Morgan Stanley

The Boulevardier

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

JANUARY 2023

EXECUTIVE SUMMARY

4th Quarter 2022 and Year End 2022

- ***Equity Markets***[1]*: U.S. Equities continued a volatile trajectory falling -5.76% for December (usually a great month for equities in general) but rising +7.56% in the fourth quarter on a total return basis. YTD the S&P 500 fell -18.11% on a nominal basis on year of a very few in magnitude over the last 100 years. Developed International Equities fared better as the MSCI EAFE fell -16.79% YTD. Emerging Markets fell by -22.37% YTD.*
- ***Bond Markets***[2]*: US Debt declined -13.00% for the year and credit spreads widened but not to extreme levels. High yield bonds were down -11.19% for the year. The US 10-year bond had a final yield of 3.87% an astounding 169+% increase from the prior year where the level was just 1.44% at 2021 year end. The yield curve, measured by 30 and 2 yr. rates, remains deeply inverted at year end by -0.47%. Fed funds target range stood at 4.5 to 4.75%.*
- ***Economics***[3]*: Inflation appears to have peaked with readings of CPI just over 7%. All the main economic readings are showing declines at year end: housing, consumer confidence/ spending, and employment with the latter being the least impacted so far. Several announcements of job reduction with more on the way seems to foretell this area declining further.*
- ***Oil***[4] *ended the year at $80.26/barrel WTI, a +6.7% increase for all of 2022; whereas Natural Gas increased +15.4% for the year.*
- ***Gold***[5]*ended the year virtually unchanged at $1,826.20/oz. as the US Dollar saw a turn downward at year's end.*

Outlook

- *Moving from inflation to earnings as the near-term driver of equity returns.*

Financial not so Trivia:

William Gibbs McAdoo (1863 – 1941), ex-officio head of the nascent US Federal Reserve Bank and Treasury Secretary may have saved the US economy and Stock Market from collapse just before the outbreak of World War I. This also set the stage for future US economic leadership.

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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: Industrials, Financials, Consumer Discretionary	Attractive	
International Equity	EuroZone	Neutral	
Private Market Debt	General	Attractive	
U.S. Gov Bond Market	Long Term	Attractive	
Municipal Bonds	Medium Duration	Attractive	
High Yield Debt	Various	Neutral	
Preferred Stocks	QDI Financials	Neutral	
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.

2022 Review and Outlook

Is Transitory a Bad Word?

Looking back at 2022 (way back) we can see a number of now more easily identifiable points:

1) Inflation, while longer lasting than first anticipated by the Fed and the markets initially, may in fact still be transitory – we however must specify timeframe – the periodicity of the Pleistocene epoch to today or the 13-nanosecond interval of the average hedge fund manager's attention span. Clearly, the early "transitory" was not meant to last over 18 months, as it has so far.
2) Russian aggression in Ukraine set a number of economic and political trajectories in motion than were ill understood at the outset.
3) US economic resilience turned into a liability with each reading of strength surely pushing the pain frontier further out and longer.
4) Investors forgot what determining value was like in a world without the Fed safety net.
5) Valuation levels in 2021 in various sectors reached unsustainable levels – including newer tech names, and large cap growth names in tech, communication services and consumer discretionary.

Investment professionals and investors alike have hung on every piece of data out of economic bureaus, financial markets and pronouncements by relevant bodies. Let's not forget that one important weapon of the US Federal Reserve Bank is jawboning...

In many ways every political issue on the planet has been rethought in the now post-globalization world. We forget what a 1.5% per year globalization dividend did for prosperity, much less what a new 1.0% de-globalization cost could mean going forward. As far as the US is concerned, we are lucky to still have home court advantage in terms of proximity and natural resources.

2022 was tough because there was no easy place to hide. Sure, if you owned energy, utilities, rubles and were short most bonds and cryptocurrencies you crushed it. But how many investors would receive such advice for portfolio concentrations?

