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Weekly Warm-up: Great Expectations on Earnings and Inflation

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Our discussions with clients are narrowing to two primary topics: Earnings and Inflation. On the former, we hear many saying earnings estimates are still too low. On the latter, the focus has become an obsession. On both fronts, we could be at a moment of (too) Great Expectations.

It's better to travel than arrive. Markets are discounting machines and often anticipate changing dynamics long before they become obvious. However, eventually such changes do become obvious *and* priced, at which point a reset is required or evidence the higher expectations are not only achievable, but beatable. Our V-shaped recovery call is now the consensus and bottom-up 2022 EPS estimates are now ahead of our top forecasts for the first time since the recovery began.

Earnings revisions have peaked, which usually means lower P/Es. Much of our mid-cycle transition call is based on the arrival of the peak rate of change in both growth and policy. Bear in mind, this does not mean negative growth or revision but a deceleration. The adjustment for markets means lower valuations, a process that began in 1Q for the most expensive stocks. We think that de-rating will now broaden out, which means investors must find stocks where *expectations* can still rise more than P/Es fall, or about 15%, in our view.

Inflation expectations have also increased beyond what may be achievable in the near term. Inflation is on the upswing in our view and will eventually surpass the Fed's targets on a sustainable basis. However, expectations have increased too and now price this rise in many asset markets. With May's CPI release much anticipated on June 10th, we suspect this could end up being a sell the news event that could negatively affect many crowded trades.

Continue to favor defensive and reasonably priced Quality during the mid cycle transition. During this period, valuations for the S&P 500 typically adjust lower by approximately 20%. With P/Es down only 5%, we think another 15% is to come. We think superior execution during the reopening phase and earnings stability are traits the market will reward. That argues for leaning back into quality stocks; however, one must still be disciplined on the price paid. Today, we present our updated screens for stocks that should weather the de-rating best. Candidates can be found across many sectors; however, we recommend skewing a bit more defensively than most are currently positioned.

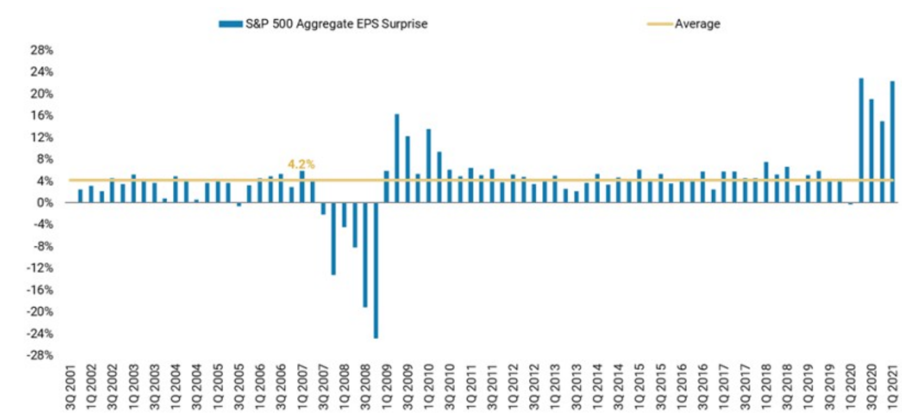
What to Focus on This Week

Great Expectations

In our Mid Year Outlook (Now the Hard Part), we argue that it's often better to travel than arrive. After all, markets are discounting machines and often anticipate changing dynamics long before they become obvious. However, eventually such changes do become obvious *and* priced, at which point a reset is required or evidence the higher expectations are not only achievable, but beatable. In many ways, this year represents such a period when last year's extraordinary moves in stocks are justified by the fundamentals. Indeed, our V-shaped recovery call last year is now the consensus. In fact, the consensus is now ahead of what we think will occur over the *next* 12 months. More specifically, post Q1 earnings results, bottom-up 2022 EPS estimates are now ahead of our top forecasts for the first time since the recovery began.

In our review of past earnings surprises, **we have never witnessed such a large beat rate over a four-quarter period and/or revisions to the out-year forecasts.** While the results over the past year have been very much in line with our call for superior operating leverage coming out of this recession, **we are now concerned that these results have been extrapolated in a way that is too optimistic.** First, over the past 4 quarters, earnings have beaten expectations by over 20% (Exhibit 1). Not only is this unprecedented but it also didn't follow a period of disappointment, which usually occurs during a recession. When the economy collapsed due to the lockdown, earnings estimates were slashed overnight. At the time, we argued they were reduced too far and that companies would likely experience record operating leverage during the recovery due to the unprecedented government subsidy for the unemployed. Fast forward to today and that's what has happened.

