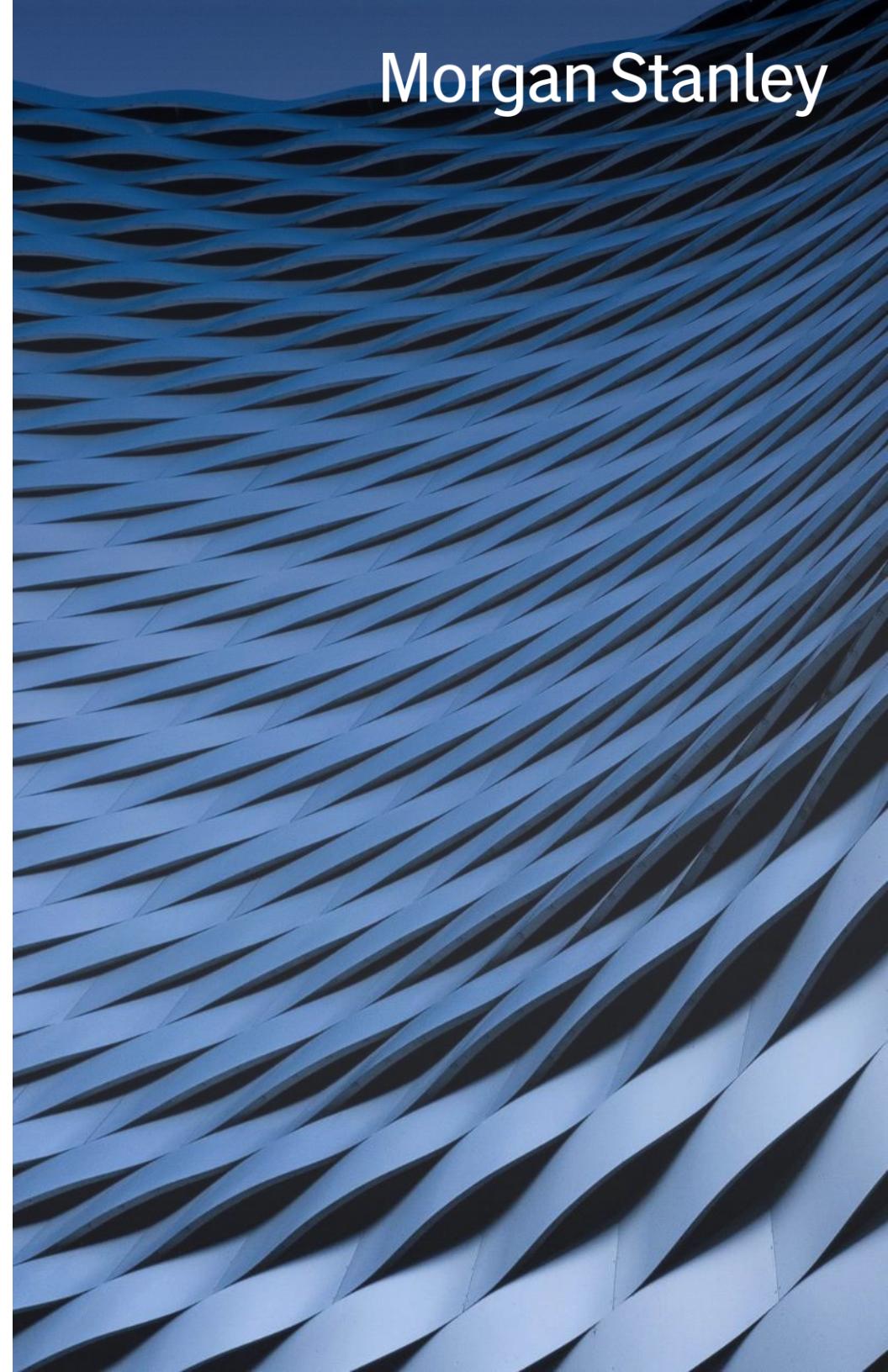


Monthly Perspectives 2026 Outlook

Lisa Shalett
Chief Investment Officer
Head of the Global Investment Office
Morgan Stanley Wealth Management

December 2025

Morgan Stanley



Where We Are

December 2025

2025 looks to deliver another outstanding year of equity returns, entering the fourth year of the bull market with the S&P 500 up more than 16.5% and near all-time highs. While the market narrative continued to be singularly dominated by two pillars – the gen AI capex spending boom and the pace of the Fed easing cycle – market action was characterized by material surprises:

- The immateriality of Liberation Day tariffs and one of the strongest six-month rallies from April through October in the last 80 years
- The 10% depreciation of the US dollar, which helped ROW markets outperform US by more than 1000 bp
- The acceleration in GenAI capex spending and the resilience of the US consumer, despite awful sentiment
- Leadership by the Mag 7, but large dispersion within the cohort, with only 2-3 mega-caps outperforming
- Gold outperformance versus Bitcoin performance dispersion substantial
- Relative resilience of the highest beta and “junky” parts of the market

2026 should deliver roughly 10% potential upside for the S&P 500 based on the embedded earnings strength, but we are NOT as bullish as others at MS & Co.

- Earnings expectations are already robust, up 14-15%, and embed significant productivity gains, operating margin expansion, and operating leverage into new all-time highs
- We think stimulus impact of OBBBA on the consumer is overestimated versus overall sentiment, secular headwinds, and residual “affordability” factors
- We see enterprise-wide adoption of GenAI proceeding more slowly than many forecast
- 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
- The implication is the need for diversification from the 60/40; equity valuation multiples stall out, and long rates face rising inflation and term premiums
- Mid-term elections sustain market volatility

We don't think that we are emerging from recession, nor do we think 2026 will mark a broad-based economic re-acceleration. Consequently, we are cautious about the pure passive index trade and small-cap beta. Instead, we think selectivity will matter. Within the context of being 300 bp overweight US equities, we position GIC portfolios to be up in quality/larger capitalization.

- Within US equities, we balance active/passive at 50/50
- Within global equities, we are overweight US, Japan, and EM
- Fixed income is a source of funds and moving toward underweight by mid-year with a focus on owning the belly of the curve; warming to high yield versus private credit

Bull markets are meant to be ridden NOT timed, but exuberance should be tempered; GIC continues to recommend maximum portfolio diversification and risk management; focus on real assets including real estate and commodities, and infrastructure; we like hedge funds and are warming to 2026 new vintages in VC and growth private equity alongside select secondaries. In credit, focus on distressed and asset backed. It's a risk manager's market, not a passive investor's market.

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.

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What We Forecast

December 2025

2026E US GDP Growth		2026E US Inflation		Federal Funds Rate		Two-Year/10-Year US Treasury Yield	
Real	1.8%			3-3.25%			
Nominal	4.5%	2.8-3.0%		July vs. October Consensus		2.60%/4.05%	
2026E Rest of World		2026E US Dollar		2026E/2027E S&P 500 Earnings		Price/Earnings Multiples	
GDP	3.2%	1H	-6%	MS & Co.	\$317/\$356	Current	22.3x
Inflation	2.0%	2H	+6%	Consensus	\$307/\$340	Forecast	22x
		DXY @ 100		MS & Co. Growth: 17% Consensus: 14%		Fair Value	17.8x

S&P 500 trades toward 7,500-7,800 MS & Co. base case annual target price.

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

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GIC Portfolio Positioning

December 2025

- **The GIC rebalanced portfolios to focus on large cap quality equities that will best weather slowing growth and sticky inflation in 2026**
 - Mag 7 relative valuations have materially improved.
 - Market action suggests quality is cheap.
 - Quality cash flows will matter in a slowdown; style neutral.
 - Large-cap over small-cap.
- **2026 is mid-late cycle year where stock selection favors returns to favoring bigger capex exposed players with pricing power**
 - **Total portfolio return potential 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...max active stock selection
 - Stock/bond correlations remain volatile/positive as regimes remain unstable; pursue maximum portfolio level diversification
- **US Equities: Overweight**
 - **Market Weight Mag 7; underweight unprofitable tech**
 - **Underweight small cap**
 - **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
 - **Adding** mid-cap growth names, which appear insulated from tariffs

- **Rest of World Equities: Slight Overweight**
 - Japan and India favored longer-term secular positions.
 - EM ex-China **overweight;** China market weight; 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 short duration fixed income in favor of Core**
 - Prefer IG corporate and munis
 - Moving to Neutral duration
- **Real Assets: Overweight**
 - Gold and industrial commodities
 - Residential REITs
 - MLPs and energy Infrastructure
- **Hedge Funds: Overweight**
 - Equity L/S
 - Multi-Strategy; Absolute return
 - Underweight Macro
- **Privates: Market Weight**
 - Prefer infrastructure and real assets
 - Equity secondaries
 - Private credit ABS and special situations only
 - **Underweight PE buyout and direct lending**

Source: Morgan Stanley Wealth Management GIO

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2026 Key Controversies

1. Market Valuations: It's "Show Me" Time on Earnings

- Overall index metrics are near historic extremes, S&P 500 index at ~22-23x forward earnings, Buffett indicator at historic high.
- But valuation extremes are concentrated among the top 10 names, which are historically more profitable and cashflow generative.
- The equal-weighted S&P 500 is relatively cheap in historical terms and could revalue if cyclical re-acceleration occurs.

2. Early Cycle or Late?

- Reacceleration, not recession risk is what is priced; market assumes another 75 bp of Fed cuts.
- Key is broadening of capex spending and recovery/stabilization of labor market (cyclical versus secular?); Six-month forward plans not encouraging.
- GIC sees GDP slowing in 1H2026, not re-accelerating; consumer still matters; manufacturing and housing lackluster.

3. Inflation Tamed?

- Readings are sticky and tariff risks remain as middle market corporate margins have absorbed price changes.
- Weaker US dollar is headwind; monetary and fiscal stimulus could cause prices to run hot; Fed independence remains an issue.
- Tug of war between lower oil prices but higher electricity prices.

4. The K-Shaped Economy?

- Wealth effects may be swamping income effects, obscuring the true read of breadth of economic health.
- Monetary policy accommodation may exacerbate "bubbles."

5. Fed Independence and Fiscal Dominance

- A new Fed Chair in May may mean a new policy framework.
- Fed focus shifts from cutting rates to accommodating balance sheet growth; front-end Treasury bill issuance and duration shortening.

6. AI Productivity Gains and Corporate Margins: A Productivity Renaissance?

- Promises are big, but adoption is only 15-20%.
- Productivity gains not yet in evidence, concentrated among tech companies themselves.
- Scale and size are overwhelming drivers, leaving the "493" and small-/mid-caps behind.

7. Credit Cockroaches?

- Private credit is the epicenter of stress; defaults plus "liquidity management exercises" are over 4%.
- Fed easing may not be enough as floating rate borrowing costs are well above large-cap competitors.

8. AI Bubble?

- Spending is accelerating and FCF growth of Mag. 7 has gone negative; GIC believes we are in the sixth inning for pricing potential.
- Ecosystem is increasingly using debt and interconnected vendor financing.
- GPUs versus TPUs.
- LLMs business models.
- Quality of earnings and depreciation schedules.

9. American Exceptionalism Everlasting?

- Valuation differentials extreme; growth advantages closing; debts/deficits become long-run constraint.
- Rest of world outperforming by 1,000 bp in 2025.

Source: Morgan Stanley Wealth Management GIO

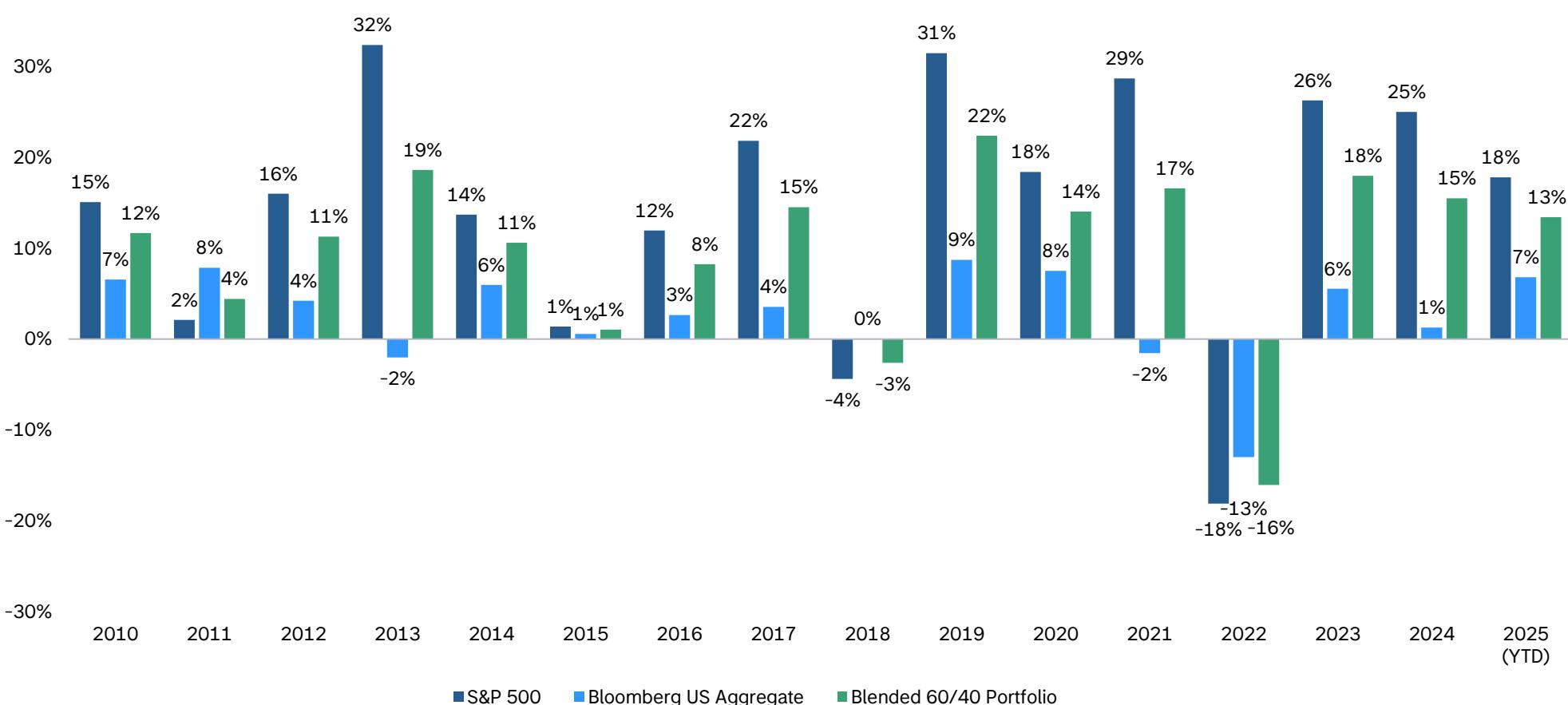
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2025: Another Really Solid Year

ASSET CLASS PERFORMANCE BY YEAR

AS OF DECEMBER 8, 2025

40%



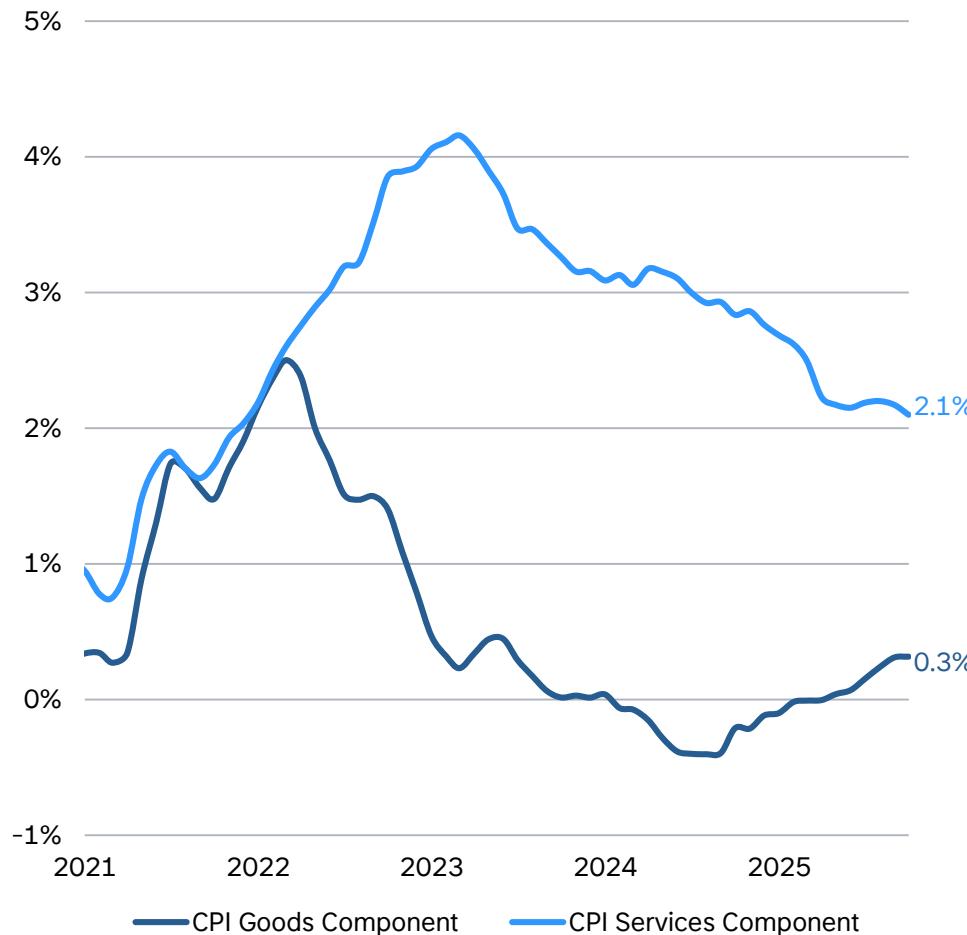
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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2025 Surprise #1: Tariffs Only Modestly Impacted Inflation

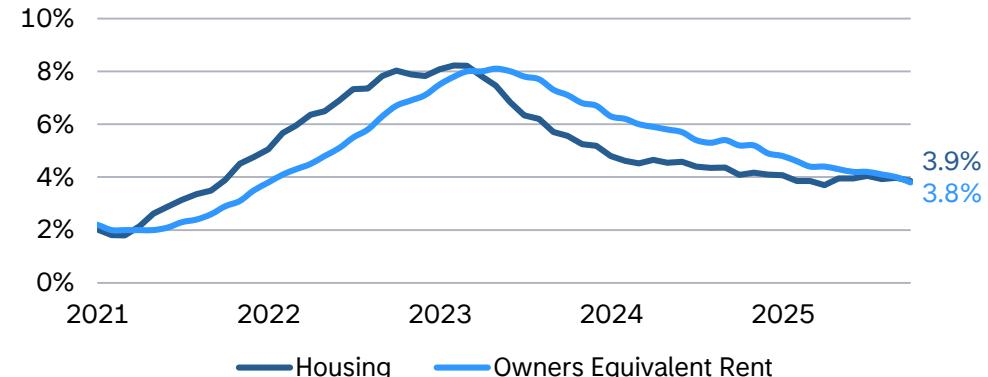
CPI: GOODS AND SERVICES COMPONENTS, YEAR OVER YEAR

AS OF NOVEMBER 30, 2025



CPI: HOUSING AND RENT INDEXES, YEAR OVER YEAR

AS OF NOVEMBER 30, 2025



CPI: ENERGY INDEX, YEAR OVER YEAR

AS OF NOVEMBER 30, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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2025 Surprise #2: US Economic Growth Held Up, Powered by Accelerating GenAI Capex Spend

CONTRIBUTIONS TO US NOMINAL GDP YEAR OVER YEAR GROWTH (ANNUALIZED)

AS OF NOVEMBER 30, 2025

15%

10%

5%

0%

-5%

-10%

2020

2021

2022

2023

2024

2025

Consumption Investment Government Expenditure Net Exports US Nominal GDP, Year Over Year

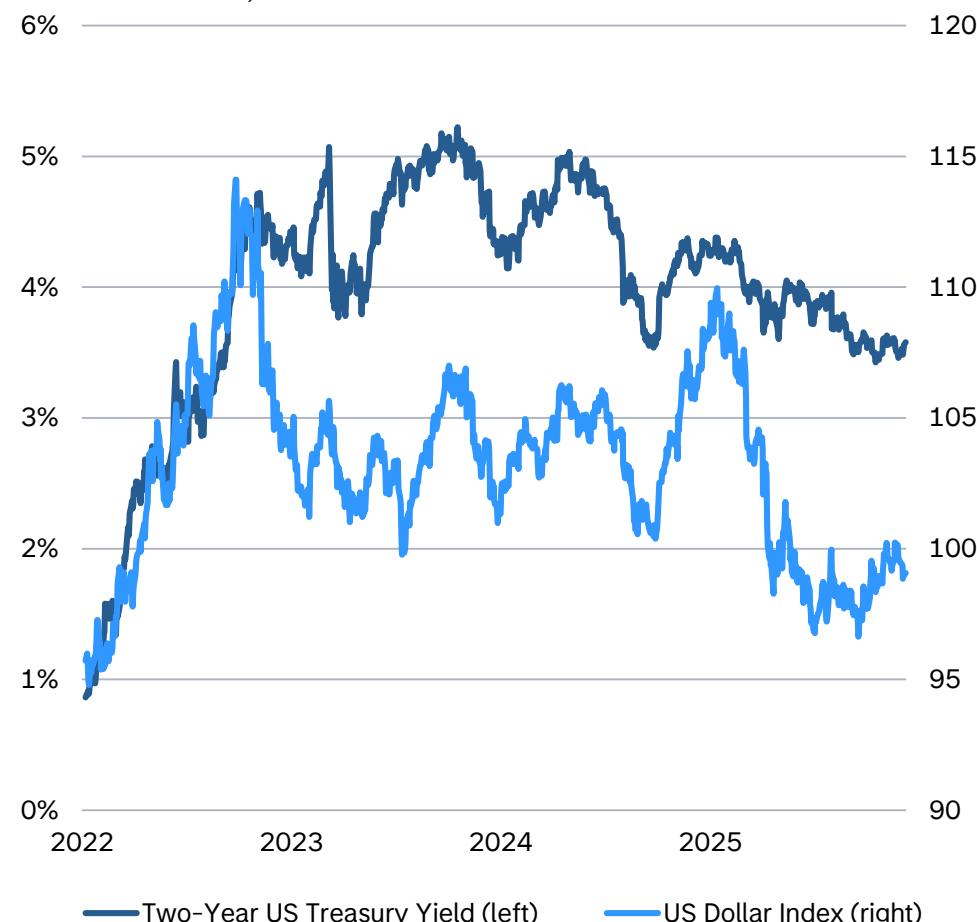
Source: Morgan Stanley Wealth Management GIO, Bloomberg, Haver Analytics

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2025 Surprise #3: US Dollar Depreciation and RoW Outperformance

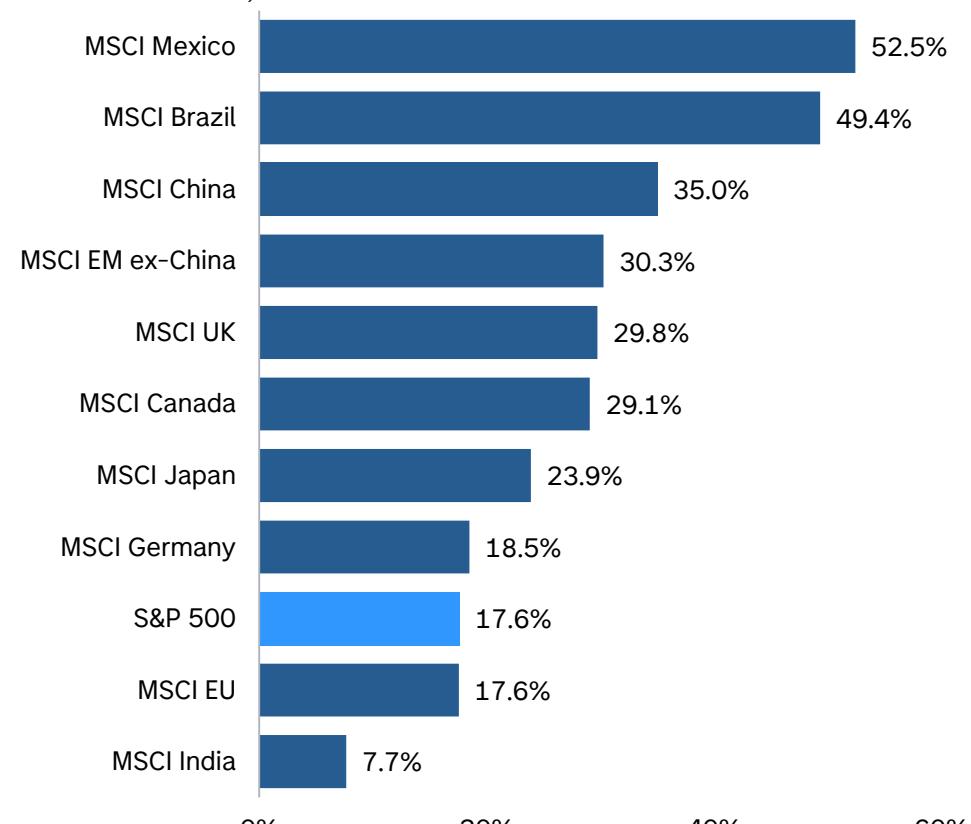
TWO-YEAR US TREASURY YIELD VS. US DOLLAR INDEX

