Morgan Stanley
INVESTMENT MANAGEMENT

THE **BEAT** | Bonds | Equities | Alternatives | Transition

Portfolio Solutions Group Key Themes for the Second Half of 2024

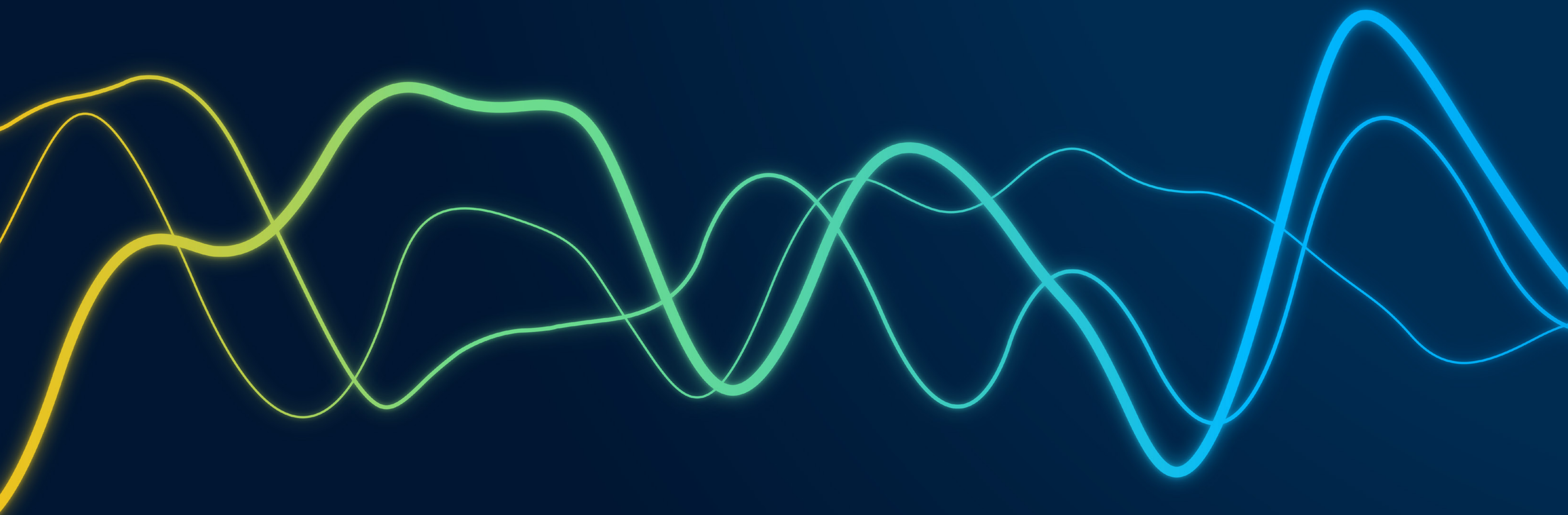


Table of Contents

3
What Keeps Me Up at Night? Three Words: Fiscal Policy Dominance

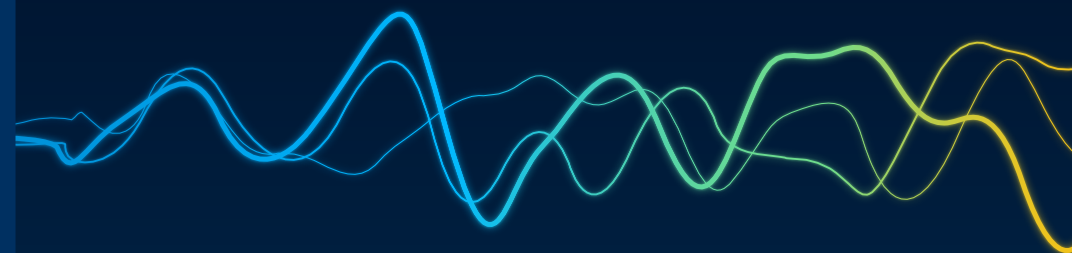
5
Peek-a-Boo: What Drives the U.S. Dollar

7
The Case for Emerging Market Debt

10
Equity Outlook: A Look at Consensus Earnings and the Impact of the U.S. Presidential Election

12
It's Beach Weather for Credit – But Bring Your Umbrella

15
A Compelling Look at Alternative Investments



The BEAT is a monthly publication, formerly known as the Monthly Market Monitor, which provides connectivity between market events and investor portfolios, spanning Bonds, Equities, Alternatives and Transition (i.e. cash and cash equivalents held by investors while deciding other asset classes to "transition" to).

Based on research from our Portfolio Solutions Group, this is the midyear outlook from The BEAT, which outlines their six key themes for the second half of 2024.

THE **BEAT** | Bonds | Equities | Alternatives | Transition

Portfolio Solutions Group Key Themes for the Second Half of 2024

The second half of 2024 will be impacted by interest rates, inflation and the U.S. presidential election, among other factors. But as we look across the investment landscape, we see compelling opportunities in fixed income, equities and alternatives. In this edition of The BEAT, we outline key themes for the second half of 2024.

1 Fiscal Policy Dominance

The potential dominance of fiscal policy over monetary policy keeps some investors up at night. Why? Financial markets have many mechanisms to price monetary policy uncertainties but have none for fiscal policy. Anyone ever heard of fiscal policy futures? No, because they don't exist.

"Fiscal policy dominance" is a top theme in 2H24 because we think it will take root over the course of the next six months, and impact the market into the U.S. presidential election and fiscal policy related to taxes and spending well into 2025. Fiscal largesse has not yet unanchored inflation expectations; but, the next six to 18 months will determine whether that is the case.

2 U.S. Dollar

The U.S. government's spending, debt levels, high interest payments and twin deficits have raised concerns about the valuation of the U.S. dollar and its stability as a global reserve currency. In fact, some central banks are seeking alternative reserve currencies, while the global business community is working to create trade blocs and alternate payment methods for international commerce.

Our research over the last 50 years shows that high deficits have not consistently led to a depreciation of the dollar. This is probably because the U.S. has monetary sovereignty, strong institutions and control over its own currency. The value of the dollar is influenced by factors beyond just fiscal deficits.

3 The Case for EMD

Emerging market debt (EMD) is an asset class that offers the potential for increased income, meaningful diversification and enhanced returns. Yet EMD is also under owned by investors and perhaps never more so than today. We believe the current EMD opportunity set offers compelling value based on the combination of the macro environment, valuations, investor flows and the prevalence of reform stories. Hard and local currency segments offer meaningful value outright, especially when compared with most areas of the DM fixed income market.

4 Equity Outlook

The forward P/E for the S&P 500 is currently 20.5x, up from 19.7x at the beginning of the year. Both justify a year-end for the S&P 500 closer to 6,000 than 5,000 while using 2025 estimates. But historically the market has a decline of around 10% at least once a year. The last one was in the fall of 2023, so the market is due.

On another note, reelection years are good for stocks normally as presidents running for reelection prime the economy with fiscal spending. That has direct implications for sectors we favor. The Infrastructure Act should benefit Industrials and Materials while the Chips Act will likely help Semiconductors and Equipment.

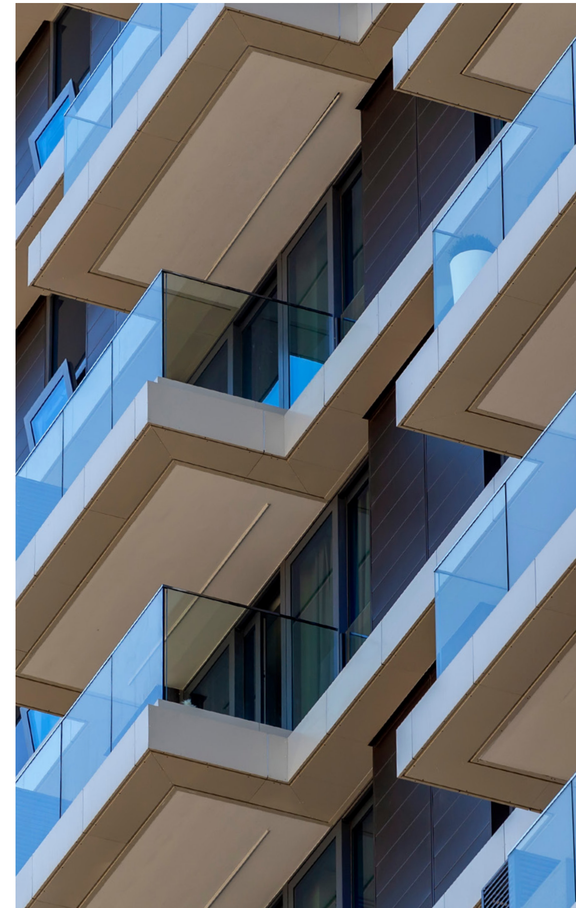
5 Bank Loans and CLOs

Bank loans and collateralized loan obligations (CLOs) have yields that are currently twice that of core bond market proxies and about equal to long-term stock market results. Loans are anti-bond in structure (no duration, coupons float) and can complement portfolios across a spectrum of use cases: Higher coupons than investment-grade bonds; larger and more liquid companies than present in private credit; trading cheap relative to the 60/40.