There were in fact good returns in 2022 in companies of staples, energy and value-oriented investments. But for those investors living through a decade and a half of severe underperformance, this turn of events will need to continue for several years to equalize capital market returns.

A few things to consider looking back at 2022 -

While 2022 was one of just 12 years over the last 100 in which declines were greater than 10%, it was an unusual year in that the top of the markets came in early January of 2022[3], while the market was nearer the bottom of its range in late December. In other words, the market decline happened to coincide with the calendar year. Most declines of meaningful size have started later in the year and thus annual returns will not reflect these kinds of patterns.

What this may mean is even if the rout in stocks persists for some time in 2023, the year may yet be net positive.

Valuation declines in the stock markets were nearly all multiple contraction – valuation coming down because of investor lack of willingness to pay more not earnings contraction nor earning misses. This means investors literally were on strike and would only buy at lower levels.

This could mean when macro forces abate (such as the Federal Reserve raising rates) valuations may increase in anticipation of higher expected value.

Summary

Standing by our call that we've seen the bottom in US equities, but that we could revisit lows with new revelations. Earning we think may prove better than expected, in itself providing re-engagement with equity markets. Europe has had less of a hard time so far than anticipated and may avoid a significant downturn. As much as it may seem we are in an entirely new regime, our trading partners and economic friends' condition do matter.

Declines in the dollar should help us as should some unexpected good news from earnings, eastern Europe or China. Currently we seem poised for less good news.

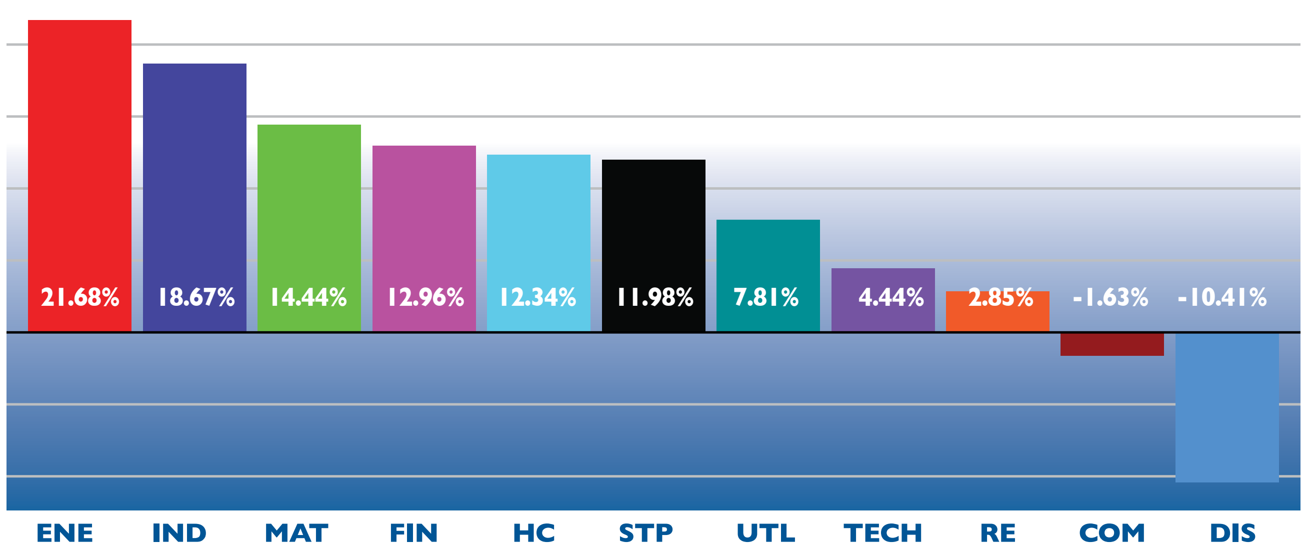
—MDS

US Equity Markets

S&P 500 - Q4 2022[6]

The S&P 500 rose +7.56% in the fourth quarter of 2022[1]. Outperforming sectors include Energy, Industrials, Materials, Financials, Health Care, and Consumer Staples while Information Technology, Real Estate, Communication Services, and Consumer Discretionary underperformed.

