Morgan Stanley

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MORGAN STANLEY RESEARCH

US Equity Strategy

August 6, 2026

Strategy Data Pack – August 2026

Key Points:

- **An Early-to-Mid Cycle Transition Has Begun, Favoring Quality**
  - As the business cycle matures and post-recession operating leverage moderates, we believe leadership should rotate from low quality toward companies with more stable earnings, strong margins and operational efficiency.
  - With high quality representing 42% of the S&P versus 28% for low quality—and median stock earnings growth accelerating to 14% as revisions breadth improves—the setup should support greater index resilience, broader participation and 8,000 on the S&P by year-end, in our view.
- **One of the Worst Momentum Sell-Offs in History**
  - Momentum is rotating toward quality, Insurance and Healthcare Equipment & Services, and away from the Semiconductor trade based on our 3-month versus 12-month momentum analysis.
- **We Still Favor Hyperscalers and Mag 7 over Semis with an Important Caveat**
  - Hyperscalers combine attractive relative value—their forward multiple is in just the third percentile back to 2023—with meaningful AI optionality as both enablers and adopters.
  - However, we also expect there to be dispersion among the Hyperscalers going forward with ROI, balanced capex communication and quality key differentiating factors.

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In Case You Missed It – Last Month's Publications

Weekly Warm Ups

- US Equity Strategy: Weekly Warm-up: From Early Cycle to Mid Cycle (3 Aug 2026)
- US Equity Strategy: Weekly Warm-up: The Broadening Out Shifts to a Quality Rotation as Early Cycle Phase Ends (27 Jul 2026)
- US Equity Strategy: Weekly Warm-up: Broadening Continues as Index Struggles (20 Jul 2026)
- US Equity Strategy: Micro Meets Macro: 2Q Earnings Preview (13 Jul 2026)
- US Equity Strategy: Weekly Warm-up: The Broadening Gains Steam as Semis Lose Momentum (6 Jul 2026)

Special Reports

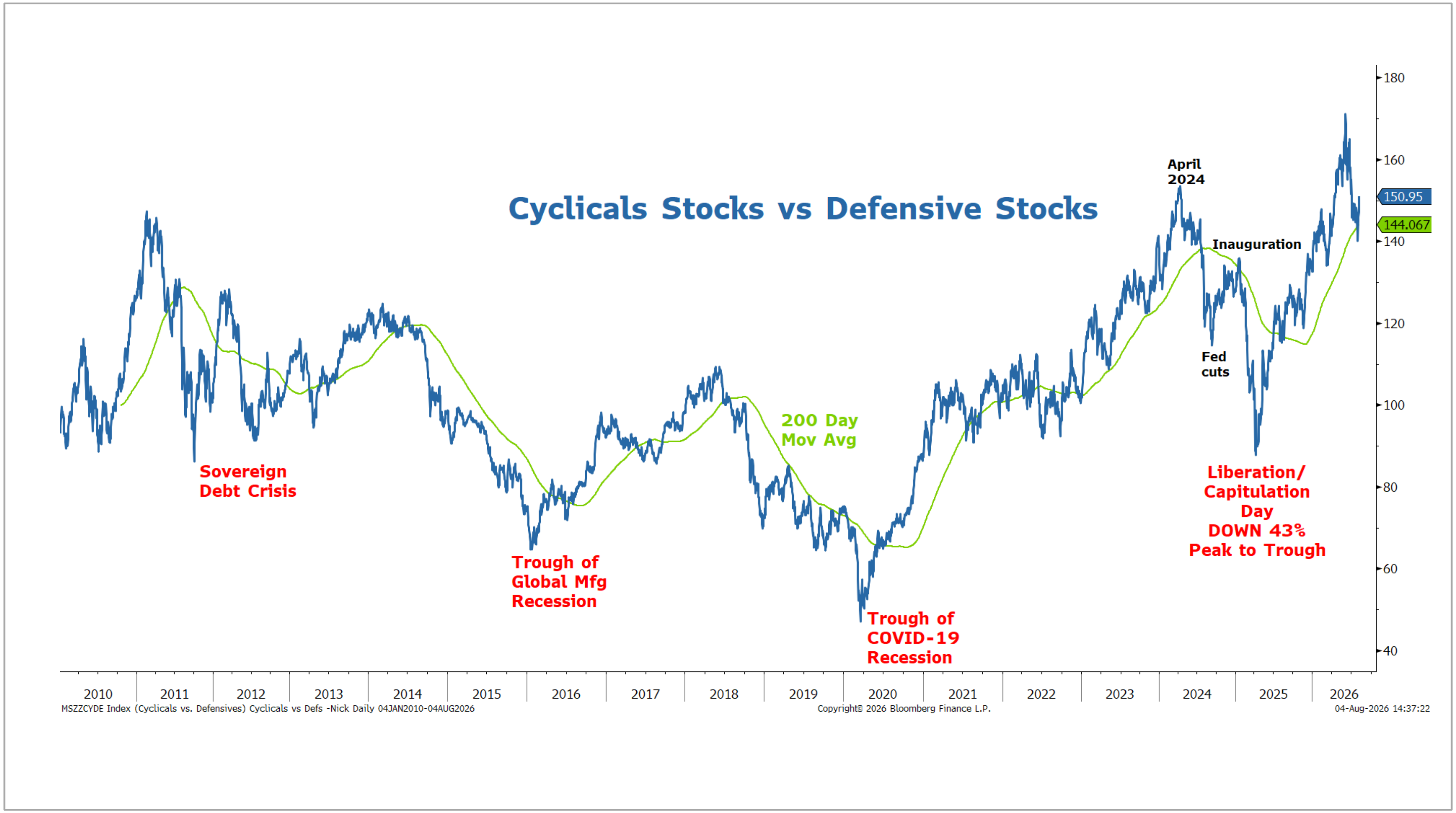
- 2026 Intern Survey: What's Trending in Disruption? Ask the Interns (4 Aug 2026)
- AI and Economic Transition: AI Labor Disruption: Still Modest, but Increasingly Visible (3 Aug 2026)
- Thematic Alpha: US Consumer Pulse Survey: Back-to-School Spending Holds Firm as Macro Confidence Slips (3 Aug 2026)
- Global Thematics: Playing the AI Infrastructure Dip: Where to Invest and Where We See Risk (27 Jul 2026)
- Global Thematics: AI Adoption and the Future of Work: Sector Deep Dive (19 Jul 2026)

Podcasts & Videos

- Podcast | Thoughts on the Market: Quality Matters Again (3 Aug 2026)
- Podcast | Thoughts on the Market: A More Selective Stock Market (27 Jul 2026)
- Podcast | Thoughts on the Market: More Stocks Join the Bull Market (22 Jul 2026)
- Podcast | Thoughts on the Market: What's Fueling Stocks After the AI Trade (14 Jul 2026)
- Podcast | Equities Unplugged with Michael Wilson and Andrew Pauker: What Works Next As Leadership Broadens? | Ep. 62 (13 Jul 2026)
- Podcast | Thoughts on the Market: Next Leg of the Bull Market? (6 Jul 2026)

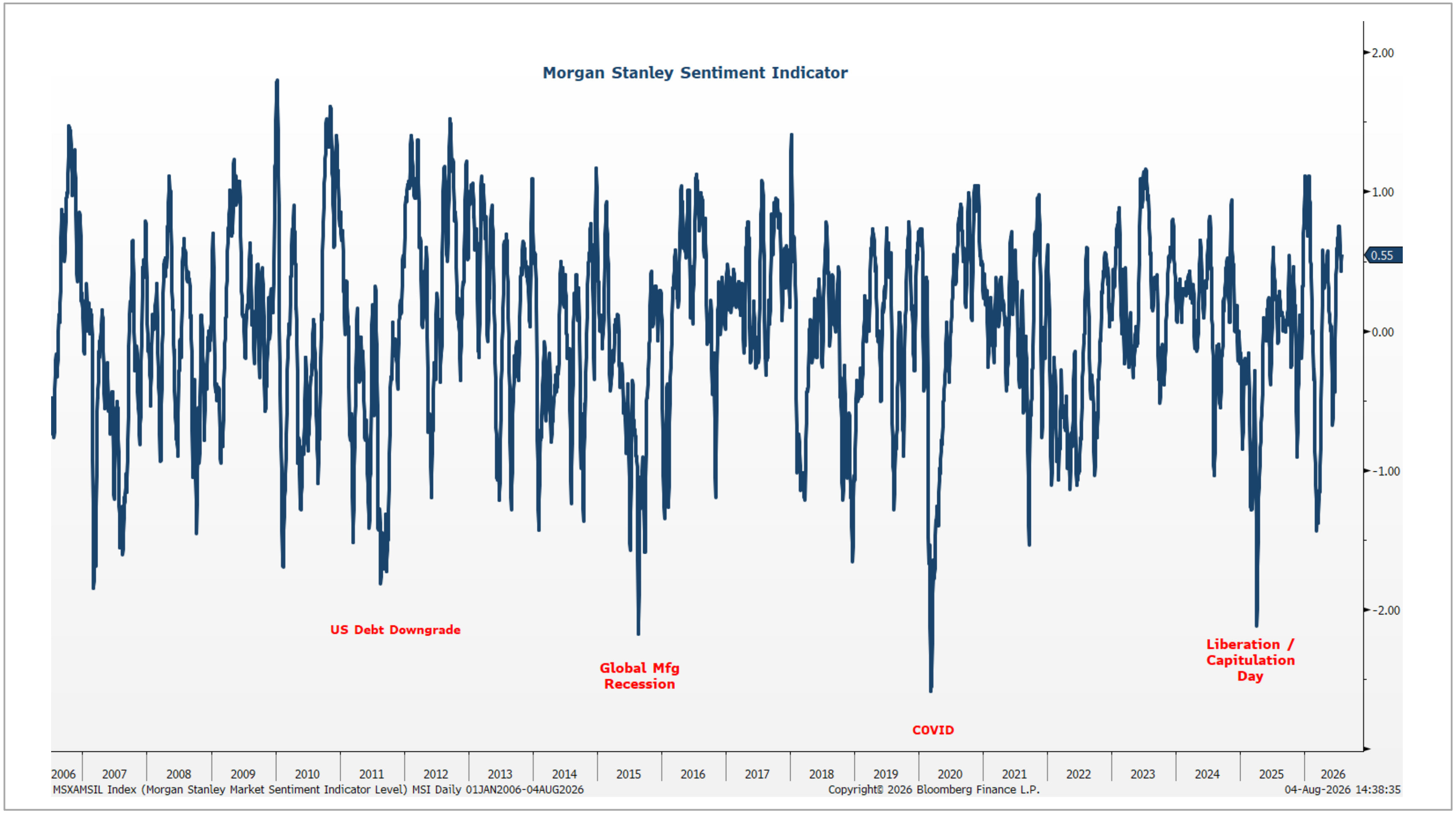
Outline

Cyclically Sensitive Stocks Underperformed in 2024 and Early 2025…



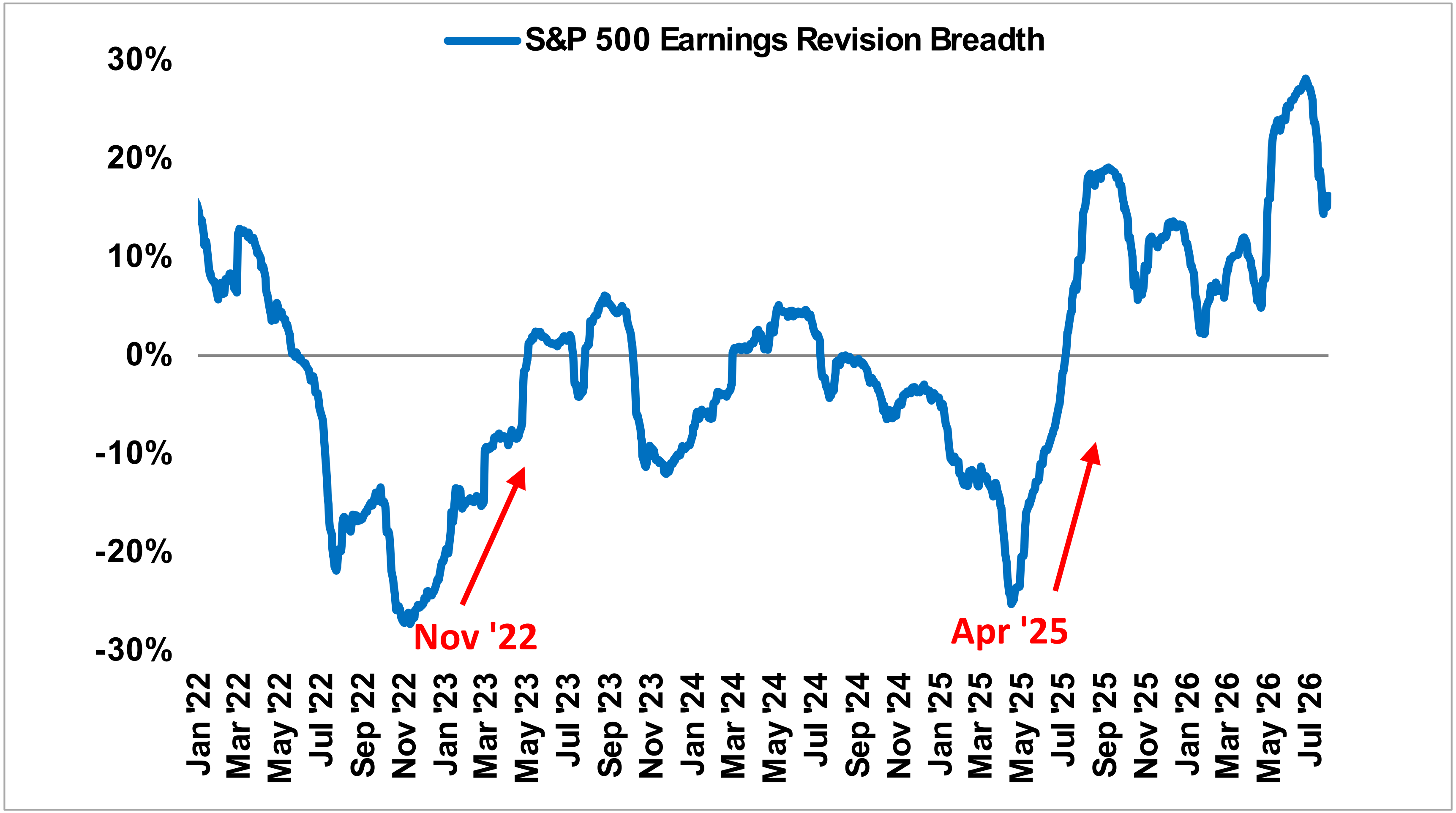
Source: Bloomberg, Morgan Stanley Research. As of August 4, 2026

...With Sentiment Capitulating on 'Liberation Day'



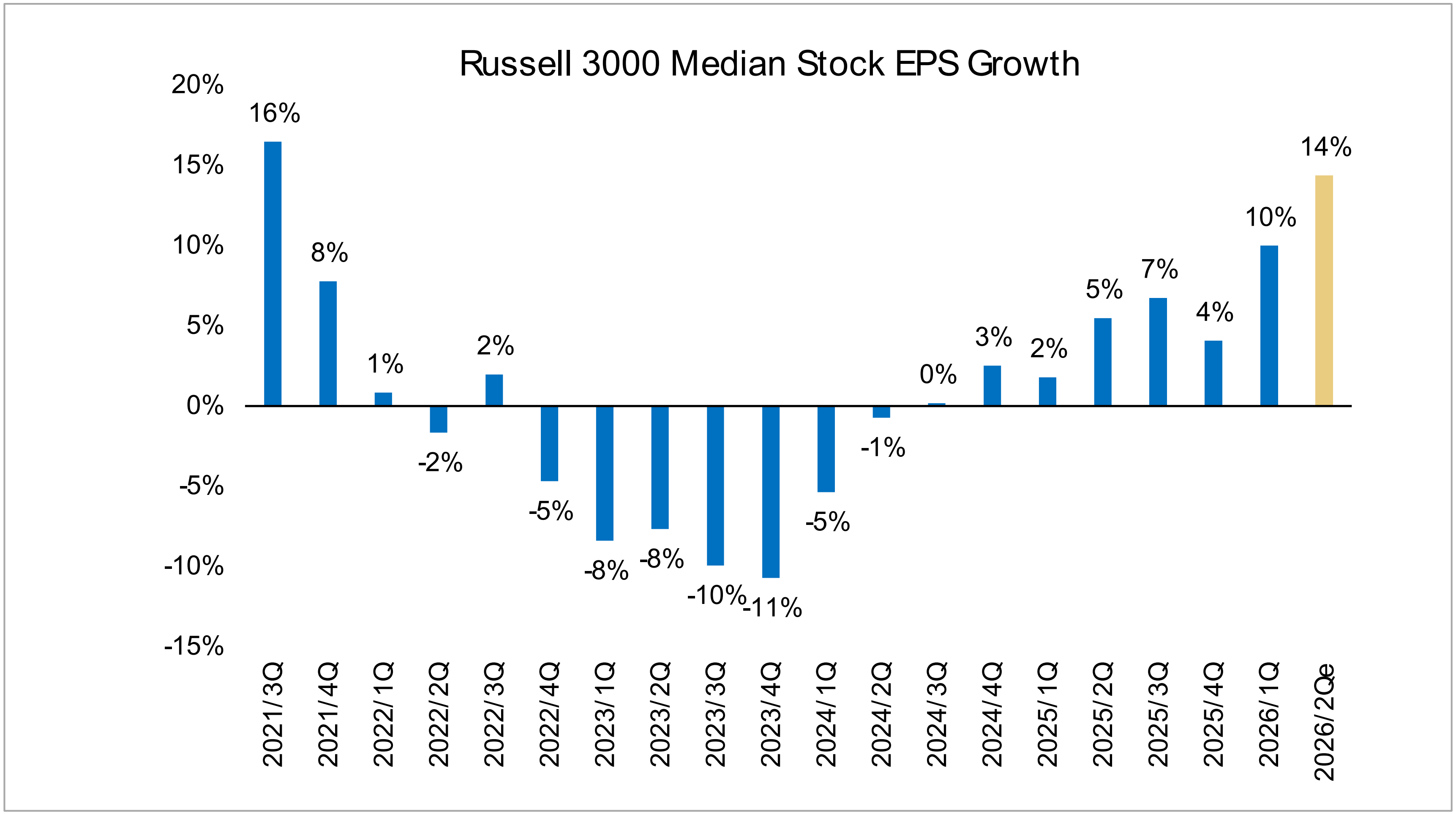
Source: Bloomberg, Morgan Stanley Research. As of July 31, 2026

