Morgan Stanley

WEALTH MANAGEMENT

PRIMER

Global Investment Committee | March 27, 2025

Reviewing Art as an Asset Class and Its Historical and Potential Returns

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We would like to acknowledge the contributions of our colleague, Ferdousi Islam, Head of the Art Resources Team.

The Art Resources Team (ART) at Morgan Stanley offers wealth planning support and resources, both internal and external, to assist collectors in managing art as an asset.

With the global value of art and collectibles estimated to exceed $2 trillion on the balance sheets of ultra-high net worth individuals,[1] investor appetite to understand the role art may play in a portfolio is robust—and yet little addressed.

While Morgan Stanley offers no recommendation or advice to purchase or sell artwork, nor opinions as to the value of any artwork, this inaugural primer introduces art's investment properties and a framework to help formulate long-term return estimates and consider the risk implications for investors' portfolios.

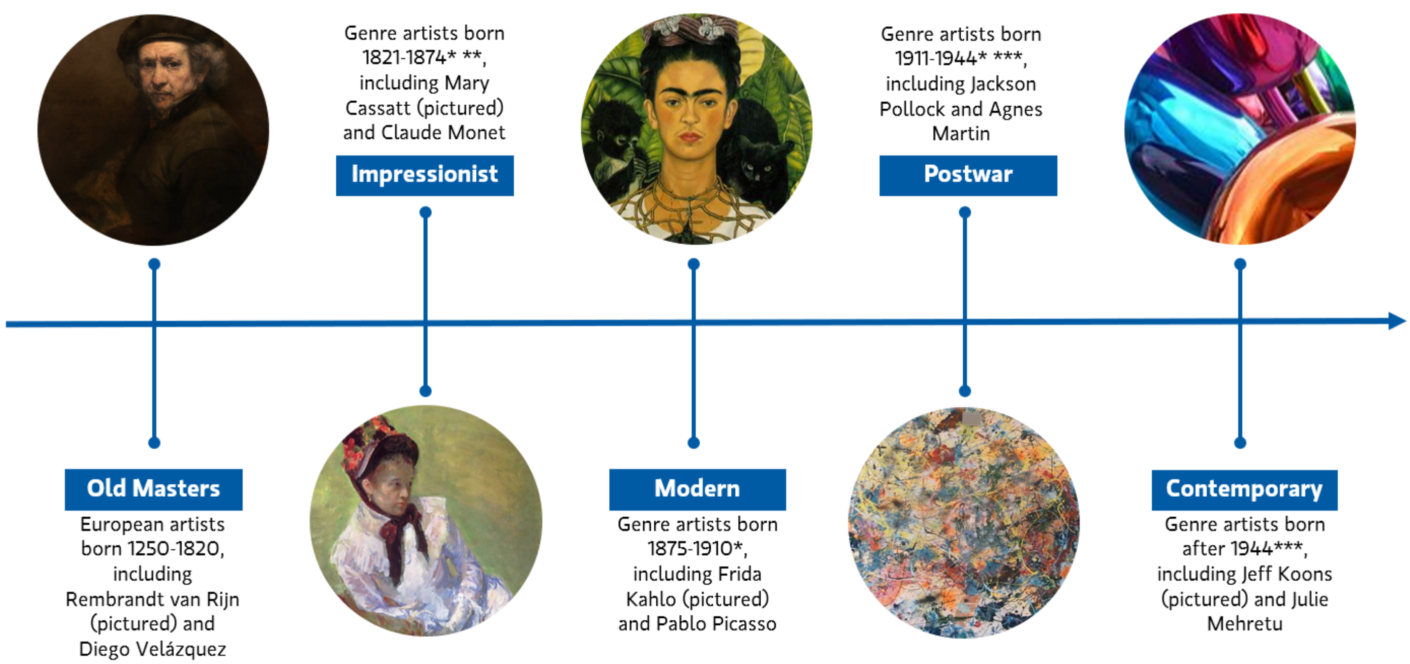
Defining the Art and Collectibles Market

As with financial instruments like equities and fixed income, we believe the art market can be divided into primary and secondary markets. For the purposes of this primer, the *primary market* includes the initial sale of artwork, either through a gallery or directly from the artist's studio. Meanwhile, the *secondary market* generally comprises any subsequent resales through auction houses or private dealer transactions. Given the open observations that auction results provide, we have found that investors typically regard their public transaction prices as benchmarks for artwork's value and therefore serve as a focus of our framework.

