WEALTH MANAGEMENT

Morgan Stanley

GIC Insights

Monthly Perspectives – July 2026

Where We Are: Market Broadening; Tech Churning

July 2026

2Q2026 was a tale of extremes with April and May producing another 20% surge in the S&P 500 over 8 weeks, reminiscent of last year's post-Liberation Day relief rally, as markets began to fully discount the end to US/Iran hostilities and the eventual opening of the Strait of Hormuz. The rally recovered 1Q2026 losses of more than 7%, leaving the cap-weighted benchmark up 9% YTD. But since equity markets peaked on June 2, market action has been characterized by extreme rotations as investors repriced the semiconductor sector to extremes (up 100% on the Philly SOX Index in Q2) while reducing exposure to the Mag-7 hyperscalers. Continued economic upside surprise and positive revisions have supported cyclical broadening and the catch up of the equal-weighted index relative to the cap-weighted one.

- YTD, the S&P 500 is up ~9% to ~7,500, roughly 100 points from its all-time high of 7,610 on June 2. Meanwhile, the NASDAQ is up 11% as the Mag-7 saw prices draw down by more than 9% just in the month of June – their worst month since 2022. While profit taking and rebalancing to accommodate new IPO issuance is one driver, the tech debate has shifted to semiconductor manufacturing pricing power on scarcity of chip supply coming at the expense of hyperscaler margins. Surging capex, capital needs, and negative free cash flow growth, along with mounting competition concerns in the space is driving a particularly dynamic backdrop. We recently rebalanced away from semiconductors and added to US large-cap value.
- Emerging markets, paced by the euphoria around memory chip prices, continued to outpace the US markets and are up 21% YTD; while the Japanese Nikkei is up 35%, helping underpin ROW outperformance. We recently took profits in EM reducing our overweight by 200bps.
- Critically, oil prices have plummeted from their April 7 high, and are now down close to 40%, at $68/bbl., approaching pre-war levels; consequentially, one-year forward inflation swaps have also repriced radically from its YTD high of 3.54% to a multi-year low at 2.08%.
- That said, financial conditions are not easing on reduced inflation threats. To the contrary, two-year US Treasury yields are still priced through Fed Funds with the three-month/two-year spread at -35bps; 10-year yields are over 4.48%; the curve has bear flattened materially at only 35bps on two-year/10-year yield curve and the Fed Funds Futures markets again **pricing ZERO cuts in 2026**, down from 2.5 in January. At its core, the interest rate debate has shifted to the real rate and monetary policy function; 10-year real rates at 2.25% is a one-year high and two-year real rates at close to 2% is at a four-year high.

We expect economic growth slows, inflation cools, and the Fed DOES NOT HIKE in 2026. 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. Labor markets are unstable and fiscal drag is on the horizon as tax and tariff transfers roll off. This is a two-speed and K-shaped economy with dependence on wealth effects versus income growing.

- 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.
- The labor differential remains weak, wage growth continues to slow and job creation remains concentrated in low paying health care jobs; workforce participation is weakening.
- Economic growth is likely to slow over the next 12 months with fiscal drag and the US consumer exhausted and not seeing a robust growth in the jobs market.

2026 could ultimately deliver roughly another 10% potential upside for the S&P 500 based on the embedded strength of earnings to an MS & Co.'s 12-month target of 8,300.

- Earnings optimism is peaking with positive revisions now suggesting S&P 500 profits growth in 2026 could double original forecasts of ~14-15% to 29% at present, according to MS & Co. Strong earnings growth alongside churning price action in June has compressed forward P/E ratio by 1 turn to 20.3x. There may be renewed opportunity to add back several of the Mag-7 hyperscalers who have underperformed.
- We see the AI buildout entering a new phase characterized by intensifying competition and hybrid architectures that see higher use of open source LLMs versus frontier models; and more use of proprietary hyperscaler owned AI accelerators and ASIC centric orchestration layers versus the most powerful generation of GPUs.
- We think the AI deployment cycle will take years, NOT months but investors are already rotating to beneficiaries in financials, healthcare, real estate, and business services.
- We think "fiscal dominance" will characterize the backdrop and that a weaker dollar, sticky inflation, and a steeper yield curve, including a rise in long rates, are risks; **BUT the market is mispricing the probability of rate hikes, and we see opportunity in the belly of the curve from 2-7 years and have recently added duration.**
- **The Iran War 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).

What We Forecast: A Mid-Cycle Expansion

July 2026

2026E US GDP Growth	
Real	2.3%
Nominal	5.4%

2026E US CPI
3.0%

Federal Funds Rate
3.50%-3.75%

Two-Year/10-Year US Treasury Yield
3.75%/4.25% *2s10s slope to 50 bp*

2026E Global	
GDP	3.2%
Inflation	2.6%

2026E US Dollar	
1H	-1%
2H	+1%
US Dollar Index (DXY) @ 96	

2026E/2027E S&P 500 Earnings	
MS & Co.	$339/$380
Consensus	$341/$398
MS & Co. 2026 Growth: 23% *Consensus: 24%*	

Price/Earnings Multiples	
Current	20.2x
Forecast	20.5x
Fair Value	17.8x

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

Source: Morgan Stanley Wealth Management GIO.

Current Key Controversies

July 2026

1. US Real Rates and the New Fed Chair
- Two-year and 10-year real rates at multi-year highs reflect "run it hot" fiscal policy
- New Chair Warsh will make changes to policy response function, eliminating forward guidance and reducing balance sheet dependence introducing bond market volatility
- But 2% target is secure for now and pricing of hikes is overdone**; we see rates lower by 25-40bps over the next six months versus ZERO CUTS currently priced**

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**
- But picks and shovels crowding into semiconductors is excessive, not sustainable
- Engineering is accelerating toward hybrid solutions; competition is intensifying
- Ecosystem is increasingly using debt and interconnected vendor financing
- GPUs versus TPUs/ASICs favor hyperscalers with dominant cloud businesses
- LLMs business models still have vague monetization models
- IPO "capacity" is a crowding factor

3. Sector Rotation and Extreme Dispersion
- Retail participation, use of levered ETFs a warning sign of risk excess
- 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 appears sub-par at 2.6%;** 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

6. AI and Corporate Margins: A Productivity Renaissance?
- "Tokenmaxxing" already rolling over; inference now 60% of applications versus 40% training; flip from 20/80% four years ago
- But margin improvements concentrated among tech companies themselves
- Scale and size are overwhelming drivers, leaving the "493" and small-mid behind
- This will take years not months to realize benefits

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) six months in a row

8. Inflation Tamed?
- Core PCE 3.3%; Core CPI 2.9% but Supercore accelerating again on import and AI demand linked prices…this could stay sticky
- But inflation expectations have normalized and one-year swaps at multi-year lows at 2.05%
- 2026 brings renegotiation of USMCA: End of China Truce; India?

9. Fed Independence and Fiscal Dominance Remain Post Oil Shock
- 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
- Cease fire re-ignites ROW trade especially for Europe, Asia; LatAm appears most insulated
- Multi-polar themes and Monroe Doctrine gamechangers
- Cease fire in Iran may mean historic "loss" for America with new alliances and asymmetry of war a reality
- Major global inflection in multipolar dynamics; Implications for trade, Taiwan, super power warfare, NATO, OPEC, and RESOURCE NATIONALISM

Source: Morgan Stanley Wealth Management GIO

GIC Portfolio Positioning

July 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-to-late-cycle year where stock selection favors returns to larger, capex-exposed players with pricing power.**
  - **Potential total portfolio return to averages ~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...maximum 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 exposure with cap-weighted exposure;** 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 large cap value** which benefit from broadening
- **Rest of World Equities:** **Slight Overweight**
  - Japan and India favored longer-term secular positions.
  - **Slight Overweight** EM ex-China; **Market Weight** China; **LatAm highest conviction.** **Take profits in EM semiconductors**
  - In Europe, focus on global brands and secular growth themes in defense, construction, engineering, and infrastructure.
- **Fixed Income:** **Market Weight; the GIC is adding fixed income exposure and targeting a neutral duration relative to the benchmark.**
  - Prefer rates and munis over corporate IG
  - Adding to belly 2-7 years. Moving to neutral duration versus the bench
- **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
  - Market Weight 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 PC direct lending.

Source: Morgan Stanley Wealth Management GIO

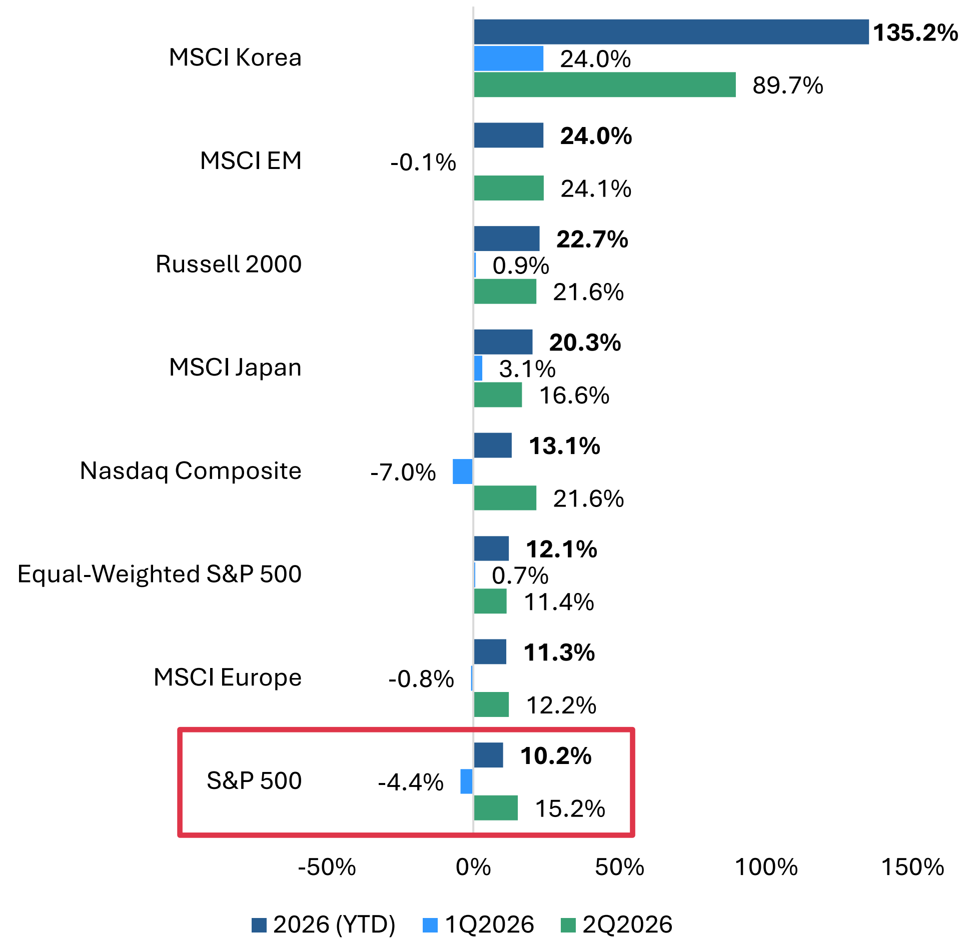
Q2 A Great Rebound for US Stocks; But Competition

S&P 500 AND NASDAQ COMPOSITE INDEX

AS OF JUNE 30, 2026

ASSET CLASS PERFORMANCE

AS OF JUNE 30, 2026

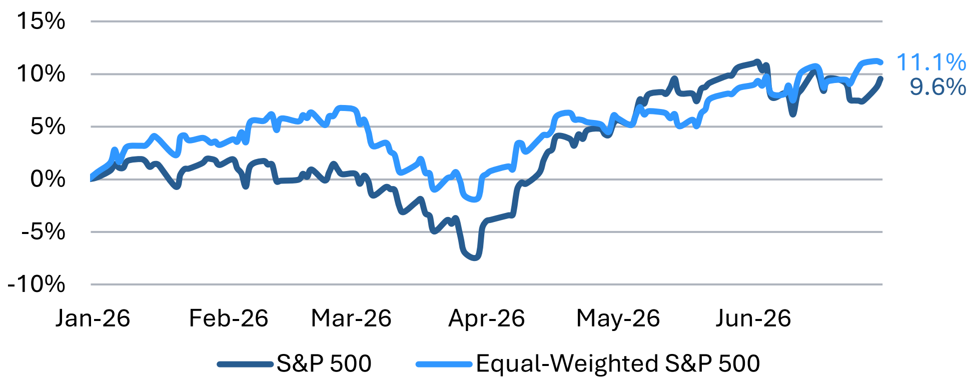


Source: Morgan Stanley Wealth Management GIO, Bloomberg

Improved Breadth Has Allowed the Equal-Weighted Index to Catch Up YTD

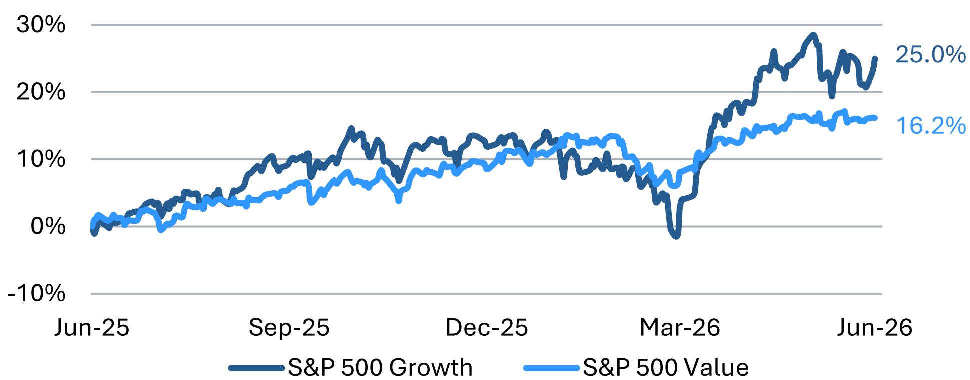
S&P 500 VS. EQUAL-WEIGHTED S&P 500

AS OF JUNE 30, 2026 (DECEMBER 31, 2025 = 0)



US LARGE-CAP GROWTH VS VALUE

AS OF JUNE 30, 2026 (JUNE 30, 2025 = 0)



S&P 500 SECTOR PERFORMANCE

AS OF JUNE 30, 2026

Sector	2026 (YTD)	1Q2026	2Q2026	2026 EPS Growth	2028 EPS Growth	Forward P/E Ratio
Industrials	20.2%	4.6%	14.9%	9.0%	14.4%	26.0x
Info. Tech.	19.8%	-9.1%	31.8%	52.2%	19.3%	22.4x
Energy	19.7%	38.2%	-13.4%	65.4%	2.6%	12.7x
Materials	12.0%	9.7%	2.0%	39.4%	7.7%	17.4x
Real Estate	11.5%	2.8%	8.5%	6.9%	7.1%	35.7x
Cons. Staples	8.0%	7.7%	0.3%	5.3%	6.9%	21.5x
Utilities	7.7%	8.3%	-0.5%	10.9%	9.5%	17.8x
Health Care	3.5%	-4.9%	8.8%	2.6%	10.0%	18.4x
Comm. Services	0.8%	-6.9%	8.3%	23.3%	15.0%	18.4x
Cons. Disc.	-0.8%	-9.2%	9.3%	14.4%	19.1%	24.1x
Financials	-1.3%	-9.5%	9.0%	10.3%	11.0%	15.2x

Source: Morgan Stanley Wealth Management GIO, Bloomberg

And Small Caps Continue to Shine Especially Against Biggest Mega-Caps

S&P 500 VS. THE RUSSELL 2000

AS OF JUNE 30, 2026 (JANUARY 1, 2025 = 100)

RUSSELL 2000 VS. THE MAG-7

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

Source: Morgan Stanley Wealth Management GIO, Bloomberg

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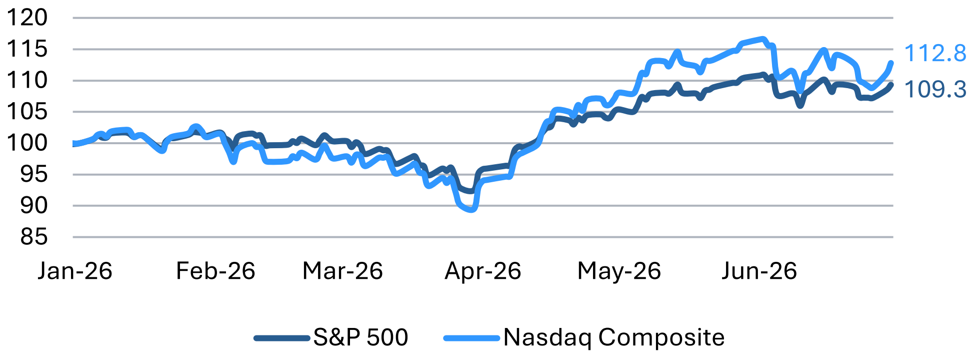
After April/May Surge, June Has Seen Extreme Rotation

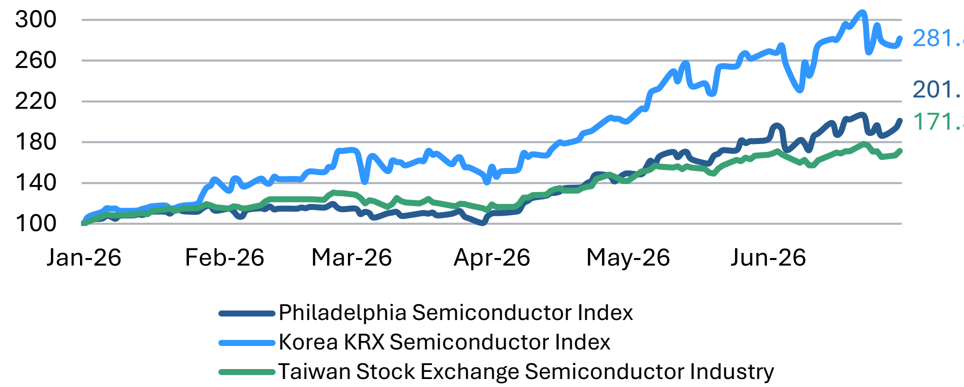
S&P 500 VS. NASDAQ COMPOSITE

AS OF JUNE 30, 2026 (DECEMBER 31, 2025 = 100)



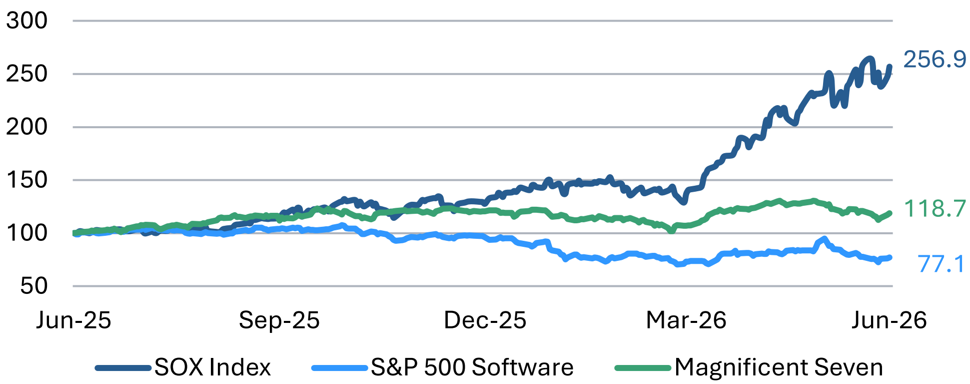
GAUGES OF GLOBAL SEMICONDUCTORS

AS OF JUNE 30, 2026 (DECEMBER 31, 2025 = 100)



