

Morgan Stanley

The Boulevardier

A QUARTERLY INVESTORS REPORT FROM THE VECTOR GROUP AT MORGAN STANLEY

FEBRUARY 2022

EXECUTIVE SUMMARY

Fourth Quarter 2021

- **Equity Markets**¹: U.S. equities closed the year on a high note as the S&P 500 finished +11.03% for the quarter and +28.71% for the year. International equities did not perform as favorably as EAFE finished the quarter +2.40% and the year +8.78%, while Emerging Markets fell -1.68% in the final quarter and -4.59% on the year.
- **Bond Markets**²: On the year, High Yield outperformed throughout 2021 as Sub-Investment Grade bonds saw spreads fall by 77 bps to 2.83% over treasuries, while Investment Grade spreads fell modestly by 4 bps to 0.92% over Treasuries. The US 10-year bond saw yields increase substantially in 2021 rising by 60 bps to 1.51%. The yield curve, measured by 30 and 2 year rates, flattened with the spread decreasing by 35 bps throughout the year as the 2-year rate rose by 61 bps and the 30-year rate rose by a more modest 26 bps. The Fed did not move off the 0.00 lower bound in 2021, but indicated hikes are likely in 2022.
- **Economics**³: The fourth quarter was a bit of a mix in terms of economic indicators. Measured by the Citi Economic Surprise Index, aggregate expectations handily exceeded expectations. However, when looking at specific segments of the economy, dispersion is evident. Housing remained robust, Unemployment fell, Consumer Confidence accelerated, and Industrial Production was strong. Manufacturing moderated in aggregate but remained well in growth territory. Services accelerated through November but fell from growth highs in December due to a resurgence in Covid cases. Retail Sales performed well in the first two months of the quarter but gave back nearly all growth in the final month. Year over year Inflation grew by 4.70%, off intra-year highs, but the Federal Reserve noted that inflation may not be as transitory as originally anticipated.
- **Oil**⁴ ended the quarter at \$75.21/barrel WTI, a +0.24% increase from last quarter's close.
- **Gold**⁵ futures closed at \$1828.00/oz., a +4.08% increase for the quarter.

Outlook 2021

- US equities finish the year strong, tightening gap between earnings and price growth.
- Tax policy changes in Washington look unlikely as Midterms loom.
- Inflation remains a question mark as Fed changes tone.

ALSO IN THIS ISSUE:

Advisor's Perspective – Nothing to fear but...



**“Buy at the sound of
cannons, sell at the
sound of trumpets.”**












— Nathan Rothschild

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 |  |
| <i>NOTE: We have discontinued ranking currencies and alternative investments as a group.</i> | | | |

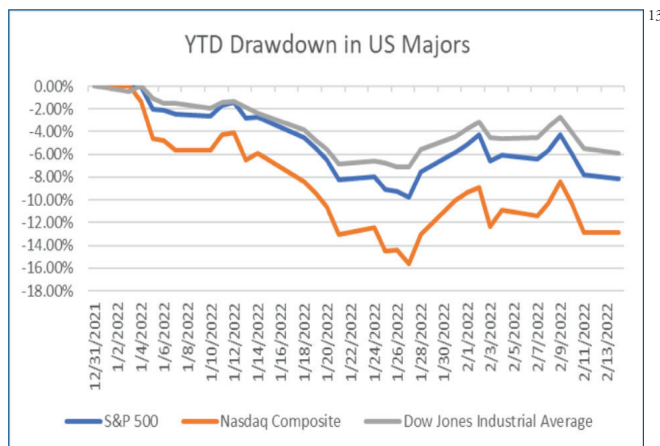
NOTES:

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.

Q1 2022 Outlook

Given the start to the year for Equities, dissecting the way in which they've drawn down should provide some insight into what's driving performance and where opportunities may present themselves. The first 24 days of the year were the fastest -10% drawdown the S&P 500 has seen in its history using intraday measures¹³. On a closing basis, the index has yet to reach official correction territory, typically defined as a -10% fall from highs, thus far bottoming at a -9.80% drawdown on January 27th from its closing high set on January 4th¹³. The technology heavy Nasdaq Composite has fared significantly worse than its more broad-based counterpart, falling -19.23% between its November 22nd intraday high and January 24th intraday low¹³. On a year-to-date closing basis, the Nasdaq fell as far -15.65% on January 27th¹³. Conversely, the more cyclically focused Dow Jones Industrial Average, bottomed at a -7.10% year-to-date decline through January 27th¹³. At a rudimentary level, it's clear that technology has been the point of the spear during the current drawdown.

