

October 19, 2026 04:01 AM GMT

US Equity Strategy | North America

Weekly Warm-up: Quality Breaks Out; What's Next?

Quality's breakout and widening advantage in earnings revisions reinforce our view that the mid-cycle transition has further to run. We highlight our updated quality + strong EPS revisions screen today. Warsh's framing of financial conditions could be key to the end of the broader correction.

- **Quality Is Breaking Out as our Mid-Cycle Transition Extends.** Our quality factor has reached a new 52-week high, gaining ~6% since mid-August, while the equal-weight S&P 500 has fallen nearly 4%. Leadership has been broad across quality measures, led by profitability, consistent with our view that earnings durability should matter more as the cycle progresses.
- **Earnings Revisions Support Further Quality Outperformance.** The spread in earnings revisions breadth between high and low quality has reached nearly 10%, the second-widest reading since 2010. Historically, quality has outperformed by an average of 7.5% over the following year at similar levels. Relative valuation for the factor remains near its historical median, reinforcing our preference for quality.
- **Financial Conditions Are Doing the Fed's work, in-line with Warsh's Preference.** Our composite of rates, the dollar and energy is at its tightest since 2022, with economically sensitive stocks down nearly 10% since the middle of August. We think some acknowledgement of this tightening by Warsh would be well received by rate-sensitive areas that have already de-rated notably. Conversely, an indifference to this tightening may invoke memories of Powell's 2018 "Auto-Pilot" remarks in reference to that tightening episode.
- **Where are we in the broader equity market correction?** Equity and other risk markets have been correcting for over 3 months. We were early to identify this correction as a migration from early cycle to mid cycle at the same time the AI trade was transitioning from enablers to adopters. Key observations include the poor breadth of the market and a very distinct and now obvious outperformance of the quality factor noted above. The finality of such corrections typically end with the high quality index catching down even as the factor itself holds up. This can happen quickly or more slowly. Be ready either way as this will likely mark the end of the correction, rather than something more ominous about the end of the business or capex /credit cycle.

MORGAN STANLEY & CO. LLC

Michael J Wilson

Equity Strategist

M.Wilson@morganstanley.com

+1 212 761-2532

Andrew B Pauker

Equity Strategist

Andrew.Pauker@morganstanley.com

+1 212 761-1330

Michelle M. Weaver, CFA

Equity Strategist

Michelle.M.Weaver@morganstanley.com

+1 212 296-5254

Diane Ding, Ph.D.

Quantitative Strategist

Qian.Ding@morganstanley.com

+1 212 761-6758

Nicholas Lentini, CFA

Equity Strategist

Nick.Lentini@morganstanley.com

+1 212 761-5863

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Quality Breaks Out; What's Next?

We have been arguing for several months that the market is moving from an early-cycle recovery led by lower-quality stocks into a more selective mid-cycle environment where earnings durability matters more. That transition is becoming clearer beneath the index. Earnings remain strong, but the rise in rates and the more hawkish policy path priced since Jackson Hole have compressed valuations across much of the market. As a result, the S&P 500 continues to look more resilient than the average stock, while leadership has been shifting toward the higher-quality companies we have been recommending.

One of the clearest signs is the recent performance of our composite quality factor. It has risen to a new 52-week high, surpassing its late-July peak ([Exhibit 1](#)). The move is particularly notable because quality lagged during the final leg of the summer rally. Since the equal-weight S&P 500 peaked on Aug. 14, our quality long-short composite has gained ~6%. The improvement has been broad across the quality sub-composites, led by profitability, as investors are being more selective about the companies that can sustain earnings, margins and cash flow through higher financing costs.

Key to our call is the recognition that Liberation Day in April 2025 marked the end of the rolling recession and the beginning of a new economic cycle—a time when low quality outperforms. That ends with the transition to mid-cycle which we identified in June with the peak rate of change on earnings revision breadth for the low quality early cycle leaders (Semis, consumer discretionary and financials). It is typically accompanied by a more hawkish Fed which also arrived in June with the new Chair. The key takeaway for investors is that this is not the end of the business cycle but it does lead to new leadership; a transition that is usually painful due to the crowding in low quality stocks that happens in an economic recovery from recession.

Exhibit 1: Composite Quality Has Broken Out to a 52-Week High as the Average Stock De-Rates

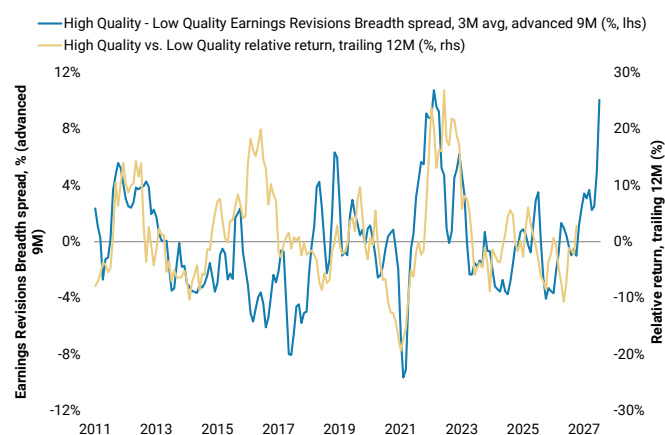


Source: Compustat, Morgan Stanley Research.

One of the more important developments beneath the surface has been the widening gap

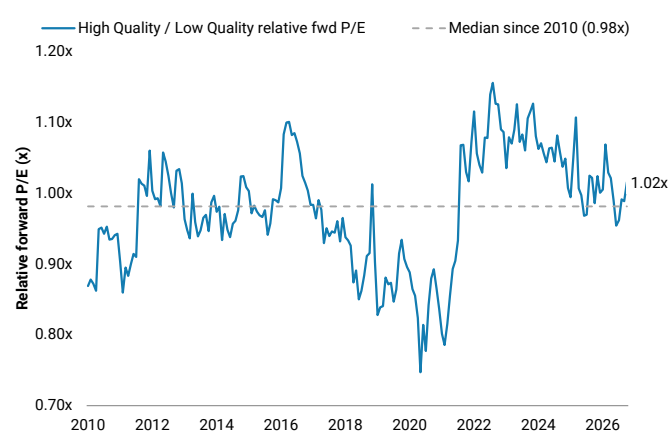
in earnings revisions between high and low quality. On a three-month average basis, the spread in earnings revisions breadth has reached about 10%, the second-widest reading since 2010. In our view, that divergence is worth paying attention to given the historical relationship between revisions and subsequent price performance. The revisions spread has tended to lead relative performance by roughly 6–12 months. When it has been in the top quintile of its historical revisions range, as it is today, high quality has outperformed low quality by an average of ~8% over the following 12 months. That compares with average outperformance of roughly 1% across all periods. Importantly, quality's relative valuation sits near its historical median, trading roughly in line with low quality on forward P/E, so investors are not being asked to pay up for that revisions advantage.

Exhibit 2: Earnings Revisions Breadth Favors High Quality over Low Quality



Source: Compustat, Morgan Stanley Research.

Exhibit 3: High Quality Trades Roughly in Line with Low Quality on Forward P/E, Near Its Post-2010 Median

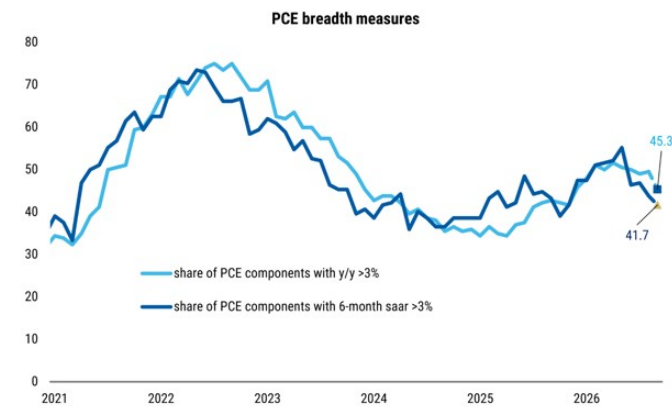


Source: Compustat, Morgan Stanley Research.

The September CPI report reinforces why we want to own quality across a range of rate outcomes. Core CPI rose 0.33% month over month versus 0.2% consensus, with the year-over-year rate at 2.57% and upside in both goods and services. At the same time, we should be careful about extrapolating one month into a sustained acceleration in inflation. Airfares were up 22.5% year over year as higher oil prices passed through, computer prices rose 1.4% month over month amid AI-related chip cost pressures, and our economists suspect that part of the jump in owners' equivalent rent was noise. These are meaningful price increases, but they do not necessarily imply inflation is broadening.

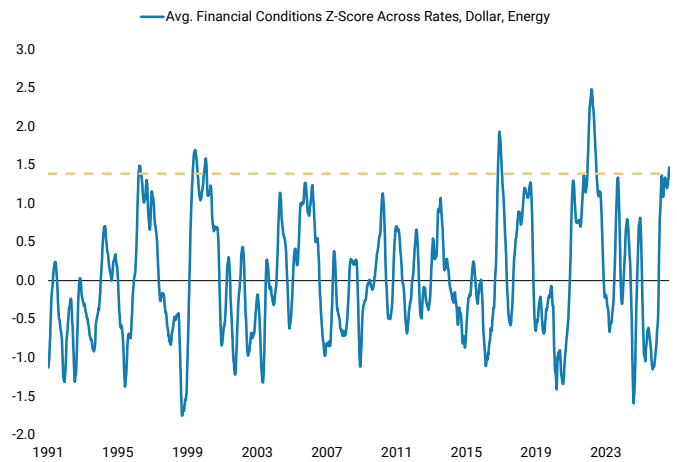
In fact, we expect the share of PCE categories running above 3% year over year to decline modestly ([Exhibit 4](#)). Given Warsh's focus on inflation breadth, the distinction between a strong monthly reading and the distribution of the underlying price pressures matters when assessing how long the hiking cycle ultimately needs to last. The other side of that debate is how much tightening the markets have already delivered. Our composite of Treasury yields, the dollar and energy is at its tightest since 2022 ([Exhibit 5](#)). As discussed last week, the effect has been much more pronounced in the average stock than in the cap-weighted index.

Exhibit 4: Despite the Hot CPI Print, Our Economists Expect Inflation Breadth to Narrow



Source: Morgan Stanley Research forecast.

Exhibit 5: Financial Conditions Are the Tightest Since 2022

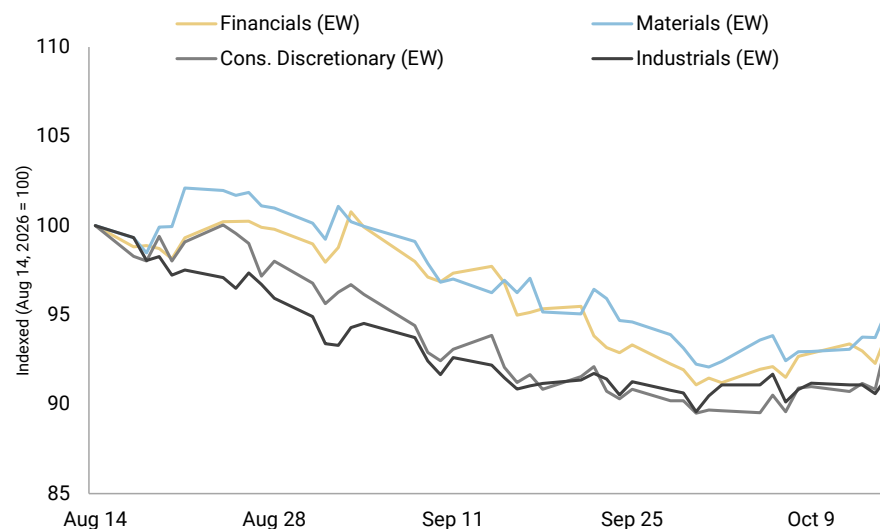


Source: Bloomberg, Morgan Stanley Research. Average financial conditions z-score across rates, dollar and energy. 52-week z-score, smoothed 10 weeks. Higher = tighter.

So far, Warsh has largely attributed higher long-end yields to stronger growth, competition for capital and geopolitics. We agree that those forces matter, but the question now is whether he also acknowledges that the accompanying tightening in financial conditions is doing some of the Fed's work. If Warsh acknowledges the restraint that markets have already put in place, there may be less reason for that restraint to persist for an extended period. If he instead keeps the focus on the inflation risks without noting the tightening already delivered, longer-dated yields and economically sensitive stocks could remain under pressure.

Chairman Warsh didn't offer new guidance on monetary policy at the IMF meetings, which markets interpreted as broadly consistent with prior pricing. With many Committee members emphasizing patience, our economists expect the Fed to avoid surprising markets and remain on hold in October.

The equity market is already telling us where the tightening has been felt most acutely. Since the middle of August, the equal-weight S&P 500 has declined 4%, while the cap-weighted index has outperformed. In equal-weight terms, Financials, Materials, Consumer Discretionary and Industrials have been sector underperformers—economically sensitive areas that are discounting the higher cost of capital.

Exhibit 6: Economically Sensitive Groups Have Absorbed the Tightening

Source: Compustat, Morgan Stanley Research.

The average stock has already taken much of the valuation adjustment, but if rates, the dollar and energy remain restrictive for long enough, the drag can move beyond multiples and into earnings growth. We don't think that is the most likely outcome today. The S&P 500 multiple has already re-tested 19x, breadth has returned to levels near the March lows and earnings remain strong, while our economists expect inflation breadth to narrow.

Bottom line, quality's breakout is consistent with the mid-cycle transition we have been highlighting, and we continue to favor it. In our base case, a period of more stable long-end yields should allow earnings to remain the primary driver of returns; in the risk scenario where financial conditions stay restrictive, quality has historically also provided relative protection. That does not mean we would avoid cyclicals altogether. The de-rating has created better entry points in higher-quality cyclicals with improving EPS revisions. Capital Goods stands out in this regard, with revisions breadth improving alongside broader manufacturing backlogs, as we have discussed. For the near term, we are watching how Warsh frames the tightening in financial conditions, whether the relative performance of Financials can stabilize through reporting season, and whether bond volatility continues to settle. We would want to see some follow-through on those measures before declaring that the divergence between the index and the average stock has been resolved.

Quality + Strong EPS Revisions Screen:

- Stock is a member of top 1000 by market cap.
- Stock is in top quartile of quality composite score.
- Stock's NTM EPS has improved from 3 months ago.
- Stock is rated as Overweight by Morgan Stanley analyst.

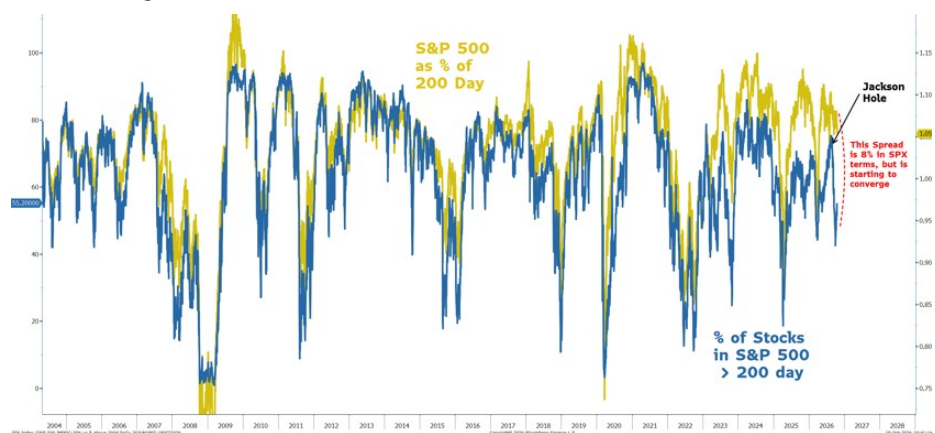
Exhibit 7: Top 1000 High Quality + Improving EPS Revisions + MS Overweight

