Morgan Stanley

The Boulevardier

A QUARTERLY INVESTORS REPORT FROM **THE VECTOR GROUP AT MORGAN STANLEY**

NOVEMBER 2021

EXECUTIVE SUMMARY

Third Quarter 2021

- ***Equity Markets***[1]*: Equities moderated in the 3rd quarter as the S&P 500 finished +0.58%, EAFE -1.03%, and Emerging Markets -8.84% on the quarter.*
- ***Bond Markets***[2]*: High Yield experienced a moderate drawdown in the quarter as Sub-Investment Grade bonds saw spreads rise by 21 bps to 2.89% over treasuries, while Investment Grade spreads rose by 4 bps to 0.84% over Treasuries. The US 10-year bond saw yields increase modestly by 2 basis points to 1.49%. The yield curve, measured by 30 and 2 yr. rates, held steady with the spread decreasing by 1 bp throughout the quarter as the Fed held at the 0.00 lower bound and the 2-year rate rose 3 bps.*
- ***Economics***[3]*: The third quarter saw economic indicators begin to reaccelerate when measured by the Citi Economic Surprise Index. Housing, Manufacturing, and Services, all performed well throughout the quarter. After falling in July, Retail Sales rebounded well in August and September. Consumer Confidence moderated from historically high levels in the second quarter but remained firmly in positive territory. The US added back just under 1.9mm jobs on the quarter as the unemployment rate fell to 4.80%. Year over year Inflation remains at an elevated level of 5.40%, but monthly readings moderated throughout the quarter to a monthly average of 0.40%, off the June high reading of 0.90%.*
- ***Oil***[4] *ended the quarter at $75.03/barrel WTI, a +2.24% increase from last quarter's close.*
- ***Gold***[5] *futures closed at $1757.00/oz., a -0.82% decrease for the quarter.*

Outlook 2021

- *Markets moderate on the quarter, but earnings remain strong.*
- *Tax policy changes in Washington remain center stage.*
- *Economic indicators showing strength while inflation remains a question mark.*

ALSO IN THIS ISSUE:

Advisor's Perspective - Complacency and Growth: Turning Cautious

"I am hitting my head against the walls, but the walls are giving way."

— Gustav Mahler

THE VECTOR GROUP *at* MORGAN STANLEY

1290 Avenue of the Americas, New York, New York 10104 • 212 893-7516 • **https://advisor.morganstanley.com/the-vector-group**

Tactical Ideas for Consideration

for the Appropriate Investor

ASSET CLASS CHOICE	SUB CLASS	IDEAS	CONVICTION[1]
US Equity/Debt/ Cash	Equity	Attractive	
US Equity Size	Larger	Attractive	
Equity Investment	Sectors: Info Tech, Communications, Financials	Attractive	
Developed Int'l Equity	EuroZone	Neutral	
Emerging Markets	China	Unattractive	
US Gov Bond Market	Long Term	Unattractive	
Municipal Bonds	Medium Duration	Attractive	
High Yield Debt	Various	Unattractive	
Preferred Stocks	QDI Financials	Unattractive	
Mortgage Bonds	Agency	Attractive	
Precious Metals	Gold	Attractive	

NOTE: We have discontinued ranking currencies and alternative investments as a group.

NOTES:

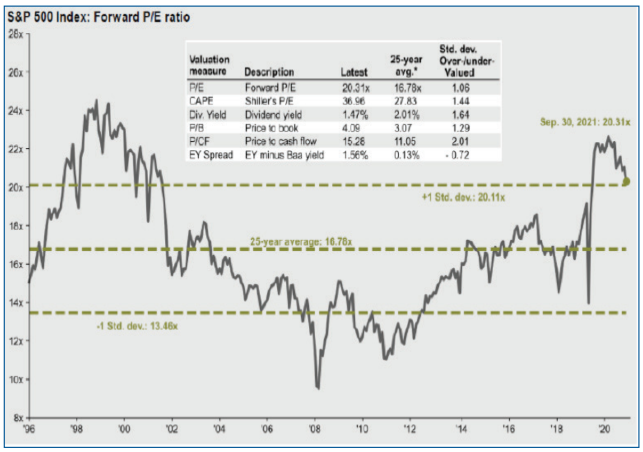
[1] Lowest, Highest *[Increasing number of top hats indicates increasing conviction to the idea]*

If you are interested in exploring any of the ideas mentioned above, please call. We will discuss if it is appropriate for your specific situation as well as the different investment choices available to gain exposure.

