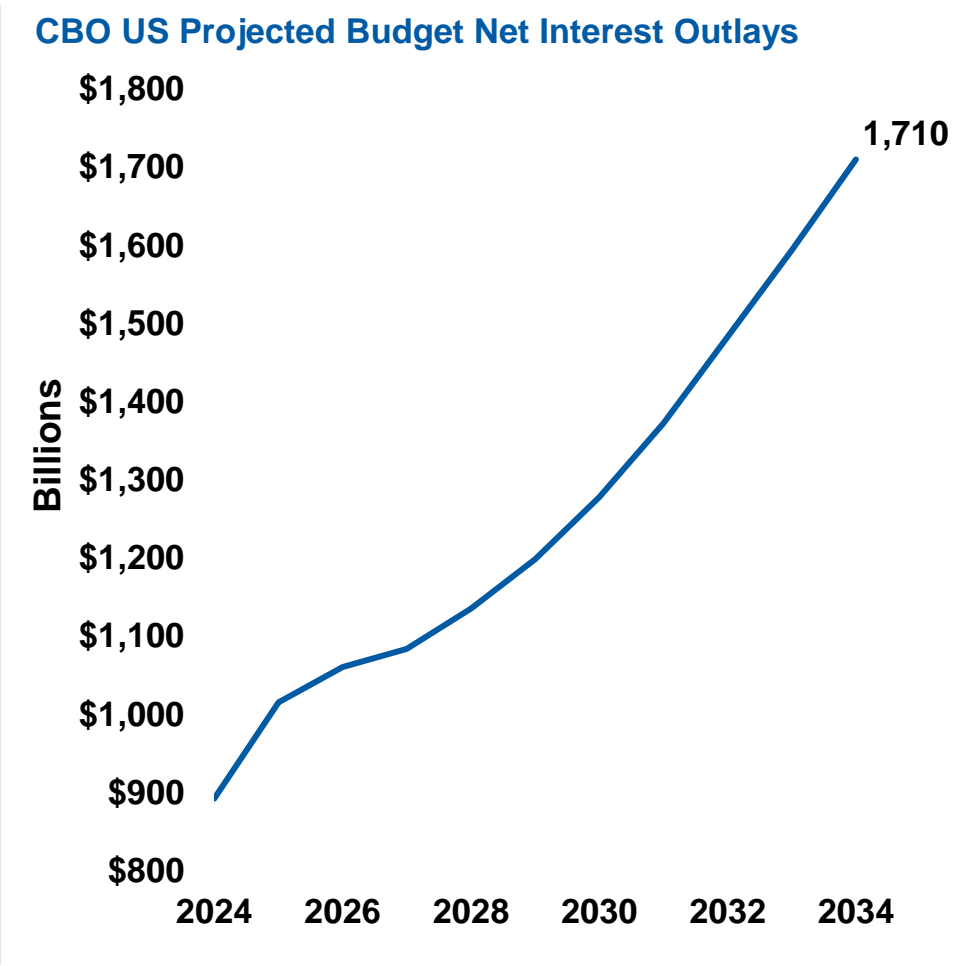
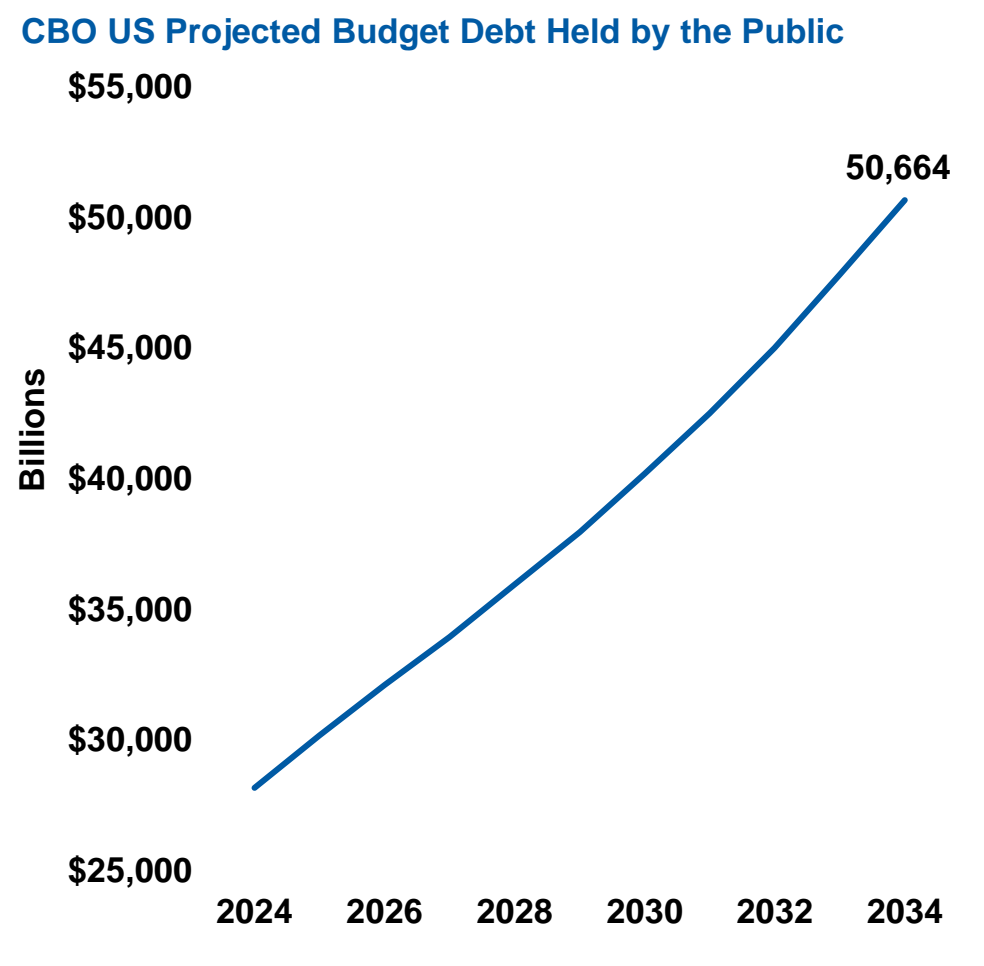
Potential Debt Impact of House Budget's Reconciliation Instructions (FY 2025-2034)	
Committee of Jurisdiction	Reconciliation Instruction (billions)
Ways and Means	\$4,500
Judiciary	\$110
Armed Services	\$100
Homeland Security	\$90
Deficit Increases	\$4,800
Energy and Commerce	-\$880
Education and Workforce	-\$330
Agriculture	-\$230
Oversight and Government Reform	-\$50
Transportation and Infrastructure	-\$10
Financial Services	-\$1
Natural Resources	-\$1
Unspecified	-\$500
Deficit Reductions	-\$2,002
Subtotal	\$2,798
Interest	\$600
Total	\$3,400

