

Global Investment Committee | July 07, 2025

American Exceptionalism: Navigating the Great Rebalancing

The dominance of America's financial market performance in the post-Great Financial Crisis era is undeniable. Built on unique foundational pillars that only grew relatively stronger in the 2009–2024 period, "American Exceptionalism" is exhibited in superior economic growth, productivity, asset utilization, wealth creation and improving balance sheets. As powerful as America's inherent strengths are, our analysis suggests a major portion of this period's differential performance was "supercharged" by historic monetary policy intervention, outsized fiscal spending and the fruits of globalization, which were enhanced by the privilege of having the world's reserve currency. These turbocharging policy levers are now reversing—the inevitable result of constraints and consequences of America's success. Swelling and potentially unsustainable federal debt and deficits, risks of a new inflation regime, remnants of a decade and a half of capital misallocation, the surge of shadow banking and massive structural imbalances around wealth and income inequality are but some of the factors we see coloring the five-to-ten-year investment horizon. The investment regime implications are very significant.

Our conclusion is not that American Exceptionalism is over—notably, there will be momentum from the productivity renaissance we wrote about in 2023. Nor do we assert that the secular bull market is doomed. Rather, our conclusion is simply that we are entering a far more challenging period of normalization and rebalancing of complex and cross-sectional extremes that are increasingly unsustainable. For investors, the biggest takeaway is not just a recalibration of expectations about relative asset returns, but an understanding that the passive, US growth-only, private-asset-flattered portfolio of the past 15 years is challenged and apt to give way to one that is more actively managed, multi-asset, global and value oriented—where the strongest and most exciting opportunities are sourced from a much bigger and deeper ocean. **The "Great Rebalancing" has arrived!**

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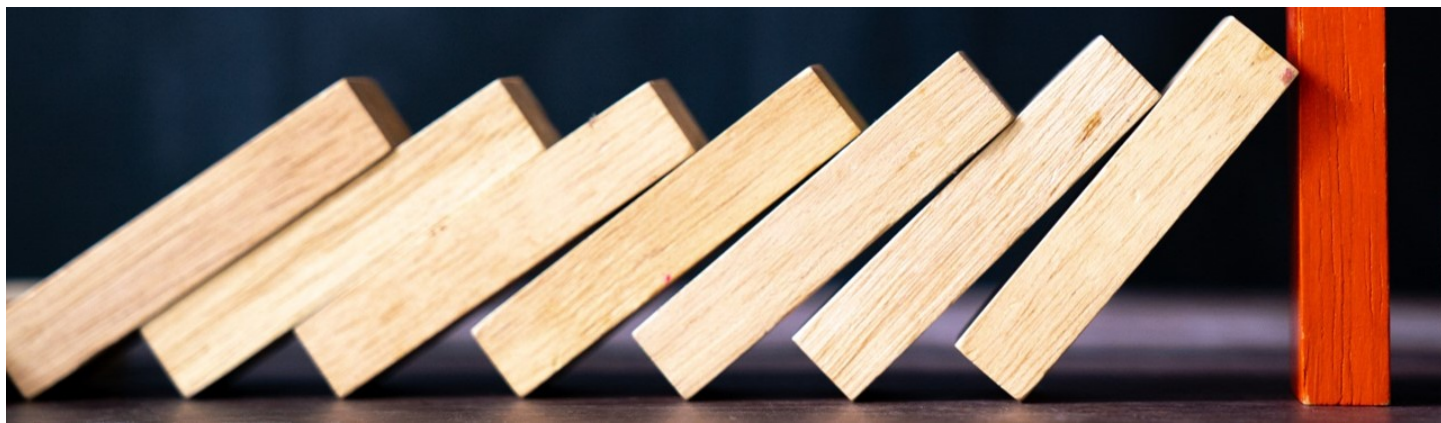
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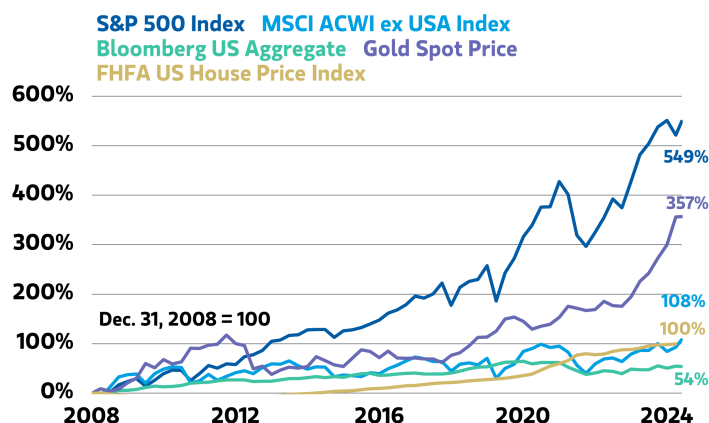
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Executive Summary

2025 has presented investors with a host of challenges. Among them has been the conclusion of the cyclical bull market. Having begun in October 2022 amid peak Federal Reserve rate-hike expectations and a trough in “Magnificent Seven” earnings, it ended in February, with the S&P 500 Index having reached an all-time high. At the time, investors were digesting the Fed’s “policy pause,” the DeepSeek announcement’s implications for the generative artificial intelligence (GenAI) road map and a virtual fire hose of fiscal and geopolitical change from the new administration. Even more disconcerting was the historic market volatility following the “Liberation Day” tariff announcements of April 2. While tariff rollbacks, 90-day pauses and de-escalation of trade conflict with China triggered completion of an equity and credit market round trip—with a return to levels preceding the 10-day April bear market—broken cross-asset correlations have raised provocative questions about market regime change. Further complicating the outlook is the reality that reduced global capital flows are the flip side of lower trade deficits. Along with concerns about US debt sustainability, this has provoked debate about the secular bull market theme of American Exceptionalism that has dominated capital markets for 15 years (see Exhibit 1). Given the US’ disproportionate weight in global portfolios and the administration’s desire to reset post-WWII institutional and trade relationships, investors are naturally asking whether we are entering a period during which American Exceptionalism in global markets ends, ironically, just as the political project of “MAGA” hits its stride.

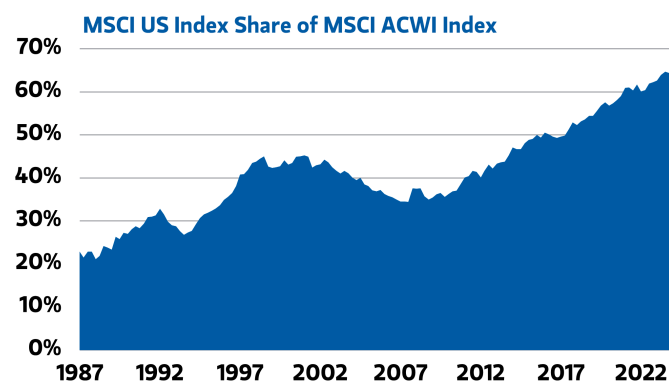
Exhibit 1: America Has Been Exceptional: S&P 500 Returns Decoupled From Other Assets



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office (GIO) as of May 30, 2025

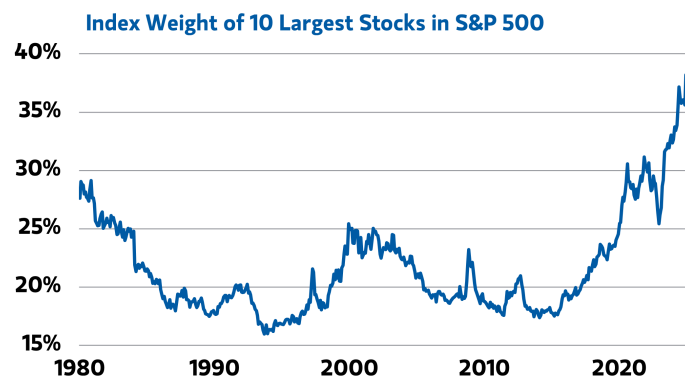
To be clear, history suggests that the level of market dominance the US has exhibited is rarely either permanent or unassailable. At 64% of global market capitalization, America’s overweight in global portfolios swamps its share of global population (4%), GDP (25%), corporate profits (33%) and foreign currency transactions (56%–58%) (see Exhibit 2). The S&P 500 currently carries a historically wide valuation premium to the rest of the world, with the passive capitalization-weighted index selling for 21.5 times forward earnings at a time when rest-of-world (ROW) large-cap stocks are valued between 14 and 15 times. This is all the more noteworthy because so much of that value is concentrated in a small handful of megacap tech stocks, which together account for more than a third of the S&P 500 (see Exhibit 3). The oppressive weight of expectations, rich valuations and the law of large numbers has historically been unkind to such “exceptionalism’s” persistence, as Exhibit 4 suggests. Few great companies, including in recent decades, have remained great stocks in perpetuity.

Exhibit 2: The World Is Overweight America



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 23, 2025

Exhibit 3: And America Is Historically Concentrated



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 30, 2025

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Exhibit 4: American Exceptionalism and Concentration Are NOT Permanent

Global Top-10 Largest Companies by Market Capitalization

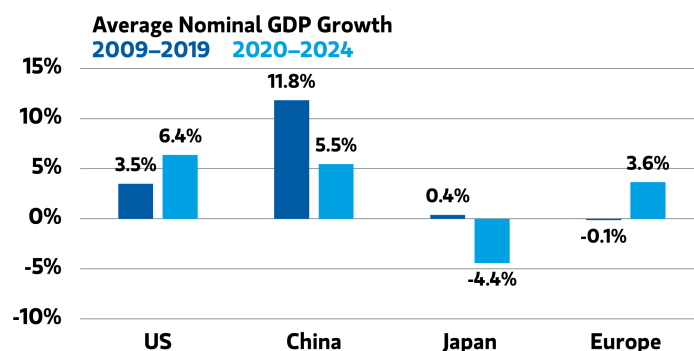
1980: Peak Oil	1990: Japanese Dominance	2000: TMT Bubble	2010: Chinese Dominance	2024: US Tech
IBM (US)	NTT (Japan)	Microsoft (US)	ExxonMobil (US)	Apple (US)
AT&T (US)	Bank of Tokyo-Mitsubishi (Japan)	General Electric (US)	PetroChina (China)	Microsoft (US)
Exxon (US)	Industrial Bank of Japan (Japan)	NTT DoCoMo (Japan)	Apple (US)	NVIDIA (US)
Standard Oil (US)	Sumitomo Mitsui Banking (Japan)	Cisco Systems (US)	BHP Billiton (Australia)	Alphabet (US)
Schlumberger (US)	Toyota Motors (Japan)	Walmart (US)	Microsoft (US)	Amazon (US)
Shell (Netherlands)	Fuji Bank (Japan)	Intel (US)	ICBC (China)	Saudi Aramco (Saudi Arabia)
Mobil (US)	Dai-Ichi Kangyo Bank (Japan)	NTT (Japan)	Petrobras (Brazil)	Meta (US)
Atlantic Richfield (US)	IBM (US)	ExxonMobil (US)	China Construction Bank (China)	Berkshire Hathaway (US)
General Electric (US)	UFJ Bank (Japan)	Lucent Technologies (US)	Royal Dutch Shell (Netherlands)	Eli Lilly (US)
Eastman Kodak (US)	Exxon (US)	Deutsche Telekom (Germany)	Nestlé (Switzerland)	TSMC (Taiwan)

Source: Gavekal Research, Morgan Stanley Wealth Management GIO as of April 30, 2025

Our research, however, suggests that the issue of American Exceptionalism and the secular bull market is more complex than it appears on the surface. Fundamental performance differentiators have undeniably underpinned US outperformance. In fact, since 2009, the US has far exceeded global rivals in economic growth, productivity, pace of innovation and improvement of both corporate profitability and asset intensity. It has also surpassed other countries' gains in per capita GDP and household net worth—proxies for living standards and wealth (see Exhibits 5-8). In equity markets, US megacap tech leaders, labelled hyperscalers in this GenAI era, are unquestionably dominant, cash-rich and profitable, with few obvious global substitutes. Meanwhile, America's fracking revolution has been transformational, improving our national security and assuring strategically precious energy independence, as the US has become one of the biggest energy producers in the world. This is critically important in an era of reaccelerating energy intensity amid GenAI data center growth. The US workforce has been a differentiated performance source as well, with broad immigration boosting working-age population growth, which has been enhanced by global leadership in university

scholarship and research. And of course, the depth, breadth, dynamism and regulatory rigor of America's capital markets remain unrivaled.

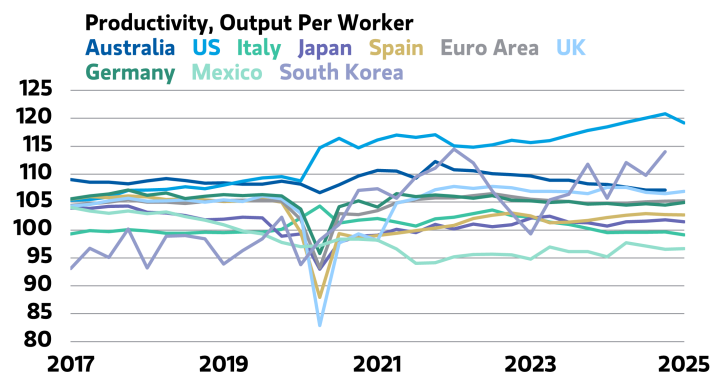
Exhibit 5: America's Economic Growth Has Been Exceptional ...



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of March 31, 2025

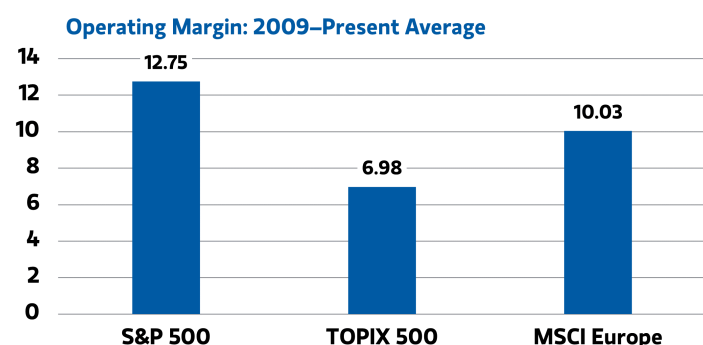
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Exhibit 6: ... Its Productivity Growth Superior ...



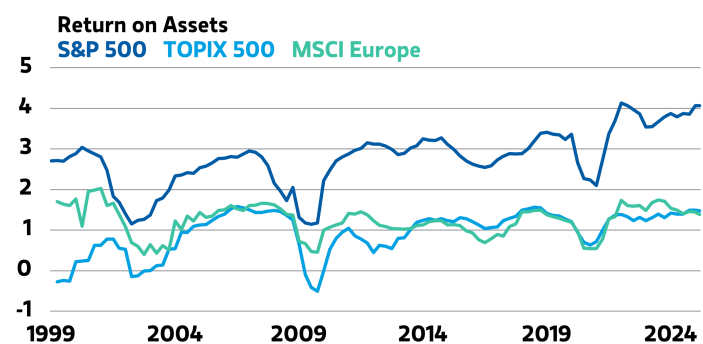
Source: Haver, Morgan Stanley Wealth Management GIO as of March 31, 2025

Exhibit 7: ... Its Profit Margins Higher ...



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 30, 2025

Exhibits 8: ... And Its ROAs Stronger



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 30, 2025

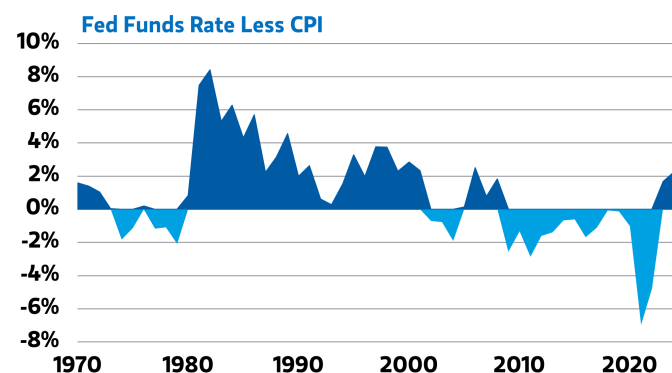
That said, for all these foundational pillars, the past 15 years have been disproportionately flattered by at least three more factors that may now be at inflection points. Our research suggests that investors may be underestimating the role of the following enablers in particular: 1) monetary policy intervention and financialization of the economy via a surge in “shadow banking”; 2) fiscal policy stimulus and deleveraging of the private sector on the back of the public sector; and 3)

globalization and its benefits, especially pertaining to trade. These structural stimulants have supported America’s relative economic growth, revitalization of corporate and household balance sheets and a step change in corporate profitability.

While these drivers of US strength will not evaporate quickly, they are quickly maturing—suggesting new constraints and consequences for the economy and markets. In the case of extraordinary monetary and fiscal policy and regulation, the catalysts were born out of back-to-back crises from which our economy has finally healed—namely, the Great Financial Crisis (GFC) and COVID-19. Regarding globalization, the shifting backdrops of geopolitics, national security priorities, technology innovation and domestic politics are also combining to mark the end of an era. While losing these three market tailwinds doesn’t undermine the foundation of American Exceptionalism, we contend that their end or reversal arrives just as their constraints and consequences appear poised to catalyze a regime change, with material portfolio-construction implications.

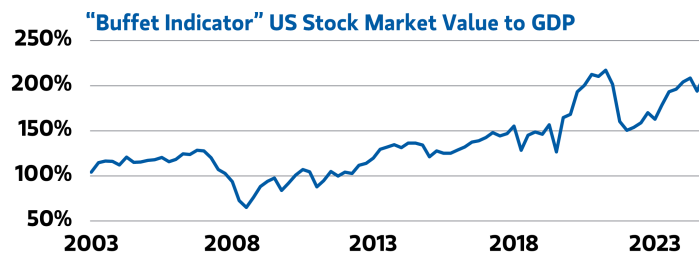
First, consider America’s outsized monetary policy responses to the GFC and COVID. Aggressive Fed balance sheet expansion ultimately injected as much as \$9 trillion of liquidity into the economy, while financial repression and quantitative easing (QE) kept real rates negative for a decade through April 2022 (see Exhibit 9). While these actions were bold and curative, their magnitude was nearly unprecedented. Furthermore, monetary policy predictability, liquidity via a reliable “Fed put” and an economic shift toward services and technology helped inhibit asset class risk premiums, volatility and the unpredictability that comes with economic cyclicalities. Valuation expansion, rather than pure earnings and cash-flow growth, increasingly drove financial returns, disconnecting them from the real economy (see Exhibits 10a, 10b, 10c and 10d).

Exhibit 9: The 10-Year US Real Rate Was Negative for Nearly a Decade



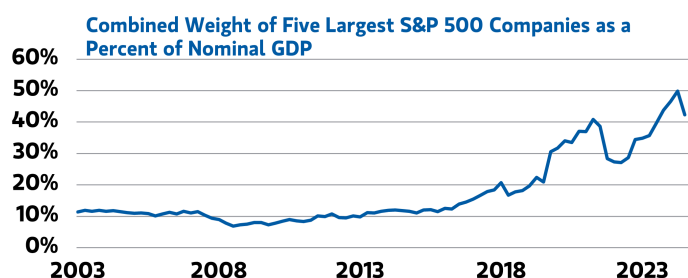
Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Committee (GIC) as of June 20, 2025

Exhibit 10a: Financial Asset Valuations Disconnected From the Real Economy ...



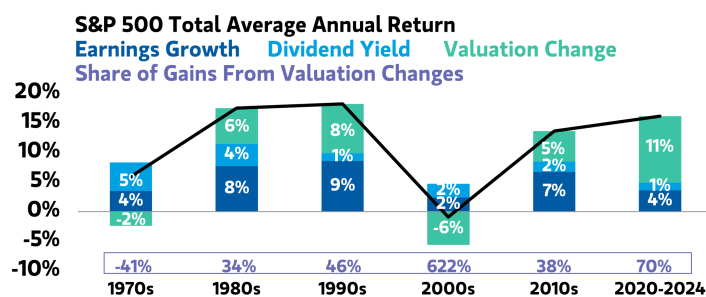
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 30, 2025

Exhibit 10b: ... And Boosted Market Concentration ...



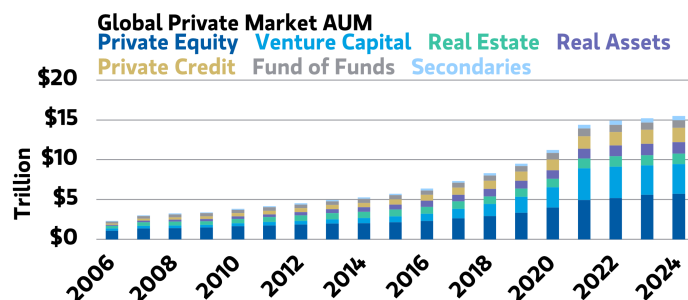
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 30, 2025

Exhibit 10c: ... As Valuations Drove the Bulk of Shareholder Returns ...



