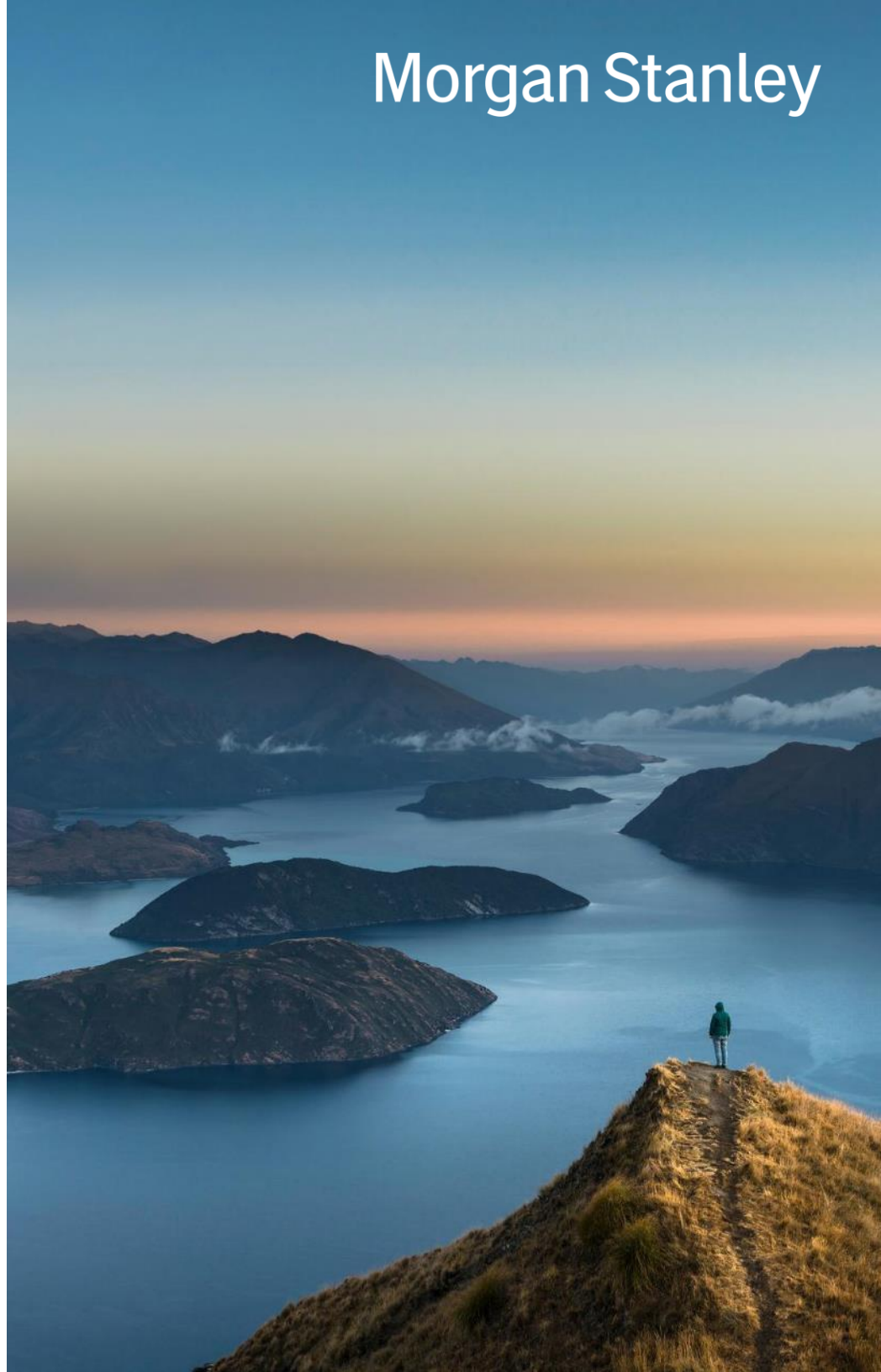


# GIC Insights

Monthly Perspectives – October 2025



# Where We Are

October 2025

- **As the US equity bull market approaches its third anniversary, the narrative has evolved from 2026 producing a disinflationary Goldilocks recovery supported by Fed rate cuts; to delivering a generative AI-centric capex boom that triggers meaningful productivity gains creating a virtually reinforcing investment surge, to most recently—a deepening belief in a material reacceleration in cyclical growth. Against a backdrop of already easy financial conditions, this enthusiasm has produced new extremes that are typically seen only during recessions:**
  - S&P 500 up nearly 90% since October 2022 low and selling for 22.8x forward earnings; up 13% YTD toward all time highs.
  - Most extreme six-month rebound outside of recessions (up nearly 40%) in history.
  - Most extreme six-month period of outperformance of cyclicals versus defensive stocks in 35 years.
  - YTD record outperformance of the high beta factor versus quality factor.
  - Material outperformance of IPOs, micro-cap and small cap stocks versus large cap stocks.
  - Outperformance by unprofitable tech of the Mag 7.
- **At the same time complacency metrics are provocative**
  - Realized volatility remains meaningfully below average and below implied volatility,
  - Put/call ratios are near record lows on historically high levels of call buying,
  - Dispersion is high and implied correlations are also very low,
  - Retail inflows are driving markets; household cash on the sidelines is at relative lows and ownership of equities the highest in history,
- **We don't think that we are emerging from recession. Rather than a broad-based economic re-acceleration, 2026 is likely to show slowing growth and sticky inflation after 1H stimulus driven sugar rush. As a consequence, we are cautious about the achievability of 2026/27 earnings estimates. We are rebalancing GIC portfolios to up in quality and larger capitalization,**
  - Current Market valuations are premised on 2026 delivering record profit margins; blended forward earnings breaching \$310/sh from current estimates of \$270–280/sh and acceleration of profit growth among the “493” who are likely to face continued headwinds from tariffs, slowing consumer spending and slower-than-hoped productivity gains,
  - We see rate cut expectations potentially disappointing with yield curves staying biased toward steepening,
  - 2026 stock gains in the 5–10% to an S&P 500 at 7200,
- **We do NOT think that we are in an AI capex bubble yet but we are closer to the seventh inning than the second.**
  - Negative free cash flow growth, growing competition, use of debt financing and “circularity” of deals are emerging concerns.
- **We see real assets (including gold) as remaining central to portfolios looking to navigate the next chapter in digital assets/cryptocurrencies/stablecoins.**
- **Bull Markets are meant to be ridden NOT timed but exuberance should be tempered; the GIC continues to recommend maximum portfolio diversification and risk management; it's an active trader's market, not an investor's market.**

Source: Morgan Stanley Wealth Management 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

October 2025

- **GDP:** The probability of our **base case US soft landing has risen to 85%. But the near doubling of tariff rates from 10% to 18% post Aug 1 is real risk.**
  - Real GDP growth probably **averages ~3.0% for rest of year; 3.5% in Q3; in 2026 growth SLOWS.**
  - Labor markets are cooling but NOT collapsing; unemployment claims are benign. Low hiring matched by low firing.
  - Tax bill will support capex and R&D spending.
- **Inflation:** We believe **inflation will remain higher for longer and above the Fed's 2% target**; tariffs plus a weaker US dollar pose a risk, but lower oil prices are a welcome offset.
  - MS & Co. sees core PCE at 3.4% in 2025 and 3.9% in 2026.
  - MS & Co. sees CPI peaking in 2Q 2026 at close to 4%.
- **Unemployment:** Rises from current 4.2% to 4.9%.
- **Fed Policy:** MS & Co. expects 2-3 cuts this year and 1-2 next year.
  - Market consensus is now for 1.6 cuts in 2025 and 4 by end of 2026. **3% Fed Funds by December 2026. MS & Co. now at 2.85%**
  - We see cycle-neutral rate at ~3.625%. We believe we are in a new secular rates regime driven by structural changes and structurally higher debts/deficits.
  - End of 2026 may see Fed Funds terminate easing cycle at ~2.85%. This is non-consensus, but bullish bonds.
- **Rates:** US Treasury rates appear near fair value. **MS & Co. year-end base case for 10-year yields is still ~3.8%.**
  - **USD weakness persists.**
- **Earnings:** MS & Co.'s Mike Wilson sees 2025 and 2026 S&P 500 earnings per share **as falling closer to his BULL CASE \$280 and \$320 per share, respectively.**
  - Earnings growth implies material acceleration for the "493"; **10% this year and 14% next.**
- **MS & Co's target prices: 6-12-month horizon S&P 500 should reach 7,200 in the bull case.**
- **Valuation:** Multiples above 21.5x remain very hard to justify. Note: 22x at \$300/share earnings in 2026 = 6,600, ~5-6% potential upside. 7,200 target price requires 22.5x \$320/sh in 2026 earnings. That compares to corporate earnings of \$238 in 2024.
- **Global:** Growth ex-US is in recovery and rebound mode. Central banks are more aggressive in easing and fiscal policy expansionary. RoW currencies strengthen and benefit from lower global oil prices and lower inflation.

## S&P 500 trades toward MS & Co. BULL CASE of 7,200 annual target price.

Source: Morgan Stanley Wealth Management GIO.

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# GIC Model Update: October 2025

2026 is not a broad-based re-acceleration recovery year; the big stay bigger and inflation is sticky

- **Market broadening in the last 10 weeks has exacerbated the underperformance of quality factors and extended the pro-cyclical economic reacceleration thesis in 2026 to small cap and micro-cap stocks**
- **While we do not expect recession conditions in 2026, we see economic slowing on the back of weaker labor markets. Fiscal stimulus is a help for 1H but consumption remains lackluster, and we expect that margin expansion hopes for the bulk of companies to be disappointed in 2026. The gen AI capex story remains central, and we see investors rotating back to Mag 7 leadership as well as searching for earnings beats in sectors like financials.**
- **We see the Fed sticking to their rate cutting schedule despite inflationary headwinds and thus**
  - We are **reducing** our overweight exposure to short duration by 600bps redeploying
  - **Adding 400bps to core fixed income and 200bps to US large cap “quality” equities equally split growth and value**
  - In aggregate this takes us to a US equity overweight of 300bps and a US fixed income underweight of 100bps versus benchmarks.
  - In aggregate, we **remain underweight fixed income duration** despite portfolio duration increasing from 2.1 years to 2.25 years.
- **Within Alternatives, we continue to lean into real assets given our concerns about underpriced inflation risks and the role that commodities will play over the next 3-5 years in both the gen AI buildouts and digital asset revolution.**
  - We **fund the 100bps addition to commodities by reducing our overweight to hedge funds...**
  - ...and **shifting our mix of HFs away from equity hedged strategies into a 200bps allocation to equity return strategies.**

Source: Morgan Stanley Wealth Management GIO.

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# GIC Portfolio Positioning

October 2025

- 
- **Today the GIC rebalancing portfolios to focus on large cap quality equities who 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 5%-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 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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# MSPS Update

October 2025

- 
- **3Q2025 Outperformers: Tactical Portfolios, ETF Portfolios, US-Focused Portfolios, and Multi-Asset Income Portfolios**
    - Tactical portfolios, on average, outperformed Strategic portfolios, largely due to US large-cap growth equity and emerging market equity exposure.
    - Global ETF portfolios with more conservative risk profiles showcased better relative performance than Active-Passive, Hybrid, and Advantage portfolios that all demonstrated mixed relative performance.
    - The strength of US equities helped strategic US-Focused portfolios outperform their Global portfolio peers.
    - Pathway portfolios demonstrated a similar trend to portfolios in the global suite, with Tactical portfolios outperforming Strategic portfolios.
    - US large-cap value equity exposure and manager selection contributed to the outperformance of multi-asset income models relative to their blended benchmarks.
    - Three of the four MAPS Multi-Strategy portfolios beat their benchmarks, with the key MAPS strategies, including US, US Dividend, Mid Cap, Global Dividend and Core Fixed Income ETF all outperforming their benchmarks.
  - **3Q2025 Underperformers: Strategic Portfolios, Portfolios with Alternatives, and Active Equity Managers**
    - Strategic portfolios underperformed Tactical portfolios, mainly driven by relative underweights to US large-cap growth equity and US mid-cap mid cap growth equity.
    - While alternative strategies generally produced positive returns, their underperformance compared to equities resulted in better performance for portfolios without alternatives.
    - Concentrated leadership and outperformance from lower-quality stocks challenged active US equity managers.
    - International and emerging markets equity managers produced mixed relative results, generally detracting from portfolio performance.

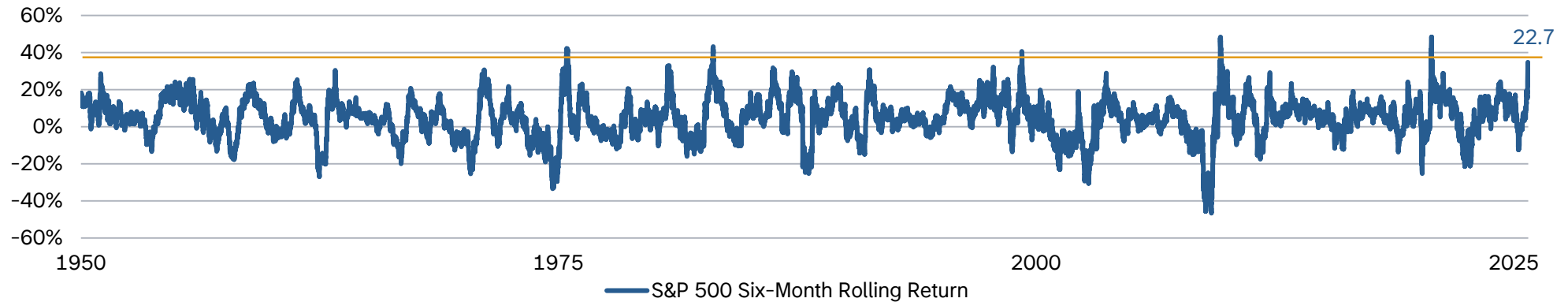
Source: Morgan Stanley Wealth Management GIO.

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# It Has Been An Extraordinary Six Months in a Three-Year Old Bull Market

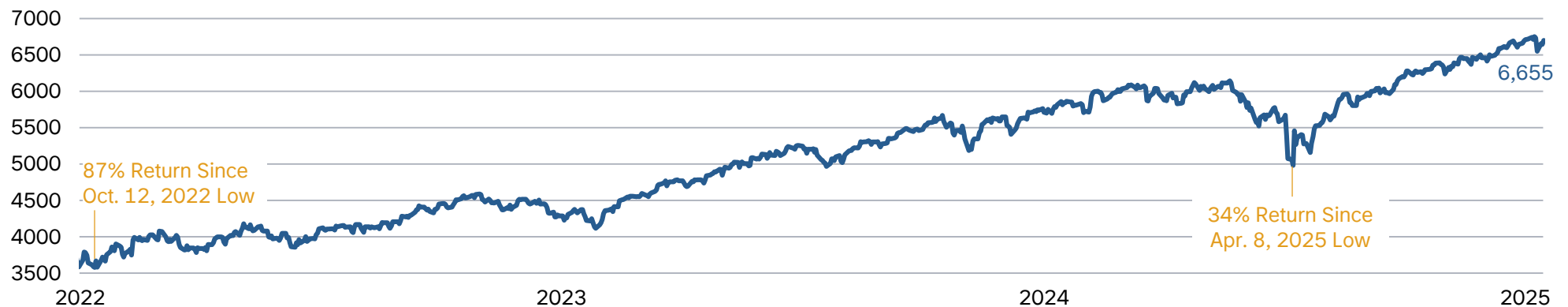
## LARGEST SIX-MONTH RETURN OF THE S&P 500 OUTSIDE OF A RECESSIONARY RECOVERY

AS OF OCTOBER 13, 2025



## S&P 500 INDEX

AS OF OCTOBER 13, 2025



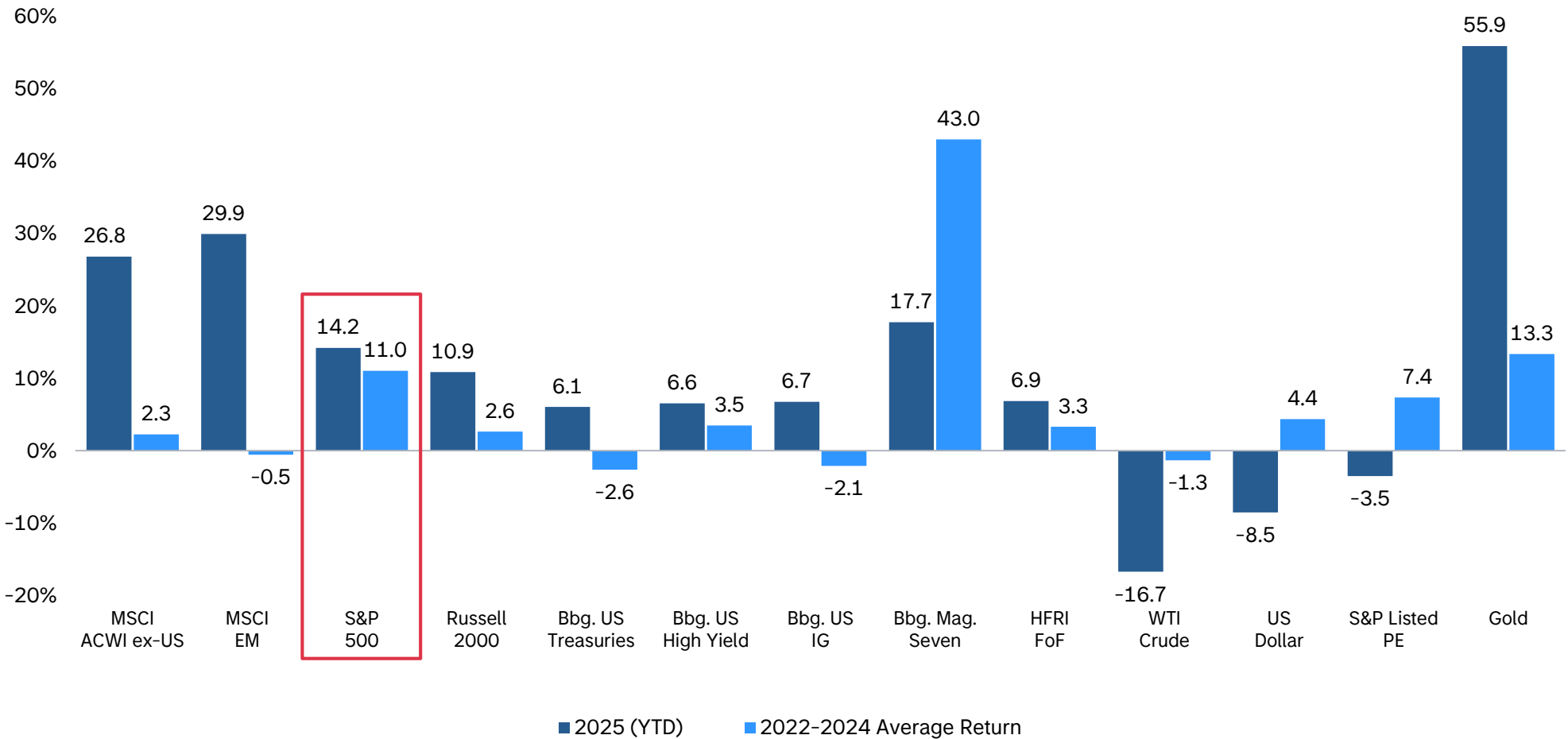
Source: Morgan Stanley Wealth Management GIO, Bloomberg.

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# But 2025 Is a Departure from Recent Past of S&P 500 Dominance...Diversification Helps

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

AS OF OCTOBER 13, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg.

