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FOUNDATION

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US Equities Mid-Year Outlook | North America

Follow the Yellow Brick Road

We maintain our positive view for US equity markets because it's early in a new economic cycle and bull market. Last week's correction was overdue & likely has another 5-7% downside. It's healthy and we're buyers into weakness with a small/mid-cap & cyclical tilt. Raising SPX target to 3,350.

As the recovery continues, we're following the typical Recession Playbook. Since March, we have taken an optimistic view of US equity markets as (1) bear markets *end*, rather than begin, with recessions; (2) the health crisis that triggered this recession has brought unprecedented monetary and fiscal stimulus; (3) the political pressures behind the reopening of the US economy are likely to make it faster and more durable than expected, even if a second wave of the virus emerges; (4) sentiment and positioning have remained remarkably bearish considering the size and persistence of the equity rally; and (5) index prices, the equity risk premium, market breadth, and early-cycle leadership are all following the pattern seen after the 2009 bottom. Our recession playbook is working, and that strategy has significantly boosted our Fresh Money Buy List performance.

Embracing cyclicality. We believe that the transition into a new cycle means changes in market leadership as accelerating GDP growth, and rising inflation, yields, PMIs, and consumer confidence all tend to favor cyclical outperformance. We're believers in the recovery, which means the primary trend is higher for cyclicals vs. the market. Corrections are normal after rapid moves higher, and we will continue to add cyclical exposure on weakness. We think high quality and growth stocks will still do well as the economy recovers, but we think they struggle to keep up with more cyclical pockets of the market. We're cautious on long duration, very richly valued growth as well as defensive bond proxies. See Following Our Recession Playbook: Embracing Cyclicality (8 Jun 2020).

Raising our targets by rolling to 2022 earnings. We extend our S&P 500 price target through June 2021, raising our bull/base/bear targets to 3,700/3,350/2,900. Higher forward earnings forecasts as we roll forward in time and the economic recovery progresses are the primary driver of our increased targets as we assume modest multiple contraction from the current elevated multiple placed on trough earnings. For year-end 2020, we see the S&P 500 approaching our former bull case of 3,250.

Where are the risks? Risks to our more bullish call include a sustained increase in trade tensions with China and a return to escalating tariffs, US election results that see risk of higher corporate taxes, or the removal of fiscal support for the economy. A return of broad based shutdowns due to Covid-19 is also a risk, but we do not see this as very likely and expect related disruptions to be mitigated by additional stimulus.

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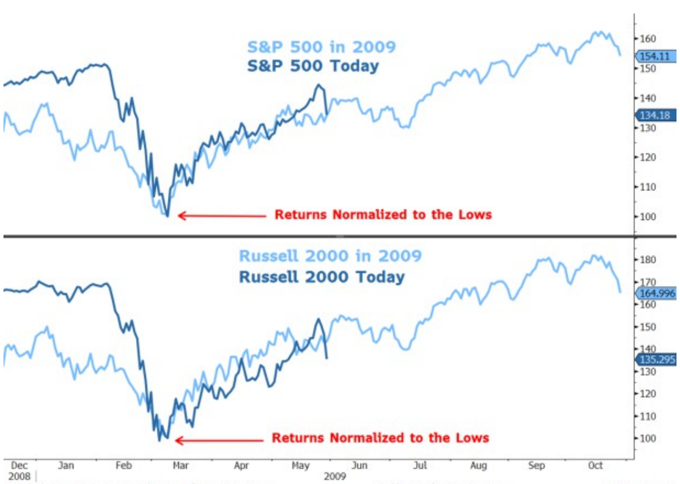
It's (Never) Different This Time

Since March, we have taken an optimistic view of US equity markets, for the following reasons: (1) Bear markets *end*, rather than begin, with recessions; (2) the health crisis that triggered this recession has brought unprecedented monetary and fiscal stimulus that would otherwise have been impossible; (3) the political pressures behind the reopening of the US economy are likely to make it faster and more durable, even if a second wave of the virus emerges; (4) sentiment and positioning have remained remarkably bearish considering the size and persistence of the equity rally; and (5) index prices, the equity risk premium, market breadth, and early-cycle leadership are all following the pattern seen after the 2009 bottom. In short, our recession playbook is working.

During the first few weeks of June, the markets did get a bit frothy and while overall positioning remained on the lighter side, pockets of speculation began to appear, particularly in certain parts of the retail community. That froth needed to be taken out and whether it was the Fed meeting representing a sell the news event; a spike in Covid-19 cases in TX, AZ, and FL; or prospects that a Democratic sweep is starting to look more likely doesn't really matter. Corrections usually occur because markets are overbought while the reasons are highlighted after the fact. There are always reasons for markets to correct, or rally, and we find most of this kind of blame game after the fact is akin to Monday morning quarterbacking and not very helpful.

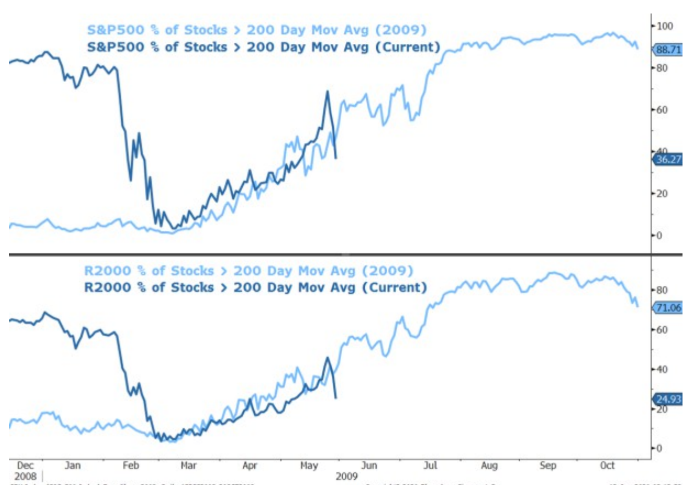
Our view is that this is a much overdue correction in a new cyclical bull market. As we have been discussing, **the V-shaped recovery in markets is foreshadowing a V-shaped recovery in the economy and earnings. It's also following the 2009 pattern almost identically in many ways** (Exhibit 1 and Exhibit 2), including the recent correction. Indeed, it's right on schedule and we suspect this correction is not over, yet. We are targeting 2,800 on the downside for the S&P 500, 8,500-8,600 for the Nasdaq 100, and 1,300 for the Russell 2000 before the bull market resumes in earnest.

Exhibit 1: Index Price Moves on Track with 2009



Source: Bloomberg, Morgan Stanley Research

Exhibit 2: And So Is the Improvement in Breadth

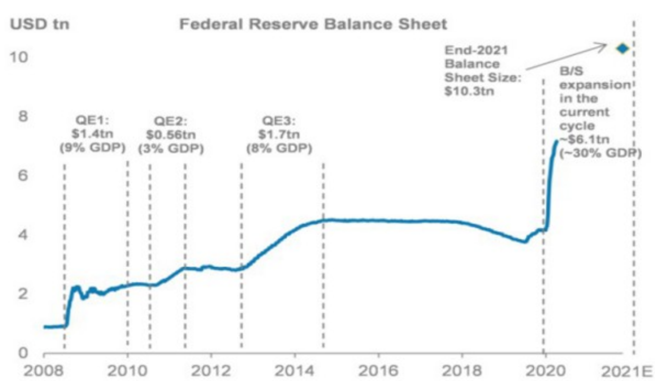


Source: Bloomberg, Morgan Stanley Research

Beyond our simplistic reasoning that this is how new bull markets trade and our technical analysis of price support levels, our positive fundamental narrative goes something like this:

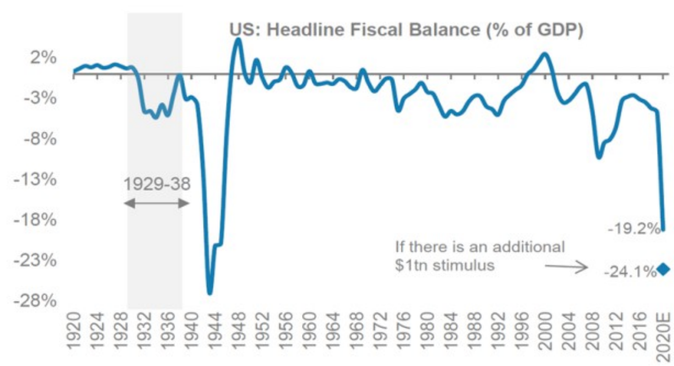
Our economists believe this recession will prove to be the steepest but also one of the shortest on record. We concur and while the conditions for the recession were already in place coming into 2020, the trigger was unexpected (as usual) and unique. Furthermore, **the *severity* of the recession was man made — i.e., the lockdown. As a result, policy makers enacted unprecedented monetary and fiscal stimulus that we think will prove to be too much in the context of an economy that reopens faster and more durably than expected when these policies were enacted.** The fiscal stimulus is directed right at the consumer and small/medium business which have a greater propensity to spend it in the real economy which means the velocity of money may not collapse this time as M1 expands. This all argues for a weaker USD, higher inflation and nominal GDP. Finally, the excesses of the last cycle were concentrated in the corporate sector while the consumer came into this recession in much better shape than last time. With housing and equity markets holding up, the average consumer net worth is unchanged, which means we aren't looking at a big deleveraging cycle. To the contrary, it appears the consumer wants to participate more actively in the rally as the past month has shown. What this really means is that 70 percent of the economy is able to recovery quickly, particularly with such generous government support.

Exhibit 3: Fed B/S Expanding 50% Greater than GFC



Source: Federal Reserve Board, Federal Reserve Bank of NY. Morgan Stanley Research estimates

Exhibit 4: Plus, Unprecedented Fiscal Support

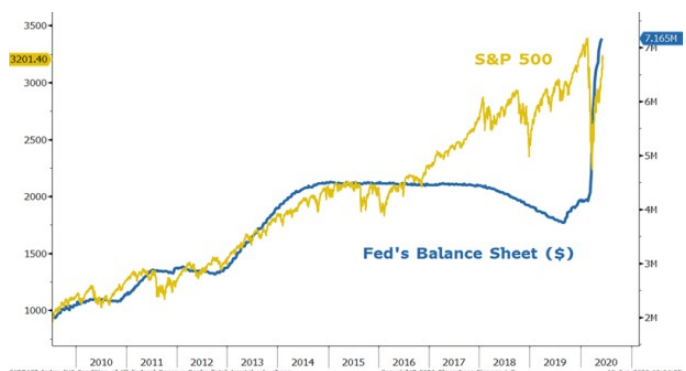


Source: Morgan Stanley Research

Exhibit 5: Leading to V-Shaped Recovery

Source: Morgan Stanley Research

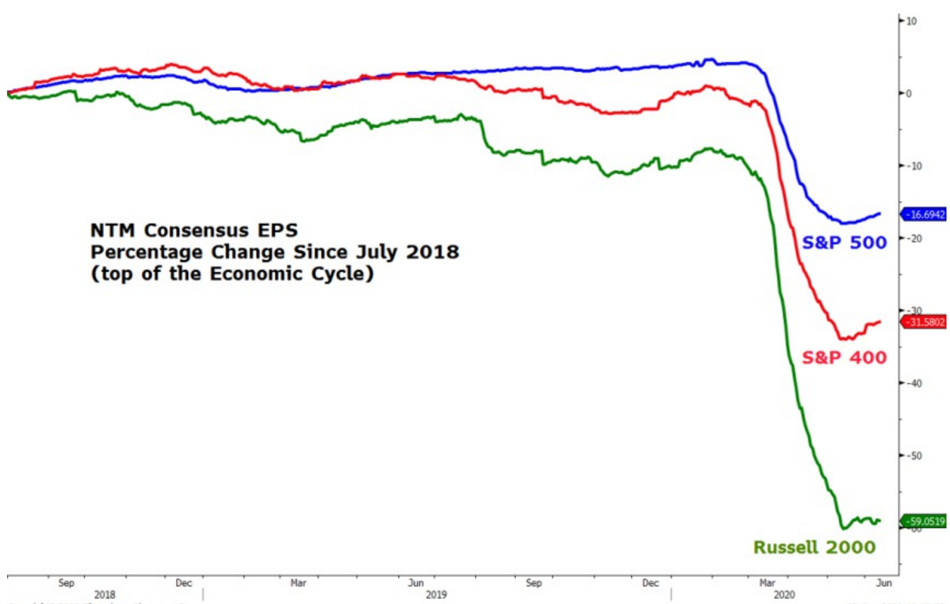
Exhibit 6: And Liquidity Fueled Asset Prices



Source: Bloomberg, Morgan Stanley Research

Ironically, while the excesses of the prior cycle were concentrated in the corporate sector and shadow banks, the nature of this recession and policy response will effectively bail out these bad actors in a way that leaves them less damaged than if we were experiencing a *less* severe recession. We believe this was one our key insights in late March that many market participants missed and still don't appreciate. Our view at that time (Weekly Warm-up: Nature of Crisis Drives Bigger Bailout and Truncated Credit Cycle, March 30 2020) suggested that the government was essentially underwriting this unemployment cycle for those companies most exposed to the rising labor costs of the prior cycle. More specifically, small and medium sized businesses, a cohort we subsequently upgraded on April 13. One of the features of any recession and recovery is that costs are cut indiscriminately as companies try to protect cash flows. Labor is a big target given it is the single largest cost for most businesses and this is why recessions occur — layoffs lead to a contraction in GDP and sales growth. Of course, when the economy and sales recover, companies experience positive operating leverage. This time around that leverage might be even more powerful than normal given the PPP benefits available to the small and medium sized businesses that make it to the other side. Meanwhile, more generous than normal unemployment benefits to the consumer this time around means the economy (and sales) will return quickly as projected in Exhibit 5 above. **The bottom line is that NTM earnings forecasts may have been cut too far, especially for smaller capitalization and cyclical companies (Exhibit 7), which means the growth on the other side could be explosive.**

Exhibit 7: The Earnings Recession for Small/Mid Caps Has Been Brutal — Bigger Recovery to Come



Source: Bloomberg, Morgan Stanley Research

Forecast Update

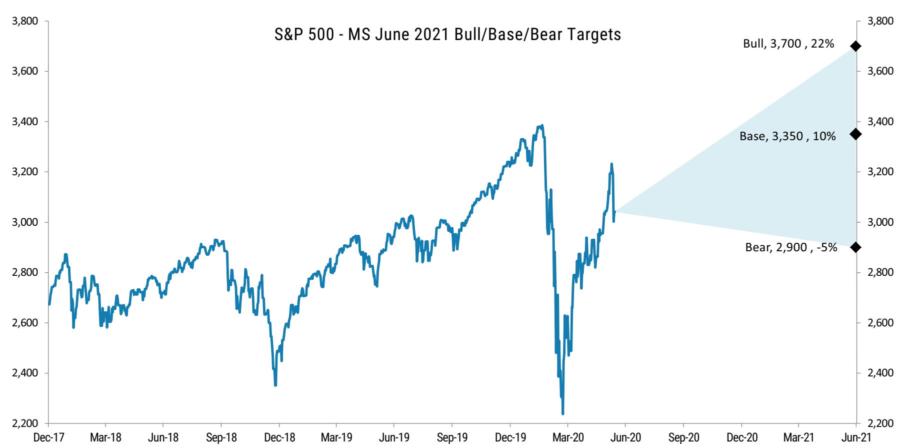
We extend our S&P 500 price target through June 2021, raising our base case estimate to 3,350 from 3,000. Our new target of 3,350 assumes a multiple of 20x forward 12-month earnings of $168 (a blend of our 2021 and 2022 estimates). Our bull and bear cases also shift higher, to 3,700 (from 3,250) and 2,900 (from 2,500), respectively (Exhibit 8). Increases in both our target multiple and earnings forecasts are contributing roughly equally to the increased price target. Our target multiple moves higher as we factor in a lower range for rates and a normalized equity risk premium. Our earnings forecasts move higher as well, but this is largely a function of rolling them forward in time rather than a revision to growth expectations as we had already been positive on an earnings recovery. Ultimately our new risk reward range skews positively with greater upside to our bull case than downside to our bear case (Exhibit 9).

Exhibit 8: Our S&P 500 Bull/Base/Bear Targets — Risk Reward Skews Higher

Index	Current Price	MS Forecast June-21 (% to Current)	MS Forecast (Prior) (% Δ)	MS Tgt Fwd P/E June-21	Current Fwd P/E	MS Top-Down Base Case EPS/Growth			Consensus Forecast EPS/Growth		
						2020	2021	2022	2020	2021	2022
Bull	3,041	3,700 22%	3,250 14%	21.0x	21.5x	$139 -15.0%	$166 20.0%	$186 12.0%	$128 -21.7%	$164 28.5%	$187 14.3%
Base	3,041	3,350 10%	3,000 12%	20.0x	21.5x	$130 -20.0%	$158 21.5%	$177 12.0%	$128 -21.7%	$164 28.5%	$187 14.3%
Bear	3,041	2,900 -5%	2,500 16%	19.0x	21.5x	$119 -27.0%	$143 20.0%	$160 12.0%	$128 -21.7%	$164 28.5%	$187 14.3%

Source: FactSet, Bloomberg, Morgan Stanley Research estimates. Price target derived as the product of the forward 12 month PE multiple and forward 12 month earnings estimates as of June 2021, a blended average of full year 2021 and 2022, or $168.

Exhibit 9: S&P 500 Bull/Base/Bear Forecasts for June 2021



Source: FactSet, Morgan Stanley Research estimates.

Earnings

Our views on a V-shaped recovery and faster reopening than consensus expects keep us positive on the outlook for earnings growth, where we expect slightly better results this year than consensus and a material rebound (20%) in 2021. Similar to the exit from the financial crisis, we expect a combination of base effects, stronger revenue growth, and return of positive operating leverage from reduced cost structures to all contribute to earnings growth in 2021. Stock buybacks should also provide a tailwind on the order of 1-2% EPS accretion. While our 2021 numbers are below consensus, given the well known tendency of consensus estimates to overestimate earnings this far out and our conversations with investors, we believe our estimates are actually more bullish than most top down forecasts and investor expectations. These estimates are in-line with the view we have had since March and do not represent a major change in views on earnings growth. Given the broad uncertainty, we calibrated our earnings forecasts using both a bottom up and top down approach. Our bottom up approach used a scenario analysis based on the worst part of the financial crisis as a comparison while our top down approach similarly stress tested the inputs to our leading earnings model. **The bottom line for both models — expect a robust earnings recovery in 2021. This also lines up nicely with our economists' forecasts for a V-shaped rebound.**

We are increasing our year ahead target earnings by rolling forward to include 1H22. While our 2021 estimates are largely unchanged, the earnings in our 12 month forward target increase as we roll the target from year end 2020 to June 2021 and focus on earnings through 1H22. It is too early to project actual 2022 earnings but a year from now the market will be pricing off of 2022 *expectations*. Across our bull/base/bear scenarios, our 2022 forecasts reflect the view that even by the middle of next year, the 2022 numbers will be uncertain, but will be made in a more normalized growth environment. As such, we would expect the consensus to follow its historical pattern of projecting low double digit earnings growth for "next year" (2022), and we assume a steady 12% across our scenarios. For more on the historically strong precedent for low-double-digit growth projections in out years see here.

