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GLOBAL INSIGHT

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Thematics

Mapping AI's Rate of Change: Where the Rubber Meets the Road

In our 5th global AI stock mapping across 3,600 stocks, the market's focus is shifting from "AI exposure" to proof of ROI — and the fundamental gap between winners and losers is widening.

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Tech Diffusion
A Morgan Stanley Research Key Theme of 2026

Earnings expectations are diverging: Since end-2023, upward earnings revisions for AI Adopters have outpaced the AI-Disrupted by ~2x, widening the gap as the return on investment accrues.

Margin expansion leads the ROI signal: Our analysts expect ~80% of AI benefits to come from cost efficiency vs. revenue growth, aligning with AI Adopter EBIT margin expansion of 310bps in 2024-25, double the rate for MSCI World during that period. Forward estimates are pricing in less margin expansion for the adopters versus the index — we believe this will change as adoption and use cases deepen.

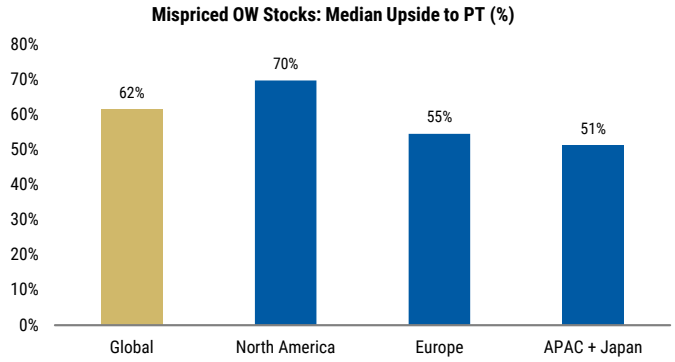
Proof points are becoming more measurable: Supporting the margin expansion story that our AI mapping highlights, 30% of analyst-identified Adopters in North America cited at least one quantifiable AI impact in 4Q25, up from 24% in 3Q25 and 16% in 4Q24, suggesting ROI disclosure is picking up as AI strategies mature.

AI exposure a global investment theme: Stocks we expect to benefit from AI adoption now represent 49% of North America coverage, 37% in Asia, and 43% in Europe, which saw the most AI exposure uplift in this survey, conducted in December 2025. Europe stands out as the region expecting to shrink workforce most aggressively on the back of AI — a net 35% of companies plan to reduce workforce compared to low teens in most other regions.

Mispriced in the unwind: In recent weeks, industries perceived as being disrupted by AI sold off sharply with the steepest de-ratings concentrated in Software & Services. As AI model capabilities scale non-linearly, disruption-driven volatility is likely to remain a recurring feature. Following the selloff, we highlight stocks that our analysts believe were unfairly derated Exhibit 21 with an estimated median 62% upside to our price targets (Exhibit 1).

Three ways to put our mapping to work: We translate the database into three single-stock screens — (1) step-ups in materiality, (2) Adopters where revenue benefits outweigh cost benefits, and (3) Adopters where cost benefits outweigh revenue benefits.

Exhibit 1: Unfairly Sold Names: Our Analysts Estimate a Median 62% Upside to PTs, Globally



Note: North America includes 22 stocks, Europe includes 14 stocks, APAC + Japan includes 10 stocks.
Source: Morgan Stanley Research

See full list of unfairly sold names in Exhibit 21 .

Please click here for the full database of ~3,600 stocks mapped by AI exposure and materiality.

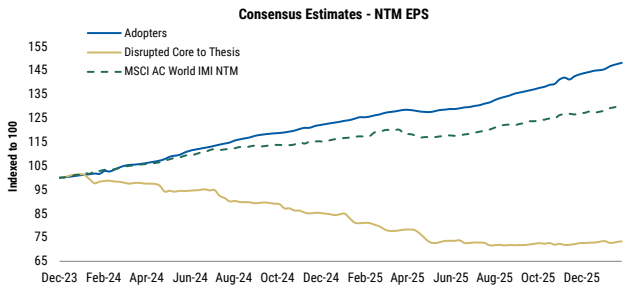
Key Takeaways

A complete list of Adopters and Enablers is available upon request: please click here if you would like to receive that database. *The Methodology section provides an explanation of our categories.*

Three Key Points for Investors

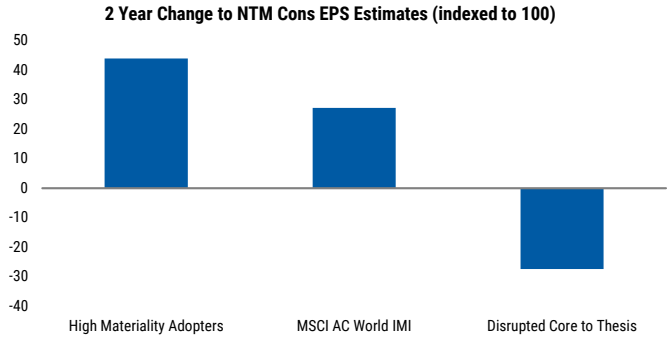
(1) AI Adoption Drives Fundamentals — AI Adopters deliver strong revisions to forward earnings and EBIT margin expansion. Forward earnings expectations for global AI Adopters have consistently outpaced those of the MSCI World IMI Index, and the gap has continued to expand. In contrast, earnings revisions declined sharply for companies our analysts believe will be substantially disrupted by AI, as investors increasingly price in margin pressure, competitive erosion, and business model risk. Adopters' earnings have been revised 102% higher than the disrupted group's since end-2023. **From 2024 to 2025, EBIT margins for AI adopters expanded by 310 bps, over double the 150 bps increase for the MSCI World.** Further expansion of 230 bps is expected in 2026 vs. 130 bps for the MSCI World. By 2027, however, consensus is modeling just 90 bps of additional Adopter margin expansion vs. 130 bps for the MSCI World. **We would expect margin expansion to continue as AI adoption ramps.** We view these divergences as evidence that the market is moving beyond AI narratives and toward AI ROI, with earnings power and margin expansion emerging as important differentiators.

Exhibit 2: AI Adopters See a Forward Earnings Boost



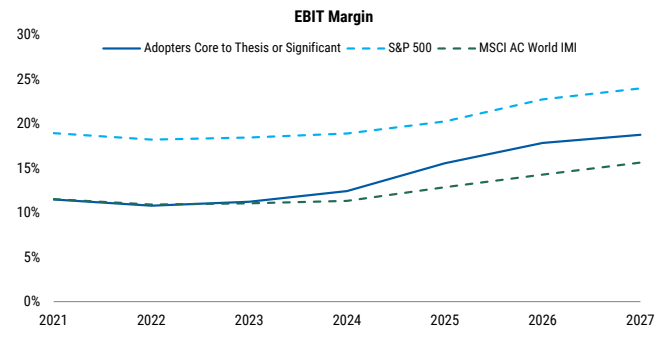
Note: Adopters includes Adopters and Enabler/Adopters with high materiality (Moderate to Core to Thesis) and High or Neutral pricing power.
Source: FactSet, Morgan Stanley Research

Exhibit 3: AI Adopters Have Seen Significant EPS Boost Over Past 2 Years



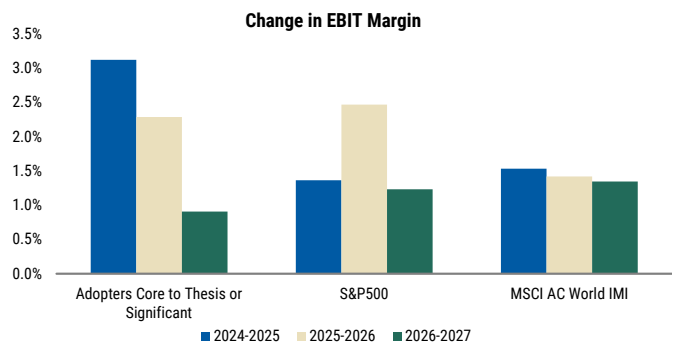
Note: Adopters includes Adopters and Enabler/Adopters with high materiality (Moderate to Core to Thesis) and High or Neutral pricing power.
Source: FactSet, Morgan Stanley Research

Exhibit 4: AI Adopters Deliver Margin Expansion



Note: Adopters includes Adopters and Enabler/Adopters.
Source: FactSet, Morgan Stanley Research

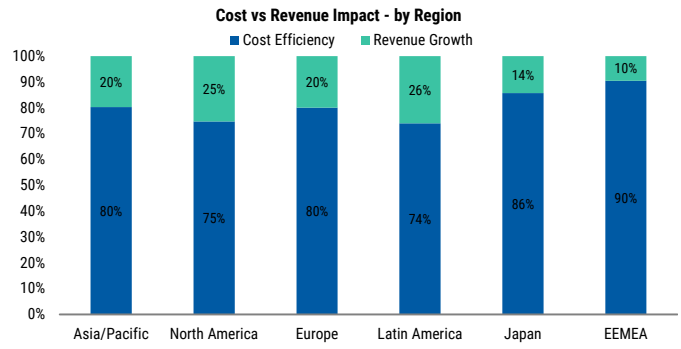
Exhibit 5: Forward Margin Estimates Appear Conservative



Source: Adopters includes Adopters and Enabler/Adopters.
Source: FactSet, Morgan Stanley Research

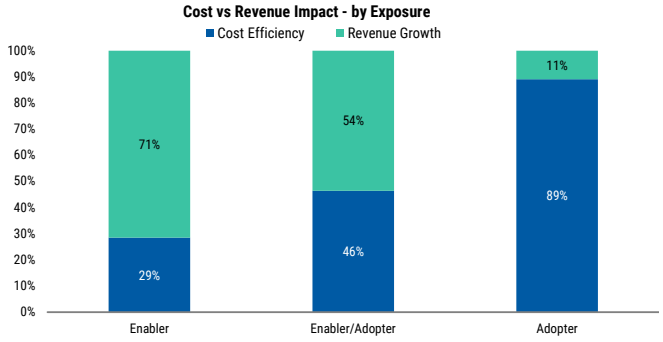
(2) Cost Efficiency Rather than Revenue Growth to Drive the Majority of AI-Related Benefits. Responding to a new question in our survey, analysts across all regions overwhelmingly expect AI-driven benefits over the next 12-24 months to skew toward cost efficiency (74-90%) vs. revenue growth (10-26%), reinforcing the view that AI initially will have more impact on margins than on topline acceleration. The cost vs. revenue split is largely a function of AI exposure. Revenue growth dominates among the AI Enablers, where 71% of companies are likely to see greater benefits from revenue, consistent with the revenue benefits seen from data center infrastructure sales. The intermediate Enabler/ Adopter group shows a near even split between revenue growth and cost efficiency benefits. By contrast, analysts expect 89% of AI Adopters to see greater benefit from efficiency gains vs. just 11% from revenue growth.

Exhibit 6: The Majority of Benefits Are Expected to Come from Cost Efficiency



Source: Morgan Stanley Research

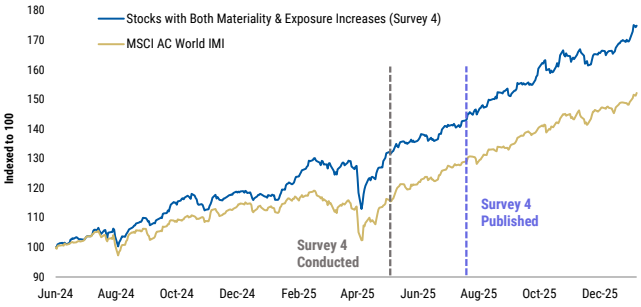
Exhibit 7: Enablers Expected to See Revenue Benefits while Adopters Expected to See Cost Efficiency Benefits



Source: Morgan Stanley Research

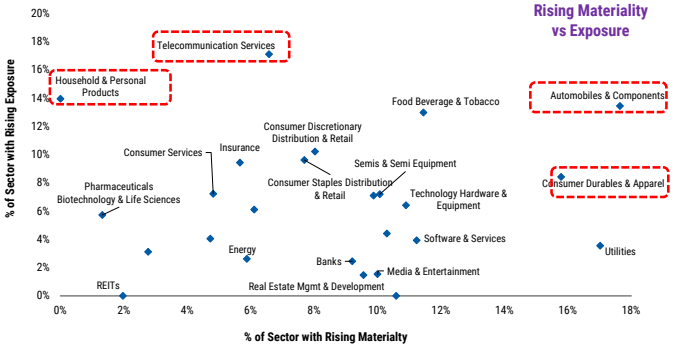
(3) Rate of Change is the Key to Outperformance. To assess the relevance of AI's rate of change, we looked at the performance of stocks for which our global analysts identified a change in materiality and exposure as part of the re-mapping exercise. We see substantial outperformance for stocks where the rate of change is positive. Comparing the current, 5th wave of mapping (run December 2025) to the 4th, consumer industry groups show a notable rise in materiality and exposure. Among Consumer Durables & Apparel companies, 16% saw an increase in materiality and 8% an increase in exposure. Within Autos & Components, 18% saw an increase in materiality and 13% in exposure. In Food Beverage & Tobacco, materiality rose for 11% and exposure, for 13%.

Exhibit 8: Positive Rate of Change Is a Performance Driver



Source: FactSet, Morgan Stanley Research

Exhibit 9: Consumer Groups Showing Strong Rate of Change

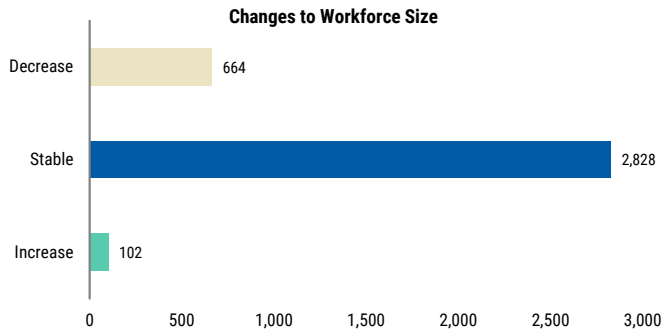


Source: Morgan Stanley Research

Three Key Points for Corporates

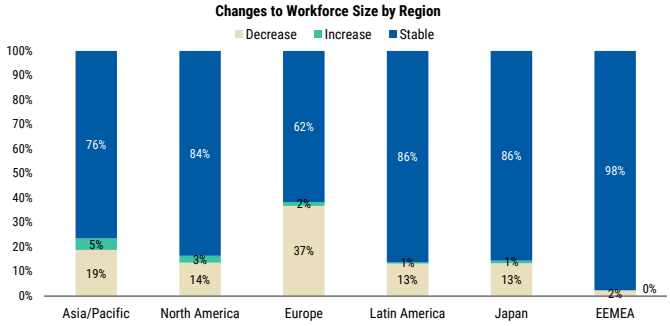
(1) AI Adoption to Lead to a Stable or Declining Workforce Over the Next 12-24 Months. Our analysts expect that AI adoption will largely result in a stable employee population over the next 1-2 years for companies under their coverage. However, among those expecting a change in the workforce, companies anticipating a decline outnumbered those expecting an increase by more than 6.5x. Europe stands out here, with 37% of companies looking for a decline — roughly double the other regions. Management teams will increasingly be challenged to explain how AI is reshaping workforce needs (i.e., through redeployment, reskilling, or cost containment) and how those choices support margins, growth, and long-term competitiveness.

Exhibit 10: Expected Changes to Workforce Size



Source: Morgan Stanley Research. *Total count for all companies in data set.

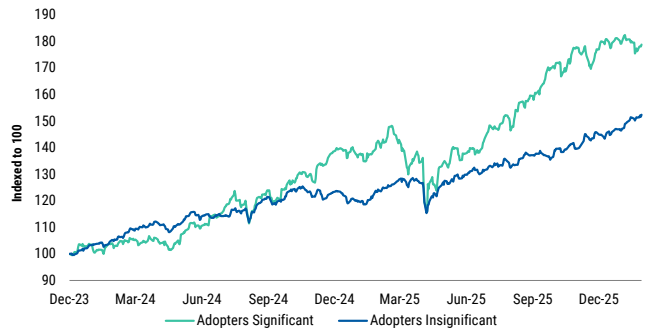
Exhibit 11: Changes to Workforce Size by Region



Source: Morgan Stanley Research. * % of total responses by type within each region.

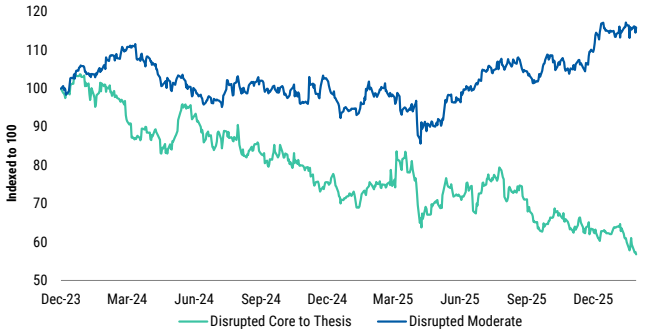
(2) Materiality Matters — on Both the Positive and Negative Side. Looking beyond AI Enablers to Adopters and Disrupted, we see pronounced performance dispersion driven by AI's materiality to the investment thesis. Among Adopters, companies where AI adoption is significant have outperformed peers where AI is insignificant by 19%. The asymmetry is wider on the downside. For companies facing AI-driven disruption, those where disruption is core to the thesis have underperformed peers where disruption is moderate by 44%. In other words, the market is not just rewarding positive exposure to AI but actively penalizing business models where AI poses a structural threat. Gaps based on materiality have widened further post Liberation Day lows. Leadership teams will need to demonstrate not just adoption, but why and where AI is economically meaningful to the business to avoid the wrong side of the materiality divide.

Exhibit 12: AI Materiality Matters Both on the Long...



Note: Includes Enabler/Adopter category.
Source: FactSet, Morgan Stanley Research

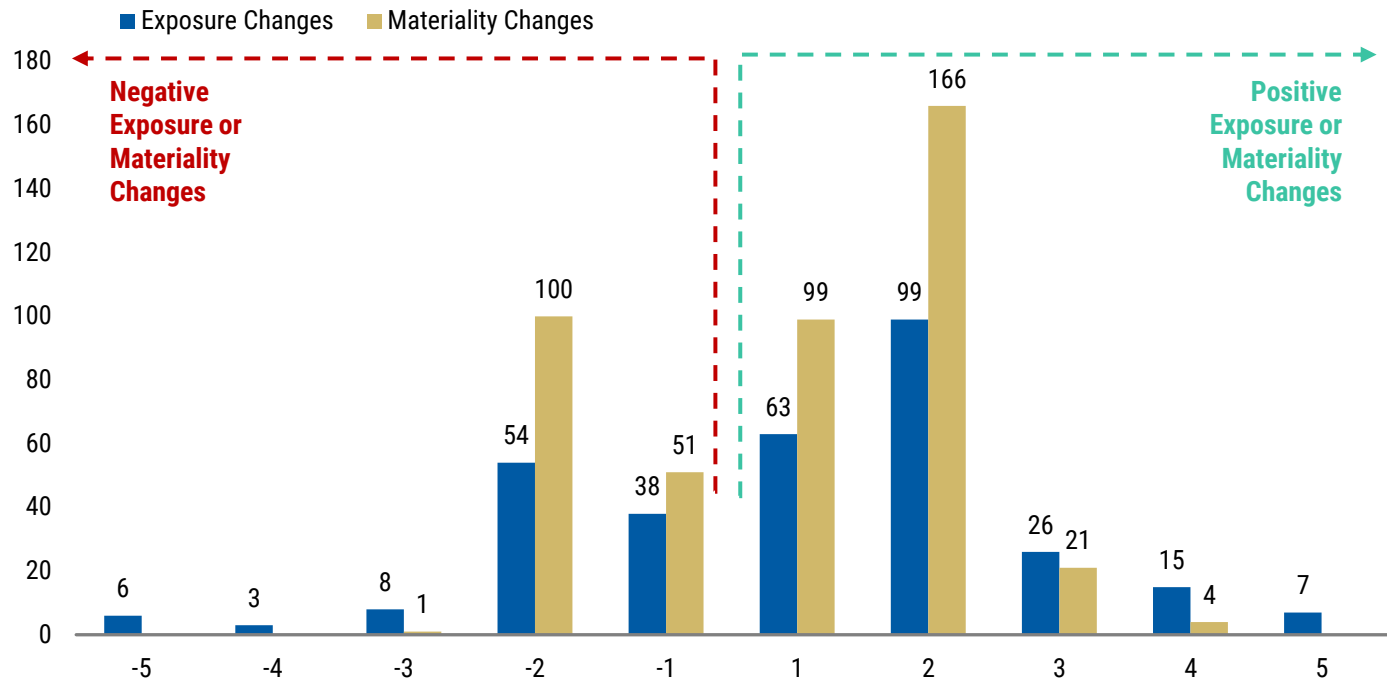
Exhibit 13: ...and Short Side



Source: FactSet, Morgan Stanley Research

(3) AI Exposure is Dynamic: Analysts Continue to Update their Views on AI Exposure and Materiality Across Companies Under Coverage. We re-run this survey every six months precisely because AI classifications and supporting evidence are dynamic. As analysts engage with management teams through earnings calls, investor events, and disclosures, they update their assessments of both AI exposure and materiality. It is common for companies whose AI exposure was previously unknown to be newly classified as AI Adopters, Enablers, or both. Importantly, materiality assessments are evolving as management teams provide greater clarity. In a number of cases, analysts have been persuaded that AI is more central to the business than previously understood — in some cases moving up more than one level (e.g., from insignificant to significant). What is more, as expectations are recalibrated, companies viewed as having meaningful AI exposure have seen downgrades in materiality. For corporate executives, the takeaway is clear — analyst and investor perceptions of AI are dynamic and evidence-driven. Consistently articulating how AI is embedded in strategy, influencing core financial drivers, and delivering measurable ROI is critical not just to establish positive exposure, but to sustain it as analyst views continue to evolve.

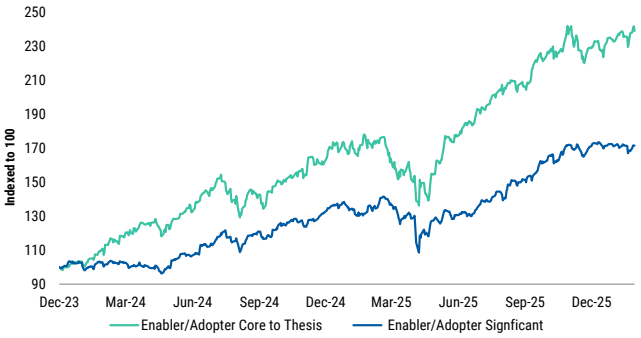
Exhibit 14: We Saw More Positive Exposure & Materiality Changes



Source: Morgan Stanley Research

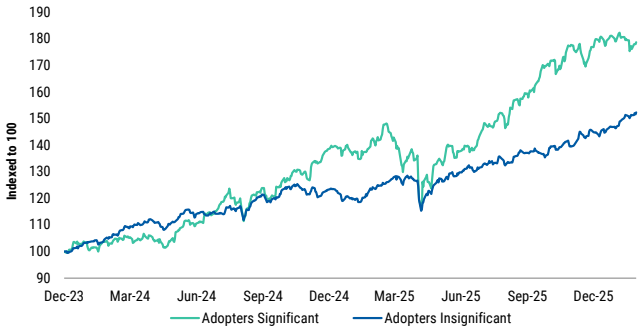
AI's Rate of Return in Stock Performance Charts

Exhibit 15: Core Enablers & Adopters Outperform Significant Enablers & Adopters



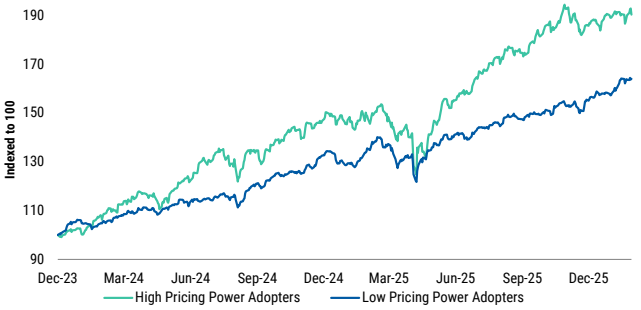
Source: FactSet, Morgan Stanley Research

Exhibit 16: Significant Adopters Outperform Insignificant Adopters



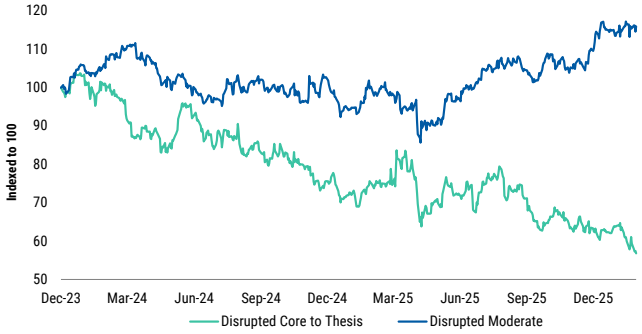
Note: Includes Enabler/Adopter category.
Source: FactSet and Morgan Stanley Research.

Exhibit 17: Adopters with High Pricing Power Outperform those with Low Pricing Power



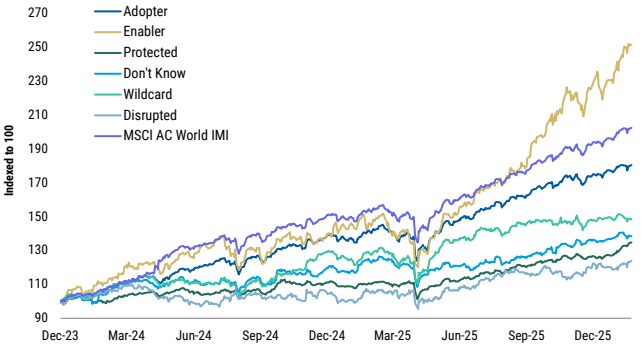
Note: Includes Enabler/Adopter category.
Source: FactSet and Morgan Stanley Research.

Exhibit 18: Disrupted Core Underperform Disrupted Moderate



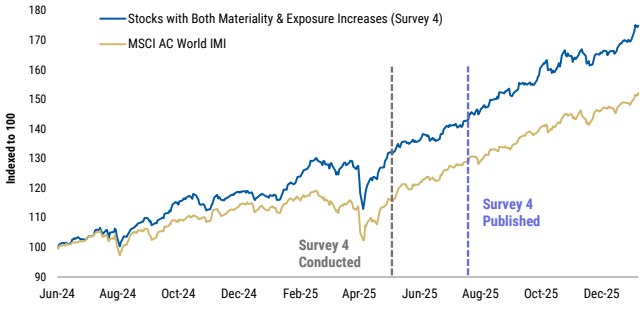
Source: Source: FactSet, Morgan Stanley Research

Exhibit 19: Enablers Lead the Pack



Note: Includes Enabler/Adopter category.
Source: FactSet and Morgan Stanley Research.