AS OF DECEMBER 8, 2025



YEAR-TO-DATE PERFORMANCE BY REGION

AS OF DECEMBER 8, 2025



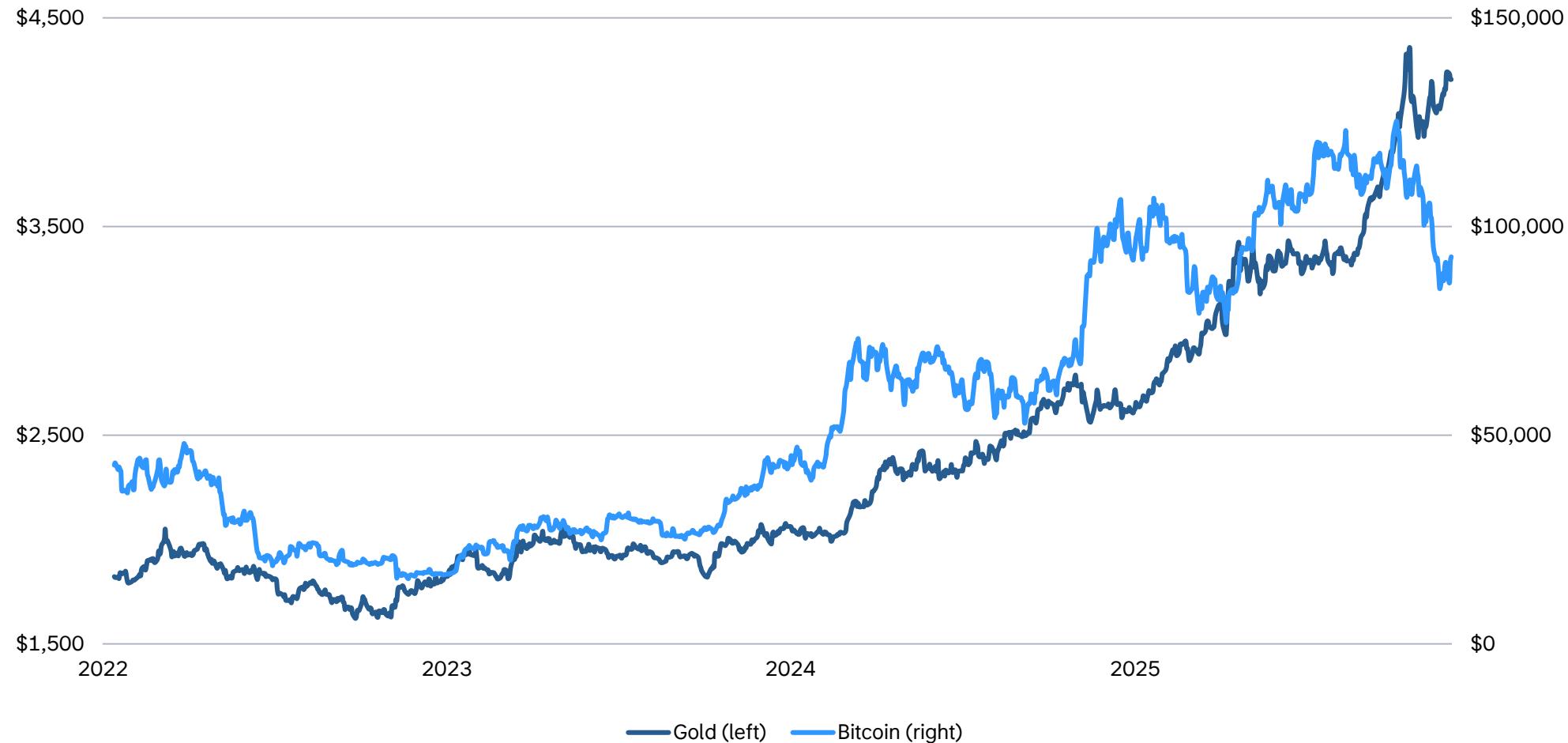
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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2025 Surprise #4: Gold vs. Bitcoin

GOLD VS. BITCOIN

AS OF DECEMBER 3, 2025



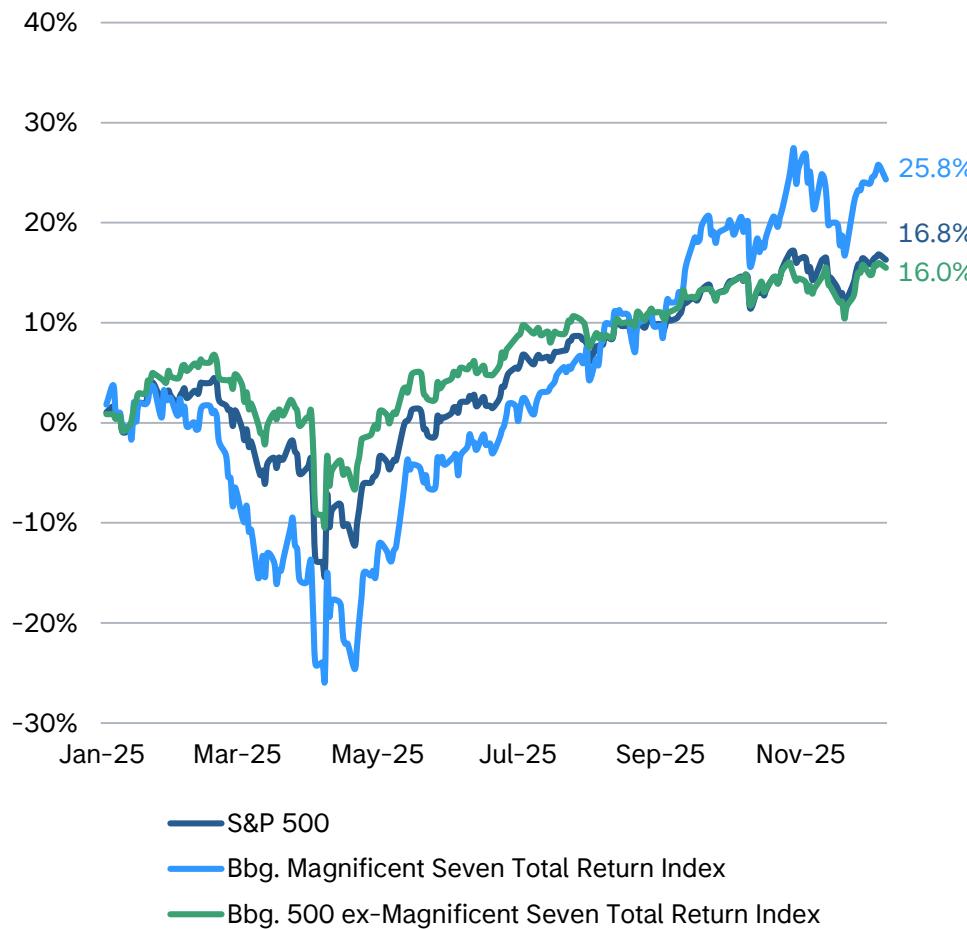
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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2025 Surprise #5: Magnificent 7 Dispersion

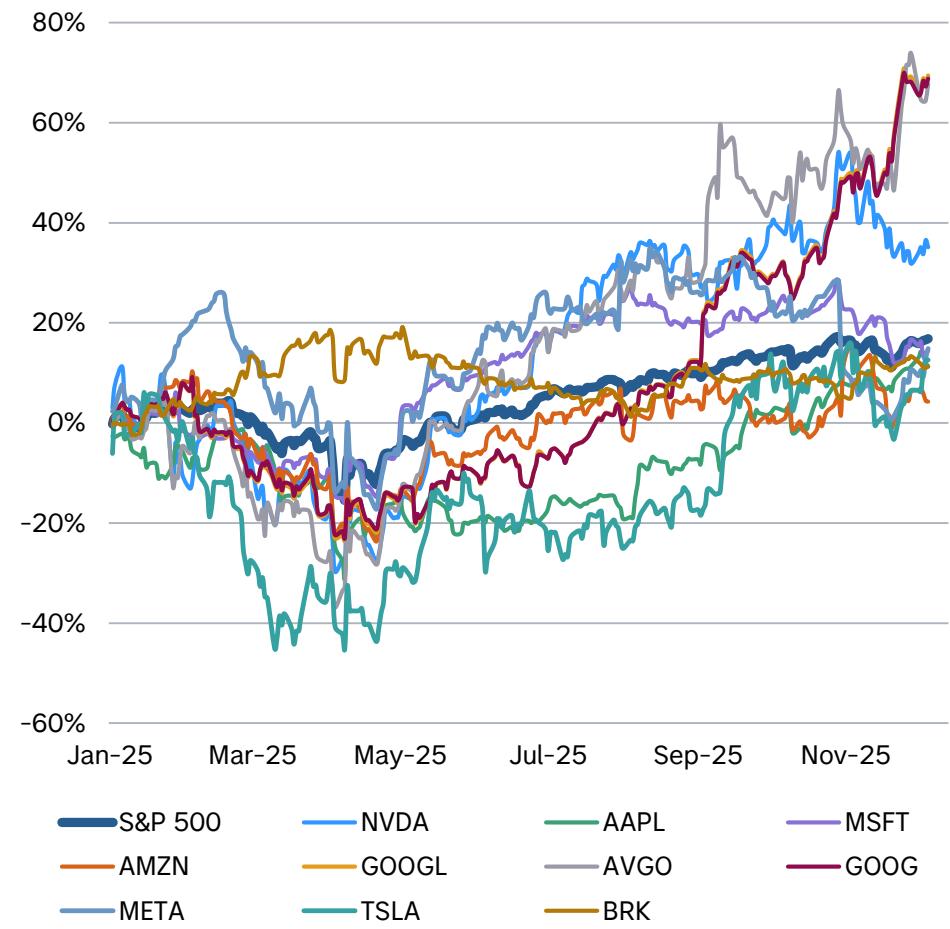
S&P 500 VS. "S&P 493" VS. MAGNIFICENT SEVEN

AS OF DECEMBER 5, 2025 (DECEMBER 31, 2024 = 0)



TOP TEN STOCKS BY MARKET CAP VS. S&P 500 PERFORMANCE

AS OF DECEMBER 5, 2025 (DECEMBER 31, 2024 = 0)



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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2025 Surprise #6: Multiple Expansion Ends

S&P 500 INFORMATION TECHNOLOGY SECTOR 12-MONTH FORWARD P/E RATIO

AS OF DECEMBER 5, 2025

32x

28x

24x

20x

16x

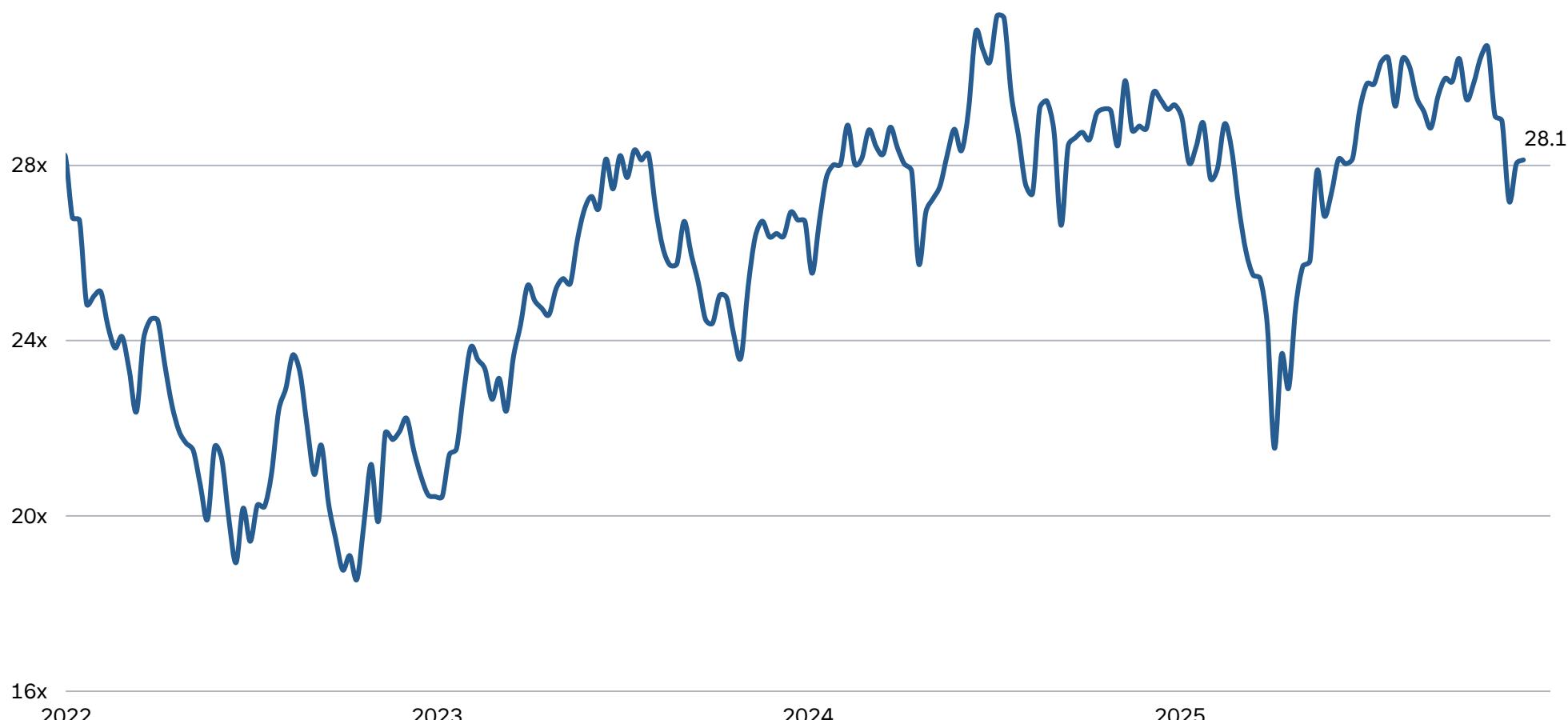
2022

2023

2024

2025

28.1



Source: Morgan Stanley Wealth Management GIO, Bloomberg

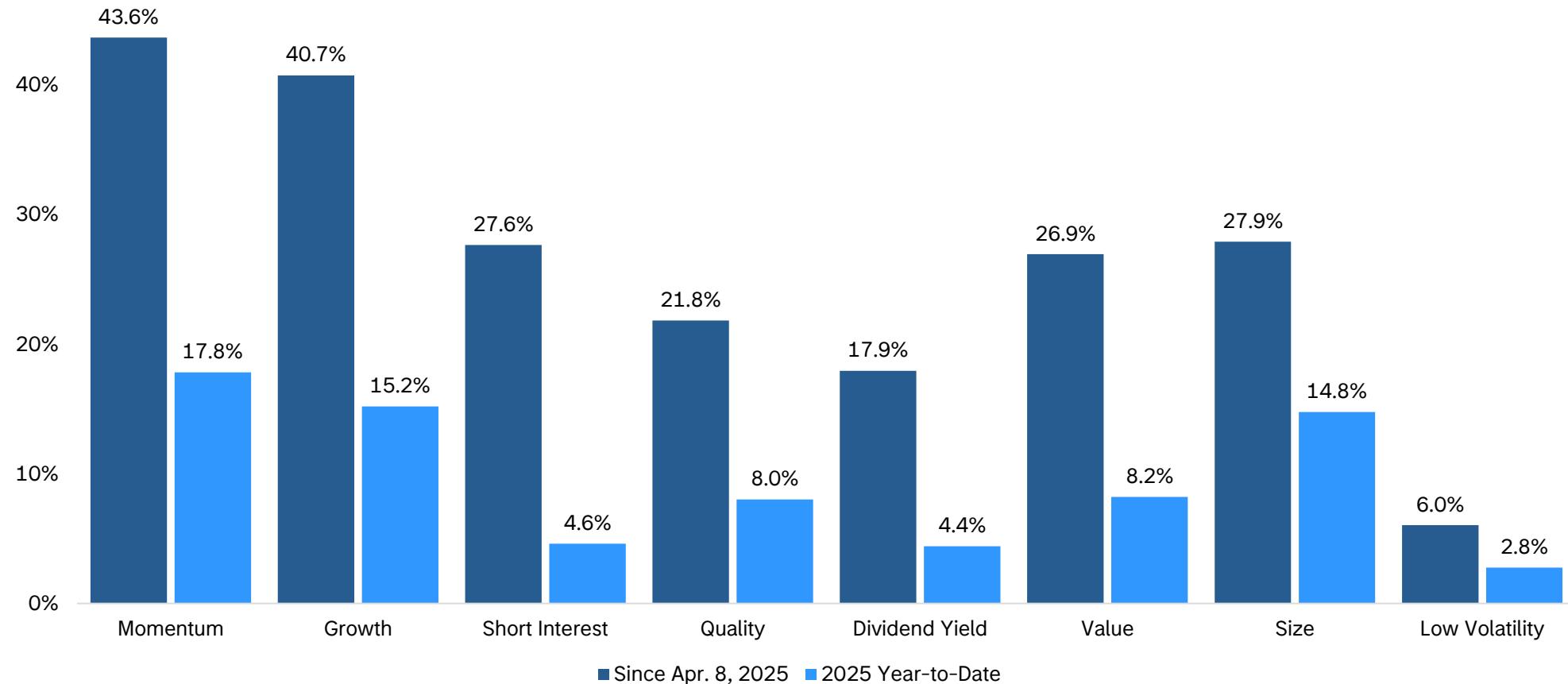
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2025 Surprise #7: Junk Factors Lead; Small Caps Catch Up; Equal-Weight Gains Ground

FACTOR PERFORMANCE

AS OF DECEMBER 8, 2025

50%



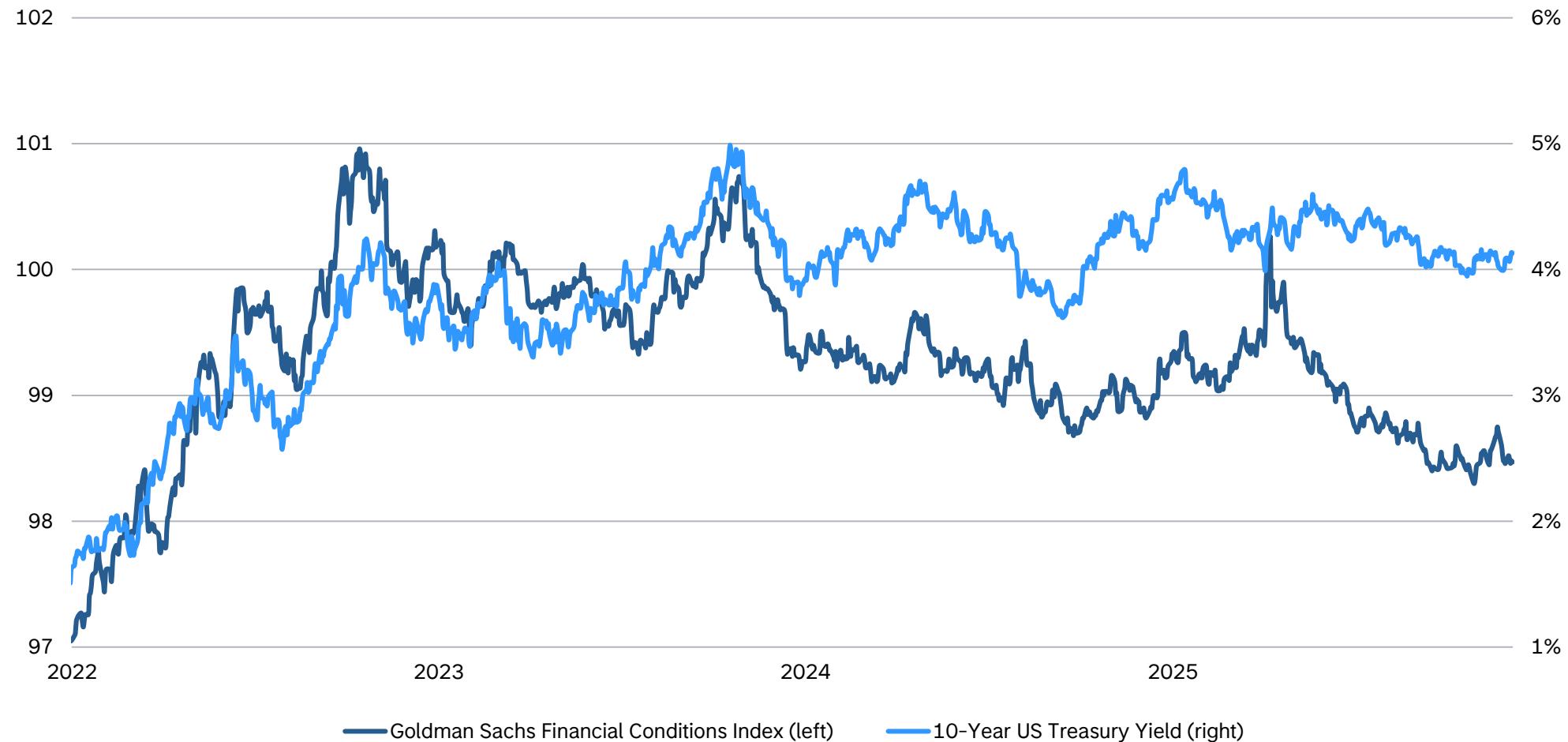
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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2025 Surprise #8: Despite Anchored 10-Year Rates...Financial Conditions Continue to Ease

GOLDMAN SACHS FINANCIAL CONDITIONS INDEX VS. 10-YEAR US TREASURY YIELD

AS OF DECEMBER 5, 2025



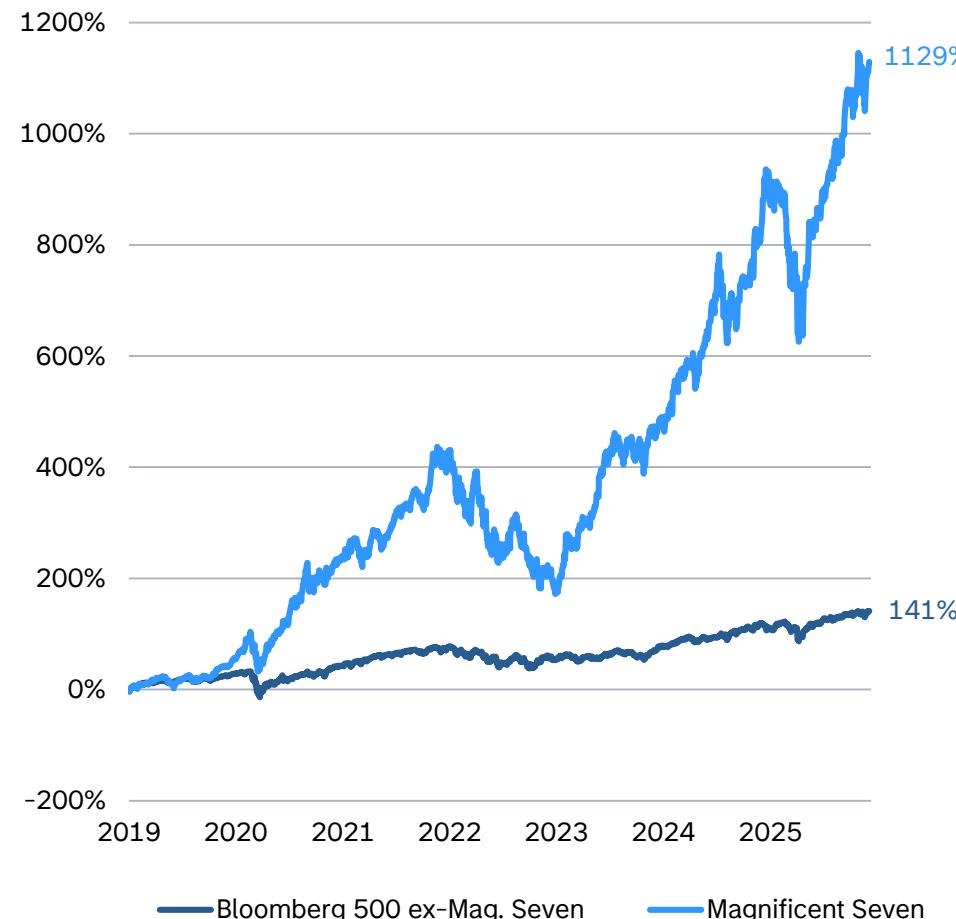
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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The Great Gen AI Bull Market Is Not Debatable