We observe the main genres of fine art at auction as generally comprised of Old Masters, Impressionist, Modern, Postwar and Contemporary art (see Exhibit 1), recognizing reliance on self-reporting from market participants. For this primer, the term *collectibles* refers to a vast array of rare or limited-edition alternative assets such as antiques, coins, cars or sports memorabilia, to name a few. In our view, fine art may serve a plausible proxy for the larger class of collectibles, due to shared characteristics of scarcity and perceived value and given the data limitations inherent to collectibles.

As with other asset classes, the price performance of any individual artwork, artist or genre may vary considerably when compared to peers or the entire art market, which includes hundreds, if not thousands, of sub- or micro-markets that can experience independent performance. As one example, in the collectibles market for antiquities, illicit objects and issues of repatriation may potentially cloud performance.

Exhibit 1: Art's Movements and Styles



Source: Wikimedia images (public domain). Morgan Stanley has adapted the widely accepted genre labels that Artnet, a leading tracker of secondary art sales, uses in its indexes.
*Excludes single-nationality Chinese artists.
**Includes Post-Impressionists.
***In an auction context, collectors frequently group Postwar and Contemporary, due to the overlap of artists working within both periods.

A Look at Supply and Demand

The uniqueness of each art asset lends to its limited supply. A coveted or even damaged artwork is likely irreplaceable. Furthermore, specialized knowledge generally limits both the size and volume of art market activity to a limited array of participants.

As with other asset classes, there are many sources of public and private art market data—and numerous ways to represent it.[2] Per the Artnet Price Database, for example, the global flow of fine art sold at auction in 2024 reached $10.2 billion across approximately 388,000 objects, with approximately 551,000 objects offered.[3]

The art market features many nuances and peculiarities. Yet, the evolution of hedge funds and real estate into definable and measurable asset classes can, in our view, provide a helpful precedent for art. Both art and real estate involve heterogeneity for their individual assets, illiquidity and limited transaction frequency. Moreover, art and hedge funds typically share voluntary performance reporting and remain largely unregulated markets.

Unlike equities or fixed income securities, which analysts can value through an assessment of these assets' future cash flows, valuations for art, much like commodities, largely result from the interplay of supply and demand. Unlike commodities, however, valuations for art include additional subjective factors such as cultural and sentimental value. Since art is a passion asset for collectors, perhaps the most critical challenge particular to art includes quantifying the economics of taste.[4]

The value of art also frequently takes into consideration—but is not limited to—the artist's reputation and standing (relative fame among artist peers, role in history of their particular genre, role in the broader art market); traits of the work (size, medium or materials, period, subject, composition and inscriptions); date of the work within the artist's oeuvre; authenticity; condition; quality; rarity; provenance (history of ownership); exhibition history and literature; and clean title.

In recent years, we have observed the introduction of new initiatives to lower investors' barriers to entry, including fractional ownership and tokenization. Nevertheless, both established and younger collectors still generally prefer owning art and collectibles directly.[5] Given the absence of broad-based availability of information and the required demystification of art, we believe that these fractional concepts will most likely experience limited appeal.

Challenges in Determining Art's Price Performance

Art market results are seasonal for the most part since the major auction houses hold fine art sales in the spring and fall. We have found that this setup facilitates biannual observations of different genres' pricing. The set timing of auctions and scarcity of supply tend to create a slight lag in the art market's price movements relative to financial markets, as witnessed in the Great Financial Crisis (GFC). Moreover, equity market performance—and the disposable income levels of potential investors—can significantly impact the decision-making of buyers and sellers and the arrival of new entrants, all of which complicate price discovery.

At the same time, due to illiquidity and limited frequency of published return data, it can be challenging to measure art and collectibles performance at an index level.

If contemplating portfolio allocation to art, investors may want to anticipate the potential for considerable volatility. The Global Investment Committee (GIC) has observed that "the prevailing macro regime has exerted significant impact on the volatility and correlations of asset class returns, which may meaningfully impact asset allocation decisions."[6] For instance, the GIC observed that art's positive correlation to equities typically reflects art's generally negative performance in equity bear markets. Compared to traditional asset classes, whose valuations depend on the discounted values of expected future cash flows, art may potentially act as a better hedge in periods of moderate-to-higher inflation, typically associated with higher discount rates.