Ticker	Company Name	Sector	Industry Group	Market Cap (\$MM)	Price
PINS	Pinterest, Inc. Class A	Communication Services	Media & Entertainment	11,178	22.71
APP	AppLovin Corp. Class A	Communication Services	Media & Entertainment	85,028	279.29
RDDT	Reddit, Inc. Class A	Communication Services	Media & Entertainment	23,283	159.36
NTES	Netease Inc. Sponsored ADR	Communication Services	Media & Entertainment	80,312	127.11
GOOGL	Alphabet Inc. Class A	Communication Services	Media & Entertainment	3,955,541	349.22
M	Macy's, Inc.	Consumer Discretionary	Consumer Discretionary Distribution & Retail	6,326	24.22
W	Wayfair, Inc. Class A	Consumer Discretionary	Consumer Discretionary Distribution & Retail	12,983	111.93
URBN	Urban Outfitters, Inc.	Consumer Discretionary	Consumer Discretionary Distribution & Retail	7,487	87.40
PDD	PDD Holdings Inc. Sponsored ADR Class A	Consumer Discretionary	Consumer Discretionary Distribution & Retail	117,007	82.42
TPR	Tapestry, Inc.	Consumer Discretionary	Consumer Durables & Apparel	23,763	119.75
BKNG	Booking Holdings Inc.	Consumer Discretionary	Consumer Services	124,579	165.80
COST	Costco Wholesale Corporation	Consumer Staples	Consumer Staples Distribution & Retail	433,385	978.01
KO	Coca-Cola Company	Consumer Staples	Food Beverage & Tobacco	395,834	92.00
MNST	Monster Beverage Corporation	Consumer Staples	Food Beverage & Tobacco	88,823	45.34
CL	Colgate-Palmolive Company	Consumer Staples	Household & Personal Products	73,874	92.67
BKR	Baker Hughes Company Class A	Energy	Energy	54,001	54.40
MPC	Marathon Petroleum Corporation	Energy	Energy	133,931	476.92
WFC	Wells Fargo & Company	Financials	Banks	248,386	82.75
SEIC	SEI Investments Company	Financials	Financial Services	12,634	105.27
MA	Mastercard Incorporated Class A	Financials	Financial Services	535,868	616.32
BX	Blackstone Inc.	Financials	Financial Services	81,988	109.20
V	Visa Inc. Class A	Financials	Financial Services	681,219	399.75
CBOE	Choe Global Markets Inc	Financials	Financial Services	32,174	308.09
CPAY	Corpay, Inc.	Financials	Financial Services	26,671	406.20
LNC	Lincoln National Corp	Financials	Insurance	7,660	40.01
GL	Globe Life Inc.	Financials	Insurance	12,879	167.59
UNH	UnitedHealth Group Incorporated	Health Care	Health Care Equipment & Services	365,025	406.67
IDXX	IDEXX Laboratories, Inc.	Health Care	Health Care Equipment & Services	43,107	547.18
BTSG	BrightSpring Health Services, Inc.	Health Care	Health Care Equipment & Services	12,339	62.36
GILD	Gilead Sciences, Inc.	Health Care	Pharmaceuticals Biotechnology & Life Sciences	195,132	157.37
INSM	Insmid Incorporated	Health Care	Pharmaceuticals Biotechnology & Life Sciences	21,666	99.21
HALO	Halozyne Therapeutics, Inc.	Health Care	Pharmaceuticals Biotechnology & Life Sciences	13,791	121.51
JAZZ	Jazz Pharmaceuticals Public Limited Company	Health Care	Pharmaceuticals Biotechnology & Life Sciences	13,919	214.42
TT	Trane Technologies plc	Industrials	Capital Goods	100,630	457.36
JCI	Johnson Controls International plc	Industrials	Capital Goods	89,426	147.63
NOC	Northrop Grumman Corp.	Industrials	Capital Goods	70,979	499.63
ROK	Rockwell Automation, Inc.	Industrials	Capital Goods	46,866	422.03
BE	Bloom Energy Corporation Class A	Industrials	Capital Goods	69,597	236.30
VRT	Vertiv Holdings Co. Class A	Industrials	Capital Goods	82,676	214.75
FERG	Ferguson Enterprises Inc.	Industrials	Capital Goods	44,254	228.76
AYI	Acuty Inc.	Industrials	Capital Goods	9,037	301.87
MU	Micron Technology, Inc.	Information Technology	Semiconductors & Semiconductor Equipment	1,053,627	931.24
FSLR	First Solar, Inc.	Information Technology	Semiconductors & Semiconductor Equipment	19,217	178.81
AVGO	Broadcom Inc.	Information Technology	Semiconductors & Semiconductor Equipment	1,643,704	344.33
ADSK	Autodesk, Inc.	Information Technology	Software & Services	51,238	245.16
HUBS	HubSpot, Inc.	Information Technology	Software & Services	11,914	238.91
MDB	MongoDB, Inc. Class A	Information Technology	Software & Services	29,523	366.49
MANH	Manhattan Associates, Inc.	Information Technology	Software & Services	13,233	226.96
AAPL	Apple Inc.	Information Technology	Technology Hardware & Equipment	4,991,209	342.00
ANET	Arista Networks Inc	Information Technology	Technology Hardware & Equipment	234,058	185.58
SNK	Sandisk Corporation	Information Technology	Technology Hardware & Equipment	201,591	1394.83
ECL	Ecolab Inc.	Materials	Materials	81,522	290.81
SHW	Sherwin-Williams Company	Materials	Materials	81,790	336.92
NNN	NNN REIT, Inc.	Real Estate	Equity Real Estate Investment Trusts (REITs)	7,898	41.15
FE	FirstEnergy Corp.	Utilities	Utilities	26,357	45.55
SRE	Sempra	Utilities	Utilities	53,574	81.93

Source: Compustat, Factset, Morgan Stanley Research

Last week we discussed the importance of financials relative performance and bond volatility as leading indicators for this correction to end. We have highlighted for months the weakening breadth as normal and expected in these mid cycle transitions. However, the divergence between breadth and the resilience of the S&P 500 remains unresolved and last week's price action suggests this divergence is starting to close from a meeting in the middle of the a falling S&P 500 and improving breadth (Exhibit 7). Ironically, in our view, the S&P 500 is among the higher-quality equity markets in the world which flies in the face of our quality preference at the factor and stock level. With the Nasdaq and Semiconductors taking the brunt of last week's pain, we think this can weigh on the S&P 500 a without breaking the leadership of the quality factor more broadly. It may also lead to better performance of other areas that have already been beaten up unfairly. Bottom line, we are getting closer to the end of the mid cycle and leadership transitions as the S&P 500 catches down. We advise investors to be ready for either a very rapid reconciliation or a slower bleed into November because in our view, that will be the time to add risk rather than shun it.

Exhibit 8: The convergence has begun with a likely meeting in the middle, our base case all along



Following AI's \$1.6 trillion Money Trail: Mapping the Revenue Generated by the Capex Boom

Below we highlight key takeaways from our [US Equity Strategy & GVAT: Following AI's \\$1.6 trillion Money Trail: Mapping the Revenue Generated by the Capex Boom](#). See the note for more details on index-level impacts, industry commentary, key risks and a single stock screen.

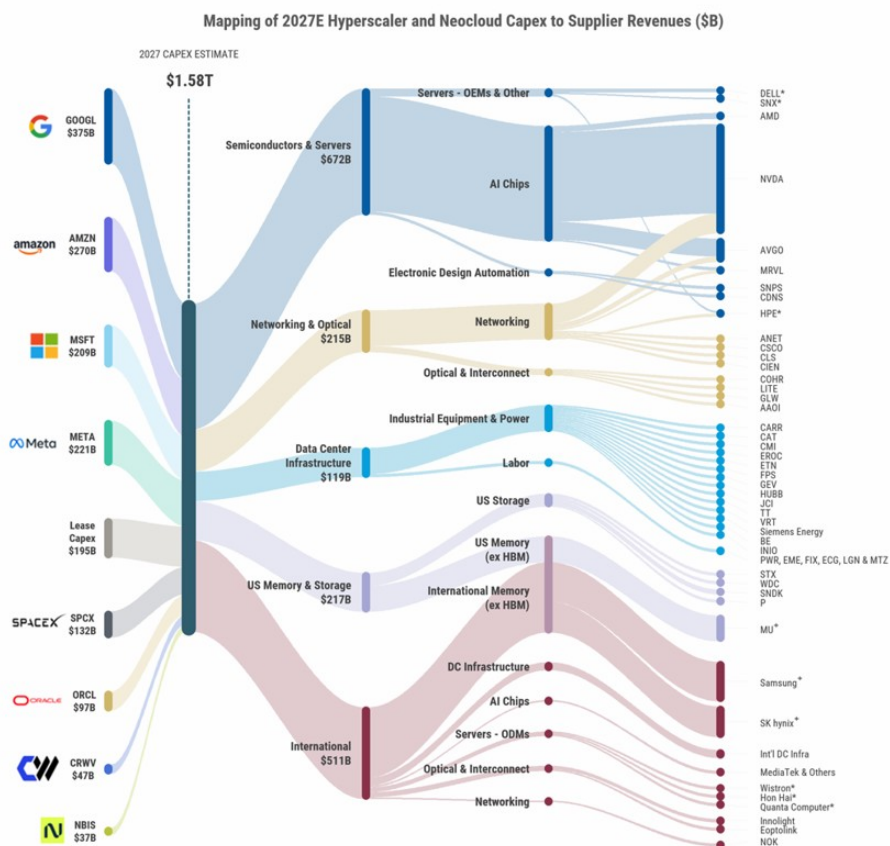
Key Takeaways

- Consensus has SPX capex/sales at 9%+ in 2027/28 vs 6% historically. We estimate AI investment exceeds 60% of 2027 capex across the SPX plus SPCX, NBIS and CRWV.
- This capex flows into supplier sales. We estimate AI investment will lift SPX sales growth by 200bps from 6.6% to 8.6% next year.
- Leases are synthetic capex. We introduce new hyperscaler lease models, increasing next year's total capex estimate by 14%—models available upon request.
- As capex growth moderates into 2028, where do we see opportunity? We screen for companies positioned to benefit from specific bottlenecks and gain market share.
- Our interactive capex map goes beyond identifying AI beneficiaries to quantify revenue exposure by company using MS analysts' insights. Please connect for data.

Summary

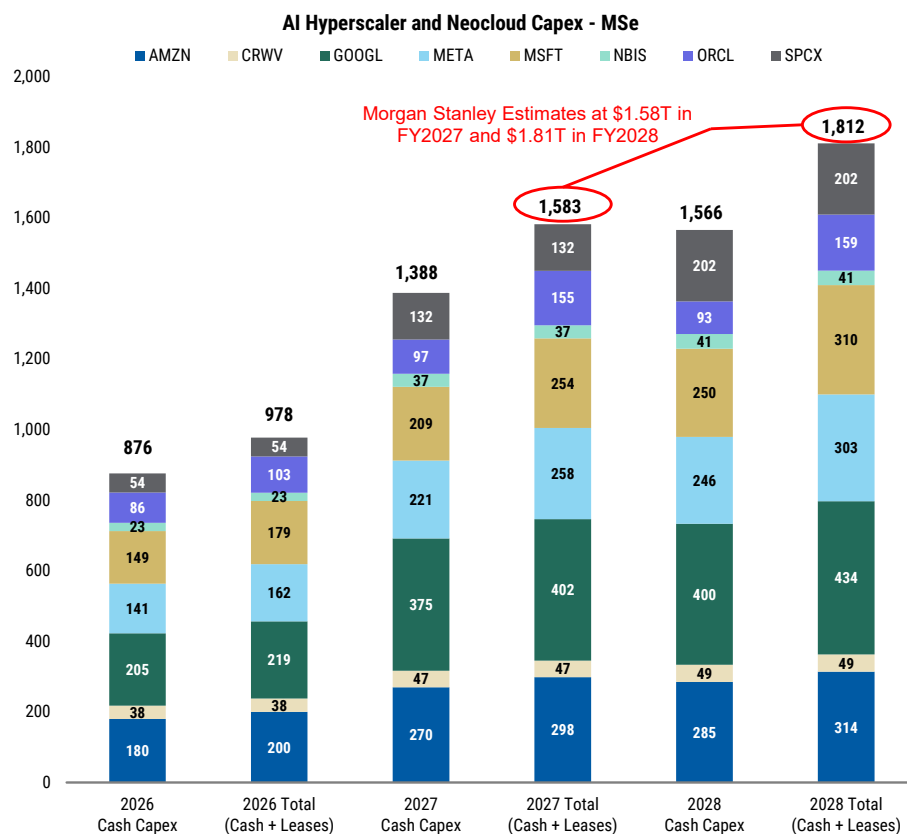
- **New estimates from our sector teams map \$1.6 trillion of 2027 compute investment from hyperscaler and neocloud end customers to single-stock revenues.** Using our analysts' stock-level insights, we build a bottom-up estimate of AI capex-related revenue at the index level. Our tracking suggests a 65% absorption rate between AI Capex and S&P 500 companies, directly driving 5% of 2027 SPX sales and ~25% of SPX sales growth. More broadly, we see AI adopters and enablers driving a significant proportion of sales and EPS growth in 2027.
- **A growing portion of capex is being financed through leases. Our new lease capex estimates add \$195 bn in 2027 and \$246 bn in 2028 to headline capex, increasing total 2027 investment by ~14% .** Capex forecasts are increasingly not telling the whole story of capital investment because data centers acquired through leases, a form of debt-financed asset purchase, do not show up in cash flow statements as capex or management capex guidance. To address this, we forecast lease capex and incorporate it into our total capex estimates, which now reach \$980 bn in 2026 (+~100% y/y) , \$1.6 tr in 2027 (+~60% y/y), and \$1.8 tr in 2028 (+14% y/y). We expect this investment to add an incremental 32 GW of compute capacity next year with an ROIC of 25-50%.

- **We expect hyperscaler investment to continue to favor large-cap semis, led by NVDA as revenue per GW scales toward \$40 bn, with continued strength in AVGO and memory.** Following multiple compression since July, incremental upward revisions to AI capex could address concerns about cycle longevity. Within memory, DRAM remains a key bottleneck, yet international memory stocks trade at ~3x NTM P/E. We see the memory cycle entering its late stage, but not ending, in 4Q26, with moderating price increases and rising supply limiting further earnings surprises. In storage, STX and WDC benefit from HDD demand, and P from adoption of its flash storage technology.
- **Increasing chip and server complexity creates opportunities for design software providers and server manufacturers to add more value, providing an earnings driver beyond compute capacity growth.** Custom silicon investment is broadening the opportunity for Synopsys and Cadence across design software and IP while increasing system complexity supports Taiwan ODM earnings, with our team modeling 35–40% higher value-add per rack on VR200 versus GB300. In the US, DELL, HPE and SNX (through Hyve) are key beneficiaries across servers, networking and rack-scale infrastructure.
- **Power constraints favor onsite generation and high-quality equipment suppliers across Machinery, Power, and Multis.** EROC is most levered to hyperscaler spending within Machinery, with CMI and CAT also benefiting from backup and onsite generation demand. We expect upward capex revisions to extend power OEM backlogs at higher margins, benefiting GEV, INIO and BE. Across Multis, electrical and cooling suppliers (VRT, ETN, FPS, HUBB, TT, JCI, CARR) are expanding capacity as modular solutions support faster and simpler deployments amid increasing complexity and labor constraints, positioning suppliers to address customers' focus on speed.
- **With the cash-flow deficit among hyperscalers and neoclouds expected to widen next year, we anticipate financing needs to rise in 2027.** We continue to see capacity for the higher-rated hyperscalers to fund their investment plans, even at higher borrowing costs, while lower-rated borrowers are more exposed to financing constraints. We also expect the financing mix to shift as companies raise capital for chips and servers, which lend themselves to shorter-duration, amortizing structures, with greater flexibility to tie financing to contracted demand.



Note: Hyperscaler and neocloud capex figures are cash capex, leases aggregated separately, SPCX inclusive of estimated terafab capex, AMZN AWS capex only. *Includes only gross profit for OEMs and ODMs to capture assembly portion of hyperscaler/neocloud capex - semiconductors and other components included in revenue for those suppliers. +Excludes \$30bn of HBM memory sales from MU, \$57bn of HBM from Samsung, and \$49bn HBM from SK Hynix sold into accelerators to avoid double counting revenues captured in AI chips. Source: Morgan Stanley Research

Exhibit 9: We add Hyperscaler Operating Leases to Capex Estimates to get to \$1.58T FY2027 and \$1.81T FY2028 Capex

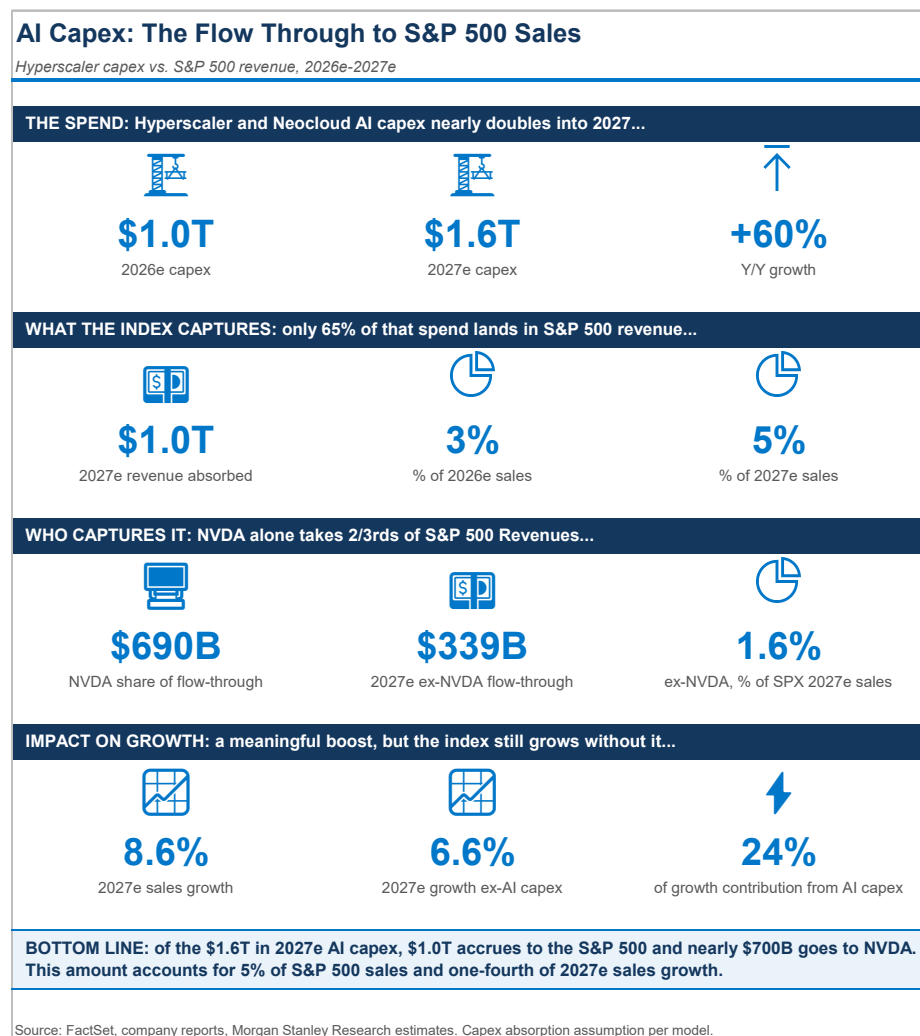


Source: Morgan Stanley Estimates.