MAGNIFICENT SEVEN OUTPERFORMANCE IS OUTSIZED

AS OF DECEMBER 5, 2025 (JANUARY 1, 2019 = 0)



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

AS OF DECEMBER 5, 2025



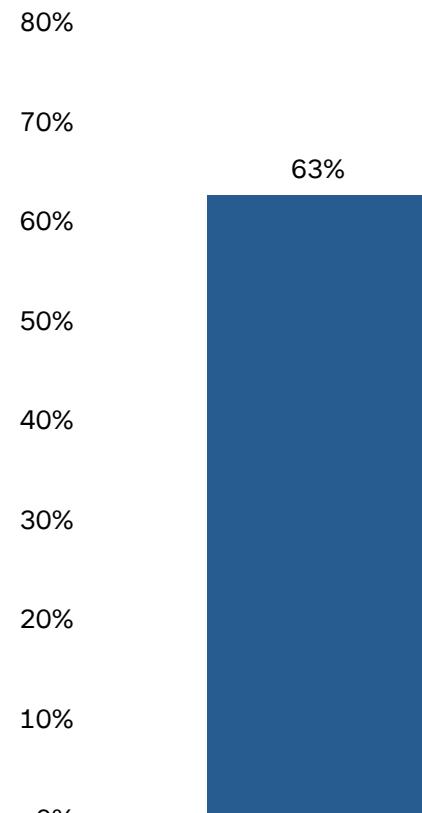
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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This Three-Year Old Bull Market Has Been One Note

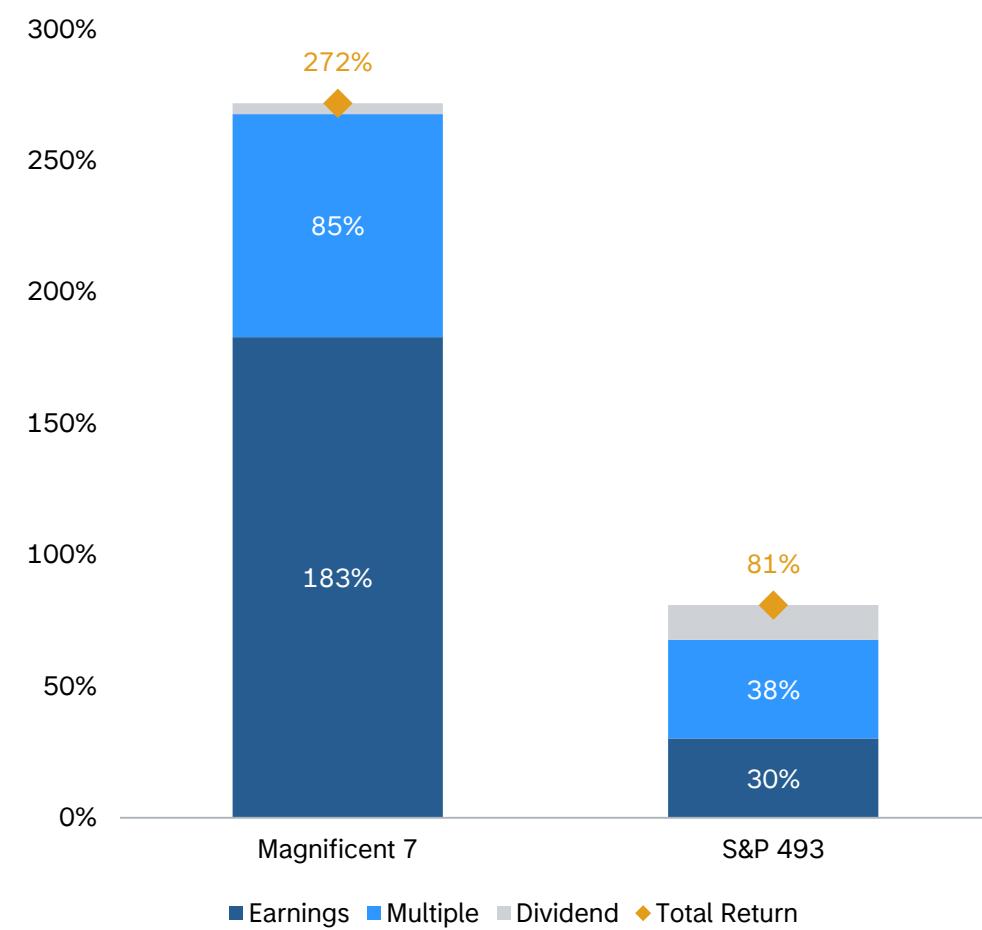
MAG. 7 SHARE OF S&P 500 GROWTH SINCE OCT. 12, 2022

AS OF DECEMBER 5, 2025



COMPOSITION OF TOTAL RETURNS SINCE OCT. 12, 2022

AS OF DECEMBER 5, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg

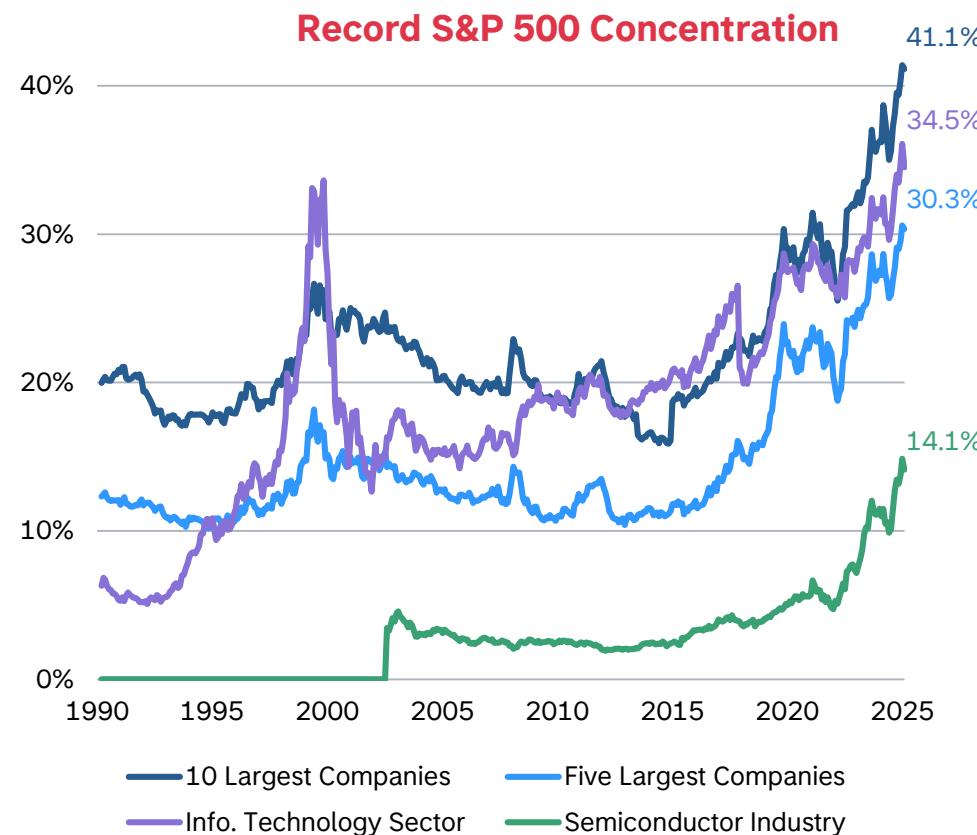
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Producing a Concentrated and Expensive Market

COMPOSITION OF S&P 500 BY WEIGHT

AS OF DECEMBER 8, 2025

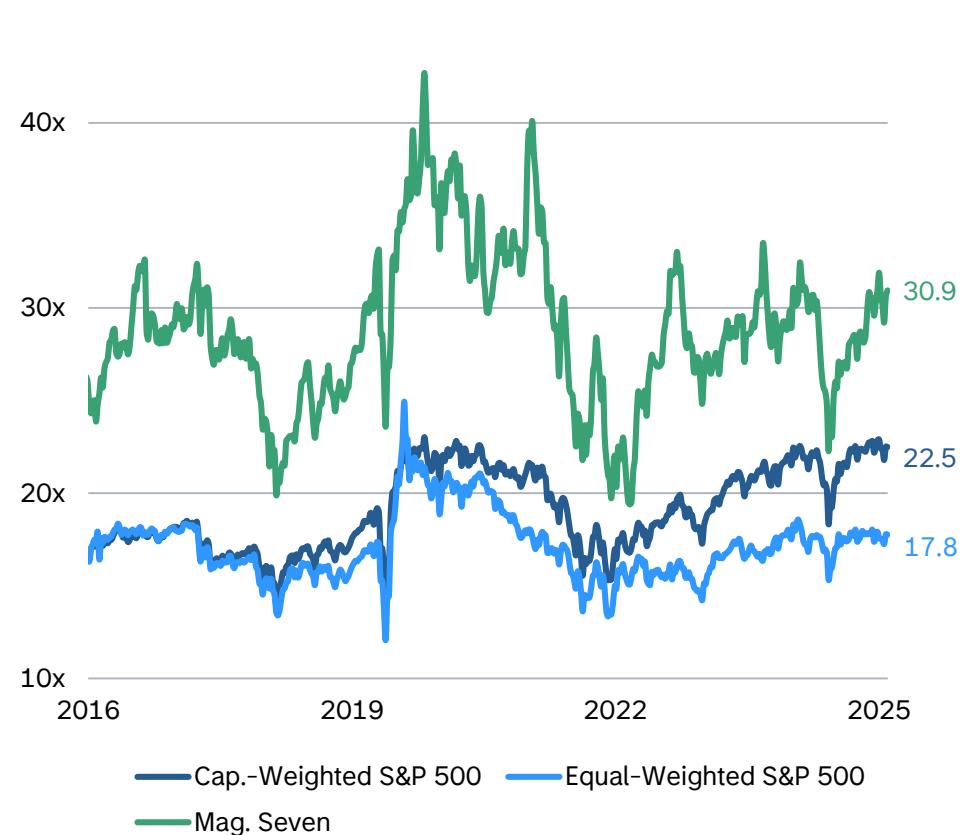
50%



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

AS OF DECEMBER 5, 2025

50x



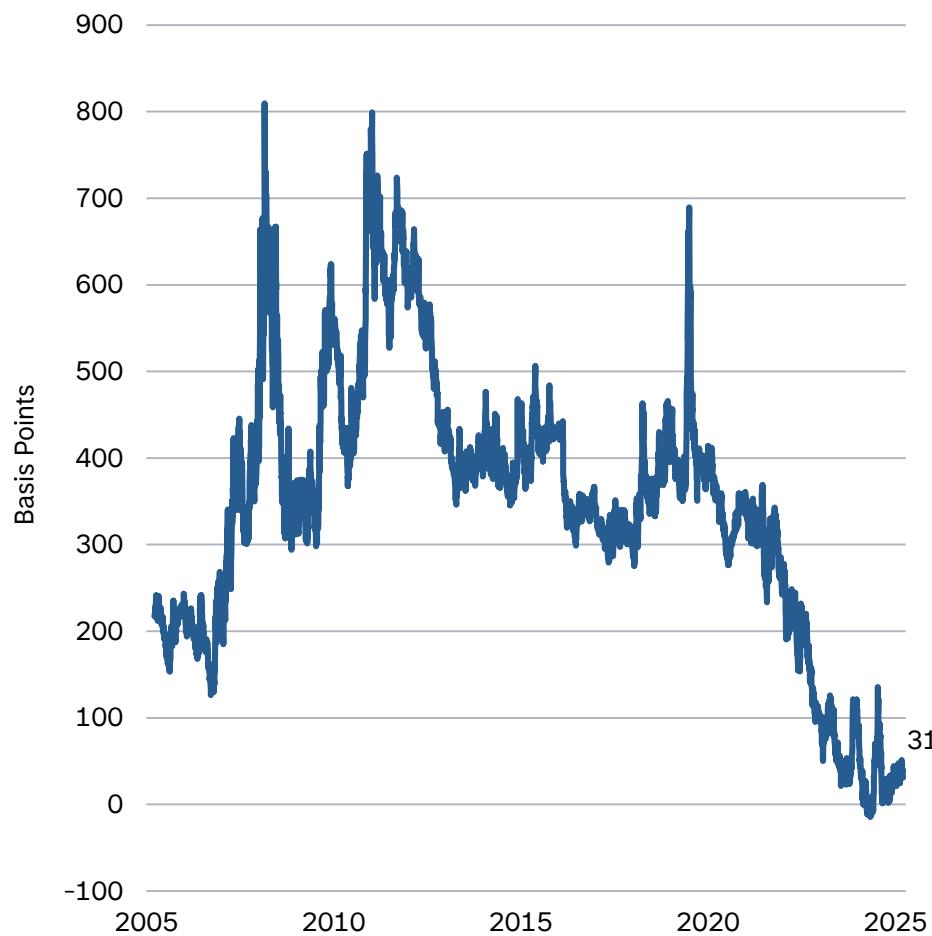
Source: Morgan Stanley Wealth Management GIO, Bloomberg, Strategas

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Markets Appear Expensive Any Way You Look at It

EQUITY RISK PREMIUM

AS OF DECEMBER 5, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg, Strategas. 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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S&P 500 VALUATION PERCENTILE RANKING

AS OF DECEMBER 8, 2025



BUFFETT INDICATOR: MARKET CAP TO GDP RATIO

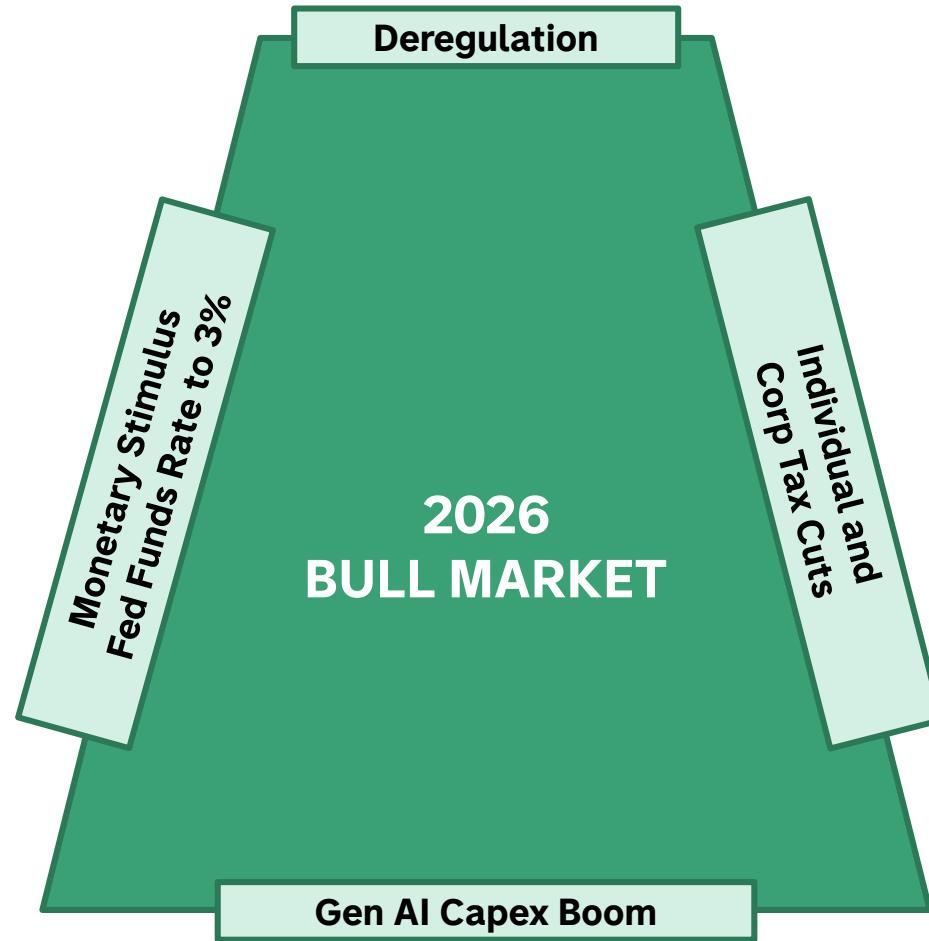
AS OF DECEMBER 5, 2025



But the Bull Case in 2026 Is Formidable...and Scope for Upside Surprise Limited

DRIVERS OF THE 2026 BULL MARKET

AS OF DECEMBER 10, 2025



Source: Morgan Stanley Wealth Management GIO

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Another 75bps of Rate Cuts Priced Through 2026

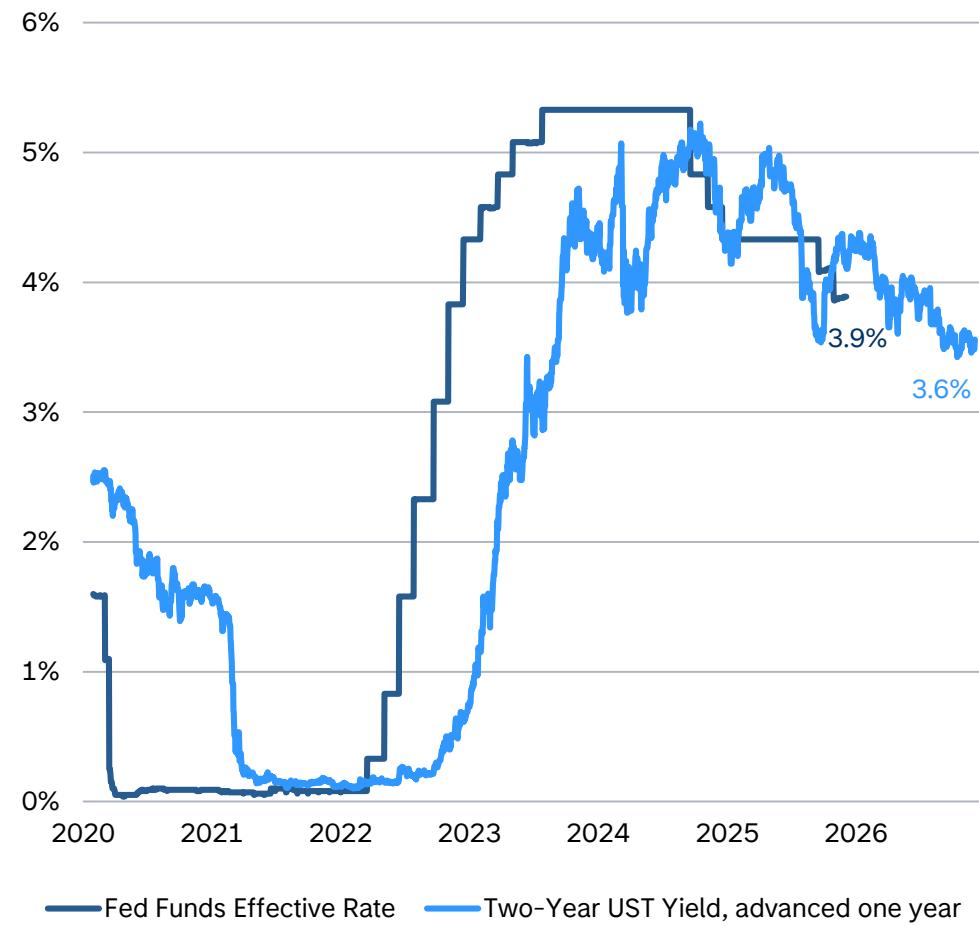
25-BP FED RATE CUTS PRICED THROUGH DEC. 2026

AS OF DECEMBER 5, 2025



FED FUNDS EFFECTIVE RATE VS. TWO-YEAR US TREASURY

AS OF DECEMBER 5, 2025



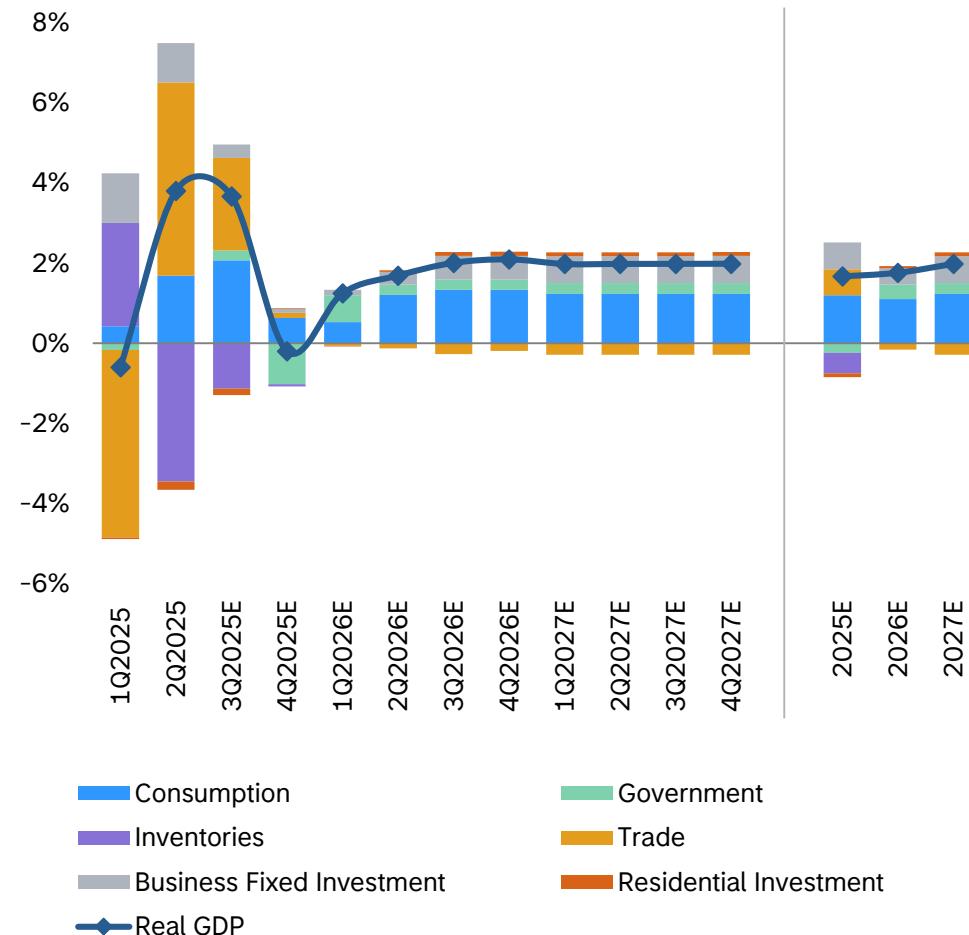
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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GDP Growth Expected to Re-Accelerate Modestly

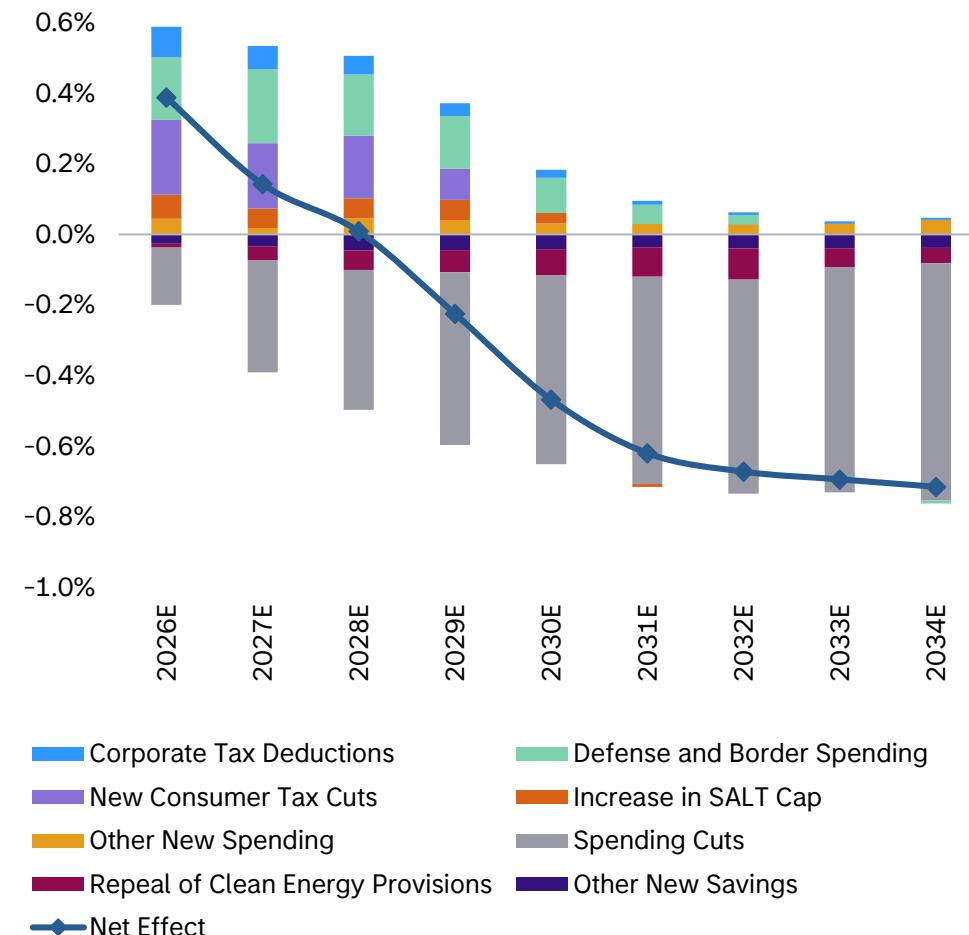
MS & CO. OUTLOOK: CONTRIBUTIONS TO REAL GDP (ANN.)