Exhibit 20: Rate of Change Drives Outperformance



Source: FactSet, Morgan Stanley Research

Mispriced in the AI Disruption Unwind

In recent weeks, markets have sold off sharply across industries viewed as exposed to AI disruption, with the deepest de-ratings concentrated in Software & Services. As AI model capabilities continue to scale at a non-linear rate, disruption-related volatility is likely to remain a recurring feature. However, the recent move was broad and largely indiscriminate, with limited differentiation across business models or fundamentals. We highlight a group of names that our analysts believe were disproportionately penalized despite intact underlying fundamentals. For more work on this topic, please see European TMT, Business Services, & Equity Strategy: In the AI of the Storm and Software: Software Gut Check - AI IS Software.

Exhibit 21: Stocks Mispriced in the AI Disruption Unwind

Ticker	Company	Industry	Analyst Rating	Market Cap (USD)	Base Case PT (USD)	Price (USD)	Upside to PT %
APAC + Japan							
2413.T	M3	Health Care Technology	Overweight	7,649	17.96	11.26	60%
4483.T	JMDC	Health Care Technology	Overweight	1,568	33.36	23.74	41%
PME.AX	Pro Medicus Ltd	Health Care Technology	Overweight	12,150	242.34	116.09	109%
6758.T	Sony Group	Household Durables	Overweight	137,218	30.16	22.84	32%
0700.HK	Tencent Holdings Ltd.	Interactive Media & Services	Overweight	653,809	94.06	70.51	33%
1357.HK	Meitu Inc	Interactive Media & Services	Overweight	3,940	2.01	0.85	135%
REA.AX	REA Group Limited	Interactive Media & Services	Overweight	15,989	173.10	121.08	43%
CAR.AX	CAR Group Limited	Interactive Media & Services	Overweight	7,114	26.31	18.83	40%
XRO.AX	Xero Ltd	Software	Overweight	9,683	155.79	58.69	165%
WTC.AX	WiseTech Global Limited	Software	Overweight	11,714	90.01	35.03	157%
Europe							
LSEG.L	London Stock Exchange	Capital Markets	Overweight	53,314	170.42	99.65	71%
VSURE.ST	Verisure PLC	Commercial Services & Supplies	Overweight	15,747	22.96	15.23	51%
SPOT.N	Spotify Technology SA	Entertainment	Overweight	100,114	775.00	476.02	63%
UMG.AS	Universal Music Group	Entertainment	Overweight	43,690	36.50	23.81	53%
AMA.MC	Amadeus IT Holdings S.A.	Hotels, Restaurants & Leisure	Overweight	27,247	96.56	62.48	55%
CPG.L	Compass Group	Hotels, Restaurants & Leisure	Overweight	48,311	40.58	28.44	43%
G24n.DE	Scout24	Interactive Media & Services	Overweight	6,412	134.24	88.31	52%
SMGC.S	SMG Swiss Marketplace Group Holding AG	Interactive Media & Services	Overweight	4,209	63.98	42.56	50%
PUBP.PA	Publicis Groupe SA	Media	Overweight	23,873	135.41	93.99	44%
EXPN.L	Experian PLC	Professional Services	Overweight	30,888	63.57	33.50	90%
REL.L	RELX	Professional Services	Overweight	54,471	48.83	29.02	68%
DAST.PA	Dassault Systemes SA	Software	Overweight	35,208	35.33	26.42	34%
SGE.L	Sage	Software	Overweight	11,115	18.94	11.44	66%
SAPG.DE	SAP SE	Software	Overweight	247,709	282.60	209.92	35%
North America							
SPGI.N	S&P Global Inc	Capital Markets	Overweight	121,155	580.00	401.08	45%
MSCI.N	MSCI Inc.	Capital Markets	Overweight	38,536	719.00	515.66	39%
MH.N	McGraw Hill, Inc.	Diversified Consumer Services	Overweight	2,416	21.00	13.00	62%
PXED.N	Phoenix Education Partners, Inc.	Diversified Consumer Services	Overweight	1,124	46.00	28.90	59%
TOST.N	Toast, Inc.	Financial Services	Overweight	17,886	56.00	29.47	90%
NAVN.O	Navan Inc	Hotels, Restaurants & Leisure	Overweight	2,995	20.00	10.89	84%
SNOW.N	Snowflake Inc.	IT Services	Overweight	67,914	299.00	182.58	64%
SHOP.O	Shopify Inc	IT Services	Overweight	161,211	192.00	118.40	62%
NET.N	Cloudflare Inc	IT Services	Overweight	66,328	258.00	179.98	43%
TRU.N	TransUnion	Professional Services	Overweight	14,620	116.00	74.14	56%
EFX.N	Equifax Inc	Professional Services	Overweight	25,065	244.00	202.71	20%
MSFT.O	Microsoft	Software	Overweight	3,085,456	650.00	413.60	57%
INTU.O	Intuit	Software	Overweight	122,515	880.00	437.50	101%
NOW.N	ServiceNow Inc	Software	Overweight	111,458	210.00	106.48	97%
CRM.N	Salesforce, Inc.	Software	Overweight	184,164	405.00	193.45	109%
TTAN.O	ServiceTitan Inc	Software	Overweight	6,301	131.00	62.98	108%
VIA.N	Via Transportation Inc	Software	Overweight	1,932	41.00	20.85	97%
CCC.O	CCC Intelligent Solutions Holdings Inc	Software	Overweight	3,833	13.00	5.58	133%
DSGX.O	Descartes Systems Group Inc	Software	Overweight	5,906	115.00	67.41	71%
BL.O	Blackline Inc	Software	Overweight	3,292	73.00	43.02	70%
VERX.O	Vertex Inc.	Software	Overweight	2,613	33.00	15.26	116%
PANW.O	Palo Alto Networks Inc	Software	Overweight	117,694	245.00	166.00	48%

Source: FactSet, Morgan Stanley Research

Three Ways to Play to the AI Adopters and Enablers

#1: Positive Rate of Change

- **Rate of Change:** Positive Increase in Materiality *(eg Moderate to Significant)*
- **Materiality:** Moderate, Significant or Core to Thesis
- **Exposure:** AI Adopter, Enabler/Adopter, or Enabler
- **Stock Rating:** Overweight Rated by Morgan Stanley Analyst
- **Market Cap Ranking:** 10 largest stocks by market cap in each region meeting criteria above

Exhibit 22: Stock Screen 1: Positive Rate of Change

Ticker	Company	Industry	Exposure	Materiality	Price (USD)	Market Cap (USD)	Upside to PT %
APAC + Japan							
005930-KR	Samsung Electronics	Technology Hardware & Equipment	Enabler/Adopter	Core to Thesis	113.75	757,357	27%
000660-KR	SK hynix	Semiconductors & Semiconductor Equipment	Enabler	Core to Thesis	601.02	435,243	26%
HSBA-GB	HSBC Holdings	Banks	Adopter	Moderate	17.95	324,484	-2%
500325-IN	Reliance Industries	Energy	Enabler/Adopter	Core to Thesis	16.08	217,539	24%
005380-KR	Hyundai Motor	Automobiles & Components	Enabler/Adopter	Significant	329.67	68,263	25%
2318-HK	Ping An Insurance Group Co of China Ltd	Insurance	Enabler/Adopter	Significant	9.40	70,006	21%
285A-JP	KIOXIA Holdings	Semiconductors & Semiconductor Equipment	Enabler/Adopter	Significant	120.91	65,860	-26%
500034-IN	Bajaj Finance Limited	Financial Services	Adopter	Moderate	10.64	66,137	24%
Z74-SG	Singapore Telecom	Telecommunication Services	Enabler/Adopter	Significant	3.78	60,399	4%
U11-SG	United Overseas Bank	Banks	Adopter	Moderate	30.53	51,668	4%
Europe							
AIR-FR	Airbus SE	Capital Goods	Enabler/Adopter	Moderate	225.63	178,021	32%
RR-GB	Rolls-Royce Holdings PLC	Capital Goods	Enabler/Adopter	Moderate	16.82	141,586	21%
EL-FR	EssilorLuxottica SA	Health Care Equipment & Services	Enabler/Adopter	Core to Thesis	294.96	132,841	46%
RHM-DE	Rheinmetall AG	Capital Goods	Enabler/Adopter	Moderate	1,918.15	83,319	53%
STAN-GB	Standard Chartered	Banks	Adopter	Moderate	25.34	61,017	12%
RWE-DE	RWE AG	Utilities	Enabler/Adopter	Core to Thesis	63.00	46,859	12%
ADYEN-NL	Adyen NV	Financial Services	Adopter	Moderate	1,455.86	44,407	56%
NOKIA-FI	Nokia Oyj	Technology Hardware & Equipment	Enabler/Adopter	Moderate	7.03	37,483	9%
DSDVY-US	DSV A/S	Transportation	Adopter	Moderate	150.50	34,667	6%
ABN-NL	ABN AMRO Bank NV	Banks	Adopter	Moderate	36.48	30,209	16%
North America							
V-US	Visa Inc.	Financial Services	Adopter	Moderate	328.17	682,594	25%
MA-US	MasterCard Inc	Financial Services	Adopter	Moderate	540.39	509,588	25%
KO-US	Coca-Cola Co.	Food Beverage & Tobacco	Adopter	Moderate	76.81	331,205	5%
CSCO-US	Cisco Systems Inc	Technology Hardware & Equipment	Enabler	Significant	86.78	345,601	5%
PM-US	Philip Morris International Inc	Food Beverage & Tobacco	Adopter	Moderate	182.69	284,631	12%
NEE-US	NextEra Energy Inc	Utilities	Enabler/Adopter	Core to Thesis	90.83	189,749	14%
ADI-US	Analog Devices Inc.	Semiconductors & Semiconductor Equipment	Enabler	Moderate	322.97	161,178	-3%
UBER-US	Uber Technologies Inc	Transportation	Adopter	Significant	73.50	157,334	36%
WDC-US	Western Digital	Technology Hardware & Equipment	Enabler	Significant	285.99	108,104	29%
CVS-US	CVS Health Corp	Health Care Equipment & Services	Adopter	Significant	75.70	96,096	23%

Source: FactSet, Morgan Stanley Research

#2: AI Adopters With Revenue Benefits > Cost Benefits

- **Exposure:** AI Adopter
- **Materiality:** Moderate, Significant, or Core to Thesis
- **AI Benefits:** Revenue Benefits > Cost Benefits
- **Company Has Proprietary Data that Will Lead to Long Term Revenue Growth or Margin Improvement:** Significant or Moderate
- **Stock Rating:** Overweight Rated by Morgan Stanley Analyst
- **Market Cap Ranking:** 10 largest stocks by market cap in each region meeting criteria above
  - *Note: Europe had <10 names meeting the criteria so all names are shown*

Exhibit 23: Stock Screen 2: AI Adopters with Revenue Benefits > Cost Benefits

Ticker	Company	Industry	Exposure	Materiality	Data Impact	Price (USD)	Market Cap (USD)	Upside to PT %
APAC + Japan								
3690-HK	Meituan	Consumer Services	Adopter	Moderate	Significant	11.36	70,750	35%
CPNG-US	Coupang Inc	Consumer Discretionary Distribution & Retail	Adopter	Moderate	Moderate	18.25	32,868	70%
4901-JP	FUJIFILM Holdings	Technology Hardware & Equipment	Adopter	Moderate	Significant	19.57	23,586	51%
FUTU-US	Futu Holdings Ltd	Financial Services	Adopter	Moderate	Moderate	156.18	21,867	58%
YUMC-US	Yum China Holdings Inc.	Consumer Services	Adopter	Significant	Significant	57.12	20,628	5%
035720-KR	Kakao Corp	Media & Entertainment	Adopter	Core to Thesis	Significant	40.00	18,002	37%
REA-AU	REA Group Limited	Media & Entertainment	Adopter	Moderate	Moderate	121.08	15,989	43%
GRAB-US	Grab Holdings Ltd	Transportation	Adopter	Moderate	Significant	4.26	16,385	63%
1209-HK	China Resources Mixc Lifestyle Services	Real Estate Management & Development	Adopter	Moderate	Significant	6.04	13,793	4%
508869-IN	Apollo Hospitals Enterprise Ltd.	Health Care Equipment & Services	Adopter	Moderate	Moderate	79.57	11,440	22%
Europe								
STAN-GB	Standard Chartered	Banks	Adopter	Moderate	Moderate	25.34	61,017	12%
LSEG-GB	London Stock Exchange	Financial Services	Adopter	Core to Thesis	Significant	99.65	53,314	71%
UMG-NL	Universal Music Group	Media & Entertainment	Adopter	Moderate	Moderate	23.81	43,690	53%
NXT-GB	Next PLC	Consumer Discretionary Distribution & Retail	Adopter	Moderate	Moderate	172.65	20,994	25%
DHER-DE	Delivery Hero SE	Consumer Services	Adopter	Moderate	Moderate	26.54	7,766	11%
North America								
WMT-US	Walmart Inc	Consumer Staples Distribution & Retail	Adopter	Moderate	Significant	129.02	1,041,613	5%
ISRG-US	Intuitive-Surgical-Inc.	Health Care Equipment & Services	Adopter	Moderate	Moderate	492.84	180,724	32%
DE-US	Deere & Co.	Capital Goods	Adopter	Moderate	Significant	593.41	161,482	-6%
APP-US	AppLovin Corp	Software & Services	Adopter	Significant	Moderate	460.38	156,978	74%
CVNA-US	Carvana Co	Consumer Discretionary Distribution & Retail	Adopter	Moderate	Significant	391.69	85,056	15%
SLB-US	Schlumberger NV	Energy	Adopter	Significant	Significant	50.32	75,994	-1%
CTVA-US	Corteva Inc.	Materials	Adopter	Moderate	Significant	74.22	49,847	13%
EBAY-US	eBay Inc	Consumer Discretionary Distribution & Retail	Adopter	Moderate	Significant	87.36	40,618	28%
HAL-US	Halliburton Co	Energy	Adopter	Significant	Significant	34.02	28,442	3%
NTRA-US	Natera Inc	Pharmaceuticals Biotechnology & Life Sciences	Adopter	Significant	Significant	210.58	28,889	26%

Source: FactSet, Morgan Stanley Research

#3: AI Adopters With Cost Benefits > Revenue Benefits

- **Exposure:** AI Adopter
- **Materiality:** Significant or Core to Thesis
- **AI Benefits:** Cost Benefits > Revenue Benefits
- **Company Has Proprietary Data that Will Lead to Long Term Revenue Growth or Margin Improvement:** Significant or Moderate
- **Stock Rating:** Overweight Rated by Morgan Stanley Analyst

Exhibit 24: Stock Screen 3: AI Adopters with Cost Benefits > Revenue Benefits

Ticker	Company	Industry	Adopter	Materiality	Data Impact	Price (USD)	Market Cap (USD)	Upside to PT %
APAC + Japan								
8316-JP	Sumitomo Mitsui FG	Banks	Adopter	Significant	Moderate	39.36	152,492	-3%
BEKE-US	KE Holdings Inc	Real Estate Management & Development	Adopter	Significant	Significant	18.48	21,882	8%
BZ-US	Kanzhun Ltd	Commercial & Professional Services	Adopter	Significant	Significant	18.15	8,616	49%
TAL-US	TAL Education Group	Consumer Services	Adopter	Significant	Significant	12.27	2,495	30%
3923-JP	RAKUS	Software & Services	Adopter	Significant	Moderate	5.49	1,981	87%
Europe								
EXPN-GB	Experian PLC	Commercial & Professional Services	Adopter	Significant	Significant	33.50	30,888	90%
NSIS.B-DK	Novonesis	Materials	Adopter	Significant	Moderate	61.50	28,609	45%
DWS-DE	DWS Group GmbH & Co KgaA	Financial Services	Adopter	Significant	Moderate	72.06	14,413	12%
G24-DE	Scout24	Media & Entertainment	Adopter	Significant	Moderate	88.31	6,412	52%
VEND-NO	Vend Marketplaces ASA	Media & Entertainment	Adopter	Significant	Moderate	27.78	6,145	32%
SMG-CH	SMG Swiss Marketplace Group Holding AG	Media & Entertainment	Adopter	Significant	Moderate	42.56	4,209	0.50
North America								
BAC-US	Bank of America	Banks	Adopter	Significant	Moderate	55.39	414,736	16%
UNH-US	UnitedHealth Group Inc	Health Care Equipment & Services	Adopter	Significant	Significant	273.22	246,825	37%
C-US	Citigroup Inc.	Banks	Adopter	Significant	Moderate	122.15	218,240	11%
UBER-US	Uber Technologies Inc	Transportation	Adopter	Significant	Significant	73.50	157,334	36%
COF-US	Capital One Financial Corporation	Financial Services	Adopter	Significant	Moderate	219.93	137,606	36%
CVS-US	CVS Health Corp	Health Care Equipment & Services	Adopter	Significant	Significant	75.70	96,096	23%
BK-US	BNY Mellon	Financial Services	Adopter	Significant	Moderate	126.45	87,832	4%
STT-US	State Street Corporation	Financial Services	Adopter	Significant	Moderate	132.23	37,482	24%
SEIC-US	SEI Investments Company	Financial Services	Adopter	Significant	Moderate	85.37	10,744	39%
MH-US	McGraw Hill, Inc.	Consumer Services	Adopter	Significant	Significant	13.00	2,416	62%

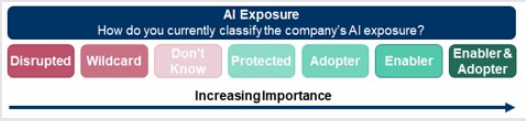
Source: FactSet, Morgan Stanley Research

About the Survey:

This is the fifth mapping of our global coverage as it pertains to the speed and breadth of AI adoption. See our prior mapping notes at AI 1.0, AI 2.0, AI 3.0, and AI 4.0. We surveyed Morgan Stanley Research analysts across the firm's global stock coverage with the following questions:

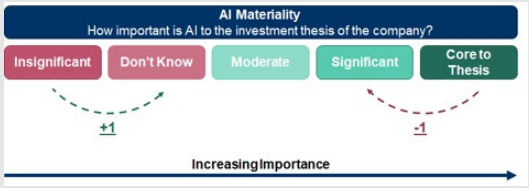
- **How do you currently classify the company's AI exposure? 7 categories from Enabler down to Disrupted**
- **How material do you believe AI will be to the investment thesis in the next 12-24 months? 5 categories from Core to Thesis down to Insignificant.**
- **How do you perceive this company's pricing power (i.e., ability to retain cost savings vs. passing through to customers)? 3 categories High, Neutral, and Low.**
- **To what extent does proprietary or alternative data impact revenue or margin growth when leveraged by AI? 4 categories from significant to don't know **New this Wave***
- **Do you anticipate changes in workforce size as a result of AI adoption over the next 12-24 months? 3 options increase, stable, or decrease **New this Wave***
- **Do you expect AI to deliver greater benefits from revenue growth or cost efficiency? Two options with no option for an even split. **New this Wave***

Exhibit **25:** AI Rate of Change "Exposure" Scoring



Source: Morgan Stanley Research

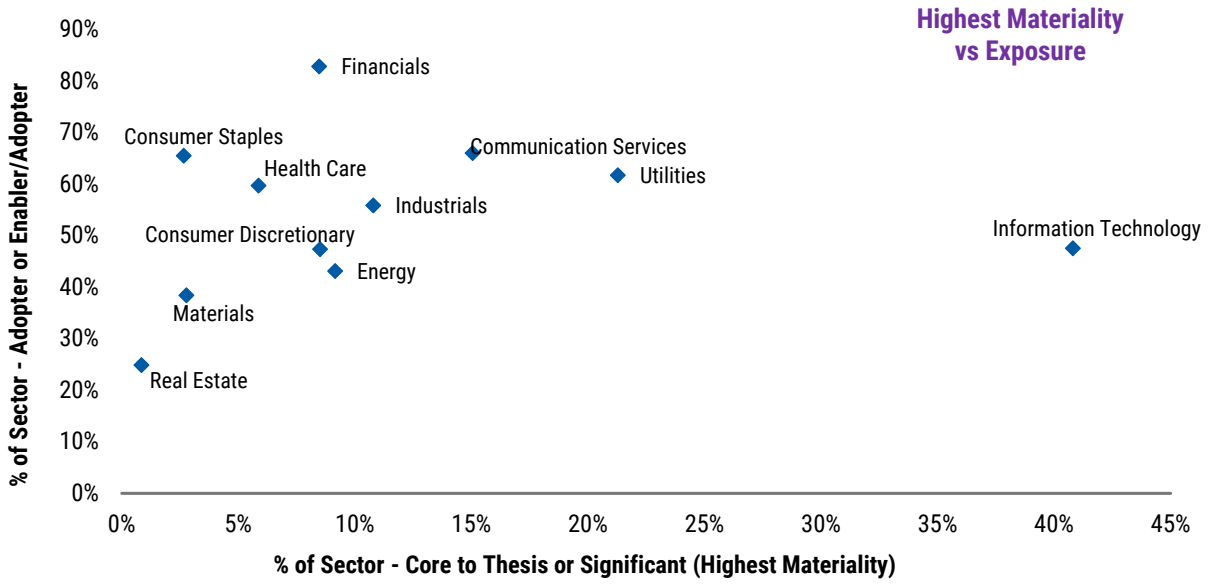
Exhibit **26:** AI Rate of Change "Materiality" Scoring



Source: Morgan Stanley Research

AI Mapping Data by Sector & Geography

Exhibit 27: Industry Groups by Highest Materiality and Exposure



Source: Morgan Stanley Research.

Exhibit 28: Sector by Exposure

	Enabler/Adopter	Enabler	Adopter	Protected	Don't Know	Wildcard	Disrupted	Total
Information Technology	34%	30%	14%	10%	4%	7%	1%	473
Utilities	32%	26%	30%	11%	1%	0%	0%	141
Communication Services	21%	3%	45%	9%	4%	16%	2%	206
Industrials	15%	8%	41%	18%	9%	6%	2%	528
Consumer Discretionary	10%	2%	37%	26%	9%	14%	2%	517
Health Care	8%	0%	52%	14%	21%	4%	0%	375
Financials	7%	1%	76%	6%	10%	1%	0%	449
Materials	7%	9%	31%	47%	3%	2%	0%	289
Consumer Staples	4%	1%	62%	12%	18%	3%	1%	226
Real Estate	3%	3%	22%	42%	20%	10%	0%	237
Energy	1%	5%	42%	42%	10%	0%	0%	153

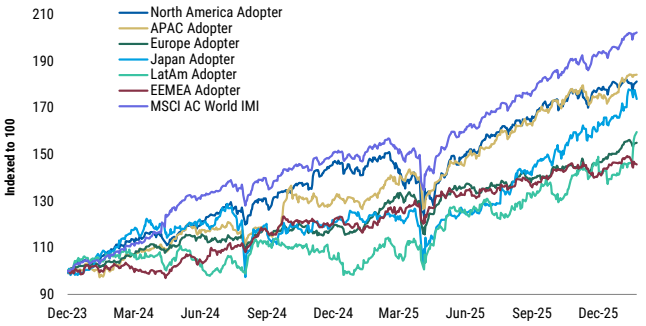
Source: Morgan Stanley Research.

Exhibit 29: Industry Group by Exposure

	Enabler/Adopter	Enabler	Adopter	Protected	Don't Know	Wildcard	Disrupted	Total
Software & Services	49%	20%	13%	1%	2%	12%	3%	178
Telecommunication Services	38%	8%	30%	16%	3%	5%	0%	76
Utilities	32%	26%	30%	11%	1%	0%	0%	141
Technology Hardware & Equipment	29%	33%	21%	12%	4%	1%	0%	156
Automobiles & Components	22%	3%	15%	39%	4%	18%	0%	119
Capital Goods	21%	13%	38%	13%	11%	4%	0%	324
Semiconductors & Semiconductor Equipment	19%	40%	6%	21%	7%	6%	0%	139
Consumer Staples Distribution & Retail	15%	0%	38%	21%	13%	8%	4%	52
Financial Services	15%	2%	63%	8%	11%	1%	1%	180
Commercial & Professional Services	15%	3%	40%	13%	6%	16%	7%	68
Media & Entertainment	12%	0%	53%	5%	5%	22%	3%	130
Health Care Equipment & Services	10%	1%	65%	12%	11%	1%	0%	148
Consumer Durables & Apparel	9%	3%	32%	20%	17%	19%	0%	95
Consumer Discretionary Distribution & Retail	7%	1%	42%	17%	15%	13%	4%	137
Materials	7%	9%	31%	47%	3%	2%	0%	289
Pharmaceuticals Biotechnology & Life Sciences	6%	0%	44%	16%	28%	6%	0%	227
Consumer Services	4%	1%	52%	28%	3%	10%	2%	166
Equity Real Estate Investment Trusts (REITs)	4%	5%	30%	45%	14%	3%	0%	152
Insurance	3%	0%	78%	8%	10%	1%	0%	106
Banks	2%	0%	87%	2%	7%	1%	0%	163
Energy	1%	5%	42%	42%	10%	0%	0%	153
Real Estate Management & Development	1%	0%	7%	38%	32%	22%	0%	85
Food Beverage & Tobacco	1%	2%	63%	10%	24%	1%	0%	131
Transportation	1%	0%	49%	31%	7%	7%	6%	136
Household & Personal Products	0%	0%	84%	9%	5%	2%	0%	43

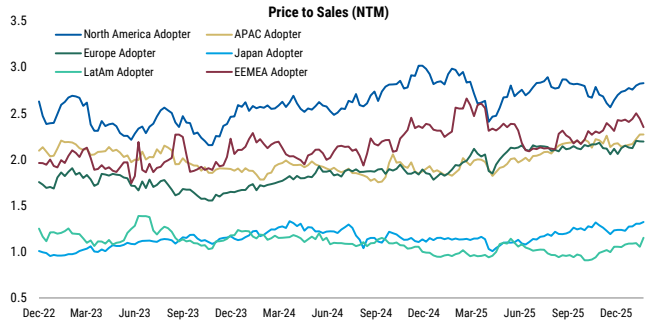
Source: Morgan Stanley Research.