The Low Also Coincided with a V-Bottom in Earnings Revisions Breadth



Source: Bloomberg, Morgan Stanley Research. As of July 31, 2026

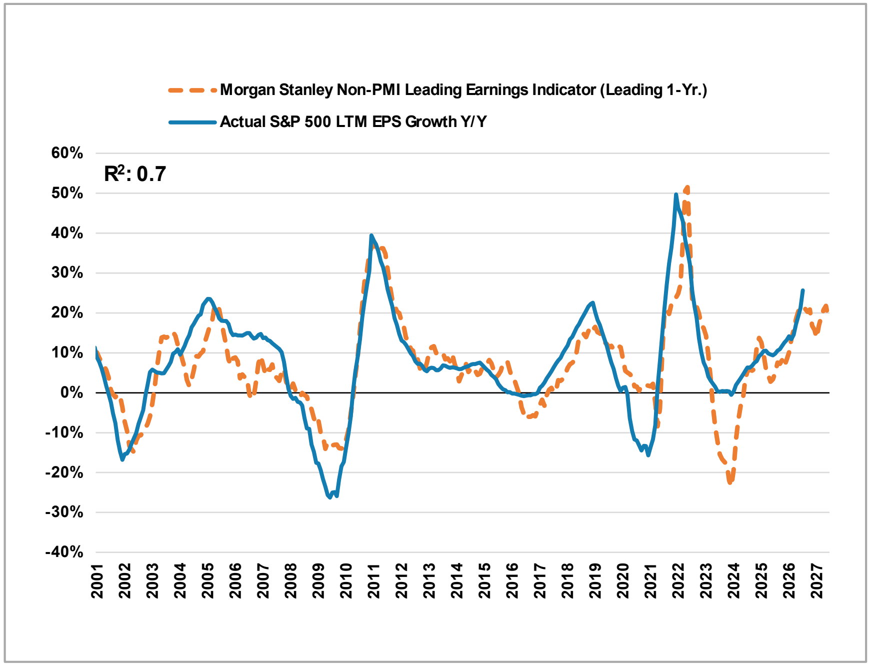
The Median Stock Is Now Recovering and Seeing the Strongest EPS Growth in 4 Years



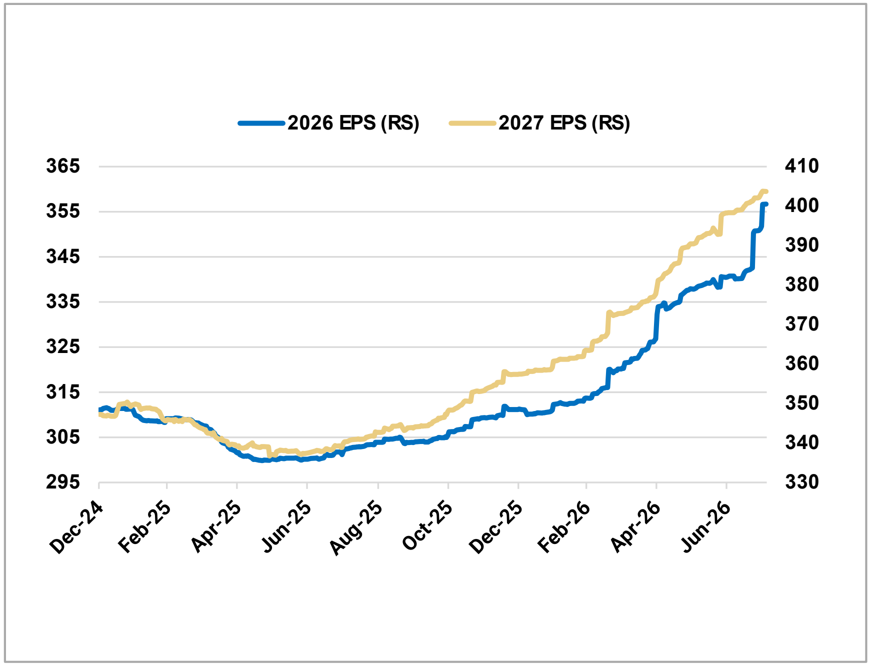
Source: Bloomberg, Morgan Stanley Research. As of July 31, 2026

Our Leading Earnings Model Is Forecasting Double Digit EPS Growth

Morgan Stanley Non-PMI Leading Earnings Indicator



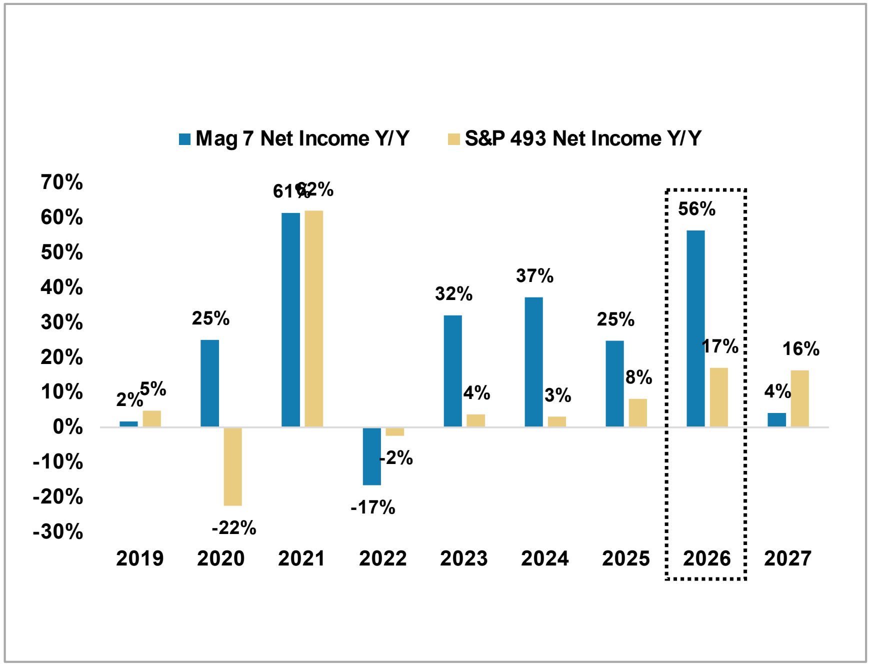
Consensus EPS Estimates



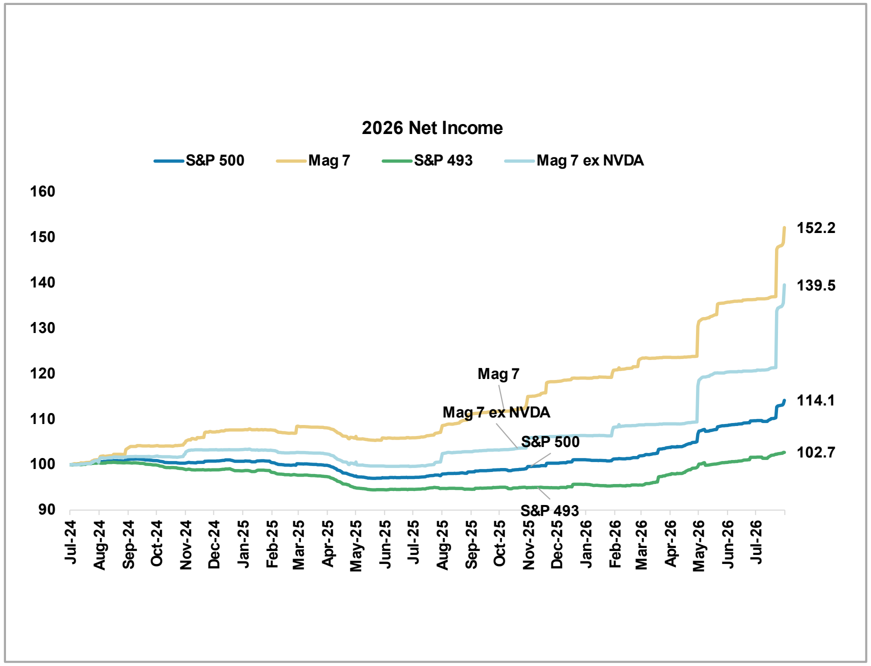
Source: FactSet, Bloomberg, Morgan Stanley Research. Left as of June 30, 2026. Actual S&P 500 LTM EPS as of 7/31/26. Right as of July 31, 2026.
Note: The non-PMI LEI is a top down macro indicator that was built to triangulate our earnings forecasts using alternative sources. Inputs include Phil Fed economic activity, Creighton U. business confidence, Chicago Fed supplier deliveries, Atlanta Fed wage tracker (inverse signal), NFIB small bus. most important problem inflation (inverse signal), and Brave-Butters-Kelley cycle component of monthly GDP. Weightings are fixed over time.

We Expect Earnings Growth to Accelerate for the Average Stock

Returns are Expected to Broaden in 2026 and 2027

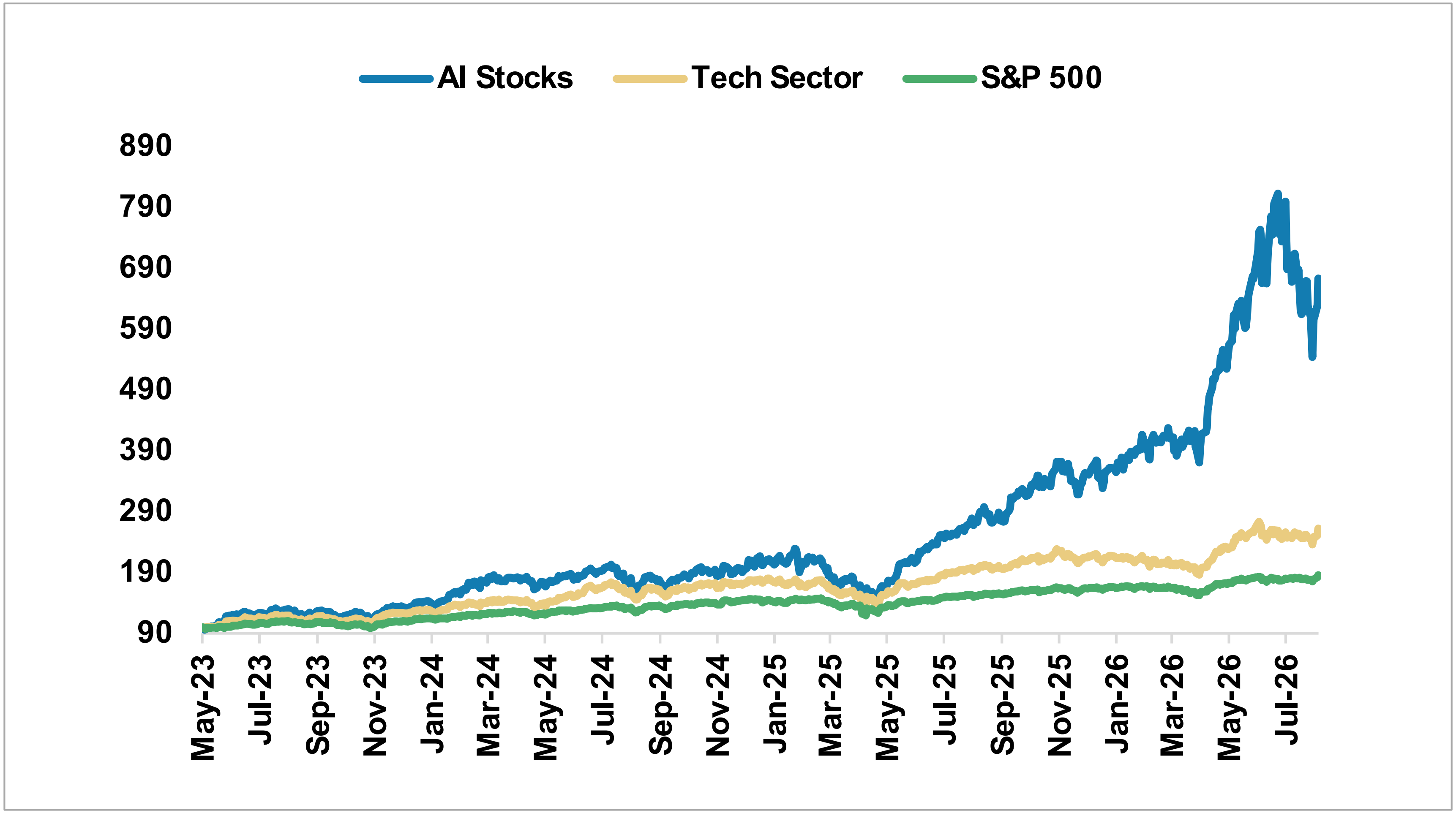


We are Watching 2026 Estimates for the S&P 493



Source: FactSet, Bloomberg, Morgan Stanley Research. As of July 31, 2026.

AI-Related Stocks Remain a Key Market Driver



Source: Bloomberg, Morgan Stanley Research. As of 7/31/2026.

Year Ahead Price Targets and Sector Preferences

Our S&P 500 EPS Targets

	Current Price	MS Next 12M Price Target	MS Next 12M Price Target % to Current	Current P/E	MS Next 12M P/E Target	MS Top Down EPS Estimates 2026	MS Top Down EPS Estimates 2027	MS Top Down EPS Estimates June 2028	MS Top Down EPS Estimates 2028	Bottom Up Consensus EPS Estimates 2026	Bottom Up Consensus EPS Estimates 2027	Bottom Up Consensus EPS Estimates June 2028	Bottom Up Consensus EPS Estimates 2028
Bear	7,490	5,900	-21%	19.8x	19.0x	$299	$300	$311	$322	$357	$404	$427	$462
Growth						*9%*	*0%*	*4%*	*7%*	*30%*	*13%*	*14%*	*14%*
Base	7,490	8,300	11%	19.8x	20.5x	$339	$380	$404	$429	$357	$404	$427	$462
Growth						*23%*	*12%*	*13%*	*13%*	*30%*	*13%*	*14%*	*14%*
Bull	7,490	9,400	26%	19.8x	21.0x	$352	$416	$448	$480	$357	$404	$427	$462
Growth						*28%*	*18%*	*17%*	*16%*	*30%*	*13%*	*14%*	*14%*

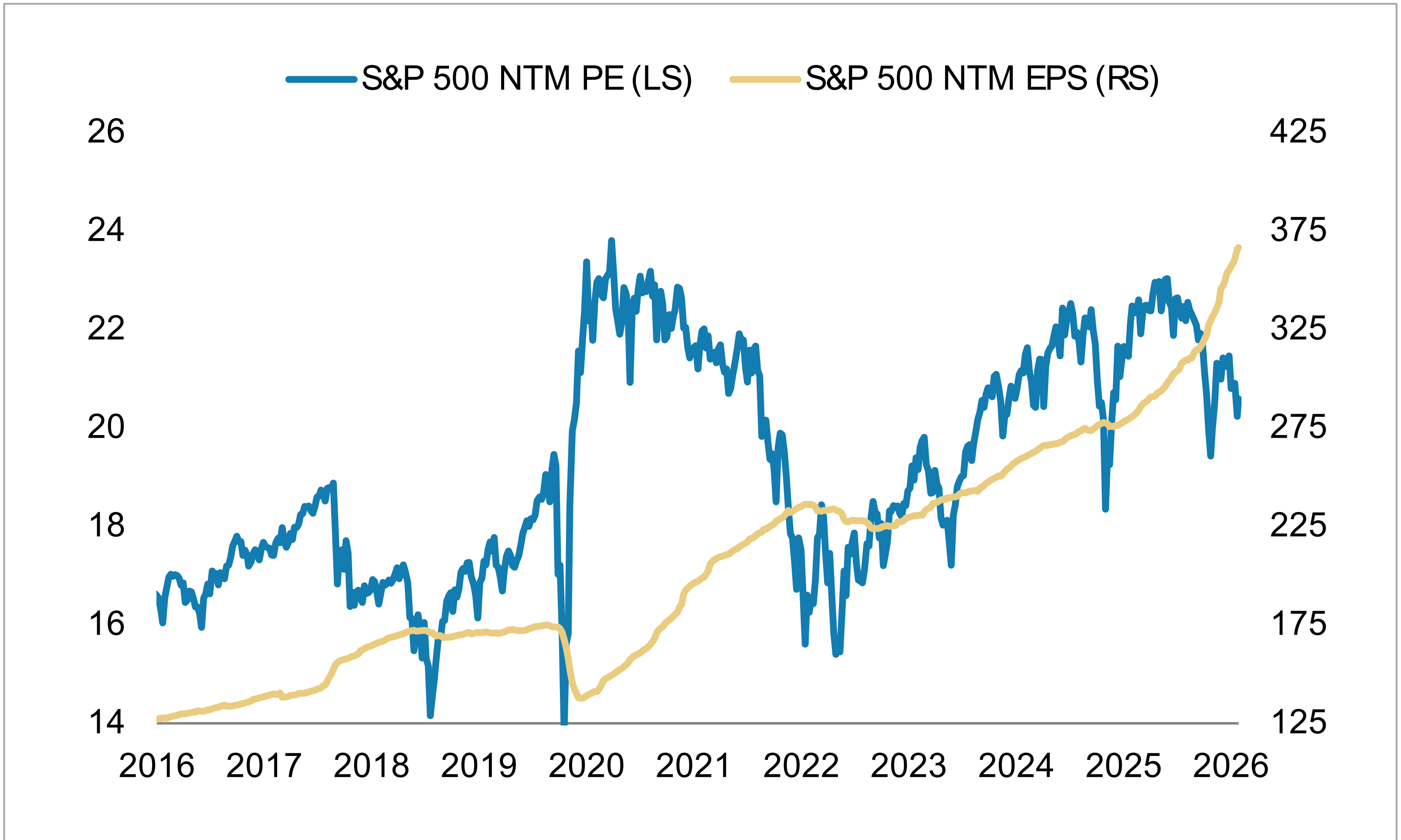
Our Sector Recommendations

Morgan Stanley Sector Recommendations			
Overweight	Financials	Industrials	Consumer Discretionary Goods
Equal Weight	Tech	Comm. Services	Health Care
	Materials	Utilities	Consumer Services
	Energy		
Underweight	Staples	Real Estate	

Source: Bloomberg, Morgan Stanley Research.