© 2021 Morgan Stanley Smith Barney LLC Member SIPC

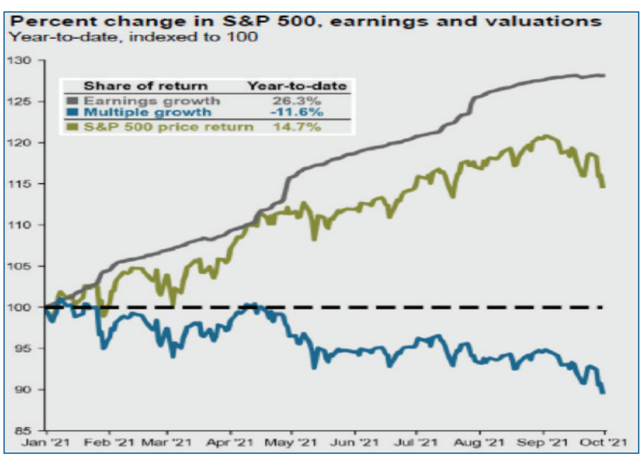
QIV 2021 Outlook

Over the past few issues we've covered the importance of the market growing into its valuation. This quarter is no exception. Building on momentum from the first half, the S&P 500's forward price to earnings ratio declined from 21.53x to 20.31x[13]. This -5.67% decline materialized despite a modest 0.23% rise in the price of the index[13], highlighting strong growth in earnings expectations.



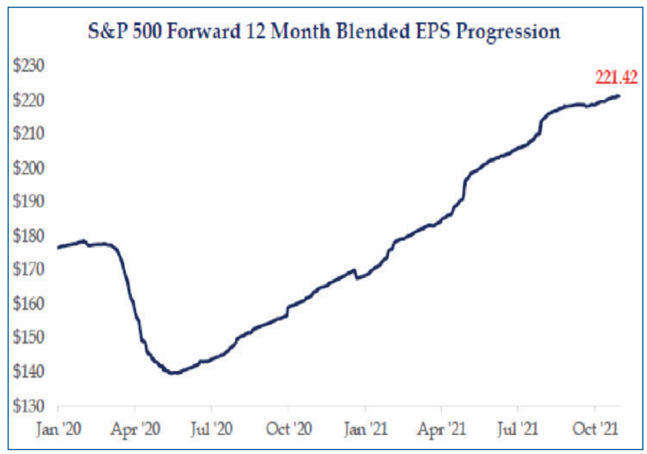
13

On the year, the S&P 500 has risen 14.70% in price but has been outpaced by earnings growth of 26.30%[13]. The result has been an -11.60% decline in the index's multiple, and continued improvement in forward return expectations.



13

Roughly half of the S&P 500 has reported earnings through November 1st, and it appears constituents have experienced another robust quarter of growth. To begin the reporting period, expectations for revenue growth over the three-month interval sat at a robust 14.10%, while aggregate earnings per share was projected to grow by 29.40%[14,15]. As of writing, sales growth expectations have improved to 15.10% and projected EPS growth has jumped nearly 10.00% to 39.30%[14,15]. In addition, 12 month forward aggregate EPS expectations have improved by 3.33% from $214 to $221.42[15]. Summarized, index constituents have experienced significant bottom line growth on top of better than expected topline growth, giving analysts confidence that full year 2022 earnings will outpace pre-covid expectations by more than $40. This is another marked step in the right direction as equities look to justify their valuation.



