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The Caruso-Colonna Group at Morgan Stanley February, 2026 Newsletter

Our Mission: To Gain and Maintain Financial Freedom

“What good is the warmth of summer, without the cold of winter to give it sweetness.”

John Steinbeck

Markets and The Economy:

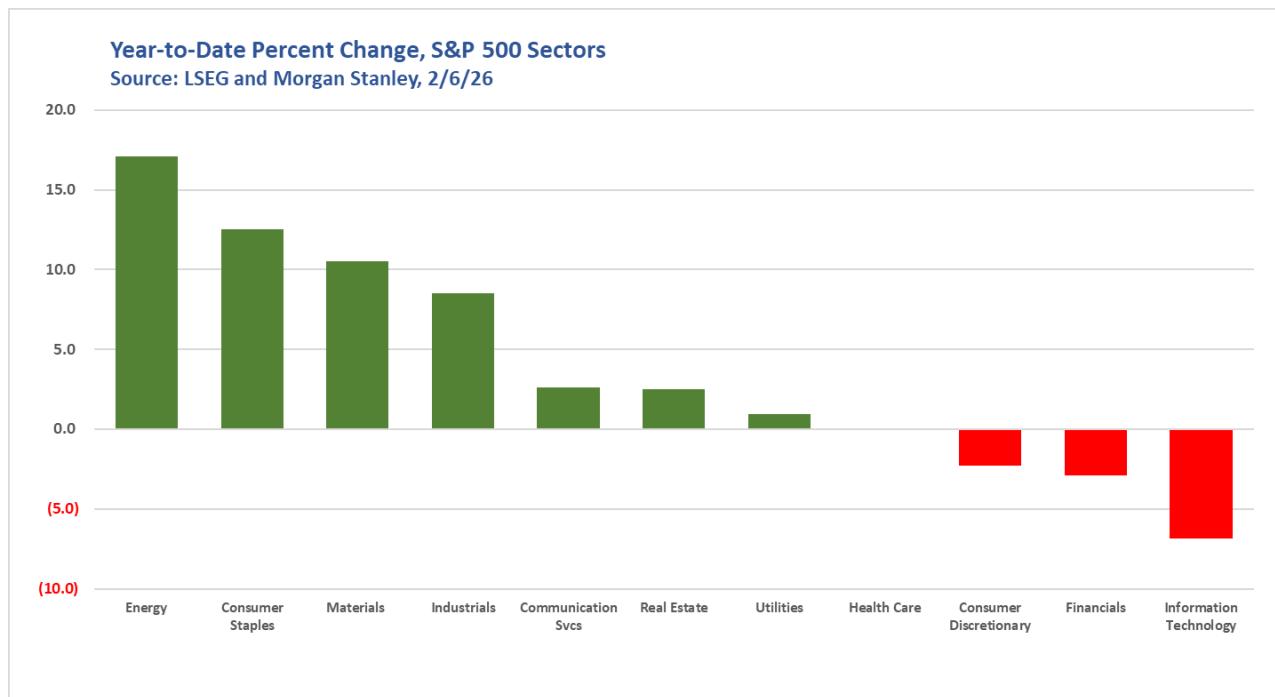
Keith A. Colonna Sr., CFP®

Senior Vice President, Senior Portfolio Management Director, Financial Advisor

It is early in the year, but what an interesting start to 2026!

What sectors are leading markets this year? Recent sector laggards, including Energy, Materials, and our old friend Consumer Staples, have been leading the way. Industrials have put in a solid showing. Health care has been flat. Information Technology, which has been a strong market leader for some time, has been the S&P 500’s worst sector this year.

Our Capital Market Indices report appended at the end shows that Value stocks have led the year, with the Growth indices trailing.