How much does AI Capex drive S&P 500 revenues?

Based on our mapping, we find that revenue from hyperscaler and neocloud customers makes up 5% of total S&P 500 revenue in 2027 and drives ~25% of S&P 500 y/y revenue growth. With capex growth expected to moderate from ~100% growth in 2026 to ~60% in 2027 and LDD in 2028, the growth contribution decreases but the magnitude of this spending will continue to be impactful. From 2026 to 2027 alone, there's an incremental \$700 bn earmarked to be spent on AI. Our estimates can track ~65% of this capex flowing into the S&P 500 with the largest portion flowing to NVDA. S&P 500 revenues ex-AI direct revenues are already growing a strong 6.6% and with AI capex impact, growth jumps to 8.6%. This underscores that S&P 500 revenue growth remains strong even without the direct impact of AI spending, which serves as a meaningful incremental growth driver.

Exhibit 10: \$1.6T in Hyperscaler and Neocloud Capex Drives 5% of 2027 Sales and ~25% of Sales Growth



Source: FactSet, Morgan Stanley Research

Exhibit 11: S&P 500 Absorption Model

Hyperscaler AI Capex: Flow Through to S&P 500 Sales		
\$ in millions unless noted	2026e	2027e
Hyperscaler AI capex	980,000	1,583,000
AI capex as % of S&P 500 sales	5.1%	7.6%
Revenue absorbed by S&P 500 (at 65% absorption)	635,517	1,028,950
S&P 500 sales	19,187,715	20,831,502
Absorbed AI revenue as % of S&P 500 sales	3.3%	4.9%
of which NVDA	45%	67%
S&P 500 sales growth	12.2%	8.6%
S&P 500 sales growth ex-AI	11.0%	6.6%
% of S&P 500 sales growth contribution from Hyperscaler Capex	15%	24%

Source: FactSet, Morgan Stanley Research

How much do AI stocks drive the S&P 500 broadly?

For a different approach, we analyzed the breakdown of AI names within the S&P 500 versus non-AI names. Rather than isolating revenues tied to hyperscalers and large neoclouds as in the prior analysis, this approach captures the total sales and earnings contribution of companies broadly classified as AI-related. To determine AI names, we

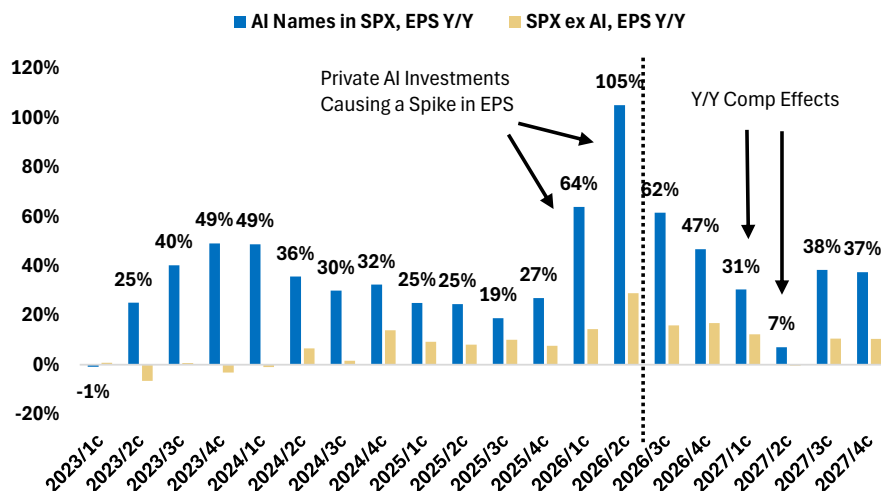
used the latest AI mapping ([Global Thematics: The Thematic Map – Scaling Themes into AlphaSignals](#)) and identified 42 names classified as "Core to Thesis" within our Enabler or Adopter categories.

AI earnings are outpacing non-AI earnings. Both the AI cohort and the SPX ex-AI cohort are growing earnings in the double digits, and both cohorts show 2Q26 as the peak quarter for earnings growth ([Exhibit 12](#)). This peak could extend depending on how 3Q earnings season plays out relative to expected beat rates. Regardless, we appear to be near peak earnings growth — and markets trade on rate of change. The picture is further complicated by private AI investments showing up in non-operating profit, which skews the 1Q, 2Q, and full-year 2026 earnings picture.

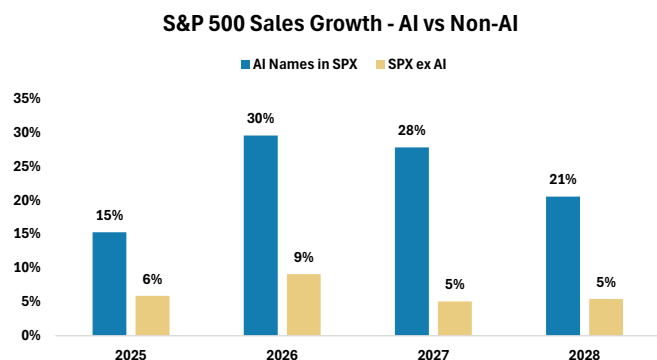
With earnings growth now high but decelerating, market focus may shift toward who is incrementally improving EPS growth into 2027 — **a dynamic that favors the AI cohort**, where that growth is notably stronger. Taken together, AI remains a dominant theme in 2026's market, and we expect this to continue into 2027. That said, we think leadership will shift away from pure Enablers toward more blended Enabler/Adopters and Adopters, even as the AI theme broadly remains highly prevalent.

AI companies are growing 2027 sales at 28% versus 5% for non-AI companies ([Exhibit 13](#)). Sales for the S&P 500 broadly are very strong and in line with historical regressions versus nominal GDP. S&P 500 2027 sales growth is running at 9%; stripping out AI investment (assuming a 65% SPX absorption rate) would bring that down to roughly 7% — still in line with historical regressions of nominal GDP and historical sales growth. These points support our view that S&P 500 broadening is fully underway: growth would already be strong without AI investment, and AI spending is fueling incremental growth on top of that.

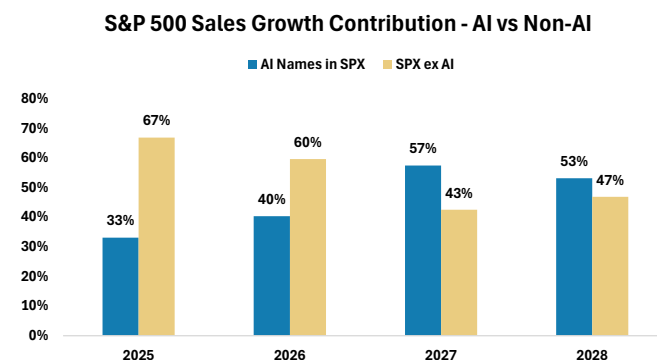
The growth numbers are significantly higher within AI names, but they're working off a lower absolute sales base. Sales for our "AI names" cohort represent 20% of S&P 500 total sales in 2026, rising to 23% and 26% in 2027 and 2028, respectively. The AI names category is heavily skewed by the Magnificent 7, which account for 14 of that 20 percentage points — roughly 70% of the cohort's sales. In terms of sales growth contribution, the AI cohort is driving 60% of 2027 S&P 500 sales growth ([Exhibit 14](#)).

Exhibit 12: Earnings from AI Companies are Outpacing the Rest of the Index

Note: AI stocks use the v6 AI Mapping and sorted on S&P 500 members with "Core to Thesis" in either Enablers or Adopters. Sample is 42 names. Source: FactSet, Morgan Stanley Research

Exhibit 13: Sales Growth

Source: FactSet, Morgan Stanley Research

Exhibit 14: Sales Growth Contribution

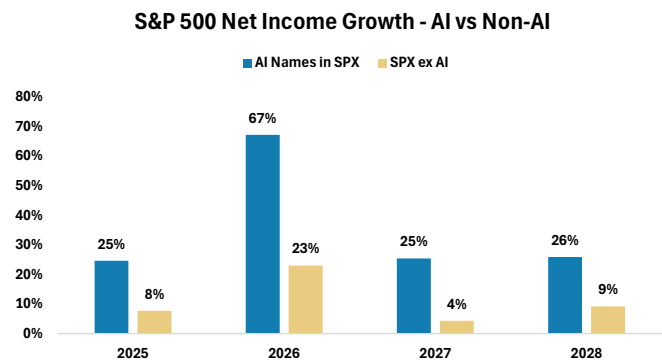
Source: FactSet, Morgan Stanley Research

AI companies are growing 2027 earnings at 25% versus 4% for non-AI companies

(Exhibit 15). S&P 500 net income growth is tracking strongly at 12% in 2027, but that's a step down from 36% in 2026. The comparatively low 4% earnings growth in 2027 for SPX ex-AI is largely due to base effects from 23% growth in 2026 — which was historically very strong for the S&P 500 — and to the removal of some of the fastest-growing tech names from the ex-AI cohort.

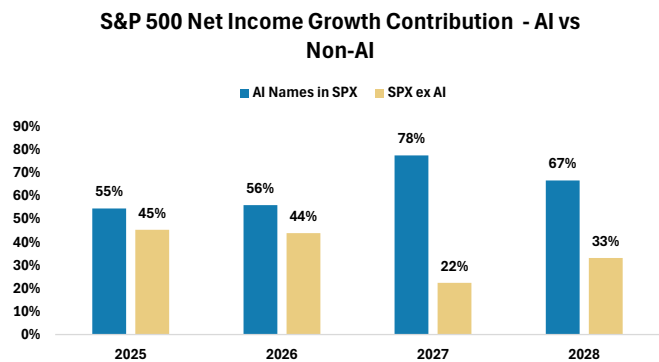
Looking at contribution, AI names in the S&P 500 are driving 78% of 2027 earnings growth (Exhibit 16). These AI names also represent a more significant and growing share of index-level net income, making up 37% of 2027 consensus. The Magnificent 7 drive about 75% of earnings within the AI cohort — similar to the sales breakdown.

Exhibit 15: Earnings Growth



Source: FactSet, Morgan Stanley Research

Exhibit 16: Earnings Growth Contribution



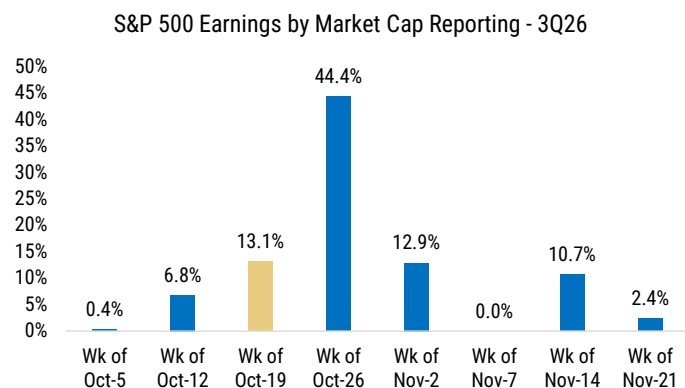
Source: FactSet, Morgan Stanley Research

Earnings Season Chartbook

3Q EPS is expected at +27% Y/Y and sales at +11% Y/Y.

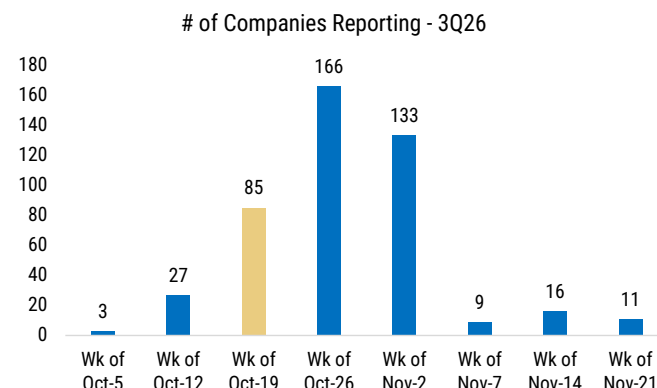
- **Financials started with a mixed start.** Equities trading was strong while FICC was mixed; investment banking pipelines remain healthy but deal timing is uncertain. Capital pressure was generally manageable, and private credit interest remains strong as lenders scrutinize terms and returns. Fourth-quarter trading activity and the timing of transactions remain uncertain.
- **Revisions breadth has cooled but remains positive.** S&P 500 earnings revisions breadth (FY2) is +11% heading into the season, down from the late-June peak of +28%. The two weeks into the start of earnings season are seasonally weak for ERB before it historically moves higher once reporting starts. Short-term ERB has been weaker than normal, with Utilities and Comm. Services the strongest and Industrials and Tech the weakest over the last 4 weeks.
- **3Q26 estimates have revised higher into the season.** They are up 1.8% over the past three months, against a historical tendency to fall ahead of reporting (2Q26 was +3.8%). The higher bar creates tougher expectations for T+1 price reactions, and early reads are soft. With ~10% of companies reported, the median T+1 reaction is -0.4% (-0.6% relative) and only 41% of reactions are positive.
- **Calendar 2026/2027 earnings growth is now 33%/16%.** 2026 earnings widely beat expectations in 1H26 (2Q26 EPS surprise of +26% vs. a 4.4% average) and were accelerated by non-operating private AI gains. Consensus sales growth is 11% for 2026 and 8% for 2027.
- **Breadth of earnings strength is intact.** The median Russell 3000 stock is growing sales by 8% and EPS by 14% through 2Q26.
- **Mag 7 vs. SP493.** Mag 7 earnings are expected to grow 37% in 3Q26 versus 19% for the SP493, both historically strong. The SP493 overtakes the Mag 7 in 2027 (16% vs. 10%).
- **Analyst previews are positive but less so than last quarter.** Net KPI previews are +18% and NTM EPS previews are +15%, vs. +27% for NTM EPS last quarter.

Key Charts

Exhibit 17: 3Q Reporting Season by Market Cap

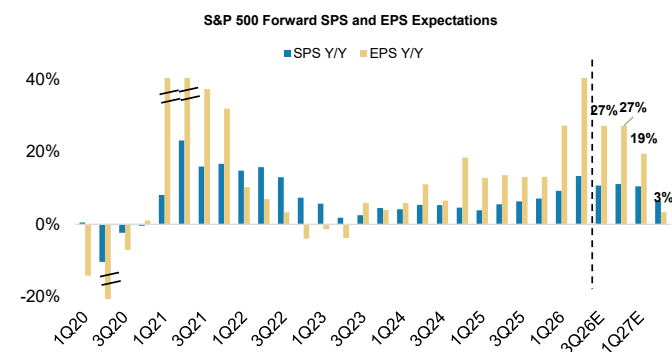
Note: Includes 451 of S&P 500 companies and 92% of S&P market cap reporting from Oct. 5 to Nov 27th

Source: Bloomberg, Morgan Stanley Research

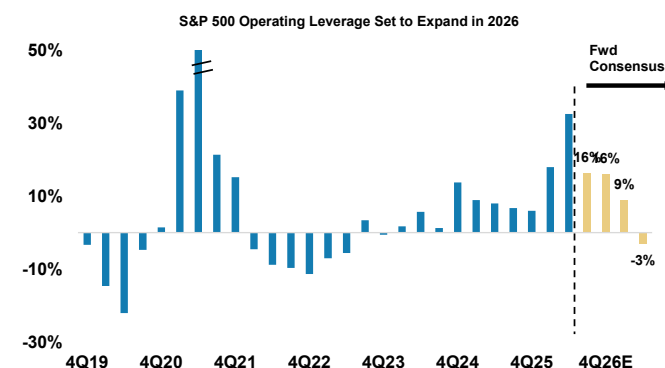
Exhibit 18: 3Q Reporting Season by Company Count

Note: Includes 451 of S&P 500 companies and 92% of S&P market cap reporting from Oct. 5 to Nov 27th

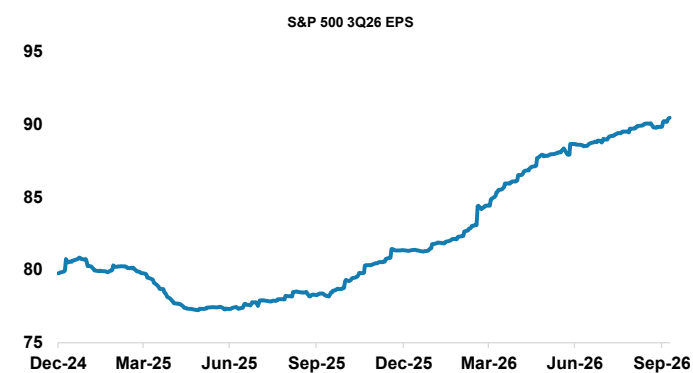
Source: Bloomberg, Morgan Stanley Research

Exhibit 19: Forward SPS and EPS Expectations

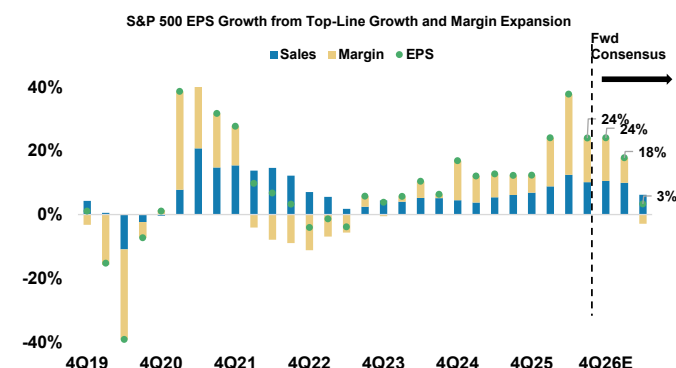
Source: FactSet, Morgan Stanley Research

