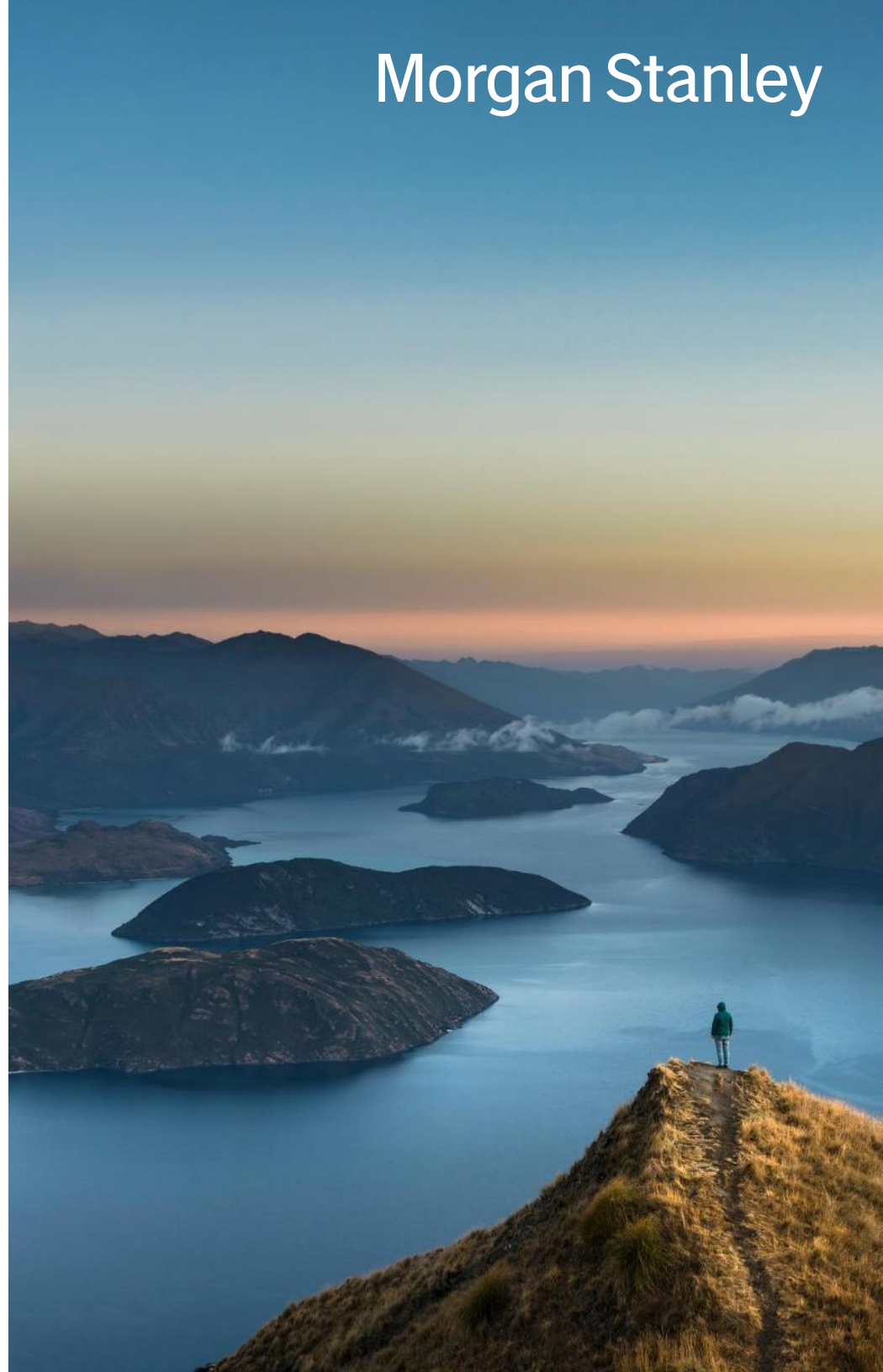


GIC Insights

Monthly Perspectives – May 2026



Where We Are: Through the Looking Glass

May 2026

The month of April 2026 was one for the record books and May has seen momentum continue even as markets have narrowed. Following a tough Q1 dominated by fears of oil price-induced inflation and damaged supply chains from the Iran conflict, the announcement of a ceasefire unleashed one of the most ferocious reversals in the last 100 years, with S&P 500 stocks rebounding close to 20% and the NASDAQ up around 25%, taking both to new all-time highs. **Memories of 2025's April surge created the "fear of missing out," and markets are looking through high oil prices, rising global rates, and geo-political turmoil as transitory, while the bull case hinges increasingly on positive earnings surprises, revisions, and soaring forward forecasts.**

- YTD, the S&P 500 is up 9% to 7,500 meanwhile, the NASDAQ is up 13%. **The Mag-7, the AI ecosystem and industrial power themes are once again market leaders in a narrowing tape.** Especially noteworthy has **been the performance of semiconductors—up more than 60% in six weeks measured by the SOX index;** bottlenecks and pricing power alongside "productivity gains" are driving upside surprises. Disentangling what is "cyclical boom earnings" from what is "normalized secular growth" is increasingly fraught.
- 1Q2026 concerns around software disruption and private credit troubles have eased and **major 2025 trends around momentum factors, a weaker US dollar, and ROW outperformance have resumed;** YTD, **emerging markets are once again trouncing the US, up 20% despite oil price vulnerability;** our two-year overweight, Japan, is up 14% YTD.
- Positive earnings revisions seem concentrated as margin headwinds from rising input costs hit many sectors.
- Financial conditions have tightened materially; two-year US Treasury yields have retraced March highs and are priced through Fed Funds; 10-year yields are over 4.59%; 30-year mortgage rates are 6.46%; and the futures markets again **pricing ZERO cuts in 2026,** down from 2.5 in January.

The US economy remains resilient, with consumption holding up on tax cut flows. But the savings rate and record-low confidence suggests that the consumer is fragile. Supply shocks operate on inflation/growth differently than demand shocks as tariffs demonstrated; demand destruction is likely; inflation slowly grinding higher and sticky.

- US GDP should stay close to 2% real growth in the first half paced almost entirely by AI capex, war spending stimulus, and solid consumption. Housing is weak and services are slowing.
- While the US is energy independent and a fossil fuel exporter; impacts to oil-linked commodities are pervasive with implications for fertilizers, plastics, food processing, and semiconductor manufacturing (helium).
- **This, despite the surge in WTI oil prices to \$104/bbl.; US national AAA gasoline prices at \$4.53/gal. (the highest since 2022); and inflation expectations continuing to grind higher (over 2.70% out to five years); This is a two-speed and K-shaped economy, and the US consumer is increasingly vulnerable**

2026 could ultimately deliver roughly another 10% potential upside for the S&P 500 based on the embedded strength of earnings.

- **Q1 earnings results have been solid, and earnings revisions are positive, but sourced from only three sectors, tech/semis, energy, and materials.** This has taken growth expectations for S&P 500 profits from ~16% to 23% for the next 12 months. At a forward P/E ratio of 21.1x, **the market is priced for perfection on ambitious forecasts.**
- Earnings expectations embed significant productivity gains and operating margin expansion; this takes operating leverage to new all-time highs. Most of the gains come from the beleaguered "S&P 493" and adoption of AI. **We think the deployment cycle will take years, NOT months.**
- We think stimulus impact of OBBBA on the consumer is overestimated versus overall sentiment; secular headwinds from credit build-up and residual "affordability."
- We think "fiscal dominance" will characterize the backdrop and that a weaker dollar, higher inflation, and a steeper yield curve, including a rise in long rates, are risks; interest rate sensitivity of the economy has changed; stealth QE and Fed balance sheet expansion are forms of easing.
- **The implication is the need for diversification beyond the 60/40; equity valuation multiples stall out, and long rates face rising inflation and term premiums.**
- **The new Monroe Doctrine, other geo-politics (World Cup, China trade talks, USMCA negotiations, 250th anniversary of American independence, and midterm elections) sustain market volatility.**
- **The Iran conflict leaves a lasting footprint on conventional warfare, the solidity of multi-lateral international institutions, and cements our thematic thesis around RESOURCE NATIONALISM.**

Our watch words for 2026 portfolio construction and asset allocation are diversification, active risk management, preference for high quality balance sheets and pricing power, and maximum selectivity and stock picking.

Source: Morgan Stanley Wealth Management Global Investment Office (GIO). 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. Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Please refer to important information, disclosures and qualifications at the end of this material.

What We Forecast: A Mid-Cycle Expansion

May 2026

2026E US GDP Growth		2026E US Inflation		Federal Funds Rate		Two-Year/10-Year US Treasury Yield	
Real	2.2%	3.5%		3.50%-3.75%		3.75%/4.25% <i>2s10s slope to 50 bp</i>	
Nominal	5.8%						
2026E Rest of World		2026E US Dollar		2026E/2027E S&P 500 Earnings		Price/Earnings Multiples	
GDP	3.4%	1H	-1%	MS & Co.	\$339/\$380	Current	21.1x
		2H	+1%	Consensus	\$333/\$383	Forecast	20.5x
Inflation	2.9%	<i>US Dollar Index (DXY) @ 96</i>		<i>MS & Co. 2026 Growth: 23%</i> <i>Consensus: 22%</i>		Fair Value	17.8x

S&P 500 trades toward 8,300 MS & Co. base case annual target price.

Source: Morgan Stanley Wealth Management GIO. Estimates are Morgan Stanley Wealth Management Global Investment Committee unless noted otherwise.

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Current Key Controversies

May 2026

1. Conflict in Iran

- Oil price shock impact directly proportional to war duration
- Impact much more profound for oil importers (China, India, EM); Positive for LatAm and Canada; US is energy independent; Issue is pass-through inflation; Recession odds up to 30%; US Treasuries non-diversifying (debts/deficits)
- **Major global inflection in multipolar dynamics; Implications for trade, Taiwan, superpower warfare, NATO, OPEC, and RESOURCE NATIONALISM**

2. AI Bubble?

- Spending is accelerating even further and FCF growth of Mag-7 has gone negative; Markets starting to price unsustainability and **peak GPUs**
- Ecosystem is increasingly using debt and interconnected vendor financing
- GPUs versus TPUs/ASICs fight emerging
- LLMs business models still have vague monetization models; Quality of earnings and depreciation schedules
- IPO “capacity” is a crowding factor

3. Sector Rotation and Extreme Dispersion

- Hedge fund and active manager paradise; **Widest stock level dispersion in 30 years**
- Oversold: parts of software, financials, tech, health care
- Overbought: semis, small caps, consumer staples

4. Credit Cockroaches?

- Private credit is the epicenter of SMID SaaS stress, defaults plus “liquidity management exercises” are approaching 5%; **Peak could be 8%; We see returns falling from 11% to 8%**
- Issue is **NOT** cash flow and defaults today—it is loan-to-value in refi tomorrow
- Fed easing may not be enough as floating rate borrowing costs are well above large-cap competitors and business models pre-GenAI may be zombies

5. The Consumer and K-Shaped Economy?

- Low-end consumer is pressured by **sub 0% real income growth**
- **The savings rate is sub-par at 3.5%**; Tax refunds to go to debt pay down and catch up on rising delinquencies in credit cards, student loans, auto, and mortgage
- Wealth effects may be swamping income effects, obscuring the true read of breadth of economic health

Source: Morgan Stanley Wealth Management GIO

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6. AI and Corporate Margins: A Productivity Renaissance?

- Promises are big, but adoption is STILL only 15-20%; basic not agentic
- Margin improvements concentrated among tech companies themselves
- Scale and size are overwhelming drivers, leaving the “493” and small-mid behind

7. Manufacturing Boom?

- Capex spending beyond AI still modest; 2025 saw **-105,000** manufacturing jobs
- Last three months seeing stabilization
- But durable goods orders, capital goods shipments, and IP are strengthening
- Manufacturing ISM expanded (>50 reading) four months in a row

8. Inflation Tamed?

- **Oil shock will likely add 60-70bps to 2026 headline CPI; 10-20bps to Core CPI**
- Readings are sticky and tariff risks remain as middle market corporate margins have absorbed price changes
- Post IEEPA; refunds
- 2026 brings renegotiation of USMCA: End of China Truce; India?

9. Fed Independence and Fiscal Dominance Remains Post Oil Shock

- **ZERO CUTS currently priced**
- War introduces risk to inflation and deficit spending
- Warsh becoming the new Fed Chair in May may mean new policy framework
- We see a steeper curve and pressure on long duration multiples in the long run
- Fed focus shifts from cutting rates to a shift in balance sheet strategy; front-end Treasury bill issuance and duration shortening of the balance sheet

10. ROW Catch-Up Trade

- War disrupts ROW trade especially for Europe, Asia; LatAm appears most insulated
- Multi-Polar themes and Monroe Doctrine gamechangers
- **Ceasefire in Iran may mean historic “loss” for America with new alliances and asymmetry of war a reality**
- Valuation catalyst and fundamental acceleration still possible

GIC Portfolio Positioning

May 2026

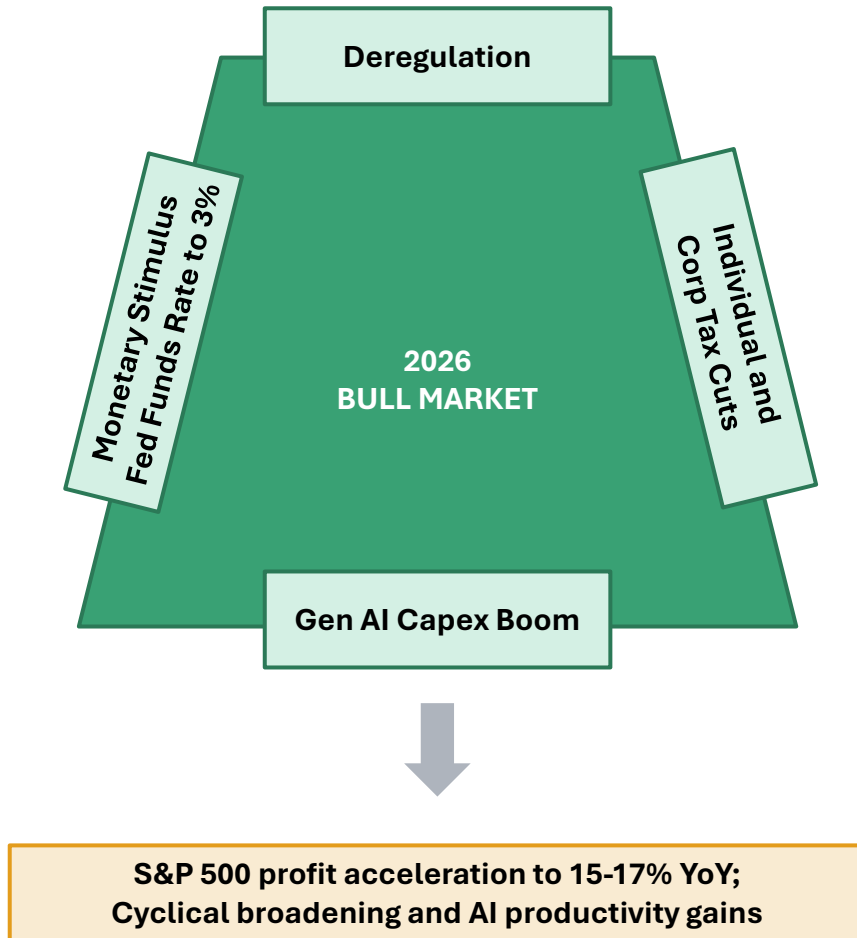
- **The GIC recommends exploiting extreme dispersion to focus on large-cap quality equities and non-US exposure that will best weather policy uncertainty, volatility, slowing, but non-recessionary growth, and sticky inflation in 2026.**
 - Magnificent Seven relative valuations have materially improved.
 - Market action suggests quality is cheap.
 - Quality cash flows will matter in a re-leveraging cycle; we are style-neutral.
 - Large-cap over small-cap; indices deconcentrate.
- **2026 is a mid-late cycle year where stock selection favors returns to bigger, capex-exposed players with pricing power.**
 - **Potential total portfolio return to average ~10%.**
 - Earnings growth and positive revisions, NOT multiples, pace gains.
 - Fiscal policy produces wide dispersion between beneficiaries and disadvantaged.
 - Momentum factors give way to idiosyncratic exposures...max active stock selection.
 - Stock/bond correlations remain volatile/positive as regimes remain unstable; pursue maximum portfolio level diversification.
- **US Equities: Overweight**
 - **Market Weight** the Magnificent Seven; **Selling Semiconductors**
 - **Underweight** unprofitable tech and small caps.
 - **Balance equal-weighted index to cap-weighted;** max active management at 50% of US equity mix; Mag 7 tax bill beneficiaries.
 - Prefer quality cyclicals; GARP: financials, energy, domestic industrials, healthcare, media; we are cautious on consumer.
 - **Adding** mid-cap growth names, which appear insulated from tariffs.
- **Rest of World Equities: Slight Overweight**
 - Japan and India favored longer-term secular positions.
 - **Overweight** EM ex-China; **Market Weight** China; **LatAm highest conviction.**
 - Europe focus on global brands and secular growth themes in defense, construction engineering and infrastructure.
- **Fixed Income: Underweight; the GIC is reducing fixed income exposure and targeting a neutral duration relative to the benchmark.**
 - Prefer IG corporate and munis.
 - Moving to neutral duration.
- **Real Assets: Overweight**
 - Gold and industrial commodities
 - Residential REITs
 - Energy Infrastructure and MLPs
 - **Underweight** silver and bitcoin
- **Hedge Funds: Overweight**
 - Equity Long/Short
 - Multi-Strategy; Absolute Return
 - **Underweight** Macro
- **Privates: Market Weight**
 - Prefer infrastructure and real assets
 - **Adding** to 2026 vintages of venture capital and growth equity.
 - Equity secondaries
 - Private credit ABS and distressed/special situations only.
 - **Underweight** PE buyout and direct lending.