Multiple

Our 20x forward earnings reflects an increase to our target multiple but contraction from current levels (see What's The "Right" Multiple For Trough Earnings). While 20x is elevated by historical standards, we think the rate environment matters. A lower rate range should boost equity valuations going forward, particularly as the equity risk premium normalizes further into the recovery. We make the core assumption that an economic recovery supports both a rise in yields and a normalized equity risk premium. As a result within our 20x, we embed an equity risk premium in the mid-300s and a US 10Y yields ~1.5%. Predicting the inputs with precision is difficult, but as Exhibit 10shows, moderate deviations from these targets still leaves 20x as a central tendency.

Exhibit 10: Equity Risk Premium vs US 10 Year

	NTM S&P PE Sensitivity - ERP & 10 Yr Yield							
	Equity Risk Premium (bps)							
10Y Yield	300	325	350	375	400	425	450	475
0.50	28.6	26.7	25.0	23.5	22.2	21.1	20.0	19.0
0.75	26.7	25.0	23.5	22.2	21.1	20.0	19.0	18.2
1.00	25.0	23.5	22.2	21.1	20.0	19.0	18.2	17.4
1.25	23.5	22.2	21.1	20.0	19.0	18.2	17.4	16.7
1.50	22.2	21.1	20.0	19.0	18.2	17.4	16.7	16.0
1.75	21.1	20.0	19.0	18.2	17.4	16.7	16.0	15.4

	S&P 500 Price Matrix Using Consensus MS June 21 NTM EPS Est - $168							
	Equity Risk Premium (bps)							
10Y Yield	300	325	350	375	400	425	450	475
0.50	4,800	4,480	4,200	3,953	3,733	3,537	3,360	3,200
0.75	4,480	4,200	3,953	3,733	3,537	3,360	3,200	3,055
1.00	4,200	3,953	3,733	3,537	3,360	3,200	3,055	2,922
1.25	3,953	3,733	3,537	3,360	3,200	3,055	2,922	2,800
1.50	3,733	3,537	3,360	3,200	3,055	2,922	2,800	2,688
1.75	3,537	3,360	3,200	3,055	2,922	2,800	2,688	2,585

Source: Morgan Stanley Research.

Exhibit 10**Growth affects both risk premiums and rates.** Exhibit 10 illustrates a 10Y vs. ERP matrix showing how corresponding pairs would affect the equity market PE. Our range has a diagonal tilt — we believe lower yields will be accompanied by higher uncertainty on growth and volatility leading to a higher ERP, while higher yields may reflect a more optimistic outlook on growth, allowing for ERP compression. We see 475 bps as something of a ceiling on the ERP given the metric remained near those levels (with some temporary overshoots) in the global slowdown of late 2015/early 2016 and at the lows in December 18. We do not expect a return to the 700 bps level seen at the market lows in March given our expectations for a robust recovery path going forward combined with unprecedented policy support. Meanwhile, we see 300 bps as a reasonable floor as much lower than this level would be more consistent with a more euphoric overshoot of fair value than with the post-crisis range.

Base Case: 3,350

In our 3,350 base case, the market puts a 20x PE multiple on NTM EPS of $168. Our base case is defined by the recovery scenario laid out above and a return to both revenue growth and operating leverage, both of which contribute approximately equally to increasing earnings growth and forward expectations. A faster re-opening than expected along with a powerful combination of fiscal and monetary stimulus all support an economic and earnings recovery. A lower range for rates means fair value for market valuations moves higher, but given the market is currently putting a multiple on trough earnings we expect some multiple compression from current levels. We assume a dividend yield of approximately 2% and price appreciation of 10% for a total return projection of ~12%. Given the peak valuations noted above, price returns are driven by a return to earnings growth with NTM earnings growth of 17% offsetting multiple contraction of 7%.

Bull Case: 3,700

In our 3,700 bull case, the market puts a 21x PE multiple on NTM EPS of $176. Our bull case envisions an even faster return to normal economic activity this year that makes the stimulus an even bigger net positive to output and less of a "bridge" to the recovery phase. In this scenario earnings in 2020 end up meaningfully above current expectations and 2021 still enjoys a meaningful acceleration. US and China tensions remain a non-market event and the US election results produce a low probability of higher corporate taxes while potentially adding fiscal stimulus. The higher run rate on economic growth we think invites greater animal spirits, compressing ERP into the low 300s while rates move closer to 2%, with the net effect of a multiple near 21x. We assume a dividend yield of approximately 2% and price appreciation of 22% for a total return projection of ~24%. Given the peak valuations noted above, price returns are driven by a return to earnings growth with NTM earnings growth of 24% offsetting multiple contraction of 2%.

Bear Case: 2,900

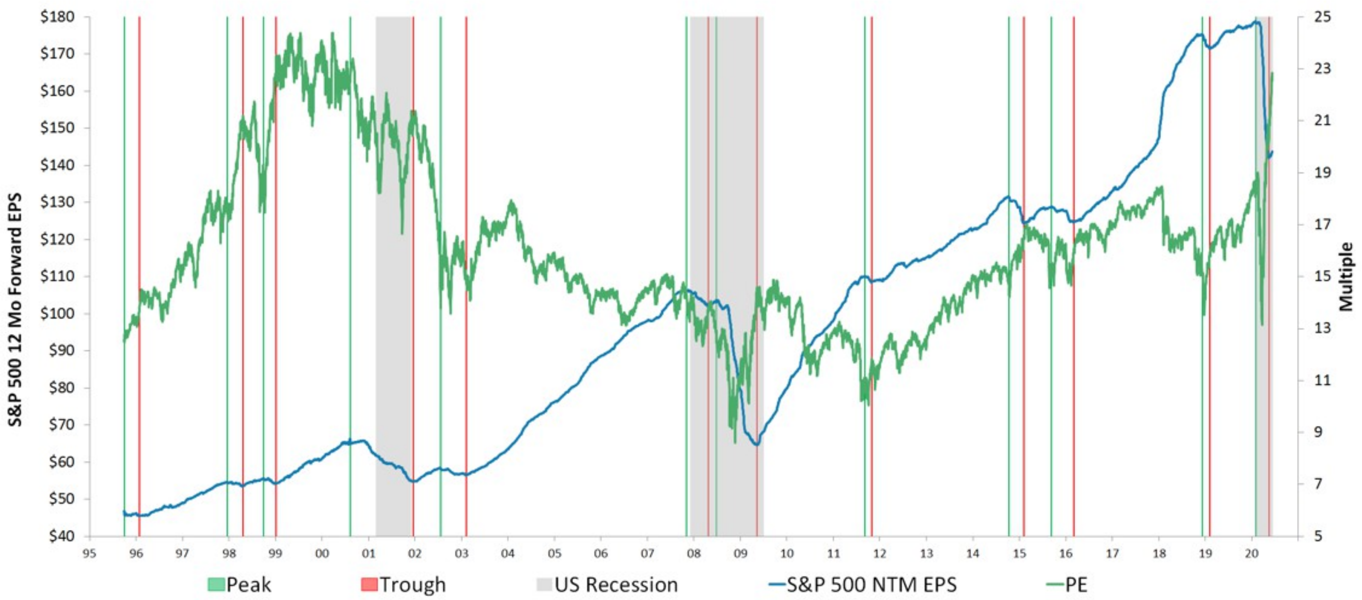
In our 2,900 bear case, the market puts a 19x PE multiple on NTM EPS of $151. Our bear case contemplates a worse than expected economic run rate through the rest of the year, implying a material loss of the reopening momentum. In this scenario, earnings revisions turn lower again and 2020 earnings end the year closer to $119 vs. our current expectation of $130. Consistent with what we have seen to date, we would expect the policy response to increase in this state of the world, contributing to a strong rebound in earnings growth in 2021 but off a lower base. We also contemplate a corporate tax rate headwind in the mid-single digit dollar range that prevents the earnings rebound from being stronger despite the lower base. The lower growth environment along with continued QE from the Fed mean that rates remain around current levels or below while the equity risk premium moves into the mid-400s, resulting in a multiple of 19x as rates stay lower. We note that material escalation on the trade front with China or election outcomes which limit the fiscal impulse or push corporate tax rates higher could also create an overshoot below our June 2021 target, but a year from now, we see a mid-400s ERP with an eye on 2022 growth providing some support around 2,900. We assume a dividend yield of approximately 2% and price depreciation of 5% for a total return projection of -3%. Price returns are driven by a slower return to earnings growth with NTM earnings growth of 7% which is more than offset by multiple contraction of 12%.

What's the "Right" Multiple for Trough Earnings

Part of the bear case for the equities is that multiples are rich ... Forward multiples on the S&P 500 look rich (Exhibit 11), which makes any bet on rising equity prices a bit riskier. It seems hard to bet on multiple expansion from here and one could easily see how multiples could turn lower.

... but high multiples on trough earnings is fairly common. We agree that the current multiple looks unsustainable and factor in about a 7% derating in our year ahead targets. As discussed in our Forecast Update, we think the rolling forward of earnings is enough to keep the market moving higher over time and we think an examination of the high multiples needs to be made with two caveats in mind: (1) the current multiple is in the context of a lower rate environment and (2) multiples are often higher on trough earnings numbers. We discussed the lower rate environment in the context of our equity risk premium framework in the Forecast Update, so here we'll focus on how multiples tend to move higher on trough earnings.

Exhibit 11: S&P Multiples Often Move Higher As Forward Earnings Trough



Source:Bloomberg, FactSet, Morgan Stanley Research.

S&P 500 forward earnings do not fall often ... Exhibit 11 shows the history of NTM earnings on the S&P and marks local peaks and troughs with green and red vertical lines respectively. The first point to make is that with only 12 occurrences in 25 years, forward earnings falling in any significant way is uncommon. Since NTM earnings incorporate a little more of next year's numbers every day, they have a natural upward drift over time and for a material move lower to happen either (a) the first year numbers (2020 for purposes of this outlook) need to fall fast enough to offset the following year's (2021) uplift or (b) the following year's numbers need to be falling below current year's numbers (which does not really happen in practice). In other words, the hope of "next year's growth" provides an upward bias to forward numbers.

... but when they do, the multiple usually rises as forward earnings trough. Overlaid with the earnings series is the forward PE multiple for the S&P 500. Generally when forward earnings estimates trough (the vertical red lines) in the graph, the multiple has increased sharply from where it was prior to the earnings decline. Exhibit 12 shows the dates of peak and trough earnings as well as where the multiple on the S&P was at earnings peak, earnings trough, and one month after the earnings trough. In 9 out of the 11 (82%) of prior instances where the forward earnings fell, the multiple was higher on the earnings trough date than it was before the earnings began their decline. On average, earnings declines were -7.6% and the multiple was up 7.1%. One month after the trough, multiples were still higher in 7 out of the 11 instances. The intuition here is fairly simple, the market is willing to put a higher multiple (relative to the local range for that time period) on the trough earnings streams as it discounts a future recovery in earnings streams. This phenomenon is most likely driven by the more cyclical firms in the index where peak PE multiples on trough cycle earnings is very common.

Exhibit 12: Multiples Move Higher As Earnings Trough

S&P 500 Falling Forward Earnings Periods

Peak	Trough	Months	Start EPS	End EPS	EPS %Δ	Start PE	End PE	PE %Δ	PE: 1 Mo Post EPS Trough	PE %Δ
10/2/1995	1/25/1996	3.8	46.8	45.5	-3%	12.5	13.6	9%	14.2	14%
12/16/1997	4/17/1998	4.1	54.6	53.5	-2%	17.7	21.1	19%	20.6	16%
9/29/1998	1/4/1999	3.2	55.6	54.1	-3%	19.0	22.7	20%	22.9	21%
8/7/2000	12/17/2001	16.6	66.3	54.7	-17%	22.5	20.7	-8%	20.5	-9%
7/19/2002	2/6/2003	6.7	58.5	56.5	-3%	14.6	14.9	2%	14.1	-3%
11/1/2007	4/23/2008	5.8	106.5	101.3	-5%	14.2	13.7	-4%	13.5	-5%
6/26/2008	5/8/2009	10.5	103.7	64.6	-38%	12.5	14.6	17%	14.1	13%
9/1/2011	10/26/2011	1.8	110.1	108.5	-1%	11.0	11.5	4%	11.0	0%
10/7/2014	2/6/2015	4.1	131.6	124.4	-5%	14.7	16.5	12%	16.4	11%
9/8/2015	3/1/2016	5.8	128.9	124.7	-3%	15.3	15.9	4%	16.6	9%
12/6/2018	2/1/2019	1.9	175.4	171.5	-2%	15.4	15.8	3%	16.1	5%
1/30/2020	5/15/2020	3.5	178.8	142.1	-21%	18.4	20.4	11%	22.5	23%
Average (excl. most recent)		5.9			-7.6%			7.1%		6.4%
> 0 Hit Rate (excl. most recent)								81.8%		63.6%

Source: Bloomberg, FactSet, Morgan Stanley Research.

The exceptions to higher multiples on trough earnings — Tech Bubble and Financial Crisis. The two exceptions in the table above to t he higher multiple on trough earnings trend come around the Tech Bubble and the Financial Crisis. It is not lost on us that these both line up with prior recessions, but we think the situations are different from today. In the case of the Tech Bubble, that period kicked off a structural derating of equities from bubble territory. Equity risk premium at the time was negative and the US economy was shifting into a structurally lower growth and inflation regime. The combination of this shift and the popping of the bubble led to a sustained decline in multiples over the ensuing years. We do not think either dynamic is at play today given the already structurally higher equity risk premium and lower rates. We think the Financial Crisis data is a quirk of the peak/trough algorithm. Forward earnings enjoyed a short rally between April and June 2008 and the multiple did not make a new peak in June of 2008. In reality, the earnings decline trend around the financial crisis stretched from November 2007 to May 2009. Over this time frame the multiple did actually move slightly higher (14.6x vs 14.2x). There were also structural forces at play as valuation bubbles in certain pockets of the market (Financials) had to be worked down as well. Finally, the GFC was truly an existential moment for the capital markets. At the time, it was unclear if markets would continue to function and/or if the Fed's experiment with QE and other tools never tried before would work. Eleven years later, those tools are no longer questioned, nor is the structural integrity of the capital markets as the Fed has acted even more aggressively than during the GFC and is getting much more support from Congress this time around. After a decade of financial repression, market participants are embracing it and grabbing risk premium more quickly, before it disappears.

Price returns following earnings troughs tend to be positive. Exhibit 13 shows various period price returns around earnings troughs — the max drawdown during the earnings peak, the price drop through the earnings estimate trough, and the forward returns for various time periods following the earnings trough date. The average drawdown before earnings trough is 13.8%, but as the multiple rebounds, the price performance improves to an average of down 0.2% by the time the earnings trough. Following the earnings low, growth in earnings is strong enough to offset any derating back to more normalized levels. Even with last week's correction,the current moves from the earnings trough are running well ahead of typical returns over a similar time period following other drops in earnings, though it is also worth considering that given the substantial move to the market lows, the rebound before earnings troughed left performance well below average. The bottom line is that we could see some choppiness ahead but over time expect the market to move higher as the rise in earnings is enough to offset a falling multiple.

Exhibit 13: Price Returns Tend to Be Positive After Fwd EPS Troughs; Current Moves Still Running Ahead of Normal

S&P 500 Falling Forward Earnings Periods

Peak	Trough	Months	Price Rtn: Max Drawdown After EPS Peak	Price Rtn: Peak to Trough EPS	Price @ EPS Peak	Period Price Min	Price Return: EPS Trough+30	Price Return: EPS Trough+90	Price Return: EPS Trough+180	Price Return: EPS Trough+365
10/2/1995	1/25/1996	3.8	-0.9%	6.8%	581.72	576.72	7.1%	5.9%	2.7%	27.6%
12/16/1997	4/17/1998	4.1	-4.2%	16.5%	968.04	927.69	-1.1%	5.9%	-9.7%	19.2%
9/29/1998	1/4/1999	3.2	-8.5%	17.5%	1049.02	959.44	3.7%	5.7%	14.0%	15.4%
8/7/2000	12/17/2001	16.6	-34.7%	-22.0%	1479.32	965.80	-0.5%	3.2%	-10.6%	-19.1%
7/19/2002	2/6/2003	6.7	-8.4%	-0.1%	847.76	776.76	-0.9%	11.4%	16.2%	38.8%
11/1/2007	4/23/2008	5.8	-15.6%	-7.6%	1508.44	1273.37	-0.1%	-7.0%	-27.8%	-36.6%
6/26/2008	5/8/2009	10.5	-47.3%	-25.9%	1283.15	676.53	1.4%	7.9%	13.9%	22.1%
9/1/2011	10/26/2011	1.8	-8.7%	3.4%	1204.42	1099.23	-6.5%	6.5%	11.3%	16.3%
10/7/2014	2/6/2015	4.1	-3.8%	6.9%	1935.10	1862.49	1.0%	2.1%	3.2%	-6.6%
9/8/2015	3/1/2016	5.8	-7.1%	1.5%	1969.41	1829.08	4.3%	6.7%	10.8%	23.8%
12/6/2018	2/1/2019	1.9	-12.8%	0.7%	2695.95	2351.10	3.8%	8.3%	11.2%	21.6%
1/30/2020	5/15/2020	3.5	-31.9%	-12.2%	3283.66	2237.40	11.6%	11.6%	11.6%	11.6%
Average (excl. most recent)		**5.9**	**-13.8%**	**-0.2%**			**1.1%**	**5.1%**	**3.2%**	**11.1%**
> 0 Hit Rate (excl. most recent)			**0.0%**	**63.6%**			**54.5%**	**90.9%**	**72.7%**	**72.7%**

Source: Bloomberg, FactSet, Morgan Stanley Research.

2020 Election Update

As the 2020 election draws nearer we have seen a rise in investor interest around its impact. We think there are three key items that could impact the market outlook: 1) fiscal policy, 2) corporate taxes, 3) US-China relations, and 4) broad uncertainty weighing on sentiment. The below summarizes what we believe to be the primary issues to watch for equities broadly, but for a more comprehensive review of the implications across sectors and asset classed, please see 2020 US Election: A Revised Guide to Economic Policy Paths & Market Impacts (8 Jun 2020), from which this is excerpted.

On Fiscal Policy

Exactly how the parties may continue down the inflationary path we are on may differ and the exact policies enacted will depend on the outcomes from November. While a large infrastructure package and various extensions of emergency stimulus are the obvious candidates to support further stimulus and deficit spend, and ones that in some form or another are a popular talking point among both Rs and Ds, other proposals from both sides may result in fiscal expansion, but likely require a RRR or DDD sweep to maximize their chance of passage.