Outline

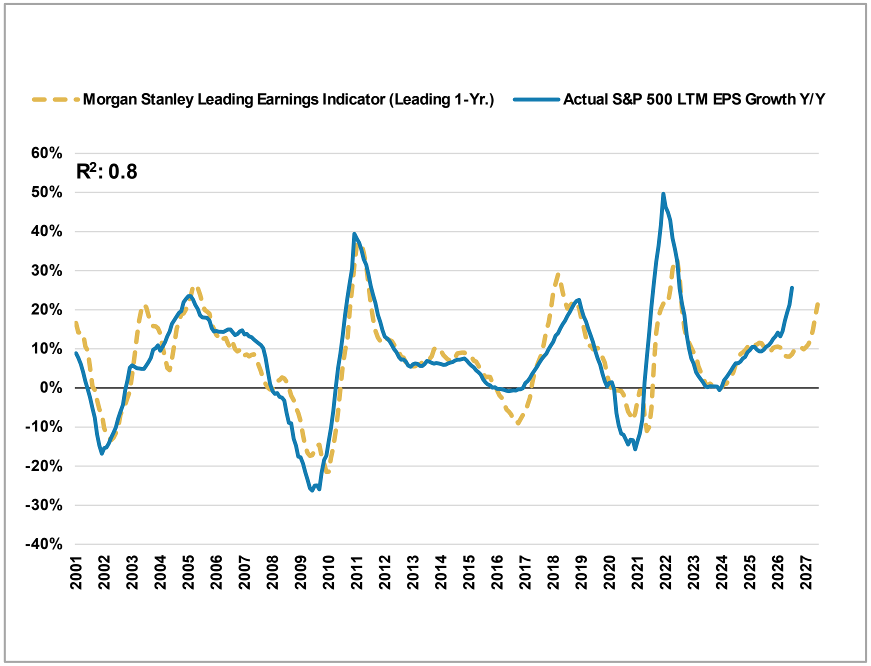
Earnings Continue to Drive the S&P 500 Higher Despite the Valuation Pullback



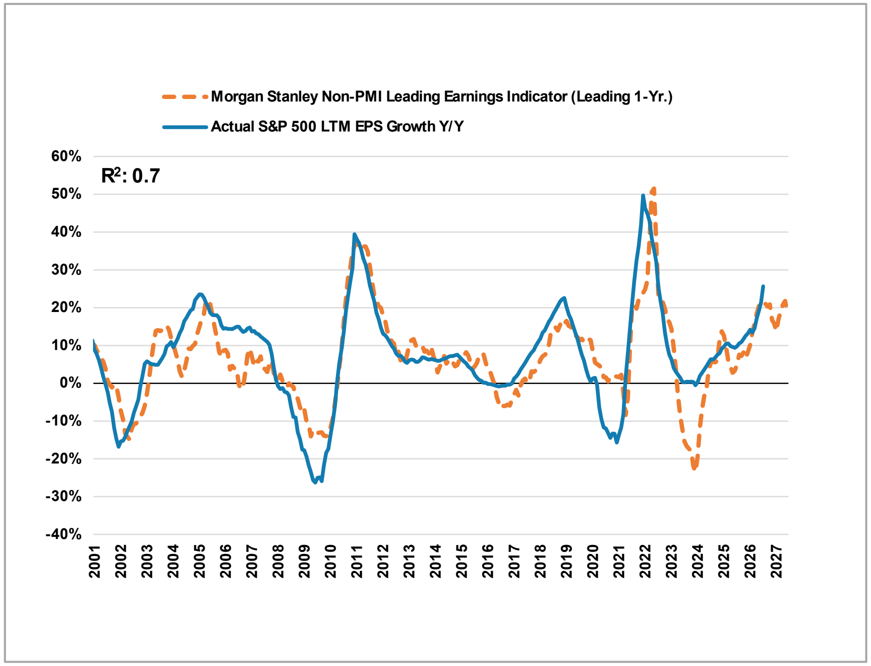
Source: FactSet, Morgan Stanley Research as of July 31, 2026.

Morgan Stanley Earnings Models

Morgan Stanley Leading Earnings Indicator



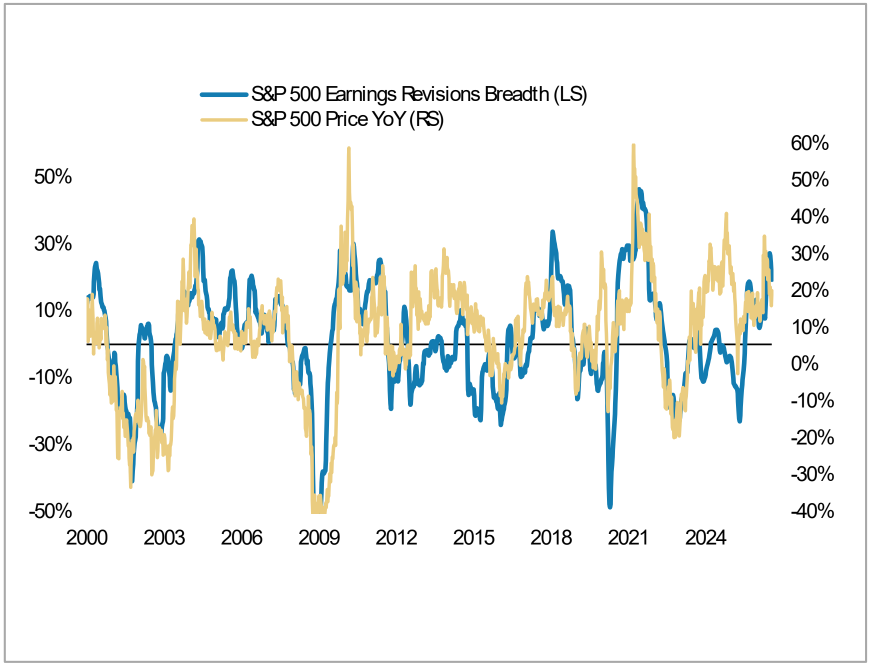
Morgan Stanley Non-PMI Leading Earnings Indicator



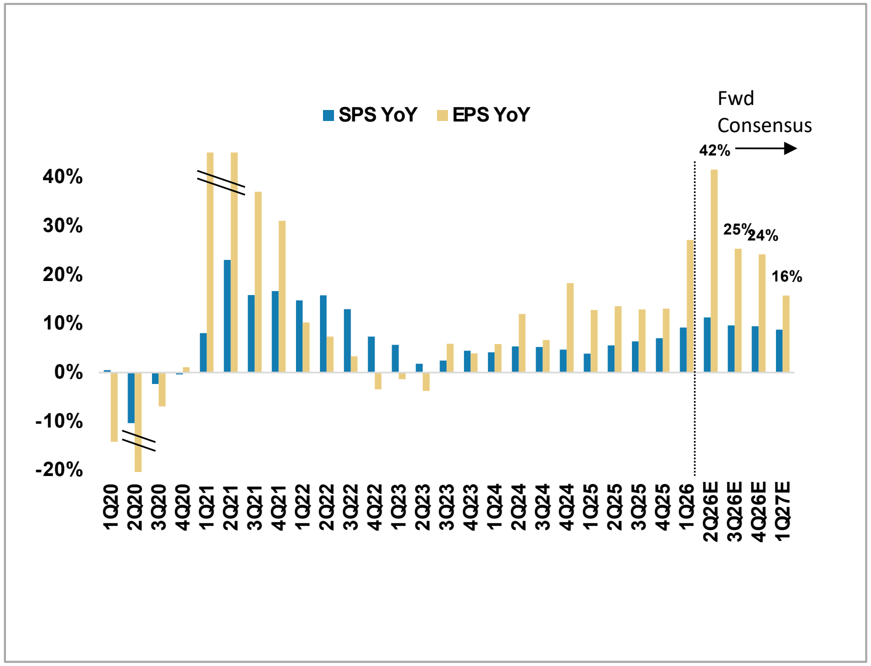
Source: Bloomberg, FactSet, Haver, Morgan Stanley Research. Left LEI as of July 31, 2026. Right Non-PMI LEI as of June 30, 2026 (inputs are lagged by 1-2 months). Actual S&P 500 LTM EPS as of 7/31/26. Note: The LEI is a top down macro indicator consisting of the Inventory/Sales ratio, ISM Manufacturing PMI, ISM Manufacturing Employment PMI, Consumer Confidence and credit spreads. The non-PMI LEI is a top down macro indicator that was built to triangulate our earnings forecasts using alternative sources. Inputs include Phil Fed economic activity, Creighton U. business confidence, Chicago Fed supplier deliveries, Atlanta Fed wage tracker (inverse signal), NFIB small bus. most important problem inflation (inverse signal), and Brave-Butters-Kelley cycle component of monthly GDP. Weightings are fixed over time.

Consensus Is Pricing Strong Earnings through 2026

Strong Earnings Revisions Have Led the Index Higher



Consensus Quarterly Earnings



Source: FactSet, Bloomberg, Morgan Stanley Research as of July 31, 2026.

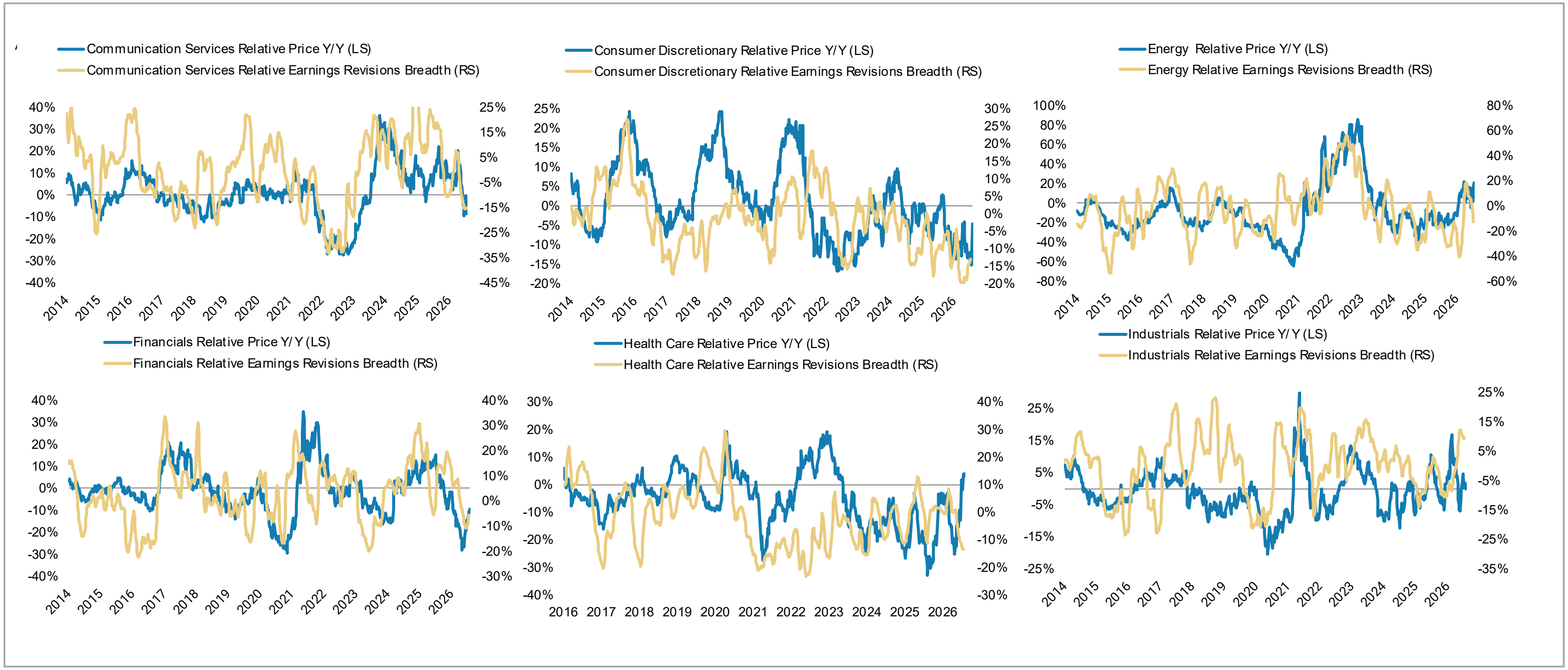
Earnings Revisions by Size and Sector – 2026 Estimates

% Change to 2026 Earnings Estimates Over the Last 12 Months & Year to Date

Large Caps - S&P 500			Mid Caps - MID			Small Caps - SML		
Sector	LTM	YTD	Sector	LTM	YTD	Sector	LTM	YTD
Comm	36%	34%	Comm	193%	65%	Comm	-35%	-38%
Discretionary	21%	22%	Discretionary	-8%	-5%	Discretionary	-12%	-5%
Energy	50%	63%	Energy	29%	45%	Energy	18%	50%
Financials	6%	6%	Financials	3%	0%	Financials	6%	3%
Health Care	-7%	-7%	Health Care	-11%	-6%	Health Care	8%	10%
Industrials	1%	3%	Industrials	-7%	-4%	Industrials	4%	-2%
Materials	14%	13%	Materials	-4%	5%	Materials	14%	2%
Real Estate	-1%	0%	Real Estate	-2%	-2%	Real Estate	3%	2%
Staples	-3%	-1%	Staples	12%	13%	Staples	3%	9%
Tech	38%	22%	Tech	28%	27%	Tech	16%	13%
Utilities	1%	1%	Utilities	-5%	0%	Utilities	-11%	-14%
S&P 500	18%	15%	S&P 400	2%	4%	S&P 600	6%	6%

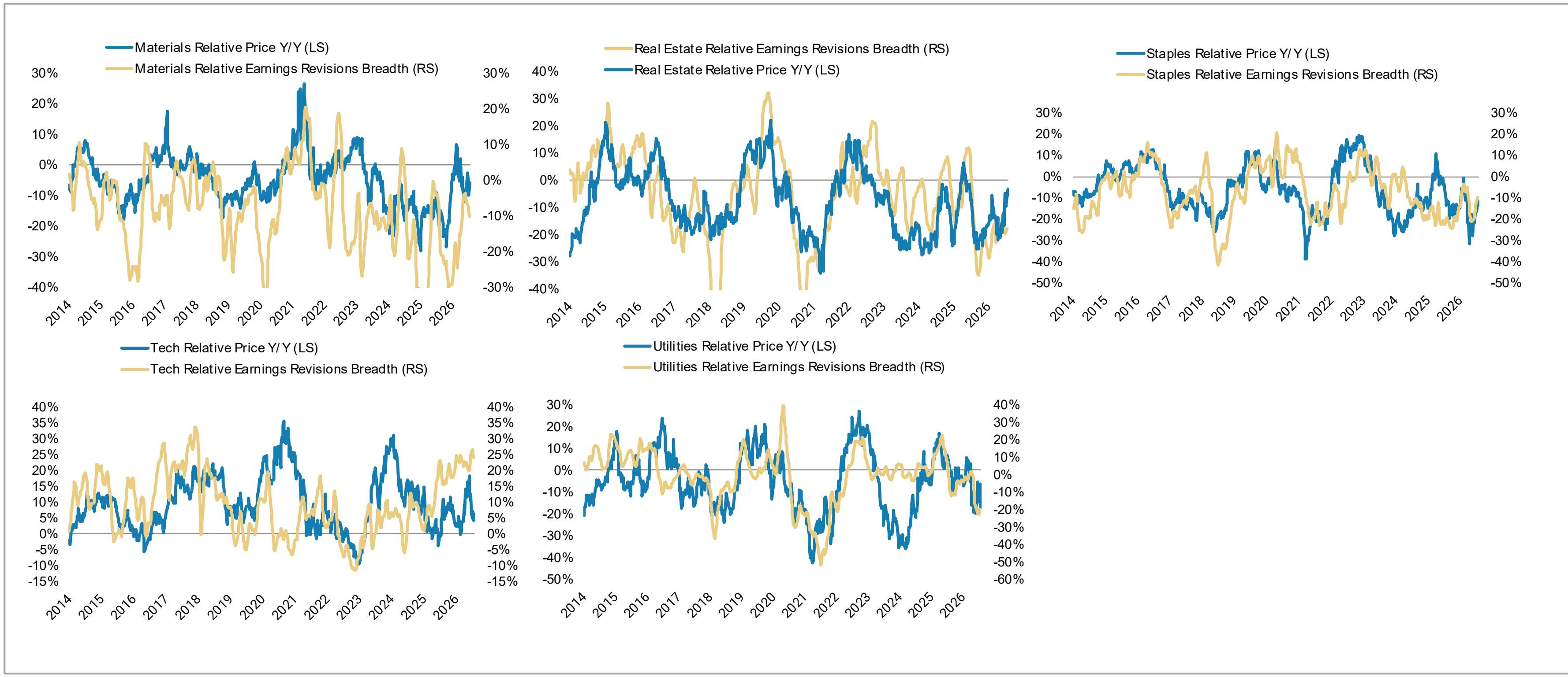
Source: FactSet, Morgan Stanley Research as of August 3, 2026

S&P 500 Sector Level Earnings Revisions Breadth – Pt. 1



Source: FactSet, Morgan Stanley Research as of July 31, 2026.