Exhibit 30: AI Adopters Relative Returns



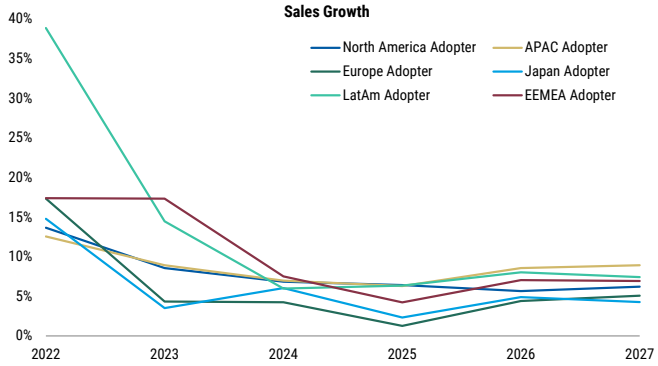
Note: Includes Enabler/Adopter category.
Source: FactSet, Morgan Stanley Research

Exhibit 31: AI Adopters Price to Sales



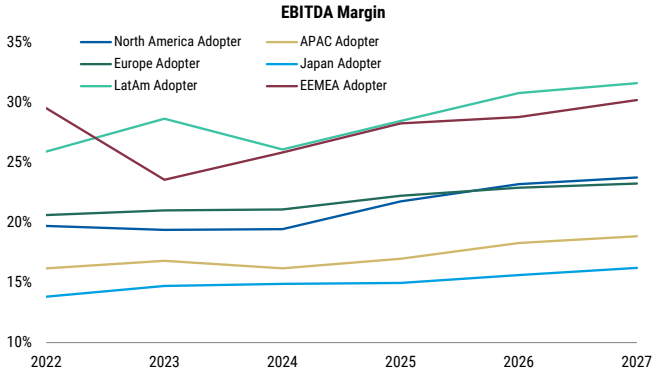
Note: Includes Enabler/Adopter category.
Source: FactSet, Morgan Stanley Research

Exhibit 32: AI Adopters Sales Growth



Note: Includes Enabler/Adopter category.
Source: FactSet, Morgan Stanley Research

Exhibit 33: EBITDA Margin



Note: Includes Enabler/Adopter category.
Source: FactSet, Morgan Stanley Research

Regional Views

North America

Michelle Weaver & Andrew Pauker

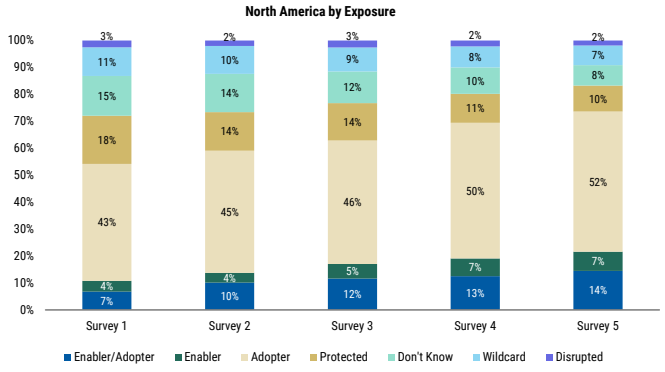
Since the launch of ChatGPT in late 2022, AI has emerged as a defining force across markets, reshaping how companies operate, invest, and compete. The current wave of innovation is following a similar pattern seen in past compute cycles: value creation first in semiconductors, then infrastructure, and then internet/software/services. But the impact is not confined to the tech sector. As in past cycles, companies across industries are beginning to realize tangible gains through technology diffusion. **This transformation is not just about the technology, it's about how businesses evolve, reallocate capital, and unlock new efficiencies.**

These shifts have important implications for market leadership and valuation — AI adoption is a driver of our US Equity Strategy view that we will see a broadening in leadership over the next 6-12 months, from both a price performance and earnings contribution standpoint. In the base case, we see AI-driven efficiency contributing an incremental 30bps/50bps to 2026/2027 net margin for the S&P 500. These AI-enabled efficiencies are an important part of the operating leverage story. Bottom-up work on AI automation rates and worker compensation introduced in AI Adoption and the Future of Work, suggests potential upside to these baseline expectations. **Another important pillar of our Strategy team's constructive stance into 2026 is that valuation can remain supported around current levels despite being elevated relative to history.**

Survey Highlights

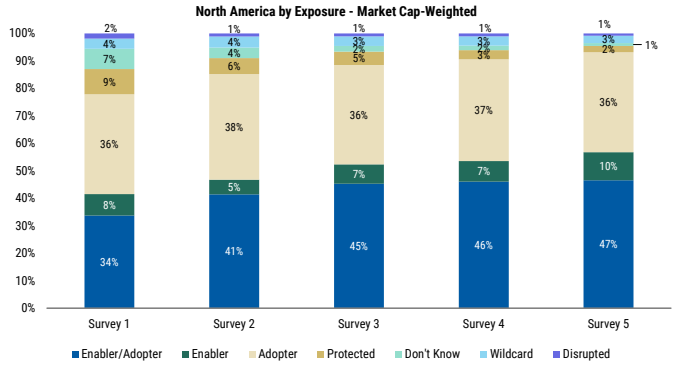
The percent of stocks with positive exposure to AI (ie those not considered Don't Know, Wildcard, or Disrupted) rose this wave of the survey on both an equal weight and market cap weighted basis. On an equal weight basis more than half of stocks covered by North America Research are considered AI adopters. The next most common category is Enabler/Adopters at 14%. By market cap, nearly half of North America stocks are Enabler/Adopters — this is due to mega cap tech's classifications in this bucket (e.g., AMZN, META). On a market cap weighted basis just over one third of stocks are considered adopters.

Exhibit 34: Exposure - Equal Weight



Source: Morgan Stanley Research

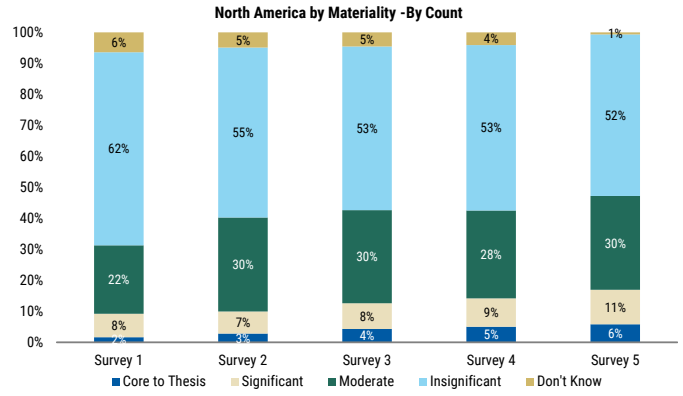
Exhibit 35: Exposure - Market Cap Weight



Source: FactSet, Morgan Stanley Research. Market cap weights from date of survey used.

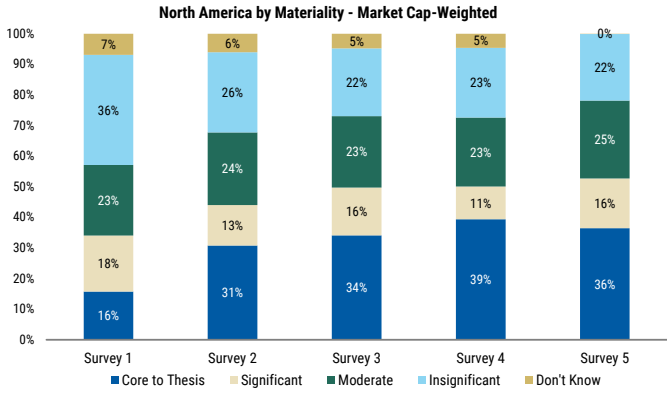
The percent of stocks with moderate or higher materiality has also risen on both an equal weight and market cap weighted basis with each wave of the survey. Companies exposure to AI is also becoming clearer with virtually no stocks classified as "don't know." By count, only 6% of stocks have a Core to the Thesis level of materiality. On a market cap weighted basis this shoots up to 36% given mega cap tech's representation in this category.

Exhibit 36: Materiality - Equal Weight



Source: Morgan Stanley Research

Exhibit 37: Materiality - Market Cap Weight

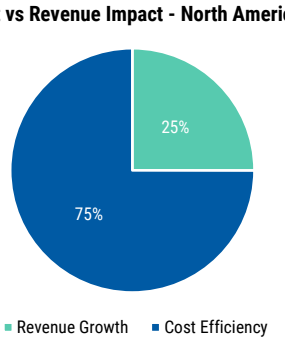


Source: FactSet, Morgan Stanley Research. Market cap weights from date of survey used.

The vast majority of benefits from AI are expected to come in the form of cost efficiency (75%) while a quarter of companies in North America are expected to see a greater revenue growth benefit from AI.

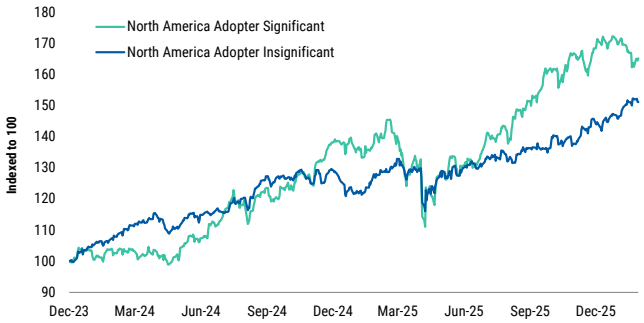
Materiality matters for performance. Significant AI Adopters in North America have outperformed those where materiality is insignificant. The performance gap began in earnest after the post liberation day lows seen last year. This tells us companies are becoming more effective at communicating the benefits from AI adoption and the benefits are becoming more tangible to drive this performance spread.

Exhibit 38: Cost vs Revenue Impact - North America



Source: Morgan Stanley Research

Exhibit 39: AI Adopters Significant vs Insignificant



Source: Morgan Stanley Research

Momentum Around AI Adoption Is Building as Companies See More Quantifiable Benefits

One question we frequently receive from investors is: "to what extent are companies seeing quantifiable efficiency gains from AI adoption?" Last fall, in collaboration with the QuantWise team, **we leveraged the GPT model to analyze approximately >10,000 conference transcripts and track how management teams are communicating the quantifiable benefits of AI adoption to investors.** Today we update that analysis for earnings and conference transcripts for events that took place during 4Q.

We identified 6 broad categories where companies are making statements about the quantifiable benefits seen from AI adoption: (1) Financial Impact, (2) Productivity Gain, (3) Sales, Marketing, & Customer Growth, (4) Product Innovation & Development, (5) Governance, Risk, & Security, and (6) Other/Cross Functional Benefits.

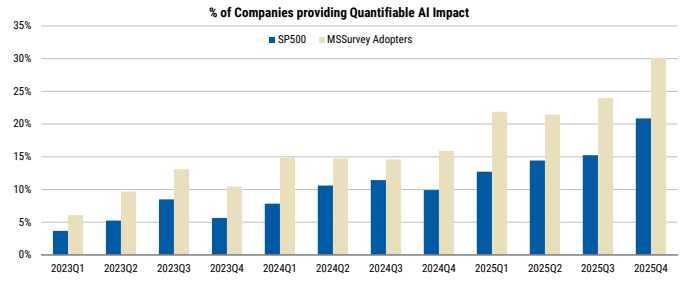
Exhibit 40: AI Benefit Classifications

Source: Morgan Stanley Research.

The share of companies citing quantifiable benefits from AI adoption has been steadily increasing based on our analysis. **In 4Q25, 30% of companies identified as "adopters" by our analysts mentioned at least one quantitative impact, up from 24% in 3Q25 and 16% in 4Q24.** For the broader S&P 500, **21% of members mentioned at least one measurable benefit, up from 15% in 3Q25 and 10% in 4Q24.** We expect this trend to continue as companies further ramp up their AI adoption efforts and give employees access to more AI tools.

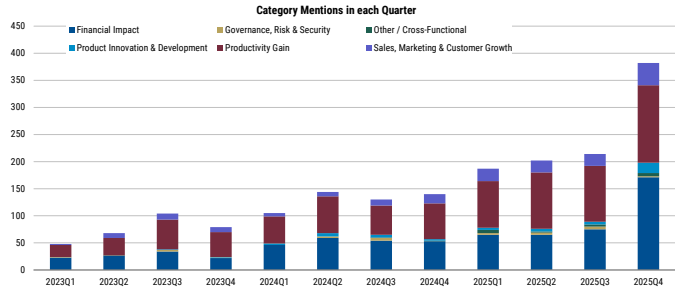
Today, the majority of discussions of quantifiable benefits are tied to "financial impact" (revenue growth/generation, cost savings, or investment & capital impacts) with the category doubling in number of mentions since last quarter. "Financial impact" surpassed "productivity gain" as the top category, though both remain the most prevalent types of AI adoption.

Exhibit 41: Discussions of Quantifiable Benefits from AI Are Rising



Source: Morgan Stanley Research. Please note, companies mentioning multiple quantifiable benefits from AI are only counted once in this chart.

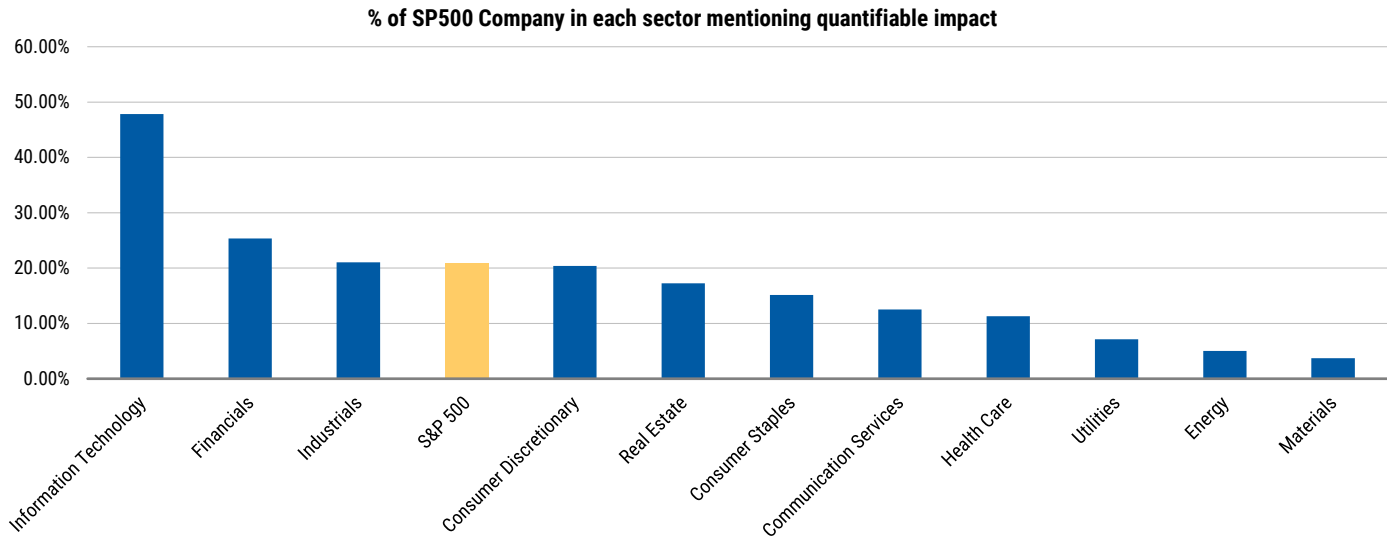
Exhibit 42: Category Level Mentions of AI Benefits



Source: Morgan Stanley Research

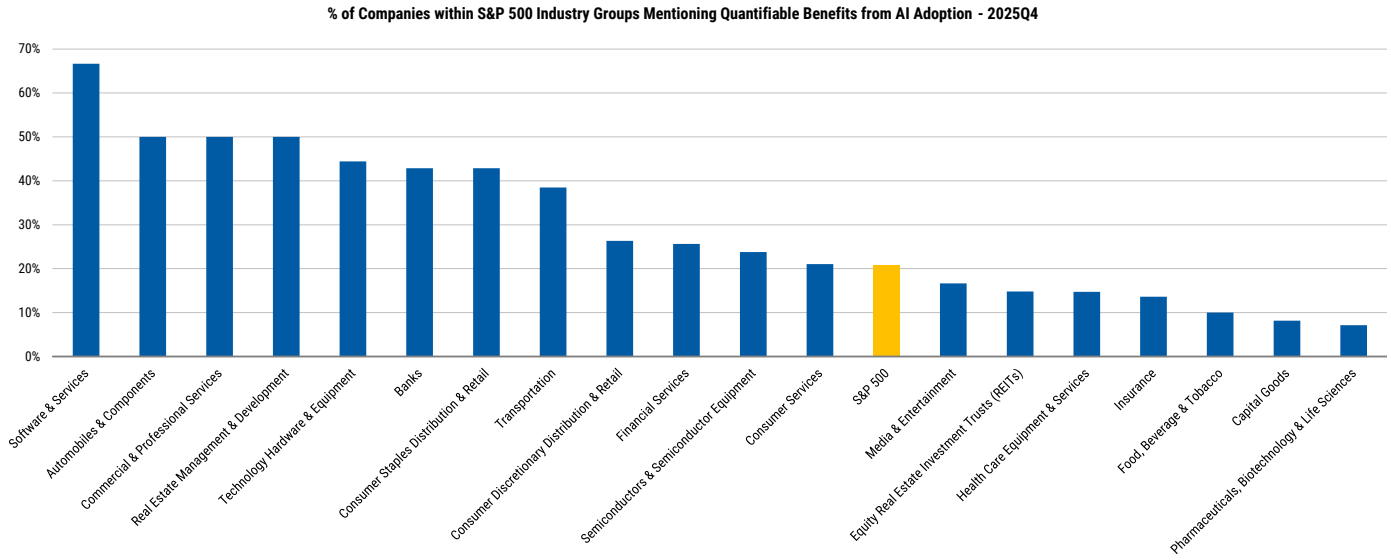
To better understand sector-level adoption, we analyzed the percentage of companies within each S&P 500 sector that referenced tangible AI-driven improvements. Technology holds its spot at the top, with 48% of companies highlighting quantifiable benefits. Financials follow at 25%, while Industrials rank third with 21%. At the industry group level for Tech, Software & Services has the highest number of mentions at 67% followed by Automobiles & Components, Commercial & Professional Services, and Real Estate Management & Development, all at 50%. In terms of the year-over-year trend, Tech has seen the largest increase in mentions (from 20% of the sector in 4Q24 to 48% today), followed by Financials (from 8% of the sector in 4Q24 to 25% today).

Exhibit 43: Percent of Companies within S&P 500 Sectors Mentioning Quantifiable AI-Related Impacts



Source: Morgan Stanley Research.

Exhibit 44: Percent of Companies within S&P 500 Industry Groups Mentioning Quantifiable AI-Related Impacts



Source: Morgan Stanley Research

Financial Impact Examples:

Exhibit 45: Financial Impact Examples

Ticker	Name	Sector	Quote
ECL.N	Ecolab Inc.	Materials	AI has been a blessing for us, not just in terms of digital technology, but there's the whole infrastructure of data centers and microelectronics, as mentioned before. Well, that's driving business growth with the services that we're providing. At the same time, we're monetizing all the digital value, as mentioned before, that we're providing to our customers. We're leveraging One Ecolab, which is having all our processes run by agents the last few years, has helped us save – well, $225 million in the next two years, as we mentioned during Investor Day. A year ago, we thought it would be $140 million. We think it's going to be closer to $225 million today. And it keeps getting better.
IBM.N	International Business Machines C	Information Technology	In addition to being a demand driver, AI is also a powerful productivity driver for IBM, contributing to our strong financial performance. In 2023, we set out on a goal to achieve $2 billion of productivity savings. And today, we are well-ahead of that with an expectation of $4.5 billion of annual run rate savings exiting this year.... While we have made progress on this journey and expect $4.5 billion of run rate savings exiting this year, there is still significant opportunity ahead for us to drive even more efficiency and cost savings.
UAL.O	United Airlines Holdings, Inc.	Industrials	We're making process changing -- changes and using AI to make -- the work of our headquarters management team more efficient too. In fact, our management headcount is 4% lower than last year. As this efficiency work continues, we're planning to shrink another 4% in 2026
MCO.N	Moody's Corp.	Financials	In the third quarter, we signed over $3 million in new business with a Tier 1 U.S. bank, which included solutions to automate credit memo creation and to deploy early warning systems across its real estate portfolios."1 This announcement was part of a broader discussion about Moody's progress in leveraging AI capabilities with large banking clients
WH.N	Wyndham Hotels & Resorts, Inc.	Consumer Discretionary	Wyndham AI is driving more direct bookings, reducing front desk workloads that's accelerating significant ancillary revenues for thousands of our hotel owners through automatic upsell opportunities like early check-ins, late check-outs, and in-room amenity upgrades. To-date, Wyndham AI has already handled more than 0.5 million customer interactions, delivering faster service, higher booking conversion, and a 25% reduction in average handle time, all contributing to nearly 300 basis points of improvement in direct contribution for hotels leveraging Wyndham AI to its fullest potential.
XPO.N	XPO, Inc.	Industrials	Our AI driven tools helped offset the impact of inflation and the added labor cost from our insourcing initiative. We also drove additional efficiency gains across the network, including a 48% decrease in third quarter purchased transportation expense as we enforce more linehaul miles.
NOW.N	ServiceNow, Inc.	Information Technology	We're also raising our full year free cash flow margin target by 200 basis points from 32% to 34%... as AI operational efficiencies continue to drive incremental leverage.
AMZN.O	Amazon.com, Inc.	Consumer Discretionary	Rufus is on track to deliver over $10 billion in incremental annualized sales.
GBTG.N	Global Business Travel Group, Inc.	Consumer Discretionary	Our AI-powered hotel dynamic rate cap delivers average savings of approximately $60 per booking for Egencia customers.
MSCI.N	MSCI, Inc.	Financials	Now, I cannot tell you enough that the biggest problem MSCI has is that we've got so many opportunities and so little investment money, and we want to keep the profitability of the company the same. So that's not an easy thing to square. But if we apply AI dramatically and we can lower our operating run-the-business expenses by 5%, 10%, 15%, all of that money can go into investing into the change in the business, and that will create an incredible upsurge in the product development for us. That's a goal that we have for 2026.

Source: Morgan Stanley Research

Productivity Gain Examples:

Exhibit 46: Productivity Gain Examples

Ticker	Name	Sector	Quote
C.N	Citigroup, Inc.	Financials	AI-driven automated code reviews have exceeded 1 million so far this year and are dramatically improving our developers' productivity. This innovation alone saves considerable time and creates around 100,000 hours of weekly capacity has a very meaningful productivity uplift.
JBHT.O	J.B. Hunt Transport Services, Inc.	Industrials	Today, 60% of our third-party carrier check calls, those are automated.
BK.N	The Bank of New York Mellon Corp.	Financials	By the end of the third quarter, we had 117 AI solutions in production. That is an increase of 75% compared to the prior quarter, and it includes agents that help identify new business leads, write code, automate payment processing, accelerate client onboarding and increase automation of reconciliations.
NDAQ.O	Nasdaq, Inc.	Financials	The agentic AI that we've launched in Verafin, in some cases, we've seen situations where it reduces the workflow time by 80%.
ELV.N	Elevance Health, Inc.	Health Care	So across the enterprise, we see it as a huge opportunity to help support our productivity goals. We look at it to reduce the burdens on care providers by reducing our chart requests by almost half.
RTX.N	RTX Corp.	Industrials	For example, the Raytheon AMRAAM team has deployed multiple proprietary digital AI tools to proactively identify production bottlenecks and reduce rework, which has contributed to output more than doubling year-to-date through Q3 on the program.
EFX.N	Equifax, Inc.	Industrials	Yeah. So we're investing heavily in EFX.AI for our scores, models and products. And we've had great performance there and seeing big lifts in really the score and model performance and product performance by the addition of AI.... So, we're seeing big 10 point lifts in the identity or underwriting scores from using our AI capabilities.
BAC.N	Bank of America Corp.	Financials	So just in the coding area, we've saved about 10% of the aggregate amount of coders we have working, but we're dedicating that to drive more efficiencies.
NTRS.O	Northern Trust Corp.	Financials	AI is embedded in more than 150 use cases, enabling teams to more efficiently service client requests, automate workflows, analyze data, and digitize documents, saving our partners tens of thousands of hours and allowing them to focus on higher value initiatives.
UNH.N	UnitedHealth Group, Inc.	Health Care	Just some metrics, for ambulatory outpatient claims coding, this showed 73% productivity over prevailing solutions. And for hospital inpatient coding, it showed 23% increase in productivity.

Source: Morgan Stanley Research

Sales, Marketing & Customer Growth Examples:

Exhibit 47: Sales, Marketing & Customer Growth Examples

Ticker	Name	Sector	Quote
INTU.O	Intuit, Inc.	Information Technology	The combination of AI and HI is resonating, with QuickBooks Live customer growth of 61% in Q1.
RVTY.N	Revvity, Inc.	Health Care	By leveraging our platform, our sales reps are now seeing a three times to four times improvement in their lead generation conversion rates.
W.N	Wayfair, Inc.	Consumer Discretionary	Customers who see these designer quality personalized recommendations are a third more likely to save, add to cart, or order products, reflecting a much higher confidence in our selections.
CSGP.O	CoStar Group, Inc.	Real Estate	In the third quarter, AI Smart Search has produced improved user engagement. So, this new AI Smart Search is producing significant improvement in user engagement. Users of AI Smart Search used 69% more search filters, viewed 37% more listing pages per session, were five times more likely to return to the site within the following week, that's amazing, and submitted 51% more leads after viewing a listing page.
LOW.N	Lowe's Companies, Inc.	Consumer Discretionary	In fact, when our customers engage with Mylow online, the conversion rate more than doubles, which is clear evidence that AI is simplifying decision-making and driving sales.
META.O	Meta Platforms, Inc.	Communication Services	Across Facebook, Instagram and Threads, our AI recommendation systems are delivering higher quality and more relevant content, which led to 5% more time spent on Facebook in Q3 and 10% on Threads.
ETSY.O	Etsy, Inc.	Consumer Discretionary	Since becoming Chief Growth Officer, I've been connecting weekly with many different groups of sellers, and it's clear we can better help them spend less time managing and more time creating. We've launched new AI-powered tools to help sellers generate listing titles and draft buyer messages, two of the most time-consuming parts of running an Etsy shop, and improved issue resolution with increased access to live knowledgeable support. We're pleased to see that our efforts are starting to make an impact. For example, seller satisfaction scores are up more than 10 percentage points from this time last year.
SNAP.N	Snap, Inc.	Communication Services	Our investments in AI and machine learning are delivering measurable gains for advertisers. We advanced Dynamic Product Ads with large language models that better understand products, driving over 4 times higher conversion rates compared to baseline for certain campaigns. As a result of these and other improvements, purchase-related ad revenue grew 30% year-over-year, reflecting higher attribution accuracy and better campaign performance.
PINS.N	Pinterest, Inc.	Communication Services	As a result, we've grown outbound clicks to advertisers by 40% year-over-year in Q3 and by more than 5 times over the last three years.... additionally, as advertisers are adopting AI-driven platforms. There's a next level of optimization in the AI ad platforms that's taking place right now, where bidding is getting further aligned to advertisers' measurement sources of truth, and more events that lead up to a conversion are being incorporated.... And then, the third point that I alluded to in one of my prior answers, the AI-driven alignment of bidding systems to the advertiser measurement sources of truth, that's giving a clearer view of full funnel attribution and events across the funnel.
FRSH.O	Freshworks, Inc.	Information Technology	These Freddy Copilot customers stick with us. Their net retention rate is 112% in Q3 for both CX and EX, higher than our overall base, and a tangible sign that AI is driving deeper engagement and long-term value.