Source: Morgan Stanley Wealth Management GIO

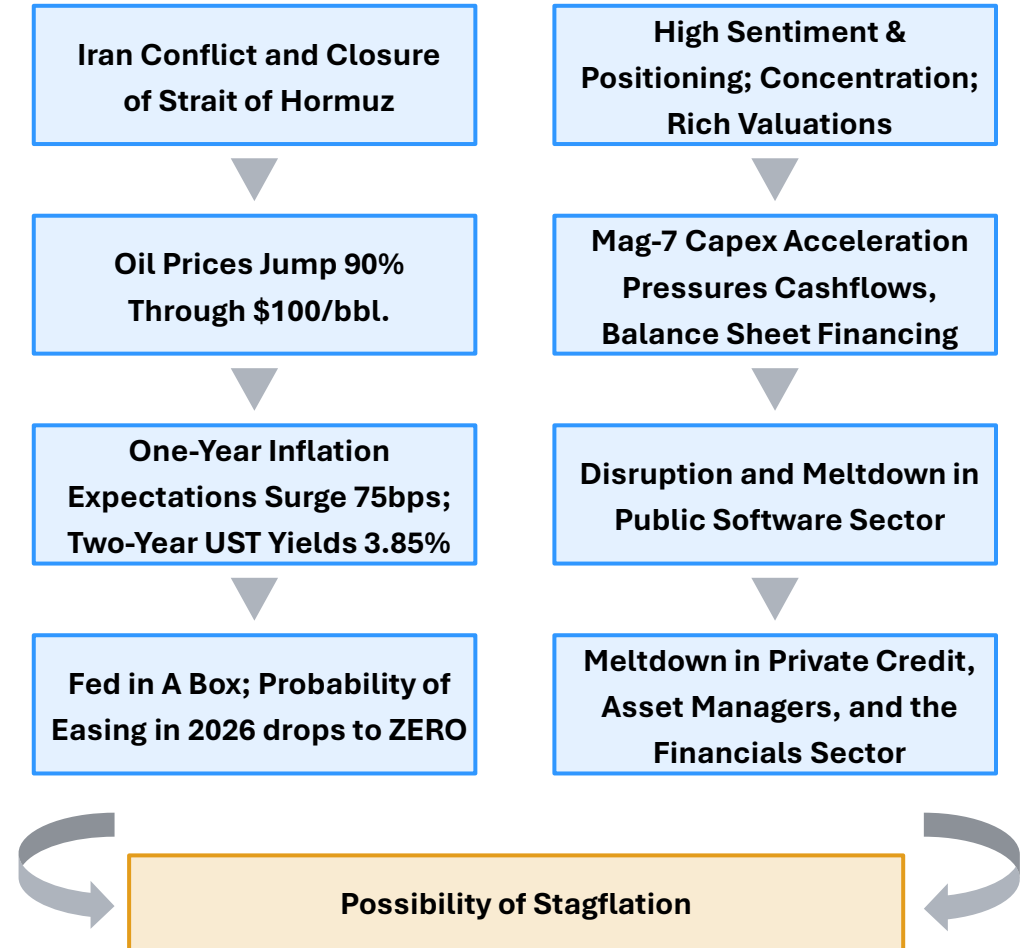
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2026 Bull Case Has Been Complicated by Headwinds

THE ORIGINAL 2026 BULL CASE: DISINFLATIONARY BOOM



2026 ACTUAL DYNAMICS: MOUNTING HEADWINDS



Source: Morgan Stanley Wealth Management GIO

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April/May Retracement Is Historic, Landing Stocks at All-Time Highs

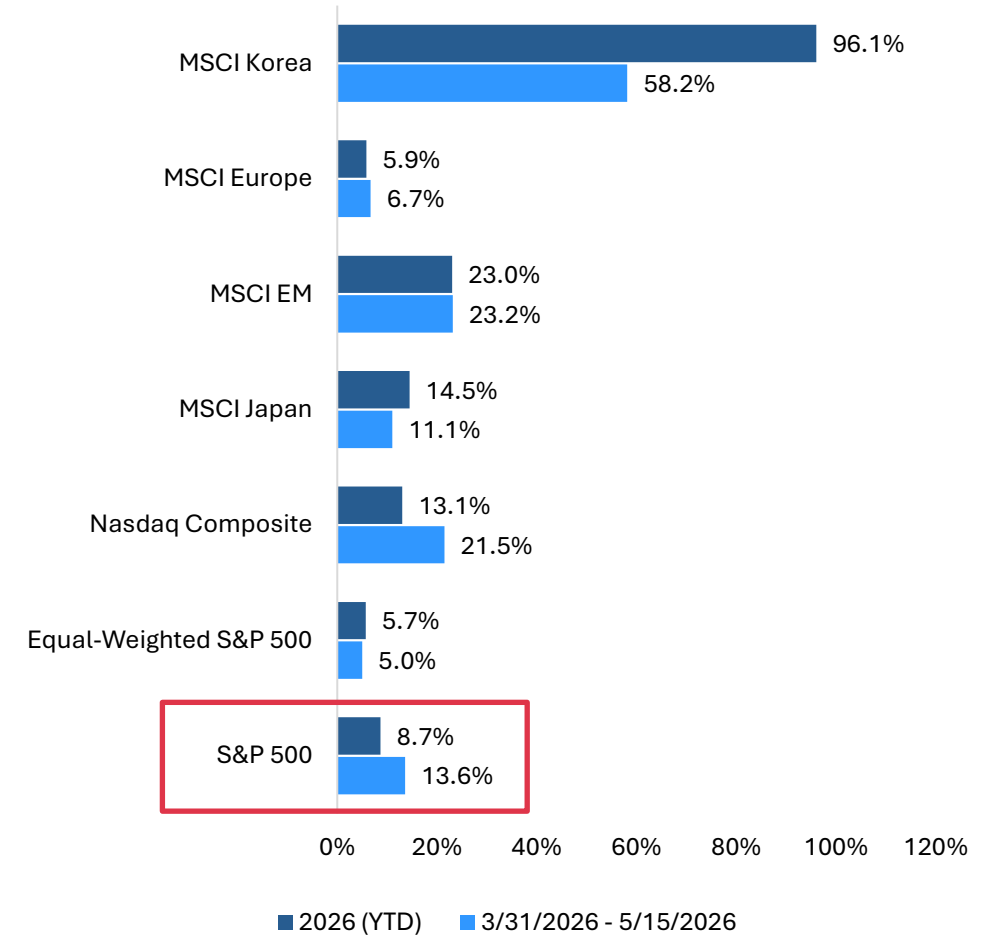
S&P 500 INDEX

AS OF MAY 15, 2026



ASSET CLASS PERFORMANCE

AS OF MAY 15, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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US Equities Have Retraced US-Iran Conflict Drawdown at a Record Pace

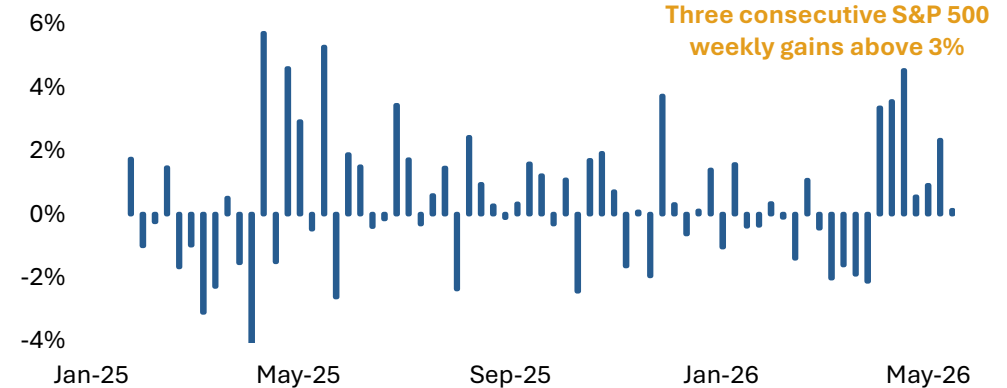
HIGH BETA RELATIVE TO MOMENTUM FACTOR

AS OF MAY 15, 2026



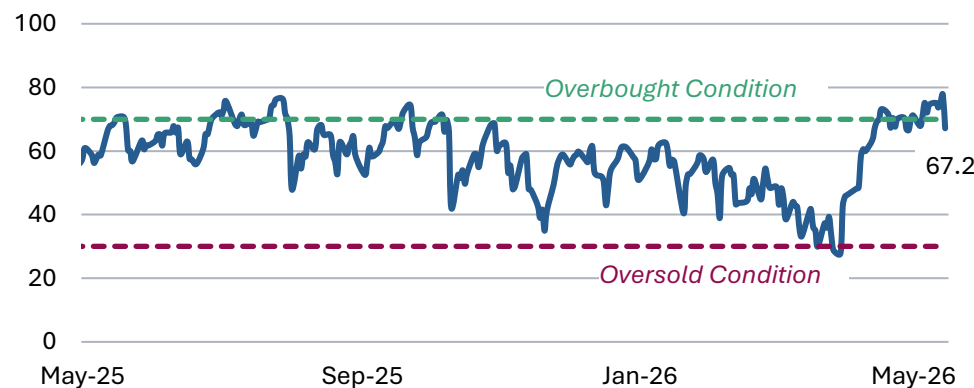
S&P 500 WEEKLY RETURN

AS OF MAY 15, 2026



S&P 500 RELATIVE STRENGTH INDICATOR (RSI)

AS OF MAY 15, 2026



CFTC ASSET MANAGER NET EXPOSURE TO S&P 500

AS OF MAY 15, 2026



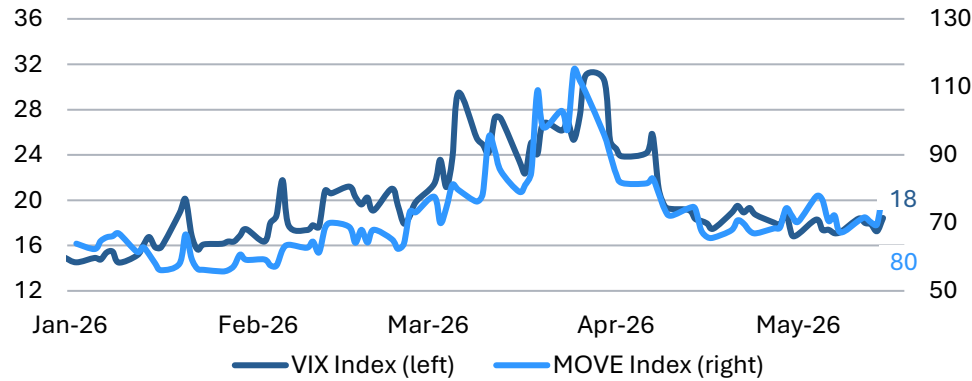
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Risk-on Rotation Has Extended to Other Asset Classes

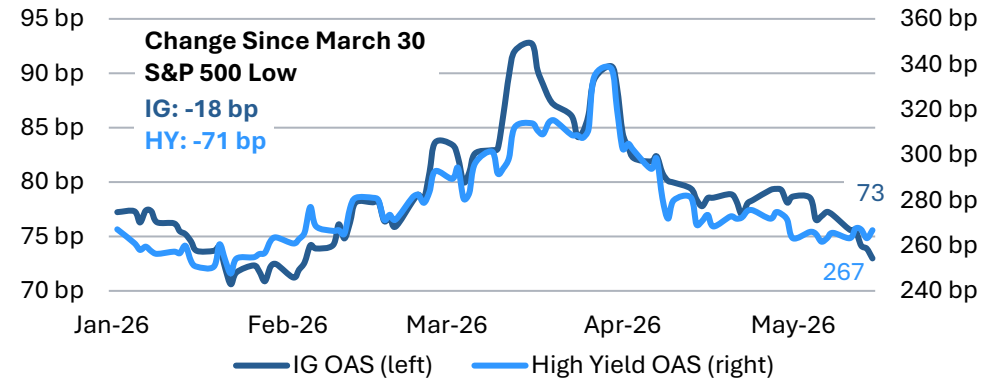
VIX INDEX VS. MOVE INDEX

AS OF MAY 15, 2026



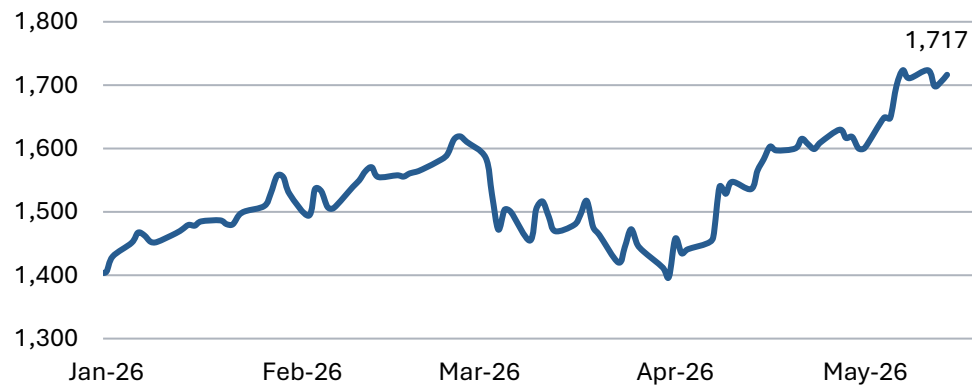
INVESTMENT GRADE VS. HIGH YIELD OPTION-ADJUSTED SPREADS

AS OF MAY 15, 2026



MSCI EMERGING MARKETS

AS OF MAY 15, 2026



BITCOIN

AS OF MAY 15, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg. Option-adjusted spread (OAS) is a measurement of the spread of a fixed income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option.

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Old Themes Are Back in Favor; MOMO and FOMO

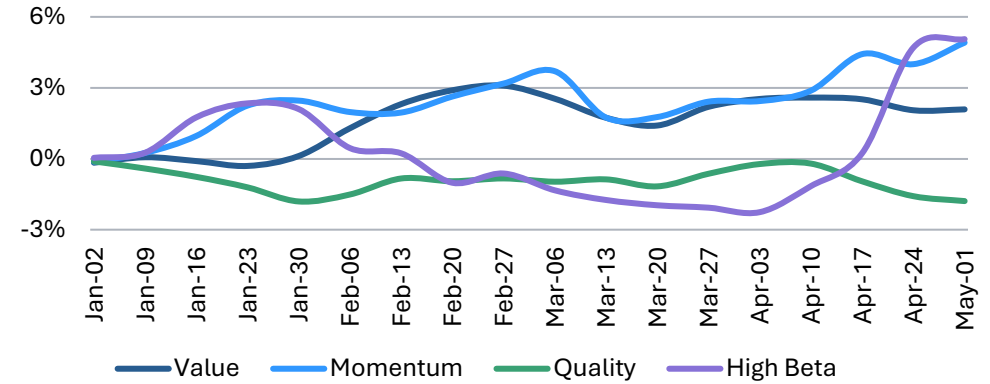
CAP-WEIGHTED S&P 500 RELATIVE TO EQUAL-WEIGHTED S&P 500

AS OF MAY 15, 2026



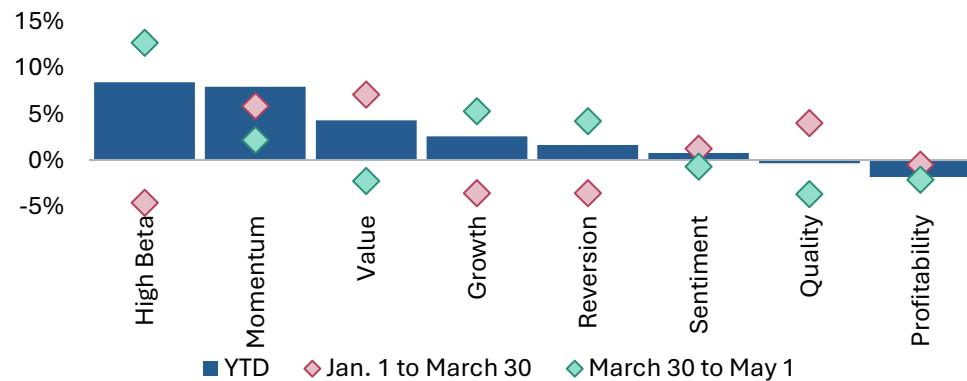
YEAR-TO-DATE FACTOR EXCESS RETURN

AS OF MAY 1, 2026



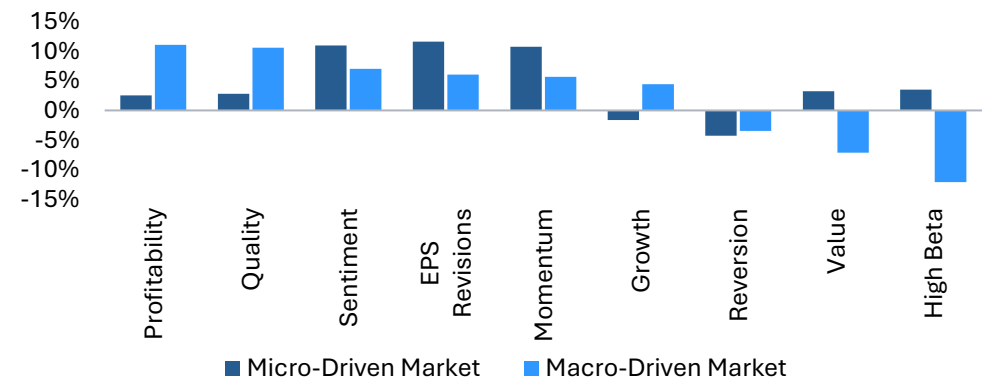
YEAR-TO-DATE FACTOR RETURN SPREAD

AS OF MAY 1, 2026



AVERAGE FACTOR RETURNS SPREADS BY SENSITIVITY REGIME

AS OF MAY 1, 2026



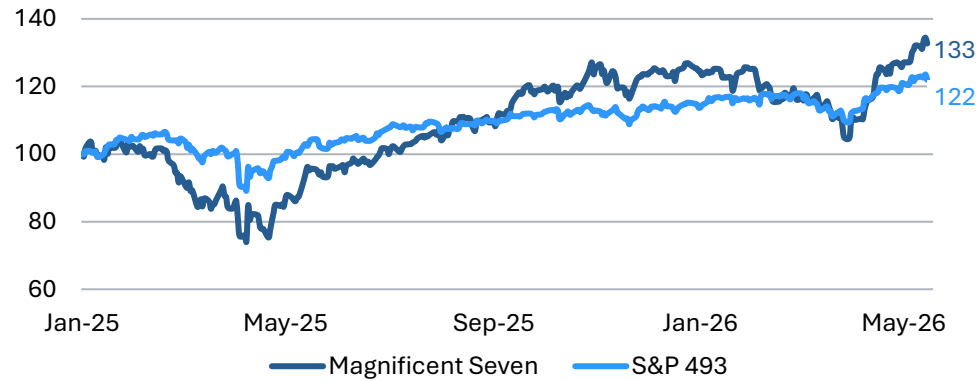
Source: Morgan Stanley Wealth Management GIO, Bloomberg, Factset

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The Story Is Once Again About the AI Ecosystem

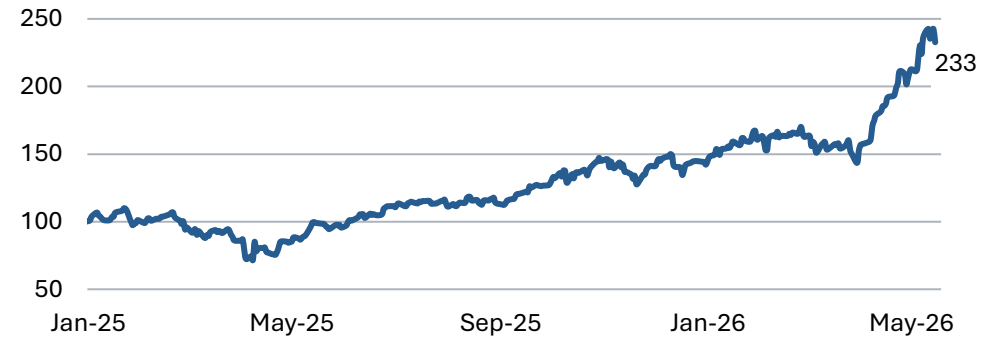
MAGNIFICENT SEVEN VS. S&P “493”

AS OF MAY 15, 2026 (JANUARY 1, 2025 = 100)



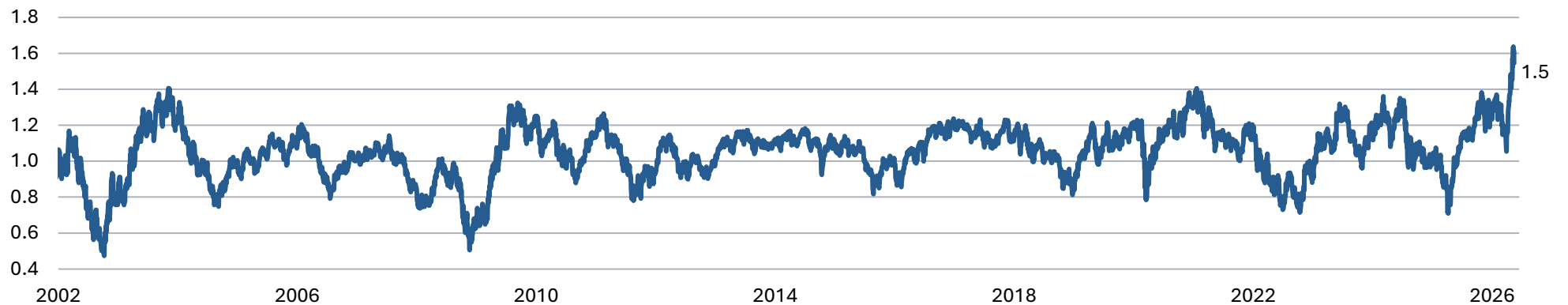
PHILADELPHIA STOCK EXCHANGE SEMICONDUCTOR (SOX) INDEX

AS OF MAY 15, 2026 (JANUARY 1, 2025 = 100)



SOX INDEX RELATIVE TO 200-DAY MOVING AVERAGE

AS OF MAY 15, 2026



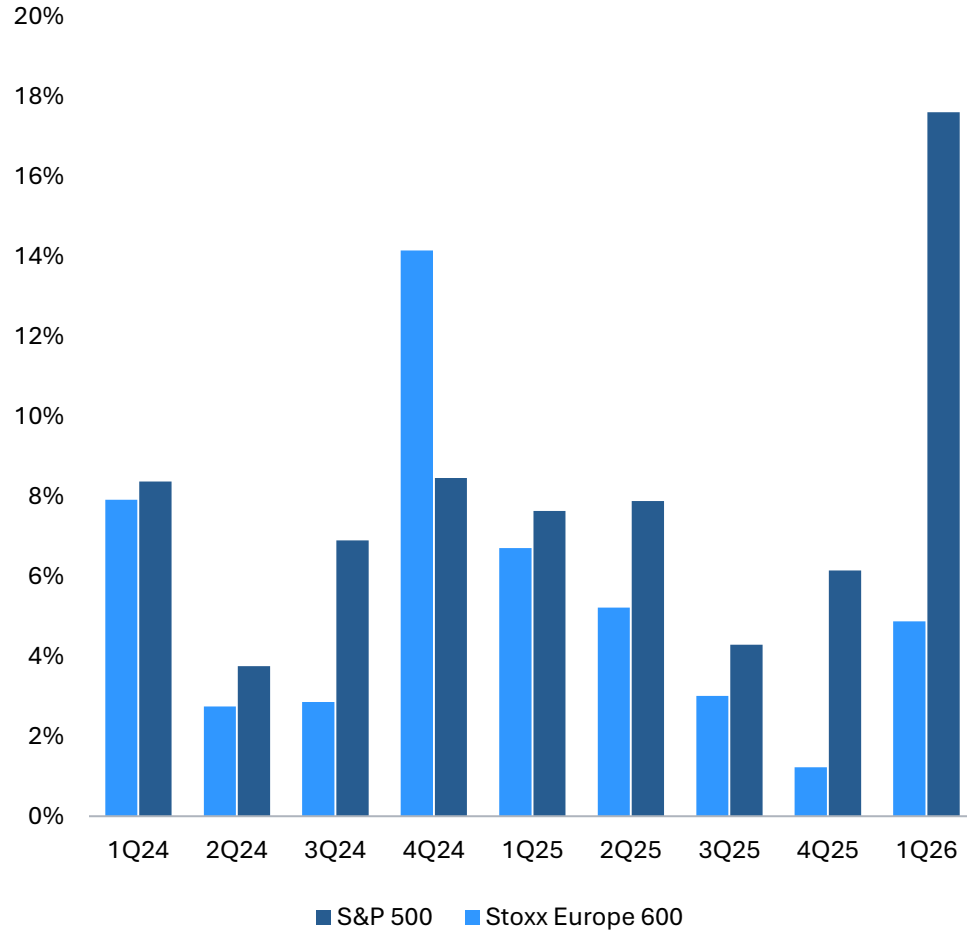
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Driven by Earnings Surprise and Revisions

