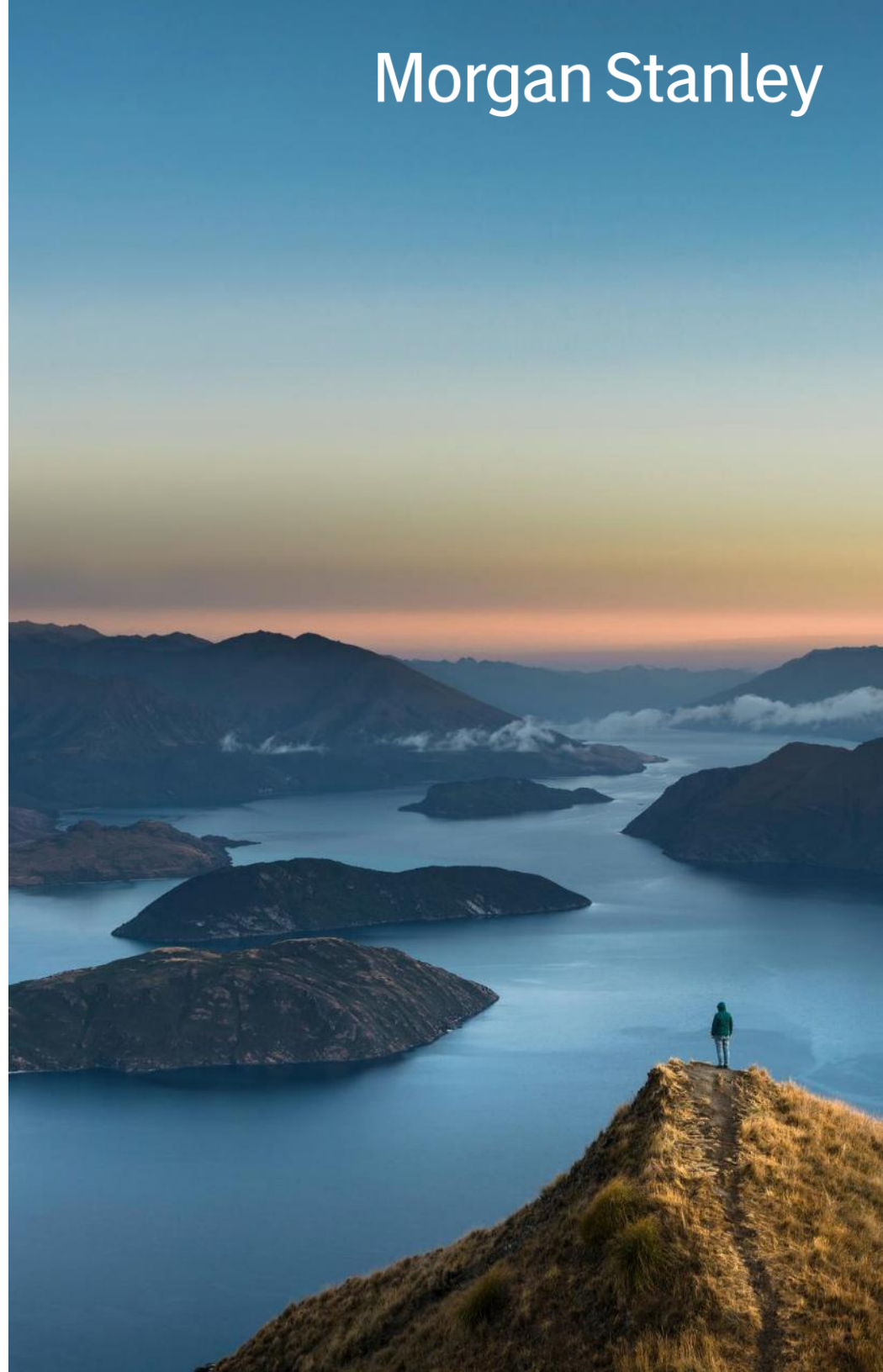


# Market Essentials

Published April 7, 2026 and authored by Dan Hunt and Eve Pickhardt

With contributions from Allisen Tam.

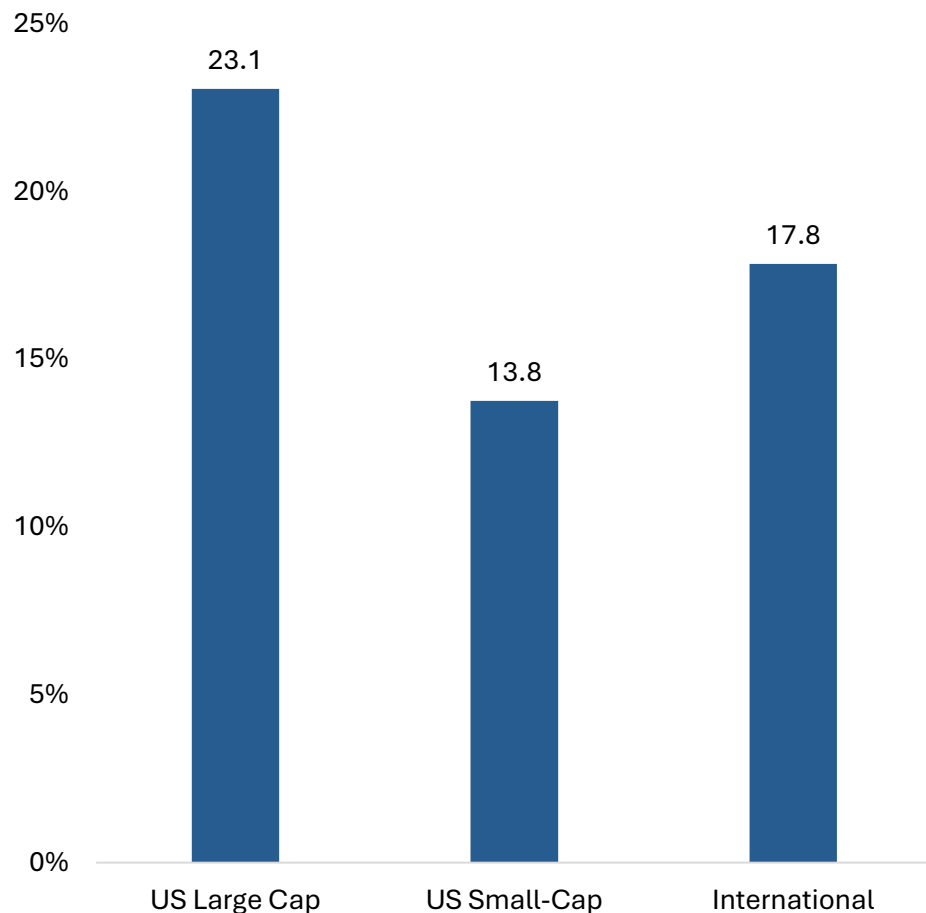
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# Following Three Consecutive Strong Years, Stocks Have Returned Modest Losses Thus Far in 2026