Though we see sunny skies for credit, loans can act as an umbrella for portfolios if rainy days arrive, but won't hurt your day at the beach if they don't.

6 Alternative Investments

Alternative investments continue to undergo an encouraging transformation across their market valuations and prospects for return generation. A clear sequence has emerged that was initially triggered by the sharp shift in the interest rate regime in 2022. The early beneficiary of this unique change in market conditions was private credit, where early performance improvements were also observed in the hedge funds space. We also believe the transformation has now entered the phase during which the improved opportunities extend to the alternative equity markets, including private equity and real estate.



Investment Themes

What Keeps Me Up at Night? Three Words: Fiscal Policy Dominance

One of the most commonly asked questions I get from clients with respect to the markets is "What keeps you up at night?" What they are really asking is which market risk worries me the most and my answer is quite simple: the potential dominance of fiscal policy over monetary policy. Why? Financial markets have many mechanisms to price monetary policy uncertainties, but have none to price fiscal policy. Has anyone ever heard of fiscal policy futures? No, because they don't exist.

So why is fiscal policy dominance a top theme in a 2H24 outlook? Because we think fiscal dominance will start to take root over the course of the next six months, will control the narrative and significantly impact the market into the U.S. presidential election and fiscal policy related to taxes and spending well into 2025. Over the last few years, we have been fortunate that fiscal largesse has not yet unanchored inflation expectations. However, the next six to 18 months will be critical in determining whether that is in fact the case.

As U.S. government spending, debt and deficits continue to increase its cumulative influence over economic activity, and geopolitical issues are increasingly resolved through tariffs, fiscal policy may then dominate monetary policy, which has the effect of increasing market uncertainties and risk premia. No matter the winner of this year's presidential election, it seems likely this is the path we are on. The consequence to markets is that higher risk premia is a headwind to asset prices. The release valve is a weaker U.S. dollar, at least in theory, but not always in practice (we discuss more in the next section).

But the adverse effects of a rise in risk premia may not be evenly distributed across asset prices. This means there can be winners and losers depending on what sectors fiscal policy influences most. The goal for investors is to structure a portfolio that can benefit from these challenges regardless of how they show themselves, which requires new ways to think about investing. We recommend you look at the latest white paper from the Portfolio Solutions Group titled "A New Management Approach for a New Market Regime."

> "No matter what the cause, government spending is here and as investors, we have to deal with it.

Jim Caron
Chief Investment Officer
Portfolio Solutions Group

Fiscal Policy and Inflation

Let's get right to the point. Excessive government spending, debt, deficits and tariffs lead to higher inflation. Perhaps this is the consequence of COVID-related spending, student debt cancellation, a repositioning of U.S. foreign policy and geopolitical tensions with China leading to deglobalization and tariffs. No matter what the cause, government spending is here, and as investors, we have to deal with it.

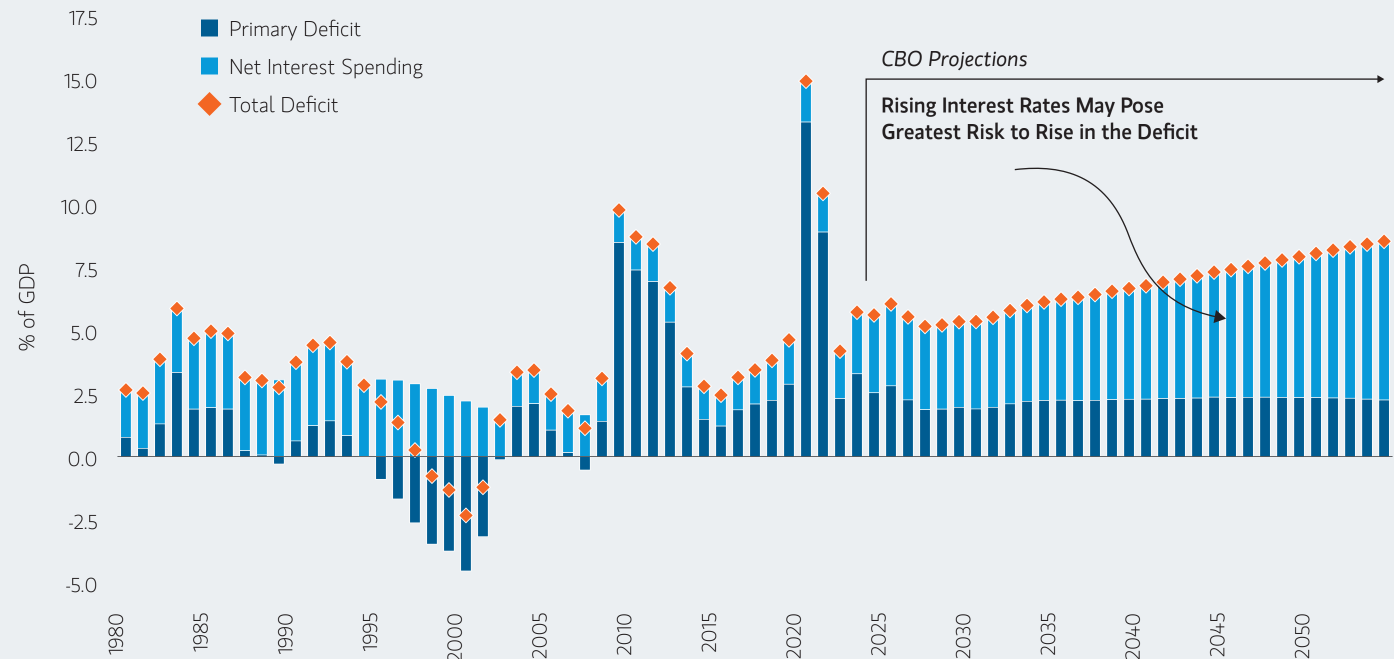
The result is the U.S. deficit is on a dangerous path higher unless spending habits change based on Congressional Budget Office (CBO) projections. We dissect the total deficit into two parts: 1) the primary deficit – the difference between government revenues and spending, and 2) the interest payments on its debt. While the primary deficit is projected to remain stable around 2%, close to GDP estimates, the interest payments on the debt are ultimately the culprit that drives the total deficit higher, leading to a vicious cycle that creates economic instability. It is important to note that a total deficit level of 3% is consistent with economic stability, not upwards of 5% as shown by the CBO projections.

This is particularly nefarious as the possibility of higher inflation can accelerate the rise in interest rates.

Using CBO projections, the fiscal-year 2024 marketable debt-to-GDP ratio may land at 98% and the total deficit-to-GDP at 6%, with the primary deficit at 2.9% – all too high for comfort. If we think of these as risk metrics – the former as a leverage ratio and the latter as a measure of default risk – then we are asking foreign investors in U.S. Treasuries, a baseline for cash flow valuations on U.S. assets, to accept these terms to achieve the benefits of asset returns that stem from a long-term potential real GDP growth of 1.8%. Note that a 1.8% real return may be too low relative to these risks and a discount in asset prices may be required. This is where the tension lies.

Rising Interest Rates May Pose the Greatest Risk to the Rise in the Deficit

United States Fiscal Deficit Projections



Source: U.S CBO, MSIM PSG. Forecasts/estimates/projections are based on current market conditions, subject to change, and may not necessarily come to pass.

Investment Themes

Peek-a-Boo: What Drives the U.S. Dollar

The U.S. government's spending, debt levels, high interest payments and twin deficits have raised concerns about the valuation of the U.S. dollar and its stability as a global reserve currency. In addition, the recent "weaponization of the dollar," exemplified by freezing Russia's dollar assets amid the Ukraine conflict, has accelerated de-dollarization efforts. Some central banks are seeking alternative reserve currencies, while the global business community is working to create trade blocs and alternate payment methods for international commerce.

Our research over the last 50 years shows no significant correlation between persistent deficits and currency weakness in the U.S. High deficits have not consistently led to a depreciation of the dollar. This is probably because U.S. has monetary sovereignty, strong institutions and control over its own currency. The value of the dollar is influenced by factors beyond just fiscal deficits.

Central banks have reduced their share of dollars in their reserves from 70% in 1999 to 58% today, while increasing their gold holdings. Although Beijing has significantly reduced its U.S. Treasury holdings, it has partially offset this by increasing investments in U.S. mortgage-backed securities and agency bonds. The dollar continues to dominate due to a lack of viable alternatives.

In recent years, China has taken steps to promote the use of its currency in bilateral trades with Asian countries, like yuan-denominated oil sales with major producers, including Russia, Saudi Arabia and the UAE. Yet, the yuan constitutes only 2% of global payments, leaving the dollar as the dominant currency in international transactions. The formation of a trade bloc among BRICS (Brazil, Russia, India, China and South Africa) and its expansion through the addition of Egypt, Iran, Saudi Arabia, United Arab Emirates and Ethiopia, was partly motivated by the desire to reduce their dependence on the U.S. currency.

Despite the formation of trade blocs and central bank reserve diversification away from the dollar, these dedollarization efforts are not driving the value of the dollar.