Following the GFC in 2008, art prices fell less than other asset classes, demonstrating art's ability to serve as a potential hedge, particularly in the case of high-end, blue-chip art from renowned, established artists.[7] To this end, there is also substantive bifurcation between pricing the high end of the market and the average price of fine art sold in the tens of thousands of dollars,[8] with blue-chip art demonstrating the capability to maintain and even enhance returns during periods of inflationary pressures.[9]

Reviewing Art Investments' Historical Return Patterns

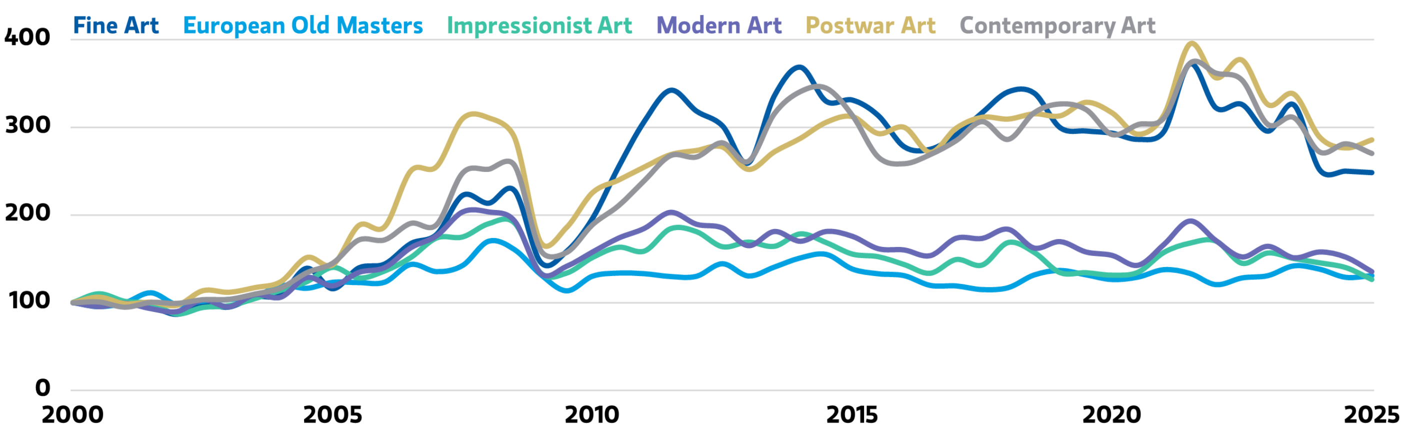
In the short term, we have found that art's returns exhibit limited predictability. Over the medium to long term, art has demonstrated mixed performance across the observed genres. To note, even within subject categories, the volatility appears considerable. Based on our findings, Postwar and Contemporary art has outperformed low to moderate inflation in recent history; when inflation spiked in 2021 to 2023, however, they generally underperformed (see Exhibit 2).

Overall, in our view, art is understandably most closely correlated to alternative assets and exhibits limited correlation with, for example, private real estate. Looking within the art market, we observe that the correlations between underlying indexes have become increasingly positive by historical genre (see Exhibit 3).

Old Masters have more recently enjoyed a slight uptick in prices, but historically this genre demonstrates more limited total performance and more limited volatility. Meanwhile, as shown in Exhibit 2, the aggressive growth of Postwar and Contemporary art has supported (overall) fine art performance over the past two decades.

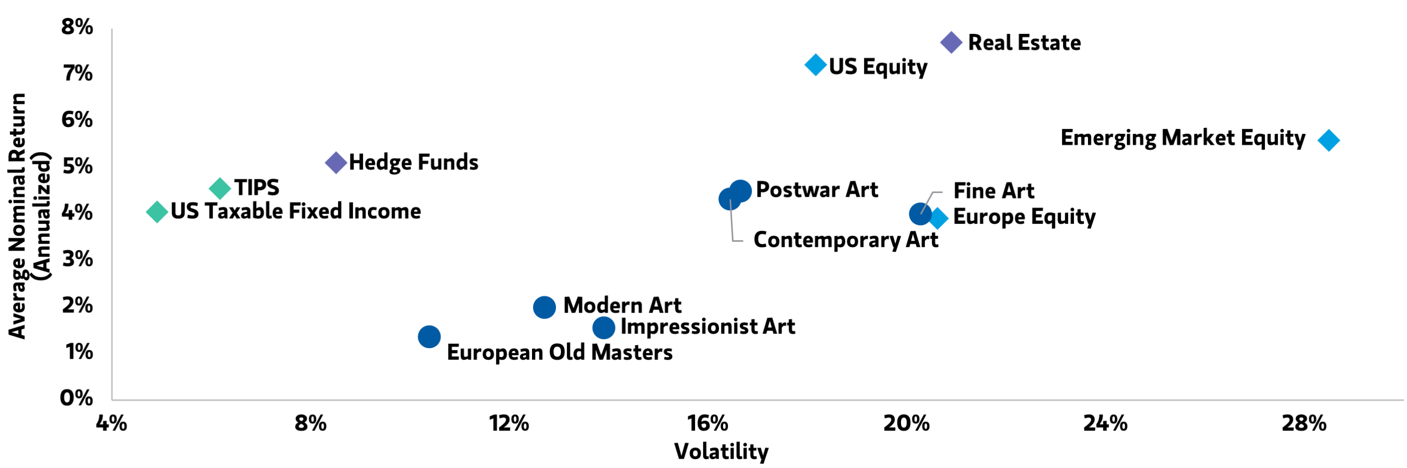
Logically, the limited market history for Contemporary art may introduce potential valuation gaps and greater volatility. In the late 1980s, Impressionist art soared to new heights during the overlapping equity bull market. More recently, Surrealist women artists within the Modern art collecting category have experienced unprecedented interest, particularly during 2021 to 2023,[10] consistent with anecdotal evidence of collectors' interest in newfound inclusivity in the art marketplace.