Exhibit 20: Operating Leverage is Set to Expand in 2026

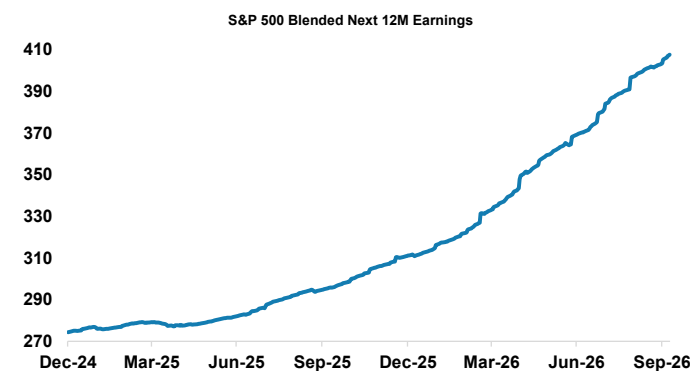
Source: FactSet, Morgan Stanley Research

Exhibit 21: 3Q Estimates Push Higher into EPS Season

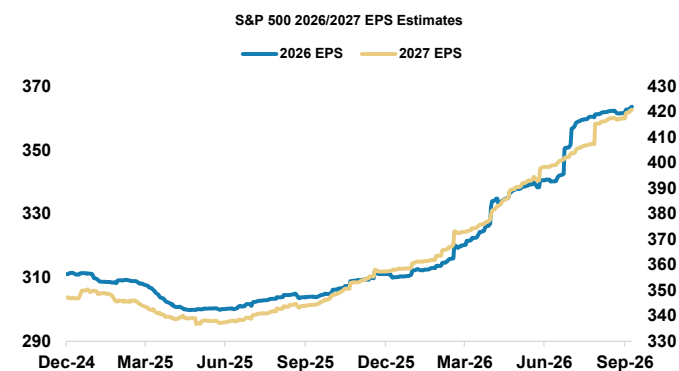
Source: FactSet, Morgan Stanley Research

Exhibit 22: EPS Growth is Coming from Both Top-Line Growth and Margin Expansion

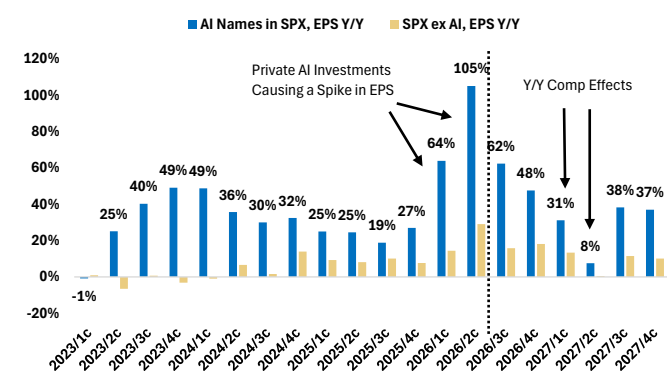
Source: Refinitiv, Morgan Stanley Research

Exhibit 23: Blended Next 12M Earnings Rising Further

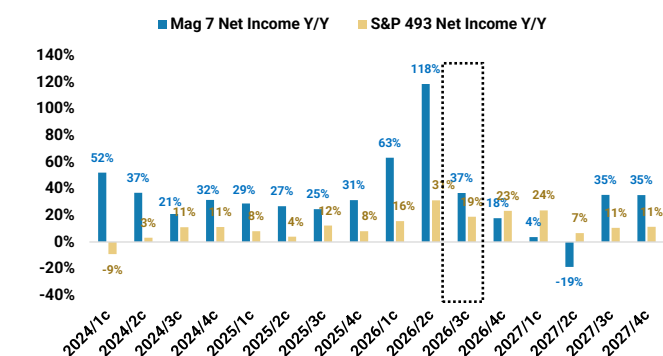
Source: FactSet, Morgan Stanley Research

Exhibit 24: 2026/2027 EPS Estimates Continue to Revise Higher

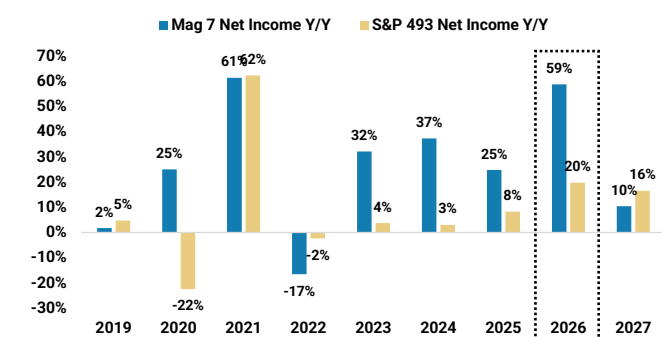
Source: FactSet, Morgan Stanley Research

Exhibit 25: AI vs Non-AI Related Names within S&P 500

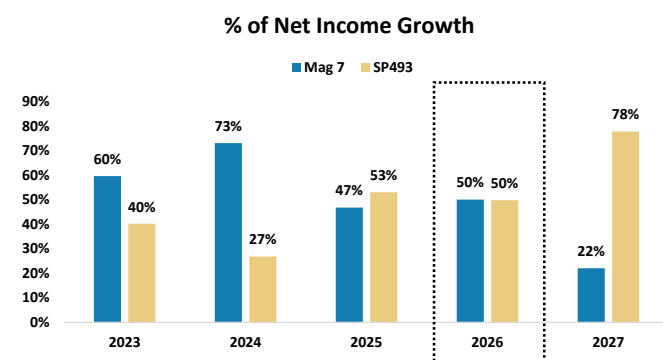
Source: FactSet, Morgan Stanley Research

Exhibit 26: Mag 7 vs SP493 Earnings Growth

Source: FactSet, Morgan Stanley Research

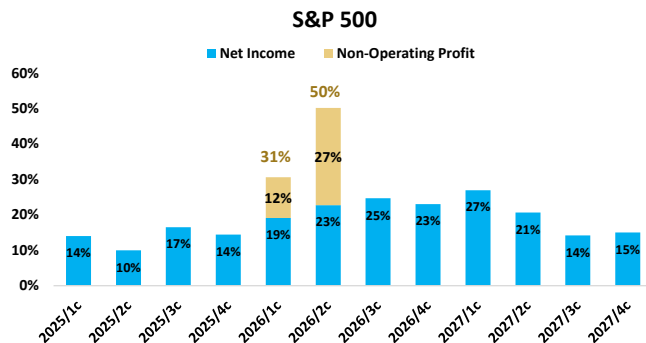
Exhibit 27: Mag 7 vs SP493 Annuals: SP493 is now Higher in 2027

Source: FactSet, Morgan Stanley Research

Exhibit 28: Contribution to S&P 500 Earnings Growth

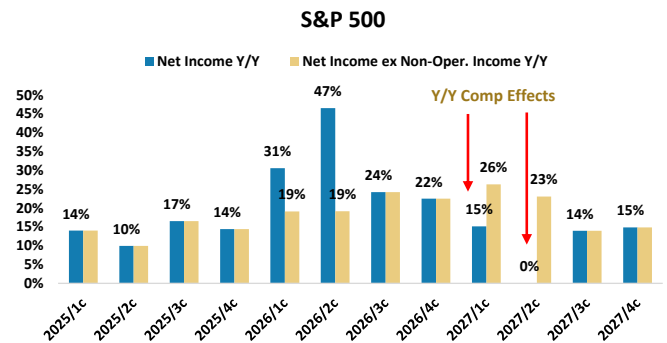
Source: FactSet, Morgan Stanley Research

Exhibit 29: S&P 500 earnings are being skewed by unrealized gains in AI investments...



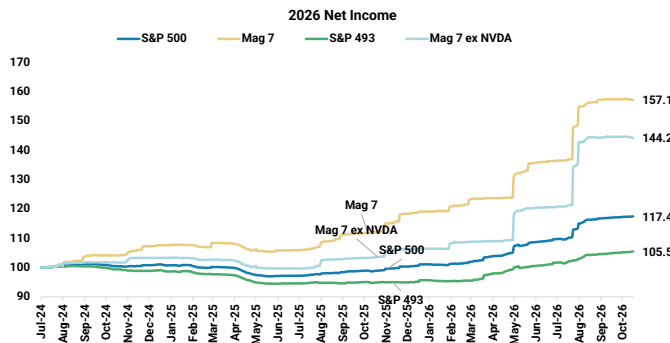
Source: FactSet, Morgan Stanley Research

Exhibit 30: ...and accelerated 1Q/2Q earnings are affecting forward growth rates



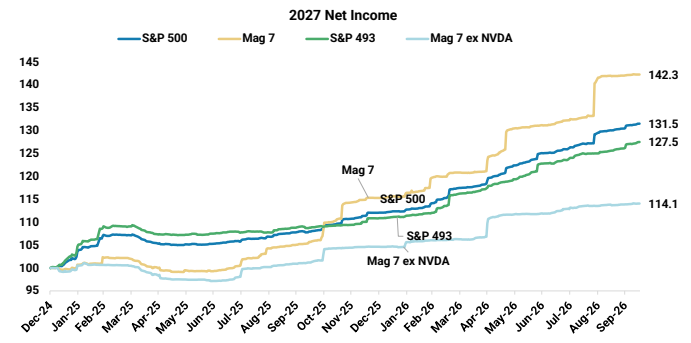
Source: FactSet, Morgan Stanley Research

Exhibit 31: 2026 Net Income Revisions



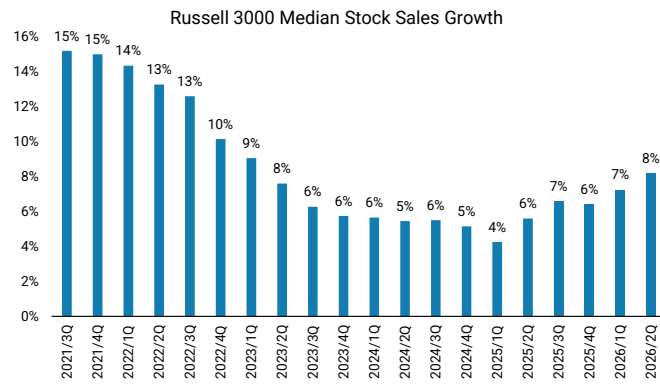
Source: FactSet, Morgan Stanley Research

Exhibit 32: 2027 Net Income Revisions



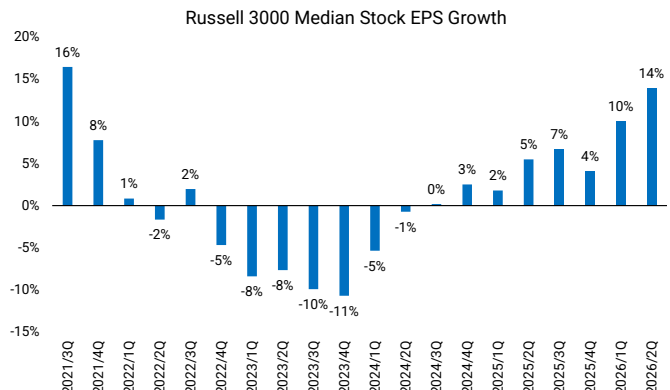
Source: FactSet, Morgan Stanley Research

Exhibit 33: Median Sales Growth is Strong



Source: FactSet, Morgan Stanley Research

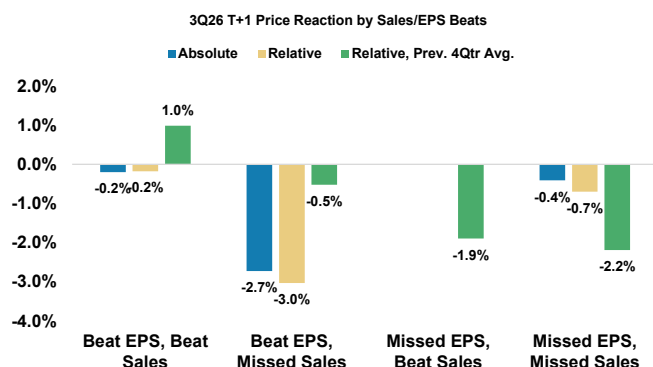
Exhibit 34: Median EPS Growth is Accelerating



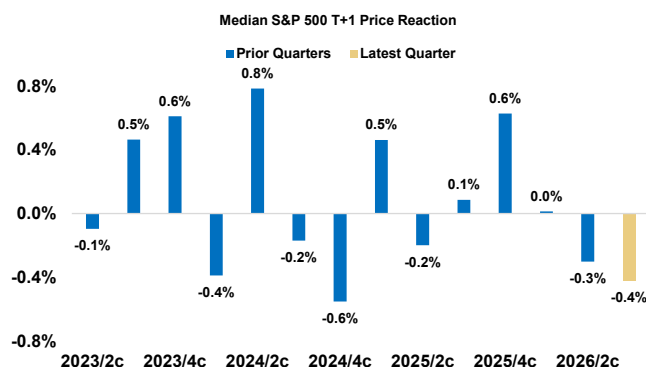
Source: FactSet, Morgan Stanley Research

Price Reaction

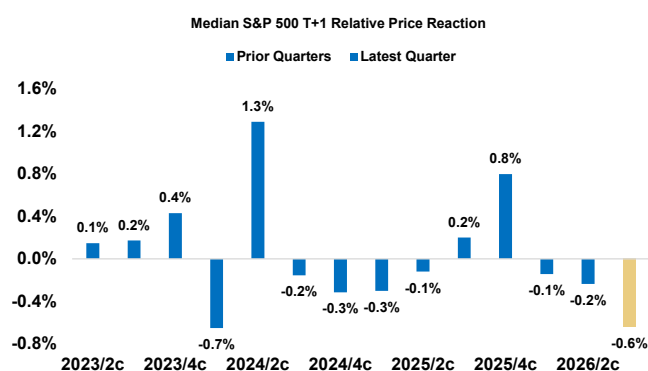
- 3Q is only ~10% reported with the median T+1 price reactions at -0.4% on an absolute basis and -0.6% relative to the broad index.
- Breadth of positive returns is weaker thus far in 3Q26 at 41%.

Exhibit 35: 3Q Price Reaction by Sales/EPS Beats

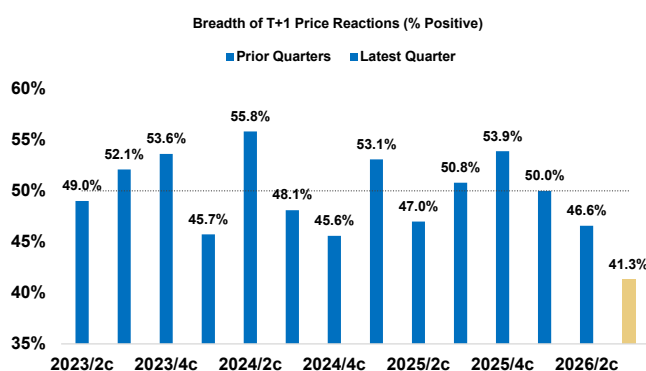
Source: Factset, Morgan Stanley Research

Exhibit 36: T+1 Price Reactions

Source: Factset, Morgan Stanley Research

Exhibit 37: T+1 Relative Price Reactions

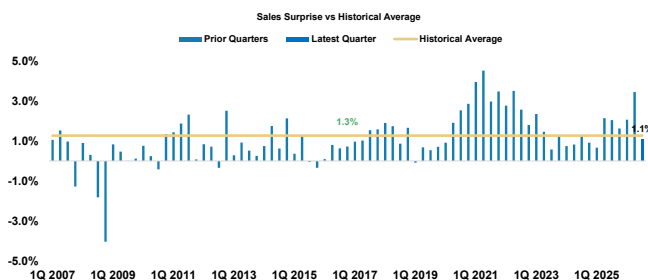
Source: Factset, Morgan Stanley Research

Exhibit 38: Breadth of T+1 Price Reactions

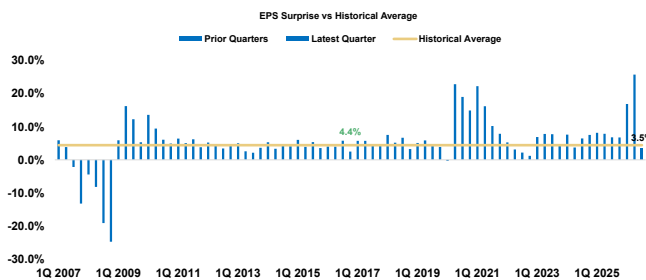
Source: Factset, Morgan Stanley Research

Surprise

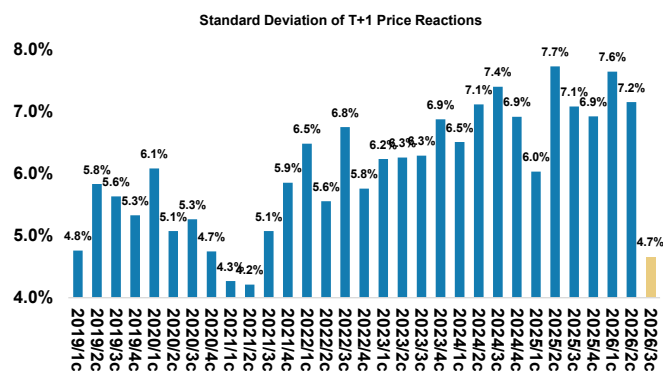
- 3Q Sales surprise at 1.1%, below the historical average of 1.3%.
- 3Q EPS surprise at 3.2%, below the historical average of 4.4%.
- Last quarter (2Q26) EPS surprise was +26%, strongly ahead of the historical average of 4.4%. Non-operating profits from private AI investments skewed 1Q/2Q higher but it was still a historically strong quarter ex-these gains.

