Morgan Stanley

WEALTH MANAGEMENT

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The second quarter of 2026 brought positive total returns of 15.2% for the S&P 500 Index, while nine of its 11 sectors posted gains quarter-over-quarter. US equities broadly gained in the quarter, with the S&P 500 and Nasdaq having their best quarters since 2020. Over the same timeframe, the Russell 2000 Index, the small-cap benchmark, continued outperforming large cap stocks as it rose by 21.6%, while the Bloomberg US Aggregate Index, a broad measure of the US bond market, increased by 0.67%. The yield on the 10-year US Treasury note closed the quarter at 4.47%, while the three-month US Treasury bill yield ended at 3.81%.[1]

Although the market broadened during the quarter, concentration remains high with the largest ten stocks representing over 38% of the S&P 500 index. Much of this broadening came from the performance of industrials and especially semiconductors, with the SOXX index, representing the semiconductor sector, gaining a record breaking 87.8% for the quarter, which now represents 18.4% of the value of the S&P 500. Energy went from the best sector in the first quarter to the worst, giving back 13.4% in the second quarter.[2] See the corresponding link to several charts illustrating these market dynamics.

The Federal Reserve kept the federal funds rate unchanged in its April and June FOMC meetings. After many quarters of strong gains, gold prices declined by about -14.1%, and the US dollar rose by about 1.2%.

Headline Consumer Price Index inflation climbed throughout the quarter, measuring 4.2% in May. The labor market remained relatively stable throughout the quarter, with the unemployment rate decreasing slightly to 4.2% in June. MS & Co.'s US Economics team expects the Fed to remain on hold through 2026 and then cut rates by 25bp in March and June 2027.

With the current economic backdrop, the Global Investment Committee is overweight equities. In equities, we prefer stock-picking to owning the cap-weighted index, favoring financials, health care, select industrials, and energy. The GIC is modestly increasing exposure to high-quality fixed income. Current market pricing implies a more restrictive Fed path, creating an opportunity to extend duration beyond ultrashort, cash-like maturities, while maintaining caution toward the long end of the Treasury curve.

Your second quarter 2026 Morgan Stanley portfolio summary has been sent to your MSO site. We hope you have an enjoyable summer, and as always, please reach out to anyone on our team if you have any questions.

Best Regards,

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Financial Advisor
Portfolio Management Director
Alternative Investment Director
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Sources:
1 Morgan Stanley Q2 2026 Client Market Commentary Letter
2 Morgan Stanley Wealthbook slides, July 2026

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Indices are unmanaged. An investor cannot invest directly in an index.

For index definitions to the indices referenced in this report please visit the following:

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

Risk Considerations

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

Investing in small- to medium-sized companies entails special risks, such as limited product lines, markets and financial resources, and greater volatility than securities of larger, more established companies.

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.

The value of **fixed income securities** will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer.

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.

Treasury Inflation Protection Securities' (TIPS) coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation.

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

Duration, the most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio would be to changes in interest rates. Generally, if interest rates rise, bond prices fall and vice versa. Longer-term bonds carry a longer or higher duration than shorter-term bonds; as such, they would be affected by changing interest rates for a greater period of time if interest rates were to increase. Consequently, the price of a long-term bond would drop significantly as compared to the price of a short-term bond.

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.

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

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.

Please contact your Financial Advisor for a complete listing of all transactions that occurred during the last twelve months.

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

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

Past performance of any security is not a guarantee of future performance. There is no guarantee that this investment strategy will work under all market conditions.

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

Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustration purposes only and do not show the performance of any specific investment. Reference to an index does not imply that the portfolio will achieve return, volatility or other results similar to the index. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error target, all of which are subject to change over time.
For index, indicator and survey definitions referenced in this report please visit the following: https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions

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This report contains forward looking statements and there can be no guarantees they will come to pass. The information and statistical data contained herein have been obtained from sources believed to be reliable but in no way are guaranteed by Morgan Stanley as to accuracy or completeness. There is no guarantee that the investments mentioned will be in each client's portfolio.

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.

Equity securities may fluctuate in response to news on companies, industries, market conditions and the general economic environments. Companies cannot assure or guarantee a certain rate of return or dividend yield: they can increase, decrease, or totally eliminate dividends without notice.

Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies. Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered 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 expected.

Small- and mid-capitalization companies may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, the securities of small- and mid-capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies.

Technical analysis is the study of past price and volume trends of a security in an attempt to predict the security's future price and volume trends. Its limitations include but are not limited to: the lack of fundamental analysis of a security's financial condition, lack of analysis of macroeconomic trend forecasts, the bias of the technician's view and the possibility that past participants were not entirely rational in their past purchases or sales of the security being analyzed. Investors using technical analysis should consider these limitations prior to making an investment decision.

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

The Global Investment Committee is a group of seasoned investment professionals 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 model portfolio weightings, as well as produce a suite of strategy, analysis, commentary, and portfolio positioning suggestions and other reports and broadcasts.

The GIC Asset Allocation Models are not available to be directly implemented as part of an investment advisory service and should not be regarded as a recommendation of any Morgan Stanley investment advisory service. The GIC Asset Allocation Models do not represent actual trading or any type of account or any type of investment strategies and none of the fees or other expenses (e.g. commissions, mark-ups, mark-downs, advisory fees, fund expenses) associated with actual trading or accounts are reflected in the GIC Asset Allocation Models which, when compounded over a period of years, would decrease returns.

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