Fiscal Impact of Trump's Reported Tax Priorities (2026-2035)		
Policy	Low Estimate	High Estimate
Extend the Tax Cuts and Jobs Act	\$3.9 trillion	\$4.8 trillion
Provide SALT Relief	\$200 billion	\$1.2 trillion
Cut Taxes on Tips	\$100 billion	\$550 billion
Cut Taxes on Overtime Pay	\$250 billion	\$3.0 trillion
Cut Taxes on Social Security	\$550 billion	\$1.5 trillion
Cut Taxes for Domestic Production	\$100 billion	\$200 billion
Close Carried Interest Loophole, Reduce Tax Benefits for Stadium Owners	-\$100 billion	-
Total	\$5.0 trillion	\$11.2 trillion

Source: Morgan Stanley Wealth Management GIC, House Budget Committee as of February 6, 2025

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US Debt and Interest Expense Is Expected to Grow Even with Partial Funding of Tax Cuts



Source: Morgan Stanley Wealth Management GIC, CBO as of January 31, 2025

Source: Morgan Stanley Wealth Management GIC, CBO as of January 31, 2025

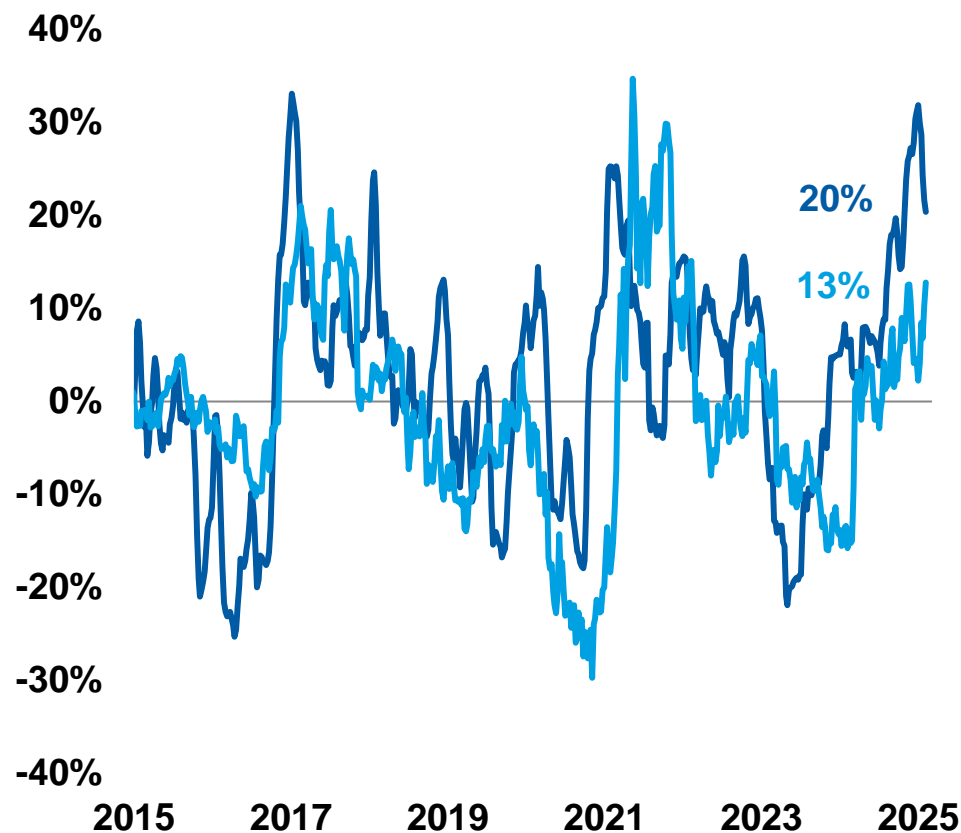
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We Are Adding to Large Cap Value: Financials