On the Republican side, fiscal stimulus would be most likely to arrive via extension of sun-setting provisions in the TCJA and further adjustments to tax rates. Though the degree of *incremental* stimulus would be less than that following the 2016 election, lower taxes, or at least no risk of higher taxes, along with relative certainty on this front going forward could help restore corporate confidence and willingness to resume investment spend.

With a Democratic sweep, the picture may be a bit more nuanced. Democratic policies may similarly result in fiscal stimulus and deficit expansion while also redistributing money away from wealthier tax payers and US corporations. While the deficit spending and redistribution toward cohorts with a higher propensity to spend marginal dollars of income may provide a boost to aggregate spending and demand, the effects on business investment, corporate confidence and employment could plausibly provide an offset to this dynamic and likely on a more immediate basis.

On net, we think the market is likely to perceive an all R win as the more reflationary outcome in the near term. Based on the results of our investor poll we believe most investors think the equity market would price in the degradation in corporate confidence from a Democratic controlled government first and would view any pickup in aggregate demand as something to be proven, while a Republican sweep would be viewed as more likely to continue on current tax/economic policy and deficit spending trends.

On Corporate Taxes

Any potential rollback of the tax cuts given to US corporates under the TCJA is top of mind of equity market investors given the immediate impact to earnings and the potential impact to corporate and investor confidence that could affect the multiple. For context, our prior work estimated that the TCJA added about 7-8% to the US corporate earnings base, at the time, $9 - $10/share in S&P 500 earnings. Prior to the current recession, simple math would have suggested a rollback to cause at least commensurate declines, with potential second order effects like scaled back business investment further amplifying those effects. The lower earnings base and 2020 losses that may be carried forward as well as uncertainty on the exact form of TCJA rollbacks make a precise estimate on the earnings impact to 2021 and beyond difficult to make, but a mid-single digit dollar figure on S&P 500 EPS is likely a reasonable working assumption.

On US-China Trade

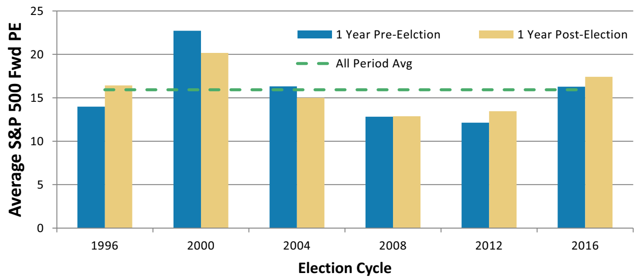
We were not of the view that trade policy was the primary driver of the slowdown in corporate profits and the economy in 2019, but it clearly had some effect on the economy and a larger effect on risk appetite. While neither the US or China currently looks to be scaling back the commitments of a Phase 1 deal, the recent reacceleration of tensions around the coronavirus have caused concern. Importantly, escalations look to be a bi-partisan issue, raising the potential of a political game of one-upmanship through the US election cycle. Reacceleration to date has had minimal impacts on economic fundamentals and risk appetite, but a return to explicit trade blockages or other, more meaningful forms of escalation could have larger effects. Our US Public Policy team believes it is unlikely that we will see any new tariffs go on before the election and heightened tensions will result in non tariff escalations/ rhetoric. Such escalations could weigh on investor sentiment but are unlikely to cause a meaningful correction.

On General Uncertainty

In general, there is not a clear difference in multiples, volatility, or returns before and after elections. (Exhibit 16, Exhibit 14, and Exhibit 15). For the periods shown below, returns do appear to be marginally better, on average, in post-election periods, but we note that, given the volatility in equity markets, there is no statistically significant difference between pre and post-election returns or between those returns and average one year returns over the multi-decade period shown. **Average PE multiples and the average level of the VIX look even more indistinguishable from their longer term averages.** It's also clear from the 2000 and 2008 elections that the market was dominated by economic and other fundamental drivers completely unrelated to politics which aligns with our general view over time — fundamentals, namely growth and interest rates matter the most for stocks especially if there are important business cycle dynamics at play — i.e., recession risks.

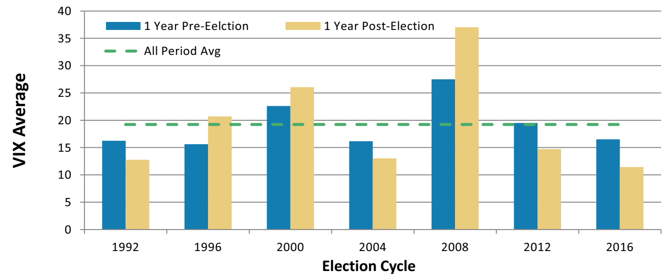
To the extent the market begins to discount a regulatory or legislative agenda that threatens the fundamentals of major sectors or perhaps limits the outlook for business investment, higher uncertainty could weigh on investor sentiment and risk appetite, and this risk is likely elevated in an environment with already weak fundamentals.

Exhibit 14: S&P 500 Multiple Has Not Been Consistently Better or Worse Than Average Pre/Post Elections



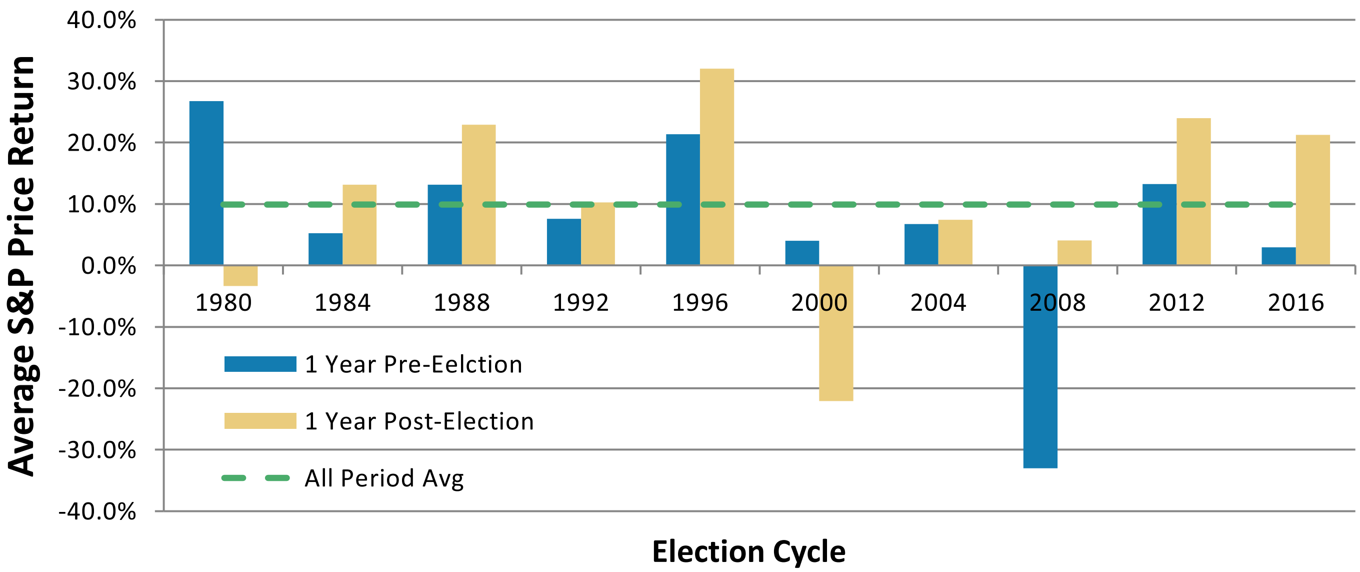
Source: Bloomberg, Morgan Stanley Research.

Exhibit 15: Average VIX Level Has Not Been Consistently Better or Worse Than Average Pre/Post Elections



Source: Bloomberg, Morgan Stanley Research

Exhibit 16: S&P 500 Returns Have Not Been Consistently Better or Worse Than Average Pre/Post Elections



Source: Bloomberg, Morgan Stanley Research.

Sector Preferences

Our sector preferences reflect our preference to lean into more cheaply valued cyclicality on dips over time. We believe that the recovery will benefit equities broadly. This means the quality/growth/defensive cohort that has led over the classic late cycle environment of the last few years can continue to perform well in absolute terms, but we think the primary relative trend is higher in areas of the market more directly geared to inflecting economic growth.

In the sections below we address our views on our overweight and underweight rated sectors (Exhibit 17) and give a special note on Discretionary where we are equalweight but would be inclined to add risk on pull backs given the strength of the rally off the bottom.

Exhibit 17: Sector Preferences

Morgan Stanley Sector Recommendations			
Overweight	Financials	Health Care	Materials
	Industrials		
Neutral	Comm. Services	Discretionary	Energy
	Real Estate		
Underweight	Staples	Technology	Utilities

Source: Morgan Stanley Research

Consumer Discretionary: Equalweight

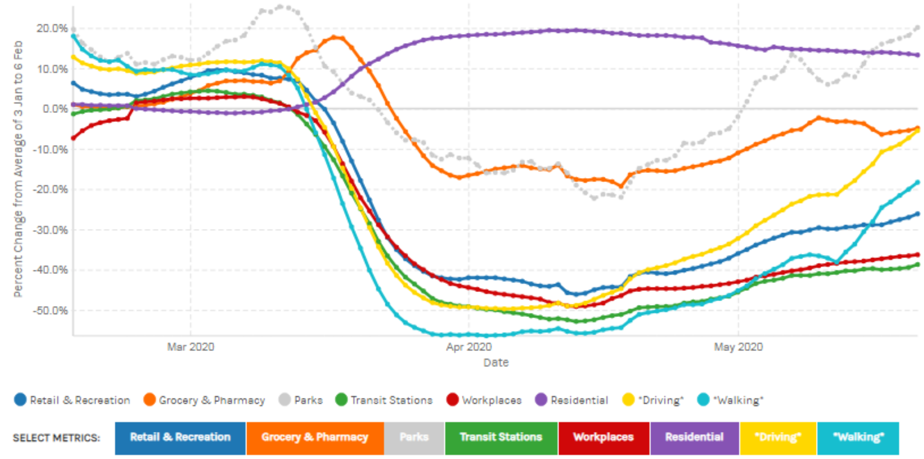
While relative earnings revisions trends across Discretionary look strong, the sector is highly idiosyncratic. Valuation levels differ materially by group as do cyclical and structural headwinds/tailwinds. Based on our recent work in Following Our Recession Playbook: Embracing Cyclicality, we favor the more cyclical pockets of Discretionary like Autos and Consumer Durables. We're more neutral on Retailing, which has already benefitted significantly from the stay at home dynamic (via AMZN, which is 39% of the sector).

- Our economists' view that this should be a **V-shaped recovery gives us confidence that an early cycle leadership change is sustainable and more than just short covering.** Cyclical pockets of Discretionary like Autos and Consumer Durables typically perform well in this type of environment (see **Following Our Recession Playbook: Embracing Cyclicality**). A number of high frequency indicators including mobility trends (Exhibit 18), consumer confidence surveys (Exhibit 19), e-commerce data and corporate commentary suggest consumer demand is resuming at a faster pace than expected, supporting our economists' V-shaped recovery thesis.

- **Bottoming earnings revisions.** As Exhibit 20 shows, relative earnings revisions breadth has strengthened recently and has emerged off trough levels in all Discretionary industry groups. Continued upward momentum in relative revisions breadth should benefit the groups on a performance basis as well. Certain sub groups have priced relative revisions upside more so than others. On a relative forward P/E basis, Autos and Consumer Durables trade in the 1st and 33rd percentiles of historical levels, respectively. Whereas Consumer Services and Retailing both trade in the 100th percentile. On a forward price/sales basis, Retailing is the only industry group that trades above historical median levels — 94th percentile. The higher valuation in Retailing is largely a result of AMZN's size in the group, and does not reflect valuation for the average stock in the group though, something we'd consider when looking for recovery plays as we think pockets of retail can likely be higher risk/reward plays on an economic recovery.

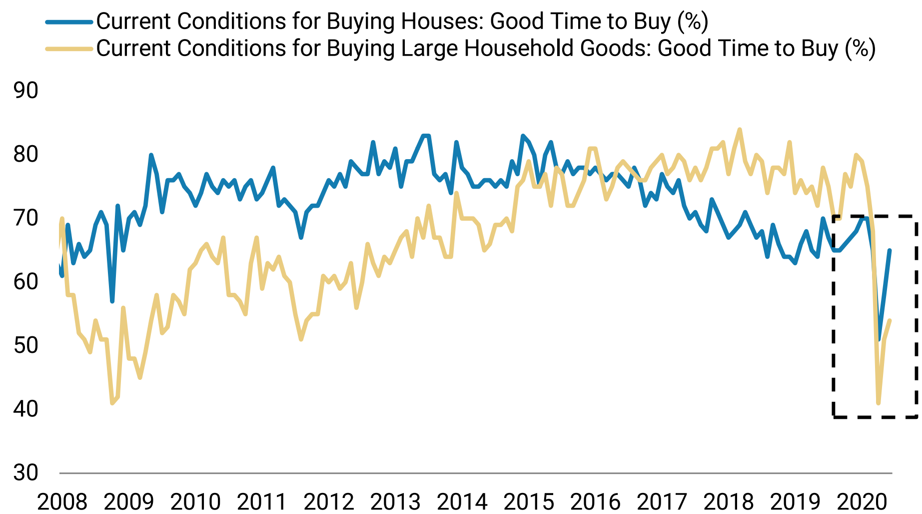
- **Recovery favors a catch up trade, but not a reversal of structural trends.** Exhibit 21 and Exhibit 22 illustrate that performance breadth within the Discretionary sector has been poor since 2015. Specifically, it shows relative performance of the sector on both a cap weighted and an equal-weighted basis. There is a large gap between cap weighted and equal weighted performance due largely to the massive outperformance of Internet Retail this cycle. Internet Retail has outperformed the S&P 500 by 3543% since 2009 driven in large part by secular tailwinds around e-commerce. As the economy and consumer recover, higher beta stocks within the sector can begin to outperform amid an early cycle regime shift. To be clear, we don't see absolute downside for the large e-commerce stocks and think structural trends actually continue to benefit the large e-commerce players, but we do see the recovery as providing a relatively larger inflection from current levels in sales and margins to more traditional players.

Exhibit 18: Consumer Traffic Across Everyday Locations



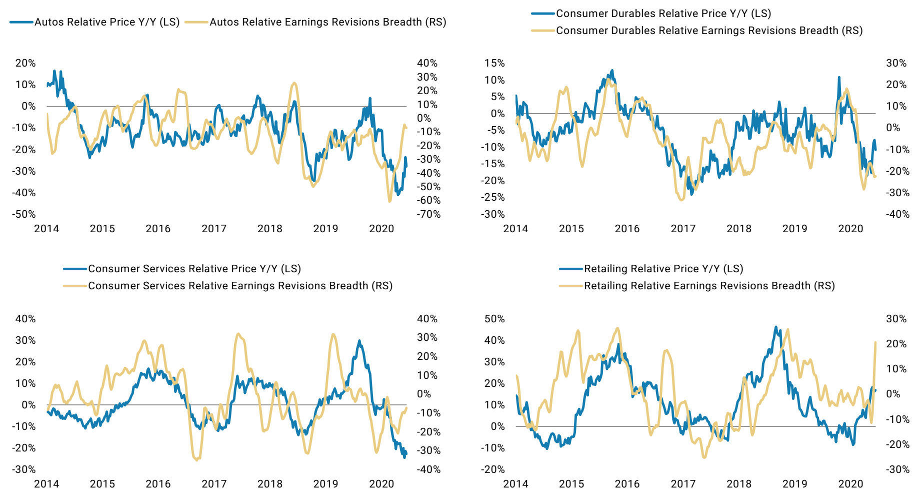
Source: AlphaWise, Google LLC "Google COVID-19 Community Mobility Reports.

Exhibit 19: University of Michigan Subcomponent Surveys Focused on Consumer Demand Showing Signs of Life



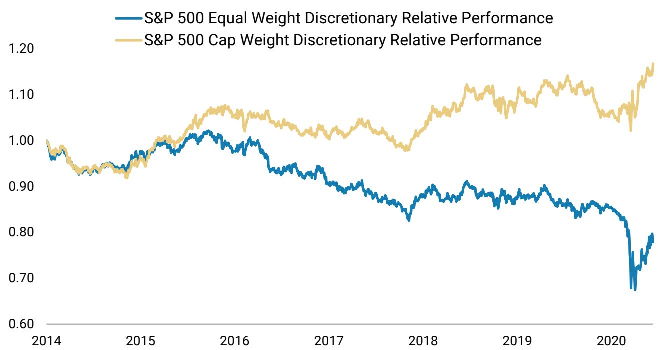
Source: Bloomberg, Morgan Stanley Research as of June 2020.

Exhibit 20: Relative Earnings Revisions Breadth Turning Higher Across Consumer Discretionary Groups



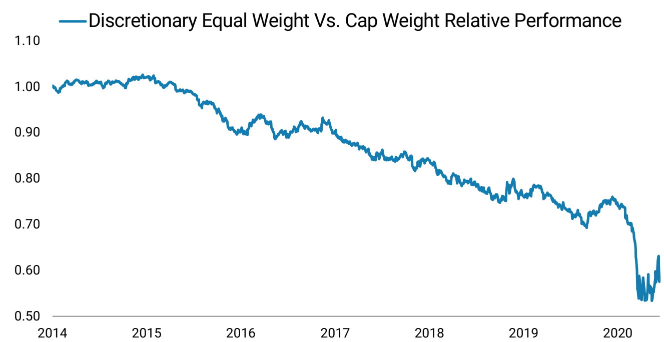
Source: FactSet, Morgan Stanley Research as of June 12, 2020.

Exhibit 21: Cap Weighted Discretionary Relative Returns Have Materially Outpaced Equal Weighted Returns...



Source: Bloomberg, Morgan Stanley Research as of June 12, 2020.

Exhibit 22: ...But That Could be in the Process of Changing



Source: Bloomberg, Morgan Stanley Research as of June 12, 2020.

Financials: Overweight

We view Financials as a high quality cyclical sector that should offer relative upside as we continue to transition to early cycle leadership. Financials continue to trade at depressed multiples on a relative basis. Further, the sector's relative performance is highly positively correlated to Treasury yields. If our economists' expectations for higher growth and inflation materialize, we should see upside in nominal yields — a positive catalyst for Financials. Further, we like Financials' relative margin momentum.