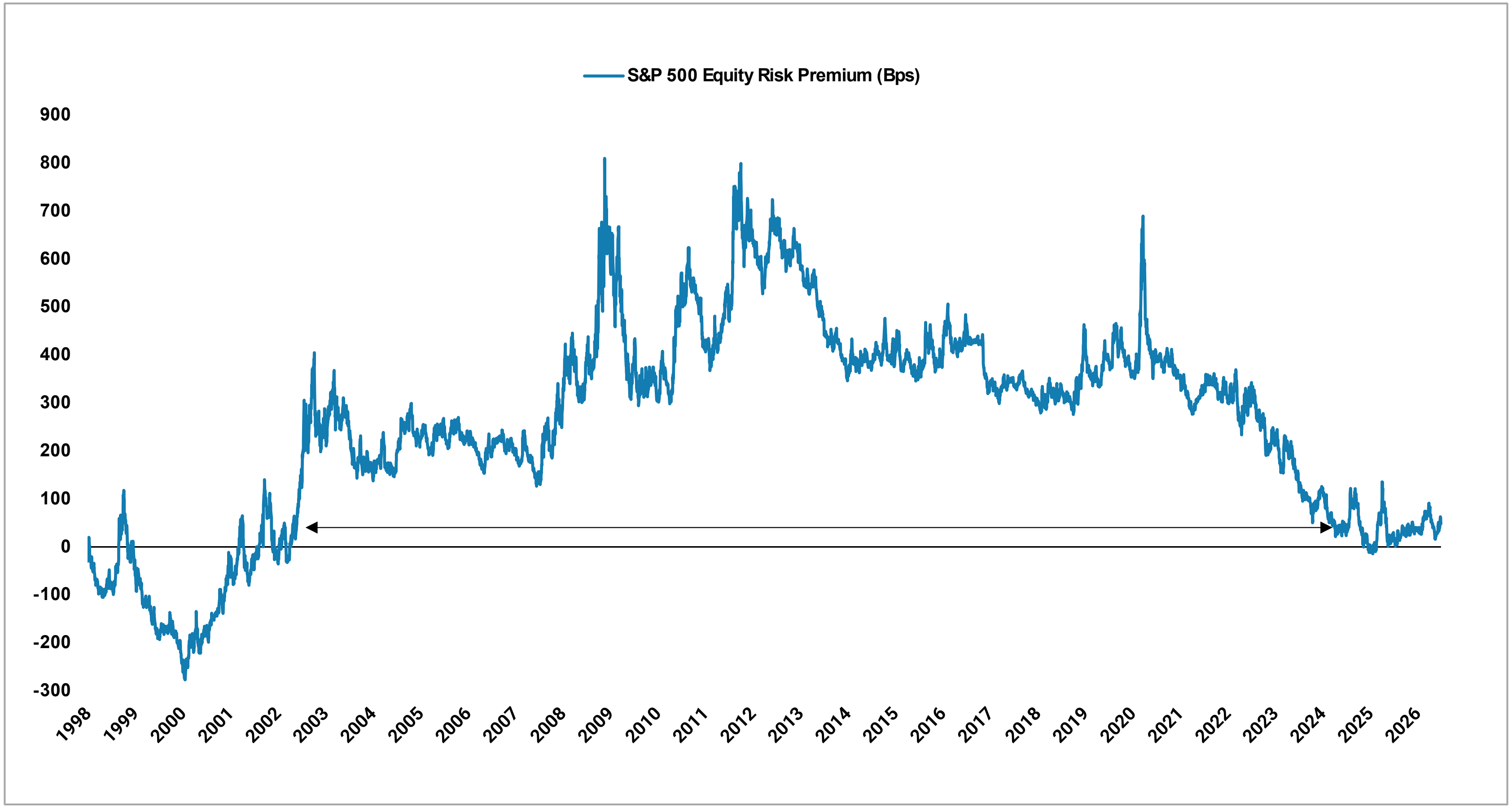
S&P 500 Sector Level Earnings Revisions Breadth – Pt. 2



Source: FactSet, Morgan Stanley Research, as of July 31, 2026.

US Equity Risk Premium Remains Historically Low

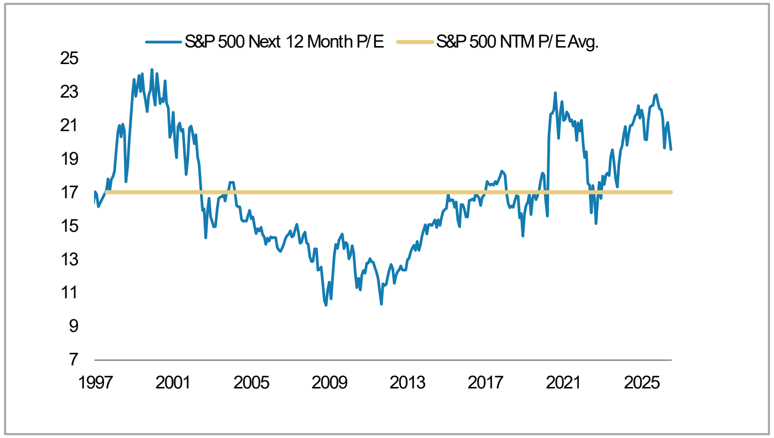
S&P 500 Next Twelve Month Equity Risk Premium



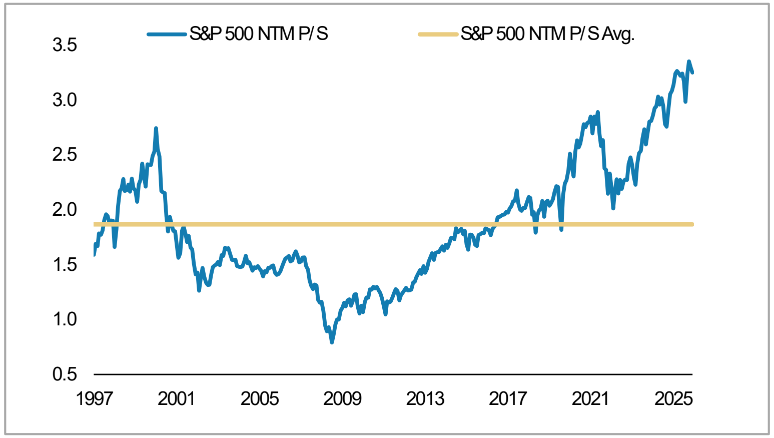
Source: FactSet, Bloomberg, Morgan Stanley Research as of July 31, 2026.
Note: ERP based on forward earnings yield and 10-year Treasury Yield.

US Equity Market Traditional Valuation Measures

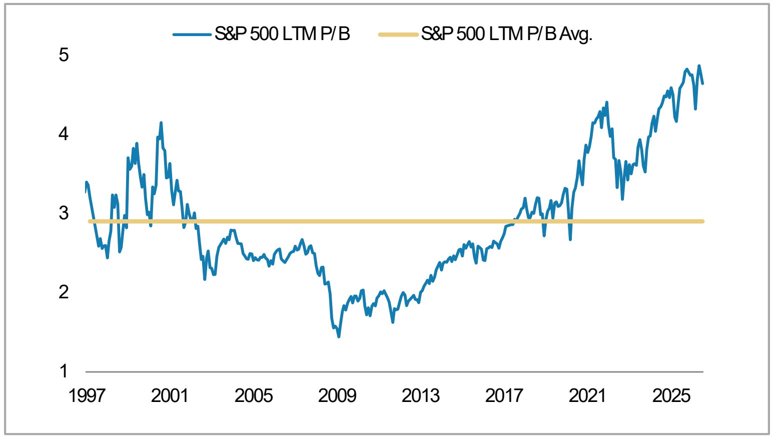
S&P 500 NTM P/E



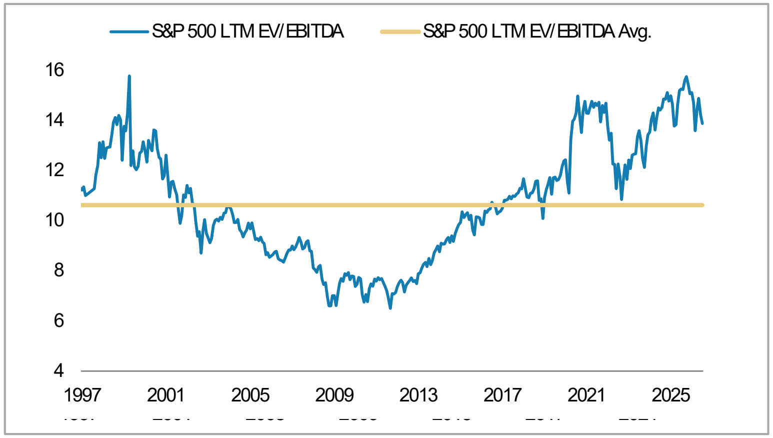
S&P 500 NTM P/S



S&P 500 NTM P/B



S&P 500 NTM EV/EBITDA



Source: FactSet, Morgan Stanley Research as of July 31, 2026.

Valuation by Size and Sector – Current FWD P/E vs 4 Yr. Median

Large Caps - S&P 500				Mid Caps - MID				Small Caps - SML			
Sector	**Fwd PE**	**Median**	**Delta**	**Sector**	**Fwd PE**	**Median**	**Delta**	**Sector**	**Fwd PE**	**Median**	**Delta**
Comm	17.8	16.1	10%	Comm	16.5	18.5	-11%	Comm	31.5	21.3	48%
Discretionary	23.9	27.1	-12%	Discretionary	15.0	10.7	41%	Discretionary	14.2	7.8	82%
Energy	13.6	8.1	67%	Energy	11.8	7.1	66%	Energy	12.7	6.2	104%
Financials	15.3	12.2	26%	Financials	10.3	9.6	8%	Financials	10.6	10.9	-3%
Health Care	18.4	16.3	13%	Health Care	23.0	22.9	1%	Health Care	22.1	36.0	-39%
Industrials	24.8	17.5	41%	Industrials	20.4	14.7	39%	Industrials	19.3	12.3	57%
Materials	17.2	13.6	26%	Materials	14.0	8.5	64%	Materials	12.7	11.0	15%
Real Estate	18.6	19.1	-2%	Real Estate	14.9	13.0	14%	Real Estate	13.0	11.5	13%
Staples	22.0	21.1	4%	Staples	15.0	16.7	-10%	Staples	15.3	18.2	-16%
Tech	21.7	22.4	-3%	Tech	22.7	16.8	35%	Tech	22.8	15.7	45%
Utilities	17.5	20.4	-14%	Utilities	15.7	18.1	-13%	Utilities	19.8	24.2	-18%
S&P 500	19.6	17.5	12%	S&P 500	16.0	12.5	28%	S&P 500	15.3	12.2	25%

Source: FactSet, Morgan Stanley Research as of July 31, 2026.

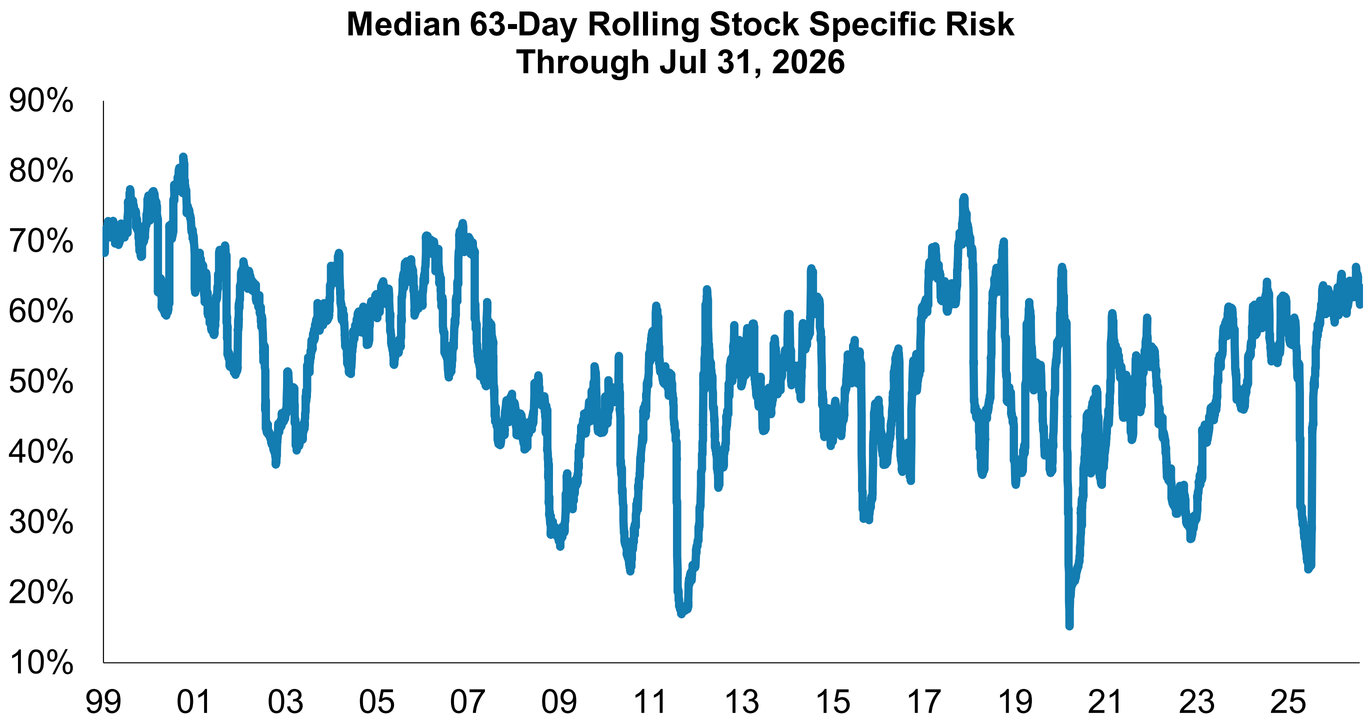
Valuation by Size and Sector – Current FWD P/Sales vs 4 Yr. Median

Large Caps - S&P 500				Mid Caps - MID				Small Caps - SML			
Sector	Fwd PS	Median	Delta	Sector	Fwd PS	Median	Delta	Sector	Fwd PS	Median	Delta
Comm	4.2	3.4	24%	Comm	2.0	1.9	6%	Comm	1.5	0.9	76%
Discretionary	2.6	2.2	20%	Discretionary	0.8	0.8	0%	Discretionary	0.7	0.6	17%
Energy	1.4	1.3	10%	Energy	1.3	1.0	26%	Energy	0.8	0.5	47%
Financials	3.2	2.9	11%	Financials	1.9	1.8	4%	Financials	2.0	1.9	2%
Health Care	1.5	1.6	-6%	Health Care	2.8	2.3	23%	Health Care	1.4	1.4	-2%
Industrials	3.0	2.2	35%	Industrials	1.7	1.3	32%	Industrials	1.2	0.9	26%
Materials	2.2	2.1	5%	Materials	1.2	1.0	22%	Materials	1.0	0.9	10%
Real Estate	6.1	6.2	-1%	Real Estate	3.8	3.6	6%	Real Estate	2.9	2.5	17%
Staples	1.5	1.5	5%	Staples	0.4	0.6	-23%	Staples	0.5	0.4	23%
Tech	7.8	7.3	8%	Tech	2.1	1.4	53%	Tech	2.2	1.5	48%
Utilities	2.7	2.6	7%	Utilities	2.5	1.8	36%	Utilities	2.2	2.5	-12%
S&P 500	3.3	2.7	21%	S&P 500	1.6	1.3	19%	S&P 500	1.2	1.0	24%

Source: FactSet, Morgan Stanley Research as of July 31, 2026.

Outline

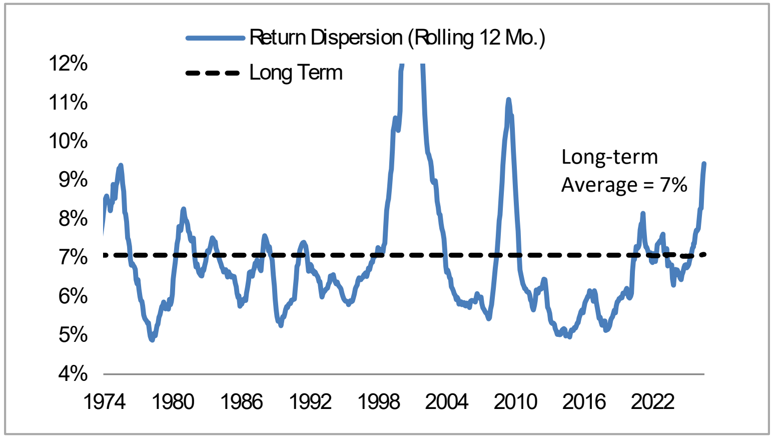
Stock Specific Risk Fell Sharply Post Liberation Day and Has Since Rebounded



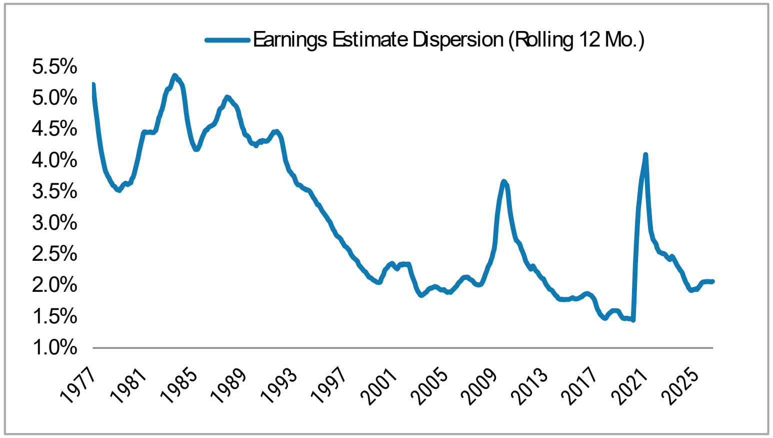
Source: Morgan Stanley Quantitative Equity Research Team.

Return Dispersion is on the Rise in 2026

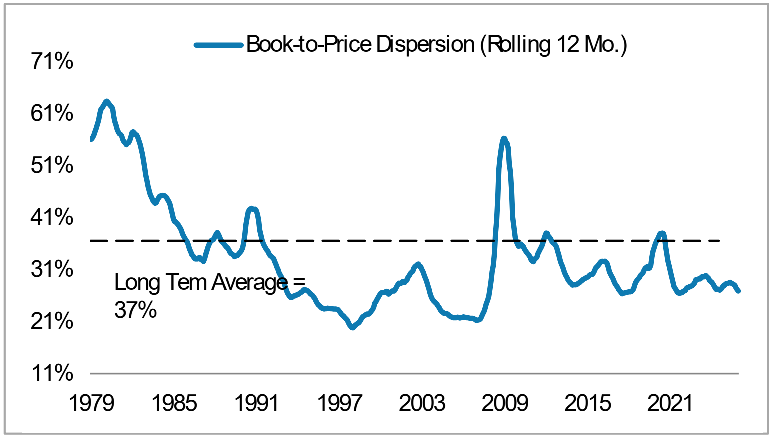
Return Dispersion Has Risen in 2026



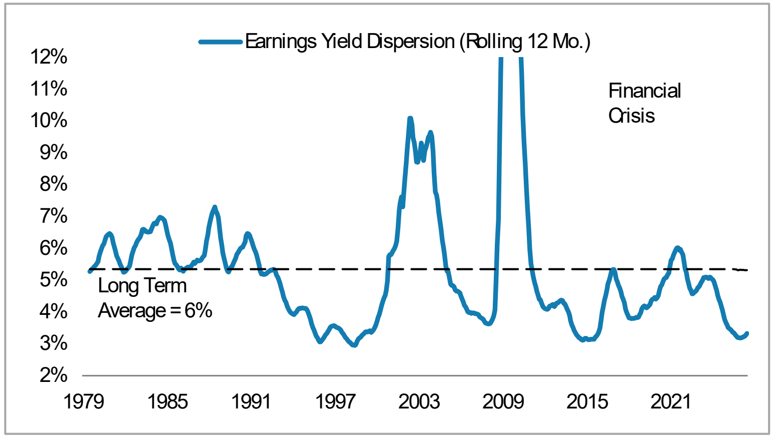
Estimate Dispersion Has Also Ticked Higher in 2026



Book-to-Price Dispersion Below Median



Earnings Yield Dispersion Falling as Valuations Rise



Source: Compustat, Morgan Stanley Quantitative Equity Research Team, Top 500 Stocks. Standard Deviation used. All charts as of July 31, 2026.