**S&P 500 Financials Relative Next-12 Months
Price/Earnings
Average**



**Financials Relative Earnings Revisions Breadth
Financials Relative Price, Year-Over-Year**



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 8, 2025

Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 8, 2025

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We Are Adding to Healthcare

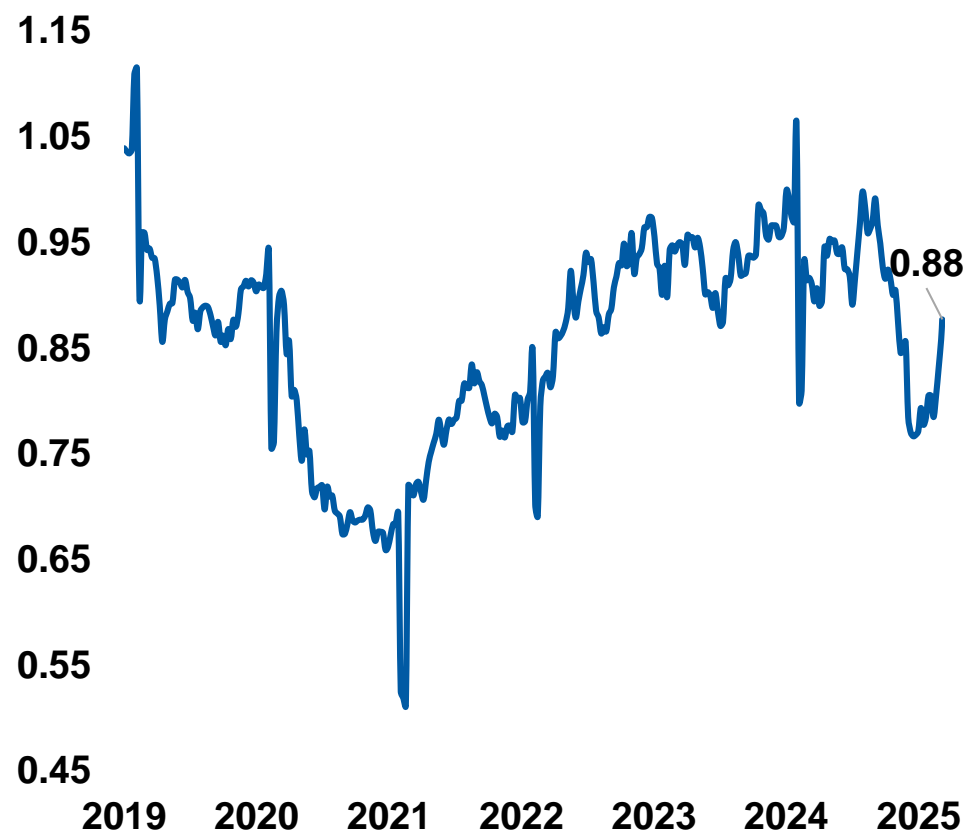
Performance

S&P 500 Health Care Sector Relative to S&P 500



Forward 12-Month Price/Earnings Ratio

S&P 500 Health Care Sector Relative to S&P 500



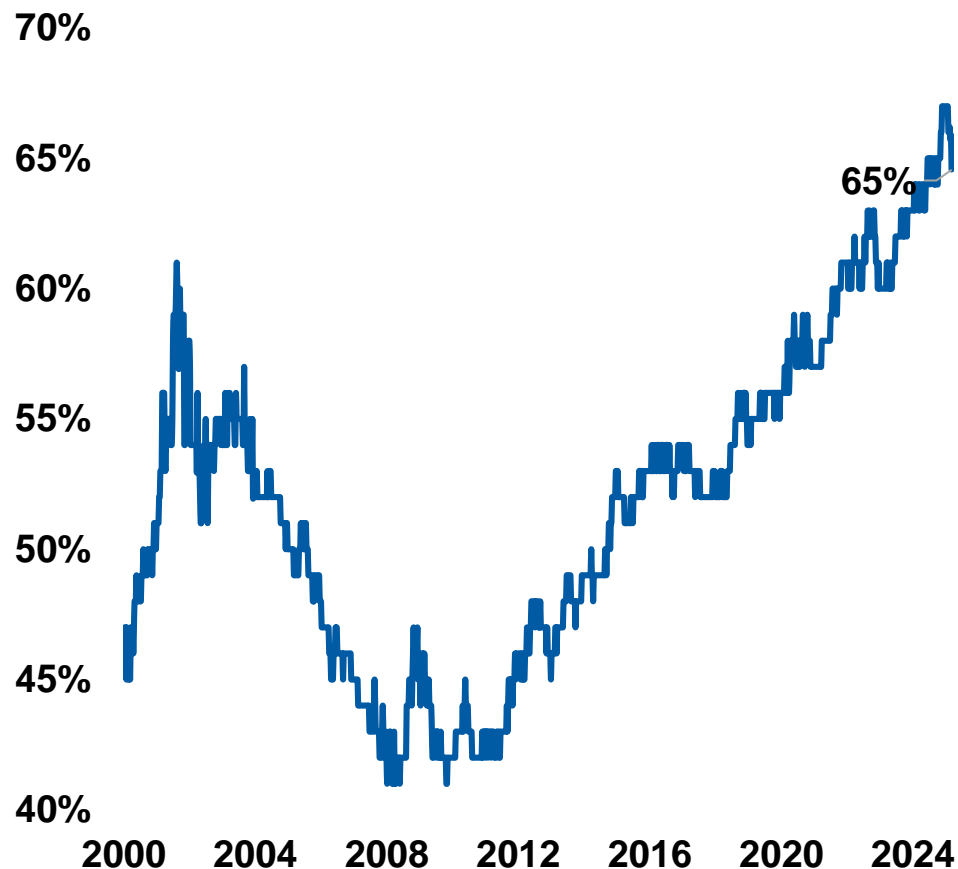
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