Exhibit 39: Sales Surprise: Averages +1% Historically

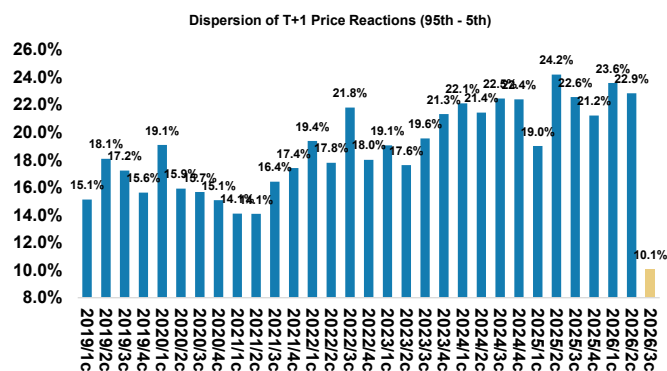
Source: Factset, Morgan Stanley Research

Exhibit 40: EPS Surprise: Averages 4-5% Historically

Source: Factset, Morgan Stanley Research

Exhibit 41: Standard Deviation of T+1 Price Reactions

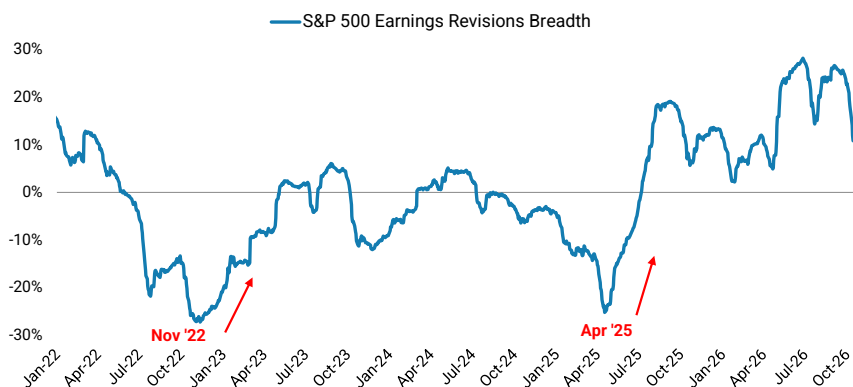
Source: Factset, Morgan Stanley Research

Exhibit 42: Dispersion of T+1 Price Reactions

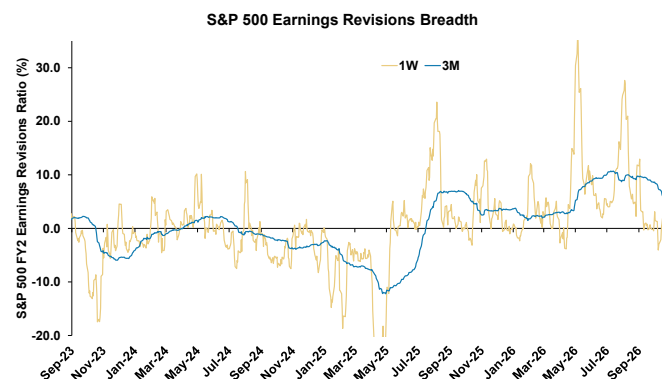
Source: Factset, Morgan Stanley Research

Company Guidance & Revisions

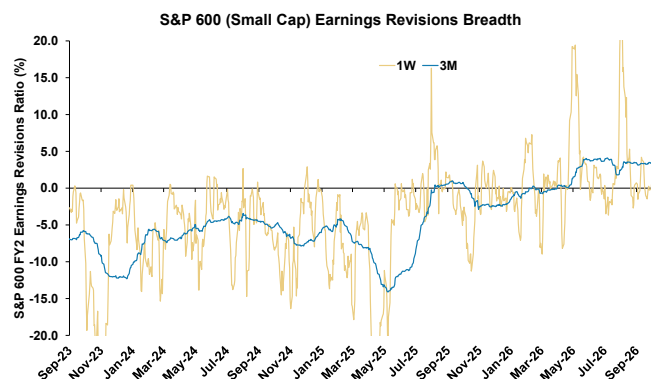
- S&P 500 earnings revisions breadth (FY2 estimates) is positive at +11% heading into Q3 earnings season.
- The two weeks heading into EPS season are a seasonally weak period. Short-term ERB has been weaker than normal into earnings season and we are monitoring it for first impacts as more names report.
- Utilities and Comm. Services have the most positive ERB in the 4 weeks leading into earnings season while Industrials and Tech have seen the weakest.

Exhibit 43: S&P 500 Earnings Revision Breadth

Source: FactSet, Morgan Stanley Research

Exhibit 44: S&P 500 Short-term Earnings Revisions Breadth

Source: FactSet, Morgan Stanley Research

Exhibit 45: S&P 600 Short-term Earnings Revisions Breadth

Source: FactSet, Morgan Stanley Research

Exhibit 46:

Change in Absolute Earnings Revisions Breadth by Sector & Industry Group

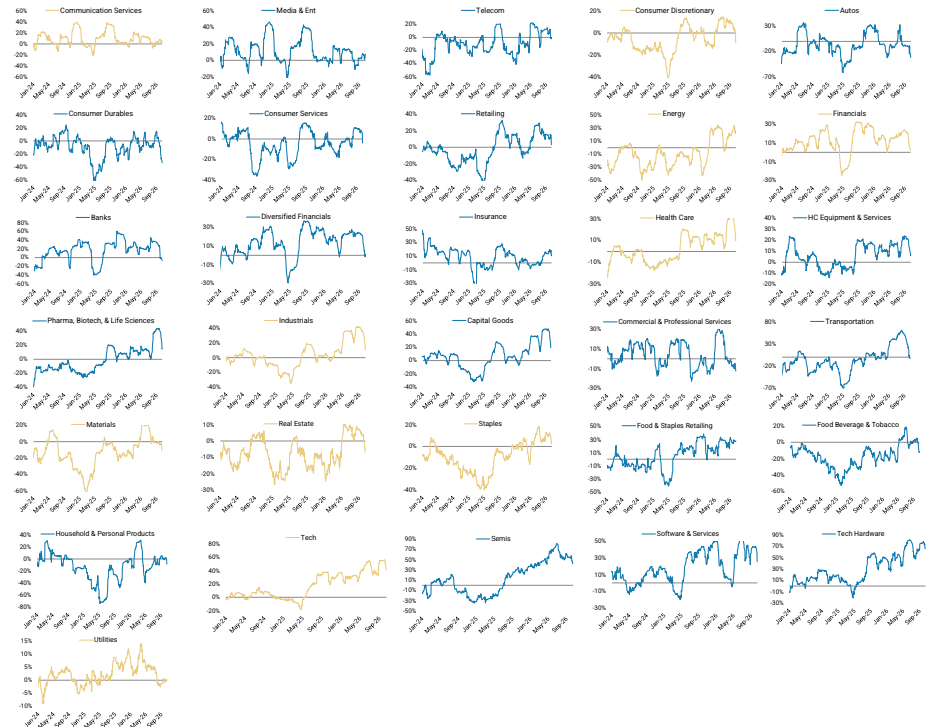
	Industry Group Level Drivers of Earnings Revisions Breadth				
	2 Wk. Chg.	4 Wk. Chg.	8 Wk. Chg.	3 Mo. Chg.	6 Mo. Chg.
Media & Ent	1%	0%	13%	9%	9%
Utilities	0%	0%	3%	-3%	-8%
Communication Services	-1%	-1%	10%	6%	6%
Food & Staples Retailing	-1%	3%	10%	0%	16%
Insurance	-3%	-5%	-3%	11%	16%
Commercial & Professional Services	-5%	-5%	-7%	-17%	-4%
Financials	-5%	-19%	-21%	-16%	-3%
Diversified Financials	-6%	-21%	-23%	-19%	-2%
Banks	-6%	-33%	-43%	-46%	-31%
Energy	-6%	0%	5%	29%	4%
Real Estate	-7%	-10%	-14%	-9%	3%
Autos	-7%	-22%	-23%	-65%	-6%
HC Equipment & Services	-7%	-15%	-15%	1%	0%
Tech Hardware	-8%	-10%	3%	14%	32%
Staples	-8%	-8%	-3%	-2%	17%
Materials	-8%	-10%	-10%	-9%	-16%
Telecom	-9%	-8%	-12%	7%	24%
Retailing	-9%	-12%	-13%	-14%	6%
Household & Personal Products	-10%	-8%	-9%	-1%	20%
S&P 500 Earnings Revisions Breadth	-10%	-15%	-13%	-4%	6%
Consumer Discretionary	-10%	-17%	-20%	-15%	4%
Consumer Durables	-11%	-31%	-41%	-25%	-16%
Consumer Services	-11%	-14%	-15%	3%	8%
Food Beverage & Tobacco	-12%	-16%	-11%	-5%	13%
Health Care	-14%	-22%	-19%	5%	3%
Tech	-14%	-14%	7%	8%	16%
Semis	-15%	-11%	-9%	-11%	-1%
Software & Services	-17%	-18%	-5%	0%	29%
Transportation	-18%	-34%	-56%	-53%	-3%
Industrials	-18%	-26%	-31%	-9%	6%
Capital Goods	-21%	-28%	-28%	6%	11%
Pharma, Biotech, & Life Sciences	-21%	-29%	-24%	11%	7%

Source: Factset, Morgan Stanley Research

Exhibit 47: Revisions to 3Q26, 2026, and 2027 Earnings Estimates

Sector, Industry Group	YTD			Since 5/31/2026		
	3Q26	2026	2027	3Q26	2026	2027
Communication Services	-0.6%	22.9%	1.9%	-0.6%	22.9%	1.9%
Media & Entertainment	0.1%	27.7%	2.8%	0.1%	27.7%	2.8%
Telecom	-2.2%	0.9%	-1.1%	-2.2%	0.9%	-1.1%
Consumer Discretionary	-1.4%	17.7%	1.4%	-1.4%	17.7%	1.4%
Autos	3.2%	1.4%	-1.7%	3.2%	1.4%	-1.7%
Consumer Durables	-9.7%	-3.7%	-11.1%	-9.7%	-3.7%	-11.1%
Consumer Services	-1.0%	0.4%	-1.2%	-1.0%	0.4%	-1.2%
Retailing	-0.8%	29.5%	4.6%	-0.8%	29.5%	4.6%
Energy	29.6%	23.6%	21.5%	29.6%	23.6%	21.5%
Financials	2.1%	5.0%	2.5%	2.1%	5.0%	2.5%
Banks	-2.2%	5.9%	3.5%	-2.2%	5.9%	3.5%
Diversified Financials	3.7%	4.5%	2.7%	3.7%	4.5%	2.7%
Insurance	7.7%	5.8%	0.5%	7.7%	5.8%	0.5%
Health Care	-10.6%	-1.7%	0.7%	-10.6%	-1.7%	0.7%
HC Equipment & Services	-0.3%	3.4%	1.9%	-0.3%	3.4%	1.9%
Pharma, Biotech, & Life Sciences	-15.8%	-4.7%	0.1%	-15.8%	-4.7%	0.1%
Industrials	-1.2%	-0.1%	0.3%	-1.2%	-0.1%	0.3%
Capital Goods	-0.3%	1.1%	2.1%	-0.3%	1.1%	2.1%
Commercial & Professional Services	-0.9%	-0.1%	-0.7%	-0.9%	-0.1%	-0.7%
Transportation	-3.2%	-3.1%	-3.6%	-3.2%	-3.1%	-3.6%
Materials	-3.5%	-0.6%	1.1%	-3.5%	-0.6%	1.1%
Real Estate	-0.3%	0.5%	0.4%	-0.3%	0.5%	0.4%
Staples	-6.9%	-0.4%	-1.6%	-6.9%	-0.4%	-1.6%
Food & Staples Retailing	-1.5%	3.5%	1.0%	-1.5%	3.5%	1.0%
Food Beverage & Tobacco	-10.3%	-2.7%	-3.4%	-10.3%	-2.7%	-3.4%
Household & Personal Products	-4.8%	-0.4%	-0.8%	-4.8%	-0.4%	-0.8%
Tech	8.0%	7.2%	18.8%	8.0%	7.2%	18.8%
Semis	11.8%	11.5%	30.8%	11.8%	11.5%	30.8%
Software & Services	0.5%	0.5%	0.3%	0.5%	0.5%	0.3%
Tech Hardware	7.6%	6.4%	10.3%	7.6%	6.4%	10.3%
Utilities	-1.1%	-0.1%	-0.8%	-1.1%	-0.1%	-0.8%
S&P 500	2.7%	7.8%	8.0%	2.7%	7.8%	8.0%

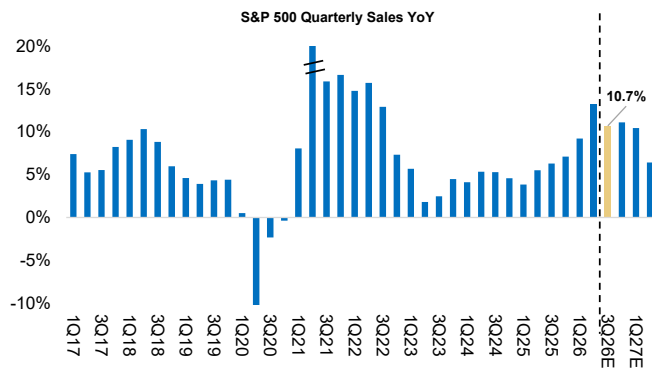
Source: FactSet, Morgan Stanley Research

Exhibit 48: S&P 500 ERB by Sector (yellow), Industry Group (blue)

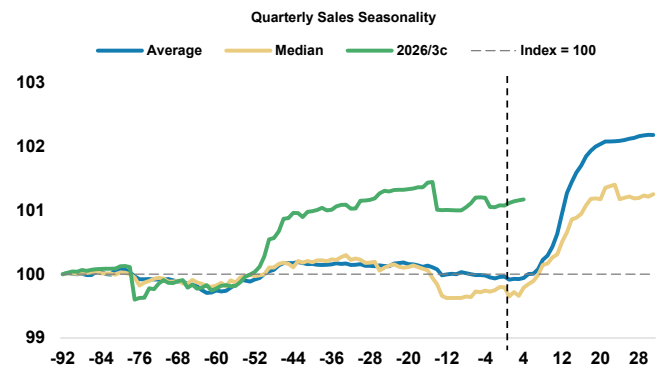
Source: FactSet, Morgan Stanley Research

Sales

- Consensus expects 10.7% sales growth in 3Q.
- Consensus expects 11% 2026 sales growth and 8% 2027 sales growth

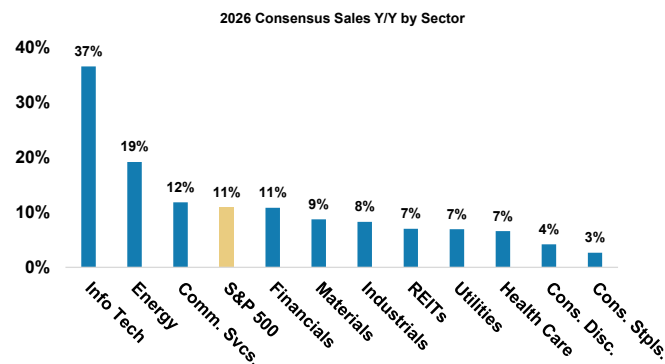
Exhibit 49: Quarterly Sales Growth

Source: FactSet, Morgan Stanley Research

Exhibit 50: Quarterly Sales Seasonality

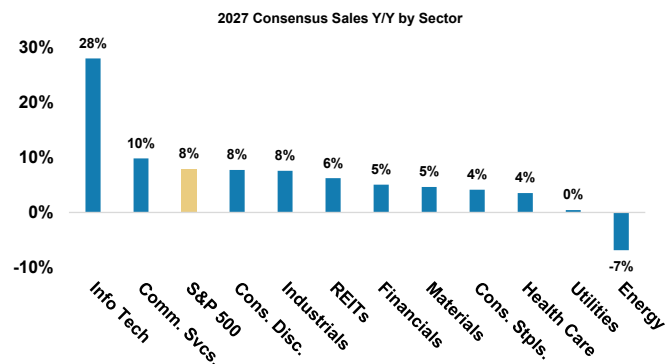
Source: FactSet, Morgan Stanley Research

Exhibit 51: 2026 Consensus Sales



Source: FactSet, Morgan Stanley Research

Exhibit 52: 2027 Consensus Sales

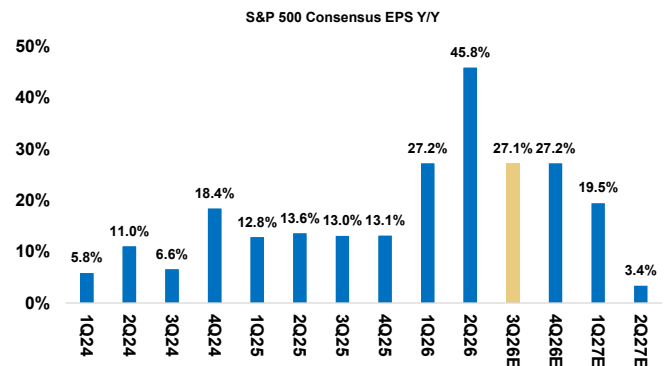


Source: FactSet, Morgan Stanley Research

EPS

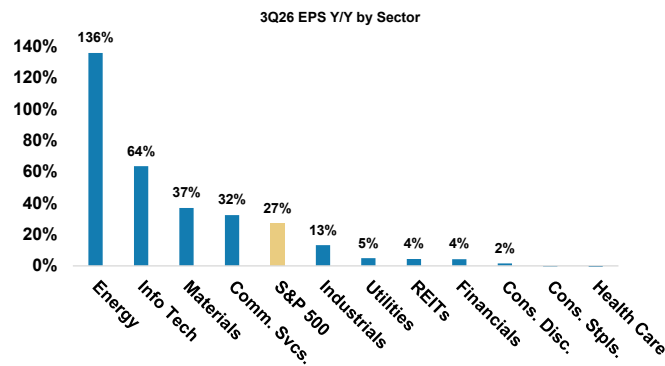
- Consensus expects 27% EPS growth in 3Q.
- Consensus expects 33% 2026 EPS growth and 16% 2027 EPS growth.