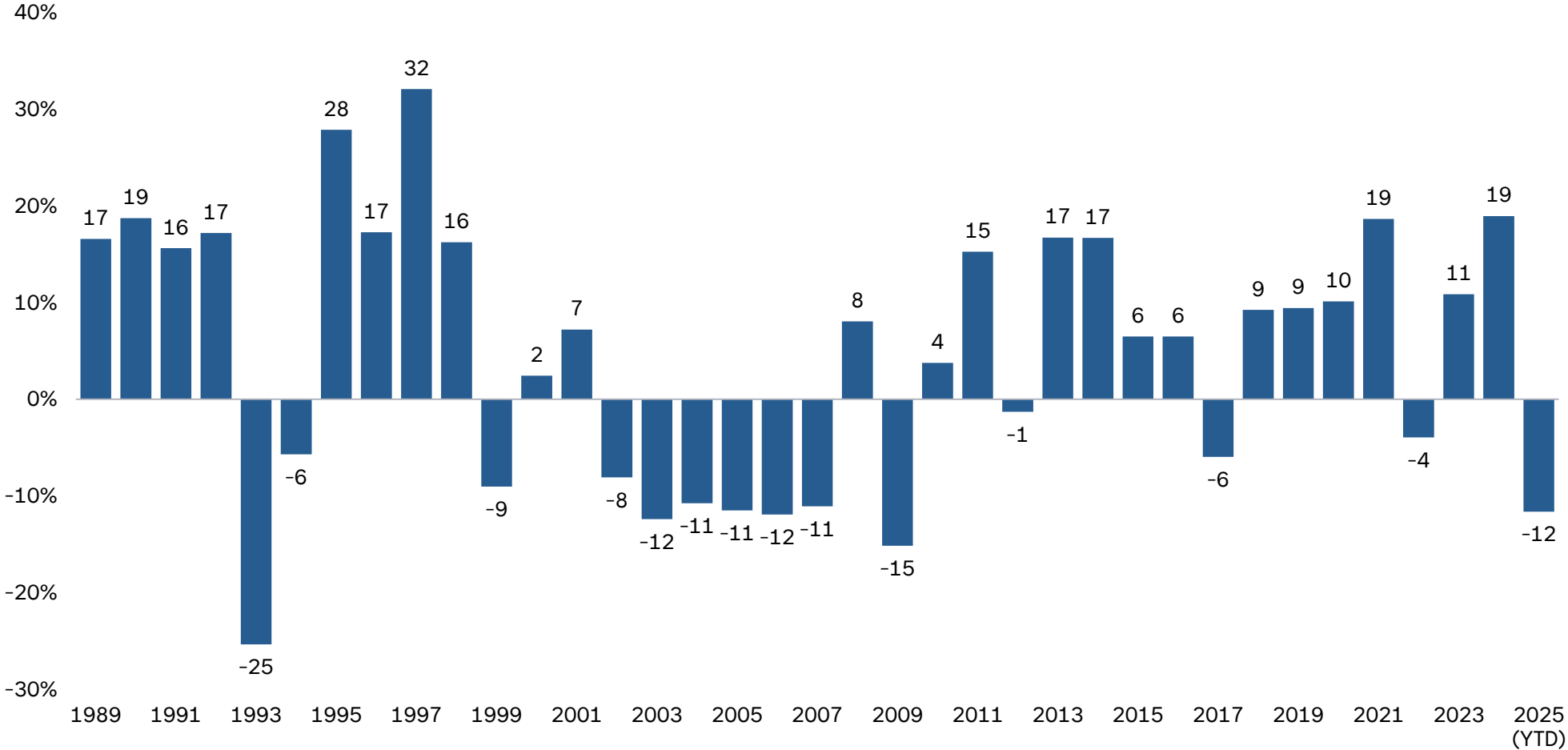
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# US Trailing Rest of World by Most Since 2009

MSCI US YEARLY RETURN LESS MSCI ACWI EXCLUDING US YEARLY RETURN

AS OF OCTOBER 14, 2025



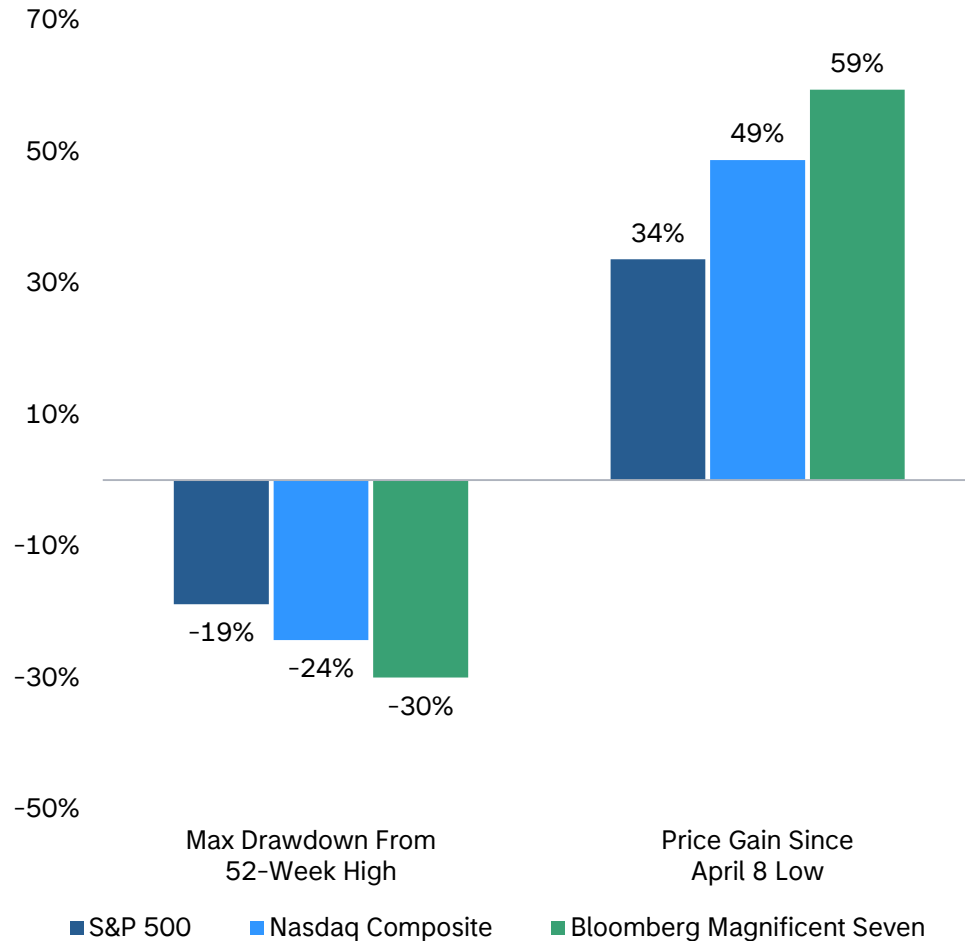
Source: Morgan Stanley Wealth Management GIO, Bloomberg.

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

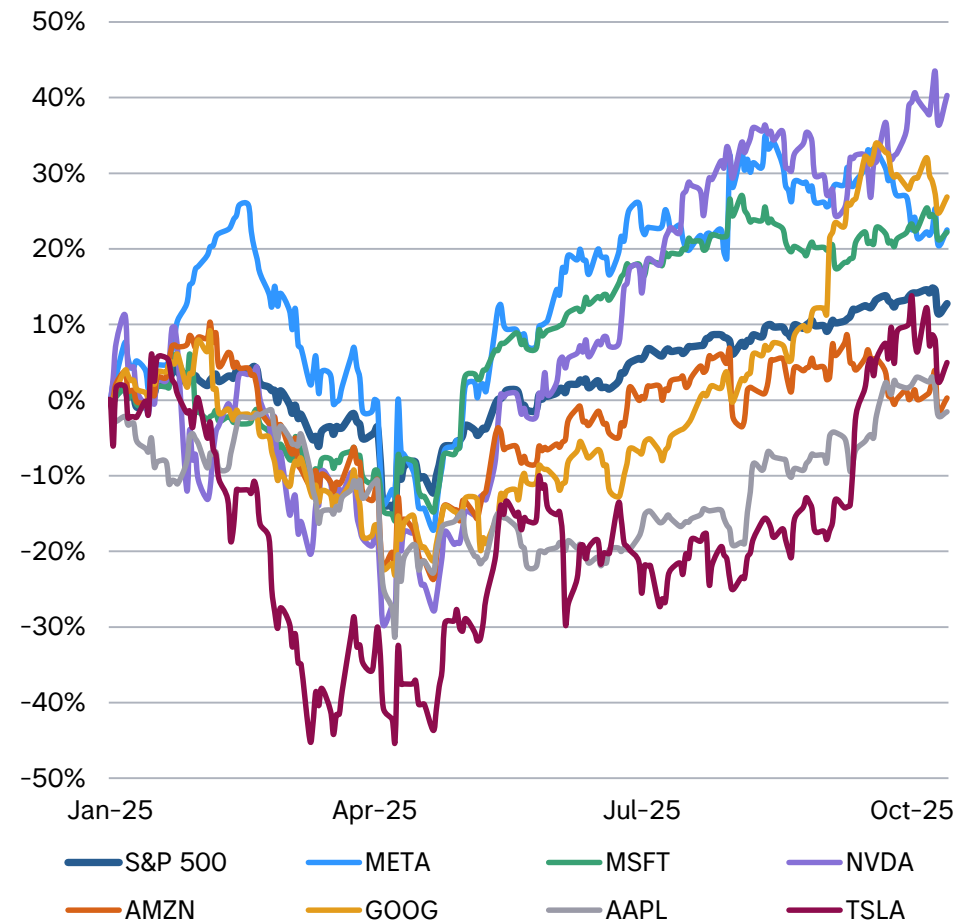
## EQUITY PERFORMANCE

AS OF OCTOBER 13, 2025



## YEAR-TO-DATE PERFORMANCE

AS OF OCTOBER 13, 2025



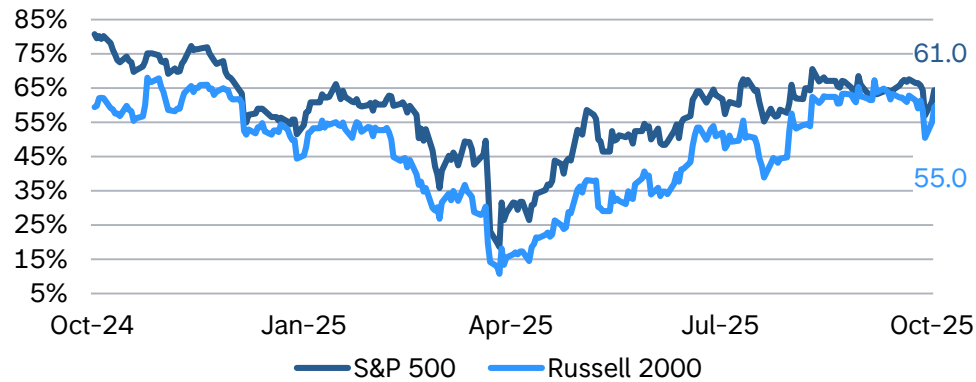
Source: Morgan Stanley Wealth Management GIO, Bloomberg. Drawdown is the peak-to-trough decline during a specific period.

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# Breadth Has Improved....

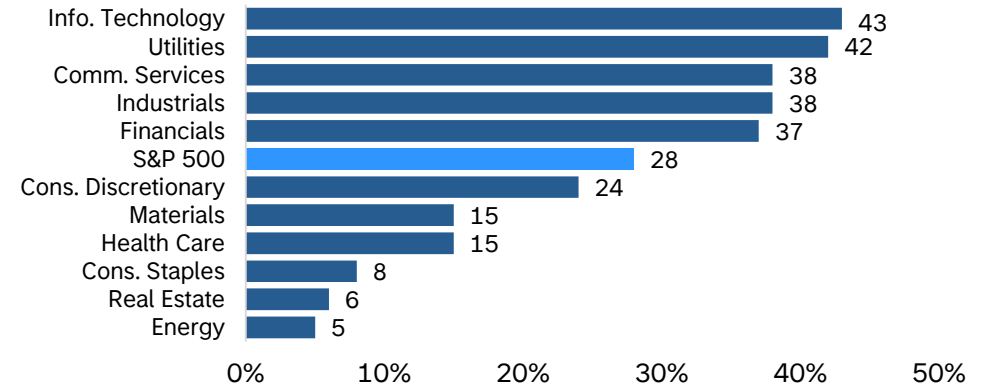
## SHARE OF STOCKS ABOVE 200-DAY MOVING AVERAGE

AS OF OCTOBER 13, 2025



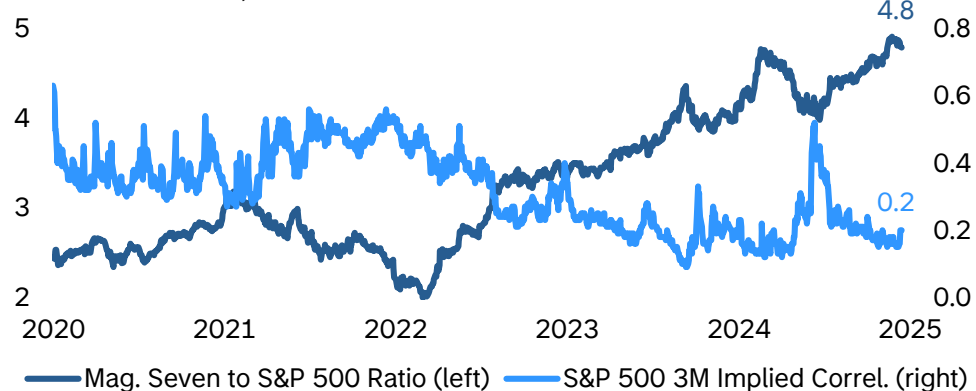
## SHARE OF STOCKS MAKING NEW ALL-TIME HIGHS IN 3Q2025

AS OF SEPTEMBER 30, 2025



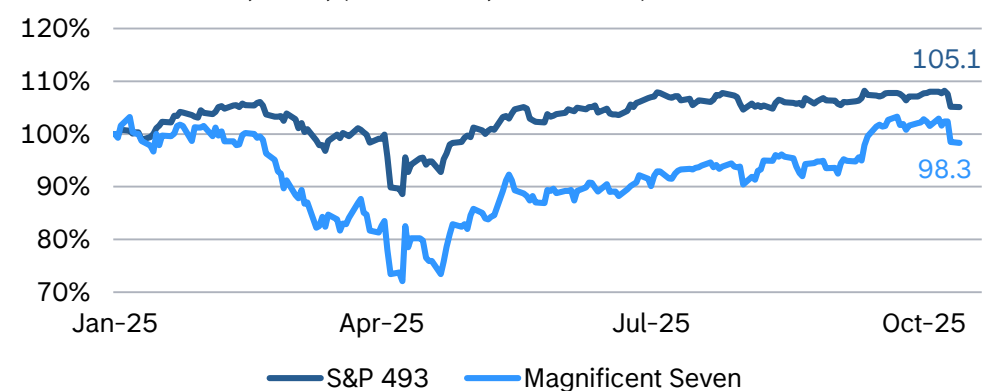
## MAG. SEVEN TO S&P 500 RATIO VS. S&P IMPLIED CORRELATION

AS OF OCTOBER 13, 2025



## S&P 493 VS. MAG. SEVEN 12-MONTH FORWARD P/E RATIO

AS OF OCTOBER 13, 2025, (JANUARY 1, 2025 = 100)



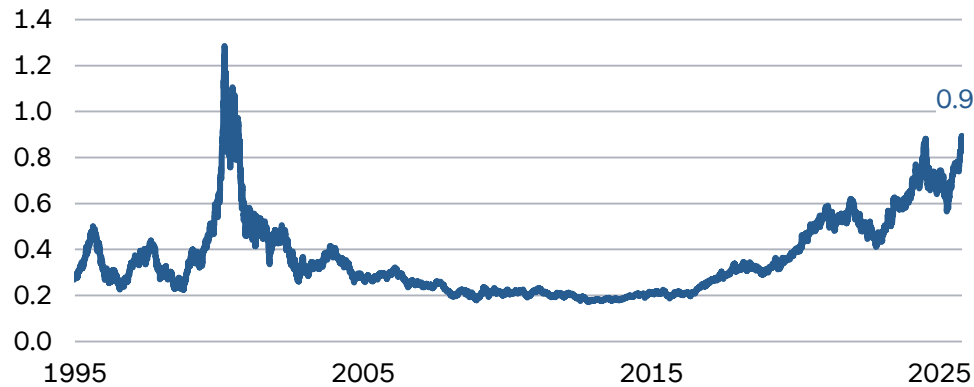
Source: Morgan Stanley Wealth Management GIO, Bloomberg, Piper Sandler.

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# Semiconductors Epitomize the Intersection of Cyclical and Gen AI Capex Stories

## PHILADELPHIA SEMI. INDEX TO EQUAL-WEIGHTED S&P RATIO

AS OF OCTOBER 13, 2025



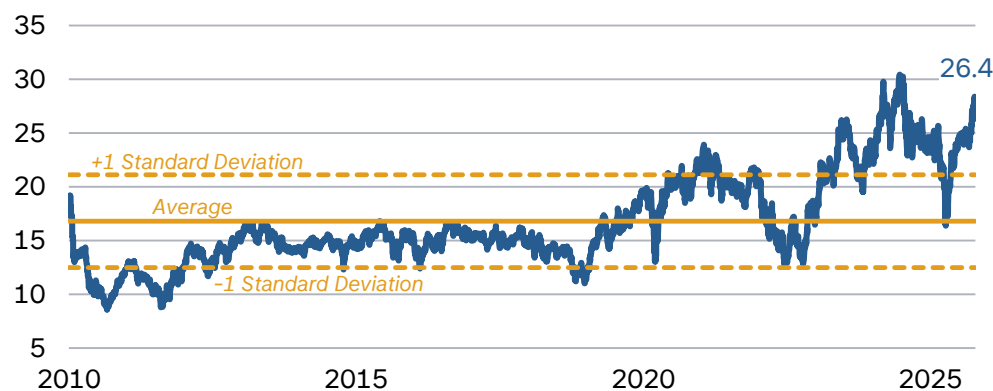
## GOLDMAN SACHS CYCLICALS VS. DEFENSIVES

AS OF OCTOBER 13, 2025



## PHILADELPHIA SEMI. INDEX 12-MONTH FORWARD P/E RATIO

AS OF OCTOBER 13, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg.

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# “Quality” Factor Has Suffered All Year; But Last 10 Weeks Especially Skewed Toward High Beta

## MORGAN STANLEY FACTOR PERFORMANCE

AS OF OCTOBER 9, 2025

Morgan Stanley Factor Baskets	YTD Total Return
US Realized Volatility	62.35%
US Beta	36.51%
US Six-Month Momentum	21.45%
US Momentum	18.95%
US Growth	14.01%
US Three-Month Momentum	2.43%
US Size	2.09%
US Leverage	-14.27%
US Passive Factor	-14.38%
US Dividend Yield	-16.58%
US Quality	-19.29%
US Value	-20.15%

## Morgan Stanley Factor Neutral Indices

US Momentum	21.53%
US Beta	19.41%
US Size	13.39%
US Short Interest	4.67%

## S&P 500 VS. RUSSELL 2000 VS. RUSSELL MICRO-CAP RETURN

AS OF OCTOBER 13, 2025, (JANUARY 1, 2025 = 0)



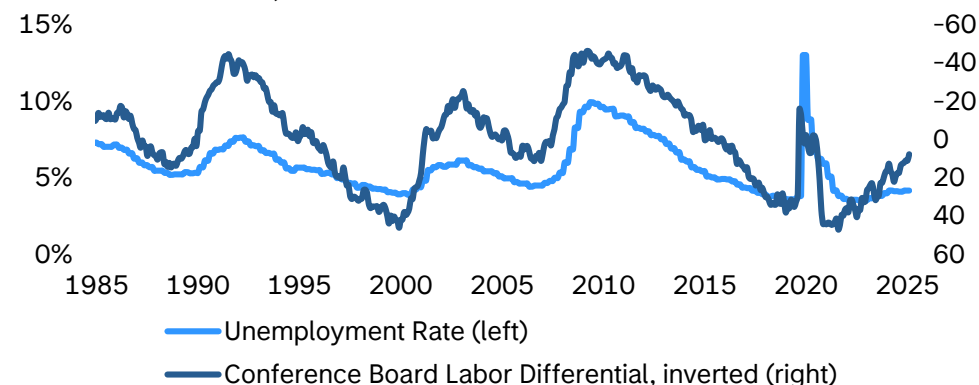
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, Bespoke, Bloomberg.

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# What Has Changed? “Bad News Is Good” Again

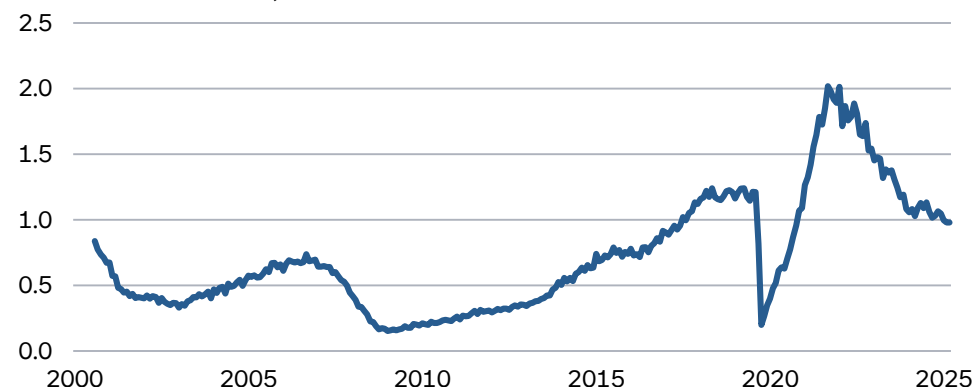
## US LABOR DIFFERENTIAL VS. UNEMPLOYMENT RATE

AS OF SEPTEMBER 30, 2025



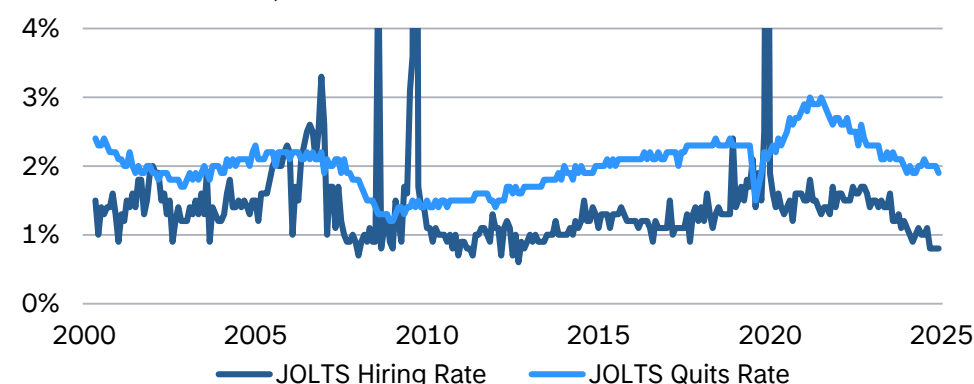
## AVAILABLE JOB OPENINGS PER UNEMPLOYED PERSON

AS OF SEPTEMBER 30, 2025



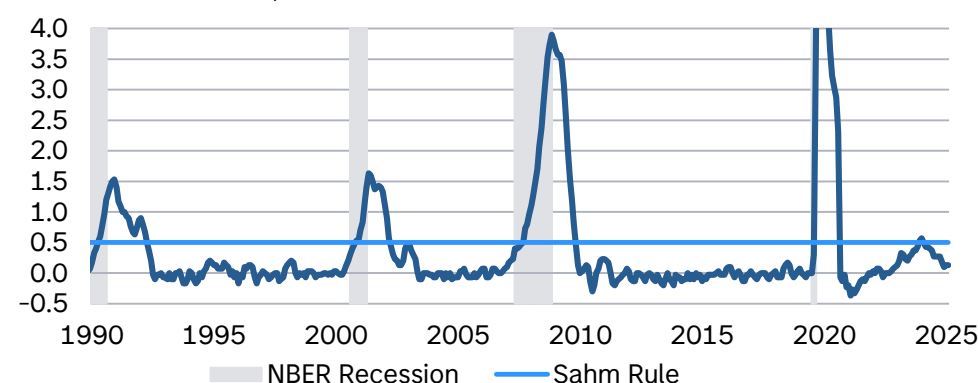
## JOLTS HIRING RATES VS. QUIT RATES

AS OF SEPTEMBER 30, 2025



## SAHM RULE USING EMPLOYMENT-TO-POPULATION RATIO

AS OF SEPTEMBER 30, 2025



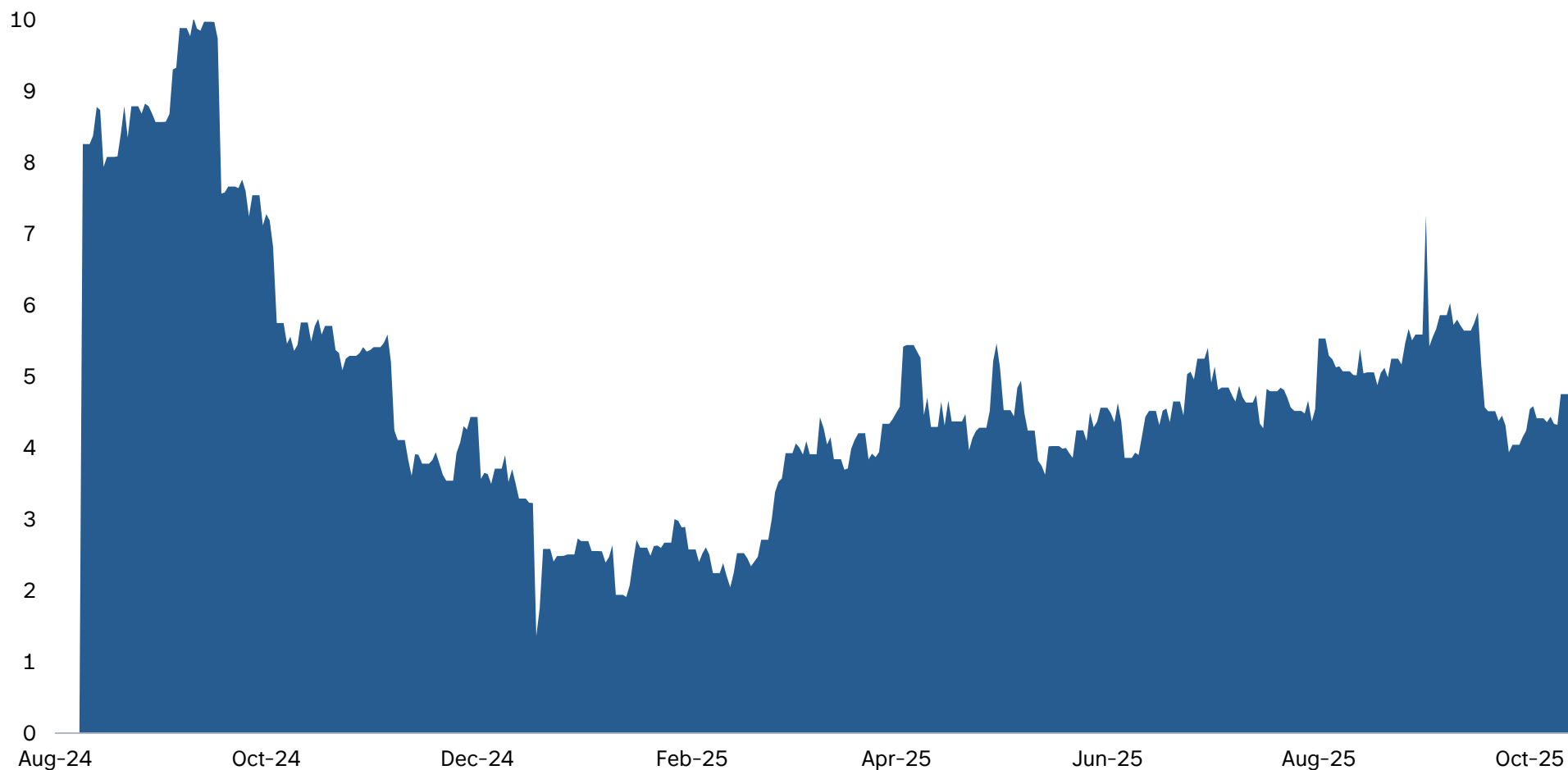
Source: Morgan Stanley Wealth Management GIO, Bloomberg. Job Openings and Labor Turnover Survey (JOLTS) is a monthly report released by the Bureau of Labor Statistics (BLS) that provides detailed information on the U.S. labor market. It tracks job openings, hires, and separations. Sahm Rule is an economic indicator that signals a recession when the three-month moving average of the national unemployment rate rises by 0.5 percentage points or more relative to its low during the preceding 12 months.