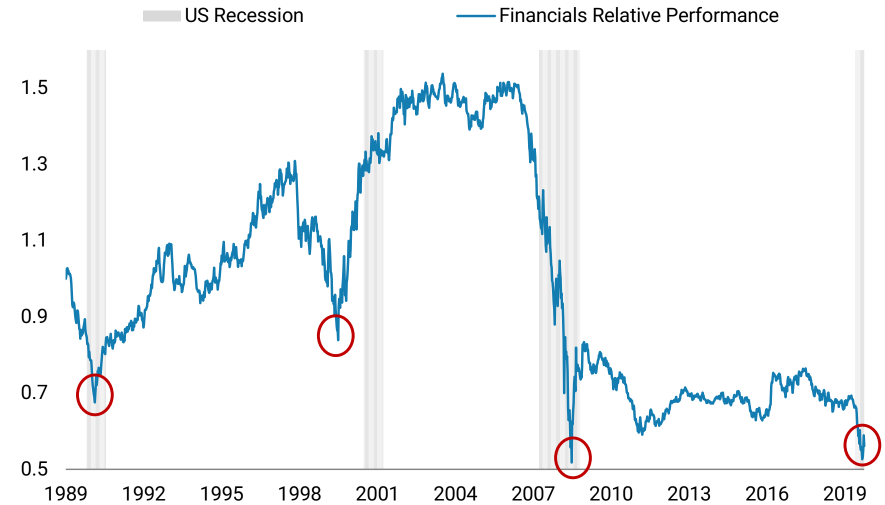
- **Financials are early cycle outperformers:** As Exhibit 23 shows, Financials relative performance has troughed either during a recession (in the case of 1990 and 2008) or just before a recession (in the case of the Tech bubble). Given that (1) we are now officially in a recession, (2) our economists see a sharp V-shaped growth recovery ahead, with 2Q as the trough quarter, and (3) Financials are highly levered to rebounding growth (Diversified Financials and Banks are *the* groups most positively correlated to changes in nominal GDP growth on a leading basis), we believe that relative outperformance of Financials has just begun.

- **Valuation remains compelling:** Relative valuation for the Financials sector remains attractive, particularly on a price/book basis. The sector trades in just the 1st percentile on a relative price/book basis over the past 20 years (see Exhibit 24 and Exhibit 25). Banks and Insurance both are currently in the 1st percentile on this measure; Diversified Financials is in the 18th percentile. On a forward price/earnings basis, the sector is a bit richer — 15th percentile — as forward earnings for the cohort have declined materially (-33% since the January peak).

- **Higher treasury yields offer valuation and performance upside:** Our economists see real GDP growth and inflation rebounding rapidly on the back of this recession (see Two Upside Surprises Confirm the V). As we laid out in detail in Value Over Growth: A Recession Could Trigger A Secular Shift, November 14, 2019, higher growth and inflation should lead to higher nominal yields. This should benefit Banks, in particular, which exhibit a strong positive correlation to yields (Exhibit 26).

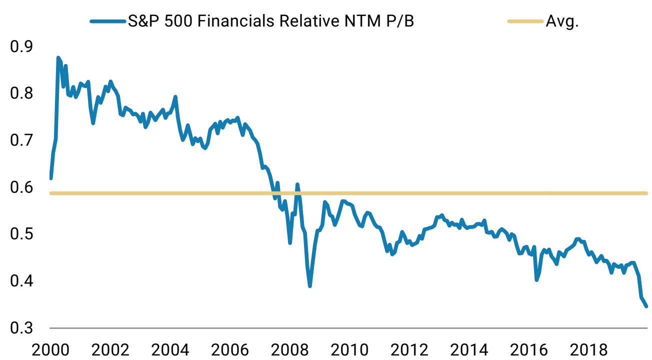
- **Forward EPS growth may be troughing:** It's worth noting that relative forward earnings growth for Financials is outpacing relative price performance and may be starting to form a trough. If this is the trough level of EPS growth for the sector (-14%), it would be significantly higher than the -45% trough level reached during the Financial crisis (Exhibit 27). The possibility of higher nominal rates as a result of improving growth and higher inflation, as discussed earlier, offers potential material upside in Banks' net interest income and overall Financials' earnings growth when compared to the prior cycle. We also think cost cutting, healthier consumer balance sheets, and consumer stimulus will help to support margins for the sector relative to expectations.

Exhibit 23: Financials Is Typically an Early Cycle Outperformer



Source: Bloomberg, Morgan Stanley Research as of June , 2020.

Exhibit 24: Financials Relative Price/Book Ratio Remains Historically Depressed



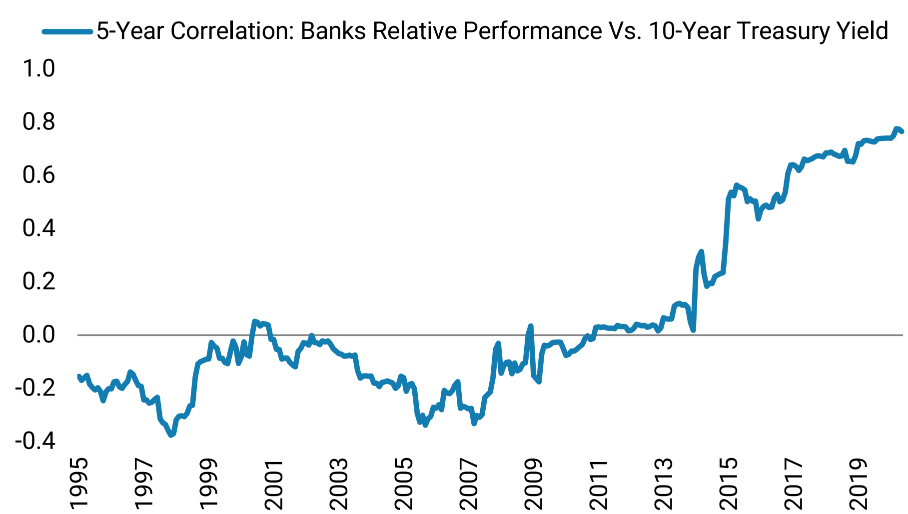
Source: FactSet, Morgan Stanley Research as of June 12, 2020.

Exhibit 25: Financials Subgroups Valuations on a P/E & P/B Basis

	NTM P/E Ratio		NTM P/B Ratio	
	Level	*20Y Rel. % Rank*	**Level**	*20Y Rel. % Rank*
Financials	**16.9**	***15%***	**1.3**	***1%***
Banks	17.4	*53%*	1.0	*1%*
Diversified Financials	19.8	*61%*	1.6	*18%*
Insurance	12.2	*3%*	1.3	*1%*

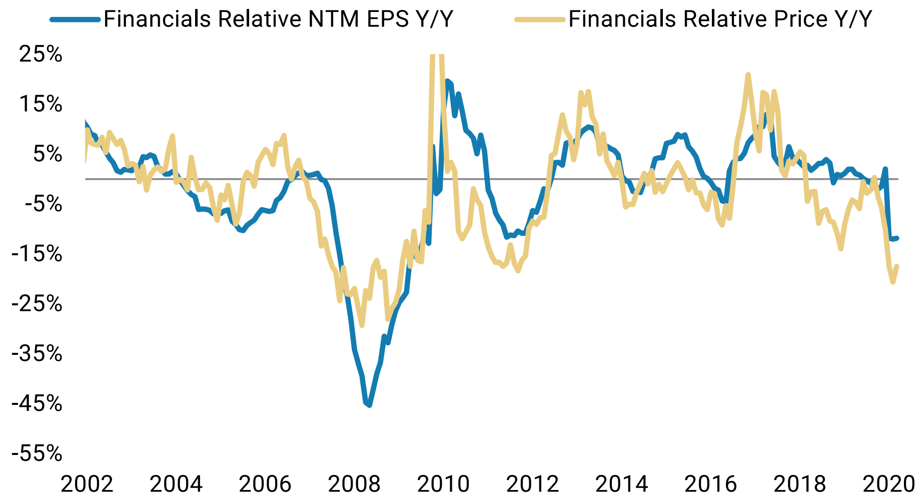
Source: FactSet, Morgan Stanley Research as of June 12, 2020.

Exhibit 26: Banks Are Highly Correlated to 10-Year Treasury Yields



Source: Bloomberg, Morgan Stanley Research as of June 12, 2020.

Exhibit 27: Financials Relative Forward EPS Growth May be Bottoming



Source: FactSet, Morgan Stanley Research as of June 12, 2020.

Health Care: Overweight

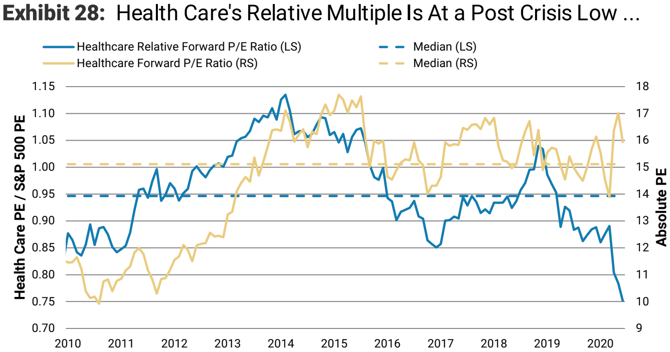
While our sector preferences generally tilt cyclically, we keep Healthcare as a relative overweight to provide some defensive balance with quality/growth characteristics and lower rate exposure. We see durable earnings growth, lower valuations and reduced political risk as relative positives.

- **Relative valuation appears attractive:** As with the broader market, the sector's multiple appears elevated, but relative to the broader market, Health Care's rerating has lagged (Exhibit 28). Outside of HC equipment and Services, most major subgroups in HC are as cheap as they have been in the post-crisis period relative to the broader market (Exhibit 29). We like the limited relative valuation downside in most of the market cap in the sector.

- **Earnings revisions are still strong:** Y/Y growth in NTM EPS for the sector broadly (Exhibit 30) and for Pharma (Exhibit 31) in particular are running well ahead of the same metric in price performance. While a multiple rerating would be needed to close this gap, we like the continued relative strength in earnings growth in our preferred defensive cohort. We also note that long term relative earnings growth expected for the sector vs the market has moved higher to the point of relative parity implying a reduction in some of the structural headwinds faced over the last few years (Exhibit 28).

- **Watching the election:** Health Care is one of the sectors that could be most impacted by policy coming out of the upcoming election and we've shown in the past that the sector has a tendency to derate relative to the market until uncertainty of policy is removed. With the relative multiples already quite low and the COVID dynamics now potentially removing the focus on drug pricing and risk for some of the policies that would bring the greatest change, we see the case for a potential rerating, though recognize the full benefit of this may not accrue until after the election. For more on potential policy impacts to the sector, see 2020 US Election: A Revised Guide to Economic Policy Paths & Market Impacts (8 Jun 2020).

Exhibit 28: Health Care's Relative Multiple Is At a Post Crisis Low ...



Source: FactSet, Morgan Stanley Research.

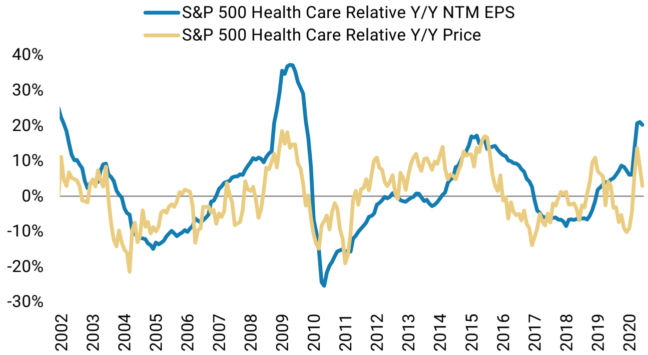
Exhibit 29: ... and the Same Is True Across Most HC Groups

Healthcare Sector and Industry Valuation Table

	S&P 500 Health Care Sector	Pharma	Health Care Equipment & Supplies	Health Care Providers & Services	Biotech
Current Absolute Forward P/E Ratio	15.9	14.0	28.5	12.7	11.9
Current Relative Forward P/E Ratio	75%	66%	134%	60%	56%
Current Relative Forward P/E Ratio % Rank (2010+)	0%	0%	82%	0%	0%

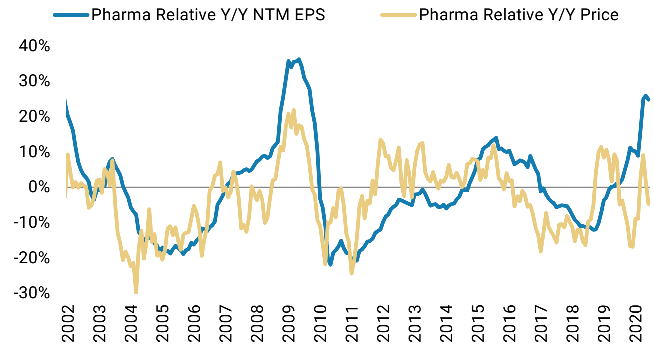
Source: FactSet, Morgan Stanley Research.

Exhibit 30: Forward Earnings Growth Is Running Ahead of Price Performance ...



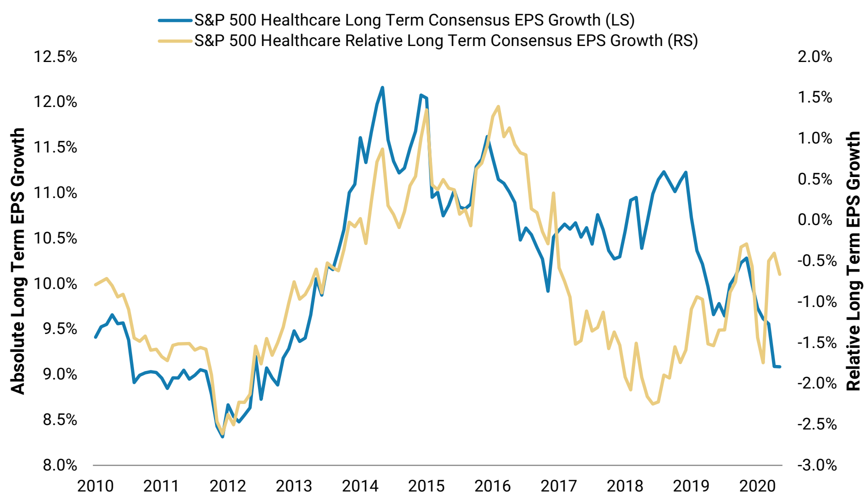
Source: FactSet, Morgan Stanley Research.

Exhibit 31: ... Particularly in Pharma



Source: FactSet, Morgan Stanley Research.

Exhibit 32: Long Term Earnings Expectations for Health Care Have Risen Relative to the Market



Source: FactSet, Morgan Stanley Research.

Industrials: Overweight

We recently upgraded the Industrials sector to an overweight as we have increased cyclical exposure. Given our view for a strong recovery, we expect material upward inflection in GDP growth, inflation, and PMIs all of which should benefit the sector broadly.

- **A play on rising PMIs:** Our growth projections over the coming 12 months embed a strong rate of recovery which implies PMIs heading to the high 50s/low 60s by 1H21 (Exhibit 33). As shown in Exhibit 34, the inflection in PMIs typically also coincides with a rise in the relative performance of Industrials vs the broader market.

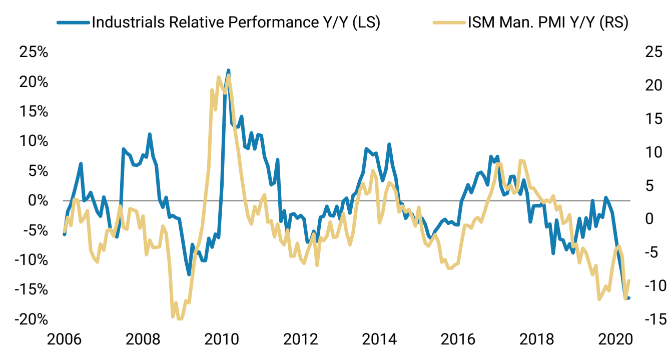
- **Stock picking opportunities also geared to PMIs and inflation**: As part of our move toward cyclicals, we screened for stocks with (1) high correlations to PMI changes, (2) high correlations to inflation breakevens, and (3) low market relative & absolute Price-Book valuations. Capital Goods and Transports both ranked in the top half of industry group exposure (Exhibit 35). Exhibit 36 shows the specific stocks hitting this screen.

- **Other coincident indicators are bottoming:** Exhibit 37 & Exhibit 38make a similar point in different ways — Fed surveys and capex plans indices which usually line up well coincidentally with Industrials outperformance are showing tentative signs of bottoming, and the rebound we're expecting has a strong relationship with Industrial outperformance.

Exhibit 33: A V-shaped Recovery Means PMIs Are Heading Higher

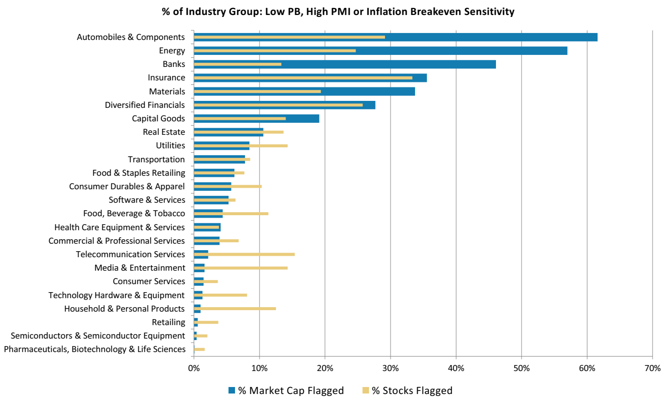
Source: ClariFi, Bloomberg, FactSet, Morgan Stanley Research.

Exhibit 34: PMIs Inflecting Should Lead Industrials Relative Performance Higher



Source: Bloomberg, Morgan Stanley Research as of May 2020.