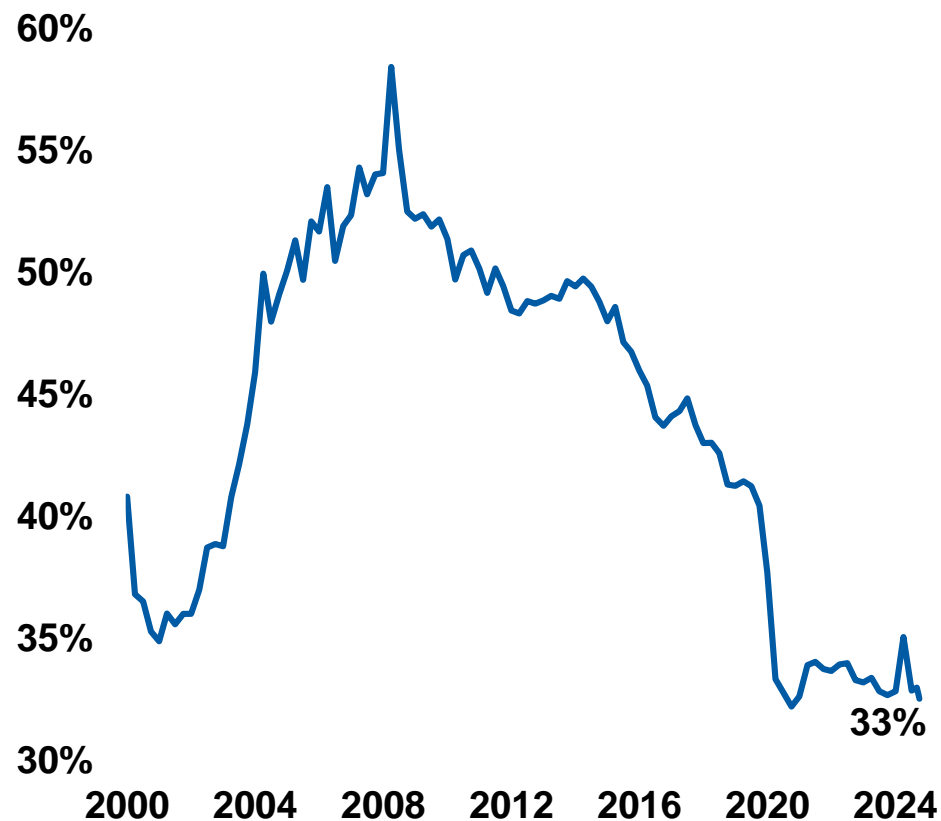
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“American Exceptionalism” Is Over-Owned versus History

MSCI US Index Share of MSCI ACWI Index



Foreign Holdings of US Treasuries as Percentage of Outstanding



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 7, 2025

Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

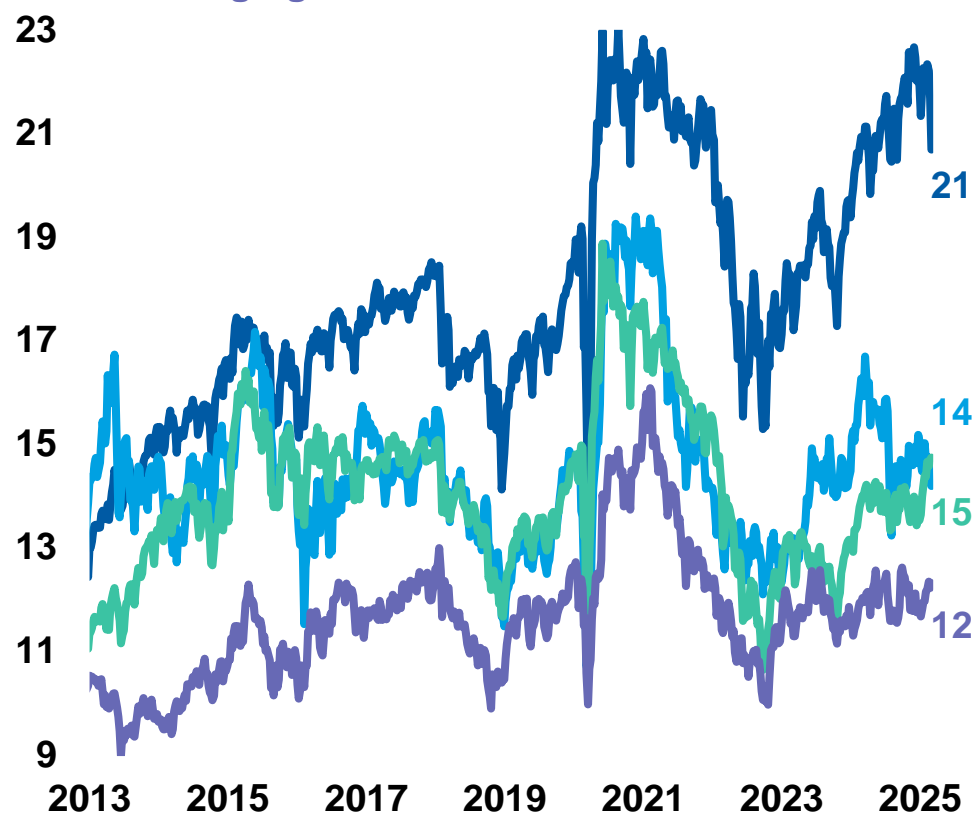
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The S&P 500 Remains Expensive Relative to the Rest of the World