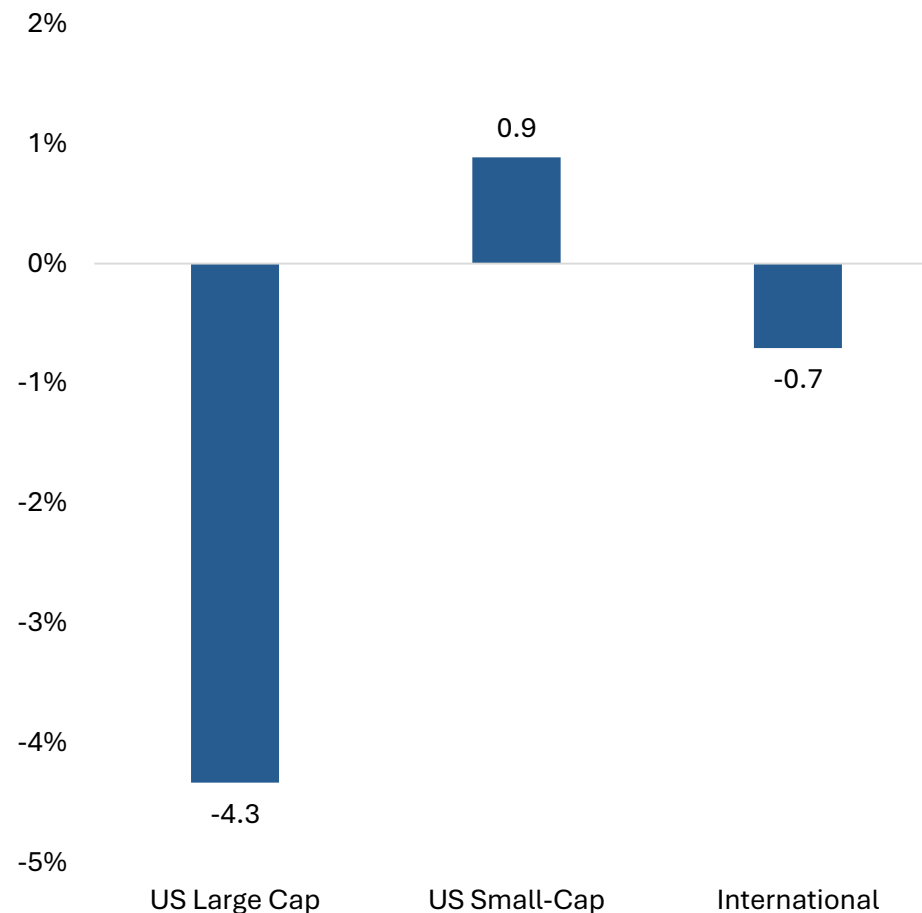
## 3-YEAR AVERAGE STOCK RETURNS

2023-2025



## FIRST QUARTER 2026 STOCK RETURNS

AS OF MARCH 31, 2026



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office. Note: Total returns shown. US Large Cap represented by the S&P 500 Index, Small-Cap represented by the Russell 2000 index, International stocks represented by the MSCI All Country World ex US Index.

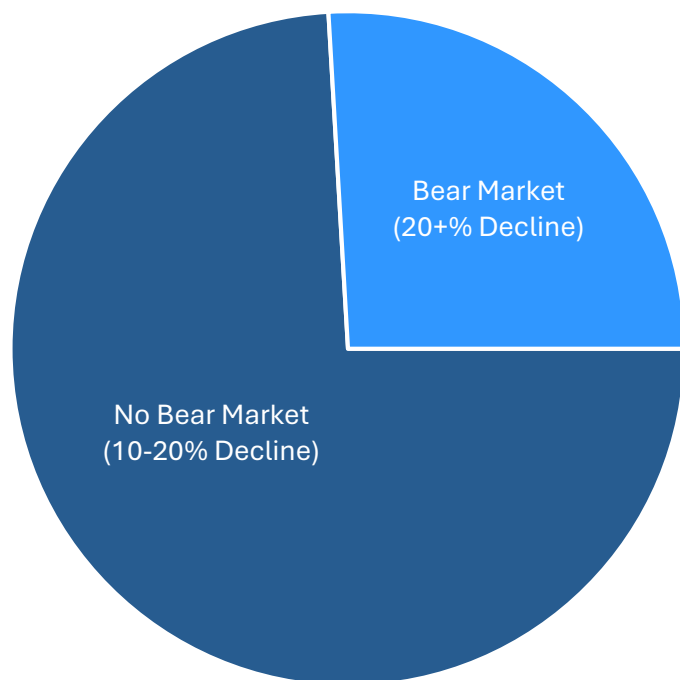
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# Corrections Have Been More Frequent and Short-Lived Than Bear Markets Historically

Drawdowns of 10%+ are considered corrections. In 20 of 27 such events since 1975, markets bottomed before becoming bear markets (20+% drawdowns). Markets recovered far more quickly from corrections.

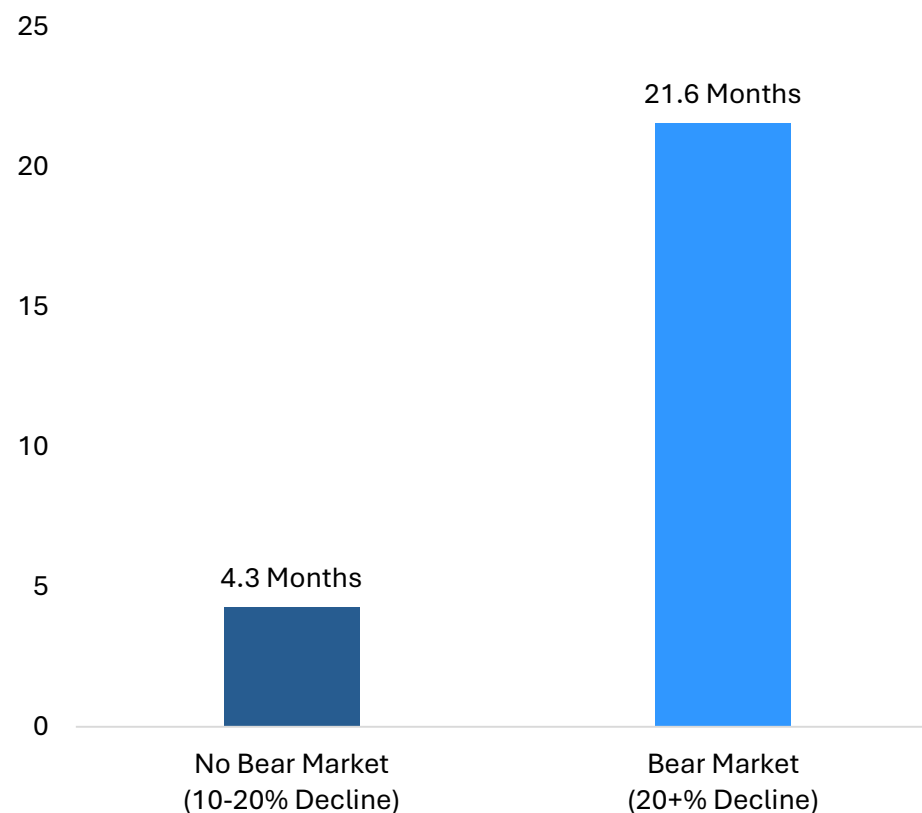
## S&P 500 DECLINES OF 10% OR MORE (PEAK TO TROUGH)