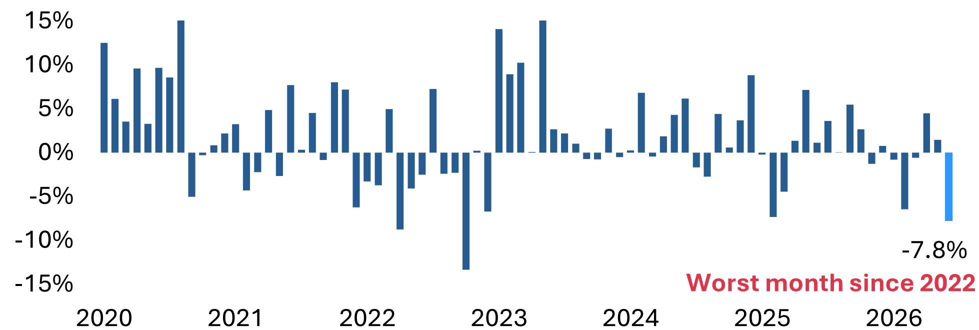
SEMICONDUCTORS VS. SOFTWARE VS. MAGNIFICENT SEVEN

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



MAG-7 LESS S&P 500 MONTHLY PERFORMANCE

AS OF JUNE 30, 2026

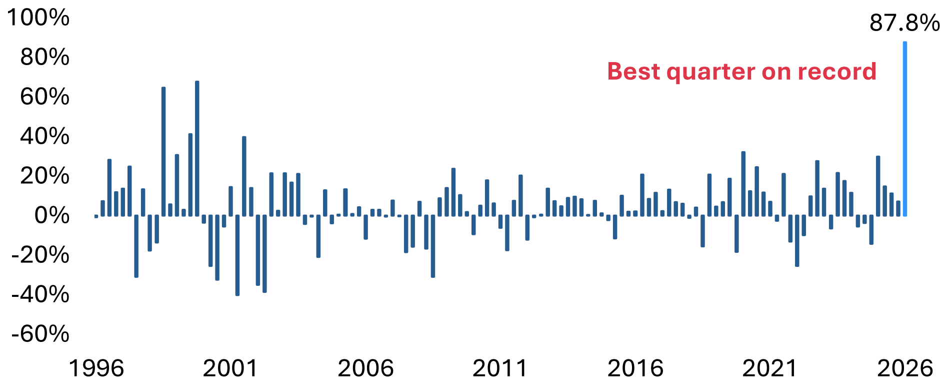


Source: Morgan Stanley Wealth Management GIO, Bloomberg

Semiconductor Strength Provocative

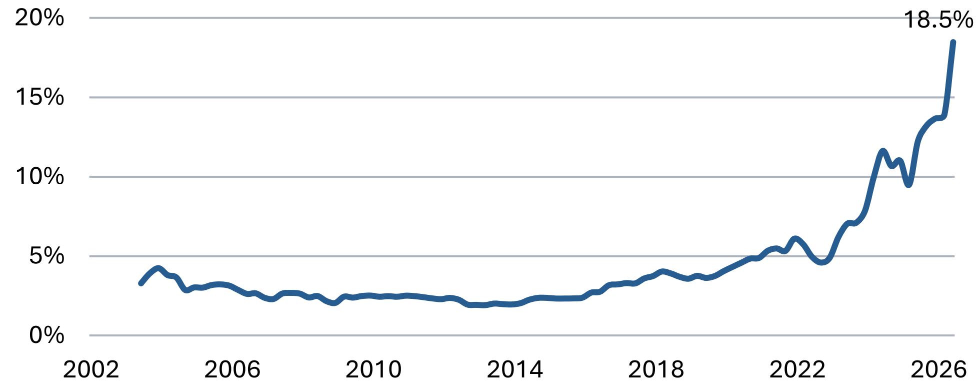
SOX INDEX, QUARTERLY RETURN

AS OF JUNE 30, 2026



SEMICONDUCTOR SHARE OF S&P 500 MARKET CAP

AS OF JUNE 30, 2026

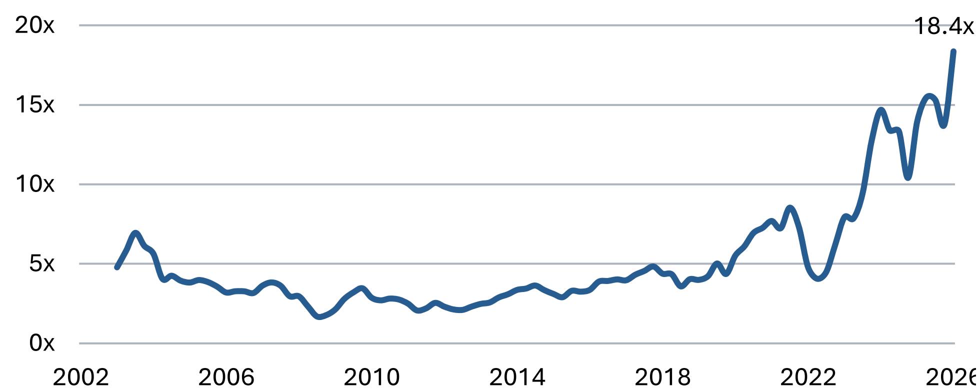


SOX INDEX RELATIVE TO 200-DAY MOVING AVERAGE

AS OF JUNE 30, 2026

SEMICONDUCTOR SECTOR PRICE/SALES RATIO

AS OF JUNE 30, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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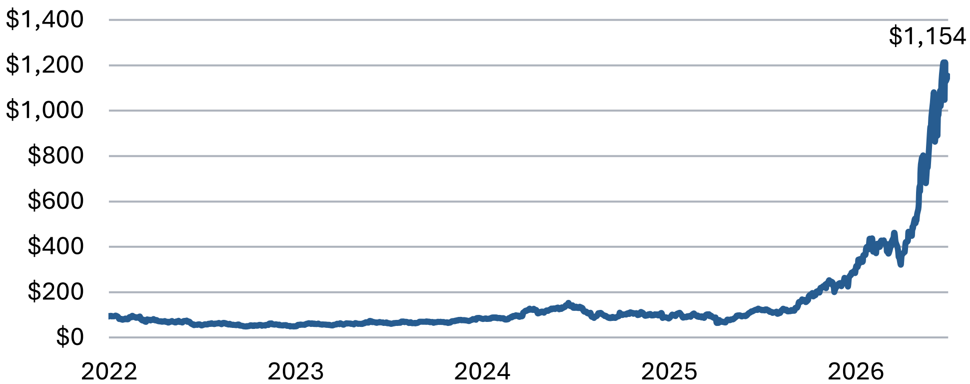
Driven by Euphoria on Memory Pricing

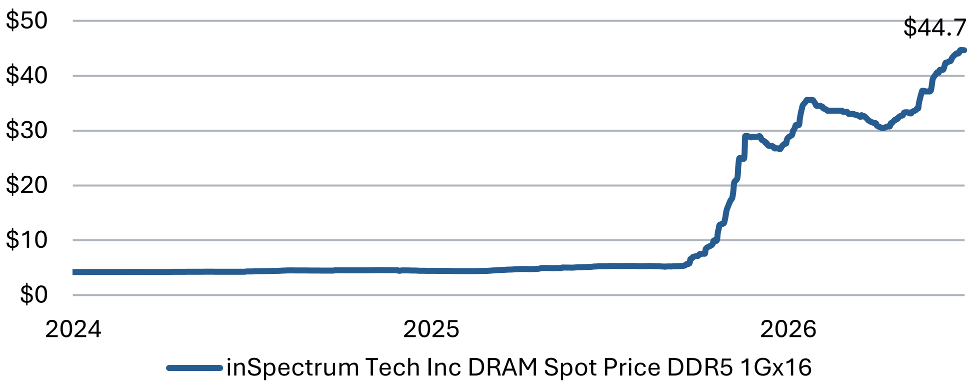
MICRON STOCK PRICE

AS OF JUNE 30, 2026



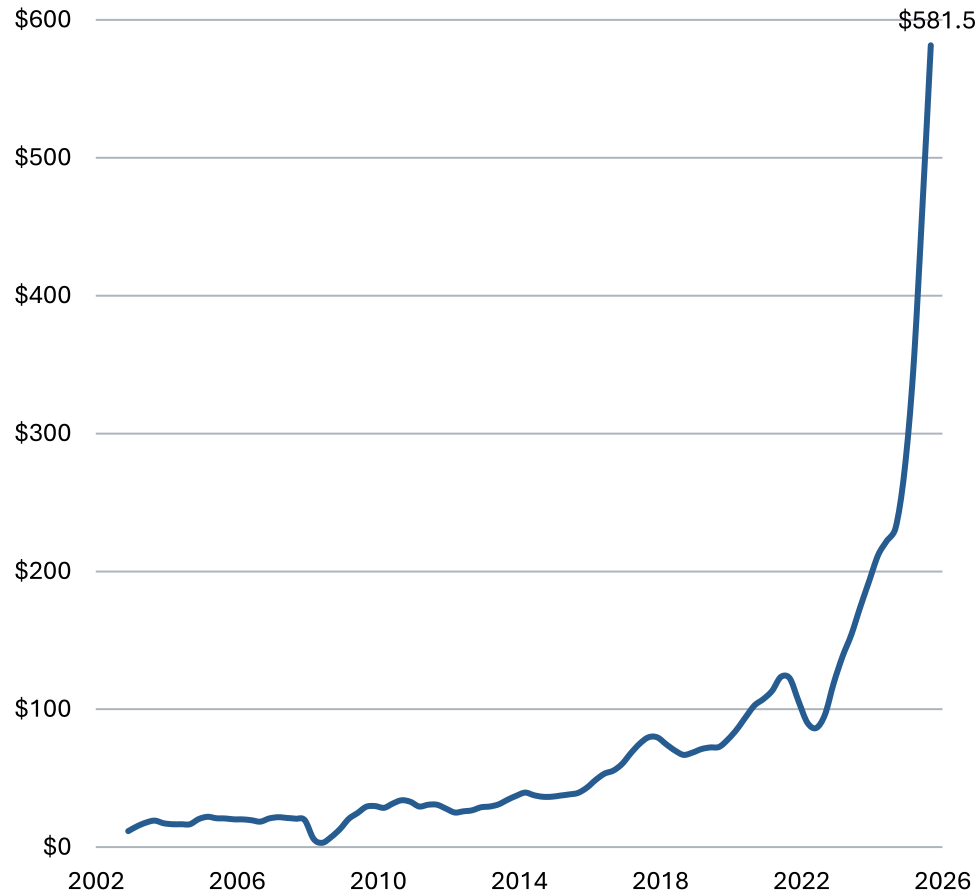
MEMORY PRICES

AS OF JUNE 30, 2026



SEMICONDUCTOR SECTOR FORWARD EPS ESTIMATES

AS OF JUNE 30, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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While There Has Been Churn, Aggregate Concentration Still High

TOP 10 NAMES SHARE OF S&P 500 MARKET CAP

AS OF JUNE 30, 2026

WEIGHT OF TOP S&P 500 CONSTITUENTS

AS OF JUNE 30, 2026

June 2020		June 2026	
MSFT	5.4%	NVDA	8.2%
APPL	5.2%	APPL	7.0%
AMZN	4.0%	MSFT	4.9%
META	2.1%	AMZN	3.8%
GOOGL	1.7%	GOOGL	3.3%
GOOG	1.7%	AVGO	3.1%
JNJ	1.5%	GOOGL	2.7%
BRK/B	1.4%	META	2.1%
V	1.3%	TSLA	1.8%
JPM	1.3%	MU	1.7%
Total	**25.6%**		**38.6%**

Source: Morgan Stanley Wealth Management GIO, Citadel Global Market Intelligence, Strategas

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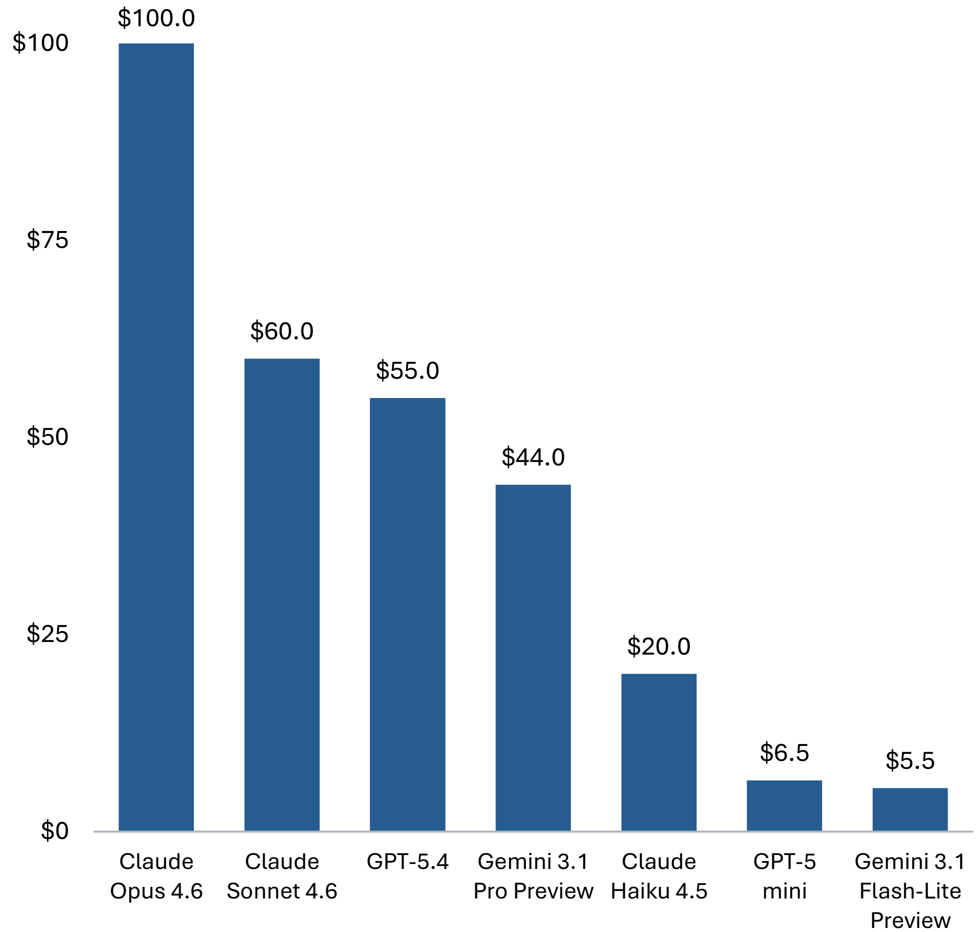
We Sense the AI Deployment Narrative Is Shifting

SILICON DATA LLM TOKEN EXPENDITURE INDEX

AS OF JUNE 30, 2026

COST PER 10M-INPUT + 2M-OUTPUT TOKEN WORKLOAD

AS OF JUNE 30, 2026

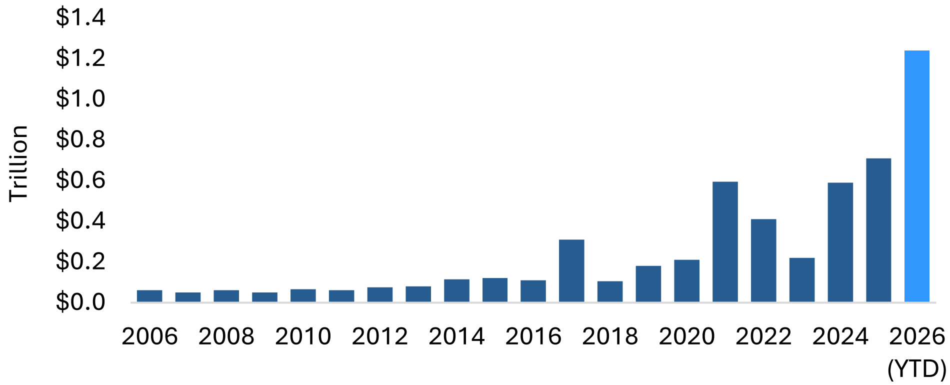


Source: Morgan Stanley Wealth Management GIO, Bloomberg, Empirical Research Partners, Silicon Data

This Has Become a Retail Driven Market

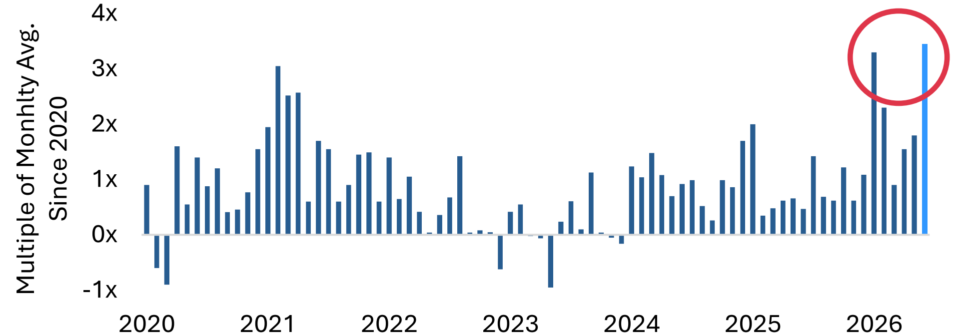
ETF NET INFLOWS

AS OF JUNE 30, 2026



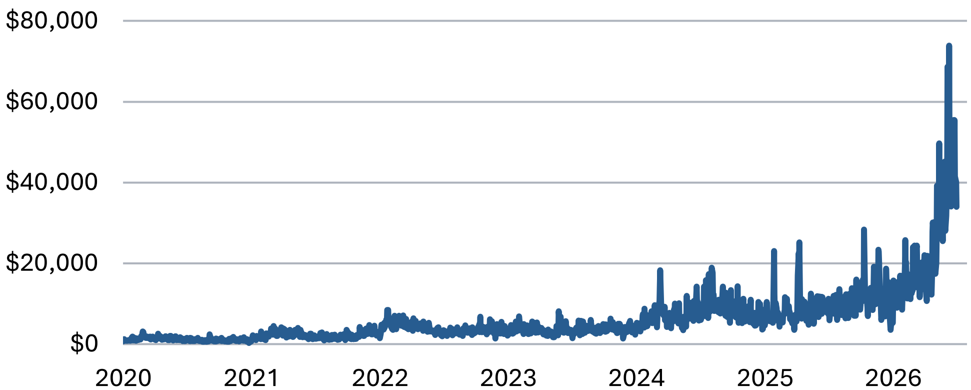
RETAIL CASH NET NOTIONAL

AS OF JUNE 30, 2026



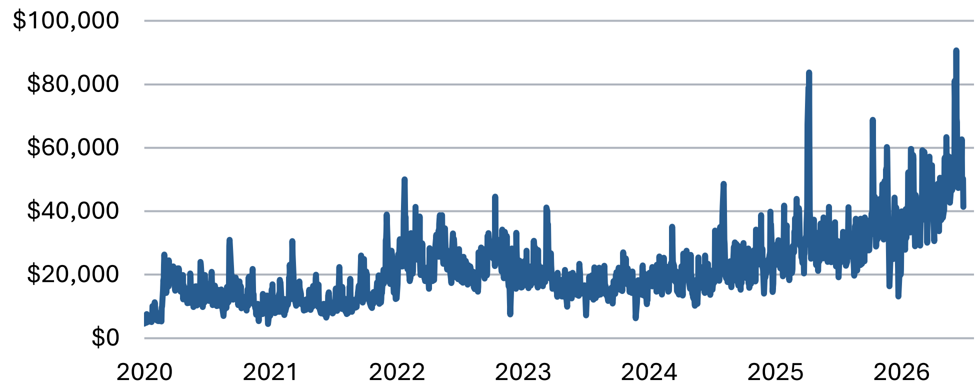
DAILY TRADING VOLUME OF SEMICONDUCTOR ETFS

AS OF JUNE 30, 2026



DAILY TRADING VOLUME OF LEVERED ETFS

AS OF JUNE 30, 2026

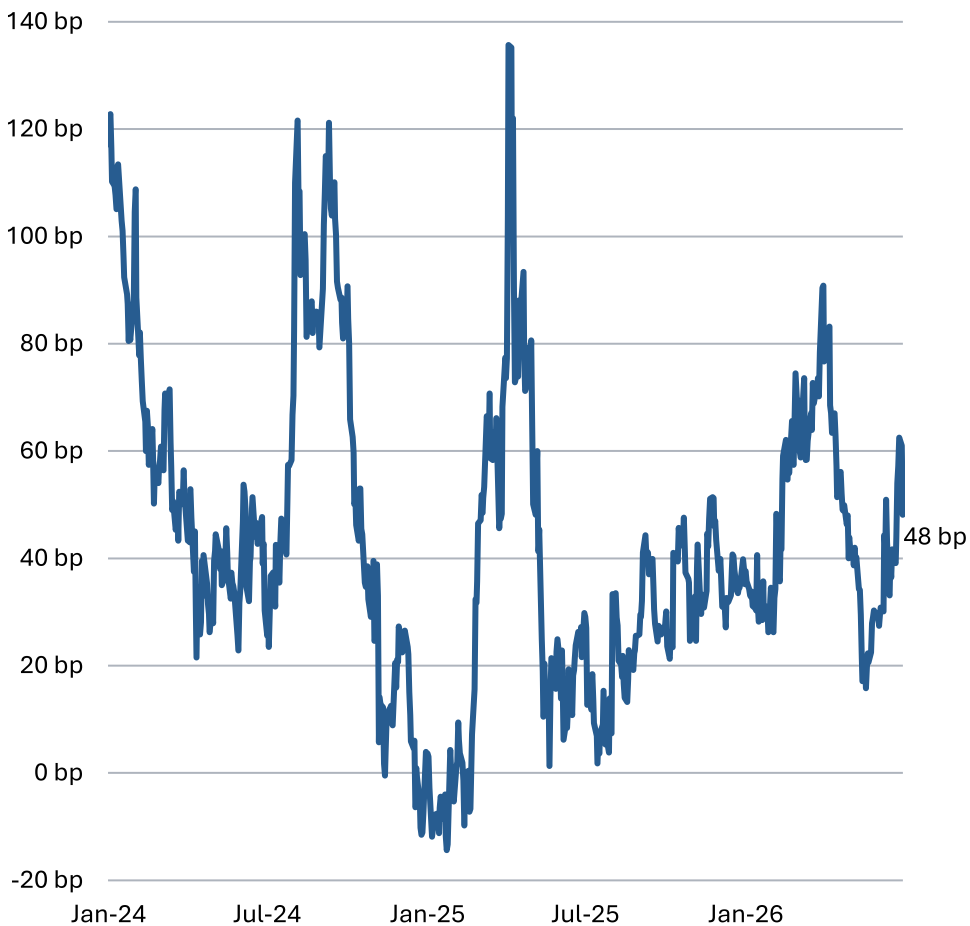


Source: Morgan Stanley Wealth Management GIO, Bloomberg, Citadel Global Market Intelligence. Note: Figures are for illustrative purposes only.