S&P 500 - Sector Performance Q4 2022[7]

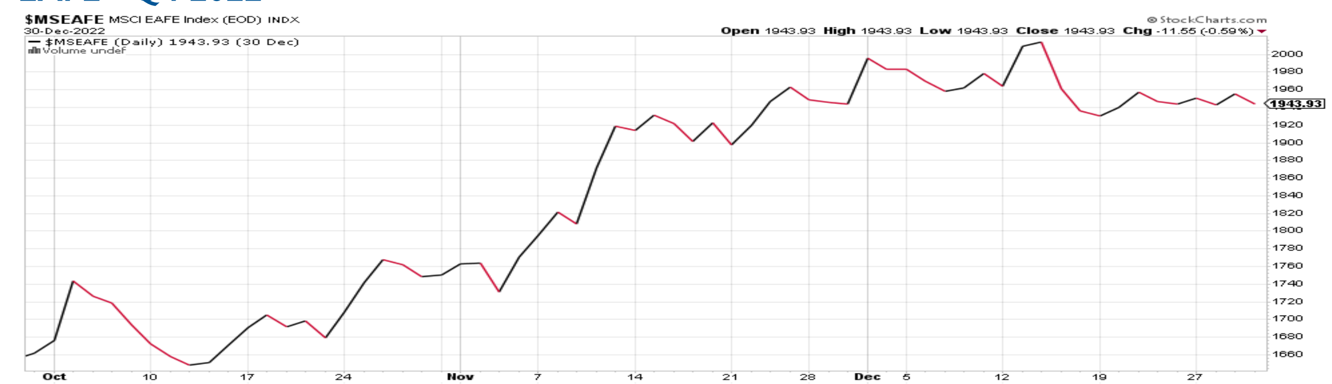


Expanded: Energy, Industrials, Materials, Financials, Health Care, Consumer Staples, Utilities, Information Technology, Real Estate, Communication Services, Consumer Discretionary

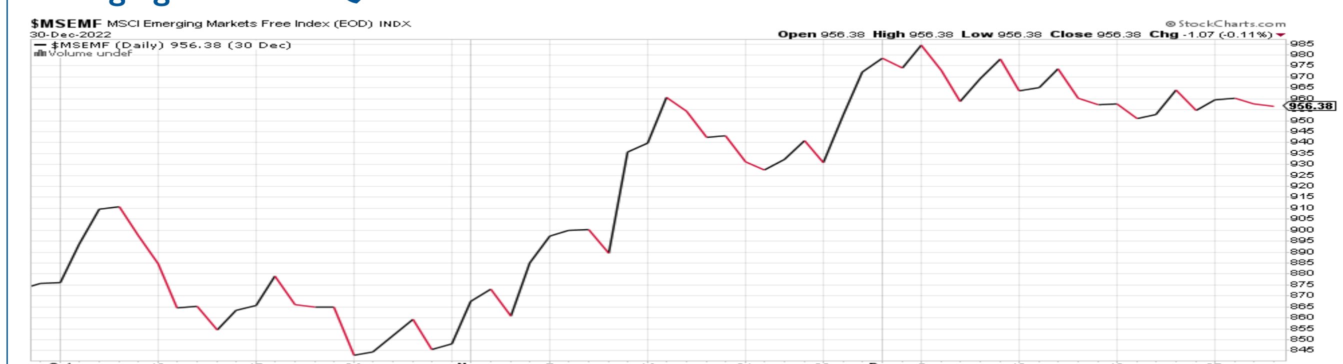
Other Equity Markets

MSCI EAFE outperformed the US by 944 basis points in the fourth quarter, rising +17.00%[1].