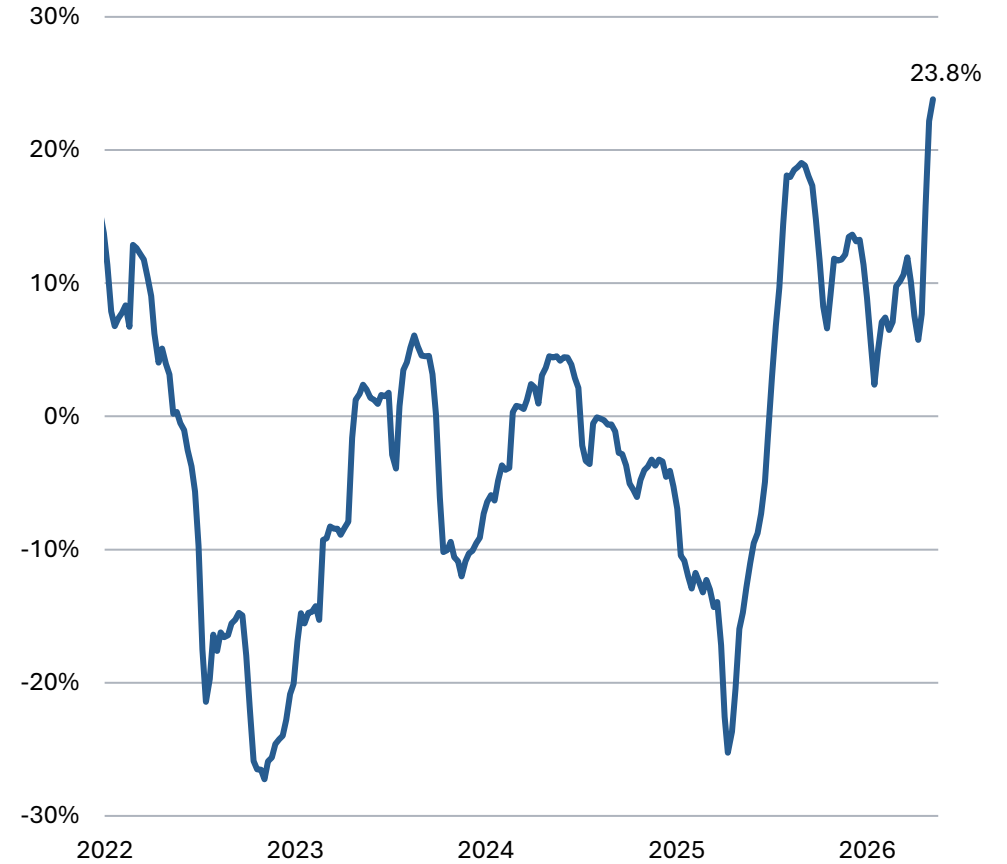
AGGREGATE EARNINGS SURPRISES

AS OF MAY 15, 2026



S&P 500 EARNINGS REVISIONS BREADTH

AS OF MAY 15, 2026



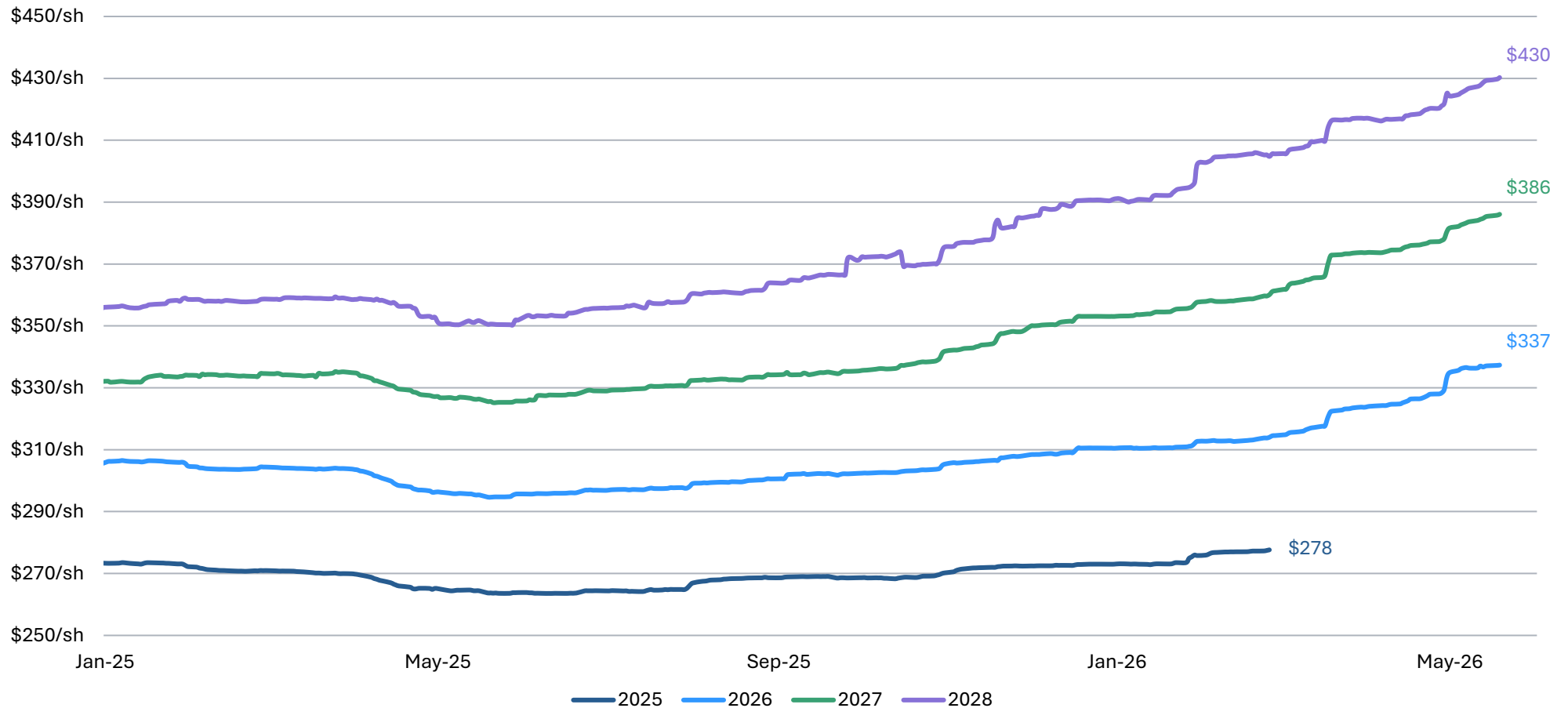
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, Bloomberg

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New Forecasts for 2026-2028 Have Jumped Higher

S&P 500 EARNINGS ESTIMATES

AS OF MAY 19, 2026



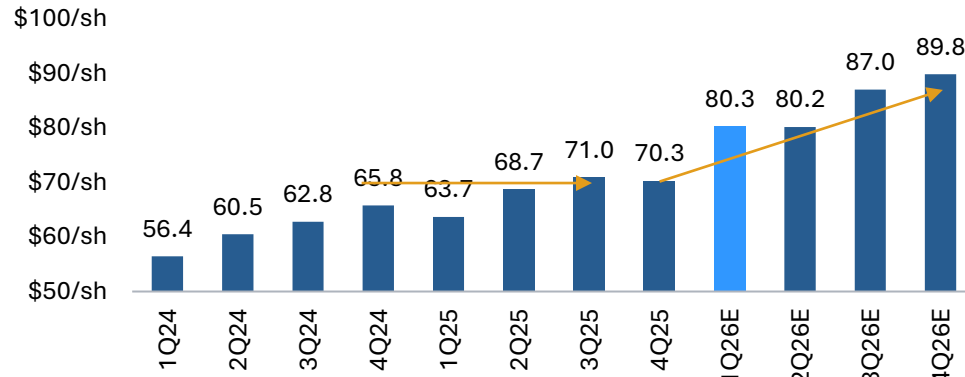
Source: Morgan Stanley Wealth Management GIO, Bloomberg, Strategas

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New Forecasts for 2026-2028 Suggest Growth 2x Normal, But Deceleration

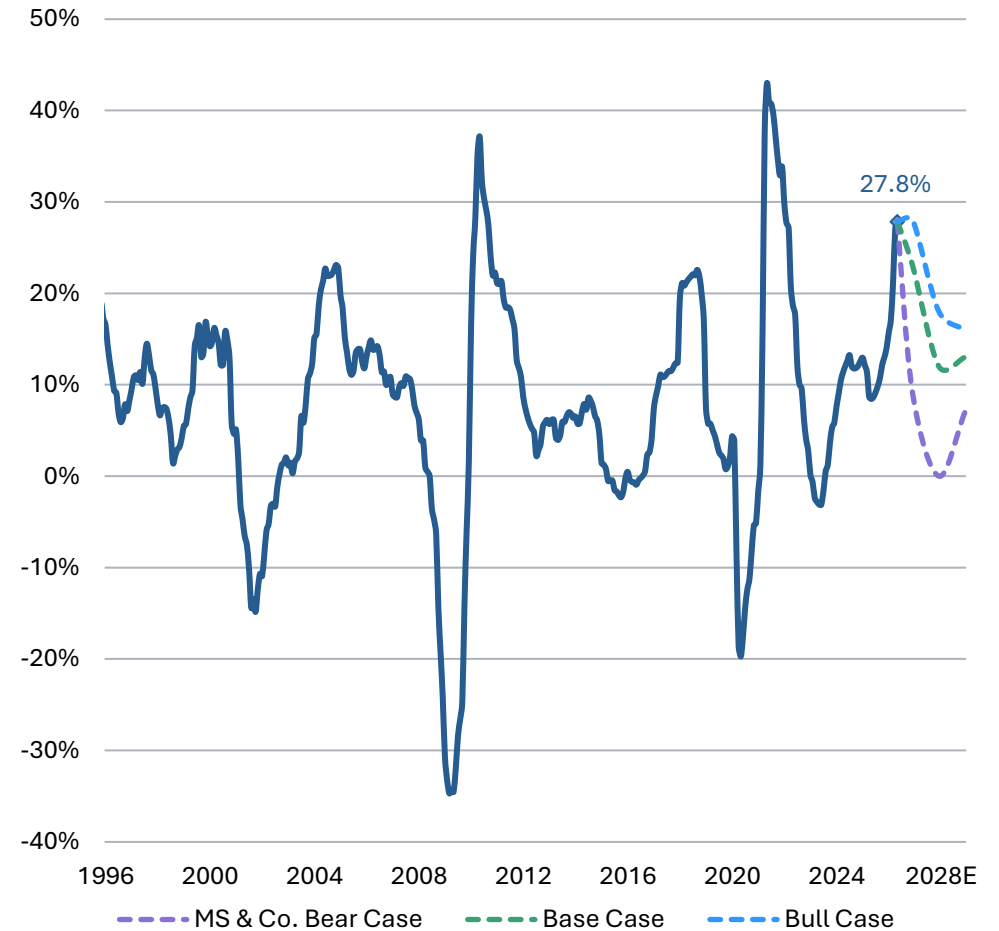
S&P 500 CONSENSUS EPS

AS OF MAY 15, 2026



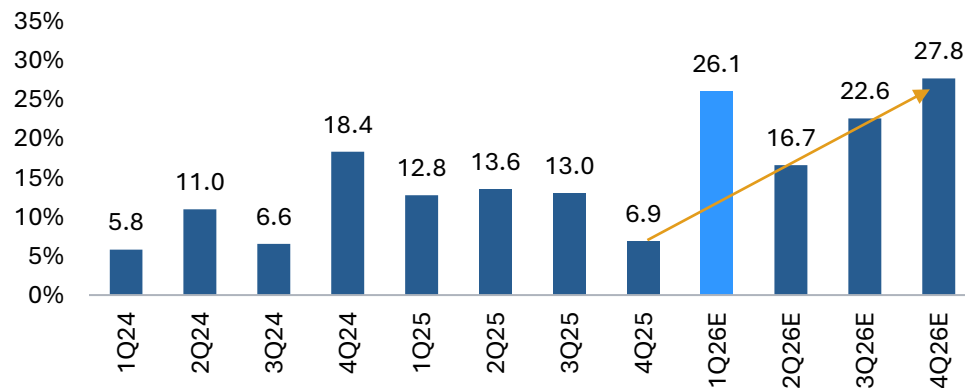
S&P 500 FORWARD EPS, YEAR-OVER-YEAR

AS OF MAY 15, 2026



S&P 500 CONSENSUS EPS, YEAR-OVER-YEAR GROWTH

AS OF MAY 15, 2026



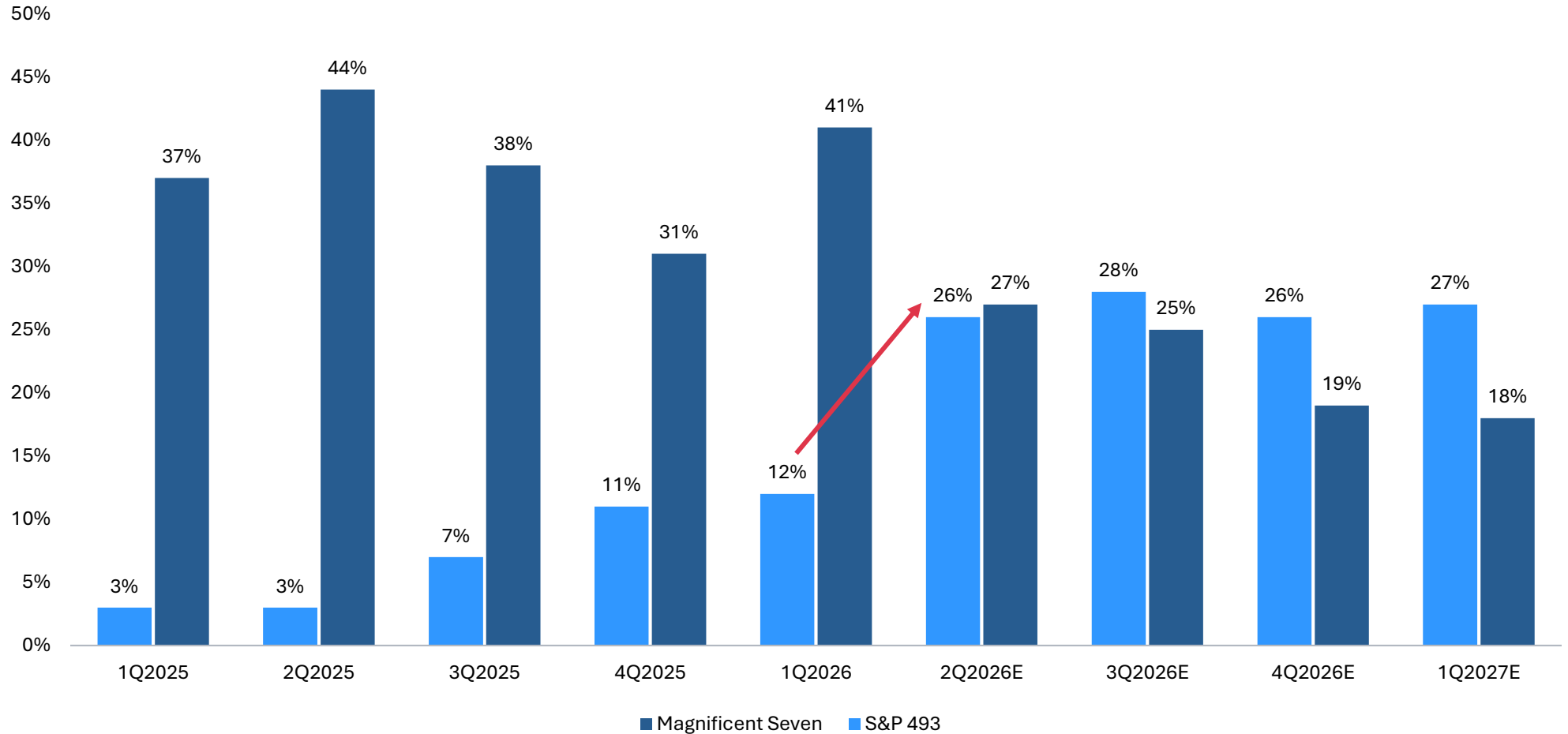
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research. Earnings revisions breadth is defined as the number of positive analyst revisions minus the number of negative analyst revisions divided by the total number of revisions.

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Near Term Depends on Broadening Thesis for “493” Profit Growth Reacceleration

MAGNIFICENT SEVEN AND S&P 493 EPS, YEAR-OVER-YEAR GROWTH

AS OF MAY 15, 2026



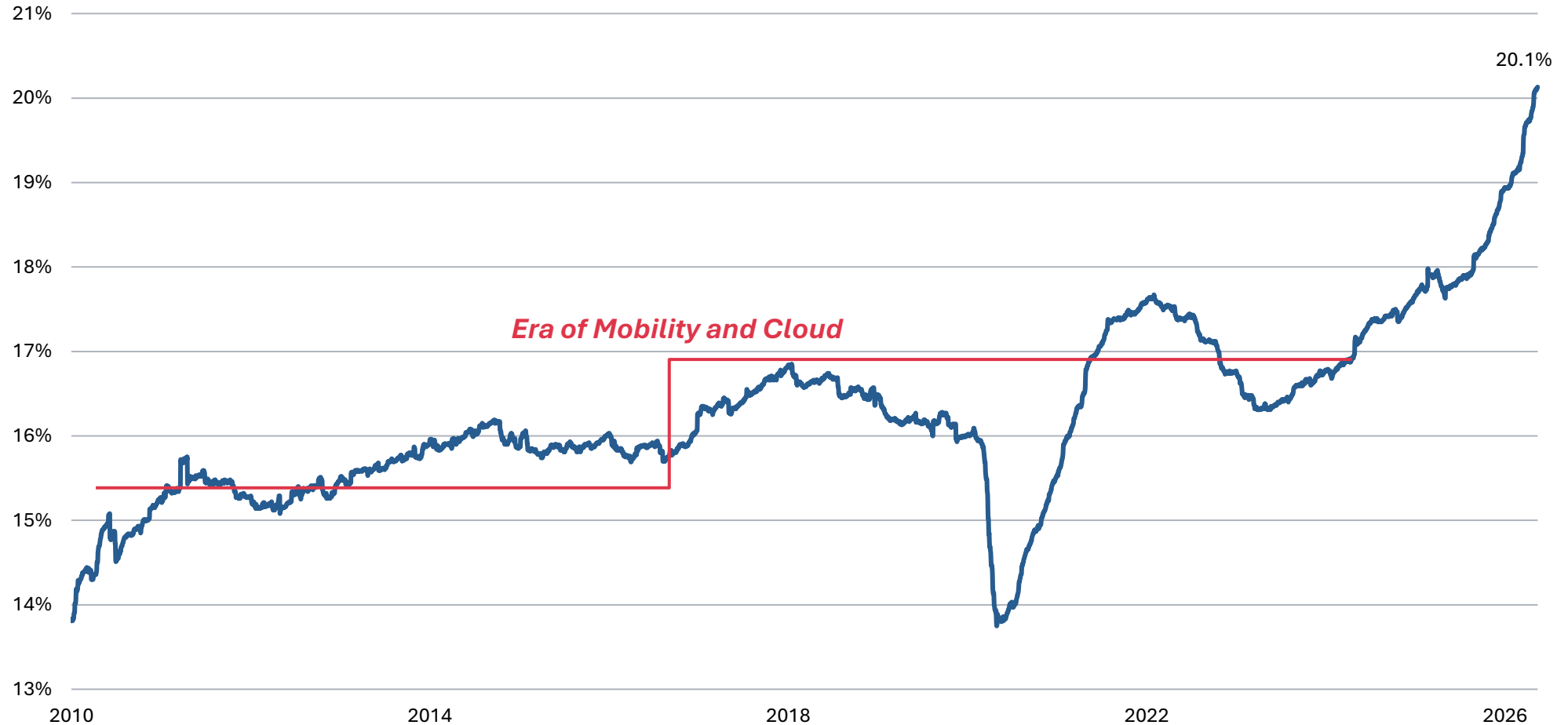
Source: Morgan Stanley Wealth Management GIO