1975-2025



## AVERAGE TIME UNTIL S&P 500 RECOVERS PRIOR PEAK

1975-2025



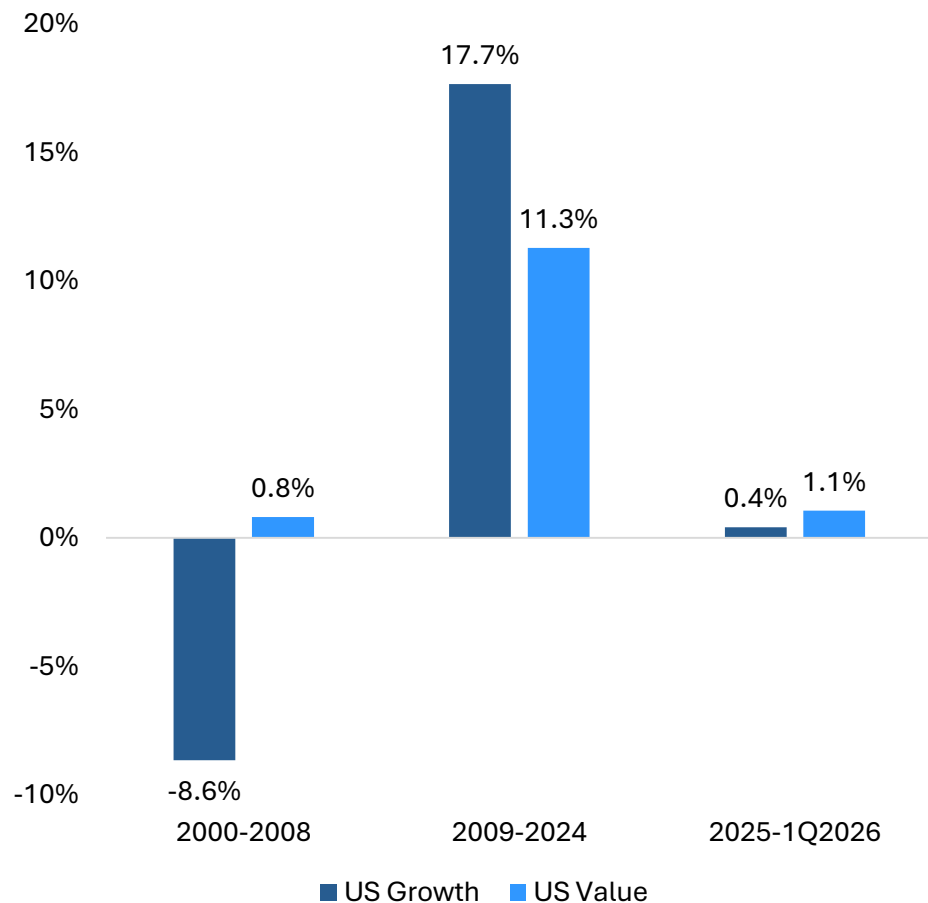
Source: Morgan Stanley Wealth Management Global Investment Office, Bloomberg. Note: Does not include current decline, as the market has not yet recovered the prior peak.

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# After 15 Years of Outperformance, US Growth Stocks Have Underperformed US Value Since 2025

## GROWTH AND VALUE SINCE 2000

AS OF MARCH 31, 2026; ANNUALIZED RETURNS



## GROWTH AND VALUE SINCE 2025

AS OF MARCH 31, 2026 CUMULATIVE VALUE OF 1\$ INVESTED ON JANUARY 1, 2025



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office. Note: Total returns shown. US Growth represented by the Russell 1000 Growth Index, US Value represented by the Russell 1000 Value Index.

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# Geopolitical Crises Have Historically Had Lesser Effects on Stock Returns Over Longer Horizons

## S&P 500 RETURNS AFTER GEOPOLITICAL EVENTS

JUNE 1950 THROUGH FEBRUARY 2023

	START DATE	1M	3M	6M	12M
Korean War	Jun-50	-4.9%	7.3%	10.8%	19.0%
Vietnam War	Nov-55	7.3%	3.6%	13.9%	9.7%
Cuban Missile Crisis	Oct-62	3.8%	13.2%	20.1%	26.2%
Gulf of Tonkin Incident	Aug-64	-1.0%	2.2%	5.5%	2.7%
Six-Day War	Jun-67	3.3%	5.9%	7.5%	13.1%
Yom Kippur War	Oct-73	-4.8%	-10.3%	-15.6%	-43.4%
Fall/Liberation of Saigon	Apr-75	4.4%	1.8%	2.4%	17.0%
Multinational Force in Lebanon	Aug-82	4.9%	13.9%	24.8%	37.1%
Gulf War	Aug-90	-8.2%	-12.6%	-2.1%	10.1%
Kosovo War	Feb-98	5.2%	4.1%	-2.0%	18.2%
September 11 Attacks	Sep-01	-1.1%	4.3%	6.9%	-17.4%
Iraq War	Mar-03	1.9%	13.6%	18.7%	28.2%
Russia-Ukraine War	Feb-22	6.7%	-5.4%	-2.1%	-6.4%
<b>AVERAGE</b>		<b>1.3%</b>	<b>3.2%</b>	<b>6.8%</b>	<b>8.8%</b>
<b>MEDIAN</b>		<b>3.3%</b>	<b>4.1%</b>	<b>6.9%</b>	<b>13.1%</b>

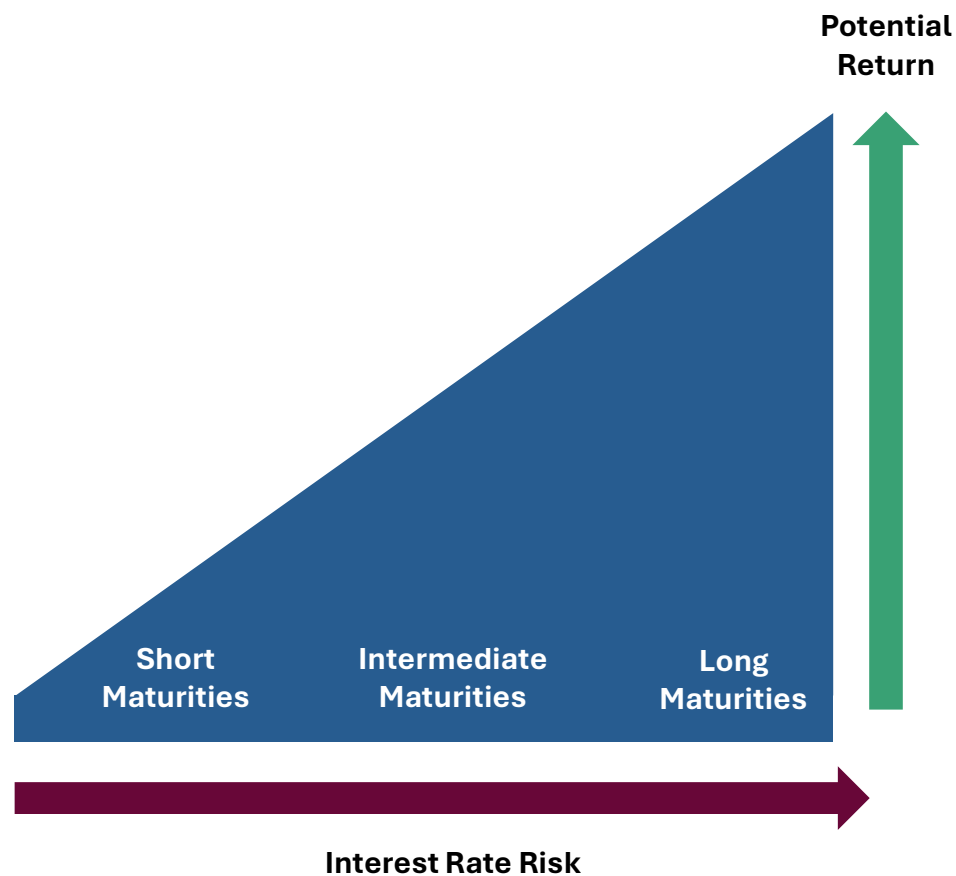
Source: Bloomberg, Morgan Stanley Global Investment Office. Note: Price returns shown.