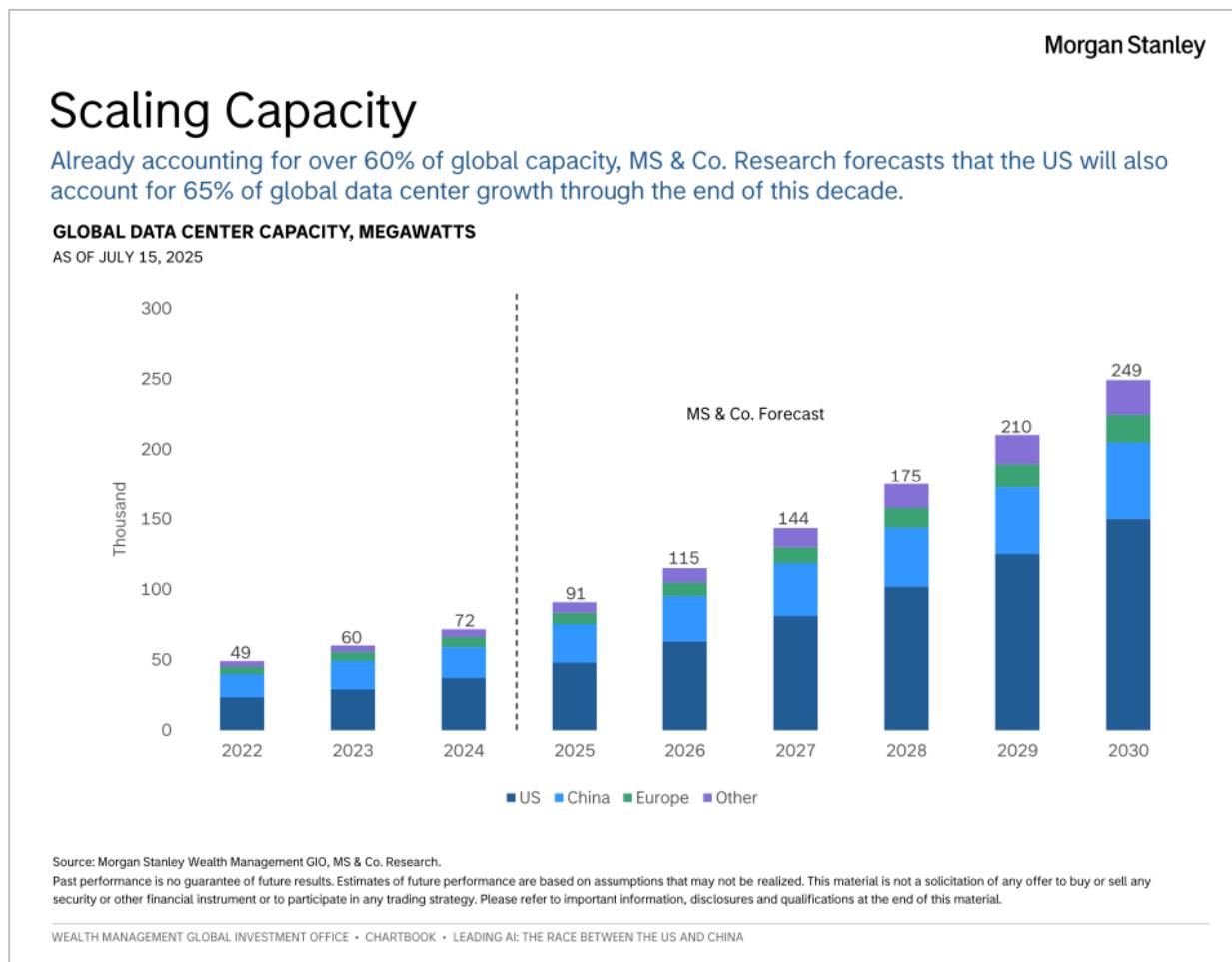


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Granted, we are only about five weeks into the year with forty-seven to go before we know how the year will end. This pivot to less-favored sectors though suggests that the strength and duration of the technology bull run may be taking a breather. This does not mean it is taking a long-term position at the back of the bus. Instead, this rotation may suggest a broader look at how investor's view markets.

Energy and power have not been dominant in recent years. However, our entire economy, and indeed all of life, is completely dependent upon energy conversion. Photosynthesis converts sunlight into fuel to help plants grow. Animals consume vegetation and convert it into body mass. Petroleum powers equipment to harvest, transport, and process foods for human consumption. People consume food which is converted into energy.

Energy and power demand seems unlikely to decline. The proliferation of data centers over the past few years suggests that electric power demand growth should continue perhaps even exponentially as shown below. We expect this to be a plus for not only the technology and computing industries but the power and construction industries that will support them.



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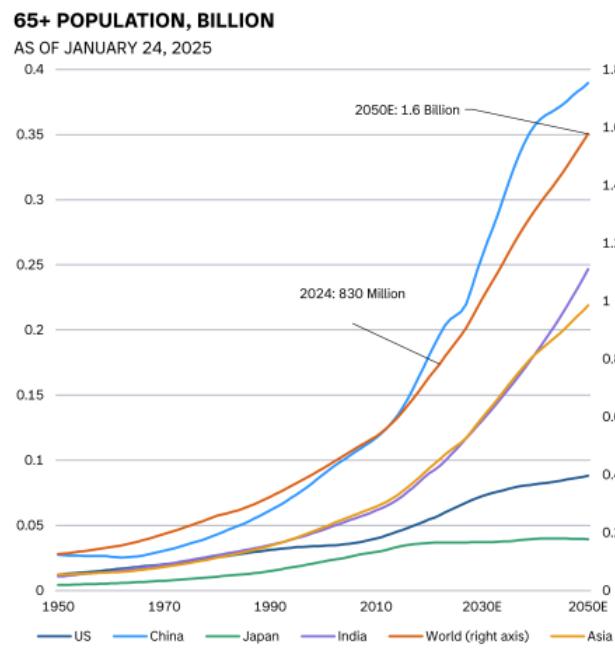
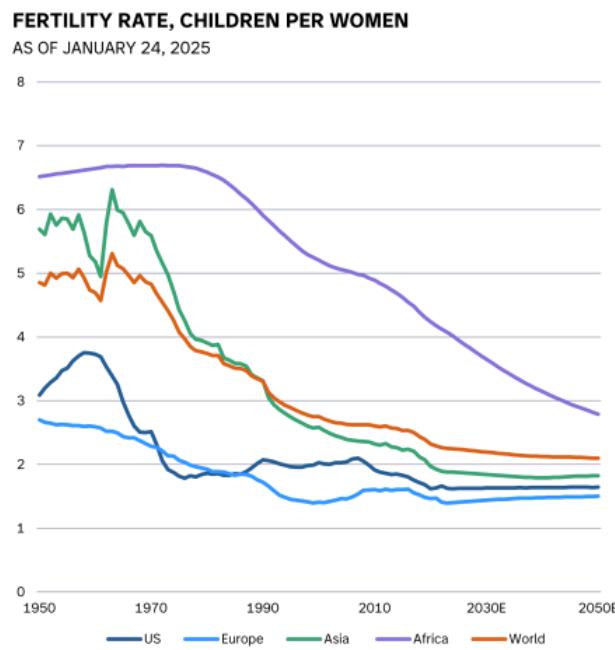
But... the intense focus on all things Ai suggests to us that investors may be overlooking other potential investment opportunities. For example, we believe that changing global demographics should not be dismissed. The world's population is aging, and global fertility rates are falling. As the chart below shows, the world's population over the age of 65 also continues to grow. China's population is projected to age the fastest.