S&P 500 Equity Risk Premium Recovering; The Mag-7 Is Now Relatively Cheap

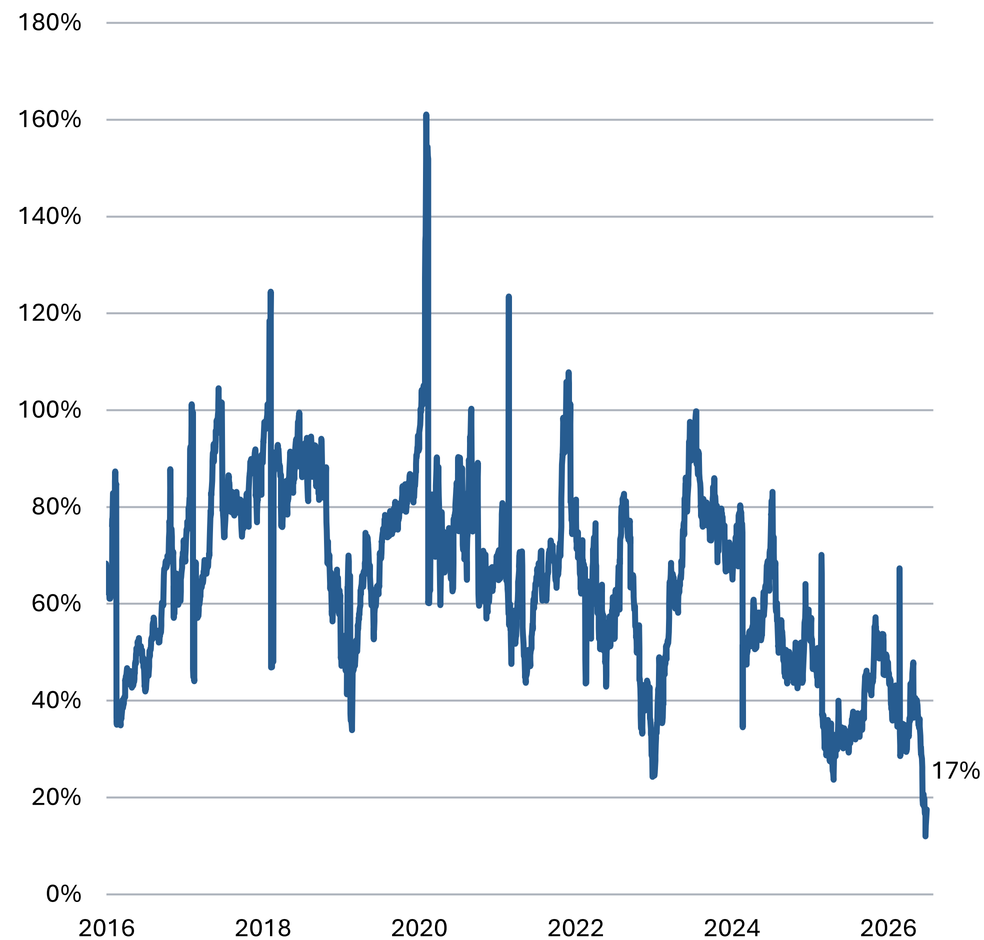
MORGAN STANLEY EQUITY RISK PREMIUM

AS OF JUNE 30, 2026



MAGNIFICENT SEVEN P/E PREMIUM TO "S&P 493"

AS OF JUNE 30, 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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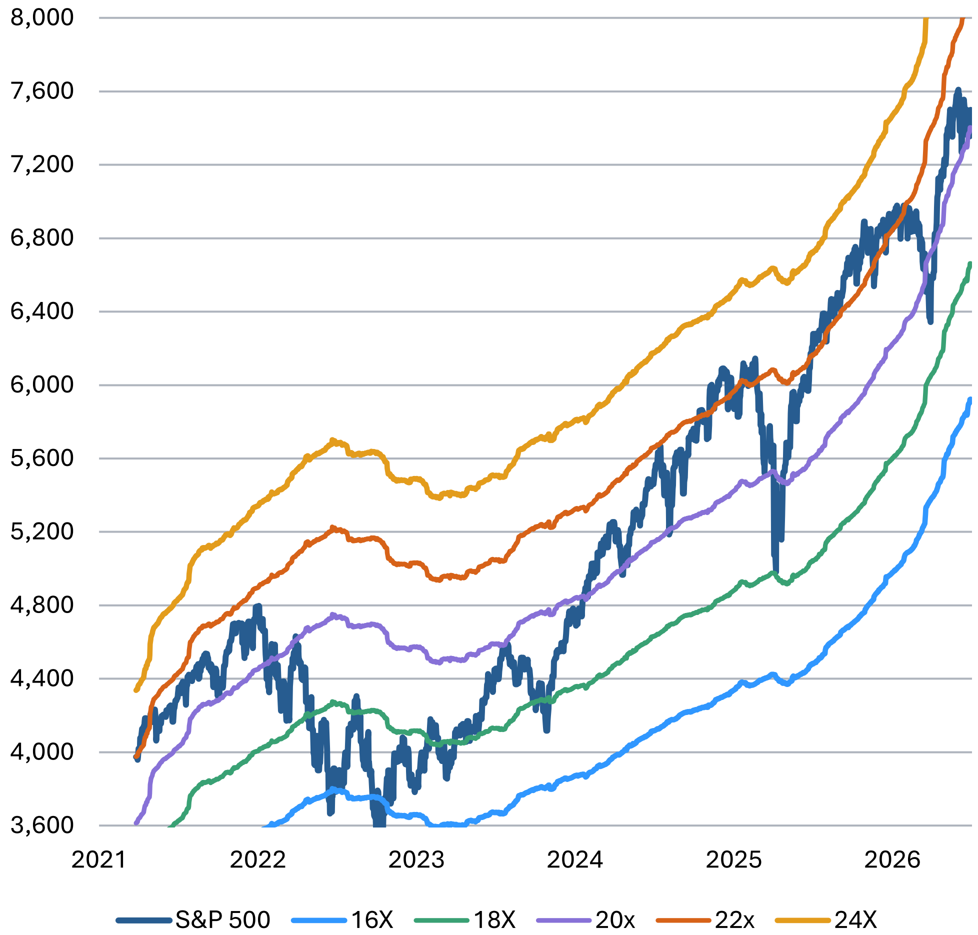
Multiples Have Compressed by Two Turns

S&P 500 BY FORWARD P/E MULTIPLE

AS OF JUNE 30, 2026



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

AS OF JUNE 30, 2026

Source: Morgan Stanley Wealth Management GIO, Bloomberg

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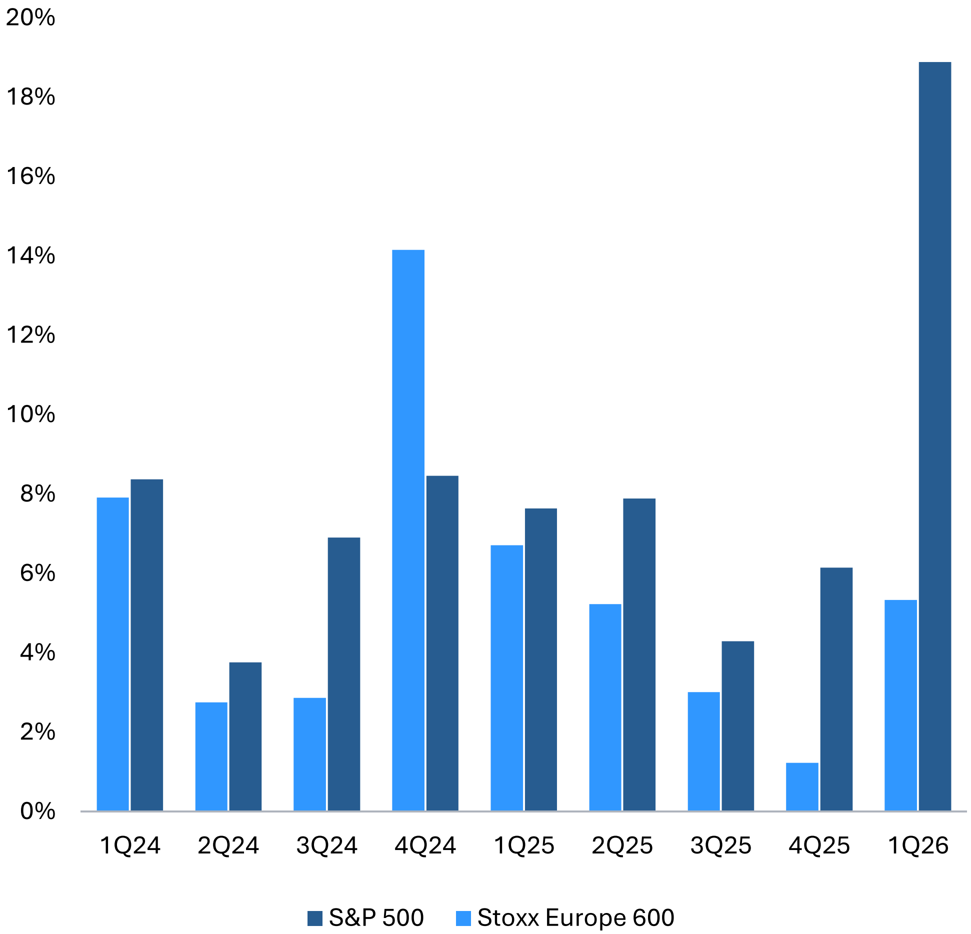
Driven by Earnings Surprise and Revisions

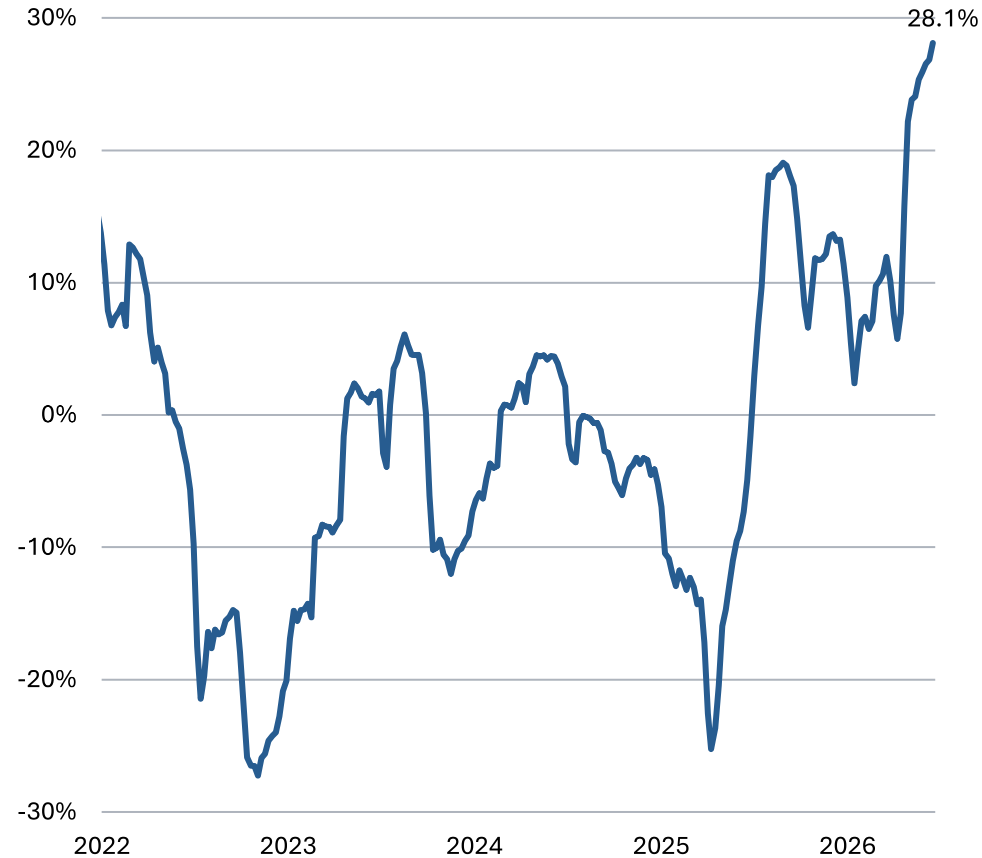
AGGREGATE EARNINGS SURPRISES

AS OF JUNE 30, 2026



S&P 500 EARNINGS REVISIONS BREADTH

AS OF JUNE 30, 2026



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

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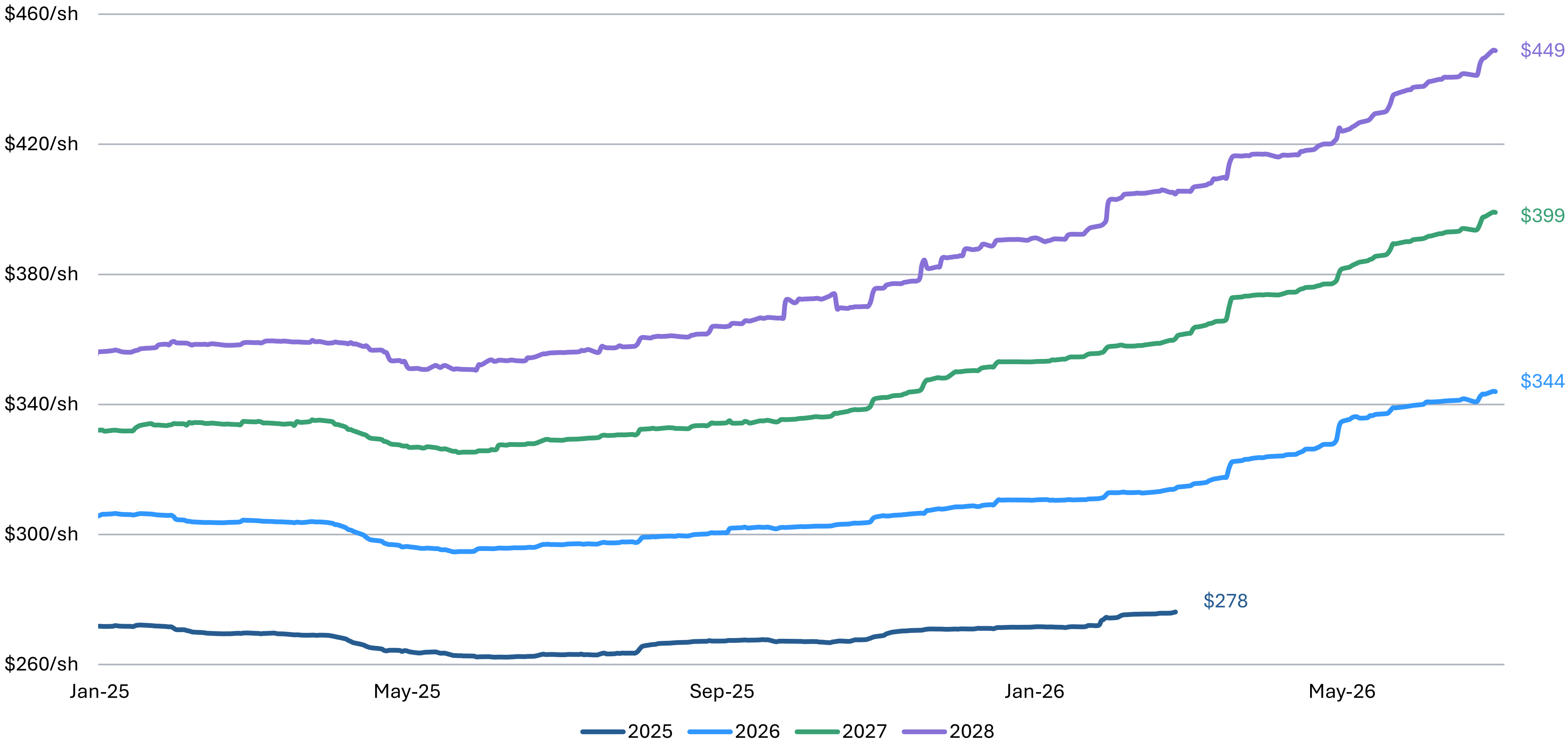
New Forecasts for 2026-2028 Have Jumped Higher

S&P 500 EARNINGS ESTIMATES

AS OF JUNE 30, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg, Strategas

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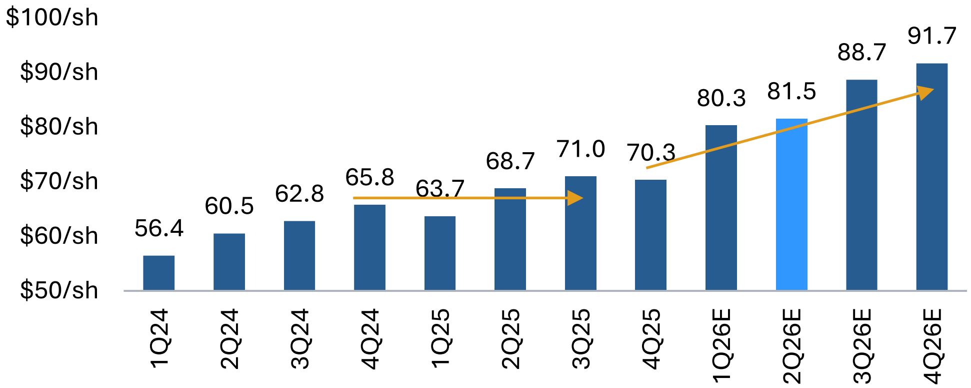
New Forecasts for 2026-2028 Suggest Growth 2x Normal, but Also Deceleration