Exhibit 53: Consensus Expects 27% EPS Growth in 3Q



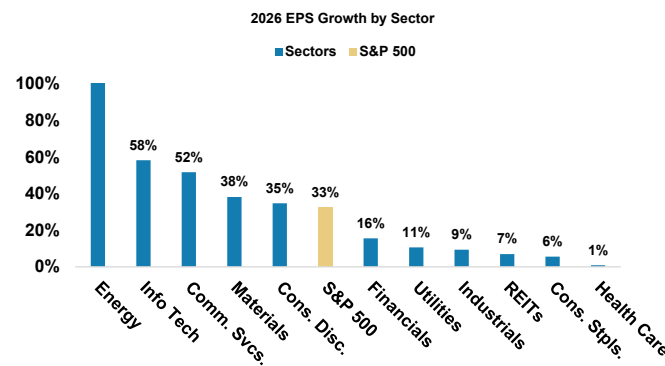
Source: FactSet, Morgan Stanley Research

Exhibit 54: 3Q26 EPS by Sector



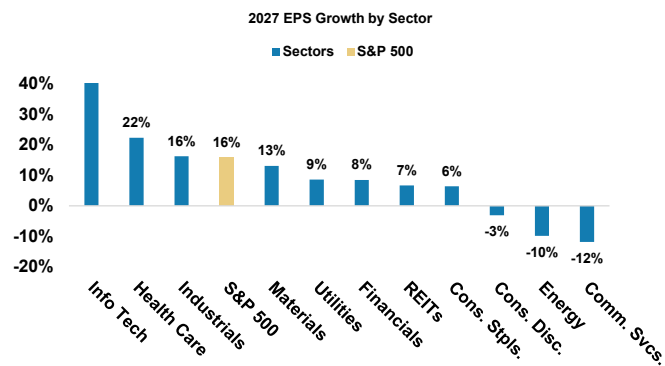
Source: FactSet, Morgan Stanley Research

Exhibit 55: 2026 EPS Growth by Sector

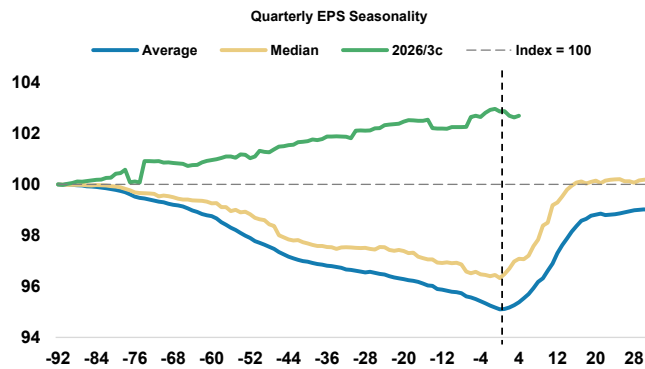


Source: FactSet, Morgan Stanley Research

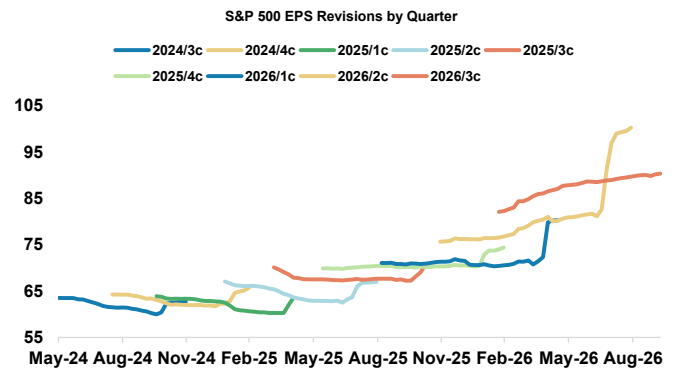
Exhibit 56: 2027 EPS Growth by Sector



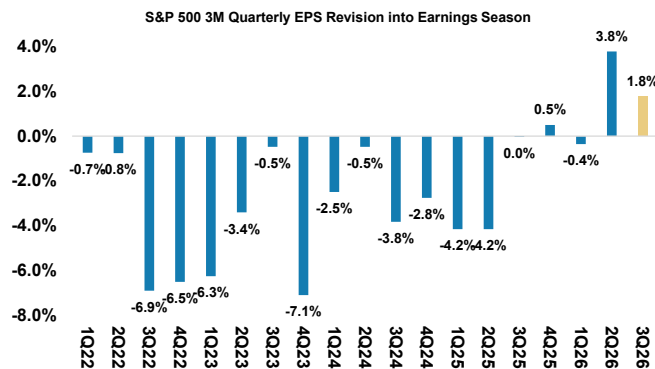
Source: FactSet, Morgan Stanley Research

Exhibit 57: Quarterly EPS Seasonality

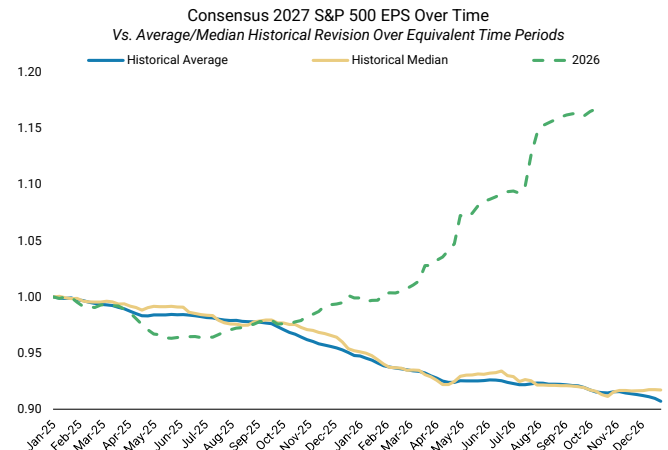
Source: FactSet, Morgan Stanley Research

Exhibit 58: S&P 500 EPS Revisions by Quarter

Source: FactSet, Morgan Stanley Research

Exhibit 59: Earnings Revisions into Reporting

Source: FactSet, Morgan Stanley Research

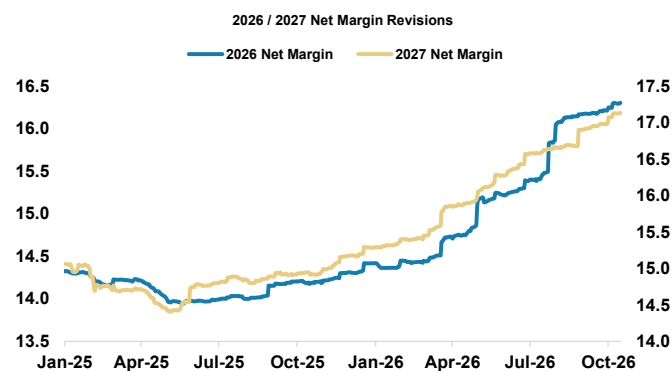
Exhibit 60: Seasonality of Out-Year Earnings Estimates vs 2026

Source: FactSet, Morgan Stanley Research

Margins

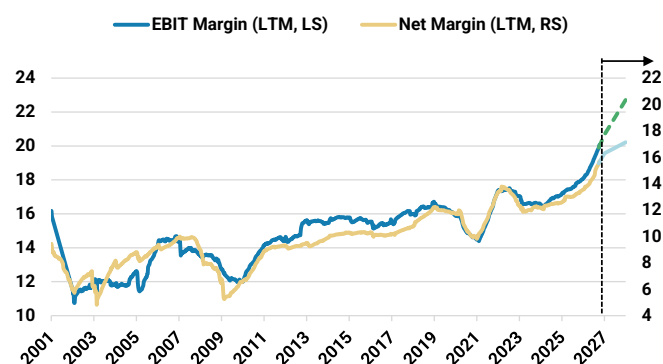
- Realized (LTM) EBIT margins are at 20.1% today and are expected to be 20.7% for FY2026 and 22.7% for FY2027.
- Realized (LTM) net margins are at 15.8% today and are projected at 16.3% for FY2026 and 17.1% for FY2027.
- 3Q consensus margins are at 15.8% for the S&P 500.

Exhibit 61: Annual Net Margin



Source: FactSet, Morgan Stanley Research

Exhibit 62: Margins Are Expected to Push Higher though 2027



Source: FactSet, Morgan Stanley Research

Exhibit 63: 2026 EBIT Margin

2026 EBIT Margin			
Sector, Industry Group	12/31/2025	10/16/2026	Spread
Communication Services	26.5	27.1	0.6%
Media & Entertainment	27.7	30.2	2.6%
Telecom	22.3	20.1	-2.2%
Consumer Discretionary	12.5	12.7	0.3%
Autos	6.4	6.9	0.5%
Consumer Durables	13.0	12.7	-0.3%
Consumer Services	21.9	21.4	-0.4%
Retailing	12.5	12.9	0.4%
Energy	13.0	18.6	5.6%
Health Care	10.4	10.0	-0.4%
HC Equipment & Services	5.0	5.2	0.2%
Pharma, Biotech, & Life Sciences	36.6	31.6	-5.0%
Industrials	15.3	14.9	-0.4%
Capital Goods	15.6	15.3	-0.2%
Commercial & Professional Services	22.3	22.4	0.1%
Transportation	12.8	11.8	-1.0%
Materials	17.0	18.0	1.0%
Staples	9.8	9.7	-0.1%
Food & Staples Retailing	4.3	4.4	0.1%
Food Beverage & Tobacco	16.9	16.8	-0.1%
Household & Personal Products	21.7	21.2	-0.5%
Tech	37.3	40.1	2.8%
Semis	51.6	56.9	5.3%
Software & Services	37.2	37.3	0.1%
Tech Hardware	25.1	26.6	1.5%
Utilities	24.6	24.2	-0.4%
S&P 500	19.4	20.7	1.3%

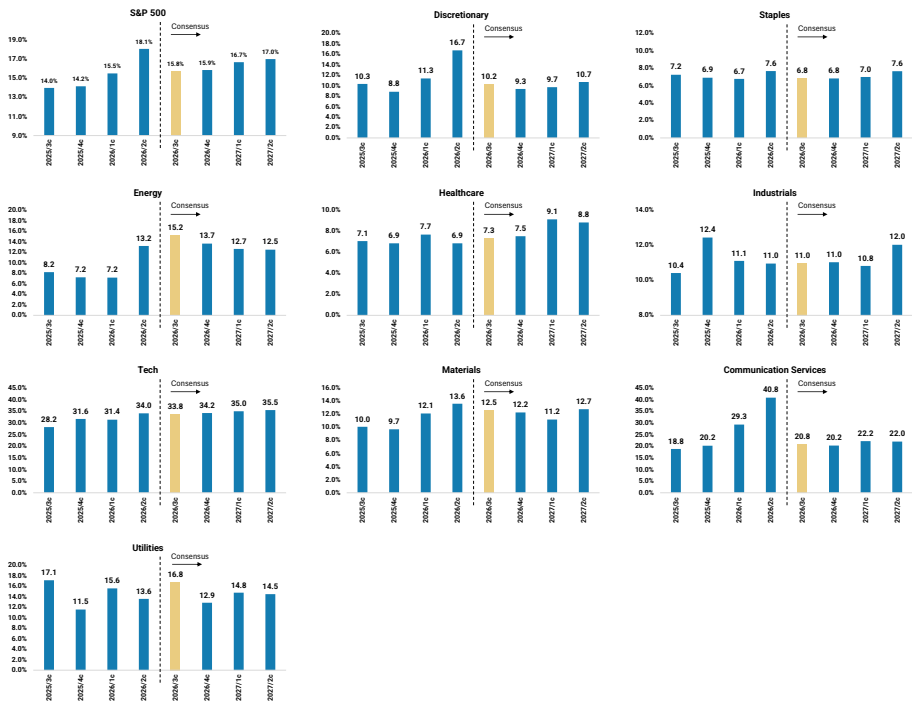
Source: FactSet, Morgan Stanley Research

Exhibit 64: 2026 Net Margin

2026 Net Margin			
Sector, Industry Group	12/31/2025	10/16/2026	Spread
Communication Services	20.3	28.1	7.8%
Media & Entertainment	22.3	35.3	13.0%
Telecom	13.5	12.3	-1.2%
Consumer Discretionary	9.7	11.8	2.1%
Autos	5.2	5.4	0.2%
Consumer Durables	10.0	9.7	-0.3%
Consumer Services	15.9	15.6	-0.3%
Retailing	9.9	13.5	3.6%
Energy	8.5	12.8	4.4%
Health Care	7.9	7.4	-0.5%
HC Equipment & Services	3.6	3.7	0.2%
Pharma, Biotech, & Life Sciences	29.3	24.2	-5.1%
Industrials	11.2	11.0	-0.1%
Capital Goods	11.4	11.7	0.2%
Commercial & Professional Services	15.7	15.7	0.0%
Transportation	9.2	8.3	-0.9%
Materials	11.3	12.1	0.9%
Staples	7.2	7.1	-0.1%
Food & Staples Retailing	3.0	3.1	0.1%
Food Beverage & Tobacco	12.4	12.4	0.0%
Household & Personal Products	16.6	16.2	-0.4%
Tech	30.5	33.2	2.7%
Semis	43.6	48.0	4.4%
Software & Services	29.3	30.3	1.1%
Tech Hardware	20.3	21.5	1.3%
Utilities	15.2	15.0	-0.3%
S&P 500	14.4	16.3	1.9%

Source: FactSet, Morgan Stanley Research

Exhibit 65:
Net Margins by Sector



Source: FactSet, Morgan Stanley Research

3Q Systematic Earnings (Full MS Coverage)

Summary:

- **Previews:** KPI previews are +18% vs +24% net positive last quarter and NTM EPS previews are +15% vs +27% last quarter on projected NTM impacts. Previews are currently net positive across all sectors with the exception of Industrials.

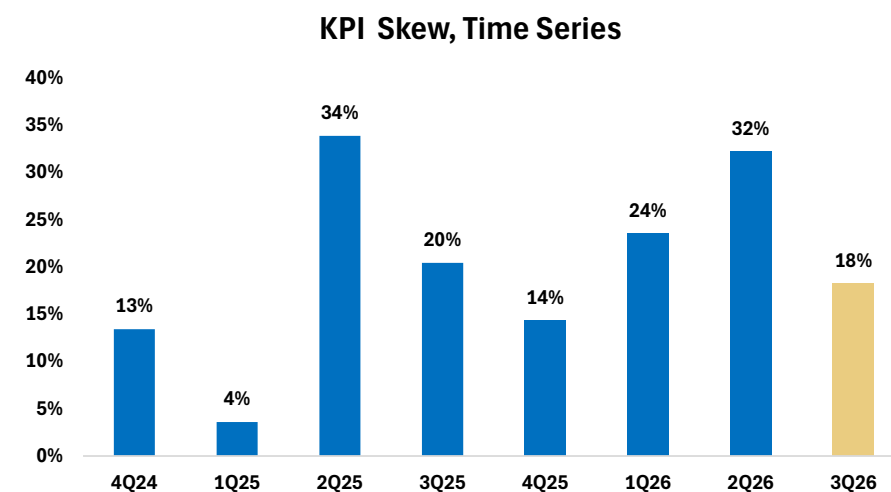
3Q Preview Tracking

Our Morgan Stanley Analysts submit a systematic earnings preview where they forecast two items: 1) **KPI** and 2) **NTM EPS** impact. Below we summarize the sector and industry summaries of these previews. The population is the Morgan Stanley US coverage, which is broader than the S&P 500 and roughly similar to the Russell 1000.

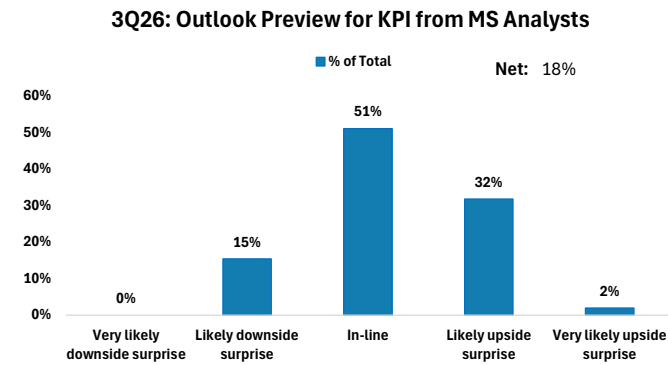
Methodology: Each analyst identifies the key performance indicator (KPI) for each individual stock and it may differ from NTM EPS. For example, the KPI for a Financial Services or Semiconductor company may be net assets or GPU demand and this may differ from NTM EPS (although, it is often similar). Each analyst chooses one of five forecasts for both KPI and EPS: very negative, negative, in-line, positive, or very positive. We roll up these previews into a net score by taking (positive-negative)/total reactions.