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Expectations for Productivity Gains Are Substantial

S&P 500 FORWARD OPERATING MARGIN

AS OF MAY 15, 2026



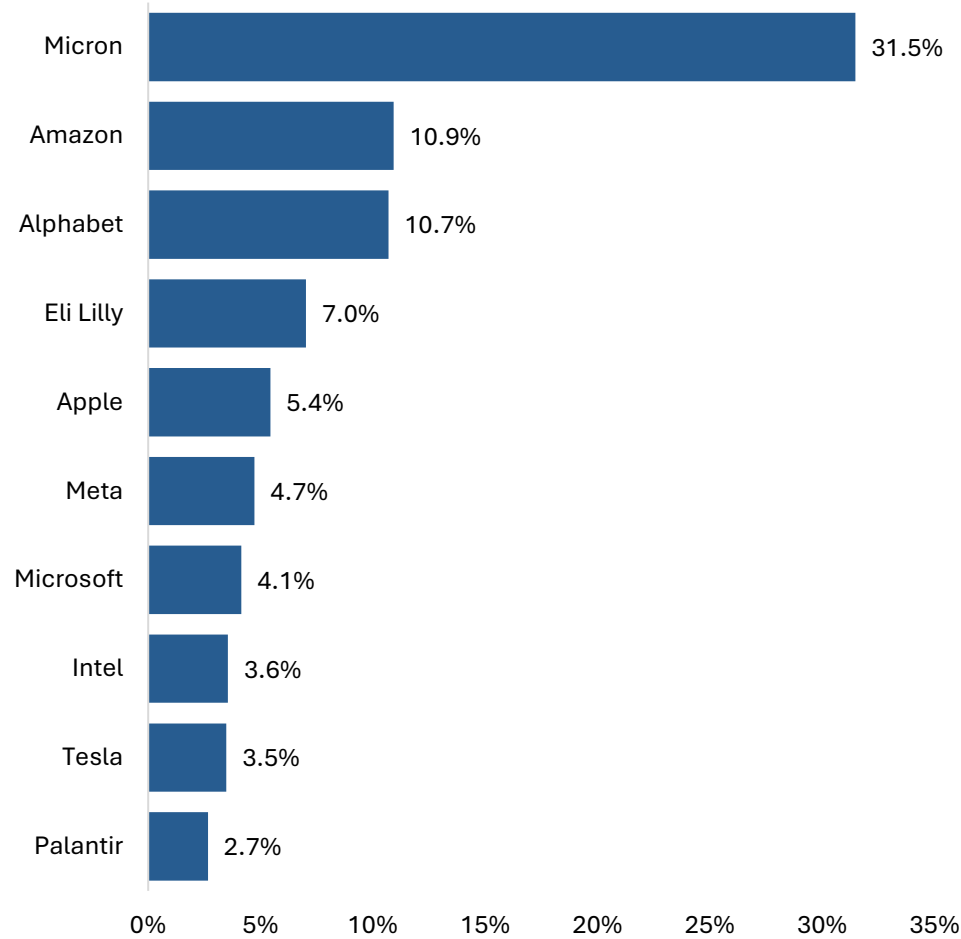
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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But Earnings Revisions Are Deceptively Concentrated

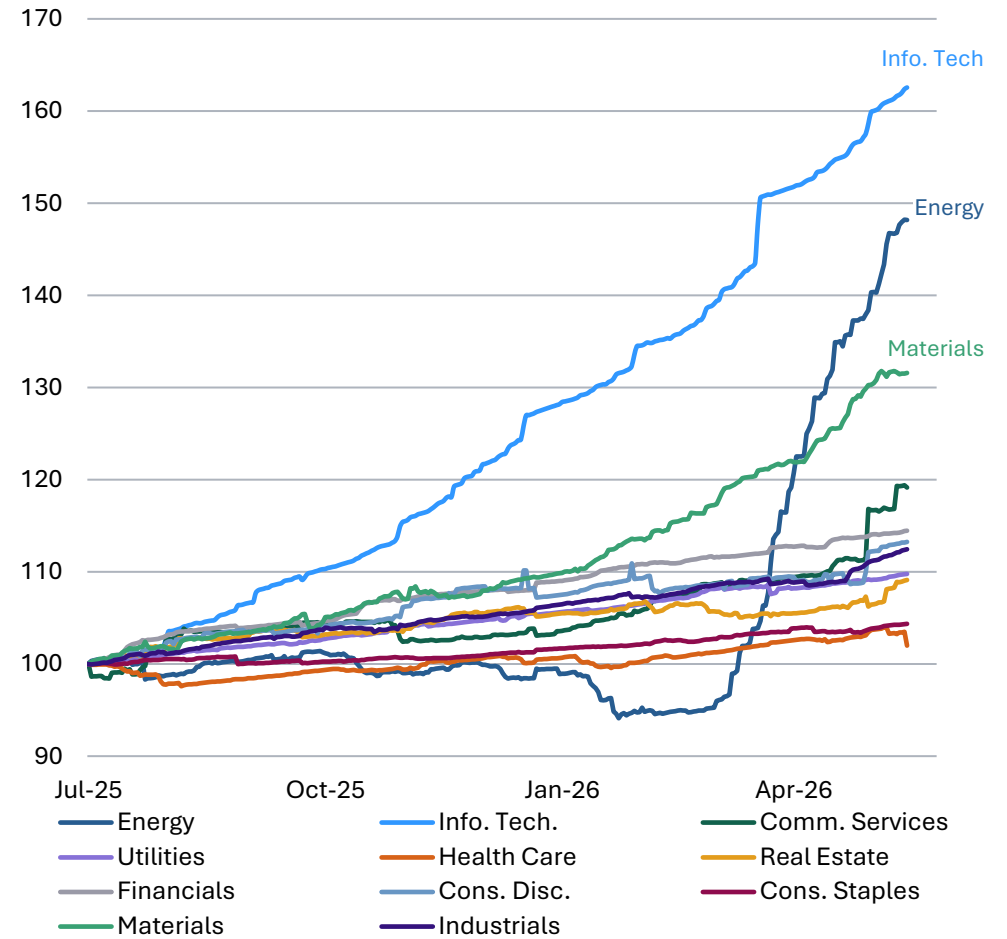
CONTRIBUTION TO 1Q2026 S&P 500 EARNINGS GROWTH

AS OF MAY 15, 2026



S&P 500 SECTOR EPS EXPECTATIONS

AS OF MAY 15, 2026 (JUNE 30, 2025 = 100)



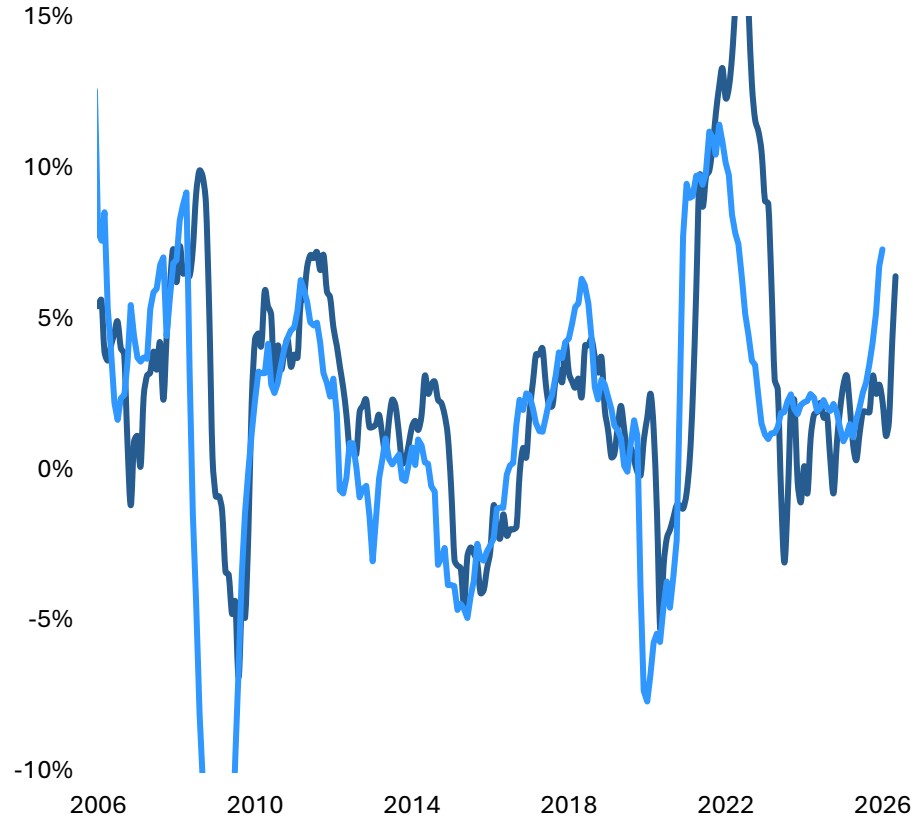
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Is The Upside Surprise More Pricing Than Productivity? We Are in a Scarcity Economy

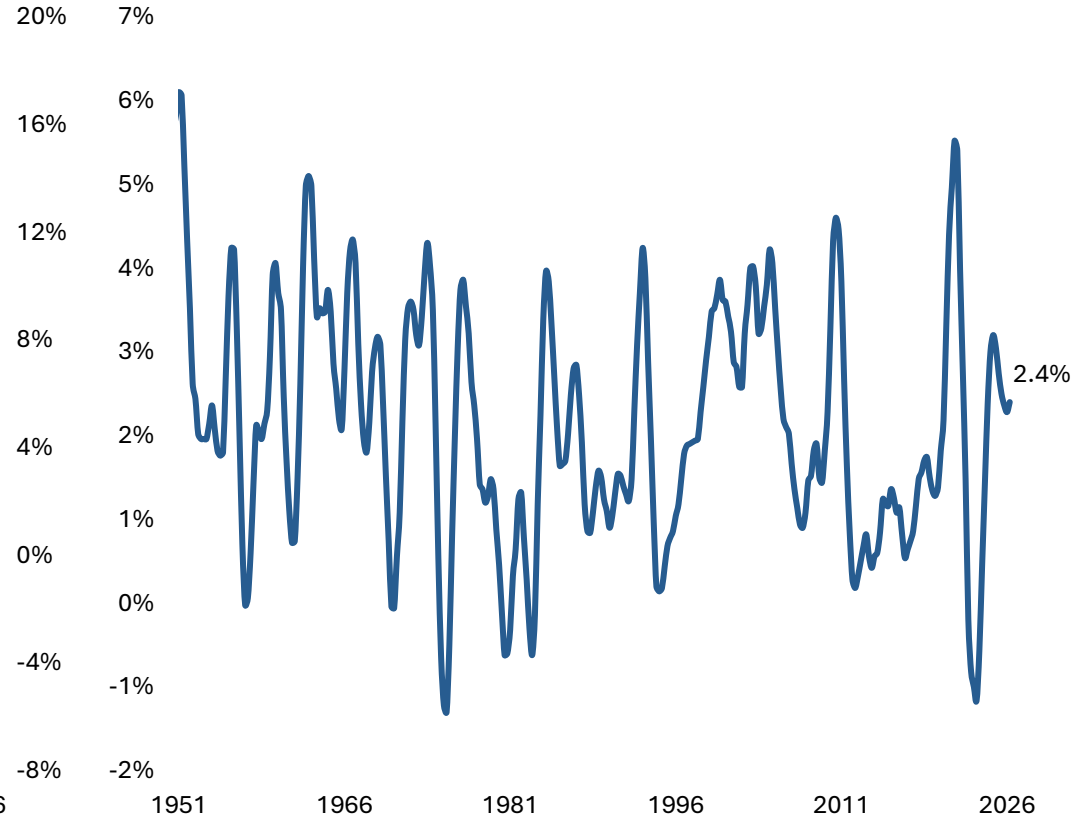
PPI VS. S&P 500 SALES GROWTH

AS OF MAY 15, 2026



NONFARM PRODUCTIVITY, FIVE-YEAR AVERAGE YEARLY GROWTH

AS OF APRIL 30, 2026



— US Headline PPI, Year-Over-Year (left, advanced four months)
 — S&P 500 Sales, Year-Over-Year (right)

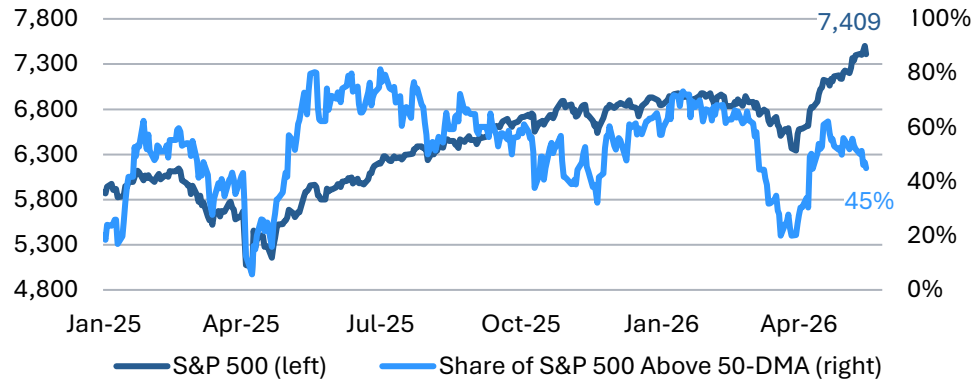
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Market Breadth Is Narrowing Not Mirroring Revisions; Rotational Dynamics Familiar

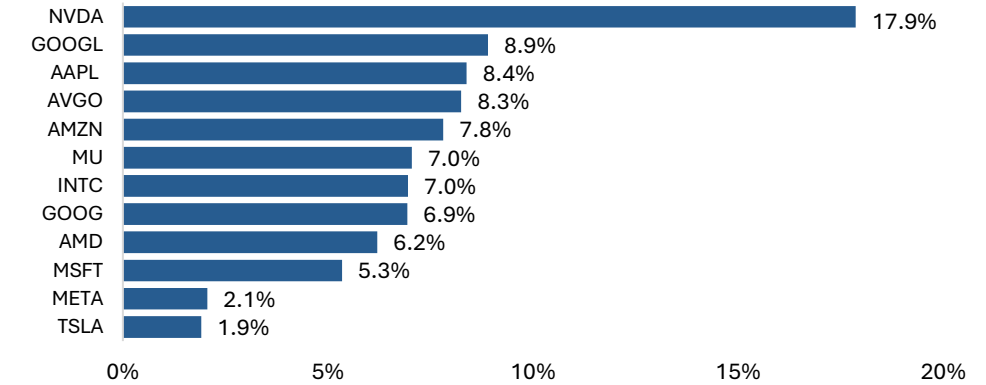
S&P 500 VS. SHARE OF CONSTITUENTS ABOVE 50-DMA

AS OF MAY 15, 2026



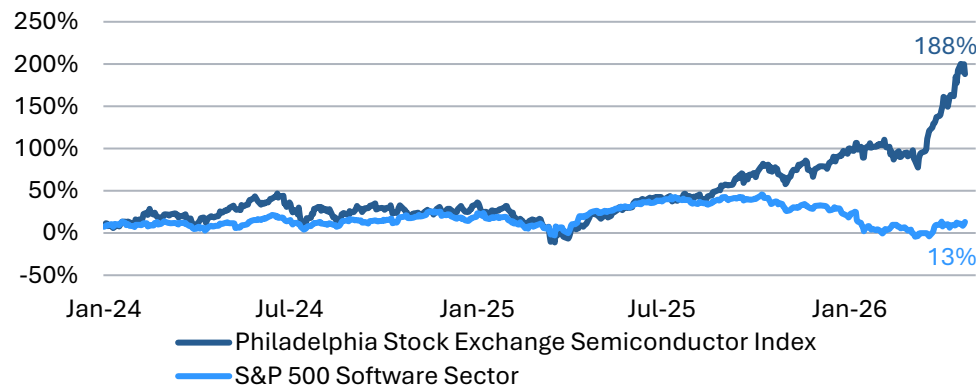
CONTRIBUTION TO S&P 500 TOTAL RETURN SINCE MAR. 30 LOW

AS OF MAY 15, 2026



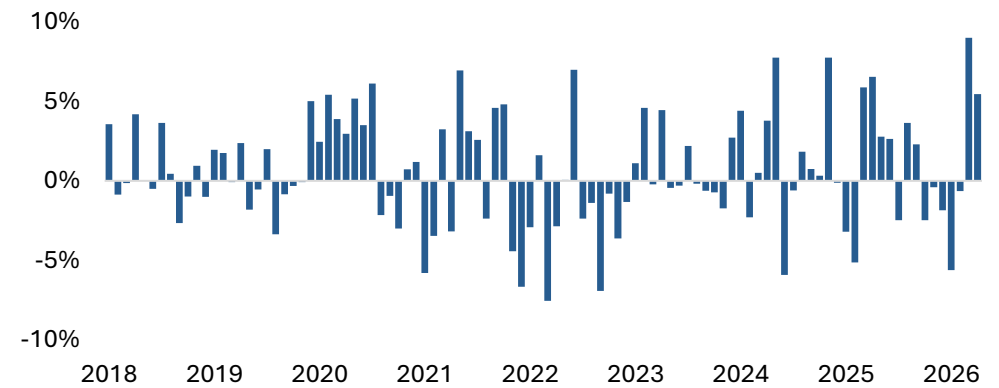
SOFTWARE VS. SEMICONDUCTOR PERFORMANCE

AS OF MAY 15, 2026 (DECEMBER 31, 2023 = 0%)



S&P 500 GROWTH INDEX LESS VALUE INDEX MONTHLY RETURN

AS OF MAY 15, 2026



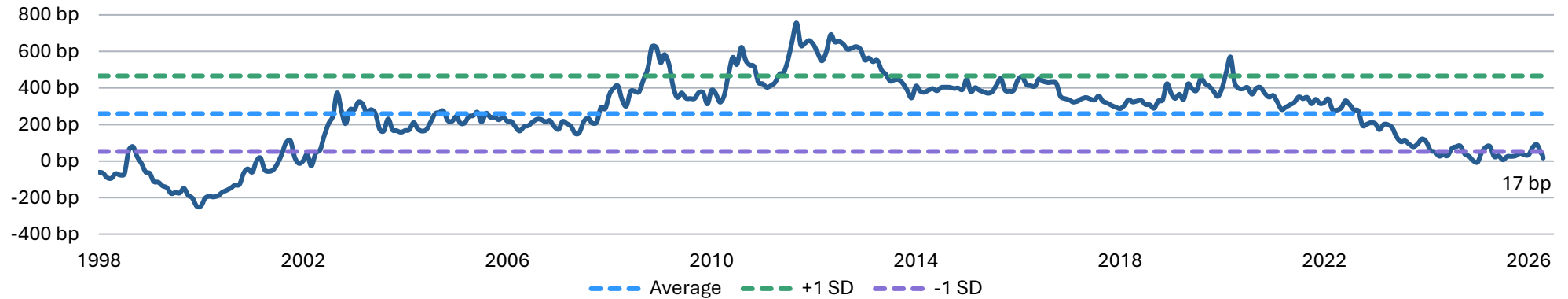
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Valuations Back to Extremes

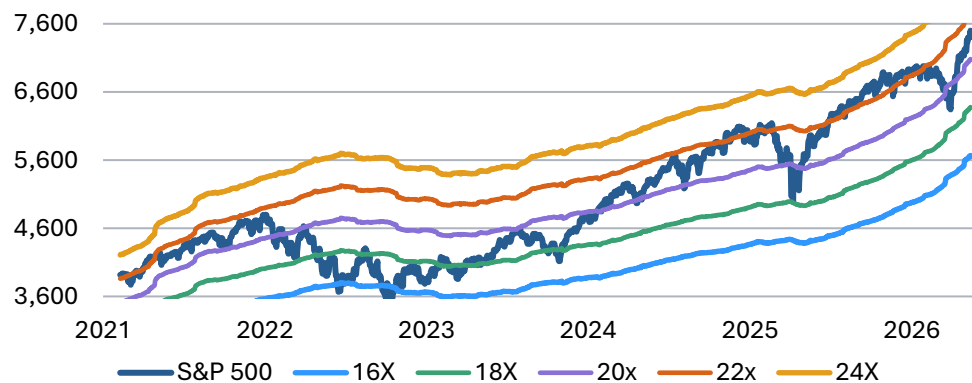
EQUITY RISK PREMIUM

AS OF MAY 15, 2026



S&P 500 BY FORWARD P/E MULTIPLE

AS OF MAY 15, 2026



S&P 500 FORWARD 12-MONTH P/E RATIO

AS OF MAY 15, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg. 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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Seasonality and Political History Suggest a Grind

S&P 500 AVERAGE PRICE RETURN DURING FOUR-YEAR PRESIDENTIAL CYCLES

AS OF MAY 15, 2026



Source: Morgan Stanley Wealth Management GIO, Strategas

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Obscuring Sector and Stock Level Opportunities