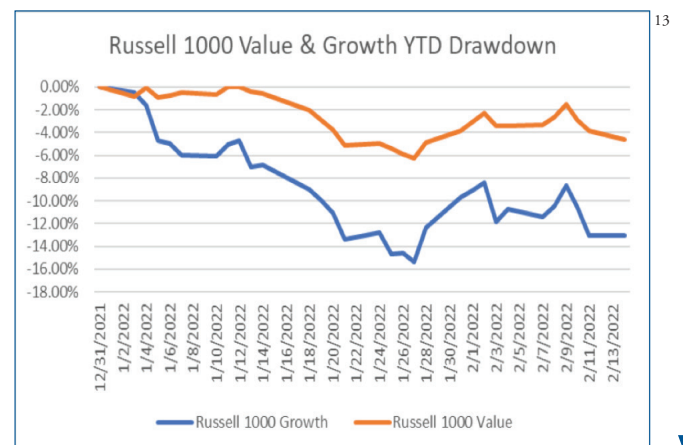


Zooming in further, sector dispersion from the start of 2022 through January 27th illustrates a similar picture. Using the S&P 500, as it is the broadest of the three aforementioned indices, on a sector level Energy saw a substantial positive return of +19.21% as oil prices soared, while financials, consumer staples, utilities, and industrials had negative returns but materially outperformed the aggregate benchmark¹³. Financials benefited from catalyst of rapid increases in the US 10-year rate. Utilities and Staples are both defensive in nature and are in a potential position to benefit from inflation. Industrials are a notable inclusion without a clear macro tailwind. On the other side, Communication Services, Real Estate, Information

Technology, and Consumer Discretionary underperformed by varying degrees¹³. Unlike Financials, the Real Estate sector was hurt by interest rate spikes, while Communication Services, Information Technology, and Consumer Discretionary have all benefited from the growth trade that has driven markets the better part of the past 5 years. What stands out here is how sectors with lower aggregate valuations (Financials, Industrials, Materials, and Health Care) led sectors with higher growth and higher aggregate valuations (Communication Services, Information Technology, and Consumer Discretionary).

| Sector | Drawdown 12.31.2021 - 1.27.2022 |
|------------------------|---------------------------------|
| Energy | 19.21% |
| Financials | -2.11% |
| Consumer Staples | -2.98% |
| Utilities | -6.18% |
| Industrials | -6.41% |
| Materials | -8.68% |
| Health Care | -9.26% |
| S&P 500 | -9.73% |
| Communication Services | -11.00% |
| Real Estate | -12.61% |
| Information Technology | -13.10% |
| Consumer Discretionary | -14.96% |

Exploring the performance of the Russell 1000 Value and Russell 1000 Growth further demonstrates this point. The growth index effectively drew down in lockstep with the Nasdaq Composite from the start of the year while the value index outperformed all other discussed indices falling -6.27% on a year-to-date basis through January 27th¹³. It's clear that the value and growth factors have been key drivers of returns in 2022 in opposite manners.



Given the evidence above, it appears that a valuation reset has driven selling pressure to begin 2022, where companies associated with growth factors that typically hold higher valuations materially underperformed their cheaper value factor counterparts. One thing that we would expect to see if something more economically sinister were at the core of this drawdown would be for high yield credit spreads to quickly and drastically move higher. This has yet to materialize. Whether the root cause of the reset be the abrupt move in treasury rates, the significant move in commodity prices, inflation and the drastic shift in Federal Reserve policy outlook, or something else entirely, evidence suggest that economic distress has yet to materialize. This should create opportunity.