15

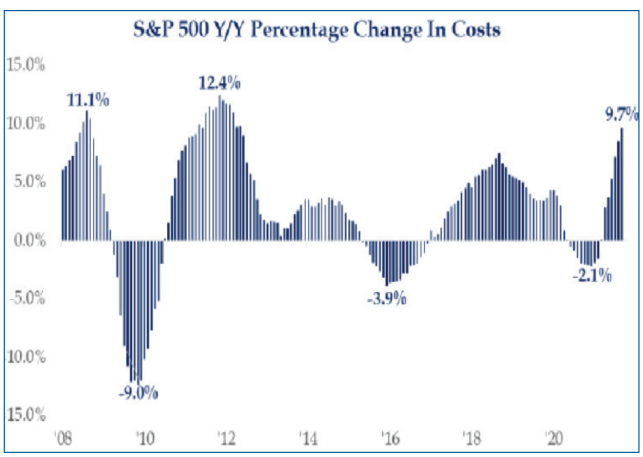
The natural question becomes what derails this market's ability to further improve its valuation and forward return outlook. Three risks stand out: 1.) Margins 2.) Analyst Expectations and 3.) Corporate Tax Policy.

© 2021 Morgan Stanley Smith Barney LLC Member SIPC

MARGINS

Estimated next 12-month S&P 500 operating margins are currently at 17.30%, a near record over the last decade[15]. Margins do not necessarily need to expand from here if organic revenue growth remains robust, but any decline will strain EPS growth. Rising costs present a potential issue. On a year over year basis costs for S&P 500 constituents have increased by 9.70%, good for the highest reading since the aftermath of the European Debt Crisis in 2011[16]. Supply chain issues, commodity prices, and labor shortages have all played a role and warrant close monitoring as margin pressure because a crucial story line for equities as they move forward.

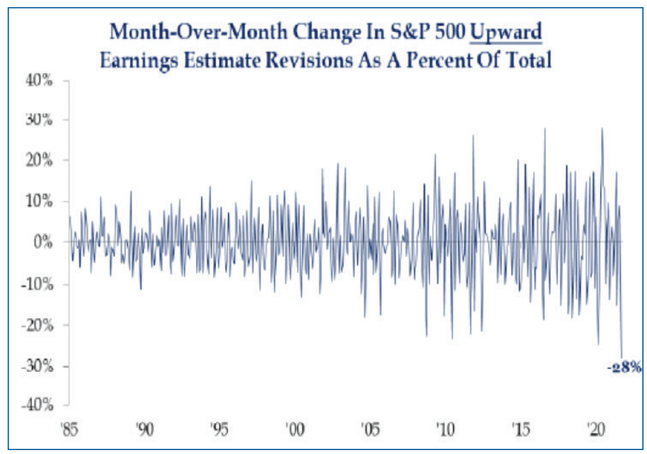
15



16

ANALYST EXPECTATIONS

As the market moved into the 3rd quarter earnings seasons, analyst growth expectations for 12-month forward aggregate earnings appeared to have stalled out. After continuous increase since early summer of 2020, consensus S&P 500 next 12-month EPS expectations held flat near $214 for the month of September[16]. In record fashion, upward earnings estimate revisions for the S&P 500 saw the largest month over month decline since 1985[17]. As mentioned, strong results through the halfway mark of earnings season have helped reverse the course of this trend, but it bears monitoring as markets move forward. Stagnation in estimate growth would mean that a decline in price is the only way for the market to become more attractively valued.