Instead, the dollar's value is influenced by relative interest rate and growth differentials between the U.S. and the rest of the world. Starting in 2022, the U.S. Federal Reserve adopted

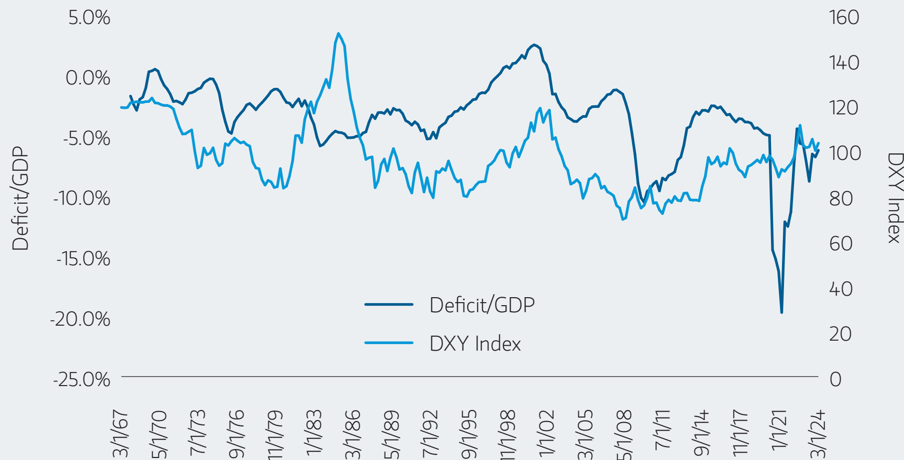
> Our research over the last 50 years shows that high deficits have not consistently led to a depreciation of the dollar. The value of the dollar is influenced by factors beyond just fiscal deficits.

Jitania Kandhari
Deputy CIO, Solutions & Multi Asset Group; Head of Macro & Thematic Research, Portfolio Manager, Passport Equity

aggressive and rapid rate hikes to tackle inflation, outpacing other major central banks, which led to the dollar's strength. That differential is close to historic peaks.

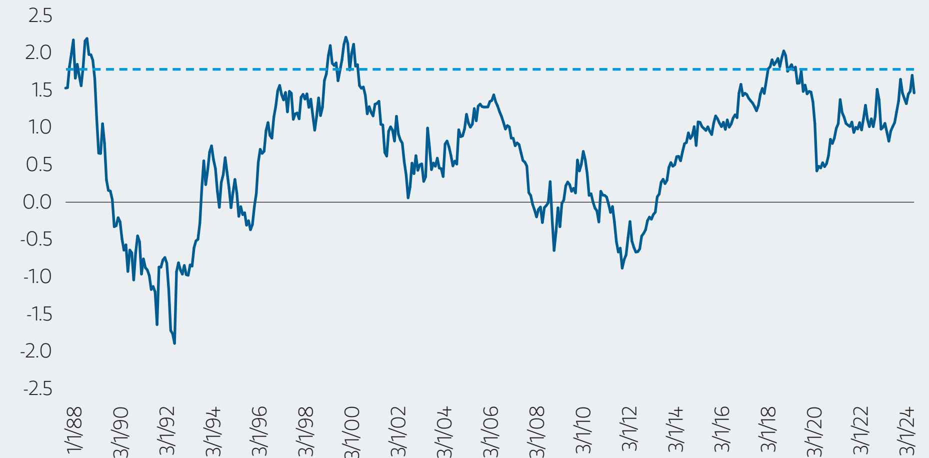
Growth differentials also drive currency moves. U.S. economic growth has outpaced the rest of the world, driving the dollar's appreciation. This substantial growth lead can be attributed to increased public and private investment, as well as technological innovation. Now, economic activity is showing strength beyond America's borders, and we find a less compelling case for U.S. economic growth to continue outperforming the rest of the world. The risk-reward balance is tipping away from the dollar, making it an opportune time to explore international currencies and assets. European and EM assets are most negatively correlated to the dollar.

No Correlation Between Deficits and the U.S. Dollar Historically
U.S. Dollar Index (DXY) and Deficit/GDP



Source: MSIM, Bloomberg, Haver. As of May 31, 2024. Dollar is represented by the US Trade Weighted Dollar Index (DXY). Data provided is for informational use only. **Past performance is no guarantee of future results.** It is not possible to invest directly in an index.

U.S. Rate Differentials Are Close to Historic Peaks
10-year rate differential (U.S. – DMxU.S.)



Source: MSIM, Bloomberg, FactSet, Haver. As of March 31, 2024. Data provided is for informational use only. **Past performance is no guarantee of future results.** It is not possible to invest directly in an index.

The current dollar appreciation cycle is the longest on record. While median upcycles and down cycles in the dollar typically last for seven years, September 2022 marked the end of a 14-year upward trend for the dollar, which has remained relatively flat since.

Interest rates and growth differentials should favor non-U.S. currencies at this stage of the growth and interest rate cycle.

Investment Themes

The Case for Emerging Market Debt

We believe emerging markets debt (EMD) offers compelling value at current levels based on the combination of the macro environment, valuations, investor flows and a number of exciting individual reform stories that are the hallmark of the asset class.

The macro environment is currently characterized by a relatively rich U.S. dollar (USD), post-peak tightness in global monetary policy and better overall fundamentals in emerging markets (EM) than developed markets (DM). The USD is one of the most important instruments in the world for capital markets – sits at extreme levels based on its real effective exchange rate (REER). Likely propelled to these levels by rising interest rates and resilient and strong growth within the U.S. economy, a currency's REER does tend to revert to the mean over time.

When combined with large deficits in both its fiscal and external balances, the case for the USD appreciating significantly from here seems quite unlikely.

Further, should interest rates and growth ease off, the rationale for the USD to weaken would become quite strong. While EMD does not necessarily need a weaker dollar to perform well, the absence of persistent strength is likely to support the asset class. While we do not focus on predicting the actions of the Fed, we do acknowledge that the direction of monetary policy in the U.S. is likely one of easing – not further tightening – if market expectations are to be taken at face value. An appealing element of EM investing is that while there are more than 120 countries and economies with investable assets that are often moving in different directions. Today, many are operating with disciplined fiscal and monetary

The U.S. Dollar Still Appears Rich on a Long-Term Basis
U.S. Dollar Real Effective Exchange Rate (REER)

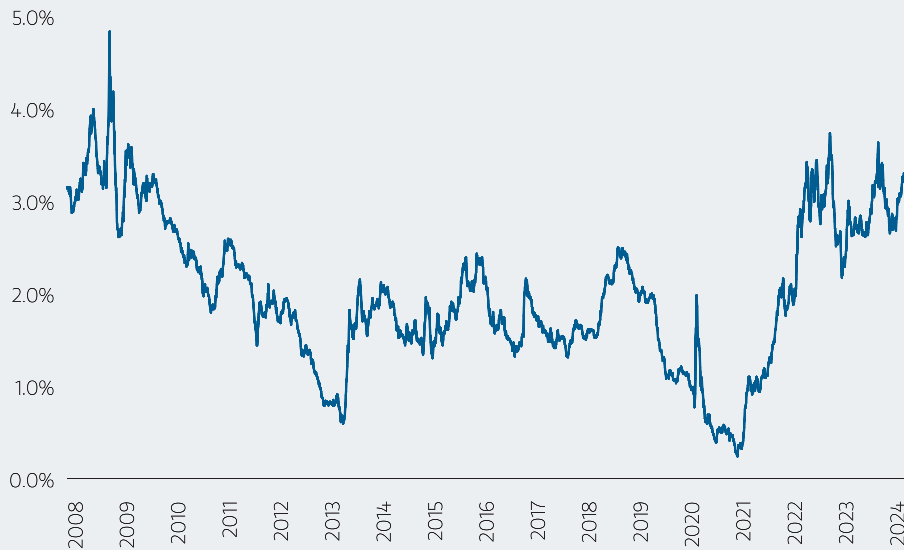
Source: Bloomberg. As of April 1, 2024. Data provided is for informational use only. **Past performance is no guarantee of future results.** It is not possible to invest directly in an index.

policies when compared with many DMs. For example, one can easily observe the lower debt-to-GDP ratios of most EMs relative to DMs. Many EM central banks were generally early and aggressive to hike rates at the first signs of inflation, which did bring it under control and also now gives those central banks a head start in potential cutting cycles ahead of DMs.

Valuations across EMD appear attractive. While spreads on hard currency EMD are generally near long-term averages, they are compelling when compared with other areas of credit. Furthermore, bifurcation in this market segment is strong with certain countries possessing spreads that are quite tight while others are quite wide … a country picker's delight!

EM Real Yields Are Near Their 15-Year High

EM real yields (using inflation forecasts)



Source: Bloomberg. As of March 29, 2024. Forecasts/estimates/projections are based on current market conditions, subject to change, and may not necessarily come to pass.

Perhaps more compelling are the real yields available in the local-market segment which remain near their highs of the past 15 years. This value is likely a result of the orthodox monetary policy implemented by many EM central banks referenced earlier. We'll just add that an environment characterized by high starting real yields, falling inflation and easing monetary policy is usually a good one for bond investors. We believe this to be the case in EM.