Exhibit 35: Industry Groups By % Flagging as PMI or Breakeven Levered with Valuation Upside



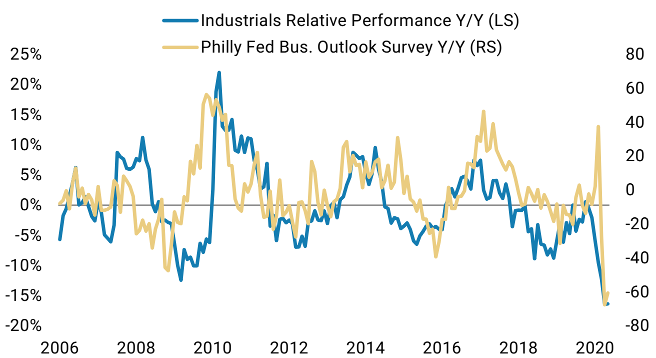
Source: ClariFi, Bloomberg, FactSet, Morgan Stanley Research

Exhibit 36: Industrials Value Plays Levered to Inflecting PMIs and Inflation Expectations

Ticker	Company	Sector	Industry	Market Cap	Price
CUB	Cubic Corporation	Industrials	Aerospace & Defense	$1,346	$43.00
CW	Curtiss-Wright Corporation	Industrials	Aerospace & Defense	$3,850	$92.44
GD	General Dynamics Corporation	Industrials	Aerospace & Defense	$42,614	$148.55
HWM	Howmet Aerospace Inc.	Industrials	Aerospace & Defense	$5,661	$12.98
RTX	Raytheon Technologies Corporation	Industrials	Aerospace & Defense	$54,438	$62.85
TXT	Textron Inc.	Industrials	Aerospace & Defense	$7,200	$31.63
FDX	FedEx Corporation	Industrials	Air Freight & Logistics	$33,652	$128.81
JCI	Johnson Controls International plc	Industrials	Building Products	$25,009	$33.62
OC	Owens Corning	Industrials	Building Products	$5,545	$51.42
CSL	Carlisle Companies Incorporated	Industrials	Industrial Conglomerates	$6,674	$121.53
GE	General Electric Company	Industrials	Industrial Conglomerates	$60,792	$6.95
AGCO	AGCO Corporation	Industrials	Machinery	$4,074	$54.42
B	Barnes Group Inc.	Industrials	Machinery	$1,901	$37.69
CFX	Colfax Corporation	Industrials	Machinery	$3,201	$27.05
CR	Crane Co.	Industrials	Machinery	$3,092	$53.33
FLS	Flowserve Corporation	Industrials	Machinery	$3,513	$27.00
FTV	Fortive Corp.	Industrials	Machinery	$21,171	$62.85
IR	Ingersoll Rand Inc.	Industrials	Machinery	$12,810	$30.75
KMT	Kennametal Inc.	Industrials	Machinery	$2,277	$27.46
OSK	Oshkosh Corp	Industrials	Machinery	$4,834	$71.02
PCAR	PACCAR Inc	Industrials	Machinery	$25,093	$72.58
SWK	Stanley Black & Decker, Inc.	Industrials	Machinery	$20,499	$128.45
KEX	Kirby Corporation	Industrials	Marine	$3,175	$52.89
KFY	Korn Ferry	Industrials	Professional Services	$1,671	$30.36
MAN	ManpowerGroup Inc.	Industrials	Professional Services	$3,883	$66.89
NLSN	Nielsen Holdings Plc	Industrials	Professional Services	$5,379	$15.09
R	Ryder System, Inc.	Industrials	Road & Rail	$1,899	$35.34

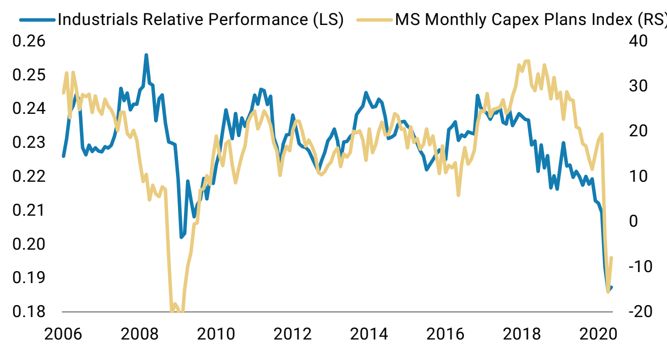
Source: ClariFi, Bloomberg, FactSet, Morgan Stanley Research.

Exhibit 37: Philly Fed Survey Finding a Bottom Is Good for Industrials ...



Source: Bloomberg, Morgan Stanley Research as of May 2020.

Exhibit 38: .... As Is a Bottom in Our Capex Plans Index



Source: Bloomberg, Morgan Stanley Research as of May 2020.

Information Technology: Underweight

We generally expect the Tech sector to participate in the broader equity move higher over the coming year but view the sector as a *relative* underweight. The basis for our underweight is multifaceted: (1) elevated relative valuation levels, (2) recent downside in earnings revisions breadth which has diverged from performance, (3) a demand pull forward amid COVID that could be a headwinds to demand trends in the coming quarters, and (4) the potential for higher cost of capital via rising rates (mostly impacting secular growth stories in Software). We'd be selective in stock selection in the space and be cautious on taking outsized valuation risk.

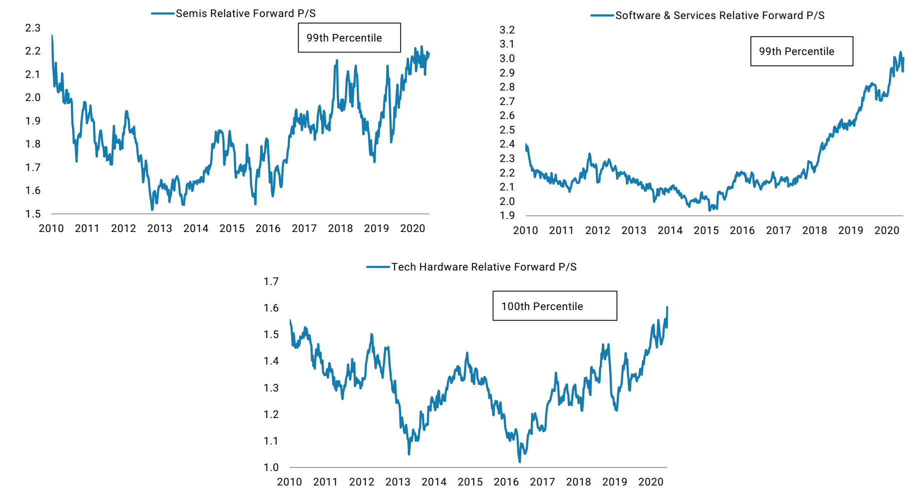
- **Valuation and positioning set a higher bar:** Relative valuation levels remain high as all three industry groups trade in the top 1% of relative price/sales levels over the past 20 years (Exhibit 39). The Tech sector also remains crowded (99th percentile of hedge fund net exposure levels since 2010 based on our prime brokerage data) as the cohort offers a unique mix of secular growth (Software) and high quality cyclical exposure (Hardware and Semis). High valuations can persist for some time, but relative to other parts of the market with potential for a relative rerating, we see this source of upside in Tech as relatively more limited.

- **Performance diverging from weakening relative revisions breadth:** Until recently, strong earnings revisions trends helped support outperformance and elevated valuation levels. However, relative earnings revisions breadth has weakened materially over the last 2 months, diverging from performance. This trend has been evident in all three tech industry groups (Exhibit 40), though the level of relative revisions breadth is currently lower in Hardware and Software than it is in Semis.

- **Demand pull forward:** In contrast to some other areas of the market, some parts of Tech may have actually seen accelerated demand due to the disruptions surrounding Covid-19 as companies looked to adapt to the work from home environment or build inventory. This creates the potential for some demand headwinds through the back half of the year, just as we expect demand elsewhere to continue rising, a dynamic we think is starting to be reflected in the relative earnings revisions trends noted above. See Semiconductors: Inventory is on the rise again… Slight m/m improvement in Global PMI… Modest beat in US auto sales (8 Jun 2020) and Software: Software Gut Check – Nervous About the Journey, But Confident in the Destination (21 May 2020)

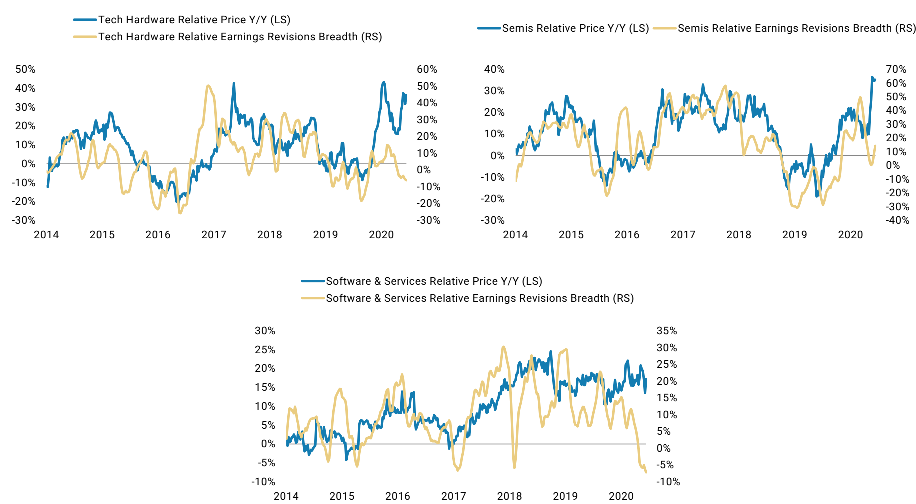
- **We're cautious on very long duration growth:** For smaller growth firms in the sector that are particularly richly valued we're a bit more cautious on valuations. We think the high end of the Growth spectrum has benefitted from the fall in rates which has boosted valuations on the longest duration equity assets. In the recovery scenario we envision, rates backing up may lead to some derating which will be felt in these pockets of the market most acutely.

Exhibit 39: Tech Valuations Remain Elevated



Source: FatcSet, Morgan Stanley Research as of June 12, 2020.

Exhibit 40: Relative Earnings Revisions Breadth Has Turned Lower for All Tech Industry Groups, While Price Change Has Remained Elevated



Source: FactSet, Morgan Stanley Research as of June 12, 2020.

Materials: Overweight

We recently upgraded the Materials sector to an overweight as we have increased cyclical exposure. Given our view for a strong recovery, we expect material upward inflection in GDP growth, inflation, and PMIs all of which should benefit the sector broadly.

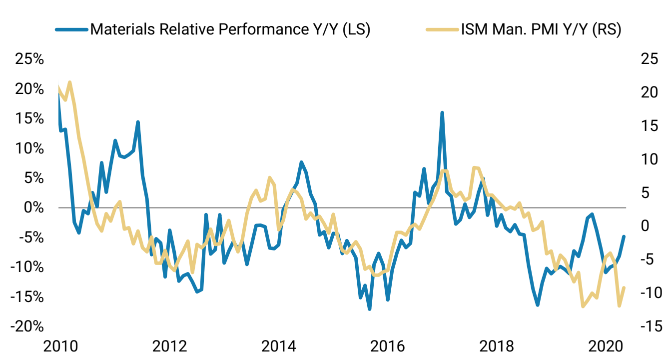
- **A play on rising PMIs & commodity prices:** Our growth projections over the coming 12 months embed a strong rate of recovery which implies PMIs heading to the high 50s/low 60s by 1H21 (Exhibit 33). As shown in Exhibit 41, the inflection in PMIs typically also coincides with a rise in the relative performance of Materials vs the broader market. Additionally we see the nascent rise in global commodity prices as a positive for the space (Exhibit 42).

- **Stock picking opportunities also geared to PMIs and inflation**: As part of our move toward cyclicals, we screened for stocks with (1) high correlations to PMI changes, (2) high correlations to inflation breakevens, and (3) low market relative & absolute Price-Book valuations. Materials highly in industry group exposure (Exhibit 43). Exhibit 44 shows the specific stocks hitting this screen.

- **Earnings leading the way higher:** While earnings revisions and forward earnings estimates have generally bottomed across the market, the current pickup in Materials earnings projections looks to be outpacing that for the broader market. Exhibit 45& Exhibit 46make the point that these kind of inflecting and rising relative earnings projections have a strong relationship with Materials outperformance.

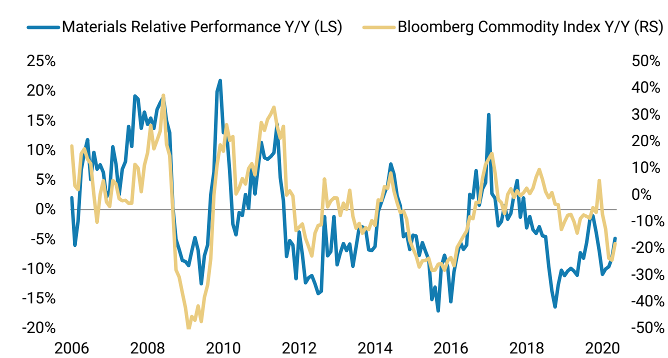
- **Positive Metals & Mining views from our fundamental analyst:** Unprecedented synchronized fiscal stimulus should drive a V-shaped economic recovery. Construction in China & global PMI already improving — a clear positive for most commodities. Historically, mining equities in the Americas, the US, and Latam have outperformed their respective equity markets following US recessions. though our analysis suggests that a temporary pullback in the coming weeks is possible. However, with a global recession already underway and our economics team calling for 2Q20 to mark the recession's trough, we think that the risk-reward is skewed to the upside over the medium term. Americas Metals & Mining: As Global Recovery Unfolds, Add Mining Exposure (8 Jun 2020)

Exhibit 41: PMIs Inflecting Should Lead Materials Relative Performance Higher



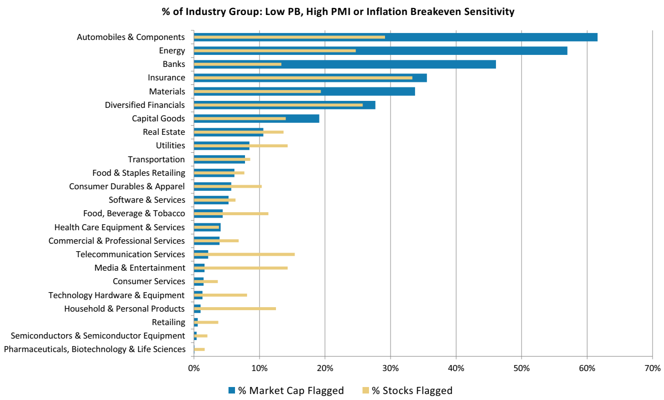
Source: Bloomberg, Morgan Stanley Research as of May 2020.

Exhibit 42: Inflecting Commodities in the Recovery Should Favor Materials



Source: Bloomberg, Morgan Stanley Research as of May 2020.

Exhibit 43: Industry Groups By % Flagging as PMI or Breakeven Levered with Valuation Upside



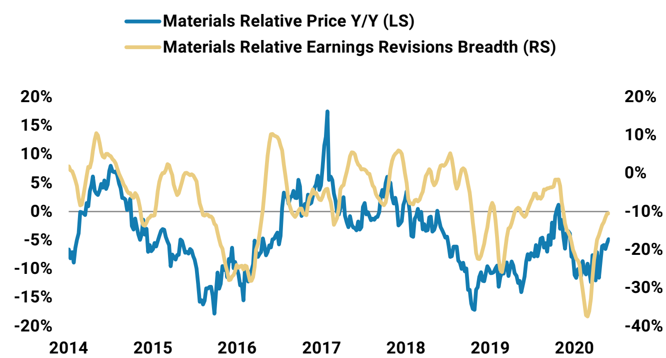
Source: ClariFi, Bloomberg, FactSet, Morgan Stanley Research

Exhibit 44: Materials Value Plays Levered to Inflecting PMIs and Inflation Expectations

Ticker	Company	Sector	Industry	Market Cap	Price
ALB	Albemarle Corporation	Materials	Chemicals	$7,923	$74.52
CF	CF Industries Holdings, Inc.	Materials	Chemicals	$6,016	$28.14
DD	DuPont de Nemours, Inc.	Materials	Chemicals	$36,675	$49.98
EMN	Eastman Chemical Company	Materials	Chemicals	$9,041	$66.53
LIN	Linde plc	Materials	Chemicals	$104,570	$199.11
LYB	LyondellBasell Industries NV	Materials	Chemicals	$21,324	$63.90
MTX	Minerals Technologies Inc.	Materials	Chemicals	$1,571	$46.04
MOS	Mosaic Company	Materials	Chemicals	$4,742	$12.51
EXP	Eagle Materials Inc.	Materials	Construction Materials	$2,718	$65.31
IP	International Paper Company	Materials	Containers & Packaging	$13,332	$33.92
WRK	WestRock Company	Materials	Containers & Packaging	$7,166	$27.64
CMC	Commercial Metals Company	Materials	Metals & Mining	$2,086	$17.52
FCX	Freeport-McMoRan, Inc.	Materials	Metals & Mining	$14,389	$9.91
NUE	Nucor Corporation	Materials	Metals & Mining	$11,943	$39.66
RS	Reliance Steel & Aluminum Co.	Materials	Metals & Mining	$5,835	$91.69
STLD	Steel Dynamics, Inc.	Materials	Metals & Mining	$5,382	$25.59
WOR	Worthington Industries, Inc.	Materials	Metals & Mining	$1,771	$31.89
UFS	Domtar Corporation	Materials	Paper & Forest Products	$1,154	$20.91

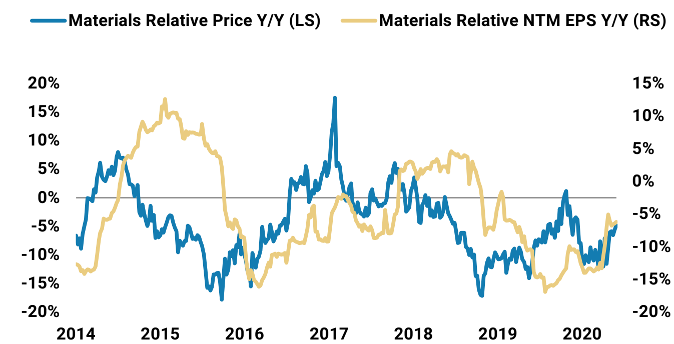
Source: ClariFi, Bloomberg, FactSet, Morgan Stanley Research.

Exhibit 45: Materials Revisions Breadth Suggests Relative Upside...



Source: FactSet, Morgan Stanley Research as of May 29, 2020.

Exhibit 46: ... As Do Relative NTM Earnings Estimates



Source: FactSet, Morgan Stanley Research as of May 29, 2020.

Staples & Utilities: Underweight as We Position for Higher Yields

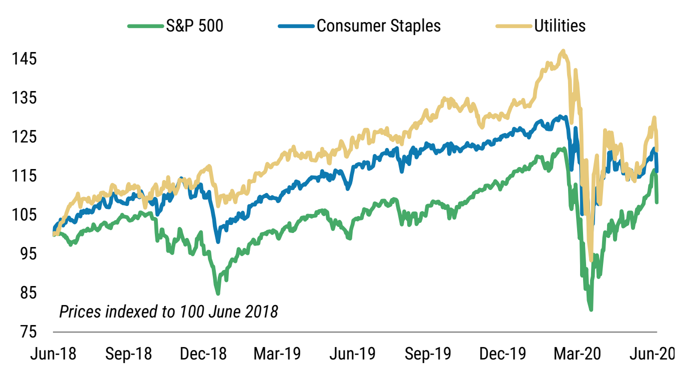
We are underweight Staples and Utilities, two rate sensitive defensive sectors. We downgraded the sectors last week as part of our cyclical rotation. The two sectors have already had a period of significant outperformance and have served their purpose as an area of relative outperformance in both a late cycle and then end of cycle environment. We expect yields to move higher as the economy recovers making Staples and Utilities less attractive. Both groups are also seeing earning revisions breadth lag the market substantially.

- **They've Already Had their Moment:** Utilities and Staples have provided a safe haven for investors over the last two years as the market struggled with low earnings growth, troubled margins, and the final Covid-19 induced sell off (Exhibit 47). Since June 2018, when the rotation to defensives began, the S&P 500 returned 13.1% while Utilities returned 28.5% and Staples returned 22.4%. We think this period of outperformance is over as the recovery is already underway and will bring a sustained rotation from cyclicals to defensives.