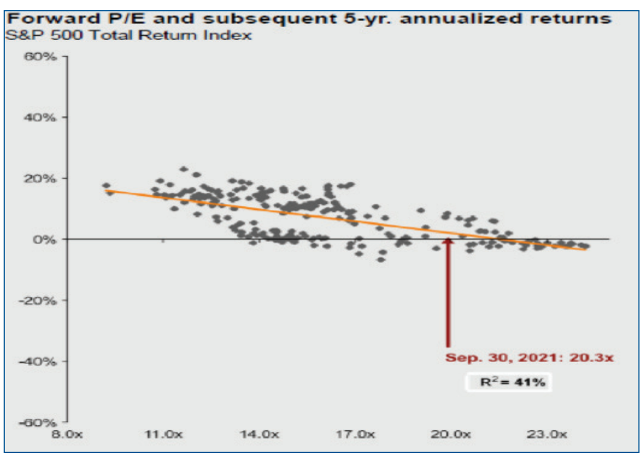
17

© 2021 Morgan Stanley Smith Barney LLC Member SIPC

CORPORATE TAX POLICY

A change in corporate tax policy has the ability to significantly impair the S&P 500's ability to further justify its valuation. As of mid-October, current estimates based on the House of Representatives' target corporate rate of 26.50% were that aggregate earnings growth would be approximately -5.00% less than if rates were to remain at 21%[18]. More recent proposed changes appear to decrease that impact to a -2.00% hit to earnings in 2022[18]. From a market valuation perspective, changes to policy have trended in a less impactful direction. Given the ever-oscillating political landscape, this bears continuous monitoring as changes can have the most immediate effect on earnings and valuation.

In summation, growth in earnings has outpaced market growth in 2021, improving the market's fundamental picture significantly. Major risks moving forward come in the form of margin pressure, analyst expectations, and corporate tax policy. As the market sits at all time highs, the ways in which these risks unfold are crucial for further improvement or deterioration of equity's fundamental picture and forward return expectations.



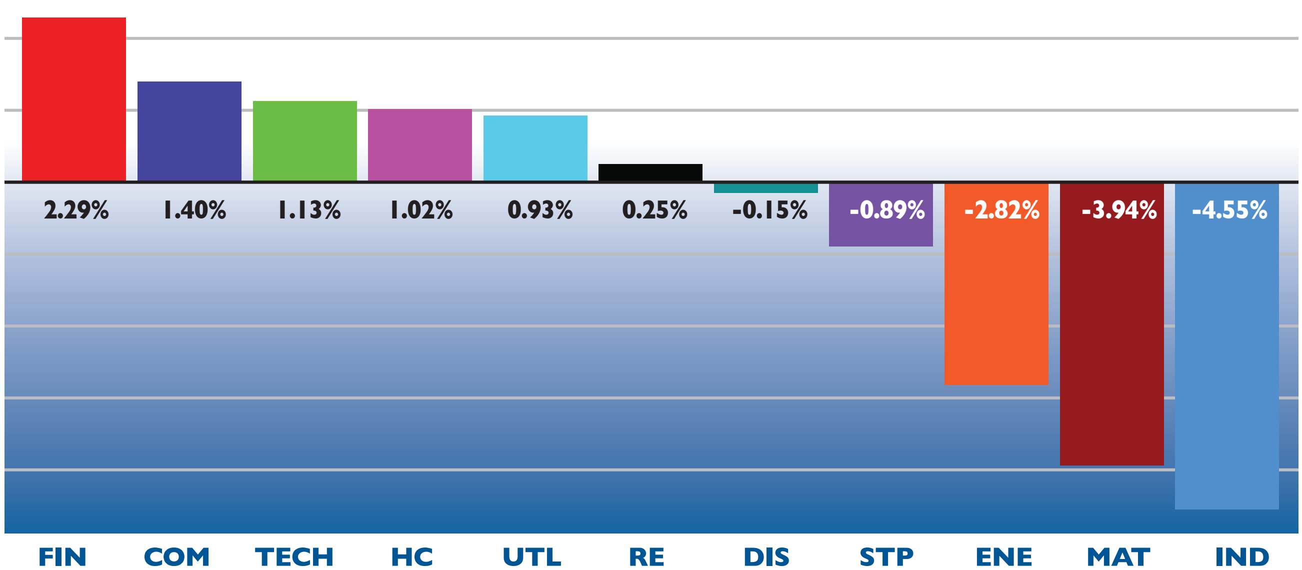
13

US Equity Markets

S&P 500 - Q3 2021[6]

The S&P 500 rose +0.58% in the third quarter of 2021[1]. Outperforming sectors include Financials, Communication Services, Information Technology, Health Care, and Utilities while Energy, Materials, and Industrials underperformed.