It is unclear how Ai may help this aging demographic. The elderly though will still likely need more than their share of support. These trends may point to many potential needs required by an aging population such as nursing and custodial care, physical and occupational therapy, housing, medicine, transportation, and more.

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Drivers & Enablers: Demographics

The combined impact of the post-WWII baby boom and declining modern-day fertility rates (average births per woman) is driving up the aging-population share globally.



Source: Morgan Stanley Wealth Management GIO, United Nations

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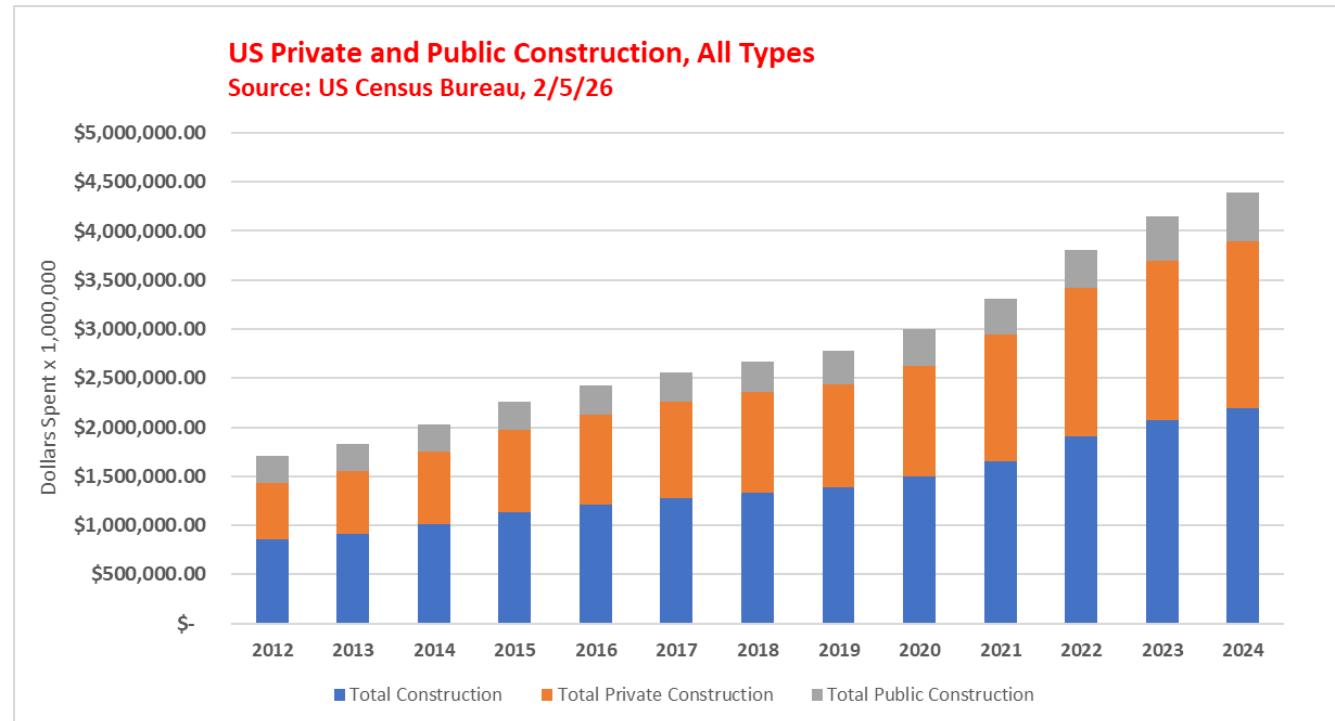
America's infrastructure and manufacturing needs should not be disregarded either. It may not be showing up in the economy just yet but the current incentives to reshore manufacturing to America are large. Our domestic infrastructure needs also remain acute with attention required on not only roads and bridges but waterways, water treatment, locks & dams, airports, and more.