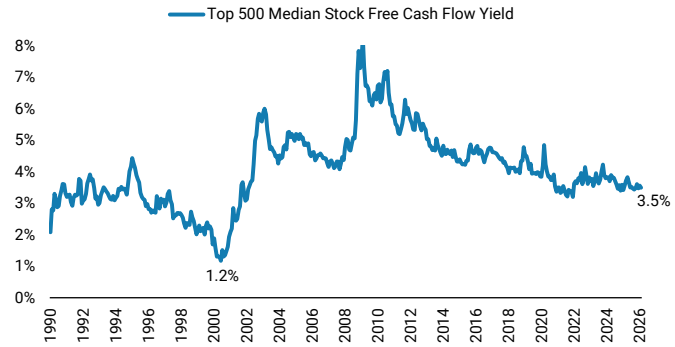
Source: Morgan Stanley Research

Valuation Can Stay Elevated as Leadership Broadens

Given the AI capex boom, we've continued to field questions from investors on the extent to which there are parallels to the late 1990s. More specifically, some market participants are focused on whether we're toward the ending stages of a valuation bubble, like 1999-2000. We see some important differences on this front:

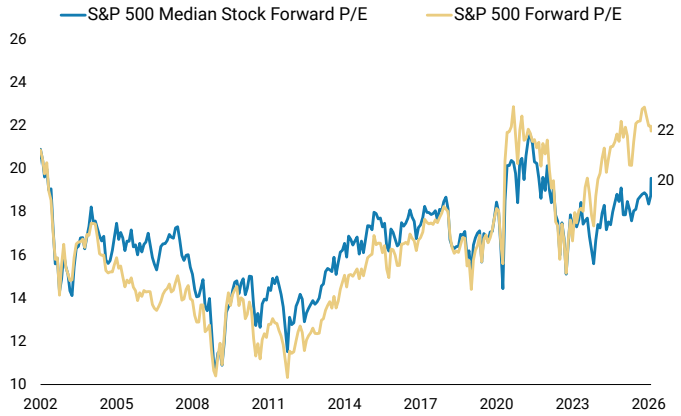
- First, **we think it's important to point out that equity indices today have higher quality characteristics than they did during the dot-com era.** For example, **free cash flow yield for the median large cap stock is almost three times higher** than it was in 2000.
- Further, **adjusting the S&P 500's forward P/E ratio for profit margins shows that the index is currently trading at a ~40% discount** to the tech bubble highs.
- Then, as we've noted in recent research, the earnings and macro regime we think we're entering in 2026 is also supportive of valuation. Bottom line, operational efficiency, strong profitability, and free cash flow generation are all characteristics of a higher quality index than what we saw during the late 1990s.

Exhibit 48: Free Cash Flow Yield for the Median Stock Is Materially Higher Than It Was at the Height of the Dot-Com Era



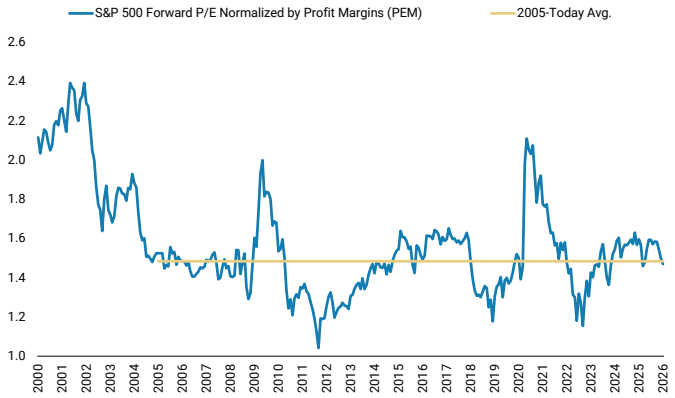
Source: Compustat, Morgan Stanley Research.

Exhibit 49: Median Stock Trades at a 2-Turn Discount to the Cap Weighted Index; A Broadening Should Lead to a Catch Up in Median Stock Valuation



Source: Compustat, Morgan Stanley Research.

Exhibit 50: When Adjusted for Profit Margins, Valuation Looks Much More Reasonable



Source: FactSet, Morgan Stanley Research.

Exhibit 51: Valuation Rarely Contracts in Periods of Above Median EPS Growth and Accommodative Monetary Policy

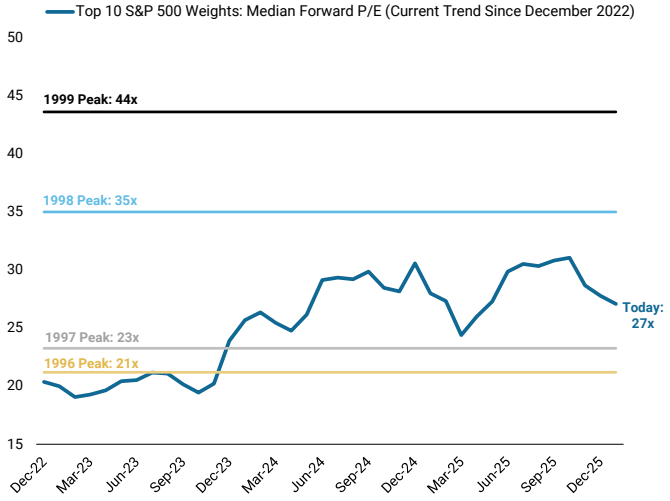
S&P 500 Fwd. P/E 12M Rate of Chg. in > Median EPS Growth + Accommodative* Fed Policy Environments	
Avg.	7.7%
Median	5.3%
Positive Hit Rate	92%
Max	22.6%
Min	-4.4%

Source: FactSet, Bloomberg, Morgan Stanley Research; excludes recessions and the 1 month before recessions. *12M rate of change in fed funds is negative.

What About the Top of the Pyramid?

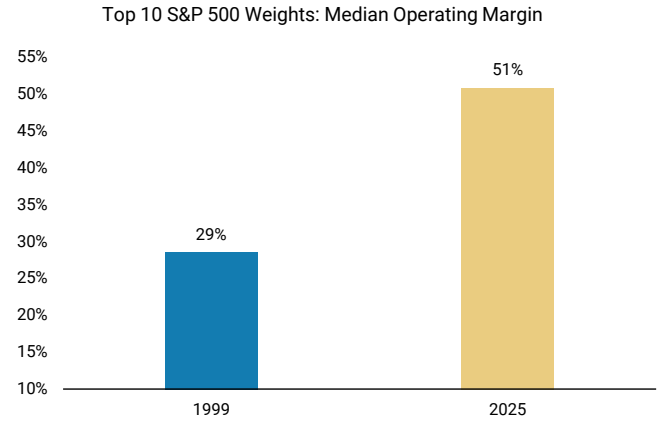
While more economically sensitive areas of the market are likely to see a catch up in terms of performance and earnings contribution in the rolling recovery environment we foresee, we don't think this means the largest weights see sustained valuation compression in absolute terms over the next 6-12 months. For historical valuation perspective on the top index weights, we would highlight Exhibit 52 . This exhibit shows the median forward P/E among this cohort since the end of 2022, just before the AI capex cycle began to significantly drive index performance and leadership. We then compare this series to 1996-99 annual valuation highs. Today, with this measure at 27x, we're trading between 1997 and 1998 valuation levels. To emphasize this point, **the median forward P/E for the top 10 index weights is currently trading at a 17-turn discount to 1999 valuation highs.** Going back to the profitability angle discussed previously, Exhibit 53 shows that the median operating margin for the top 10 S&P 500 weights is over 20% higher than it was in 1999.

Exhibit 52: Top Index Weights Are Trading at a Material Discount to 1999 Valuation Levels; In Fact, They're Trading at an 8 Turn Discount to 1998 Valuation Levels...



Source: FactSet, Morgan Stanley Research.

Exhibit 53: ...Further, Profitability/Margin Characteristics of the Top Index Weights Are Much More Durable Today vs. 1999



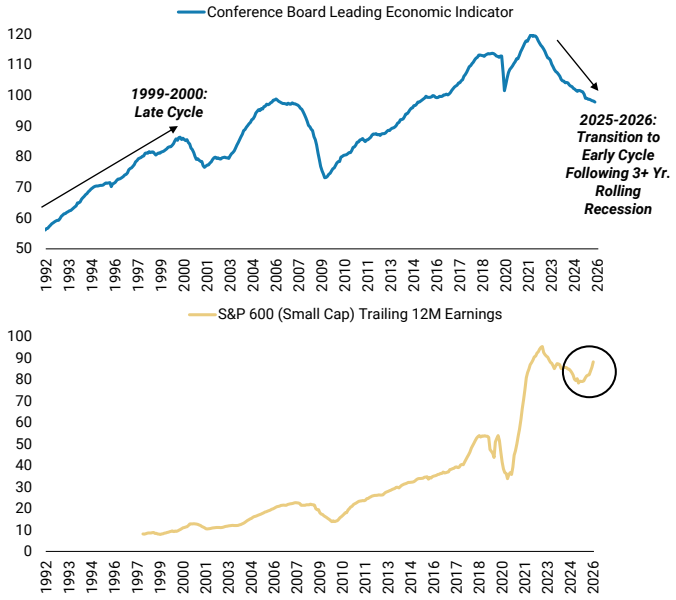
Source: FactSet, Morgan Stanley Research.

In our view, the macro backdrop also helps to explain some important differences relative to 1999-2000. For one, as Exhibit 54 shows, the economy was very much late cycle in this historical period. The Conference Board Leading Economic Indicator series was in its 9th year of expansion since the 1990-91 recession as was the Conference Board Employment Trends Index. Similarly, the unemployment rate had been in steady decline since 1992.

Today, we would argue we're transitioning to an early cycle environment and coming out of the rolling recession that transpired in 2022-25 — a contrast to the late cycle environment of the late 1990s. Today, some of the pressure has been let off under the surface due to that rolling recession. The decline in the Conference Board LEI captured this rolling recession well, and the leading *earnings* data we look at suggest that we should now start to see the macro data stabilize. Exhibit 54 shows one example of this dynamic as small cap earnings (more economically sensitive) have found a bottom in recent months and are clearly turning higher. See our prior, extensive work on the historic rebound in earnings revisions breadth for more signals on this front. We think this is a precursor to the macro data, including the Conference Board LEI, stabilizing and turning higher into 2026; this is consistent with our out of consensus rolling recovery/early cycle transition view.

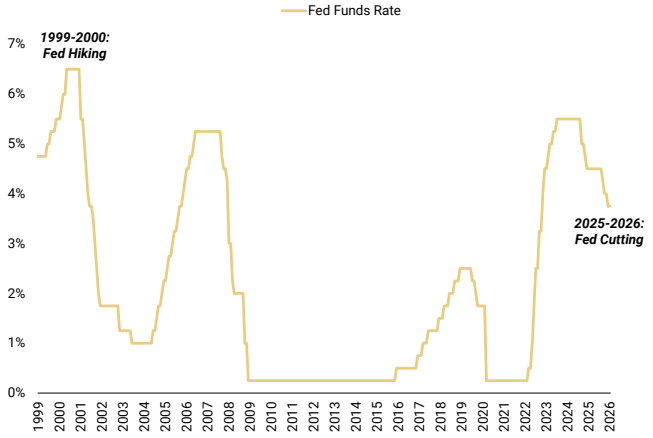
Importantly, the Fed was hiking rates in 1999-2000, which played a role in the valuation compression that followed. **Today, they are cutting rates, and we expect them to continue to do so into 2026** — supportive of valuation this time around.

Exhibit 54: 1999-2000 Was Classic Late Cycle; Today, We're Transitioning to Early Cycle Following the 3+ Year Rolling Recession



Source: Bloomberg, Morgan Stanley Research.

Exhibit 55: Fed Was Hiking in 1999-2000; Today, They're Cutting and We Expect Them to Continue to Cut in 2026



Source: Bloomberg, Morgan Stanley Research.

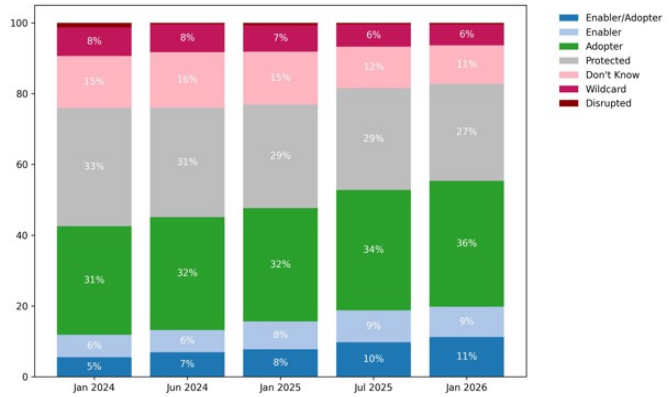
Asia & EM Implications

Daniel Blake & Kristal Ji

AI Adoption Broadens; Benefits Expected to Skew Toward Cost Efficiency

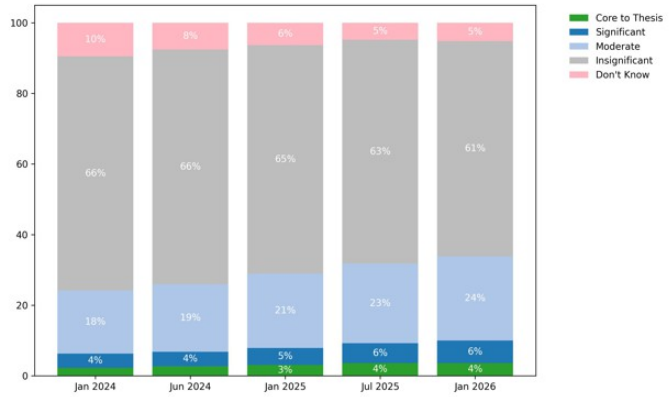
Asia EM markets continue to see AI adoption broadening out, with the share of adopters as identified by our analysts rising from 31% in our inaugural survey (2 years ago) to 36% in the latest survey (Exhibit 56). The share of pure AI Enablers and Enabler/Adopters has also increased from 12% to 20% (Exhibit 57) as more companies have sourced opportunities in the AI supply chain.

Exhibit 56: Distribution of AI Exposure in Asia/EM across Survey - AI adoption broadening; Enablers doubled from the first survey



Source: Morgan Stanley Research

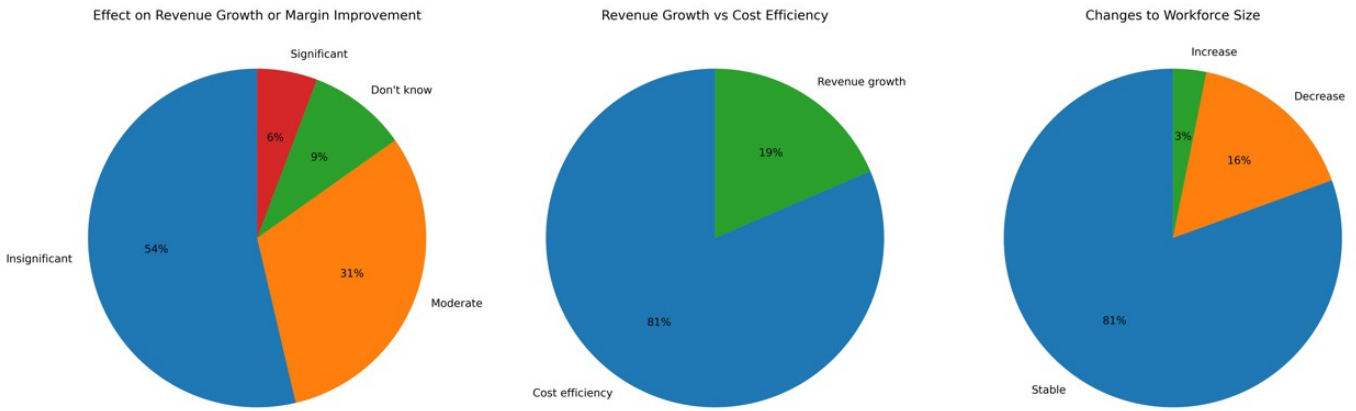
Exhibit 57: Distribution of AI Materiality in Asia/EM across Survey - More companies are identified with at least moderate AI materiality



Source: Morgan Stanley Research

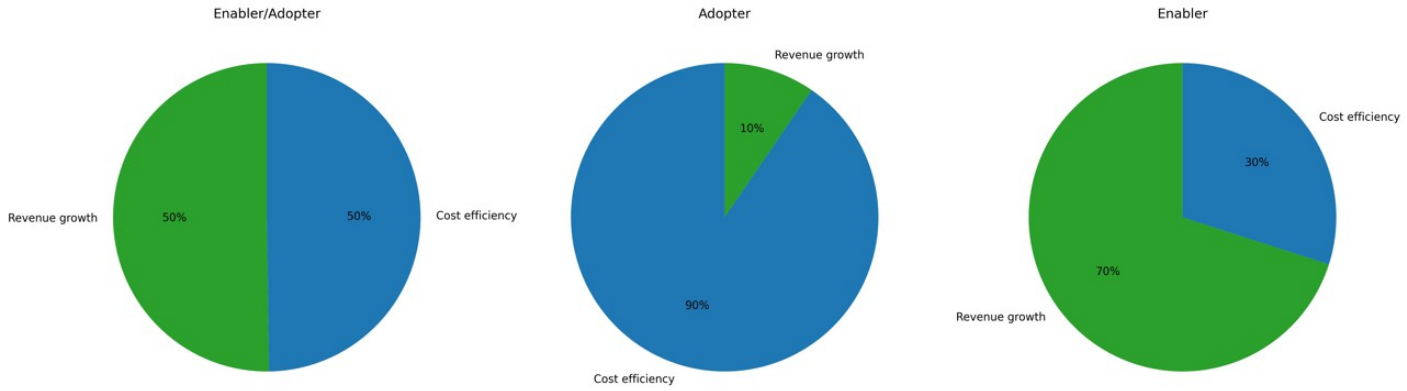
With the benefit of additional questions, we note that our analysts now see 46% of our Asia/EM coverage sourcing either margin improvement or revenue growth from AI in the long run (Exhibit 58). Over the next 12-24 months, these AI-related benefits are expected to be efficiency-led, with a split of 81% versus 19% in terms of AI beneficiaries that see greater benefit through costs versus revenues. Drilling down by AI exposure, adopters are likely to prioritize on margins, with 90% companies identified as benefiting through cost efficiency, while enablers might lean more towards acceleration in top-line as seen by 70% respondents more likely benefiting through revenue growth (Exhibit 59).

Exhibit 58: Corporate Impacts from AI - 46% companies expect to see improved performance,



Source: Morgan Stanley Research

Exhibit 59: Through which channel are companies benefiting from AI - Adopters prioritize cost efficiency while enablers lean more towards acceleration in growth



Source: Morgan Stanley Research

More Indications of Labour Force Implications

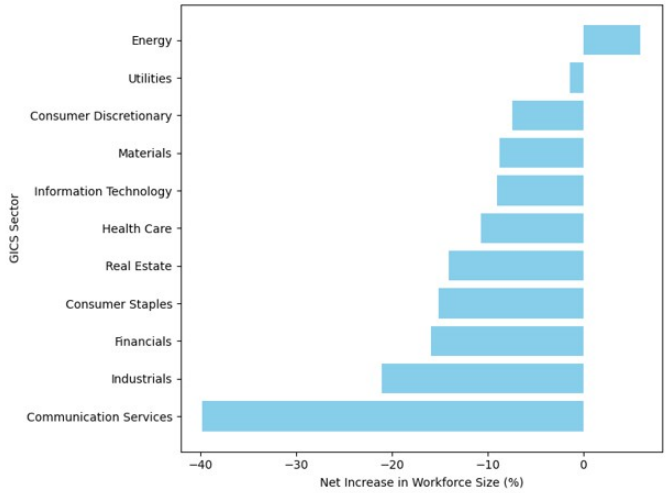
Across Asia/EM companies, our analysts see a net 13% of companies under coverage reducing headcount as a result of AI, with 16% of companies expected to see lower staffing versus 3% higher and 81% ~unchanged (Exhibit 58). While our survey only asked the directional impact of AI on staffing, the company-level results allow us to draw some inference about the relative impact across sectors and markets.

In terms of the net percentage of companies expected to increase/reduce workforce of their respective sector/market, we find the most concentrated impacts in Communication Services (almost a net 40% of companies cutting staffing) and Industrials (over 20%), but over 10% of companies in most sectors are also likely to reduce staff. Energy was the key exception and the only sector seeing net increases.

By market, we also see the broadest reductions of headcount across companies in Malaysia, Hong Kong, and Australia, although Indonesia, Singapore and China also feature prominently. In contrast, we see more companies in South Korea adding rather than reducing headcount, while muted impacts are suggested for India, the UAE, South Africa, and Thailand.

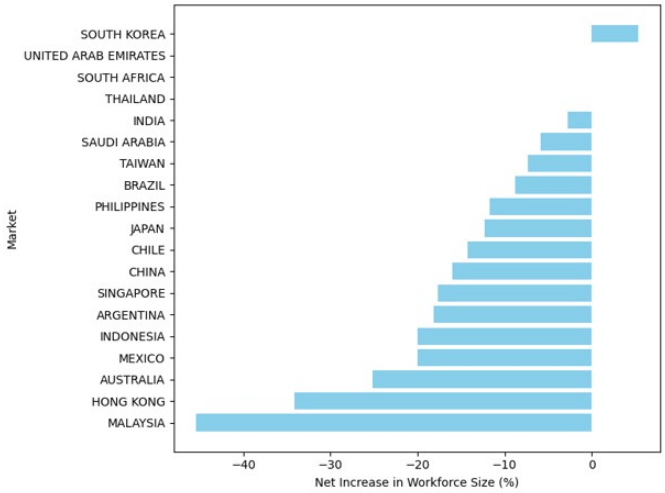
This is complementary to the far more granular, AlphaWise direct survey of companies that have already been engaging with AI tools in their workplace (see Global Thematics: AI Adoption and the Future of Work: Survey Results Highlight Surprising Depth of Impact, 15 Jan 2026). The survey covered two markets in the region, Australia and Japan, which ranked top 2 in terms of net productivity improvement from AI in the last 12 months at 14% and 12%. Both countries experienced net job losses attributable to AI, amounting to 4% and 7%, respectively. Early career roles were disproportionately affected by AI driven disruption, while mid level employees demonstrated the greatest capacity for retraining and redeployment.

Exhibit 60: Net % of Asia/EM companies changing workforce by sector



Source: Morgan Stanley Research

Exhibit 61: Net % of Asia/EM companies changing workforce by market



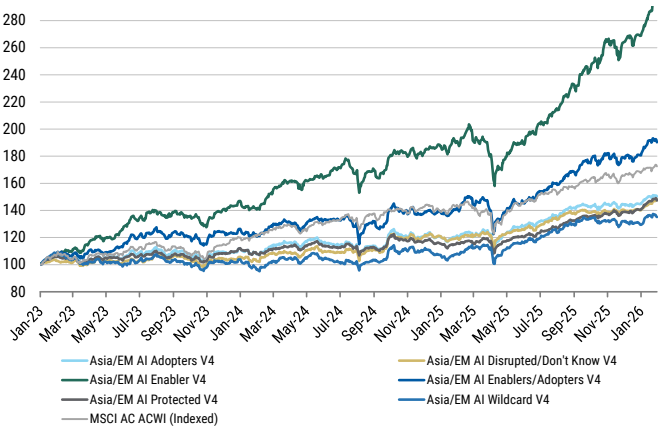
Source: Morgan Stanley Research; Note we excluded markets that did not have at least 10 companies included

AI Enablers Still Demonstrating Earnings and Price Momentum

Through 2025, we saw the demand for AI compute consistently outpace supply, with market expectations of total cloud capex repeatedly revised up, driving shortages across the supply chain — most evidently in memory in recent months. Our 2026 thematic outlook makes the case for this dynamic to remain in place, supporting the fundamental outlook for AI enablers.

We backtest the performance of stocks grouped by the AI classifications identified in our July 2025 survey. AI Enablers have meaningfully outperformed the index benchmark, followed by Enabler/Adopters, while the remaining AI categories have broadly underperformed the global index.

Exhibit 62: Performance of stocks based on previously identified AI category (in the July 2025 survey version 4)



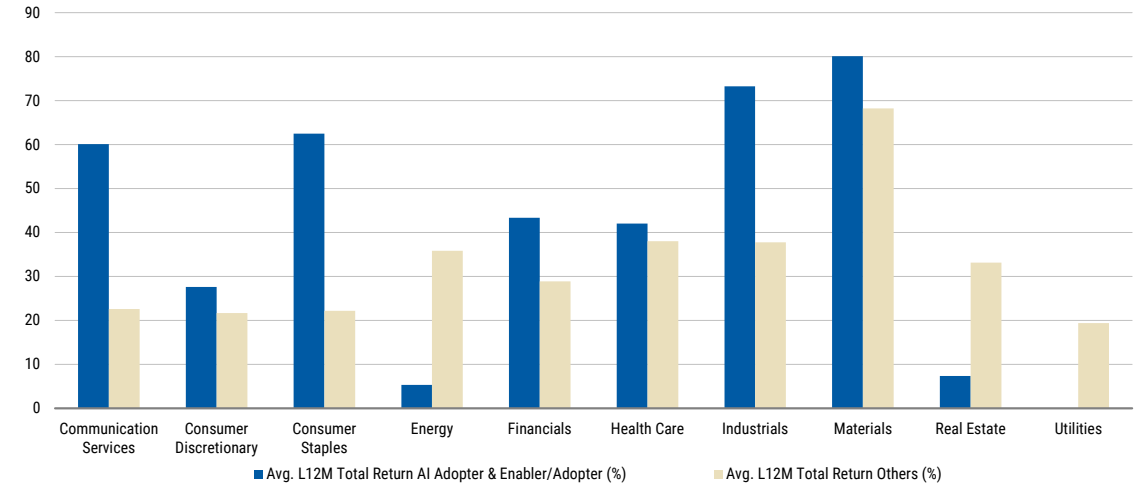
Source: Factset, Morgan Stanley Research; Data as of January 30, 2026.

AI Adoption Driving Stronger Returns vs Non-AI Peers Across Sectors, but Pricing Power Crucial

Exhibit 63 compares the 12 month performance of AI Adopters and Enabler/Adopters with significant or core to thesis AI materiality against sector peers identified as non AI or structurally disrupted. Over the past year, AI Adopters and Enabler/Adopters with at least a significant AI materiality have outperformed in most non tech sectors, with the key exceptions being Energy, Real Estate, and Utilities.

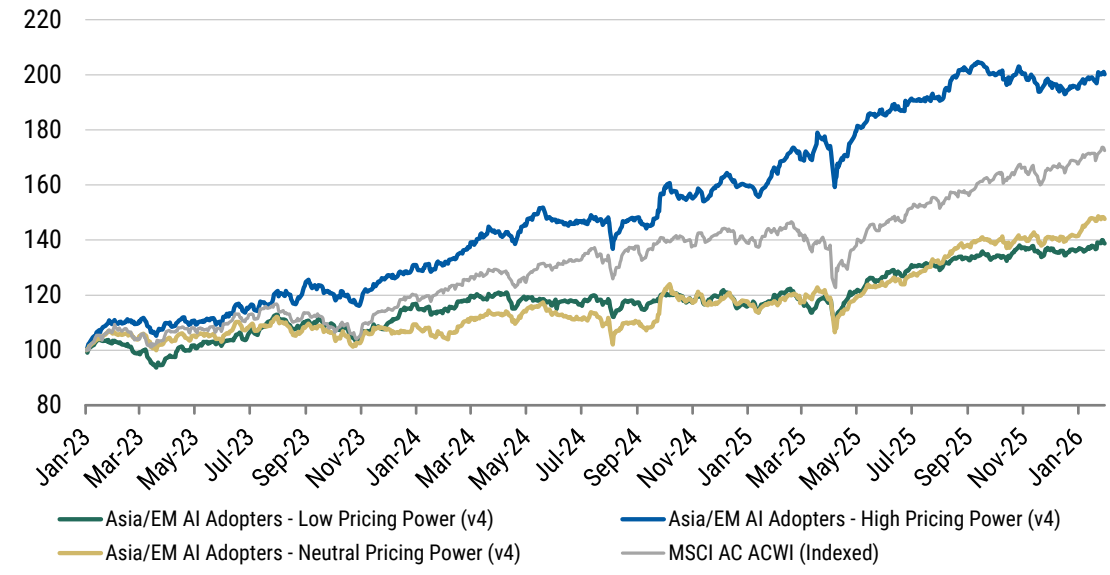
We continue to highlight the widening adoption of AI across Asia EM, but note that pricing power remains a critical determinant of performance among AI adopters. Companies with strong pricing power have meaningfully outperformed the index since 2023, while those with neutral or weak pricing power have lagged. As discussed earlier, cost efficiency is the primary channel through which AI adoption delivers benefits, but pricing power ultimately enables margin expansion — and is therefore essential for sustained share price performance.