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# Thus 100bps of Rate Cuts Priced Through 2026

## NUMBER OF 25-BASIS POINT RATE CUTS PRICED THROUGH DECEMBER 2026

AS OF OCTOBER 13, 2025



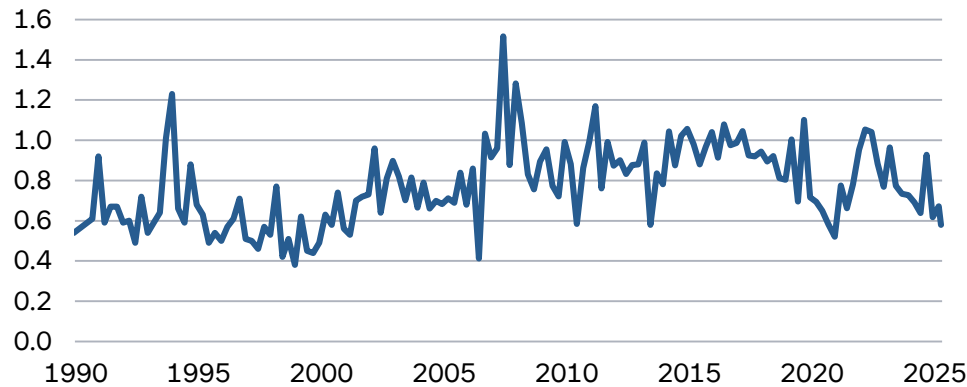
Source: Morgan Stanley Wealth Management GIO, Bloomberg.

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# Until Last Friday, Signs of Complacency Widespread

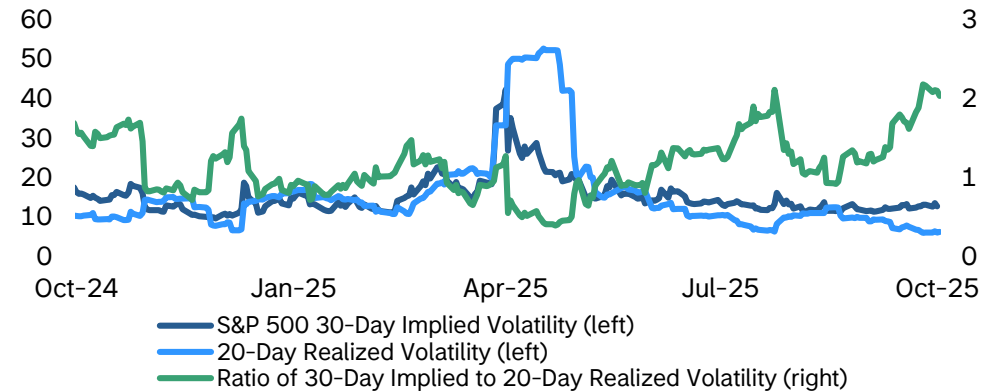
## PUT/CALL RATIO

AS OF OCTOBER 10, 2025



## S&P 500 IMPLIED AND REALIZED VOLATILITY

AS OF OCTOBER 8, 2025



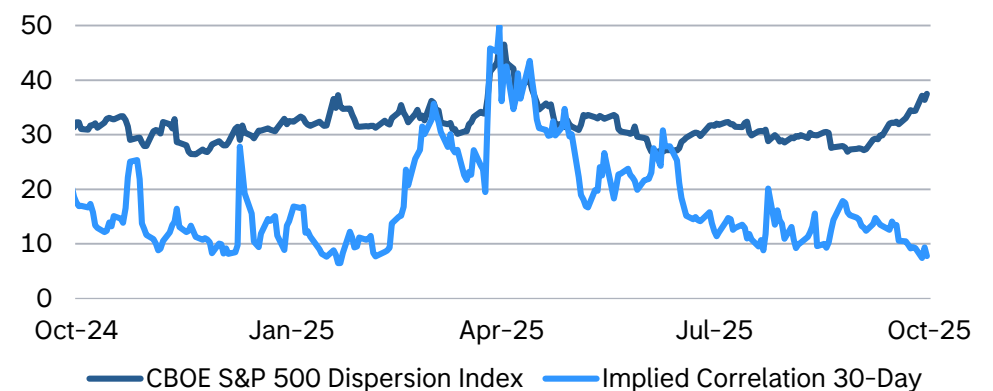
## EMERGING MARKET CURRENCY 30-DAY REALIZED VOLATILITY

AS OF OCTOBER 10, 2025



## S&P 500 DISPERSION INDEX VS. IMPLIED 30-DAY CORRELATION

AS OF OCTOBER 8, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg, Strategas.

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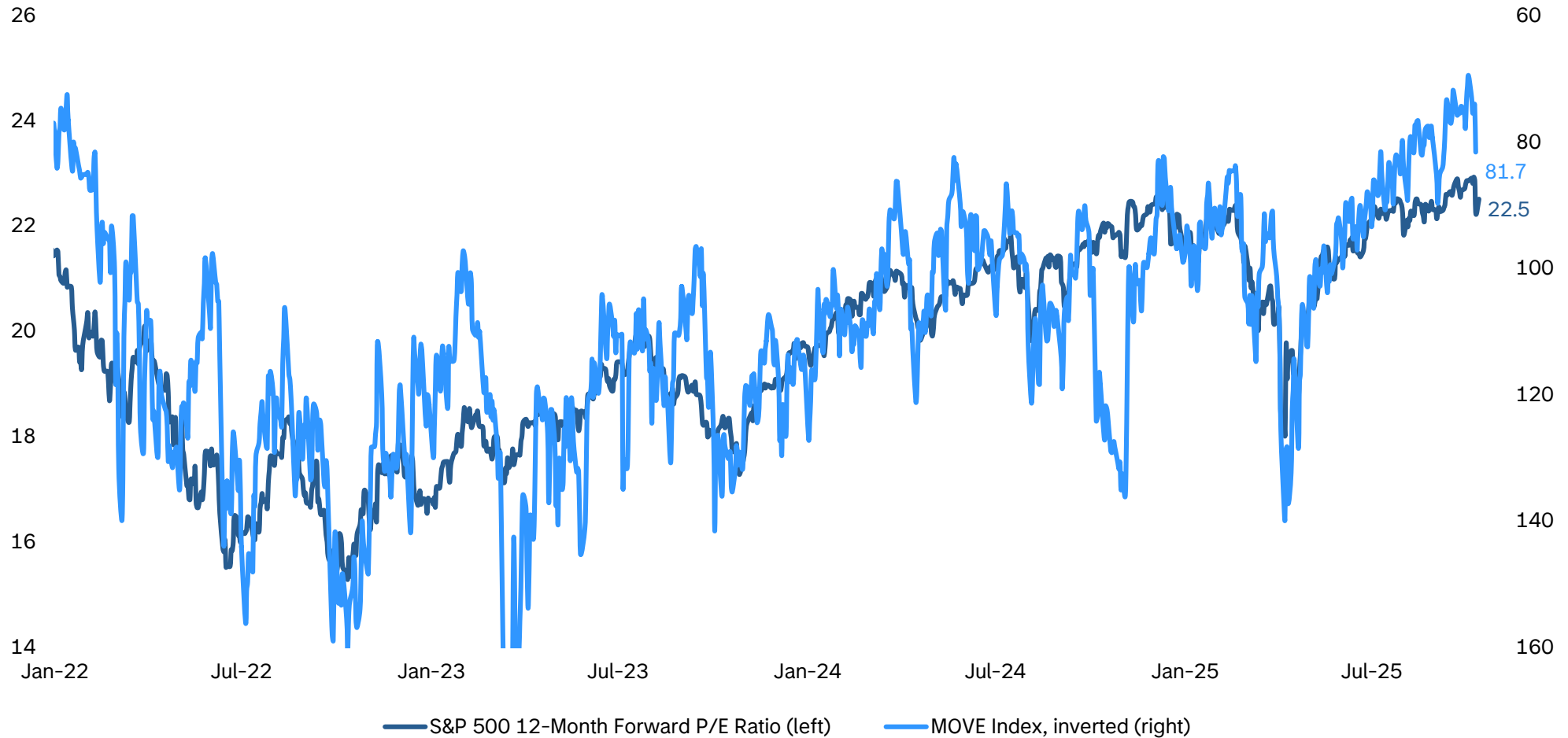


# And Valuation Multiples Have Expanded As Bond Volatility Has Calmed

## S&P 500 12-MONTH FORWARD P/E RATIO VS. MOVE INDEX

AS OF OCTOBER 13, 2025

26



Source: Morgan Stanley Wealth Management GIO, Bloomberg.

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# Markets Are Expensive

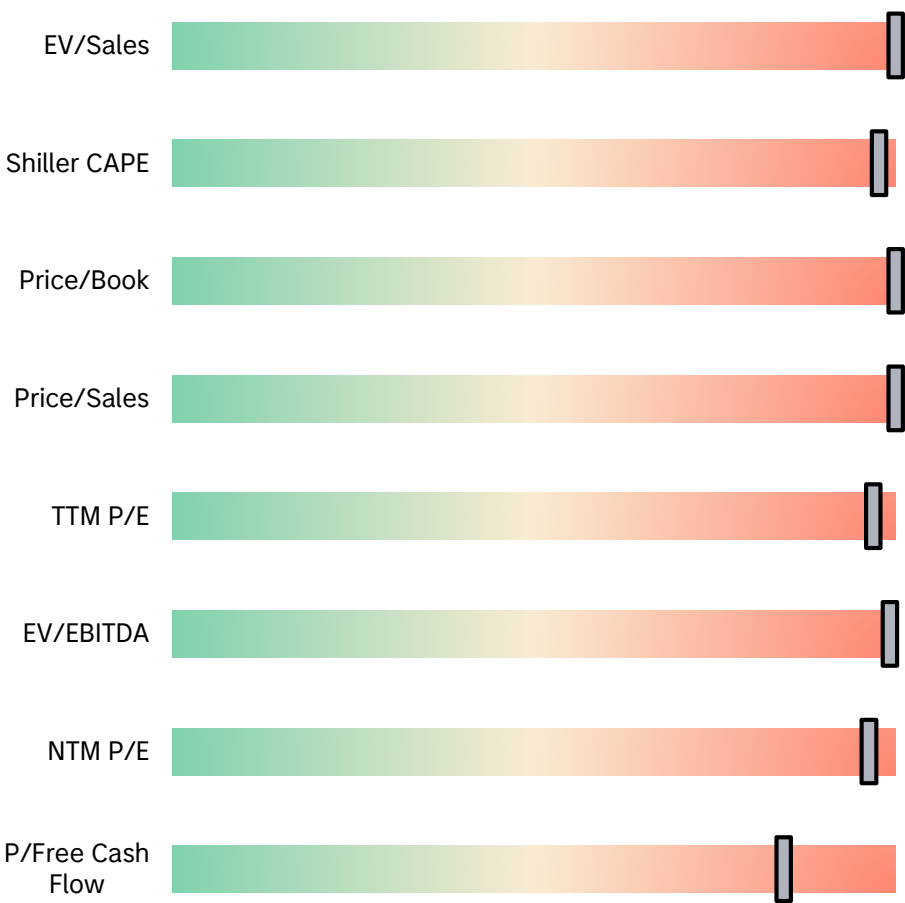
## MORGAN STANLEY EQUITY RISK PREMIUM

AS OF OCTOBER 10, 2025



## S&P 500 VALUATION: PERCENTILE RANKING VS. HISTORY

AS OF OCTOBER 13, 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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# What Happens to Earnings and Multiples From Here?

## S&P 500 VALUATION MATRIX

AS OF OCTOBER 13, 2025

		Forward Price/Earnings Ratio									
		16	17	18	19	20	21	22	23	24	25
Forward Earnings Per Share	\$330	5,280	5,610	5,940	6,270	6,600	6,930	7,260	7,590	7,920	8,250
	\$320	5,120	5,440	5,760	6,080	6,400	6,720	7,040	7,360	7,680	8,000
	\$310	4,960	5,270	5,580	5,890	6,200	6,510	6,820	7,130	7,440	7,750
	\$300	4,800	5,100	5,400	5,700	6,000	6,300	6,600	6,900	7,200	7,500
	\$290	4,640	4,930	5,220	5,510	5,800	6,090	6,380	6,670	6,960	7,250
	\$280	4,480	4,760	5,040	5,320	5,600	5,880	6,160	6,440	6,720	7,000
	\$270	4,320	4,590	4,860	5,130	5,400	5,670	5,940	6,210	6,480	6,750
	\$260	4,160	4,420	4,680	4,940	5,200	5,460	5,720	5,980	6,240	6,500
	\$250	4,000	4,250	4,500	4,750	5,000	5,250	5,500	5,750	6,000	6,250
	\$240	3,840	4,080	4,320	4,560	4,800	5,040	5,280	5,520	5,760	6,000

Mike Wilson | MS & Co.

Current Consensus | GIO

As of Oct. 13

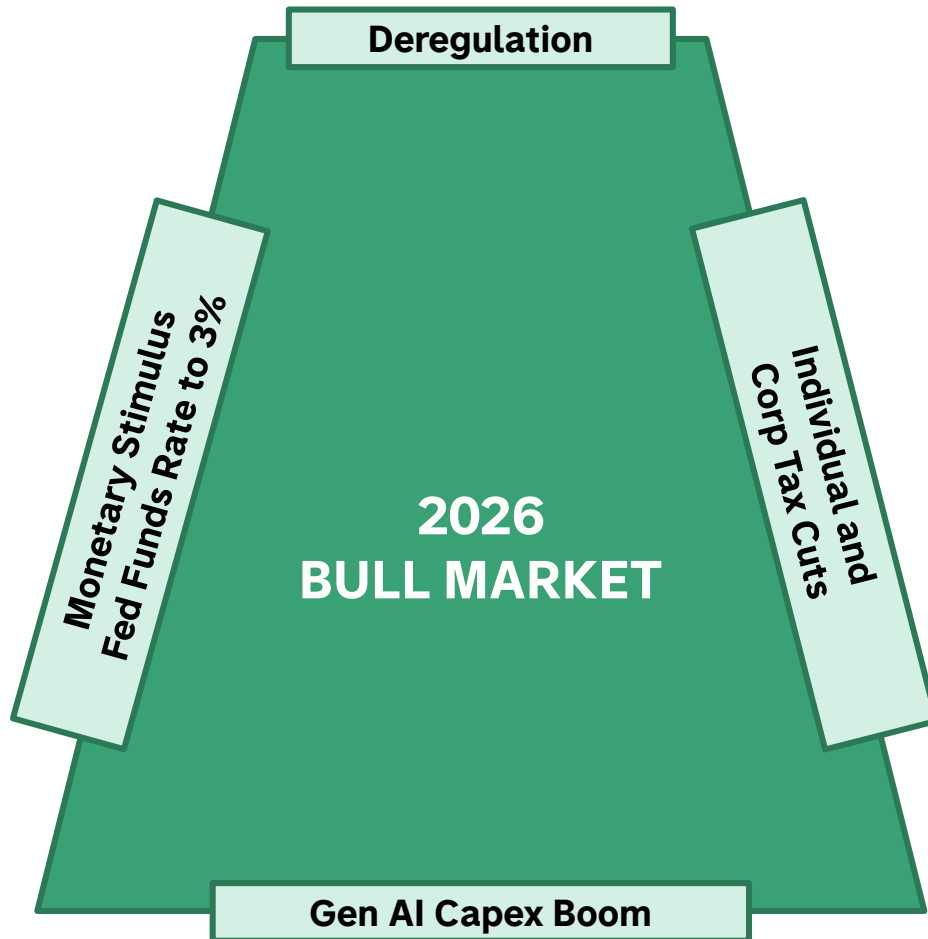
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, Bloomberg.

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# A Robust Bull Case; Earnings Revision Breadth Has Inflected

## DRIVERS OF THE 2026 BULL MARKET

AS OF OCTOBER 13, 2025



## S&P 500 EARNINGS REVISIONS BREADTH

AS OF OCTOBER 10, 2025



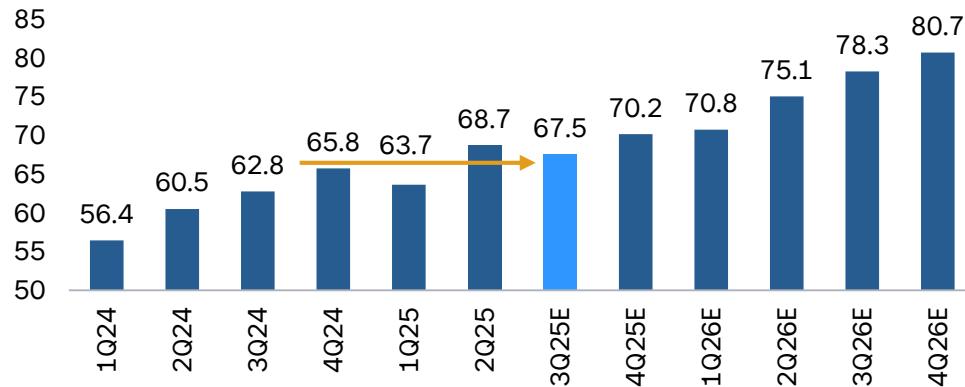
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, Bloomberg. Earnings revisions breadth is defined as the number of positive analyst revisions minus the number of negative analyst revisions divided by the total number of revisions.