Market Cap and Equal Weighted Indexes Show Differing Pictures

Cap Weight vs Equal Weight 12-Month Total Return

S&P 500 12-Month Total Return

Cap Weight		Equal Weight	
Energy	41%	Information Technology	96%
Health Care	27%	Energy	44%
Information Technology	26%	S&P 500	27%
Industrials	20%	Health Care	25%
S&P 500	20%	Materials	22%
Communication Services	19%	Industrials	17%
Materials	15%	Real Estate	12%
Real Estate	14%	Financials	12%
Financials	10%	Utilities	9%
Consumer Staples	10%	Consumer Discretionary	6%
Consumer Discretionary	8%	Consumer Staples	5%
Utilities	6%	Communication Services	4%

Cap Weight vs Equal Weight Performance YTD

S&P 500 Total Return YTD

Cap Weight		Equal Weight	
Industrials	20%	Information Technology	54%
Information Technology	20%	Energy	25%
Energy	20%	Industrials	14%
Materials	12%	S&P 500	13%
Real Estate	12%	Materials	13%
S&P 500	10%	Real Estate	12%
Consumer Staples	8%	Utilities	10%
Utilities	8%	Health Care	5%
Health Care	3%	Consumer Staples	5%
Communication Services	1%	Financials	0%
Consumer Discretionary	-1%	Consumer Discretionary	-1%
Financials	-1%	Communication Services	-9%

Source: Bloomberg, FactSet, Morgan Stanley Research; As of July 31, 2026.

Outline

Our Sector Recommendations

Our Sector Recommendations

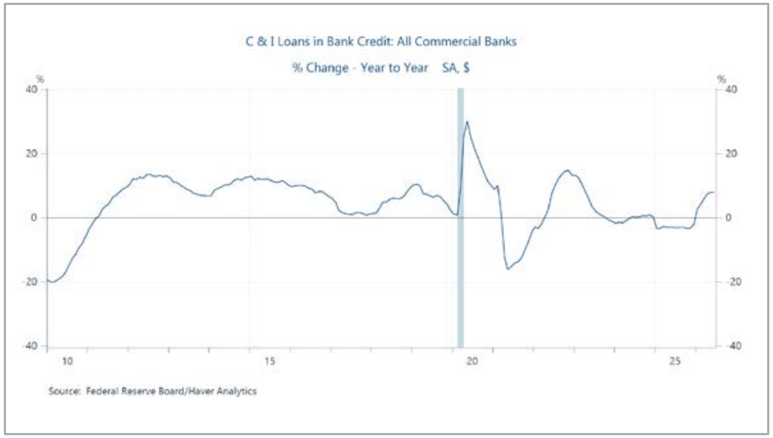
Morgan Stanley Sector Recommendations			
Overweight	Financials	Industrials	Consumer Discretionary Goods
Equal Weight	Tech	Comm. Services	Health Care
	Materials	Utilities	Consumer Services
	Energy		
Underweight	Staples	Real Estate	

Source: Bloomberg, Morgan Stanley Research.

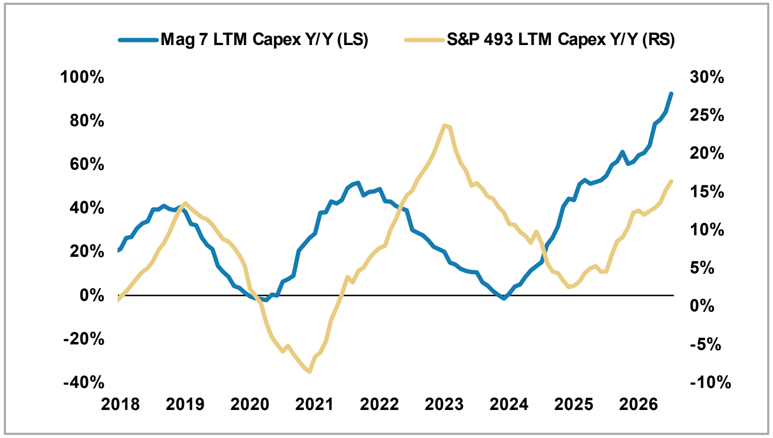
Overweight: Industrials

- Earnings revisions and macro indicators for Capital Goods and Transports have inflected higher, despite geopolitical and tariff-related risks.
- Manufacturing data remain supportive: new orders rising, inventories benign, ISM resilient, and backlogs meaningfully improving.
- Freight spend growth, improving C&I loans, and stabilizing short-cycle revenues signal a healthier industrial demand backdrop.
- Capex growth is accelerating, driven by earnings recovery, fiscal tailwinds, data-center buildout, and reshoring dynamics.

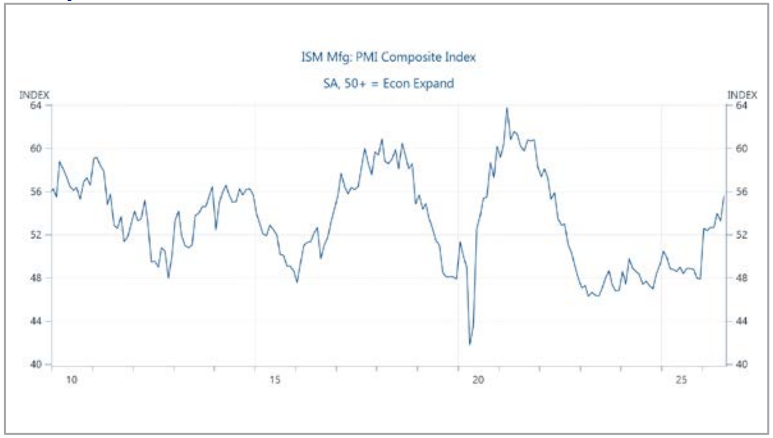
Industrial Loan Growth on the Rise



Capex Growth Picking Up for Both the Mag 7 and S&P 493



ISM Manufacturing PMI Has Held Up Well Despite the Geopolitical Risks

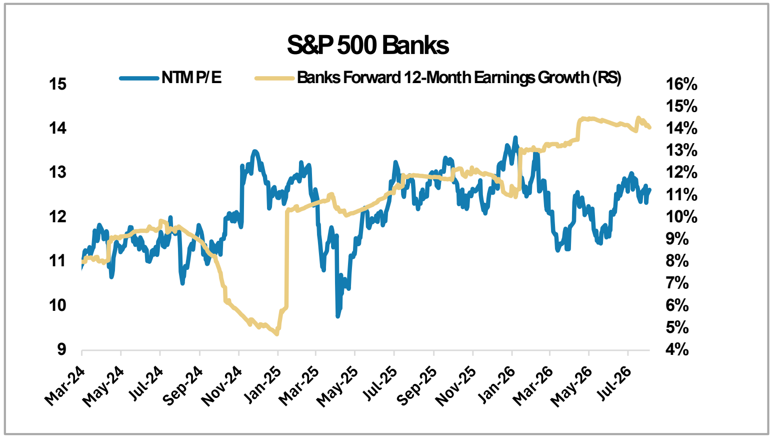


Source: Morgan Stanley Research. As of: July 31, 2026.

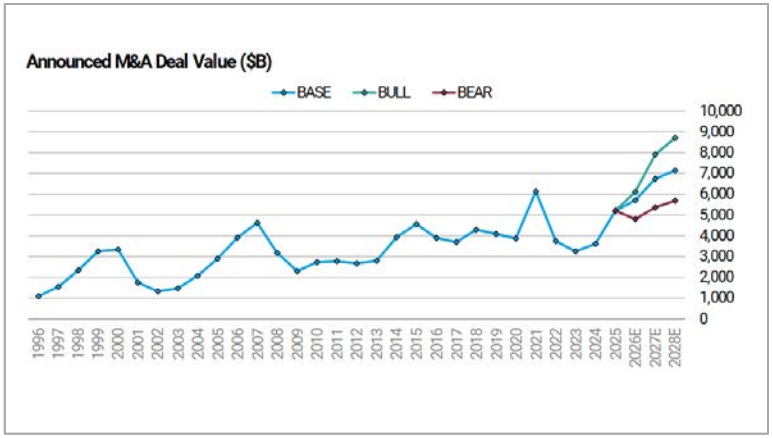
Overweight: Financials

- Banks hold a significant amount of excess capital and our MS Banks team models this to expand with Basell III Endgame and GSIB surcharge revisions.
- Forward earnings growth is improving (14%), valuations remain attractive (12x), and earnings revisions breadth has turned positive.
- Loan growth and SLOOS signal upside momentum, especially for mid-size and regional banks; M&A activity is set to recover.
- Positioning is extremely light, leaving the excess-capital and earnings-upside narrative largely out of consensus.

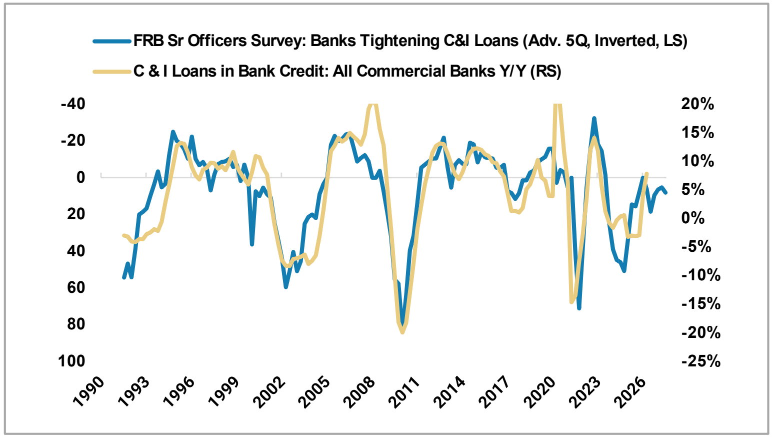
Banks Earnings Expectations Continue to Rise As Valuation Looks More Attractive



We See a Sustained M&A Rebound Ahead



Senior Loan Officer Survey Points to C&I Loan Growth in 2026

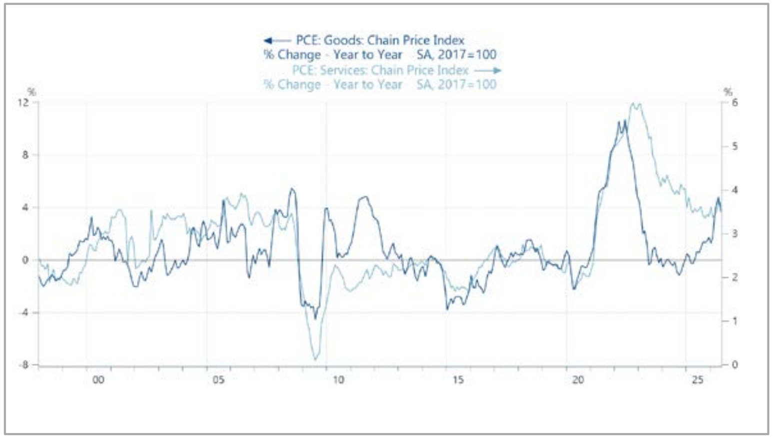


Source: Morgan Stanley Research. As of: July 31, 2026.

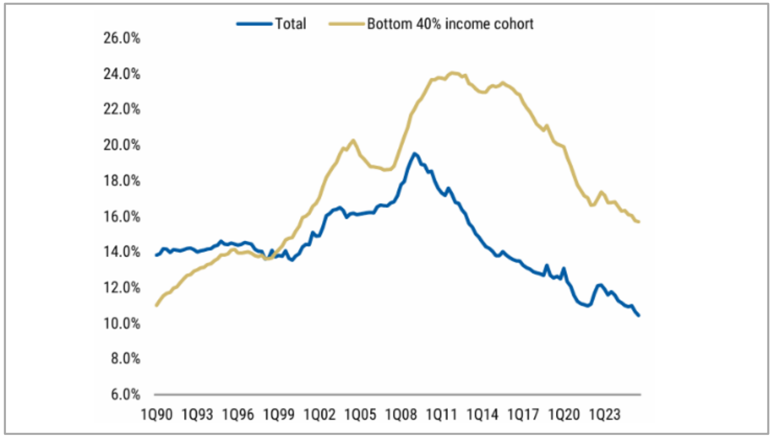
Overweight: Consumer Discretionary Goods

- U.S. consumer remains resilient despite higher gas prices, supported by high-income spending share and ~$65B real income tailwind from the OBBBA.
- Household balance sheets continue improving; labor market is stable, and aggregate consumer earnings expectations are up since Iran conflict.
- Consumer Staples are more sensitive to energy prices; we prefer Discretionary as earnings revisions breadth re-accelerates.
- Discretionary Goods benefit from services-to-goods wallet shift, improving pricing, and technical support at long-term relative levels.

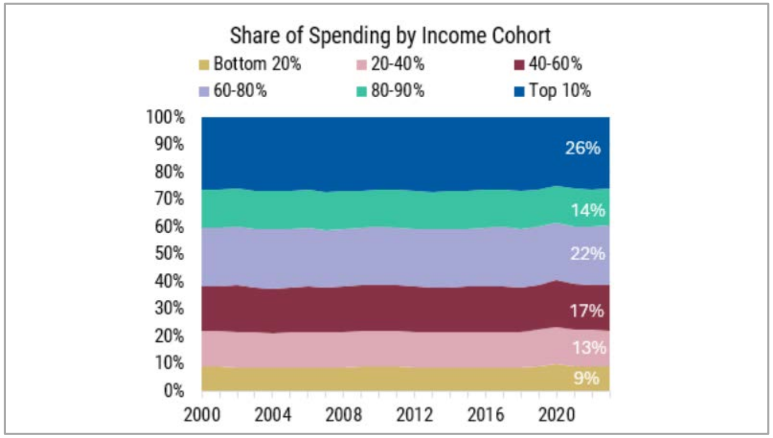
Consumer Goods Pricing Is Improving While Consumer Services Pricing Is Decelerating



Household Liabilities As A Share of Household Assets Continue to Fall



Higher Income Consumer Drives Large Share of Personal Consumption

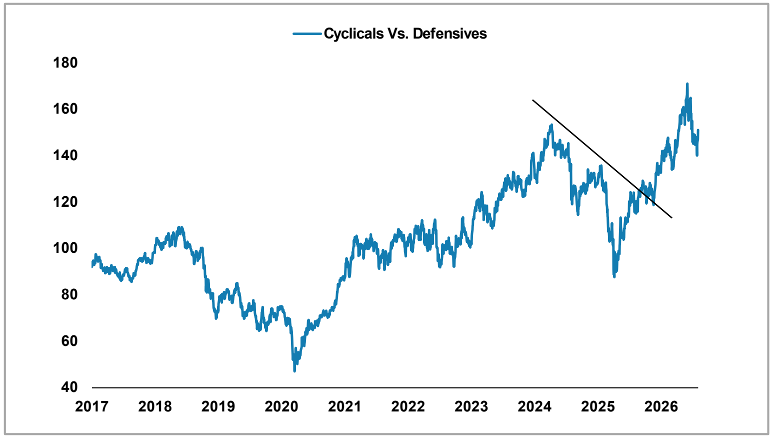


Source: Morgan Stanley Research. As of: July 31, 2026

Underweight: Consumer Staples & Real Estate

- We are underweight Consumer Staples and Real Estate on the back of our view that the rolling recession ended on Liberation Day and that we have begun a new rolling recovery. These sectors are likely to lag on a relative basis, in our view.
- We have a preference for Cyclicals over Defensives in 2026 as we believe strong operating leverage will drive market broadening.
- Consumer Staples face headwinds from tariffs, commodity costs, low immigration, and a weakening low-income consumer. Utilities are highly bifurcated between AI-plays and more traditional energy providers.

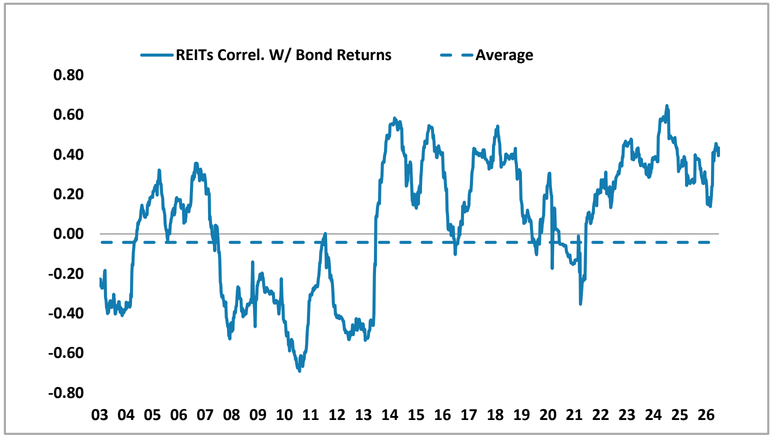
Cyclical/Defensive Ratio is Signaling an Improving Backdrop



Staples are More Sensitive to Higher Gas Prices than Discretionary

Correlation: Relative Sector Returns Vs. Change in Crude	
Energy	0.58
Information Technology	0.19
Materials	0.19
Communication Services	0.03
Real Estate	-0.09
Industrials	-0.11
Consumer Discretionary	-0.14
Health Care	-0.17
Financials	-0.31
Utilities	-0.32
Consumer Staples	-0.36

Real Estate Has Held a High Correlation with Rate Moves in Recent Years



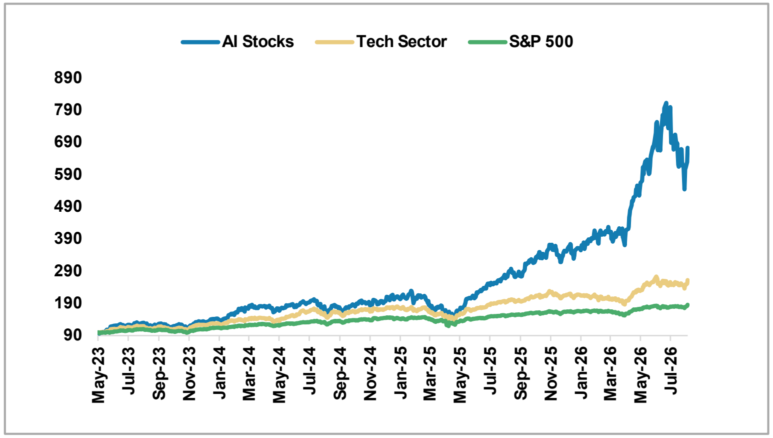
Source: Morgan Stanley Research. As of: July 31, 2026.