Exhibit 63: Average 12-month Total Return of AI Adopter & Enabler/Adopter (Significant/Core to Thesis Materiality) vs Non-AI or Structurally Disrupted Companies - Outperformed in most sectors



Source: Factset, Morgan Stanley Research; Data as of February 2, 2026.

Exhibit 64: Asia EM AI Adopters Performance by Pricing Power vs MSCI AC ACWI - Pricing power remains key for AI adopters

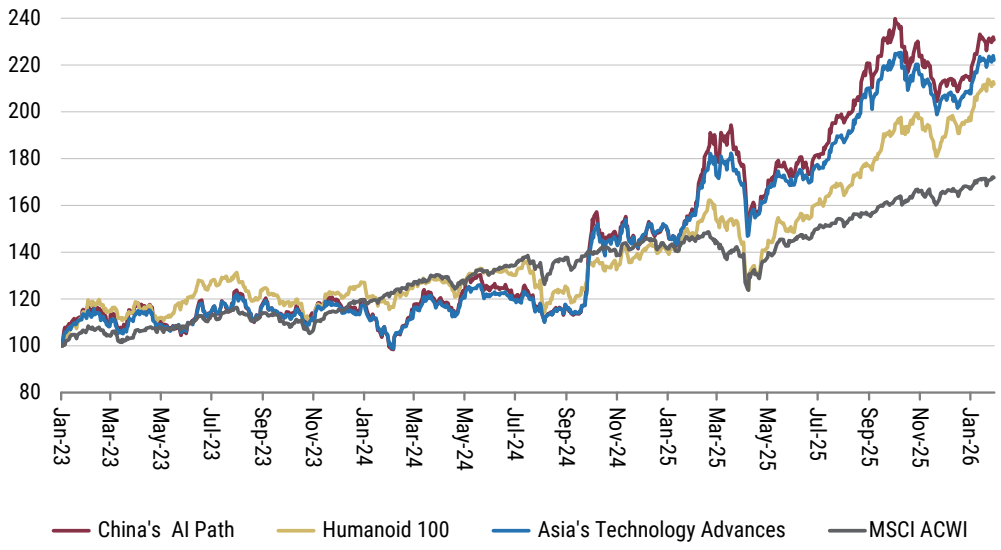


Source: Factset, Morgan Stanley Research; Data as of January 30, 2026.

Chinese AI Stack Now Re-Rating

In the 12 months following the initial DeepSeek moment, market appreciation for AI opportunities in China has increased substantially. China's AI Plus strategy and the 15th Five Year Plan emphasize the deployment of AI across emerging and future industries and highlights future-tech pillars like embodied intelligence/robotics. See key opportunities in Asia Pacific reflected in regional themes, including China's AI Path and Asia Technology Advances beneficiaries. Exhibit 65 shows the material outperformance of those themes versus the global benchmark MSCI ACWI. Constituents of the themes are available upon request.

Exhibit 65: Performance of China AI Path, Humanoid 100, Asia Technology Advances - Outperformed the global index materially



Source: Factset, Morgan Stanley Research; Data as of January 30, 2026.

Europe

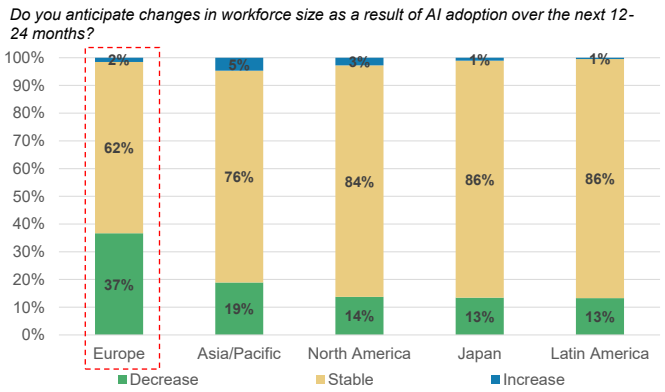
Regiane Yamanari, Marina Zavolock, Emily Woods & Rachel Fletcher

Most notably for Europe the survey points to a much higher skew of companies expected to reduce headcount on the back of AI... 37% of European companies in our database vs. 19% in APAC, 14% North America, & 13% in Japan are expected to reduce headcount driven by AI according to our analysts. On an index weighted basis these figures are 42% in Europe vs 25% in the US. From a sector perspective, we see the headcount reductions particularly concentrated in structurally challenged sectors (e.g. Autos, Chemicals, Staples), although we also see them expected across the board in OW-rated Banks.

...reinforcing the survey results of our Future of Work note that suggests that labour optimization is already emerging as a key channel through which AI adoption is impacting European corporates. For instance, in the survey, British companies reported the greatest net job loss, at 8%, vs the all-country (US, UK, Germany, Japan, and Australia) average of 4% — German companies were at 4%, in line with the all-country average. At the sector level, in Europe (considering the UK + Germany), survey respondents noted the greatest net loss in Autos, noting a 13% net loss on average. Meanwhile, other sectors, such as Consumer Staples, Health Care Equipment & Services and Real Estate Management & Development, had similar net losses of 6-7%. Transportation was the lowest, with a net loss of 3%.

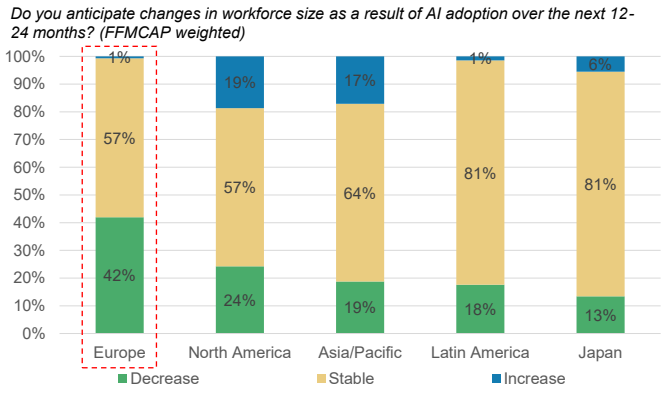
Since the launch of our data-driven sector model, change in number of employees has been a key input, as we have found that this is an unconventional factor that works particularly well in Europe. Specifically, the top quintile of companies reducing headcount fairly sustainably outperforms the bottom quintile of those companies that are showing relative increases in headcount. We think the fact that this factor has had a particularly high upward slope in the last two years and a Sharpe ratio of 1.3 is a testament to the tightness of labor markets and challenging European demographics today. In addition, we believe that this trend also fits with the AI diffusion theme: those companies that will be able to optimize productivity via AI are likely to outperform.

Exhibit 66: According our analysts, 37% of European companies in our database are expected to reduce headcount on the back of AI adoption....



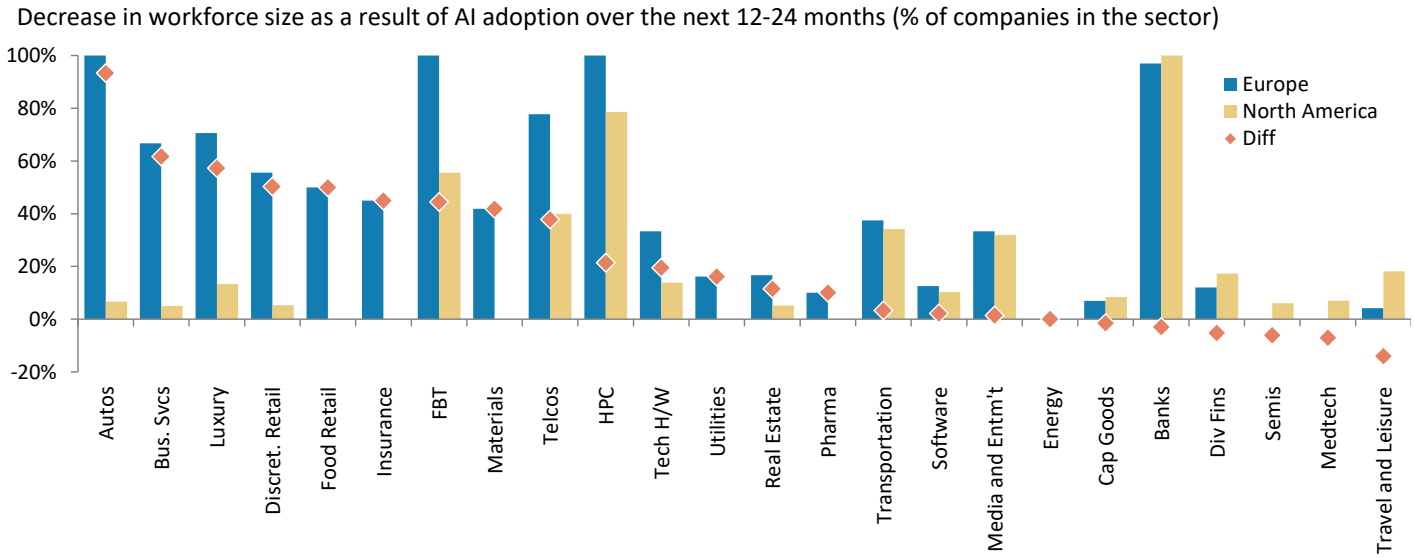
Source: Morgan Stanley Research

Exhibit 67: ...the highest level among global regions. That is even higher on a free float market cap weighted basis



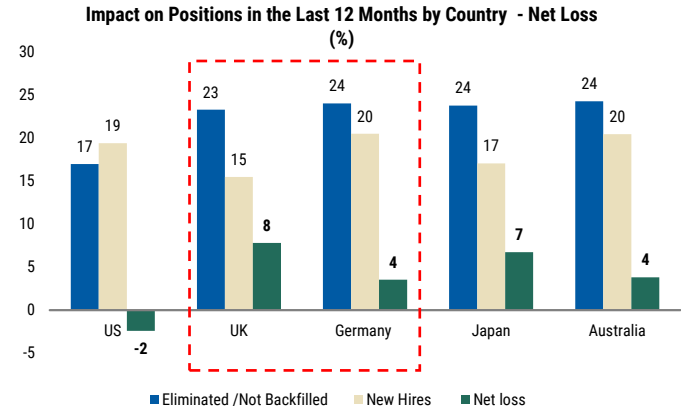
Source: Morgan Stanley Research

Exhibit 68: From a sector perspective, we see the headcount reductions particularly concentrated in structurally challenged sectors but also OW-rated Banks, which we believe lead on AI adoption ROI in Europe



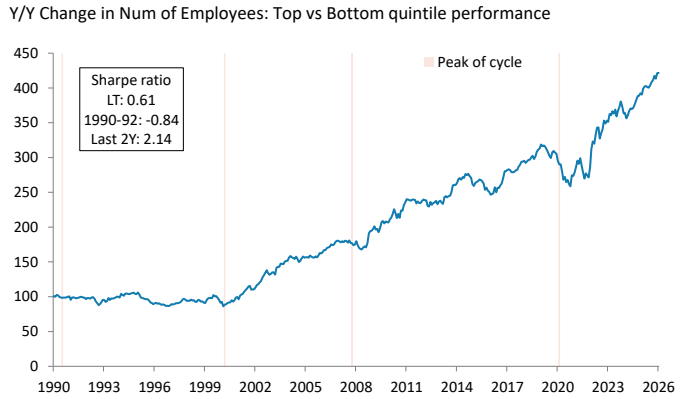
Source: Morgan Stanley Research

Exhibit 69: Indeed, our recent Future of Work AlphaWise, pointed to a surprising depth of early impact to headcount from AI in sectors that are seen to be early adopters



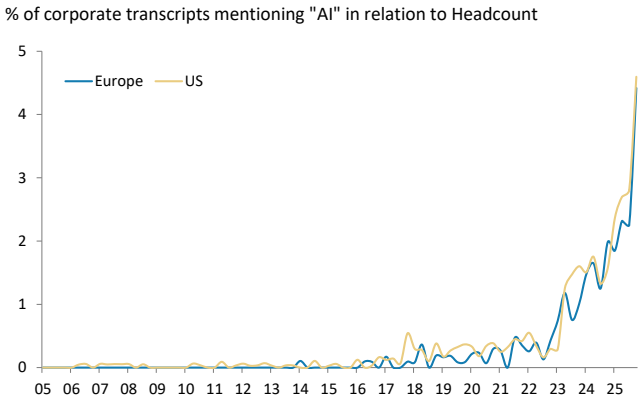
Source: AlphaWise, Morgan Stanley Research

Exhibit 70: At this early stage, we see AI-related headcount reductions as positive for EU equities — driving productivity, efficiency improvements & higher returns; we remind that companies reducing headcount tend to outperform in Europe



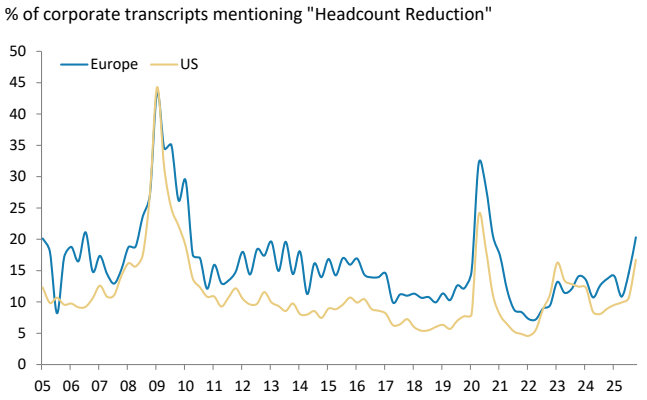
Note: In the data over the last 2 years, in coordination with our analysts, we suppress this factor for certain stocks/sectors with very high ROIC's such as Defence & strip out M&A & other related non-fundamental outliers; Source: MSCI, FactSet, Bloomberg, Company data, and Morgan Stanley research

Exhibit 71: European corporate mentions of AI in relation to headcount have shot up markedly, though are still relatively low in proportion…



Note: Quarterly number of transcripts reduces over long-term history, e.g. 2009 sample size at half of current levels; all metrics are a proportion of relevant sample size at the time; universe is stocks with >$500m market cap; searches are inclusive of synonyms; dashed lines indicate preliminary Q3-25 data, which may not fully represent the population due to ongoing reporting. Source: AlphaSense, Morgan Stanley Research

Exhibit 72: …To the overall regular trend of quarterly headcount reduction corporate mentions



Note: Quarterly number of transcripts reduces over long-term history, e.g. 2009 sample size at half of current levels; all metrics are a proportion of relevant sample size at the time; universe is stocks with >$500m market cap; searches are inclusive of synonyms; dashed lines indicate preliminary Q3-25 data, which may not fully represent the population due to ongoing reporting. Source: AlphaSense, Morgan Stanley Research

A Macro Perspective on Euro Area Labour Market

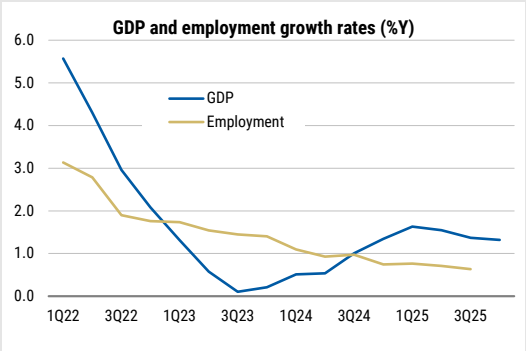
Jean-Francois Ouvrard & Jens Eisenschmidt

Solid but slowing: A significant share of surveyed European companies anticipate a reduction in the size of their workforce as a result of AI adoption. We want here to put this view in the context of what we see on EA labour market at the macro level. Seen from far, EA labour market looks solid. At 6.2% in Dec-25, the unemployment rate is at an historical low, and it has been very stable since mid-2024. But this masks less positive developments: Total EA employment is running at a year-on-year growth rate of 0.6%Y in 3Q25 (the latest available data point), significantly less than one (1.0%Y in 3Q24) or two years (1.5%Y in 3Q23) before. We also note a significant drop of the job vacancy rate in the euro area, from a peak above 3% in early 2023 to 2.1% in 3Q25. Our sentiment is thus that euro area labour market is less tight today than it was a couple of quarters ago.

A productivity pick-up... The consequence of employment slowing while EA growth is resilient is a pick-up of productivity growth which stands of 0.7%Y in 3Q25. This is modest and not a lot more than the pre-2019 trend (0.6%Y in 2015-19), but still much stronger than one year (0.0%Y in 3Q24) or two years (-1.5%Y in 3Q23) ago. The get a sense whether we are just seeing a cyclical uptick or something more structural, sectoral data are helpful and we draw two key conclusions.

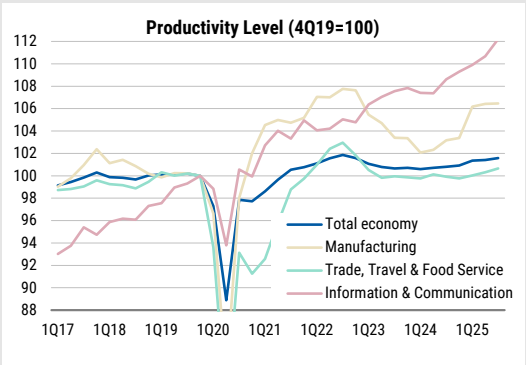
...that looks cyclical so far: First, stronger aggregate productivity today vs one year ago is due mostly to two sectors: manufacturing and trade, travel & food services. Those are sectors where activity took large hits in 2022-23, where we could identify clear signs of "labour hoarding" (here) and which are now recovering (to some extent). They still have ground to cover, meaning stronger activity can be met with a more intense use of available resources rather than net jobs creations. This supports the view, we think, of a cyclical recovery of EA productivity so far. Second, information and communication services, likely the sector most exposed to AI diffusion (within available EA macro data on employment which are not very granular), is posting strong productivity gains, ca 2%Y over the past two years. But this is not above pre-2019 trend in that sector. So, macro data do not seem to show a "structural" change of pace for EA productivity. Of course, a lot is happening on the ground as our surveys show, and macro data might simply be lagging or too noisy. Exploring AI implications for Europe from various angles remains key.

Exhibit **73:** Employment decelerates while GDP growth is resilient, ...



Source: Eurostat, Morgan Stanley Researc

Exhibit **74:** ... which lifts productivity, mostly for cyclical reasons

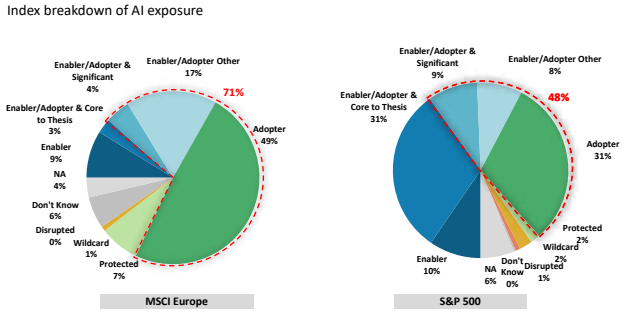


Source: Eurostat, Morgan Stanley Research

The survey results also point to rising materiality and broadening of AI adoption. Europe is the land of underappreciated AI adoption exposure which continues to broaden & show rising materiality. The share of adopters including enablers/adopters in MSCI Europe has increased steadily in every survey and now stands at 61% of companies. Enablers have also risen slightly (6% of stocks). The "don't know" category keeps declining (from 26% in the first survey to 13% currently) as analysts gain better visibility on how AI is impacting corporates. From a materiality perspective, the latest survey shows AI has at least a moderate impact for 43% of European companies, up from 33% in the prior survey and 24% in the first survey (Exhibit 88 and Exhibit 90).

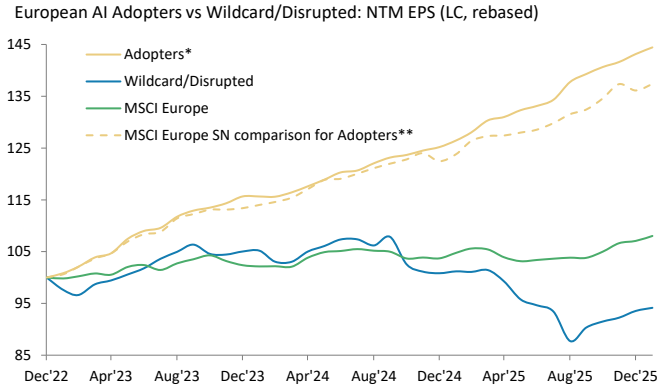
At the index level, the European benchmark has a much higher skew to adoption over enabling compared to the US. Thus, **AI adoption is critical to the outlook for Europe and we continue to note evidence of AI adoption ROI.** Considering the starting point of European returns, demographic challenges, and productivity, the adoption ROI phase of the AI cycle could be Europe's moment, contrary to popular belief. The gap in NTM earnings growth between "leading AI adopters" (with at least moderate exposure and neutral/high pricing power) and their respective sectors is widening — we estimate that at the end of 2025 that gap was 3.2p.p. and it seems to be rising in an increasingly non-linear fashion. This group trades at an average 27% discount to US equivalents despite similar EPS momentum.

Exhibit 75: AI adoption is critical for the European index given a much higher skew of exposure to adoption over enabling relative to the US



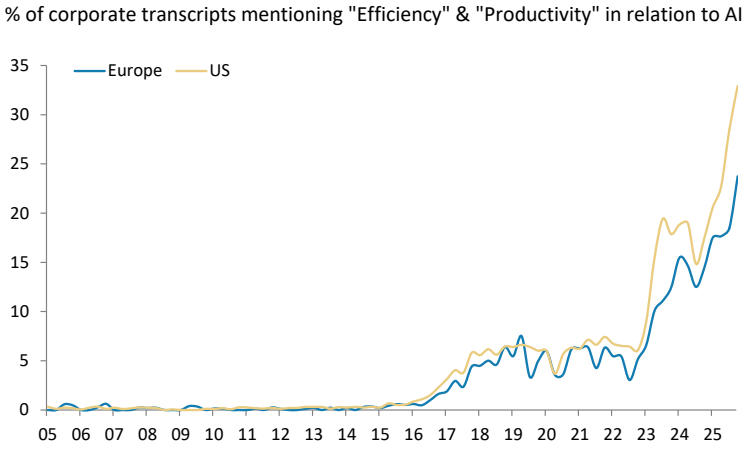
Source: MSCI, LSEG Data & Analytics, Morgan Stanley Research

Exhibit 76: Evidence of European AI adoption ROI: Notably, the gap between EU AI adopters* NTM EPS trend & respective sectors is growing



Note: *AI adopters & adopter/enablers with at least "moderate" AI exposure & neutral to high pricing power; 144 stocks included - 94 pure adopters, 50 enabler/adopters; **MSCI Europe sector weights adjusted to match AI adopter sector composition. Source: Factset, LSEG Data & Analytics and Morgan Stanley Research

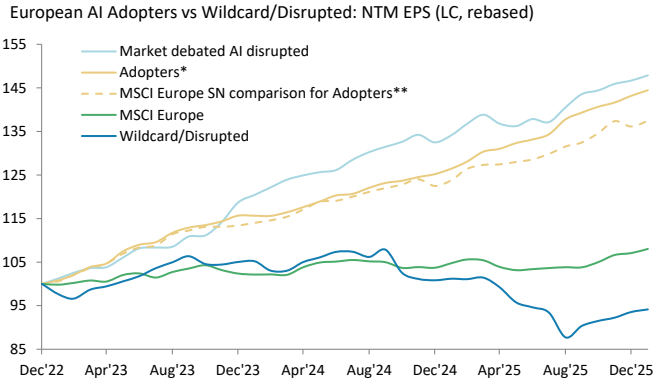
Exhibit 77: European corporate commentary on AI in relation to "efficiency" and "productivity" continues to rise, but lags the US



Note: Quarterly number of transcripts reduces over long-term history, e.g. 2009 sample size at half of current levels; all metrics are a proportion of relevant sample size at the time; universe is stocks with >$500m market cap; searches are inclusive of synonyms; dashed lines indicate preliminary Q3-25 data, which may not fully represent the population due to ongoing reporting. Source: AlphaSense, Morgan Stanley Research

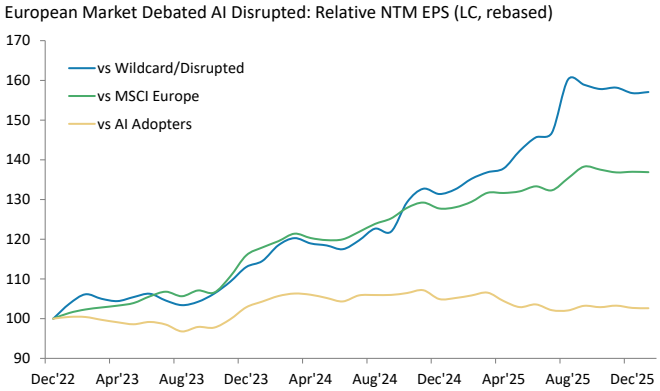
However, we note that investor debate has recently focused on AI disruption risk. We have seen a meaningful de-rating in stocks perceived as exposed (but not mapped that way by our analysts), larger than in stocks our analysts classify as AI disrupted or wildcard. For our more in depth analysis on this see our recent In the AI of the Storm report. Altogether these stocks so far account for ~7% of the European index, so despite the negative headlines, still far smaller in weight vs. ~10% top enablers and ~30% leading adopters, e.g., those with at least moderate AI exposure and at least neutral pricing power.

Exhibit 78: When we take all the "AI disrupted debated" stocks in our European coverage (e.g. those to which the market has ascribed a risk of disruption but where our analysts do not agree), we see superior NTM EPS trends...