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# Producing Ambitious Earnings Forecasts for 2026

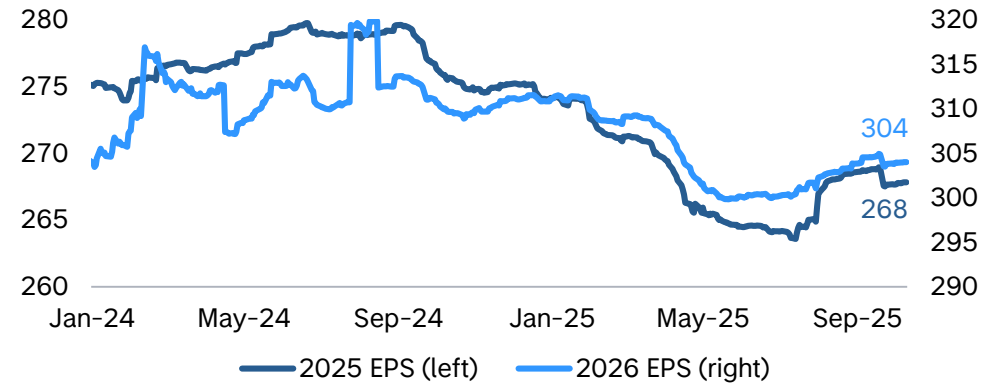
## S&P 500 CONSENSUS EPS

AS OF OCTOBER 13, 2025



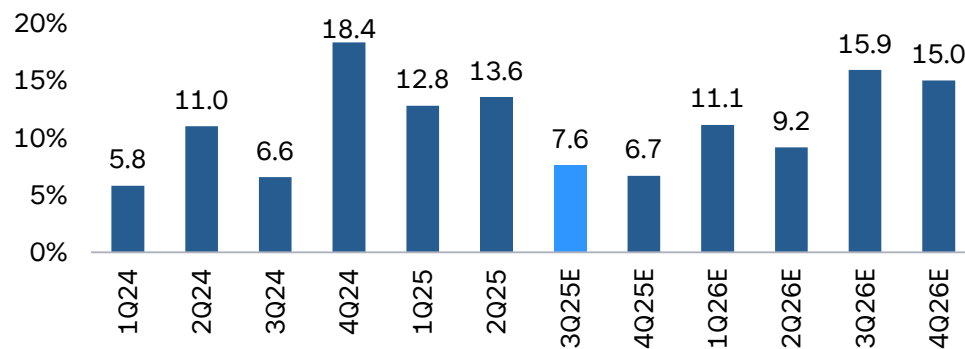
## S&P 500 EXPECTED EPS

AS OF OCTOBER 10, 2025



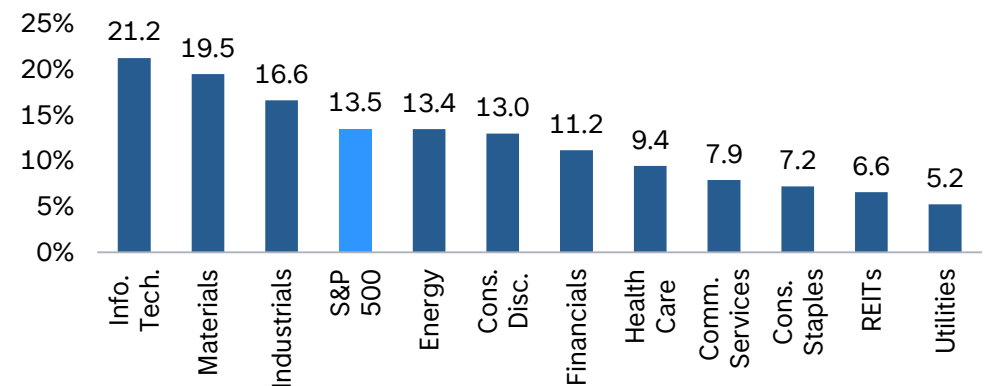
## S&P 500 CONSENSUS EPS YEAR-OVER-YEAR GROWTH

AS OF OCTOBER 13, 2025



## 2026 S&P 500 EPS YEAR-OVER-YEAR GROWTH BY SECTOR

AS OF OCTOBER 13, 2025



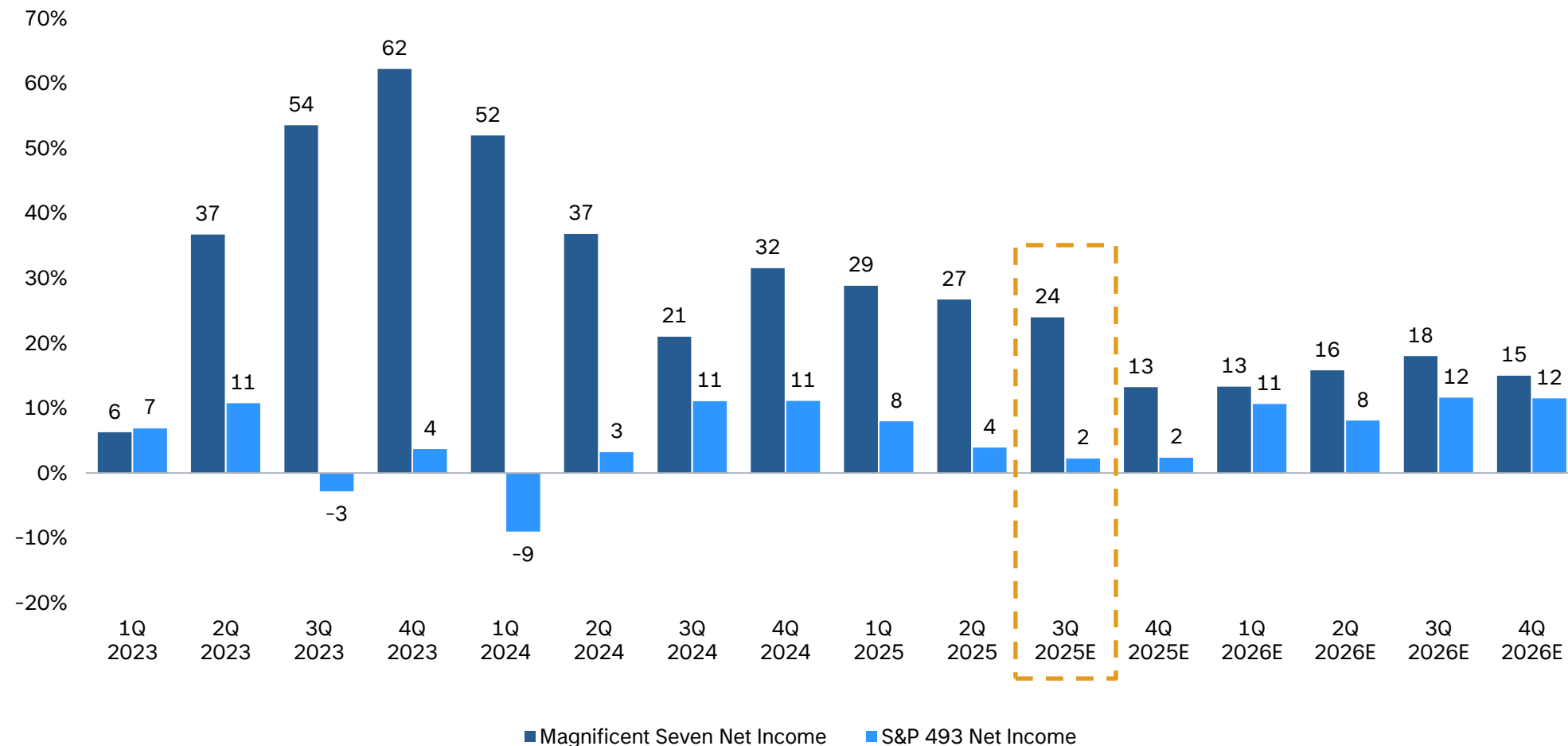
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, FactSet, Refinitiv.

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# 2026 DEPENDS on “493” Reacceleration

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

AS OF OCTOBER 13, 2025



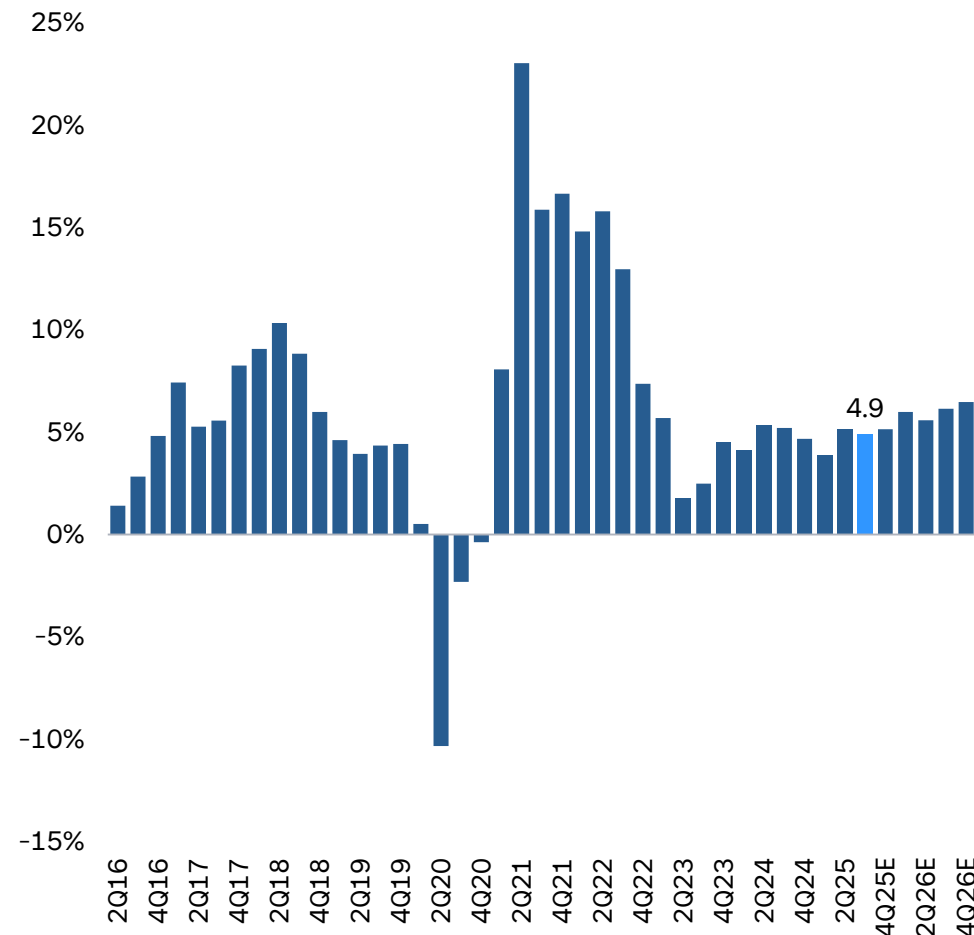
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research. Consensus estimates.

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# Forecasts Largely Driven by Margins

## S&P 500 QUARTERLY SALES YEAR-OVER-YEAR GROWTH

AS OF OCTOBER 13, 2025



## S&P 500 NET MARGINS VS. EBIT MARGINS

AS OF OCTOBER 13, 2025



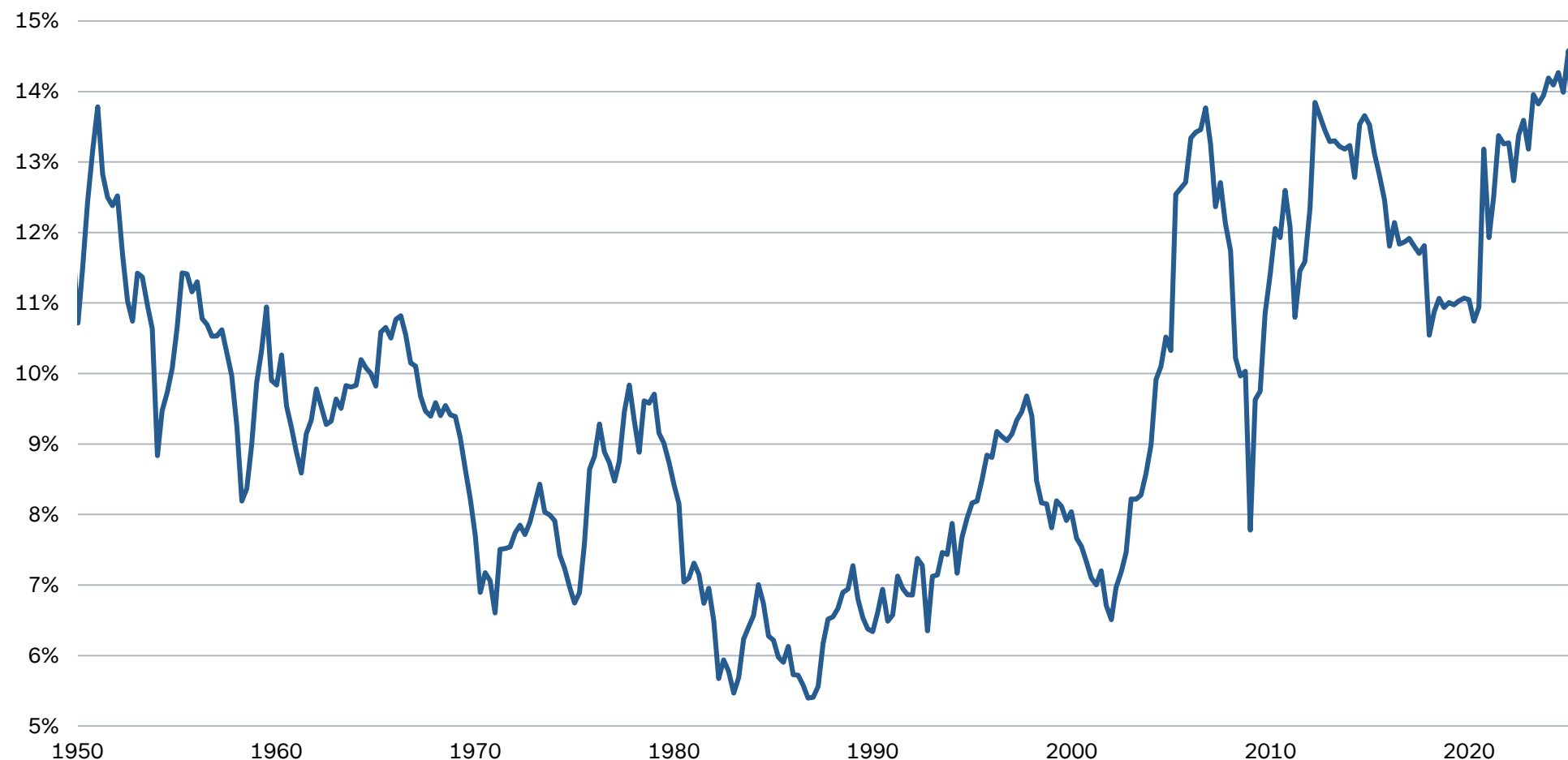
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research. Consensus estimates.

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

## NIPA US CORPORATE PROFITS AS SHARE OF GDP

AS OF SEPTEMBER 30, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg.

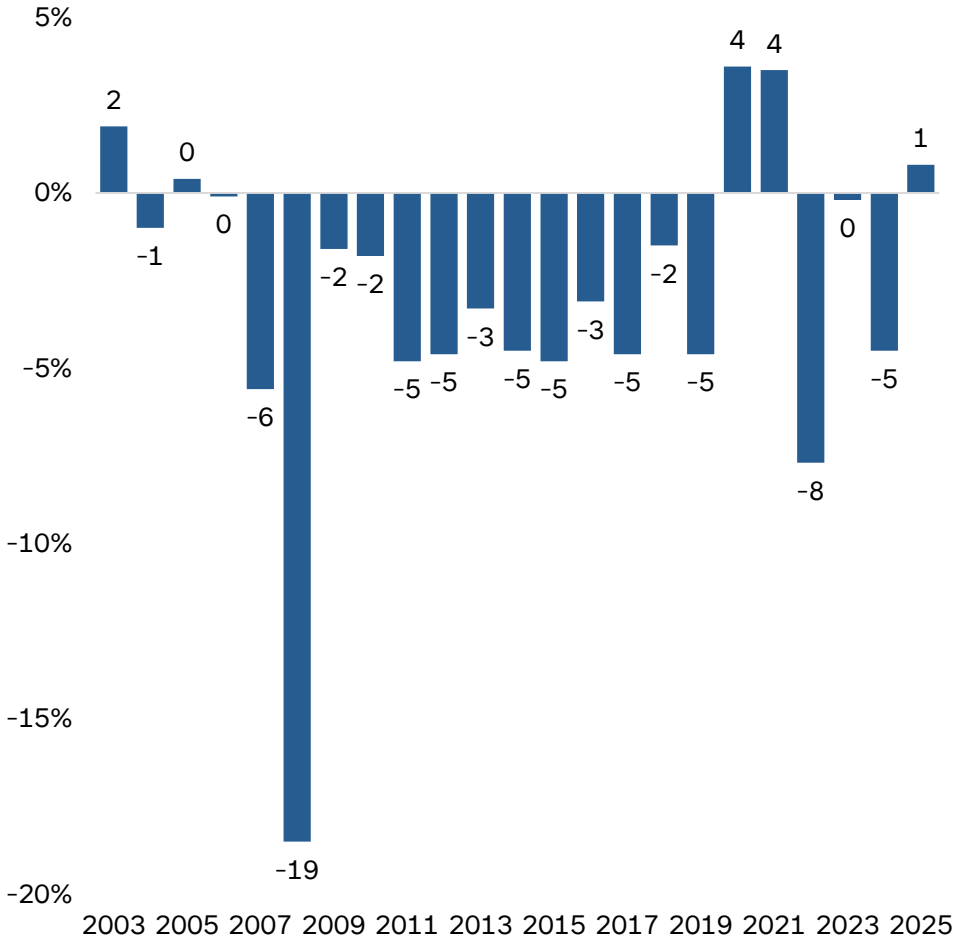
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# While Q3 Revisions Not Typical; Not Much Room For Error

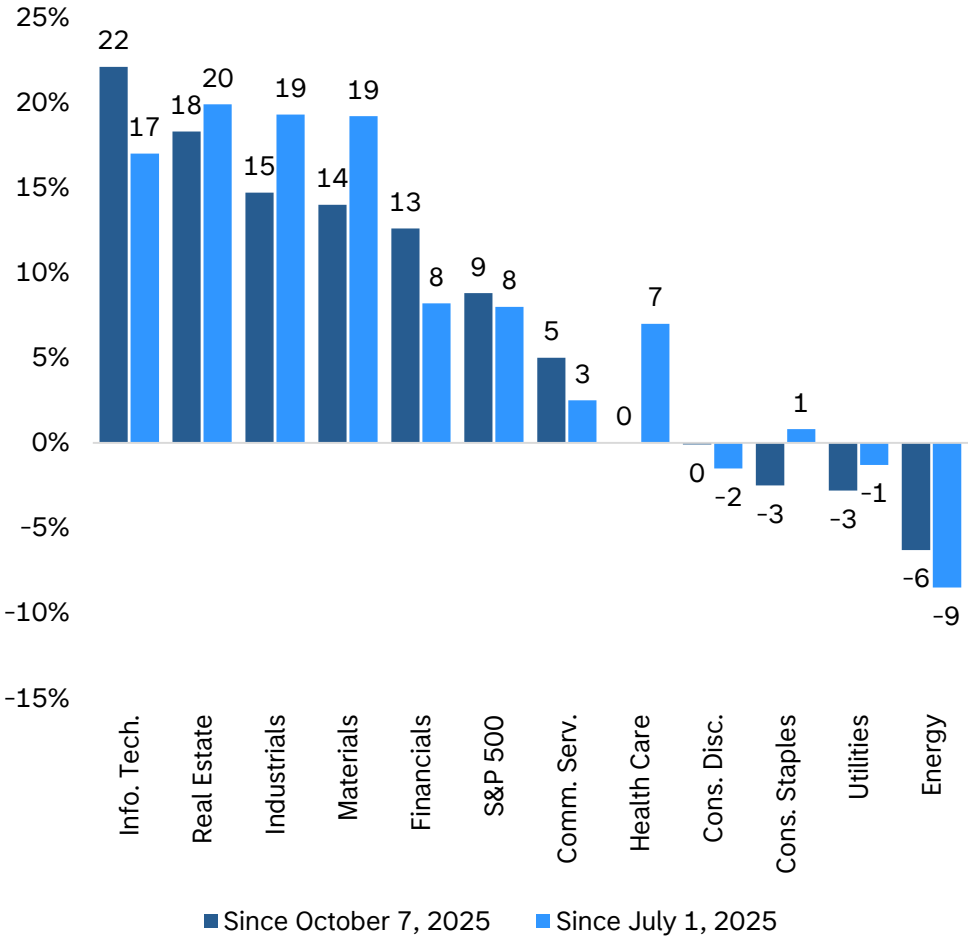
CHANGE IN S&P 500 3Q25 EPS ESTIMATES: JUL. 1 - OCT. 7

AS OF OCTOBER 7, 2025



CHANGE IN S&P 500 3Q25 EPS ESTIMATES

AS OF OCTOBER 7, 2025

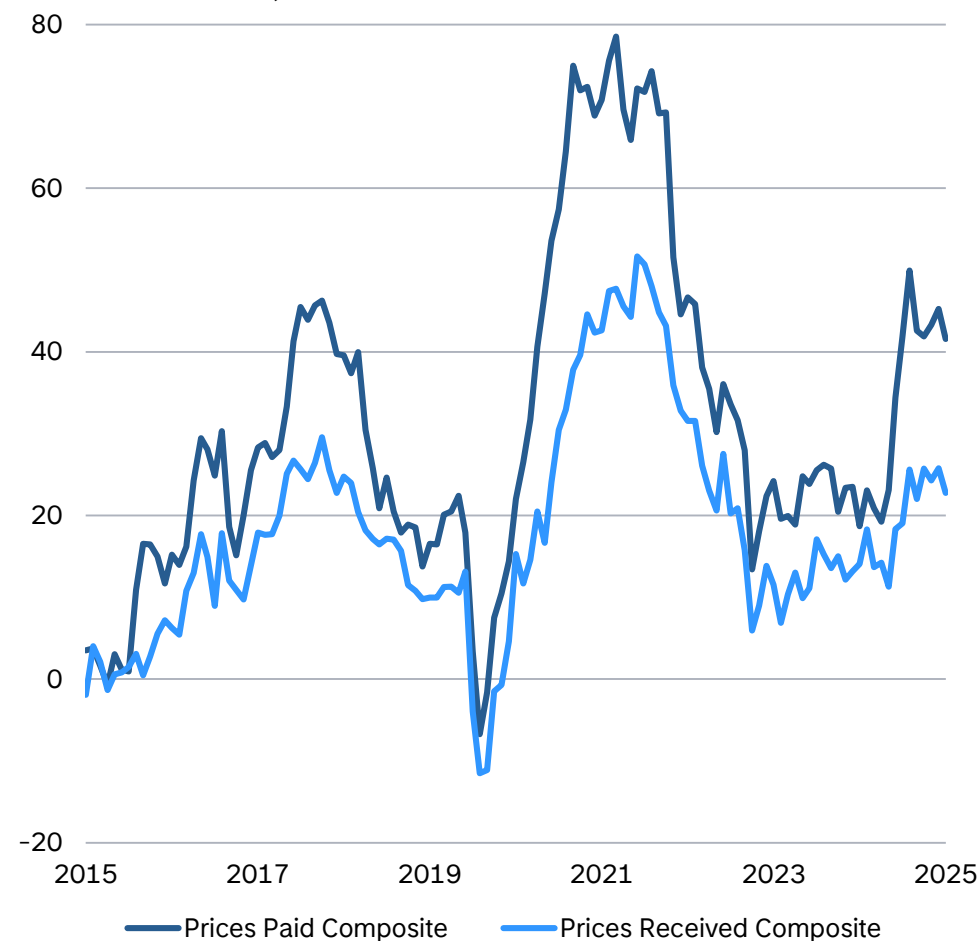


Source: Morgan Stanley Wealth Management GIO, Strategas.  
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# Margins Could Still Be Pressured by Tariffs

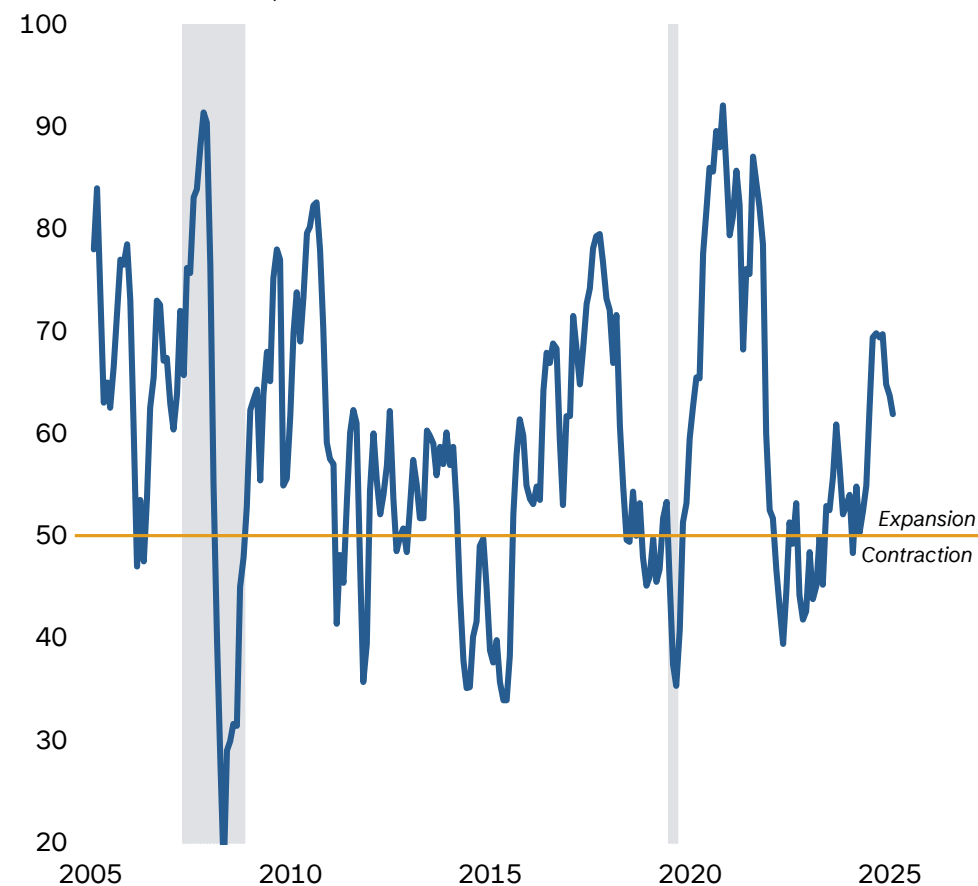
## FED REGIONAL SURVEYS: PRICES PAID AND RECEIVED