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Non-defense capital goods spending (1) remains near all-time highs, continuing its post-COVID expansion. It is interesting to note in the upper graph two things: 1) Capex is highly cyclical, typically falling off during recessions, and 2) Capex never exceed \$70 billion annually until around 2021. It has not declined below that level since then.



Construction spending has grown more rapidly since COVID and we have no reason to expect it to decline. Remember our chart on page two showing expected power demand for data centers? We expect this to be a source of high construction demand by itself. Private construction has long outpaced public construction and this has been expanding too.



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We do not see a significant near-term catalyst for technology capex to decline. But there are many other areas of the economy that appear interesting to us as possible investment opportunities. Power, civil infrastructure, new home construction needs, and more, all must eventually be met.

Below is a graph we have provided previously. (2) This shows new housing starts by year going back to 1959. America's housing construction industry still has not fully recovered from 2006 - 2009. We believe America continues to have a shortage of new homes to help with population growth and to replace worn-out housing stock. This gives us economic optimism beyond the AI spending euphoria. People can live without AI, but they cannot live without roads, bridges, airports, clean water, food, and shelter.



As we finished this issue on Friday 2/6/26, we note that some technology stocks are under pressure again today. (3) We think this is okay. Market and sector pullbacks from peaks are, in our view, healthy market reactions. The market activity we are seeing at the beginning of February looks to us to be more opportunistic than anxious.

Today we are seeing new 52-week high prices appear in companies that have not enjoyed them for a while. (3) These include companies supplying things like:

- roller bearings
- filtration equipment
- airlines
- petroleum
- industrial pumps
- insurance
- banking
- water treatment systems
- industrial hydraulics
- steelmaking

We believe an expansion in market breadth – the number and diversity of companies participating in a strong stock market – is healthy. We do not think that investors should be troubled by what appears to be a normal rotation to other market sectors.

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- (1) U.S. Census Bureau, Manufacturers' New Orders: Nondefense Capital Goods Excluding Aircraft [NEWORDER], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/NEWORDER>, February 5, 2026.
- (2) U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Privately-Owned Housing Units Started: Total Units [HOUST], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/HOUST>, February 5, 2026.
- (3) Source: LSEG T1 and Morgan Stanley, 2/6/26
- (4) AUM Data as of 2/6/26



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Left to Right: Keith Colonna Jr, Sandra Caruso, Keith Colonna Sr, Sarah DePaoli
For more information about individual years of experience please visit our website at <https://advisor.morganstanley.com/the-caruso-colonna-group>

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<https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions>

Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies.