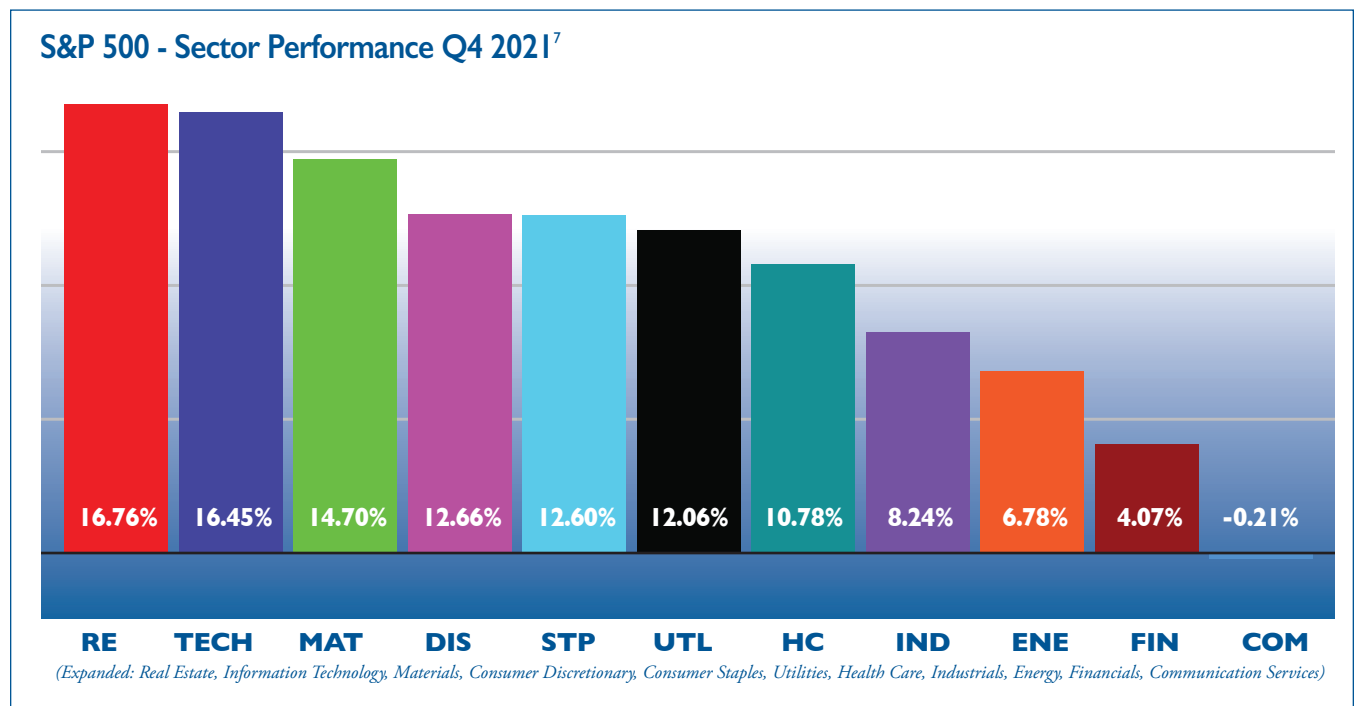
Historically speaking, the Value factor has been a driver of returns over the long-term¹³. While more difficult to quantify, the Growth factor has as well, especially in recent history¹³. A third factor, Quality, which can be measured by the S&P 500 High Quality Rankings Index, has shown to also help drive long-term returns. As the market currently sits, 60.87% of Russell 1000 Growth constituents by index weight overlap with the first quintile of the Quality factor¹³. By the same method, Value's overlap is 30.79%¹³. Given the factor interaction and that growth has drawdown much deeper than Value and the aggregate market, the current drawdown looks to have created opportunity to upgrade the quality of equity holdings at a discount.

MARKET ACTION

US Equity Markets



The S&P 500 rose +11.03% in the fourth quarter of 2021¹. Outperforming sectors include Real Estate, Information Technology, and Materials while Industrials, Energy, Financials, and Communication Services underperformed.



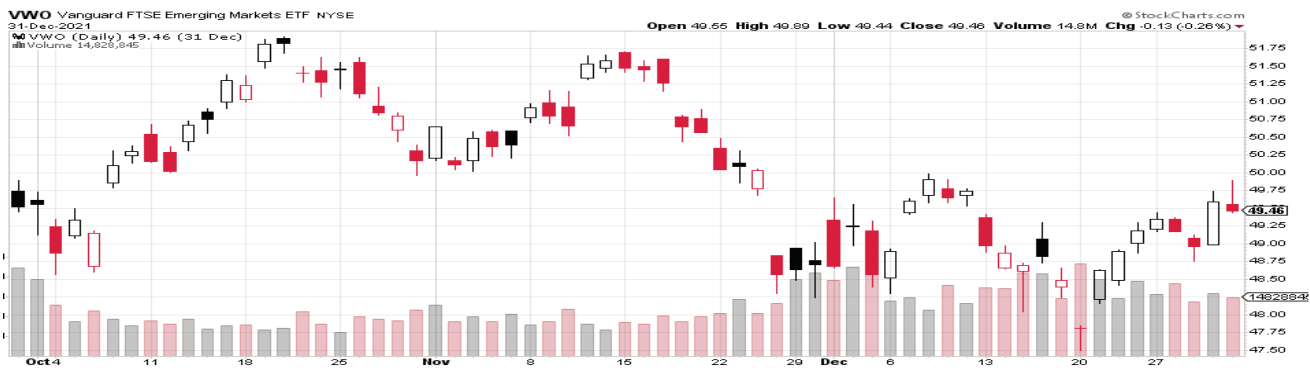
Other Equity Markets

MSCI EAFE underperformed the US by 863 basis points in the fourth quarter, rising 2.40%¹.