AS OF SEPTEMBER 30, 2025



## ISM PRICES PAID COMPOSITE (MANUFACTURING AND SERVICES)

AS OF SEPTEMBER 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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# 2026 Economic Backdrop Not Strong Enough to Lift All the Boats; Big Stay Bigger

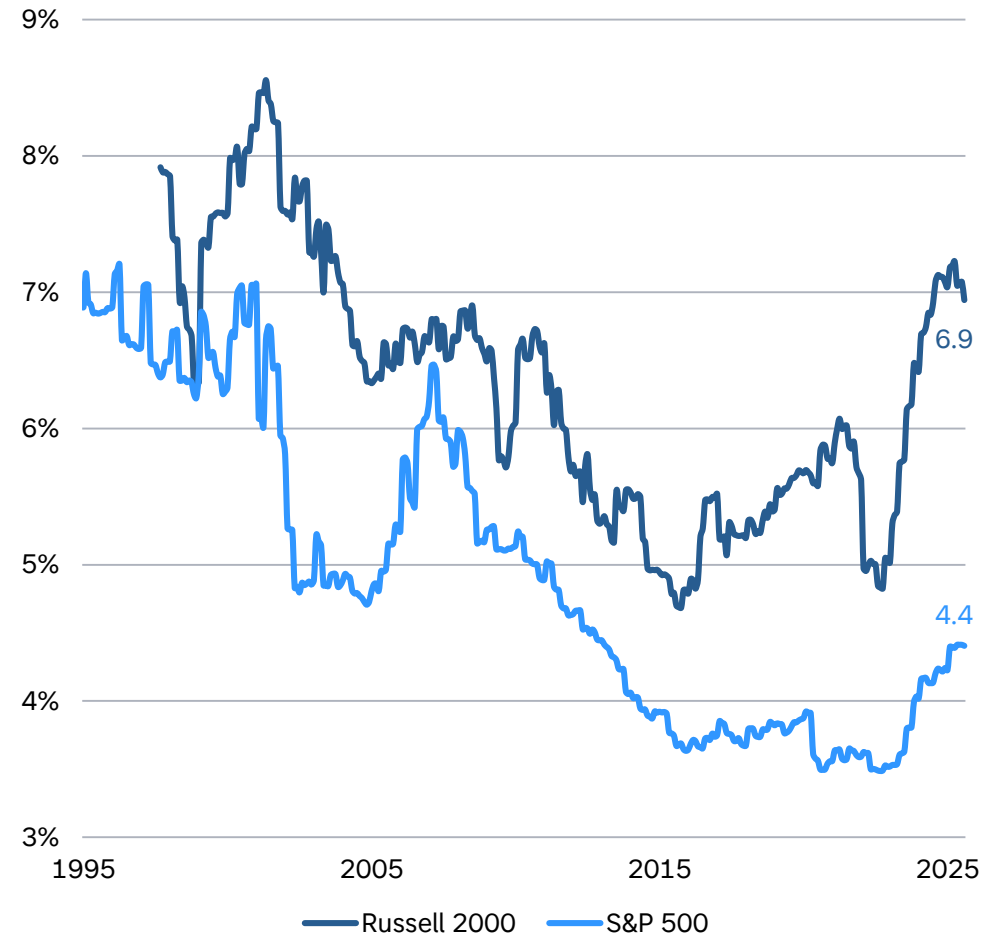
## SHARE OF UNPROFITABLE COMPANIES IN RUSSELL 2000

AS OF SEPTEMBER 30, 2025



## INTEREST EXPENSE AS A SHARE OF DEBT

AS OF SEPTEMBER 30, 2025



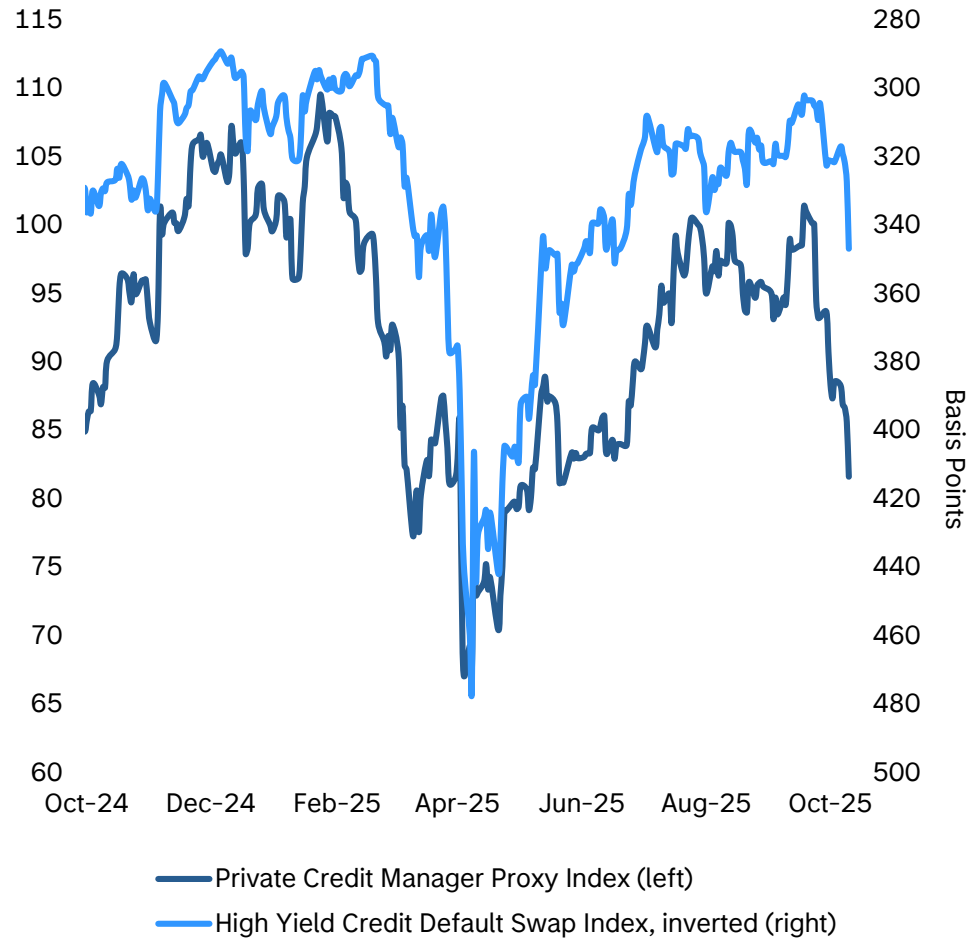
Source: Morgan Stanley Wealth Management GIO, Strategas.

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# Private Credit And High Yield CDX Confirming Potential SMID Vulnerability

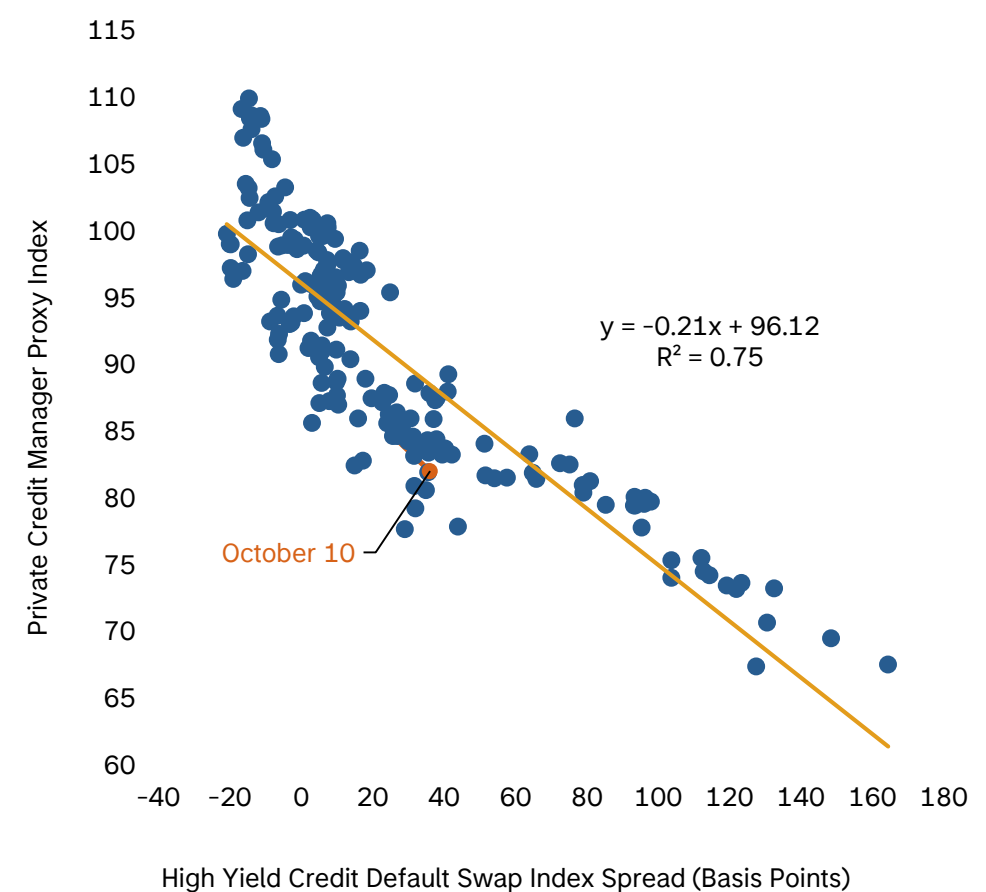
## PRIVATE CREDIT PROXY VS. HIGH YIELD CDS INDEX

AS OF OCTOBER 10, 2025



## PRIVATE CREDIT PROXY VS. HY CDS SPREAD REGRESSION

AS OF OCTOBER 10, 2025



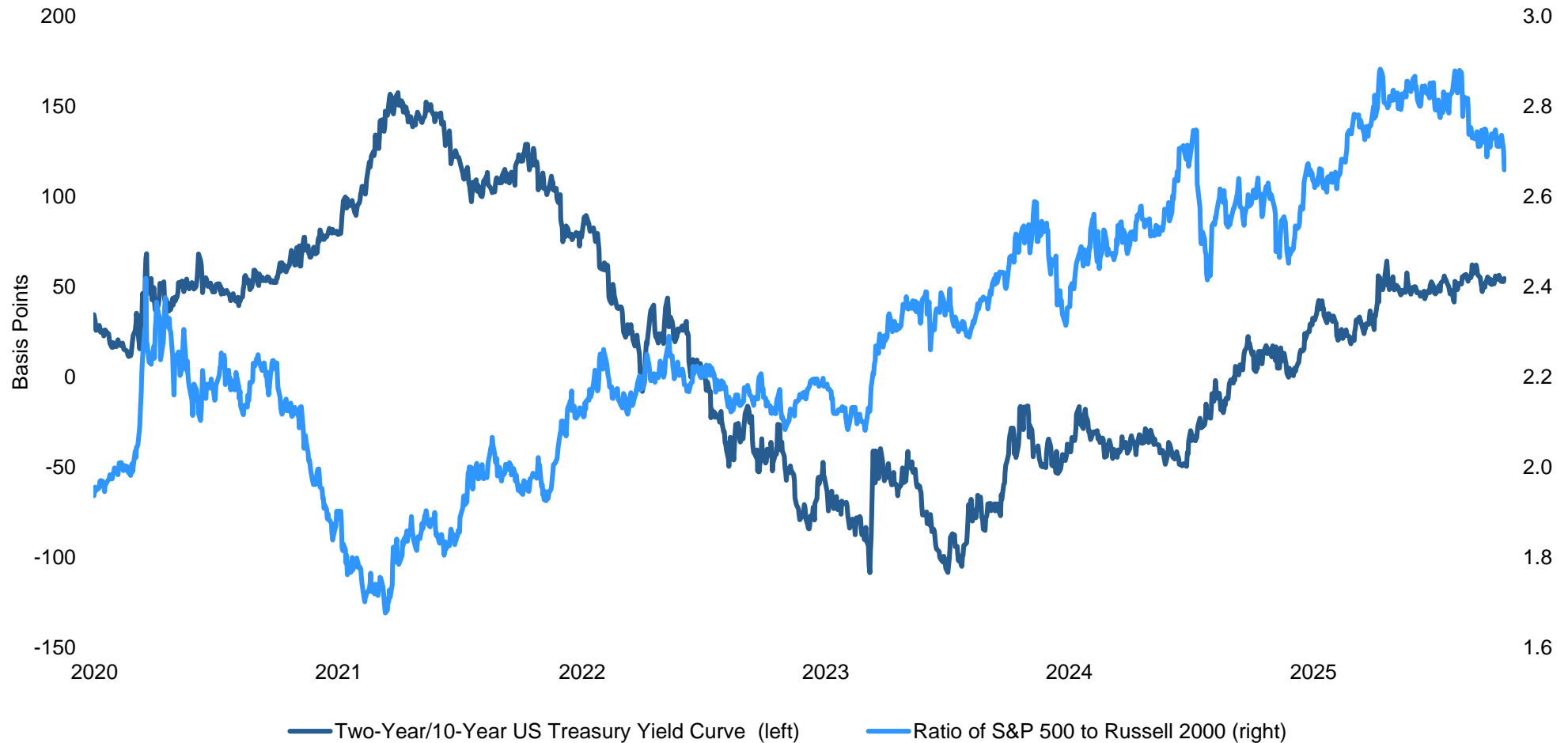
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research.

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# Steeper Yield Curve Favors Large Cap Over Small

## TWO-YEAR/10-YEAR US TREASURY YIELD SPREAD VS. RATIO OF S&P 500 TO RUSSELL 2000

AS OF OCTOBER 14, 2025



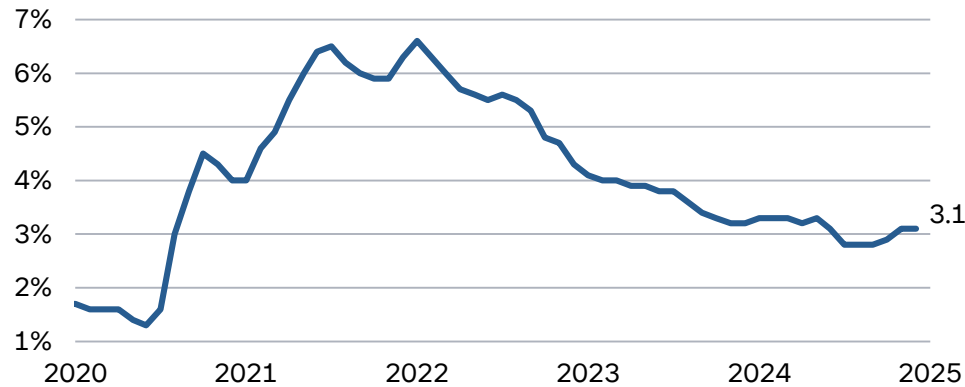
Source: Morgan Stanley Wealth Management GIO, Bloomberg.

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# Inflation Risk: Gone or Just Delayed?

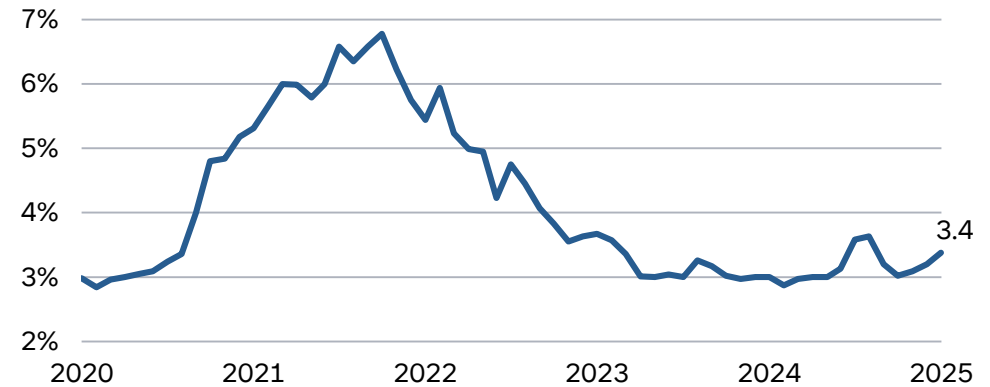
## US CORE CPI YEAR-OVER-YEAR CHANGE

AS OF AUGUST 31, 2025



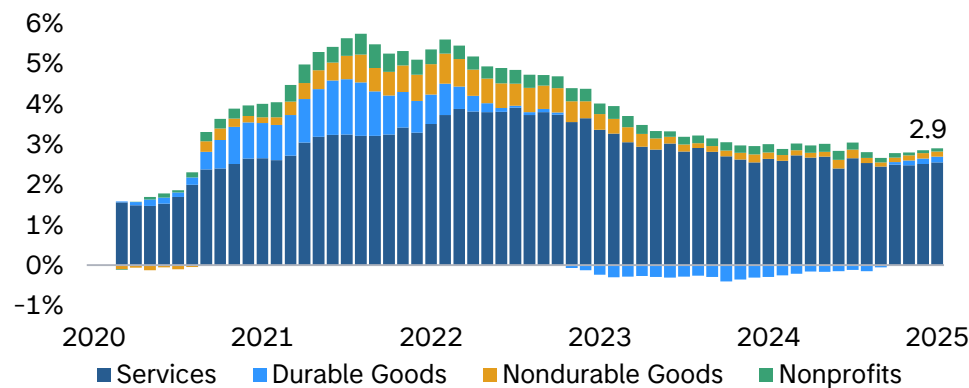
## NY FED ONE-YEAR INFLATION EXPECTATIONS

AS OF SEPTEMBER 30, 2025



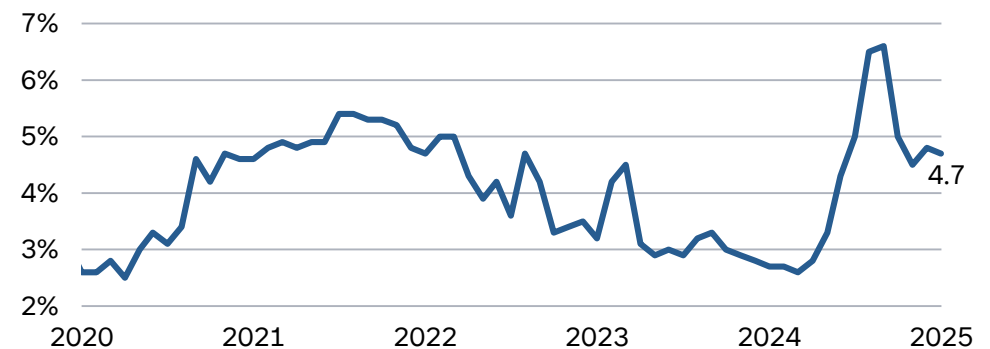
## CONTRIBUTIONS TO US CORE PCE YEAR-OVER-YEAR CHANGE

AS OF AUGUST 31, 2025



## U. MICHIGAN ONE-YEAR INFLATION EXPECTATIONS

AS OF SEPTEMBER 30, 2025



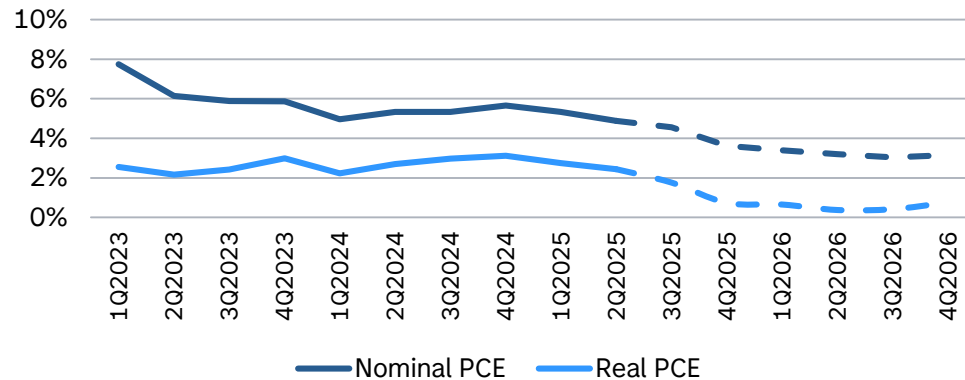
Source: Morgan Stanley Wealth Management GIO, Bloomberg.