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Capital Market Indices

Monday, February 2, 2026

US Equities	Jan-30	1D	WTD	MTD	QTD	YTD	1Y	US Size-Style	Jan-30	1D	WTD	MTD	QTD	YTD	1Y	USD SOFR Rates	Jan-30	3M Ago	1Y Ago
S&P 500	6,939.03	-0.4%	0.3%	1.4%	1.4%	1.4%	15.7%	Russell 3000	3,939.91	-0.5%	0.0%	1.5%	1.5%	1.5%	14.7%	One-Month	3.67%	3.98%	4.31%
Dow Jones Industrial Avg.	48,892.47	-0.4%	-0.4%	1.8%	1.8%	1.8%	10.8%	Russell 3000 Growth	3,665.04	-0.8%	-0.5%	-1.3%	-1.3%	-1.3%	13.9%	Three-Month	3.66%	3.85%	4.29%
NASDAQ Composite	23,461.82	-0.9%	-0.2%	1.0%	1.0%	1.0%	20.0%	Russell 3000 Value	2,829.67	-0.3%	0.5%	4.6%	4.6%	4.6%	15.0%	Six-Month	3.62%	3.73%	4.24%
NYSE Composite	22,719.32	-0.7%	-0.2%	3.4%	3.4%	3.4%	15.2%	S&P 500	6,939.03	-0.4%	0.3%	1.4%	1.4%	1.4%	15.7%	One-Year	3.49%	3.54%	4.16%
AMEX Composite	7,712.05	-5.3%	-2.4%	12.3%	12.3%	12.3%	54.5%	S&P 500 Equal Weight	8,018.21	-0.3%	-0.4%	3.4%	3.4%	3.4%	10.4%	US Bank Rates	Jan-30	3M Ago	1Y Ago
Americas Equities (USD)	Jan-30	1D	WTD	MTD	QTD	YTD	1Y	S&P 500 Growth	4,996.44	-0.9%	0.3%	0.5%	0.5%	0.5%	19.1%	Federal Funds	3.64%	3.86%	4.31%
Canada S&P	23,502.55	-3.8%	-2.7%	1.9%	1.9%	1.9%	34.8%	S&P 500 Value	2,142.41	0.1%	0.4%	2.5%	2.5%	2.5%	12.1%	Discount Rate	3.75%	4.00%	4.50%
Mexico IPC	3,879.65	-3.7%	-1.0%	8.8%	8.8%	8.8%	58.5%	Russell 1000	3,781.24	-0.5%	0.1%	1.4%	1.4%	1.4%	14.7%	Prime Rate	6.75%	7.00%	7.50%
Brazil Bovespa	34,494.26	-1.9%	2.1%	17.4%	17.4%	17.4%	59.6%	Russell 1000 Growth	4,691.16	-0.8%	-0.5%	-1.5%	-1.5%	-1.5%	14.1%	Volatility	Jan-30	1D Chg.	4W Ago
Europe Equities (USD)	Jan-30	1D	WTD	MTD	QTD	YTD	1Y	Russell 1000 Value	2,163.13	-0.2%	0.6%	4.5%	4.5%	4.5%	15.0%	CBOE Volatility (VIX)	17.44	0.56	14.33
UK FTSE 100	14,015.45	-0.1%	1.5%	5.0%	5.0%	5.0%	34.7%	Russell Midcap	3,960.15	-0.9%	-1.2%	3.1%	3.1%	3.1%	8.4%	Treasury Bond Volatility	59.20	-2.52	63.98
Eurozone STOXX 50	7,061.24	0.2%	0.7%	4.0%	4.0%	4.0%	32.4%	Russell Midcap Growth	2,189.81	-1.8%	-2.8%	-0.9%	-0.9%	-0.9%	0.3%	FX Volatility	7.83	-2.97	6.72
France CAC 40	9,647.82	-0.0%	0.5%	0.9%	0.9%	0.9%	20.6%	Russell Midcap Value	3,380.33	-0.6%	-0.6%	4.3%	4.3%	4.3%	11.0%	FX Rates	Jan-30	1D Chg.	1D %, FX
Germany DAX	29,132.48	0.2%	-0.8%	1.2%	1.2%	1.2%	28.7%	Russell 2000	2,613.74	-1.5%	-2.1%	5.4%	5.4%	5.4%	14.9%	US Dollar Spot Rate (DXY)	96.99	0.71	0.7%
Spain IBEX 35	21,228.20	0.9%	2.6%	4.9%	4.9%	4.9%	70.5%	Russell 2000 Growth	1,717.18	-2.0%	-3.1%	4.0%	4.0%	4.0%	12.9%	Euro (EUR/USD)	1.1851	-0.01	-1.0%
Asia Equities (USD)	Jan-30	1D	WTD	MTD	QTD	YTD	1Y	Russell 2000 Value	2,901.93	-1.1%	-1.0%	7.0%	7.0%	7.0%	17.0%	British Pound (GBP/USD)	1.3686	-0.01	-0.9%
Japan Nikkei 225	345.24	-1.1%	0.3%	7.2%	7.2%	7.2%	37.4%	S&P 500 Sectors	Jan-30	1D	WTD	MTD	QTD	YTD	1Y	Swiss Franc (USD/CHF)	0.7730	0.01	-1.1%
Hang Seng Hong Kong	3,506.63	-2.1%	2.2%	6.5%	6.5%	6.5%	39.6%	Communication Services	478.15	-0.2%	4.2%	5.8%	5.8%	5.8%	30.5%	Japanese Yen (USD/JPY)	154.78	1.67	-1.1%
China Shenzhen Comp.	385.98	-0.8%	-2.1%	6.6%	6.6%	6.6%	48.5%	Consumer Discretionary	1,961.14	-0.1%	-1.4%	1.7%	1.7%	1.7%	3.4%	Australian Dollar (AUD/USD)	0.6964	-0.01	-1.2%
Alternatives	Jan-30	1D	WTD	MTD	QTD	YTD	1Y	Consumer Staples	929.89	1.4%	0.8%	7.7%	7.7%	7.7%	8.9%	Canadian Dollar (USD/CAD)	1.3613	0.01	-0.9%