EAFE - Q4 2022[8]

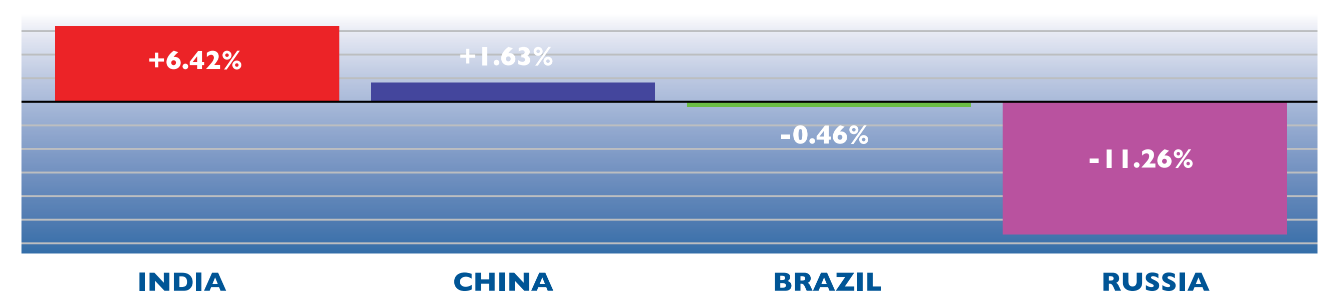


Emerging Markets - Q4 2022[9]



Emerging Markets outperformed the US by 164 basis points while underperforming Developed International Markets by 780 basis points in the fourth quarter, gaining +9.20% by the MSCI EM Index[1].

China, Brazil, India & Russia - Q4 2022[10]



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Energy Markets

WTI Crude Price/Barrel & Gasoline Price/Gallon - Q4 2022[3]

Energy prices were volatile in the fourth quarter but ended relatively unchanged with WTI gaining +0.97% and Gasoline futures rising +4.64%[4].

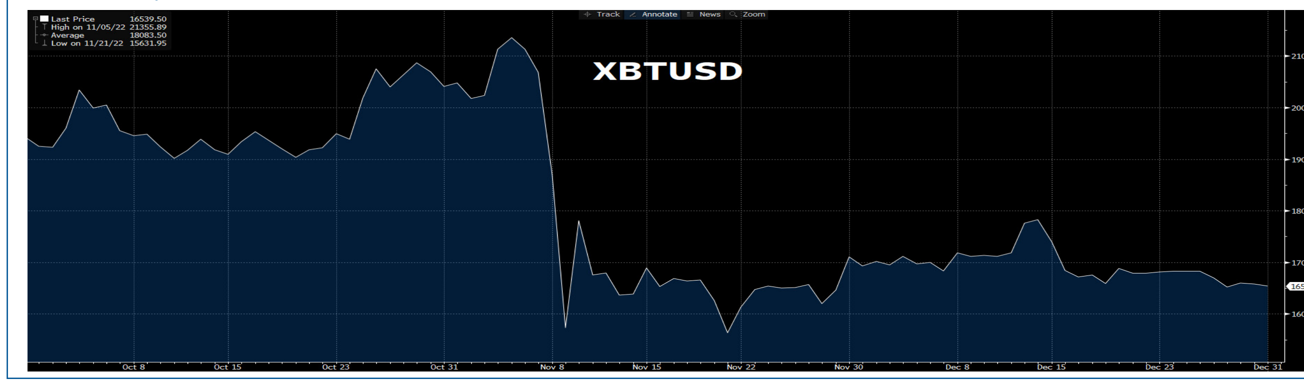
Precious Metals

Gold ended the quarter gaining +9.22%, while Silver ended with a gain of +26.26%[5].