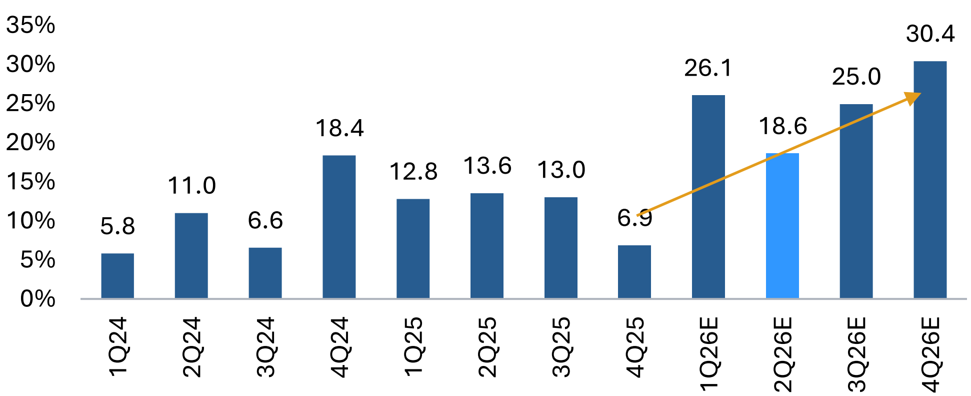
S&P 500 CONSENSUS EPS

AS OF JUNE 30, 2026



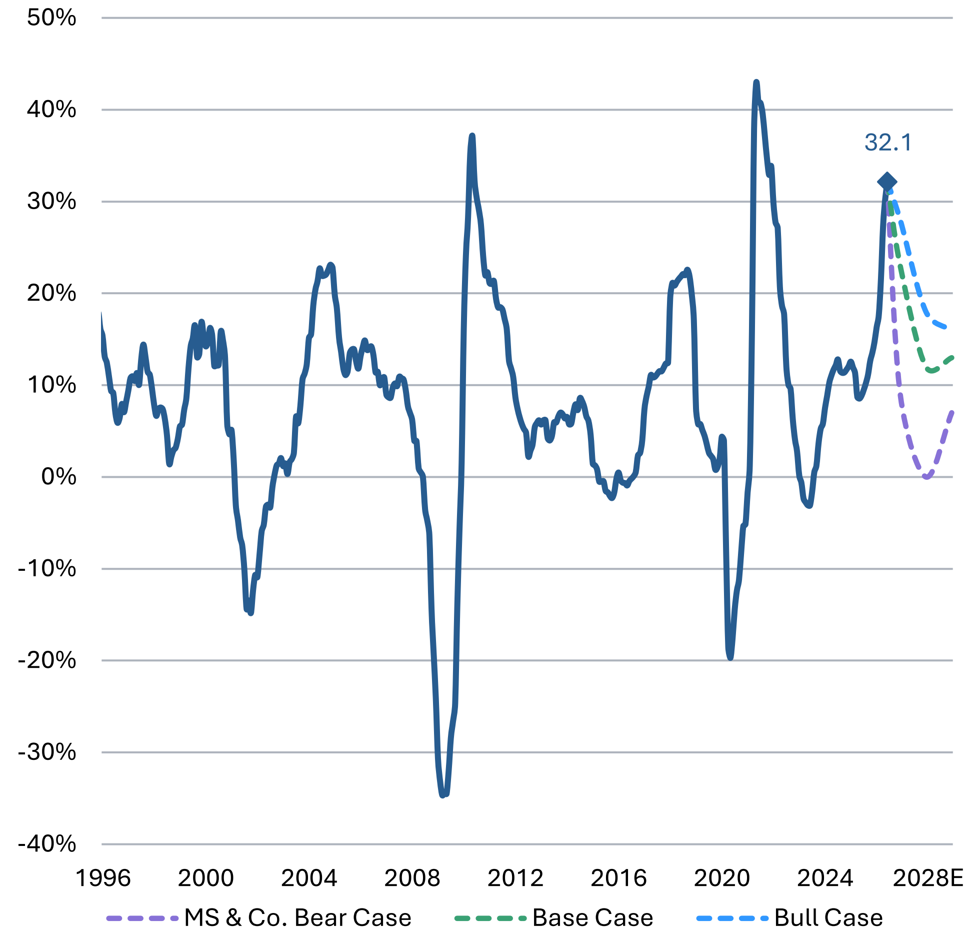
S&P 500 CONSENSUS EPS, YEAR-OVER-YEAR GROWTH

AS OF JUNE 30, 2026



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

AS OF JUNE 30, 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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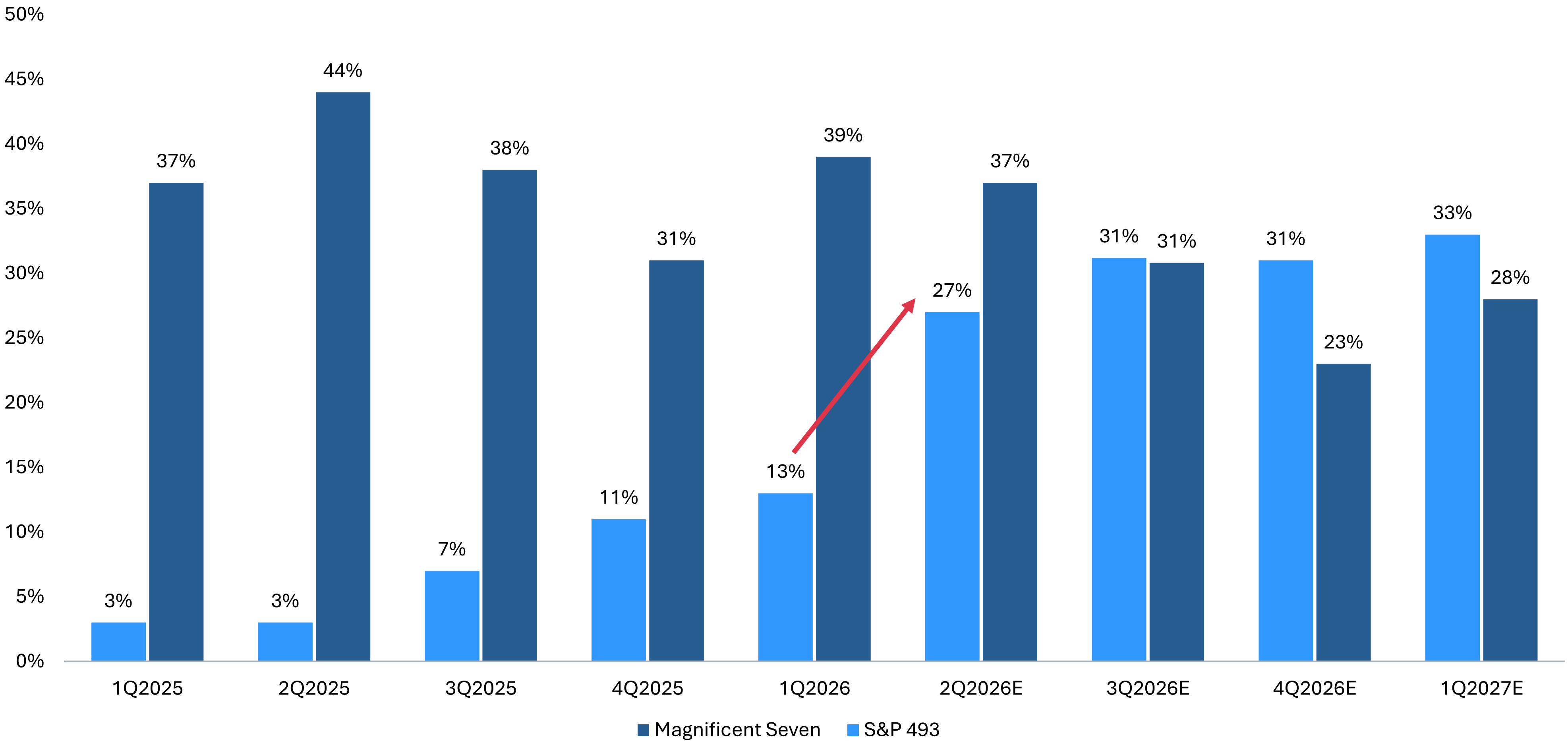
Near Term Depends on Broadening Thesis for "493" Profit Growth Reacceleration

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

AS OF JUNE 30, 2026



Source: Morgan Stanley Wealth Management GIO, Strategas

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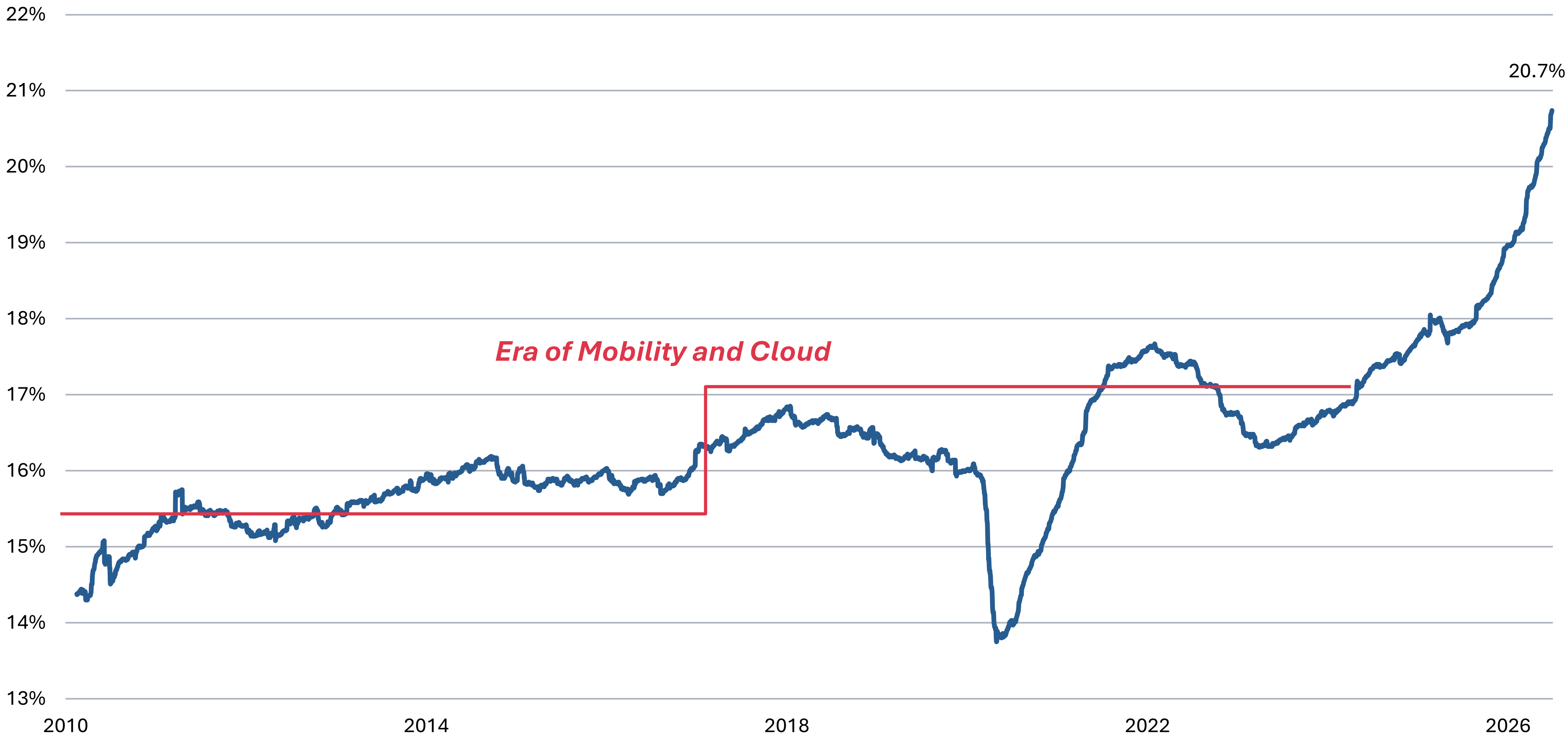
Expectations for Productivity Gains Are Substantial

S&P 500 FORWARD OPERATING MARGIN

AS OF JUNE 30, 2026

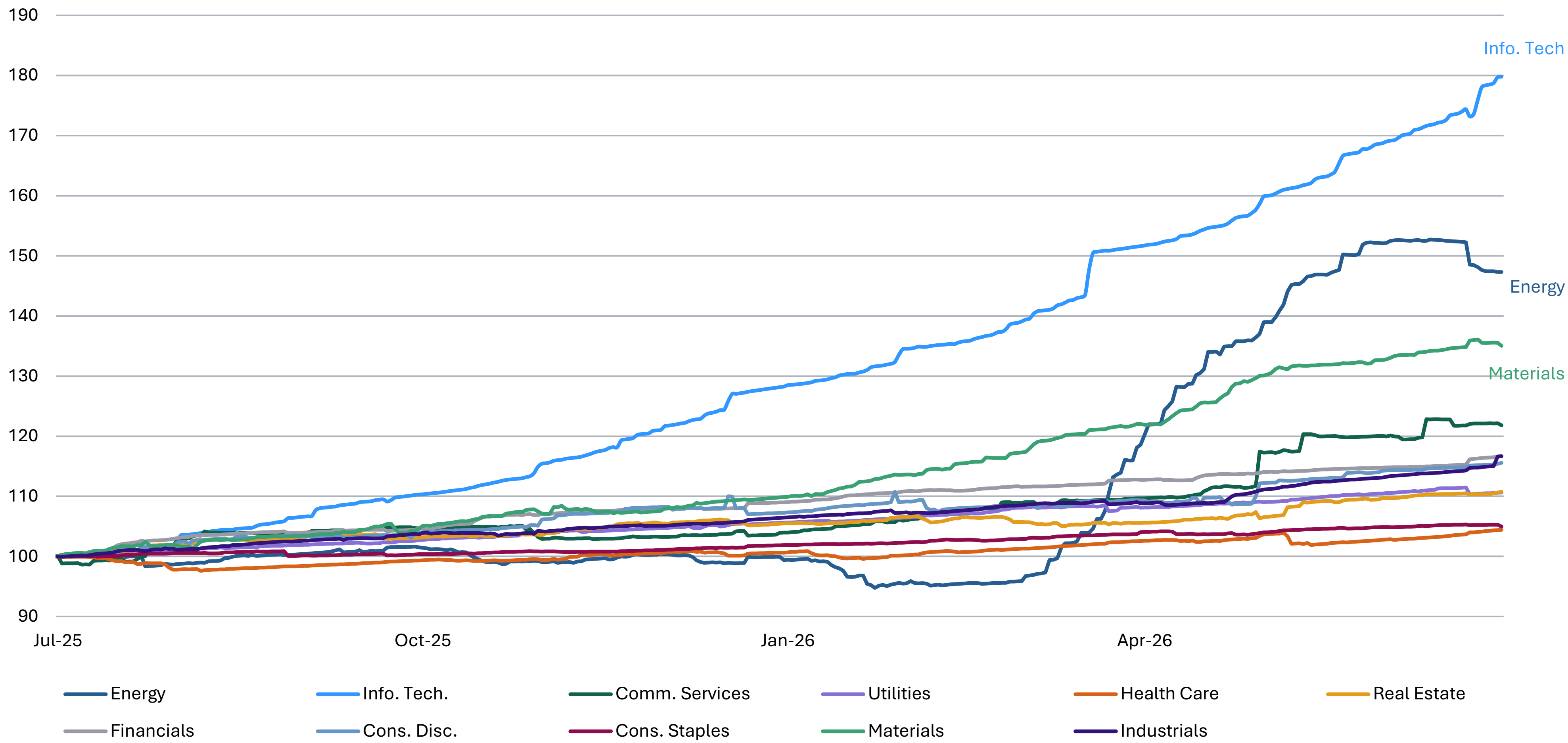


Source: Morgan Stanley Wealth Management GIO, Bloomberg

But Earnings Revisions Are Deceptively Concentrated

S&P 500 SECTOR EPS EXPECTATIONS

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



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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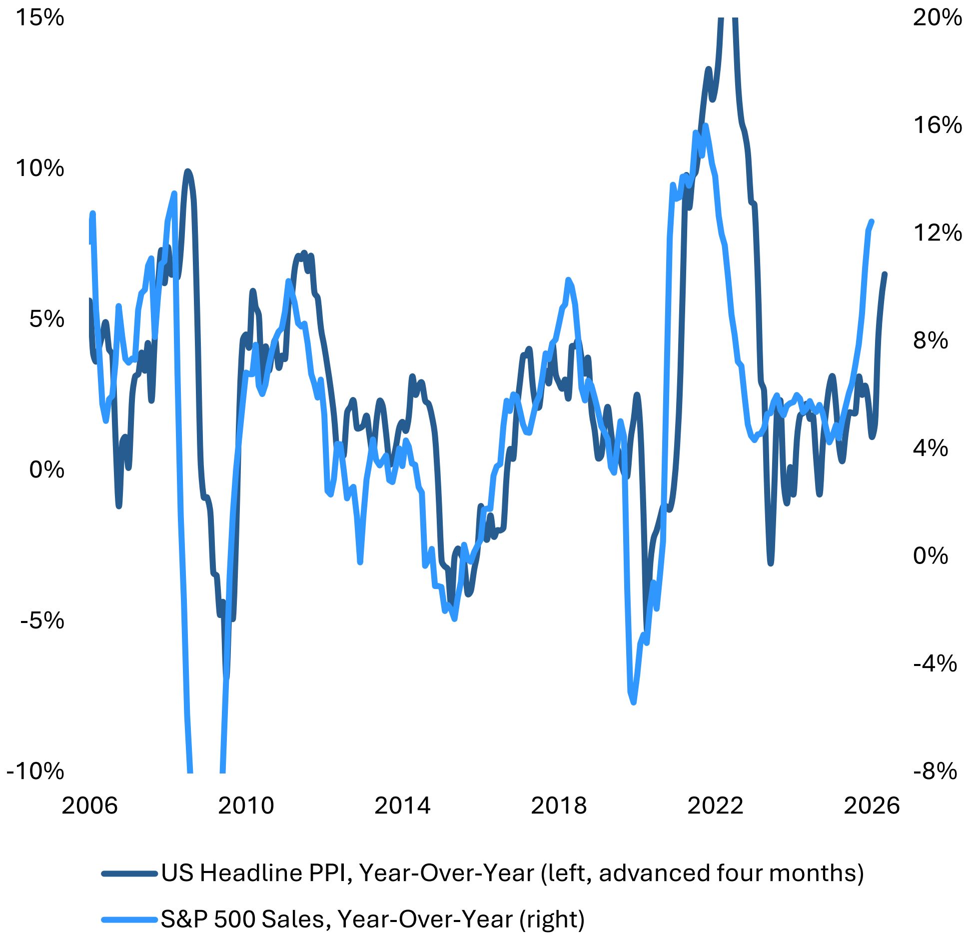
Is The Upside Surprise More Pricing Than Productivity? We Are in a Scarcity Economy