FTSE EPRA/NAREIT Global	1,764.24	0.1%	0.9%	2.9%	2.9%	2.9%	5.2%	Energy	786.14	1.0%	3.9%	14.4%	14.4%	14.4%	18.5%	New Zealand Doll. (NZD/USD)	0.6021	-0.01	-0.9%
Alerian Midstream Energy Select	798.75	-0.4%	2.4%	7.7%	7.7%	7.7%	7.7%	Financials	887.83	-0.3%	0.7%	-2.5%	-2.5%	-2.5%	4.6%	Hong Kong Doll. (USD/HKD)	7.8138	0.01	-0.1%
HFRX Global Hedge Fund	1,625.57	0.0%	0.5%	2.2%	2.2%	2.2%	8.4%	Health Care	1,802.62	0.6%	-1.7%	-0.0%	-0.0%	-0.0%	6.9%	Singapore Dollar (USD/SGD)	1.2703	0.01	-0.5%
HFRI Fund of Funds ¹	9,112.09	-	-	0.0%	0.0%	0.0%	10.6%	Industrials	1,400.05	-0.3%	0.7%	6.7%	6.7%	6.7%	20.3%	Chinese Renminbi (USD/CNY)	6.9569	0.00	-0.1%
HFRX Macro/CTA Index	1,427.77	0.0%	1.2%	4.4%	4.4%	4.4%	10.7%	Information Technology	5,587.88	-1.3%	-0.4%	-1.7%	-1.7%	-1.7%	24.6%	Indian Rupee (USD/INR)	91.99	0.03	-0.0%
Commodities	Jan-30	1D	WTD	MTD	QTD	YTD	1Y	Materials	624.06	-1.8%	-1.2%	8.7%	8.7%	8.7%	13.0%	Mexican Peso (USD/MXN)	17.46	0.24	-1.4%
Bloomberg Commodity	120.70	-3.1%	0.9%	10.0%	10.0%	10.0%	17.5%	Real Estate	262.03	0.1%	0.7%	2.9%	2.9%	2.9%	3.9%	Brazilian Real (USD/BRL)	5.2634	0.07	-1.4%
..Ex-Energy	143.07	-6.2%	-3.4%	4.8%	4.8%	4.8%	21.3%	Utilities	439.54	-0.2%	1.7%	1.4%	1.4%	1.4%	13.6%				
..Ex-Precious Metals	133.55	0.4%	3.7%	9.1%	9.1%	9.1%	6.4%	MSCI Indices (USD)	Jan-30	1D	WTD	MTD	QTD	YTD	1Y				
CRB Index	546.85	-0.5%	-0.2%	1.3%	1.3%	1.3%	0.9%	All Country World	1,044.26	-0.6%	0.7%	3.0%	3.0%	3.0%	21.9%				
Bloomberg Agriculture	53.10	-1.2%	-1.1%	-0.6%	-0.6%	-0.6%	-11.1%	... ex-US	446.04	-0.7%	1.3%	6.0%	6.0%	6.0%	35.3%				
Bloomberg Energy	30.48	3.4%	10.5%	20.3%	20.3%	20.3%	1.8%	World	4,527.59	-0.4%	0.5%	2.3%	2.3%	2.3%	19.6%				
WTI Crude Oil Futures	65.21	-0.3%	6.8%	13.6%	13.6%	13.6%	-10.3%	... ex-US	3,099.58	-0.2%	1.1%	4.7%	4.7%	4.7%	32.0%				
Brent Crude Oil Futures	70.69	-0.0%	7.3%	16.2%	16.2%	16.2%	-8.0%	USA	6,612.30	-0.5%	0.3%	1.3%	1.3%	1.3%	15.2%				
Gasoline Futures	1.92	0.1%	3.9%	12.7%	12.7%	12.7%	-5.6%	EAFFE	3,042.84	0.2%	1.6%	5.2%	5.2%	5.2%	31.8%				
Natural Gas Futures	4.35	11.1%	-17.5%	18.1%	18.1%	18.1%	42.9%	Pacific	3,933.54	-0.3%	1.5%	6.7%	6.7%	6.7%	29.4%				
Bloomberg Ind. Metals	172.07	-2.7%	-0.4%	5.3%	5.3%	5.3%	20.1%	Japan	14.19	-0.4%	-0.3%	6.5%	6.5%	6.5%	31.0%				
Copper Futures	5.92	-4.5%	-0.4%	4.3%	4.3%	4.3%	37.5%	Pacific ex-Japan	1,670.33	-0.4%	2.6%	6.9%	6.9%	6.9%	26.1%				
Bloomberg Prec. Metals	509.31	-16.3%	-9.4%	10.7%	10.7%	10.7%	77.6%	All Country Asia ex-Japan	987.94	-1.5%	2.0%	8.2%	8.2%	8.2%	42.7%				
Gold Futures	4,713.90	-11.4%	-5.3%	8.6%	8.6%	8.6%	67.0%	Europe	241.85	-0.1%	1.1%	4.3%	4.3%	4.3%	32.8%				
Silver Futures	78.53	-31.4%	-22.5%	11.2%	11.2%	11.2%	141.7%	.. ex-UK	285.73	-0.0%	1.0%	4.1%	4.1%	4.1%	32.2%				
Palladium Futures	1,703.10	-15.6%	-16.0%	3.1%	3.1%	3.1%	68.7%	Emerging Markets	1,528.09	-1.7%	1.8%	8.9%	8.9%	8.9%	43.3%				
Platinum Futures	2,121.60	-19.0%	-22.1%	4.3%	4.3%	4.3%	106.6%	Brazil	1,919.95	-1.6%	1.9%	16.8%	16.8%	16.8%	56.2%				
Bloomberg Softs	58.86	-2.4%	-3.1%	-7.2%	-7.2%	-7.2%	-14.3%	China	11.16	-2.3%	0.7%	4.7%	4.7%	4.7%	35.9%				
								India	32.55	-0.1%	1.5%	-4.7%	-4.7%	-4.7%	4.2%				
								Mexico	8,137.17	-3.2%	-0.0%	9.6%	9.6%	9.6%	61.5%				
								Frontier Markets	783.42	-0.3%	-0.1%	3.9%	3.9%	3.9%	48.2%				