S&P 500 SECTOR PERFORMANCE AND VALUATION

AS OF MAY 15, 2026

Index Name	Return			Div. Yield	Beta	20-Year Avg. Forward P/E	Forward P/E	PEG Ratio
	One-Week	YTD	One-Year					
S&P 500	0.2%	8.7%	26.7%	1.0%		16.3x	21.1x	1.7
Energy	7.0%	33.5%	43.8%	2.6%	0.75	13.9x	14.4x	1.6
Materials	-2.2%	10.5%	18.6%	1.7%	0.86	15.7x	17.6x	1.5
Industrials	-1.1%	10.8%	22.2%	1.1%	0.94	16.9x	24.8x	2.2
Consumer Discretionary	-3.0%	0.6%	12.8%	0.6%	1.23	20.7x	26.8x	2.2
Consumer Staples	1.3%	12.2%	10.2%	2.3%	0.26	17.9x	22.7x	3.5
Health Care	1.1%	-5.9%	13.2%	1.8%	0.54	15.1x	17.0x	1.8
Financials	-0.3%	-6.2%	1.3%	1.6%	0.89	13.0x	14.5x	2.6
Information Technology	1.2%	17.2%	46.2%	0.4%	1.39	18.7x	25.2x	1.4
Telecommunication Services	-0.8%	11.4%	46.7%	0.5%	1.01	15.9x	21.4x	1.9
Utilities	-1.9%	3.5%	11.4%	2.8%	0.41	16.1x	17.6x	1.8
Real Estate	-2.2%	11.8%	11.7%	3.3%	0.52	16.4x	18.0x	4.4

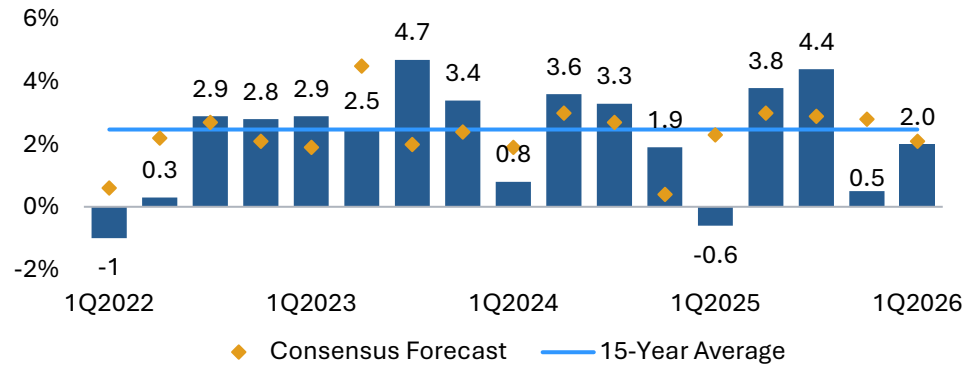
Source: Morgan Stanley Wealth Management GIO, Bloomberg, Factset

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Top-Down US Growth Is Still Robust

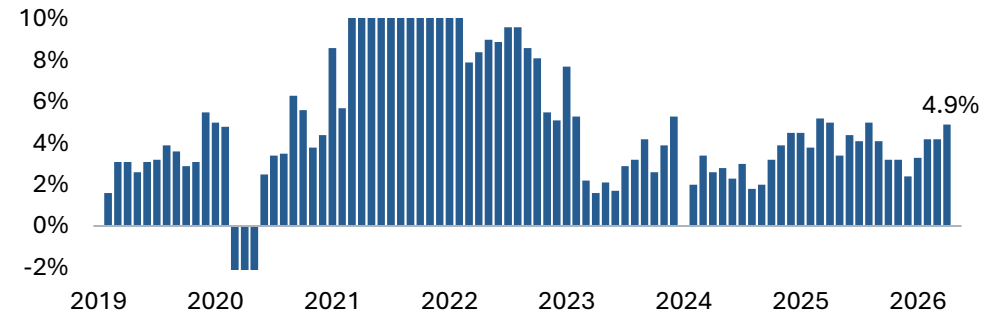
US GDP, QUARTER-OVER-QUARTER (ANNUALIZED)

AS OF APRIL 30, 2026



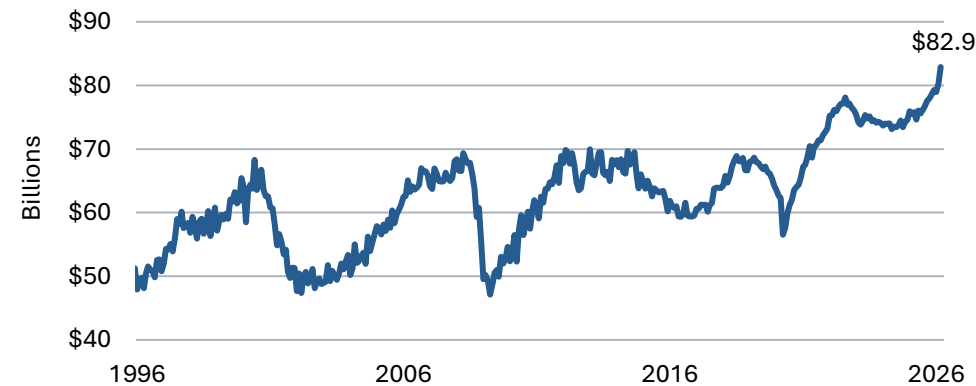
US RETAIL SALES, YEAR-OVER-YEAR

AS OF APRIL 30, 2026



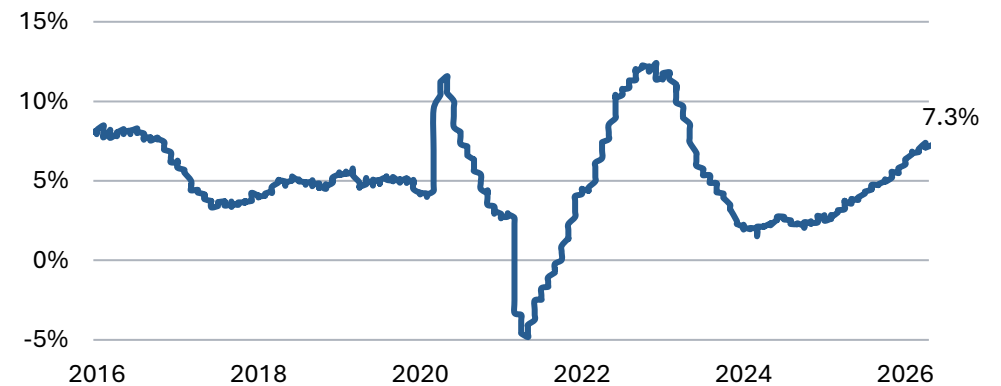
VALUE OF CAPITAL GOODS ORDERS EX DEFENSE AND AIRCRAFT

AS OF APRIL 28, 2026



US BANK TOTAL LOANS, YEAR-OVER-YEAR

AS OF MAY 15, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg. Note: Retail sales data truncated for COVID period highs and lows.

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Economic Surprises Have Held Up

Manufacturing Is Rebounding and Economic Surprises Solid

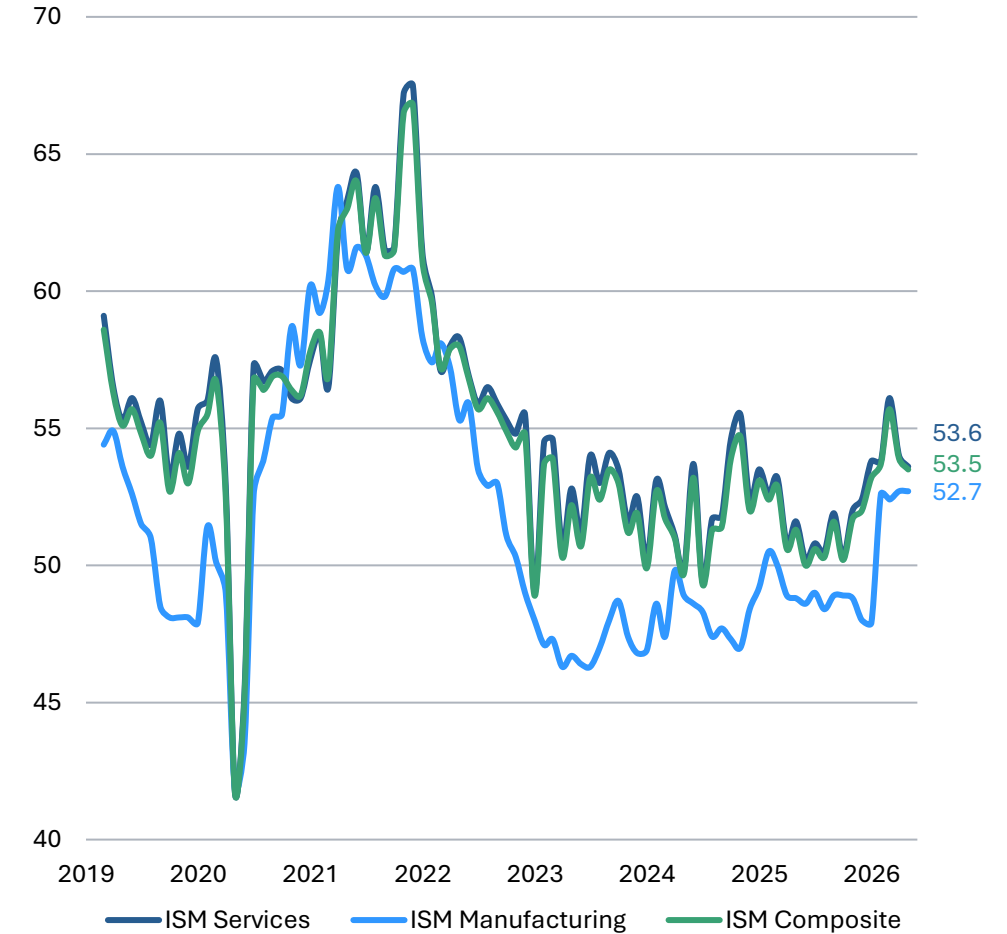
ECONOMIC SURPRISES HAVE BEEN STRONG

AS OF MAY 15, 2026



ISM SOLIDLY REBOUNDING

AS OF APRIL 30, 2026



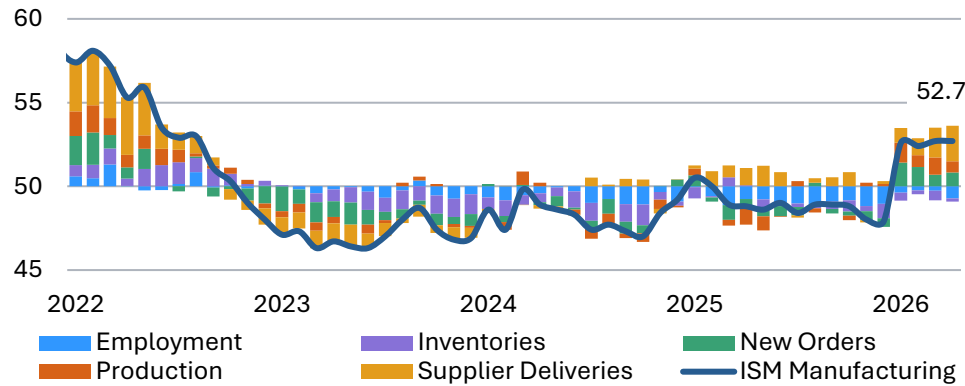
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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And Manufacturing Improving for Four Months Running

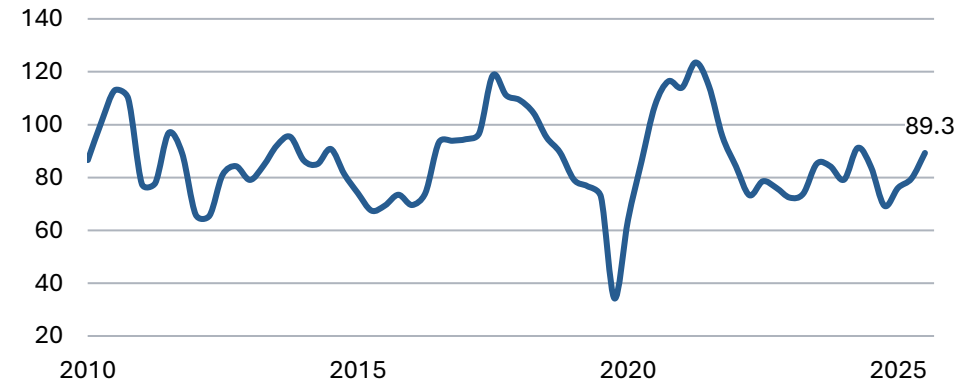
ISM MANUFACTURING

AS OF APRIL 30, 2026



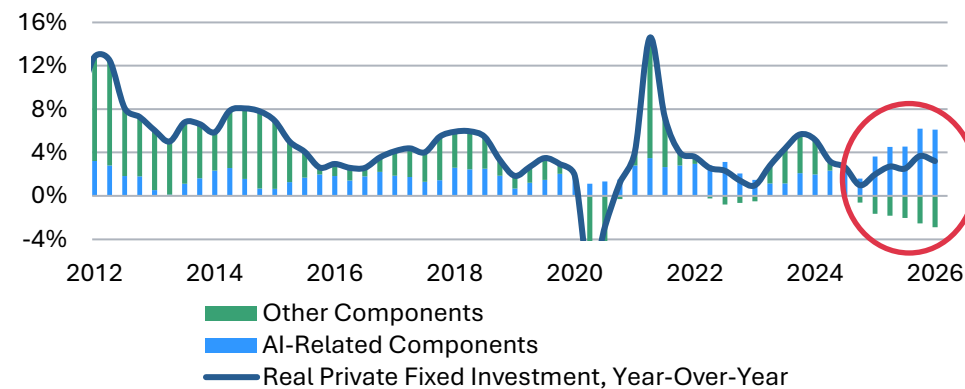
US ROUNDTABLE CEO ECONOMIC CONDITIONS SURVEY

AS OF APRIL 30, 2026



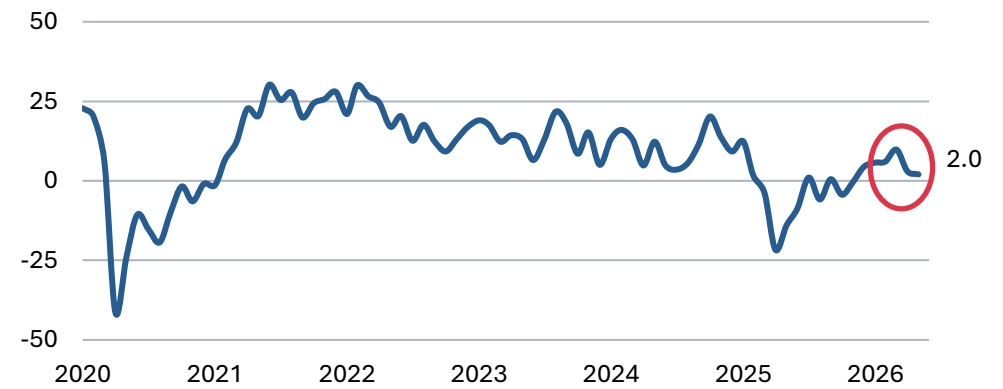
CONTRIBUTIONS TO REAL PRIVATE FIXED INVESTMENT

AS OF APRIL 30, 2026



CEO INTENTIONS OF CAPEX IN SIX MONTHS SURVEY

AS OF MAY 18, 2026



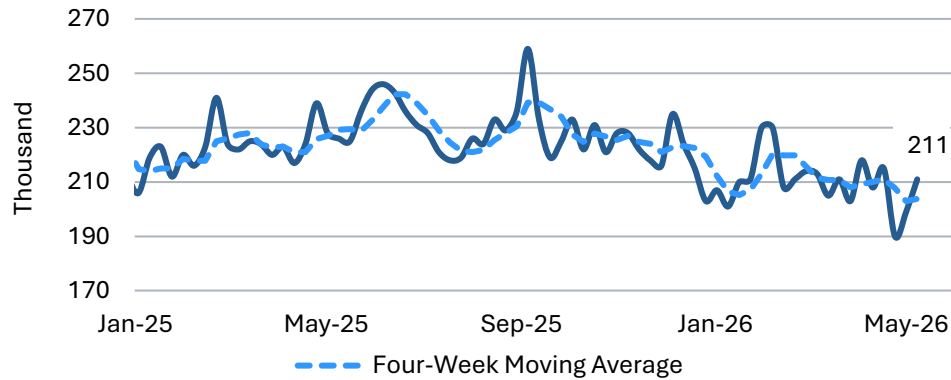
Source: Morgan Stanley Wealth Management GIO, Bloomberg, Pantheon Macro. Note: Real private fixed investment chart truncated for COVID period lows.

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Labor Market Is Presumed “Stable”

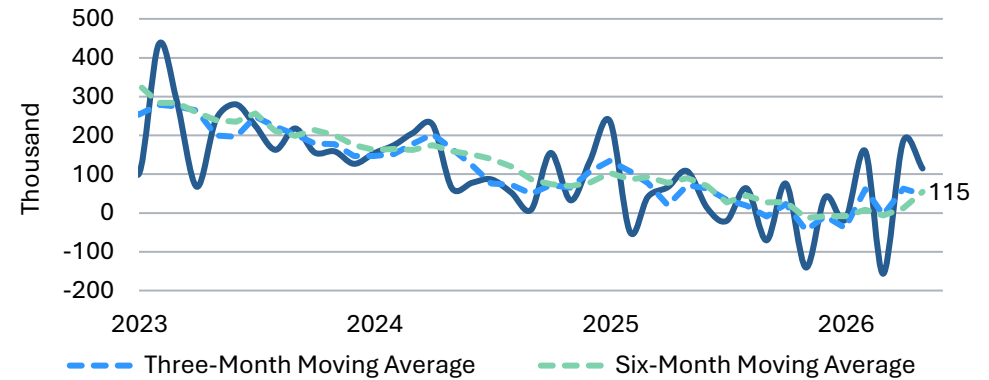
WEEKLY INITIAL JOBLESS CLAIMS

AS OF MAY 14, 2026



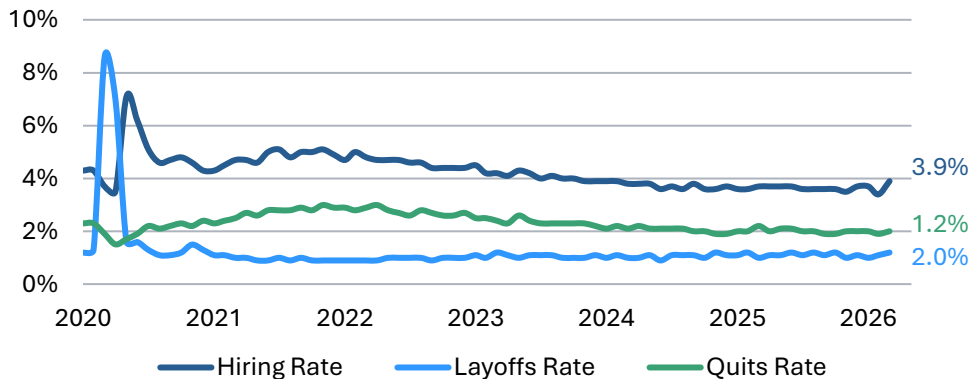
NONFARM PAYROLLS, MONTH-OVER-MONTH

AS OF APRIL 30, 2026



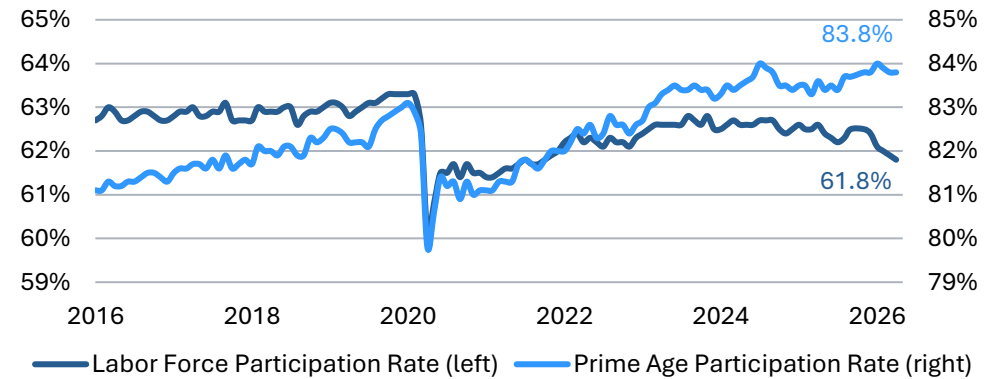
JOLTS SURVEYS

AS OF MAY 5, 2026



LABOR FORCE PARTICIPATION RATE

AS OF APRIL 30, 2026



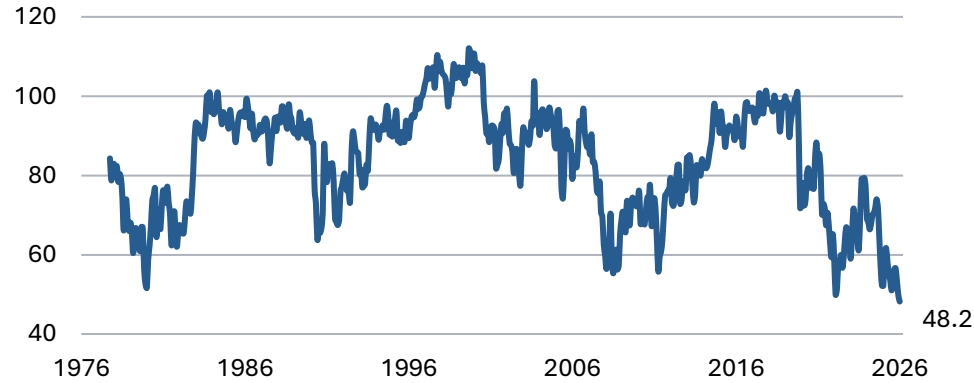
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, Bloomberg