Investor flows into dedicated EMD funds may be set to turn after several years of strong outflows. According to JPMorgan data from 2005 through 2021, dedicated EMD funds globally only experienced two years of net outflows from investors – in 2008 and again in 2015. In 2022, however, the industry set a new record with USD 90 billion flowing out of dedicated EMD funds. In 2023 another USD 34 billion flowed out, with yet another USD 13.9 billion in outflows YTD 2024 (as of 6/21/24). Interestingly, this period of more than two years of EMD fund outflows has also been one during which EM bond indexes have notably outperformed DM bond indexes.

Also of note, we have experienced notable inflows during both 2023 and YTD 2024, bucking the industry trend which we believe may be a leading indicator as to what our broader peer group will realize near term. Net inflows into dedicated EMD funds should broadly lead to a stronger bid for bonds across the space.

The heterogeneous nature of the emerging markets space is persuasive, and the opportunity set is rich. Whether due to responses to the global pandemic, the Russian invasion of Ukraine, or to something else in perhaps Egypt or Sri Lanka or Uruguay, reform stories across EM appear to be robust today.

Historically, we understand countries that implement better economic policy and improve the quality of their economic institutions are those that have improving living standards and outperforming capital markets.

In summary, EMD is an asset class that offers the potential for increased income, meaningful diversification and enhanced returns. Yet EMD is also under owned by investors and perhaps never more so than today. We believe the current EMD opportunity set offers compelling value today based on the combination of the macro environment, valuations, investor flows and the prevalence of reform stories. Hard and local currency segments offer meaningful value outright, especially when compared with most areas of the DM fixed income market.

“ Emerging market debt offers the potential for increased income, meaningful diversification and enhanced returns.

BRAD GODFREY
Co-Head of Emerging Markets

Investment Themes

Equity Outlook: A Look at Consensus Earnings and the Impact of the U.S. Presidential Election

As is well documented, stock prices reflect what is going to happen in the future, not the past. And this is why stock price valuations are based off future earnings, sales, cash flow, etc., often reflecting the next 12 months' projections. So, when we discuss the outlook for the U.S. equity market for the remainder of 2024, we need to consider what the future earnings are projected to be at the end of 2024. By that time, the next 12 months will reflect projected 2025 earnings.

As of this writing, the bottom-up consensus 2025 earnings estimate for the S&P 500 is $278.87.[1]

Of course, that is not a static number and could change between now and year-end. The success rate of strategists predicting where earnings will end up has not been too successful this year, or in general, to say the least.

However, we do know that number is directionally heading up. At the beginning of 2024, the 2025 consensus earnings projection was $275.19.[2] That suggests earnings, cumulatively, are stronger than expected for this year, thus forcing research analysts to raise their numbers for both this year and next. That's a good thing. As Newton's Law of Motion says, "Moving objects continue in their path unless another force changes their direction."[3] In other words, unless the economy suddenly downshifts, the 2025 earnings estimate might be even higher by year-end. Could $280 be achievable? We will see.

However, to come to some sort of S&P 500 year-end price estimate, we need to assess what is the correct multiple to put on earnings. That takes even more guesswork than does predicting future earnings! Again, what we do know is how the multiple has trended. The forward P/E for the S&P is currently 20.5x[4], up from 19.7x at the beginning of the year.[5]

Regardless of whether you think the beginning of the year P/E or today's P/E is more accurate, the bottom line is that both justify **a year-end for the S&P 500 closer to 6,000 than 5,000** while using 2025 estimates.

But the market rarely travels in a

> "Regardless of whether you think the beginning of the year P/E or today's P/E is more accurate, the bottom line is that both justify a year-end for the S&P 500 closer to 6,000 than 5,000 while using 2025 estimates.

Andrew Slimmon
Head of Applied Equity Advisors

[1] FactSet. As of May 31, 2024.
[2] FactSet. As of Jan 2, 2024.
[3] Co-Pilot. As of May 29, 2024.
[4] FactSet. As of May 31, 2024
[5] Bloomberg. As of Jan 2, 2024.

straight line and historically, about once a year, we get a decline of around 10%. The last one was in the fall of 2023, so the market is due.

We think the market could experience such a correction in late summer. Based on year-over-year inflation comparisons getting tougher, we suspect that the current declining trajectory could become more challenging starting this summer. A Fed that seems less dovish would disappoint the market. And if the Fed were to cut rates in conjunction with some weaker economic data, then you'll likely hear that scary word – "stagflation."

In my 30+ years in the business, as much as investors seeking to put cash to work in equities say they like pullback opportunities, I have yet to experience the "no reason 10% correction." Bears come out of their cave every time expressing the conviction that "this is the start of something much bigger." Be forewarned.

On the other hand, we do not expect the 2024 U.S. presidential election will cause market turbulence.

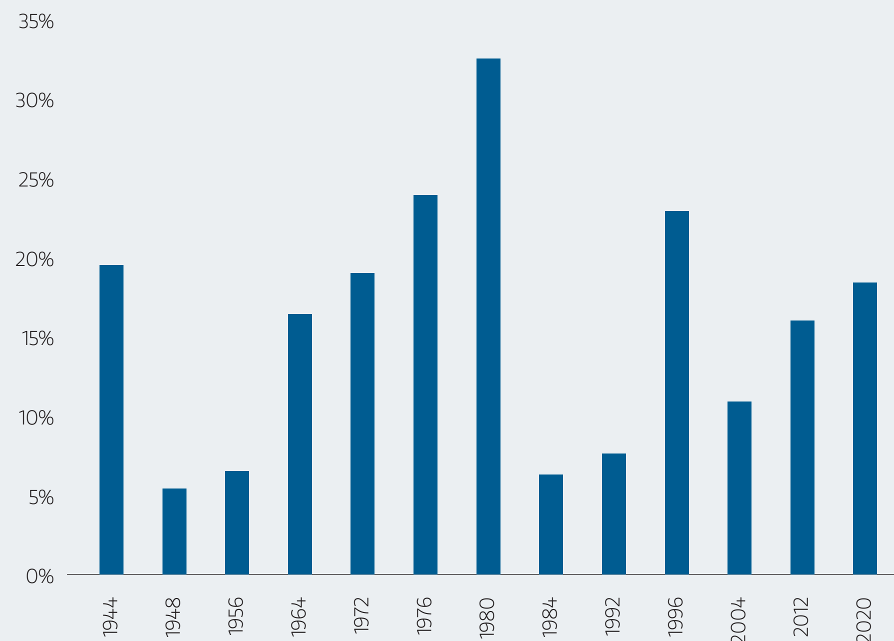
Here are some facts about presidential election years.

1. As the chart shows, in the years when presidents run for reelection, stocks tend to do well. You would have to rewind the clock to 1940 to find a year when a president ran for reelection and the market did not go up.
2. Historically, if the incumbent is leading in the polls exiting the summer conventions, the equity market has performed well prior to the election. But if the challenger is leading, stocks struggle more. That makes sense to us because equity markets like certainty (the incumbent) over uncertainty (the challenger).

   Yet we question whether the pattern will hold this year, for one simple reason. Both candidates have been president previously, so we know what's coming with either elected. For that reason, we think the election might have less of an impact on the equity market than normal.

Reelection years are good for stocks normally for a reason that certainly applies this year as well. Presidents running for reelection prime the economy with fiscal spending. That has direct implications for sectors we favor. The Infrastructure Act should benefit the Industrials and Materials sectors while the Chips Act is likely to help Semiconductors and Equipment.

Our focus is now on the areas where the U.S. government is spending the money.



Source: Bloomberg, Strategas. Data provided is for informational use only. **Past performance is no guarantee of future results.** It is not possible to invest directly in an index.

Investment Themes

It’s Beach Weather for Credit – But Bring Your Umbrella

It’s sunny skies and the start of summer is marked by constructive tailwinds for credit markets. The improving fundamental picture is supported by robust, albeit easing, growth, falling inflation, the seeming end of peak rates and still-resilient consumer and corporate earnings. The last of these is expected to further recover in the second half of the year.

Leveraged credit issuers have weathered this higher-rate regime much better than some might have expected just 12-24 months ago, with companies preserving margins in the pass-through of higher input costs to end customers, as well as actively managing expenses. In fact, issuers have delivered positive EBITDA (earnings before interest, taxes, depreciation and amortization) growth notwithstanding higher rates. All of this was helped by issuers entering the rising rates period from a starting position of relative strength.

Flash forward to the present and things are getting easier, figuratively, and literally as well (i.e., policy rates and debt service costs are expected to move modestly lower). Though a couple of rate cuts will help issuers on the margin, it will do little to dent the starting yield on the Morningstar LSTA U.S. Leveraged Loan Index, which entered June at 9.7%

Though the soft-landing probabilities appear heightened – it’s now mainstream consensus – investors can be excused for shrugging their shoulders at capital market valuations. “Meh” is the tone of many client conversations. That’s because today’s all-time-high stock market and all-time-low credit spreads in many bond asset classes already reflect the positivity – in other words, much of the good news is already “priced in.”