Source: Bloomberg, Morgan Stanley Wealth Management GIO, as of Dec. 31, 2024

Exhibit 10d: ... And "Shadow Banking" Surged



Source: PitchBook, Morgan Stanley Wealth Management GIO as of Dec. 31, 2024

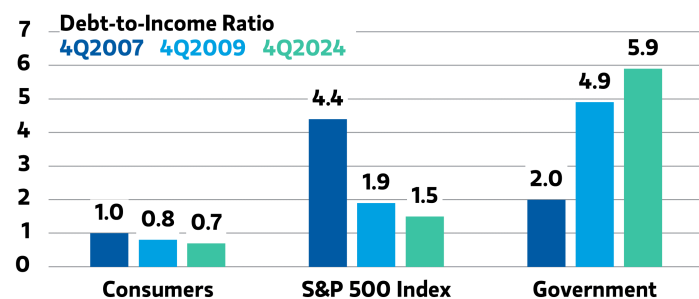
In our view, these forces combined with reregulation of the systemically important banks to enable a shadow-banking system "golden age" and soaring asset accumulation by private financial sponsors—themselves instruments of value creation through low rates, debt leverage and scaled management expertise. To state the obvious, absent another crisis, that monetary policy path is unlikely to be replicated. The 40-year bull market in bonds ended with zero interest rates in 2020 during COVID. While negative real rates persisted through April 2022, they are now approaching pre-GFC levels—a positive for more efficient capital allocation. Term premiums, also returning, are a welcome mean reversion that reflects traditional compensation for policy- and duration-related risks. While rate normalization should be appreciated on many levels, it likely creates a ceiling for equity-linked valuation multiples in both the public and private spheres. Furthermore, while we believe the Fed will continue responding to cyclical slowing, the neutral policy rate has reset. At approximately 3.5%, it will likely be constrained by fiscal policy, especially in terms of growing debt, deficits and US Treasury issuance, as well as upcoming inflation risks from tariffs, immigration and onshoring. Finally, we anticipate the Fed focusing more on a deregulatory agenda. While possibly pro-growth, it should have the potential to ignite competition among private-vehicle financial sponsors, money center banks and emerging fintech players.

Fiscal policy is also at a crossroads. While their priorities have differed meaningfully, the current administration and the previous one have shared ambitions around leveraging government spending to accelerate domestic manufacturing and enhance strategic defense. Still, fiscal stimulus is apt to be just as constrained as monetary policy, as even the best-case outcomes for tax and budget legislation leave the US on a path to grow its aggregate debt by \$1 trillion–\$2 trillion over the next decade, to over 120% of GDP, with related interest costs climbing from the current \$1.2 trillion level to \$1.7 trillion. Aggressive, pro-cyclical fiscal expansion from 2009 to 2024 enabled one of the greatest private sector deleveraging chapters in history, with the strongest corporations and wealthiest households able to lock in and term out historically low interest rates as US Treasury debt and carrying costs surged (see Exhibits 11a and 11b). Annual deficits of 6% of GDP (roughly double the peacetime average) over the past five years have expanded America's debt pile to more than \$36 trillion at a time when the long-run direction of interest rates is higher, thereby increasing debt-servicing costs as a share of total spending. Not only does this risk crowding out potential federal government discretionary spending, but more importantly, it suggests that the trend of transferring taxpayer wealth to corporations and the wealthiest households on the back of fiscal finances is likely over. So too is the federal balance sheet's crisis flexibility. With diminished freedom and flexibility, absent changes to

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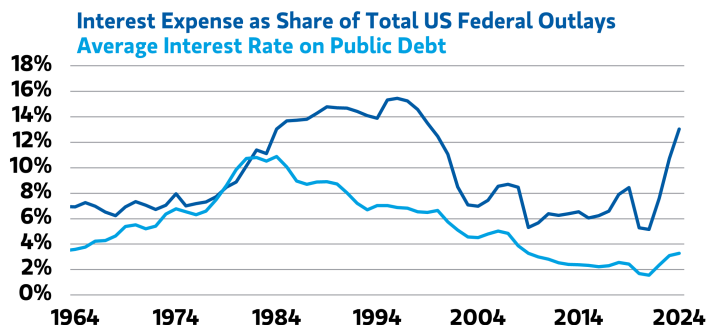
entitlement programs, fiscal policy will likely be restricted to narrow casting and fine tuning—perhaps helpful, but idiosyncratic. With the long-term cost of capital hovering between 4.5% and 5.0%, the potential to “extend and pretend” on debt refinancing is probably reaching the end of the road, and the private sector will be forced to reprice liabilities, losing that tailwind as well in the decade ahead. The end of this era is best exemplified by the 10-year real rate: At 2.25%, it is approaching a level last seen in 2008.

Exhibit 11a: Deficit Spending Drove a Great Private Sector Deleveraging ...



Source: Congressional Budget Office, Haver Analytics, Morgan Stanley Wealth Management GIO as of Dec. 31, 2024

Exhibit 11b: ... But the Bill Is Coming Due

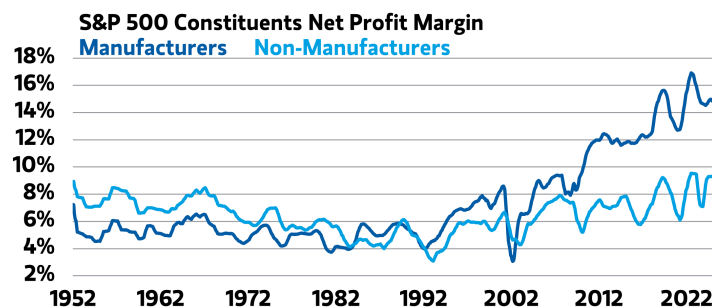


Source: Congressional Budget Office, Haver, Morgan Stanley Wealth Management GIO as of Dec. 31, 2024

Finally, contemplating the reversal of 80 years of globalizing trade, we examined the inflection point at which we find ourselves. The past 25 years (approximately since China's entry into the World Trade Organization) have unquestionably witnessed stagnation of US manufacturing jobs, as globalization has accelerated outsourcing of production capacity. It is hard to conclude that globalization has been bad for the US in aggregate, however, especially over the past 15 years, given that the nation's standing has risen versus the rest of the world per most measures of economic and capital market success. Consumer access to the lowest-cost goods has facilitated a transformation to a more profitable, services- and innovation-dominated economy with greater discretionary spending flexibility and the tailwind of low imported inflation.

Although globalization has fostered deterioration of America's trade balance with the rest of the world, the transformation has not inhibited US corporate profits and investment returns. To the contrary, fully exploiting the global comparative advantage of free trade has allowed US manufacturers to more than double net profit margins, from about 8% in 2009 to 16% in 2024—a feat truly differentiated from that of nonmanufacturers, net margins for which have grown from only roughly 6% to 8%. Investors and politicians, furthermore, should not conflate the issues, as globalization didn't cause real income growth for laborers and the middle class to stall—the division of the spoils did that (see Exhibits 12a and 12b). Equally important, globalization gave “category killer” US companies access to non-US markets, which currently account for just over a third of S&P 500 profits and more than 46% of revenues (53% for technology companies). As we have noted, deglobalization is unlikely to bring many jobs back through reshoring, as most modern manufacturing is automated. Bluntly speaking, while deglobalization may be necessary for national security, it introduces inefficiencies and potentially higher inflation. It also pressures the US dollar, which has been the key component of a virtually reinforcing source of foreign capital flows that have supported US valuations during the past bull market.

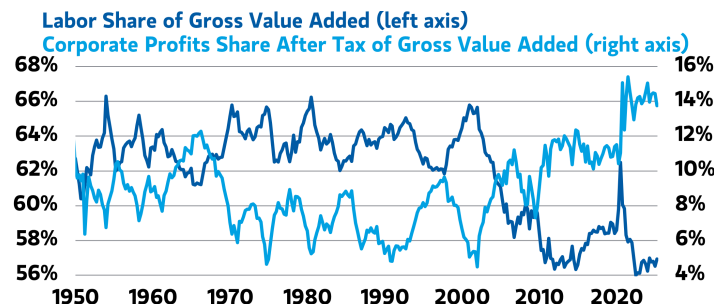
Exhibit 12a: US Manufacturers Benefited From Globalization ...



Note: Excludes financials, REITs and utilities

Source: Empirical Research Partners, Morgan Stanley Wealth Management GIO as of May 1, 2025

Exhibit 12b: ... Even if Workers Did Not

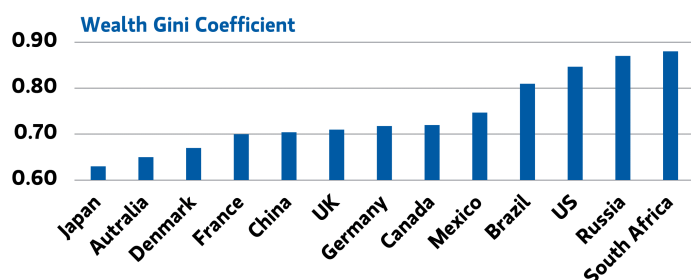


Source: Haver Analytics, Morgan Stanley Wealth Management GIO as of March 31, 2025

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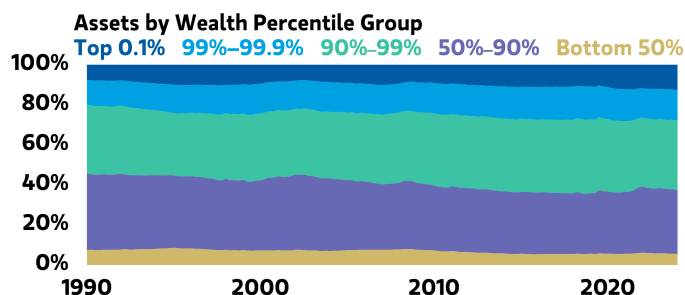
As these market drivers fade, citizens and investors are left to contemplate not just the potential new constraints on government spending, interest rates, valuations and corporate margins, but the consequences the trends have generated and the starting points for new forecasts. Our research suggests that for all the wealth creation that has occurred, the US has emerging fragilities stemming from the concentration of the past 15 years' spoils. As we move into the second half of the 2020s, wealth and income inequality are their most extreme in more than 100 years and among the worst of any large country (see Exhibits 13a, 13b and 13c).

Exhibit 13a: Growing Wealth and Income Inequality Are a Consequence of Policies



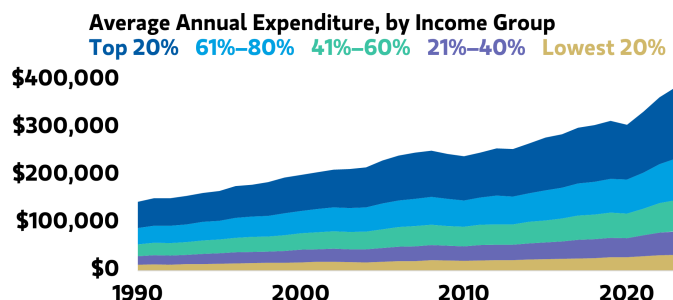
Source: UBS Global Wealth Report, Morgan Stanley Wealth Management GIO as of Dec. 31, 2023

Exhibit 13b: The Top 10% Control Nearly Two-Thirds of All Wealth ...



Source: Survey of Consumer Finances, Morgan Stanley Wealth Management GIO as of March 21, 2025

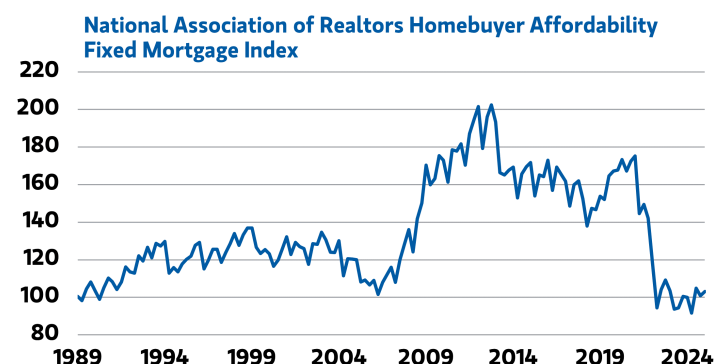
Exhibit 13c: ... And Account for Nearly 50% of Consumption



Source: Federal Reserve Bank of St. Louis, Morgan Stanley Wealth Management GIO as of Sept. 25, 2024

The implication is that nearly 60% of all US consumption is currently driven by only 40% of its citizens. Among households, these inequities are intersectional, with the rich-poor divide overlapping with and exacerbated by age cohort, with a striking dispersion in old versus young. Despite 100 basis points of monetary policy easing since last September and improving liquidity following recent tapering of quantitative tightening (QT), housing affordability remains near its lowest point of the past 40 years (see Exhibit 14).

Exhibit 14: Another Consequence of the Fed's Policies, Housing Affordability Has Plummeted ...

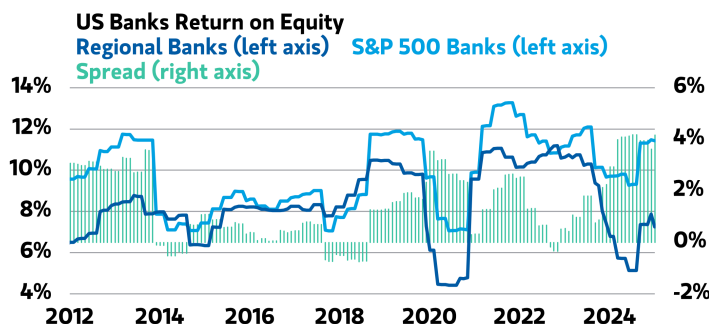


Source: Bloomberg, Morgan Stanley Wealth Management GIO as of March 31, 2025

Among corporations, the performance gap between megacap and small-cap companies has greatly expanded, likely due to the growing importance of technology-based scale and access to low-cost capital. For many of the same reasons, we have also seen wider disparity between the public and private spheres. Increasingly, the quality of the public small-cap universe has grown to resemble the worst of the breed, not the best, the victim of adverse selection in an age of surging privatization.

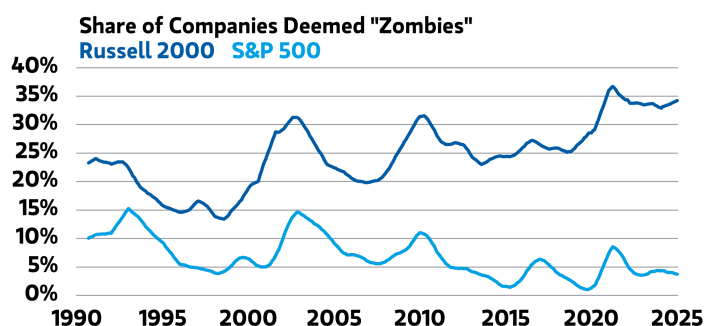
Just as provocative has been the differential between large and small banks, with return on equity (ROE) for the latter having been squeezed by one of the longest-lasting three-month/10-year US Treasury yield curve inversions of the past 80 years (see Exhibits 15a and 15b). While ROEs for large banks have returned to the low teens, regional banks are still struggling to achieve an 8% annual ROE. Economic concentration creates its own stresses and headwinds—at once political but also linked to growth dynamism and investment multipliers. Lower potential growth for a shrinking few accompanied by more volatility is an unstable formula. History has not been kind to imbalances of these magnitudes, and they will likely demand policy attention in coming years, despite the constraints on policymakers.

Exhibit 15a: Small Bank Profitability Has Suffered ...



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 28, 2025

Exhibit 15b: ... And Small Companies Are Unprofitable

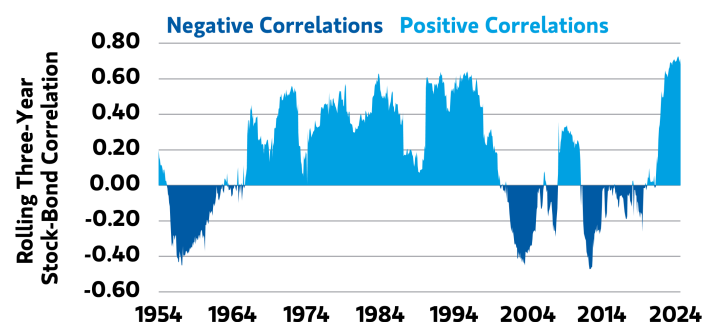


Source: Bloomberg, Morgan Stanley Wealth Management GIO as of April 30, 2025

Evidence that the market is beginning to recognize the end of these structural enablers and the importance of their consequences is appearing in the breakdown of traditional cross-asset correlations. Positive correlation between equity and fixed income markets undermines the traditional 60% stock/40% bond portfolio that served investors so well for the past 40 years (see Exhibit 16). But it is even more complicated than that. With gold, US Treasuries and the dollar breaking in their own directions, it is imperative for investors to read their messages. Treasury investors appear to be internalizing the reality that we are transitioning away from a market dominated by price-insensitive buyers—both the Fed itself and other central banks recycling foreign exchange reserves—and toward one dominated by more price-sensitive buyers, like global households and insurance companies. Specifically, the Treasury market is increasingly concerned about US debt sustainability, with rates decoupling from economic and inflation data and moving in line with term premiums and policy-linked actions like issuance and auctions. The dollar is no longer responding to real rates, but to global flows linked to trade, capital surpluses and geopolitics (see Exhibits 17a and 17b). And gold has decoupled from real rates as well, standing on its own as a safe haven and potential reserve for central banks once again. These dynamics are not the stuff of a US market “Goldilocks.” In

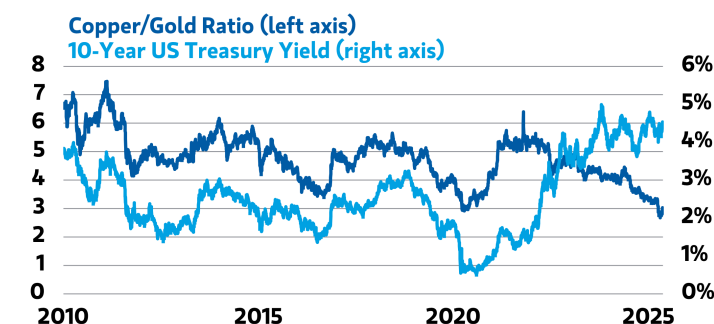
fact, not only do we view this breakdown in cross-asset correlations as suggestive of a new capital market regime, but it reminds us that when imbalances and excesses are stretched, investors begin to question where safety and predictability can be found to anchor wealth preservation.

Exhibit 16: The Stock-Bond Correlation Regime Has Flipped



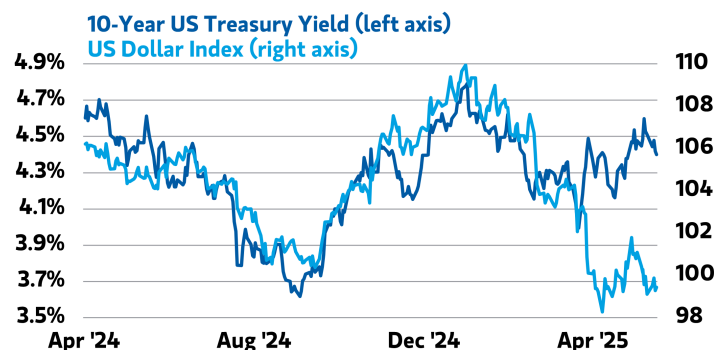
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of April 30, 2025

Exhibit 17a: Treasury Yields Are Not Correlated With Fundamentals



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 15, 2025

Exhibit 17b: The US Dollar Is Not Correlated With Treasury Yields or Gold



Source: Bloomberg, Morgan Stanley Wealth Management GIO, as of May 30, 2025

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To be clear, we have not concluded that American Exceptionalism or the secular bull market is over. To the contrary, many of the findings from our January 2023 Special Report, “The Next American Productivity Renaissance,” still hold, especially in the shadow of GenAI, and we assert that the order of magnitude of US dominance will normalize, catalyzing a great global rebalancing. The regime underlying the Goldilocks period of American Exceptionalism has been premised on tremendous tailwinds, including negative real rates, outsized policy accommodation, private-sector deleveraging, low inflation and low volatility. Declining capital intensity, limited risk premiums, ample liquidity and a strong US dollar accompanied by virtually reinforced foreign capital flows have also provided foundational support. That regime is being supplanted, however, by an economy facing constraints and radical imbalances. While there will still be some tailwinds—such as those related to technology innovation, capital spending, GenAI-linked productivity gains and deregulation—the new regime is likely to be characterized by higher real rates, positive term and risk premiums, greater volatility, idiosyncratic risks and a weaker dollar. Headwinds are also likely to arise from the impending expense of refinancing low-cost debt at both the government and private-sector levels. In this environment, valuation expansion as a major source of wealth creation stalls.

This shifting dynamic’s numerous portfolio consequences demand more comprehensive sector, asset class and regional diversification (see Exhibit 18). As capital flows and currencies are rebalanced around the world, along with trade, relative value outside the US is catalyzed. In the complex geopolitical crosscurrents of a multipolar world, we see these trends setting up potentially very attractive opportunities in India, Japan, Brazil and Mexico. Global yield curve steepening and lower inflation outside the US amid central bank easing may also foster appealing opportunities among global financials and other cyclical industries like energy, materials, industrials and automation. Idiosyncratic risk, volatility and constrained US policy set up new opportunities in real assets and hedge funds, while normalizing debt leverage and higher costs of capital blur the attractiveness of the illiquidity premium between public and private securities. Daily liquidity, moreover, regains its premium. In essence, the investing dynamic of approximately the past 15 years gets flipped on its head—from the passive, US growth-only, private-asset-flattered portfolio to the actively managed, global, value-oriented portfolio with more opportunities in public securities.