- **Positioning for Higher Yields:** We expect yields to rise as the recovery continues, causing the appeal of rate sensitive sectors to fade. Morgan Stanley's house forecasts point to a continued rise in GDP growth through the first half of 2021 which should bring higher inflation, stabilizing PMIS, and increased consumer/business confidence. The turn higher in the cyclical/defensive ratio is also pointing to increased yields and we expect the rate market to catch up with the equity market (Exhibit 48).

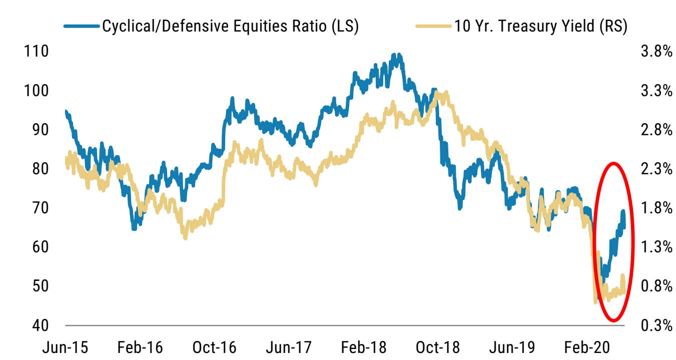
- **Relative Earnings Revisions Breadth Look Poor:** Relative earnings revisions breadth for Staples and Utilities have rolled over significantly (Exhibit 49 and Exhibit 50). These groups saw earnings revisions fall by less than the market during the initial round of Covid-19 induced earnings cuts. Because they saw fewer cuts they are now seeing fewer revisions higher.

Exhibit 47: S&P 500 vs Utilities and Consumer Staples



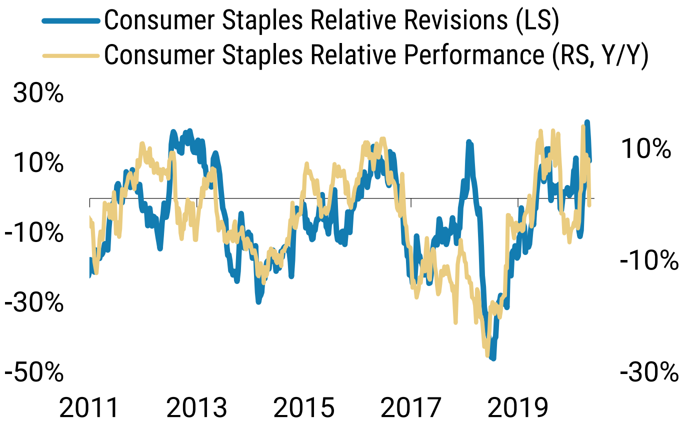
Source: Bloomberg, Morgan Stanley Research

Exhibit 48: The Cyclical/Defensive Ratio Is Leading the 10 Yr Higher



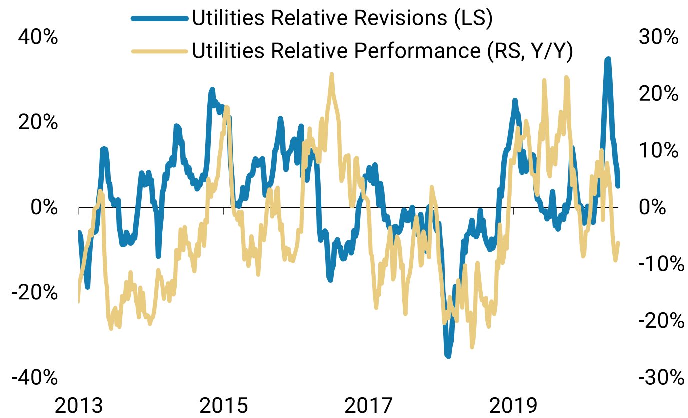
Source: Bloomberg, Morgan Stanley Research.
Note: The index above represents an equal notional pair trade of going long a group of higher beta cyclicals from the Discretionary, Energy, Industrials, Materials, and Technology sectors vs short a group of stocks from more defensive sectors – Health Care, Consumer Staples, Telco Services, an Utilities. The long and short sides are rebalanced to equal notional amounts at the start of each day

Exhibit 49: Consumer Staples Relative Revisions Breadth



Source: FactSet, Morgan Stanley Research

Exhibit 50: Utilities Earnings Revisions Breadth



Source: FactSet, Morgan Stanley Research

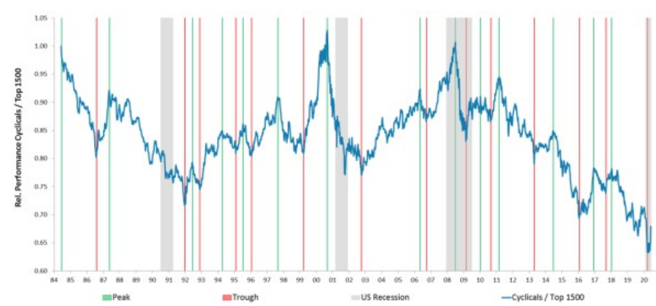
Style Preferences

Cyclicals vs. Defensives: Preference for Cyclicals

Economic recoveries bring a change in leadership which we think favors cyclicals over defensives. Our Recession Playbook showed that the pattern coming out of recessions is to embrace cyclicality as early cycle plays like Discretionary and Financials tend to lead on the way out and more asset heavy cyclical businesses then lead in the next stage of recovery. In Embracing Cyclicality we built on that framework and showed that our expectations for rebounds in growth, PMIs, and inflation are all very consistent with cyclical leadership off generational lows (Exhibit 51). As growth recovers our expectations for higher yields should further pressure defensives. **Near term, cyclicals may be a bit extended, but we think the primary trend is higher and are looking to add exposure, particularly on dips.**

- **We expect accelerating GDP growth, inflation & income growth, along with bottoming rates, PMIs, and consumer sentiment to support cyclicals.** We examined cyclical performance over the last 35 years to see what conditions have historically lined up with sustained outperformance by testing for statistically significant differences in macro economic variables between periods of cyclical out- vs. underperformance. Cyclicals outperform when inflation, personal income, & GDP growth are accelerating and while PMIs, consumer sentiment, & rates are rising (Exhibit 52). A V-shaped economic recovery is looking more likely, implying that the necessary conditions for cyclical outperformance are falling into place. For example, we expect material rebounds in inflation (Exhibit 53) and PMIs (Exhibit 54).

Exhibit 51: Cyclicals Relative Performance Near Multi-Generational Lows



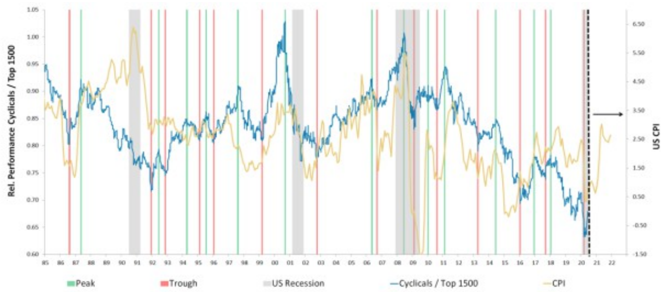
Source: ClariFi, Bloomberg, FactSet, Morgan Stanley Research.

Exhibit 52: Key Variables for Cyclical Outperformance - The Numbers (2 Quarter Peak/Trough Min)

Macro Category, Units	Item	Avg - Outperformance Prds	Avg - Underperformance Prds
Consumer Confidence, Survey Pts	U Mich Cons Sent - 1MΔ	0.4	-0.5
	U Mich Cons Sent - 3MΔ	1.6	-1.2
	Conf Board Cons Conf - 1MΔ	0.8	-0.8
	Conf Board Cons Conf - 3MΔ	2.8	-1.8
Disposable Personal Income, bps	DPI MOM - 1MΔ	3.9	-2.0
	DPI MOM - 3MΔ	10.2	-12.8
	DPI MOM - LT Momentum: 3MΔ vs Prior 9MΔ	7.5	-13.9
	DPI YOY - LT Momentum: 3MΔ vs Prior 9MΔ	15.8	-20.8
GDP, bps	US Real GDP, Q/Q SaaR - 3MΔ	77.5	-65.1
	US Real GDP, Q/Q SaaR - LT Momentum: 3MΔ vs Prior 9MΔ	55.0	-57.9
Inflation, bps	CPI MOM - 12MΔ	3.9	-5.4
PMIs, Survey Pts	ISM Manu PMI - 1MΔ	0.4	-0.3
	ISM Manu PMI - 3MΔ	1.0	-0.6
	ISM Manu PMI - ST Momentum: 1MΔ vs Prior 2MΔ	0.2	-0.1
	ISM Svcs PMI - 1MΔ	0.7	-0.4
	ISM Svcs PMI - 3MΔ	0.7	-0.6
	ISM Svcs PMI - LT Momentum: 3MΔ vs Prior 9MΔ	0.9	-0.4
Yields, bps	US 10 Yr. Yld. - 1MΔ	2.7	-6.3
	US 10 Yr. Yld. - ST Momentum: 1MΔ vs Prior 2MΔ	3.7	-1.7
	US 3M Yield - ST Momentum: 1MΔ vs Prior 2MΔ	1.8	-1.4

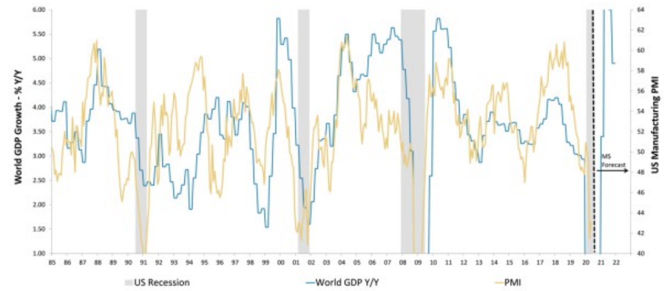
Source: ClariFi, Bloomberg, FactSet, Morgan Stanley Research.

Exhibit 53: Rising Inflation Favors Cyclicals



Source: ClariFi, Bloomberg, FactSet, Morgan Stanley Research.

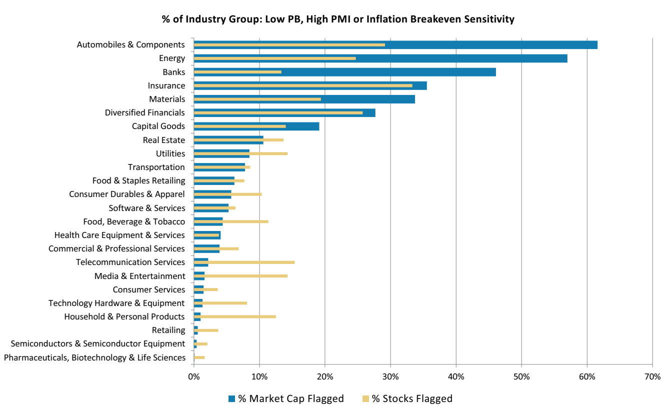
Exhibit 54: A V-shaped Recovery Means PMIs Are Heading Higher



Source: ClariFi, Bloomberg, FactSet, Morgan Stanley Research.

- **On a sector basis, we're taking our cyclical exposure in Financials, Industrials, Materials, and we like some pockets of Discretionary.** Focusing on our key variables that support cyclical outperformance, we took a bottom up approach, looking for stocks with (1) high correlations to PMI changes, (2) high correlations to inflation breakevens, and (3) low relative valuations. Our screens favored Financials, Autos, Energy, Capital Goods, Transports, Materials & Consumer Durables/Apparel (Exhibit 55). Defensive sectors screen poorly, suggesting the unwind of the defensives > cyclicals trade has further room to run. Exhibit 56 shows stocks fitting our screens also rated OW by MS analysts.

Exhibit 55: Industry Groups By % Flagging as PMI or Breakeven Levered with Valuation Upside



Source: ClariFi, Bloomberg, FactSet, Morgan Stanley Research.

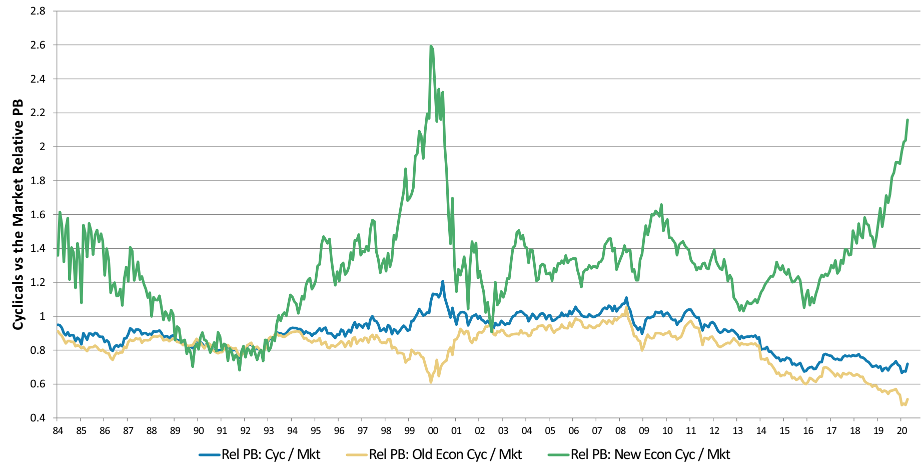
Exhibit 56: MS OW Rated Value Plays Levered to Inflecting PMIs and Inflation Expectations

Ticker	Company	Sector	Industry	Market Cap	Price
TDS	Telephone and Data Systems, Inc.	Communication Services	Wireless Telecommunication Services	$2,222	$19.40
F	Ford Motor Company	Consumer Discretionary	Automobiles	$24,379	$6.13
GM	General Motors Company	Consumer Discretionary	Automobiles	$37,924	$26.50
HOG	Harley-Davidson, Inc.	Consumer Discretionary	Automobiles	$3,639	$23.76
URBN	Urban Outfitters, Inc.	Consumer Discretionary	Specialty Retail	$1,710	$17.49
PVH	PVH Corp.	Consumer Discretionary	Textiles Apparel & Luxury Goods	$3,740	$52.72
HP	Helmerich & Payne, Inc.	Energy	Energy Equipment & Services	$2,236	$20.82
SLB	Schlumberger NV	Energy	Energy Equipment & Services	$25,688	$18.51
FTI	TechnipFMC Plc	Energy	Energy Equipment & Services	$3,351	$7.49
CVX	Chevron Corporation	Energy	Oil Gas & Consumable Fuels	$166,852	$89.37
XEC	Cimarex Energy Co.	Energy	Oil Gas & Consumable Fuels	$2,914	$28.54
COP	ConocoPhillips	Energy	Oil Gas & Consumable Fuels	$45,171	$42.12
MPC	Marathon Petroleum Corporation	Energy	Oil Gas & Consumable Fuels	$22,974	$35.33
NBL	Noble Energy, Inc.	Energy	Oil Gas & Consumable Fuels	$4,586	$9.56
PSX	Phillips 66	Energy	Oil Gas & Consumable Fuels	$32,751	$75.00
PXD	Pioneer Natural Resources Compar	Energy	Oil Gas & Consumable Fuels	$15,932	$96.64
C	Citigroup Inc.	Financials	Banks	$100,739	$48.39
CFG	Citizens Financial Group, Inc.	Financials	Banks	$10,444	$24.48
JPM	JPMorgan Chase & Co.	Financials	Banks	$296,201	$97.21
SBNY	Signature Bank	Financials	Banks	$5,646	$102.48
EVR	Evercore Inc Class A	Financials	Capital Markets	$2,267	$55.93
RJF	Raymond James Financial, Inc.	Financials	Capital Markets	$9,628	$70.26
DFS	Discover Financial Services	Financials	Consumer Finance	$15,134	$49.41
AIG	American International Group, Inc.	Financials	Insurance	$27,225	$31.61
HIG	Hartford Financial Services Group, I	Financials	Insurance	$13,997	$39.09
LNC	Lincoln National Corporation	Financials	Insurance	$7,426	$38.43
MET	MetLife, Inc.	Financials	Insurance	$32,610	$35.93
RGNX	REGENXBIO, Inc.	Health Care	Biotechnology	$1,267	$34.03
CI	Cigna Corporation	Health Care	Health Care Providers & Services	$70,682	$191.56
GE	General Electric Company	Industrials	Industrial Conglomerates	$60,792	$6.95
FTV	Fortive Corp.	Industrials	Machinery	$21,171	$62.85
IR	Ingersoll Rand Inc.	Industrials	Machinery	$12,810	$30.75
OSK	Oshkosh Corp	Industrials	Machinery	$4,834	$71.02
SWK	Stanley Black & Decker, Inc.	Industrials	Machinery	$20,499	$128.45
NLSN	Nielsen Holdings Plc	Industrials	Professional Services	$5,379	$15.09
EMN	Eastman Chemical Company	Materials	Chemicals	$9,041	$66.53
LIN	Linde plc	Materials	Chemicals	$104,570	$199.11
LYB	LyondellBasell Industries NV	Materials	Chemicals	$21,324	$63.90
FCX	Freeport-McMoRan, Inc.	Materials	Metals & Mining	$14,389	$9.91

Source: ClariFi, Bloomberg, FactSet, Morgan Stanley Research

- **We're relatively more cautious on "new economy cyclicals."** The Price/ Book of new economy cyclicals (Tech HW & Semis) is now at levels last seen in the early stages of the tech bubble while multiples for the old economy cyclicals are near generational lows (Exhibit 57). Notwithstanding the structural trends supporting the new economy cyclicals, we think valuations and positioning, weaken the investment case, or at least cap the relative upside the tech cyclicals are likely to achieve with growth and inflation rising.

Exhibit 57: Relative Valuations on New Economy Cyclicals Are High vs History



Source: ClariFi, Bloomberg, FactSet, Morgan Stanley Research.

Small vs. Large: Preference for Small Caps

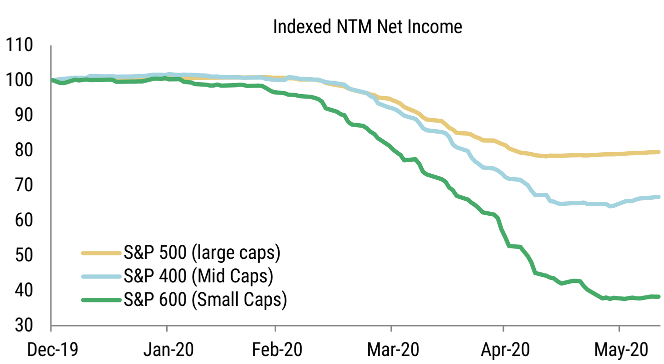
We upgraded small caps over large caps in April as we became more bullish on the speed and timing of the recovery. **Small caps typically lead coming out of a recession and fiscal stimulus measures aimed at small businesses and corporate credit have been particularly supportive.** We think small cap earnings will recover more quickly than large cap earnings and that there is plenty of room for outperformance to continue. We do not view the current high valuation as a limiting factor and it is more a function of the way PE is computed.