Key Performance Indicator (KPI) Previews

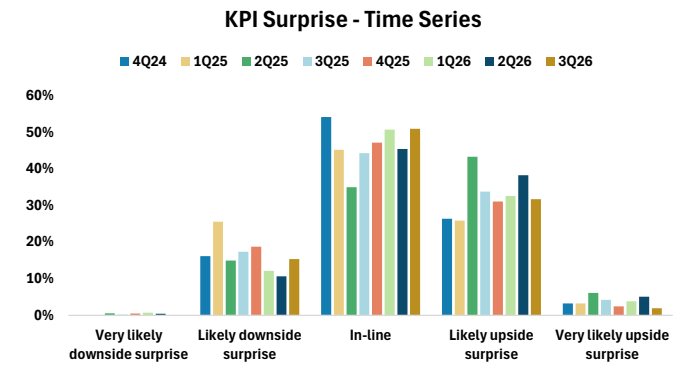
Exhibit 66: KPI Previews from MS Analysts - Net KPI



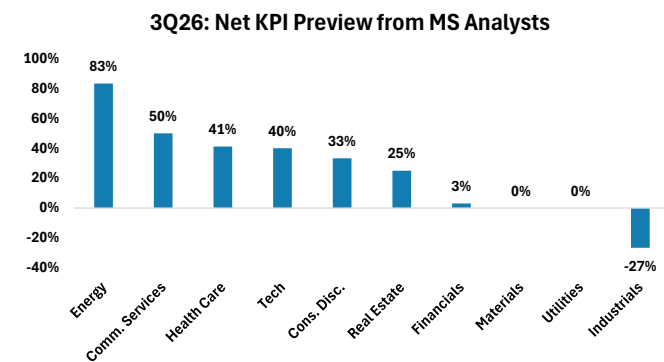
Source: Morgan Stanley Research

Exhibit 67: KPI Preview from MS Analysts - 3Q26

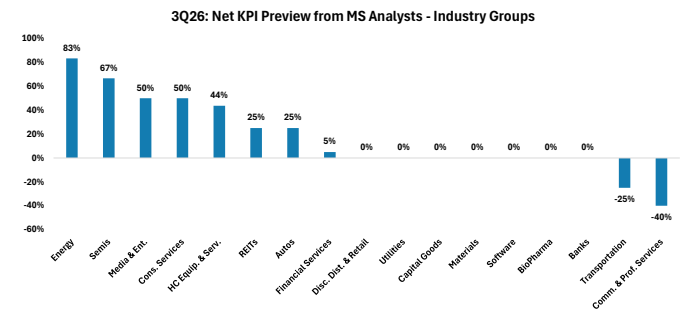
Source: Morgan Stanley Research

Exhibit 68: KPI Preview- Quarterly Time Series

Source: Morgan Stanley Research

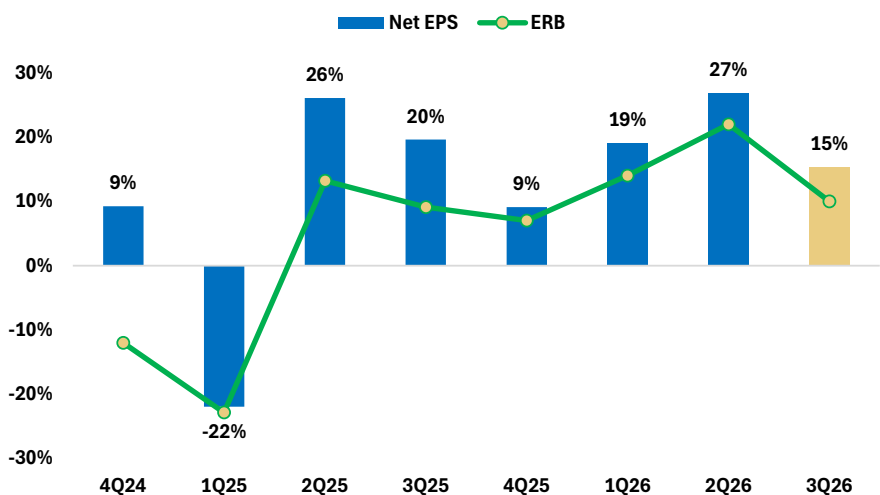
Exhibit 69: KPI Preview by Sector

Source: Morgan Stanley Research

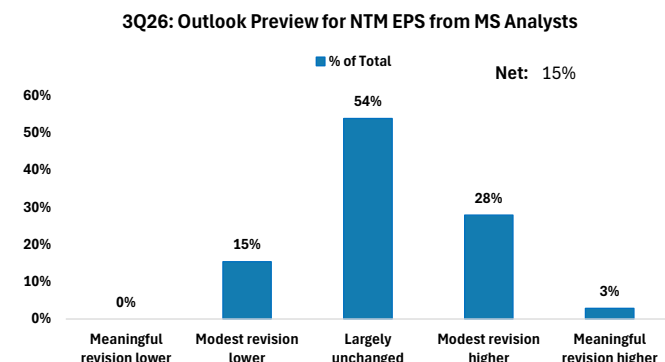
Exhibit 70: KPI Preview by Industry Group

Source: Morgan Stanley Research

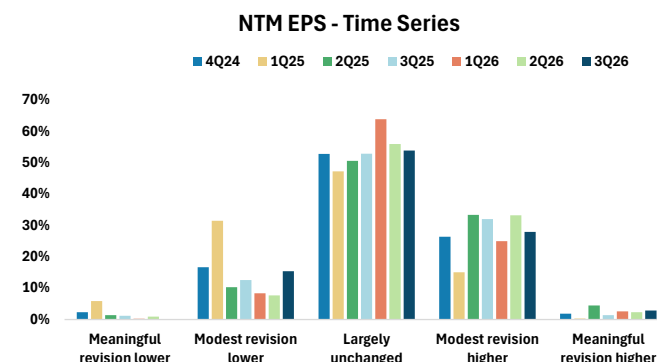
EPS Previews

Exhibit 71: EPS Preview from MS Analysts - Net EPS

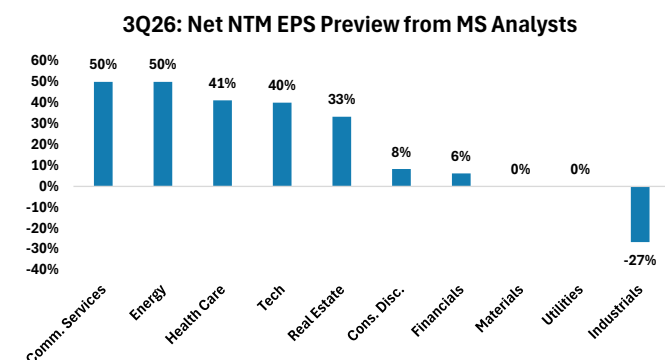
Source: Morgan Stanley Research. ERB is earnings revisions breadth.

Exhibit 72: EPS Preview from MS Analysts - 2Q26

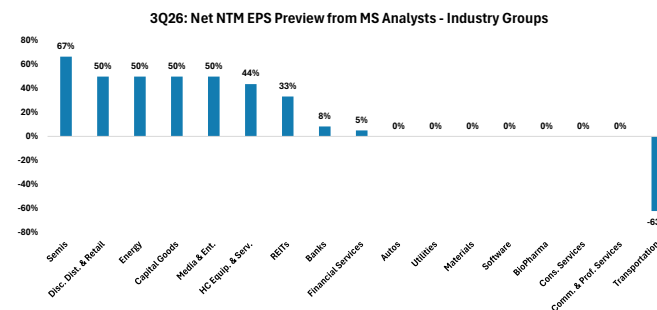
Source: Morgan Stanley Research

Exhibit 73: EPS Preview - Quarterly Time Series

Source: Morgan Stanley Research

Exhibit 74: EPS Preview by Sector

Source: Morgan Stanley Research

Exhibit 75: EPS Preview by Industry Group

Source: Morgan Stanley Research

Screen 1: Favored Stocks with Positive Surprise Expected

We screen for OW-rated stocks that are expected to beat on key KPI, or to see N12M consensus EPS revised higher post results.

Exhibit 76: Favored Stocks with Positive Surprise Expected

Ticker	Company	Analyst	Sector	Mkt Cap (\$bn)	Last Price	MS Rating	Reporting date	Analyst Identified KPI	Outlook for KPI Trend	Exp. M12M Cons. EPS Impact Trend	Analyst Top Pick
COF	Capital One Financial Corporation	Jeffrey Adelson, CFA	Financials	139	216.67	OW	10/26/2026	Expense commentary & NCOs	👉	👉	-
LRCX	Lam Research Corp	Shane Brett	IT	400	318.58	OW	10/21/2026	DecQ Guide	👉	👉	-
TSLA	Tesla Inc	Andrew S Perocco	Cons. Disc.	1255	354.81	EW	10/21/2026	Auto Gross Margin ex credits	👉	👉	-
CME	CME Group Inc	Michael J. Cyprys, CFA, CPA	Financials	101	280.94	OW	10/21/2026	Market Data Revenues	👉	👉	-
LUV	Southwest Airlines Co.	Ravi Shanker	Industrials	22	39.76	OW	10/21/2026	Idiosyncratic Initiatives	👉	👉	-
VLO	Valero Energy Corporation	Joe Laetsch, CFA	Energy	103	346.59	EW	10/22/2026	Refining margins	👉	👉	-
NDAQ	Nasdaq, Inc.	Michael J. Cyprys, CFA, CPA	Financials	56	99.35	OW	10/22/2026	Index Revenue	👉	👉	-
DGX	Quest Diagnostics Inc.	Erin Wright	Health Care	27	244.61	OW	10/22/2026	Organic volume	👉	👉	-
SLB	Schlumberger NV	Joe Laetsch, CFA	Energy	83	55.01	OW	10/23/2026	2027 NAM & Int'l Upstream Spending Outlook	👉	👉	-
WELL	Welltower Inc.	Ronald Kamdem, CFA	Real Estate	179	239.6	OW	10/26/2026	same-store NOI growth	👉	👉	-
HOOD	Robinhood Markets, Inc.	Michael J. Cyprys, CFA, CPA	Financials	101	109.76	EW	10/27/2026	Crypto and Prediction Market Revenues	👉	👉	-
BKR	Baker Hughes Co	Joe Laetsch, CFA	Energy	62	62.11	OW	10/27/2026	Chart integration and 2027 NAM & Int'l Upstream Spending Outlook	👉	👉	Top
PSX	Phillips 66	Joe Laetsch, CFA	Energy	96	239.81	OW	10/28/2026	Shareholder Returns	👉	👉	-
LH	Laboratory Corp. of America Holdings	Erin Wright	Health Care	27	336.54	OW	10/28/2026	Organic volume	👉	👉	-
WHW	Invitation Homes Inc	Adam Kramer	Real Estate	17	29.23	EW	10/28/2026	Effective new lease growth & SS-Rev	👉	👉	-
SBUX	Starbucks Corp.	Brian Harbour, CFA	Cons. Disc.	123	107.26	OW	10/29/2026	NA SSS	👉	👉	-
EBAY	eBay Inc	Nathan Feather	Cons. Disc.	47	102.27	OW	10/29/2026	FY27 EBIT Guidance	👉	👉	Top
FSR	First Solar Inc	David Arcaro, CFA	IT	23	210.1	OW	10/30/2026	3Q Bookings & Pricing	👉	👉	-
IDXX	IDEXX Laboratories, Inc.	Erin Wright	Health Care	43	545.08	OW	11/2/2026	CAG Dr Recurring Organic Revenue Growth	👉	👉	-
BKNG	Booking Holdings Inc	Matthew Cost	Cons. Disc.	167	202.56	OW	11/3/2026	Room Nights and Bookings	👉	👉	-
MPC	Marathon Petroleum Corp	Joe Laetsch, CFA	Energy	107	363.54	OW	11/3/2026	Refining margin	👉	👉	-
APP	Applio Corp	Matthew Cost	Comm. Svcs.	105	312.63	OW	11/4/2026	Revenue/EBITDA	👉	👉	-
MCK	McKesson Corporation	Erin Wright	Health Care	105	890.51	OW	11/4/2026	Oncology & Multispecialty AIO	👉	👉	-
COR	AmerisourceBergen Corp.	Erin Wright	Health Care	61	321.23	OW	11/4/2026	US HC Solutions AIO	👉	👉	-
IFF	International Flavors & Fragrances	Lisa H De Neve	Materials	22	86.85	OW	11/4/2026	LFL Aq EBITDA	👉	👉	Top
SPG	Simon Property Group Inc	Ronald Kamdem, CFA	Real Estate	96	214.89	EW	11/5/2026	same-store NOI	👉	👉	-
CAH	Cardinal Health Inc	Erin Wright	Health Care	56	235.13	OW	11/5/2026	Pharma & Specialty AIO	👉	👉	-
REG	Regency Centers Corp	Ronald Kamdem, CFA	Real Estate	14	75.46	OW	11/5/2026	same-store NOI	👉	👉	-

For valuation methodology and risks associated with any price targets referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-5424-4349. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA. Note: Screen systematically looks at MS Analyst earnings previews and filters for Overweight or Equal Weight rated stocks where the Analyst expects upside in the Key Performance Indicator (KPI). The KPI may differ from their view on EPS impact. Source: Bloomberg, Morgan Stanley Research

Screen 2: Less Favored Stocks with Negative Surprise Expected

We screen for stocks that are rated Equal Weight or Underweight by our analyst and are expected to miss on their key KPI. Note that the KPI may be different than N12M EPS.

Exhibit 77: Less Favored Stocks with Negative Surprise Expected

Ticker	Company	Analyst	Sector	Mkt Cap (\$bn)	Last Price	MS Rating	Reporting date	Analyst Identified KPI	Outlook for KPI Trend	Exp. N12M Cons. EPS Impact Trend
SYF	Synchrony Financial	Jeffrey Adelson, CFA	Financials	26	79.93	EW	10/20/2026	Retailer Share Arrangements (expense)	↓	↓
CSX	CSX Corporation	Ravi Shanker	Industrials	97	51.54	UW	10/21/2026	FY26 OR	↓	
HBAN	Huntington Bancshares	Manan Gosalia	Financials	34	16.86	EW	10/22/2026	Net Interest Income	↓	↓
AXP	American Express Company	Jeffrey Adelson, CFA	Financials	226	334.16	EW	10/23/2026	VCE	↓	↓
ARE	Alexandria Real Estate Equities, Inc.	Ronald Kamdem, CFA	Real Estate	9	52.28	UW	10/26/2026	same-store NOI growth	↓	
RJF	Raymond James Financial Inc.	Michael J. Cyprys, CFA, CPA	Financials	35	176.11	EW	10/28/2026	Investment Banking Revenues	↓	↓
ICE	Intercontinental Exchange Inc.	Michael J. Cyprys, CFA, CPA	Financials	92	161.24	EW	10/29/2026	Mortgage Tech Revenues	↓	
RSG	Republic Services Inc.	Toni Kaplan	Industrials	67	219.27	EW	10/29/2026	Adj. EBITDA margin	↓	
AMP	Ameriprise Financial, Inc.	Michael J. Cyprys, CFA, CPA	Financials	51	555.77	UW	10/29/2026	Net New Asset Growth	↓	↓
MOS	Mosaic Company	Vincent Andrews	Materials	8	23.76	EW	11/4/2026	Phosphate EBITDA	↓	↓

For valuation methodology and risks associated with any price targets referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-5424-4349. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA. Note: Screen systematically looks at MS Analyst earnings previews and filters for Overweight or Equal Weight rated stocks where the Analyst expects upside in the Key Performance Indicator (KPI). The KPI may differ from their view on EPS impact. Source: Bloomberg, Morgan Stanley Research

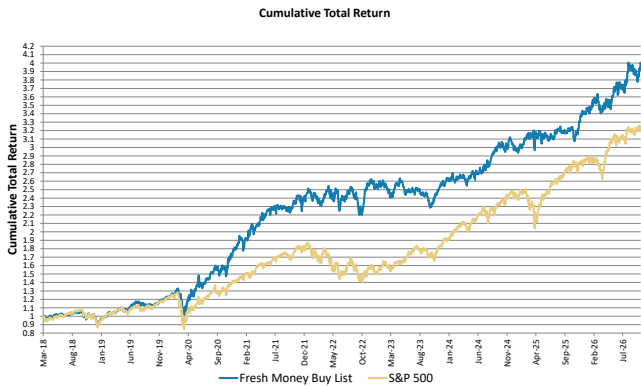
Fresh Money Buy List

Exhibit 78: Fresh Money Buy List - Stats & Performance

Company Name	Ticker	MS Rating	Sector	Market Cap (\$Bn)	Price	MS PT	% to MS PT	MS Analyst	Date Added	Total Return Since Inclusion	
										Absolute	Rel. to S&P
Abbvie Inc.	ABBV	Overweight	Health Care	\$504.3	\$285.41	310.00	8.6%	Flynn, Terence	8/12/2024	61.5%	14.3%
American Tower Corp.	AMT	Overweight	Real Estate	\$86.3	\$185.27	220.00	18.7%	McVeigh, Cameron	4/7/2025	(10.2%)	(63.9%)
CenterPoint Energy Inc.	CNP	Equal-Weight	Utilities	\$26.5	\$40.56	38.00	(6.3%)	Arcaro, David	3/21/2022	56.3%	(26.7%)
Delta Air Lines, Inc.	DAL	Overweight	Industrials	\$49.6	\$75.36	125.00	65.9%	Shanker, Ravi	11/17/2025	30.4%	15.4%
EQT Corp.	EQT	Overweight	Energy	\$34.0	\$54.32	67.00	23.3%	McDermott, Devin	11/17/2025	(8.5%)	(23.5%)
Knight-Swift Transportation Holdings Inc.	KNX	Overweight	Industrials	\$10.5	\$64.82	100.00	54.3%	Shanker, Ravi	11/17/2025	52.7%	37.8%
Northrop Grumman Corp.	NOC	Overweight	Industrials	\$73.9	\$519.93	745.00	43.3%	Liwag, Kristine	8/12/2024	9.2%	(38.0%)
Atlassian Corporation PLC	TEAM	Overweight	Information Technology	\$52.3	\$207.82	180.00	(13.4%)	Wood, Adam	11/17/2025	36.9%	22.0%
Target Corp.	TGT	Overweight	Consumer Staples	\$70.1	\$154.25	170.00	10.2%	Gutman, Simeon	11/17/2025	76.2%	61.3%
Walmart Inc.	WMT	Overweight	Consumer Staples	\$842.6	\$118.81	125.00	5.2%	Gutman, Simeon	3/27/2023	161.3%	59.1%
Current List Performance											
Average (Eq. Weight)				\$165.0			21.0%			46.58%	5.76%
Median				\$61.2			14.5%			44.8%	14.8%
% Positive Returns (Abs. / Rel.)										60%	60%
% Negative Returns (Abs. / Rel.)										20%	40%
Avg. Hold Period (Months)											22.7
All Time List Performance											
Average (Eq. Weight)										32.1%	5.7%
Median										22.7%	(1.1%)
% Positive Returns (Abs. / Rel.)										77%	48%
% Negative Returns (Abs. / Rel.)										23%	52%
Avg. Hold Period (Months)											19.2
Performance returns shown above and below represent local currency total returns, including dividends and excluding brokerage commission. Returns are calculated using the closing price on the last trading day before the date shown in the "Date Added" column through close on the last trading day prior to publication of this report for stocks currently on the list and through close on the day of removal for stocks formerly on the list. These figures are not audited. Past performance is no guarantee of future results.											