Equal Weights

Technology

- AI-exposed stocks continue to outperform the broader index as continued capex spend fuels an ongoing investment cycle.
- Our CIO survey data is expecting a pickup in Tech spending in 2026 across all pockets.
- The Tech sector is highly levered to labor productivity gains as AI implementation diffuses across the economy.
- We see the hyperscalers as an attractive relative value trade given their strong forward earnings growth at undemanding valuation levels.

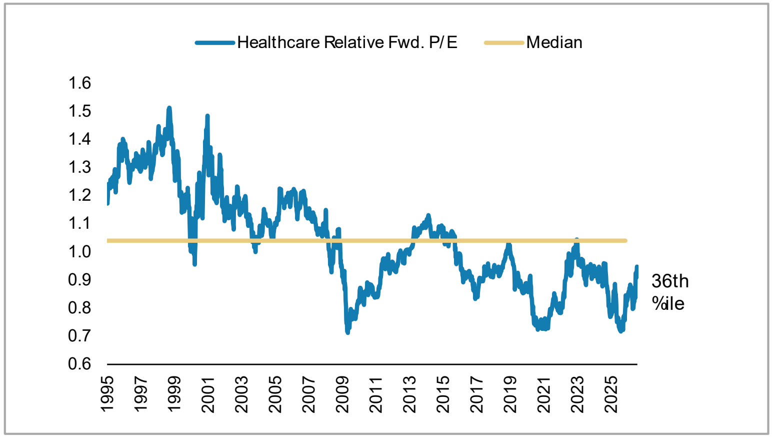
AI Stocks Continue to Outperform



Healthcare

- Healthcare valuations continue to look cheap on a relative basis and sit within the bottom quintile historically.
- Policy overhangs have reduced which is increasingly reflected in prices (clearer CMS pricing guidance, on-time PDUFAs, and tariff/MFN dynamics). This has brought generalists back into the Healthcare trade from our conversations.

Healthcare Valuations are Historically Low



Source: Morgan Stanley Research. As of: July 31, 2026

Equal Weights

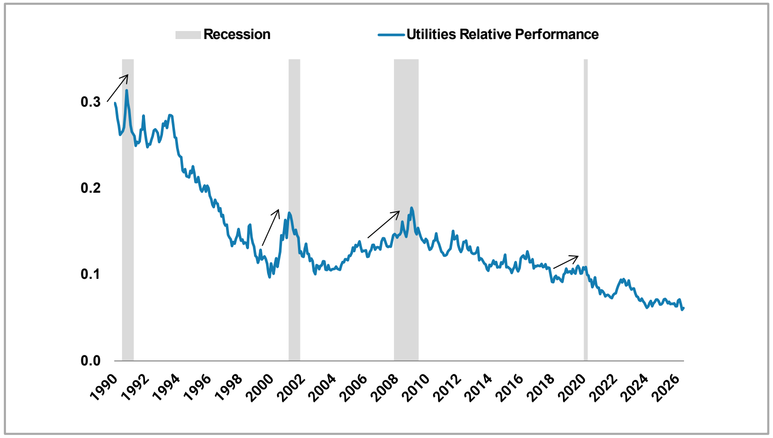
Utilities

- Utilities are beneficiaries of the GenAI theme and can benefit from increased interest and focus on Energy capacity.
- Reliable energy sources are increasingly important and the post Covid era has sparked traditional capex spending. Utilities with exposure to both traditional and clean energy ventures are set to benefit and reinvestment could provide further support for the sector.
- Ultimately, we prefer cyclical over defensive exposures in what we believe is an early-to-mid cycle environment.

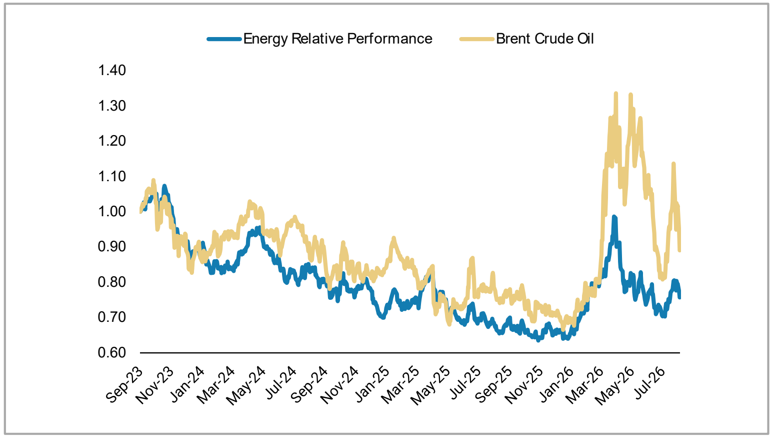
Energy

- Energy equities outperformed the index through early March but have lagged on a relative basis as investors moved past peak uncertainty.
- Geopolitical uncertainty is still high in absolute terms and energy equities could outperform if tensions reignite.
- FCF margin for the space remains well above its historical average, net debt to EBITDA remains below its long-term run rate and HF net exposure appears under-owned.

Utilities are a Late Cycle Outperformer



Energy Stocks Trade Cheap to the Price of Oil



Source: Morgan Stanley Research. As of: July 31, 2026

Equal Weights

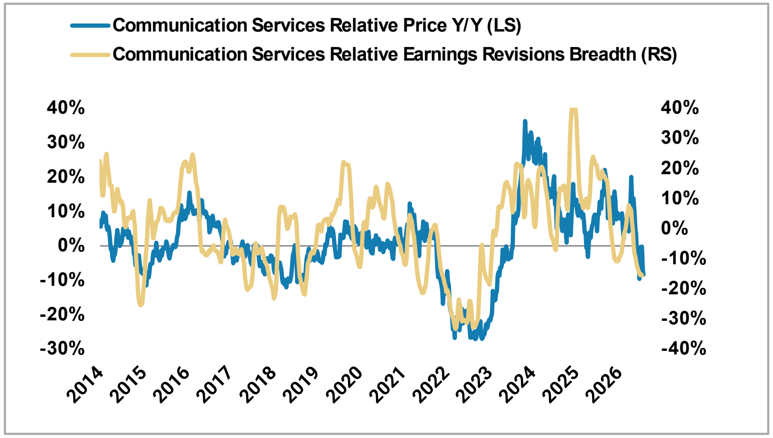
Communication Services

- Technology spend and media advertising are both cyclical metrics and winners may be idiosyncratic ahead.
- A few names take up a large share of the sector and continue to crowd out smaller, incumbent names.
- Cap-weighted Comm. Services has performed well given the high concentration in megacap stocks. We are watching the equal weighted performance as broader sign.

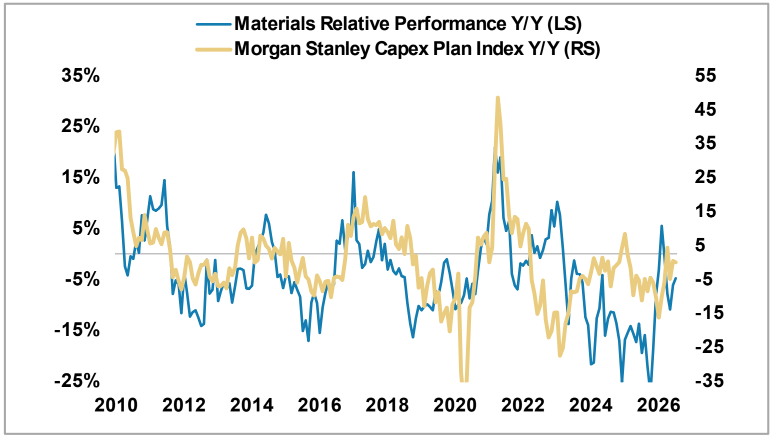
Materials

- Materials are a cyclical sector but are highly sensitive to global growth. The sector is highly dependent on commodity pricing which may not recover in-line with the expected US recovery.
- Increased capex remains a catalyst for materials and the sector could benefit from the start of a new capex cycle.

Communication Services Revisions Breadth Rebounding

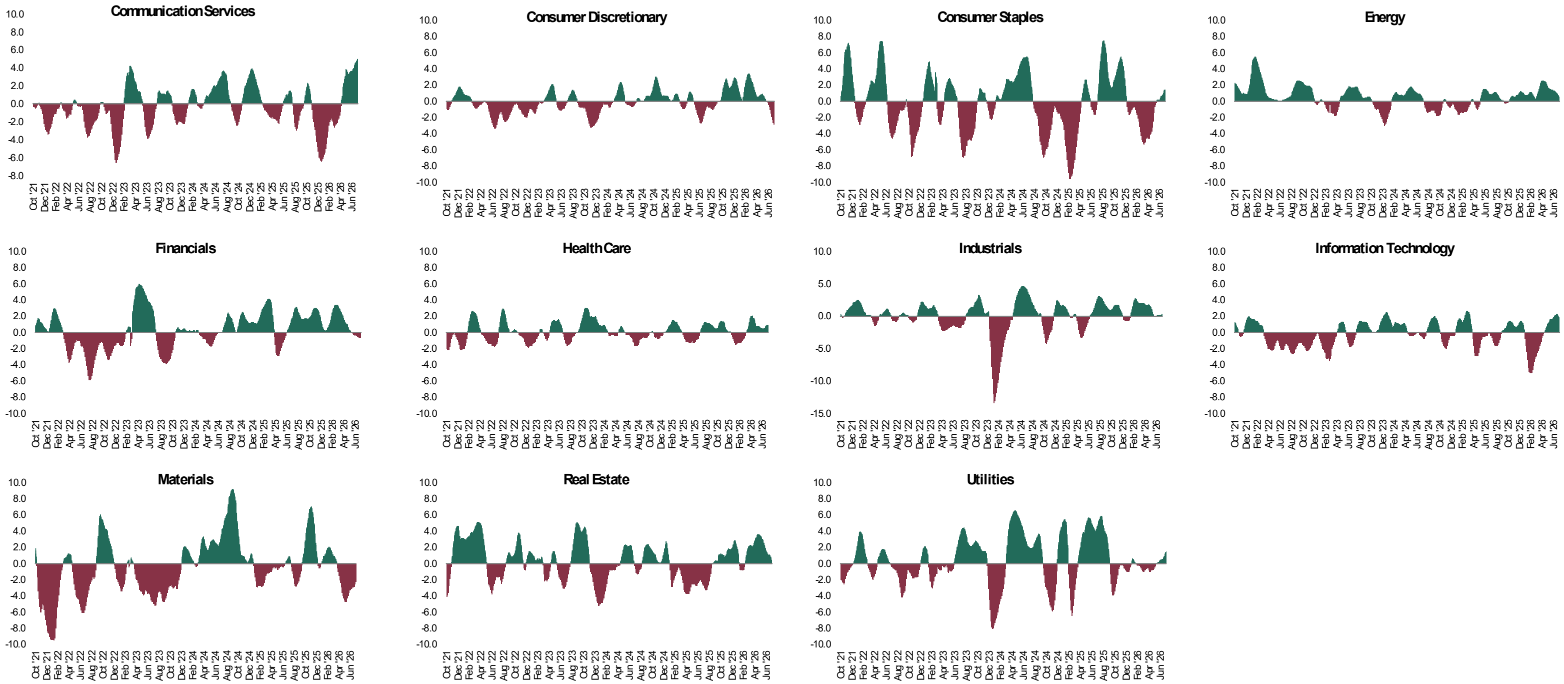


Rising Capex is Historically Positive for Materials but GenAI is Causing a Shift in the Type of Capex Spend



Source: Morgan Stanley Research. As of: July 31, 2026.

Morgan Stanley Sector Analyst Sentiment Tracker

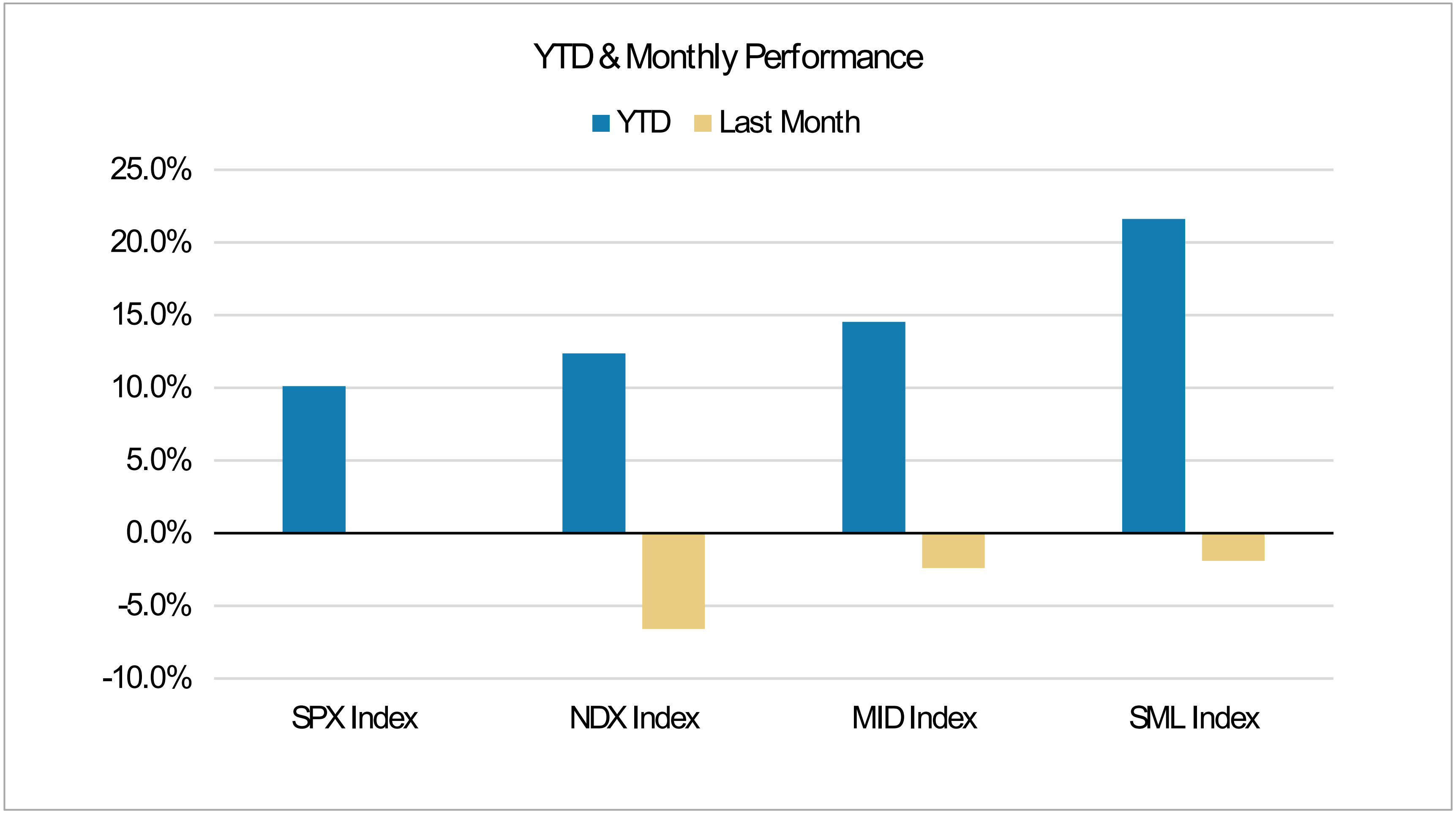


MS Sector Analyst Sentiment Tracker: Our tool captures momentum in analyst sentiment at the sector level, using our proprietary natural language processing model. The tracker is an effective predictor of month-ahead sector performance, and we show how it can add alpha to stock portfolios. For the methodology and full report, see here.

Source: Morgan Stanley Quantitative Equity Research Team.