Exhibit 1: Record earnings surprises for the past 4 quarters as operating leverage flowed through



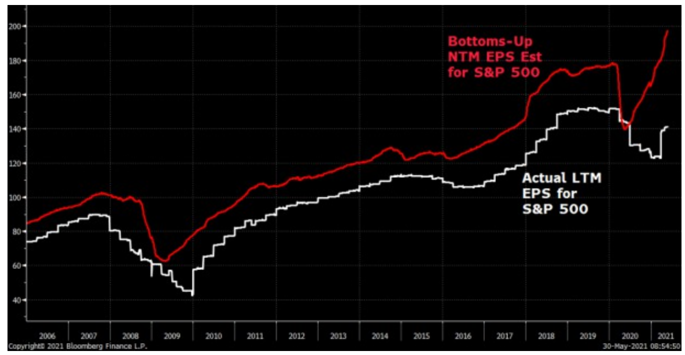
Source: Bloomberg, Morgan Stanley Research

Second, **these record earnings surprises have resulted in record revisions.** Never before have we observed earnings revisions breadth this high (Exhibit 2), leaving it vulnerable to an inevitable decline. The question is whether it will be a severe enough deceleration for the market to care. We think it could be given our view that NTM EPS forecasts are now too high also. Exhibit 3 shows how extended the NTM EPS forecasts are relative to actual LTM results. **Just like our work forecasted record incremental margins a year ago (Don't Overlook Operating Leverage), it is now telling us that incremental margins are topping and are likely to disappoint over the next 12 months.** That view is based on two areas of concerns in particular that are unique to this cycle: 1) supply constraints/higher input costs and 2) higher corporate taxes next year.

Exhibit 2: Record Earnings Revisions Breadth...

Source: Factset, Morgan Stanley Research

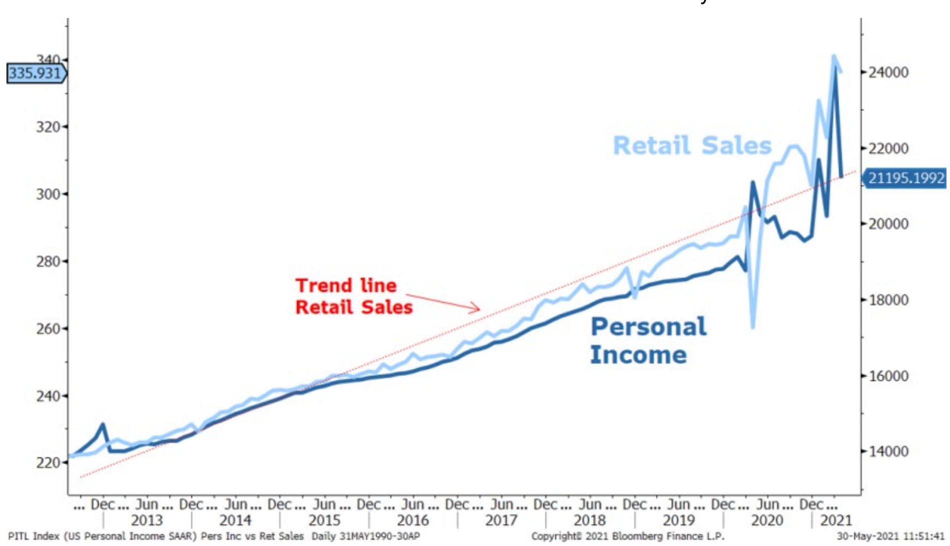
Exhibit 3: Has Led to Extreme NTM vs LTM EPS



Source: Bloomberg, Morgan Stanley Research

Earnings have been remarkable over the past several quarters and have surpassed our previously optimistic forecasts. **While this is undoubtedly a good thing, it's a "known known" at this point and no longer a surprise. Instead, in our view consensus forecasts are now baking in what appear to be unrealistic margin assumptions given rising cost pressures and the likelihood for higher taxes next year.** We also believe 1Q was the peak quarter for both monetary and fiscal policy stimulus and we're worried too many companies and investors are extrapolating 1Q results into the future. The sharp fall in personal income suggests those concerns are warranted, as personal spending is likely to follow in the next few quarters (Exhibit 4).