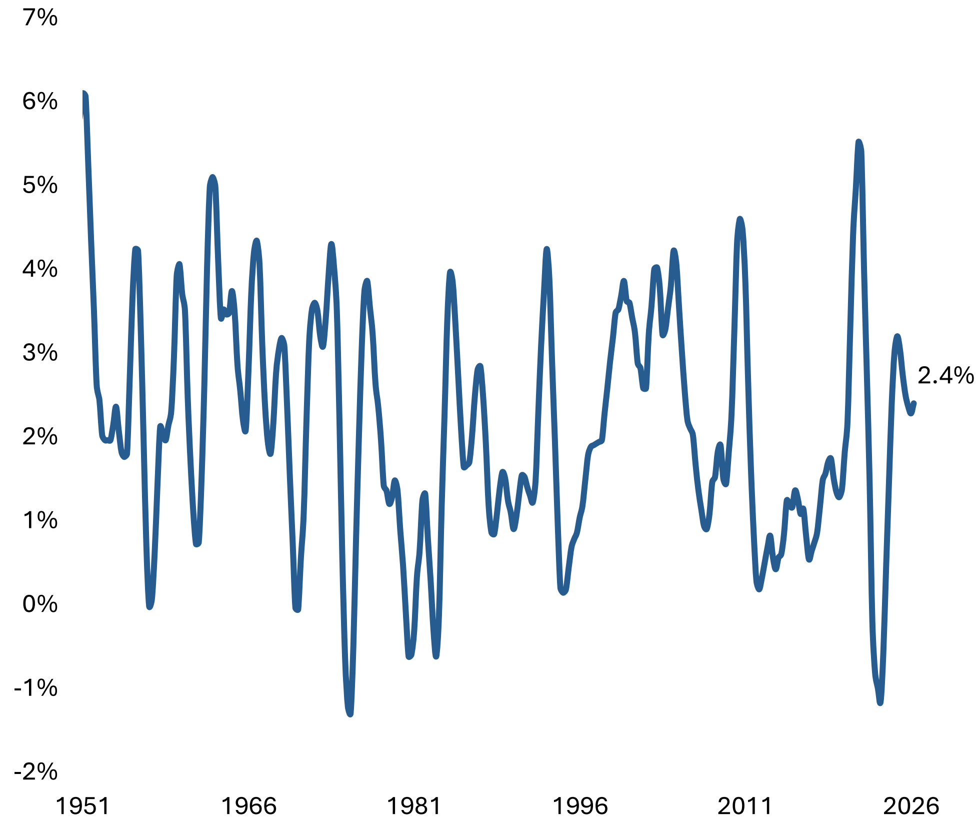
PPI VS. S&P 500 SALES GROWTH

AS OF JUNE 30, 2026



NONFARM PRODUCTIVITY, FIVE-YEAR AVERAGE YEARLY GROWTH

AS OF JUNE 30, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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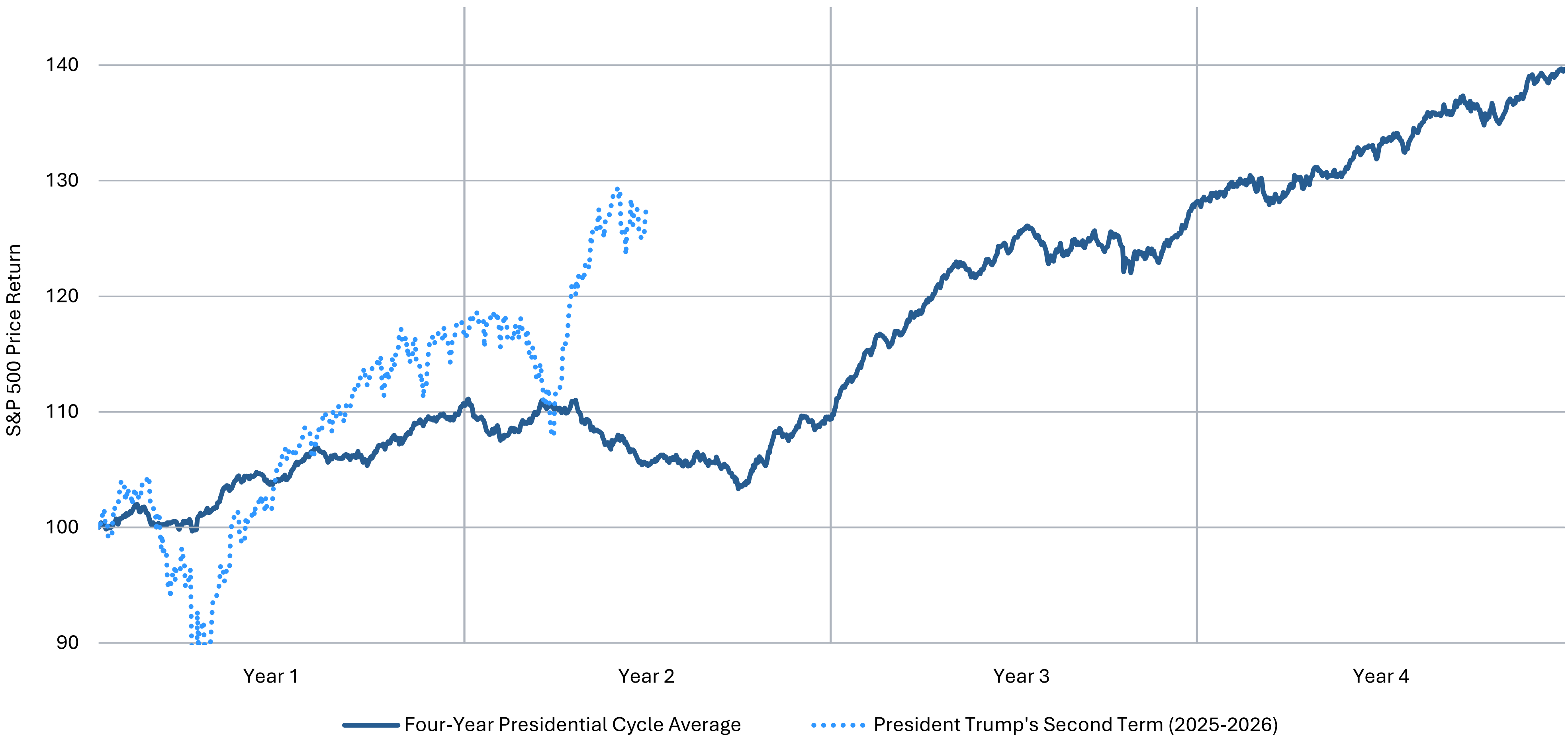
Seasonality and Political History Suggest a Grind

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

AS OF JUNE 30, 2026



Source: Morgan Stanley Wealth Management GIO, Strategas

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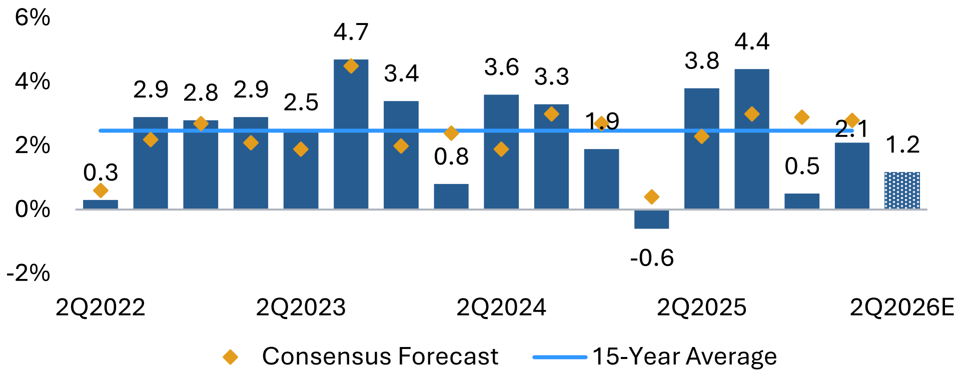
Top-Down US Growth Is Still Robust

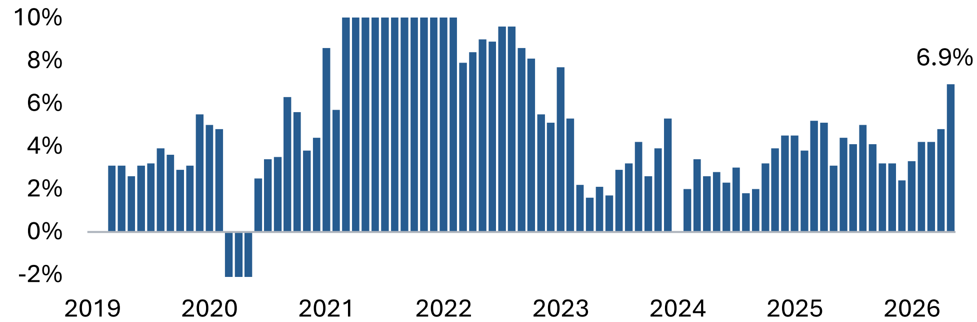
US GDP, QUARTER-OVER-QUARTER (ANNUALIZED)

AS OF JUNE 30, 2026



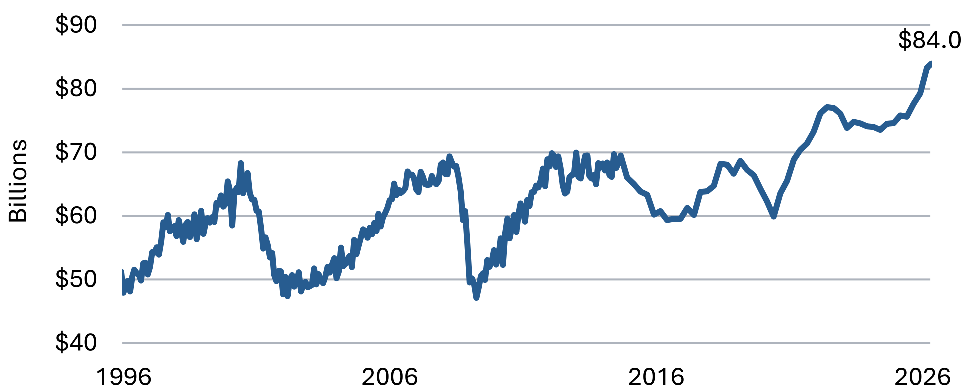
US RETAIL SALES, YEAR-OVER-YEAR

AS OF JUNE 30, 2026



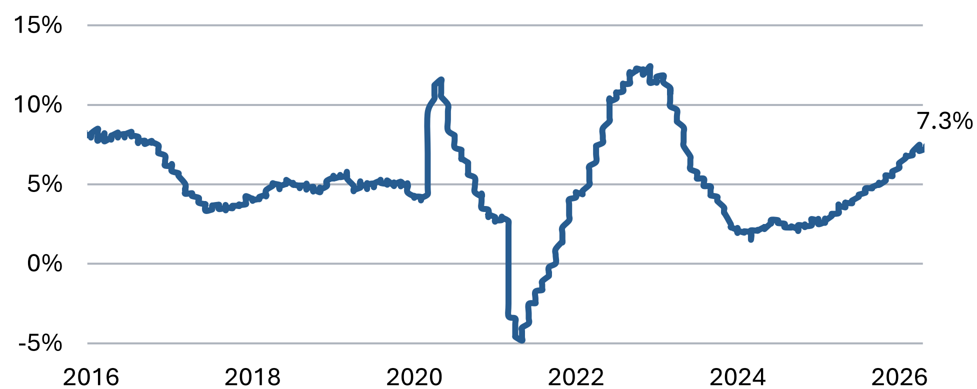
VALUE OF CAPITAL GOODS ORDERS EX DEFENSE AND AIRCRAFT

AS OF JUNE 30, 2026



US BANK TOTAL LOANS, YEAR-OVER-YEAR

AS OF JUNE 30, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg. Note: 2Q2026 GDP uses Atlanta Fed GDPNow Forecast. Retail sales data truncated for COVID period highs and lows.

Economic Surprises Have Held Up

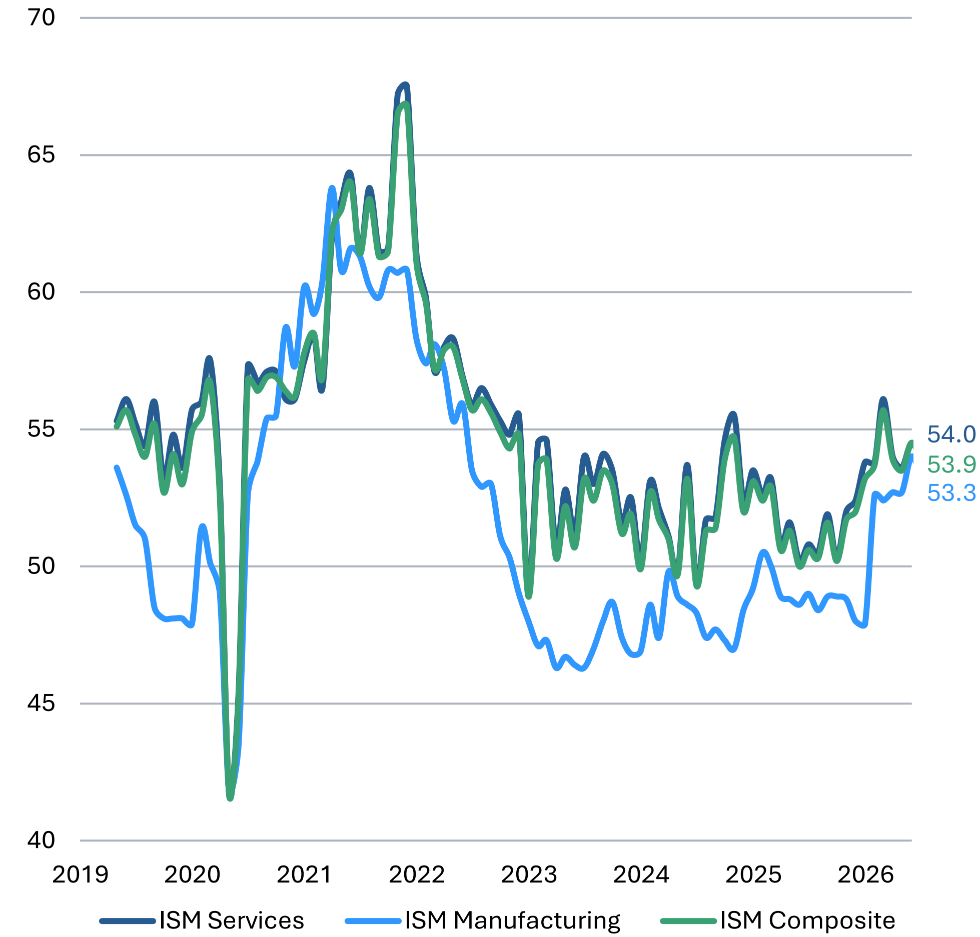
Manufacturing Is Rebounding and Economic Surprises Solid

ECONOMIC SUPRISES HAVE BEEN STRONG

AS OF JUNE 30, 2026

ISM SOLIDLY REBOUNDING

AS OF JUNE 30, 2026

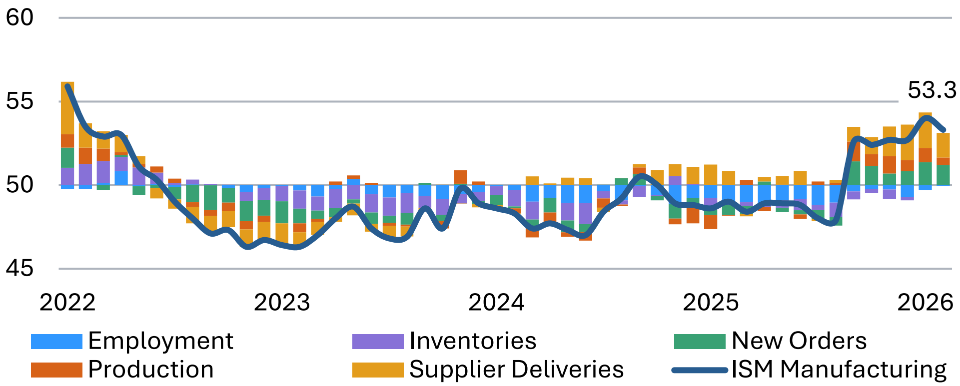


Source: Morgan Stanley Wealth Management GIO, Bloomberg

And Manufacturing Expanding for Six Months Running

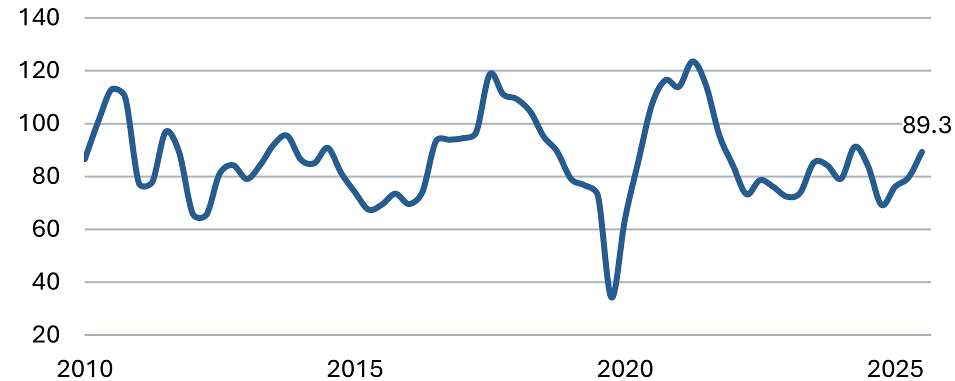
ISM MANUFACTURING

AS OF JUNE 30, 2026



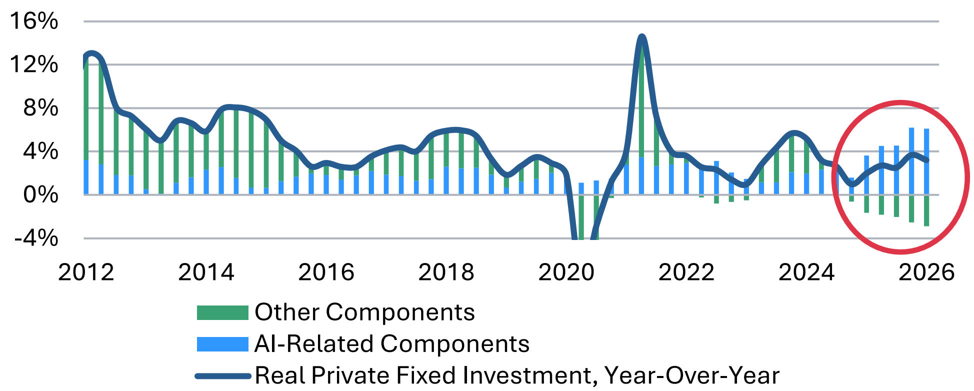
US ROUNDTABLE CEO ECONOMIC CONDITIONS SURVEY

AS OF JUNE 30, 2026



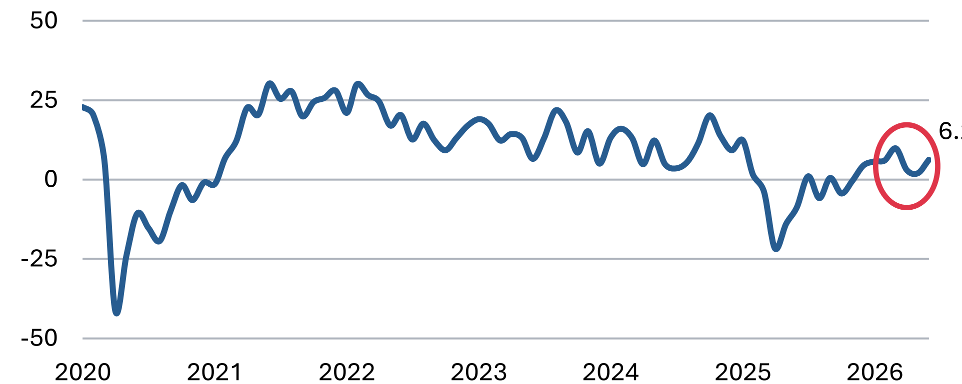
CONTRIBUTIONS TO REAL PRIVATE FIXED INVESTMENT

AS OF JUNE 30, 2026



CEO INTENTIONS OF CAPEX IN SIX MONTHS SURVEY

AS OF JUNE 30, 2026

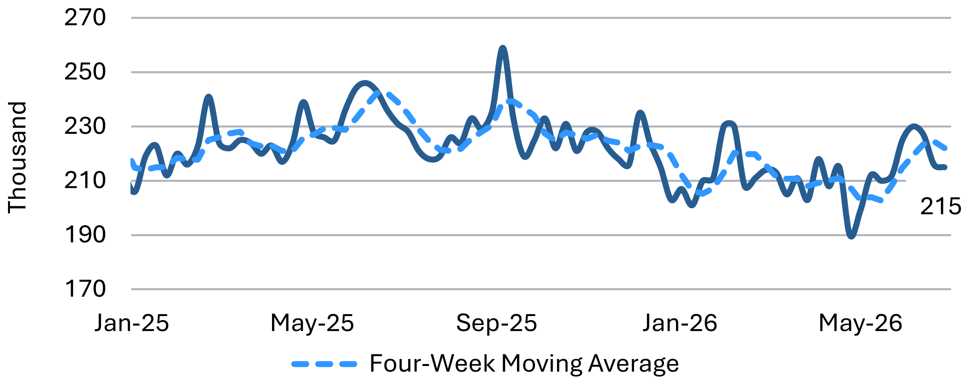


Source: Morgan Stanley Wealth Management GIO, Bloomberg, Pantheon Macro. Note: Real private fixed investment chart truncated for COVID period lows.