Exhibit 18: New Regime, New Portfolio

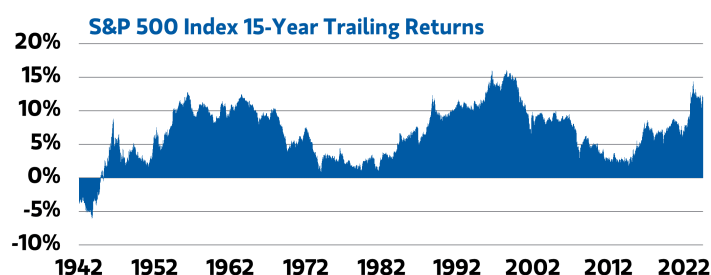
	2020–2025 America’s Productivity Renaissance	2026–2030 The Great Rebalancing
Economic Characteristics	Actual	Potential Range
US GDP Growth (avg. real percent growth per year)	3%-4%	2%-3%
Inflation	3%-4%	2%-3%
10-Year Rate	3%-4%	4%-5%
10-Year Real Rate	zero	~2%
Policy Stance	stimulative	restrictive
Productivity	2%-3%	1.5%-2.0%
US Dollar (DXY)	100-115	80-105
Portfolio Implications	What Worked	Suggested Positioning
US Equities	overweight passive index overweight information technology overweight growth overweight megacap momentum	overweight active managers overweight financials, energy, health care overweight value overweight large-cap quality
US Fixed Income	underweight Treasuries	overweight IG credit
International Equities	underweight all but Japan	overweight all; especially EM
Real Assets	overweight	overweight
Hedge Funds	market-weight	overweight
Privates	market-weight	market-weight

Please note 2026-2030 outlook may not reflect current GIC positioning.
Source: Morgan Stanley Wealth Management GIO as of July 3, 2025

Introduction

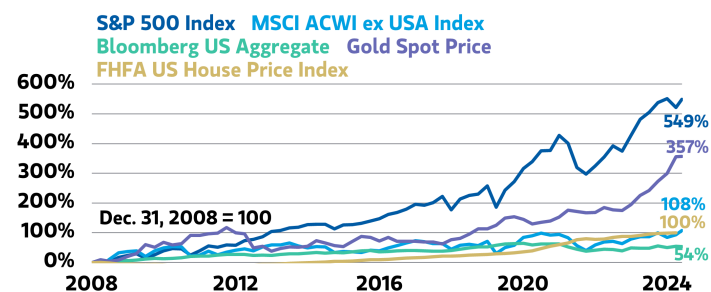
As 2025 began, the US equity market was completing a 15-year run of persistent outperformance versus its own history and relative to other asset classes, which ushered in an undeniable investor consensus around American Exceptionalism (see Exhibits 19 and 20). This dynamic saw America's share of global stock market capitalization soar to an all-time high, US stock valuation premiums to other major regions reach historic wides and the US dollar's relative value climb to a multi-year high (see Exhibits 21, 22 and 23). To wit, the Nasdaq Composite Index hit an all-time high on Dec. 16, 2024, as did the S&P 500 on Feb. 19, 2025, punctuating a 28-month bull market run that saw the US equity benchmark soar 71%.

Exhibit 19: One of the Best 15-Year Periods Post-WWII



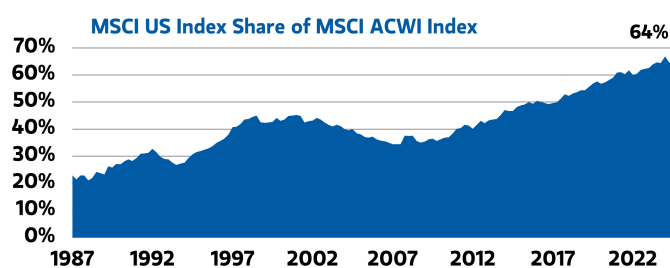
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 23, 2025

Exhibit 20: S&P 500 Returns Decoupled From Other Assets



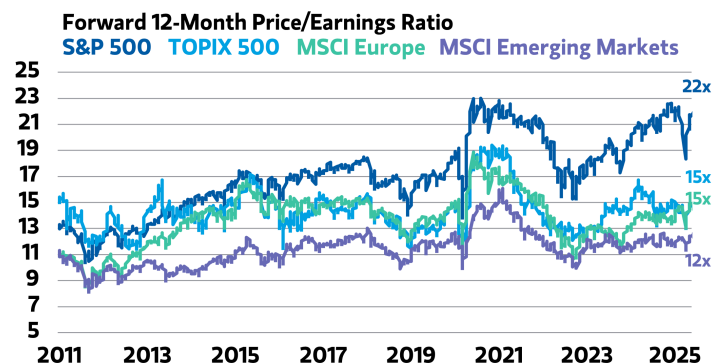
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 30, 2025

Exhibit 21: America's Weight in World Surged ...



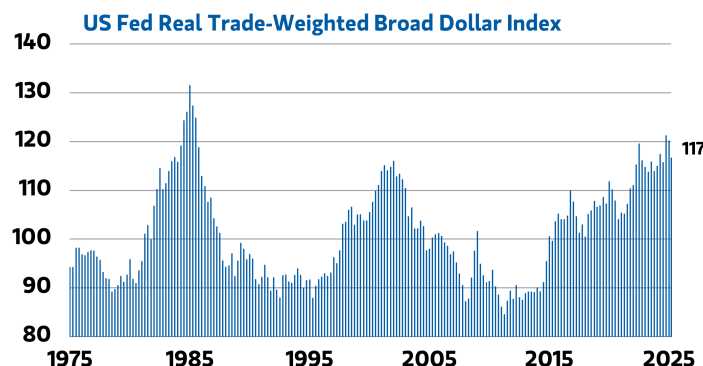
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 23, 2025

Exhibit 22: ... And Relative Valuation Spreads Widened



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 20, 2025

Exhibit 23: Exceptionalism Has Been Mirrored in the Strong US Dollar



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 31, 2025

The first five months of "Trump 2.0," however, have been unprecedented in terms of the pace and scope of executive orders, with the goal of upending and reordering many pillars of the post-WWII global order in pursuit of an "America First" agenda. Critically for investors, such aggressive, broad and nonsequential change has ushered in one of the most volatile three months of stock and bond trading since the Great Crash and Great Depression and the Great Financial Crisis. Confusion, especially around tariff policies, which at first called for levies from approximately 3% to as high as 25%—well ahead of even the Smoot-Hawley framework—have contributed not only to market sell-offs but to the perversion of traditional cross-asset correlations among stocks, US Treasuries and the US dollar. While volatility metrics for stocks and bonds were soaring, the dollar fell nearly 8% over eight weeks, only the second time in history that has occurred, with the first time beckoning a "lost decade" for US tech stocks. While near-term policy directives will likely steer markets tactically, determining whether they will exhibit nothing more than a "growth-scare" correction in 2025 or a more prolonged bear market associated with recession,

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strategic asset allocation faces a bigger question. Persistently positive correlations between stocks, Treasuries and the dollar—amid geopolitical upheaval between the US and its North American and European allies, and its foes like Russia and China—has raised the almost ironic question of whether the American Exceptionalism narrative is reaching an inflection point and whether, from a portfolio construction perspective, the great global rebalancing has begun.

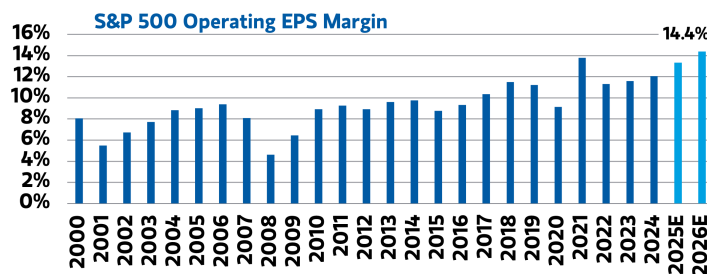
To answer that question we first endeavor to deeply analyze the sources and drivers of American Exceptionalism and the US' 15-year dominance of financial markets, while assessing their likely durability, especially given the stated policy priorities of the current administration. Second, we identify and analyze some of the consequences and imbalances that have arisen as a result of America's post-GFC success in order to contextualize the challenges for policymakers who want to sustain America's relative strength and advantages while supporting long-run ambitions. Finally, we consider various scenarios' asset allocation implications.

The Foundations of American Exceptionalism, 2009-2024

One cannot dispute just how much US equities have outperformed in the years since the GFC. Not only did the S&P 500 post back-to-back 25%-plus returns, in 2023 and 2024, led by large-cap tech stocks, but US equities have outperformed developed market international equities by a shocking 430%-plus on a cumulative basis since 2008—equivalent to 25% per year, on average. This extreme outperformance has led to the US accounting for an increasingly large share of global equity indexes, with its share of the MSCI ACWI global benchmark nearly doubling from about 33% in 2008 to 67%, far exceeding the peak at the top of the 2001 tech boom.

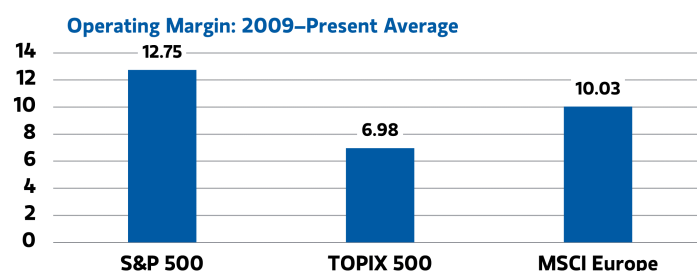
While ever-expanding absolute and relative valuations have played an outsized role in these dynamics, America's "real" economic exceptionalism is undeniable. Consider that real GDP in the US has grown nearly 40% since 2008, compared with 17% for the European Union (EU) and just 5% for Japan. Superior relative growth and higher relative nominal interest rates drove the US dollar to multidecade highs, with the real trade-weighted US Dollar Index, maintained by the Fed, reaching levels last seen in the 1980s. And of course, most compelling has been America's relative productivity growth and impressive improvements in corporate profitability (see Exhibits 24a and 24b; and Exhibits 25a and 25b).

Exhibit 24a: America's Corporate Profit Margins Have Been Exceptional Relative to Their History ...



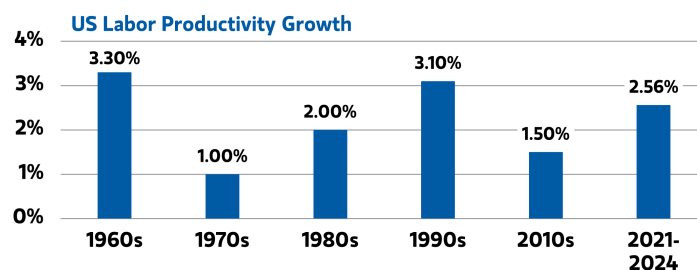
Source: Strategas, Morgan Stanley Wealth Management GIO as of May 9, 2025

Exhibit 24b: ... And Relative to the ROW



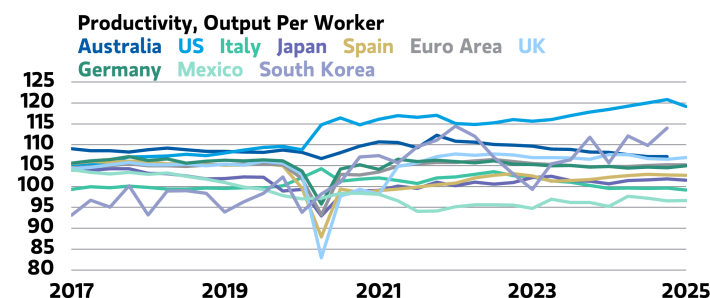
Source: Strategas, Morgan Stanley Wealth Management GIO as of May 9, 2025

Exhibit 25a: Rebounding Productivity Has Been Part of the Story ...



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of March 31, 2025

Exhibit 25b: ... With the US Leading in Productivity Gains Since COVID



Source: Haver Analytics, Morgan Stanley Wealth Management GIO as of March 31, 2025

What drove such impressive and differentiated economic outcomes? A cursory analysis of the past 15 years might suggest that the current market phase has been driven by the “big four” pillars: US technology-innovation dominance in the context of asset-light business models, for which scale and network advantages created unassailable monopolies and durable moats; the advantages that came with the energy fracking revolution to make the US energy-independent; America’s relatively dynamic working-age population growth, embrace of immigration; and long-standing commitment to the rule of law in the service of institutional stability and shareholders. Certainly, we have solid evidence that all these pillars have been foundational and will hopefully continue to be supportive.

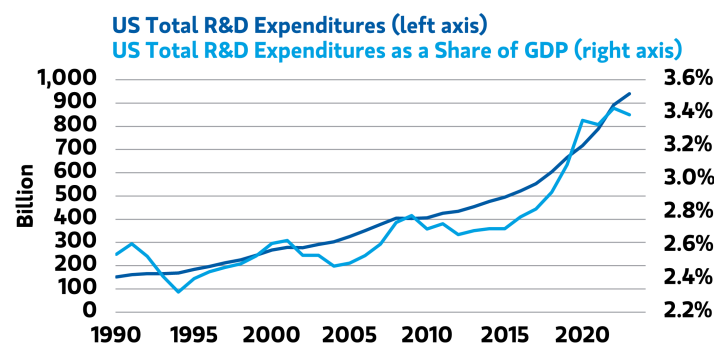
Tech Eats America and the World

First, let’s consider America’s technology prowess. Since the days of WWII, the Manhattan Project and Bell Labs’ 1947 transistor patent, to the Apollo moon landing program and the development of the original “worldwide web,” partnerships between the US government, its universities and private industry have underpinned the country’s distinct innovation advantage. The US leads the world in R&D spending, at \$975 billion per year, accounting for roughly 38% of all global spending in 2024 and resulting in a ratio of approximately 3.5% to GDP; this compares to the US’ roughly 25% share of global GDP (see Exhibit 25c). Growing at about 5%–6% per year for the past 20 years, nearly 78% of US R&D spending comes from the business sector, 16% from the government and 6% from universities. While other countries, like Israel and South Korea, boast a higher R&D/GDP intensity, at 6.3% and 5.0%, respectively, the US outspends China by nearly 50%. America’s advantage is further amplified by the world’s most vibrant venture capital funding market, which places approximately \$170 billion per year in startups. It also benefits from a well-regulated patent system that guards intellectual capital, open immigration for the strongest science, technology, engineering and math (STEM) talent and a functioning legal system that promises enforcement.

America’s innovation formula was a critical propellant of economic growth from the 1950s through the dot-com bubble and tech wreck of 2001. However, it was not until the confluence of mobility, social media and then cloud storage, Big Data and content streaming in the 2005–2022 period that information tech solidified its market sector dominance in the US and its market share leadership globally. Consider that after reaching about 5% of the S&P 500’s market cap in 1990, by the GFC, the sector still only accounted for 15% of total market cap—less than half its current level (see Exhibit 25d). What made the past 15 years different for tech companies, however, was the acceleration in network scaling advantages based not on asset-heavy product manufacturing

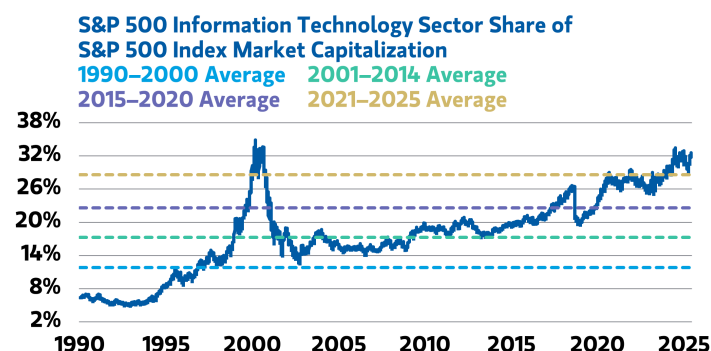
but on asset-light content creation/sharing across proprietary branded networks. This meant that superior revenue growth was matched with even faster profit growth. That doubling of tech’s US market-cap share is at the core the past 15 years’ stock market returns and America’s outperformance, with the sector accounting for fully 63% of the gains.

Exhibit 25c: At the Core, Higher US R&D Spending



Source: National Center for Science and Engineering Statistics, Morgan Stanley Wealth Management GIO as of Feb. 27, 2025

Exhibit 25d: Technology as Market Leader Is a Relatively New Phenomenon



Source: Bloomberg, Morgan Stanley Wealth Management GIO, Bloomberg as of June 21, 2025

Just as important as US tech companies’ relevance to America’s economic story has been their centrality to global commerce—reflecting a US leadership position last seen in the 1980s (see Exhibit 25e). Critically, however, as dominant as these firms have been through scaled and networked platforms, history suggests that persistence as a megacap stock is rare. Among the current “Magnificent Seven” stocks, only Microsoft has sustained three decades among the 10 largest companies by market capitalization. Not only is this phenomenon a function of the law of large numbers, but it is about the ability to rightsize commitments to avoid self-cannibalization in the face of persistent and ever-accelerating innovation and disruption.

Exhibit 25e: American Tech Now Dominates the Globe

Global Top-10 Largest Companies by Market Capitalization

1980: Peak Oil	1990: Japanese Dominance	2000: TMT Bubble	2010: Chinese Dominance	2024: US Tech
IBM (US)	NTT (Japan)	Microsoft (US)	ExxonMobil (US)	Apple (US)
AT&T (US)	Bank of Tokyo-Mitsubishi (Japan)	General Electric (US)	PetroChina (China)	Microsoft (US)
Exxon (US)	Industrial Bank of Japan (Japan)	NTT DoCoMo (Japan)	Apple (US)	NVIDIA (US)
Standard Oil (US)	Sumitomo Mitsui Banking (Japan)	Cisco Systems (US)	BHP Billiton (Australia)	Alphabet (US)
Schlumberger (US)	Toyota Motors (Japan)	Walmart (US)	Microsoft (US)	Amazon (US)
Shell (Netherlands)	Fuji Bank (Japan)	Intel (US)	ICBC (China)	Saudi Aramco (Saudi Arabia)
Mobil (US)	Dai-Ichi Kangyo Bank (Japan)	NTT (Japan)	Petrobras (Brazil)	Meta (US)
Atlantic Richfield (US)	IBM (US)	ExxonMobil (US)	China Construction Bank (China)	Berkshire Hathaway (US)
General Electric (US)	UFJ Bank (Japan)	Lucent Technologies (US)	Royal Dutch Shell (Netherlands)	Eli Lilly (US)
Eastman Kodak (US)	Exxon (US)	Deutsche Telekom (Germany)	Nestlé (Switzerland)	TSMC (Taiwan)

Source: Gavekal Research, Morgan Stanley Wealth Management GIO, as of April 30, 2025

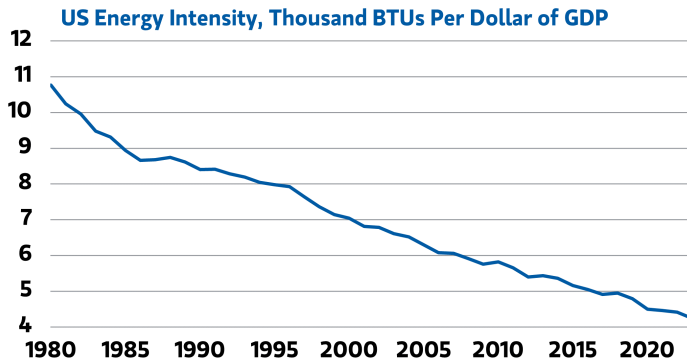
Fracking and Energy Independence

The second profoundly differentiating feature of America's economy over the past 15 years has been the post-GFC acceleration of the hydraulic fracking revolution—a development that not only secured America's long-term energy independence but provided another foundational growth driver while supporting low inflation. Certainly, America's push toward energy efficiency has been a critical component of improved competitiveness since the traumatic energy crises of the 1970s, keeping its demand for fossil fuels growing at a rate below real GDP growth, with the dynamic further supported by manufacturing outsourcing and the shift toward a services/consumption-based economy (see Exhibit 25f). But it was innovations pertaining to America's domestic supply, via fracking, that were truly transformative. Fracking, or hydraulic fracturing, is a new technique employed to harvest difficult-to-reach oil deposits using advanced horizontal drilling technology and other methods to pump oil out of the ground. Major fracking-technology investments were made in the US following the GFC, bolstered by high

global crude prices and cheap capital (low interest rates thanks to the Fed's financial repression). The result was a massive increase in US energy production, which helped to halve crude oil prices while enabling the US to transform from a net oil importer to a net exporter (see Exhibit 25g). Consider that, since 2010, US oil output has more than doubled from roughly 6 million barrels per day to more than 12.9 million, the equivalent of replicating an entire Saudi Arabia in 15 years (see Exhibits 25h). Alongside those production gains were the scale benefits of disciplined investment and process improvement, which have reduced US fracking breakeven costs to approximately \$50 per barrel (see Exhibit 25i). A final direct economic benefit pertained to consumers, who saw energy as a share of their disposable income fall from roughly 7.0% in the early 1980s to 3.5% currently, providing room for spending on other discretionary purchases (see Exhibit 25j).

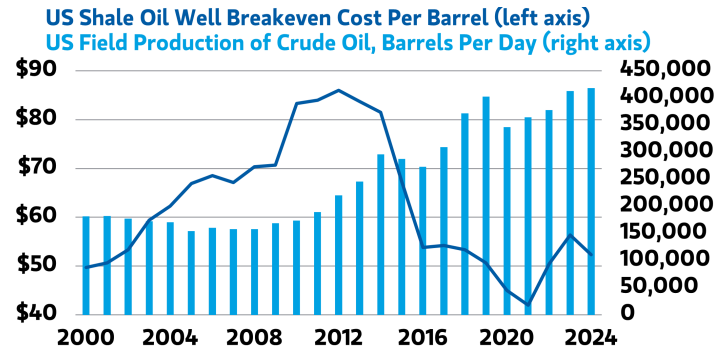
AMERICAN EXCEPTIONALISM: NAVIGATING THE GREAT REBALANCING

Exhibit 25f: America's Improved Energy Efficiency Has Helped Contain Fossil Fuel Demand Growth



Source: Haver Analytics, Morgan Stanley Wealth Management GIO as of Dec. 31, 2023

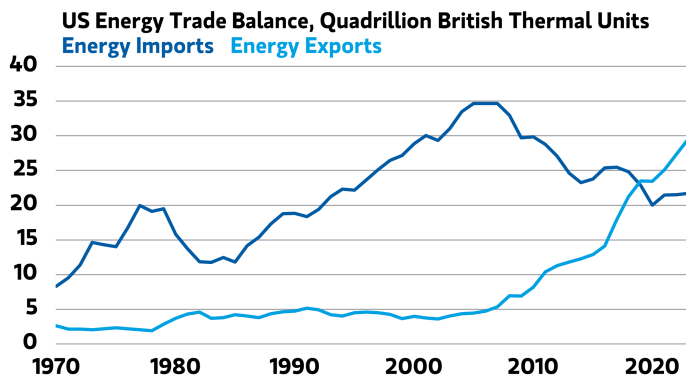
Exhibit 25i: America's Shale Breakeven Cost Now Close to \$50 per Barrel



Note: Half-cycle breakeven is the cost of drilling and completing an oil well, including all operating expenses.

