This month, we are going to start our missive with our reaction to the election and the subsequent market rally on Wednesday the 6th. We will review October performance at the end of our note; but October's election uncertainty declines have been fully reversed with stock markets making new post-election highs.

We think the questions on everyone's mind (well, the ones regarding the markets anyway) can be roughly formulated as "Will this rally continue? And does the post-election market movement contain any real information about how things will change going forward? Or was it just relief the election was over and had a decisive result?"

Ultimately, we are quite optimistic the rally continues. The relief theory is almost certainly true to some degree. Markets loathe uncertainty of any sort. As we write this on November the 7th, there is still some uncertainty to the ultimate outcome in the House of Representatives – but betting markets have it as about 98% likely to remain in Republican control (barely).

We also think reviewing yesterday's winners and losers has merit as a forward-looking exercise -- trends are likely embedded.

What were the winners post-election?

- The Dollar
- Cyclicals stocks, especially financials
- US Stocks relative to International
- Small cap stocks relative to large
- Value stocks relative to growth

What were the losers?

- Longer term fixed rate bonds

As you probably know, we have been allocated much more heavily to mid and small cap stocks than Morgan Stanley recommends in their published asset allocation models. Our team is also overweight stocks generally. This past 12 months we have preferred more floating rate bonds to fixed rate relative to Morgan Stanleys models as well. All those allocation tilts helped performance yesterday. It's not that we were at all certain of a Republican victory—we simply buy what looks relatively inexpensive with a tilt toward contrarianism in our thinking.

At the margin of where we are positioning clients now, we will probably lean a little more into our existing allocation tilts. Especially with regard to floating rate versus fixed rate bonds. At the margin, we may favor US versus international stocks. More than we currently do. With regard to bonds, a pro-growth Trump administration will likely – all else held equal – be accepting of or even cause a slightly higher average rate of inflation over the next four and slightly higher interest rates. That's not a political comment – merely an observation which aligns with yesterday's moves in the bond market.

We do take the Trump's statements about tariffs seriously – some have suggested they might be simple posturing or just bluster. If and when tariffs are implemented – even at much more conservative levels than they have been discussed during the election – those tariffs will be a tailwind for many US stocks, but especially small and value stocks. They will be a headwind against growth stocks (large multinational companies), international and emerging market stocks. This is because small companies and value stocks are less multinational in their revenue sources on average and benefit more from protectionist policies all else held equal. If implemented tariffs are also, all else held equal, slightly more inflationary than no tariffs – though we are not implying or suggesting a return to 2022 and 2023 levels of inflation.

If you want more information about Morgan Stanley's insights post-election, they held an event on November the 7th to discuss live for clients. You can replay that event here.

As a personal note, we know that just about half our clients are jubilant today, and the other half our despondent. If you are in either category, it's worth taking a minute to review our September update from last month. Market returns have been excellent under both Democratic and Republican administrations. We are by no means suggesting that elections don't matter, but your financial world is unlikely to crumble as a direct consequence of a shift in party control in Washington DC. We think it's worth reposting this table from last month again and referring you again to Richard Bernstein's excellent Fade the Election article.

TABLE 1:

S&P 500® Annualized Total Return by Presidential Term*

President	Return
Carter	12.0%
Reagan	15.1%
Bush 1	14.6%
Clinton	17.5%
Bush 2	-4.5%
Obama	16.3%
Trump	16.3%
Biden**	12.9%

Source: Richard Bernstein Advisors LLC, Bloomberg Finance L.P.
*Presidential Term measured by Inauguration dates.
**Biden returns are calculated through 8/31/2024.

Getting back to October performance, markets declined across the board. The S&P 500 fell 1.9 percent, the Dow Jones 0.9 percent, and the Nasdaq 2.8 percent. Small and Mid-cap stocks also declined, 1.6 and 1.2 percent respectively. Bonds suffered as well, down 2.5 percent for the month as measured by the

Barclays Aggregate bond index. As mentioned above, these declines were likely predicated upon the uncertainty surrounding the impending election and the increasing market odds that a Trump presidency (and its associated higher growth and tariff policies) would put upward pressure on rates relative to current market expectations.

As always, if you have any question or concerns, please don't hesitate to call any member of our team.

Sincerely,

Morgan Stanley Smith Barney LLC offers a wide array of brokerage and advisory services to its clients, each of which may create a different type of relationship with different obligations to you. Please visit us at http://www.morganstanleyindividual.com or consult with your Financial Advisor to understand these differences.

International investing may not be appropriate for every investor and is subject to additional risks, including currency fluctuations, political factors, withholding, lack of liquidity, the absence of adequate financial information, and exchange control restrictions impacting foreign issuers. These risks may be magnified in emerging markets.

This material does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The strategies and/or investments discussed in this material may not be appropriate for all investors. Morgan Stanley Wealth Management recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

This material is intended only for clients and prospective clients of the Portfolio Management program. It has been prepared solely for informational purposes only and is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or other financial instrument, or to participate in any trading strategy.

The individuals mentioned as the Portfolio Management Team are Financial Advisors with Morgan Stanley participating in the Morgan Stanley Portfolio Management program. The Portfolio Management program is an investment advisory program in which the client's Financial Advisor invests the client's assets on a discretionary basis in a range of securities. The Portfolio Management program is described in the applicable Morgan Stanley ADV Part 2, available at www.morganstanley.com/ADV or from your Financial Advisor.

The allocation above is for illustrative purposes only, at quarter end, and does not necessarily represent the current portfolio or how your specific account would be invested. The allocation is subject to change without notice. Sector weightings may be re-allocated as industry fundamentals warrant. They may also be re-allocated as your risk/reward profile changes.

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.

Please note that the URL(s) or hyperlink(s) in this material is not to a Morgan Stanley Smith Barney LLC website. It was created, operated and maintained by a different entity. Morgan Stanley Smith Barney LLC is not implying an affiliation, sponsorship, endorsement with/of the third party or that any monitoring is being done by Morgan Stanley of any information contained within the linked site; nor do we guarantee its accuracy or completeness. Morgan Stanley is not responsible for the information contained on the third party web site or the use of or inability to use such site.

This material does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The strategies and/or investments discussed in this material may not be appropriate for all investors. Morgan Stanley Wealth Management recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

This event has been prepared for informational purposes only. It does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Morgan Stanley Smith Barney LLC (“Morgan Stanley”) recommends that investors independently evaluate particular investments and strategies and encourages investors to seek the advice of a Morgan Stanley Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Past performance is no guarantee of future results

Morgan Stanley Smith Barney LLC. Member SIPC.

CRC4041881 11/24