Labor Market Is Presumed “Stable”

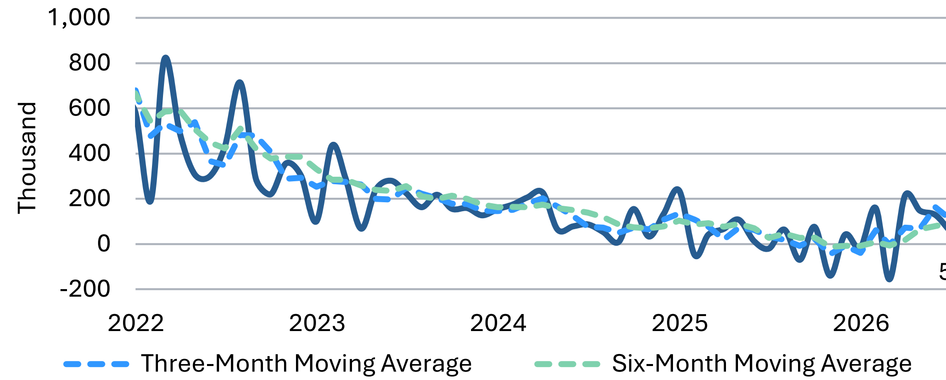
WEEKLY INITIAL JOBLESS CLAIMS

AS OF JUNE 26, 2026



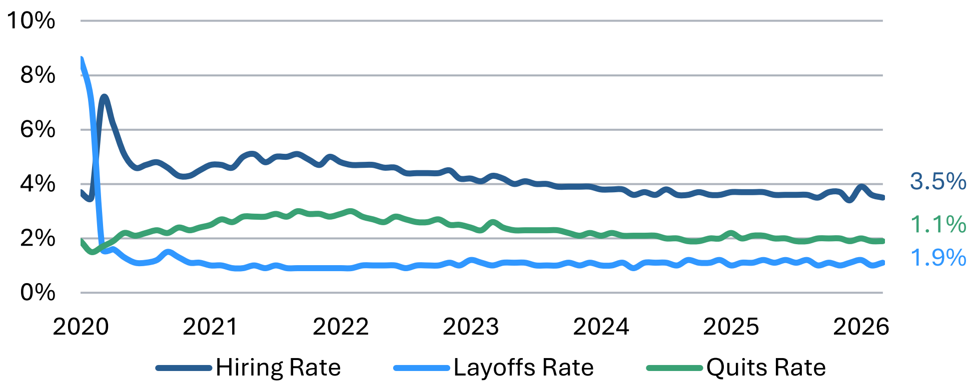
NONFARM PAYROLLS, MONTH-OVER-MONTH

AS OF JUNE 30, 2026



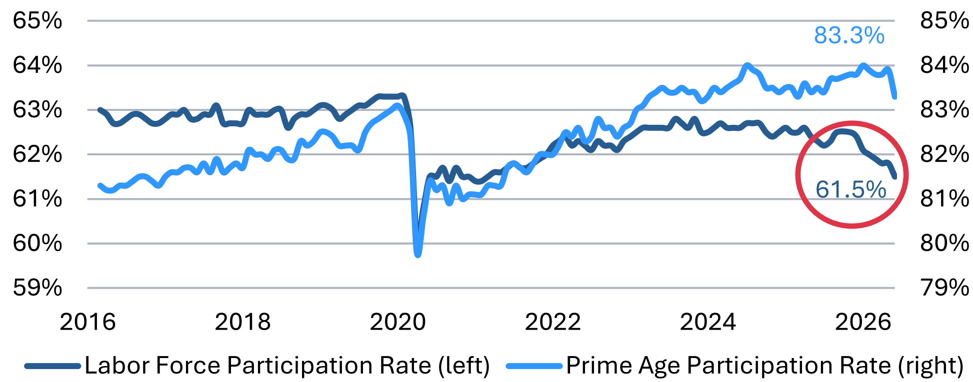
JOLTS SURVEYS

AS OF JUNE 30, 2026



LABOR FORCE PARTICIPATION RATE

AS OF JUNE 30, 2026

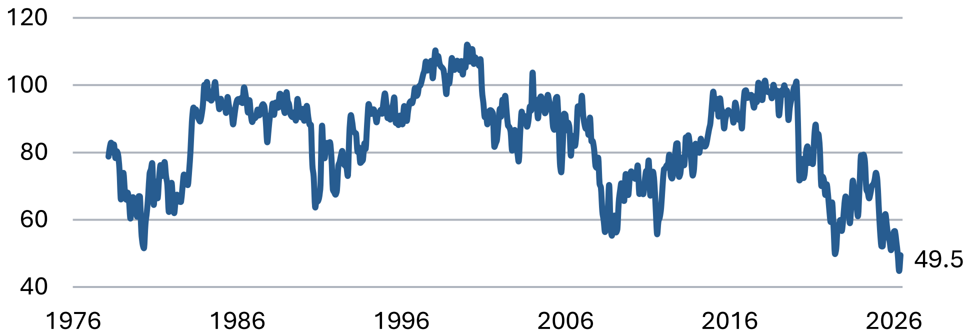


Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, Bloomberg

But the Consumer Seems Fragile

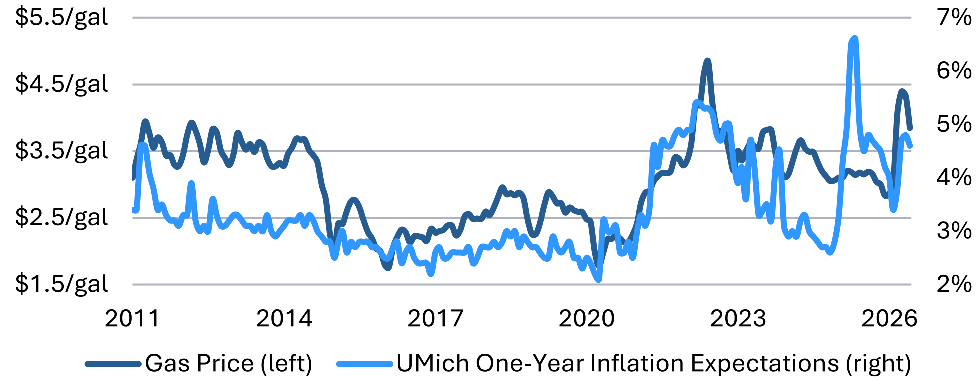
UMICH CONSUMER SENTIMENT AT AN ALL-TIME LOW

AS OF JUNE 30, 2026



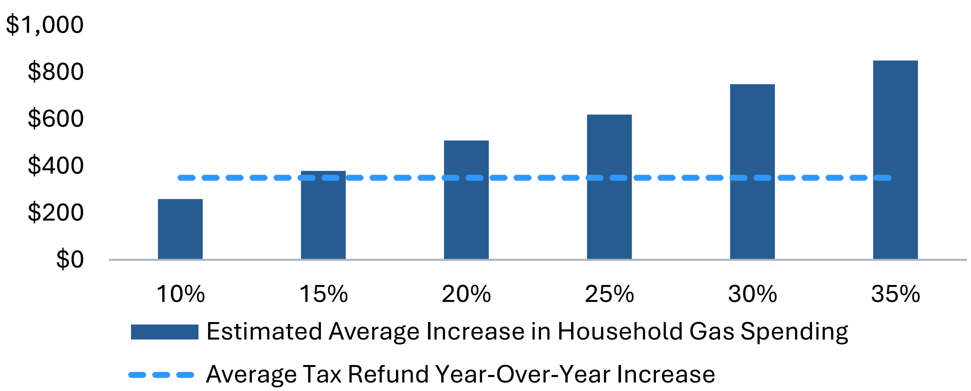
ONE-YEAR INFLATION EXPECTATIONS VS. RETAIL GAS PRICES

AS OF JUNE 30, 2026



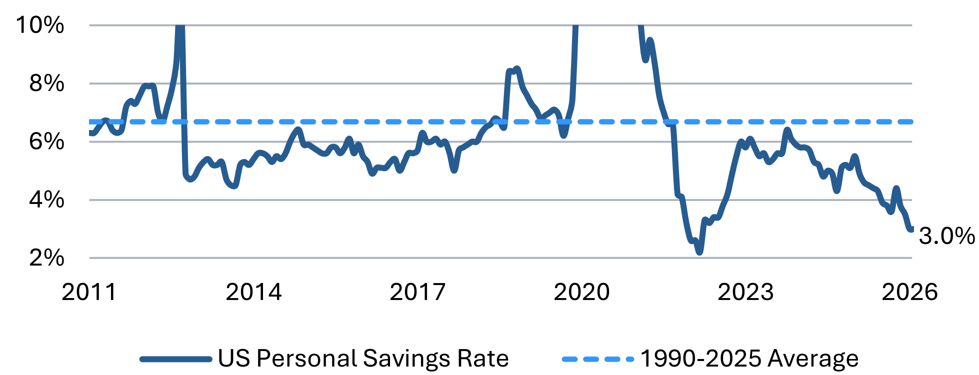
ESTIMATED IMPACT OF GAS PRICE ON HOUSEHOLD SPENDING

AS OF JUNE 30, 2026



US PERSONAL SAVINGS RATE

AS OF JUNE 30, 2026

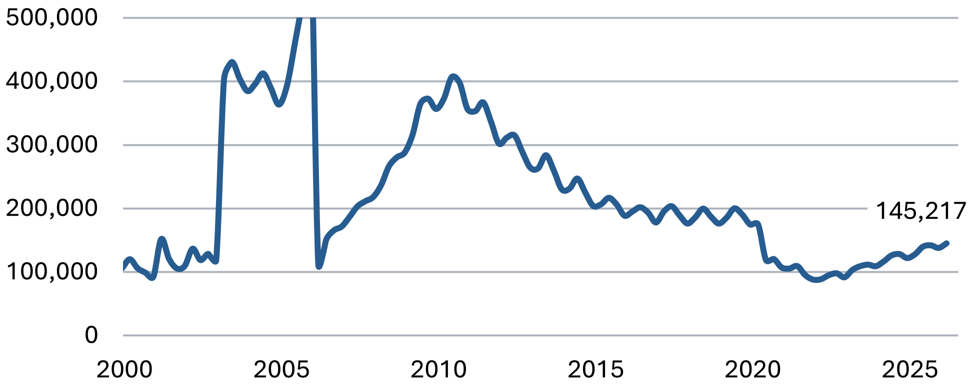


Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, Bloomberg. Note: Personal savings rate data truncated for COVID-period levels.

And the Bifurcated Economy Is Evident

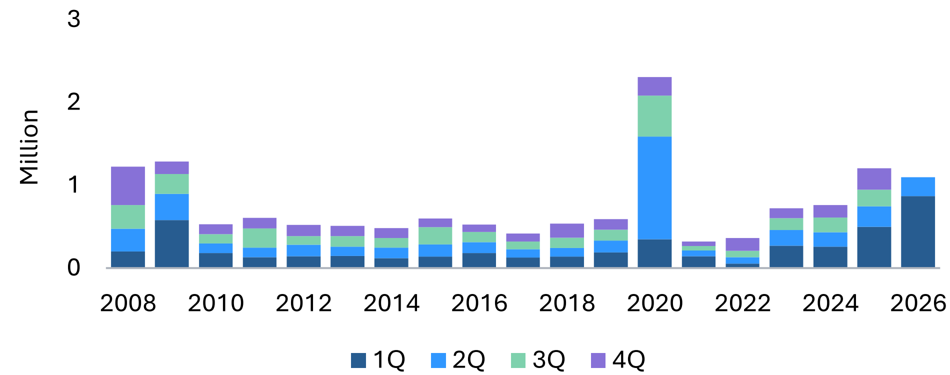
US HOUSEHOLD BANKRUPTCY FILINGS

AS OF JUNE 30, 2026



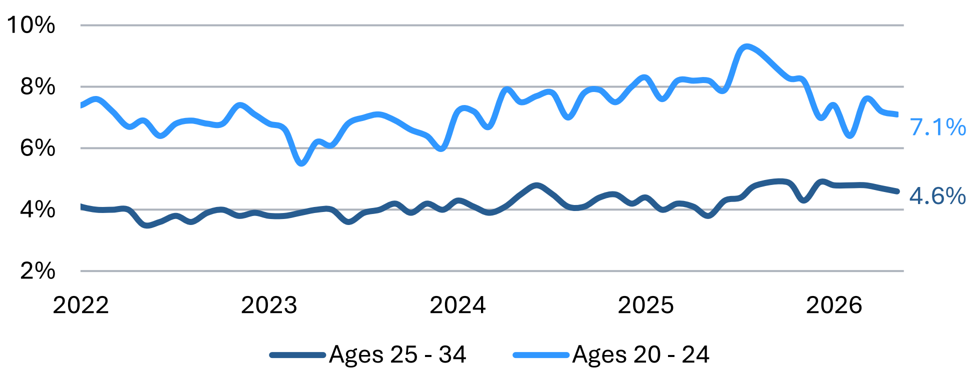
CHALLENGER LAYOFFS

AS OF JUNE 30, 2026



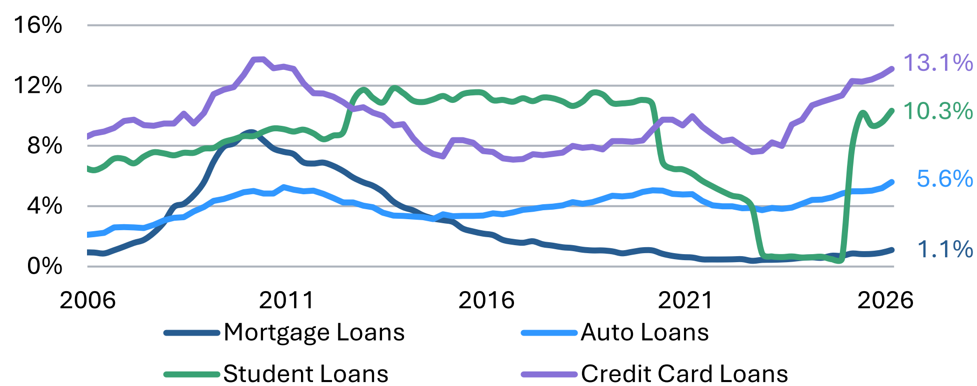
YOUTH UNEMPLOYMENT RATE

AS OF JUNE 30, 2026



OVER 90-DAY DELINQUENCY RATES

AS OF JUNE 30, 2026

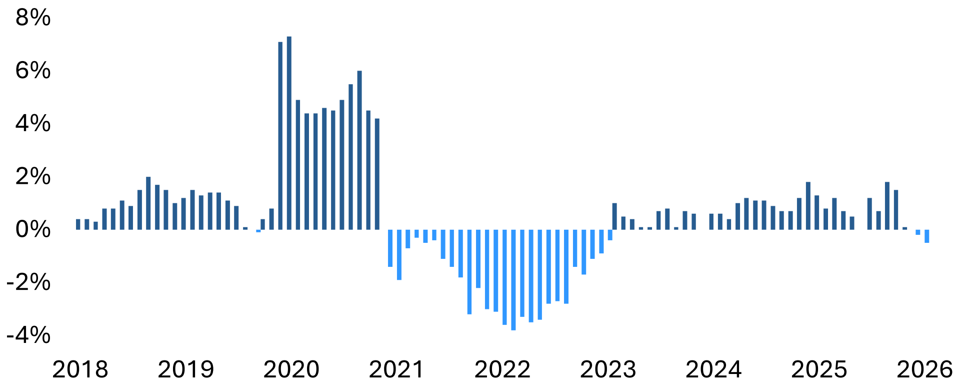


Source: Morgan Stanley Wealth Management GIO, Bloomberg

And Real Incomes Are No Longer Growing… Potentially Bleeding into Consumption

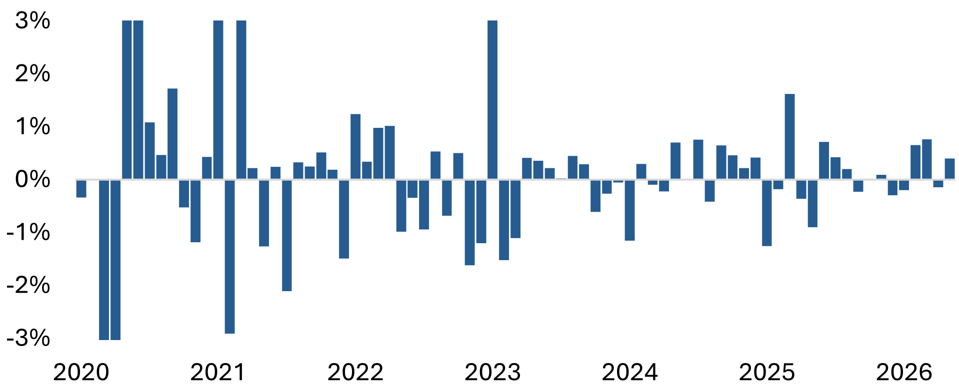
US REAL WEEKLY EARNINGS, MONTH-OVER-MONTH