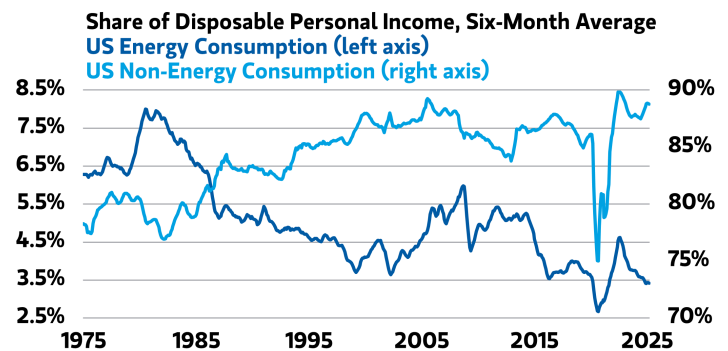
Source: Morgan Stanley & Co. Research, Morgan Stanley Wealth Management GIO as of Dec. 31, 2024

Exhibit 25g: America Has Transformed From an Energy Importer to an Exporter



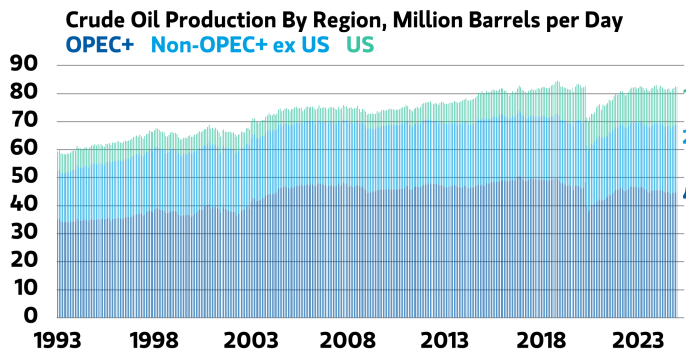
Source: Energy Information Agency (EIA), Morgan Stanley Wealth Management GIO as of April 30, 2024

Exhibit 25j: Energy as a Share of Household Disposable Income Has Halved



Source: Piper Sandler, Morgan Stanley Wealth Management GIO as of March 31, 2025

Exhibit 25h: America's Share of Global Oil Production Has Expanded Significantly



Source: Energy Information Agency (EIA), Morgan Stanley Wealth Management GIO as of Jan. 1, 2025

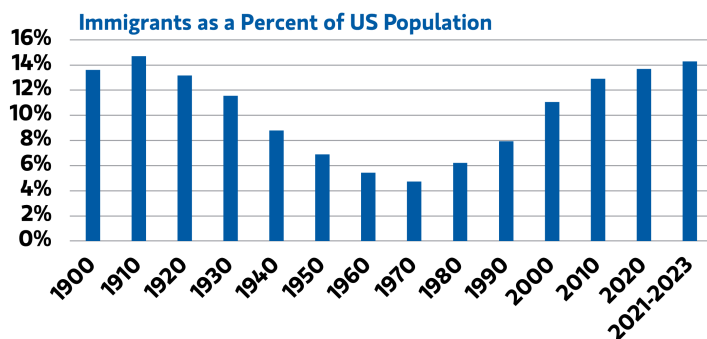
Lower energy prices, along with greater insulation from foreign energy shocks, served as another factor helping to constrain the inflationary potential of extraordinarily low interest rates and wide government deficits. Furthermore, America's transition to net oil exporter had additional knock-on effects: Notably, it helped to strengthen the US dollar, as most commodities across the globe are traded in dollars. It also reduced dollar outflows needed for energy purchases while increasing demand for dollars by external buyers of US fossil fuels.

Especially at a time when much of the rest of the world was struggling to generate growth, these "fracking revolution" tailwinds helped improve economic growth, strengthen the dollar and provide insulation from the inflationary consequences of persistently low interest rates and wide deficits, further fueling the narrative of American Exceptionalism.

Immigration and Work Force Dynamism

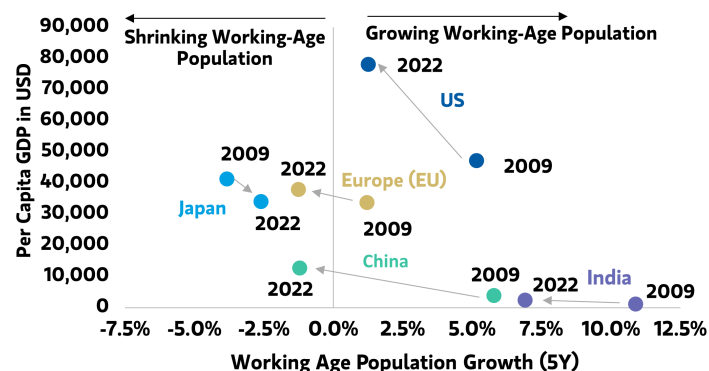
The third pillar of American Exceptionalism has been the ability to sustain working-age population growth. This undeniable underpinning of economic growth has been the envy of the world from the days of France's gift of the Statue of Liberty, as the US has successfully attracted and integrated immigrants searching for the "American Dream" (see Exhibit 25k). While the economic impact of immigration and immigrants was rarely questioned in the 20th century, by either politicians or economists, by 2000, immigration became a necessity for the US economy. Working-age native-born population growth began to slow meaningfully amid increasing retirements, as the baby boom generation grew older and population growth fell below replacement rates as native-born Americans' fertility rates faded. Notably, the population replacement rate in the US is approximately 2.1 births per woman, while the average birth rate is 1.7. This was not and is not an exclusively US phenomenon. However, while other countries' working-age population declines have become a drag on economic growth, America's embrace of immigration over the past 25 years has helped it battle the headwind, keeping labor force growth exceptionally positive, at roughly 2%, versus negative rates in Japan, the EU and China (see Exhibits 25l and 25m). From the GFC to the end of last year, the share of US labor force growth derived from immigration was more than two-thirds, while since 2020—when native-born working-age population growth actually shrank significantly, due in part to COVID-related deaths and accelerated retirements—immigration accounted for 100% of labor force growth.

Exhibit 25k: Immigration Has Long Been a Feature of the US Economy



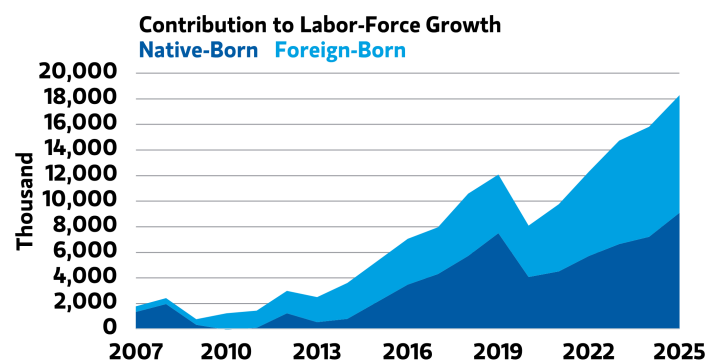
Source: Migration Policy Institute, Morgan Stanley Wealth Management GIO as of Dec. 31, 2023

Exhibit 25l: Working-Age Population Growth in the US Has Been Exceptional



Source: Haver Analytics, Morgan Stanley Wealth Management GIO as of Dec. 31, 2023

Exhibit 25m: Virtually All Labor Force Growth Since 2020 Has Come From Immigration



Source: Haver Analytics, Morgan Stanley Wealth Management GIO as of May 31, 2025

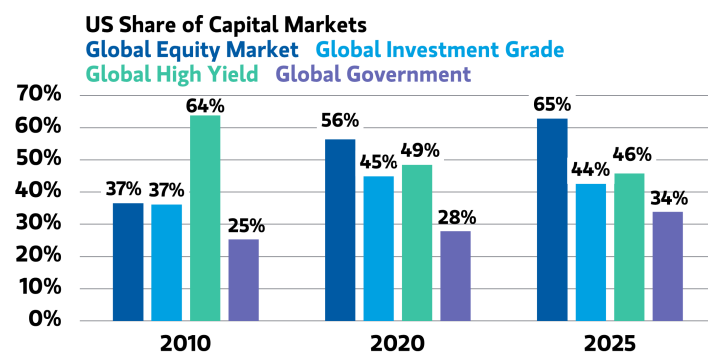
The decline in the native-born labor force has been most pronounced among non-college educated workers. Equally relevant, as the native-born supply of workers fell, labor shortages began to emerge in industries linked to America's shifting economic composition. In this environment, immigrants without advanced skills could serve the more leisure-oriented and aging segments of the US population, while job vacancies surged in agriculture, health care, construction, leisure and hospitality, and personal household services. Labor force participation rates among native-born workers continued to decline or stagnate despite solid job markets, creating the economic rationale, if not a politically popular one, to increase immigration following COVID. Essentially, demographic transitions collided with compositional shifts in the economy, with immigration the safety valve—keeping America's economic growth above average and wage growth, due to labor supply issues, moderate, while holding labor cost inflation in check. As of year-end 2024, immigrants accounted for roughly 14% of the US population and 18.5% of the workforce.

Beyond its pure numerical role in sustaining America's differentiated population growth, immigration has supported US entrepreneurialism, innovation, dynamism and disruption. Consider that over the past 15 years, immigrants have launched new businesses at more than twice the rate of US-born individuals. More than 45% of today's Fortune 500 companies were founded by immigrants or first-generation Americans, and immigrants founded 55% of the venture-backed startups currently valued at more than \$1 billion. Roughly 37% of all graduate STEM degrees in the US are awarded to immigrants or international students, and immigrants account for 25% of the country's patents annually, which is greater than their population share. In a final note that underscores this dimension of American Exceptionalism, consider that four of the CEOs of the Magnificent Seven megacap tech companies (Alphabet, Microsoft, Nvidia and Tesla) are immigrants.

Capital Markets Depth, Liquidity and "Reflexivity"

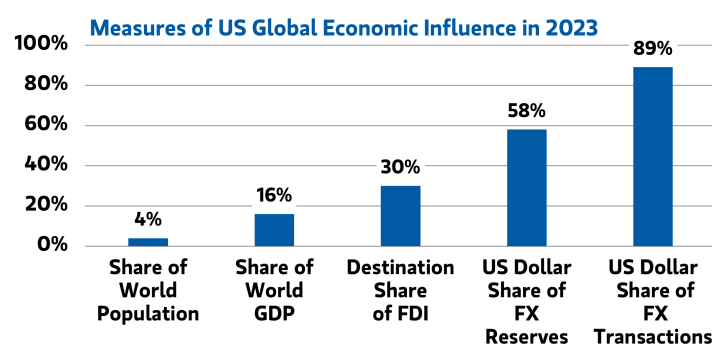
Finally, in addition to the unique post-GFC/post-COVID contributions of tech innovation, energy independence and immigration, we must note the deepening of US capital markets over the past five years, which further suggested to global investors that "there is no alternative." This phenomenon, also referred to as TINA, propelled US equities to account for more than 64% of global indexes by the start of 2025, despite the US boasting only 33% of global corporate profits, less than a quarter of global GDP and only 4% of the world's population. Even the US dollar, the dominant global reserve currency, has less than a 60% share (see Exhibit 25n). Such sheer scale advantages, combined with the depth of daily liquidity and the advantages that come with the dollar's reserve currency status, supported a virtuous cycle of wealth creation for global investors, as the dollar grew directly correlated with stock markets (see Exhibits 25o and 25p). As we discuss below, this was further aided by the telegraphic approach of the Federal Reserve, which suppressed the cost of capital and related volatility. In essence, beyond the funding of America's twin deficits by central bank foreign currency reserves, foreign direct investments and private capital inflows from non-US investors funded the country's extraordinarily large capital surpluses (see Exhibits 25q, 25r and 25s), especially as equity market performance differentials widened. This, in turn, drove US markets and valuations even higher.

Exhibit 25n: America's Markets Enjoyed "TINA"



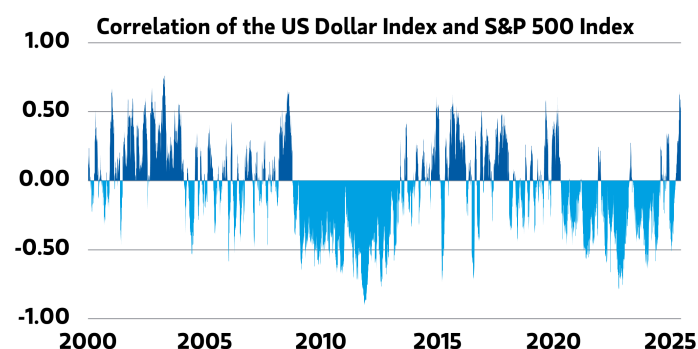
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 25, 2025

Exhibit 25o: US Dollar as World's Reserve Currency



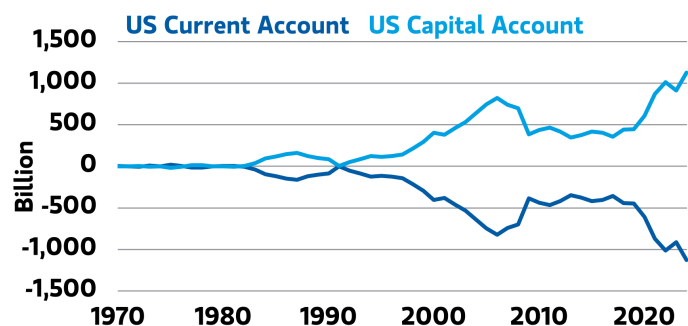
Source: IMF, OECD, Atlantic Council, BIS, Morgan Stanley Wealth Management GIO as of Dec. 31, 2023

Exhibit 25p: Correlation of the US Dollar and S&P 500



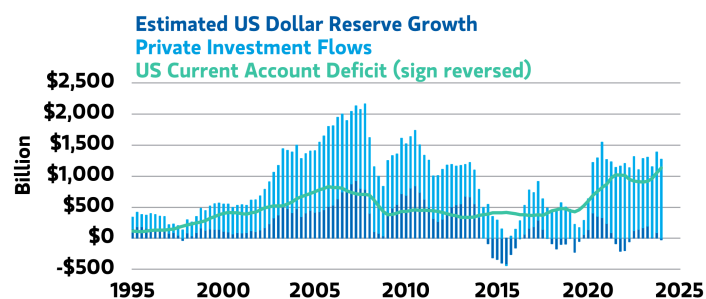
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 20, 2025

Exhibit 25q: America's Capital Account Surplus Surged



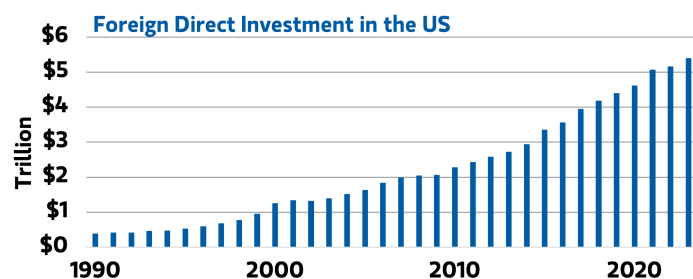
Source: Bureau of Economic Analysis, Morgan Stanley Wealth Management GIO as of April 22, 2025

Exhibit 25r: Private Foreign Investment Flows, Not Just Forex Reserves, Have Funded US Deficits



Source: Council on Foreign Relations, Morgan Stanley Wealth Management GIO as of Dec. 31, 2024

Exhibit 25s: American Exceptionalism Fueled Acceleration in Foreign Direct Investment



Source: Bureau of Economic Analysis, Morgan Stanley Wealth Management GIO as of April 22, 2025

America's Exceptional Policy Regime of 2009–2024 Supercharged American Exceptionalism

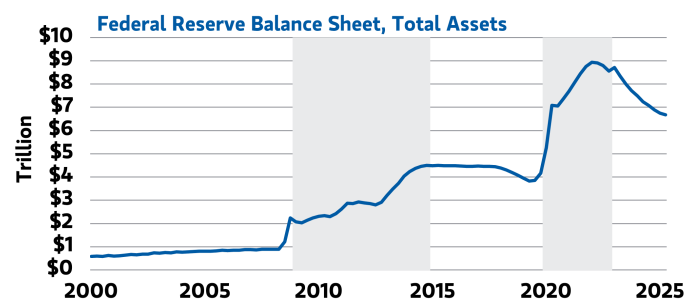
As differentiated and powerful as American Exceptionalism's foundation has been, investors attached to the mythology of it all need to acknowledge the extent to which the past 15 years have benefited from extraordinary and history-making forces—ones that are not likely to be replicated in the years

ahead. Specifically, we assert that America's relative success has been supercharged by three other major factors that may be at inflection points, with genuine consequences for asset allocation and portfolio construction.

Financial Repression and Financialization

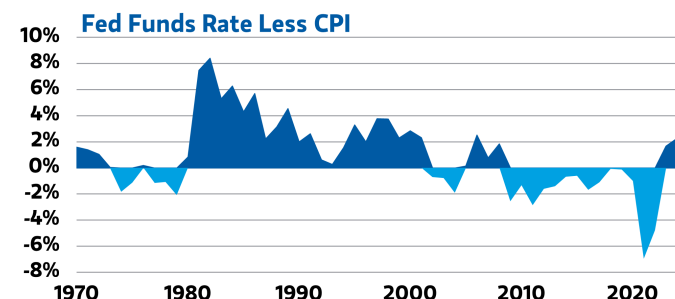
The first of these major factors is the relative and unprecedented magnitude of monetary stimulus and financial repression from the Fed following the GFC and continued through COVID. From less than \$1 trillion in 2008, the central bank's balance sheet surged to a peak of approximately \$8.5 trillion and currently sits at \$6.7 trillion (see Exhibit 26a). As the Fed combined zero-bound rate policy with QE—essentially price-insensitive buying by the US Treasury and money supply growth—it suppressed nominal interest rates and fostered negative real rates, unleashing ample liquidity and risk appetites. To wit, the long-term US real rate, as measured by the 10-year US Treasury note, was *negative* for over a decade. Consider the implications: For nearly 13 years, from 2009 to April 2022, real borrowing, after inflation, was literally free (see Exhibit 26b).

Exhibit 26a: The Federal Reserve Balance Sheet Surged



Note: Shading for GFC (2009–2014) and COVID (2020–2022). Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 18, 2025

Exhibit 26b: Negative Real Rates for a Decade!



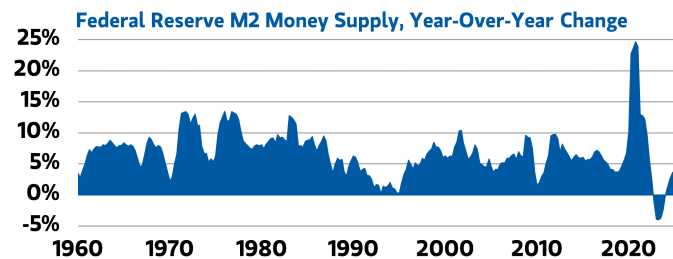
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 20, 2025

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The tremendous money supply growth ushered in a new era of financialization and contributed to the surge in shadow banking at a time when the systemically important banks were fully reregulated and recapitalized (see Exhibit 26c). Not only did this change the dynamics around capital access, shrinking public markets relative to private ones, but it changed the relationship between markets and the real economy. Since 2009, the real US economy has roughly doubled, to \$30 trillion per year, while the S&P 500 is up almost 10 times. During that period, money growth and leverage helped capital deployed by private equity and private credit general partners achieve a compound annual growth rate (CAGR) of 14%–15%, reaching more than \$14 trillion. Meanwhile, US companies backed by private equity and private credit rose dramatically, from less than 1,500 in 2000 to more than 15,000 currently (see Exhibits 26d and 26e).

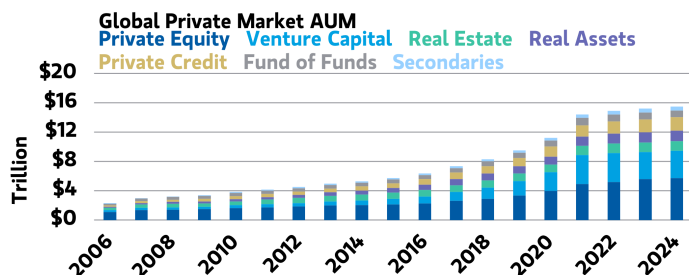
The most telling consequence of this money growth and rate suppression has perhaps been the increase in the “Buffett Indicator,” a measure popularized by Warren Buffett that tracks the ratio of stock market capitalization to the real economy of GDP. While some, like Buffett, claim it helps assess valuations, we see it as an indicator of financial-asset wealth versus productive-asset output. As of year-end 2024, the gauge registered 211%—2.2 standard deviations, or 67%, above the past 75-year average (see Exhibits 27a and 27b). Financial repression essentially allowed financial assets to be completely revalued.

Exhibit 26c: US M2 Money Supply Growth Surged ...