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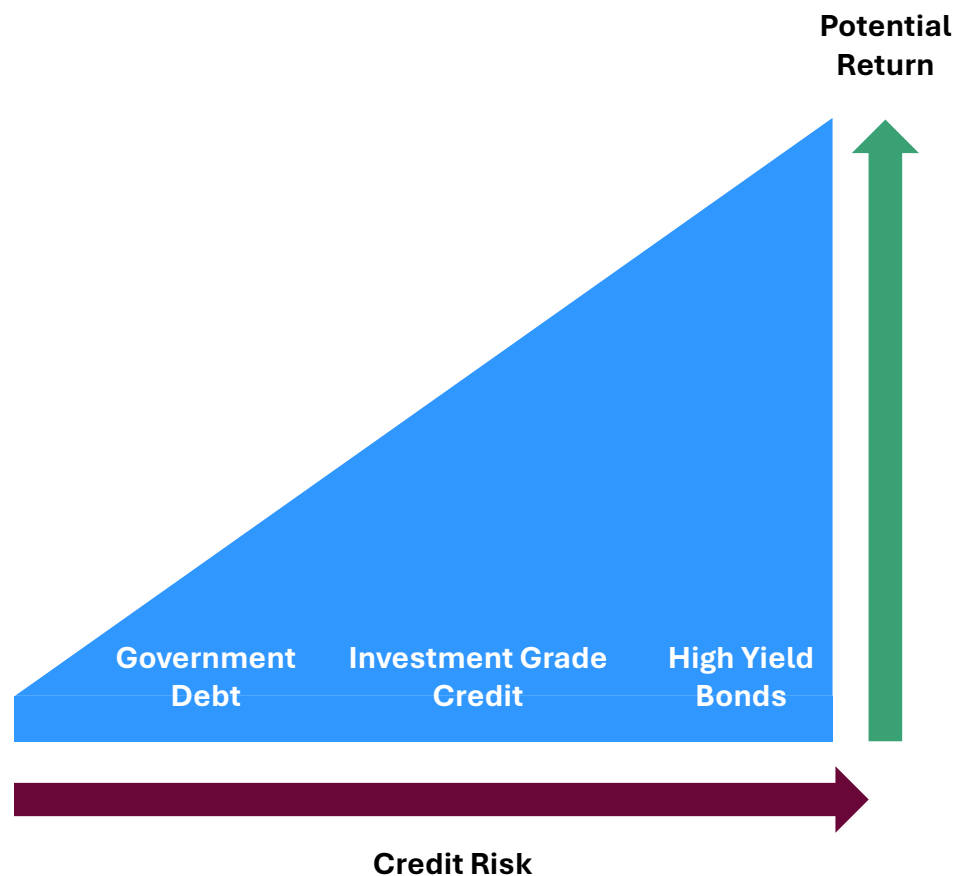
# Varying Interest Rate and Credit Risk Exposures Influence a Bond's Risk/Return Profile

The two primary sources of bond risk, interest rate and credit risk, vary greatly depending on bond type.

## SENSITIVITY TO INTEREST RATE CHANGES



## EXPOSURE TO POSSIBLE DEFAULT OR RESTRUCTURING



Source: Morgan Stanley Wealth Management GIO.

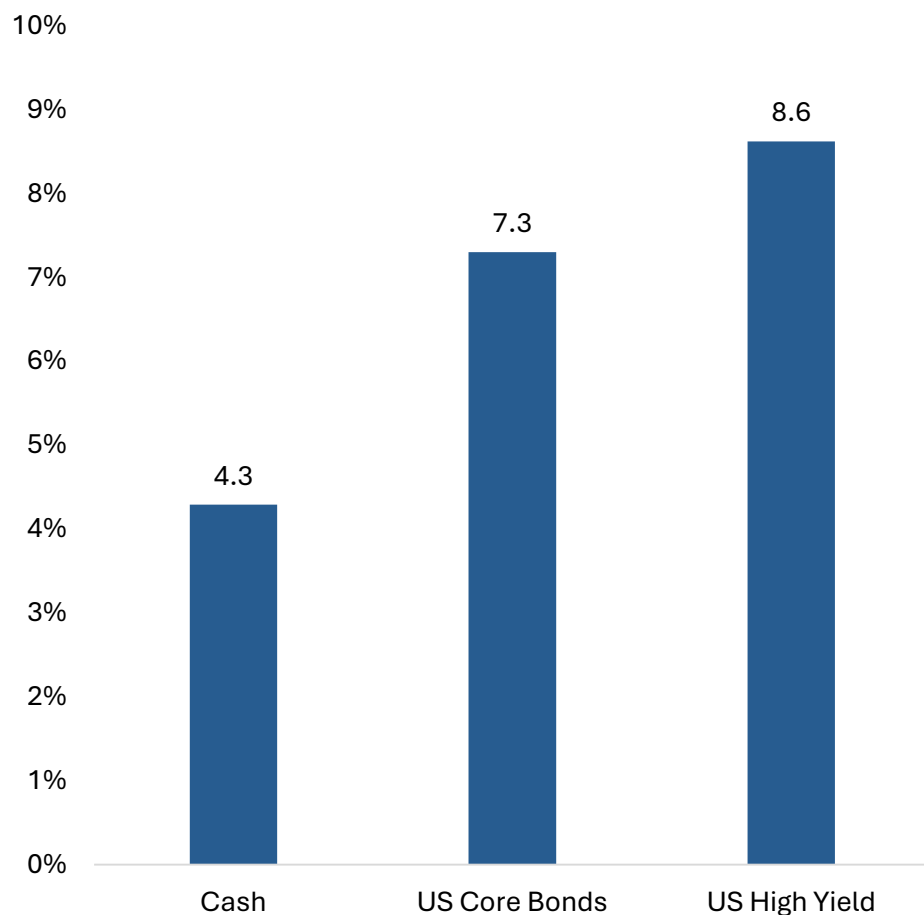
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# Bond Prices Fell in the First Quarter as Yields Rose

Cash outperformed in the first quarter as the two main risk factors for bonds, interest rate and credit risk, were both unfavorably repriced.