AS OF DECEMBER 8, 2025



MS & CO. OUTLOOK: OBBBA FISCAL EFFECTS ON GDP

AS OF DECEMBER 8, 2025



Source: Morgan Stanley Wealth Management GIO, Morgan Stanley & Co. (MS & Co.) Research, Bloomberg. Estimates are from MS & Co. Research US Economics Team.

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Controversy #1: Earnings Expectations for 2026 Are Ambitious

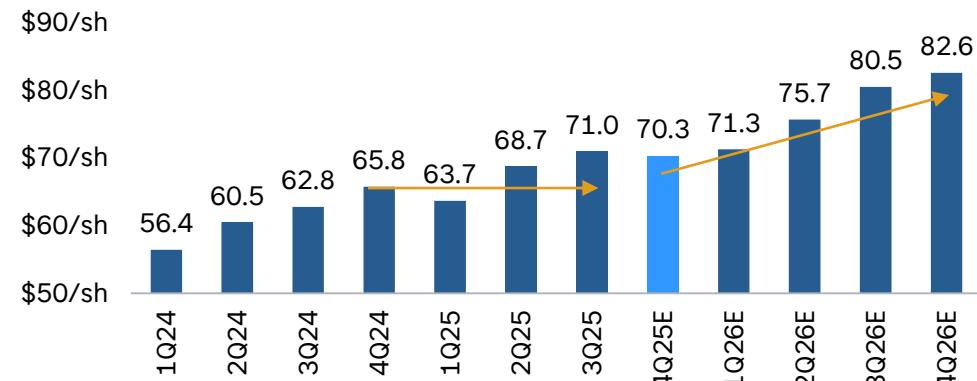
S&P 500 EARNINGS REVISIONS BREADTH

AS OF DECEMBER 5, 2025



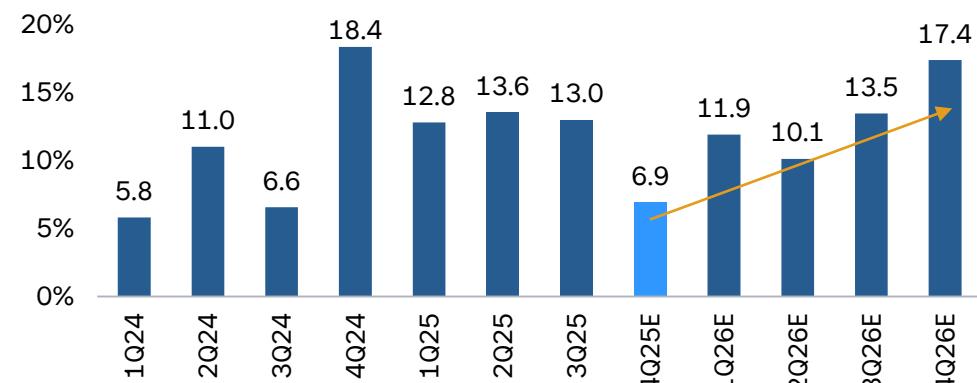
S&P 500 CONSENSUS EPS

AS OF DECEMBER 5, 2025



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

AS OF DECEMBER 5, 2025



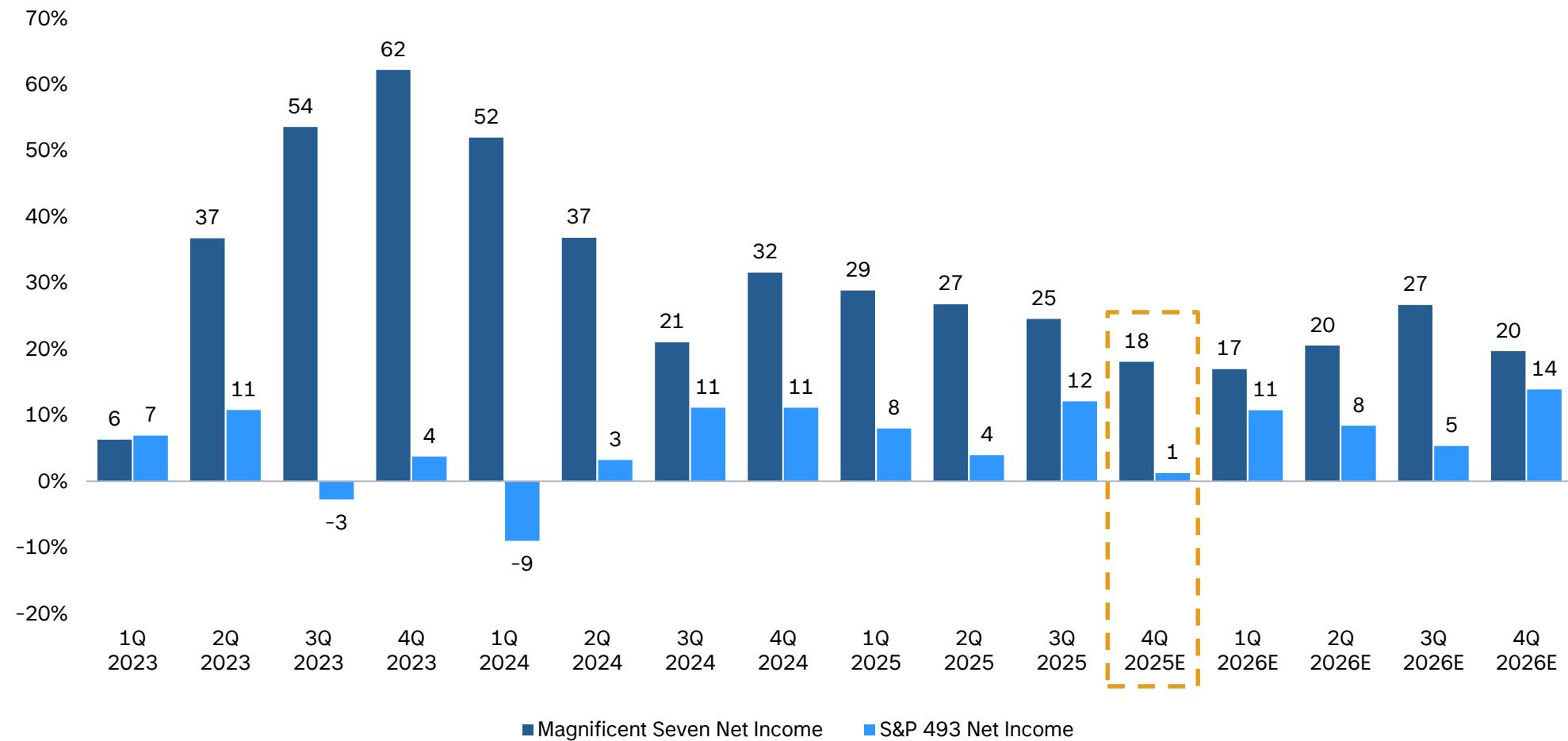
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research. Earnings revisions breadth is defined as the number of positive analyst revisions minus the number of negative analyst revisions divided by the total number of revisions.

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2026 DEPENDS on “493” Reacceleration

MAGNIFICENT SEVEN AND S&P 493 NET INCOME YEAR-OVER-YEAR GROWTH

AS OF DECEMBER 5, 2025



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

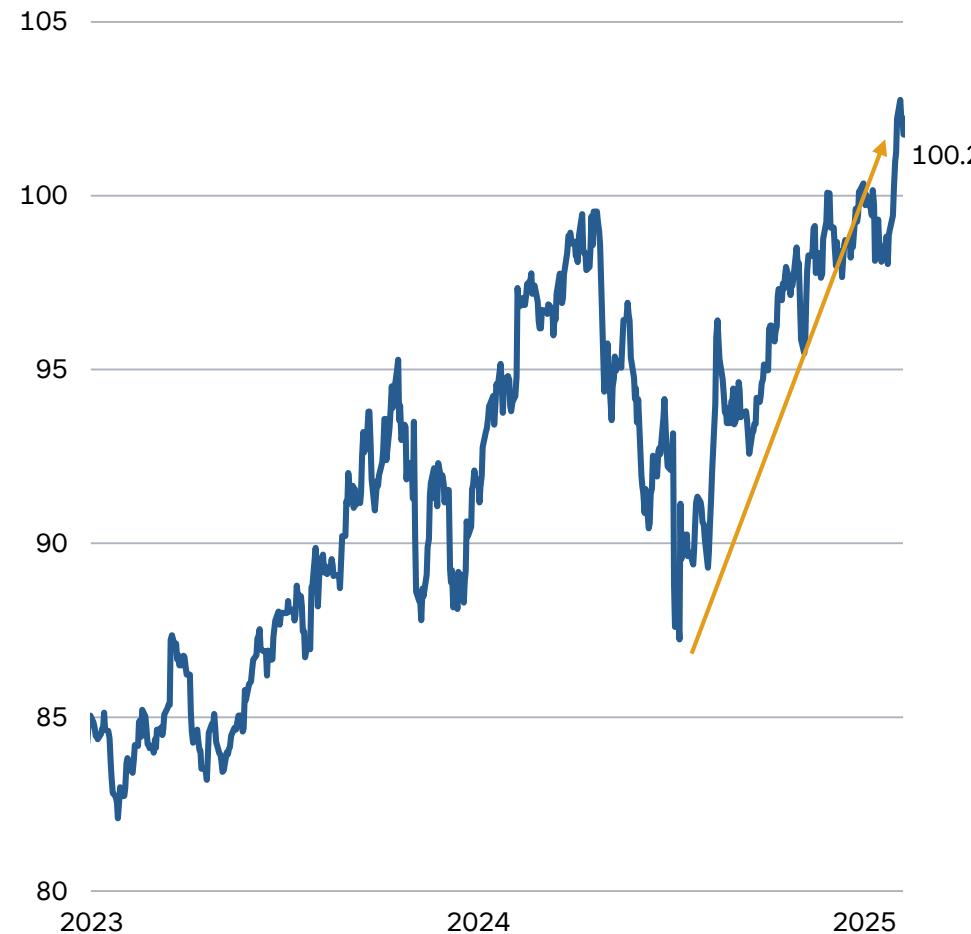
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Controversy #2: Early Cycle or Late?

Markets Are Pricing Cyclical Reacceleration

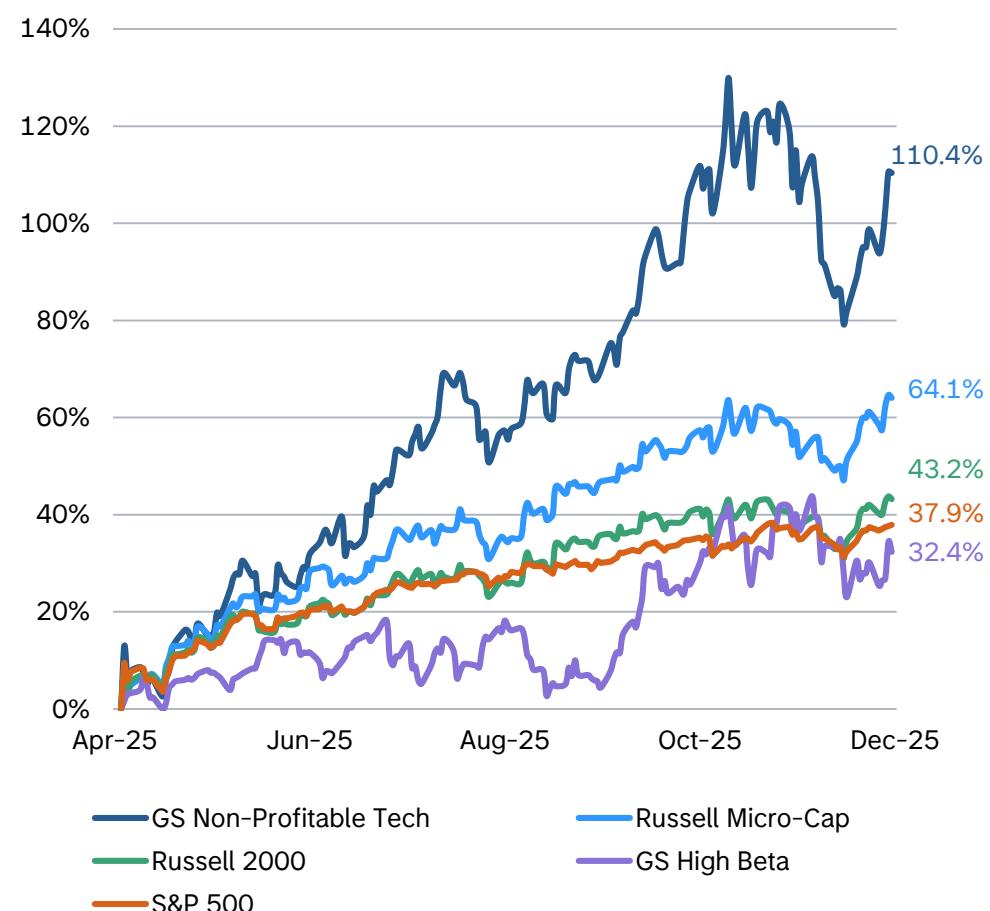
GOLDMAN SACHS CYCLICALS VS. DEFENSIVES

AS OF DECEMBER 5, 2025



PERFORMANCE SINCE THE APRIL 8, 2025 TROUGH

AS OF DECEMBER 5, 2025



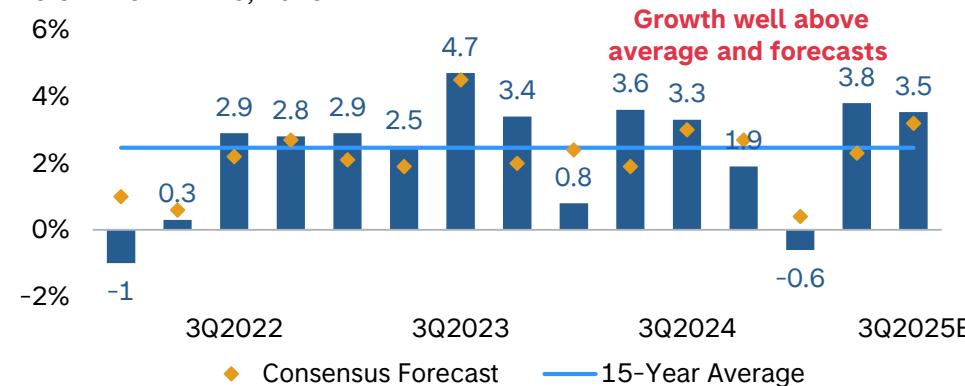
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Recession Has Been Nowhere in Sight; GDP Growth Healthy

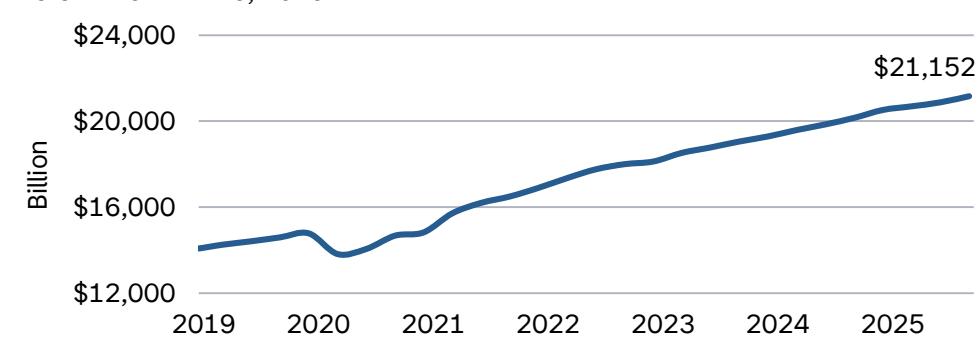
QUARTERLY REAL GDP (ANNUALIZED)

AS OF DECEMBER 5, 2025



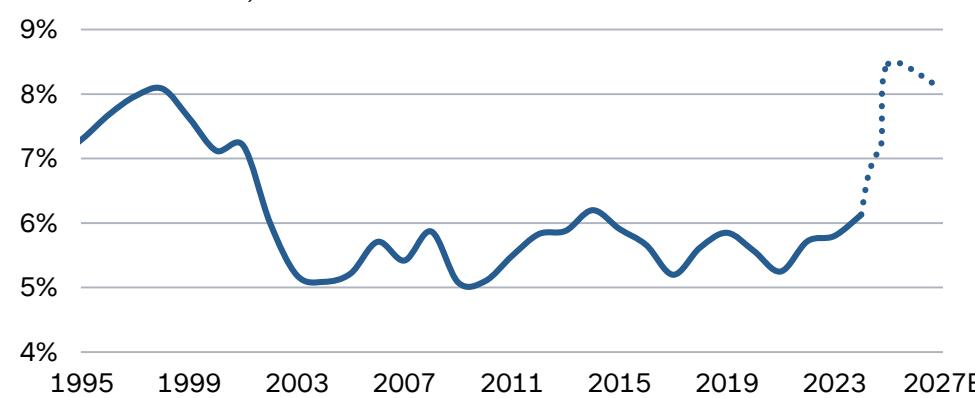
PERSONAL CONSUMPTION EXPENDITURE

AS OF DECEMBER 5, 2025



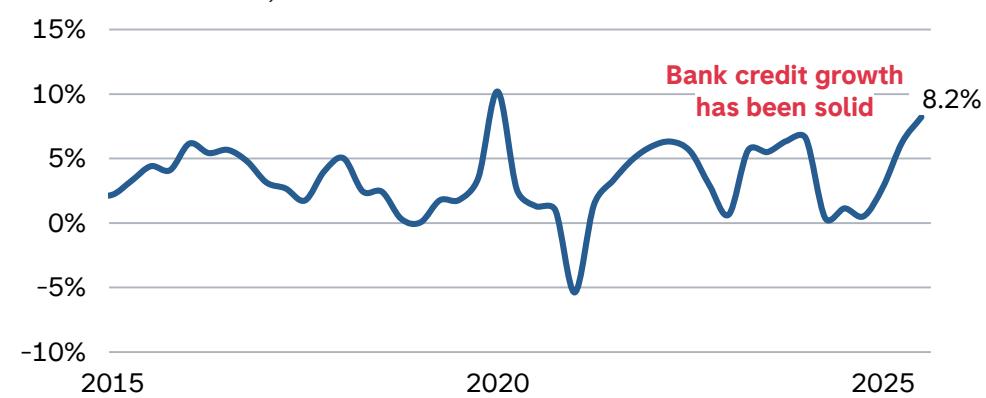
S&P 500 CAPEX AS A SHARE OF SALES

AS OF DECEMBER 5, 2025



US BANK TOTAL LOANS, YEAR-OVER-YEAR CHANGE

AS OF NOVEMBER 30, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg. 3Q2025 GDP estimates are from Atlanta Fed GDPNow Forecast. Capex as a share of sales uses consensus estimates.

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But Manufacturing Is Lackluster and Sentiment Weak...No Evidence of Broadening Capex Boom

ISM MANUFACTURING

AS OF NOVEMBER 30, 2025



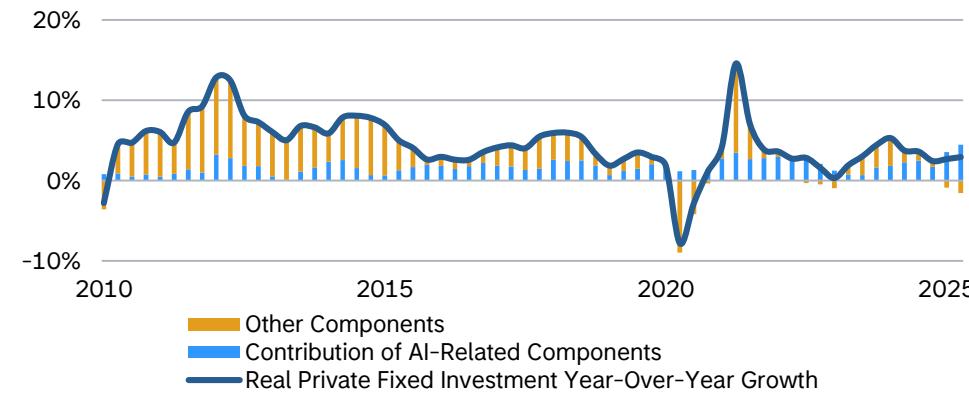
US ROUNDTABLE CEO ECONOMIC CONDITIONS SURVEY

AS OF NOVEMBER 30, 2025



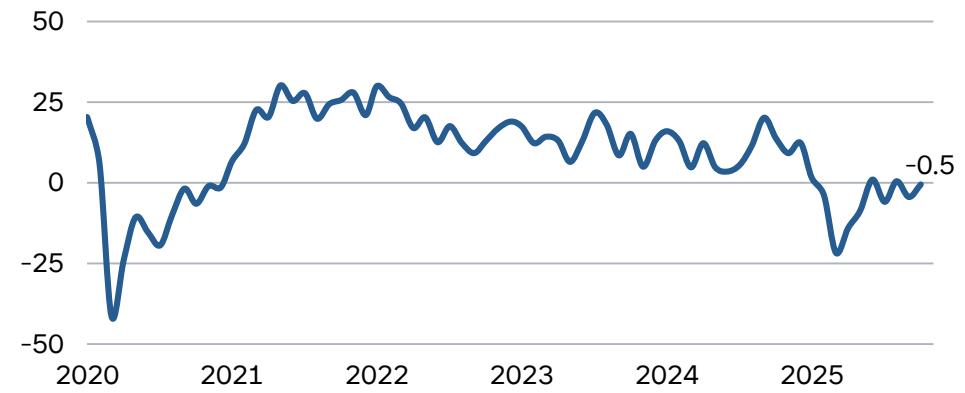
CONTRIBUTIONS TO REAL PRIVATE FIXED INVESTMENT