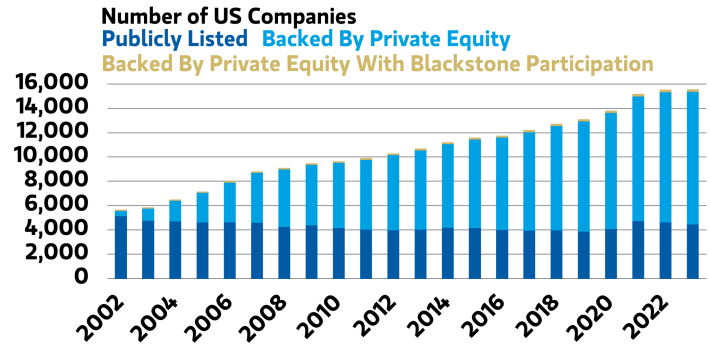
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of April 30, 2025

Exhibit 26d: ... As Did Assets Controlled by the Shadow Banks



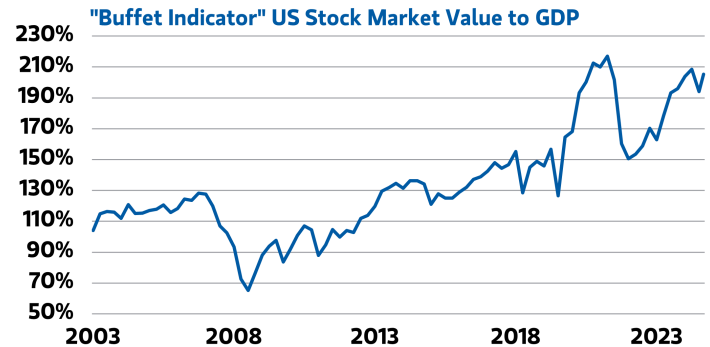
Source: PitchBook, Morgan Stanley Wealth Management GIO as of Dec. 31, 2024

Exhibit 26e: America's Business Sector Privatized ...



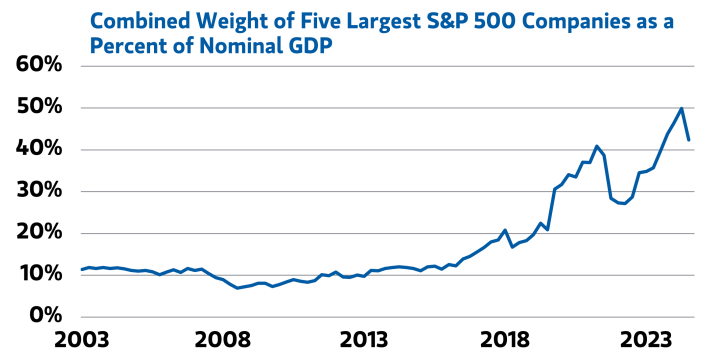
Source: World Federation of Exchanges, Morgan Stanley Wealth Management GIO as of Dec. 31, 2023

Exhibit 27a: ... And Money Growth Spurred Financialization as a Share of GDP ...



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 30, 2025

27b: ... As Market Concentration Intensified

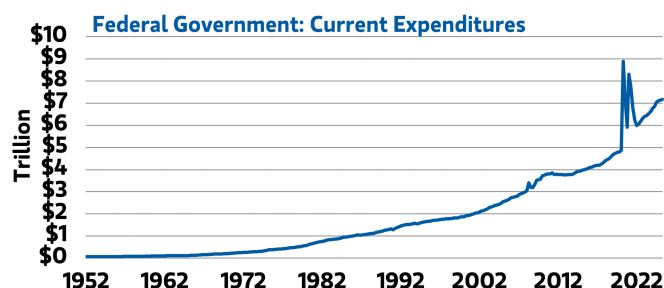


Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 30, 2025

Private Sector Deleveraging on the Back of the Federal Government

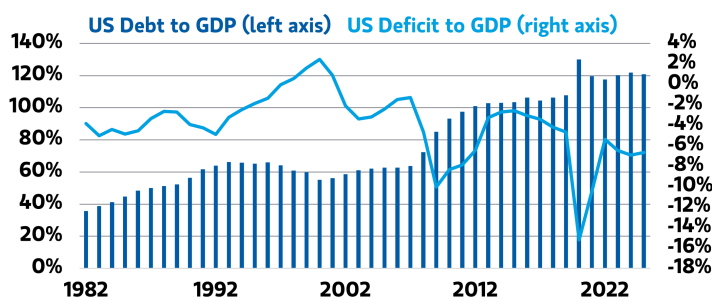
The second major factor to characterize the past 15 years has been public sector funding of one of the most powerful private sector deleveraging cycles in history, featuring the most aggressive fiscal transfers since the 1960s. This development has left the US, for all its strengths, with a peacetime federal budget deficit nearly double the 80-year average and a federal debt/GDP ratio above 120%, calling government debt sustainability into question. From March 2020, at the onset of COVID, to the beginning of 2025, US federal debt increased by roughly 50%, from \$23.7 trillion to more than \$36 trillion (see Exhibits 28a, 28b and 28c). Critically, while the federal debt level surged, it eased for households, states and corporations. The financial sector in particular experienced radical recapitalization (see Exhibits 29 and 30). While fiscal transfer episodes have not always led to step-change levels of corporate revenue growth, this time was different, with the growth in federal outlays directly mirroring acceleration in corporate top-line growth, representing a powerful wealth transfer from taxpayers to shareholders (see Exhibits 31a and 31b).

Exhibit 28a: US Fiscal Spending Also Experienced a Step Change



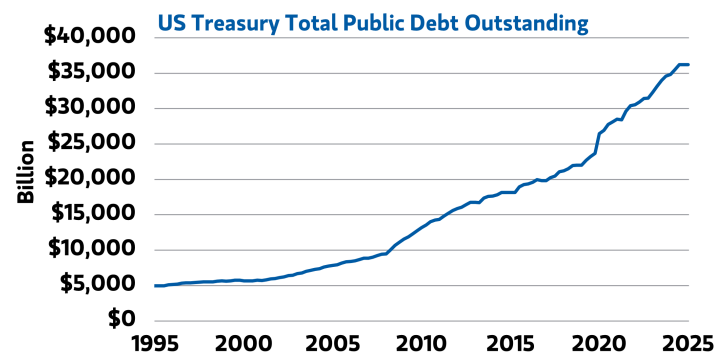
Source: Federal Reserve Bank of St. Louis, Morgan Stanley Wealth Management GIO as of May 29, 2025

Exhibit 28b: America's Federal Debt and Annual Deficits Have Surged



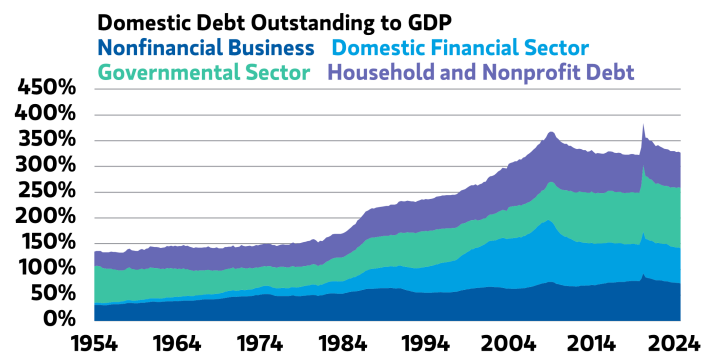
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 31, 2025

Exhibit 28c: With the Total Debt Pile Up 50% Since COVID ...



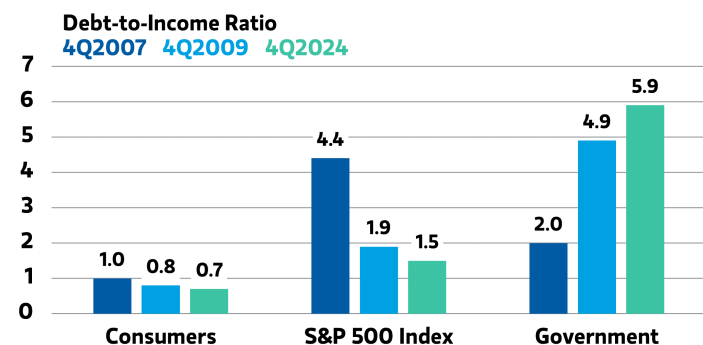
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 18, 2025

Exhibit 29: ... Federal Debt Became a Larger Share of America's Total Debt Burden, Others Deleveraged



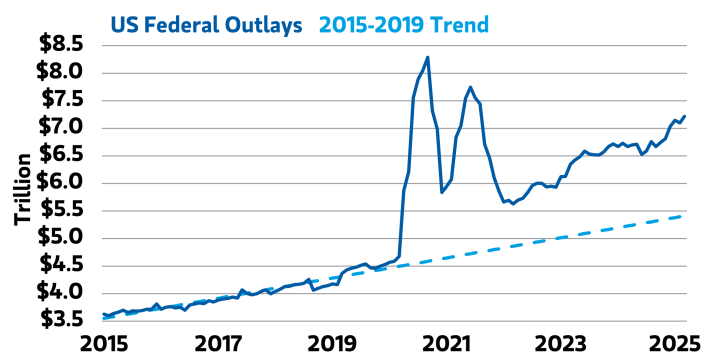
Source: Haver Analytics, Morgan Stanley Wealth Management GIO as of Dec. 31, 2024

Exhibit 30: Fiscal Sector Deficit Spending Drove Private Sector Deleveraging



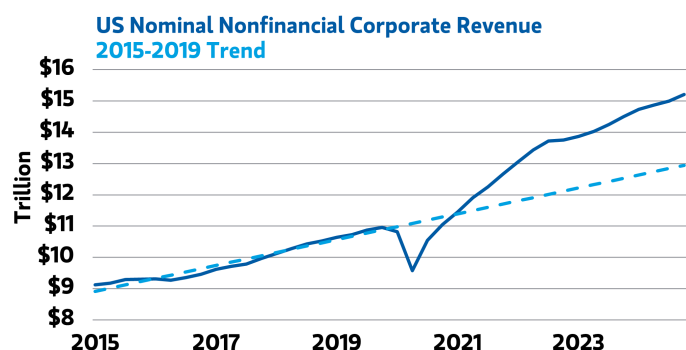
Source: KKR, Morgan Stanley Wealth Management GIO as of Dec. 31, 2024

Exhibit 31a: Federal Outlays Accelerated ...



Source: Piper Sandler, Morgan Stanley Wealth Management GIO as of March 1, 2025

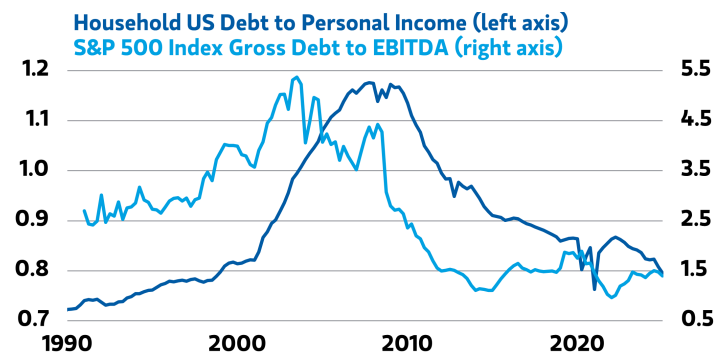
Exhibit 31b: ... Directly Propelling Corporate Revenues



Source: Piper Sandler, Morgan Stanley Wealth Management GIO as of March 1, 2025

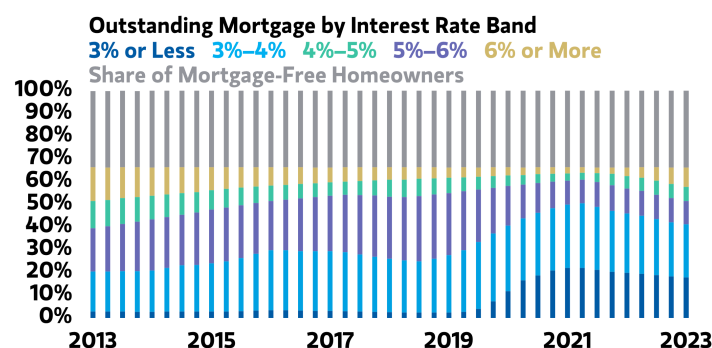
Aggressive use of financial repression, along with direct fiscal transfers to the private sector, allowed households and the largest companies to lock in and term out debt obligations. Consider that over a 15-year period, households improved their debt and interest rate coverage ratios, alongside similar improvements for corporations, such that debt-carrying costs as a share of income are among their lowest in decades (see Exhibit 32). While that has been a welcome development for the private sector, this disparate access to the lowest-cost capital has also cemented key drivers of wealth inequality between large and small companies, old and young investors, and affluent and lower-income consumers. The “frozen” housing market, for which 75% of existing home supply is secured with either no mortgage or financing below 5%, is an example of the extreme manner in which federal government largesse was distributed (see Exhibit 33).

Exhibit 32: The Interest Cost Burden for Households and Corporations Improved Radically ...



Note: EBITDA is earnings before interest, taxes depreciation and amortization.
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of March 31, 2025

Exhibit 33: ... Creating Distortions in the Housing Market



Source: National Mortgage Database, Federal Reserve Bank of St. Louis, Morgan Stanley Wealth Management GIO as of Dec. 31, 2023

Winning Globalization's Spoils

The third, and potentially most controversial, factor underpinning the era of American Exceptionalism has been the near-complete exploitation of globalization, a dynamic being questioned by the new administration. Yes, China's entry into the World Trade Organization in 2000 dramatically transformed America's role in global trade and the relative size of its trade deficits (see Exhibits 34a and 34b). And certainly, globalization's acceleration and the Schumpeterian realization of comparative advantage contributed to the US losing manufacturing jobs. In the 1950s, nearly one in every three US jobs was in a factory, while that has fallen to roughly 8%, with total manufacturing jobs peaking in 1979 at more than 19 million and accounting for roughly 12.7 million in recent nonfarm payrolls (see Exhibit 34c). Although it is undeniable that a decline of more than 33% has been socially and politically traumatic for the country, it is difficult to argue that globalization alone caused the decline or that it was a negative outcome for the US economy overall.

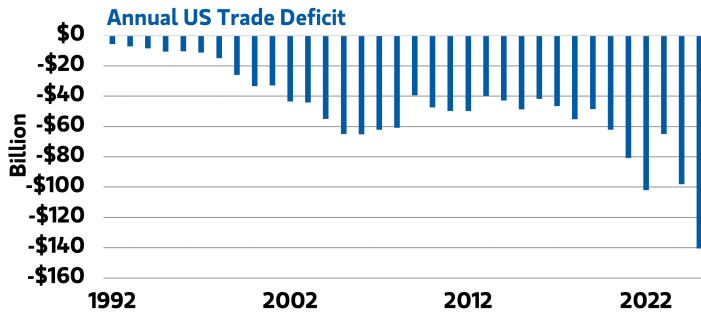
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Exhibit 34a: China's Entry to the WTO Helped Globalization of Trade Accelerate ...



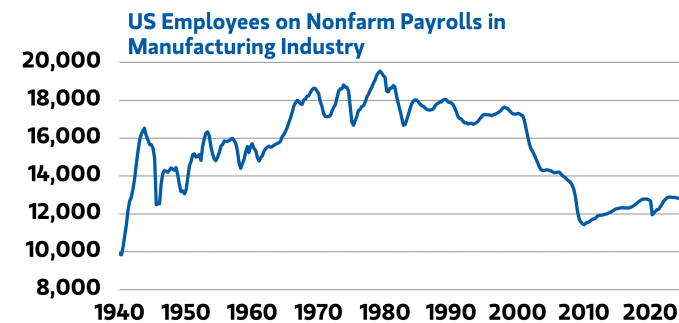
Source: World Bank Group, Morgan Stanley Wealth Management GIO as of June 5, 2025

Exhibit 34b: ... And American Trade Deficits Appear To Be a Consequence



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of March 31, 2025

Exhibit 34c: Manufacturing Jobs Have Suffered; Less So in the Last Decade

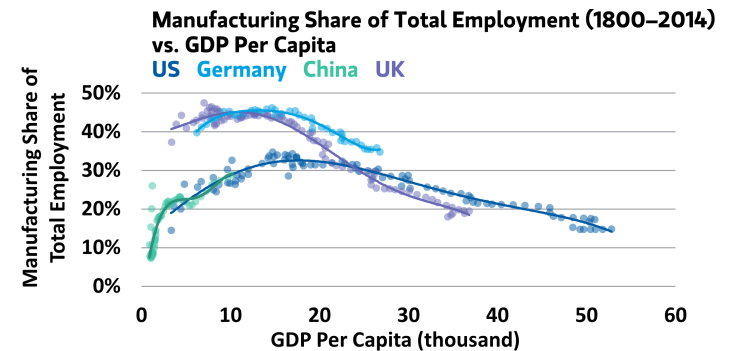


Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 31, 2025

First consider the idea of causality between higher rates of globalization and declining manufacturing intensity. A recent study undertaken by the Groningen Growth and Development Centre and cited by The Economist magazine pointed out that declining manufacturing intensity is a natural evolutionary step for developing economies as they mature. The typical cycle has been observable since the early 1800s, as countries have moved from agrarian intensity to industrial

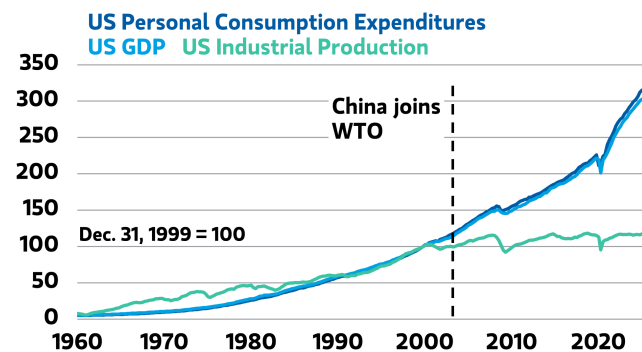
intensity to services intensity. America's journey in this regard has followed that of the United Kingdom and Germany (see Exhibit 35a). The economic theory isn't just intuitively appealing but structurally observable cross-sectionally, as a country's own consumption patterns drive its production/manufacturing priorities. Consider that as affluence, or GDP per capita, grows, at first, a shrinking share of income is spent on food and then on shelter/manufactured goods before more and more is spent on services. Based on this observation and America's unrivaled affluence, it was natural that, as America's consumption basket shifted from nearly 60% housing/goods/food in 1950 to two-thirds services, its production profile would follow (see Exhibit 35b).

Exhibit 35a: Manufacturing Intensity Wanes as a Function of Country Affluence Not Globalization ...



Source: Groningen Growth and Development Centre, Our World in Data, Morgan Stanley Wealth Management GIO as of Oct. 4, 2023

Exhibit 35b: ... And the Schism Between Manufacturing and Consumption Has Widened



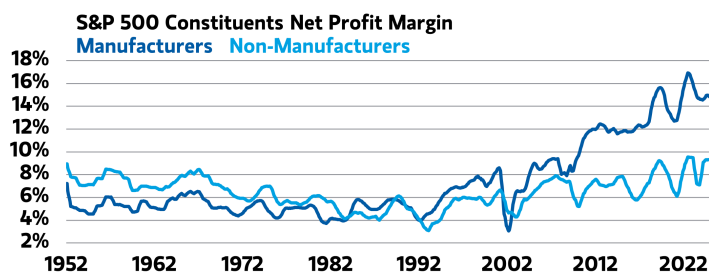
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of April 30, 2025

A second consideration is the extent to which the reduction in manufacturing jobs was sourced not from globalization but from overall productivity improvement—a theory recently espoused by academics Michael Hicks and Srikant Devaraj at Ball State University. They estimate that between 2000 and 2010, 88% of manufacturing job loss was from process- and technology-driven productivity improvements and only

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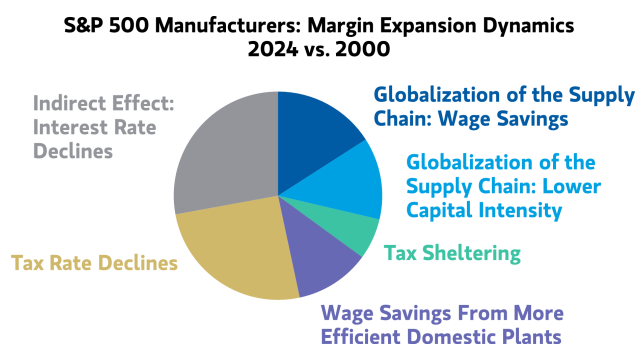
12%–13% from outsourcing. In fact, since the GFC, total manufacturing jobs have steadily rebounded from their 2010 low. The empirical evidence from US corporate profits supports this productivity and reengineering theory. Specifically, for US manufacturers, many of whom are part of the technology and health care supply chains, fully exploiting the global comparative advantage of free trade allowed them to more than double net profit margins to approximately 16% by 2024—a feat truly differentiated from nonmanufacturers, whose net margins have only grown from about 6% to 8% (see Exhibit 36a). This is not to dismiss the relevance and reality of outsourcing. To the contrary, access to lower-cost labor, after all, is part of the equation, and as Michael Goldstein of Empirical Research has shown, non-US employees of US multinational companies earn less than 40% of their domestically based peers, while the creation of global supply chains also gave companies the ability to reduce asset intensity and more aggressively manage their tax liabilities. Based on his analysis, “outsourcing/globalization” may account for 40% of margin gains for US manufacturers between 2000 and 2024 (see Exhibit 36b).