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# The 2026 Consumer Could Disappoint

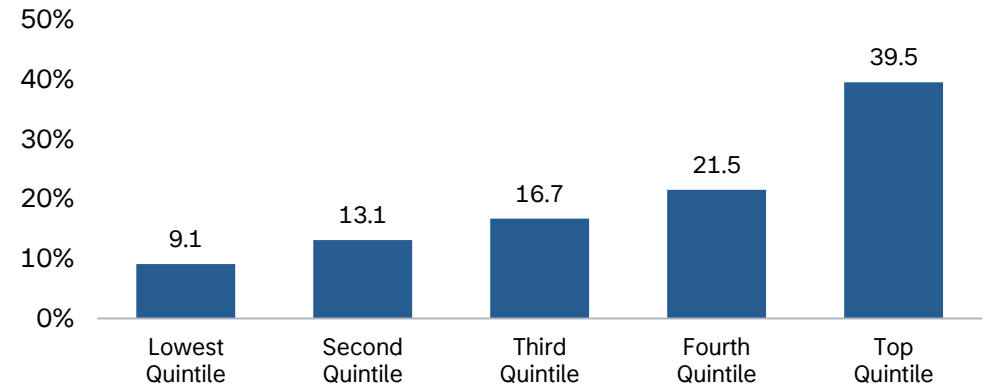
## US NOMINAL AND REAL PCE YEAR-OVER-YEAR CHANGE

AS OF SEPTEMBER 17, 2025



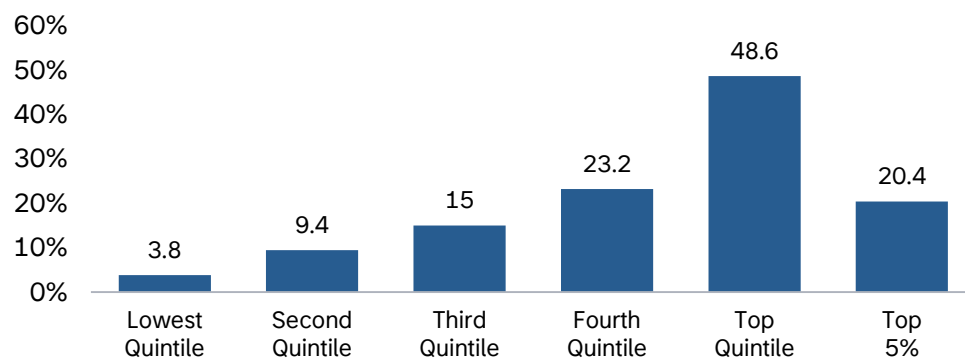
## SHARE OF PCE BY INCOME COHORTS

AS OF SEPTEMBER 17, 2025



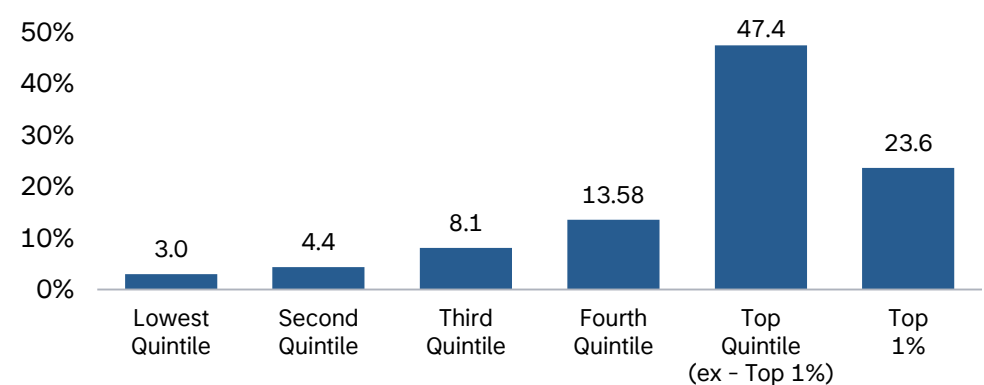
## SHARE OF AGGREGATE POST-TAX INCOME BY PERCENTILE

AS OF SEPTEMBER 17, 2025



## SHARE OF TOTAL NET WORTH BY INCOME COHORTS

AS OF SEPTEMBER 17, 2025



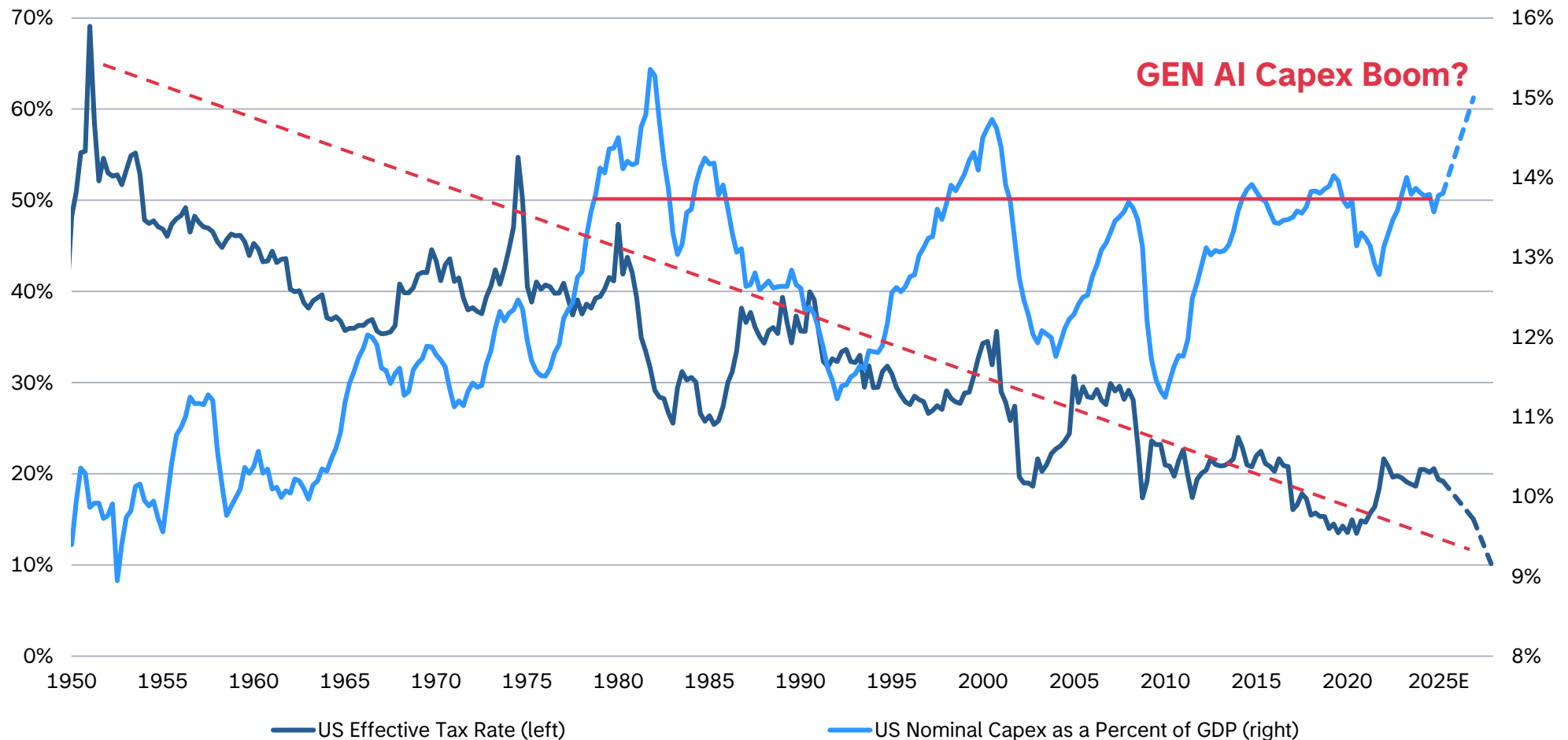
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research. Estimates are MS & Co. Research.

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# Bull Market Thesis: Corporate Tax Cut That Supports a Capex Boom?

## EFFECTIVE CORPORATE TAX RATE VS. US NOMINAL CAPEX AS A SHARE OF GDP

AS OF OCTOBER 13, 2025



Source: Morgan Stanley Wealth Management GIO, Piper Sandler. Estimates are Morgan Stanley Wealth Management GIO.

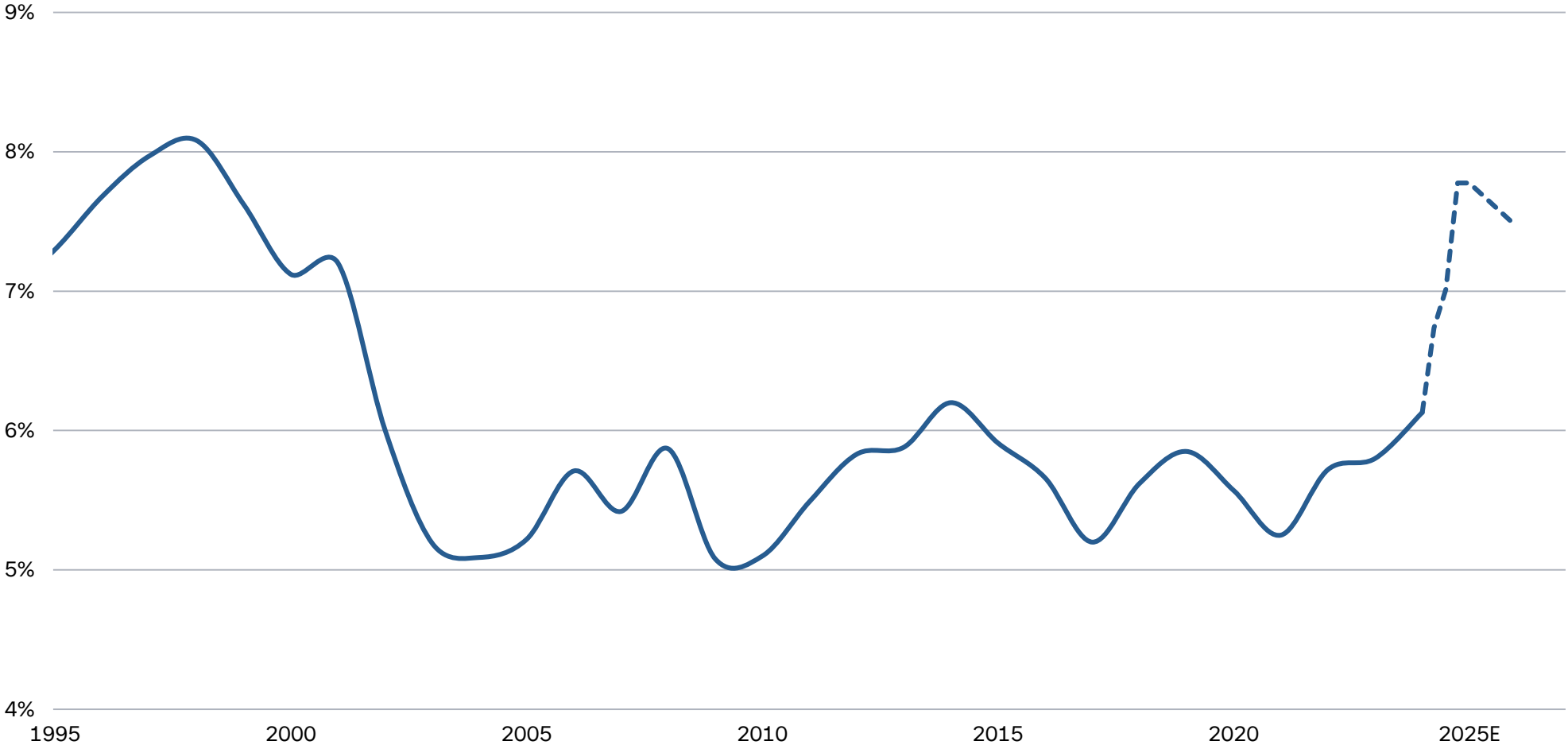
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# 1BBBA Amplifies the Capex Boom Narrative

## S&P 500 CAPEX AS A SHARE OF SALES

AS OF OCTOBER 13, 2025

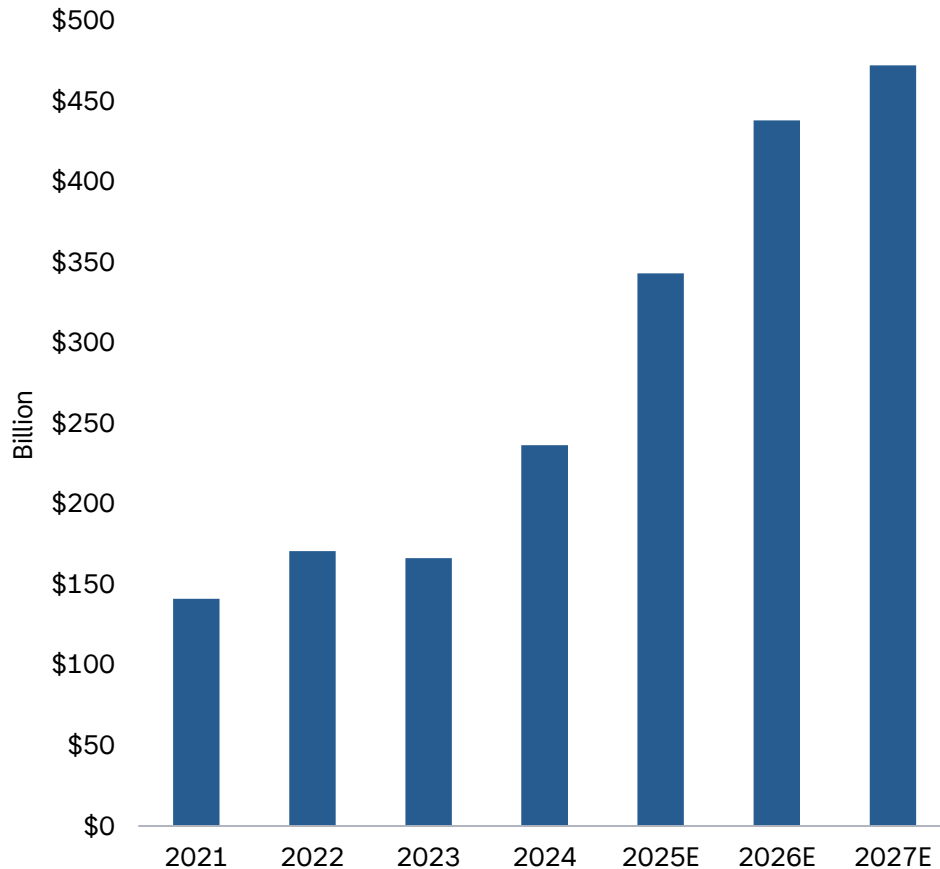


Source: Morgan Stanley Wealth Management GIO, Bloomberg. Consensus estimates.  
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# Gen AI Datacenter Linked Spending Surge; Entering Year Four with Arms Race Escalation

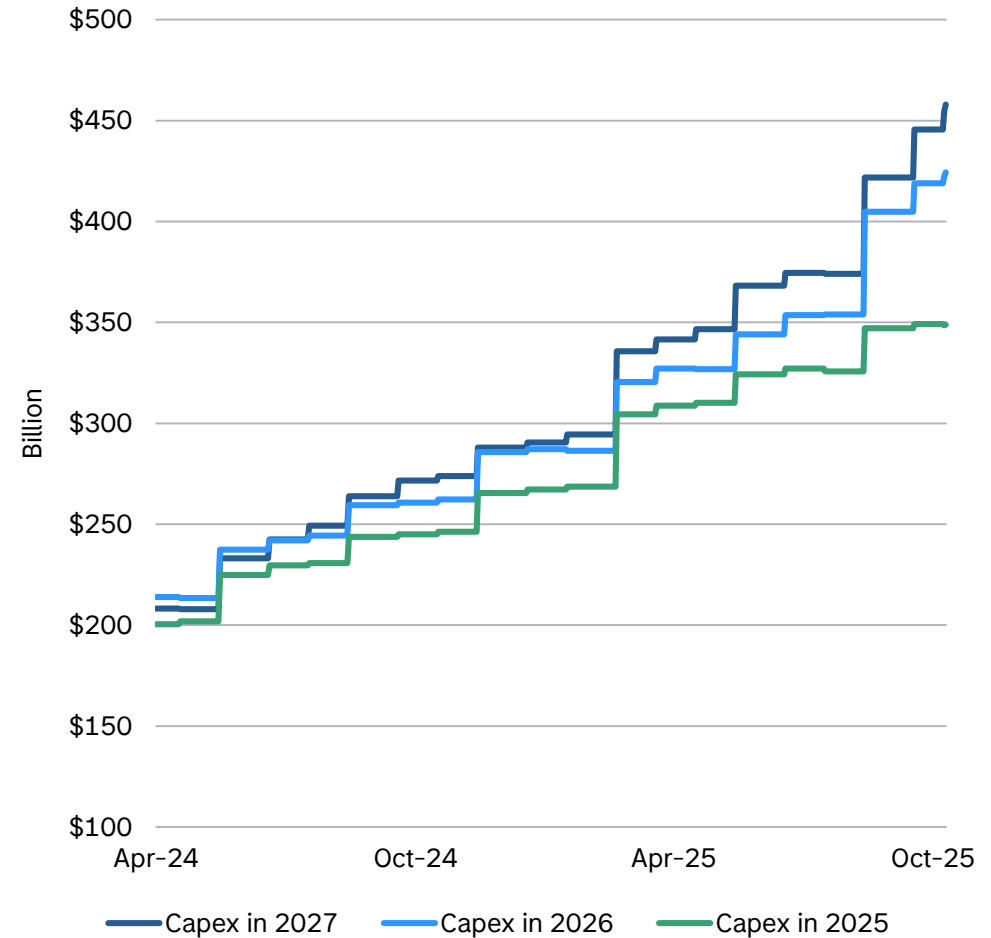
## CAPEX SPENDING OF AI HYPERSCALERS

AS OF OCTOBER 10, 2025



## CHANGE IN CAPEX FORECASTS FOR HYPERSCALERS

AS OF OCTOBER 10, 2025



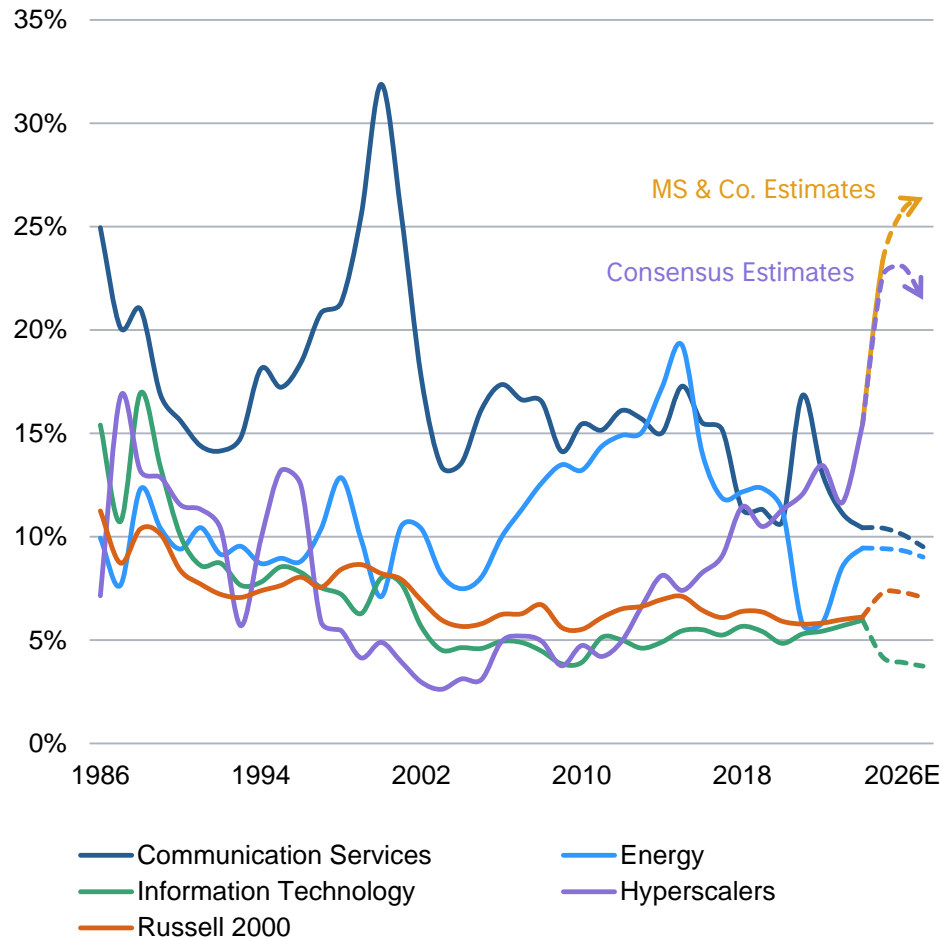
Source: Morgan Stanley Wealth Management GIO, ASR. Estimates are ASR.

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

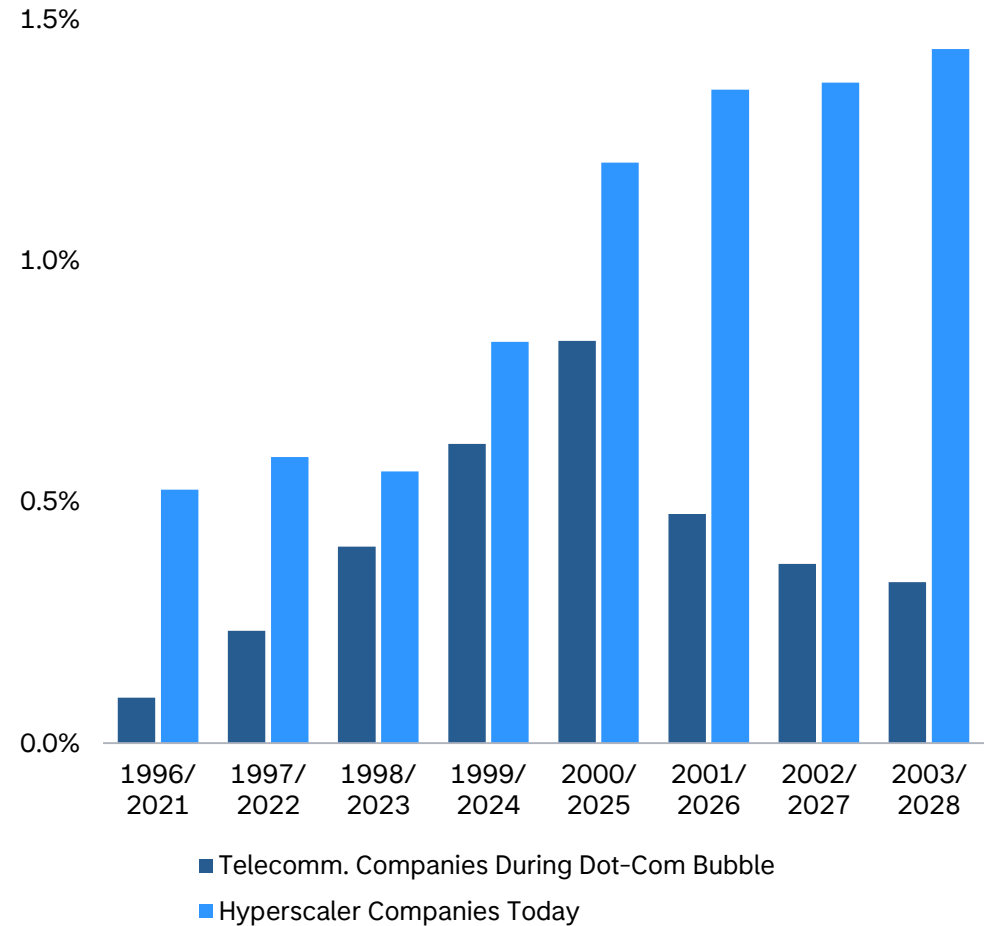
## CAPITAL EXPENDITURE AS A SHARE OF SALES

AS OF OCTOBER 8, 2025



## CAPITAL EXPENDITURE AS A SHARE OF GDP

AS OF JUNE 30, 2025



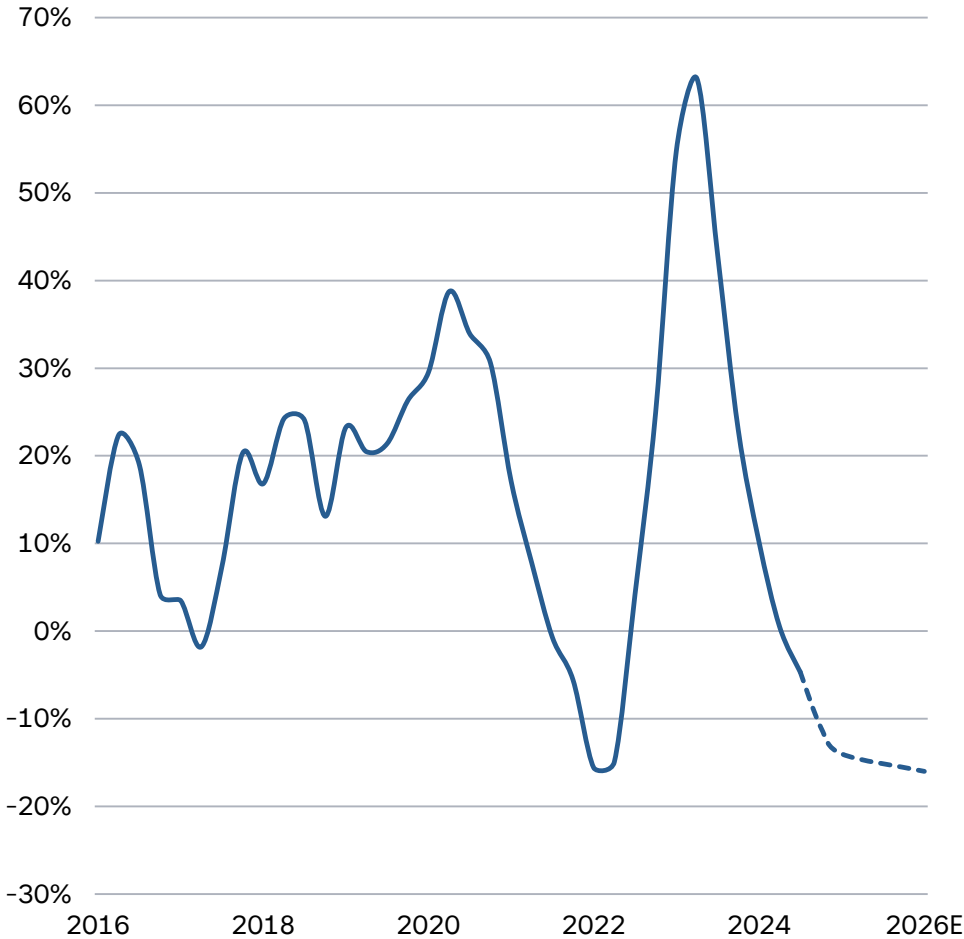
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, Apollo Global Management. MS & Co. Research and consensus estimates.