S&P 500 - Sector Performance Q3 2021[7]



(Expanded: Financials, Communication Services, Information Technology, Health Care, Utilities, Real Estate, Consumer Discretionary, Consumer Staples, Energy, Materials, Industrials)

© 2021 Morgan Stanley Smith Barney LLC Member SIPC

Other Equity Markets

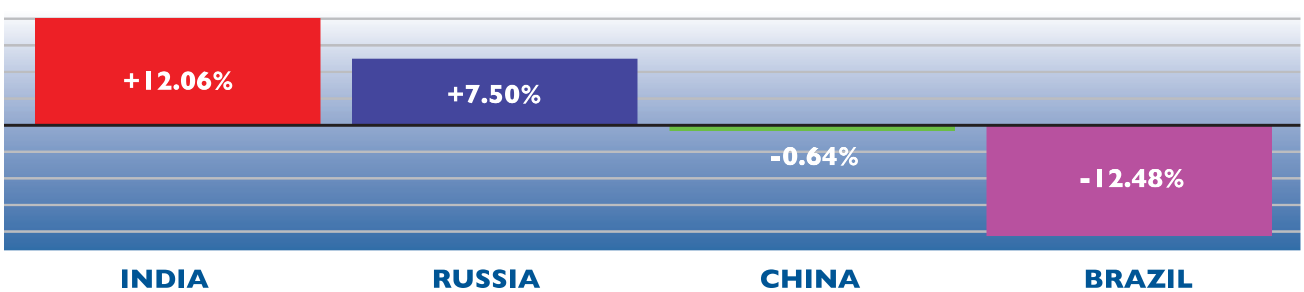
MSCI EAFE underperformed the US by 161 basis points in the third quarter, falling -1.03%[1].

EAFE - Q3 2021[8]

Emerging Markets - Q3 2021[9]

Emerging Markets underperformed the US by 942 basis points while also underperforming Developed International Markets by 781 basis points in the third quarter, falling -8.84% by the MSCI EM Index[1].

Russia, Brazil, India & China - Q3 2021[10]



Energy Markets

WTI Crude Price/Barrel & Gasoline Price/Gallon Q3 2021[4]

Energy prices were volatile in the third quarter as WTI rose +2.12% while Gasoline futures fell -2.05%[4].

Precious Metals

Gold ended the quarter effectively unchanged with a -0.82% decline while Silver ended with a decline of -15.81%[5].

Gold & Silver - Q3 2021[5]