Exhibit 36a: Manufacturing Productivity Soared Alongside Globalization



Note: Excludes financials, REITs and utilities
Source: Empirical Research Partners, Morgan Stanley Wealth Management GIO as of May 1, 2025

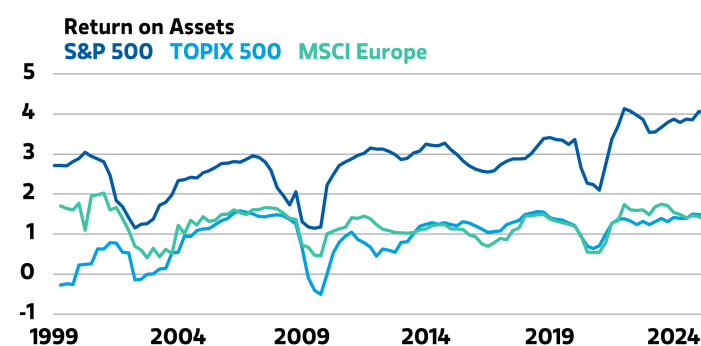
Exhibit 36b: With “Outsourcing/Globalization” Driving Roughly 40% of 2000–2024 Margin Gains ...



Source: Empirical Research Partners, Morgan Stanley Wealth Management GIO as of June 5, 2025

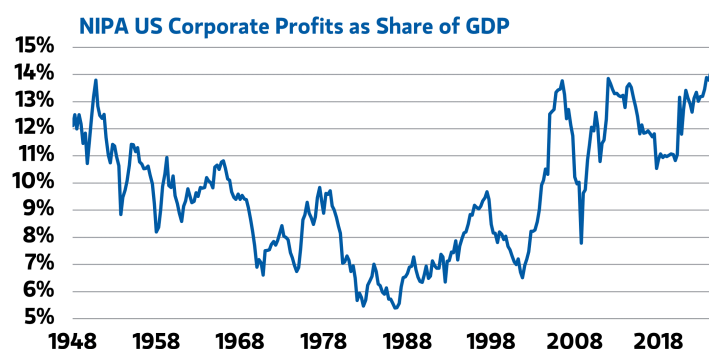
For the US economy in total, it is also profoundly hard to argue that globalization was a negative. Access to the lowest-cost imports helped transform it into one that became increasingly more dependent on less-capital-intensive consumption and services, driving differential returns on assets and uninterrupted growth in GDP per capita (see Exhibits 36c, 36d and 36e). Equally important, globalization gave “category killer” US companies access to non-US markets, which are currently the source of more than a third of S&P 500 profits and more than 46% of revenues; for tech companies, non-US markets account for 57% of profits and 53% of revenues. Finally, an inconvenient truth of China’s excess-export-capacity and currency-management regime is that global deflation helped constrain US inflation during one of the most aggressive periods of monetary expansion in the country’s history.

Exhibit 36c: ... America’s Asset Efficiency Experienced a Differentiated Step-Change



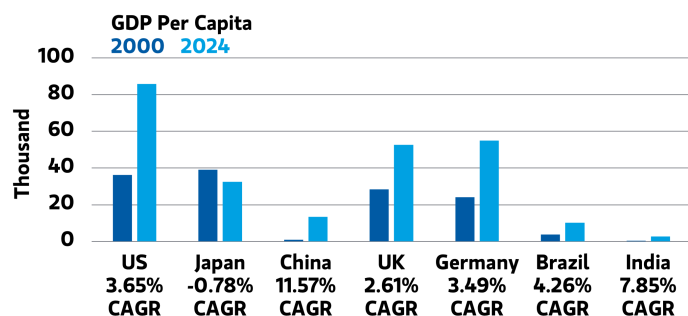
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 30, 2025

Exhibit 36d: Corporate America’s Profits Soared Relative to GDP ...



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of March 31, 2025

Exhibit 36e: ... And GDP Per Capita Growth Remained Superior

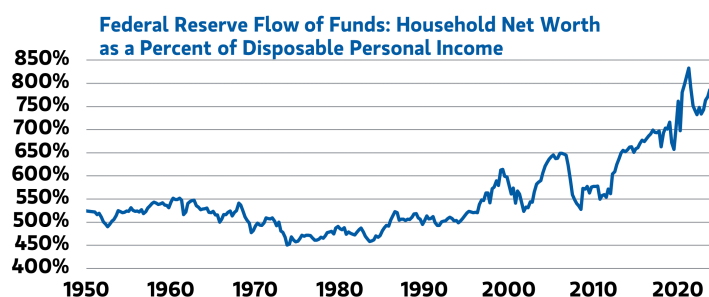


Source: IMF, Morgan Stanley Wealth Management GIO as of April 1, 2025

The End of Adrenaline: Consequences and Constraints

The results of America's monetary and fiscal policy, as well as its dominance of globalization, as measured by aggregate wealth creation, are hard to argue with. After all, total US household net worth relative to disposable income is at a multigenerational high of close to eight to one, just as corporate profits, housing prices and equities are similarly near historic highs (see Exhibit 36f). That said, these outcomes leave the US facing meaningful consequences and constraints .

Exhibit 36f: American Household Net Worth Growth Has Been Historic



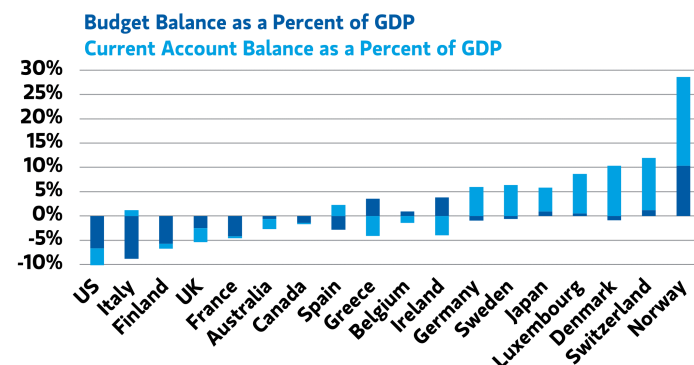
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of March 31, 2025

Debt Sustainability

The biggest and most obvious of these constraints is America's twin deficits—fiscal and current account—with the combined debt among the most onerous in the world (see Exhibit 37a). We are not in the camp that contends that trade deficits are the problem, as we believe that as long as the US dollar maintains its reserve currency status, which we think it will, the US will continue to benefit from recycled dollars and their related capital inflow surpluses. However, we are increasingly concerned not just about the level of federal

debt, at \$36 trillion, but about its *sustainability*.

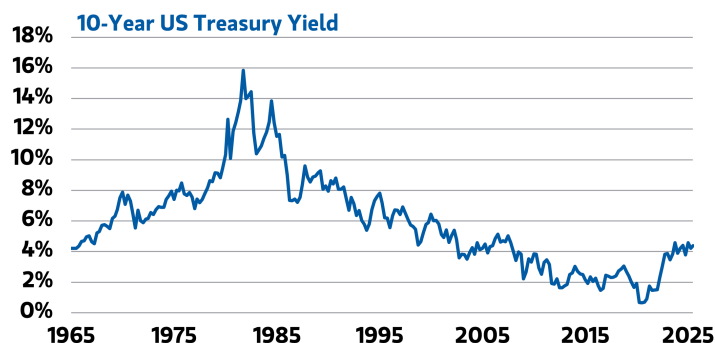
Exhibit 37a: America Is Exceptional With the Largest Twin Deficits



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of March 31, 2025

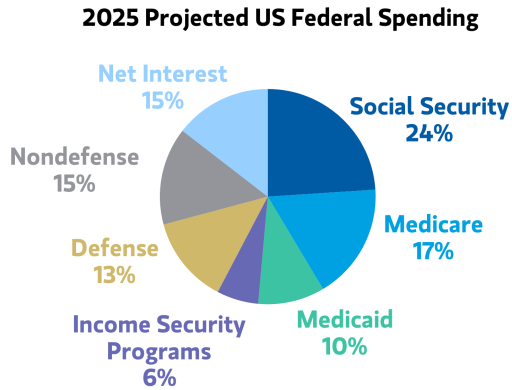
While we are aware that this avenue of inquiry is well worn, we believe we have finally entered an era when there really are emerging constraints. These are complicated by the structural end to the 42-year bull market in long-duration Treasuries and the manner in which we have chosen to finance our debt over the past decade, as well as by who owns the debt and what their exposure is to the US dollar (see Exhibit 37b). Consider the current debt-financing scenario. America's annual interest payments, at an effective rate of approximately 3.3%, represent roughly 14% of its budget outlays—nearly equal to all nondefense spending and greater than spending on defense. Without any assumptions about the currently proposed tax bill or increases in debt and deficits, this share of our projected spending is forecast to increase to a post-WWII high, risking potentially "crowding out" other spending (see Exhibits 37c, 37d and 37e). Theoretically and historically, this has precipitated draconian and politically charged cuts in discretionary government programs. The implication is less room for fiscal stimulus in the event of a recession or in the next crisis.

Exhibit 37b: The Secular Bull Market in American Interest Rates End by 2021



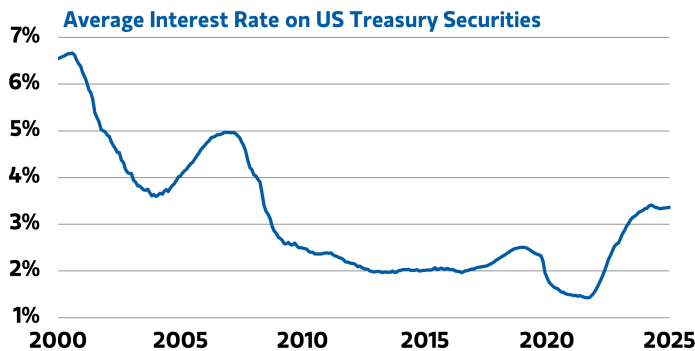
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 20, 2025

Exhibit 37c: Interest Payments Are Running at Approximately 14% of Federal Outlays



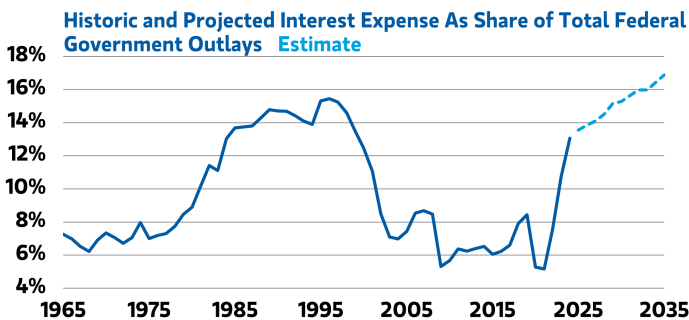
Source: CBO, Morgan Stanley Wealth Management GIO as of Jan. 31, 2025

Exhibit 37d: The US' Current Blended Effective Interest Rate Is Approximately 3.3%



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 31, 2025

Exhibit 37e: Interest Is Forecast to Represent a Growing Share of America's Total Spending

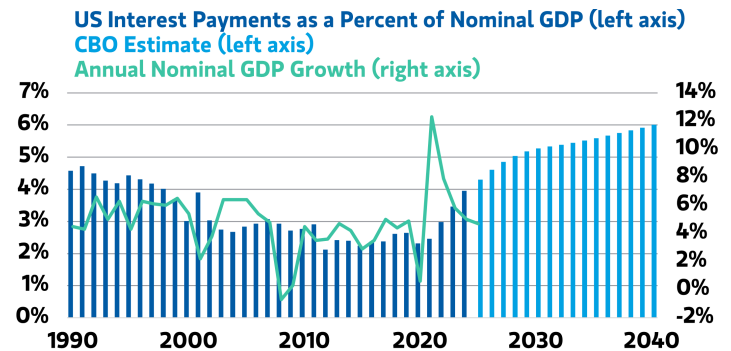


Source: CBO, Morgan Stanley Wealth Management GIO as of Jan. 31, 2025

In addition, given assumptions about structurally higher interest rates in the next 10 years than in the past 15, the Congressional Budget Office (CBO) sees interest servicing costs growing faster than nominal GDP, a phenomenon that touches on debt sustainability. As we display in Exhibits 37f

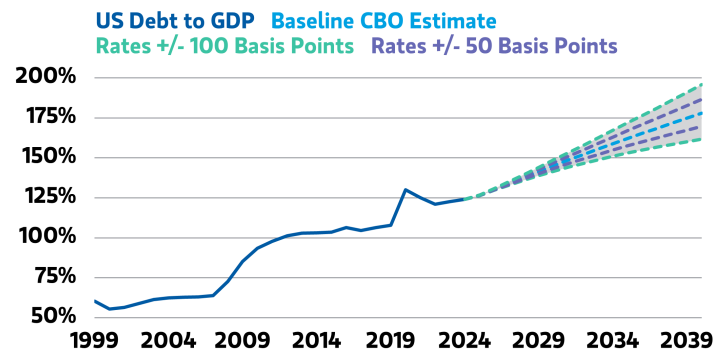
and 37g, when interest payments as a share of GDP (3.3%–3.6% currently) are above annual nominal GDP growth, debt must be used just to pay bill and bond holders. As households with credit card debt can attest, this is a scenario that cannot go on in perpetuity!

Exhibit 37f: ... And Is Forecast to Represent a Growing Share of America's Total Spending



Source: Morgan Stanley & Co. Research, Morgan Stanley Wealth Management GIO as of May 12, 2025

Exhibit 37g: Market Interest Rates Will Be Determinative



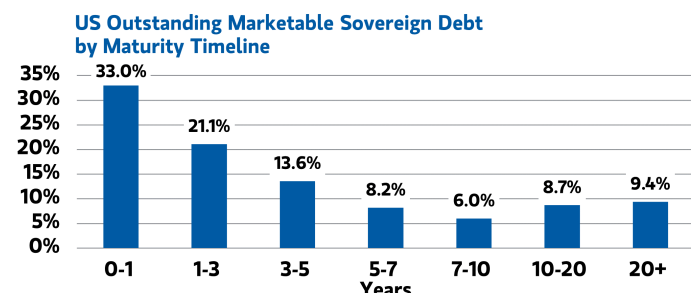
Source: Morgan Stanley & Co. Research, Morgan Stanley Wealth Management GIO as of May 12, 2025

Further complicating the challenge for the US Treasury in the years ahead, America's financing strategy has favored issuance of short-term bills over coupon-bearing notes and bonds, a perverse reality that raises refinancing risks, especially in periods of economic expansion. Specifically, bills account for 33% of the current mix of US debt, a far cry from the more traditional 20% bill/80% coupon breakdown (see Exhibit 37h). This implies more long-duration issuance at a time when real rates and term premiums are already normalizing and global issuance is apt to increase as well, given higher sovereign spending in China and the EU. As an example, in the next several months, the US will need to vote to raise the debt ceiling again, and most of fiscal year 2025's \$1.75 trillion deficit is likely to be financed with coupons, pressuring

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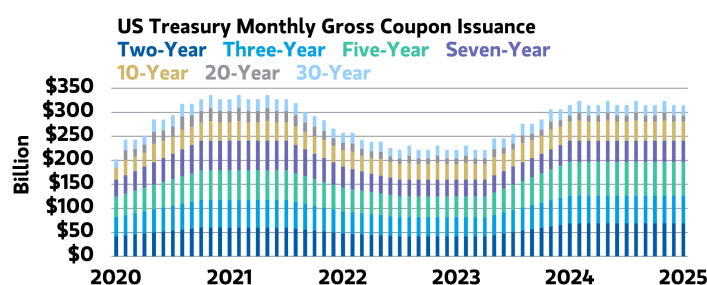
long-maturity rates (see Exhibit 37i). A final factor to note is that the US Treasury market continues to rely on foreign investors, who recently purchased 33% of issuance; for most of the past decade, their returns have been supported and enhanced by a strong US dollar. With the dollar's recent decline of more than 11%, currency-hedged returns have become increasingly challenged at a time when the US has antagonized traditional allies who have historically been major owners of Treasuries (see Exhibits 37j and 37k). While we recognize that these obstacles are not insurmountable, and that the Treasury Department has policy tools, the situation shines a light on the importance of bank deregulation and assets like stablecoin to create more natural buyers of Treasuries.

Exhibit 37h: Treasury Has Skewed Issuance to Bills



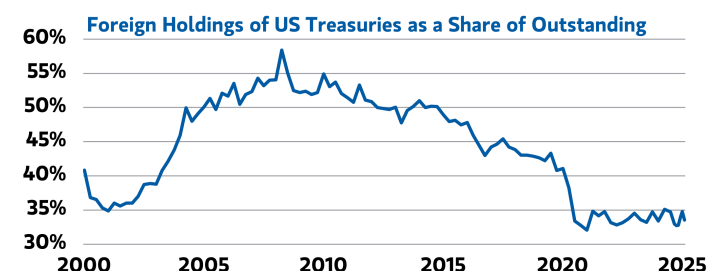
Source: Morgan Stanley Wealth Management GIO, Strategas as of May 22, 2025

Exhibit 37i: 2026 Treasury Issuance Is Poised to Accelerate ...



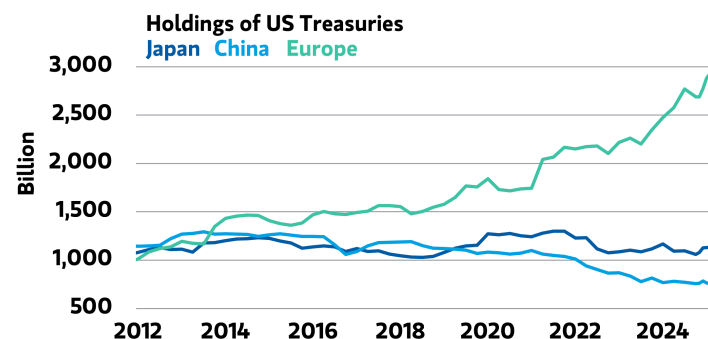
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 31, 2025

Exhibit 37j: ... And Depends on Foreign Demand ...



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of April 30, 2025

Exhibit 37k: ... Especially From Traditional Allies

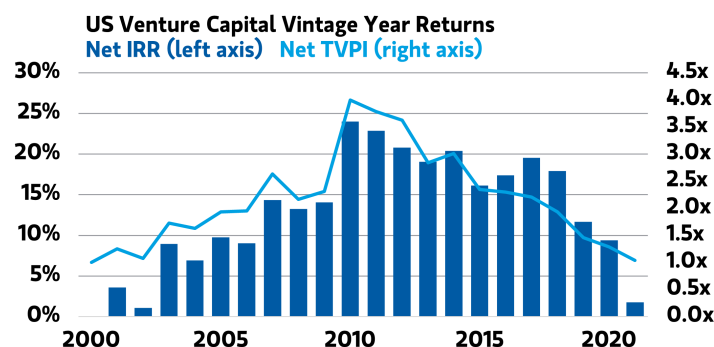


Source: Bloomberg, Morgan Stanley Wealth Management GIO as of April 30, 2025

Misallocation of Capital

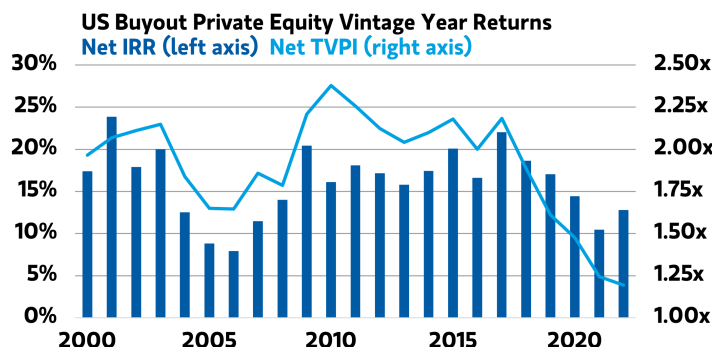
A second consideration is the lingering consequences of the Fed's extended zero interest rate policy (ZIRP), now three to four years in the past, because when capital has no hurdle rate or a low one, by definition, we misallocate it. Examples of this have begun to emerge, with venture capital and private equity returns stalling after their "glory days" of 2020-2021 (see Exhibits 38a and 38b). Similarly, while the most immediate repricing of risk from rate normalization has begun in many corners of the public capital markets, it has yet to be fully reflected in US equity valuations, which remain historically extreme on both a traditional and Shiller price/earnings basis (see Exhibits 38c and 38d). Furthermore, we anticipate that repricing will impact with a lag, as corporate debt issuance is only now entering the refinancing cycle (see Exhibit 38e). And the commercial real estate and commercial mortgage-backed securities (CMBS) markets face similar headwinds.

Exhibit 38a: Venture Capital Returns Have Stalled ...



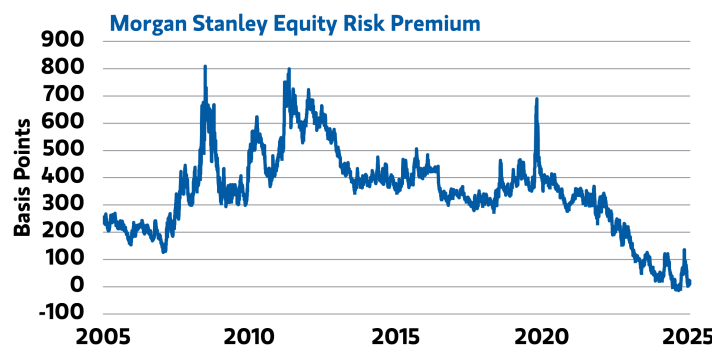
Source: Cambridge Associates, Morgan Stanley Wealth Management GIO as of March 31, 2024

Exhibit 38b: ... As Have Those in Private Equity ...