Exhibit 2: Tracking Art's Historical Cumulative Growth



Source: Artnet, Morgan Stanley Global Investment Office using data from January 2000 to December 2024.

Exhibit 3: Comparing Art's Historical Returns and Volatility With Other Asset Classes



Source: Artnet, Morgan Stanley Global Investment Office using data from January 2000 to December 2024.

Long-Term Return Assumptions and Applying the Framework

While art generally belies straightforward forecasting, we can develop plausible estimates for planning purposes. Our Global Investment Office colleagues developed such a framework for bitcoin, another asset that lacks a cashflow-driven valuation.

The Global Investment Committee first included art and collectibles in its capital market assumptions process for 2024, creating both strategic (seven-year) and secular (20-year) forecasts. Using semiannual price data for the Fine Art category from Artnet since 2000, we produced a historical estimate of the average annual inflation-adjusted return for the category. We then derived our strategic and secular nominal return estimates by adding the appropriate inflation rate estimate to the long-term real return estimate. Consistent with other investment types, we estimated the US inflation rate using a blend of the expected inflation rate estimated by the Federal Reserve Bank of Cleveland and the US breakeven inflation rate at the seven-year and 20-year tenor, respectively. The GIC estimates 4.9% and 4.9% annualized returns for the strategic and secular horizons, respectively.

Volatility and Cross-Asset Correlations

The art market may face higher volatility than other asset classes, which investors may wish to consider carefully when evaluating the merits of an allocation to art. In this unregulated market, at least half of sales (by value) are believed to be private, while the entire universe is composed of singular assets that are illiquid and thinly traded. At large, art and collectibles involve exceptionally high transaction costs, including buyer and seller premiums, plus insurance, artwork conservation and other maintenance fees. Generally, art does not offer income or dividends and may be subject to unfavorable tax treatment. There may be limited comparables or a lack of fair-value information. In addition, public auction records exclude "bought-in" or unsold lots, along with artwork that sellers have withdrawn from sales for multiple reasons, including a lack of bidder interest. Lastly, artists and their works can swiftly fall out of favor, as few other asset classes are so acutely subject to the tides of taste.

Portfolio diversification may hedge against economic instability and may even improve returns. While performance varies, art and collectibles have demonstrated returns that, as with private real estate, largely behave in a manner less correlated with traditional asset classes (see Exhibit 4).

Exhibit 4: Art's Expected Correlations for the Strategic (Seven-Year) Horizon

	Fine Art	Eur. Old Masters	Impr. Art	Modern Art	Postwar Art	Cont. Art	US Eq.	Intl Eq.	US Fixed Income	Real Estate
Fine Art	1.00	0.38	0.62	0.78	0.75	0.78	0.47	0.57	0.04	0.43
European Old Masters	0.38	1.00	0.38	0.48	0.44	0.58	0.18	0.35	-0.10	0.14
Impressionist Art	0.62	0.38	1.00	0.80	0.68	0.59	0.46	0.64	0.19	0.55
Modern Art	0.78	0.48	0.80	1.00	0.88	0.74	0.42	0.62	0.11	0.58
Postwar Art	0.75	0.44	0.68	0.88	1.00	0.77	0.45	0.62	0.09	0.66
Contemporary Art	0.78	0.58	0.59	0.74	0.77	1.00	0.45	0.51	0.06	0.42
US Equities	0.47	0.18	0.46	0.42	0.45	0.45	1.00	0.89	0.01	0.61
International Equities	0.57	0.35	0.64	0.62	0.62	0.51	0.89	1.00	-0.02	0.72
US Fixed Income	0.04	-0.10	0.19	0.11	0.09	0.06	0.01	-0.02	1.00	0.29
Real Estate	0.43	0.14	0.55	0.58	0.66	0.42	0.61	0.72	0.29	1.00