AS OF DECEMBER 3, 2025



CEO INTENTIONS OF CAPEX IN SIX MONTHS

AS OF NOVEMBER 30, 2025



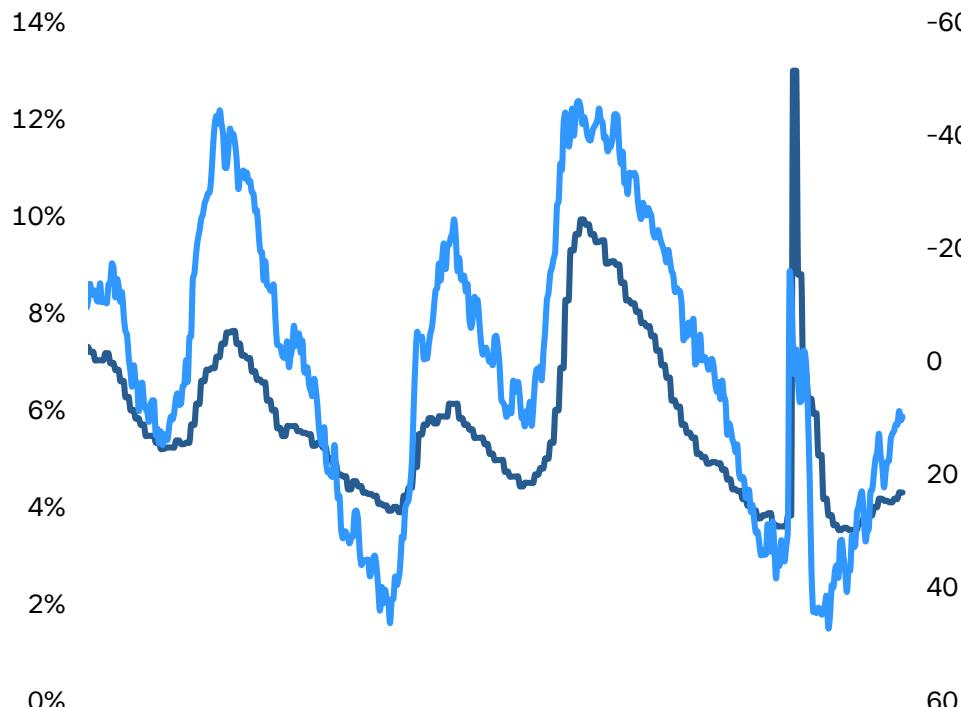
Source: Morgan Stanley Wealth Management GIO, Bloomberg, Pantheon Macro

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Labor Market Looks Fragile; Gets Worse Before It Gets Better

UNEMPLOYMENT RATE VS. LABOR DIFFERENTIAL

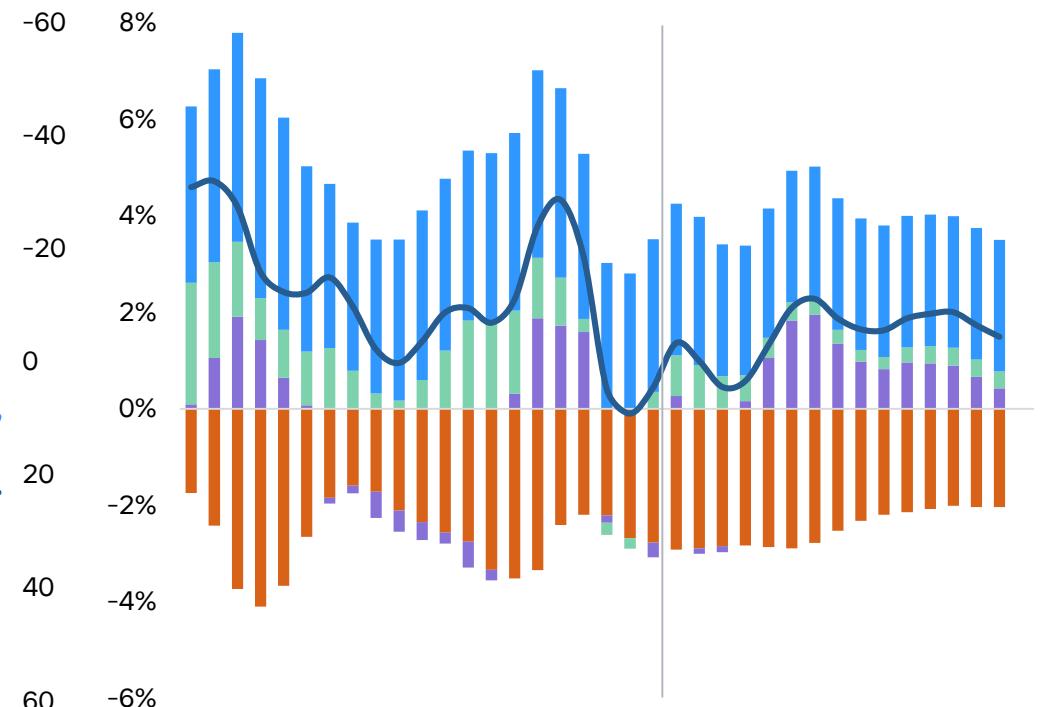
AS OF NOVEMBER 30, 2025



— Unemployment Rate (left)
— Conference Board Labor Differential, inverted (right)

REAL AFTER-TAX INCOME, QUARTER OVER QUARTER (ANN.)

AS OF DECEMBER 8, 2025



— Wages and Employer Contributions
— Business and Rental Interest and Dividend Income
— Government Transfers Less Taxes
— Deflator
— Real After-Tax Income

Source: Morgan Stanley Wealth Management GIO, Bloomberg, Pantheon Macro. Consensus estimates are from Pantheon Macro.

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Controversy #3: Inflation Is Tamed?

US CORE CPI, YEAR-OVER-YEAR

AS OF NOVEMBER 30, 2025



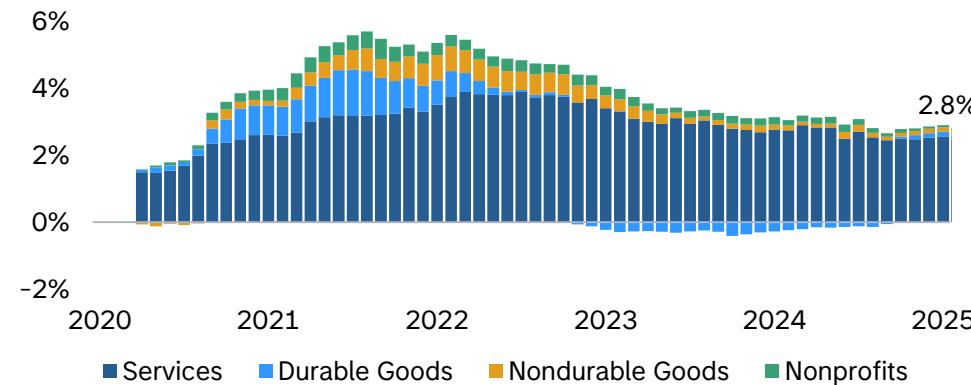
NY FED ONE-YEAR INFLATION EXPECTATIONS

AS OF DECEMBER 8, 2025



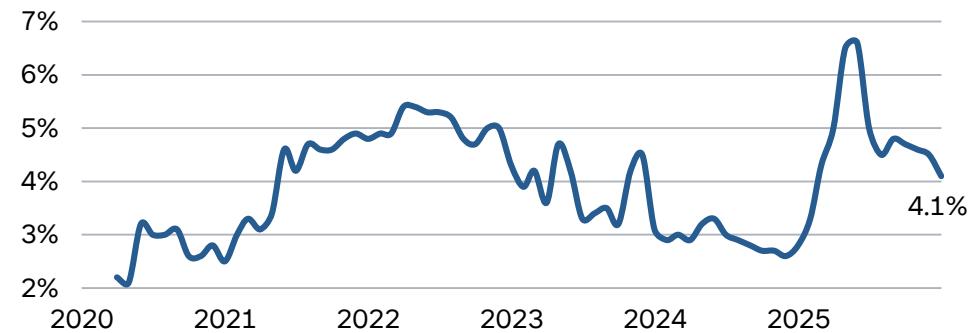
CONTRIBUTIONS TO CORE PCE, YEAR-OVER-YEAR

AS OF DECEMBER 5, 2025



U. MICHIGAN ONE-YEAR INFLATION EXPECTATIONS

AS OF DECEMBER 5, 2025



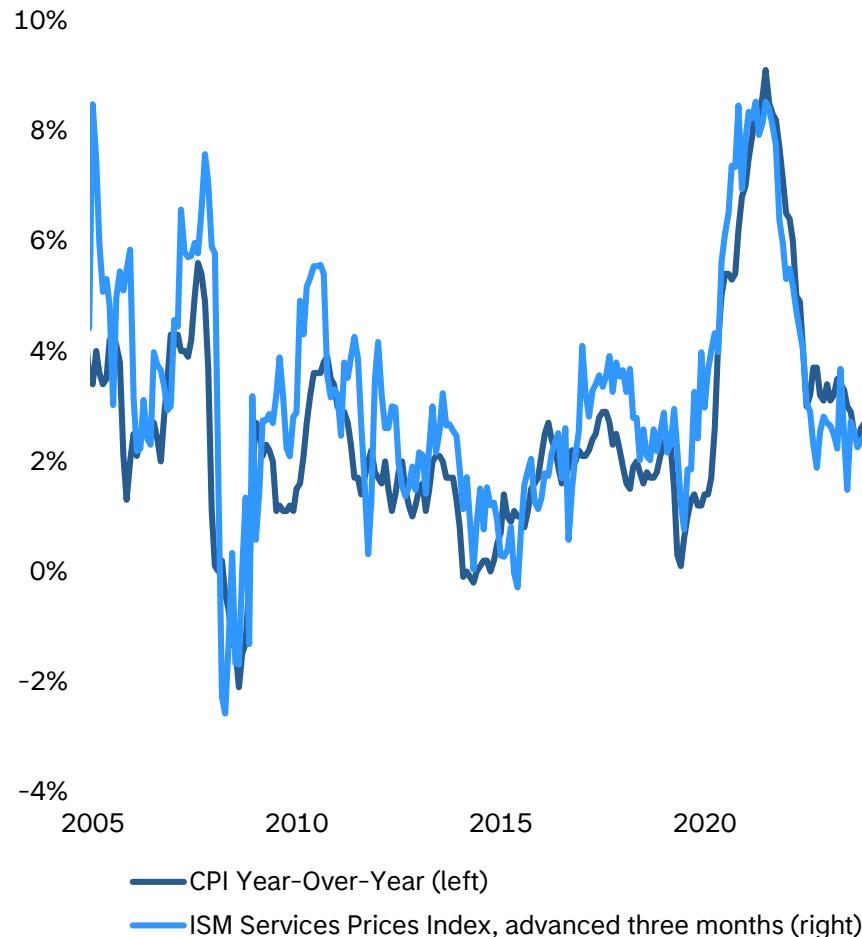
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Pricing Pressure in the Supply Chain Is Building

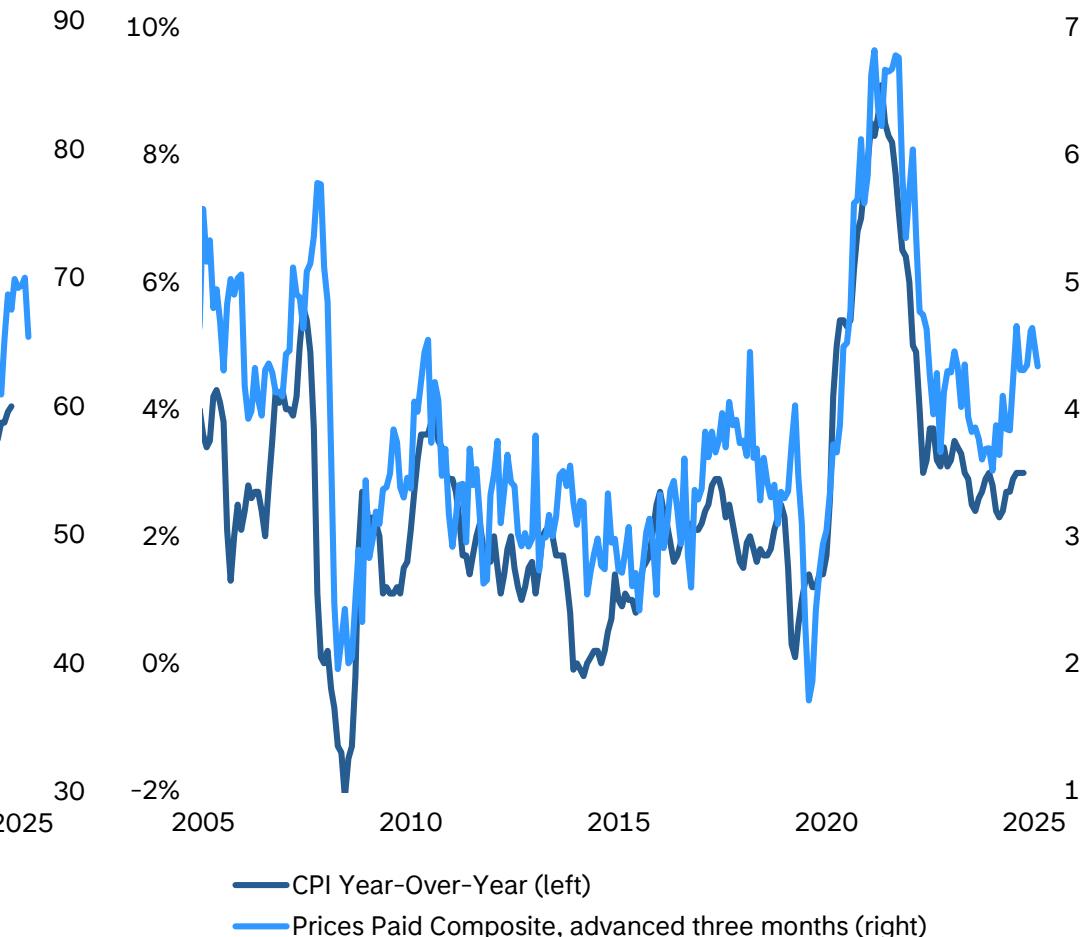
ISM SERVICES PRICES INDEX VS. CPI

AS OF DECEMBER 3, 2025



NFIB AND REGIONAL FED SURVEYS PRICES PAID VS. CPI

AS OF DECEMBER 3, 2025



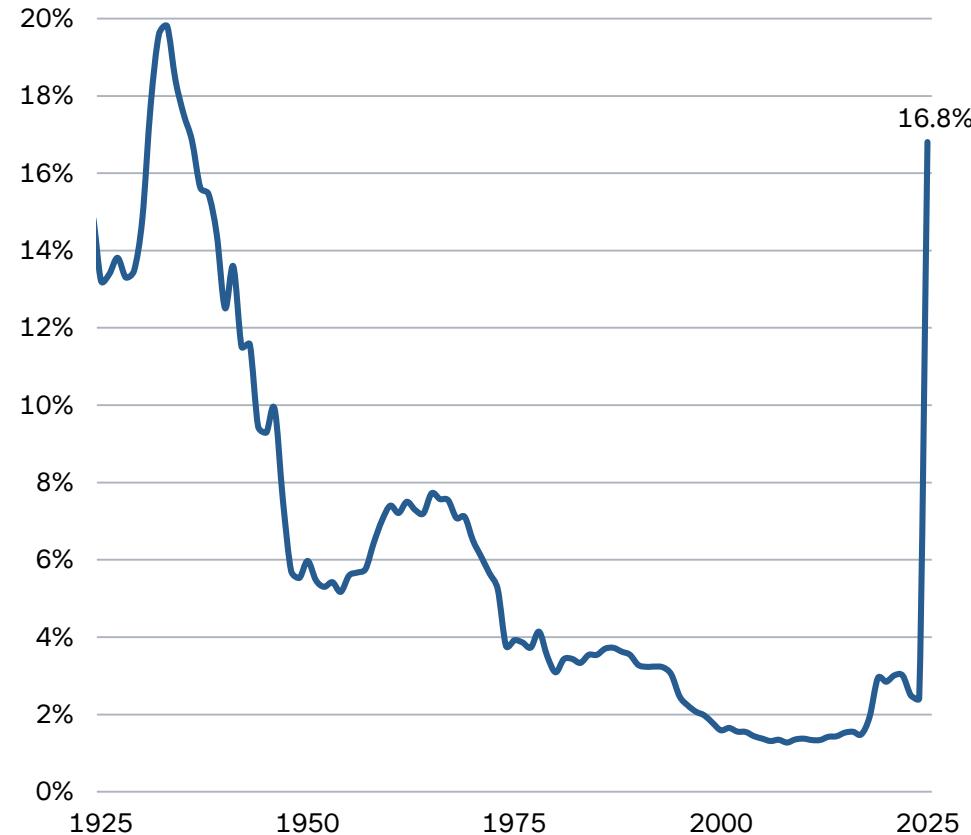
Source: Morgan Stanley Wealth Management GIO, Bloomberg. Prices Paid Composite use the average of the NFIB Selling Prices Survey, ISM Prices Paid, and the Federal Reserve Bank of Philadelphia Prices Paid Manufacturing Survey.

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Tariff Risk Remains

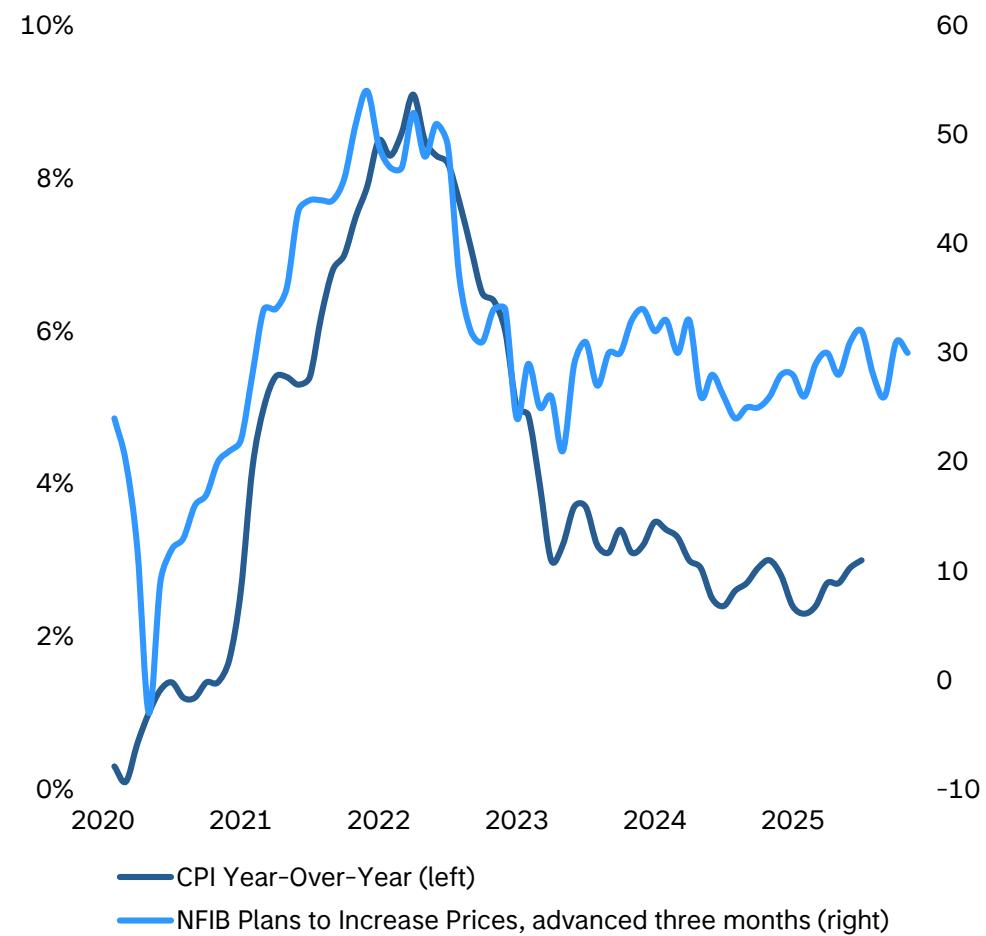
EFFECTIVE TARIFF RATE

AS OF NOVEMBER 30, 2025



YOY CPI VS. NFIB SURVEY PLANS TO INCREASE PRICES

AS OF NOVEMBER 30, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg, Yale Budget Lab

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Markets Are Very Relaxed About Inflation Risk

ZERO-COUPON INFLATION SWAP RATES

AS OF DECEMBER 8, 2025

4.0%

3.5%

3.0%

2.5%

2.0%

1.5%

Jan-24

Mar-24

Jun-24

Sep-24

Dec-24

Mar-25

Jun-25

Sep-25

Dec-25

One-Year Two-Year One-Year, One-Year Forward Five-Year, Five-Year Forward

Source: Morgan Stanley Wealth Management GIO, Pantheon Macro

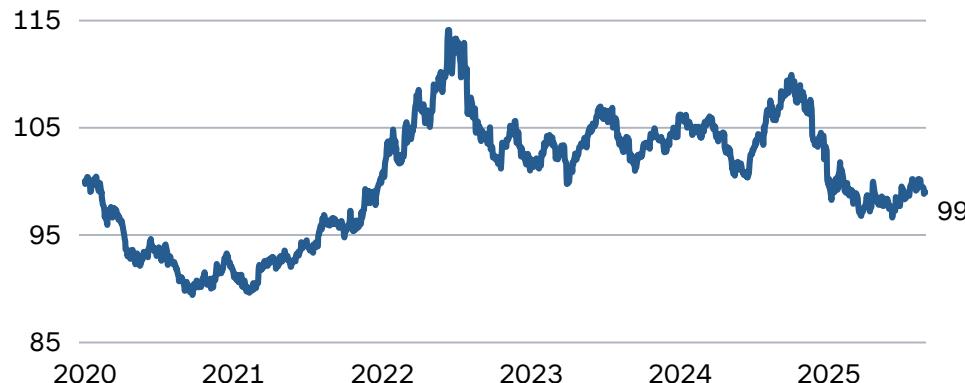
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FISCAL DOMINANCE Suggests New Inflation Regime

Especially if Fed Independence Is Questioned

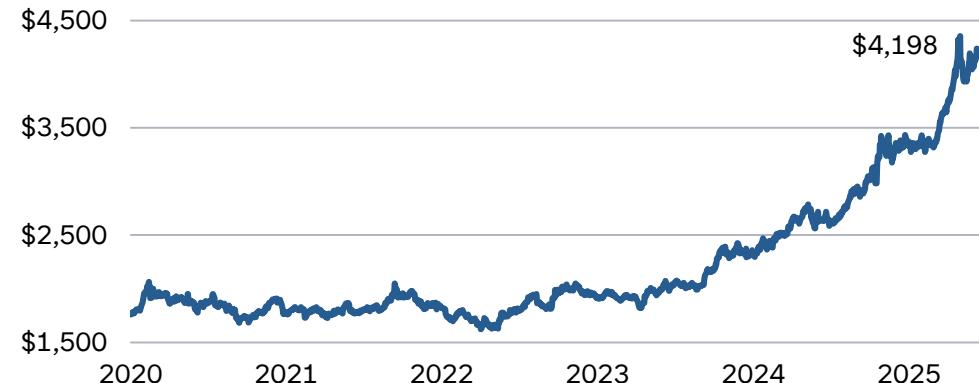
US DOLLAR INDEX

AS OF DECEMBER 5, 2025



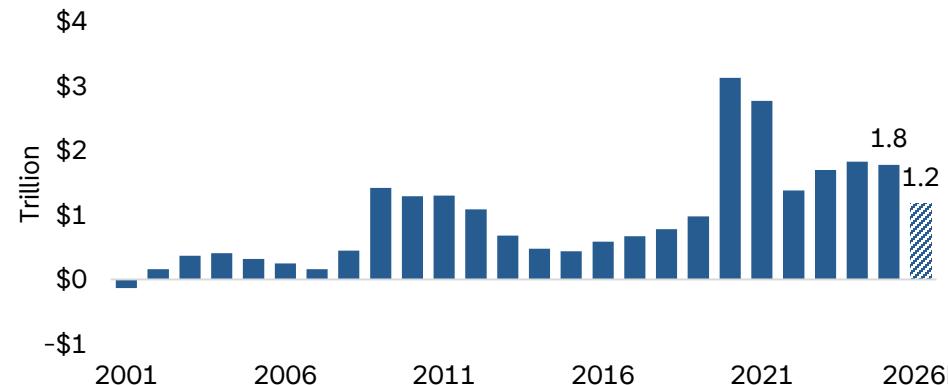
GOLD PRICE (\$/OZ)

AS OF DECEMBER 5, 2025



US BUDGET DEFICIT

AS OF DECEMBER 8, 2025



FEDERAL BALANCE SHEET FORECAST

AS OF DECEMBER 8, 2025



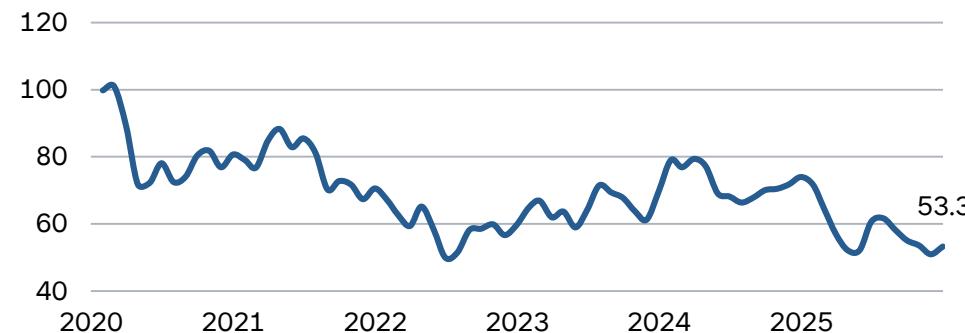
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, Bloomberg, Congressional Budget Office (CBO). US Deficit estimates are from CBO. Federal Balance Sheet estimates are from the MS & Co. Research US Economics Team.