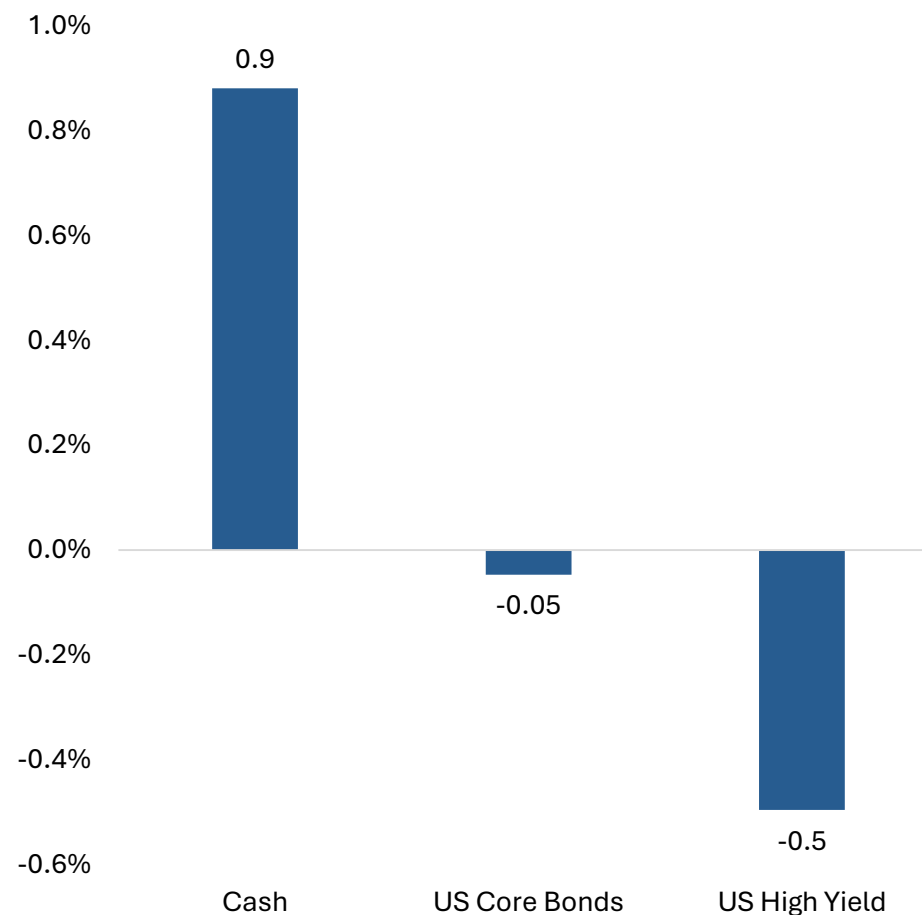
## 2025 BOND TOTAL RETURNS

AS OF DECEMBER 31, 2025



## 1Q BOND TOTAL RETURNS

AS OF MARCH 31, 2026



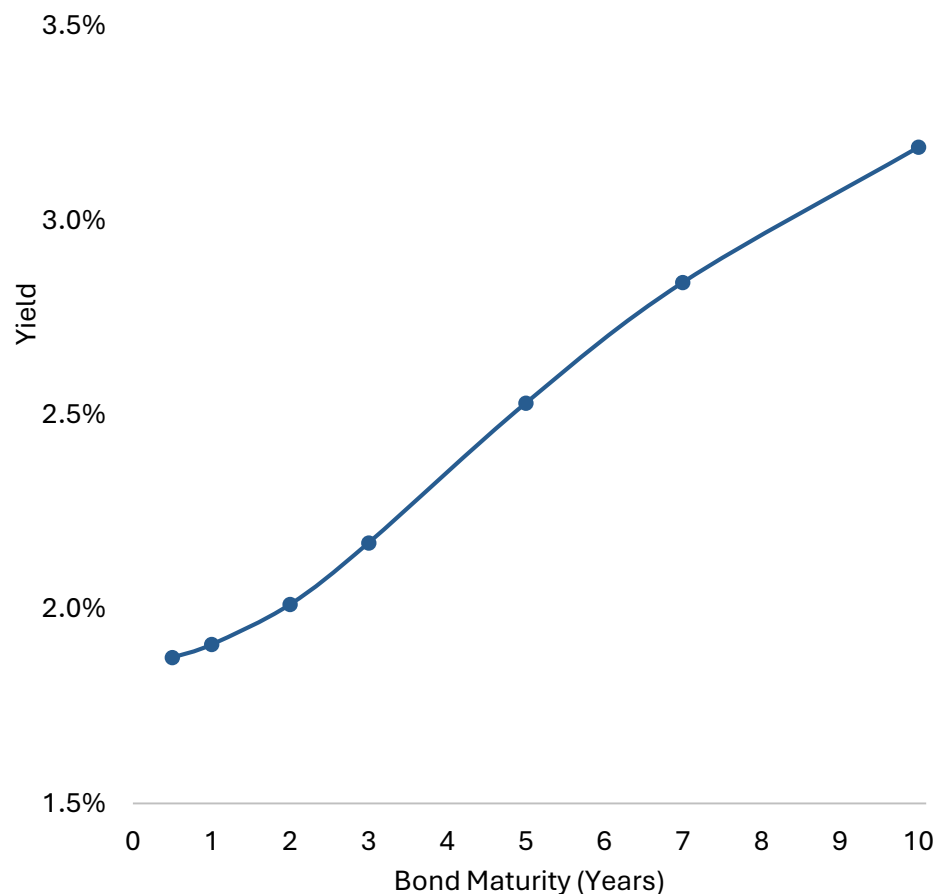
Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office. Note: Cash represented by the Bloomberg US Treasury Bill: 1-3 Months Index. US Core Bonds represented by the Bloomberg US Aggregate Index. US High Yield represented by the Bloomberg US Corporate High Yield Index.

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# Longer Maturities Typically Offer Higher Yields, But Are More Sensitive to Interest Rate Risk

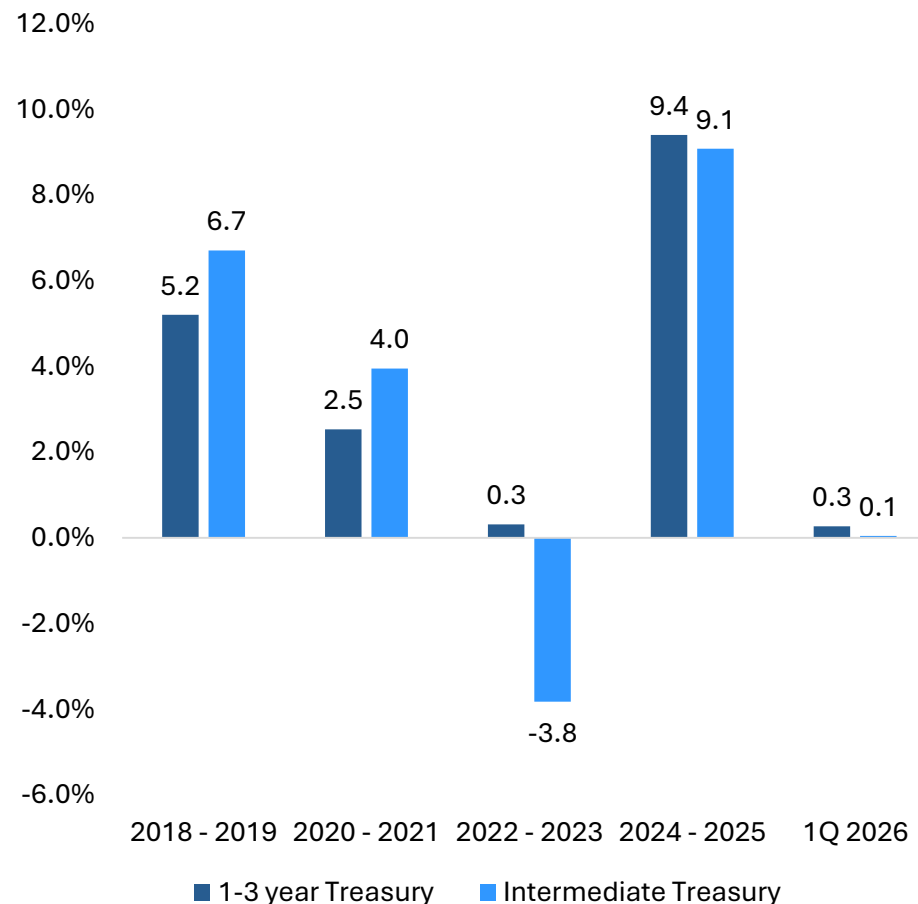
## AVERAGE TREASURY YIELDS BY MATURITY

2003 – MARCH 31, 2026



## SHORT- & INTERMEDIATE-TERM TREASURY BOND PERFORMANCE

JANUARY 1, 2018 – MARCH 31, 2026



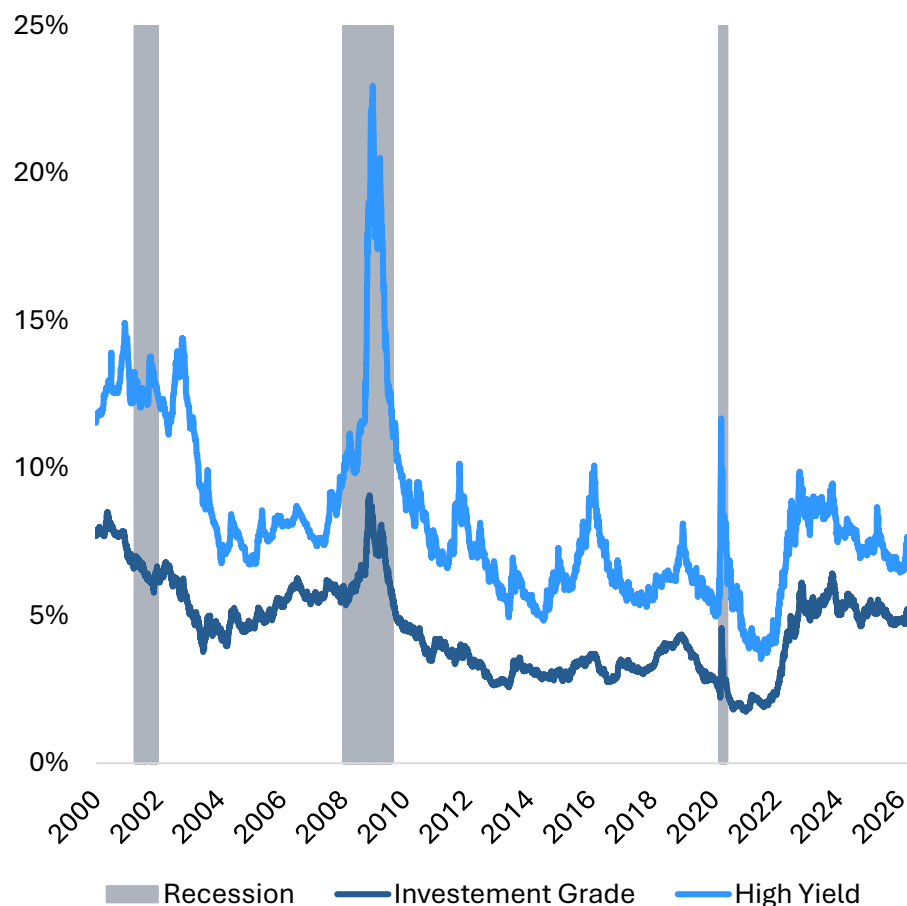
Source: Haver Analytics, Bloomberg, Morgan Stanley Wealth Management Global Investment Office. Note: For performance chart, 1-3 year Treasuries represented by the Bloomberg US Treasury: 1-3 Year Index. Intermediate Treasuries represented by the Bloomberg Intermediate U.S. Treasury Index.