AS OF JUNE 5, 2026



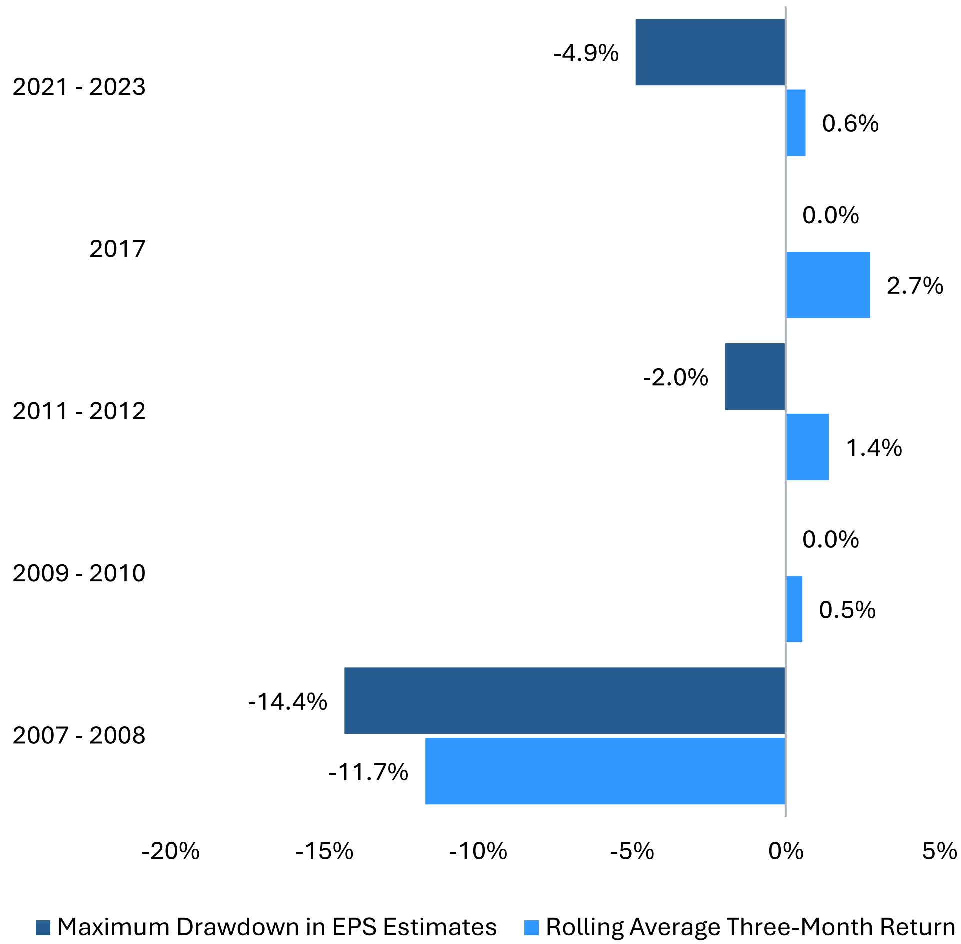
REAL RETAIL SALES, MONTH-OVER-MONTH

AS OF JUNE 17, 2026



S&P 500 PERFORMANCE IN PERIODS OF NEGATIVE REAL WAGES

AS OF JUNE 30, 2026

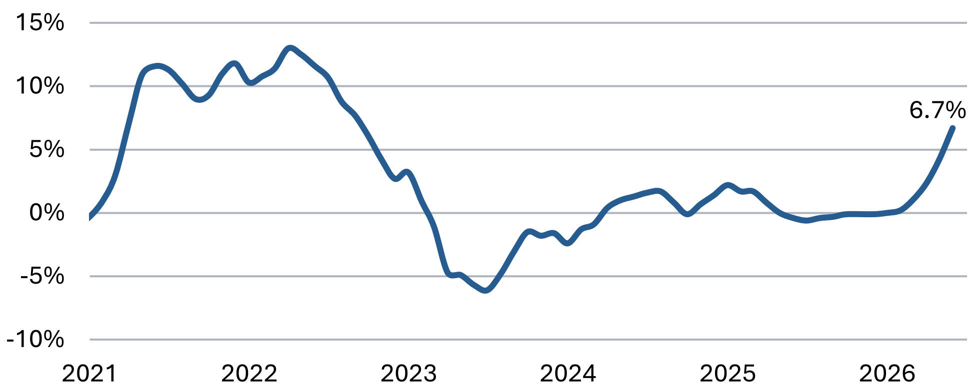


Source: Morgan Stanley Wealth Management GIO, Bloomberg. Note: Real retail sales data truncated for COVID period highs and lows.

Inflation Risk Remains; Sticky "Super" Core

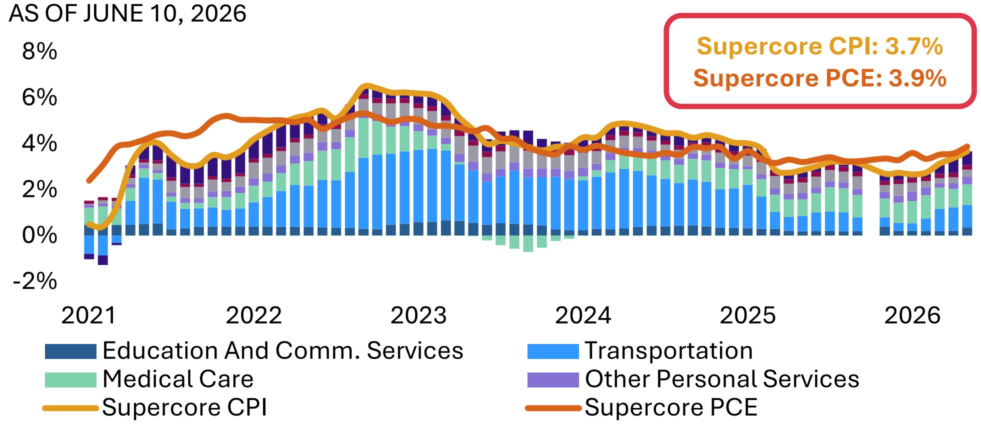
US IMPORT PRICE INDEX, YEAR-OVER-YEAR

AS OF JUNE 16, 2026



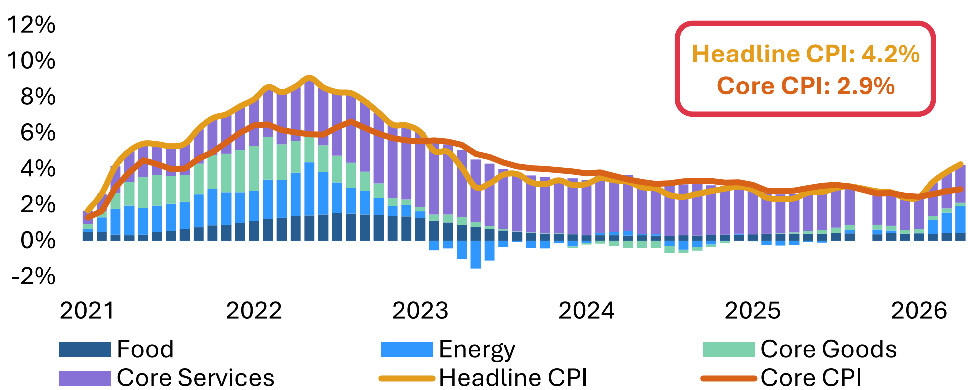
US SUPERCORE INFLATION, YEAR-OVER-YEAR

AS OF JUNE 10, 2026



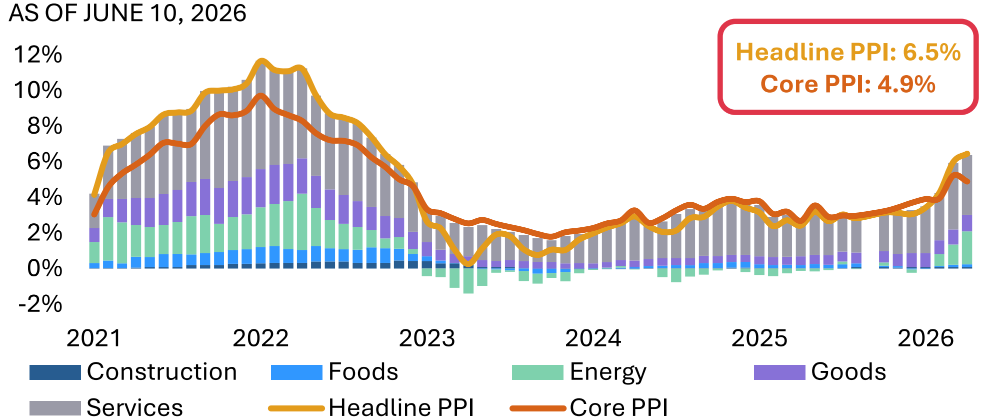
US CPI, YEAR-OVER-YEAR

AS OF JUNE 10, 2026



US PPI, YEAR-OVER-YEAR

AS OF JUNE 10, 2026



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

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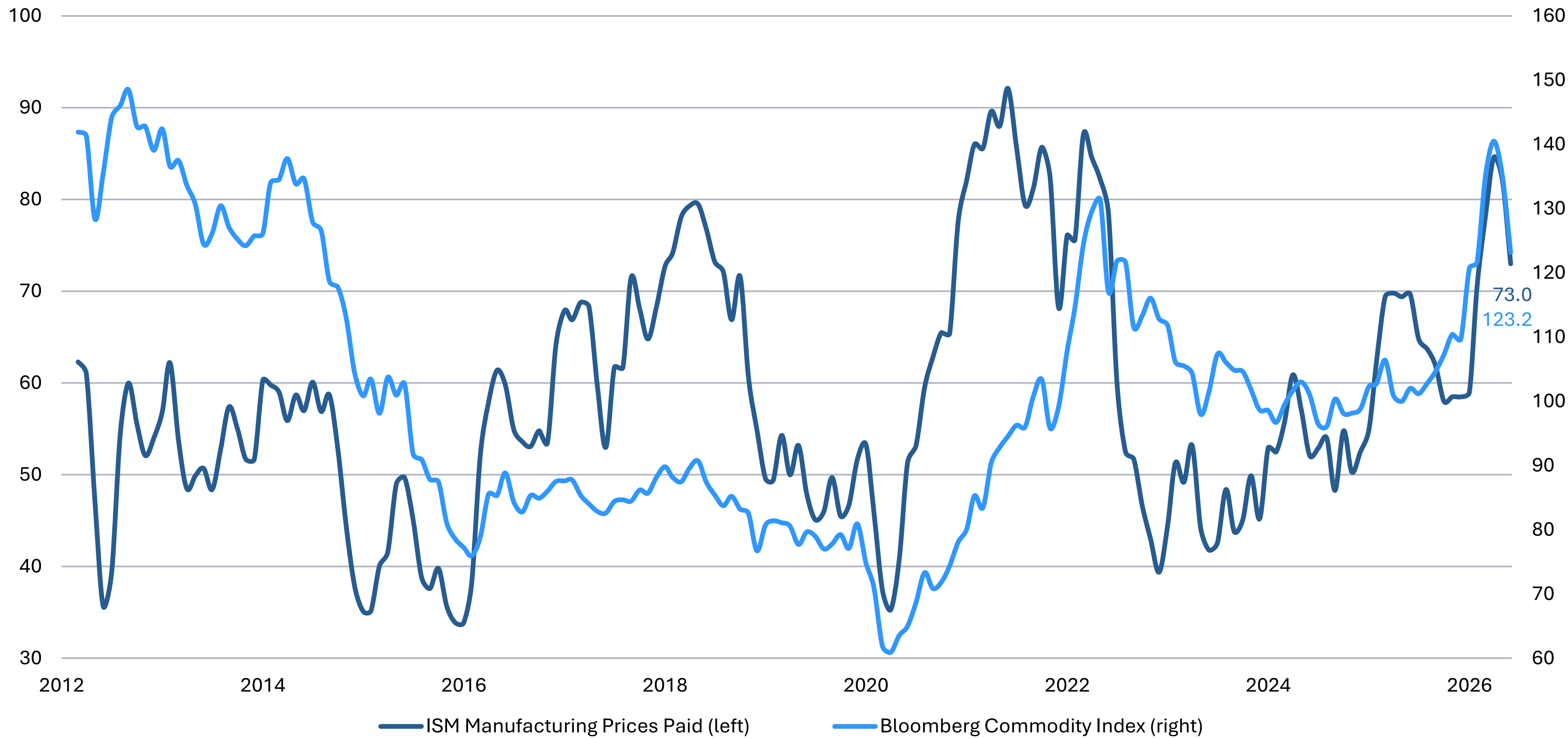
But Broader Supply Chain Pressures May Be Easing

ISM MANUFACTURING PRICES PAID COMPONENT VS. BLOOMBERG COMMODITY INDEX

AS OF JUNE 30, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Oil Futures Have Fully Re-priced

DECEMBER 2026 WTI CRUDE OIL FUTURES

AS OF JUNE 30, 2026

Source: Morgan Stanley Wealth Management GIO, Bloomberg

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As Have Inflation Expectations...

ONE-YEAR INFLATION SWAP YIELDS

AS OF JUNE 30, 2026

FIVE-YEAR INFLATION BREAKEVEN RATE

AS OF JUNE 30, 2026

Source: Morgan Stanley Wealth Management GIO, Bloomberg

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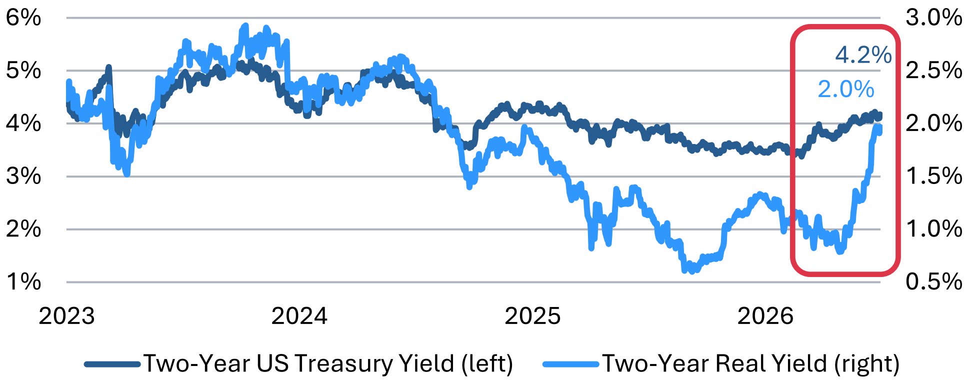
But Nominal US Treasury Yields Have Not Reset

Real Rates at Multi-Year Highs

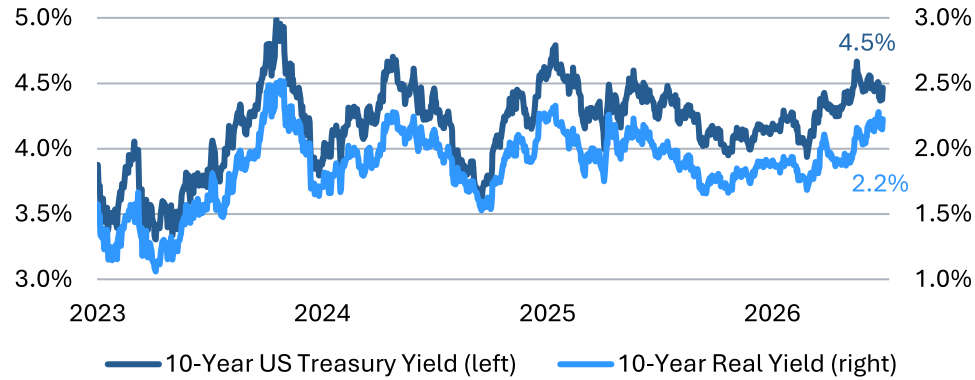
TWO-YEAR NOMINAL AND REAL YIELDS

AS OF JUNE 30, 2026



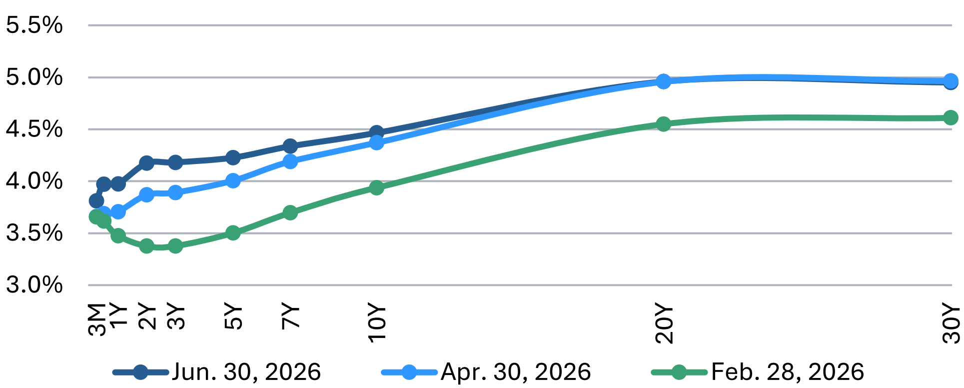
10-YEAR NOMINAL AND REAL YIELDS

AS OF JUNE 30, 2026



US TREASURY YIELD CURVE

AS OF JUNE 30, 2026



TWO-YEAR/10-YEAR US TREASURY YIELD SPREAD

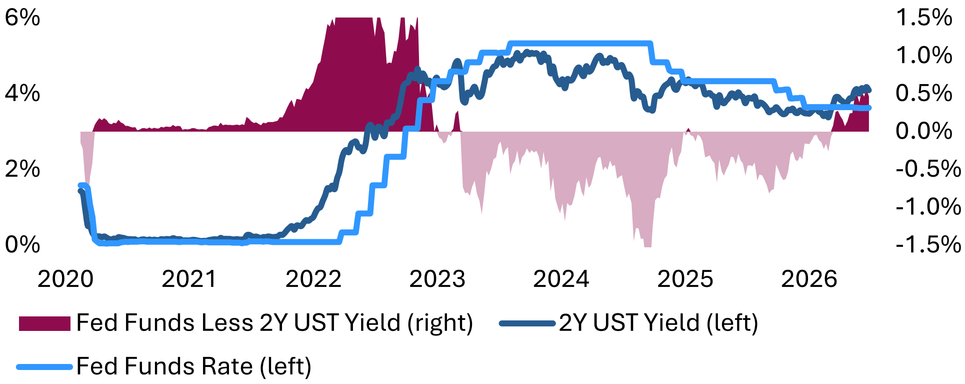
AS OF JUNE 30, 2026

Source: Morgan Stanley Wealth Management GIO, Bloomberg

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

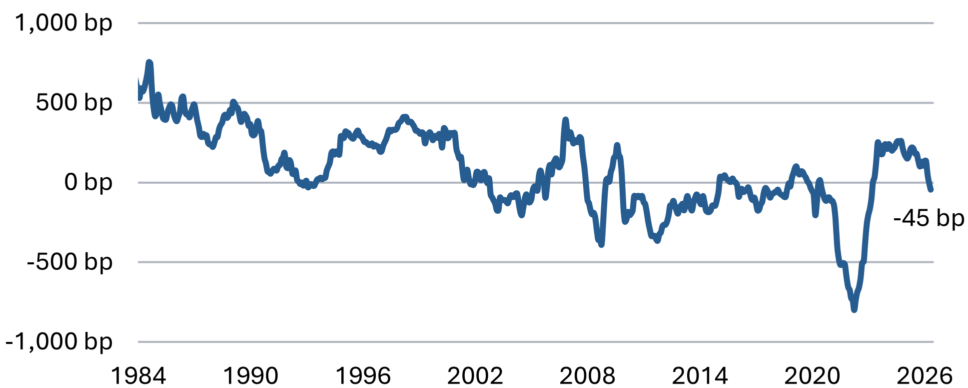
TWO-YEAR UST YIELD VS. FEDERAL FUNDS EFFECTIVE RATE