Meantime, in this oft-overlooked credit asset class, we see a significant opportunity in bank loans, and here’s why:

1. **HIGH STARTING YIELDS**
   The absolute yield in bank loans is one of the highest in fixed income, with levels not dissimilar to long-run equity returns, and CLOs (collateralized loan obligations - a securitized loan market cousin) offer even higher yielding - and higher rated - opportunities. Interest carry is a powerful phenomenon; it’s what drives the majority of total return over time.
2. **VALUATION OPPORTUNITY**
   Despite the tightest decile spreads seemingly everywhere else in fixed income, spreads in loans and CLOs are just about average – and this provides a form of cushion. When combined with a historically high base rate, distributable income from loans is at levels we haven’t seen in over a decade.
3. **SUPPORTIVE TECHNICALS**
   High yields are drawing investor inflows, and in particular the stickiness of the CLO engine is a stabilizer for the loan asset class. And on the supply side, high yields (and asset prices) are a governor on net new volumes. This is a supportive mix.
4. **LIMITED CREDIT STRESS**
   We expect a continuation of the lower-but-longer default cycle with lower single-digit default rates into mid next year. Massive dry powder in private credit coffers provide a key refinancing buffer – this point is a differentiator compared with any period in past cycles.

Taken together, we see bank loans and CLOs as two of the most attractive opportunities available to investors. If the soft-landing chorus is wrong, there is seemingly more downside risk in the overextended asset classes, on both sides of the 60 equity/40 bond portfolio. The fact that loans are trading at much cheaper levels – with a high current income – is an insulating hedge.

Loans and CLOs Have Sharply Outperformed Since Start of Rate Hikes
Cumulative Total Return 1/1/2022 to 5/31/2024

ASSET CLASS	CUMULATIVE TOTAL RETURN 1/1/2022 TO 5/31/2024
Loans	**17.0%**
BBB CLOs	**20.9%**
BB CLOs	**32.2%**
US Equities	15.1%
HY Corporates	2.4%
EM Corporates	- 1.5%
IG Corporates	- 8.9%

Source: Eaton Vance, Morningstar, ICE Data Indices, LLC, Leveraged Commentary & Data (LCD), J.P. Morgan. As of May 31, 2024. Data provided is for informational use only. It is not possible to invest directly in an Index. **Past performance is no guarantee of future results.** U.S. IG Corp represented by ICE BofA U.S. Corporate Index. U.S. High Yield represented by ICE BofA U.S. High Yield Index. U.S. Loans represented by Morningstar LSTA U.S. Leveraged Loan Index. EM Corp represented by J.P. Morgan Corp. EM Bond Index (CEMBI) Broad Diversified. EM Sovereign represented by J.P. Morgan EM Bond Index (EMBI) Global Diversified. CLOs represented by the J.P. Morgan Collateralized Loan Obligation Index (CLOIE) Post Crisis. US Equities represented by S&P 500. The indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

And if the crowd is right about the favorable macro picture, that clears the path for credit investments – spanning high yield, loans and CLOs – with starting yields in these areas comparable to long-term equity market returns – yet with par values, maturities and contractual income streams that by construction account for lower risk profiles.

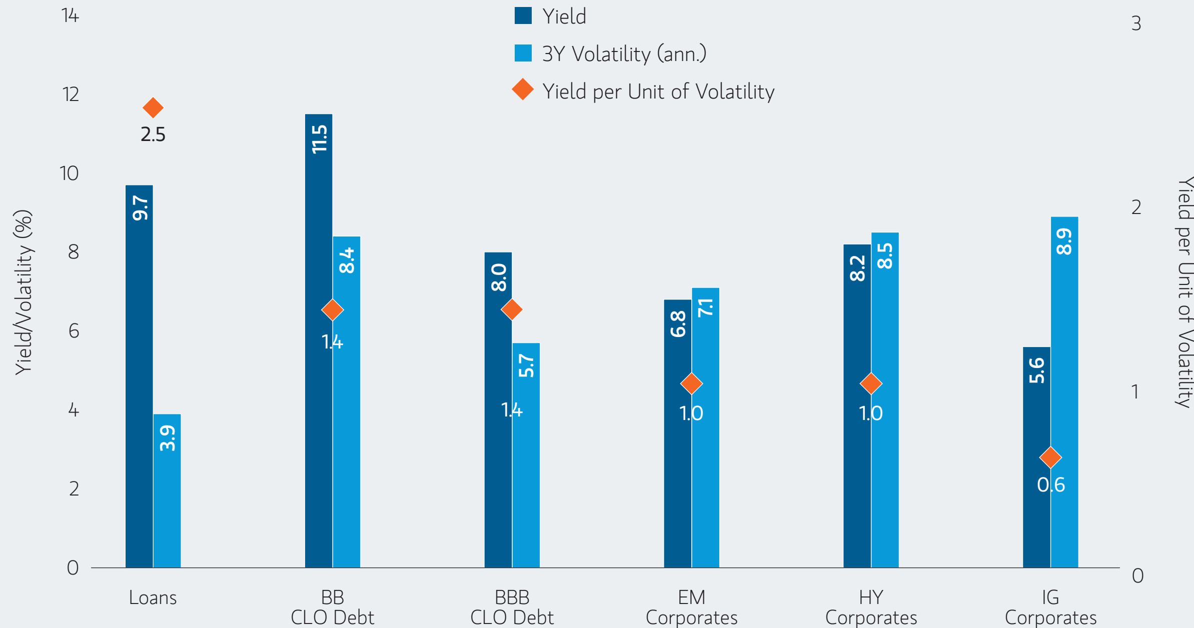
Credit markets have historically delivered some of their best and most stable returns in environments in which credit conditions are neither running too hot, nor too cold – a so-called "Goldilocks" environment. That's because credit loves moderation, and the expectation ahead is for growth to moderate, inflation to moderate and policy rates to, well, moderate.

No one can say for sure which way the yield curve will shift; however, the beauty in loans and CLOs is that it's a hedge and works as one regardless of the curve picture that develops, not to mention it "pays while you wait."

> Meantime, in this oft-overlooked credit asset class, we see a significant opportunity in bank loans.

Christopher Remington
Managing Director, Product & Portfolio Strategy

Attractive Ways To Add Yield and Manage Volatility
Yield/Volatility and Yield Per Unit of Volatility for Selected Fixed Income Securities



Source: Eaton Vance, Morningstar, ICE Data Indices, LLC, Leveraged Commentary & Data (LCD), J.P. Morgan. As of May 31, 2024. Data provided is for informational use only. It is not possible to invest directly in an Index. **Past performance is no guarantee of future results.** U.S. IG Corp represented by ICE BofA U.S. Corporate Index. U.S. High Yield represented by ICE BofA U.S. High Yield Index. U.S. Loans represented by Morningstar LSTA U.S. Leveraged Loan Index. EM Corp represented by J.P. Morgan Corp. EM Bond Index (CEMBI) Broad Diversified. EM Sovereign represented by J.P. Morgan EM Bond Index (EMBI) Global Diversified. CLOs represented by the J.P. Morgan Collateralized Loan Obligation Index (CLOIE) Post Crisis. The indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

THE BEAT BOTTOM LINE: Bank loans and CLOs have yields that are twice that of core bond market proxies and about equal to long-term stock market results. Loans are anti-bond in structure (no duration, coupons float) and can complement portfolios across a spectrum of use cases: Higher coupons than investment-grade bonds; larger and more liquid companies than present in private credit; trading cheap to the 60/40.

Though we see sunny skies for credit, loans can act as an umbrella for portfolios if rainy days arrive yet won't hurt your day at the beach if they don't.

Investment Themes

A Compelling Look at Alternative Investments

Alternative investments continue to undergo an encouraging transformation across their market valuations and prospects for return generation. A clear sequence has emerged that was initially triggered by the sharp shift in the interest rate regime in 2022.

The early beneficiary of this unique change in market conditions was private credit. Dysfunction in public markets new issuance created a great opportunity for private lenders, as borrowers turned to private markets as an alternative solution, resulting in higher origination fees, wider spreads and stronger covenant packages. Investor demand has responded to this pricing opportunity and, as a consequence, we have observed some reversion in terms of closer-to-historical averages. However, all-in yields in today's market, especially with the potential for a higher-for-longer rate scenario, are considered attractive. If market conditions soften, investors are expected to benefit from improvements in alignment, leverage and equity contributions to contain defaults and support higher recovery rates.

Early performance improvements were also observed in the hedge funds space. 2023 and 2024 YTD (as of 6/30/2024) were characterized by strong hedge fund alpha generation, as we have entered a more fundamentally driven environment. Single stock dispersion has increased, accommodating attractive alpha generation on both sides of long-short portfolios. With expectations of Fed rate cuts now pushed to later this year– at the earliest – the market remains attractive for hedge funds as derivatives-oriented strategies benefit from higher yields on unencumbered cash, and alpha generation is expected to continue to benefit from the dispersion in equity and credit fundamentals caused by higher rates. We believe the transformation has now entered the phase during which the improved opportunities extend to the alternative equity markets, including private equity and real estate. Valuation adjustments in these asset classes have been significantly slower, as deal volumes have been very low, in part because the remaining life on relatively inexpensive existing debt has driven a wedge between the valuation expectations of buyers and sellers.

> “We believe we are in the early stages of an appealing opportunity in private real estate investing.