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# High Yield Bonds Offer Premium Yields Due to Their Lesser Liquidity and Greater Credit Default Risk

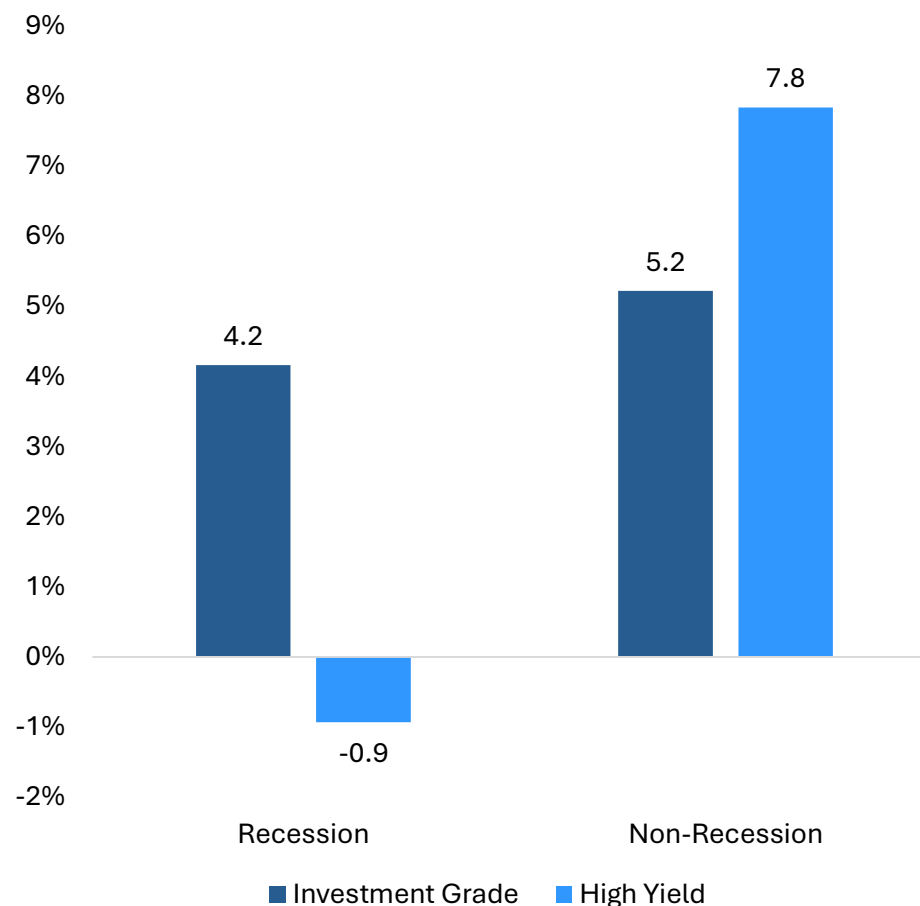
## YIELDS: INVESTMENT GRADE AND HIGH YIELD BONDS

2000 – MARCH 31, 2026



## INVESTMENT GRADE AND HIGH YIELD BOND TOTAL RETURNS

2000 – MARCH 31, 2026; ANNUALIZED



Source: Haver Analytics, Bloomberg, Morgan Stanley Wealth Management Global Investment Office. Note: Investment Grade bonds represented by the Bloomberg US Corporate Bond Index. High Yield bonds represented by the Bloomberg US Corporate High Yield Index.

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# Diversification Is a Steadier Ride

The characteristics of each asset class, or type of investment, make them more or less appropriate for different economic environments.

AS OF MARCH 31, 2026

2017	2018	2019	2020	2021	2022	2023	2024	2025	1Q 2026	10 Year Annualized Average
Emerging Market Stocks 37.8%	Bonds 0.0%	Large Growth Stocks 36.4%	Large Growth Stocks 38.5%	Small Value Stocks 28.3%	Large Value Stocks -7.5%	Large Growth Stocks 42.7%	Large Growth Stocks 33.4%	Emerging Market Stocks 34.3%	Small Value Stocks 5.0%	Large Growth Stocks 16.8%
Large Growth Stocks 30.2%	Large Growth Stocks -1.5%	Small Growth Stocks 28.5%	Small Growth Stocks 34.6%	Large Growth Stocks 27.6%	High Yield Bonds -12.7%	Foreign Stocks 19.0%	Small Growth Stocks 15.2%	Foreign Stocks 32.0%	Large Value Stocks 2.1%	Large Value Stocks 10.6%
Foreign Stocks 25.8%	High Yield Bonds -4.1%	Large Value Stocks 26.5%	Emerging Market Stocks 18.8%	Large Value Stocks 25.2%	Bonds -13.0%	Small Growth Stocks 18.7%	Large Value Stocks 14.4%	Large Growth Stocks 18.6%	Bonds 0.0%	Small Growth Stocks 9.8%
Small Growth Stocks 22.2%	Diversified Portfolio -7.9%	Foreign Stocks 22.8%	Diversified Portfolio 15.3%	Foreign Stocks 11.9%	Foreign Stocks -13.9%	Diversified Portfolio 17.0%	Diversified Portfolio 11.7%	Diversified Portfolio 18.2%	Emerging Market Stocks -0.1%	Small Value Stocks 9.6%
Diversified Portfolio 18.9%	Large Value Stocks -8.3%	Small Value Stocks 22.4%	Foreign Stocks 8.4%	Diversified Portfolio 11.6%	Small Value Stocks -14.5%	Small Value Stocks 14.6%	High Yield Bonds 9.2%	Large Value Stocks 15.9%	Diversified Portfolio -1.0%	Diversified Portfolio 9.6%
Large Value Stocks 13.7%	Small Growth Stocks -9.3%	Diversified Portfolio 22.1%	Bonds 7.5%	Small Growth Stocks 2.8%	Diversified Portfolio -17.1%	High Yield Bonds 14.0%	Small Value Stocks 8.1%	Small Growth Stocks 13.0%	Foreign Stocks -1.1%	Foreign Stocks 9.1%
High Yield Bonds 10.4%	Small Value Stocks -12.9%	Emerging Market Stocks 18.9%	High Yield Bonds 7.0%	High Yield Bonds 1.0%	Emerging Market Stocks -19.8%	Large Value Stocks 11.5%	Emerging Market Stocks 8.0%	Small Value Stocks 12.6%	High Yield Bonds -1.3%	Emerging Market Stocks 8.2%
Small Value Stocks 7.8%	Foreign Stocks -13.2%	High Yield Bonds 12.6%	Small Value Stocks 4.6%	Bonds -1.5%	Small Growth Stocks -26.4%	Emerging Market Stocks 10.2%	Foreign Stocks 4.5%	High Yield Bonds 12.1%	Small Growth Stocks -2.8%	High Yield Bonds 5.5%
Bonds 3.5%	Emerging Market Stocks -14.2%	Bonds 8.7%	Large Value Stocks 2.8%	Emerging Market Stocks -2.3%	Large Growth Stocks -29.1%	Bonds 5.5%	Bonds 1.3%	Bonds 7.3%	Large Growth Stocks -9.8%	Bonds 1.7%

Source: Morgan Stanley Wealth Management GIO, Bloomberg. Note: Large Growth Stocks represented by the Russell 1000 Growth Total Return Index. Large Value Stocks represented by the Russell 1000 Value Total Return Index. Small Growth Stocks represented by the Russell 2000 Growth Total Return Index. Small Value stocks represented by the Russell 2000 Value Total Return Index. Bonds represented by the Bloomberg US Aggregate Total Return. High Yield Bonds represented by the Bloomberg Global High Yield Index total return. Emerging Market stocks represented by the MSCI Emerging Markets index total return. Foreign Stocks represented by the MSCI EAFE index total return. Diversified portfolio represented by equally-weighted portfolio of asset classes shown.