Source: Morgan Stanley Wealth Management GIO, Bloomberg, FactSet. ¹Data for HFRI Fund of Funds as of Dec. 31, 2025. YTD starts Dec. 31, 2025, and 1Y starts Jan. 30, 2025.

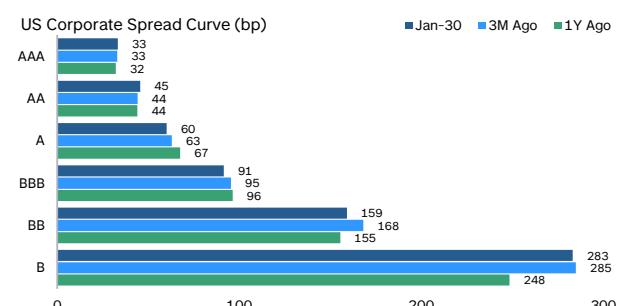
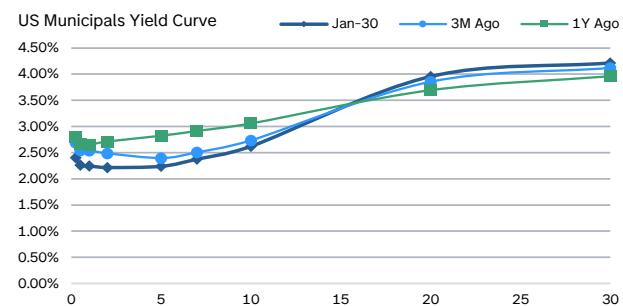
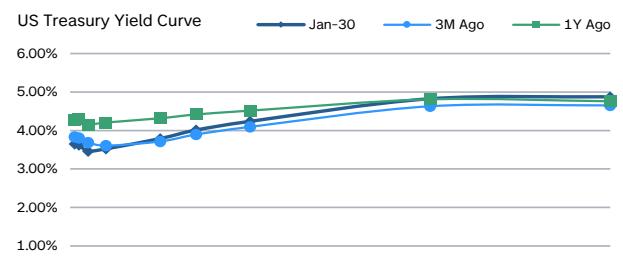
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Capital Market Indices

Monday, February 2, 2026

Maturity	Treasuries					AAA General Obligation (GO) Municipal Bonds								
	Jan-30	1D	Dec-31	3M Ago	6M Ago	1Y Ago	Jan-30	% UST	1D	Dec-31	3M Ago	6M Ago	1Y Ago	
Three-Month	3.65	-0.01	3.63	3.84	4.34	4.29	2.40	66%	0.00	2.64	2.69	2.55	2.81	
Six-Month	3.62	-0.01	3.60	3.80	4.27	4.30	2.26	62%	0.00	2.50	2.54	2.40	2.66	
One-Year	3.46	-0.03	3.47	3.69	4.12	4.16	2.25	65%	0.00	2.49	2.54	2.40	2.65	
Two-Year	3.52	-0.04	3.47	3.61	3.94	4.21	2.22	63%	0.00	2.44	2.49	2.41	2.71	
Five-Year	3.79	-0.03	3.73	3.72	3.96	4.32	2.24	59%	0.00	2.39	2.40	2.55	2.82	
Seven-Year	4.01	-0.01	3.94	3.90	4.15	4.42	2.38	59%	0.00	2.50	2.50	2.87	2.92	
10-Year	4.24	0.00	4.17	4.10	4.37	4.52	2.62	62%	-0.01	2.73	2.73	3.28	3.06	
20-Year	4.82	0.01	4.79	4.63	4.89	4.81	3.96	82%	0.00	3.94	3.85	4.40	3.69	
30-Year	4.87	0.02	4.84	4.65	4.90	4.76	4.21	86%	0.00	4.19	4.12	4.71	3.96	