© 2021 Morgan Stanley Smith Barney LLC Member SIPC

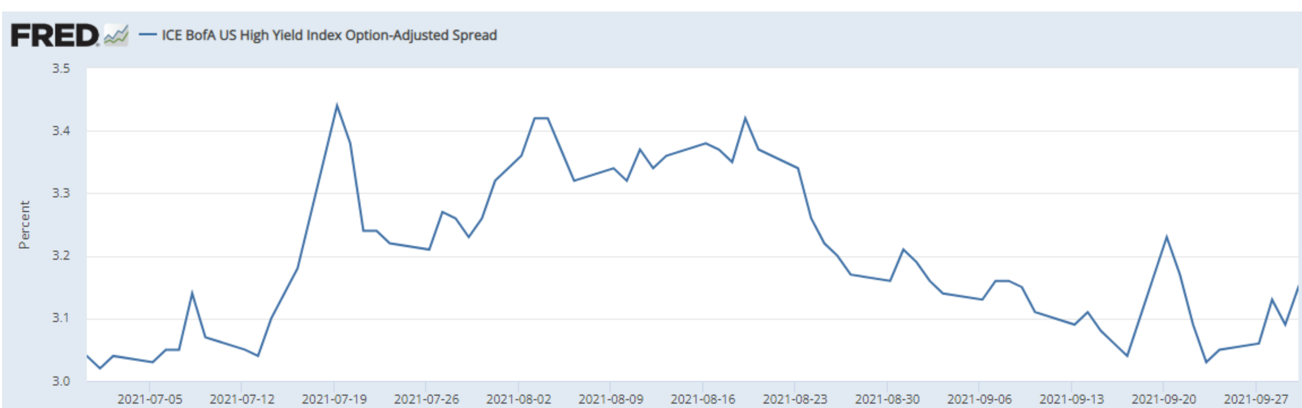
Bond Markets

Ten Year Treasury Yields rose modestly throughout the quarter while the Two Year Rate increased 3 bps to 0.28%[2].

Ten Year & 2 Year Treasury Yield - Q3 2021[11]

High Yield fell on the quarter as spreads rose by 21 bps[3].

High Yield Corporate Debt Option-Adjusted Spread - Q3 2021[12]



© 2021 Morgan Stanley Smith Barney LLC Member SIPC

Advisor's Perspective: Complacency and Growth: Turning Cautious

It's been my experience that once investors make assumptions about something that will always be true, that assumption becomes a liability. It may take months, quarters or years, but we see this time and again in business planning, economic and monetary policy and of course in investing.

The reasons behind the continuous increase in equity prices, we believe, has been a growing economy (despite supply chain issues), resilient and re-emerging consumers, and earnings growth, which has outstripped equity price growth (believe it or not). As well, we think we might all have underestimated what $4 trillion may have done to an economy already evolving toward e-centric behavior. This probably continues into next year, but three things concern us:

❶ *The economy should begin to moderate.*

❷ *Projections for earnings growth may begin to taper off.*

❸ *Earnings comparisons to same period previous year will be more difficult to surmount.*

While we expect economic growth to continue, some of what had been a backlog and so-called "pent up demand" will abate. It is possible that supply chain issues will begin to resolve in the first half of 2022, which may be good, but much activity may already be booked, ordered or otherwise built in.

Companies may begin to report more moderate expectations for future growth as well as smaller incremental gains. In addition, some may take some more defensive steps and reduce expected future business investment. This may at least temper growth into later 2022 as the market begins to anticipate.

Having said this, we are long term investors and don't suggest significant reallocation of assets but we believe making changes in the margin and allocating new money is very important for long term relative and absolute performance.

Where appropriate, we've looked increasingly at lesser-correlated asset classes, including alternative investments that include hedge funds, direct investments and structured or hybrid investments as places to seek good risk-adjusted return and diversify risk in client portfolios. Each client's needs and desires will be different and one size in this area definitely doesn't fit all.

We will reexamine positions as we get into first quarter earnings before making any major suggestions. Stay tuned.

—MDS

© 2021 Morgan Stanley Smith Barney LLC Member SIPC

DISCLOSURES & IMPORTANT INFORMATION:

The views expressed herein are those of the author and do not necessarily reflect the views of Morgan Stanley 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 of sale of any security. Past performance is no guarantee of future results.

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 suitable for all investors. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

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

A word about the risks of the asset classes/sectors/securities discussed in this material…

International Investing: International investing may not be suitable 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.

Equities: Investors should be willing and able to assume the risks of equity investing. The value of a client's portfolio changes daily and can be affected by changes in interest rates, general market conditions and other political, social and economic developments, as well as specific matters relating to the companies in which securities the portfolio holds.

Sectors: Portfolios that invest primarily in securities of companies in one industry or sector are subject to greater price fluctuation and volatility than portfolios that invest in a more broadly, diversified portfolio.

Fixed Income: All fixed income securities are subject to market risk and interest rate risk. If fixed income securities are sold in the secondary market prior to maturity, an investor may experience a gain or loss depending on the level of interest rates, market conditions and the credit quality of the issuer.