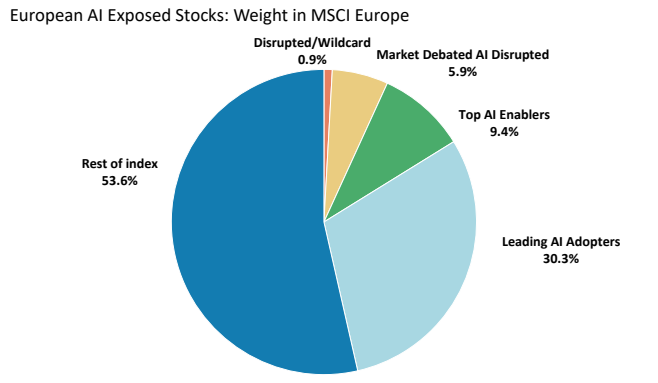
Note: *AI adopters & adopter/enablers with at least "moderate" AI exposure & neutral to high pricing power; 144 stocks included - 94 pure adopters, 50 enabler/adopters; **MSCI Europe sector weights adjusted to match AI adopter sector composition. Source: Factset, LSEG Data & Analytics and Morgan Stanley Research

Exhibit 79: ...However, with stalling NTM EPS outperformance vs MSCI Europe & "wildcard/disrupted" stocks in our universe (e.g. those where AI disruption risks are more apparent as per our global AI mapping)



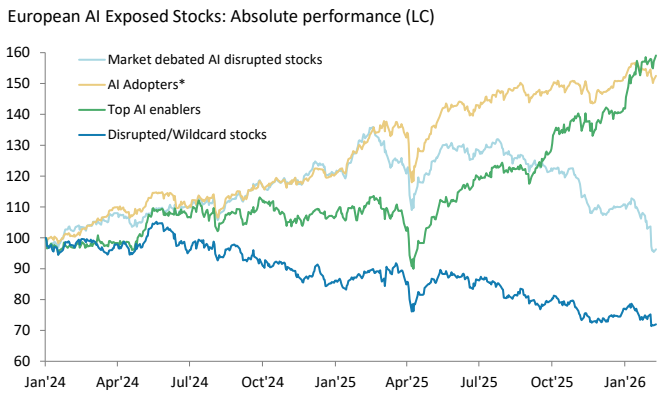
Note: AI adopters & adopter/enablers with at least "moderate" AI exposure & neutral to high pricing power; Source: Factset, LSEG Data & Analytics, Morgan Stanley Research

Exhibit 80: Most importantly, AI risks are still balanced positively for European equities, in our view — while "Debated Disrupted" & "Disrupted/Wildcard" stocks make up a growing c.7% of the index, Top Enablers & Leading Adopters are nearly a 50% weight



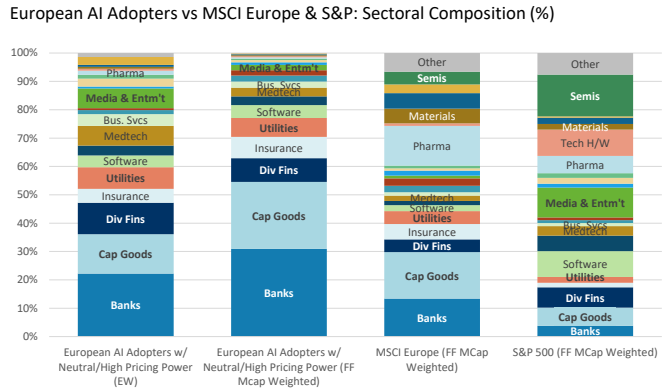
Note: Key AI enablers based on strategy adjusted score; Leading AI adopters refers to companies which our analysts have categorized as having at least neutral pricing power at least moderate AI adoption or adoption/enabler exposure; Leading AI adopters excludes those in Market Debated or Key AI Enabler categories; Source: MSCI, LSEG Data & Analytics, Morgan Stanley Research

Exhibit 81: Europe's "leading" AI adopters & top AI enablers continue to broadly outperform, whereas "debated disrupted" stocks are rapidly catching down to "undebated" disrupted/wildcard stocks underperformance



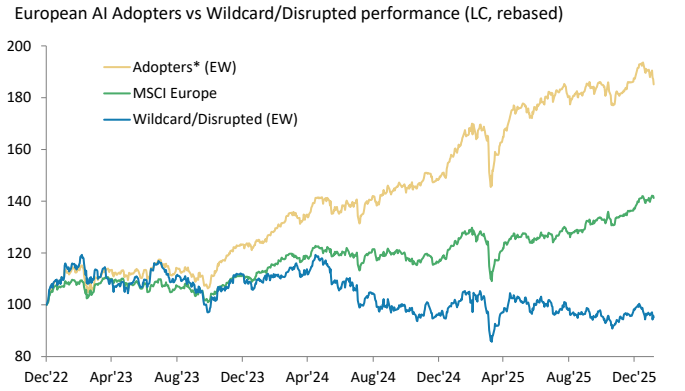
Note: Key AI enablers based on strategy adjusted score; Source: Factset, Morgan Stanley Research

Exhibit 82: European AI adopters with moderate adoption exposure & at least neutral pricing power are dominated by Banks, Cap Goods, & Utils



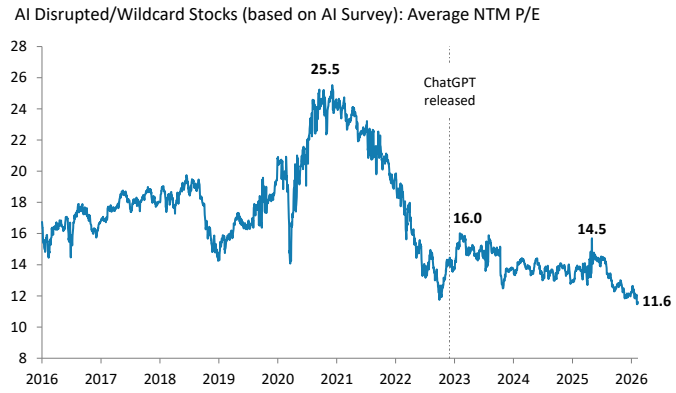
Source: MSCI, LSEG Data & Analytics

Exhibit 83: Europe's AI adopters* are strongly outperforming the index, whilst European wildcard/disrupted stocks are underperforming



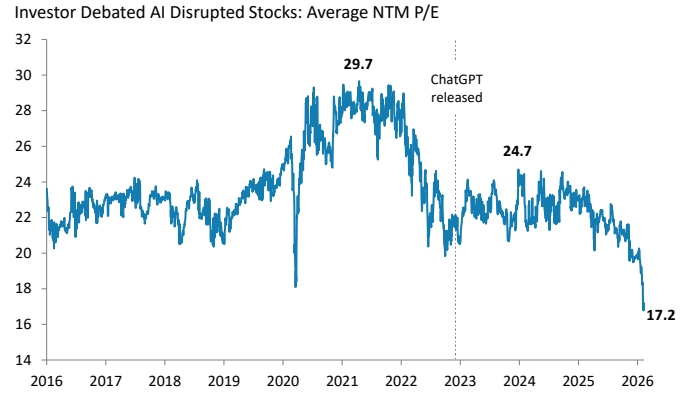
*Note: Among "Adopters," we consider AI adopters and adopter/enablers with at least "moderate" AI exposure and neutral to high pricing power; Source: Factset and Morgan Stanley Research

Exhibit 84: Meanwhile "undebated" disrupted & wildcard stocks saw a comparably more moderate de-rating following the release of ChatGPT but trade at 11.6x NTM P/E (vs MSCI Europe at 15.7x)



Source: FactSet, Morgan Stanley Research

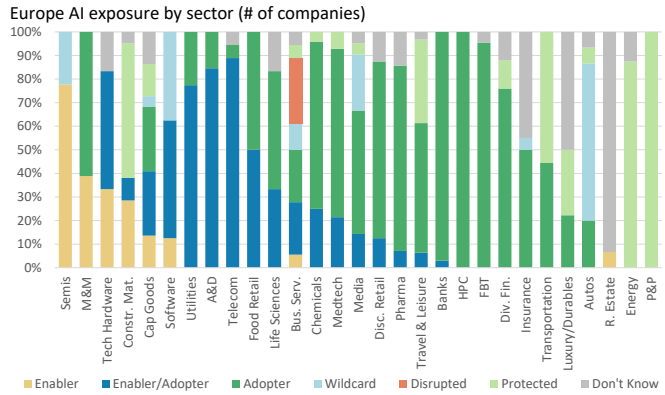
Exhibit 85: "Disrupted debated" stocks have derated from 25x NTM P/E to 17x on average



Source: FactSet, Morgan Stanley Research

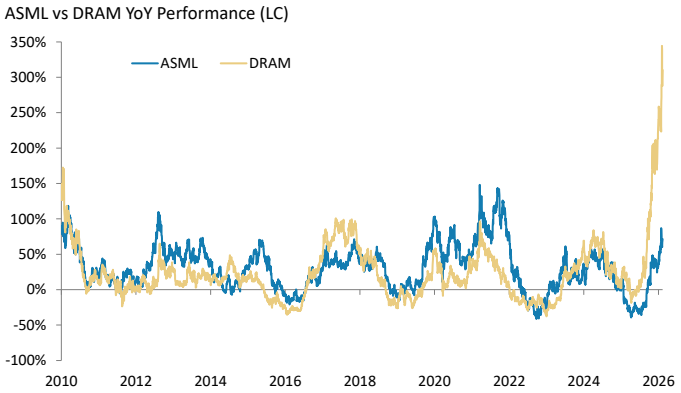
Top AI Enablers now make 10% of the index. Among them, Semis is one of our OW-rated sectors. Our global Semis team argue that for 2026, the risk in the AI capex cycle is execution & transition, not demand. Potential future capex cycle bottlenecks thus become the winners; this includes EU semicap, especially EUV (extreme ultraviolet lithography). In addition to Semis, we highlight selected Cap Goods (Siemens Energy) and Utilities are among our preferred sectors/stocks in Europe.

Exhibit 86: Semis has the highest share of companies Enablers at the sector level



Source: Morgan Stanley Research

Exhibit 87: We have an OW-rating on Semis, as global AI capex demand shifts to potential future bottlenecks, including Semicap & especially EUV

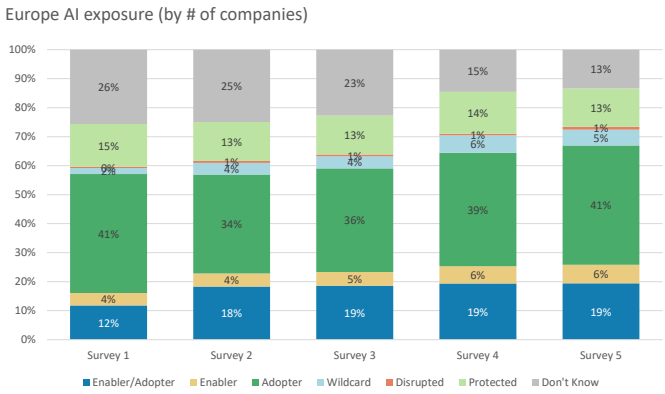


Note: Three DRAM companies = Samsung Electronics, Micron and SK Hynix; Source: FactSet, Morgan Stanley Research

Survey Results

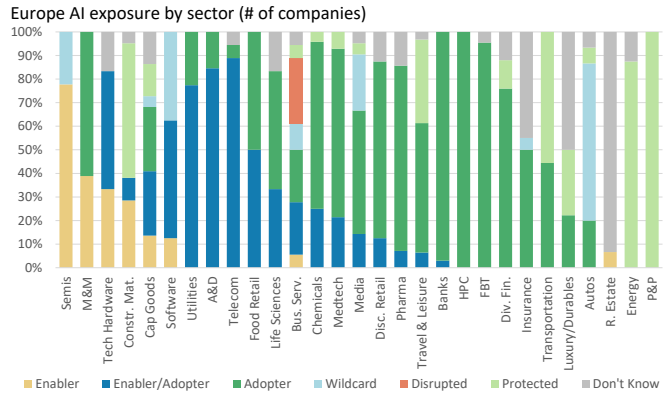
The share of stocks with positive AI exposure (adopters, enablers and both) slightly rose in this wave of the survey. On an equal weight basis, 41% of stocks covered by Europe Research are considered AI adopters. The next most common category is Enabler/Adopters at 19%. The Enabler category is now 6% and the Protected group has been practically stable at 13%. In total, Adopters, Enablers and Adopters/Enablers make now 67% of companies, which compares to 57% in the first survey and 64% in the prior one.

Exhibit 88: The share of stocks with positive AI exposure (adopters, enablers and both) slightly rose in this wave of the survey



Source: Morgan Stanley Research

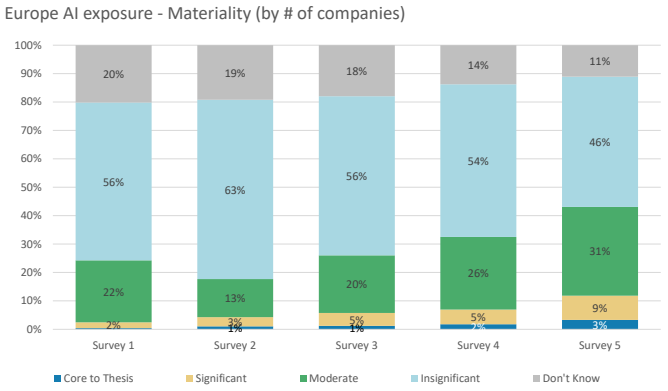
Exhibit 89: Semis and M&M have the highest share of companies Enablers, while Energy and P&P are seen as protected



Source: Morgan Stanley Research

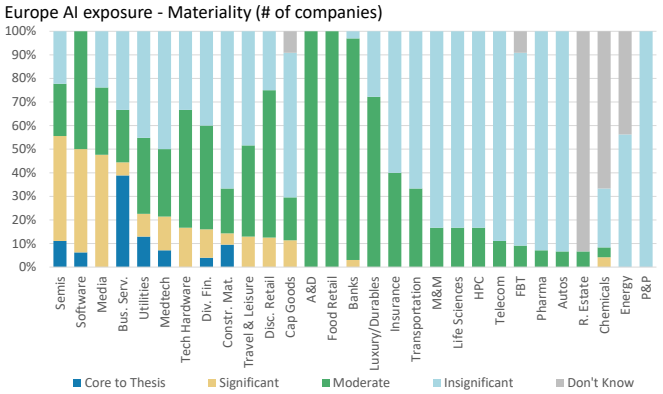
The percent of stocks with moderate or higher materiality has almost doubled since the first survey. Companies exposure to AI is also becoming clearer with the percent of "don't know" stocks down by a half in the same period. Some 3% of stocks have a Core to the Thesis level of materiality, and 9% have a Significant. The Moderate category has grown the most, now at 31% of companies.

Exhibit 90: The percent of stocks with moderate or higher materiality has almost doubled since the first survey



Source: Morgan Stanley Research

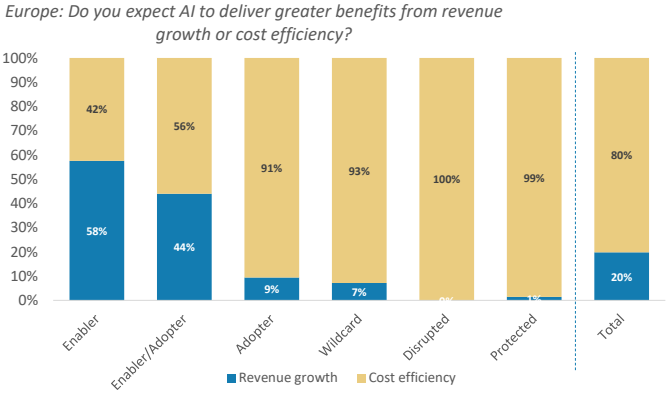
Exhibit 91: Semis, Software, Media and Business Services are the sector with the highest materiality



Source: Morgan Stanley Research

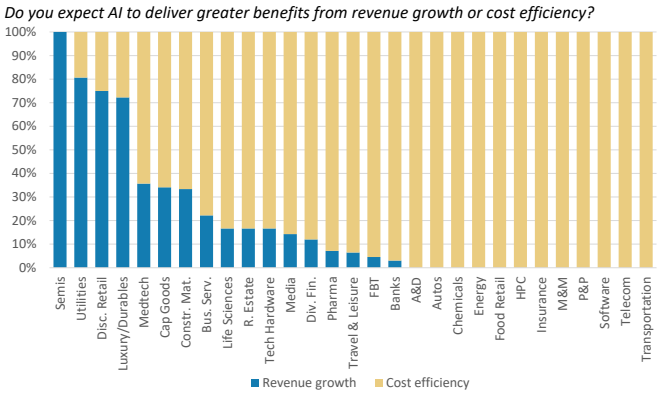
The vast majority of benefits from AI are expected to come in the form of cost efficiency (80%) while about 20% of companies in Europe are expected to see a greater revenue growth benefit from AI.

Exhibit 92: Europe: Cost vs Revenue Impact by AI Exposure



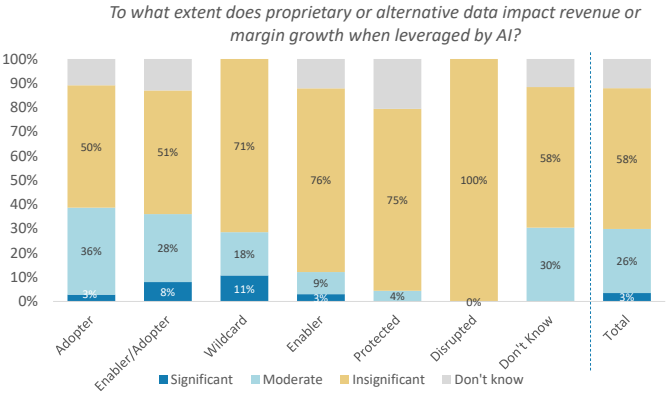
Source: Morgan Stanley Research

Exhibit 93: Europe: Cost vs Revenue Impact by sector



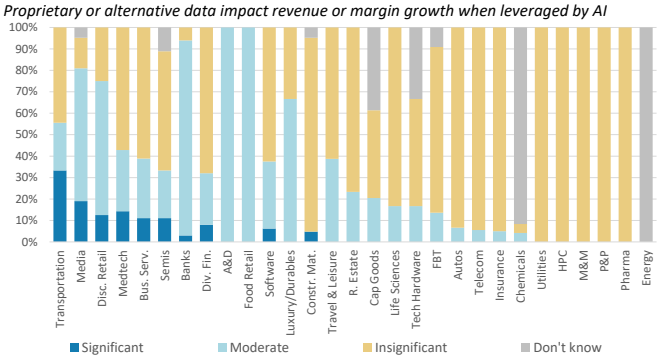
Source: Morgan Stanley Research

Exhibit 94: Alternative Data's Long-term Impact on Revenue or Margin — by AI exposure



Source: Morgan Stanley Research

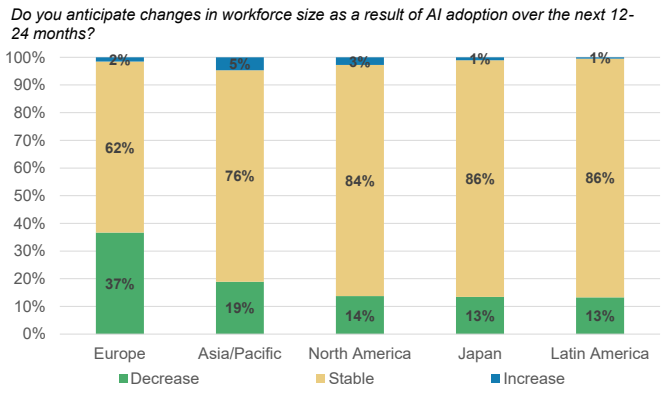
Exhibit 95: Alternative Data's Long-term Impact on Revenue or Margin — by sector



Source: Morgan Stanley Research

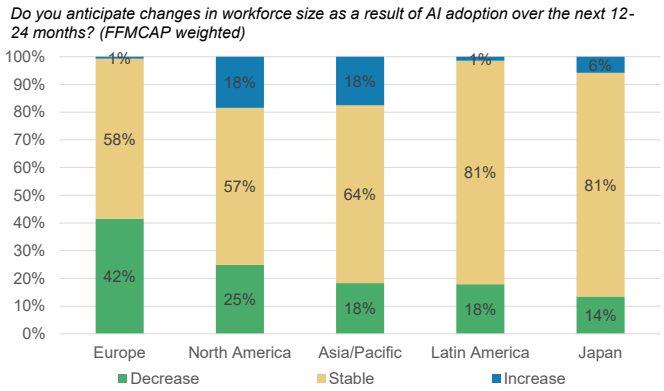
The latest mapping highlights Europe as an outlier with respect to workforce change expectations, where 37% of companies expect their workforce to decrease. The gap to the second-highest region, Asia/Pacific, is 18%. The number is slightly higher, 42% for Europe when considering companies on an FMMCAP weighted basis, pointing to greater role of larger companies. Here, the gap to North America is 17%. Although in both analyses, very few European companies expect an increase in workforce (2% and 1% respectively). This stands in contrast to Asia/Pacific and North America, where greater weighing of larger companies contributes to an increase in both higher and lower workforce expectations.

Exhibit 96: Changes to Workforce Size by Region



Source: AlphaWise, Morgan Stanley Research

Exhibit 97: Changes to Workforce Size by Region: FMMCAP Weighted



Source: AlphaWise, Morgan Stanley Research

AI Across the Thematic Landscape

Michelle Weaver & Stephen Byrd

The Three Chapter Story

AI is a story best told in three chapters. First, there is the underlying technology itself. Second, there are those enabling the technology to be built. Third, there are those adopting the technology. Each part of the story presents a unique opportunity set, with varying degrees of maturity and risk.

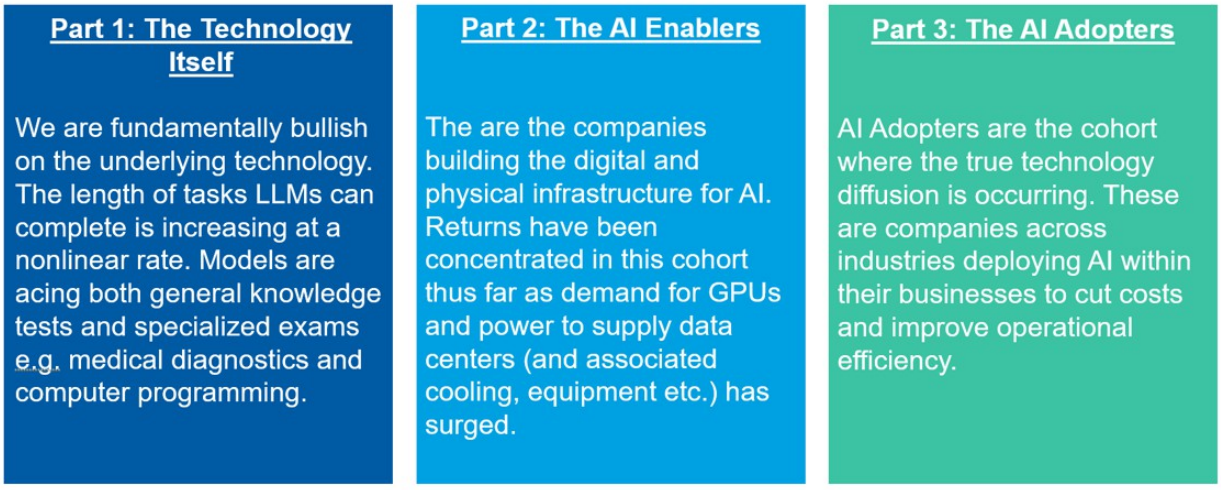
We remain fundamentally bullish on the underlying technology. The capabilities of frontier models are advancing at a non-linear pace. Models are now able to perform increasingly complex tasks, pass general knowledge exams, and excel in specialized domains such as medical diagnostics and software engineering. This leap in intelligence and task length capacity reinforces our conviction that the foundational layer of AI will continue to improve rapidly.

The second part centers on the enablers, companies building the infrastructure that provide the backbone for AI. This includes chipmakers, cooling system providers, the hyperscalers, and power players. While we don't view this space as a bubble, valuations are rich. Selectivity here is key, especially as capital intensity and competitive dynamics evolve.

The third part, and the one we believe is the most under explored, is the AI adopters — companies applying AI to drive operational efficiency, grow revenue, and cut costs. We are still early in this adoption cycle, and the opportunity set is broad but idiosyncratic. This area is particularly compelling in light of our house equity strategy view that we are transitioning form a rolling recession into a rolling recovery. The average stock is poised for better earnings growth into next year and AI is an important part of this, along with firming pricing power, compressed cost structures, a weaker dollar and lower rates.

Increasingly, there's a perceived disconnect among investors between the speed of innovation in the underlying technology and the pace of adoption as some question why we are seeing so much improvement at the cutting edge but haven't seen broader margin improvement due to AI yet. There is a substantial lag between what researchers are able to accomplish and how the average worker is leveraging AI tools because companies need time to ensure safeguards are in place and retrain their workforce. Historically, general-purpose technologies have reshaped economies not simply through invention, but through integration into everyday business processes — this is the true technology diffusion part of the story. **We think 2026 is the year that AI adoption takes off.**

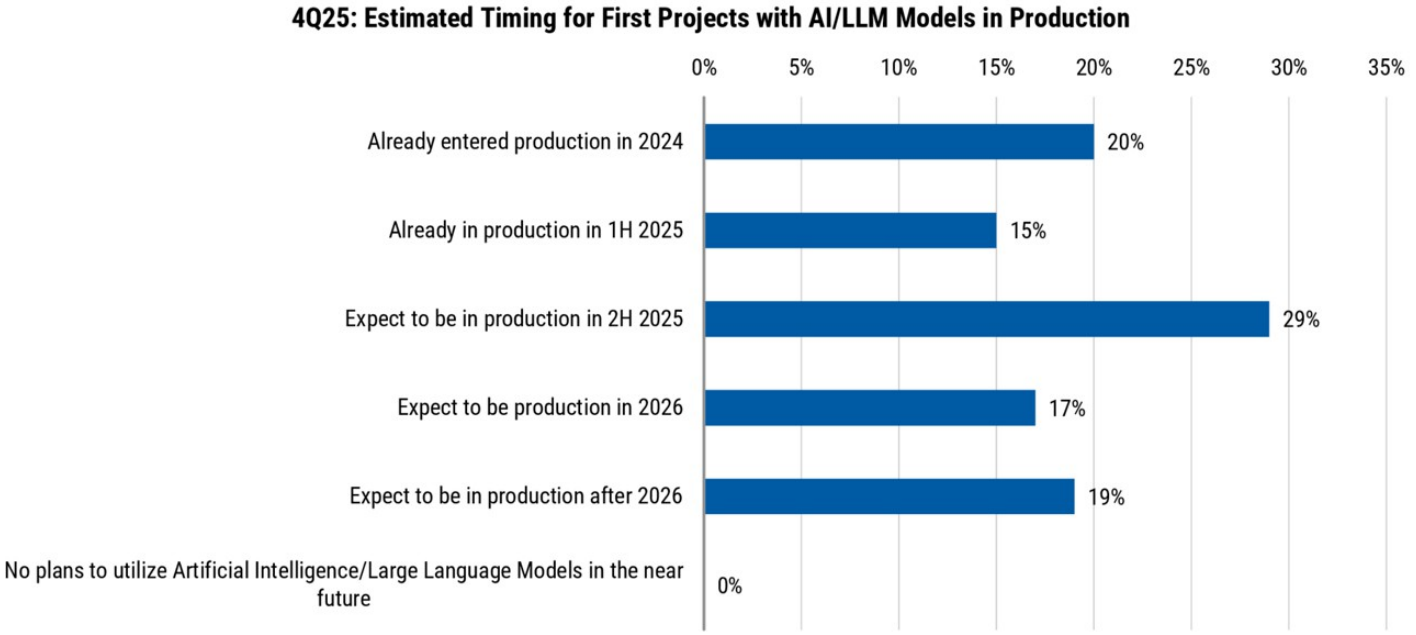
Exhibit 98: The Three Parts to the AI Story



Source: Morgan Stanley Research

The Vast Majority of CIOs Expect to Have AI Based Workloads in Production by the End of the Year. Our Tech team's quarterly CIO survey shows that 81% of CIOs expect to have at least one AI-based workload in production by the end of 2026, up from 79% in 3Q25 and 74% in 2Q25, highlighting accelerating deployment rather than experimentation. As AI workloads transition from pilot phases into live production environments, the bar for success rises. Companies will increasingly need to articulate clear, measurable ROI from these initiatives moving beyond proof of concept to demonstrable impacts on productivity, cost structure, revenue growth, or competitive positioning to sustain investor confidence and valuation support.