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Controversy #4: Is the Consumer Really Resilient?

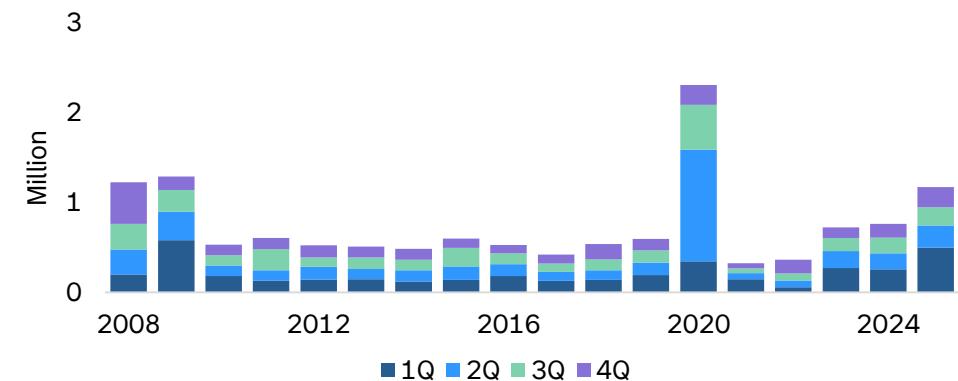
UNIVERSITY OF MICHIGAN CONSUMER CONFIDENCE

AS OF DECEMBER 5, 2025



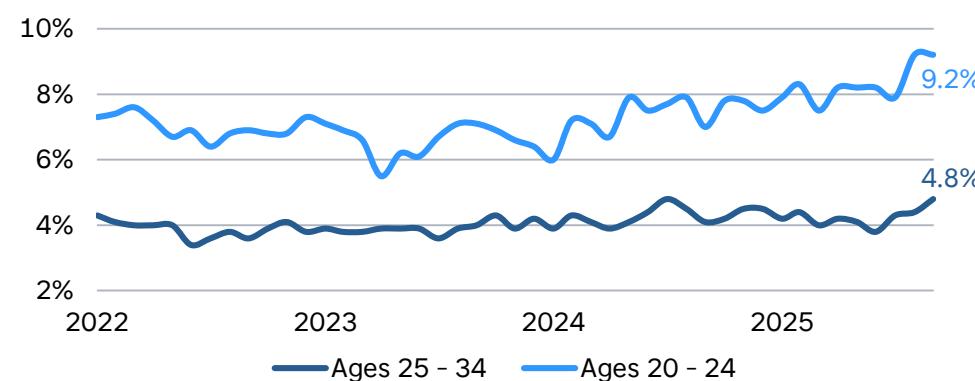
CHALLENGER LAYOFFS

AS OF NOVEMBER 30, 2025



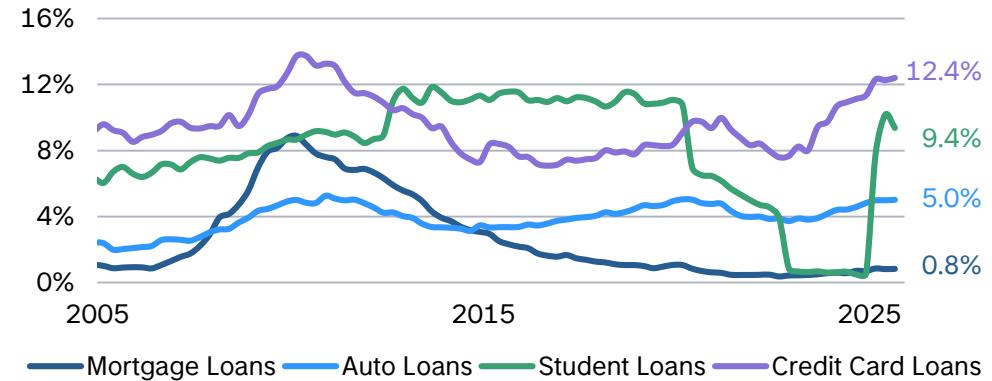
YOUTH UNEMPLOYMENT RATE

AS OF NOVEMBER 30, 2025



OVER 90-DAY DELINQUENCY RATES

AS OF DECEMBER 8, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg, Pantheon Macro

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The K-Economy: Wealth Effects Now Larger Than Income Effects

SHARE OF TOTAL NET WORTH BY INCOME COHORTS

AS OF DECEMBER 8, 2025

50%

40%

Top 20% → 71%

47.5%

30%

20%

23.9%

10%

13.4%

3.0%

4.3%

4.9%

Lowest Quintile

Second Quintile

Third Quintile

Fourth Quintile

Top Quintile
(Without Top 1%)

0%

SHARE OF PCE BY INCOME COHORTS

AS OF DECEMBER 8, 2025

50%

40%

Top 40% → 61%

39.5%

30%

20%

21.5%

16.7%

13.1%

9.1%

Lowest Quintile

Second Quintile

Third Quintile

Fourth Quintile

Top Quintile

10%

0%

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

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Controversy #6: A Productivity Renaissance?

Forecasts Largely Driven by Margins

S&P 500 TRAILING 12-MONTH EBIT MARGIN VS. NET MARGIN

AS OF DECEMBER 5, 2025

22

BIG DREAMS

20

18

16

14

12

10

18

16

14

12

10

8

6

4

BUSINESS SECTOR LABOR PRODUCTIVITY, YEAR-OVER-YEAR

AS OF DECEMBER 5, 2025

8%

6%

4%

2%

0%

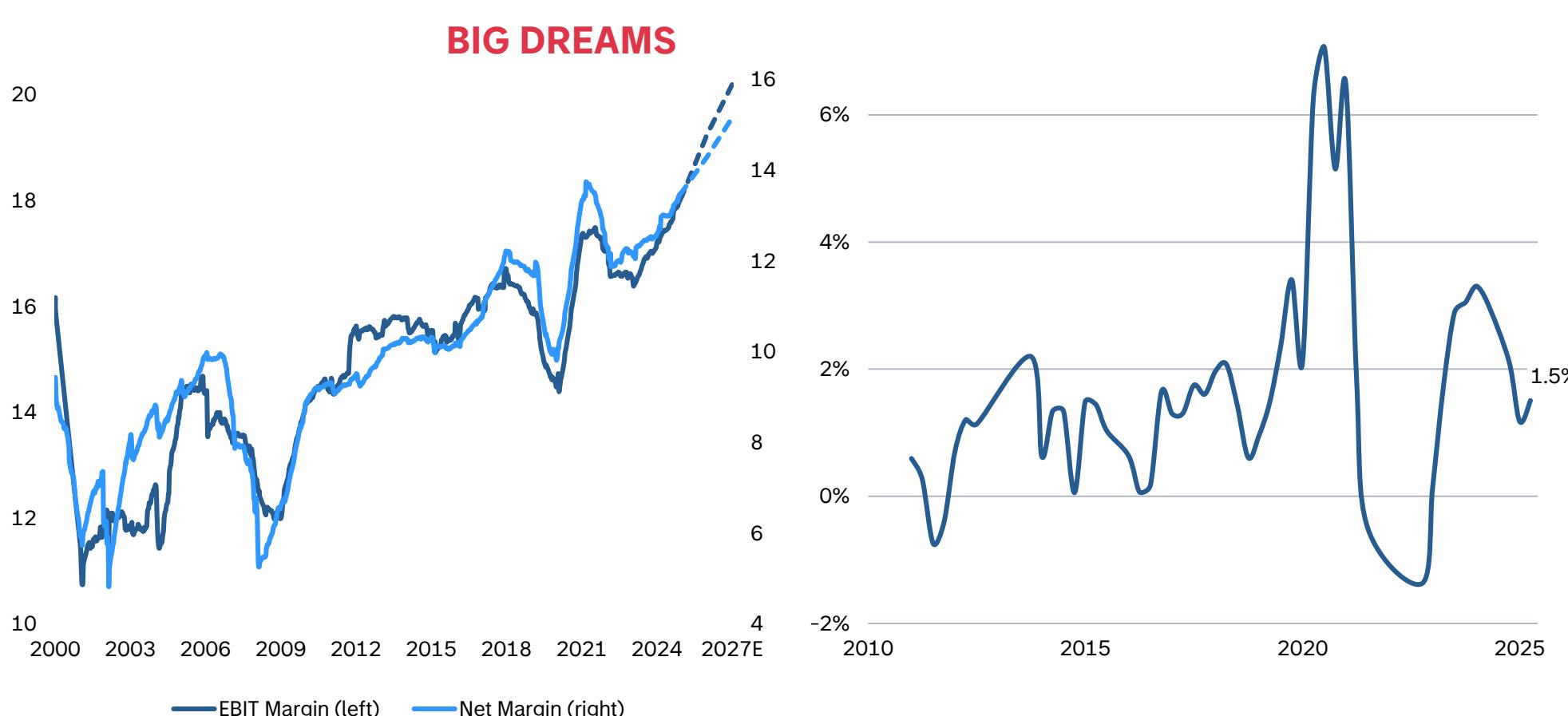
-2%

4

2

0

-2



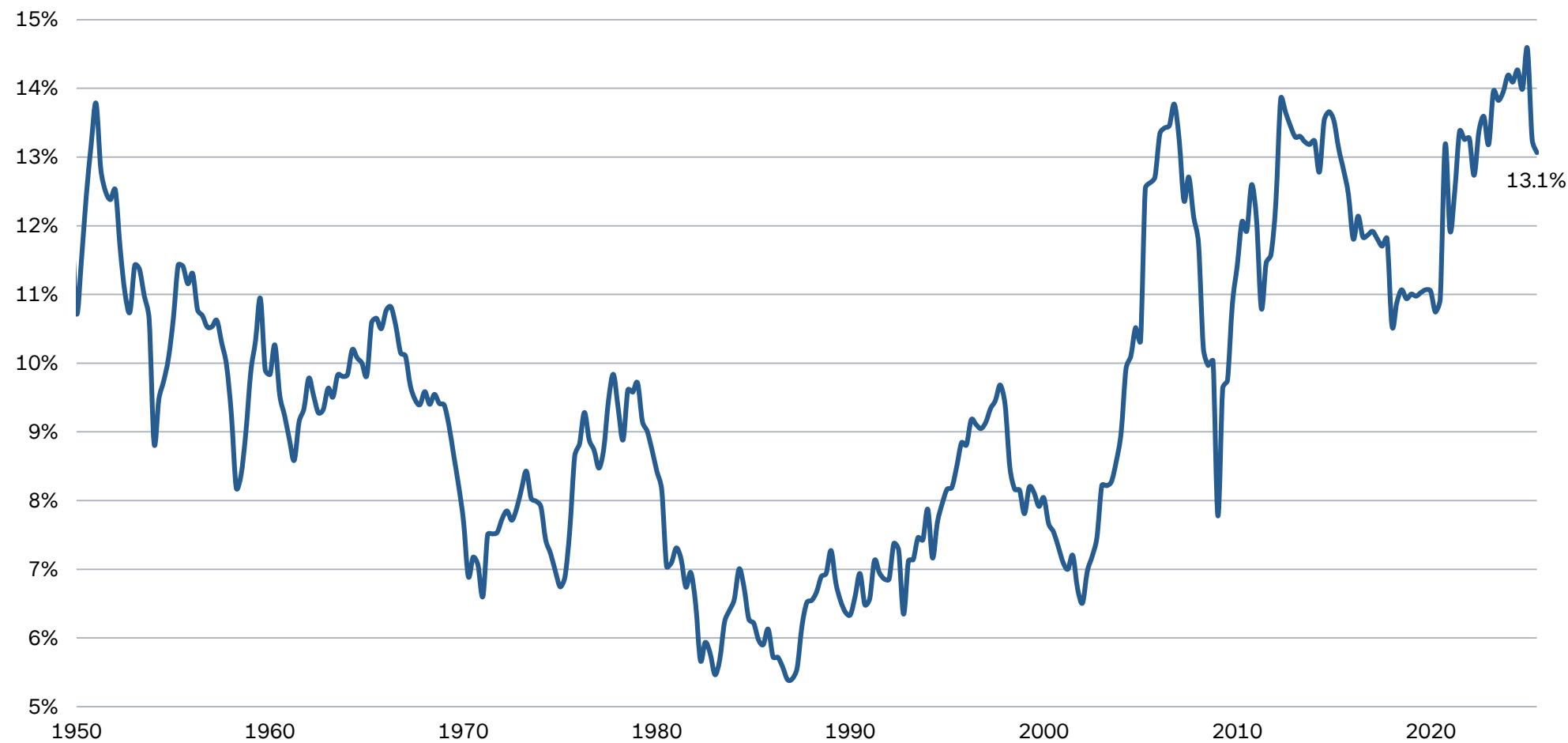
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, Haver Analytics, consensus estimates

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Corporate Profits as Share of US GDP Have Peaked; Margins Compressing?

NIPA US CORPORATE PROFITS AS SHARE OF GDP

AS OF NOVEMBER 30, 2025



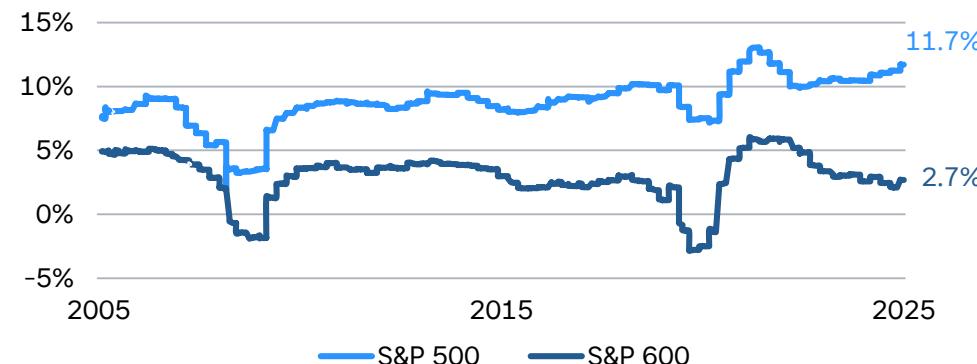
Source: Morgan Stanley Wealth Management GIO, Bloomberg

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The Largest Companies Are Dominating Productivity Gains

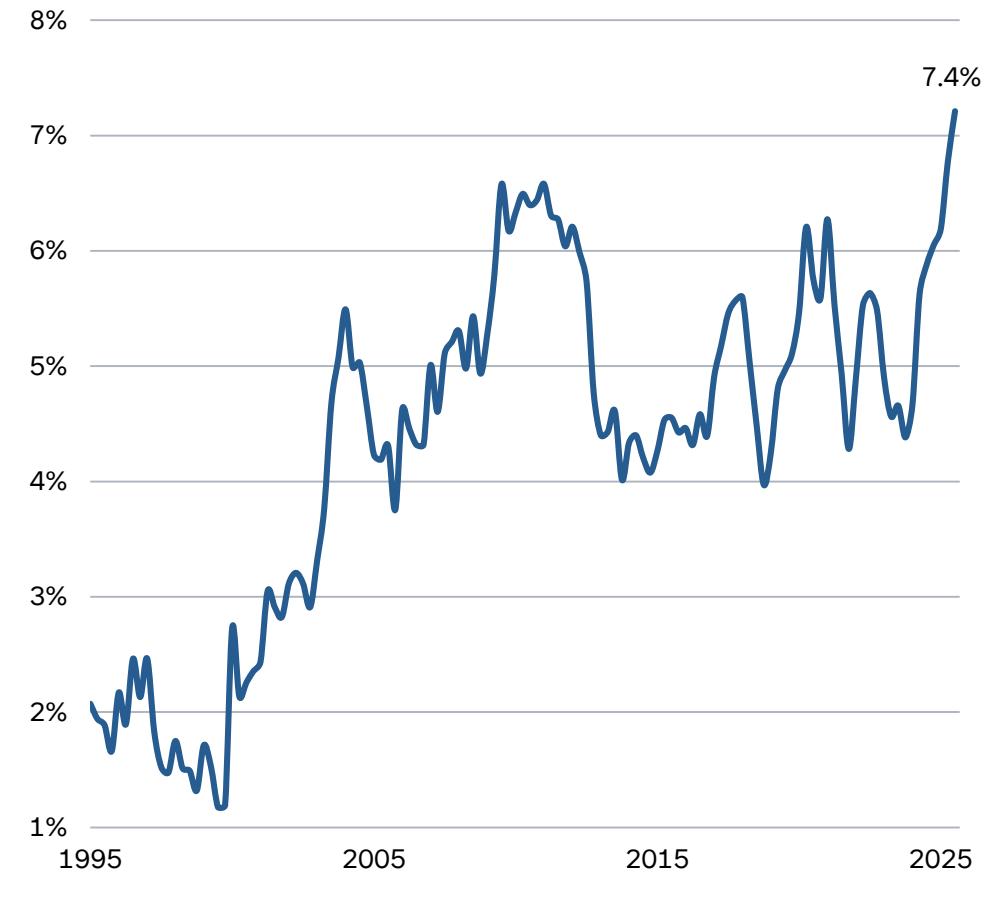
PROFIT MARGINS OF THE S&P 500 VS. S&P 600

AS OF DECEMBER 5, 2025



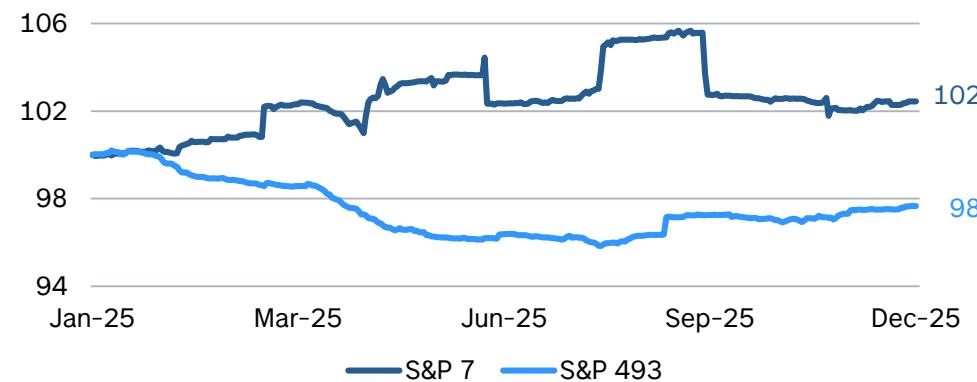
RUSSELL 3000 SHARE OF UNPROFITABLE COMPANIES

AS OF DECEMBER 5, 2025



MARGIN GROWTH FORECASTS OF MAG. 7 VS. S&P 493

AS OF DECEMBER 8, 2025 (JANUARY 1, 2025 = 100)



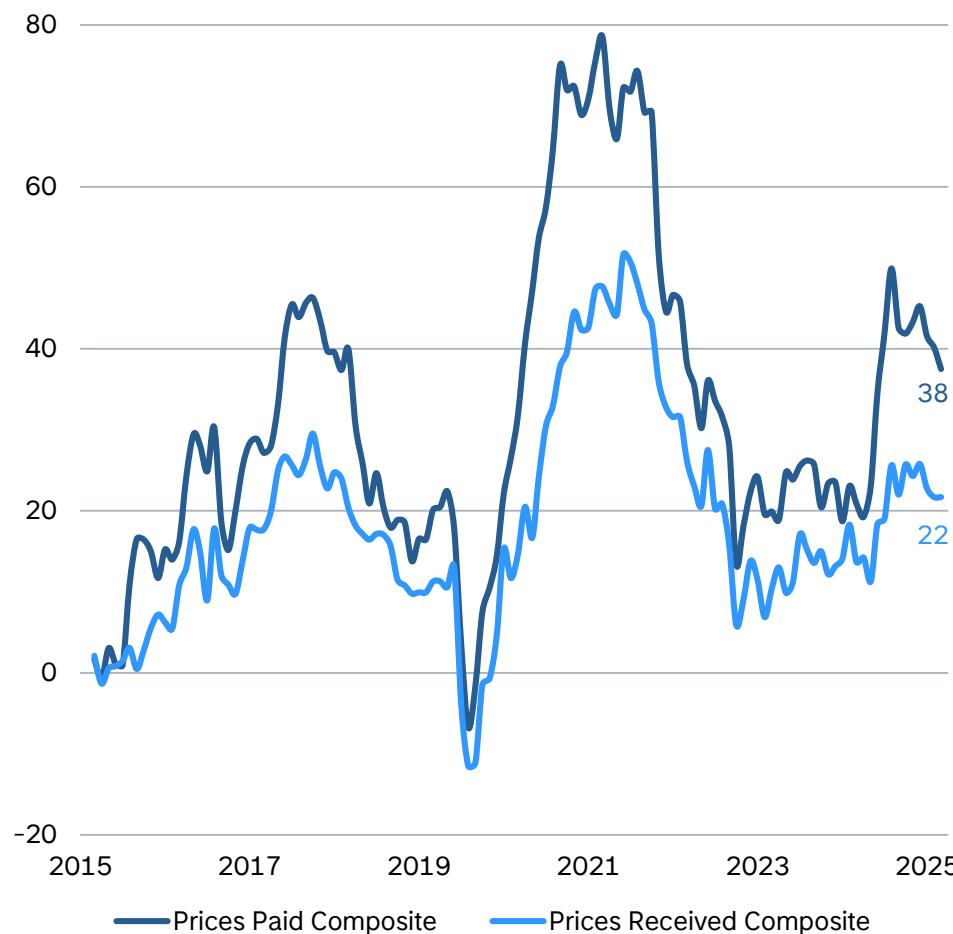
Source: Morgan Stanley Wealth Management GIO, Apollo Global Management, Bloomberg, Piper Sandler. Note: Zombie companies are defined as those having three consecutive years of interest coverage ratio < 1.