- **The Earnings Cuts Are In:** Earnings have been cut deeper for small and mid cap companies (Exhibit 58). NTM net income was cut 21% for large caps while it was cut 62% and 34% for small and mid caps, respectively. NTM estimates are starting to level off and will likely turn higher soon as more 2021 estimates are incorporated.The depth of these cuts will make the recovery all the more powerful. During the GFC SMID cap earnings were cut deeper going into the recession but recovered faster on the way out (Exhibit 59); we expect a similar pattern to play out this cycle.

- **There is Still Plenty of Room to Run:** Small caps were severely punished over the last few years as companies struggled to maintain margins in the midst of a very tight labor market (Exhibit 60). Small Caps began consistently underperforming large caps in July 2018, around the time a sustained rotation from cyclicals to defensives began. Since then, the Russell 2000 underperformed the S&P 500 by 30% until relative performance bottomed in early April. Since bottoming, small caps have outperformed large caps by 13%. There is still plenty of room for small caps to outperform further as the recovery continues.

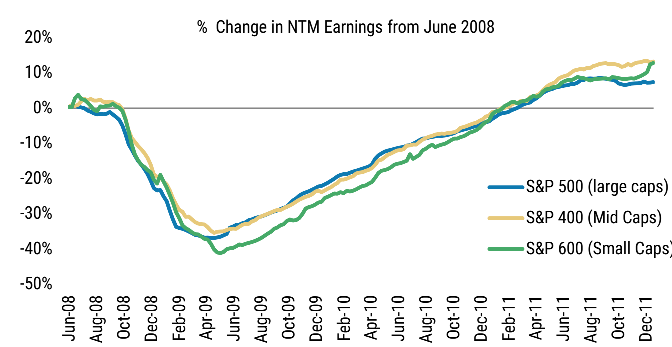
- **Valuation:** Relative valuation for the Russell 2000 versus the S&P 500 has been rising but is by no means a constraint (Exhibit 61). The ratio reached a multi-year low in March and has been rising since. At the lows, the Russell 2000's NTM PB was less half that of the S&P 500. There is still plenty of room for small caps' valuation to expand and for them to outperform.

Exhibit 58: Relative NTM Net Income by Size



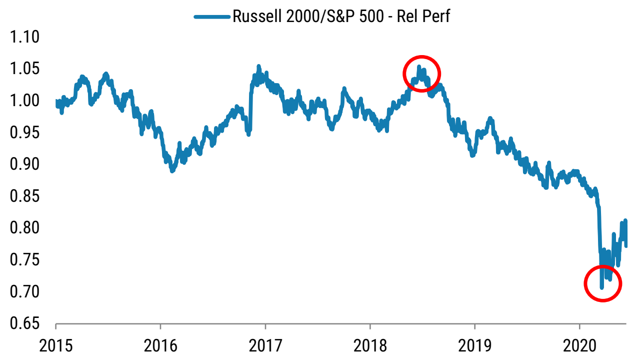
Source: Factset, Morgan Stanley Research

Exhibit 59: Small Cap Earnings Rebound Faster After Recessions



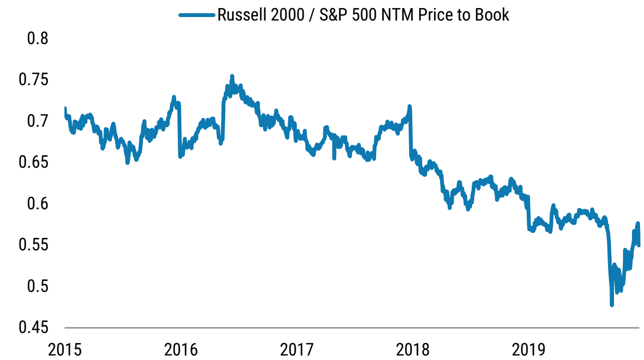
Source: Bloomberg, Morgan Stanley Research.

Exhibit 60: Russell 2000 vs S&P 500 Relative Performance



Source: Bloomberg, Morgan Stanley Research.

Exhibit 61: Russell 2000 vs S&P 500 Valuation



Source: Factset, Morgan Stanley Research

Value Vs. Growth: Preference for Value

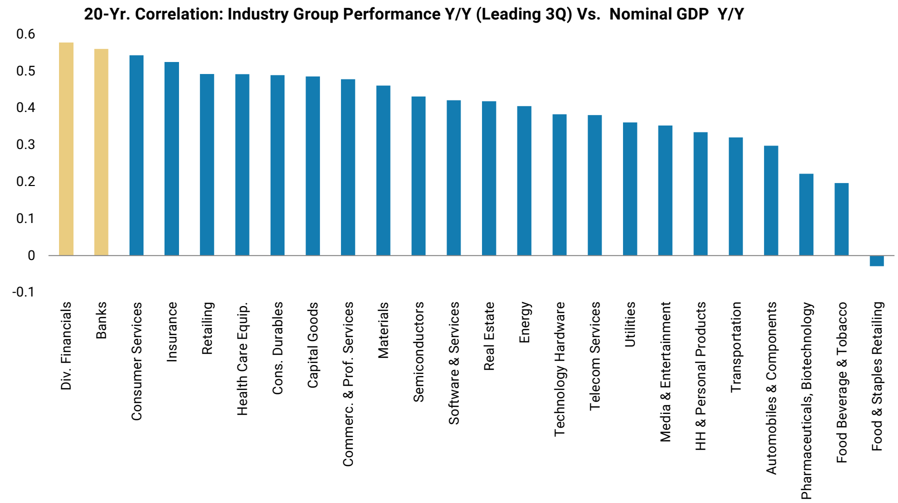
In November 2019, we published a detailed note on the idea that a Growth to Value rotation was getting closer to happening (see Value Over Growth: A Recession Could Trigger A Secular Shift, November 14, 2019). As the title of the report indicates, **we viewed a recession as the necessary catalyst to drive a more sustainable rotation.** As the economy recovers, we think Growth can work with broader equities but think the higher relative cyclicality in Value will favor its outperformance. For the most extremely valued Growth stocks, we think rising rates in the recovery may also pose a derating risk.

- **Coming out of the recession, we expected large-scale fiscal stimulus to spur better growth, higher nominal interest rates, a steeper yield curve and a weaker US dollar — a powerful combination for Value stocks.** Since we published our report, Growth has continued to dominate Value as we moved from late cycle to end of cycle. We have been surprised by the persistent relative outperformance of Growth over Value and think at least some portion of that is attributable to many of the bigger Growth stocks being among the larger work form home beneficiaries. Value finally did exhibit some relative outperformance over Growth from mid May through early June as recession became the consensus view, and through the recovery we expect a shift more in this direction. Exhibit 62shows that Banks and Diversified Financials (the largest industry weights in the Russell 1000 Value Index) are *the* industry groups most positively correlated to changes in GDP growth on a leading basis. Capital Goods, another large weight in Value, also exhibits a strong positive correlation to changes in GDP growth. Thus, the strong rebound in growth expected by our economists would directly benefit the largest weights within Value.

- **Cyclicality favors Value.** Exhibit 63 shows that consensus 2020 earnings growth estimates for Growth have experienced a relatively modest decline during this equity market sell-off — currently -6%, down from 13% when the market peaked in mid-February. Value has seen a much sharper deceleration — currently -33%, down from 6% during the same period. Just as the fall was more steep for Value, we would expect the relative revisions and rebound in earnings to be higher as well and think this should be a relative benefit to Value stocks. We also think the lower bar for value stocks makes negative surprises less likely from here, particularly if the boost provided from work home trends has peaked as a growth driver.

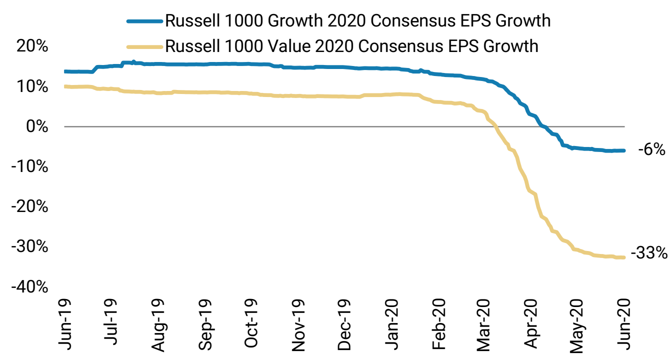
- **Valuation and positioning are both stretched in Growth.** Growth continues to trade at elevated relative valuation levels (88th percentile vs. Value back to 1997 —Exhibit 64)— while net exposure among long/short equity hedge funds to the Technology sector remains around the 100th percentile (based on Morgan Stanley Prime Brokerage data). While higher valuations and extended positioning can last for a period of time given the strength of the recovery we expect and the relative boost to Value/cyclical stocks, we see positioning and valuations as headwinds to the relative performance of growth stocks.

Exhibit 62: Banks and Diversified Financials (the largest industry weights in the Russell 1000 Value Index) Are the Industry Groups Most Positively Correlated to Changes in GDP Growth on a Leading Basis



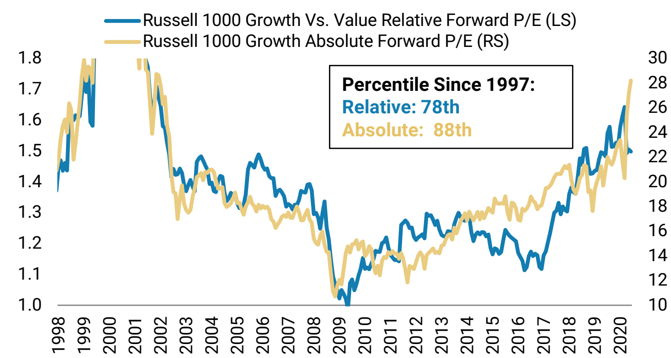
Source: Haver, Morgan Stanley Research.

Exhibit 63: Growth has experienced a more modest revision to 2020 Consensus EPS vs. Value



Source: FactSet, Morgan Stanley Research as of June 12, 2020.

Exhibit 64: Growth relative forward P/E vs. Value is elevated — 87th percentile since 1997



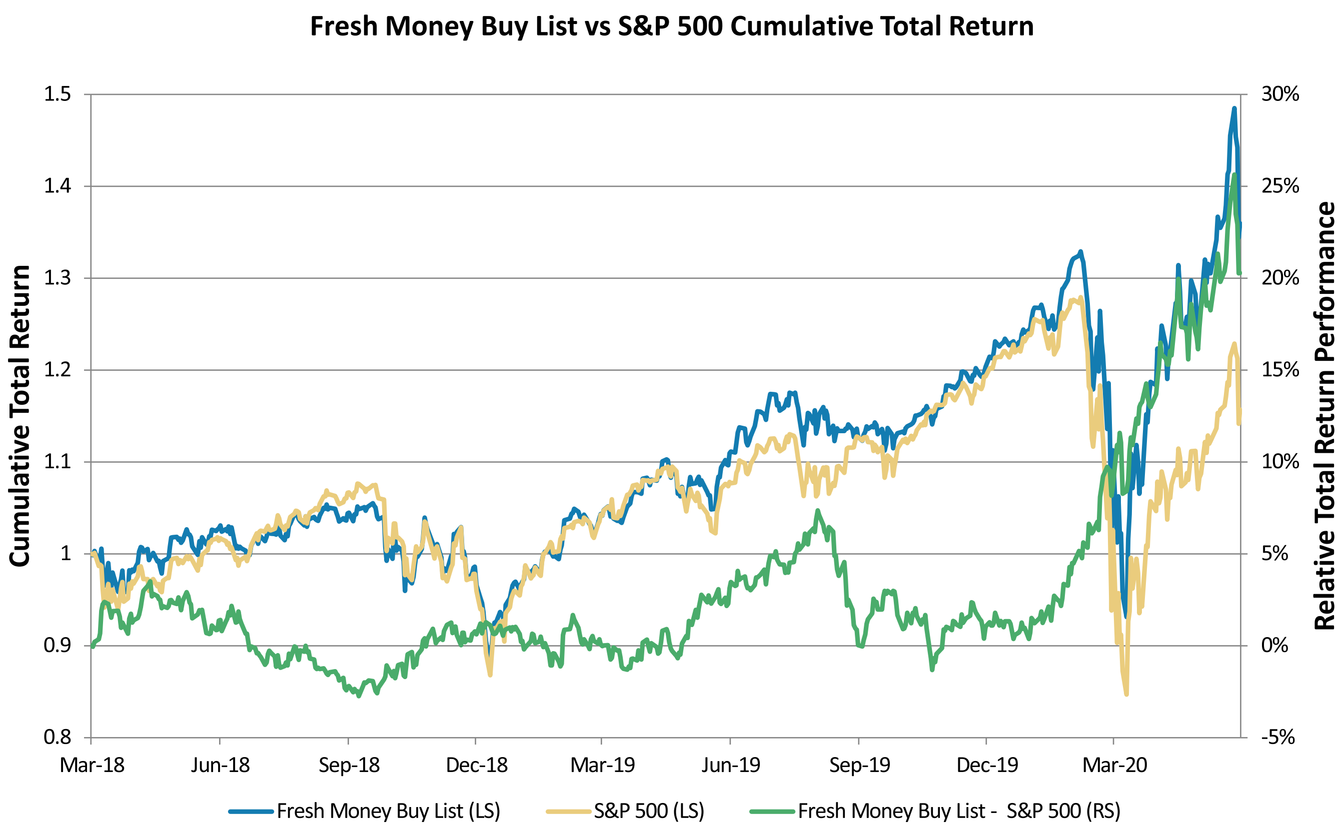
Source: FactSet, Morgan Stanley Research as of June 12, 2020.

See Value Over Growth: A Recession Could Trigger A Secular Shift, November 14, 2019 for more

Fresh Money Buy List Updates

We do not make changes to our Fresh Money Buy List today as it generally reflects our broader views on the recovery from here. In-line with our recommendations, we have been adding cyclicality and smaller cap stocks to the list on pullbacks — recent additions include Linde (LIN), S&P Global (SPGI), Citizens Financial Group (CFG), and PVH Corp (PVH) — and we plan to continue doing so from here. The shift has helped push the list's relative performance significantly higher in the last few months (Exhibit 65). Exhibit 66 shows our current list along with historical performance statistics

Exhibit 65: Fresh Money Buy List vs S&P 500 Cumulative Total Returns



Source: Bloomberg, Morgan Stanley Research.
Note performance shows from FMBL inception to present. FMBL performance index above is rebalanced to an equal weighting among all members on dates of list changes.

Exhibit 66: Fresh Money Buy List - Stats & Performance

Company Name	Ticker	MS Rating	Sector	Market Cap ($Bn)	Price	MS PT	% to MS PT	MS Analyst	Date Added	Total Return Since Inclusion	
										Absolute	Rel. to S&P
Citizens Financial Group, Inc	CFG	Overweight	Financials	$11.0	$25.82	$36.00	39.4%	Zerbe, Ken	4/20/2020	32.2%	26.1%
Walt Disney Co	DIS	Overweight	Communication Services	$209.9	$115.49	$125.00	8.2%	Swinburne, Benjamin	3/14/2018	14.5%	(0.5%)
Humana Inc	HUM	Overweight	Health Care	$50.9	$378.72	$500.00	32.0%	Goldwasser, Ricky	7/19/2018	21.0%	8.8%
Johnson & Johnson	JNJ	Overweight	Health Care	$379.5	$142.15	$170.00	19.6%	Lewis, David	2/3/2020	(3.2%)	1.7%
Linde PLC	LIN	Overweight	Materials	$106.8	$201.94	$205.00	1.5%	Andrews, Vincent	3/23/2020	34.1%	1.5%
MasterCard, Inc.	MA	Overweight	Information Technology	$300.8	$297.79	$311.00	4.4%	Faucette, James	3/2/2020	2.7%	(0.8%)
Microsoft	MSFT	Overweight	Information Technology	$1,438.6	$187.74	$198.00	5.5%	Weiss, Keith	3/14/2018	105.5%	90.5%
Procter & Gamble Co.	PG	Overweight	Consumer Staples	$302.2	$115.62	$134.00	15.9%	Mohsenian, Dara	3/18/2019	16.6%	6.1%
PVH Corp.	PVH	Overweight	Consumer Discretionary	$3.8	$49.61	$77.00	55.2%	Greenberger, Kimberly	4/20/2020	10.5%	4.4%
S&P Global Inc	SPGI	Overweight	Financials	$76.7	$316.91	$342.00	7.9%	Kaplan, Toni	3/23/2020	52.1%	19.5%
T-Mobile US, Inc.	TMUS	Overweight	Communication Services	$88.9	$102.31	$107.00	4.6%	Flannery, Simon	3/14/2018	57.4%	42.4%
Current List Performance											
Average (Eq. Weight)				$269.9			18%			31.2%	18.1%
Median				$106.8			8%			21.0%	6.1%
% Positive Returns (Abs. / Rel.)										91%	82%
% Negative Returns (Abs. / Rel.)										9%	18%
Avg. Hold Period (Months)											12.5
All Time List Performance											
Average (Eq. Weight)										17.0%	8.4%
Median										15.5%	1.6%
% Positive Returns (Abs. / Rel.)										67%	54%
% Negative Returns (Abs. / Rel.)										33%	46%
Avg. Hold Period (Months)											10.8

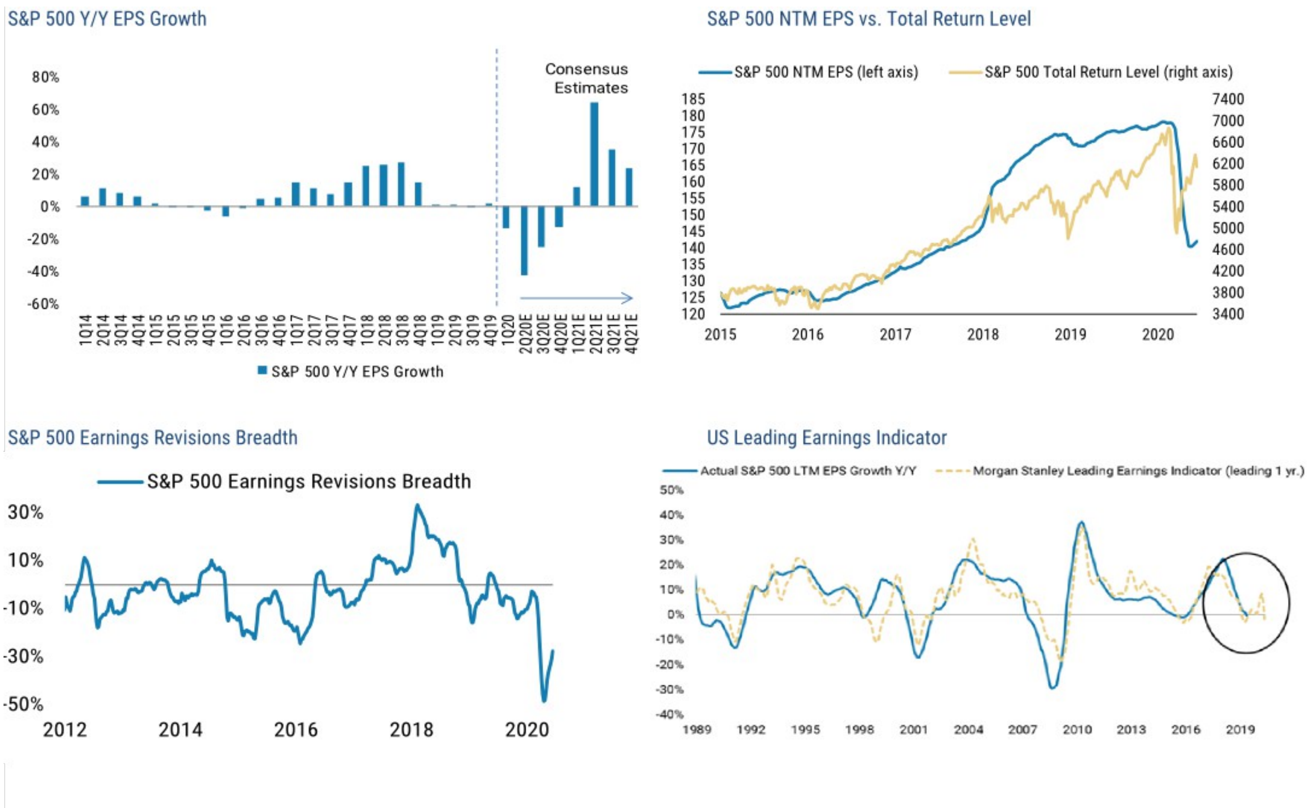
Performance returns shown above represent local currency total returns, including dividends and excluding brokerage commission. Returns are calculated using the closing price on the last trading day before the date shown in the "Date Added" column through close on the last trading day prior to publication of this report for stocks currently on the list and through close on the day of removal for stocks formerly on the list. These figures are not audited. Past performance is no guarantee of future results.