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# The Direct Impact of Rising Gas Prices on the Consumer Is Less Than in Prior Oil Shocks

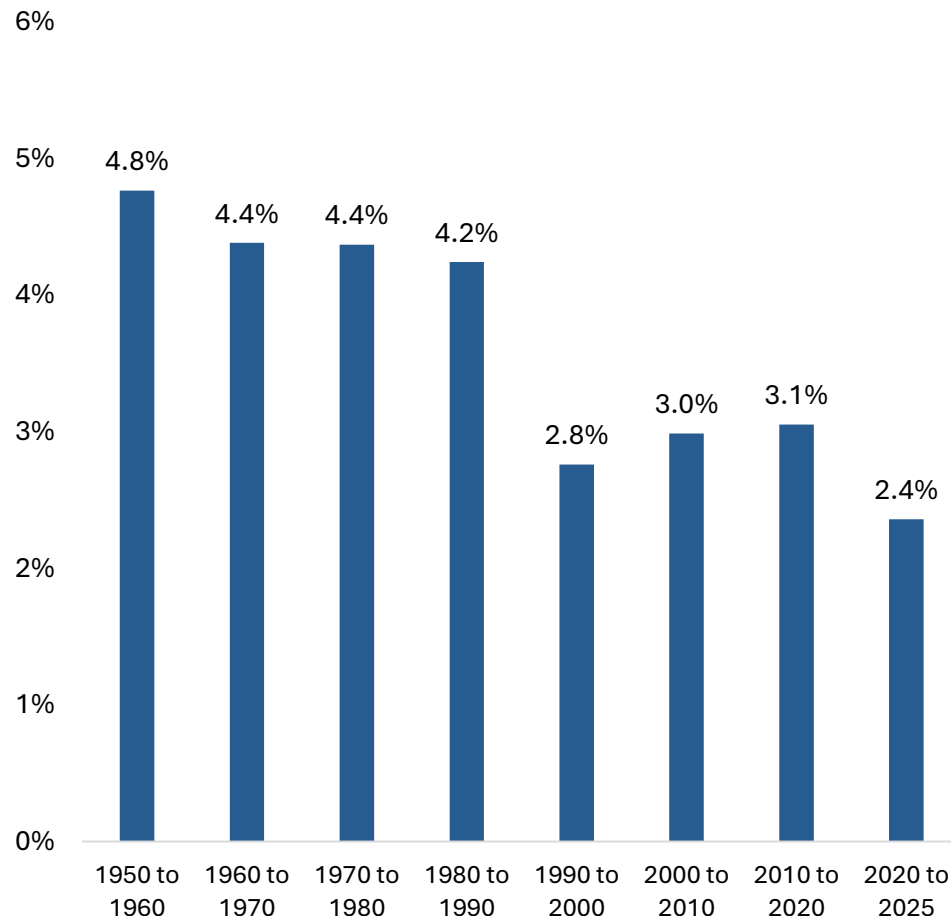
## RETAIL UNLEADED GAS PRICES

AS OF MARCH 31, 2026



## GASOLINE SHARE OF PERSONAL CONSUMPTION EXPENDITURES<sup>1</sup>

AS OF DECEMBER 31, 2025; AVERAGE



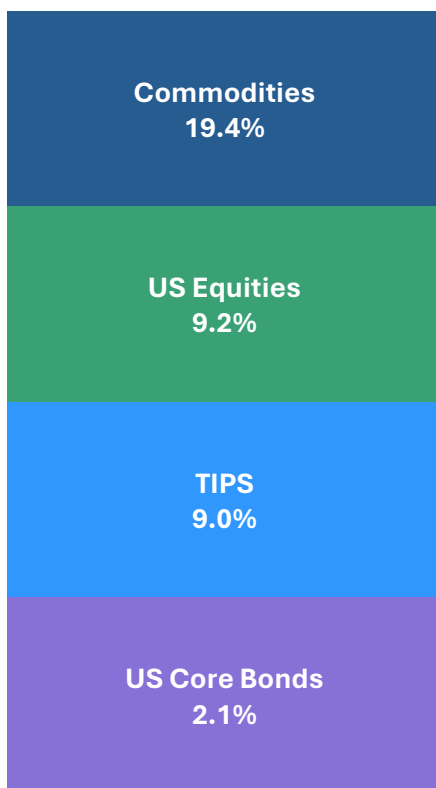
Source: Morgan Stanley Wealth Management GIO, Bloomberg, Haver Analytics. Note: (1) Includes other energy goods, following the PCE taxonomy. Does not include energy provided as a service. Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that 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.

# Commodities and TIPS Have Been Better Diversifiers than Core Bonds When Inflation Rises

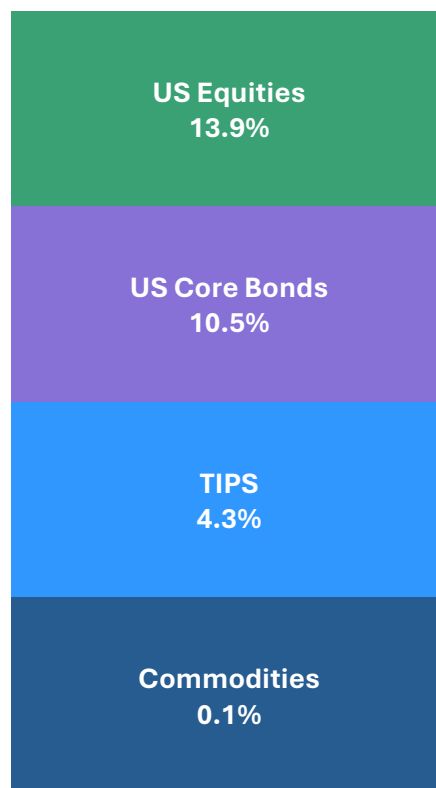
## ACCELERATING VS DECELERATING INFLATION