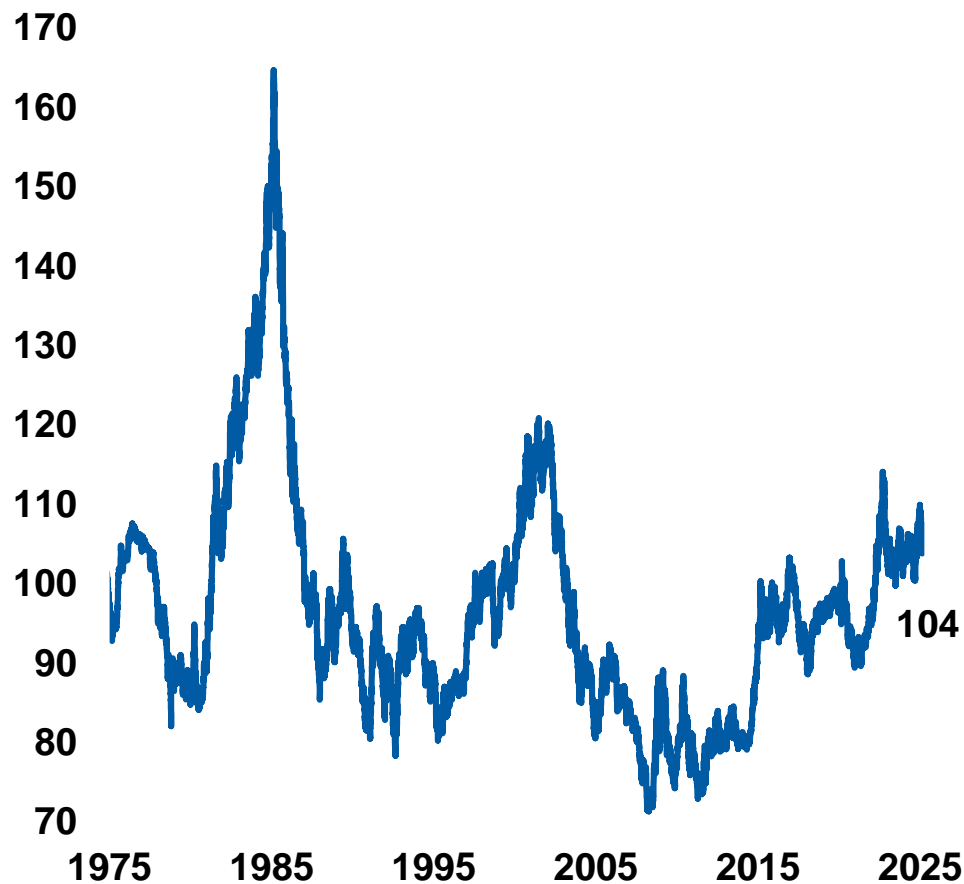
Forward 12-Month Price/Earnings Ratio

S&P 500 TOPIX 500 MSCI Europe

MSCI Emerging Markets



US Dollar Index



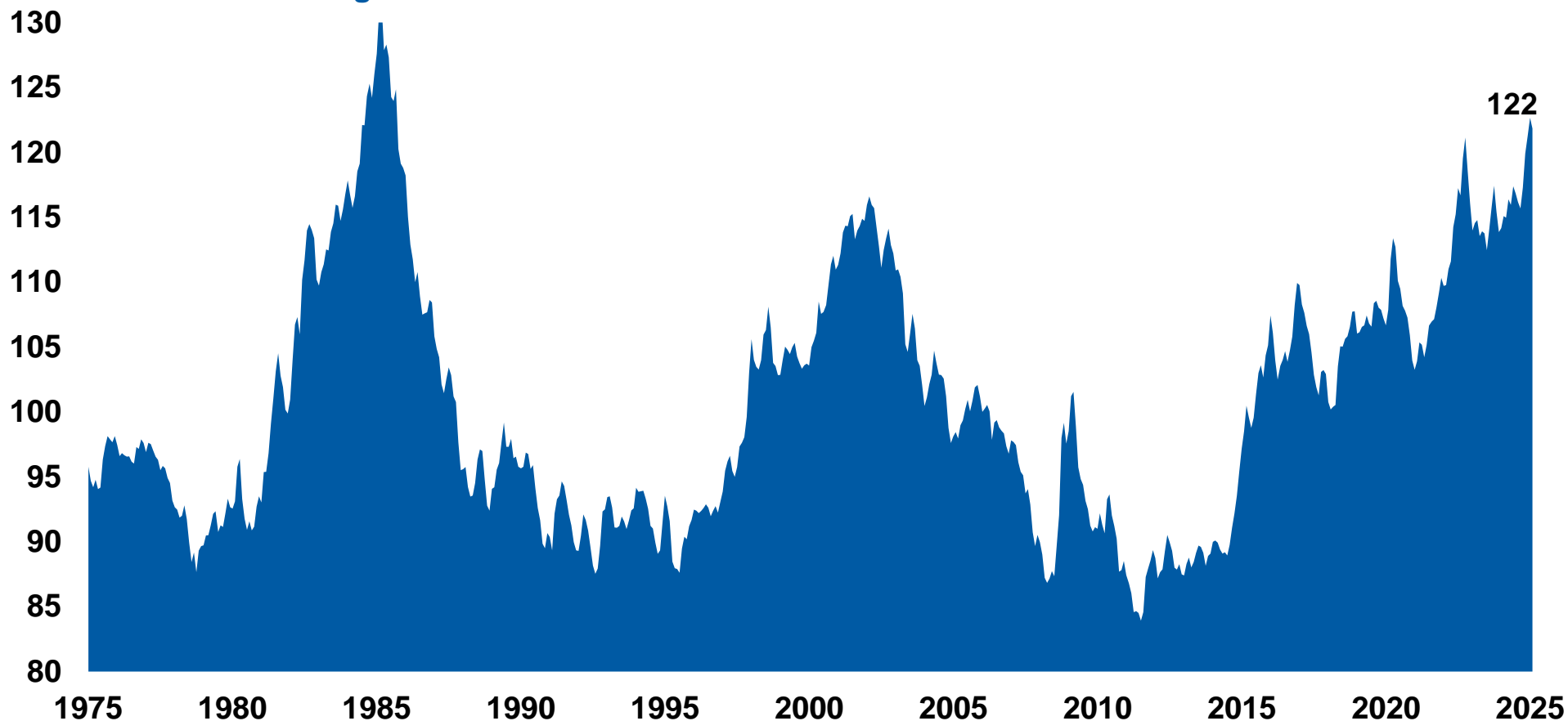
Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 7, 2025

Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

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Currency Volatility Is Key Risk

US Fed Real Trade-Weighted Broad Dollar Index



Source: Morgan Stanley Wealth Management GIC, Bloomberg as of March 10, 2025

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Themes for the Next Phase of the Bull Market

- Electrification and Real Infrastructure: grid build-out, EV charging networks, data center cooling
- Digitization of services business...include hardware and software/service providers behind enterprise automation implementation of: AI, natural language processing, machine learning, optical scanning and facial recognition as well as the major sectors that could benefit: financials, health care, government, education, consumer services/call center heavy
- Deglobalization: infrastructure and supply chain reconfiguration...industrials, construction, materials, mining
- Decarbonization: energy both green and carbon, MLPs, EV, batteries, minerals, mining, internet of things, smart highways
- Defense/Cybersecurity, space, satellite surveillance
- Biotech/Genomics
- Demographics/Residential housing
- Managing longevity/Debts and deficits

Source: Morgan Stanley Wealth Management GIC, as of March 12, 2025

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Asset Class Risk Considerations and Disclosures

For index, indicator and survey definitions referenced in this report please visit the following:

<https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions>

Equity securities may fluctuate in response to news on companies, industries, market conditions and general economic environment.

Investing in foreign markets entails risks not typically associated with domestic markets, such as currency fluctuations and controls, restrictions on foreign investments, less governmental supervision and regulation, and the potential for political instability. These risks may be magnified in countries with **emerging markets and frontier markets**, since these countries may have relatively unstable governments and less established markets and economies.

Investing in small- to medium-sized companies entails special risks, such as limited product lines, markets and financial resources, and greater volatility than securities of larger, more established companies.

The value of **fixed income securities** will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer.

Ultrashort-term fixed income asset class is comprised of fixed income securities with high quality, very short maturities. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk.

High yield bonds (bonds rated below investment grade) may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk, price volatility, and limited liquidity in the secondary market. High yield bonds should comprise only a limited portion of a balanced portfolio.

Treasury Inflation Protection Securities' (TIPS) coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation.

Interest on **municipal bonds** is generally exempt from federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). Also, municipal bonds acquired in the secondary market at a discount may be subject to the market discount tax provisions, and therefore could give rise to taxable income. Typically, state tax-exemption applies if securities are issued within one's state of residence and, if applicable, local tax-exemption 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.

Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

Physical precious metals are non-regulated products. Precious metals are speculative investments, which may experience short-term and long-term price volatility. The value of precious metals investments may fluctuate and may appreciate or decline, depending on market conditions. If sold in a declining market, the price you receive may be less than your original investment. Unlike bonds and stocks, precious metals do not make interest or dividend payments. Therefore, precious metals may not be appropriate for investors who require current income. Precious metals are commodities that should be safely stored, which may impose additional costs on the investor. The Securities Investor Protection Corporation ("SIPC") provides certain protection for customers' cash and securities in the event of a brokerage firm's bankruptcy, other financial difficulties, or if customers' assets are missing. SIPC insurance does not apply to precious metals or other commodities.

Master Limited Partnerships (MLPs) are 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.

REITs investing risks are similar to those associated with direct investments in real estate: property value fluctuations, lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions.

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 more risky 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.

Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

Companies paying **dividends** can reduce or cut payouts at any time.

Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets.

Hedge funds may involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds, often charge high fees which may offset any trading profits, and in many cases the underlying investments are not transparent and are known only to the investment manager.

Any type of **continuous or periodic investment plan** does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his financial ability to continue his purchases through periods of low price levels.

IRS rules stipulate that if a security is sold by an investor at a **tax loss**, the tax loss will not be currently usable if the investor has acquired (or has entered into a contract or option on) the same or substantially identical securities 30 days before or after the sale that generated the loss. This so-called "wash sale" rule is applied with respect to all of the investor's transactions across all accounts.

Artificial intelligence (AI) is subject to limitations, and you should be aware that any output from an IA-supported tool or service made available by the Firm for your use is subject to such limitations, including but not limited to inaccuracy, incompleteness, or embedded bias. You should always verify the results of any AI-generated output.

Asset Class Risk Considerations and Disclosures

Alternative investments may be either traditional alternative investment vehicles, such as hedge funds, fund of hedge funds, private equity, private real estate and managed futures or, non-traditional products such as mutual funds and exchange-traded funds that also seek alternative-like exposure but have significant differences from traditional alternative investments. The risks of traditional alternative investments may include: can be highly illiquid, speculative and not appropriate for all investors, loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices, volatility of returns, restrictions on transferring interests in a fund, 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 open-end mutual funds, and risks associated with the operations, personnel and processes of the manager. Non-traditional alternative strategy products may employ various investment strategies and techniques for both hedging and more speculative purposes such as short-selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. These investments are subject to the risks normally associated with debt instruments and also carry substantial additional risks. Investors could lose all or a substantial amount of their investment. These investments typically have higher fees or expenses than traditional investments.

An investment in an **exchange-traded fund** involves risks similar to those of investing in a broadly based portfolio of equity securities traded on an exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock and bond prices. Investing in an international ETF also involves certain risks and considerations not typically associated with investing in an ETF that invests in the securities of U.S. issues, such as political, currency, economic and market risks. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economics. ETFs investing in physical commodities and commodity or currency futures have special tax considerations. Physical commodities may be treated as collectibles subject to a maximum 28% long-term capital gains rates, while futures are marked-to-market and may be subject to a blended 60% long- and 40% short-term capital gains tax rate. Rolling futures positions may create taxable events. For specifics and a greater explanation of possible risks with ETFs, along with the ETF's investment objectives, charges and expenses, please consult a copy of the ETF's prospectus. Investing in sectors may be more volatile than diversifying across many industries. The investment return and principal value of ETF investments will fluctuate, so an investor's ETF shares (Creation Units), if or when sold, may be worth more or less than the original cost. ETFs are redeemable only in Creation Unit size through an Authorized Participant and are not individually redeemable from an ETF.

Please consider the investment objectives, risks, charges and expenses of the fund(s) carefully before investing. The prospectus contains this and other information about the fund(s). To obtain a prospectus, contact your financial advisor. Please read the prospectus carefully before investing.

Because of their narrow focus, **sector investments** tend to be more volatile than investments that diversify across many sectors and companies. **Technology stocks** may be especially volatile. Risks applicable to companies in the **energy and natural resources** sectors include commodity pricing risk, supply and demand risk, depletion risk and exploration risk. **Health care sector stocks** are subject to government regulation, as well as government approval of products and services, which can significantly impact price and availability, and which can also be significantly affected by rapid obsolescence and patent expirations.

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