Exhibit 4: Personal income has rolled over with stimulus. Retail sales likely to fall back to trend



Source: Bloomberg, Morgan Stanley Research

With the limited follow through to stock prices since earnings were released, the market is continuing to de-rate lower as our mid cycle transition view dictates (Exhibit 5). Of course, given the significant earnings revisions after 1Q reporting season, the overall market price has remained flat. **Investors must now ask themselves if they think valuations will continue to de-rate lower and/or if future earnings revisions can offset it.** In our conversations with clients, most don't have a strong view on where valuations will go from here, but the majority think valuations are fair at current levels. In contrast, **we remain convinced that the de-rating process is *not* over and still has about 75% to go or an approximate 15% decline in P/Es from here.** Furthermore, our view is that earnings revisions will not be able to offset that de-rating, leaving the overall market vulnerable to a 10-15 % correction over the next 6 months.

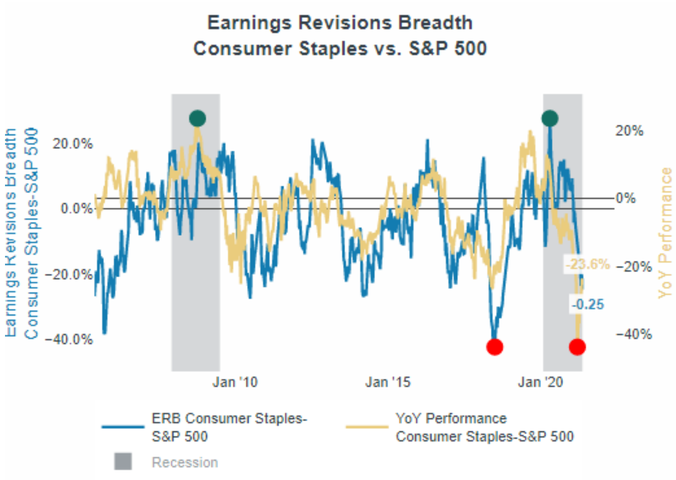
Bottom line, PEs have de-rated significantly for the most interest rate sensitive parts of the equity market as rates have surprised on the upside this year. **The next phase of de-rating will likely come via the Equity Risk premium (ERP) channel, a process we think began with 1Q earnings season** when ERP was at 281bps, the bottom of the post GFC/financial repression era. Since then, the ERP has risen by 30 bps to 311bps as P/Es declined by approximately 5% and 10-year yields held steady. ERPs will fall further, in our view, as the market realizes earnings revisions are likely to flatten out and even fall in some cases. **These adjustments are very typical, and should be expected, during the mid cycle transition period.**

Exhibit 5: S&P500 P/Es are in the process of de-rating and have another 15% to go in our view

Source: Bloomberg, Morgan Stanley Research

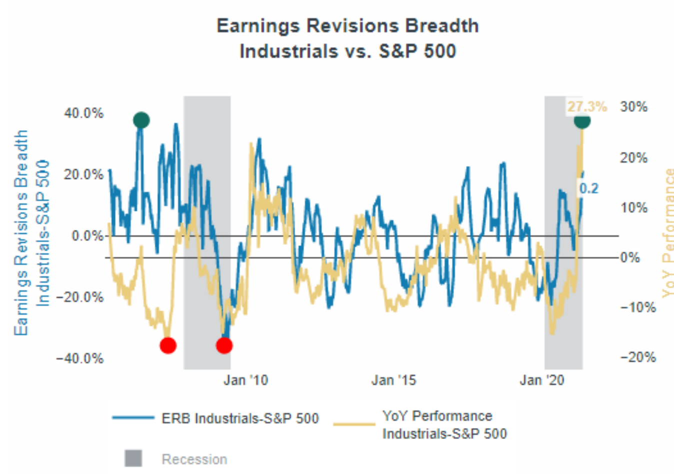
The key for investors will be to find stocks where earnings *expectations* are likely to rise more than the P/E compresses. This has been our strategy for most of the year and we believe it is one of the reasons why our Fresh Money List has outperformed the S&P 500 by nearly 2000bps year to date. At the sector level, one strategy is to favor those with lower Earnings Revisions Breadth (ERB), like Consumer Staples (Exhibit 6). Conversely, we would fade those where ERB is extreme, like Industrials (Exhibit 7).

