Morgan Stanley

WEALTH MANAGEMENT

The Skyline Group

7175 N Pima Canyon Drive
Tucson, AZ, 85718

direct +520 878 2007
toll free +800 877 8417
fax +520 519 2358

advisor.morganstanley.com/the-skyline-group

James P Dretler
Senior Portfolio Management Director
Senior Vice President
Financial Advisor
NMLS #1279614

direct +520 878 2001

David Hum, CFP®
Portfolio Management Director
Vice President
Financial Advisor
NMLS #1262203

direct +520 878 2002

Christopher Graves, CFP®
Portfolio Management Director
Vice President
Financial Advisor
NMLS #1265113

direct +520 878 2003

Hugo Frausto
Senior Portfolio Manager
Financial Advisor
NMLS #1923254

direct +520 745 7074

Anne Emmerich
Senior Registered Associate

direct +520 878 2007

March 7, 2024

Normalcy and Stability

We hope that things have finally returned to 'normal'.

What does that mean?

In economic terms it is seemingly becoming more likely that inflation may have peaked and could be subsiding slowly albeit somewhat inconsistently. As a result, the Fed might not raise interest rates further. They may, however, also not lower them any time soon.

Although those investors who are most familiar with the extremely low interest rates of the last 15 years that were created as a response to the 2007 financial crisis, think rates are currently high, historically 6% 10-year U.S. Treasury yields as well as a 7% to 8% mortgage rate have been common over the last 50 years. [1]

The Federal Open Market Committee minutes released on February 21st indicated that the FOMC as a whole were still more concerned with continued inflationary pressures that with their absence. [2]

With interest rates and the cost of borrowing somewhat predictable, and the feared potential recession along with the memory of the historical wage and price spiral of the 70's becoming more unlikely, businesses that know how to operate in this environment can succeed.

If we indeed do have a period of stable interest rates, businesses can estimate costs with some degree of certainty. This may encourage them to plan expansion with some degree of confidence.

The success of any business can be considered to be dependent on its sales and profits, either current or those that are expected in the future.

Margin expansion is frequently the key to expand profits. This can be accomplished through the reduced borrowing costs that could be the result of lower interest rates or lower rents, divestiture of no longer profitable divisions, fewer employees, as well as productivity enhancing technology.

In what currently looks like an expanding economy, the revised growth rate for the U.S. as measured by the Gross Domestic Product (GDP) for the 4th Qtr. was 3.2%, the Personal Consumption Expenditures Index (PCE), the Fed's preferred inflation indicator was just reported as 2.8% for the previous 12 months, and the unemployment rate was 3.7%. These are all, in my opinion, moderately favorable levels that could encourage businesses to participate in the growth for fear of being left out. [3, 4]

This could be considered normal.

I think that the rally we are experiencing currently, represents a rational investable response to the most likely business environment.

Companies with long-lasting products and those that provide productivity enhancing services along with those that offer a long history of dividends all may provide opportunities for investors who intend to invest for the long term.

Please call to discuss those that might be appropriate for your personal objectives.

Sincerely,

James P Dretler
Senior Portfolio Management Director
Senior Vice President
Financial Advisor

1. '10-Year Treasury Rate-54 Year Historical Chart https:// www. macrotrends.net/2016/10-year-treasury-bond-rate-yield-chart
2. 2. Minutes of the Federal Open Market Committee, January 30-31, 2024, https://www.federalreserve.gov>monetary20240221a
3. Gross Domestic Product, Fourth Quarter and Year 2023, https://www.bea.gov>news>2024>gross-domestic-product
4. 'Key Fed inflation measure rose 0.4% in January as expected, up 2.8% from a year ago', CNBC Feb 29, 2024, https://www.cnbc.com/2024/02/29/pce-inflation-january-2023-.html?_source=newsletter%7Cbreakingnews

CRC #6462012 03/2024

The views expressed herein are those of the author and do not necessarily reflect the views of Morgan Stanley Wealth Management or its affiliates. All opinions are subject to change without notice. Neither the information provided nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Past performance is no guarantee of future results.

Information contained herein has been obtained from sources considered to be reliable, but we do not guarantee their accuracy or completeness

Investing in commodities, futures and options on futures contracts entails significant risks. Prices of futures and options on futures contracts 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 the underlying assets or commodities and related contracts, (vi) pestilence, technological change and weather and (vii) the price volatility of a commodity or asset. In addition, the futures markets may be subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention

Please note that by clicking on the URLs or hyperlinks in the document you will leave a Morgan Stanley Smith Barney LLC website and enter another website created, operated and maintained by a different entity. Morgan Stanley Smith Barney LLC is not implying an affiliation, sponsorship, endorsement with/of the third party or that any monitoring is being done by Morgan Stanley of any information contained within the linked site; nor do we guarantee its accuracy or completeness. Morgan Stanley is not responsible for the information contained on the third party web site or the use of or inability to use such site

The securities/instruments discussed in this material may not be appropriate for all investors. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Morgan Stanley Wealth Management recommends that investors independently evaluate specific investments and strategies, and encourages investors to seek the advice of a financial advisor.

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

Companies cannot assure or guarantee a certain rate of return or dividend yield; they can increase, decrease or totally eliminate their dividends without notice.

Investing in smaller companies involves greater risks than those associated with investing in more established companies, including significant stock price fluctuations and illiquidity.

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.

Morgan Stanley and its Financial Advisors do not provide tax or legal advice. Individuals should seek advice based on their particular circumstances from an independent tax or legal advisor.

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

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks. An investment cannot be made directly in a market index.
Morgan Stanley Smith Barney LLC. Member SIPC.

CRC #6462012 03/2024