Exhibit 99: 81% of CIOs Expect to Have Gen AI-Based Workloads in Production by the End of 2026



Source: AlphaWise, Morgan Stanley Research. n=100. Includes US and EU.

AI adoption can take many different forms across industries on both the digital, physical, and embodied fronts. A non-exhaustive list of examples of AI use cases by industry is shown in the table below and we breakdown one use case per sector.

- **Smart Kitchens** use connected appliances, sensors, and AI to automate cooking, manage inventory, and optimize energy use. AI enables predictive cooking, personalized recipe recommendations, and real-time monitoring for efficiency and safety.
- **Smart grids** are modernized electrical grids that use digital technology, sensors, and real-time data to improve energy distribution, reliability, and efficiency. AI powers demand forecasting, fault detection, and dynamic load balancing to optimize energy flow.
- **Alternative credit scoring** uses non-traditional data sources — such as utility payments, mobile phone usage, and online behavior — to assess creditworthiness. AI models analyze large, unstructured datasets to predict credit risk more accurately than traditional methods.
- **Drug discovery** leverages computational models, AI, and high-throughput screening to identify and develop new therapeutic compounds. AI accelerates target identification, predicts molecular interactions, and optimizes drug candidates using deep learning.
- **Predictive quality control** uses AI and data analytics to monitor production processes in real time and predict potential defects before they occur. By analyzing sensor data and historical patterns, it helps manufacturers reduce waste, improve consistency, and minimize downtime.
- **AI-driven advertisement and content generation** uses natural language processing and generative models to create personalized marketing materials, articles, and multimedia content. AI enables real-time personalization, automates digital asset comparison, and scales creative generation.

Exhibit 100: Examples of AI Use Cases by Sector

Consumer	Energy & Materials	Financials & REITs	Health Care	Industrials	Tech, Media, & Telecom
Visual Search	Predictive Maintenance	Fraud Detection & Prevention	Medical Imaging	Autonomous Trucks	Ad/Content Generation
Smart Kitchens	Smart Grids	Alternative Credit Scoring	Drug Discovery	AI Enabled Factory Robots	Coder Assistance Tools
Autonomous Delivery	Carbon Tracking	Automated Back Office Tasks	Clinical Decision Support	Predictive Quality Control	Real Time Translation
Customer Service Automation	Exploration & Drilling Automation	Robo-Advisors	Predicting Drug Trial Success	Supply Chain Resilience	Churn Prediction
Demand Forecasting		Customer Onboarding/KYC	Production Efficiency		Personalized Travel Planning

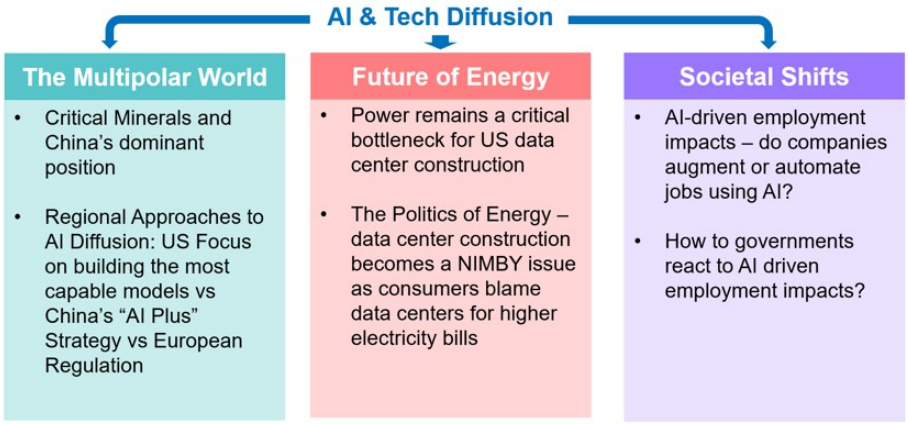
Boxes without an outline are examples of digital AI applications while boxes with an outline are examples of physical AI applications.

Source: Morgan Stanley Research

Thematic Intersections

AI & Technology Diffusion is one of Morgan Stanley Research's 4 Key Themes. The other three are The Future of Energy, The Multipolar World, and Societal Shifts. The Future of Energy centers on energy security, powering AI, breakthrough technologies, and increased electrification. The Multipolar World examines global trade and shifting business dynamics in an environment of declining globalization. Societal Shifts is broadly about demographics and looks at the future of work, aging populations, the K-Economy, and advancements in health care. **Our key themes are not meant to be viewed in insolation; they intersect and collide causing one another to change shape.** In the sections that follow we discuss how AI intersects with the other key themes.

Exhibit 101: AI's Intersections with Our Other Key Themes



Source: Morgan Stanley Research

The Future of Energy x AI/Technology Diffusion

Power remains a key bottleneck in the AI ecosystem. In the US, data center developers are likely to be 10-20% short of power access through 2028. We believe AI players will pay significant premia to ensure that they are not short power access to support their AI infrastructure growth plans. A recent sign of increasing premia: In December, Google provided a guarantee of a lease for a data center to be built by Hut8 (HUT), for a data center that will ultimately be used by Anthropic. When translating the attractive lease rate into a power price premium, that premium is equal to ~300%.

Exhibit 102: In the US, we believe data center developers will face a 10-20% power shortage relative to the amount needed for 2025-28 data center construction

	Low End	Midpoint	High End	Probability of Success
Solution #1: Nat Gas Turbines	15	18	20	90%
Solution #2: Bloom Energy Fuel Cells	5	7	8	90%
Solution #3: Site DC at Op'l Nuclear Plant	5	10	15	75%
Solution #4: Convert Bitcoin Sites	10	13	15	90%
Probability-Weighted "Time to Power" Solutions thru 2028	31	40	50	
Net Shortfall Through 2028	**(16)**	**(6)**	**None**	
Shortfall as a % of 2025-28 US DC Deployments	*22%*	*9%*		

We believe the most likely outcome

Source: Morgan Stanley Research.

Powering data centers is becoming a hot button political issue. As such, companies are likely to increasingly look to off-grid solutions to power data centers. In 2025, we highlighted the risk of increased political prominence of power costs, especially in relation to perceived power price increases caused by the growth of AI and data centers. See our deep dive on AI and US power costs here (podcast here). **US household electricity bills have been rising steadily, causing difficulty for consumers whose budgets have already been stretched thin amid lingering inflation and slower real income growth. Consumers are increasingly pointing to data center power demand as the culprit behind higher electricity bills; while this is true to some extent, significant nuances exist at the state and regional level.** We expect national attention on this issue to grow heading into the midterm elections as affordability is often a top voter issue and recent elections were in part won on candidates running on cost of living issues. Policy proposals to insulate consumers from data center electricity costs are nascent and fragmented, with more action at the local/state level than federal level. Data center projects are significant in states that are critical battle-grounds for the midterm elections (CA, GA, MI, OH, PA, and TX) and political pressure could ramp.

Exhibit 103: State legislative & regulatory proposals

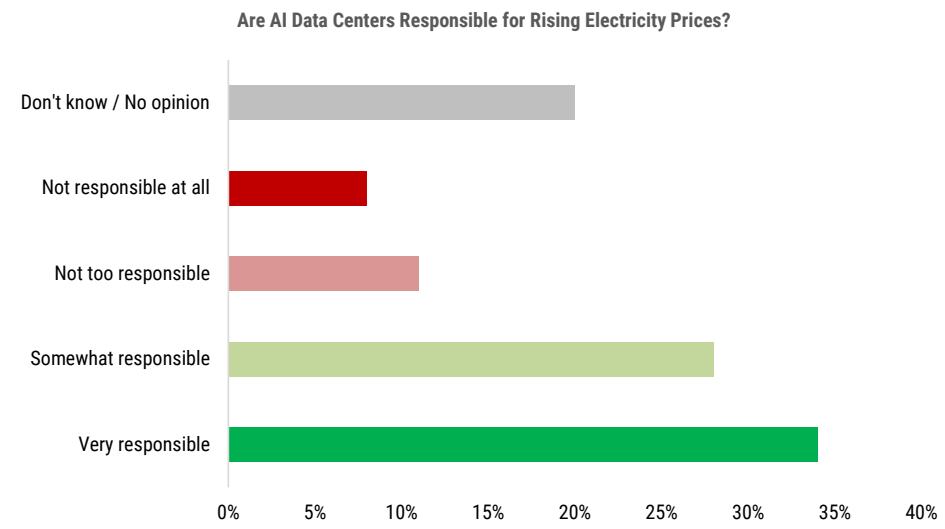
State	Proposal/Regulation	Status
Georgia	The Public Service Commission adopted a rule mandating Georgia Power customers with an anticipated load of more than 100 megawatts (MW) bear more of the cost; including payment of upstream generation, transmission, and distribution costs incurred to serve their load	Rule adopted
Georgia	State legislature has introduced a bill to prohibit utilities from shifting costs to other customers for infrastructure needed to serve large-load users (data centers)	Stalled
California	State legislature has introduced bills to require data centers and developers of large AI models to disclose energy usage, adopt efficiency standards, or create a separate rate structure for data centers	Introduced
Ohio	The Public Utilities Commission has adopted a rule requiring data centers to pay more of the upfront costs associated with long-term energy contracts (85% of projected usage up front to cover grid upgrade costs)	Rule adopted
Michigan	Michigan Public Service Commission approved a rule requiring 15-year contracts, 80% minimum billing demand, exit fees & collateral for large customers so other customers don't subsidize data-center-driven upgrades	Rule adopted
Maryland	Bill requiring each utility to file a specific rate schedule for data centers meeting PSC criteria	Enacted
Oregon	State legislature introduced a bill to create a class for >20MW uses to pay their share of electricity system costs	Enacted
Indiana	Utility Regulatory Commission approved a settlement agreement with Indiana Michigan Power (I&M) and other parties for large load customers requiring long-term financial commitments and ensuring that the utility can recover the costs to serve them	Enacted

Source: State legislature/utility websites, Morgan Stanley Research

Utilities have introduced large load tariffs to protect existing customers from rate increases from data centers. Across many utilities, large load tariffs are being designed and approved by utility commissions to protect existing ratepayers, reduce stranded asset risk, and introduce a standard pathway for load requests. While each tariff is unique, similar key provisions across the country include minium charges, ramp schedules, exit fees, minimum demand thresholds, and credit and collateral requirements,

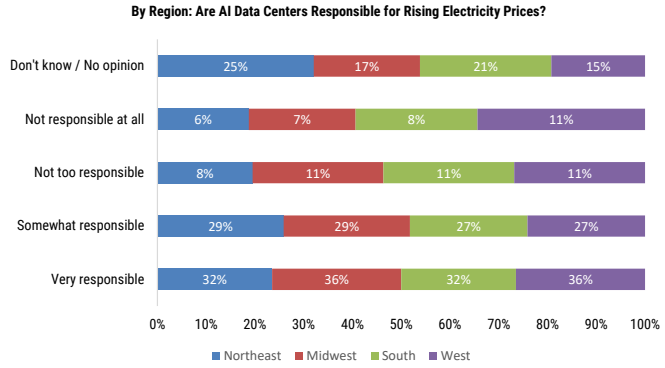
Data center development is quickly becoming a NIMBY (Not in My Backyard) issue with communities increasingly pushing back — and getting projects cancelled. Companies must find ways to address local concerns about environmental and water-related externalities, while also ensuring that consumers are insulated from potentially higher electricity bills. A recent poll from Morning Consult of 2,200 registered US voters found that just over half of respondents attribute overall electricity price increases to AI data centers at least somewhat while 34% consider them very responsible with responses consistent across all regions and political affiliations.

Exhibit 104: Are Data Centers Responsible for Rising Electricity Prices?



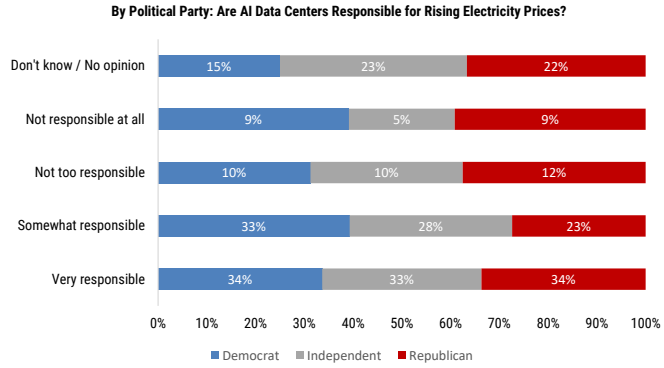
Source: Morning Consult, AlphaWise Web Intelligence

Exhibit 105: By Region: Are Data Centers Responsible for Rising Electricity Prices?



Source: Morning Consult, AlphaWise Web Intelligence

Exhibit 106: By Political Party: Are Data Centers Responsible for Rising Electricity Prices?



Source: Morning Consult, AlphaWise Web Intelligence

Societal Shifts x AI/Technology Diffusion

AI has the potential to be highly disruptive to the labor market; we believe AI's impact on workers will come into focus in 2026 as companies ramp AI adoption. One concern about AI is that it will replace millions of jobs and increase unemployment by an equivalent amount. **In other words, the concern is that AI is not complementary to labor but will replace it. Yet history shows a large number of prior technological innovations that were both significant in scope and fundamentally altered the labor force but did not replace labor.** Instead, they changed job types, occupations, and needed skills. While these shifts transformed jobs and the number of workers needed in certain areas, they also created new roles — new technology creates new job opportunities.

We looked at which jobs gained or lost the most share every decade and they line up with key shifts in technology. During the 1990s, computer scientists/programmers saw the biggest share increase in the total number of employees while secretaries and bookkeepers, accountants, and auditing clerks were among those seeing the biggest share decrease. This reflects the widespread adoption of the computer, along with word processing software and spreadsheets. A similar pattern was observed in the 2000s and 2010s. However, in the 2010s retail salespeople and cashiers joined the list of the top 10 roles seeing the biggest decline in shares. This is likely due to greater adoption of e-Commerce as online shopping was made easier with the rise of smartphones.

Exhibit 107: Job Share Increases and Decreases by Decade

Top 10 (Increasing in Share)

1991 - 2000	2001 - 2010	2011 - 2019
Computer scientists/programmers	Nursing and home care aides	Managers (other)
Teachers (secondary and below)	Teachers (secondary and below)	Computer scientists/programmers
Supervisors and proprietors	Registered nurses	Construction laborers
Managers, medicine and health	Construction managers	Computer occupations, all other
Investigators and adjusters, except insurance	Waiters and waitresses	Taxi drivers and chauffeurs
Health technologists and technicians, n.e.c.	Computer and information systems managers	Customer service representatives
Securities and financial services sales occupations	Security guards and gaming surveillance officers	Production workers, all other
Construction supervisors, n.e.c.	Financial managers	Financial analysts
Financial managers	Postsecondary teachers	Laborers and freight, stock, and material movers, hand
Nursing aides, orderlies, and attendants	Stock clerks and order fillers	Engineers (other)

Bottom 10 (Decreasing in Share)

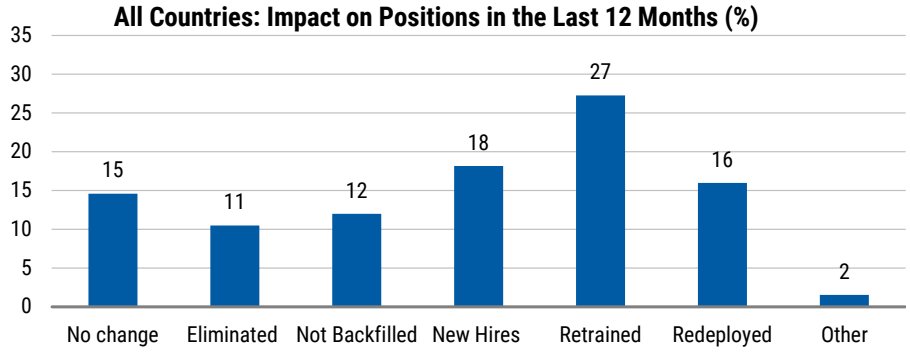
1991 - 2000	2001 - 2010	2011 - 2019
Secretaries	Secretaries and administrative assistants	Secretaries and administrative assistants
Managers and administrators (other)	Managers (other)	Retail salespersons
Computer operators	Bookkeeping, accounting, and auditing clerks	Bookkeeping, accounting, and auditing clerks
Bookkeepers, accounting, and auditing clerks	Miscellaneous assemblers and fabricators	Cashiers
Textile sewing machine operators	First-line supervisors/managers of production and operating workers	First-line supervisors of retail sales workers
Supervisors, production occupations	Driver/sales workers and truck drivers	First-line supervisors of office and administrative support workers
Administrative support occupations (other)	Data entry keyers	Waiters and waitresses
Sales workers, other commodities	Carpenters	Cooks
Farm workers	Machine setters	Carpenters
Technicians (other)	First-line supervisors/managers of retail sales workers	File clerks

Source: BLS, Morgan Stanley Research

In our Future of Work note last summer, we estimated that 90% of occupations will to some degree by impacted by AI automation and augmentation. Importantly, this impact is unlikely to be binary. Rather than wholesale job elimination, we expect AI to reconfigure task composition within roles, automating some activities while augmenting others. Given the magnitude of potential impact employees will need to be upskilled or reskilled. Employees will need to upskill to learn how to integrate AI tools into existing workflows to raise productivity, improve decision quality, and shift time toward higher-value tasks. At the same time, a subset of workers will likely need to be reskilled, particularly in roles where automation meaningfully compresses labor demand or where the remaining tasks require fundamentally different capabilities. **In these cases, reskilling enables workers to transition into adjacent or entirely new roles that are either AI-complementary or less exposed to automation.**

As a follow up to the Future of Work note, we ran a survey of companies in the industry groups where we believe AI augmentation and automation have the highest potential value creation. These industry groups are Consumer Staples Distribution & Retail, Real Estate Management & Development, Transportation, Health Care Equipment & Services, and Autos. **Companies that responded to the survey reported a 4% net job loss globally.** In the last 12 months, survey respondents said that AI adoption had led to 11% of jobs to be eliminated and a further 12% to not be backfilled. This is partially offset by 18% new hires, leading to a 4% net job loss globally over the last 12 months. Another way to look at the data is to consider the total number of staff that have been retained. Taking the percentage of "no change" roles, together with those where staff have been retrained and redeployed, gives a total "retained staff" percentage of 56%.

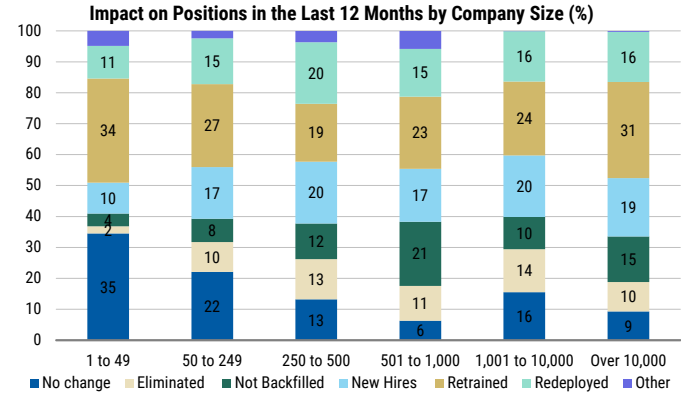
Exhibit 108: Our AI-employment survey results: 4% net job loss (11% eliminated + 12% not backfilled, net of 18% new hire volume)



Source: AlphaWise, Morgan Stanley Research

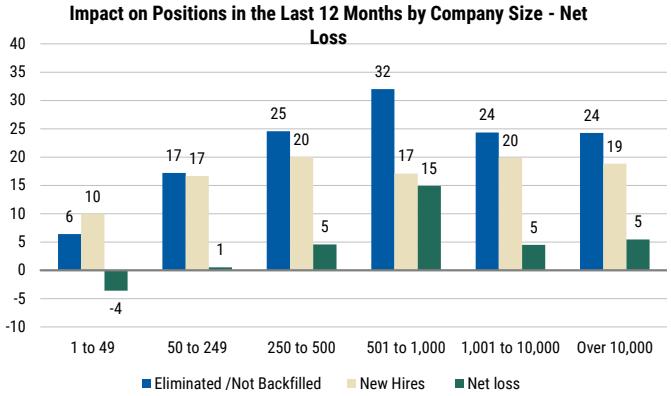
Smaller companies have retained more staff. Companies with fewer than 49 employees have the highest staff retention, with a retained staff percentage (no change + retrained + redeployed) of 79% and a net gain in positions of 4%. **Companies with 501-1,000 employees saw the highest net loss in positions at 15%,** with a total staff retention of only 45%.

Exhibit 109: Companies with 501-1,000 employees saw the greatest net loss of positions...



Source: AlphaWise, Morgan Stanley Research

Exhibit 110: ... and the smallest companies (1-49 employees) reported a net gain in positions.



Source: AlphaWise, Morgan Stanley Research

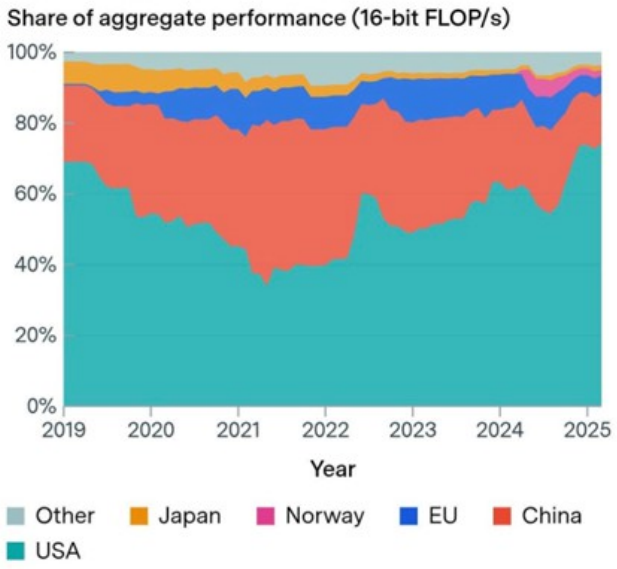
In the United States, there has been minimal government intervention or legislation to curtail possible AI disruption of the labor market. We think there is likely to be increasing policy attention on AI's impact on labor as adoption ramps up. In November last year, Senator Josh Hawley (Republican, Missouri) introduced the AI-Related Job Impacts Clarity Act. This bipartisan bill would require regular reporting on AI-related job impacts (eg job losses, roles created/changed, retraining) to the Department of Labor, with public reporting intended to give policymakers better visibility into displacement trends. This is primarily a transparency/tracking measure. The US Department of Labor's Employment and Training Administration issued guidance last summer encouraging states and local workforce boards to use Workforce Innovation and Opportunity Act (WIOA) funding including Dislocated Worker program pathways for AI literacy/training and related programming. This is policy guidance rather than a new statutory safety net, but it is explicitly positioned as workforce preparation for an AI-driven economy. **Most AI related policy activity has thus far been focused on consumer protection, public safety, and general governance rather than employment specific guardrails or safety nets for displaced workers.**

The Multipolar World x AI/Technology Diffusion

In 2026, we believe the concept of a nation's strategic AI capabilities will become a critical factor in assessing important geopolitical dynamics, such as trade negotiations. This is driven by **(1)** our view that AI capabilities will continue to increase at a non-linear rate; **(2)** the economic benefits of AI solutions, and AI adoption, will rise rapidly (see our deep dive into the magnitude of AI adoption benefits for the S&P 500 here); and **(3)** the "entrance ticket" to compete in the development of leading AI capabilities, at the frontier of model development, is becoming increasingly expensive and will be out of reach for many nations — with respect to the combination of capital, chips, energy and highly skilled LLM development talent that is in short supply.

Globally, access to cutting edge AI capabilities is a scarce, highly valuable resource. The following chart shows the distribution over time of computational resources globally:

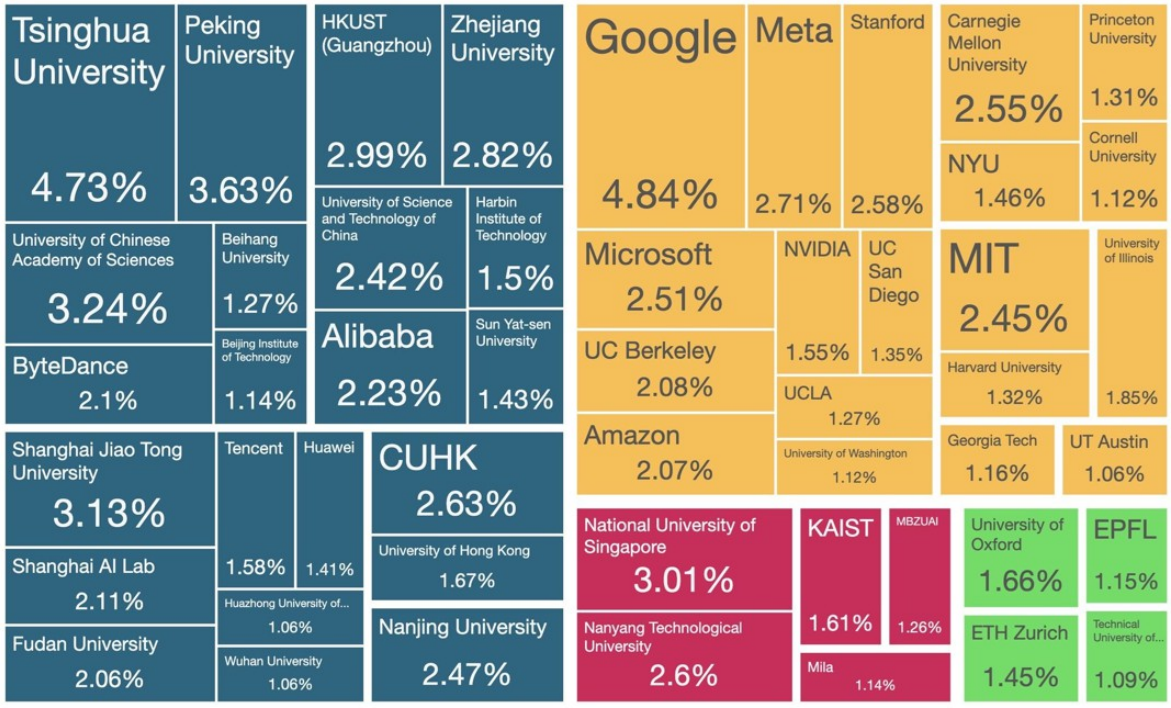
Exhibit 111: Share of aggregate performance (16-bit FLOP/s)



Source: Epoch AI

The leadership position of the United States with respect to computational resources is striking, and the value of this resource is clear to see from our "Intelligence Factory" model found later in this report. Another measure of "Gross Domestic Intelligence" is the magnitude of intellectual capital with respect to AI technology development. Recently, an analysis was published with respect to the papers submitted for NeurIPS, the annual conference on Neural Information Processing Systems. This is a major interdisciplinary conference focusing on AI and machine learning research. Many of the best researchers in the world attend and submit papers. Interesting to see how close the US and China are on this measure of AI thought leadership, with one difference: American thought leaders are mostly the big AI companies (along with Stanford, MIT, and Carnegie Mellon), while in China, researchers at a handful of universities are the thought leaders. Singapore continues to punch above its weight, and Korea is strong as well. UAE's Mohamed bin Zayed University is notable. Europe is led by British and Swiss institutions. In the chart, Chinese entities are in blue, US in yellow, Europe in green, and rest of world in red. Interestingly, the 3 best papers were from Qwen, Princeton, and the University of Washington. We would also highlight that, among the American companies at the frontier of LLM development, a significant percentage of many of these teams is comprised of Chinese citizens.