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But the Consumer Seems Fragile

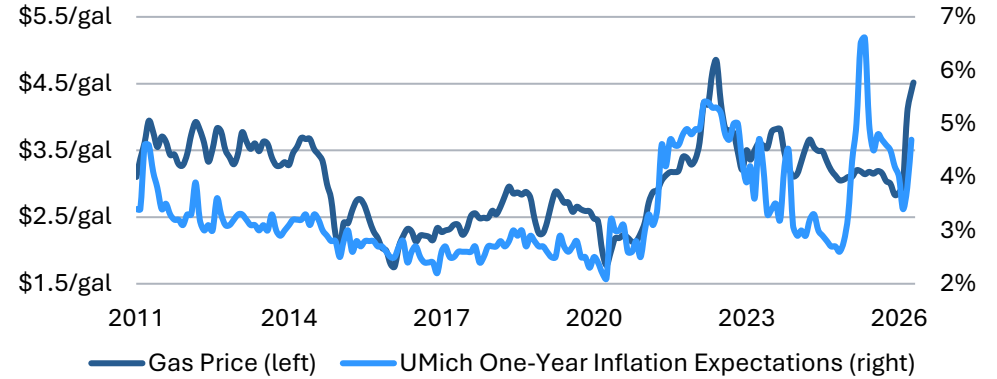
UMICH CONSUMER SENTIMENT AT AN ALL-TIME LOW

AS OF APRIL 30, 2026



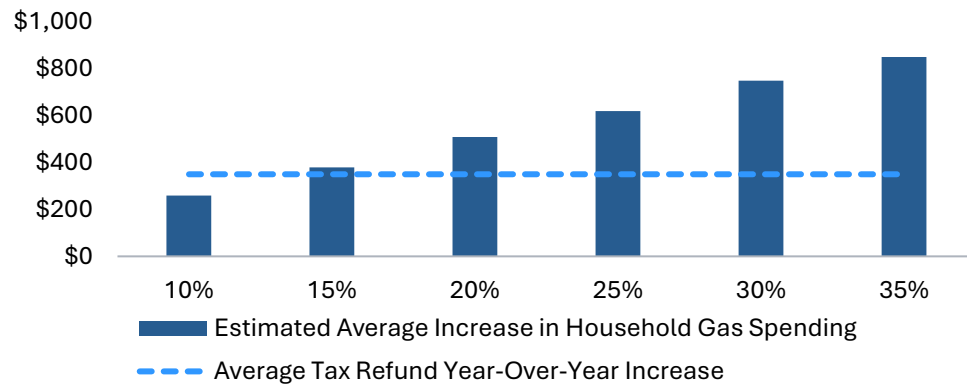
ONE-YEAR INFLATION EXPECTATIONS VS. RETAIL GAS PRICES

AS OF MAY 15, 2026



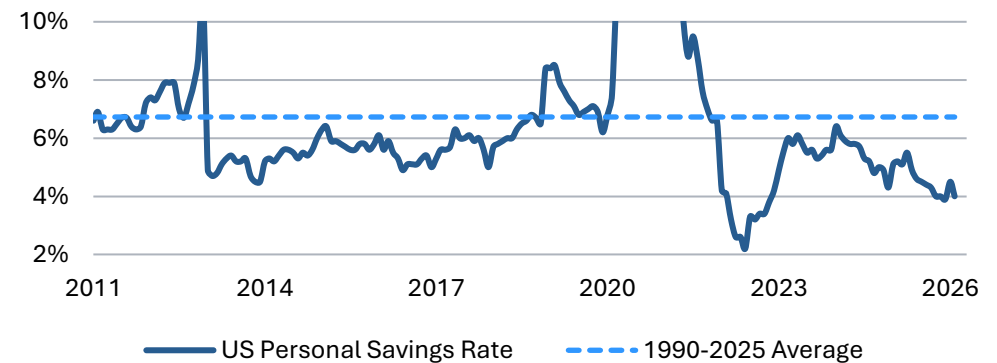
ESTIMATED IMPACT OF GAS PRICE ON HOUSEHOLD SPENDING

AS OF APRIL 30, 2026



US PERSONAL SAVINGS RATE

AS OF APRIL 30, 2026



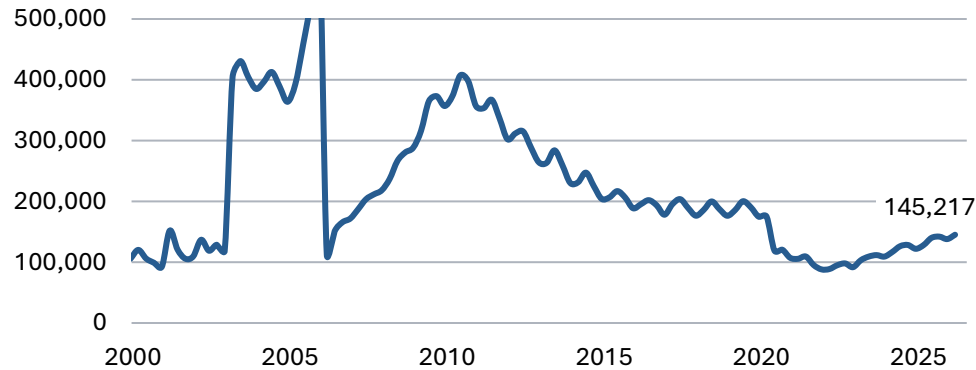
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, Bloomberg

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And the Bifurcated Economy Is Evident

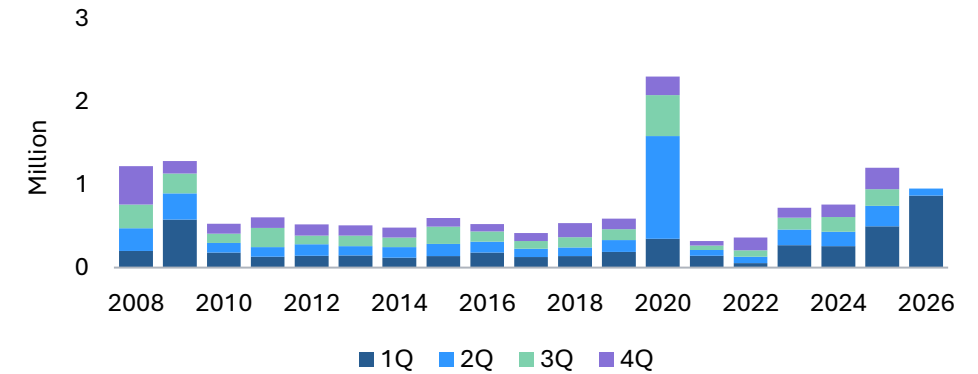
US HOUSEHOLD BANKRUPTCY FILINGS

AS OF APRIL 30, 2026



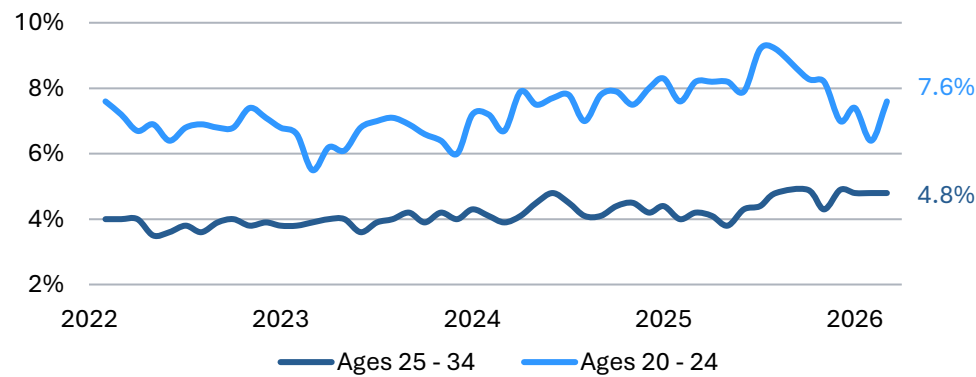
CHALLENGER LAYOFFS

AS OF APRIL 30, 2026



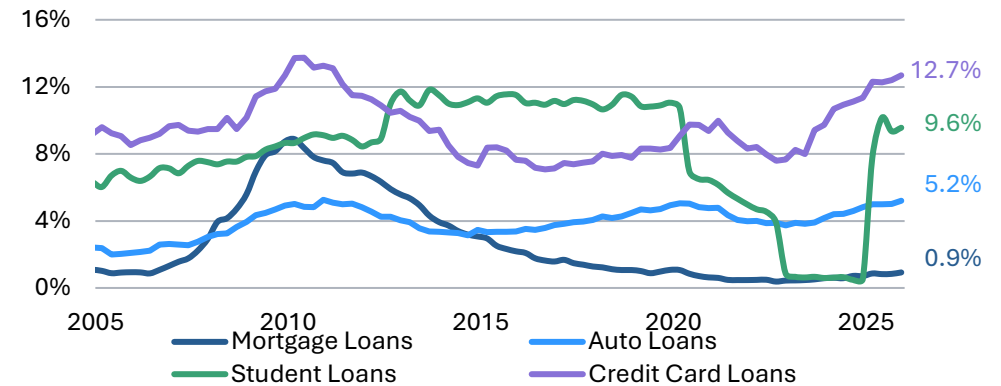
YOUTH UNEMPLOYMENT RATE

AS OF APRIL 30, 2026



OVER 90-DAY DELINQUENCY RATES

AS OF APRIL 30, 2026



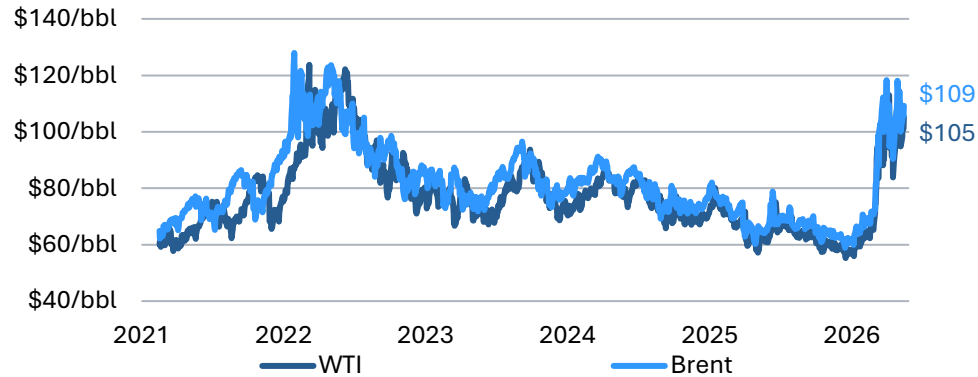
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Inflation Risk Is Rising; Sticky Core

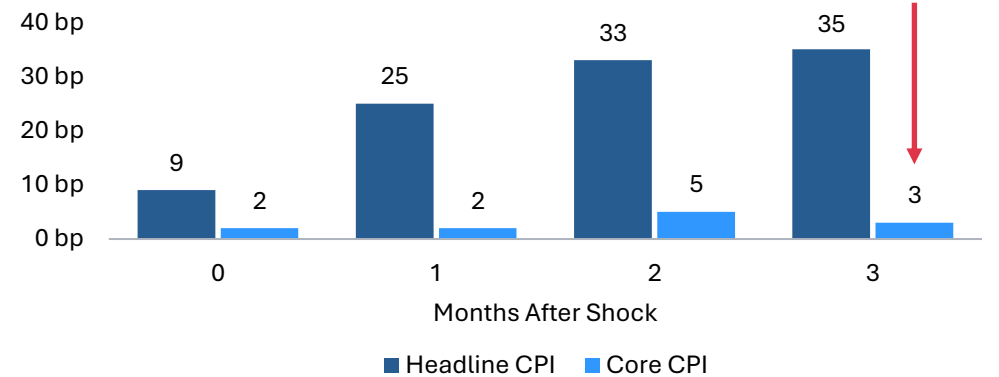
CRUDE OIL SPOT PRICE

AS OF MAY 15, 2026



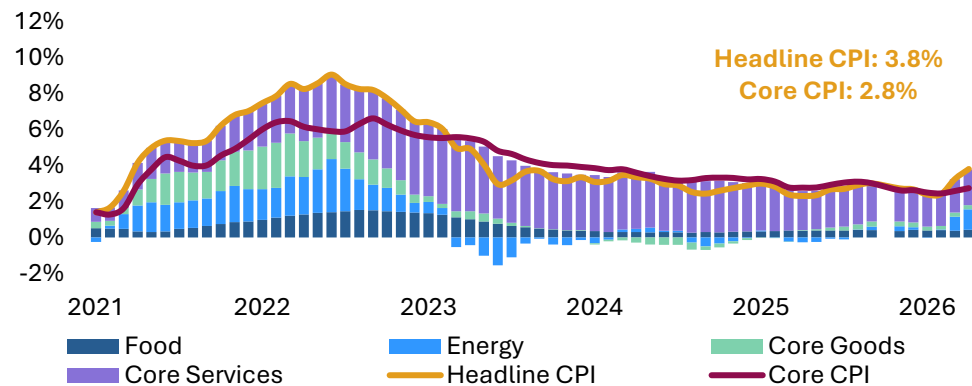
CUMULATIVE CPI IMPACT OF A 10% OIL SUPPLY SHOCK

AS OF APRIL 30, 2026



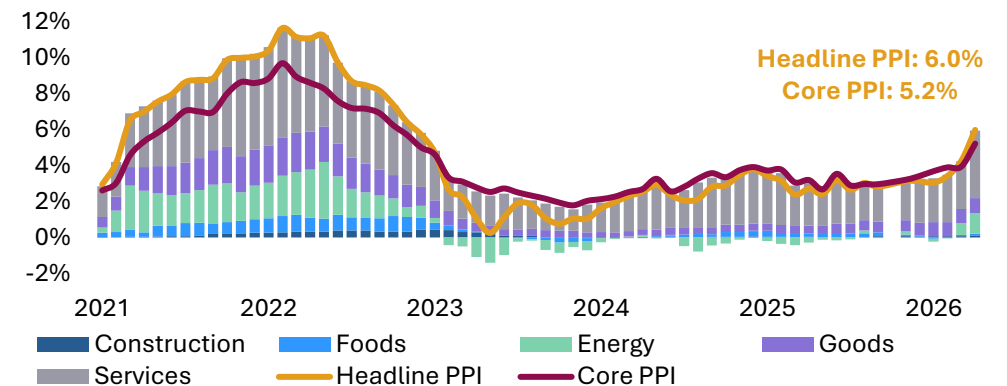
US CPI, YEAR-OVER-YEAR

AS OF APRIL 30, 2026



US PPI, YEAR-OVER-YEAR

AS OF APRIL 30, 2026



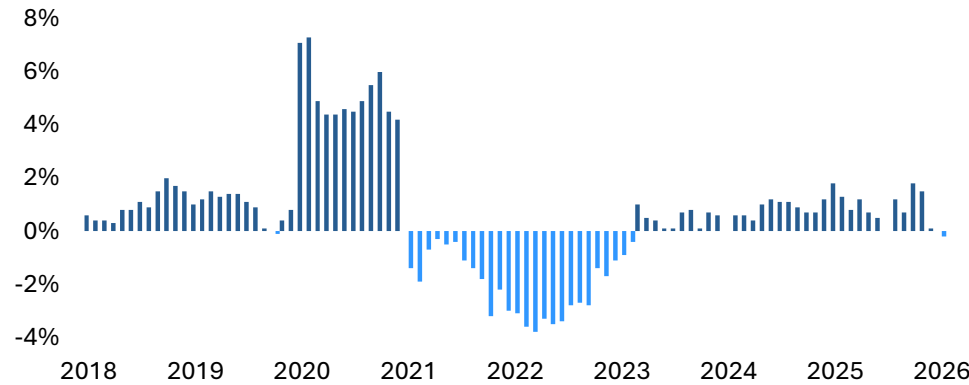
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, Bloomberg

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And Real Incomes Are No Longer Growing Potentially Bleeding into Consumption

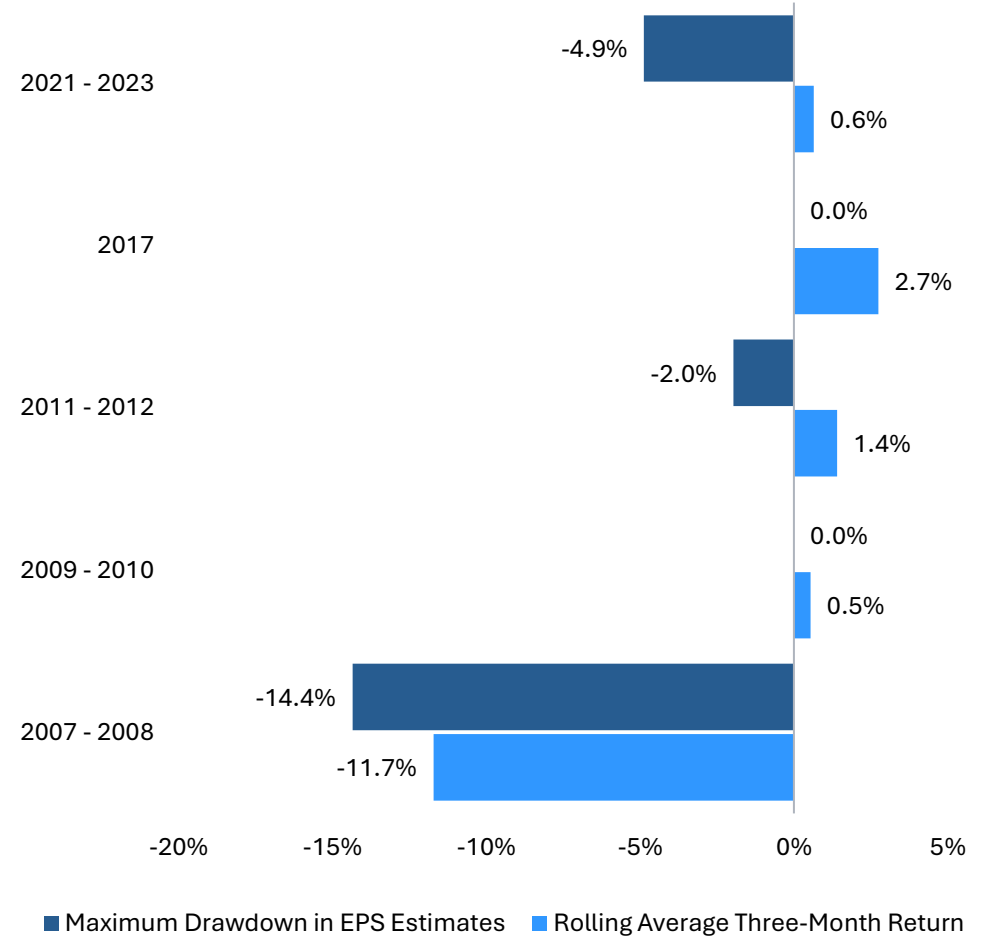
US REAL WEEKLY EARNINGS, MONTH-OVER-MONTH

AS OF APRIL 30, 2026



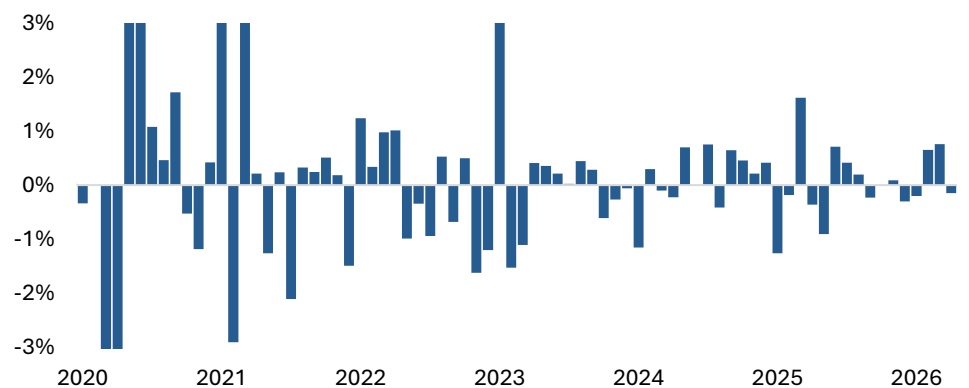
S&P 500 PERFORMANCE IN PERIODS OF NEGATIVE REAL WAGES

AS OF MAY 12, 2026



REAL RETAIL SALES, MONTH-OVER-MONTH

AS OF APRIL 30, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg. Note: Real retail sales data truncated for COVID period highs and lows.