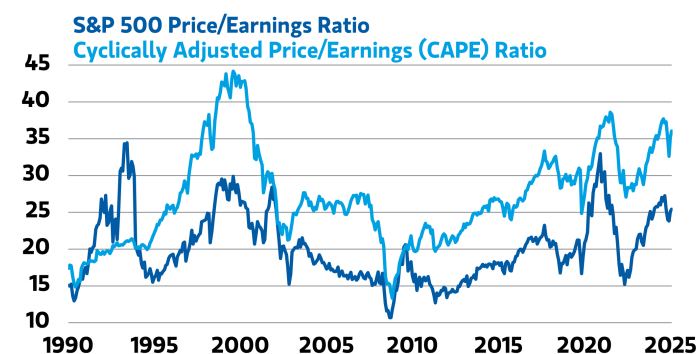
Source: Cambridge Associates, Morgan Stanley Wealth Management GIO as of March 31, 2024

Exhibit 38c: While US Equity Valuations Are Rich Based on ERP ...



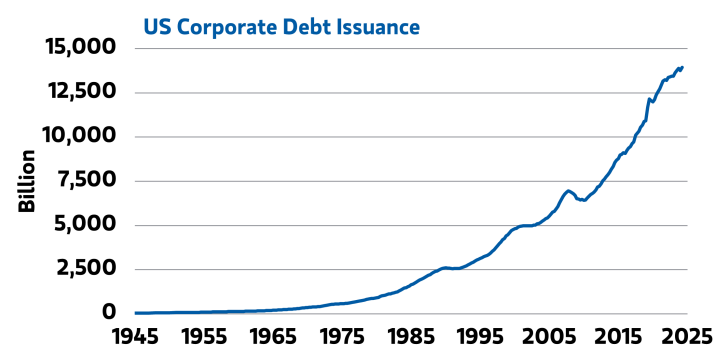
Source: Morgan Stanley Wealth Management GIO, Bloomberg as of June 19, 2025

Exhibit 38d: ... And on a Price to Forward and Normalized Earnings Basis



Source: Morgan Stanley Wealth Management GIO, Shiller Data, as of June 23, 2025

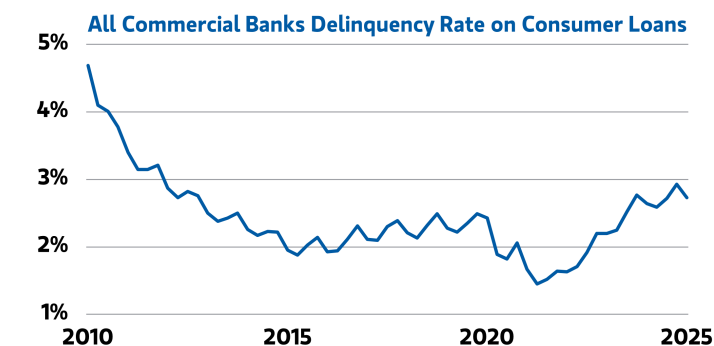
Exhibit 38e: Corporate Credit Issuance Is Peaking



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of March 31, 2025

The most important implications may not yet be fully felt, however, as they are likely both behavioral and obscured. Buried in balance sheets, they reflect instances of “extending and pretending.” The failure of Silicon Valley Bank and the near-failure of First Republic Bank, which initiated yet another Fed rescue in 2023, were just two examples of misjudgment that arises when bank executives and investors grow complacent about the permanence of low rates. Along with private market investors, who are very dependent on low rates, small businesses have exhibited similar behavioral vulnerability. Consumers, likewise, are apt to be overly dependent on hoped-for rate cuts. Notably, consumer loan defaults are already at a cycle high and consumer delinquencies are well above 2019 levels despite the absence of recession, solid 4% annualized wage growth and 4.2% unemployment (see Exhibit 38f).

Exhibit 38f: Consumer Delinquencies Are Well Above Pre-COVID Levels



Source: Morgan Stanley Wealth Management GIO, Bloomberg as of March 31, 2025

Our point is not that the US faces the risks of a typical credit crisis or big busts from excess capacity. In fact, we do not believe that, given the health of balance sheets. Rather, we see smaller pockets of “ticking time bombs”—with equity market valuations potentially one of them—that should not be ignored. Risk premiums matter, especially in a world of rising policy and geopolitical uncertainty.

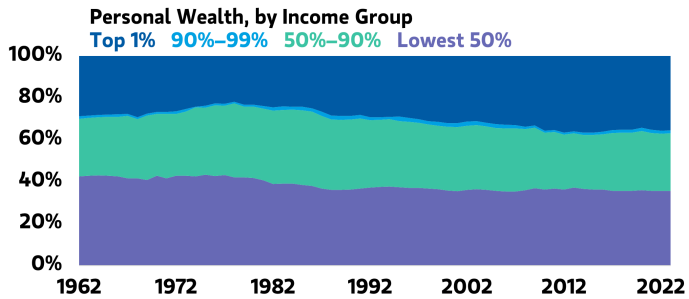
Social Imbalances and Economic Inequality

A final development that we cannot ignore is that the American Exceptionalism of 2009–2024, with its focus on free money and financialization, produced unprecedented imbalances. These include the financial market imbalances we already cited: America’s relative dominance of capital markets and the concentration of the largest megacap tech stocks within that construct (see our Jan. 19, 2024 report, “Consequences of Concentration”). But another undeniable dimension of the imbalances is that of social and economic inequality, whereby the skewed allocation of power and wealth between the rich and the poor, the old and the young, and large companies and small ones is creating structural and policy challenges. Unfortunately, these challenges also foster constraints that we are already seeing in domestic politics and debates about tax policy, housing and the Fed’s policy framework. That is not to mention that these imbalances may complicate geopolitical stability, as has already been the case in regard to debates on immigration and tariffs.

Consider first the degree to which wealth in the US has become more concentrated over the past 35 years. According to the Federal Reserve Bank of St. Louis, the wealthiest 10% of American households account for about 69% of personal wealth, as of the third quarter of 2024, while the bottom 50% account for less than 3%. Financial asset ownership for the bottom 50%, excluding housing-related wealth, sits at an even more meager 1%. What is most staggering, however, is how much that has changed over time—especially recently. Based on data from the US Survey of Consumer Finances, in 1963, the ratio of the average wealth of those in the top 1% to those at the 50th percentile was about 36:1; by 2024, that had nearly tripled. More recently, these trends have accelerated amid surging equity and housing markets. Consider, for instance, that the top 0.1% wealthiest people in the US (just over 340,000) hold nearly 14% of the country’s wealth. The top 1% (roughly 3.4 million people) hold nearly 35%—approximately \$60 trillion out of \$160 trillion. In 2000, that same 1% held less than 17%. This type of wealth

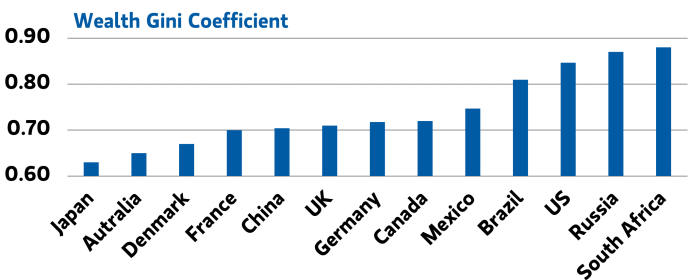
concentration, as measured by the GINI coefficient, is extreme. In fact, the gauge shows only Russia and South Africa exceeding the US (see Exhibits 39a, 39b, 39c and 39d).

Exhibit 39a: American Exceptionalism Has Overlapped With Growth in Wealth Inequality



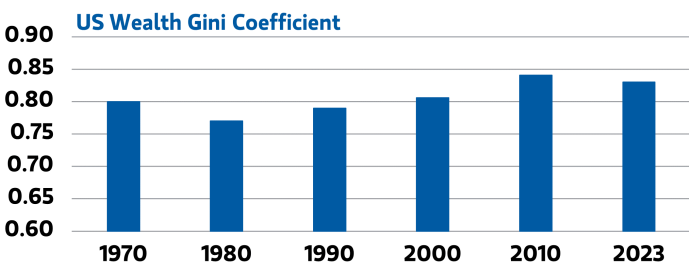
Source: Federal Reserve Bank of St. Louis, Morgan Stanley Wealth Management GIO as of Dec. 31, 2023

Exhibit 39b: America Is in Rare Company on Metrics of Global Wealth Inequality



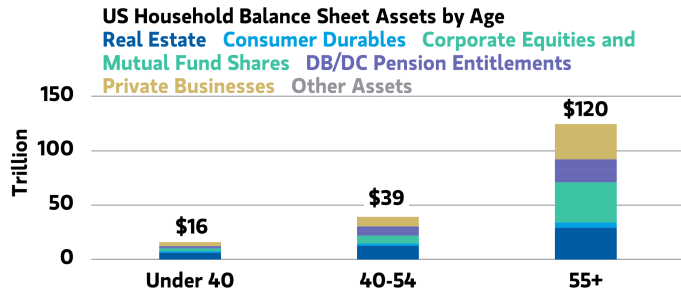
Source: Federal Reserve Bank of St. Louis, Morgan Stanley Wealth Management GIO as of Dec. 31, 2023

Exhibit 39c: It Has Gotten Worse Over Time ...



Source: UBS Global Wealth Report, GC Wealth Project, Morgan Stanley Wealth Management GIO as of Dec. 31, 2023

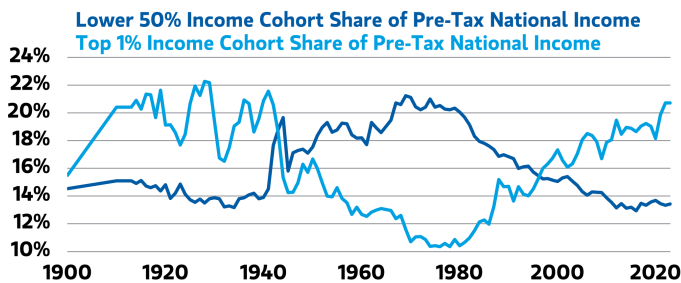
Exhibit 39d: ... And It Is Cross Sectional to Demographics



Source: Survey of Consumer Finances, Morgan Stanley Wealth Management GIO as of March 31, 2025

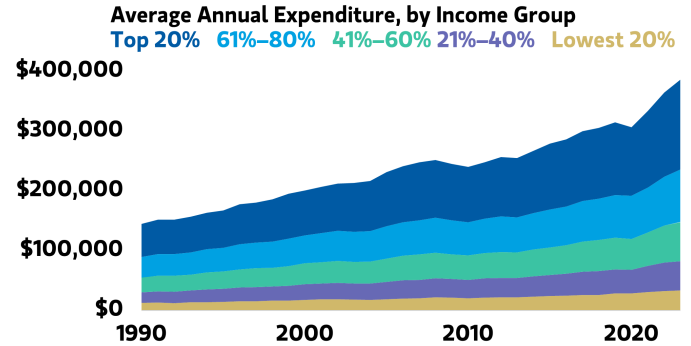
Not only is wealth concentrated, but social dynamics are being impacted by the dramatically skewed income distribution. Wages for the top 1% now account for more than 21% of the total, while the bottom quintile (20%) brings home only 4% of America's income. The implication is that nearly 60% of current consumption is driven by the highest 40% of the country's earners (see Exhibits 40a and 40b). As we have noted, while many attribute this widening dispersion to the "hollowing out of the middle class" due to a loss of "good manufacturing jobs," we attribute it to the social shift in the division of spoils. While corporate profits were growing at a 15-year CAGR of close to 9%, stocks at 14% and housing at more than 5%, real hourly wages grew an average of 0.6% per year and only about 14% since COVID. Sadly, these wage gains have trailed productivity growth (see Exhibit 41a). Exhibit 41b making the point that this has been about the distribution of value-added and wealth creation, with "labor's" share of profits falling around 10 percentage points, to 4%, since the 1980s, and shareholder profits rising from roughly 56% to 66%. The phenomenon of billionaire CEOs has emerged against this backdrop. According to the Economic Policy Institute, CEOs—heavily compensated with equities and equity-linked tranches—have seen their compensation multiple relative to the median employee grow from 60.5 times in 1990 to more than 300 times by the end of 2024.

Exhibit 40a: Income Has Also Become Concentrated ...



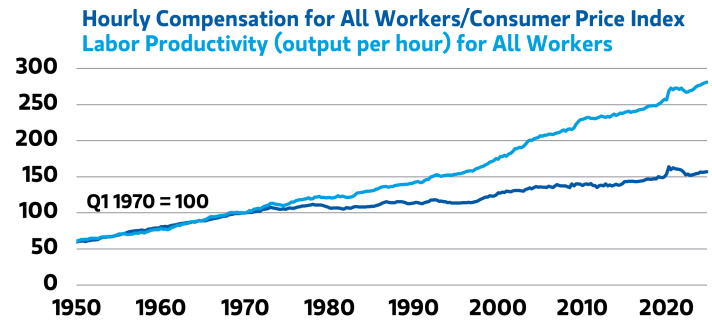
Source: World Inequality Database, Morgan Stanley Wealth Management GIO as of Dec. 29, 2023

40b: ... Meaning Aggregate Consumption Is Increasingly Driven by a Smaller and Smaller Cohort



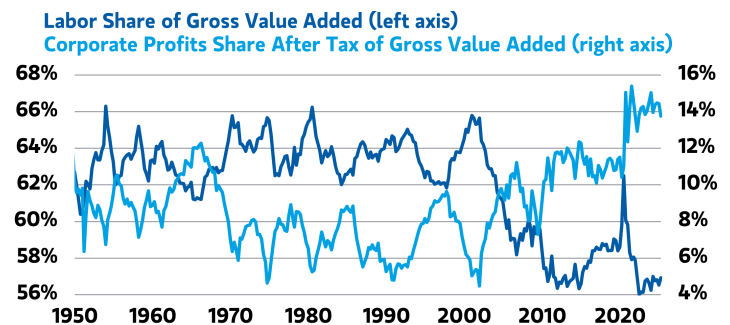
Source: Federal Reserve Bank of St. Louis, Morgan Stanley Wealth Management GIO as of Sept. 25, 2024

Exhibit 41a: Real Hourly Wages Have Trailed American Worker Productivity ...



Source: Federal Reserve Bank of St. Louis, Morgan Stanley Wealth Management GIO as of Oct. 1, 2024

Exhibit 41b: ... Even as Labor's Share of Profits Are at 75-Year Lows

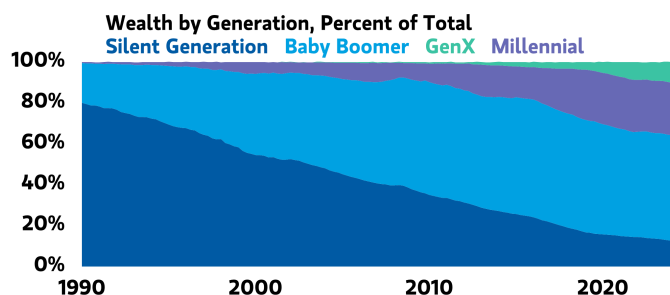


Source: Haver Analytics, Morgan Stanley Wealth Management GIO as of March 31, 2025

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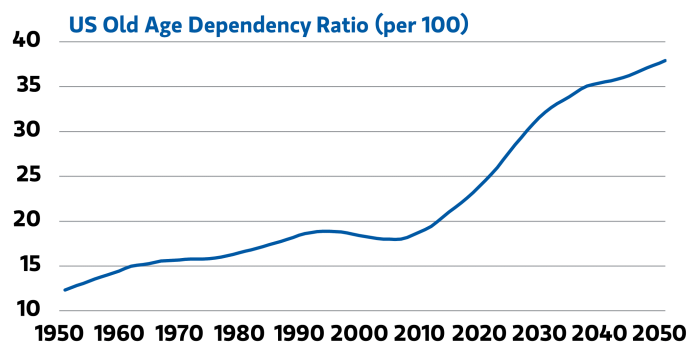
Further complicating matters, these wealth and income patterns have been cross-sectional in regard to age, with the wealth dispersion between older and younger Americans also extreme (see Exhibit 41c). America's age dependency ratio just inflected in 2010—a dynamic that is greatly expanding the wealth divide, with a growing share of government receipts funding Medicare and Social Security benefits (see Exhibits 41d and 41e). Beyond the dependency ratio burdens, the age divide is a major factor for housing, where the combination of “aging in place,” low-rate mortgages from 2020-2022 and very slow single-family-home supply growth has created a frozen market with an affordability crisis. It is hard to argue that Fed policy didn't have a hand in this conundrum (see Exhibits 42a and 42b).

Exhibit 41c: The Wealth Divide and the Age Divide Are Intersectional



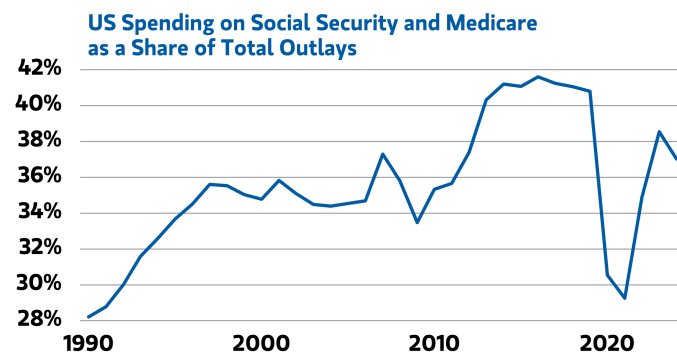
Source: Federal Reserve, Morgan Stanley Wealth Management GIO as of Dec. 31, 2024

Exhibit 41d: America's Age Dependency Ratio Inflected in 2010



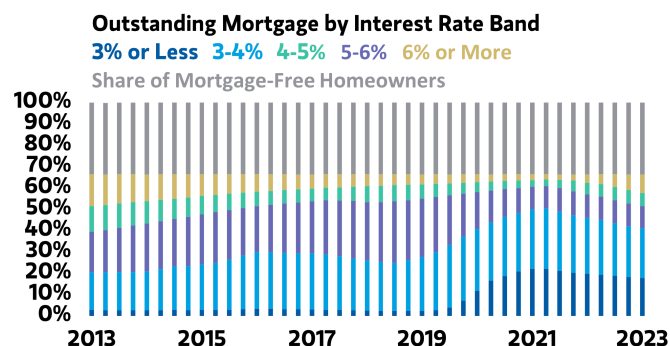
Source: Haver Analytics, Morgan Stanley Wealth Management GIO as of July 11, 2024

Exhibit 41e: Squeezing the Share of America's Budget Devoted to Seniors



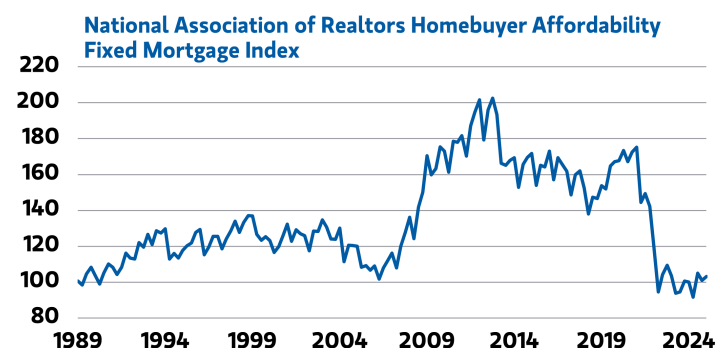
Source: CBO, Morgan Stanley Wealth Management GIO as of Jan. 31, 2025

Exhibit 42a: Housing Wealth Inequality and Aging Demographics Have “Locked” the Housing Market ...



Source: National Mortgage Database, Federal Reserve Bank of St. Louis, Morgan Stanley Wealth Management GIO as of Dec. 31, 2023

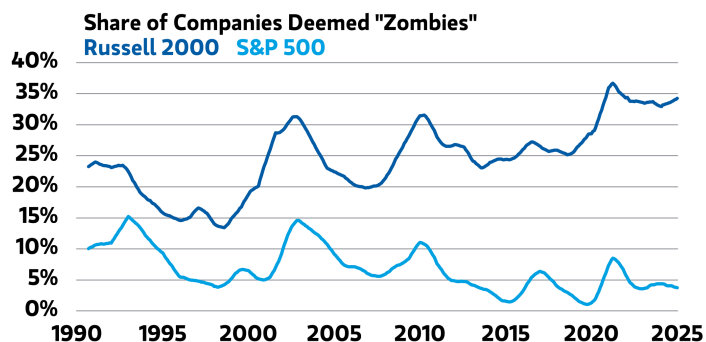
Exhibit 42b: ... Making Housing Affordability the Worst in Decades



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of March 31, 2025

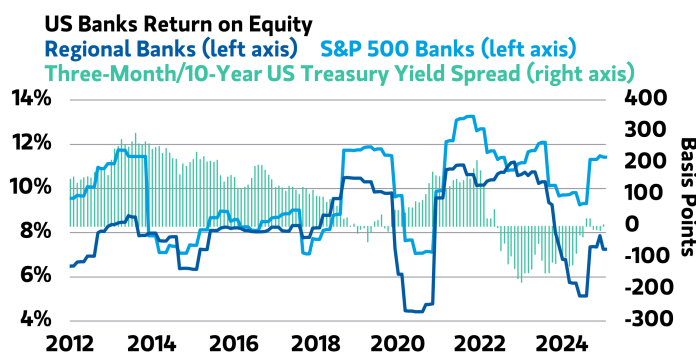
Monetary and fiscal stimulus measures, as well as globalization policies, have also driven a performance chasm between megacap companies and small ones. Some of this might have been predictable, given the accelerating importance of technology-based scale, the post-1980s laxity regarding antitrust laws and access to low-cost capital. But we assert that the combination of Fed interest rate policy and the role played by private equity and private credit in the middle markets has driven a wedge between megacap and small-cap companies in terms of quality. Not only is the average cost of debt capital for a constituent of the Russell 2000 Index, at approximately 7.7%, more than 400 basis points above that of the S&P 500, but many more constituents are “zombie” companies, i.e., their earnings are not covering their debt carrying cost. This development suggests that the public small-cap index has experienced adverse selection (see Exhibit 43a). Equally provocative is the differential between large banks and small banks, with the latter seeing their return on equity (ROE) squeezed by one of the longest three-month/10-year yield curve inversions of the past 80 years. While large bank ROEs have returned to the low teens, regional banks ROEs are still struggling to reach 8% (see Exhibit 43b).