STEVE TURNER
Head of Investment Selection, Portfolio Solutions Group

The inevitable maturation of cheap financing, along with an improved economic outlook, is sparking increased seller motivation and higher corporate M&A activity, with clear evidence of lower entry valuations emerging in order to accommodate higher debt service costs and lower leverage multiples. When transaction volumes recover more broadly, we expect to see further evidence of price correction

and attractive entry valuations. We continue to believe that the middle market offers the strongest stage for attractive risk-adjusted private equity performance, given the conservative use of leverage and the greater ability to focus on operational value-add-driven growth.

We believe we are in the early stages of an appealing opportunity in private real estate investing. Private real estate values have fallen by approximately 20% from their peak in 2Q 2022, with transaction activity set to expand as existing financing matures and investors are required to recapitalize at higher financing costs. The spread between real estate values and borrowing costs remains tight in certain segments, and so heightened selectivity is important while this spread re-establishes itself. The asset class also needs to contend with pockets of positive, but moderating, demand meeting elevated supply, which puts pressure on rents and vacancies. However, the long-term operating outlook is strong. Supply is set to come down meaningfully by the end of 2024 and into 2025, and debt markets remain relatively healthy. All told, we believe we are entering an attractive opportunity within private real estate for credit providers, net lease and equity investors.

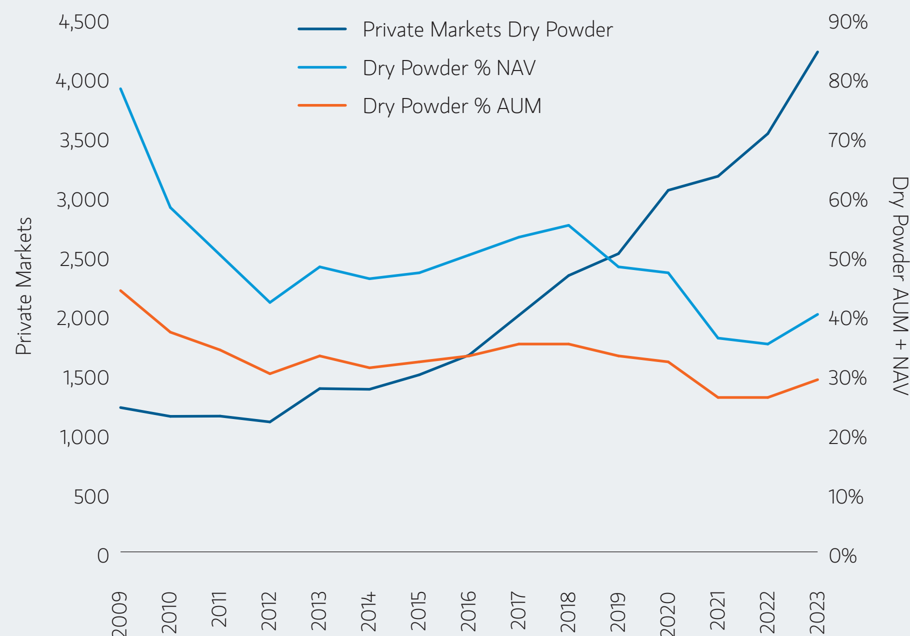
The concern that many investors have in common regarding private markets is the perception of elevated dry powder, as shown by the blue line in the chart to the right for private equity buyouts. Dry powder refers to the aggregate level of committed but uncalled investments, and it is widely believed that the high level of dry powder will lead to increased competition for assets. However, we believe it is critical that investors consider these data in context across two important dimensions:

First, an evaluation of dry powder over extended periods of time needs to account for changes in asset prices. In the chart below we adjust private equity buyout dry powder for changes in public equity market capitalization and demonstrate that, on this adjusted basis, dry powder has not increased since the global financial crisis of 2008-2009.

Second, private markets themselves have experienced significant growth in overall size over this period. In the chart we also show dry powder as a percentage of the existing net asset value (NAV) of the private equity buyout industry, showing that dry powder has been falling materially as a proportion of the stock of existing investments.

If we think of dry powder as the liquidity that serves this stock of existing assets, this context suggests that private markets are not necessarily becoming more competitive for investors, and that the transformation in private market valuations that we have observed will be accessible to investors seeking attractive risk-adjusted returns.

The Evolution of Buyout Dry Powder
$ Million (LHS); % (RHS)



Source: Preqin, as of December 2023. Data provided is for informational use only.
Past performance is no guarantee of future results.

Asset Allocation Ideas

Capital Markets Investment Framework

Representative Allocations from the Portfolios Solutions Group

■ ■ ■ ■ CURRENT ALLOCATION
■ CHANGE FROM PREVIOUS

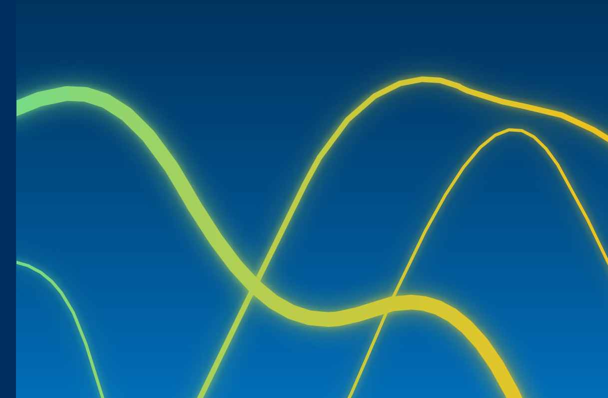
– – HIGH CONVICTION UNDERWEIGHT
– UNDERWEIGHT
= NEUTRAL
+ OVERWEIGHT
++ HIGH CONVICTION OVERWEIGHT

ASSET ALLOCATION	OUR VIEW – –	–	=	+	++	COMMENTARY
BONDS Duration			■			While YTD increases in yields have offered an opportunity to add some duration exposure to portfolios, we still see risks to owning high duration in fixed income exposures.
BONDS Credit			■ (change from previous)	■		Our preferred overweight expression continues to be within global credit: we are overweight High Yield, EM Debt, Bank Loans and ABS.
EQUITIES Risk Level			■			We feel now is a good time to take some profits and hold at neutral. We are not turning negative on global equities, but we do see risk and reward are more balanced at this juncture.
ALTERNATIVES Private Markets			■			While the repricing of private assets in response to higher financing costs continues, substantial progress is now evident. In private credit, interest levels on new loans are moderating.
ALTERNATIVES Hedge Funds				■		Hedge funds have started strong in 2024 and their positioning suggests confidence in the opportunities for skill-based returns.
ALTERNATIVES Commodities			■			We are neutral on key commodity markets: geopolitical upside risks are balanced by high spare capacity in markets such as crude, which limit upside absent physical disruptions.
TRANSITION Cash / Short Duration			■			Keeping cash at neutral. We get higher front-end yields as policy rates remain higher-for-longer and can store dry powder as we await a better point to re-enter risk assets.

For informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The tactical views expressed above are a broad reflection of our team's views and implementations, expressed for client communication purposes. Individual team allocations may differ. The information herein does not contend to address the financial objectives, situation or specific needs of any individual investor. The signals represent the Portfolio Solutions Group view on each asset class.

Asset Allocation Ideas

Representative Global Equity Allocations from the Portfolio Solutions Group



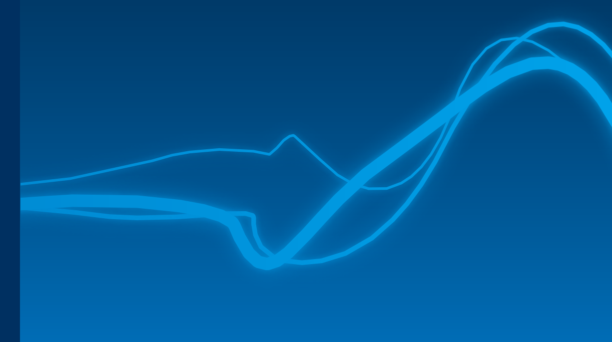
■ ■ CURRENT ALLOCATION
■ CHANGE FROM PREVIOUS

– – HIGH CONVICTION UNDERWEIGHT
– UNDERWEIGHT
= NEUTRAL
+ OVERWEIGHT
++ HIGH CONVICTION OVERWEIGHT

EQUITY	OUR VIEW – –	–	=	+	++	COMMENTARY
REGIONAL Developed Markets			■			Overall we are neutral on developed markets equities, with an overweight for Japan (see below).
REGIONAL United States			■			While U.S. growth should remain resilient, we see signs of growth stabilization outside the U.S. However, with a lot of the recent rally being multiple led, we view risks as balanced at this juncture.
REGIONAL Eurozone			■			While a bottoming out in macro indicators is supportive of better return prospects, fundamentals still look weaker than in other equity regions, balancing the outlook for European equities.
REGIONAL Japan				■		Japan's path to sustainable inflation and corporate governance reforms are key pillars for profit margin and shareholder return improvement. Valuations have re-rated but are not stretched.
REGIONAL Emerging Markets			■			The absence of a DM hard landing and easing financial conditions are supportive for EM in general. Looking ahead, durability of the rally relies on sustainable earnings improvement.
STYLE Growth vs. Value				■		Currently the Growth vs Value Index trade is dominated by Big Tech. Upward estimate revisions for Big Tech continue, suggesting this trade remains well supported by fundamentals.
STYLE Quality				■		With little excess risk premium in equities and a limit to economic growth acceleration due to inflation risk, we continue to prefer a tilt toward Quality. We balance with selective cyclical exposure.
STYLE Large vs. Small Cap				■		Cost of capital remains high, and we see Large Cap stocks as better insulated from leverage-related pressures than more fragile Small Caps.
STYLE Dividend			■			We see balanced risk for Dividend yield style exposures. Note high dividend yield as an independent style factor does not imply quality, though many dividend focused funds also seek quality factors.

For informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The tactical views expressed above are a broad reflection of our team's views and implementations, expressed for client communication purposes. Individual team allocations may differ. The information herein does not contend to address the financial objectives, situation or specific needs of any individual investor. The signals represent the Portfolio Solutions Group view on each asset class.

Representative Global Fixed Income Allocations from the Portfolio Solutions Group



■ CURRENT ALLOCATION
□ CHANGE FROM PREVIOUS

– – HIGH CONVICTION UNDERWEIGHT
– UNDERWEIGHT
= NEUTRAL
+ OVERWEIGHT
++ HIGH CONVICTION OVERWEIGHT

FIXED INCOME	OUR VIEW – –	–	=	+	++	COMMENTARY
BONDS U.S. Treasuries (USTs)			■			We remain UW benchmark duration (which we think of as broadly neutral). The excessive 2024 rate cuts have been priced out, which leads to a more balanced outlook for duration.
BONDS Inflation Linked Bonds			■			Real yields have stabilized above 2% since March. With inflation proving stickier than expected, 10-yr inflation breakevens are likely to remain above 2.2%.
BONDS Eurozone Govt. Bonds			■			Lingering wage growth makes the risk/reward on eurozone duration balanced, although on a relative basis we see more risk of deeper cuts by the ECB due to a more convincing disinflation trend.
BONDS EM Hard Currency Govt. Bonds				■		The combination of declining rates volatility and robust EM PMIs should support EMBI spreads. The key risk for the asset class is sticky inflation which could result in a further hawkish repricing in rates.
BONDS EM Local Currency Govt. Bonds			■			Depressed EM local yields vs U.S. credit will limit inflows. EM FX has come under pressure amidst a hawkish Fed. The key risk for the asset class is of further hawkish Fed surprises.
PUBLIC CREDIT Municipal Bonds			■			Current yields for high quality Munis equate to minimal or zero pickup versus USTs on an after-tax basis. On the other hand, there is a bit more value in lower rated parts of the market.
PUBLIC CREDIT Investment Grade	■					We have a high conviction UW for IG corporate bonds. Spreads are at historical tights. Excess return over USTs should be minimal and IG remains sensitive to left-tail outcomes leading to a highly asymmetrical return profile.
PUBLIC CREDIT MBS/ABS					■	High conviction in asset backed securities and yield per unit of credit quality remains attractive. Consumer cash flows are strong due to tight labor markets.
PUBLIC CREDIT High Yield			□	■		As macroeconomic data reinforces the soft-landing thesis, bond yields, especially lower quality credits such as high yield, may offer competitive returns in 2H24 versus equities.
PUBLIC CREDIT Bank Loans				■		Yields remain attractive as more rate cuts are priced out of the market and spreads offer reasonable value, even if they are looking a bit rich versus history. Expect default rates to remain contained

For informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The tactical views expressed above are a broad reflection of our team's views and implementations, expressed for client communication purposes. Individual team allocations may differ. The information herein does not contend to address the financial objectives, situation or specific needs of any individual investor. The signals represent the Portfolio Solutions Group view on each asset class.

Asset Allocation Ideas

Representative Alternatives Allocations from the Portfolio Solutions Group

■ ■ CURRENT ALLOCATION
■ CHANGE FROM PREVIOUS

– – HIGH CONVICTION UNDERWEIGHT
– UNDERWEIGHT
= NEUTRAL
+ OVERWEIGHT
++ HIGH CONVICTION OVERWEIGHT

ALTERNATIVE ASSETS	COMMENTARY
PRIVATE MARKETS Private Equity	The industry level repricing represents a potentially compelling entry point into private equity. However, the operating environment suggests that lower valuations are necessary, but not sufficient, for attractive forward-looking returns.
PRIVATE MARKETS Private Real Assets	**Commercial real estate** has continued to reprice meaningfully, with the core real estate benchmark experiencing its sixth consecutive negative quarter. This has been driven by higher debt costs and pockets of elevated supply. Long-term demand tailwinds in key sectors represent a compelling opportunity. **Private infrastructure** is benefiting from the tailwinds of two mega trends; digitization of society and economies, and the energy transition.
PRIVATE MARKETS Private Credit	Private loan pricing, terms and defaults are generally now in line with long-term averages, allowing private credit to contribute to overall portfolio construction with return expectations aligned with historical levels.
LIQUID ALTERNATIVES Hedge Funds	Bottom-up fundamental security selection and trend following are both benefiting from higher return dispersion and lower cross correlations in asset performance, as well as benefiting from higher cash returns. Portfolio positioning shows hedge funds have relatively high conviction in the current opportunities for skill-based returns.
LIQUID ALTERNATIVES Commodities	We are neutral on key **Commodity Markets**: while a rebound in manufacturing activity is supportive of commodity demand, high OPEC spare capacity and generally healthy supply from non-OPEC countries should keep oil prices capped for the time being.

For informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The tactical views expressed above are a broad reflection of our team's views and implementations, expressed for client communication purposes. Individual team allocations may differ. The information herein does not contend to address the financial objectives, situation or specific needs of any individual investor. The signals represent the Portfolio Solutions Group view on each asset class. Note: Over/underweight in private markets refers to decisions regarding the flow of new investments, not the stock of existing investments.

Portfolio Solutions Group

The Portfolio Solutions Group (PSG) provides top-down, macro analysis of equity, fixed income and alternative assets, designed to help clients capitalize on evolving economic dynamics and market dislocations globally. PSG uses the analysis to help build custom multi-asset investment solutions across a range of broadly-diversified to hyper-focused portfolios.

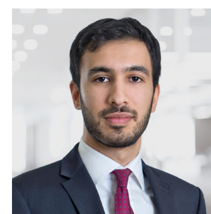
JIM CARON
Chief Investment Officer, Managing Director

EWA TUREK SEMMELROTH
Executive Director

ERIC ZHANG
Executive Director

SCHUYLER HOOPER
Executive Director

GREG WATERMAN
Vice President



UMAR MALIK
Vice President

CHRIS CHIA
Vice President

Asset Allocation Committee

The Asset Allocation Committee is an independent group of senior investment professionals across various disciplines within MSIM and Eaton Vance. The Portfolio Solutions Group presents multi-sector research and investment ideas to the Committee, who is responsible for vetting and challenging these ideas to insure they meet their rigorous standards and can then be included in representative asset allocation recommendations.

MARK BAVOSO
Senior Portfolio Manager, Global Multi-Asset team

JUSTIN BOURGETTE
Portfolio Manager and Head of Investment Strategy for the High Yield team

CRAIG BRANDON
Portfolio Manager and Co-Head of the Municipals team

JIM CARON
Chief Investment Officer, Portfolio Solutions Group

AARON DUNN
Portfolio Manager and Co-Head of the Value Equity team

GREG FINCK
Portfolio Manager and Co-Head of the Mortgage and Securitized team

BRAD GODFREY
Co-Head of the Emerging Markets team

JITANIA KANDHARI
Deputy CIO, Solutions & Multi Asset Group; Head of Macro & Thematic Research, Emerging Markets; Portfolio Manager

VISHAL KHANDUJA
Portfolio Manager and Co-Head of the Broad Markets Fixed Income team

KYLE LEE
Portfolio Manager and Co-Head of the Emerging Markets team

ANDREW SLIMMON
Senior Portfolio Manager and Head of Applied Equity Advisors

ANDREW SZCZUROWSKI
Portfolio Manager and Co-Head of the Mortgage and Securitized team

STEVEN TURNER
Head of Investment Selection, Portfolio Solutions Group

Risk Considerations

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this portfolio. Please be aware that this portfolio may be subject to certain additional risks. **Asset Allocation/Diversification** does not protect you against a loss in a particular market; however it allows you to spread that risk across various asset classes In general, **equity securities'** values fluctuate in response to activities specific to a company. Investments in foreign markets entail special risks such as currency, political, economic, and market risks. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed countries. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a **rising interest-rate environment**, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. Longer-term securities may be more sensitive to interest rate changes. **Mortgage- and asset-backed securities** (MBS and ABS) are sensitive to early prepayment risk and a higher risk of default and may be hard to value and difficult to sell (liquidity risk). They are also subject to credit, market and interest rate risks. Certain **U.S. government securities**, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the United States. It is possible that these issuers will not have the funds to meet their payment obligations in the future. The issuer or governmental authority that controls the repayment of sovereign debt may not be willing or able to repay the principal and/or pay interest when due in accordance with the terms of such obligations. Investments in **foreign markets** entail special risks such as currency, political, economic, and market risks. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed countries. Real estate investment trusts are subject to risks similar to those associated with the direct ownership of real estate and they are sensitive to such factors as management skills and changes in tax laws. **Restricted and illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). **Derivative instruments** can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on performance. Trading in, and investment exposure to, the **commodities markets** may involve substantial risks and subject the Portfolio to greater volatility. **Non-diversified portfolios** often invest in a more limited number of issuers As such, changes in the financial condition or market value of a single issuer may cause greater volatility. By investing in **investment company securities**, the portfolio is subject to the underlying risks of that investment company's portfolio securities. In addition to a Portfolio's fees and expenses, a Portfolio generally would bear its share of the investment company's fees and expenses. Alternative investments are intended for qualified investors only. **Alternative investments**, including **hedge funds**, provide limited liquidity and include, among other things, the risks inherent in investing in securities and derivatives, using leverage and engaging in short sales. An investment in an alternative investment fund can be speculative and should not constitute a complete investment program. This summary is for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy interests in any fund.