Outline

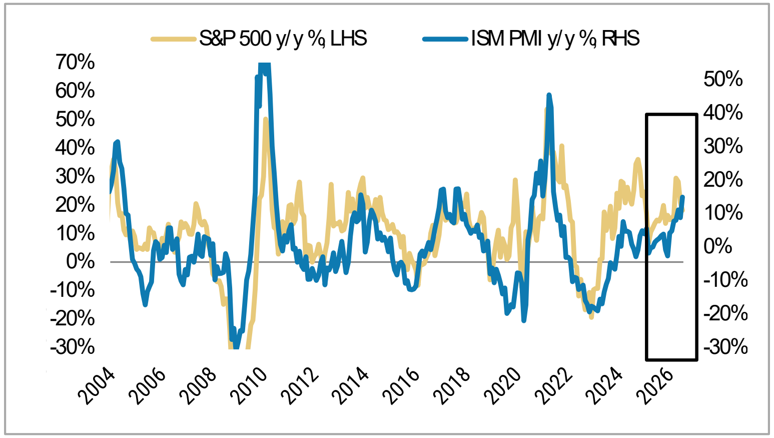
Tech Saw a Pullback in July



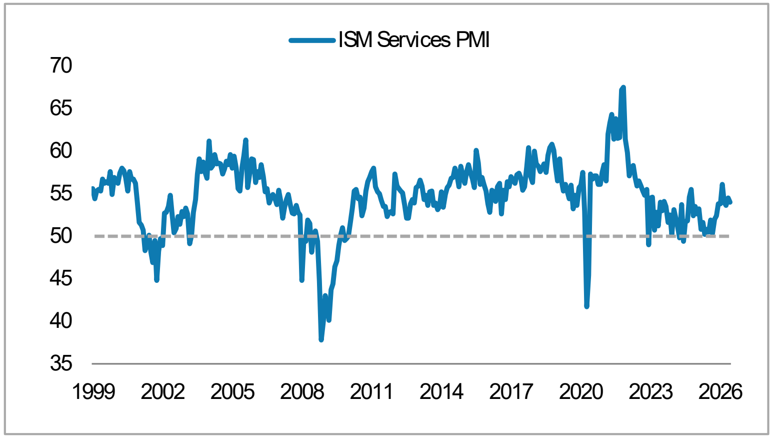
Source: Bloomberg, Morgan Stanley Research; As of July 31, 2026

US PMI Snapshot

PMI vs S&P 500

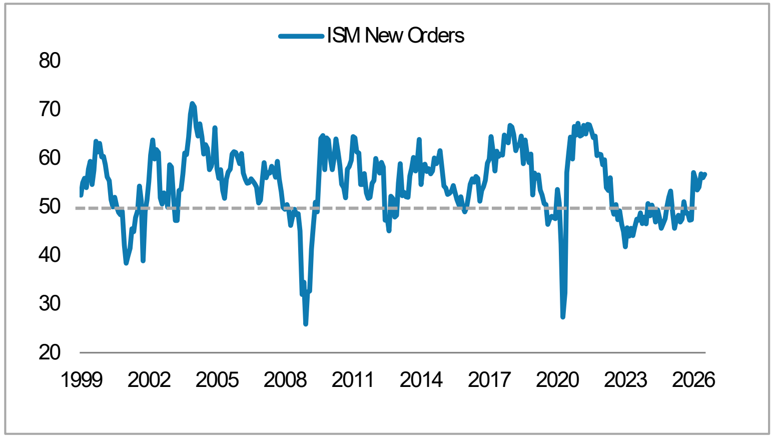


ISM Services PMI



ISM Manufacturing PMI

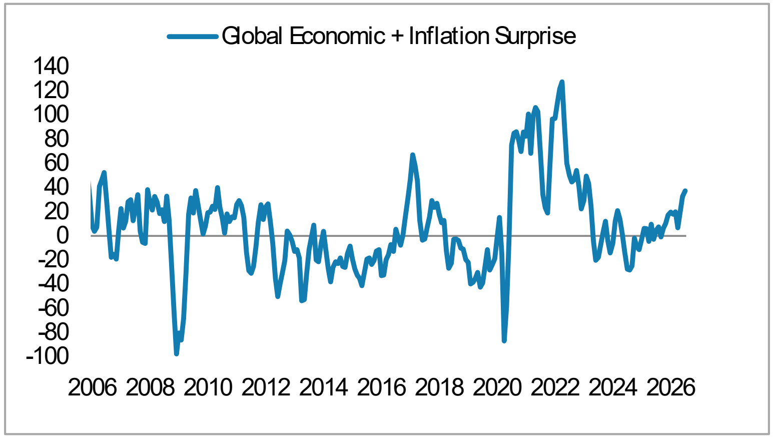
ISM Manufacturing PMI – New Orders



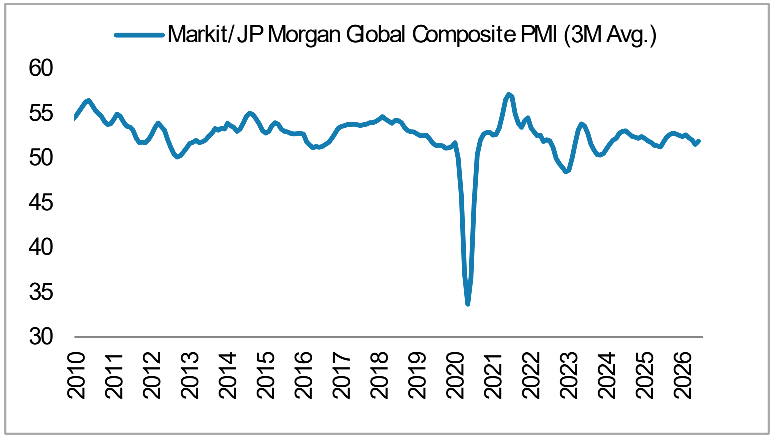
Source: Bloomberg, Morgan Stanley Research; As of July 31, 2026

Global Macro Backdrop

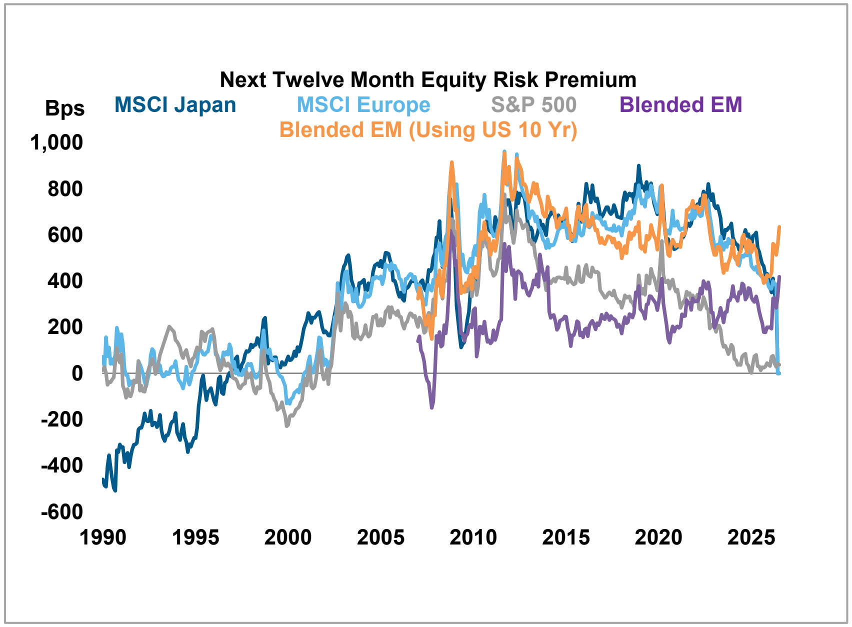
G10 Economic + Inflation Surprise



Global Composite PMI's Are Back to Modest Expansion



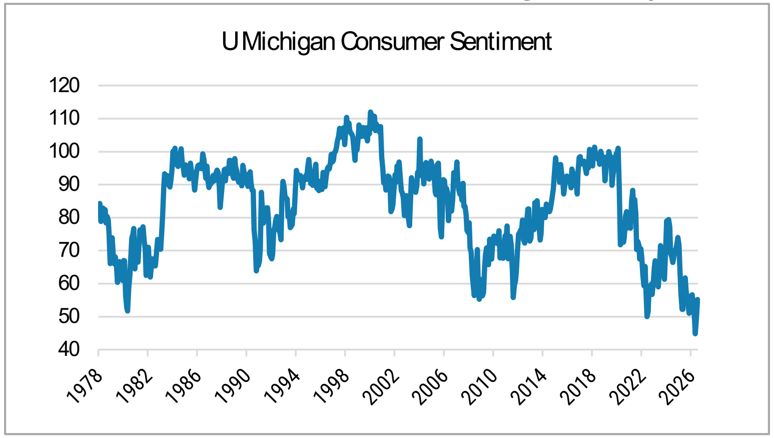
Global Equity Risk Premiums



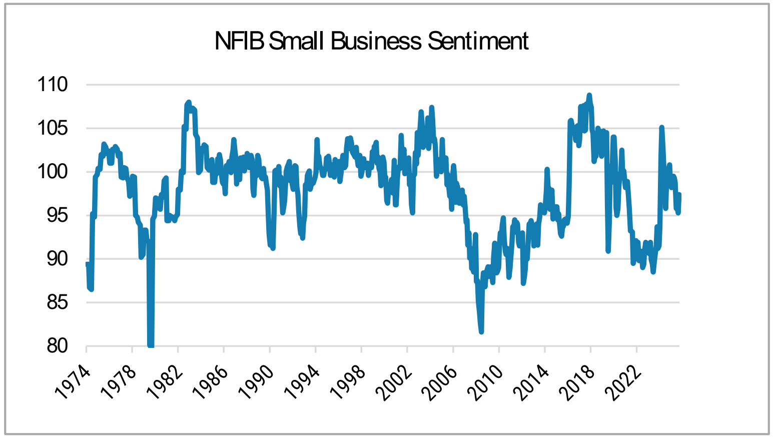
Source: Citi (economic surprise), Bloomberg, Haver Analytics, Morgan Stanley Research. Left as of July 31, 2026. Right as of July 31, 2026.
Note: Blended EM ERP is average ERP of India, China, Brazil, Korea

Sentiment Snapshot

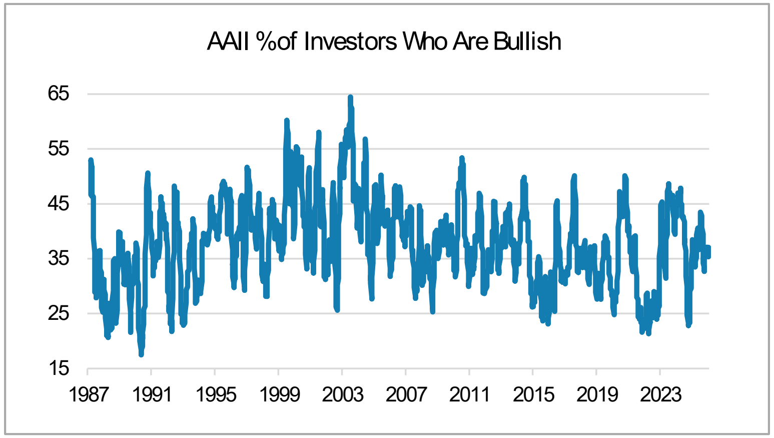
US Consumer Sentiment: Univ. of Michigan Survey



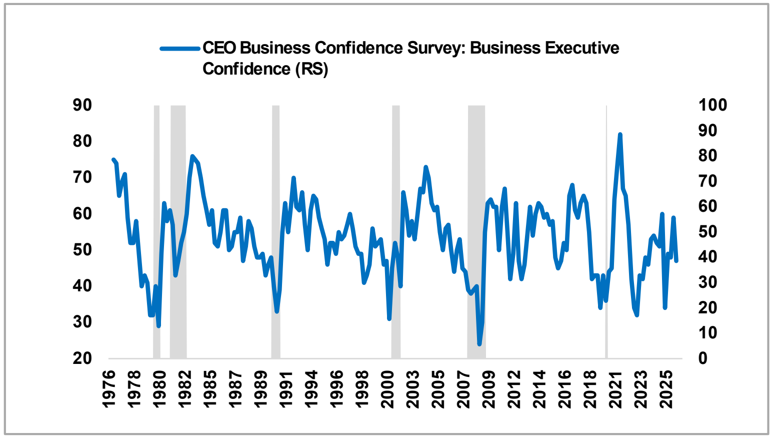
Small Business Sentiment: NFIB Survey



Investor Sentiment: AAII Bulls Survey



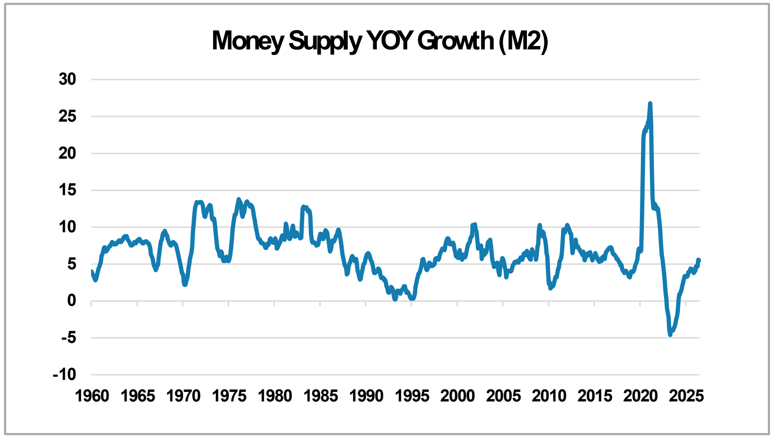
Corporate Sentiment: CEO Business Confidence Survey



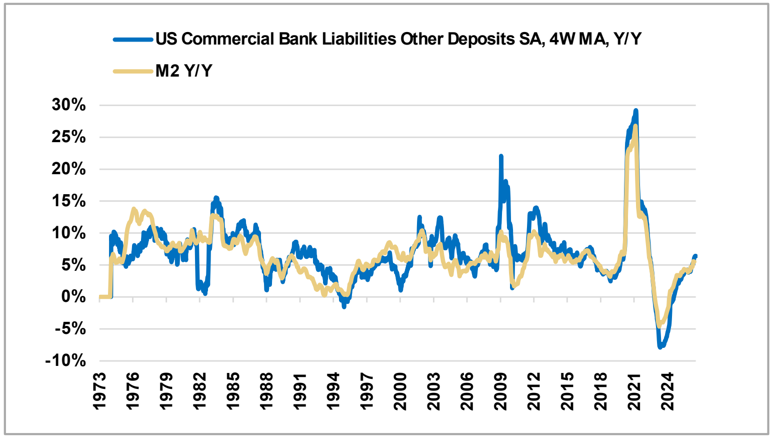
Source: Bloomberg, Morgan Stanley Research; Top: L: As of July 31, 2026 R: As of June 30, 2026, Bottom L: As of: July 31, 2026, Bottom R: Quarterly as of June 30, 2026

Liquidity Is Important to Watch in 2026

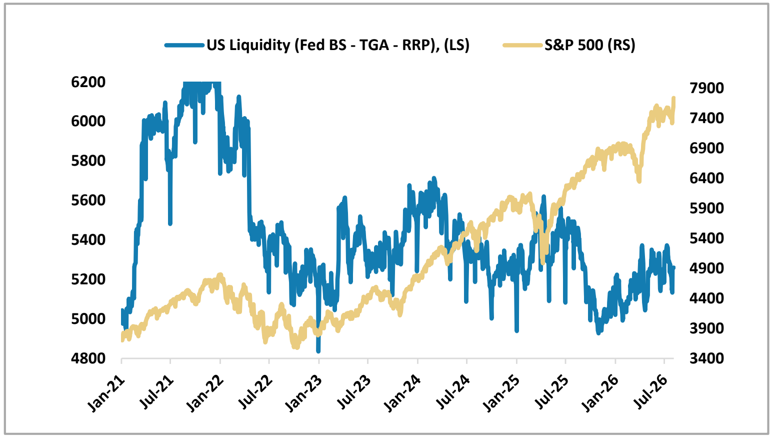
M2 Money Supply



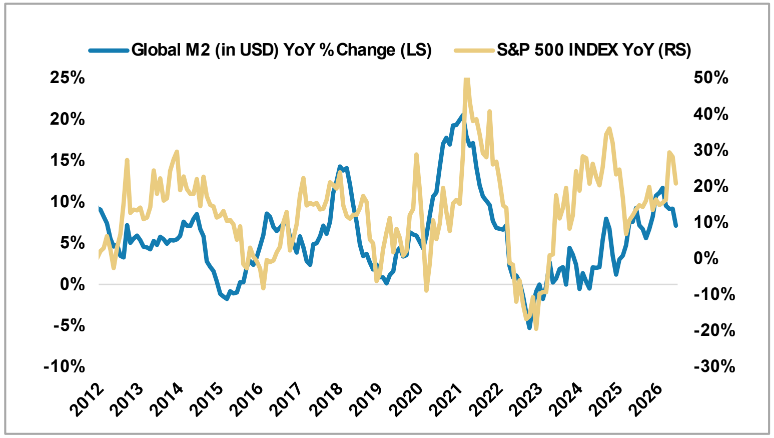
M2 vs Commercial Bank Liabilities: Other Deposits



US Liquidity vs S&P 500



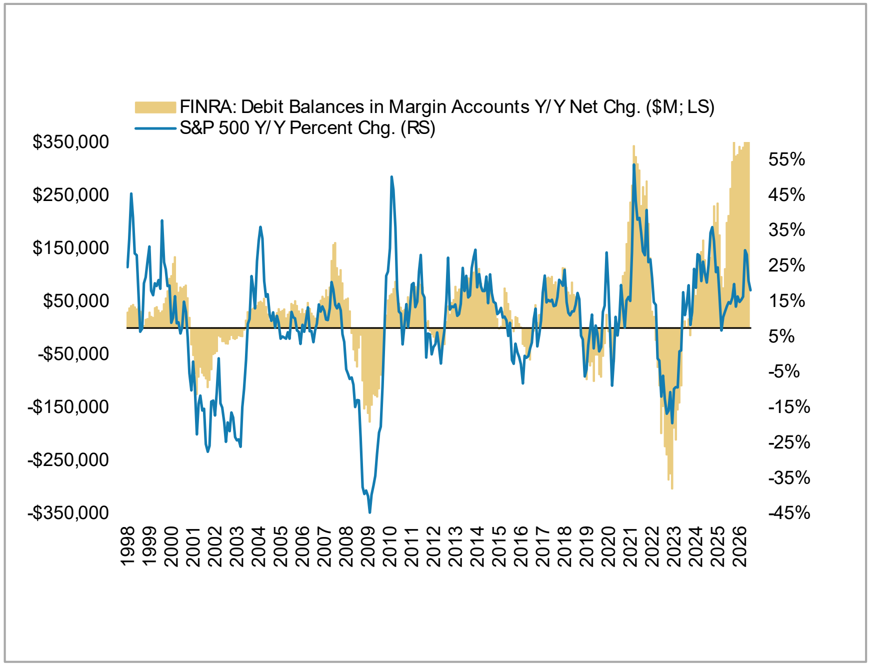
Global M2 vs S&P 500



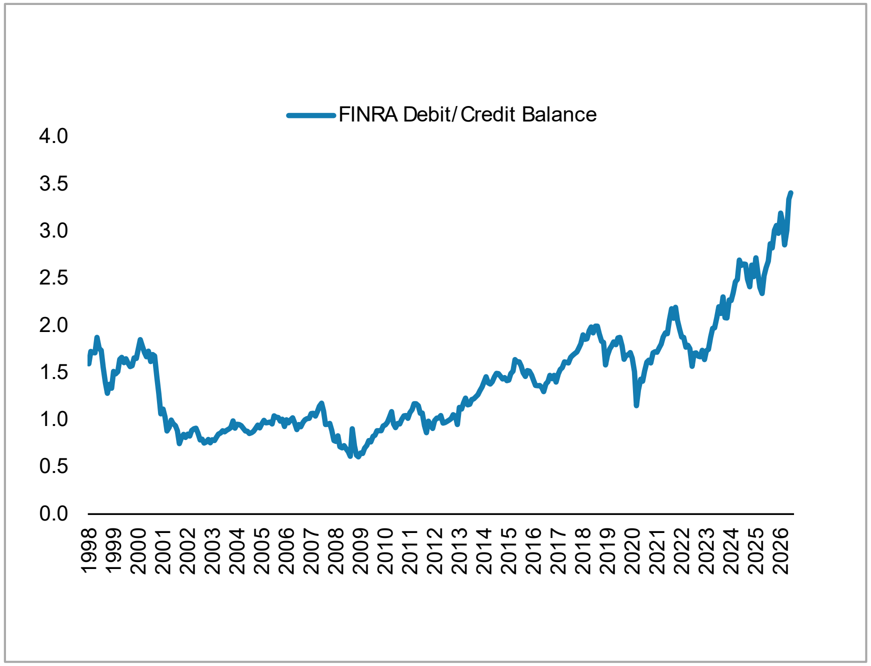
Source: Bloomberg, Morgan Stanley Research; As of July 31, 2026