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Shock Is Not 2022; Markets Over-Supplied But Tech Cycle Is Different

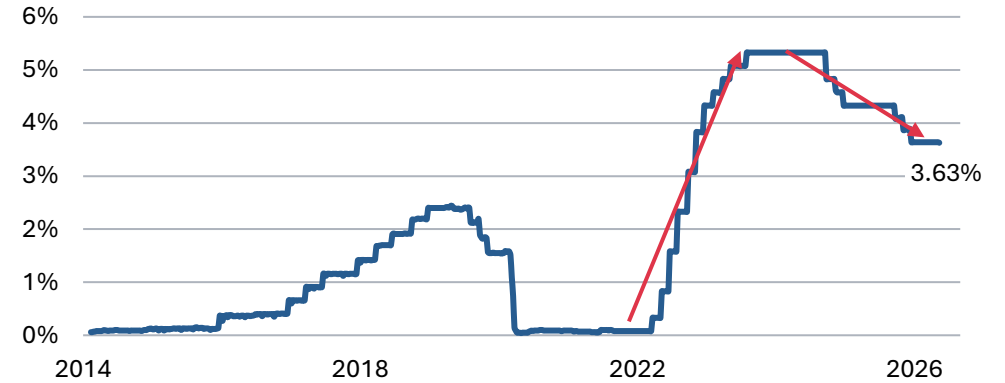
BRENT CRUDE OIL

AS OF MAY 15, 2026



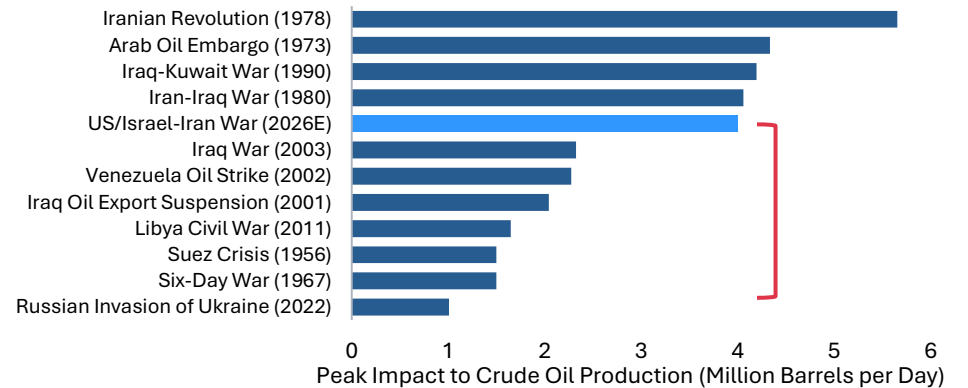
FEDERAL FUNDS EFFECTIVE RATE

AS OF MAY 15, 2026



BARRELS PER DAY IMPACTED ACROSS VARIOUS WARS

AS OF APRIL 30, 2026



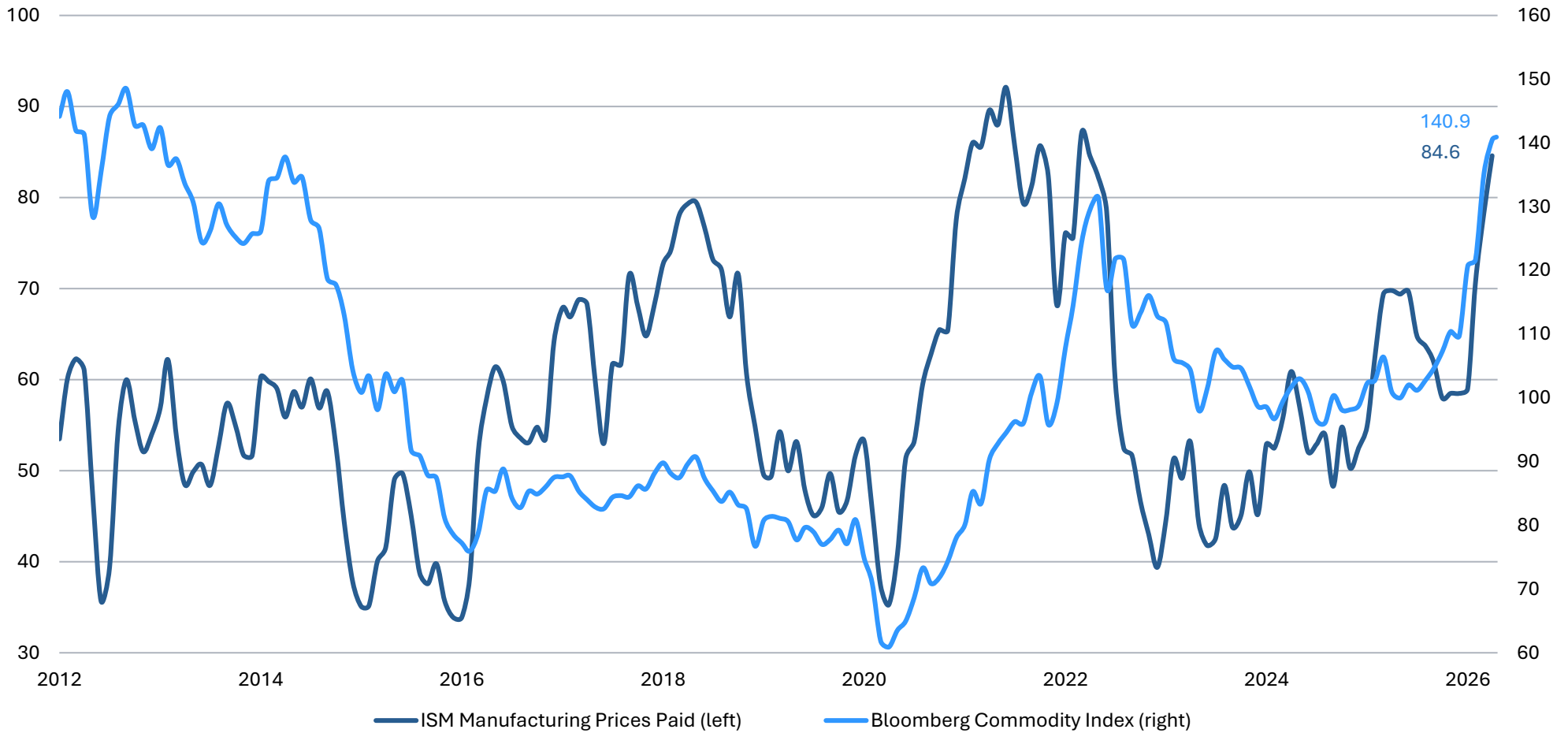
Source: Morgan Stanley Wealth Management GIO, Bloomberg, Oxford Economics. Note: 2026 impact to crude oil production estimates from Oxford Economics.

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And Broader Supply Chain Pressures Are Real

ISM MANUFACTURING PRICES PAID COMPONENT VS. BLOOMBERG COMMODITY INDEX

AS OF MAY 15, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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With Conflict Dragging on, Oil Futures Have Re-priced

DECEMBER 2026 WTI CRUDE OIL FUTURES

AS OF MAY 15, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Inflation Expectations Have Impacted Rates and the Yield Curve

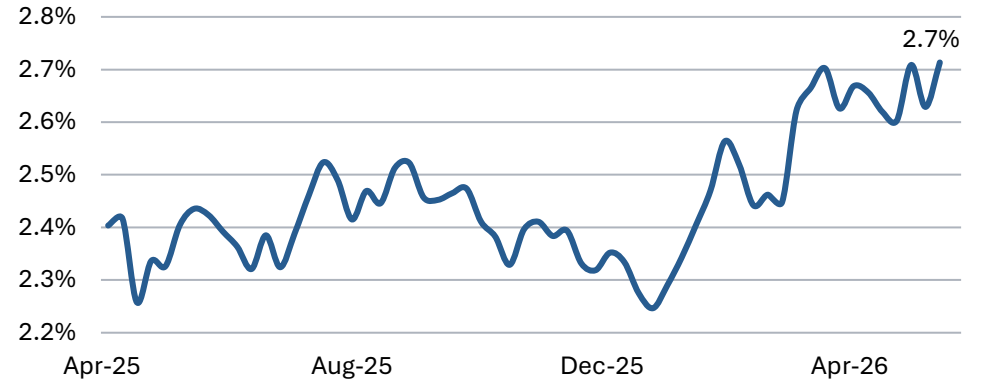
ONE-YEAR INFLATION SWAP YIELDS

AS OF MAY 15, 2026



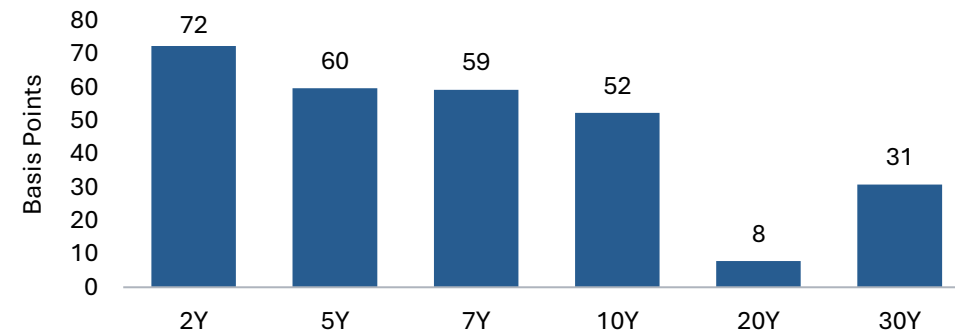
FIVE-YEAR INFLATION BREAKEVEN RATE

AS OF MAY 15, 2026



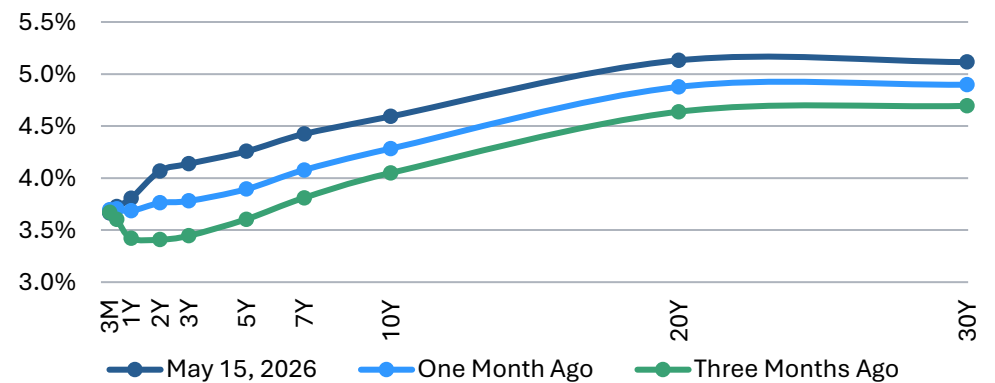
CHANGES TO UST YIELD SINCE ONSET OF IRAN CONFLICT

AS OF MAY 15, 2026



US TREASURY YIELD CURVE

AS OF MAY 15, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Global Yields Are Now a Headwind

10-YEAR US TREASURY YIELD

AS OF MAY 15, 2026



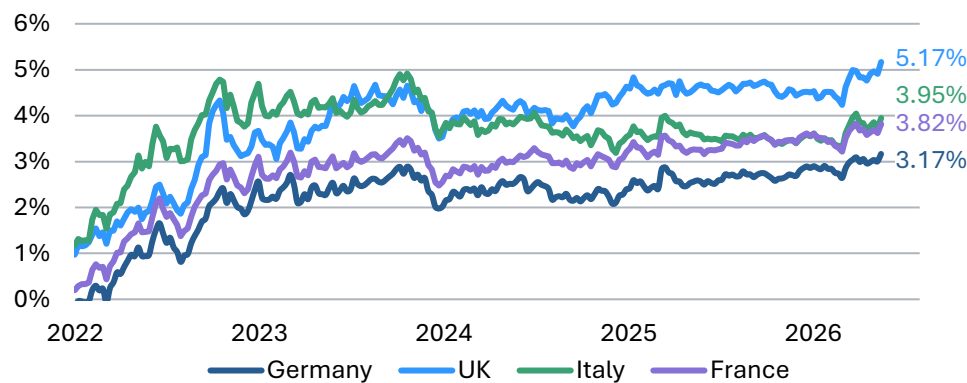
30-YEAR US TREASURY YIELD

AS OF MAY 15, 2026



10-YEAR EURO AREA SOVEREIGN BOND YIELDS

AS OF MAY 15, 2026



10-YEAR JAPAN GOVERNMENT BOND YIELD

AS OF MAY 15, 2026



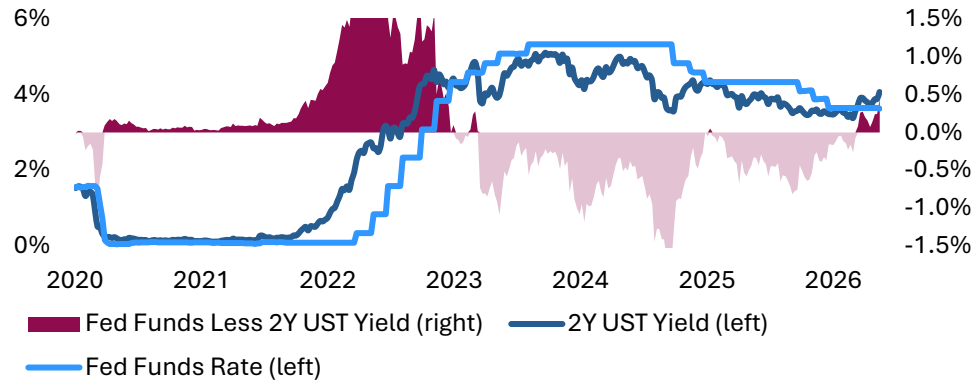
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Real Fed Funds Is Negative; Implying Hikes; A Pickle for Warsh

TWO-YEAR UST YIELD VS. FEDERAL FUNDS EFFECTIVE RATE

AS OF MAY 15, 2026



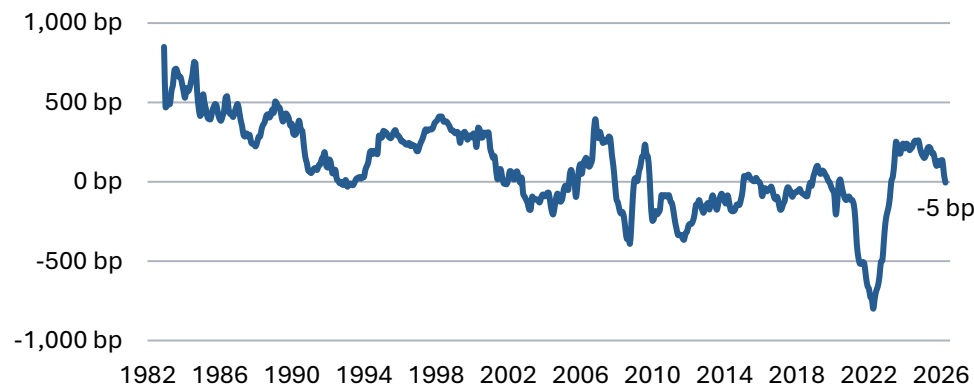
S&P 500 RETURNS WHEN REAL FED FUNDS DECLINES PAST ZERO

AS OF MAY 12, 2026

Dates	Real Fed Funds Rate	After Three Months	After Six Months	After 12 Months
9/4/1992	-10 bp	3.6%	6.3%	9.4%
10/2/2001	-10 bp	9.2%	8.3%	-16.9%
9/2/2002	-5 bp	2%	-9.1%	9.1%
8/31/2005	-10 bp	2.4%	5.9%	6.2%
12/11/2007	-5 bp	-10.6%	-6.8%	-42.0%
11/30/2009	-155 bp	1.8%	-2.0%	9.3%
11/30/2015	-25 bp	-7.1%	-1.6%	4.0%
10/31/2019	-5 bp	8.1%	-7.9%	14.7%
4/30/2026	-5 bp	-	-	-

REAL FED FUNDS RATE

AS OF MAY 15, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg, Strategas. Note: Real Fed Funds Rate = Fed Funds Upper Bound Less US Headline CPI, year-over-year.

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Move in 10-Year Rates Is NOT About Inflation; It Is About Real Rates and Term Premiums

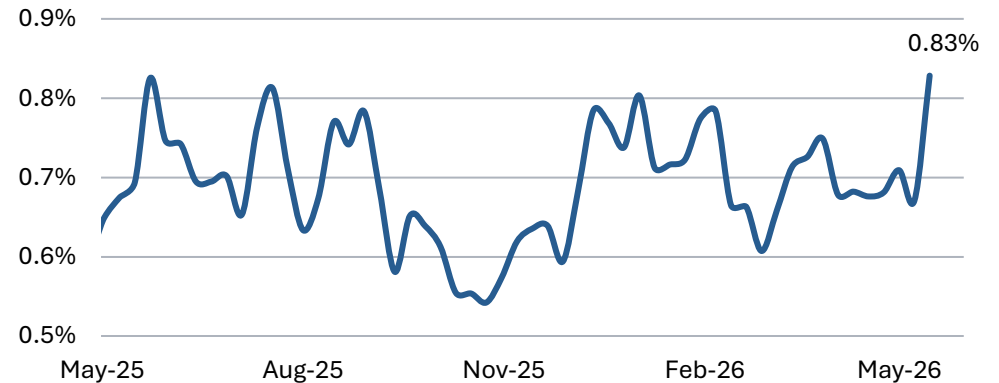
10-YEAR INFLATION BREAKEVEN RATE

AS OF MAY 15, 2026



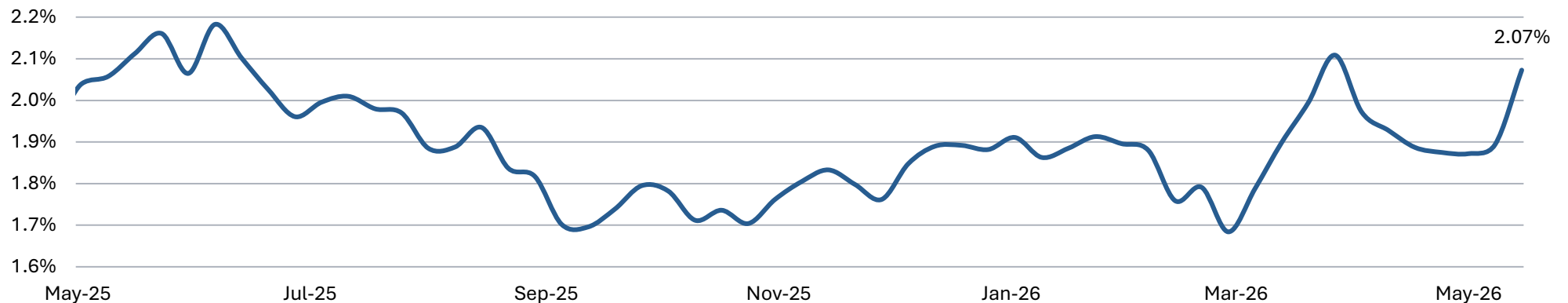
10-YEAR US TREASURY TERM PREMIUM

AS OF MAY 15, 2026



10-YEAR US REAL YIELD

AS OF MAY 15, 2026



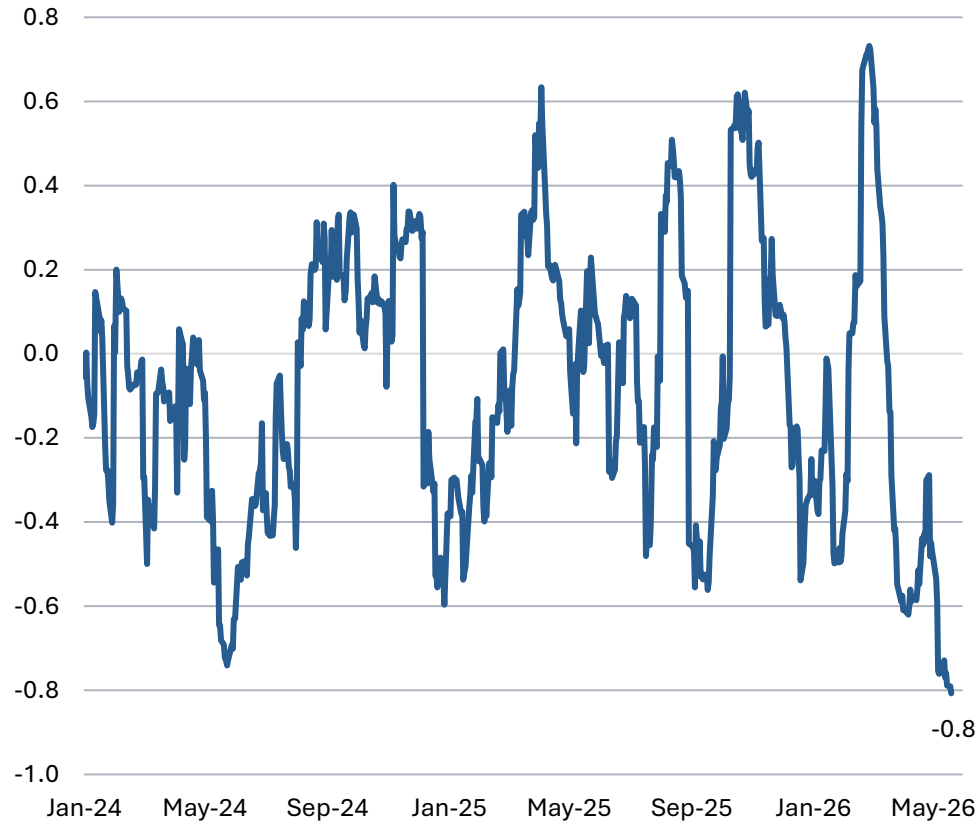
Source: Morgan Stanley Wealth Management GIO, Bloomberg.