Exhibit 43a: Russell 2000 “Zombie” Shares Are Up More Than 10 Percentage Points From Pre-COVID



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of April 30, 2025

Exhibit 43b: Small Bank ROEs Continue to Suffer



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 23, 2025

Economic concentration creates its own stresses and headwinds—at once political but also linked to growth dynamism and investment multipliers. When excess capital flows to corporations or individuals with the lowest propensity to spend and the highest propensity to save, economies risk secular stagnation. Lower potential growth for a shrinking few with more volatility is an unstable formula. Finally, history is not kind to these levels of imbalances. In fact, they are likely to demand policy attention in the years ahead, despite the new constraints on policymakers.

Implications: Regime Change

Economic and political history suggest that the imbalances along the social axes of division we are witnessing are typically only solved through some type of “hard medicine”—be it recession, austerity, inflation, debt monetization or wealth redistribution and tax hikes. But building confidence that the US has a solution at hand is not obvious, given extreme public division and limited evidence of broad political will. Without some material change to existing policies, debt and deficits will continue to grow, and the central bank will likely have no choice but to monetize those debts. Under that scenario, real US economic growth gets crushed under the weight of high real debt cost, while political stability continues to suffer. In this way, the trend ultimately ceases to be friendly and instead becomes undermining. When prosperity is no longer distributed or shared with a majority of the population, systems and the markets that reflect them tend to break.

Similarly, for citizens and policymakers, misunderstanding what underpins our current position of strength risks destabilizing overreach and policy mistakes. Most simplistically, not only do these extremes suggest a world fracturing between those who are inflation- and rate-sensitive, and those who are not, but the schisms are effectively birthing two distinct economies, for which one set of fiscal and monetary responses may no longer be ideal, complicating the already difficult job of setting policy. Such division is not only contributing to confusion about how to interpret economic data—thus obscuring experience differentials between the lowest and highest wealth cohorts—but it is also driving the country’s political instability. A case in point is that lower interest rates may be needed for two-thirds of the households, small businesses and regional banks but not for those who are driving two-thirds of consumption. With no single policy solution producing the optimal outcome, policymakers are forced to choose from what they perceive as the lesser of evils, leaving markets to deduce the trade-offs, with the risk of exacerbating the divide between economic winners and losers.

Halfway through 2025, with stock indexes near all-time highs, the ultimate irony may be that, having reached this point of

American Exceptionalism, we are also witnessing its peak—as the key drivers of monetary and fiscal policy, globalization and public leveraging on behalf of private deleveraging inflect. The Fed has announced an extended, data-driven and patient “pause,” cementing the concept of higher neutral rates, as financial conditions, growth and inflation remain well above forecast levels. Fed balance sheet reduction continues to drain liquidity but at an ever-slowing pace against a backdrop that remains quite buoyant, keeping money growth positive. At the same time, the new administration in Washington promises radical change—some of which, like deregulation and tax reform, may enhance economic outcomes and some of which may destabilize, such as tariffs, immigration reform and public sector austerity. These policies are explicitly aimed at rebalancing the economy, with the nominal benefits asserted to be lower deficits, real rates, inflation and energy prices, as well as a weaker US dollar but achieving those goals is likely to prove easier said than done, especially amid record corporate profits, richly priced US stocks and extreme wealth concentration.

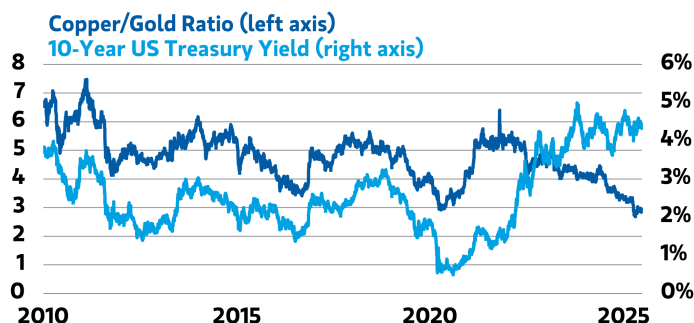
We are not political scientists, and as such we are not suggesting that we know exactly what mechanisms are most likely to guide readjustment and rebalancing. To the contrary, we only perceive that the fragilities that led to the GFC have long healed and are quickly giving way to new imbalances (between rich and poor, old and young, and large and small companies) apt to be challenges in the coming decade. Demographics and the great intergenerational wealth transfer will help deconcentrate some societal divides and unfreeze the housing market, while potential reforms to America’s historically sacred entitlement programs or tax code could be longer-term solutions. Furthermore, structurally higher rates, and more-constraining government debt amid extraordinarily deregulated financial markets could engender competition that accommodates much less maneuvering for financial engineering, thereby rebalancing power away from capital providers and capital owners/operators. Whether tariff-incented reshoring actually creates new middle class manufacturing jobs remains to be seen, but if it does, it will probably come at the price of corporate profit margins, reducing the tailwinds that have powered America’s profit growth. We call this rebalancing the “Great Normalization” and surmise that the next five to 10 years will return us to a financial markets era that looks much different than the past 15 years.

Investment Conclusion: The Great Rebalancing Is Here

Our cues in this regard come from the market itself, where cross-asset correlations are breaking down, signaling that the pricing of relative risks is beginning to change. Consider that longer-duration Treasuries are decoupling from the economic fundamentals of growth and inflation, with the 10-year

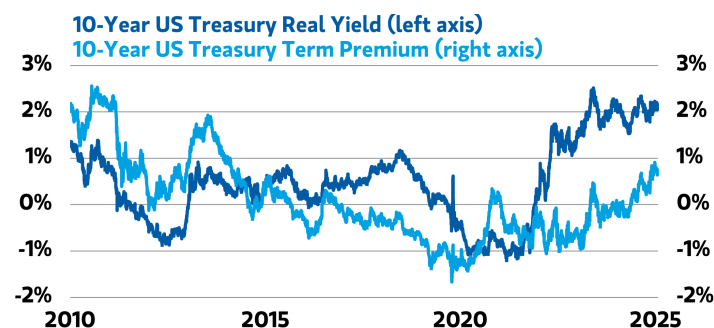
Treasury real yield now at approximately 2.0%, in line with its pre-GFC level. This comes at the same time that the US term premium, which was negative over most of the past 15 years, has appreciated by 100 basis points, to a recent average of approximately 75 basis points, still half its post-WWII average. Most critically, the diversifying properties of long-duration bonds in a “60/40” portfolio have come under question, as three-year rolling correlations between long-maturity yields and stock returns are now positive (see Exhibits 44a, 44b and 44c). Equally concerning, the US dollar appears in a structural decline, having fallen 11% in a short six-month period, decoupling from US real rates, as correlations seem more linked to shrinking growth differentials with the rest of the world (see Exhibits 45a and 45b). This comes as gold is breaking out to new all-time highs at a time when real rates, typically an inverse indicator for the precious metal, have remained at cycle highs (see Exhibit 46a and 46b). Finally, oil prices are again a critical wild card, not only given intensifying geopolitical premiums but as the administration attempts to adjust policy to reverse the energy transition toward greener and cleaner options to fossil fuels at the same time that GenAI-driven growth is apt to stimulate demand for the first time in about a decade (see Exhibit 47).

Exhibit 44a: The 10-Year Treasury Yield Is Decoupling From Fundamentals



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 23, 2025

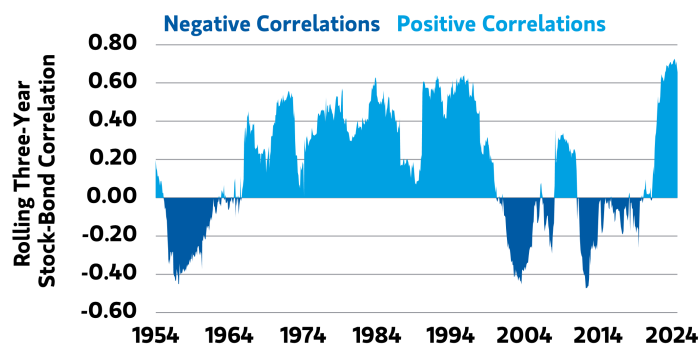
Exhibit 44b: 10-Year Components: Real Yields, Term Premiums Normalizing



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 20, 2025

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Exhibit 44c: Stock/Bond Correlations Are Shifting



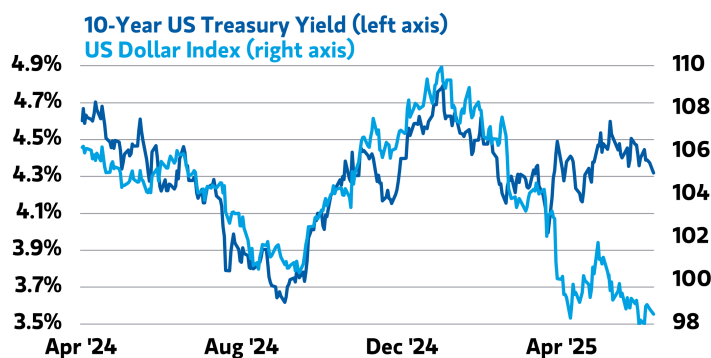
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of May 31, 2025

Exhibit 45a: The US Dollar Is Now Repricing ...



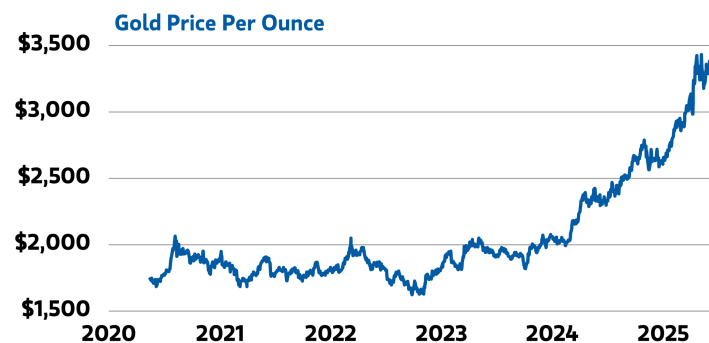
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 23, 2025

Exhibit 45b: ... And Decoupling From Rates



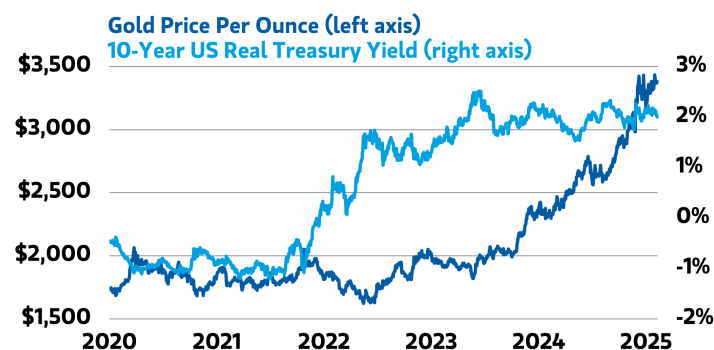
Source: Morgan Stanley Wealth Management GIO, Bloomberg as of June 23, 2025

Exhibit 46a: Gold Prices Have Broken Out to New All-Time Highs ...



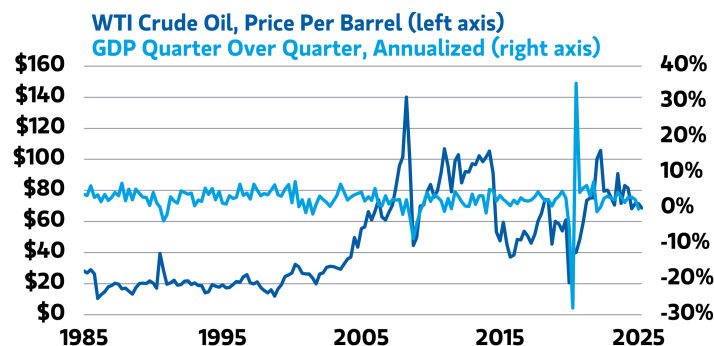
Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 23, 2025

Exhibit 46b: ... With Prices Not Influenced by Real Rates



Source: Morgan Stanley Wealth Management GIO, Bloomberg as of June 23, 2025

Exhibit 47: And Oil Prices Are Exhibiting Volatility Linked to Geopolitics



Source: Bloomberg, Morgan Stanley Wealth Management GIO as of June 23, 2025

What Does This All Mean for Portfolio Construction in the Coming Next Years?

- In global equities, positioning in the US-biased, cap-weighted, passive index heavily overweight megacap tech names gives way to a balanced allocation; that allocation adds ROW and emerging market stocks, neutralizes style biases to gain exposure to AI implementors and features some active risk management and stock-picking.
- US equity valuation multiples normalize (falling to a range of 17 to 18 times forward earnings), favoring active management; equity risk premiums increase from 10 basis points to 250 basis points, and S&P 500 returns are below long-run norms, averaging only 5%–6% per year.
- In fixed income, we continue to favor credit, including municipals and below-benchmark duration in US Treasuries, as we see nominal US long-run interest rates normalizing to average 5%–6%; a weaker US dollar creates opportunities for active managers.
- Portfolio diversification is critical, as positive correlation between stocks and bonds persists.
- Instability of cross-asset correlation, higher structural rates and market volatility support hedge fund allocations.
- Gold, residential real estate and infrastructure should continue to outperform as the risks to inflation persist.
- Private investment illiquidity premiums normalize to 350 basis points, and total returns are approximately 10% per year, not 20%; we see industry rationalization and consolidation, as asset accumulation growth slows and “evergreen” structures are tested (see Exhibit 48).

Exhibit 48: New Regime, New Portfolio

	2020–2025 America's Productivity Renaissance	2026–2030 The Great Rebalancing
Economic Characteristics	Actual	Potential Range
US GDP Growth (avg. real percent growth per year)	3%-4%	2%-3%
Inflation	3%-4%	2%-3%
10-Year Rate	3%-4%	4%-5%
10-Year Real Rate	zero	~2%
Policy Stance	stimulative	restrictive
Productivity	2%-3%	1.5%-2.0%
US Dollar (DXY)	100-115	80-105
Portfolio Implications	What Worked	Suggested Positioning
US Equities	overweight passive index overweight information technology overweight growth overweight megacap momentum	overweight active managers overweight financials, energy, health care overweight value overweight large-cap quality
US Fixed Income	underweight Treasuries	overweight IG credit
International Equities	underweight all but Japan	overweight all; especially EM
Real Assets	overweight	overweight
Hedge Funds	market-weight	overweight
Privates	market-weight	market-weight

Please note 2026-2030 outlook may not reflect current GIC positioning.
Source: Morgan Stanley Wealth Management GIO as of July 3, 2025

Disclosure Section

Risk Considerations

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

The **Global Investment Committee (GIC)** is a group of seasoned investment professionals from Morgan Stanley & Co. LLC, Morgan Stanley Investment Management, and Morgan Stanley Wealth Management who meet regularly to discuss the global economy and markets. The committee determines the investment outlook that guides our advice to clients. They continually monitor developing economic and market conditions, review tactical outlooks and recommend asset allocation model weightings, as well as produce a suite of strategy, analysis, commentary, portfolio positioning suggestions and other reports and broadcasts.

Lucy Chen, Estefania Luna and Eve Pickhardt are not members of the Global Investment Committee and any implementation strategies suggested have not been reviewed or approved by the Global Investment Committee.

Glossary

Alpha is the excess return of an investment relative to the return of a benchmark index.

Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.

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.

Drawdown s the peak-to-trough decline during a specific period.

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.

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.

Expense ratio a measure of what it costs an investment company to operate an exchange-traded fund or mutual fund.

M2 is a measure of the money supply that includes all elements of M1 as well as "near money." M1 includes cash and checking deposits, while near money refers to savings deposits, money market securities, mutual funds and other time deposits.

Mean reversion is the theory suggesting that prices and returns eventually move back toward the mean or average. This mean or average can be the historical average of the price or return, or another relevant average such as the growth in the economy or the average return of an industry.

Return on capital employed (ROCE)—sometimes referred to as the "primary ratio"—is a financial ratio that is used to measure the profitability of a company and the efficiency with which it uses its capital. Put simply, it measures how good a business is at generating profits from capital.

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.

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.

Tracking error is a [divergence](#) between the price behavior of a position or a portfolio and the price behavior of a benchmark.

Risk Considerations

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

Investing in foreign markets entails risks not typically associated with domestic markets, such as currency fluctuations and controls, restrictions on foreign investments, less governmental supervision and regulation, and the potential for political instability. **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 may be magnified in countries with **emerging markets and frontier markets**, since these countries may have relatively unstable governments and less established markets and economies.

Investing in small- to medium-sized companies entails special risks, such as limited product lines, markets and financial resources, and greater

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volatility than securities of larger, more established companies.

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.

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

Companies paying **dividends** can reduce or cut payouts at any time.

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.

Certain information contained herein may constitute forward-looking statements. Due to various risks and uncertainties, actual events, results or the performance of a fund may differ materially from those reflected or contemplated in such forward-looking statements. Clients should carefully consider the investment objectives, risks, charges, and expenses of a fund before investing.

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.

Interests in alternative investment products are offered pursuant to the terms of the applicable offering memorandum, are distributed by Morgan Stanley Smith Barney LLC and certain of its affiliates, and (1) are not FDIC-insured, (2) are not deposits or other obligations of Morgan Stanley or any of its affiliates, (3) are not guaranteed by Morgan Stanley and its affiliates, and (4) involve investment risks, including possible loss of principal. Morgan Stanley Smith Barney LLC is a registered broker-dealer, not a bank.

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.

An investment in an **exchange-traded fund** involves risks similar to those of investing in a broadly based portfolio of equity securities traded on an exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock and bond prices. Investing in an international ETF also involves certain risks and considerations not typically associated with investing in an ETF that invests in the securities of U.S. issues, such as political, currency, economic and market risks. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economics. ETFs investing in physical commodities and commodity or currency futures have special tax considerations. Physical commodities may be treated as collectibles subject to a maximum 28% long-term capital gains rates, while futures are marked-to-market and may be subject to a blended 60% long- and 40% short-term capital gains tax rate. Rolling futures positions may create taxable events. For specifics and a greater explanation of possible risks with ETFs, along with the ETF's investment objectives, charges and expenses, please consult a copy of the ETF's prospectus. Investing in sectors may be more volatile than diversifying across many industries. The investment return and principal value of ETF investments will fluctuate, so an investor's ETF shares (Creation Units), if or when sold, may be worth more or less than the original cost. ETFs are redeemable only in Creation Unit size through an Authorized Participant and are not individually redeemable from an ETF.

Please consider the investment objectives, risks, charges and expenses of the fund(s) carefully before investing. The 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.

Environmental, social, and governance-aware investments (ESG) 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. As a result, it is difficult to compare ESG

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investment products or to evaluate an ESG investment product in comparison to one that does not focus on ESG.

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.

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.

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

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. **Health care sector stocks** are subject to government regulation, as well as government approval of products and services, which can significantly impact price and availability, and which can also be significantly affected by rapid obsolescence and patent expirations.

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.

Nondiversification: For a portfolio that holds a concentrated or limited number of securities, a decline in the value of these investments would cause the portfolio's overall value to decline to a greater degree than a less concentrated portfolio. Portfolios that invest a large percentage of assets in only one industry sector (or in only a few sectors) are more vulnerable to price fluctuation than those that diversify among a broad range of sectors.

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

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.

Rebalancing does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Investors should consult with their tax advisor before implementing such a strategy.

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 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.

Virtual Currency Products (Cryptocurrencies)

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.
- Given the volatility in the price of Digital Assets, the net asset value of a fund or product that invests in such assets at the time an investor's subscription for interests in the fund or product is accepted may be significantly below or above the net asset value of the product or fund at the time the investor submitted subscription materials.
- 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.
- Investors in funds or products investing or transacting in Digital Assets may not benefit to the same extent (or at all) from "airdrops" with respect to, or "forks" in, a Digital Asset's blockchain, compared to investors who hold Digital Assets directly instead of through a fund or product. Additionally, a "fork" in the Digital Asset blockchain could materially decrease the price of such Digital Asset.

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- Digital Assets are not legal tender, and are not backed by any government, corporation or other identified body, other than with respect to certain digital currencies that certain governments are or may be developing now or in the future. No law requires companies or individuals to accept digital currency as a form of payment (except, potentially, with respect to digital currencies developed by certain governments where such acceptance may be mandated). Instead, other than as described in the preceding sentences, Digital Asset products' use is limited to businesses and individuals that are willing to accept them. If no one were to accept digital currencies, virtual currency products would very likely become worthless.
- Platforms that buy and sell Digital Assets can be hacked, and some have failed. In addition, like the platforms themselves, digital wallets can be hacked, and are subject to theft and fraud. As a result, like other investors have, you can lose some or all of your holdings of Digital Assets.
- Unlike US banks and credit unions that provide certain guarantees of safety to depositors, there are no such safeguards provided to Digital Assets held in digital wallets by their providers or by regulators.
- Due to the anonymity Digital Assets offer, they have known use in illegal activity, including drug dealing, money laundering, human trafficking, sanction evasion and other forms of illegal commerce. Abuses could impact legitimate consumers and speculators; for instance, law enforcement agencies could shut down or restrict the use of platforms and exchanges, limiting or shutting off entirely the ability to use or trade Digital Asset products.
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