Source: Artnet, Morgan Stanley Global Investment Office as of March 27, 2025

Endnotes

[1] Deloitte, *Art & Finance Report 2023* (32). Available at https://www.deloitte.com/content/dam/assets-zone2/lu/en/docs/services/financial-advisory/2023/art-finance-report-2023.pdf.

[2] Art Resources Team at Morgan Stanley, "Demystifying and Understanding Nuances of Art Indices," 2024.

[3] Artnet, "The Intelligence Report: The Year Ahead, 2025." Available at https://media.artnet.com/image/upload/IR%20Spring%202025/Artnet_IR_2025_MAR17.pdf.

[4] Art Resources Team at Morgan Stanley, "Demystifying and Understanding Nuances of Art Indices," 2024.

[5] Deloitte, *Art & Finance Report 2023* (328-331). Available at https://www.deloitte.com/content/dam/assets-zone2/lu/en/docs/services/financial-advisory/2023/art-finance-report-2023.pdf.

[6] "Annual Update of GIC Capital Market Assumptions," March 27, 2025.

[7] Deloitte *Art & Finance Report, 2023 (*307). Available at https://www.deloitte.com/content/dam/assets-zone2/lu/en/docs/services/financial-advisory/2023/art-finance-report-2023.pdf.

[8] Art Resources Team at Morgan Stanley, "Demystifying and Understanding Nuances of Art Indices," 2024.

[9] Öztürkkal, Belma, and Aslı Togan-Eğrican. "Art Investment: Hedging or Safe Haven through Financial Crises", *Journal of Cultural Economics.* September 2020 (Vol. 44, No. 3), 481-529.

[10] Morgan Stanley and Artnet, "Surrealist Women Awakening," December 2023.

Disclosure Section

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Spencer Cavallo and Jason Traum are not members of the Global Investment Committee and any implementation strategies suggested have not been reviewed or approved by the Global Investment Committee.

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

Glossary

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.

Equity risk premium: 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.

Excess return: Represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive excess return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Illiquidity premium: The extra yield investors expect to earn for giving up control to liquidate their capital for a certain period of time.

Standard deviation: This statistic quantifies the volatility associated with a portfolio's returns by measuring the variation in returns around the mean return. Unlike beta, which measures volatility relative to the aggregate market, standard deviation measures the absolute volatility of a portfolio's return.

Tracking error: A divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark.

Volatility: This is a statistical measure of the dispersion of returns for a given security or market index. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index. Commonly, the higher the volatility, the riskier the security.

Asset Class Risk Considerations

This material has been prepared for informational purposes only. It does not provide investment advice or any advice regarding the purchase and/or sale of any **artwork**. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. It is not a recommendation to purchase or sell artwork nor is it to be used to value any artwork. Investors must independently evaluate particular artwork, artwork investments and strategies, and should seek the advice of an appropriate third-party advisor for assistance in that regard as Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors do not provide advice on artwork.

Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are appropriate only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative Investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing. Certain of these risks may include but are not limited to: Loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; Lack of liquidity in that there may be no secondary market for a fund; 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 mutual funds; and Risks associated with the operations, personnel, and processes of the manager. Further, opinions regarding Alternative Investments expressed herein may differ from the opinions expressed by Morgan Stanley Wealth Management and/or other businesses/affiliates of Morgan Stanley Wealth Management.

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Alternative investments involve complex tax structures, tax inefficient investing, and delays in distributing important tax information. Individual funds have specific risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice.

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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.

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

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.

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.

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.

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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.

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.

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.

Risks of **private real estate** include: illiquidity; a long-term investment horizon with a limited or nonexistent secondary market; lack of transparency; volatility (risk of loss); and leverage.

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

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

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

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Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment (such as with an investment manager or in a fund) is not the same as the risk of loss in a broad market index. Therefore, the historical returns of an index will not be the same as the historical returns of a particular investment product.

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