EAFE - Q4 2021⁸

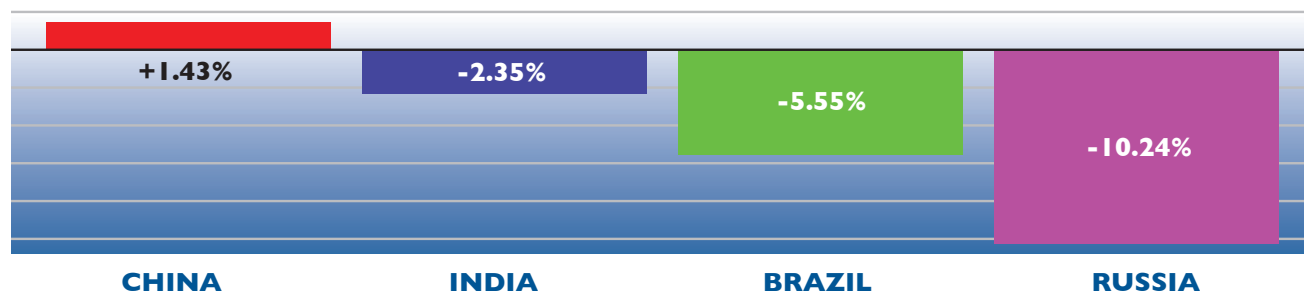


Emerging Markets - Q4 2021⁹



Emerging Markets underperformed the US by 1271 basis points while also underperforming Developed International Markets by 408 basis points in the third quarter, falling -1.68% by the MSCI EM Index¹.

Russia, Brazil, India & China - Q4 2021¹⁰



Energy Markets

WTI Crude Price/Barrel & Gasoline Price/Gallon Q4 2021⁴



Energy prices were volatile in the fourth quarter as WTI rose 0.24% while Gasoline futures rose +1.41%⁴.

Precious Metals

Gold ended the quarter gaining +4.08% while Silver ended with a gain of +5.90%⁵.

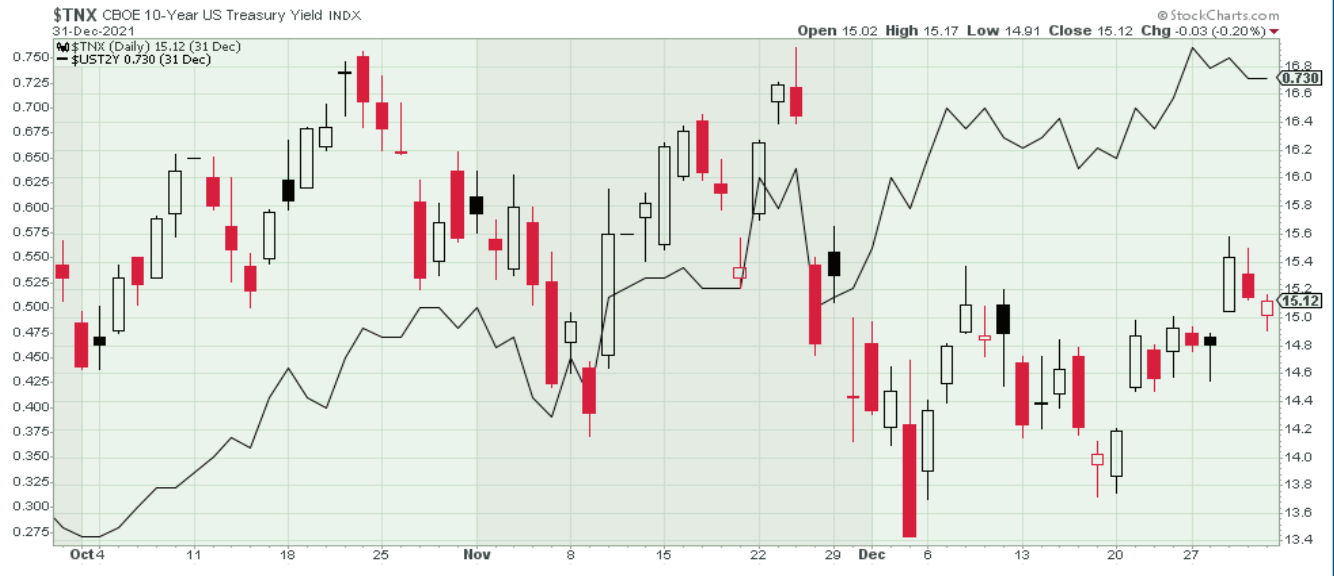
Gold & Silver - Q4 2021⁵



Bond Markets

Ten-Year Treasury Yields rose modestly by 2 bps throughout the quarter while the Two-Year Rate rose sharply by 45 bps to 0.73%².