INDEX DEFINITIONS

The **S&P 500® Index** measures the performance of the large cap segment of the U.S. equities market, covering approximately 75% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy.

The **Bloomberg U.S. Treasury Index** includes public obligations of the U.S. Treasury.

The **U.S. Dollar Index** is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of US trade partners' currencies.

The **ICE BofA U.S. Corporate Index** tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market.

The **ICE BofA U.S. High Yield Index** tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch).

The **Morningstar LSTA U.S. Leveraged Loan Index** is a market-value weighted index designed to measure the performance of the US leveraged loan market.

The **JP Morgan Corporate Emerging Markets Bond Index** is a global, liquid corporate emerging markets benchmark that tracks U.S. dollar denominated corporate bonds issued by emerging markets entities.

The **JP Morgan Emerging Markets Bond Index** tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the EMBI+. As with the EMBI+, the EMBI Global includes US dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million.

The **JP Morgan GBI-EM Global Diversified Bond** Index is an index which tracks local currency government bonds issued by emerging markets.

The **JP Morgan Collateralized Loan Obligation Index** is a total return benchmark for broadly-syndicated arbitrage U.S. CLO debt.

IMPORTANT DISCLOSURES

Past performance is no guarantee of future results. The returns referred to herein are those of representative indices and are not meant to depict the performance of a specific investment.

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

A separately managed account may not be appropriate for all investors. Separate accounts managed according to the particular Strategy may include securities that may not necessarily track the performance of a particular index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required.

For important information about the investment managers, please refer to Form ADV Part 2.

The views and opinions and/or analysis expressed are those of the author or the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm"), and may not be reflected in all the strategies and products that the Firm offers.

Forecasts and/or estimates provided herein are subject to change and may not actually come to pass. Information regarding expected market returns and market outlooks is based on the research, analysis and opinions of the authors or the investment team. These conclusions are speculative in nature, may not come to pass and are not intended to predict the future performance of any specific strategy or product the Firm offers. Future results may differ significantly depending on factors such as changes in securities or financial markets or general economic conditions.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

Charts and graphs provided herein are for illustrative purposes only. **Past performance is no guarantee of future results.**

The indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index. Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

This material is not a product of Morgan Stanley's Research Department and should not be regarded as a research material or a recommendation.

The Firm has not authorised financial intermediaries to use and to distribute this material, unless such use and distribution is made in accordance with applicable law and regulation. Additionally, financial intermediaries are required to satisfy themselves that the information in this material is appropriate for any person to whom they provide this material in view of that person's circumstances and purpose. The Firm shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary.

This material may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this material in another language, the English version shall prevail.

The whole or any part of this material may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without the Firm's express written consent. This material may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

Eaton Vance is part of Morgan Stanley Investment Management. Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

DISTRIBUTION

This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

MSIM, the asset management division of Morgan Stanley (NYSE: MS), and its affiliates have arrangements in place to market each other's products and services. Each MSIM affiliate is regulated as appropriate in the jurisdiction it operates. MSIM's affiliates are: Eaton Vance Management (International) Limited, Eaton Vance Advisers International Ltd, Calvert Research and Management, Eaton Vance Management, Parametric Portfolio Associates LLC and Atlanta Capital Management LLC.

This material has been issued by any one or more of the following entities:

EMEA:

This material is for Professional Clients/Accredited Investors only.

In the EU, MSIM and Eaton Vance materials are issued by MSIM Fund Management (Ireland) Limited ("FMIL"). FMIL is regulated by the Central Bank of Ireland and is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at 24-26 City Quay, Dublin 2, DO2 NY19, Ireland.

Outside the EU, MSIM materials are issued by Morgan Stanley Investment Management Limited (MSIM Ltd) is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

In Switzerland, MSIM materials are issued by Morgan Stanley & Co. International plc, London (Zurich Branch) Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland.

Outside the US and EU, Eaton Vance materials are issued by Eaton Vance Management (International) Limited ("EVMI") 125 Old Broad Street, London, EC2N 1AR, UK, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority.

Italy: MSIM FMIL (Milan Branch), (Sede Secondaria di Milano) Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy. The **Netherlands**: MSIM FMIL (Amsterdam Branch), Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. **France**: MSIM FMIL (Paris Branch), 61 rue de Monceau 75008 Paris, France. **Spain**: MSIM FMIL (Madrid Branch), Calle Serrano 55, 28006, Madrid, Spain.

Germany: MSIM FMIL, Frankfurt Branch, Grosse Gallusstrasse 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Denmark**: MSIM FMIL (Copenhagen Branch), Gorrissen Federspiel, Axel Towers, Axeltorv2, 1609 Copenhagen V, Denmark.

MIDDLE EAST:

Dubai: MSIM Ltd (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158).

This document is distributed in the Dubai International Financial Centre by Morgan Stanley Investment Management Limited (Representative Office), an entity regulated by the Dubai Financial Services Authority (DFSA). It is intended for use by professional clients and market counterparties only. This document is not intended for distribution to retail clients, and retail clients should not act upon the information contained in this document.

This document relates to a financial product which is not subject to any form of regulation or approval by the DFSA. The DFSA has no responsibility for reviewing or verifying any documents in connection with this financial product. Accordingly, the DFSA has not approved this document or any other associated documents nor taken any steps to verify the information set out in this document, and has no responsibility for it. The financial product to which this document relates may be illiquid and/or subject to restrictions on its resale or transfer. Prospective purchasers should conduct their own due diligence on the financial product. If you do not understand the contents of this document, you should consult an authorised financial adviser.

U.S.: NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT

Latin America (Brazil, Chile, Colombia, Mexico, Peru, and Uruguay)

This material is for use with an institutional investor or a qualified investor only. All information contained herein is confidential and is for the exclusive use and review of the intended addressee, and may not be passed on to any third party. This material is provided for informational purposes only and does not constitute a public offering, solicitation or recommendation to buy or sell for any product, service, security and/or strategy. A decision to invest should only be made after reading the strategy documentation and conducting in-depth and independent due diligence.

ASIA PACIFIC

Hong Kong: This material is disseminated by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this material have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this material shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore**: This material is disseminated by Morgan Stanley Investment Management Company and should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"); (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This publication has not been reviewed by the Monetary Authority of Singapore. **Australia**: This material is provided by Morgan Stanley Investment Management (Australia) Pty Ltd ABN 22122040037, AFSL No. 314182 and its affiliates and does not constitute an offer of interests. Morgan Stanley Investment Management (Australia) Pty Limited arranges for MSIM affiliates to provide financial services to Australian wholesale clients. Interests will only be offered in circumstances under which no disclosure is required under the Corporations Act 2001 (Cth) (the "Corporations Act"). Any offer of interests will not purport to be an offer of interests in circumstances under which disclosure is required under the Corporations Act and will only be made to persons who qualify as a "wholesale client" (as defined in the Corporations Act). This material will not be lodged with the Australian Securities and Investments Commission.

Japan: For professional investors, this material is circulated or distributed for informational purposes only. For those who are not professional investors, this material is provided in relation to Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")'s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This is not for the purpose of a recommendation or solicitation of transactions or offers any particular financial instruments. Under an IMA, with respect to management of assets of a client, the client prescribes basic management policies in advance and commissions MSIMJ to make all investment decisions based on an analysis of the value, etc. of the securities, and MSIMJ accepts such commission. The client shall delegate to MSIMJ the authorities necessary for making investment. MSIMJ exercises the delegated authorities based on investment decisions of MSIMJ, and the client shall not make individual instructions. All investment profits and losses belong to the clients; principal is not guaranteed. Please consider the investment objectives and nature of risks before investing. As an investment advisory fee for an IAA or an IMA, the amount of assets subject to the contract multiplied by a certain rate (the upper limit is 2.20% per annum (including tax)) shall be incurred in proportion to the contract period. For some strategies, a contingency fee may be incurred in addition to the fee mentioned above. Indirect charges also may be incurred, such as brokerage commissions for incorporated securities. Since these charges and expenses are different depending on a contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This material is disseminated in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, The Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association.

© 2024 Morgan Stanley. All rights reserved.

SKU 43869 CRC 6698552 Exp. 6/30/2025 JOB# LTR