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Margins Could Still Be Pressured by Tariffs

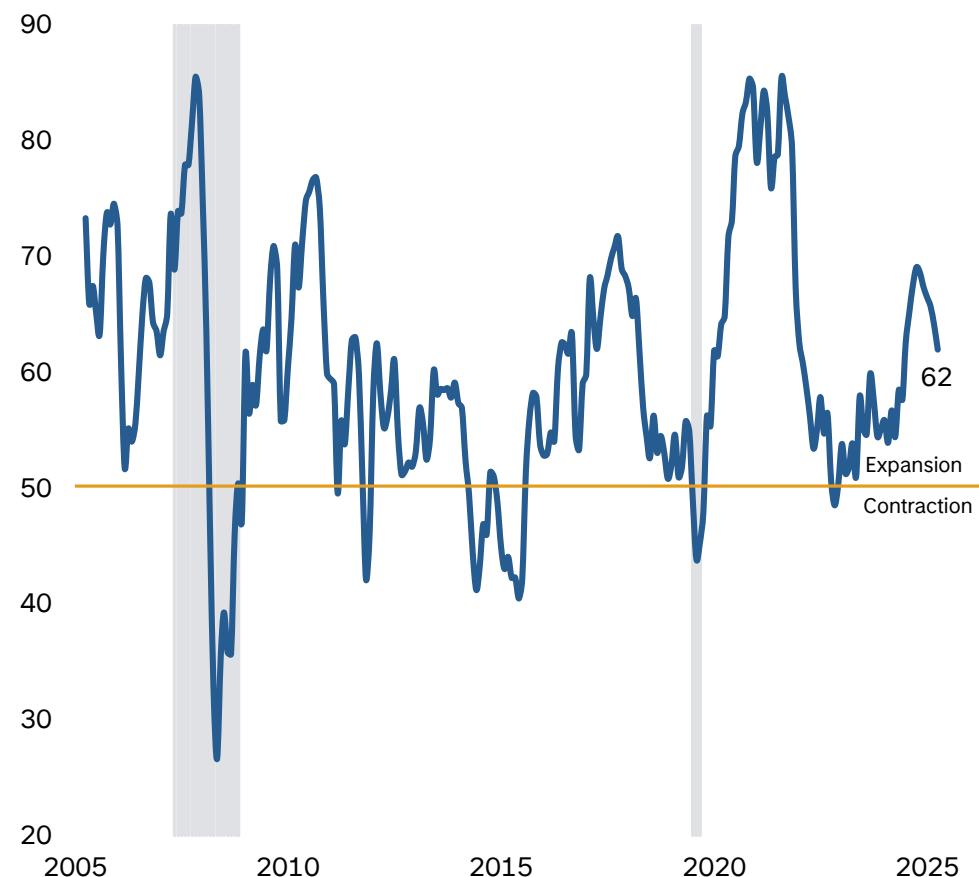
FED REGIONAL SURVEYS: PRICES PAID AND RECEIVED

AS OF NOVEMBER 30, 2025



ISM PRICES PAID COMPOSITE

AS OF NOVEMBER 30, 2025



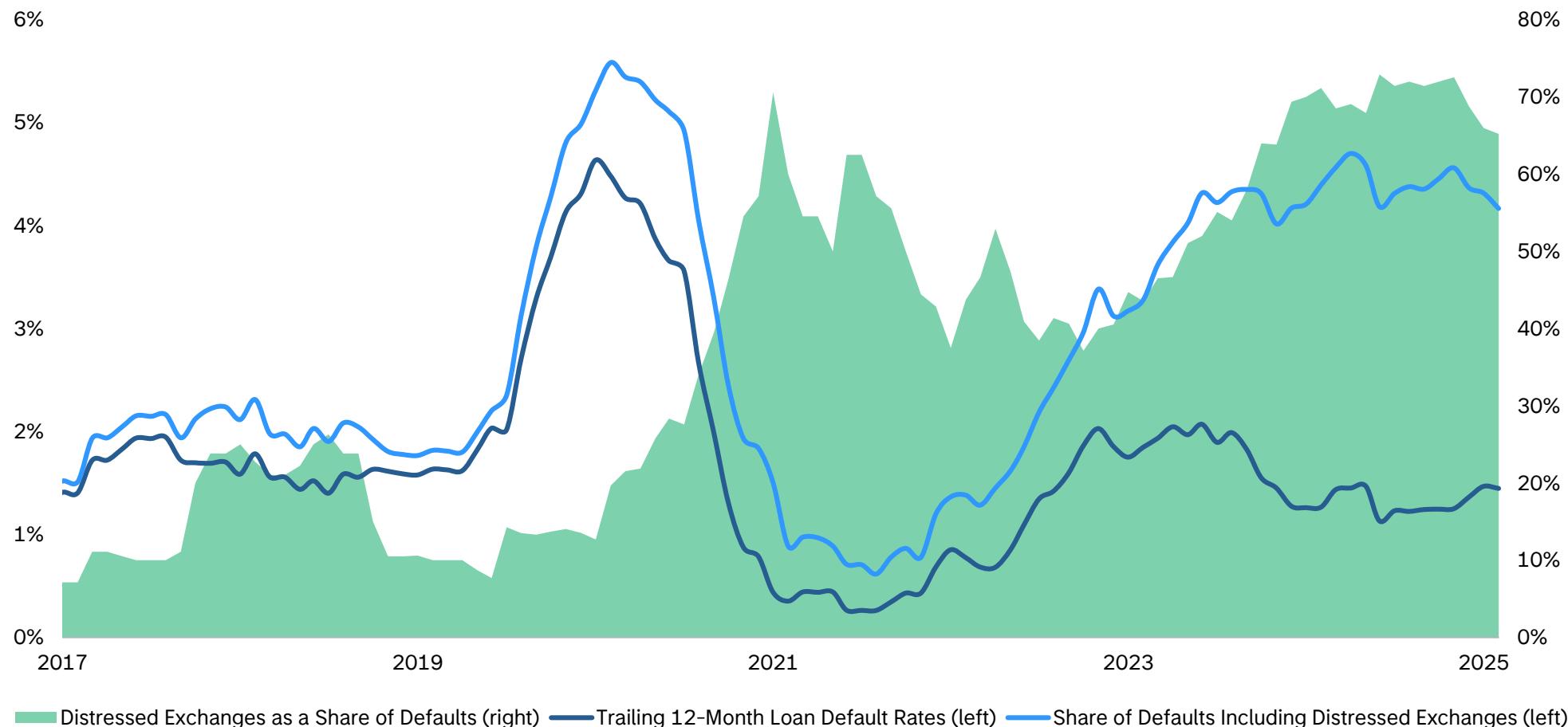
Source: Morgan Stanley Wealth Management GIO, Bloomberg. Prices Paid and Received Composite use the average of the Federal Reserve Bank of Dallas, Kansas City, Philadelphia, and Empire State Manufacturing Surveys

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Controversy #7: Credit Cockroaches?

DEFAULT RATES MAY BE MISLEADING

AS OF DECEMBER 8, 2025



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

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Smaller Companies Are Stressed

RUSSELL 2000: SHARE OF UNPROFITABLE COMPANIES

AS OF DECEMBER 8, 2025

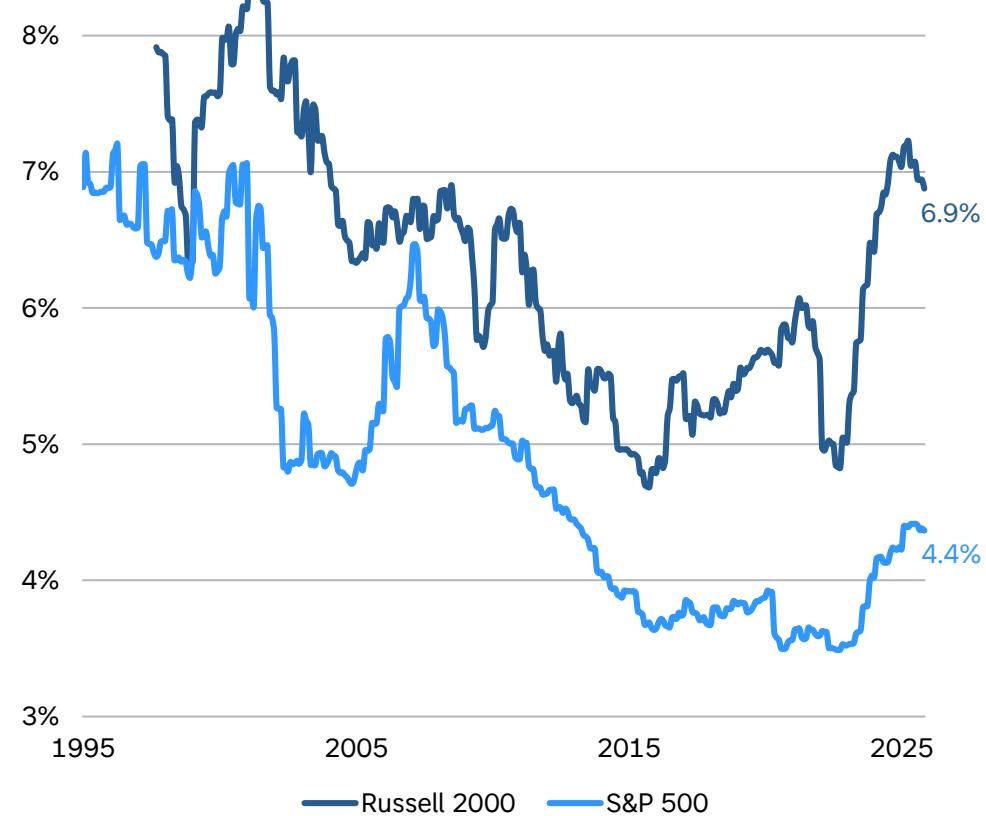
50%



INTEREST EXPENSE AS A SHARE OF DEBT

AS OF DECEMBER 8, 2025

9%



Source: Morgan Stanley Wealth Management GIO, Strategas

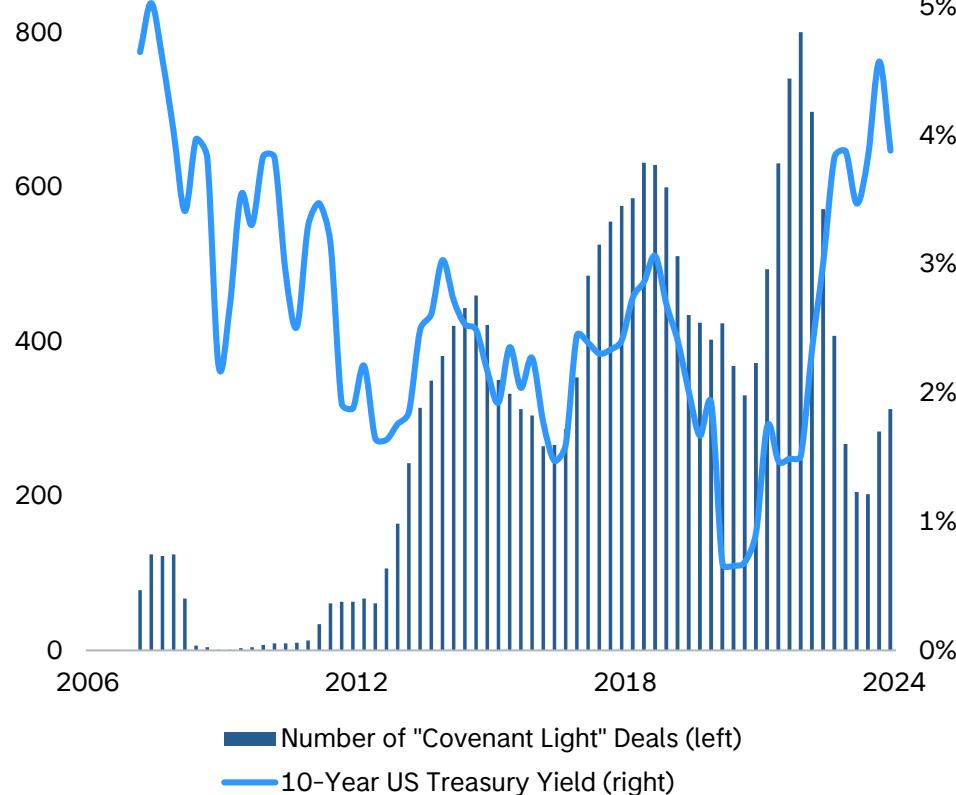
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Private Market Could Be Source of Credit Disappointments

“COVENANT LIGHT” LEVERAGED LOANS VS. 10Y UST YIELD

AS OF NOVEMBER 30, 2025

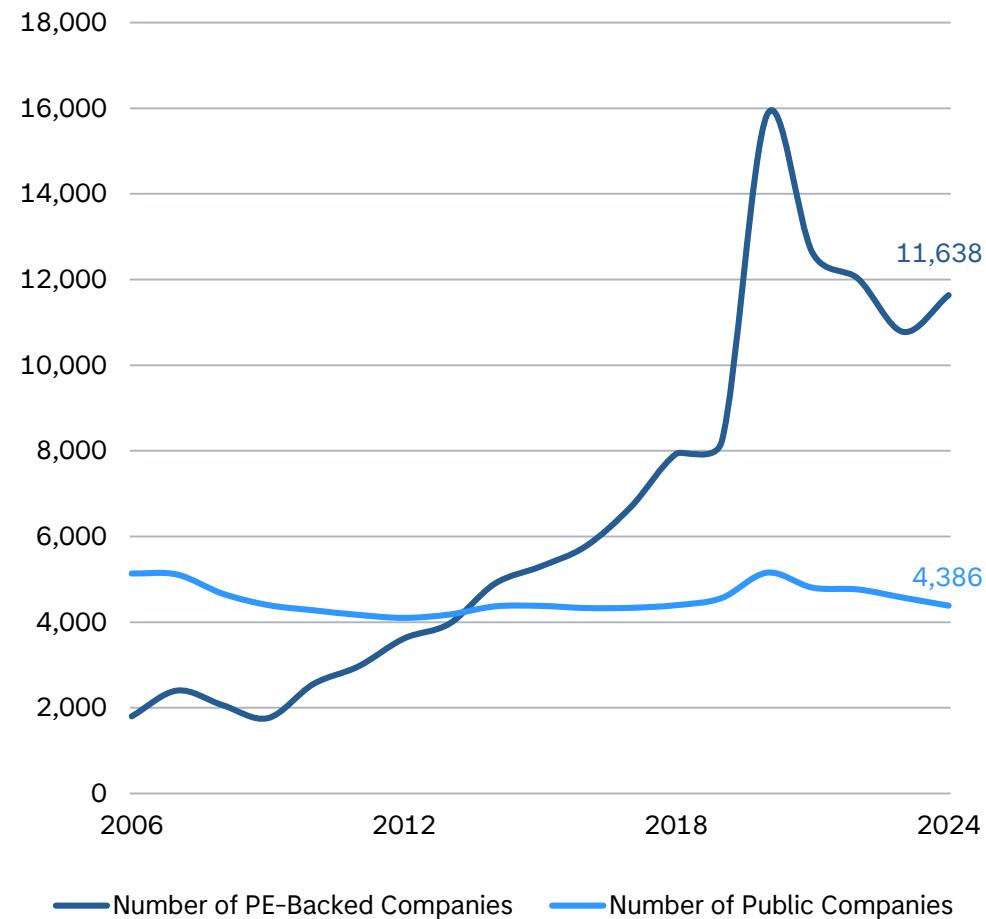
1000



US PE-BACKED COMPANIES VS. PUBLIC COMPANIES

AS OF NOVEMBER 30, 2025

18,000



Source: Morgan Stanley Wealth Management GIO, BCA Research. Note: Number of “covenant light” leveraged loans is the four-quarter moving average.

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Controversy #8: An AI Bubble?

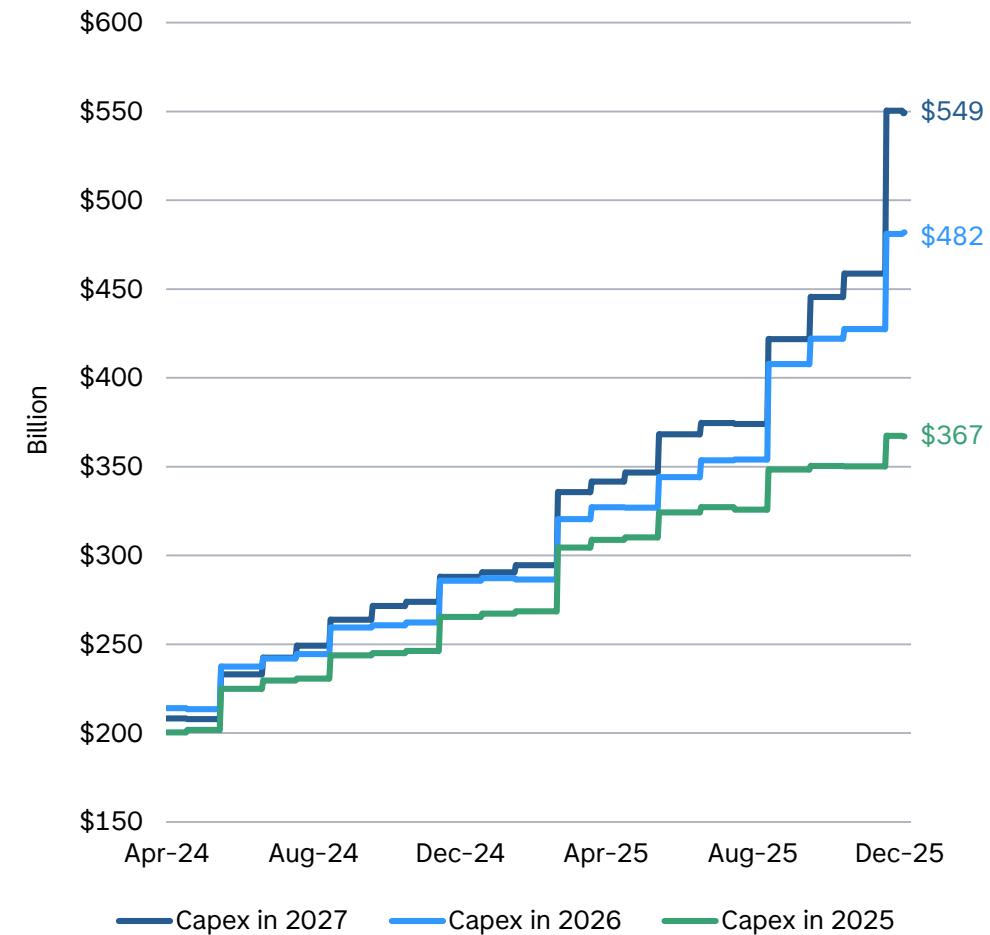
CAPEX SPENDING OF AI HYPERSCALERS

AS OF DECEMBER 8, 2025



CHANGE IN CAPEX FORECASTS FOR HYPERSCALERS

AS OF DECEMBER 5, 2025



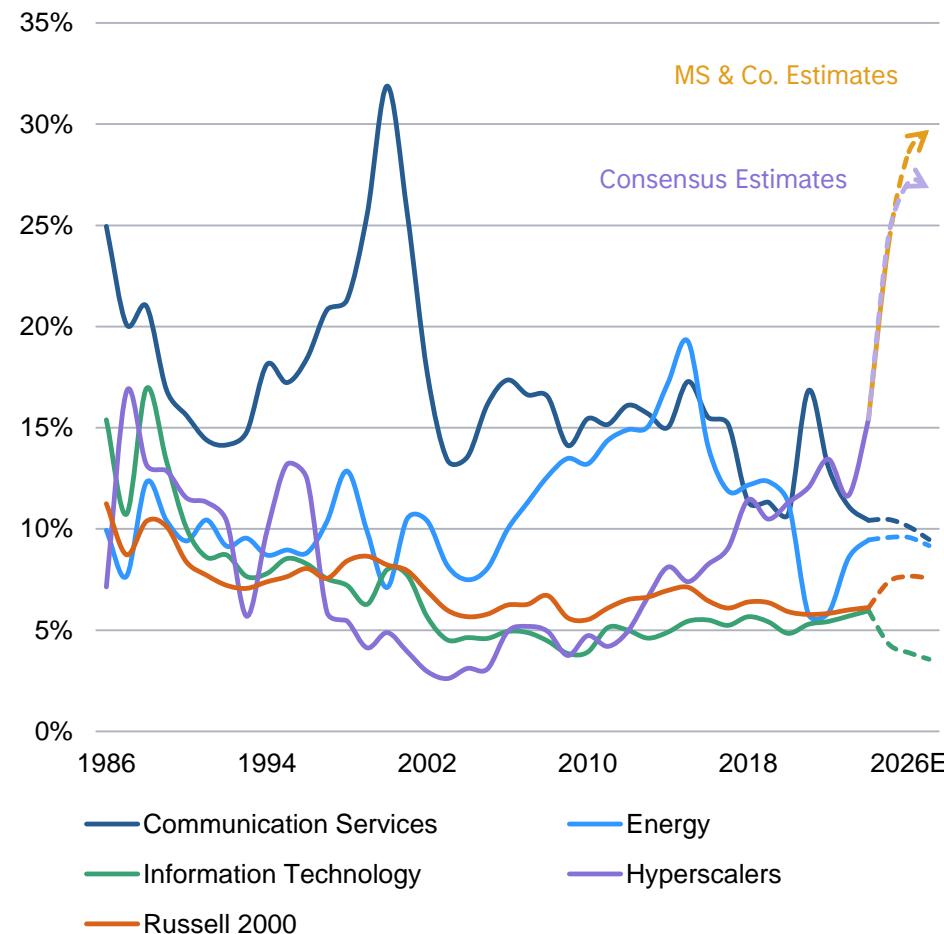
Source: Morgan Stanley Wealth Management GIO, ASR estimates

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Gen AI Capex Boom: In Context, Where Are We?

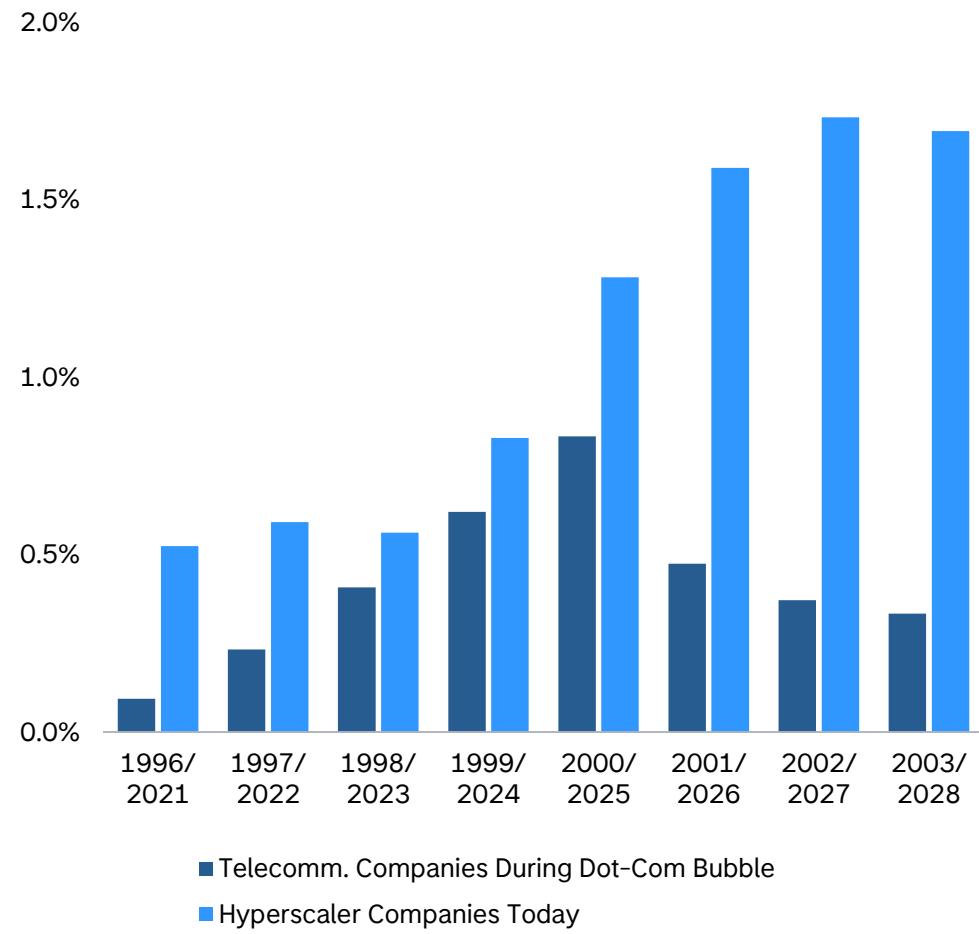
CAPITAL EXPENDITURE AS A SHARE OF SALES

AS OF DECEMBER 8, 2025



CAPITAL EXPENDITURE AS A SHARE OF GDP

AS OF NOVEMBER 30, 2025



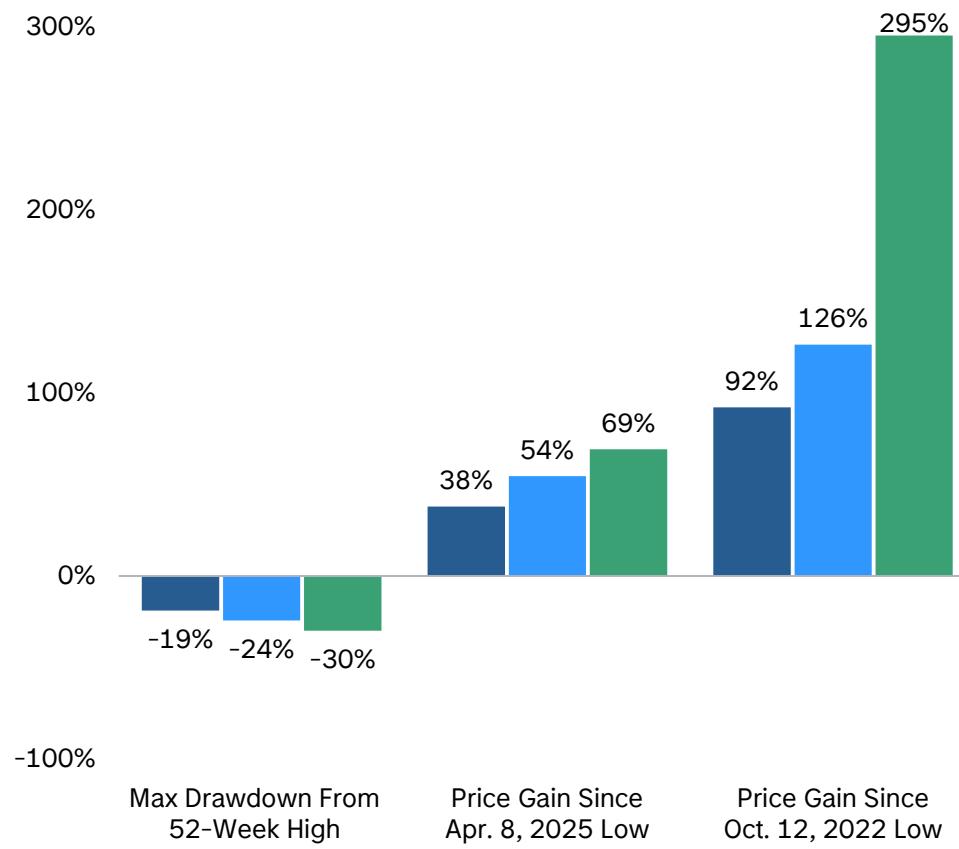
Source: Morgan Stanley Wealth Management GIO, Apollo Global Management, MS & Co. Research and consensus estimates