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# Hyperscaler Free Cash Flow Growth Negative; Debt Financing Increasing

MAG 7 FREE CASH FLOW YEAR-OVER-YEAR GROWTH

AS OF OCTOBER 13, 2025



ORACLE OPTION ADJUSTED SPREAD TO 10-YEAR SWAP CURVE

AS OF OCTOBER 10, 2025



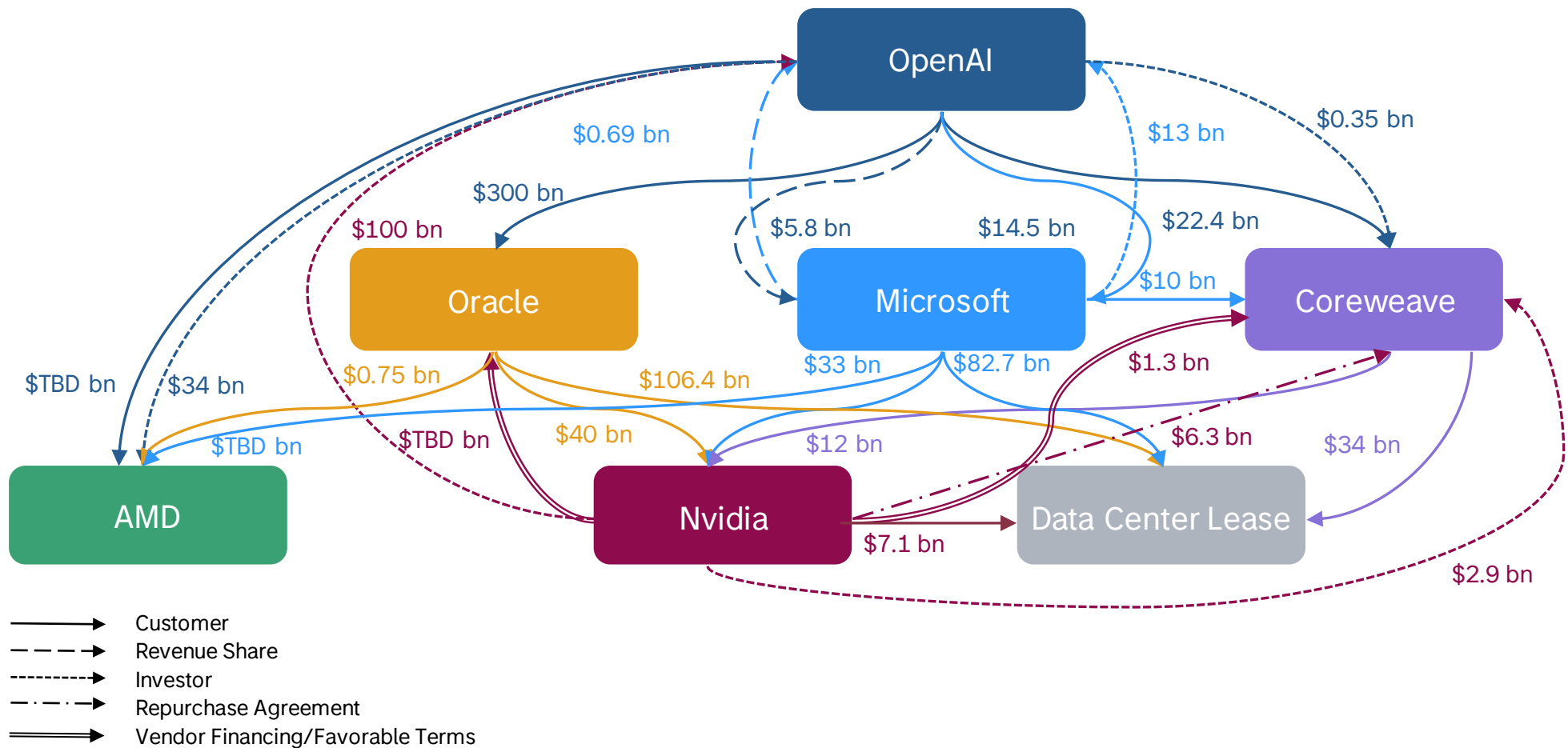
Source: Morgan Stanley Wealth Management GIO, Bloomberg. Estimates are Morgan Stanley Wealth Management GIO. Option-adjusted spread (OAS) is a measurement of the spread of a fixed income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option.

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# Risk Is Increasing Circularity

## AI ECOSYSTEM CAPITAL FLOWS

AS OF OCTOBER 8, 2025



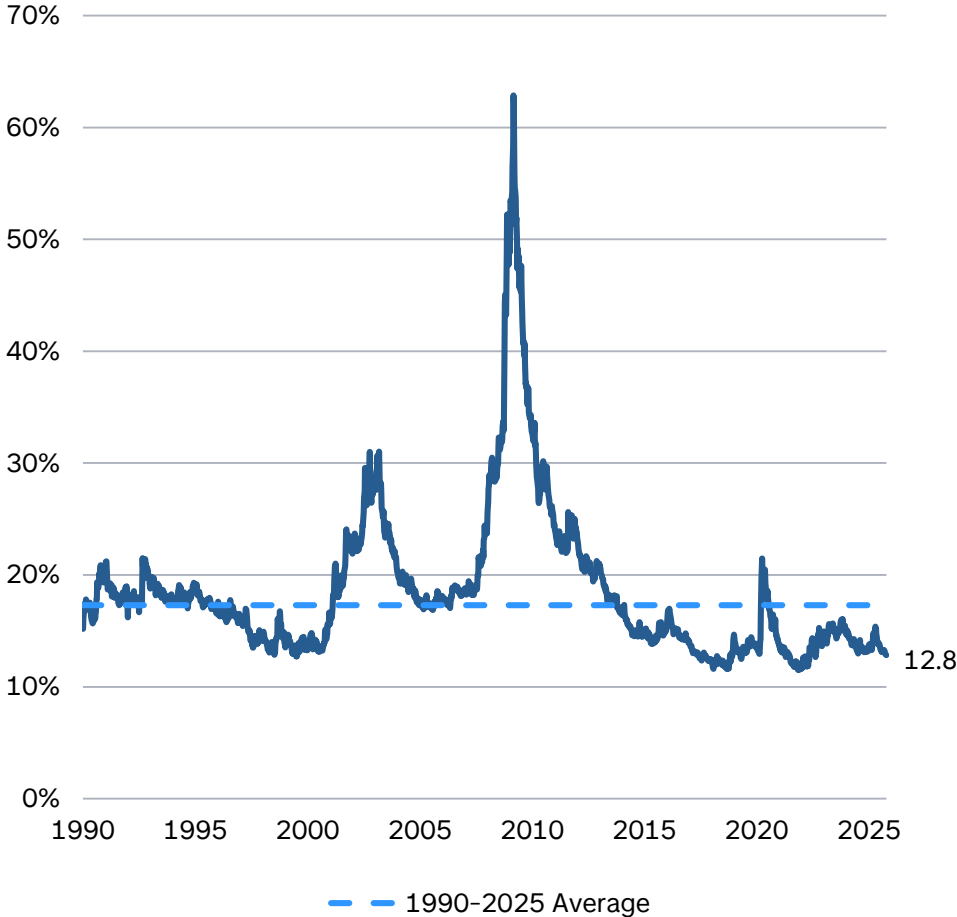
Source: Morgan Stanley Wealth Management GIO, MS & Co Research, "AI: Mapping Circularity," October 8, 2025.

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# Retail “Cash on the Sidelines” Looks Exhausted

**MONEY MARKET FUNDS AS A SHARE OF S&P 500 MARKET CAP**

AS OF OCTOBER 8, 2025



**Schwab Client Cash as a Share of Total Assets**

AS OF SEPTEMBER 30, 2025



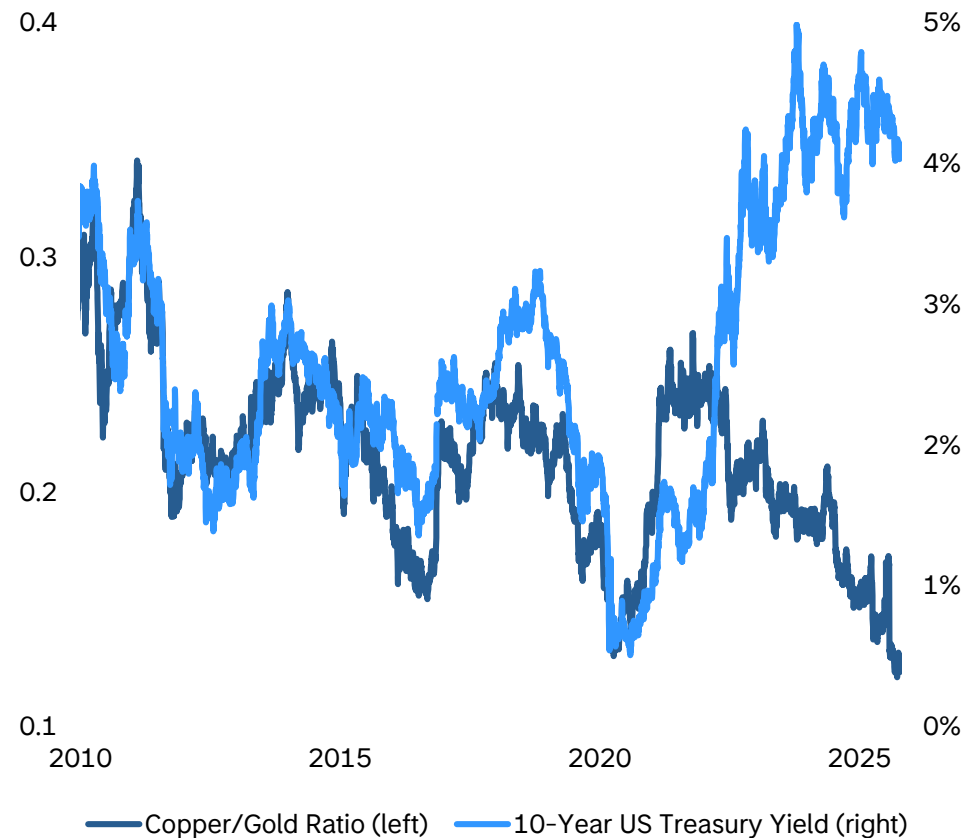
Source: Morgan Stanley Wealth Management GIO, MS & Co. Research, Bloomberg, Strategas.

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# US Treasuries Are Signaling a Regime Change...

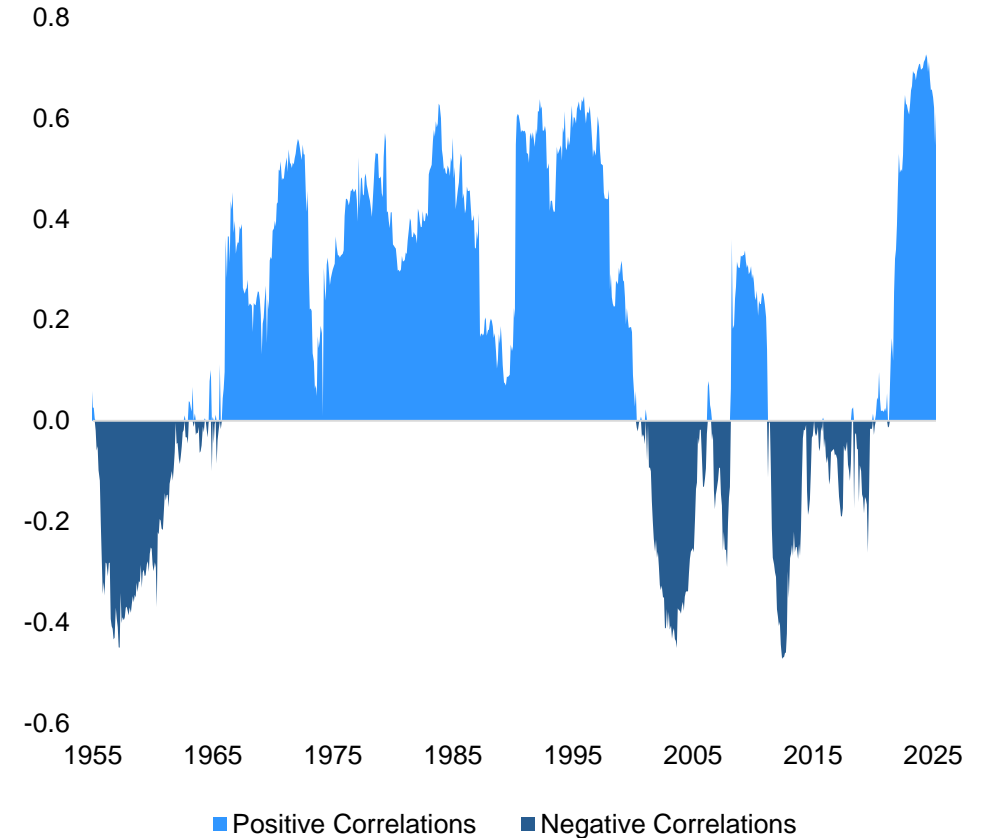
## COPPER/GOLD RATIO VS. 10-YEAR US TREASURY YIELD

AS OF OCTOBER 10, 2025



## ROLLING THREE-YEAR STOCK-BOND CORRELATIONS

AS OF OCTOBER 10, 2025



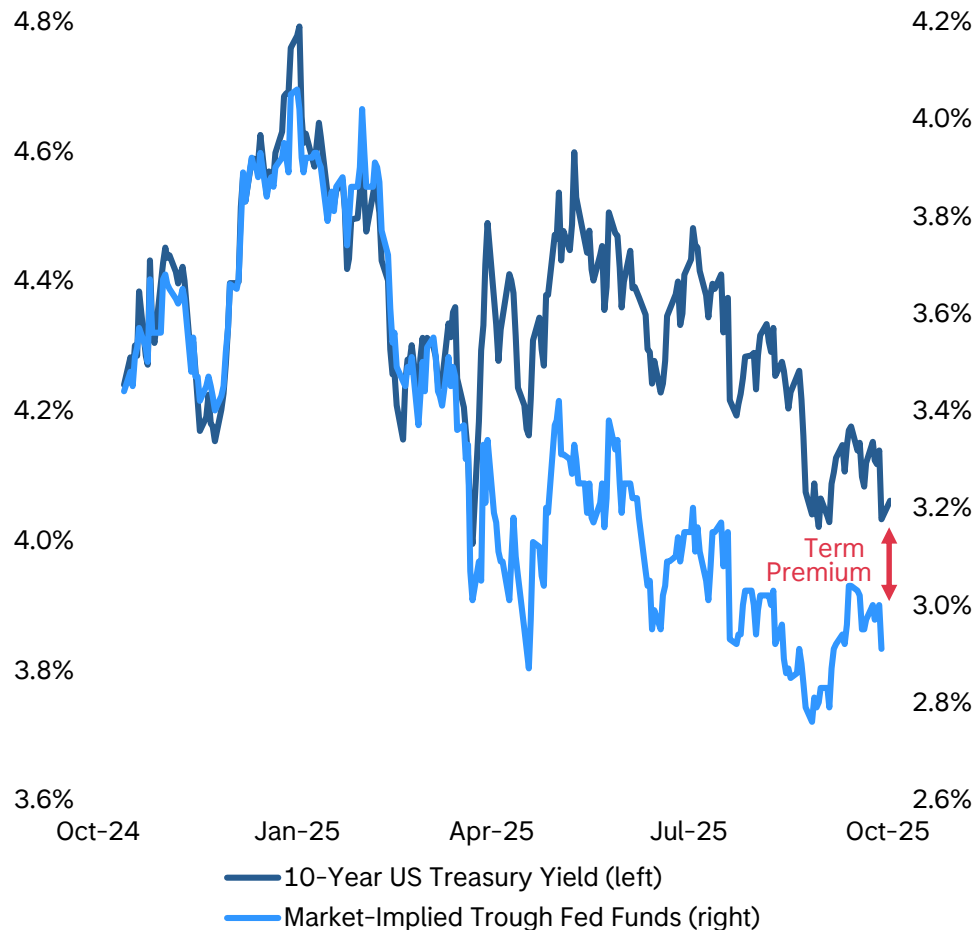
Source: Morgan Stanley Wealth Management GIO, Bloomberg. Correlation This is a statistical measure of how two securities move in relation to each other. This measure is often converted into what is known as correlation coefficient, which ranges between -1 and +1. Perfect positive correlation (a correlation 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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# Long Duration Term Premium Seems Here to Stay

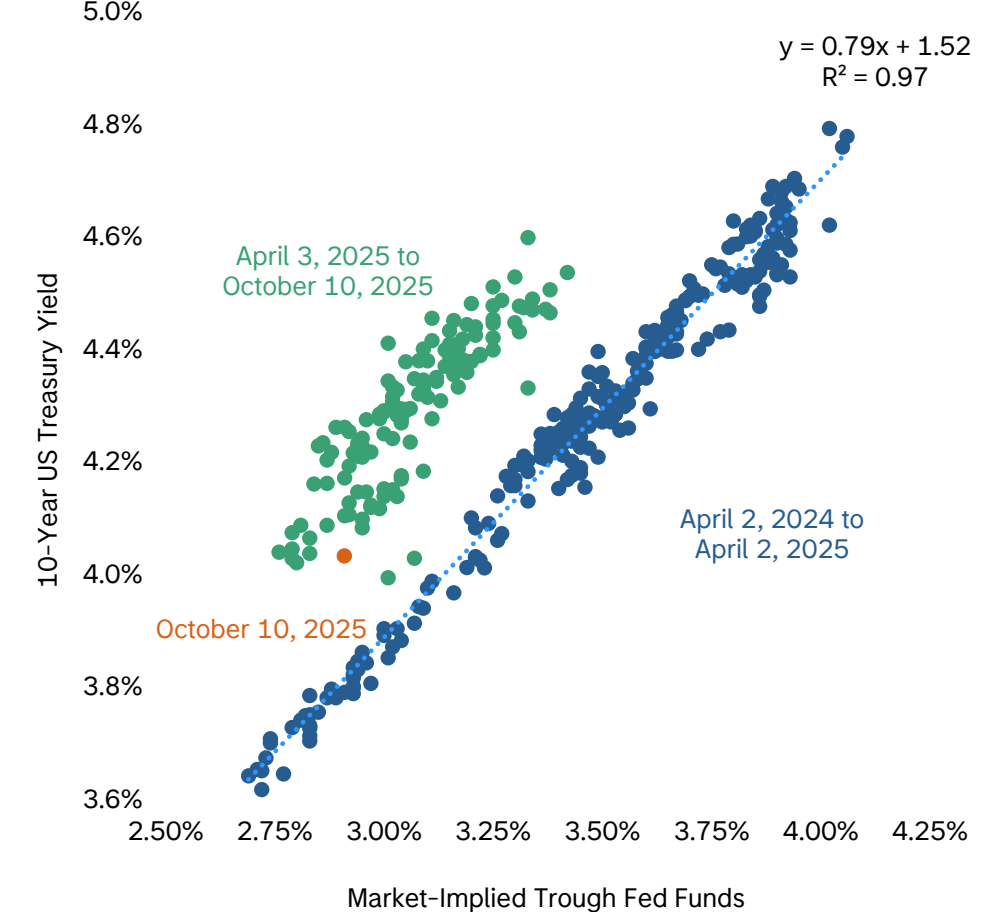
## 10-YEAR TREASURY YIELDS VS. TROUGH FED FUNDS

AS OF OCTOBER 10, 2025



## REGRESSION OF 10-YEAR TREASURY AND TROUGH FED FUNDS

AS OF OCTOBER 10, 2025



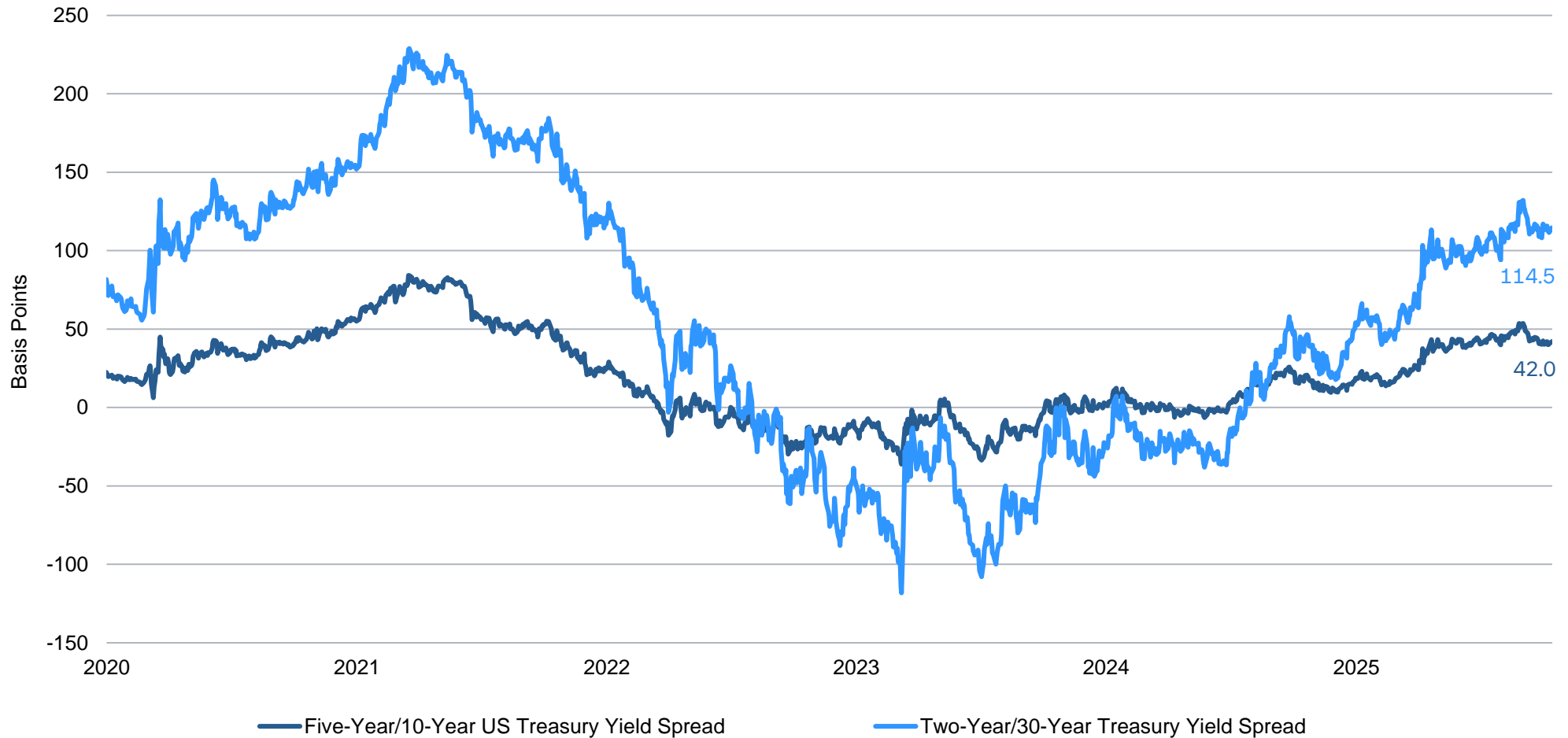
Source: Morgan Stanley Wealth Management GIO, Bloomberg. Term premium is the excess yield that investors require to commit to holding a long-term bond instead of a series of shorter-term bonds. Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Please refer to important information, disclosures and qualifications at the end of this material.