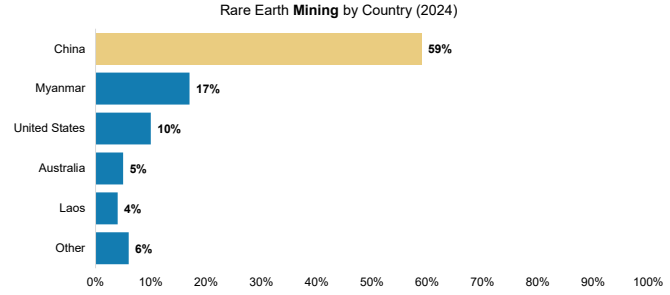
Exhibit 112: Neural Information Processing Systems



Source: AI World

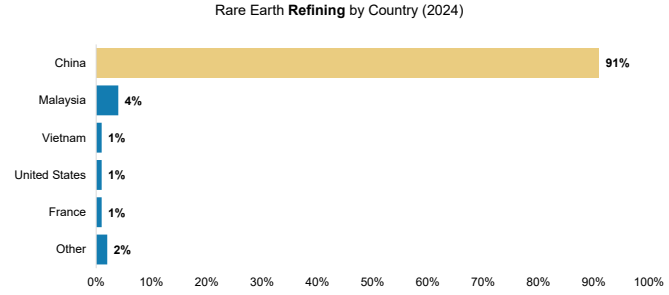
Rare earths are critical for the tech ecosystem and rare earth mining and refining is concentrated in China. According to IEA data, 59% of rare earths are mined in China vs only 10% in the US. The picture for refining is even more concentrated with 91% of rare earths refined in China vs only 1% in the US. We believe securing these critical materials will continue to be an important focus of the administration.

Exhibit 113: 59% of Rare Earths Mined in China



Source: IEA,Morgan Stanley Research

Exhibit 114: 91% of Rare Earths Refined in China



Source: IEA,Morgan Stanley Research

Survey Methodology

At the end of 2025, our global Morgan Stanley Research analysts completed a simple survey for each of their stocks under coverage. This was a broad survey, based on the analyst's view of AI's impact on their stocks over the next 12 to 24 months. Our analysts tagged their coverage stocks on the following criteria:

1. **Exposure**: The company's role in, or impact from, AI (Exhibit 115)
2. **Materiality**: The speed of expected diffusion or disruption from AI to the investment debate on the stock (Exhibit 116)
3. **Pricing Power**: Degree of pricing power the company has relative to sector average (Exhibit 117)
4. **Data**: The extent to which proprietary data or alternative can contribute to revenue or margin growth when leveraged by AI (Exhibit 118)
5. **Workforce Impact**: Expected Change to Employment over the Following 12-24 Moths from AI Adoption (Exhibit 119)
6. **Revenue vs Cost**: Whether AI is expected to deliver greater revenue growth or cost efficiency benefits (Exhibit 120)

Exhibit 115: Survey Question 1, Company's Key Role in the Context of AI

In the context of AI, the company's key role is _____ :
A) Enabler – Company is *Enabling* AI for other businesses
B) Adopter – Company is actively *Adopting* AI to improve operations
C) Both – Company is both an *Enabler and Adopter*
D) Protected – Company's business model is protected from AI disruption
E) Wildcard – Company could be both an Enabler/Adopter or Disrupted
F) Disrupted – Company's business model is disrupted by AI
G) Don't Know – Too early to assess/know impact of AI

Source: Morgan Stanley Research

Exhibit 116: Survey Question 2, the Importance of AI to the Stock's Investment Debate

How important is AI to the key investment debate on the stock over the next 12 to 24 months?
A) Core to Thesis – AI is core to the investment debate and outcome
B) Significant – AI is among the most important significant topics in the debate
C) Moderate – AI is one of many key debates on the stock
D) Insignificant – AI does not play an important role in the stock debate
E) Don't Know – Not sure how the market views the importance of AI

Source: Morgan Stanley Research

Exhibit 117: Survey Question 3, Pricing Power

What is the company's pricing power vs sector average (i.e. ability to retain cost savings and investment ROIC vs passing through to customers)?
A) High Pricing Power
B) Neutral / Don't Know
C) Low Pricing Power

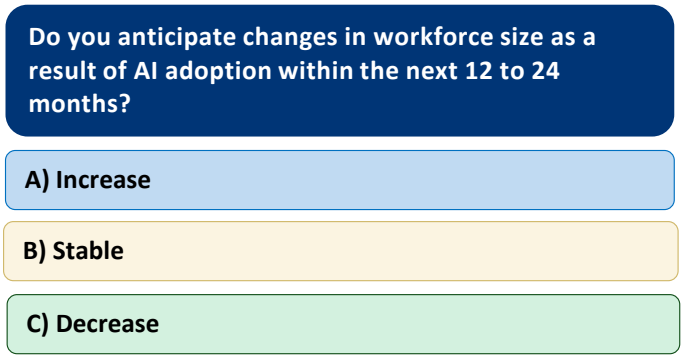
Source: Morgan Stanley Research

Exhibit 118: New Survey Question 4, Alternative Data's Long-term Impact on Revenue or Margin

To what extent does proprietary or alternative data contribute to long-term revenue growth or margin improvement when leveraged by AI?
A) Significant
B) Moderate
C) Insignificant
D) Don't Know

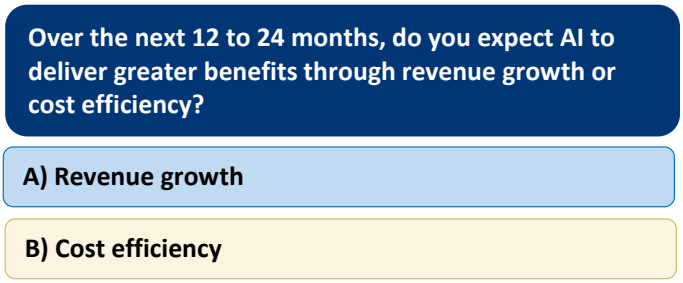
Source: Morgan Stanley Research

Exhibit 119: New Survey Question 5, AI's Impact on the Workforce Size



Source: Morgan Stanley Research

Exhibit 120: New Survey Question 6, Revenue Growth vs Cost Efficiency from AI



Source: Morgan Stanley Research

Stock Mapping Considerations & Learnings

In running this survey we have been able to identify:

- Companies and sectors where our analysts take a **differing view on the salience and speed of AI to the investment case compared to the prevailing wisdom** in the market.
- Stocks where our analysts believe the **diffusion of AI into non-tech sectors is yet to be priced efficiently** into company valuations/narratives.
- **Differentiate between companies Adopting AI** and where the benefits are likely to become commoditized versus those that could lead to lasting revenue or profitability gains.
- How the global investor should think of the AI impact on **sectors and regions** across relevant markets.

Our latest AI stock mapping survey of our analysts will have some of the same inherent caveats for investors to consider as with other similar surveys, as well as some different ones:

- **Qualitative not quantitative assessment:** In the first instance we have not asked our analysts for revenue, profit nor capex exposure. This is because we considered the AI theme too early or insignificant for most analysts to estimate these figures credibly in the absence of disclosure from companies.
- **Broad ML rather than narrow Generative AI:** Many analysts — particularly those with more knowledge of the subject — asked the question: "Is this just about Generative AI, or is this about Machine Learning more broadly, which many companies have been doing for years?". The answer is that we encouraged analysts to answer with the latter in mind.
- **Company disclosure:** Similar to the difficulty of analysts being asked for revenue exposure estimates to the climate change theme, being asked for exposure to AI presents challenges. Companies — even those closely exposed to a theme — tend to avoid quantification, which leave analysts to best guess exposure levels.
- **Narrower use of *Disrupted* than expected:** Disrupted will be an important category as we focus on the "Rate of Change," which we will monitor through periodic updates to this analysis over the coming years. Currently the number of companies tagged as Disrupted by our analysts is lower than we would have expected when we embarked on this project. However, where they are tagged as Disrupted, the analysts' conviction in AI's materiality to the investment case (i.e., core to thesis rather than don't know) tends to skew toward the more material end of the spectrum.

Other companies mentioned: Siemens Energy (ENR1n.DE, €151).

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The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Daniel K Blake; Stephen C Byrd; Tim Chan, CFA; Anna Feldman; Rachel Fletcher, Ph.D.; Qingyi Huang; Kristal Ji; Jamil Ohayia; Andrew B Pauker; Michelle M. Weaver, CFA; Emily A Woods; Regiane Yamanari; Marina Zavolock; Wen Zhang, CFA.

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Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of ABN AMRO Bank NV, Analog Devices Inc., Apollo Hospitals Enterprise Ltd., Bank of America, BNY Mellon, Capital One Financial Corporation, Cisco Systems Inc, Citigroup Inc., CVS Health Corp, eBay Inc, FUJIFILM Holdings, Grab Holdings Ltd, HSBC, Kakao Corp, Kanzhun Ltd, KIOXIA Holdings, McGraw Hill, Inc., NextEra Energy Inc, Philip Morris International Inc, Ping An Insurance Group Co of China Ltd, RWE AG, SK hynix, SMG Swiss Marketplace Group Holding AG, Standard Chartered Bank, State Street Corporation, Sumitomo Mitsui FG, Uber Technologies Inc, Universal Music Group, Walmart Inc.

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Stock Exchange, MasterCard Inc, Meituan, NextEra Energy Inc, Nokia Oyj, Philip Morris International Inc, Ping An Insurance Group Co of China Ltd, Reliance Industries, Rolls-Royce Holdings PLC, RWE AG, Schlumberger NV, Scout24, SEI Investments Company, Siemens Energy AG, Standard Chartered Bank, State Street Corporation, Sumitomo Mitsui FG, Uber Technologies Inc, United Overseas Bank, UnitedHealth Group Inc, Universal Music Group, Walmart Inc, Yum China Holdings Inc..

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Global Stock Ratings Distribution

(as of January 31, 2026)

The Stock Ratings described below apply to Morgan Stanley's Fundamental Equity Research and do not apply to Debt Research produced by the Firm.

For disclosure purposes only (in accordance with FINRA requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1520	41%	425	48%	28%	685	42%
Equal-weight/Hold	1579	43%	375	42%	24%	713	44%
Not-Rated/Hold	4	0%	1	0%	25%	1	0%
Underweight/Sell	592	16%	89	10%	15%	232	14%
Total	3,695		890			1631	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

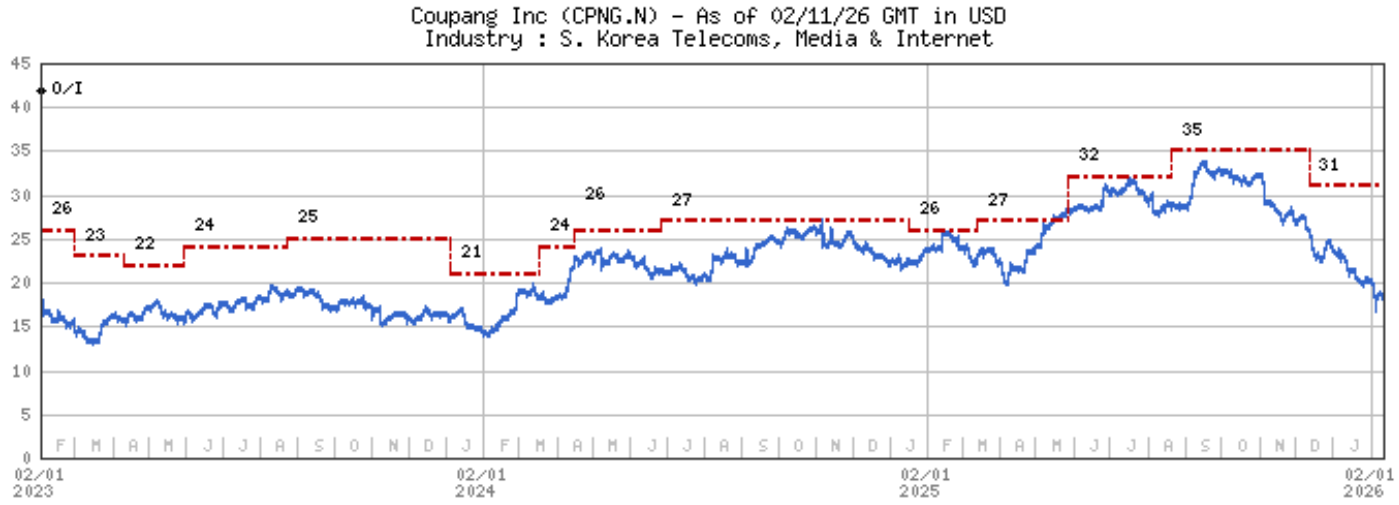
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 2/1/21 : /I; 6/29/22 : O/I

Price Target History: 6/29/22 : 18; 8/15/22 : 25; 11/29/22 : 26; 3/1/23 : 23; 4/10/23 : 22; 5/29/23 : 24; 8/23/23 : 25; 1/4/24 : 21; 3/18/24 : 24; 4/15/24 : 26; 6/26/24 : 27; 1/16/25 : 26; 3/14/25 : 27; 5/27/25 : 32; 8/20/25 : 35; 12/12/25 : 31

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)

Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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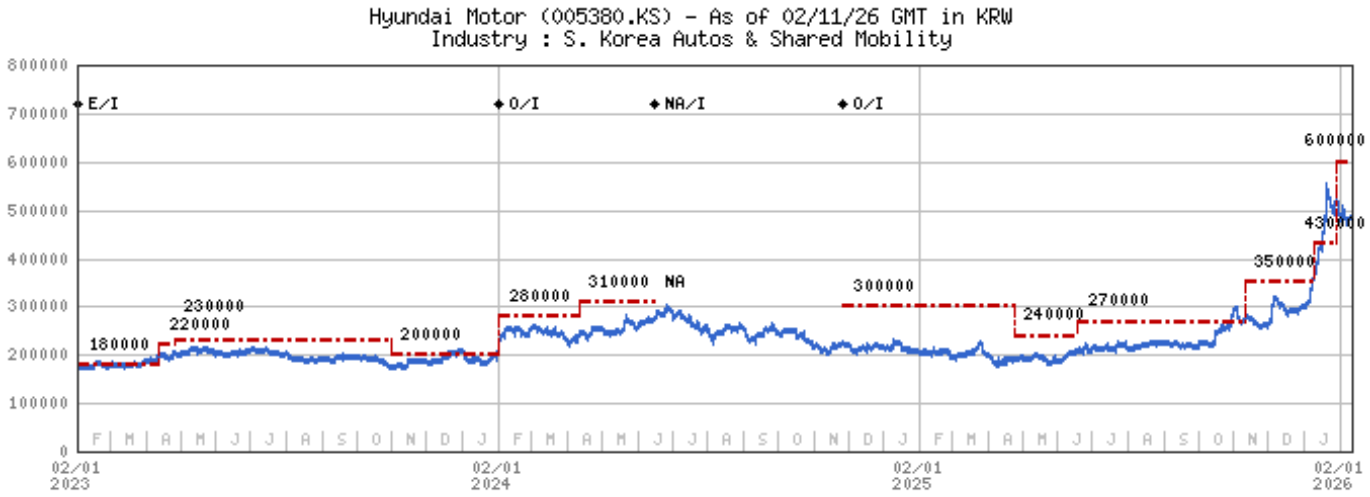
Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.



Stock Rating History: 2/1/21 : E/I; 2/2/24 : O/I; 6/16/24 : NA/I; 11/27/24 : O/I

Price Target History: 1/12/21 : 280000; 3/22/21 : 240000; 4/13/21 : 250000; 7/7/21 : 260000; 9/7/21 : 240000; 1/25/22 : 220000; 3/17/22 : 190000; 4/11/22 : 200000; 4/26/22 : 210000; 7/8/22 : 200000; 7/22/22 : 210000; 9/15/22 : 220000; 10/24/22 : 180000; 1/10/23 : 170000; 1/26/23 : 180000; 4/12/23 : 220000; 4/26/23 : 230000; 10/31/23 : 200000; 2/2/24 : 280000; 4/11/24 : 310000; 6/16/24 : NA; 11/27/24 : 300000; 4/24/25 : 240000; 6/18/25 : 270000; 11/10/25 : 350000; 1/9/26 : 430000; 1/29/26 : 600000

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target Price Target Assigned (NA)
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Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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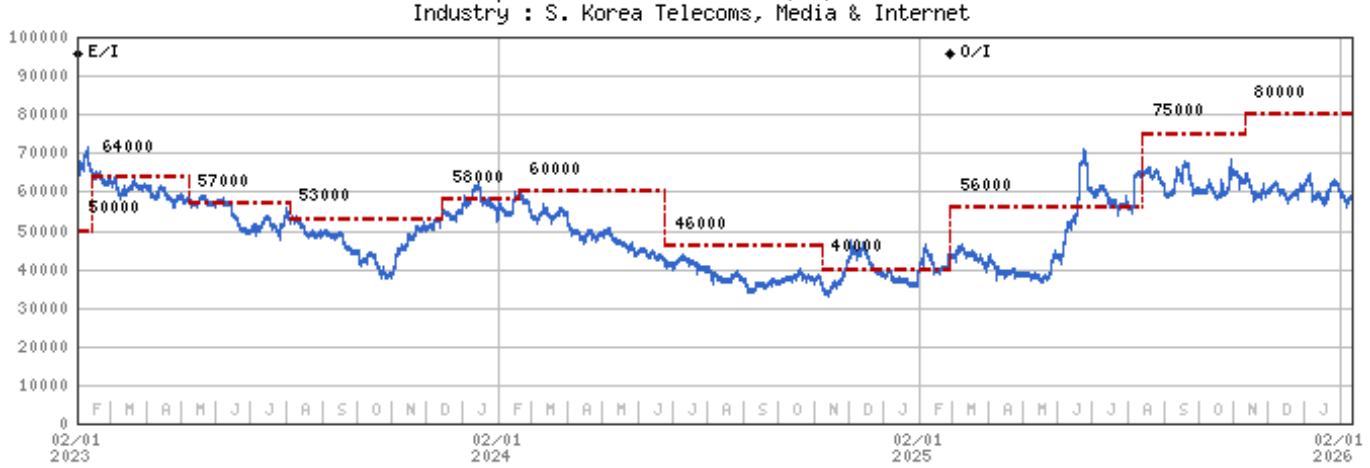

Stock Rating History: 2/1/21 : E/I; 7/15/21 : U/I; 10/1/21 : E/I; 2/27/25 : O/I

Price Target History: 11/30/20 : 72000; 2/9/21 : 86000; 6/15/21 : 120000; 7/15/21 : 130000; 11/4/21 : 140000; 1/10/22 : 110000; 2/14/22 : 100000; 5/4/22 : 86000; 7/18/22 : 68000; 8/5/22 : 70000; 11/4/22 : 50000; 2/13/23 : 64000; 5/8/23 : 57000; 8/4/23 : 53000; 12/14/23 : 58000; 2/19/24 : 60000; 6/25/24 : 46000; 11/8/24 : 40000; 2/27/25 : 56000; 8/14/25 : 75000; 11/10/25 : 80000

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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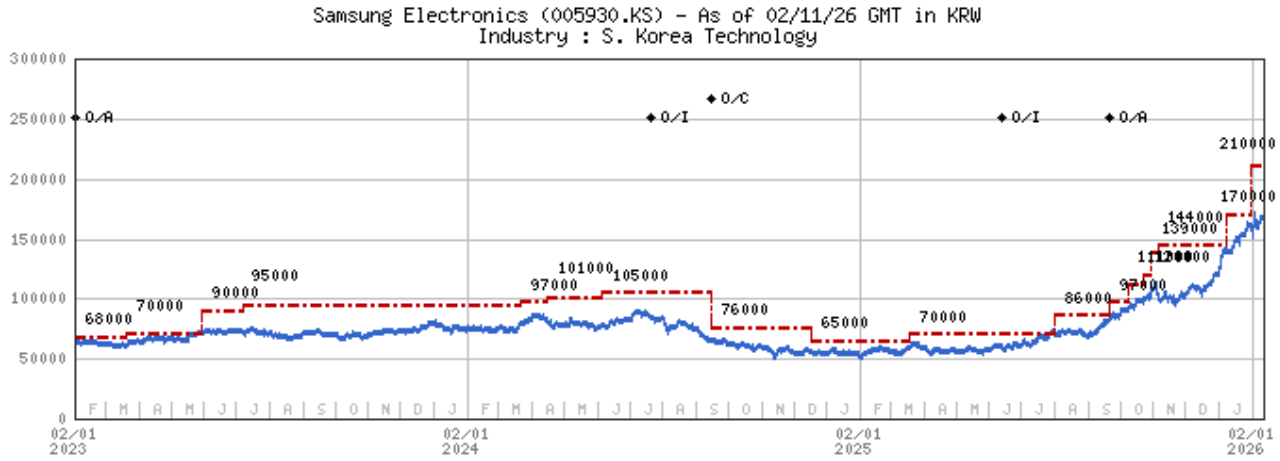
Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.



Stock Rating History: 2/1/21 : O/A; 7/19/21 : O/I; 8/12/21 : O/C; 10/4/22 : O/A; 7/21/24 : O/I; 9/15/24 : O/C; 6/13/25 : O/I; 9/21/25 : O/A

Price Target History: 1/12/21 : 110000; 2/25/21 : 115000; 5/18/21 : 93000; 6/8/21 : 98000; 8/12/21 : 89000; 9/15/21 : 95000; 12/3/21 : 97000; 3/18/22 : 95000; 4/28/22 : 85000; 6/10/22 : 80000; 7/5/22 : 75000; 7/22/22 : 70000; 9/17/22 : 68000; 3/21/23 : 70000; 5/30/23 : 90000; 7/7/23 : 95000; 3/22/24 : 97000; 4/16/24 : 101000; 6/6/24 : 105000; 9/15/24 : 76000; 12/18/24 : 65000; 3/19/25 : 70000; 8/1/25 : 86000; 9/21/25 : 97000; 10/8/25 : 111000; 10/23/25 : 120000; 10/30/25 : 139000; 11/5/25 : 144000; 1/8/26 : 170000; 1/30/26 : 210000

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
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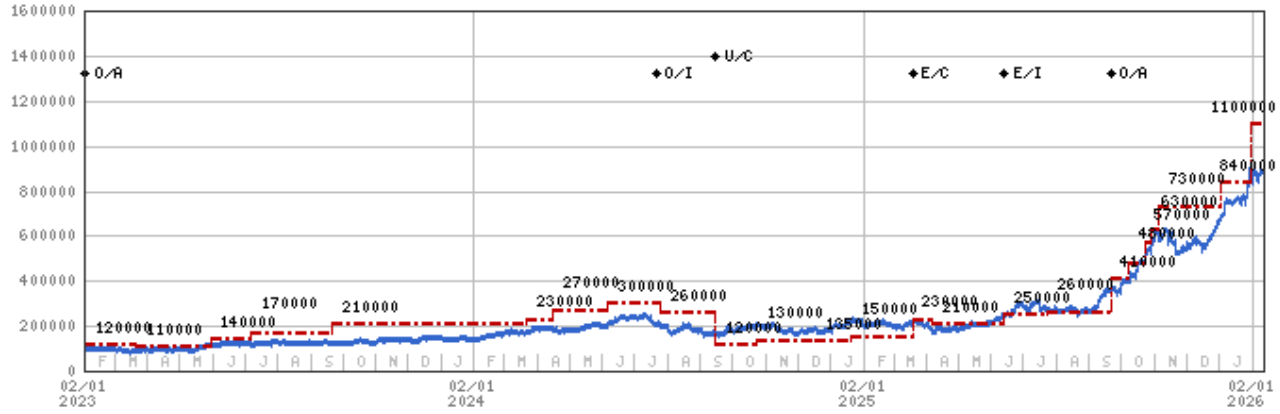
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.



Stock Rating History: 2/1/21 : O/A; 7/19/21 : O/I; 8/12/21 : U/C; 12/3/21 : E/C; 2/11/22 : O/C; 7/22/22 : E/C; 10/4/22 : O/A; 7/21/24 : O/I; 9/15/24 : U/C; 3/19/25 : E/C; 6/13/25 : E/I; 9/21/25 : O/A

Price Target History: 1/12/21 : 170000; 2/25/21 : 174000; 5/18/21 : 146000; 6/8/21 : 156000; 8/12/21 : 80000; 9/15/21 : 88000; 12/3/21 : 110000; 12/23/21 : 125000; 1/24/22 : 130000; 1/28/22 : 136000; 2/11/22 : 155000; 3/18/22 : 150000; 4/27/22 : 130000; 6/10/22 : 120000; 7/5/22 : 110000; 7/22/22 : 105000; 10/4/22 : 130000; 12/7/22 : 120000; 3/21/23 : 110000; 5/30/23 : 140000; 7/7/23 : 170000; 9/21/23 : 210000; 3/22/24 : 230000; 4/16/24 : 270000; 6/6/24 : 300000; 7/25/24 : 260000; 9/15/24 : 120000; 10/24/24 : 130000; 12/18/24 : 135000; 1/20/25 : 150000; 3/19/25 : 230000; 4/7/25 : 210000; 6/13/25 : 250000; 7/24/25 : 260000; 9/21/25 : 410000; 10/8/25 : 480000; 10/23/25 : 570000; 10/29/25 : 630000; 11/5/25 : 730000; 1/2/26 : 840000; 1/30/26 : 1100000

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
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Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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