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NASDAQ and “Mag 7” Have Led, but Performance Dispersion Is Widening

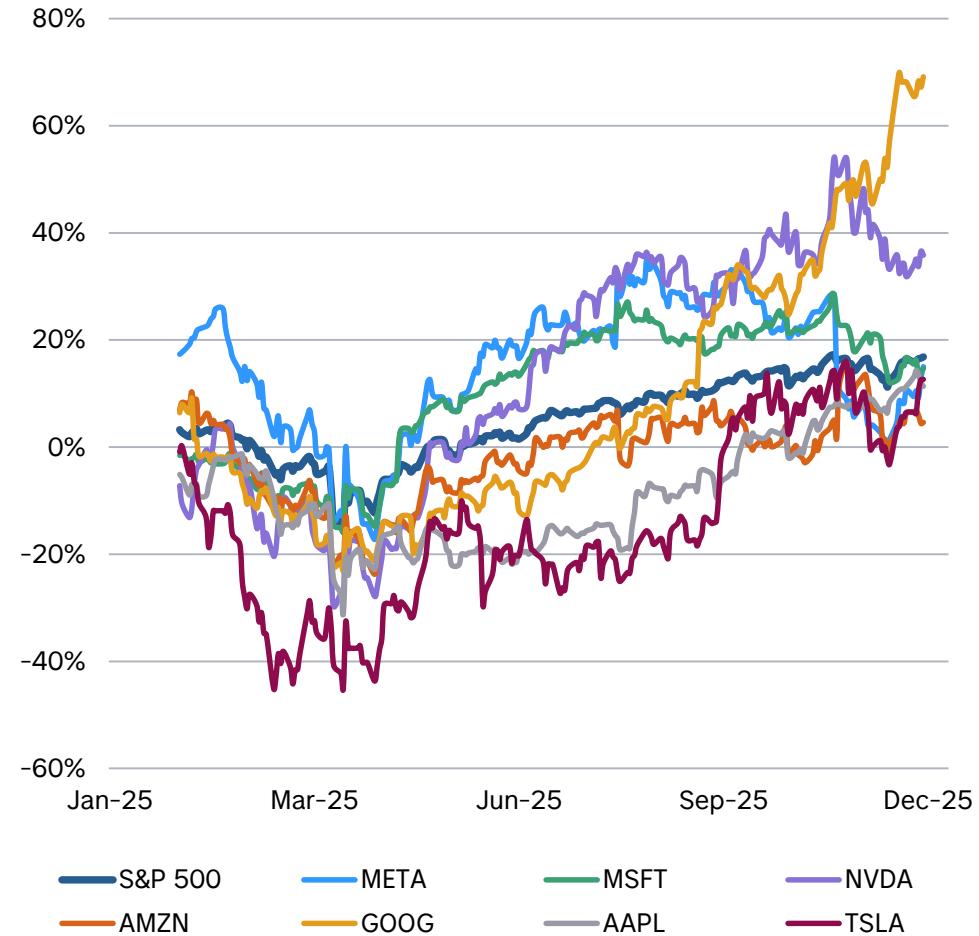
EQUITY PERFORMANCE

AS OF DECEMBER 5, 2025



YEAR-TO-DATE PERFORMANCE

AS OF DECEMBER 5, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg. Drawdown is the peak-to-trough decline during a specific period.

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Hyperscaler Free Cash Flow Growth Negative; Debt Financing Increasing

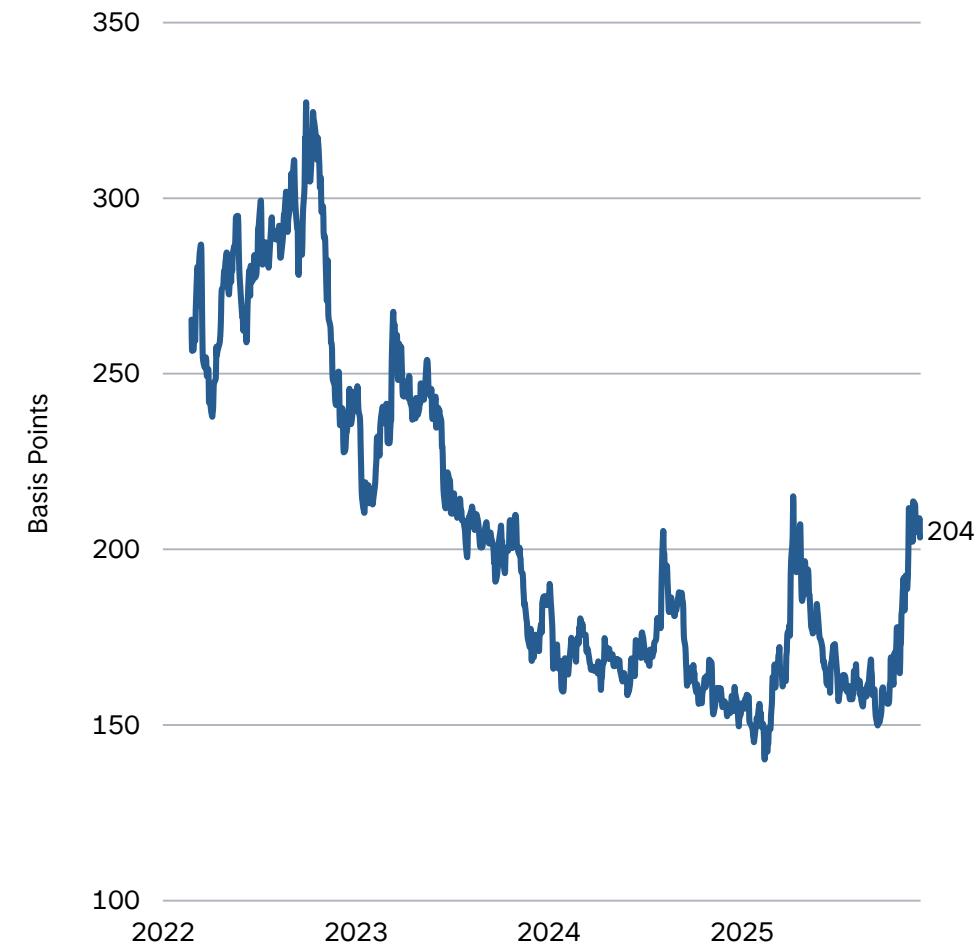
MAG 7 FREE CASH FLOW, YEAR-OVER-YEAR

AS OF DECEMBER 8, 2025



ORACLE OAS TO 10-YEAR SWAP CURVE

AS OF DECEMBER 5, 2025



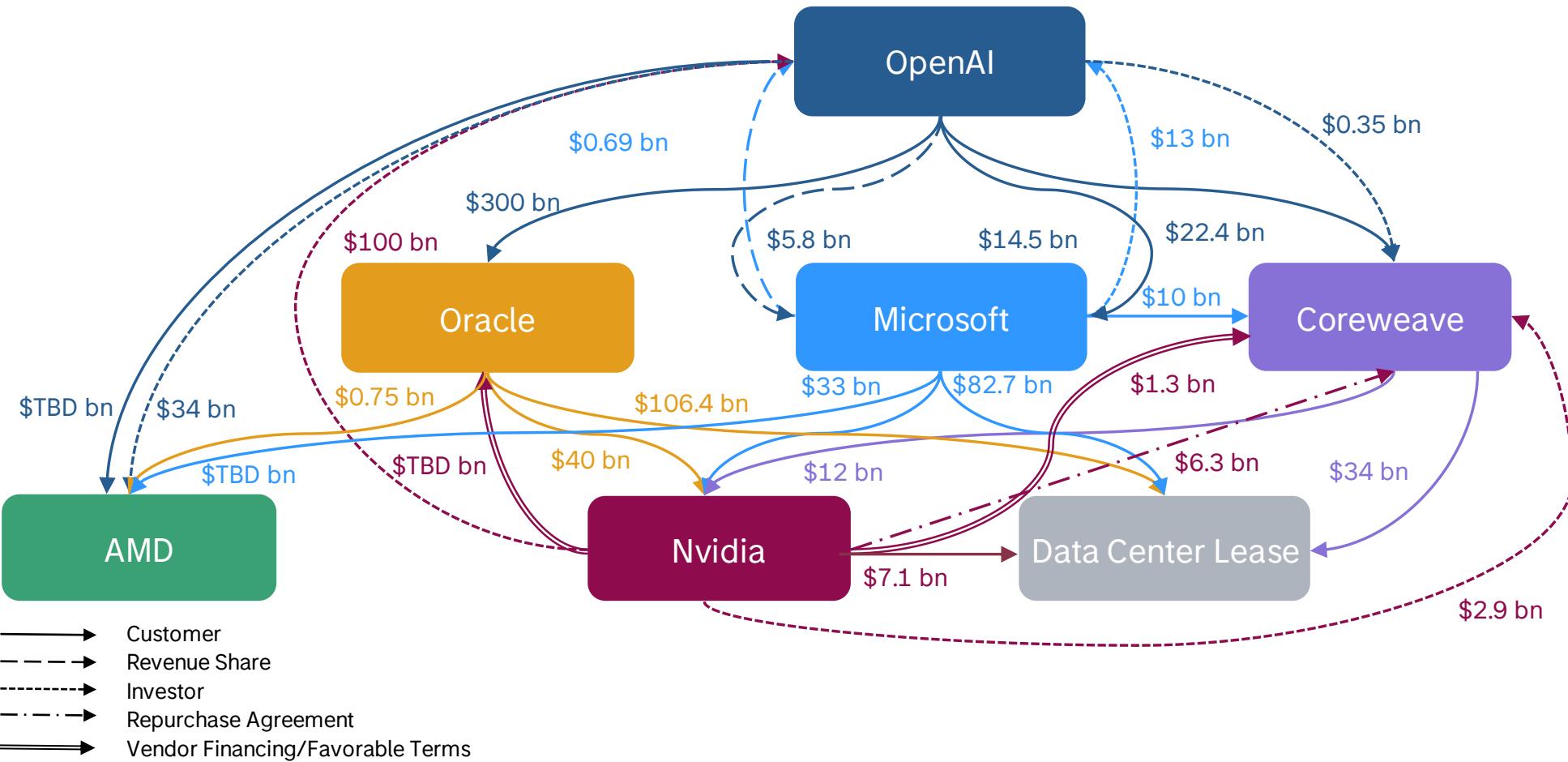
Source: Morgan Stanley Wealth Management GIO estimates, Bloomberg, Strategas. Option-adjusted spread (OAS) is a measurement of the spread of a fixed income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option.

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Risk Is Increasing Circularity

AI ECOSYSTEM CAPITAL FLOWS

AS OF DECEMBER 8, 2025



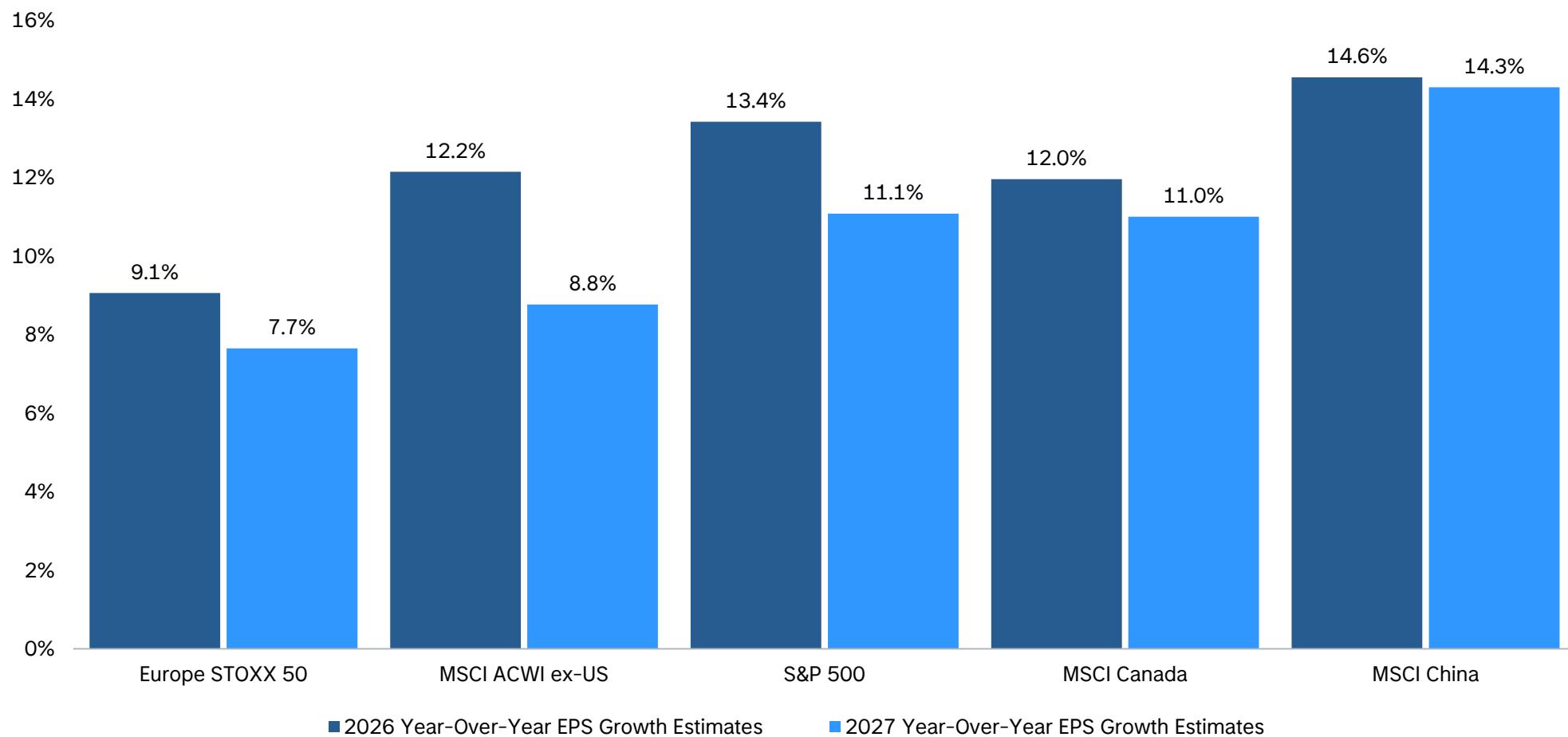
Source: Morgan Stanley Wealth Management GIO, MS & Co Research, "AI: Mapping Circularity," October 8, 2025.

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Controversy #9: American Exceptionalism Everlasting?

AMERICA'S PROFIT GROWTH PREMIUM NARROWING

AS OF DECEMBER 8, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg, consensus estimates

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US Trailing Rest of World by Most Since 2009

MSCI US YEARLY RETURN LESS MSCI ACWI EXCLUDING US YEARLY RETURN

AS OF DECEMBER 5, 2025

40%

30%

20%

10%

0%

-10%

-20%

-30%



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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US Treasuries Are Signaling a Regime Change...

COPPER/GOLD RATIO VS. 10-YEAR US TREASURY YIELD

AS OF DECEMBER 5, 2025

0.4

0.3

0.2

0.1

2010

2015

2020

2025

Copper/Gold Ratio (left)

10-Year US Treasury Yield (right)

5%
4%
3%
2%
1%
0%

ROLLING THREE-YEAR STOCK-BOND CORRELATIONS

AS OF DECEMBER 5, 2025

0.8

0.6

0.4

0.2

0.0

-0.2

-0.4

-0.6

1955

1965

1975

1985

1995

2005

2015

2025

Positive Correlations

Negative Correlations

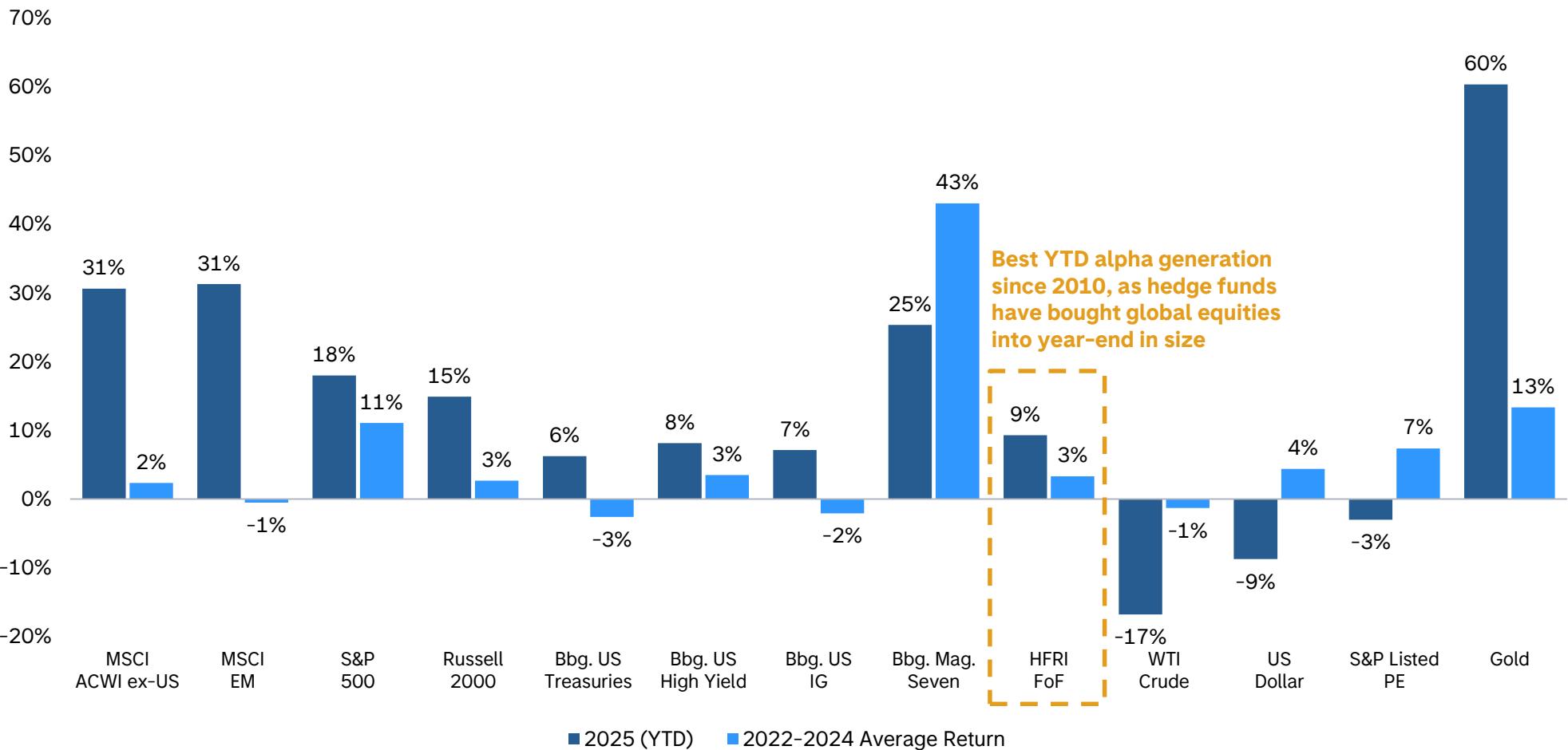
Source: Morgan Stanley Wealth Management GIO, Bloomberg. Correlation is a statistical measure of how two securities move in relation to each other. This measure is often converted into what is known as correlation coefficient, which ranges between -1 and +1. Perfect positive correlation (a correlation coefficient of +1) implies that as one security moves, either up or down, the other security will move in lockstep, in the same direction. Alternatively, perfect negative correlation means that if one security moves in either direction the security that is perfectly negatively correlated will move in the opposite direction. If the correlation is 0, the movements of the securities are said to have no correlation; they are completely random. A correlation greater than 0.8 is generally described as strong, whereas a correlation less than 0.5 is generally described as weak.

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The Case for Diversification Returns

YEAR-TO-DATE RETURN VS. 2022-2024 AVERAGE RETURN BY ASSET CLASS

AS OF DECEMBER 5, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg

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Asset Class Risk Considerations

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

Virtual Currency Products (Cryptocurrencies): Buying, selling, and transacting in Bitcoin, Ethereum or other digital assets (“Digital Assets”), and related funds and products, is highly speculative and **may result in a loss of the entire investment.** Risks and considerations include but are not limited to:

Digital Assets have only been in existence for a short period of time and historical trading prices for Digital Assets have been highly volatile. The price of Digital Assets could decline rapidly, **and investors could lose their entire investment.**

Although any Digital Asset product and its service providers have in place significant safeguards against loss, theft, destruction and inaccessibility, there is nonetheless a risk that some or all of a product’s Digital Asset could be permanently lost, stolen, destroyed or inaccessible by virtue of, among other things, the loss or theft of the “private keys” necessary to access a product’s Digital Asset. Digital Assets may not have an established track record of credibility and trust. Further, any performance data relating to Digital Asset products may not be verifiable as pricing models are not uniform.

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

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

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

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

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

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

Treasury Inflation Protection Securities’ (TIPS) coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation. Interest on **municipal bonds** is generally exempt from federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). Also, municipal bonds acquired in the secondary market at a discount may be subject to the market discount tax provisions, and therefore could give rise to taxable income. Typically, state tax-exemption applies if securities are issued within one’s state of residence and, if applicable, local tax-exemption applies if securities are issued within one’s city of residence. The tax-exempt status of municipal securities may be changed by legislative process, which could affect their value and marketability.

Interest income from taxable **zero coupon bonds** is subject to annual taxation as ordinary income even though no interest payments will be received by the investor if held in a taxable account. Zero coupon bonds may also experience greater price volatility than interest bearing fixed income securities because of their comparatively longer duration.

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

Investing in currency involves additional special risks such as credit, interest rate fluctuations, derivative investment risk, and domestic and foreign inflation rates, which can be volatile and may be less liquid than other securities and more sensitive to the effect of varied economic conditions. In addition, international investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets and frontier markets, since these countries may have relatively unstable governments and less established markets and economies.

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

Master Limited Partnerships (MLPs) are limited partnerships or limited liability companies that are taxed as partnerships and whose interests (limited partnership units or limited liability company units) are traded on securities exchanges like shares of common stock. Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in MLP interests are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk.

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

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

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

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

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

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

Participating in a new issue/syndicate is subject to availability. **Initial public offerings (IPOs)** are highly speculative and may not be appropriate for all investors because they lack a stock-trading history and usually involve smaller and newer companies that tend to have limited operating histories, less experienced management teams, and fewer products or customers. Also, the offering price of an IPO reflects a negotiated estimate as to the value of the company, which may bear little relationship to the trading price of the securities, and it is not uncommon for the closing price of the shares shortly after the IPO to be well above or below the offering price.

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

Asset Class Risk Considerations and Disclosures

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

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

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

An investment in a **money market fund (MMF)** is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. The price of other MMFs will fluctuate and when you sell shares they may be worth more or less than originally paid. MMFs 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.

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

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

The **indices** are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. The indices are not subject to expenses or fees and are often comprised of securities and other investment instruments the liquidity of which is not restricted. A particular investment product may consist of securities significantly different than those in any index referred to herein. Comparing an investment to a particular index may be of limited use.

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