Bloomberg Indices (USD)	Returns					Option- Adjusted Spreads (bp)					
	1D	WTD	MTD	QTD	YTD	Jan-30	1D	Dec-31	3M Ago	6M Ago	1Y Ago
Multiverse	-0.2%	0.8%	1.0%	1.0%	1.0%	8.6%	—	—	—	—	—
Global Aggregate	-0.2%	0.8%	0.9%	0.9%	0.9%	8.4%	—	—	—	—	—
US Aggregate	-0.1%	0.0%	0.1%	0.1%	0.1%	6.7%	24	1	27	28	30
US Treasury	-0.1%	0.0%	-0.1%	-0.1%	-0.1%	5.6%	—	—	—	—	—
..Short	0.0%	0.1%	0.3%	0.3%	0.3%	4.3%	—	—	—	—	—
..One- to Five-Year	0.1%	0.2%	0.1%	0.1%	0.1%	5.5%	—	—	—	—	—
..Five- to 10-Year	-0.0%	0.1%	-0.3%	-0.3%	-0.3%	7.1%	—	—	—	—	—
..10- to 20-Year	-0.3%	-0.5%	-0.4%	-0.4%	-0.4%	5.4%	—	—	—	—	—
..20+ Year	-0.6%	-0.8%	-0.5%	-0.5%	-0.5%	3.2%	—	—	—	—	—
US Corporate	-0.1%	-0.1%	0.2%	0.2%	0.2%	7.2%	73	0	78	76	76
..One- to Five-Year	0.1%	0.2%	0.3%	0.3%	0.3%	6.5%	54	0	60	57	56
..Intermediate-Term	0.0%	0.1%	0.2%	0.2%	0.2%	7.5%	64	0	70	68	68
..Long-Term	-0.3%	-0.6%	0.1%	0.1%	0.1%	6.6%	91	-0	94	93	94
..AAA	-0.3%	-0.4%	-0.2%	-0.2%	-0.2%	5.4%	33	1	34	33	30
..AA	-0.1%	-0.2%	-0.0%	-0.0%	-0.0%	5.9%	45	0	48	44	43
..A	-0.1%	-0.1%	0.1%	0.1%	0.1%	7.2%	60	0	64	63	63
..BBB	-0.0%	-0.1%	0.3%	0.3%	0.3%	7.4%	91	0	97	95	96
US Securitized	-0.1%	0.2%	0.4%	0.4%	0.4%	8.1%	19	1	25	30	41
...Mtge- Backed Securities (MBS)	-0.1%	0.2%	0.4%	0.4%	0.4%	8.2%	16	2	22	27	38
..Commercial MBS	0.1%	0.3%	0.4%	0.4%	0.4%	7.3%	74	0	81	83	87
..Asset-Backed Securities (ABS)	0.0%	0.2%	0.2%	0.2%	0.2%	5.8%	48	0	52	54	51
US Municipal	0.0%	0.3%	0.9%	0.9%	0.9%	4.7%	—	—	—	—	—
..One- to Five-Year	0.0%	0.2%	0.8%	0.8%	0.8%	4.6%	—	—	—	—	—
..One- to 10-Year	0.0%	0.2%	1.0%	1.0%	1.0%	5.5%	—	—	—	—	—
..10+ Year	0.1%	0.4%	0.9%	0.9%	0.9%	4.2%	—	—	—	—	—
US TIPS	—	—	0.3%	0.3%	0.3%	6.1%	—	—	—	—	—
US High Yield Corporate	0.0%	-0.2%	0.5%	0.5%	0.5%	7.7%	265	1	266	278	278
..BB	0.0%	0.0%	0.5%	0.5%	0.5%	8.2%	159	-0	165	168	170
..B	-0.1%	-0.2%	0.5%	0.5%	0.5%	7.4%	283	6	268	285	264
..CCC	0.0%	-0.7%	0.3%	0.3%	0.3%	7.0%	595	-1	615	607	651
US High Yield Municipal	0.0%	0.2%	1.0%	1.0%	1.0%	2.7%	—	—	—	—	—
Global ex- USD Aggregate	-0.3%	1.4%	1.6%	1.6%	1.6%	9.8%	—	—	—	—	—
EM Hard-Currency	-0.1%	0.3%	0.7%	0.7%	0.7%	11.7%	—	—	—	—	—
EM Local-Currency	-0.2%	0.6%	1.1%	1.1%	1.1%	8.6%	—	—	—	—	—
Morningstar LSTA Leveraged Loan	-0.3%	-0.6%	-0.3%	-0.3%	-0.3%	4.8%	—	—	—	—	—



Source: Morgan Stanley Wealth Management GIO, Bloomberg, FactSet. ¹Data for HFRI Fund of Funds as of Dec. 31, 2025. YTD starts Dec. 31, 2025, and 1Y starts Jan. 30, 2025.

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.

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For index, indicator and survey definitions referenced in this report please visit the following:

<https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions>

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, since these countries may have relatively unstable governments and less established markets and economies.

Alternative investments which may be referenced in this report, including private equity funds, real estate funds, hedge funds, managed futures funds, and funds of hedge funds, private equity, and managed futures funds, are speculative and entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds and risks associated with the operations, personnel and processes of the advisor.

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.

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.

Interest on **municipal bonds** is generally exempt from federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). 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.

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.

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

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

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.

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

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.

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.

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

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, since these countries may have relatively unstable governments and less established markets and economies.

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.

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.

Asset-backed securities generally decrease in value as a result of interest rate increases, but may benefit less than other fixed-income securities from declining interest rates, principally because of prepayments.

Certain securities referred to in this material may not have been registered under the U.S. Securities Act of 1933, as amended, and, if not, may not be offered or sold absent an exemption therefrom. Recipients are required to comply with any legal or contractual restrictions on their purchase, holding, sale, exercise of rights or performance of obligations under any securities/instruments transaction.

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The **indices selected by Morgan Stanley Wealth Management** to measure performance are representative of broad asset classes. Morgan Stanley Wealth Management retains the right to change representative indices at any time.

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