Interest in municipal bonds is generally exempt from federal income tax. However, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax-exemption applies if securities are issued within one's state of residence and, local tax-exemption typically applies if securities are issued within one's city of residence.

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made. NOTE: High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in high-yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. In investment cannot be made directly in a market index.

Tax laws are complex and subject to change. Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors do not provide tax or legal advice and are not "fiduciaries" (under ERISA, the Internal Revenue Code or otherwise) with respect to the services or activities described herein except as otherwise agreed to in writing by Morgan Stanley. This material was not intended or written to be used for the purpose of avoiding tax penalties that may be imposed on the taxpayer. Individuals are encouraged to consult their tax and legal advisors (a) before establishing a retirement plan or account, and (b) regarding any potential tax, ERISA and related consequences of any investments made under such plan or account.

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 suitable 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.

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.

Portfolio Management is an advisory program in which the client's Financial Advisor invests the client's assets on a discretionary basis in a wide range of securities.

Russell 2000® Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. An investment cannot be made directly in a market index.

Dow Jones Industrial Average is a price-weighted index of the 30 "blue-chip" stocks and serves as a measure of the U.S. market, covering such diverse industries as financial services, technology, retail, entertainment and consumer goods. An investment cannot be made directly in a market index.

NASDAQ Composite Index is a market-value-weighted index of all NASDAQ domestic and non-U.S. based common stocks listed on NASDAQ stock market. An investment cannot be made directly in a market index.

Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher forecasted median growth (2 year) values and higher historical (5 year) sales per share growth. An investment cannot be made directly in a market index

Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios.. An investment cannot be made directly in a market index

Master Limited Partnerships (MLPs) are (rolled-up) limited partnerships of limited liability companies that are taxed as partnerships and whose interests (limited partnership units or limited liability company units) are traded on securities exchanges like shares of common stock. Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in MLP interests are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. Because of their narrow focus, MLPs maintain exposure to price volatility of commodities and/or underlying assets and tend to be more volatile than investments that diversify across many sectors and companies. MLPs are also subject to additional risks including: investors having limited control and rights to vote on matters affecting the MLP, limited access to capital, cash flow risk, lack of liquidity, dilution risk, conflict of interests and limited call rights related to acquisitions.

StockCharts LIMITED LICENSE. Permission to use the Information available from this StockCharts.com website is granted, provided that (1) the copyright notice below appears in all copies and that both the copyright notice and this permission notice appear, (2) use of Information available from this StockCharts.com website is for informational and non-commercial or personal use only, and (3) no Information available from this StockCharts.com website is modified in any way. Except for the specified uses, no part of the Information available from this StockCharts.com website may be copied, photocopied, reproduced, republished, licensed, distributed, performed, displayed, uploaded, posted, translated, altered, retransmitted, broadcast in any way, exploited, used to create derivative works, or reduced to any electronic medium or machine-readable form, in whole or in part, without the prior written consent of StockCharts.com, Inc. or its third-party providers.

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. As of May 30, 2011, the MSCI EAFE Index consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. An investment cannot be made directly in a market index.

ANY DISTRIBUTION FOR COMMERCIAL PURPOSES IS STRICTLY PROHIBITED.

COPYRIGHT NOTICE. Except where indicated, all content on this site is Copyright ©1999-2008 by StockCharts.com Inc., Redmond Washington. All rights reserved.

CRC # 3916530 11/2021

Morgan Stanley

NOTES:

1 Morgan Stanley Investment Resources. Month-End Asset Return Analysis published 1 April 2021. Sources: Morgan Stanley & Co. Research, Bloomberg, and FactSet. Index returns reflect total return as of 3/31/2021.

2 Morgan Stanley Research. US Credit Strategy Chartbook published 2 April 2021. Sources: Morgan Stanley & Co. Research, Bloomberg, Citigroup Index LLC, and iBoxx. Index returns reflect total return as of 3/31/2021.