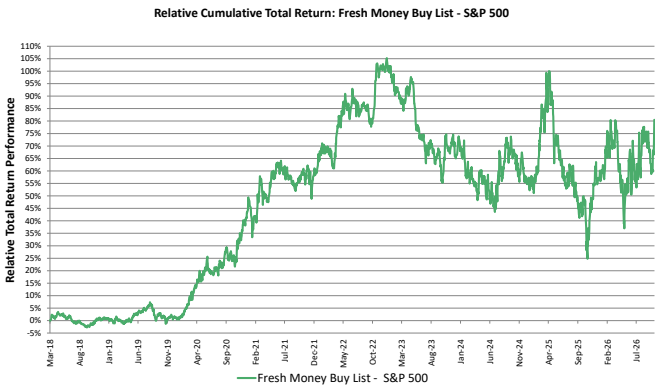
Source: Bloomberg, Morgan Stanley Research

Exhibit 79: Fresh Money Buy List & S&P 500 Cumulative Total Return



Source: Bloomberg, Morgan Stanley Research

Exhibit 80: Fresh Money Buy List / S&P 500 Cumulative Relative Return

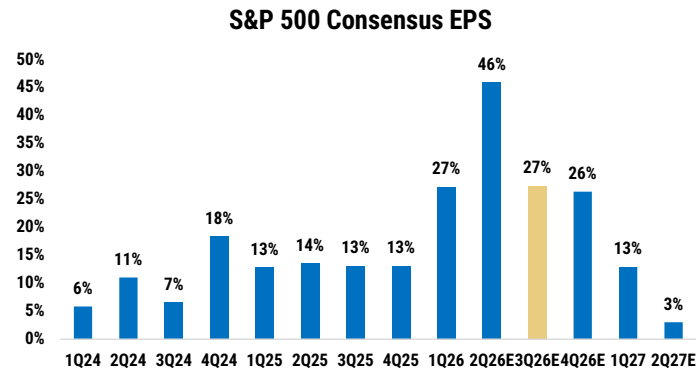


Source: Bloomberg, Morgan Stanley Research

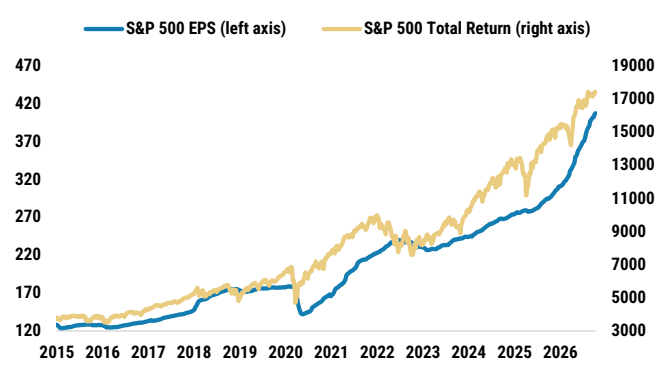
Weekly Charts to Watch

Exhibit 81: US Earnings Snapshot

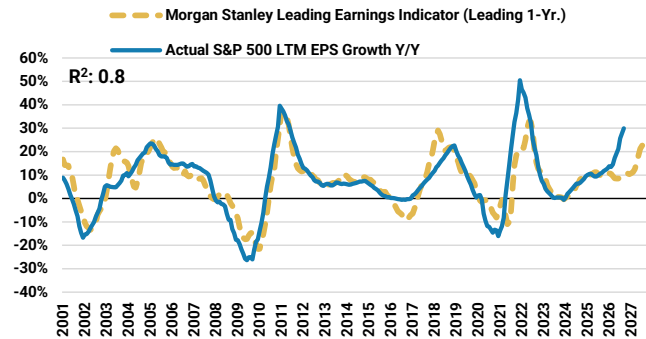
S&P 500 Y/Y EPS Growth



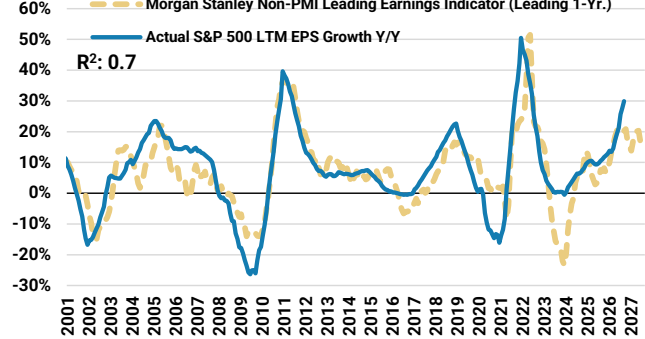
S&P 500 NTM EPS vs. Total Return Level



US Leading Earnings Indicator



US Non-PMI Leading Earnings Indicator



Source: Refinitiv, FactSet, Morgan Stanley Research. Top: As of Oct. 6, 2026. Bottom left as of Sept 30, 2026. Bottom right as of Sept 30, 2026. Government data has delayed further updates. Actual S&P 500 LTM EPS as of 9/30/26. 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. MS Non-PMI Leading Earnings Indicator inputs: Philadelphia 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.

Exhibit 82: Morgan Stanley US Equity Strategy Forecast Table

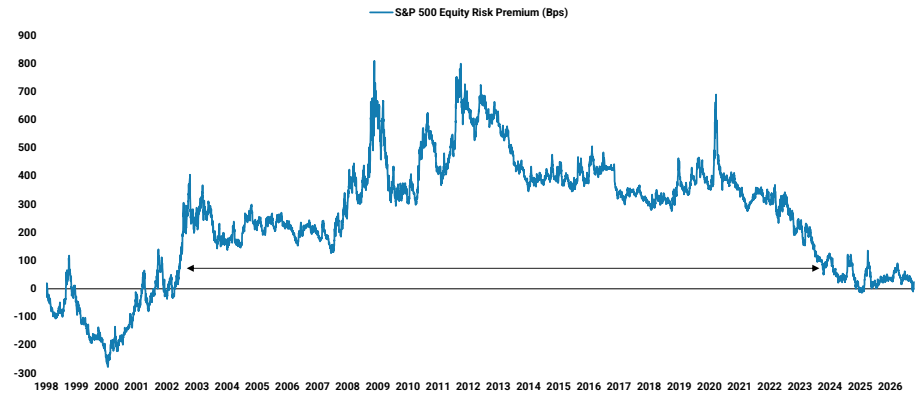
	Current Prices	MS Next 12M Price Target	Price Target % to Current	Current P/E	MS Next 12M P/E Target	MS Top Down EPS Estimates				Bottom Up Consensus EPS Estimates			
						2026	2027	June 2028	2028	2026	2027	June 2028	2028
Bear Growth	7,659	5,900	-23%	18.8x	19.0x	\$299	\$300	\$311	\$322	\$364	\$422	\$436	\$494
Base Growth	7,659	8,300	8%	18.8x	20.5x	\$339	\$380	\$404	\$429	\$364	\$422	\$436	\$494
Bull Growth	7,659	9,400	23%	18.8x	21.0x	\$352	\$416	\$448	\$480	\$364	\$422	\$436	\$494
						28%	18%	17%	16%	33%	16%	16%	17%

Source: FactSet, Morgan Stanley Research.

Exhibit 83: Sector Ratings

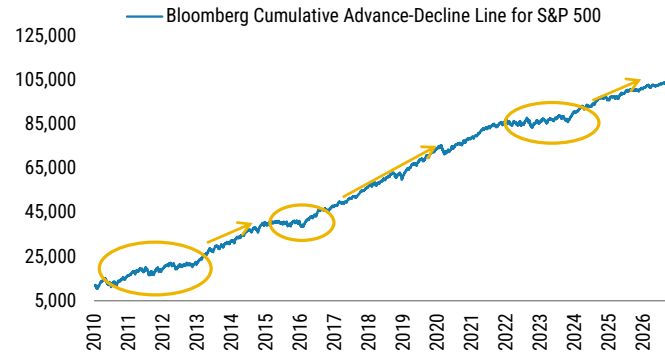
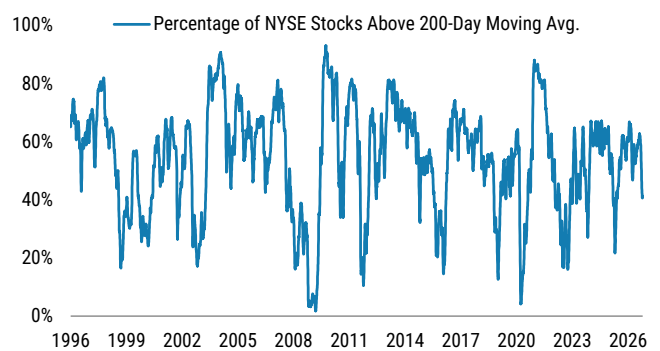
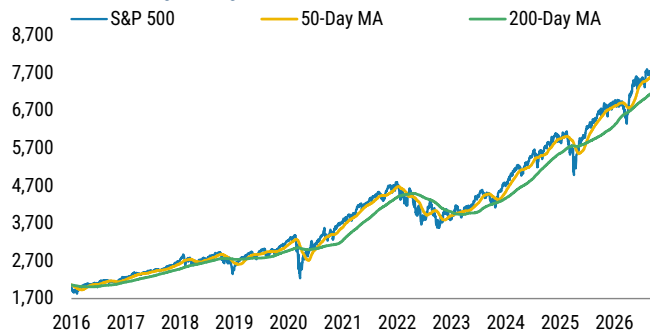
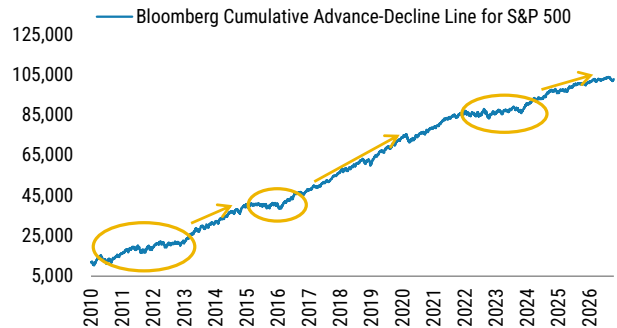
Morgan Stanley Sector Recommendations			
Overweight	Financials	Industrials	Consumer Discretionary Goods
Equal Weight	Tech	Comm. Services	Health Care
	Materials	Utilities	Consumer Services
	Energy		
Underweight	Staples	Real Estate	

Source: Morgan Stanley Research

Exhibit 84: Equity Risk Premium

Note: Equity risk premium is calculated as the S&P 500 forward 12M earnings yield minus the nominal 10-Year Treasury.

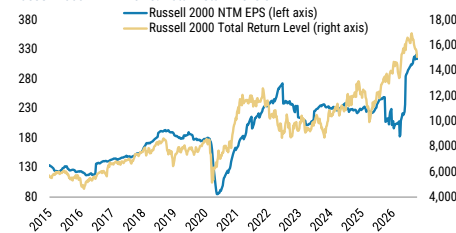
Source: As of Oct. 16, 2026. Bloomberg, Morgan Stanley Research

Exhibit 85: US Equity Market Technicals and Financial Conditions**S&P 500 Advance/Decline Line****S&P 500 Percent Members Above 200-Day Moving Average****S&P 500 with Moving Averages****S&P 500 Advance/Decline Line**

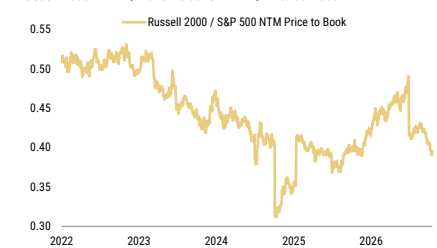
Source: Bloomberg, Morgan Stanley Research. As of Oct 16, 2026

Exhibit 86: US Small Cap Equities

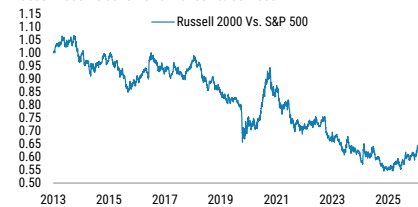
Russell 2000 NTM EPS vs. Total Return Levels



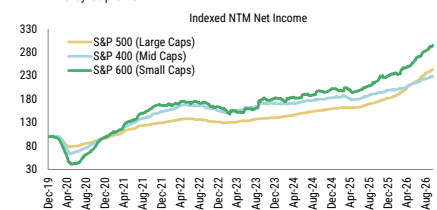
Russell 2000 NTM P/B and Relative NTM P/B vs. S&P 500



Russell 2000 Relative Performance vs. S&P 500



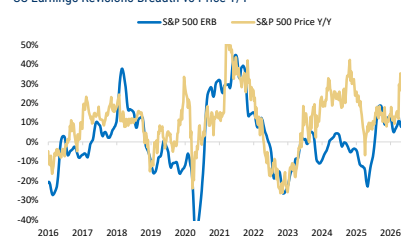
NTM EPS by Cap Size



Source: FactSet, Morgan Stanley Research. As of Oct. 16, 2026

Exhibit 87: Earnings Revisions Breadth

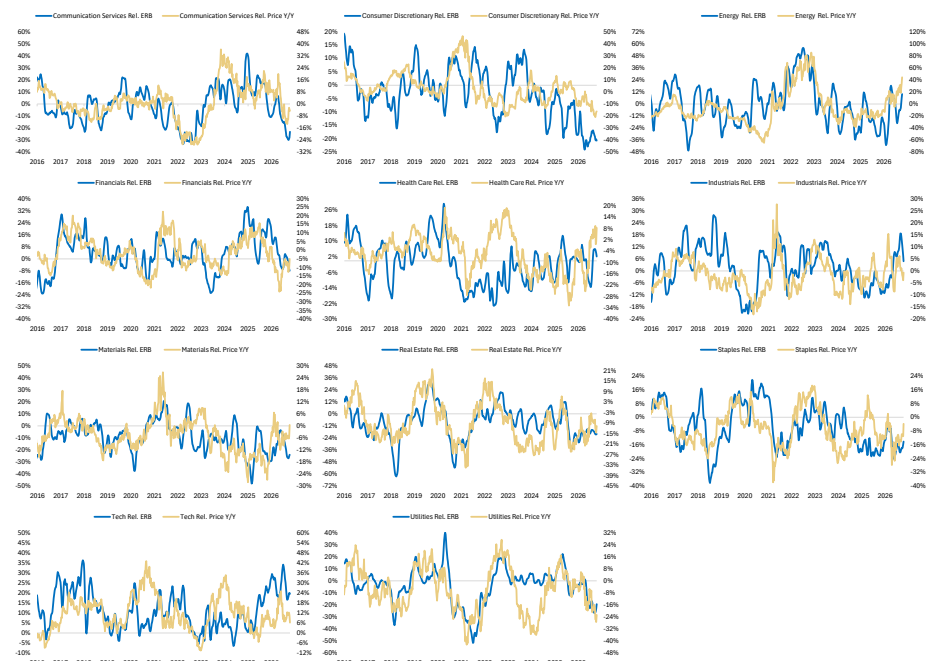
US Earnings Revisions Breadth vs Price Y/Y



US Earnings Revisions Breadth (Adv. 25W) vs EPS Y/Y



Source: FactSet, Morgan Stanley Research

Exhibit 88: Earnings Revisions Breadth vs YoY Performance

Source: FactSet, Morgan Stanley Research. As of Oct. 16, 2026

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(as of September 30, 2026)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
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Equal-weight/Hold	1563	42%	394	42%	25%	763	43%
Not-Rated/Hold	2	0%	1	0%	50%	1	0%
Underweight/Sell	570	15%	96	10%	17%	227	13%
Total	3,734		946			1774	

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