Ten Year & 2 Year Treasury Yield - Q4 2021¹¹



High Yield spreads fell by 6 bps³.

High Yield Corporate Debt Option-Adjusted Spread - Q4 2021¹²



Advisor's Perspective: Nothing to fear but...

These are tough times for securities investors. We find ourselves facing current threats:

- **Inflation**
- **An aggressive Russia**
- **An aggressive China**

Not to mention last year's concerns:

- **Taxes**
- **Growth of the global economy**

Which piled on to the previous year's concerns (which never actually went away):

- **Pandemic & Global Health**
- **Mental health**
- **New Social norms**

Wow. Even Hollywood couldn't have scripted this as anything other than a 1970s catastrophe movie. It seems the caution we spoke of last issue was well warranted.

While I do think inflation has built its way back into the picture for a while, I suspect it alleviates in coming 6-18 months. I worry about conflict in Eastern Europe and our response. The biggest concern is the potential for human tragedy.

But our biggest enemy is apprehension of the outcomes we fear. Yes, we need to think strategically about investments and long and short term results, but we need to keep perspective on valuation and investment long term returns.

Of all things I am most confident of one: as we go through this time, there will be great bargains to be had – in specific investments but also in dislocated asset classes.

I look forward to discussing this more in depth with those of you who would like my insights.

—*MDS*

NOTES:

- 1 Morgan Stanley Investment Resources. Month-End Asset Return Analysis published 3 January 2022. Sources: Morgan Stanley & Co. Research, Bloomberg, and FactSet. Index returns reflect total return as of 12/31/2021.
- 2 Morgan Stanley Research. US Credit Strategy Chartbook published 5 January 2021. Sources: Morgan Stanley & Co. Research, Bloomberg, Citigroup Index LLC, and iBoxx. Index returns reflect total return as of 12/31/2021.
- 3 Factset Research Systems. Economics: United States. Data as of 12/31/2021.
- 4 StockCharts.com, Inc., Market data provided by Interactive Data Corporation, StockCharts.com, SharpChart of (SWTIC) Light Crude Oil – Continuous Contract (EOD) and (\$GASO) Gasoline Unleaded – Continuous Contract (EOD), data as of 12/31/2021.
- 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 12/31/2021.
- 6 StockCharts.com, Inc., Market data provided by Interactive Data Corporation, SharpChart of S&P 500 (\$SPX), data as of 12/31/2021.
- 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 9/30/2021 through 12/31/2021.
- 8 StockCharts.com, Inc. Market data provided by Interactive Data Corporation, iShares MSCI EAFE Index (\$MSEAFE), StockCharts.com, data as of 12/31/2021.
- 9 StockCharts.com, Inc., Market data provided by Interactive Data Corporation, SharpChart of MSCI Emerging Markets Free Index (\$MSEMF), data as of 12/31/2021.
- 10 PerfCharts of Shanghai Composite Index (\$SSEC), Brazil Bovespa Index (\$BVSP), Nifty 50 Index (\$NIFTY), and Russia TS Index (\$RTSI), data from 9/30/2021 through 12/30/2021.
- 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 12/31/2021.
- 12 FRED. ICE BofA US High Yield Index Option-Adjusted Spread. Data as of 12/31/2021.
- 13 Factset Research Systems. Data as of 12/31/2021.

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. An 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.

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 digible, 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 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.

S&P 500 High Quality Rankings Index comprises constituents of the S&P 500 Index reflecting long-term growth and stability of earnings and dividends.

The Citigroup Economic Surprise Index measures actual economic surprises relative to expectations. A positive reading means that data have been stronger than expected, while a negative reading means that data have been worse than expected.

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.

The MSCI Emerging Markets Index is a free-float-adjusted market-capitalization index that is designed to measure equity market performance in developed and emerging markets, excluding the United States. 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 # 4342713 2/2022

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®

*First 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*

Lindsey Paesano

*Financial Advisor
212 705 4572
lindsey.paesano@morganstanleypw.com*

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

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

THE VECTOR GROUP *at* MORGAN STANLEY