3 Factset Research Systems. Economics: United States. Data as of 3/31/2021.

4 StockCharts.com, Inc., Market data provided by Interactive Data Corporation, StockCharts.com, SharpChart of ($WTIC) Light Crude Oil – Continuous Contract (EOD) and ($GASO) Gasoline Unleaded – Continuous Contract (EOD), data as of 3/31/2021.

5 StockCharts.com, Inc., Market data provided by Interactive Data Corporation, StockCharts.com, SharpChart of Gold ($GOLD) Gold –Continuous Contract (EOD) and ($SILVER) Silver - Continuous Contract (EOD), data as of 3/31/2021.

6 StockCharts.com, Inc., Market data provided by Interactive Data Corporation, SharpChart of S&P 500 ($SPX), data as of 3/31/2021.

7 StockCharts.com, Inc. Market data provided by Interactive Data Corporation, StockCharts.com, PerfChart of S&P 500 Information Technology Sector Index ($SPT), S&P 500 Consumer Discretionary Sector Index ($SPCC), S&P 500 Health Care Sector Index ($SPHC), S&P 500 Information Utilities Sector Index ($SPU), S&P 500 Consumer Staples Sector Index ($SPST), S&P 500 Materials Sector Index ($SPM), S&P 500 Industrials Sector Index ($SPI), S&P 500 Financial Index ($SPF), S&P 500 Communication Services Sector Index ($SPTS), S&P 500 Energy Sector Index ($SPEN), and S&P 500 Real Estate Sector Index ($SPRE), data from 12/31/2021 through 3/31/2021

8 StockCharts.com, Inc. Market data provided by Interactive Data Corporation, iShares MSCI EAFE Index ($MSEAFE), StockCharts.com, data as of 3/31/2021.

9 StockCharts.com, Inc., Market data provided by Interactive Data Corporation, SharpChart of MSCI Emerging Markets Free Index ($MSEMF), data as of 3/31/2021.

10 PerfCharts of Shanghai Composite Index ($SSEC), Brazil Bovespa Index ($BVSP), Nifty 50 Index ($NIFTY), and Russia TS Index ($RTSI), data from 12/31/2020 through 3/31/2021.

11 StockCharts.com, Inc., Market data provided by Interactive Data Corporation, StockCharts.com, SharpChart of CBOE 10-Year US Treasury Yield Index ($TNX) & ($UST2Y) 2-Year US Treasury Yield (EOD), data as of 3/31/2023.

12 FRED. ICE BofA US High Yield Index Option-Adusted Spread. Data as of 3/31/2021.

13 Strategas. Daily Macro Brief. Every Sector Saw An Improvement in 1Q Earnings Growth Last Week. Ryan Grabinski. Published 5/3/2021.

14 Strategas. Policy Outlook. Biden Corporate Tax Proposal Would Reverse The Entire 2017 Corporate Tax Cut. Daniel Clifton. Published 4/8/2021.

15 JP Morgan Asset Management. Guide to the Markets U.S. 2Q 2021. Data as of 3/31/2021.

16 Strategas. Investment Strategy Report. Facts & Opinions As We Approach Full Reopening. Jason De Sena Trennert. Published 3/26/2021.

17 Strategas. Investment Strategy Report. Valuation Chartbook: Shareholder Yield Still Attractive But Falling. Jason De Sena Trennert. Published 5/7/2021.

THE VECTOR GROUP *at* MORGAN STANLEY

M. David Sherrill, CFA®, CMT®

Managing Director
Senior Portfolio Management Director
International Client Advisor (ICA)
Private Wealth Advisor

212 893-7515

M.David.Sherrill@morganstanley.com

Daniel Sheldon, CFA®

Vice President
Financial Advisor

212 492-6934

Daniel.Sheldon@morganstanley.com

Greg Waldman

Senior Vice President
Financial Advisor

212 705-4561

greg.waldman@morganstanley.com

1290 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10104 • 212 893-7516

https://advisor.morganstanley.com/the-vector-group