# Belly of the Treasury Curve Has Resisted Steepening

## FIVE-YEAR/10-YEAR US TREASURY YIELD SPREAD VS. TWO-YEAR/30-YEAR TREASURY YIELD SPREAD

AS OF OCTOBER 14, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg.

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# US Dollar Appears Directionless...

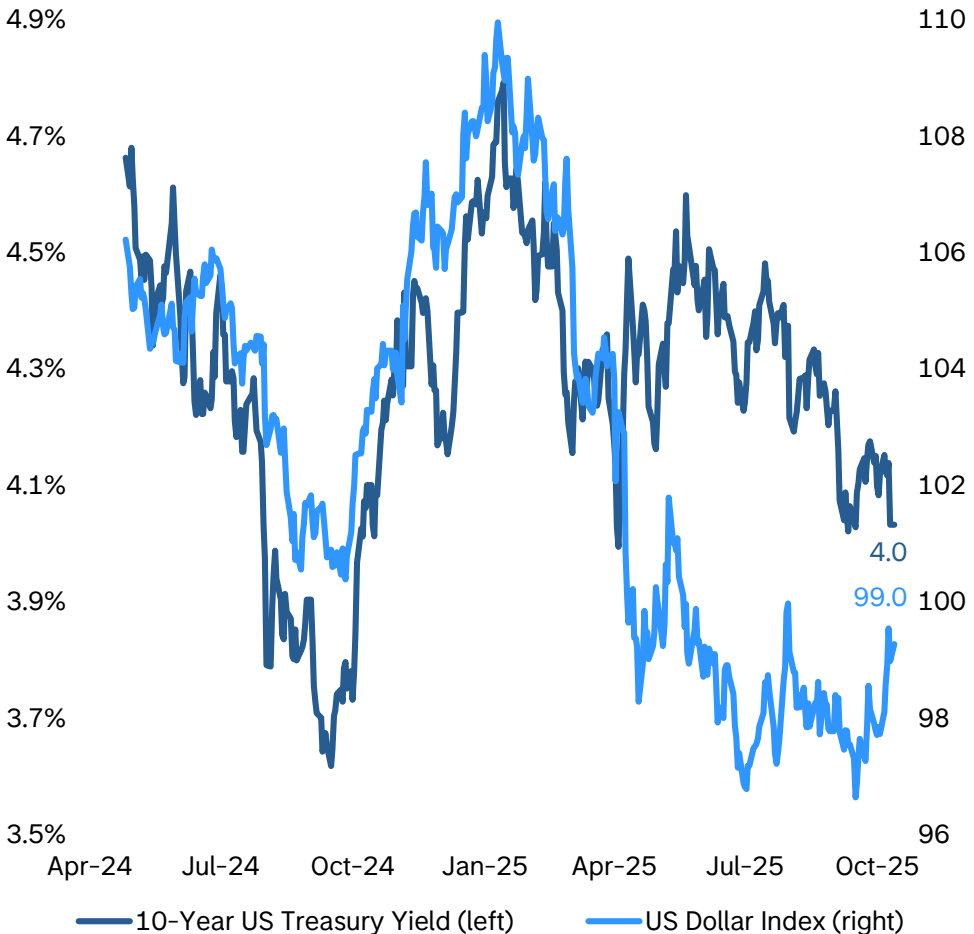
## US DOLLAR INDEX

AS OF OCTOBER 10, 2025



## A DANGEROUS DISCONNECT

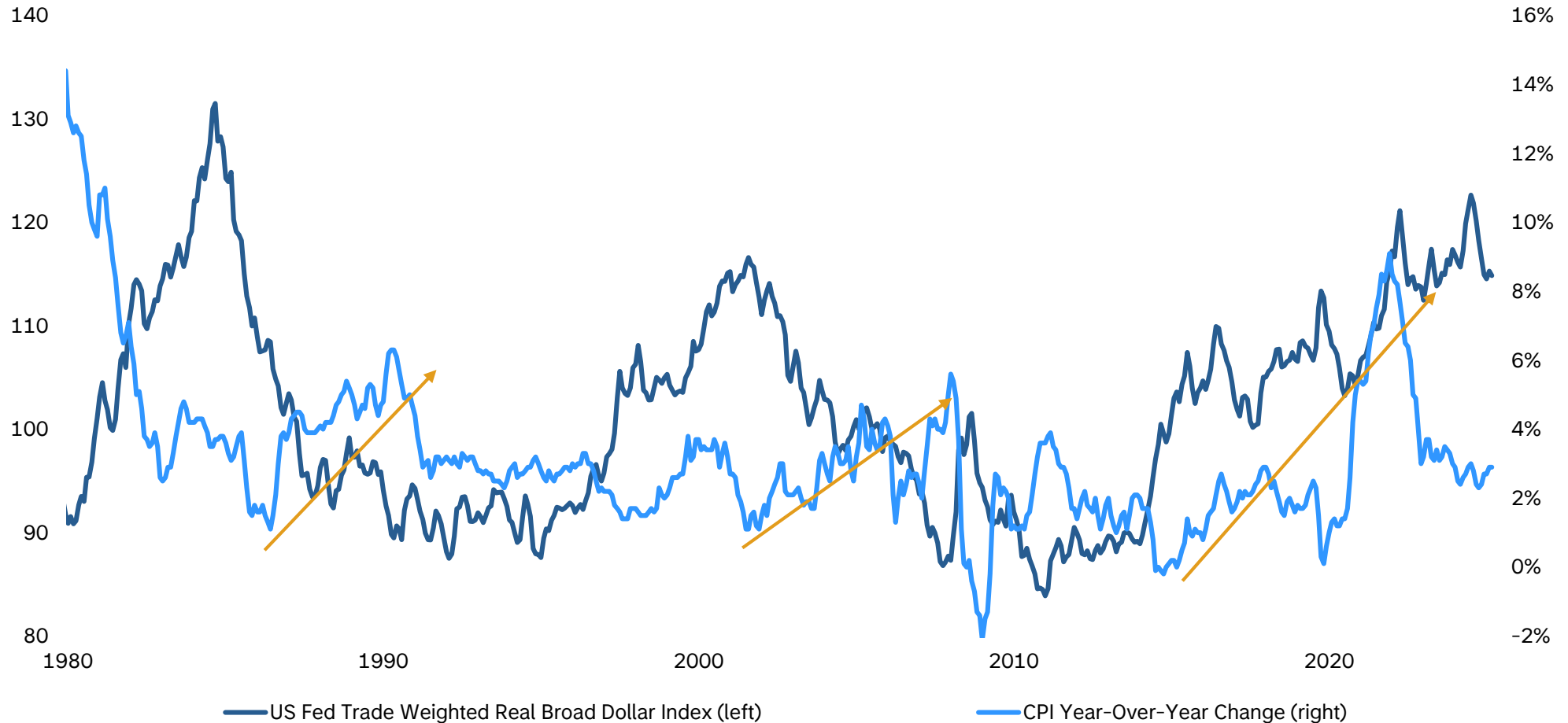
AS OF OCTOBER 10, 2025



# The US Dollar Moves in Multi-Decade Cycles; Inversely to Inflation

## US FED REAL TRADE WEIGHTED DOLLAR VS. CPI YEAR-OVER-YEAR CHANGE

AS OF SEPTEMBER 30, 2025



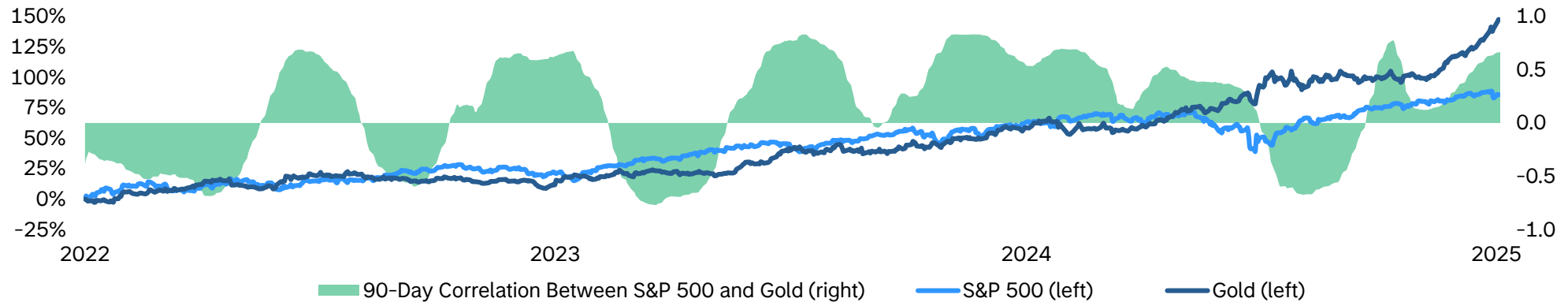
Source: Morgan Stanley Wealth Management GIO, Bloomberg.

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# ...And Gold...Now a Secular Growth Story?

## S&P 500 AND GOLD: RETURN AND CORRELATION

AS OF OCTOBER 13, 2025, (OCTOBER 12, 2022 = 0)



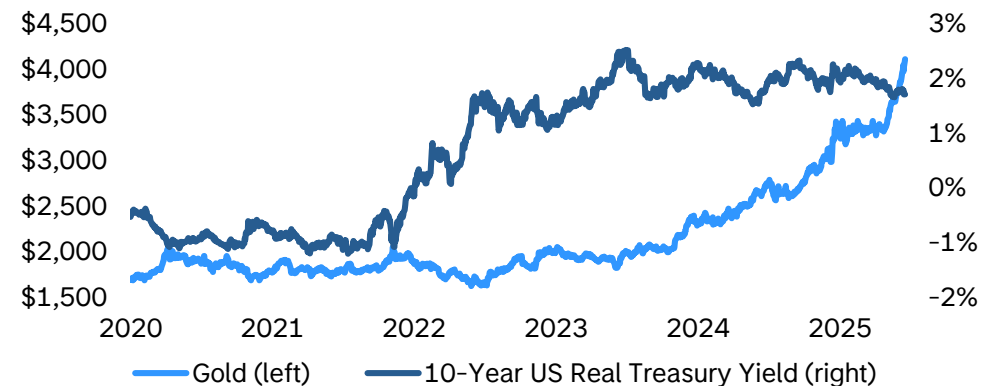
## GOLD PRICE (\$/OZ)

AS OF OCTOBER 13, 2025



## GOLD VS. 10-YEAR US REAL TREASURY YIELD

AS OF OCTOBER 13, 2025



Source: Morgan Stanley Wealth Management GIO, Bloomberg.

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**Asset allocation, diversification, rebalancing and dollar cost averaging** do not guarantee a profit or protect against loss in declining markets. Past performance is no guarantee of future results and actual results may vary. Rebalancing strategies may also have tax consequences; investors should consult a qualified tax advisor before implementing such strategies.

**Conflicts of Interest:** As a diversified global financial services firm, Morgan Stanley engages in a broad range of activities, including financial advisory and investment management services; sponsoring and managing private investment funds; broker-dealer and principal securities transactions, commodities and foreign exchange transactions; and the publication of research, among other activities. In the ordinary course of its business, these activities may create situations where Morgan Stanley's interests may conflict with those of its clients, including the private investment funds it manages. Morgan Stanley can give no assurance that such conflicts of interest will be resolved in favor of its clients or any particular fund.

**Indices** are unmanaged and cannot be invested in directly. For index, indicator and survey definitions referenced in this report, please visit: [www.morganstanley.com/wealth-investmentsolutions/wmir-definitions](http://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions)

For more information, please refer to additional General Disclosures here: [www.morganstanley.com/wealthbooks#general-disclosures](http://www.morganstanley.com/wealthbooks#general-disclosures).

Risks Associated With Investing

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

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

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

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

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

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

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

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

**Sector investments**, due to their narrow focus, tend to be more volatile than broadly diversified investments. **Non-diversified portfolios:** Portfolios that hold a concentrated number of securities may experience greater overall declines when those securities lose value compared with more diversified portfolios. Portfolios that invest heavily in one or a few industry sectors are more vulnerable to price fluctuations than those diversified across a wider range of sectors.

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

**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.

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

#### Investment Advisory Programs

The sole purpose of this material is to inform, and it in no way is intended to be an offer or solicitation to purchase or sell any security, other investment or service, or to attract any funds or deposits. Investments mentioned may not be appropriate for all clients. MSWM offers investment program services through a variety of investment programs, which are opened pursuant to written client agreements. Each program offers investment managers, funds and features that are not available in other programs; conversely, some investment managers, funds or investment strategies may be available in more than one program. For more information, please see the Morgan Stanley Smith Barney LLC MSWM program disclosure brochure (the "Morgan Stanley ADV"). The Morgan Stanley ADV is available at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV).

**The Morgan Stanley Pathway Funds, Firm Discretionary UMA Model Portfolios, and other asset allocation or any other model portfolios** that are discussed in this material are available only to investors participating in Morgan Stanley Consulting Group advisory programs. For additional information on the Morgan Stanley Consulting Group advisory programs, see the applicable ADV brochure, available at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) or request from your Morgan Stanley Financial Advisor or Private Wealth Advisor. To learn more about the Morgan Stanley Pathway Funds, visit the Funds' website at [www.morganstanley.com/wealth-investmentsolutions/cgcm](http://www.morganstanley.com/wealth-investmentsolutions/cgcm).

Generally, investment advisory accounts are subject to an **annual asset-based fee** (the "Fee") which is payable monthly in advance (some account types may be billed differently). In general, the Fee covers Morgan Stanley investment advisory services, custody of securities with Morgan Stanley, trade execution with or through Morgan Stanley or its affiliates, as well as compensation to any Morgan Stanley Financial Advisor.

In addition, each account that is invested in a program that is eligible to purchase certain investment products, such as mutual funds, will also pay a **Platform Fee** (which is subject to a Platform Fee offset) as described in the Morgan Stanley ADV. Accounts invested in the Select UMA program may also pay a separate Sub-Manager fee, if applicable.

If your account is invested in mutual funds or exchange traded funds (collectively "funds"), you will pay the fees and expenses of any funds in which your account is invested. **Fees and expenses are charged directly to the pool of assets** the fund invests in and are reflected in each fund's share price. These fees and expenses are an additional cost to you and would not be included in the Fee amount in your account statements. The advisory program you choose is described in the Morgan Stanley ADV.

Morgan Stanley or Executing Sub-Managers, as applicable, in some of Morgan Stanley's SMA programs may effect transactions through broker-dealers other than Morgan Stanley or our affiliates. In such instances, you may be assessed additional costs by the other firm in addition to the Morgan Stanley and Sub-Manager fees. Those costs will be included in the net price of the security, not separately reported

on trade confirmations or account statements. Certain Sub-Managers have historically directed most, if not all, of their trades to outside firms. Information provided by Sub-Managers concerning trade execution away from Morgan Stanley is summarized at: [www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf](http://www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf). For more information on trading and costs, please refer to the **Morgan Stanley ADV** or contact your Financial Advisor / Private Wealth Advisor.

**GIMA Conflicts of Interest:** Our business is subject to various conflicts of interest. For example, ideas and suggestions for which investment products should be evaluated by Global Investment Manager Analysis (GIMA) come from a variety of sources, including our MSWM Financial Advisors and their direct or indirect managers, and other business persons within MSWM or its affiliates. Such persons may have an ongoing business relationship with certain investment managers or mutual fund companies whereby they, MSWM or its affiliates receive compensation from, or otherwise related to, those investment managers or mutual funds or for which a portion of their clients' assets are already invested. Separately, certain strategies managed or sub-advised by us or our affiliates, including but not limited to MSIM and Eaton Vance Management ("EVM") and its investment affiliates, may be included in your account. See the conflicts of interest section in the applicable Morgan Stanley ADV brochure for a discussion of other types of conflicts that may be relevant to GIMA's evaluation of managers and funds. In addition, MSWM, Morgan Stanley & Co. LLC ("MS & Co."), managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts, and managers in various advisory programs.

MSWM, managers, MS & Co., and their affiliates receive compensation and fees in connection with these services. MSWM believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all these companies from an account.

Morgan Stanley charges each fund family we offer a **mutual fund support fee**, also called a "revenue-sharing payment," on client account holdings in fund families according to a tiered rate that increases along with the management fee of the fund so that lower management fee funds pay lower rates than those with higher management fees.

For more information, please refer to additional Investment Advisory Programs disclosures here: [www.morganstanley.com/wealthbooks#investment-advisory-programs](http://www.morganstanley.com/wealthbooks#investment-advisory-programs).

### Products and Services

**Annuities and insurance products** are offered in conjunction with Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates. Not all products and services discussed herein are available through Morgan Stanley Smith Barney LLC's licensed insurance agency affiliates. Since life and long-term care insurance are medically underwritten, you should not cancel your current policy until your new policy is in force. A change to your current policy may incur charges, fees and costs. A new policy will require a medical exam. Surrender charges may be imposed and the period of time for which the surrender charges apply may increase with a new policy. You should consult with your own tax advisors regarding your potential tax liability on surrenders. Investment, insurance and annuity products offered through Morgan Stanley Smith Barney LLC are: NOT FDIC INSURED | MAY LOSE VALUE | NOT BANK GUARANTEED | NOT A BANK DEPOSIT | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY.

**Lending products, including securities-based loans**, are offered by Morgan Stanley Smith Barney LLC (MSSB), Morgan Stanley Private Bank, National Association (MSPBNA), and Morgan Stanley Bank, N.A. (MSBNA), collectively referred to as "the Firm" as applicable. Borrowing against securities involves risk and may not be appropriate for all clients. Risks include maintenance calls, forced liquidation of securities, and potential tax consequences. The Firm reserves the right to change collateral requirements, decline funding requests, or call loans at any time. Products are distinct and subject to independent underwriting and approval. Rates, terms, and availability may vary.

**Residential mortgage loans and home equity lines of credit** are offered by MSPBNA, Member FDIC an Equal Housing Lender. Nationwide Mortgage Licensing System Unique Identifier #663185. **The proceeds from a residential mortgage loan (including draws and advances from a home equity line of credit) are not permitted to be used to purchase, trade, or carry eligible margin stock; repay margin debt that was used to purchase, trade, or carry margin stock; or to make payments on any amounts owed under the note, loan agreement, or loan security agreement; and cannot be deposited into a MSSB or other brokerage account.** The pledged-asset feature allows eligible securities to be used as a substitute for a cash down payment. The pledged-asset feature allows eligible securities to be used as an alternative to a cash down payment. Clients must maintain collateral levels and may be subject to liquidation if requirements are not met. Interest-only and adjustable-rate mortgages (ARMs) carry specific risks, including payment increases and higher total interest costs. ARMs are based on the SOFR 30-Day Average. Relationship-based pricing is available based on eligible household assets held at the Firm.

**Cards and Cash Management:** Debit Cards offered through the Firm are issued by MSPBNA under license from Mastercard. American Express Cards offered through the Firm include the Platinum Card®, Blue Cash Preferred®, and the Morgan Stanley Credit Card. Eligibility requires an "Eligible Account" at the Firm. Cards are issued by American Express National Bank. Terms, conditions, and restrictions apply. The Greenlight App and Debit Card is provided by Greenlight Financial Technologies, not the Firm or any of its affiliates. The Morgan Stanley CashPlus is a brokerage account offered through MSSB. Conditions and restrictions apply. For more information, see the CashPlus Disclosure Statement.

**Deposit Products and FDIC:** Under the Bank Deposit Program, free credit balances held in an account(s) at Morgan Stanley Smith Barney LLC are automatically deposited into an interest-bearing deposit account(s) at FDIC-insured banks. Certain conditions must be met. For more information, view the Bank Deposit Program Disclosure Statement. The Savings and Preferred Savings Programs offer FDIC-insured deposit accounts at Morgan Stanley Private Bank, National Association, Member FDIC or Morgan Stanley Bank, N.A., Member FDIC. The Savings programs are not intended for clients who need to have frequent access to funds and those funds will not be automatically accessed to reduce a debit or margin loan in your brokerage account. Withdrawals are limited to 10 per calendar month, and excess withdrawals may incur fees. Promotional rates may be offered from time to time and are subject to change at any time.

Morgan Stanley Smith Barney LLC is a registered Broker/Dealer and not a bank. Where appropriate, Morgan Stanley Smith Barney LLC has entered into arrangements with banks and other third parties to assist in offering certain banking-related products and services.

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CRC 4953093 (11/25)