AVERAGE RETURNS FROM 1970-2025

Average Return When Inflation Rate Increases

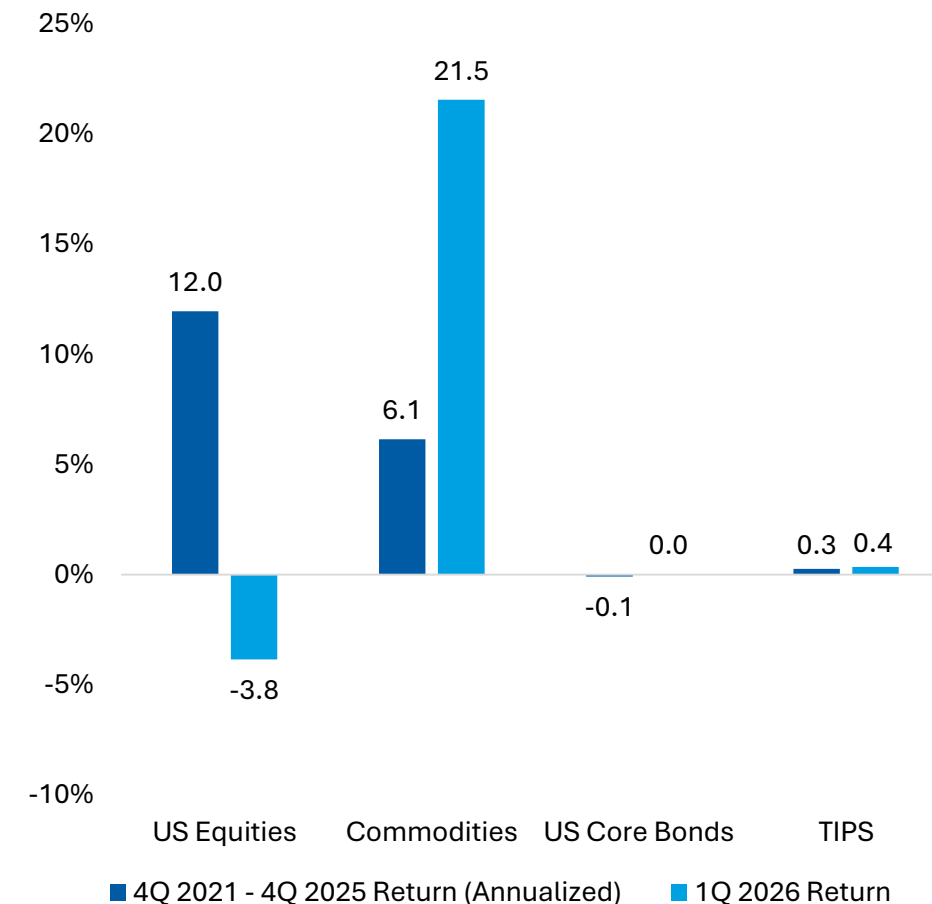


Average Return When Inflation Rate Decreases



## SELECTED RETURNS FROM A SECULAR INFLATION REGIME

4Q 2021 - 1Q 2026 (FIRST SECULAR INFLATION REGIME SINCE 1985<sup>1</sup>)



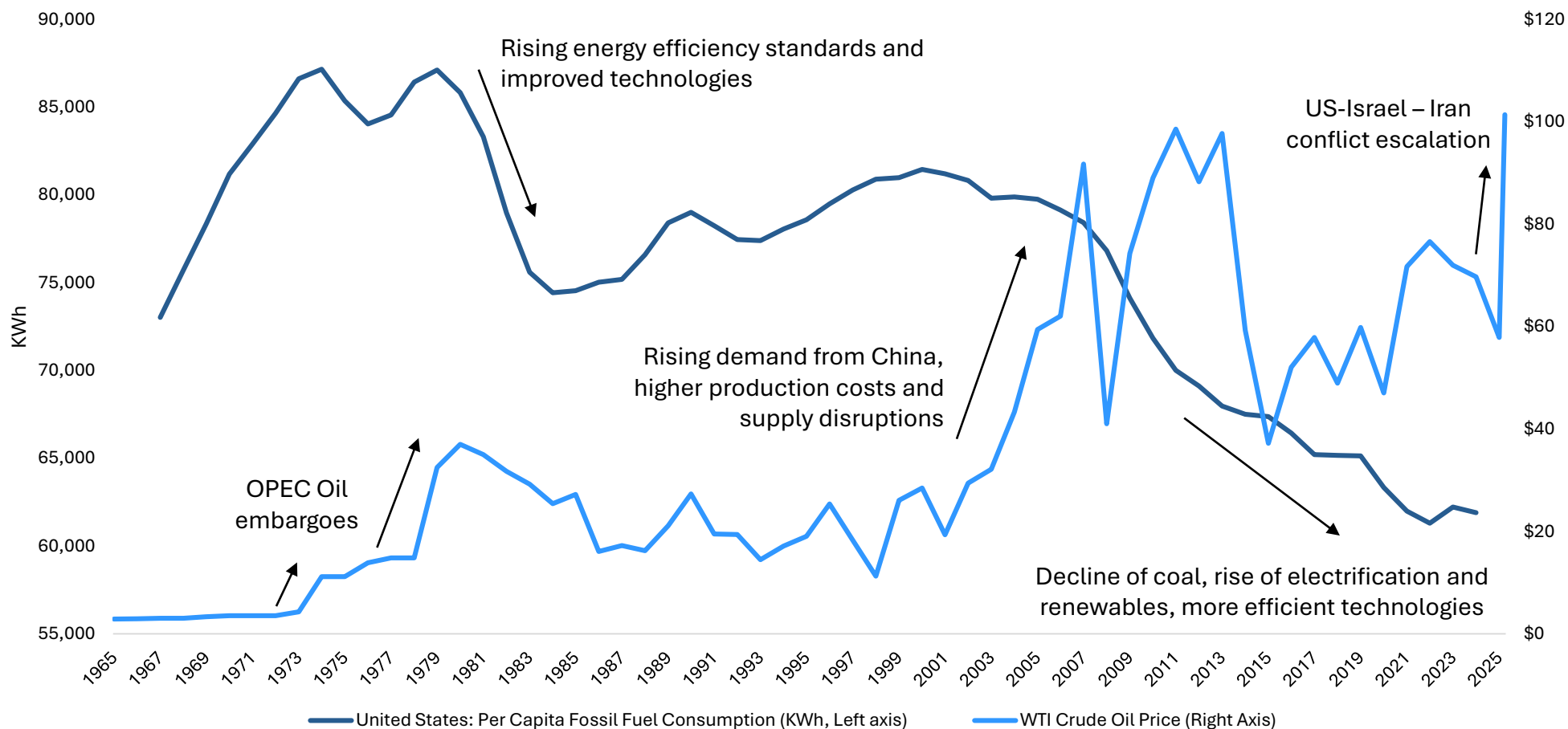
Source: Morgan Stanley Wealth Management GIO, Bloomberg, FRED. Note: Commodities represented by the Bloomberg Commodity Index. TIPS represented by the Bloomberg US TIPS Index. US Equities represented by the Russell 3000 index. US Core Bonds represented by Bloomberg US Aggregate Index. Total returns shown. The High vs Low Inflation Regime chart represents inflation by the Consumer Price Index for All Urban Consumers. Inflation periods measured quarterly. (1) For more information on secular inflation regimes, see “What if the Future Is Inflation? Correcting Disinflationary Bias in Market Forecasts,” first published on Jan. 26, 2023.

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# Oil Price Spikes Have Encouraged Investment in Energy Efficiency and Alternatives to Fossil Fuels

## OIL PRICES AND US FOSSIL FUEL CONSUMPTION

OIL PRICES AS OF MARCH 31, 2026; FOSSIL FUEL CONSUMPTION AS OF DECEMBER 31, 2024



Source: Haver Analytics, Our World in Data, Morgan Stanley Wealth Management Global Investment Office.

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**Disclosures**

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

**Important Risk Considerations**

**Important note regarding economic sanctions.** *This report references jurisdiction(s) or person(s) that are the subject of economic sanctions. Any references in this report to jurisdictions, persons (individuals or entities), debt or equity instruments, or projects that may be covered by such sanctions are strictly incidental to general coverage of the relevant economic sector as germane to its overall financial outlook, and should not be read as recommending or advising as to any investment activities in relation to such jurisdictions, persons, instruments, or projects. Readers are solely responsible for ensuring that their investment activities are carried out in compliance with applicable laws.*

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

**Bonds** are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in high-yield bonds. **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.

**Investing in foreign markets** entails greater risks than those normally associated with domestic markets, such as political, currency, economic and market risks. **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.

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

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

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.

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

**Investing in smaller companies** involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity.

**Stocks of medium-sized companies** entail special risks, such as limited product lines, markets, and financial resources, and greater market volatility than securities of larger, more-established companies.

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

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

**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 and 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.

**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.

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

**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.

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.

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