Investor Leverage Snapshot

FINRA Margin Debt



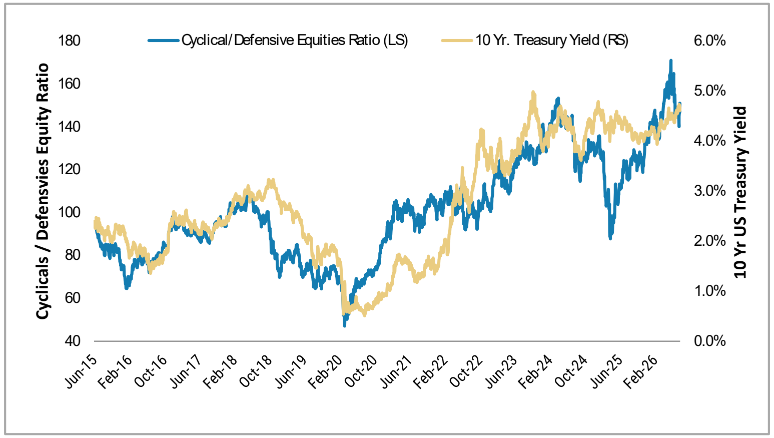
FINRA Debit/Credit Balance



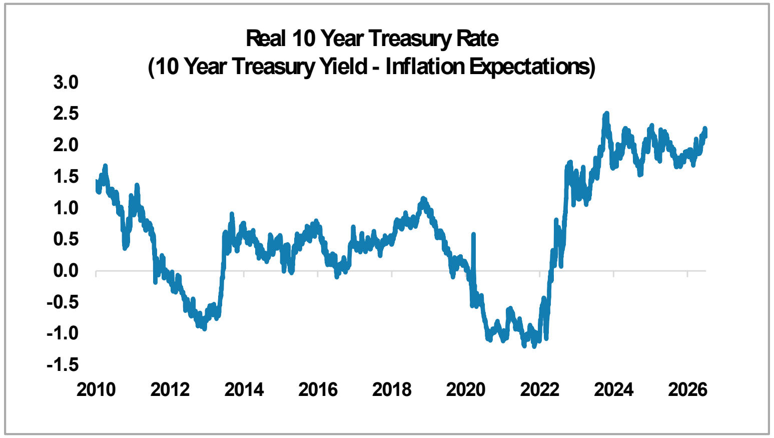
Source: Bloomberg, FactSet, Haver, Morgan Stanley Research; FINRA data As of May 30, 2026 (data lag). S&P data as of June 30, 2026.

US Rates Snapshot

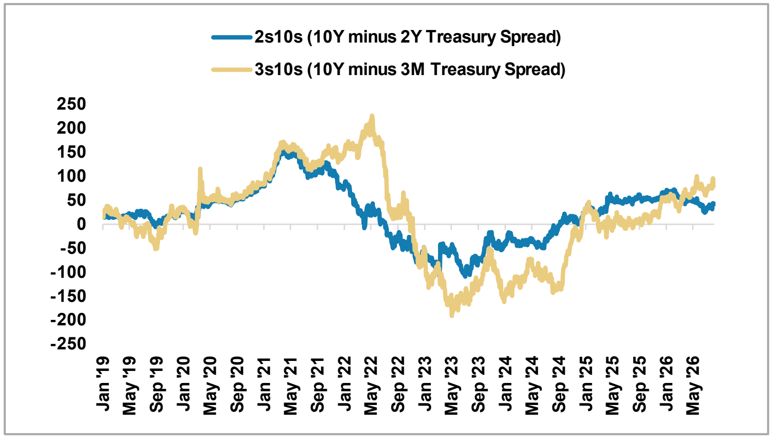
Cyclical/Defensive Performance Is Correlated to Rates



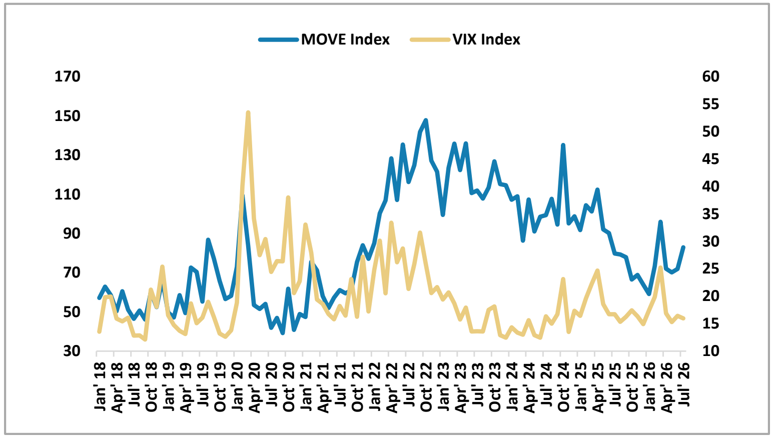
Real Rates Are Elevated



Potential Fed Hikes Flatten the 2s10s Curve



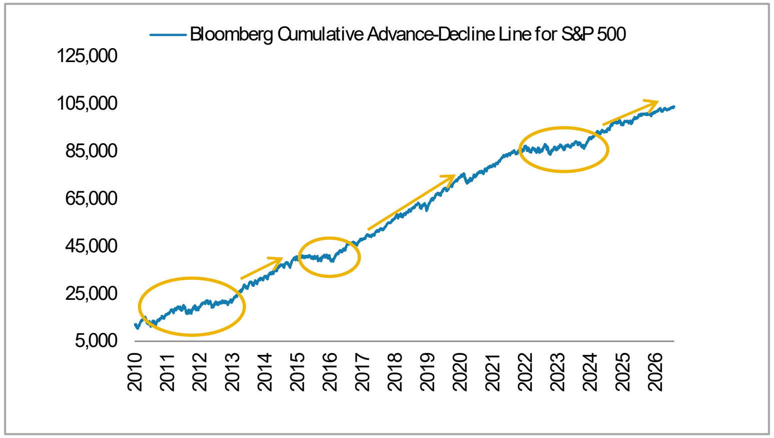
Rate Volatility is Trending Lower but Spiked in February



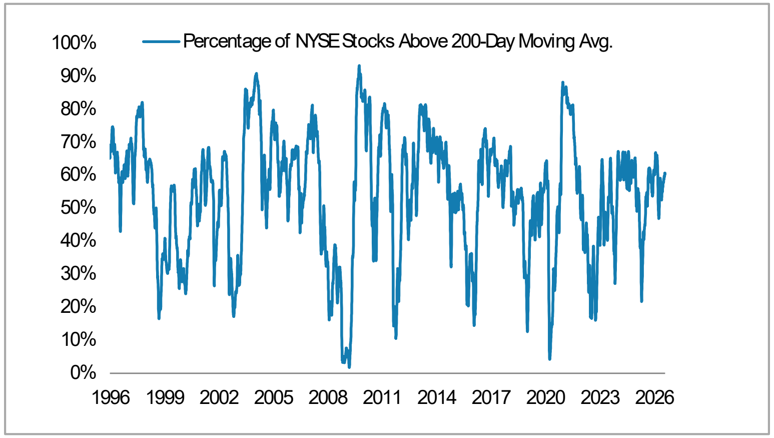
Source: Bloomberg, Morgan Stanley Research. All as of July 31, 2026

US Equity Market Technicals and Financial Conditions

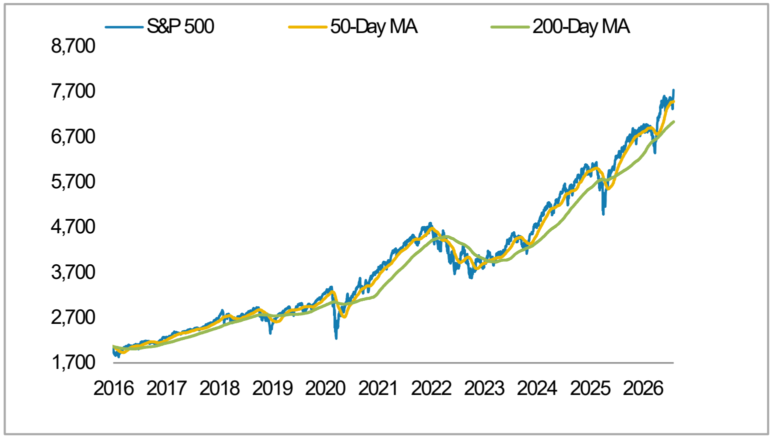
S&P 500 Cumulative Advance Decline



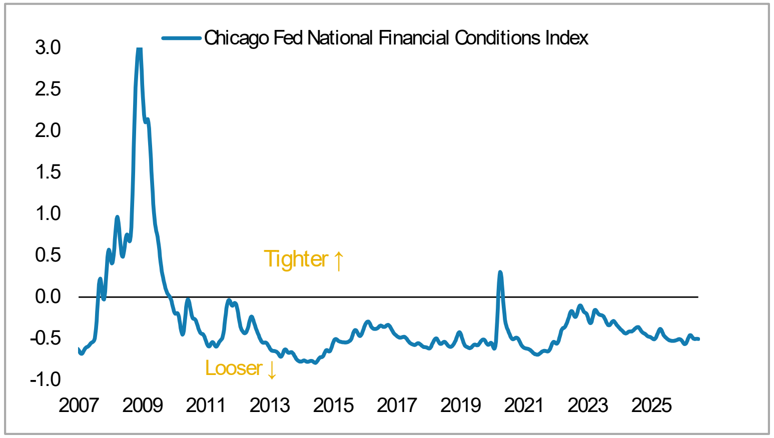
S&P 500 Percent Members Above 200-Day Moving Average



S&P 500 with Moving Averages



Chicago Fed National Financial Conditions Index



Source: Bloomberg, Morgan Stanley Research. All as of July 31, 2026

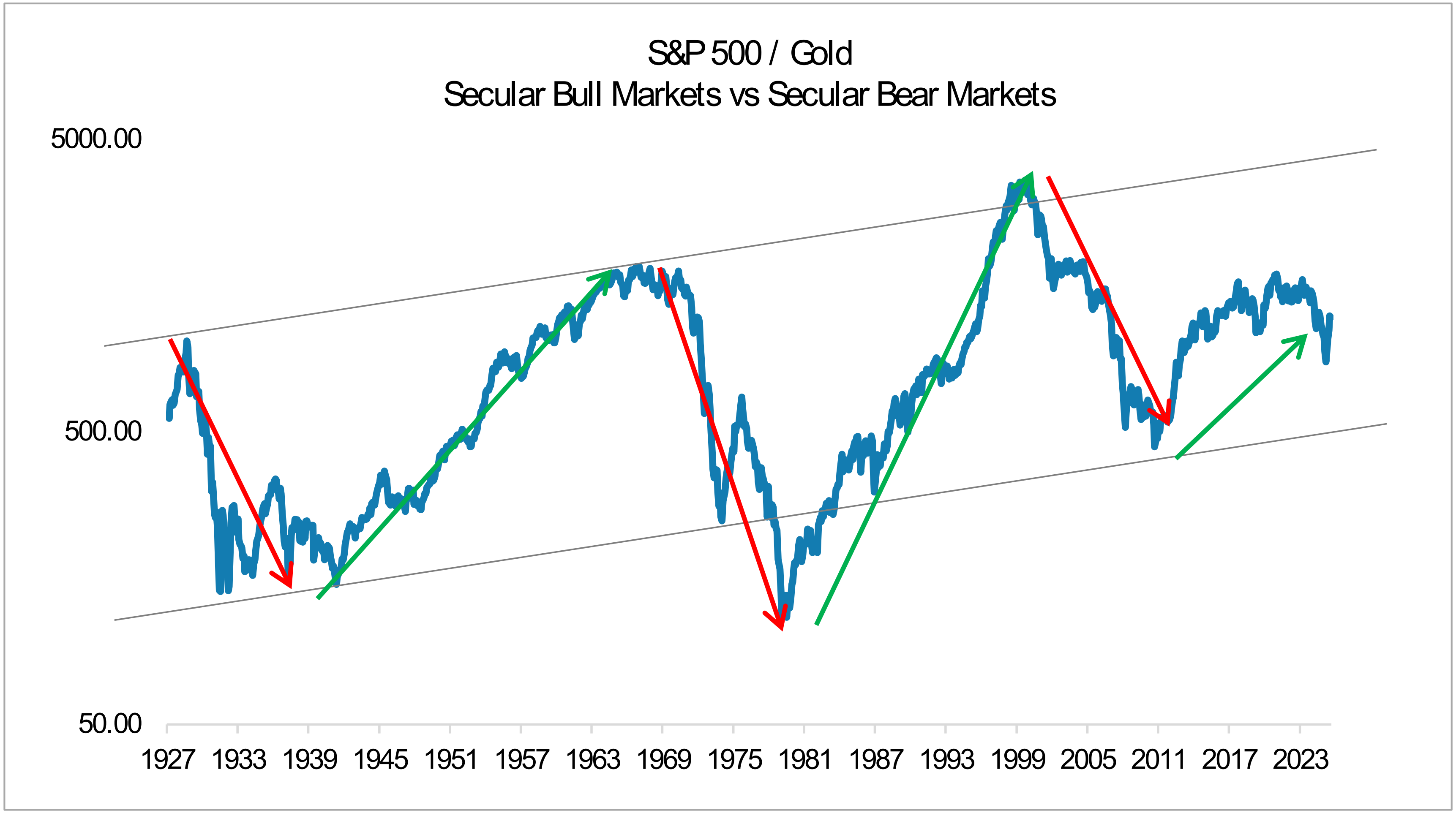
Morgan Stanley Cross Asset Forecasts

	As of Jul 31, 2026	Q2 2027 Forecast Bear	Q2 2027 Forecast Base	Q2 2027 Forecast Bull	Q2 2027 Return Forecast Bear	Q2 2027 Return Forecast Base	Q2 2027 Return Forecast Bull	Volatility	Base Case Return/Risk
Equities						Total Returns			
S&P 500	7,490	5,900	8,300	9,400	-20.1%	11.9%	26.6%	18%	0.65
MSCI Europe	2,582	1,820	2,810	3,080	-26.7%	11.7%	22.1%	15%	0.80
Topix	4,003	2,600	4,300	4,900	-33.1%	9.4%	24.4%	18%	0.51
MSCI EM	1,666	1,100	1,800	2,100	-31.8%	10.2%	28.2%	17%	0.61
FX						Total Returns			
JPY*	157	163	156	145	-6.9%	-2.2%	5.7%	9%	-0.24
EUR	1.15	1.00	1.16	1.30	-14.7%	-0.8%	11.3%	7%	-0.11
GBP	1.35	1.20	1.34	1.45	-11.0%	-0.6%	7.6%	9%	-0.07
AUD	0.70	0.68	0.73	0.76	-2.6%	4.5%	8.8%	10%	0.46
INR*	95.4	92.0	95.0	100.0	6.9%	3.1%	-1.7%	5%	0.65
ZAR*	16.5	15.0	16.3	18.7	13.2%	4.3%	-8.6%	15%	0.29
BRL*	5.07	4.40	4.90	5.40	23.3%	11.6%	2.0%	15%	0.77
MXN*	17.3	16.5	17.2	19.5	8.1%	3.7%	-8.0%	12%	0.30
Rates (% percent)						Total Returns			
UST 10yr	4.74	5.10	4.20	3.55	1.7%	8.9%	14.4%	7%	1.34
DBR 10yr	3.21	3.05	2.45	2.40	4.7%	9.6%	10.1%	6%	1.68
UKT 10yr	5.05	4.65	4.40	4.20	8.1%	10.2%	11.8%	7%	1.54
JGB 10yr	2.79	3.10	2.25	1.40	0.9%	7.8%	15.1%	3%	3.07
Credit (bps)						Excess Returns			
US IG	78	125	90	70	-2.0%	-0.1%	1.3%	3%	-0.02
US HY	279	425	275	230	-3.1%	1.8%	3.7%	5%	0.33
EUR IG	78	150	80	60	-2.5%	0.6%	1.5%	2%	0.36
EUR HY	273	500	300	225	-5.5%	0.8%	3.3%	4%	0.18
EM $ Sov	244	400	260	210	-7.6%	1.3%	4.4%	7%	0.18
Sec. Products (bps)						Excess Returns			
US Agency MBS	31	40	20	15	-0.3%	0.9%	1.2%	2%	0.50
US CMBS AAA	76	110	75	60	-2.7%	0.8%	2.3%	2%	0.51
US CMBS BBB-	455	750	470	390	-25.0%	2.7%	10.6%	3%	0.78
Commodities						Total Returns			
Brent	90	60	75	120	-21.4%	-1.7%	57.3%	39%	-0.04
Copper	13,836	10,670	13,000	16,248	-22.3%	-5.4%	18.2%	21%	-0.26
Gold	4,046	3,920	4,900	6,125	-6.8%	16.5%	45.7%	16%	1.03

Source: Bloomberg, MSCI, Morgan Stanley Research forecasts; Note: Returns are total returns, except for credit, where we forecast excess returns vs government bonds. Commodity returns are calculated relative to futures to account for carry. Volatility is 10y realized vol. All currency returns are shown as XXXUSD return. *Currency forecasts shown for USDXXX.

Source: Bloomberg, MSCI, Morgan Stanley Research. As of July 31, 2026.

S&P 500 Adjusted for Inflation – We Are in a Secular Bull Market



Source: Bloomberg, Morgan Stanley Equity Research; As of: July 31, 2026.

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