++ Rating and other information has been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time.

Source: Bloomberg, Morgan Stanley Research.

Weekly Charts to Watch

Exhibit 67: US Earnings Snapshot



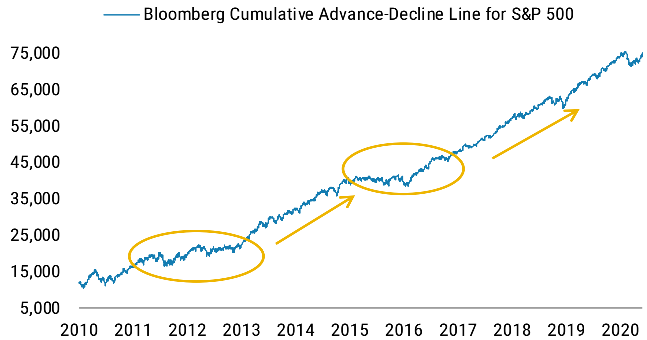
Source: Thomson Financial, FactSet, Morgan Stanley Research. Top and Bottom Left: As of June 12, 2020 Bottom right As of May 31, 2020. MS Leading Earnings Indicator is a macro factor based earnings model that leads actual earnings growth by one year with a 0.7 12-month leading correlation. Note: S&P 500 fundamental data used post March 1993; Top 500 by market cap data used before 1993. LTM equity risk premium average is since 1920. ERP based on forward earnings yield and 10-year Treasury Yield.

Exhibit 68: S&P 500 Equity Risk Premium

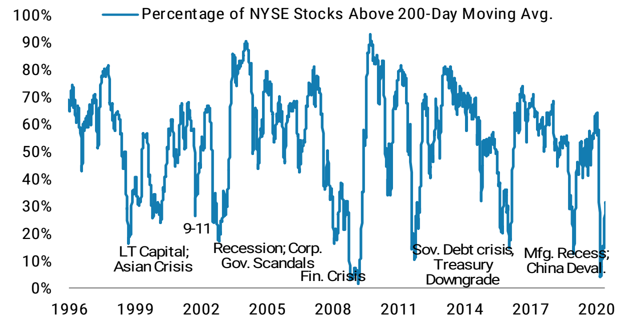
Source: Bloomberg, Morgan Stanley Research. As of June 11, 2020

Exhibit 69: US Equity Market Technicals and Financial Conditions

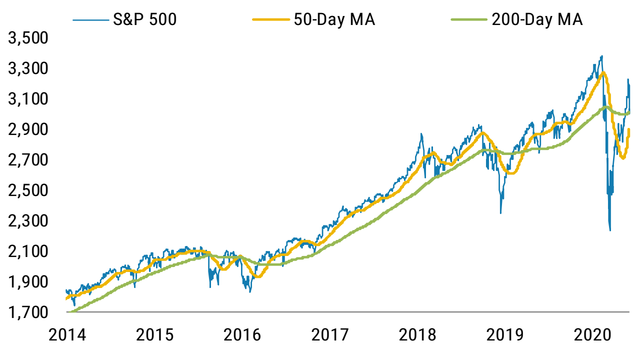
S&P 500 Cumulative Advance-Decline



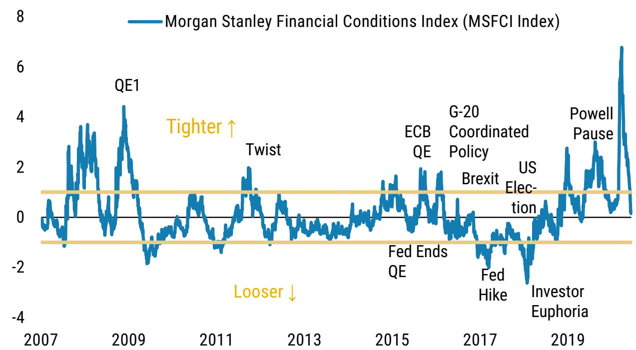
S&P 500 Percent Members Above 200-Day Moving Average



S&P 500 with Moving Averages

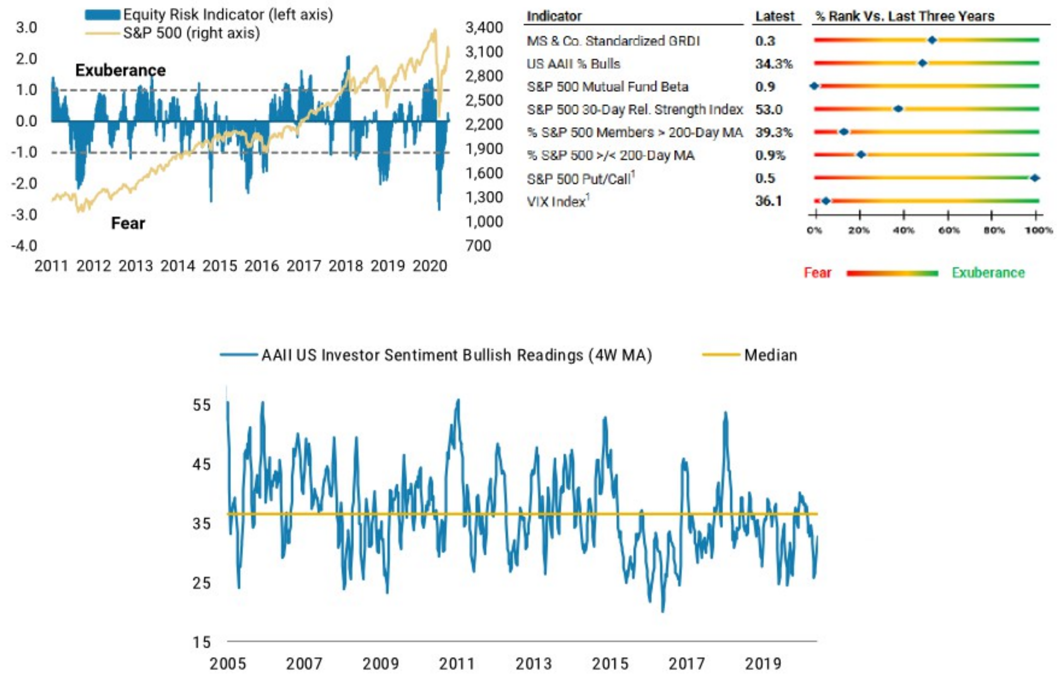


Morgan Stanley Financial Conditions Index



Source: Bloomberg, Morgan Stanley Research. All: As of June 12, 2020

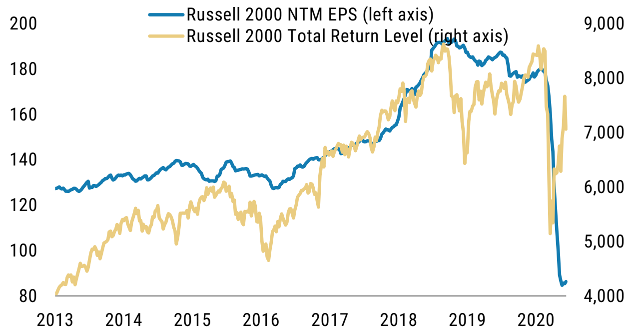
Exhibit 70: US Equity Market Sentiment



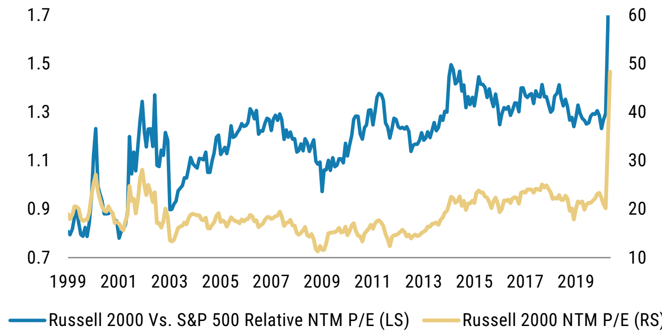
Source: Bloomberg, FactSet, Morgan Stanley Research. As of June 12, 2020.

Exhibit 71: US Small Cap Equities

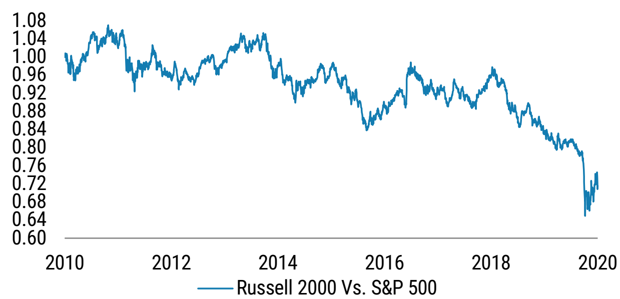
Russell 2000 NTM EPS vs. Total Return Level



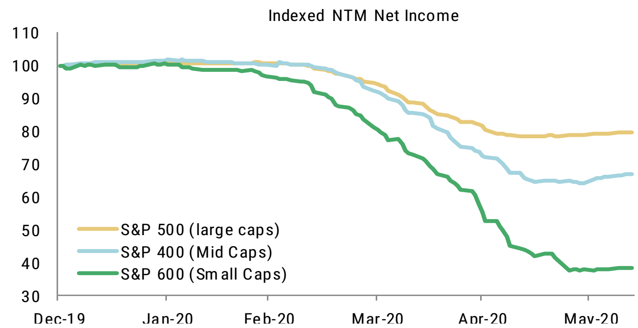
Russell 2000 NTM P/E and Relative NTM P/E vs. S&P 500



Russell 2000 Relative Performance vs. S&P 500



NTM EPS by Cap Size



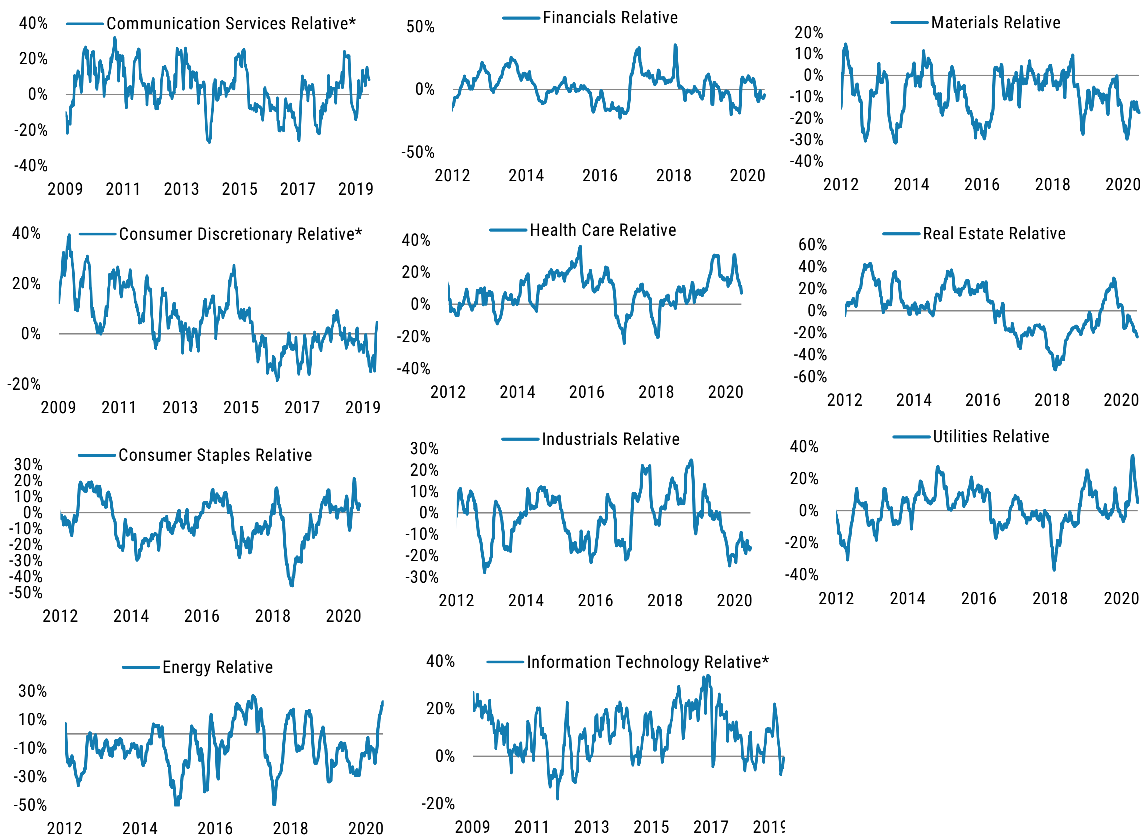
Source: FactSet, Morgan Stanley Research. Top Right: As of June 11, 2020. Top Left and Bottom: As of June 11, 2020

Exhibit 72: Sector Ratings

Morgan Stanley Sector Recommendations			
Overweight	Financials	Health Care	Materials
	Industrials		
Neutral	Comm. Services	Discretionary	Energy
	Real Estate		
Underweight	Staples	Technology	Utilities

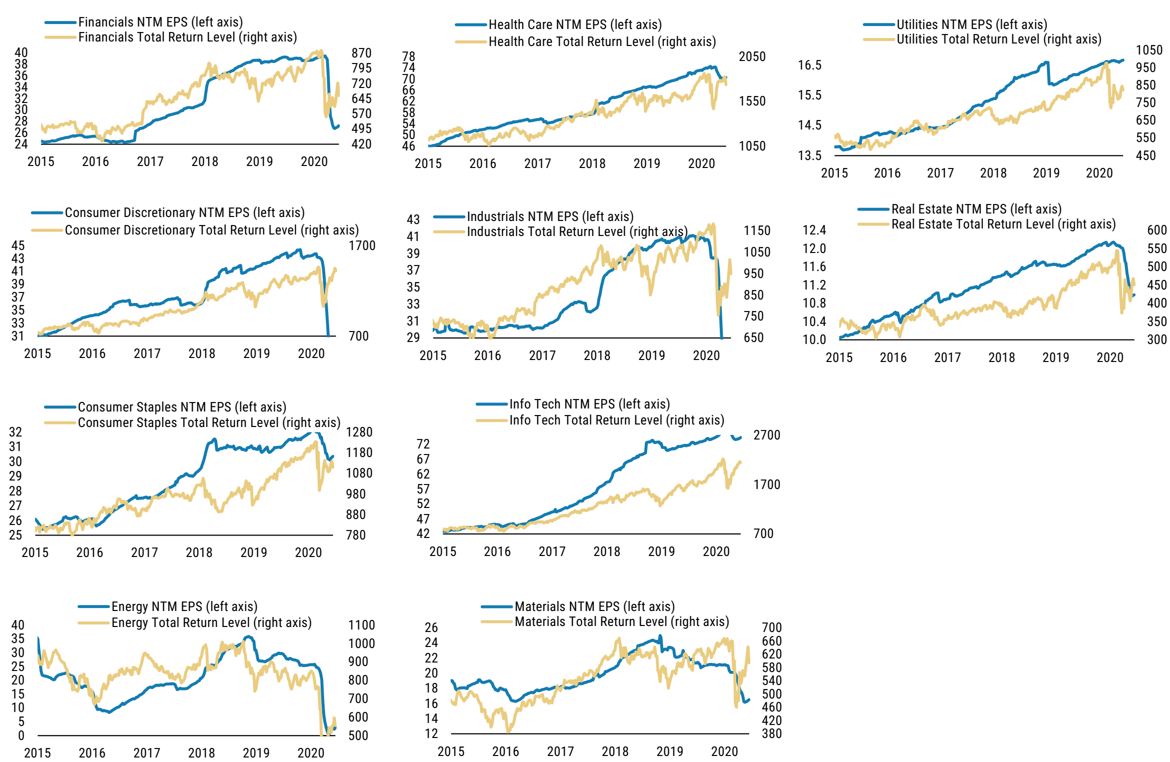
Source: Morgan Stanley Research

Exhibit 73: Earnings Revisions Breadth



Source: FactSet, Morgan Stanley Research. As of June 11, 2020. Sectors with * use current, fixed constituents.

Exhibit 74: US Sector NTM EPS vs. Total Return Level



Source: FactSet, Morgan Stanley Research as of June 12, 2020.

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(as of May 31, 2020)
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	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	**1220**	**38%**	**317**	**43%**	**26%**	**550**	**37%**
Equal-weight/Hold	**1433**	**45%**	**336**	**46%**	**23%**	**687**	**47%**
Not-Rated/Hold	**5**	**0%**	**1**	**0%**	**20%**	**4**	**0%**
Underweight/Sell	**554**	**17%**	**79**	**11%**	**14%**	**227**	**15%**
TOTAL	**3,212**		**733**			**1468**	

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). The stock's total return is expected to exceed 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). The stock's total return is expected to be in line with 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 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). The stock's total return is expected to be below 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.

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