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Stocks Negative Correlation With Yields Complicates Portfolio Construction, Which Hinges on Earnings

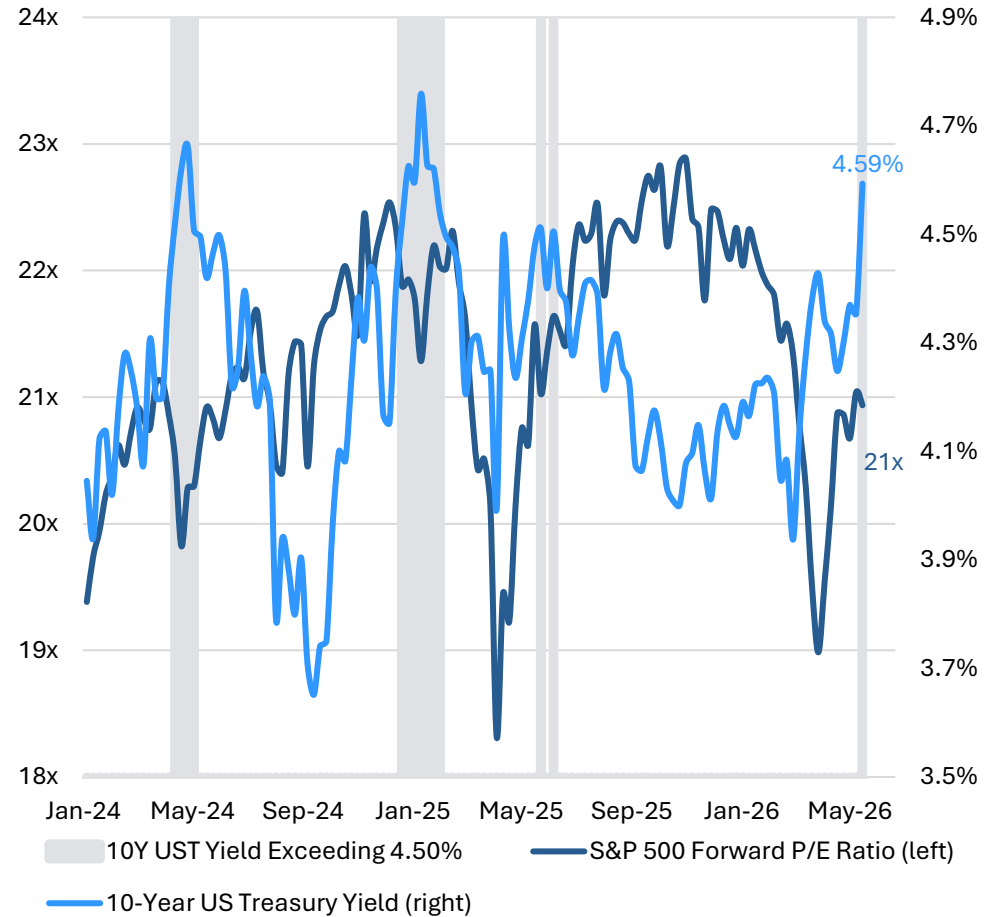
1M CORRELATION BETWEEN S&P 500 AND 10-YEAR UST YIELD

AS OF MAY 15, 2026



10Y UST YIELD VS. S&P 500 FORWARD P/E RATIO

AS OF MAY 15, 2026



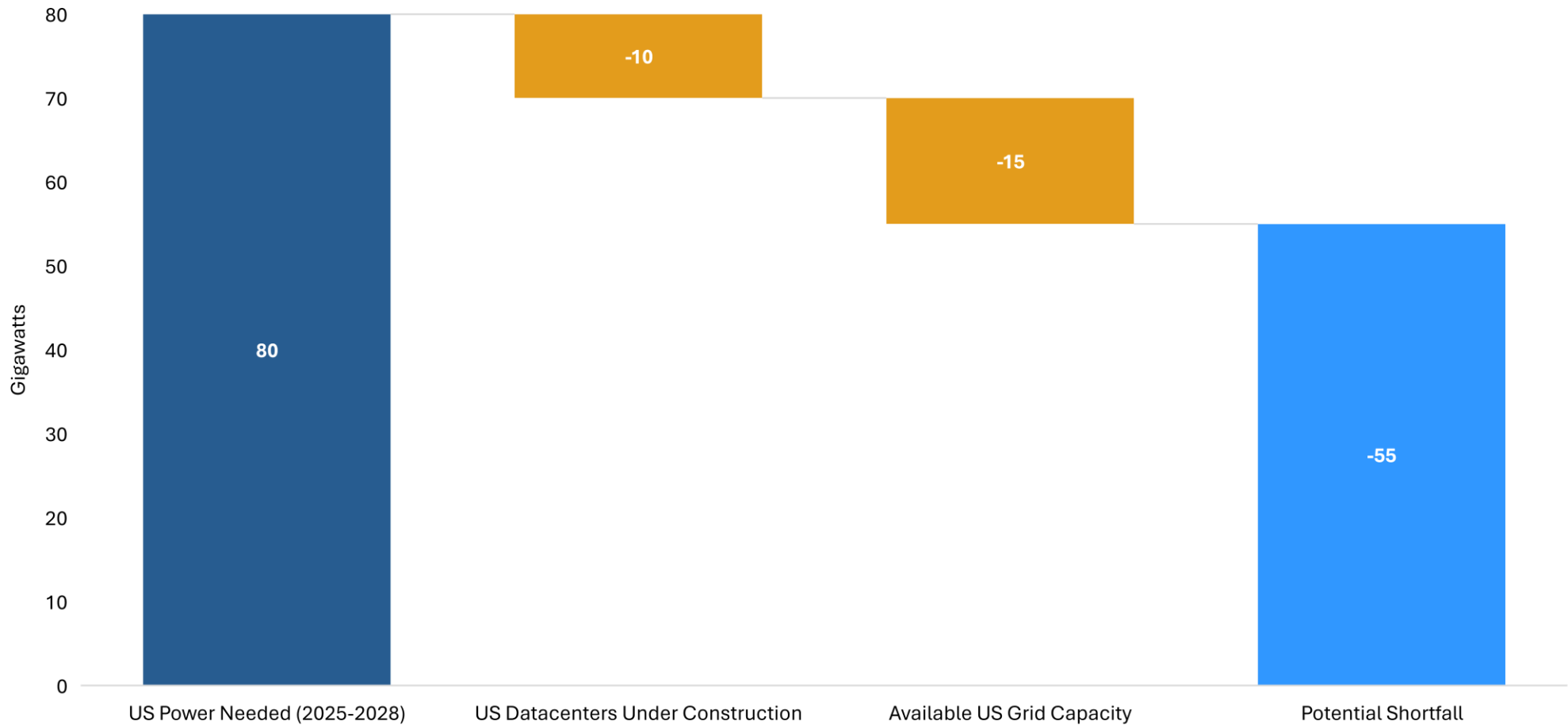
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, Bloomberg

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Investment Theme: Resource Nationalism

POTENTIAL SHORTFALL IN POWER FOR US DATA CENTERS

AS OF APRIL 30, 2026



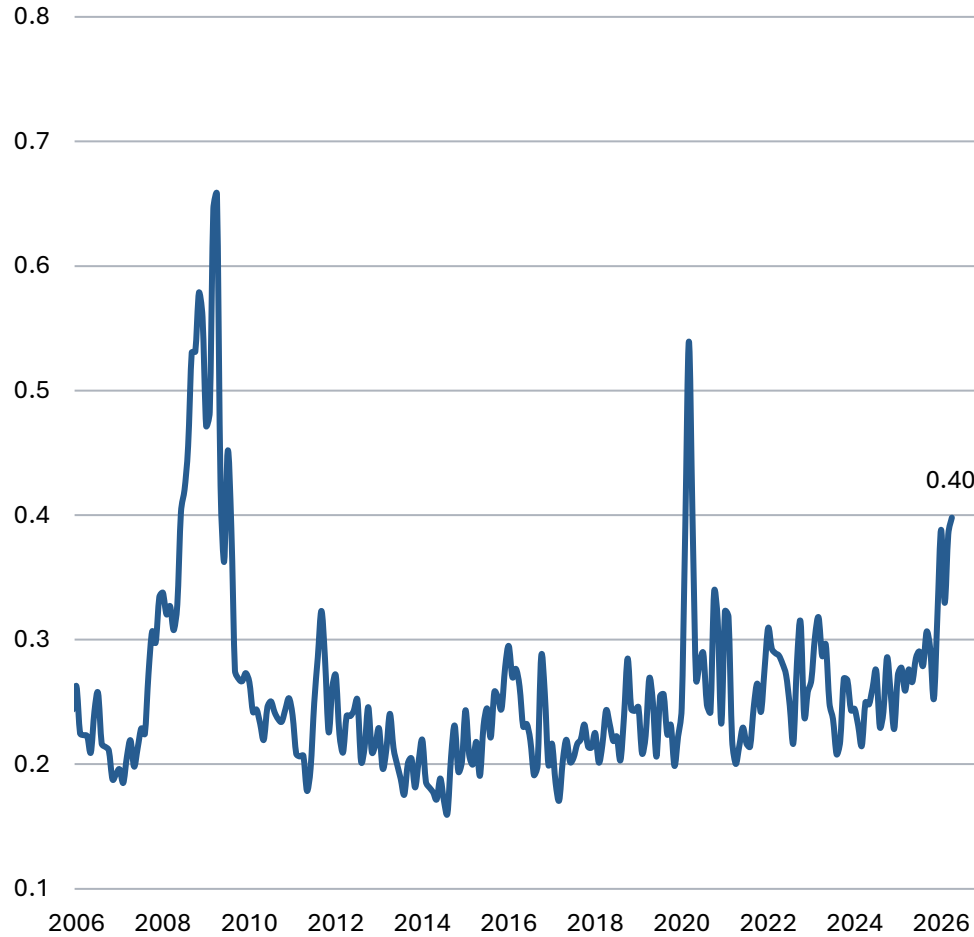
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research

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Investment Theme: Hedge Funds

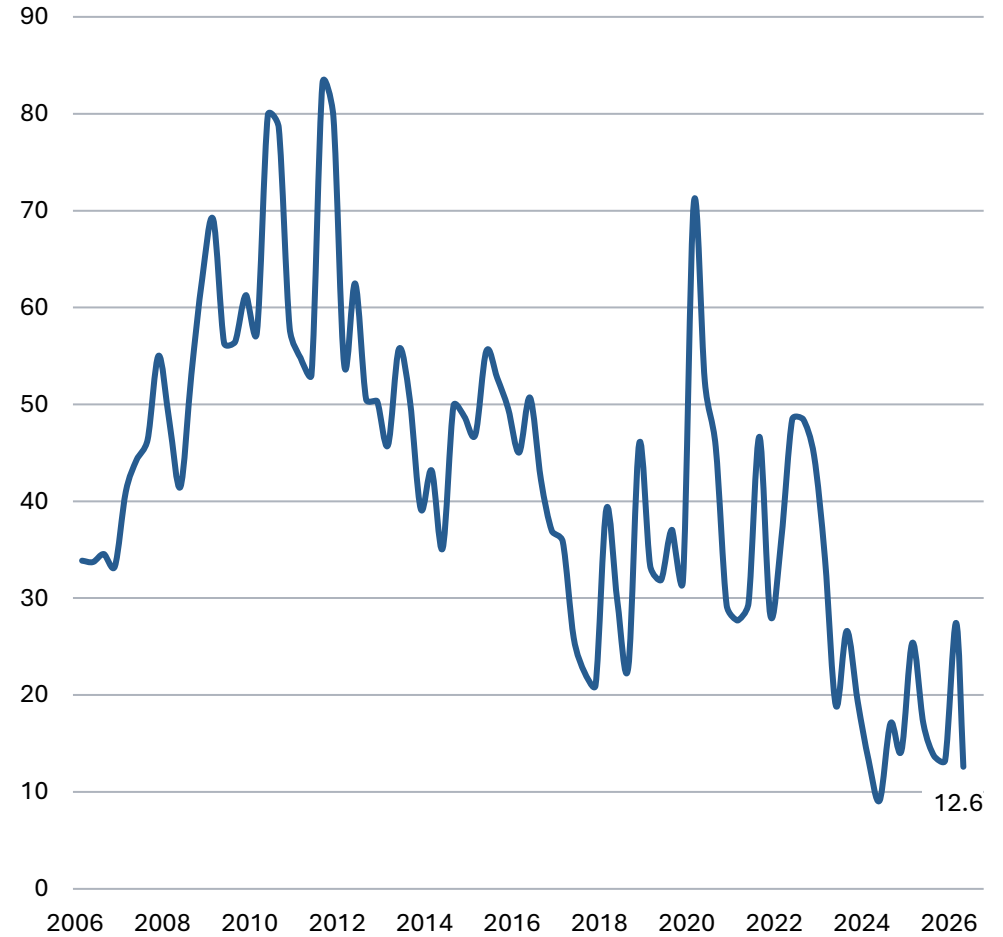
S&P 500 INTRA-STOCK PERFORMANCE DISPERSION LEVEL

AS OF MAY 15, 2026



S&P 500 THREE-MONTH INTRA-STOCK CORRELATION LEVEL

AS OF MAY 15, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Investment Theme: Geo-Politics Are Creating Opportunities in EM

Leverage to US-Iran ceasefire is highest to emerging markets.

Emerging markets are likely to benefit from the positive combination of rising economic growth and falling inflation.

- China's global trade surplus continues to grow robustly, and they are exporting deflation. They have made up 100% of the volume lost to US trading and tariffs.
- EM is benefitting from stronger currencies, especially against the US dollar, which is flattering purchasing power.
- EM is benefitting from the materials and commodities boom.
- Cheaper oil is substantial positive for India and China.

Tariffs are not likely to be a show-stopper in 2026.

- Supreme Court ruling will likely slow things as will mid-term election pressures.
- One-year China truce (after the elections).
- India probably emboldened by events.

EM will likely benefit from both China and US approaches to GenAI.

- China is open source and application specific; cheaper; lower power chips.
- US is energy intensive, with NVIDIA-centric architectures.

The new Monroe Doctrine creates opportunities for US dollar investors in Latin America: China will likely fill other voids.

EMERGING MARKETS FORWARD P/E RELATIVE TO S&P 500

AS OF MAY 15, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Risks Associated With Investing

Investing in the markets entails the risk of market volatility. The value of all types of investments, including stocks, mutual funds, exchange-traded funds ("ETFs"), closed-end funds, and unit investment trusts, may increase or decrease over varying time periods. Please carefully consider the investment objectives, risks, charges and expenses of investment fund(s) before investing. The fund 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. There is no assurance that investment funds will achieve their investment objectives. Besides the general investment risk of holding securities that may decline in value and the possible loss of principal invested, closed-end funds may have additional risks related to declining market prices relative to net asset values (NAVs), active manager underperformance and potential leverage. To the extent the investments depicted herein represent international securities, you should be aware that there may be additional risks associated with international investing, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards. These risks may be magnified in emerging markets and frontier markets. Some funds also invest in foreign securities, which may involve currency risk. Equity securities may fluctuate in response to news on companies, industries, market conditions and general economic environment. Companies paying dividends can reduce or cut payouts at any time. Small- and mid-capitalization companies may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, the securities of small- and mid-capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies. Growth investing does not guarantee a profit or eliminate risk. Growth stocks can trade at relatively high valuations which may increase risk compared with an investment in a company with more modest growth expectations. Value investing does not guarantee a profit or eliminate risk. Not all companies deemed value stocks are able to turn around their business or successfully execute corrective strategies, and their stock prices may not rise as initially expected.

The value of fixed income securities will fluctuate and, upon a sale, may be worth more or less than their original cost or value at maturity. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer. Yields may change with economic conditions and should be considered alongside other factors when making investment decisions. Credit ratings are subject to change. High yield bonds carry additional risks, including increased risk of default and greater volatility due to lower credit quality of the issues. In the case of municipal bonds, income is generally exempt from federal income taxes, though some income may be subject to state and local taxes and to the federal alternative minimum tax. Capital gains, if any, are subject to tax. Treasury Inflation Protection Securities (TIPS) adjust coupon payments and underlying principal to compensate for inflation in line with the consumer price index (CPI). While the real rate of return is guaranteed, TIPS typically offer lower returns and may significantly underperform conventional U.S. Treasuries during periods of low inflation. There is no guarantee that investors will receive par if TIPS are sold prior to maturity. The Ultrashort-term fixed income asset class consists of high-quality securities with very short maturities and is therefore still subject to the risks associated with debt securities such as credit and interest rate risk.

Money Market Funds: You could lose money in money market funds. Although government money market funds (defined as investing 99.5% of total assets in cash and/or securities backed by the U.S. government) and retail funds (defined as money market funds open to natural person investors only) seek to preserve value at \$1.00 per share, they cannot guarantee doing so. The price of other money market funds will fluctuate, and when you sell shares they may be worth more or less than originally paid. Money market funds may impose a fee upon sale or temporarily suspend sales if liquidity falls below required minimums. During suspensions, shares would not be available for purchases, withdrawals, check writing or ATM debits. A money market fund investment is not insured or guaranteed by the Federal Deposit Insurance Corporation or other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund and investors should not expect that the sponsor will provide financial support to the Fund at any time.

Investing in **Commodities:** Commodity prices may be affected by factors such as supply and demand, government policies, domestic or international political and economic events (including war or terrorism), changes in interest and exchange rates, trading activity in commodities and related contracts, pestilence, technological developments, weather, price volatility, and liquidity constraints. Physical precious metals are speculative, non-regulated products that may experience short- and long-term price volatility. Precious metals do not make interest or dividend payments and therefore may not be appropriate for investors who require current income. Precious metals must be stored, which may impose additional costs on investors.

Master Limited Partnerships (MLPs): Investments in MLPs are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity price fluctuations, supply

and demand imbalances, resource depletion and exploration risk. MLPs also carry interest rate risk and may underperform in rising interest rate environments. In addition, MLP funds accrue deferred income taxes on net operating gains and capital appreciation; as a result their after-tax performance could differ significantly from that of its underlying assets.

Exchange Funds are private placement vehicles that enable holders of concentrated single-stock positions to exchange those stocks for a diversified portfolio. Investors may benefit from greater diversification.

Alternative investments are often speculative and include a high degree of risk. Investors can lose all or a substantial amount of their investment. They are appropriate only for eligible, long-term investors willing to forgo liquidity and put capital at risk for an indefinite period. They are often illiquid, may employ leverage, short-selling, or other speculative practices that increase volatility and risk of loss, and may require large minimum investments and initial lock-ups. Alternative investments may also involve complex tax structures, tax-inefficient investing, and delays in distributing important tax documents. Clients should consult their own tax and legal advisors, as Morgan Stanley Wealth Management does not provide tax or legal advice. They also typically carry higher fees and expenses than traditional investments, which can reduce overall returns.

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Environmental, Social and Governance (ESG) investments in a portfolio may experience performance that is lower or higher than a portfolio not employing such practices. Portfolios with ESG restrictions and strategies as well as ESG investments may not be able to take advantage of the same opportunities or market trends as portfolios where ESG criteria is not applied. There are inconsistent ESG definitions and criteria within the industry, as well as multiple ESG ratings providers that provide ESG ratings of the same subject companies and/or securities that vary among the providers. Certain issuers of investments may have inconsistent views concerning ESG criteria where the ESG claims made in offering documents or other literature may overstate ESG impact. ESG designations are as of the date of this material, and no assurance is provided that the underlying assets have maintained or will maintain any such designation or any stated ESG compliance. As a result, it is difficult to compare ESG investment products or to evaluate an ESG investment product in comparison to one that does not focus on ESG. Investors should also independently consider whether the ESG investment product meets their own ESG objectives or criteria. There is no assurance that an ESG investing strategy or techniques employed will be successful. Past performance is not a guarantee or a dependable measure of future results.

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For more information, please refer to additional Risks Associated With Investing here: www.morganstanley.com/wealthbooks#risks-associated-with-investing.

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