Gold & Silver - Q4 2022[5]

Bitcoin

Bitcoin Q4 2022[3]



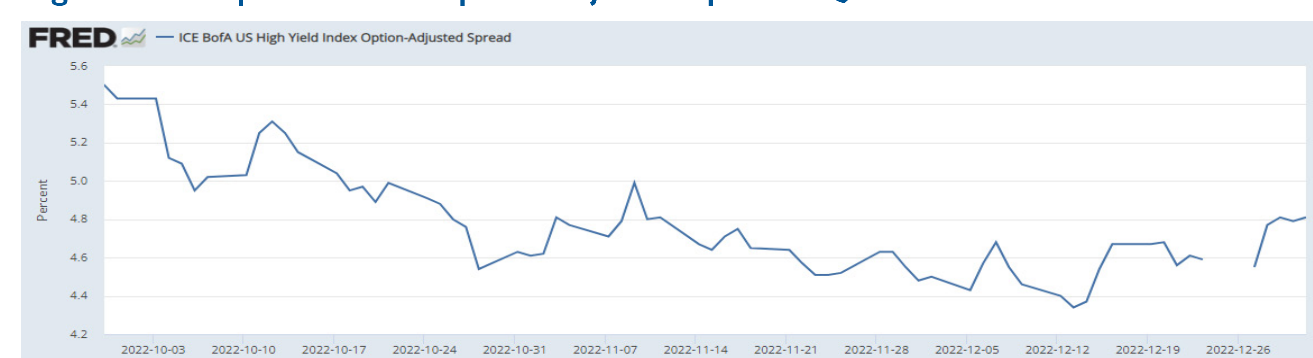
Bond Markets

Ten-Year Treasury Yields rose by 7.5 bps throughout the quarter while the Two-Year Rate rose by 19 bps[2].

Ten Year & 2 Year Treasury Yield - Q4 2022[11]

High Yield spreads fell by -62 bps[3].

High Yield Corporate Debt Option-Adjusted Spread - Q4 2022[12]



NOTES:

1 Morgan Stanley Investment Resources. 2022 Year-End Asset Return Analysis published 3 January 2023. Sources: Morgan Stanley & Co. Research, Bloomberg, and FactSet. Index returns reflect total return as of 12/31/2022.

2 Morgan Stanley Research. US Corporate Credit Strategy 2022 Performance Recap published 5 January 2022. Sources: Morgan Stanley & Co. Research, Bloomberg, Citigroup Index LLC, and iBoxx. Index returns reflect total return as of 12/31/2022.

3 Bloomberg. Data as of 12/31/2022.

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 12/31/2022.

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 12/31/2022.

6 StockCharts.com, Inc., Market data provided by Interactive Data Corporation, SharpChart of S&P 500 ($SPX), data as of 12/31/2022.

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 9/30/2022 through 12/31/2022.

8 StockCharts.com, Inc. Market data provided by Interactive Data Corporation, iShares MSCI EAFE Index ($MSEAFE), StockCharts.com, data as of 12/31/2022.

9 StockCharts.com, Inc., Market data provided by Interactive Data Corporation, SharpChart of MSCI Emerging Markets Free Index ($MSEMF), data as of 12/31/2022.

10 PerfCharts of Shanghai Composite Index ($SSEC), Brazil Bovespa Index ($BVSP), Nifty 50 Index ($NIFTY), and Russia TS Index ($RTSI), data from 9/30/2022 through 12/31/2022.

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 12/31/2022.

12 FRED. ICE BofA US High Yield Index Option-Adjusted Spread. Data as of 12/31/2022.

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Buying, selling, and transacting in Bitcoin, Cryptocurrencies or other digital assets, and related funds and products, is highly speculative and may result in a loss of the entire investment.

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

International Investing: 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.

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.

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.

Diversification does not guarantee a profit or protect against loss in a declining financial market.

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.

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.

Foreign currencies may have significant price movements, even within the same day, and any currency held in an account may lose value against other currencies. Foreign currency exchanges depend on the relative values of two different currencies and are therefore subject to the risk of fluctuations caused by a variety of economic and political factors in each of the two relevant countries, as well as global pressures. These risks include national debt levels, trade deficits and balance of payments, domestic and foreign interest rates and inflation, global, regional or national political and economic events, monetary policies of governments and possible government intervention in the currency markets, or other markets.

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.

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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