AS OF JUNE 30, 2026



REAL FED FUNDS RATE

AS OF JUNE 30, 2026



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

AS OF JUNE 30, 2026

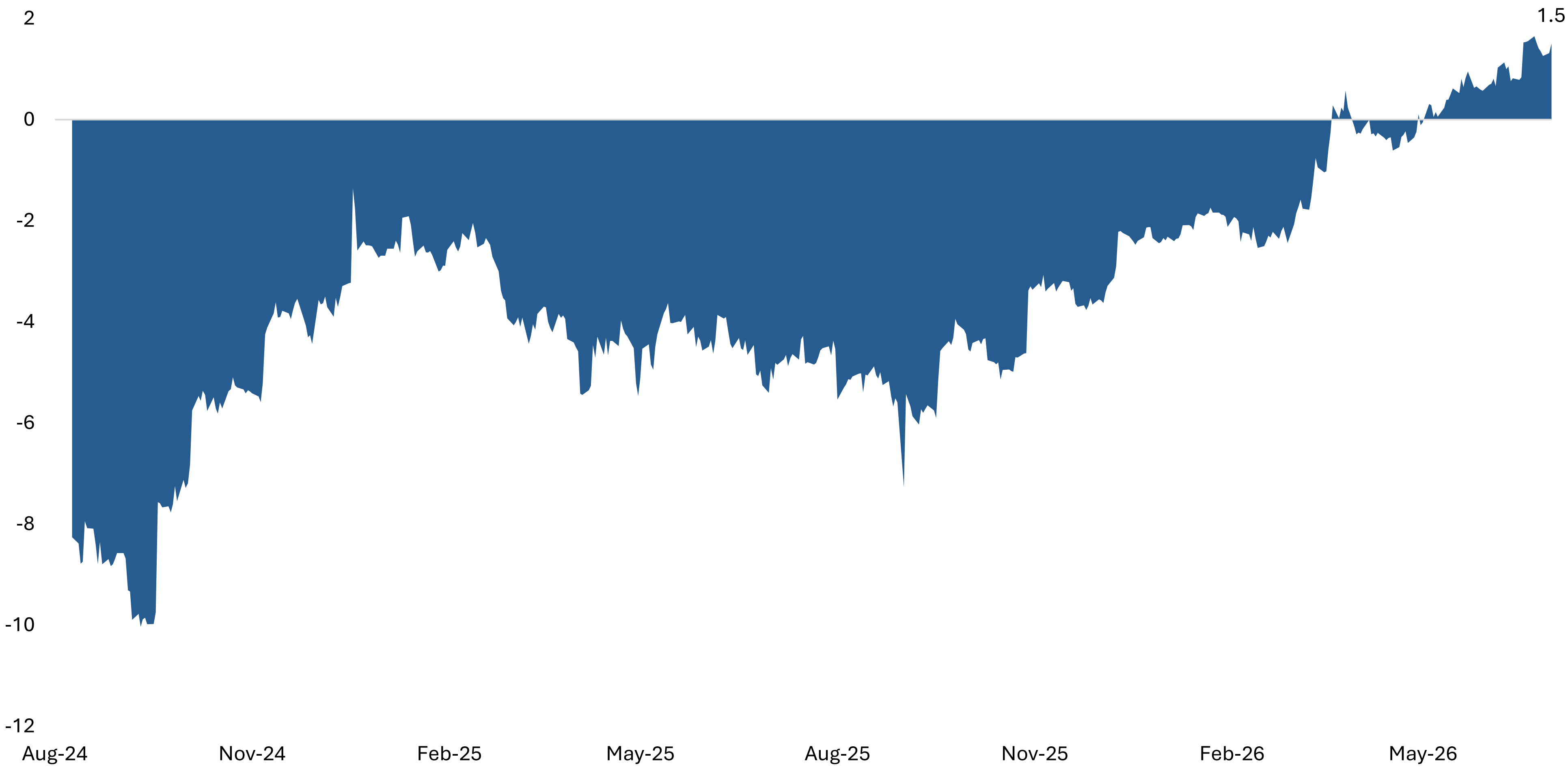
Dates	Real Fed Funds Rate	After Three Months	After Six Months	After 12 Months
9/4/1992	-10 bp	3.6%	6.3%	9.4%
10/2/2001	-10 bp	9.2%	8.3%	-16.9%
9/2/2002	-5 bp	2%	-9.1%	9.1%
8/31/2005	-10 bp	2.4%	5.9%	6.2%
12/11/2007	-5 bp	-10.6%	-6.8%	-42.0%
11/30/2009	-155 bp	1.8%	-2.0%	9.3%
11/30/2015	-25 bp	-7.1%	-1.6%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

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

Fed Fund Futures Have Radically Shifted to Price a Hike

NUMBER OF 25 BASIS POINT HIKES/CUTS PRICED THROUGH DECEMBER 2026

AS OF JUNE 30, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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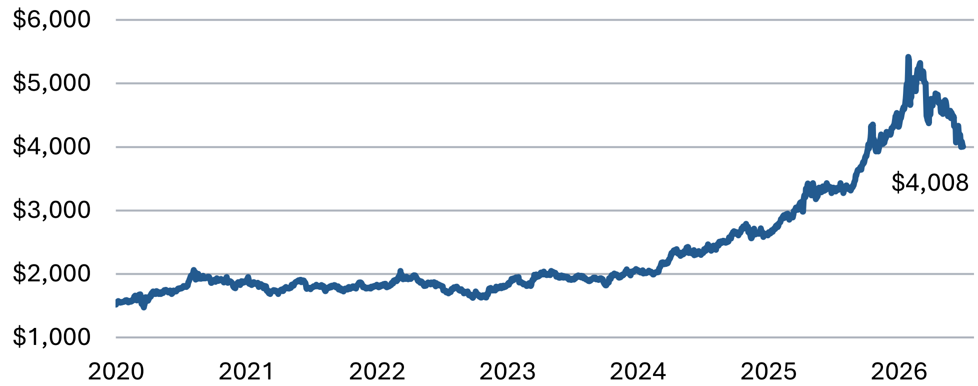
That Has Contributed to Volatility in Crypto; Gold; and the USD

BITCOIN

AS OF JUNE 30, 2026

GOLD, PRICE PER OUNCE

AS OF JUNE 30, 2026



US DOLLAR (DXY) INDEX

AS OF JUNE 30, 2026

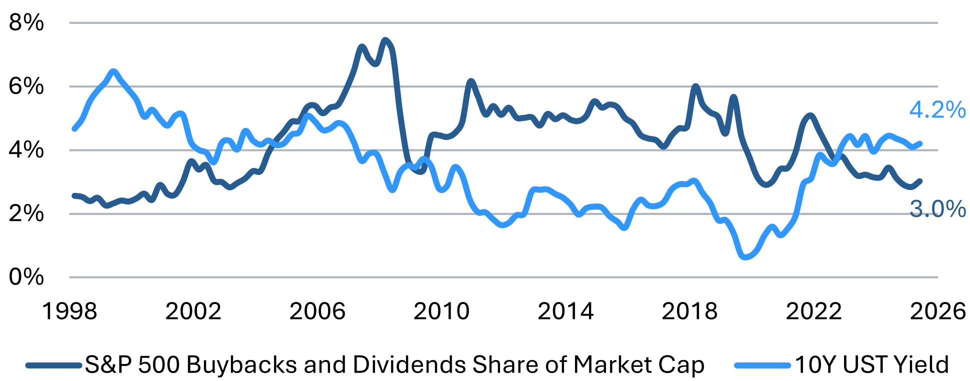
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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.

Global Yields Now Appear Attractive

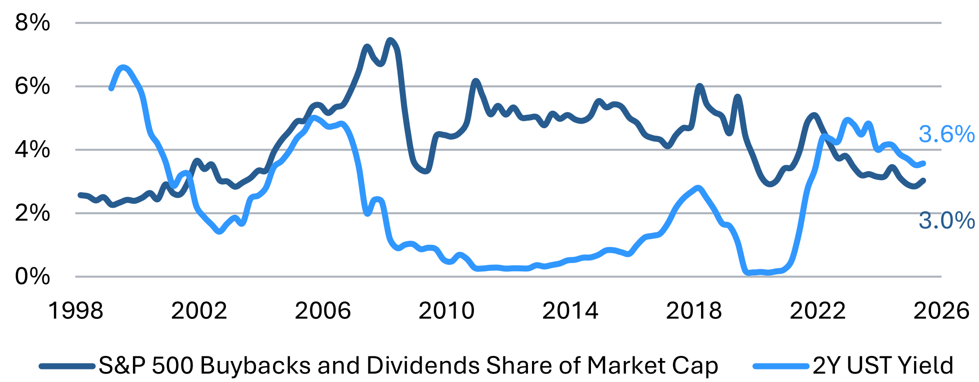
S&P 500 BUYBACKS AND DIVIDENDS VS. 10Y UST YIELD

AS OF JUNE 30, 2026



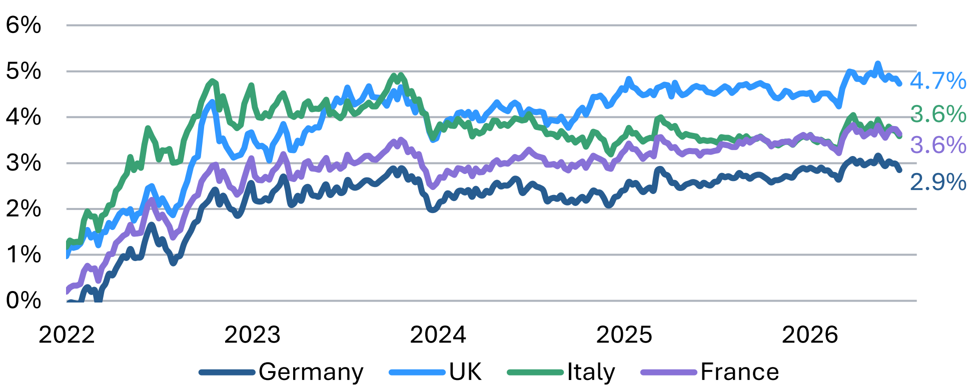
S&P 500 BUYBACKS AND DIVIDENDS VS. 2Y UST YIELD

AS OF JUNE 30, 2026



10-YEAR EURO AREA SOVEREIGN BOND YIELDS

AS OF JUNE 30, 2026



10-YEAR JAPAN GOVERNMENT BOND YIELD

AS OF JUNE 30, 2026

Source: Morgan Stanley Wealth Management GIO, Bloomberg, Strategas

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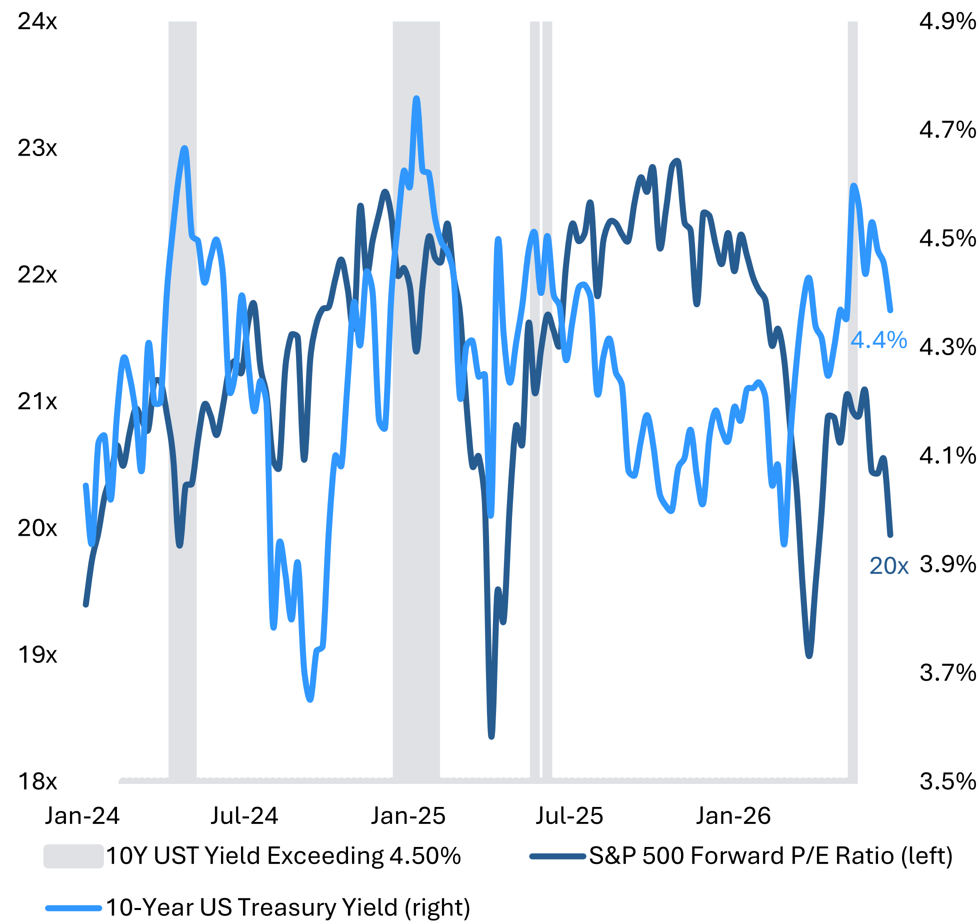
Stocks Negative Correlation With Yields Complicates Portfolio Construction, Which Hinges on Earnings

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

AS OF JUNE 30, 2026

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

AS OF JUNE 30, 2026



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

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Yen Weakness a Risk Factor

JAPANESE YEN/US DOLLAR EXCHANGE RATE

AS OF JUNE 30, 2026

JAPANESE YEN/US DOLLAR EXCHANGE RATE

AS OF JUNE 30, 2026

Source: Morgan Stanley Wealth Management GIO, Bloomberg, Strategas

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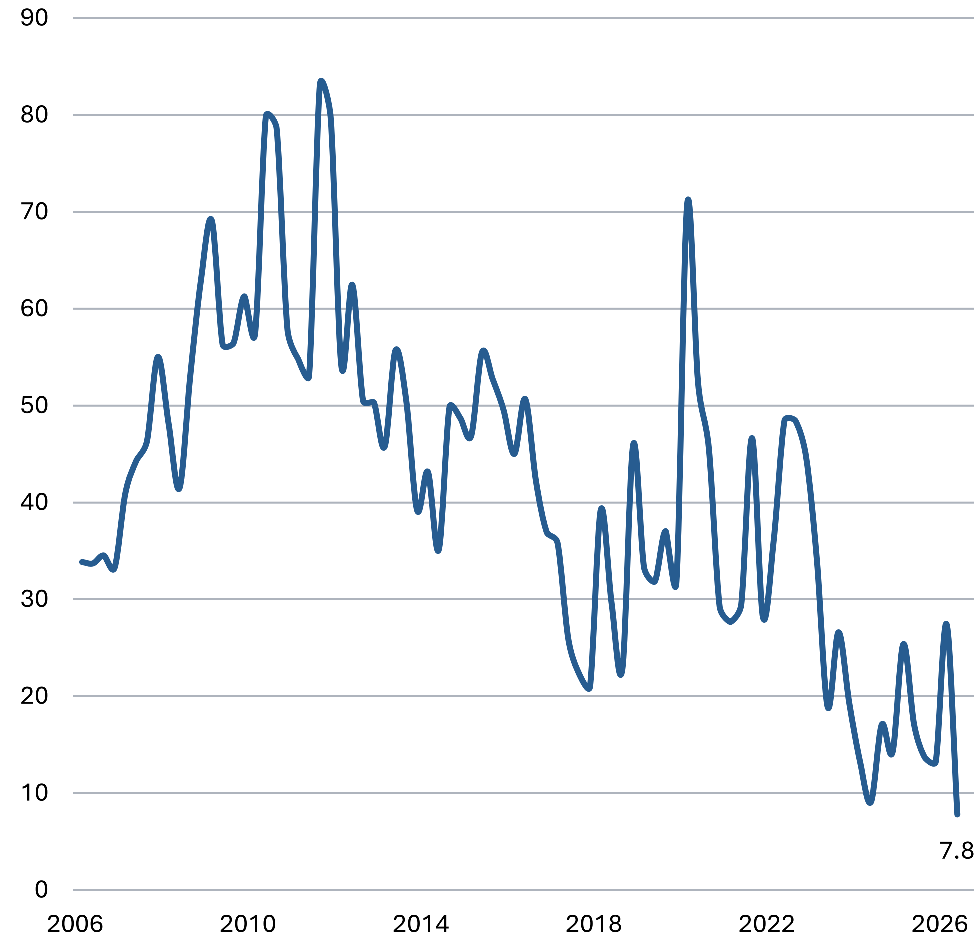
Investment Theme: Hedge Funds

S&P 500 INTRA-STOCK PERFORMANCE DISPERSION LEVEL

AS OF JUNE 30, 2026

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

AS OF JUNE 30, 2026



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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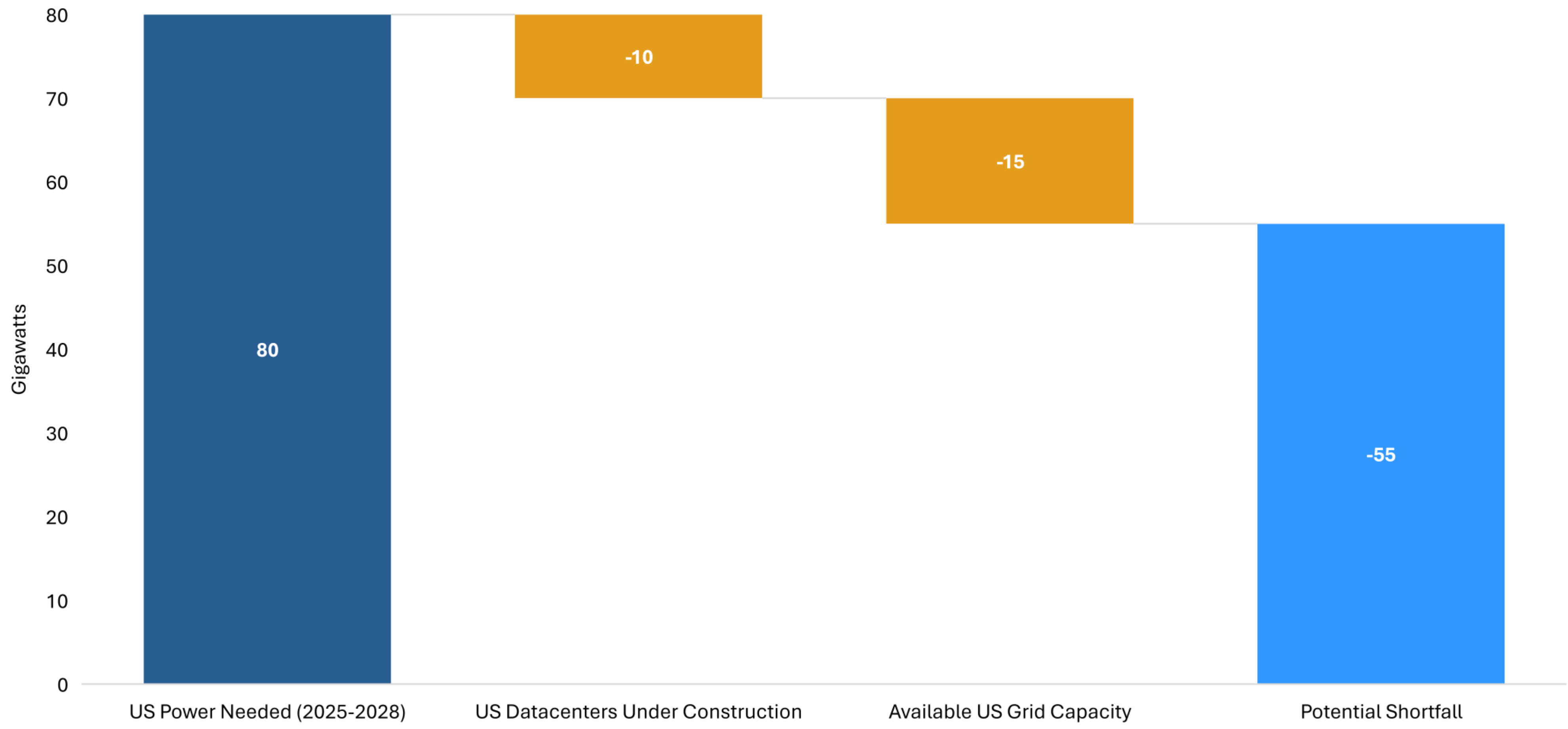
Investment Theme: Resource Nationalism

POTENTIAL SHORTFALL IN POWER FOR US DATA CENTERS

AS OF JUNE 30, 2026



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

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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 JUNE 30, 2026

Source: Morgan Stanley Wealth Management GIO, Bloomberg

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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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