Exhibit 6: Staples' relative ERB is very low



Source: Factset, Bloomberg, Morgan Stanley Research

Exhibit 7: While Industrials' relative ERB is high



Source: Factset, Bloomberg, Morgan Stanley Research

Inflation is now top of mind

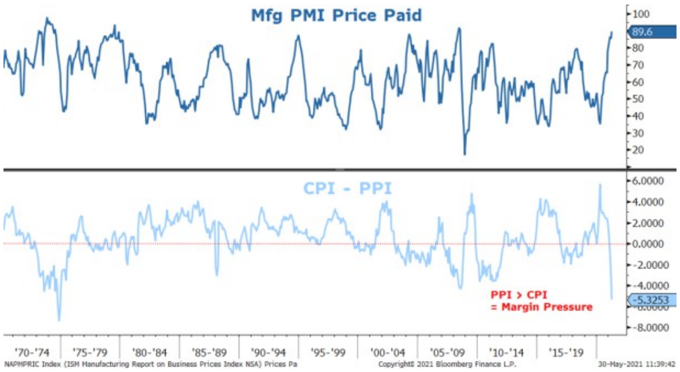
Similar to our view on earnings a year ago, we were also very much out of consensus on inflation. As part of our policy-fueled V-shaped recovery, we suggested inflation would surprise on the upside in this cycle (Bear Markets *End* with Recessions) and represent the end of secular stagnation and ultimately financial repression much like that experienced post WWII. Fast forward to today, and **inflation is now much more the consensus view. In fact, it's so much the case, we are starting to think expectations may need a bit of a reset before inflation can really embed itself into expectations and force the Fed to move away from it's "transitory" view.**

At this point, inflation has become one of the most talked about concerns by both companies and individuals. **Both corporate and consumer surveys are now laden with commentary that suggest higher costs are affecting their behavior.** Both the National Purchasing Manager Survey (Exhibit 8) and the Regional Fed surveys (Exhibit 9) suggest prices are getting out of control for many businesses. Commentary from the latest Regional Fed survey (Kansas City) indicate these concerns are becoming more difficult to manage:

- “Pricing of raw materials is up more than 20% with no sign of slowing.”
- “Material and part supply shortages are our current impediment to increasing revenue. If materials and parts were available, we are still over 200 people short to fulfill our back orders. Workforce is and will be manufacturing's largest hurdle to growth in the U.S.”
- “We are feverishly working to pass on increased prices to reflect rising material prices. Inflation is going to be a big factor this year and beyond.”
- “We are having a really difficult time hiring and keeping quality staff at any wage rate. Everywhere you see help wanted signs, the jobs are going unfilled, exacerbating price increases and shortages.”
- “We are getting daily price increases from vendors everywhere from 4% to 30%.”

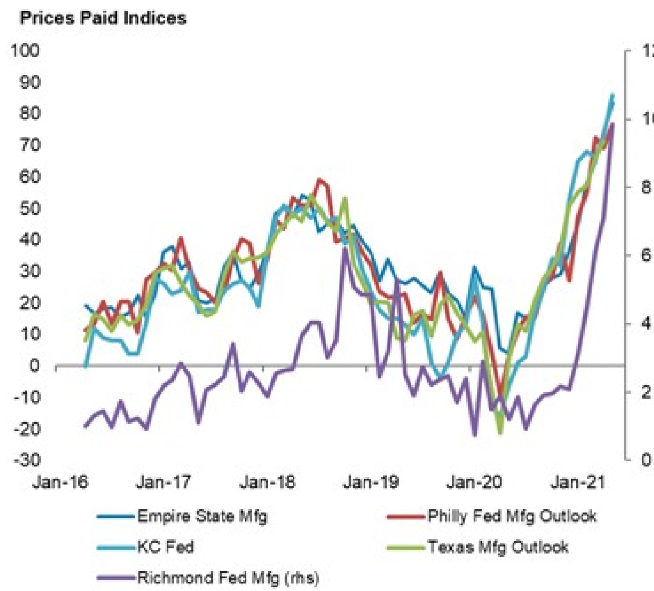
- “We do not believe the supply chain conditions are going away any time soon. Problems are going to persist into 2022.”

Exhibit 8: PMI Suggests Costs Out of Control



Source: Bloomberg, Morgan Stanley Research

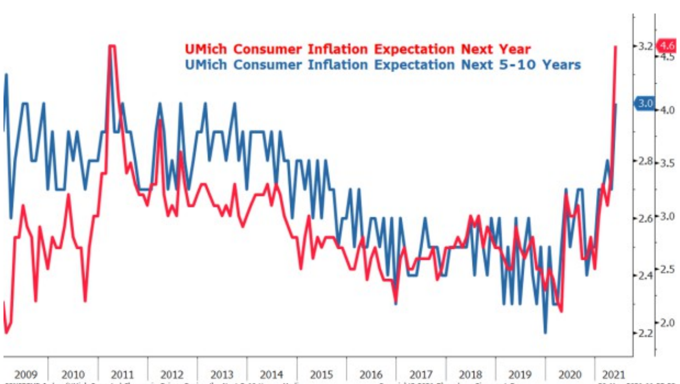
Exhibit 9: Regional Surveys Suggest the Same



Source: Haver, Morgan Stanley Research

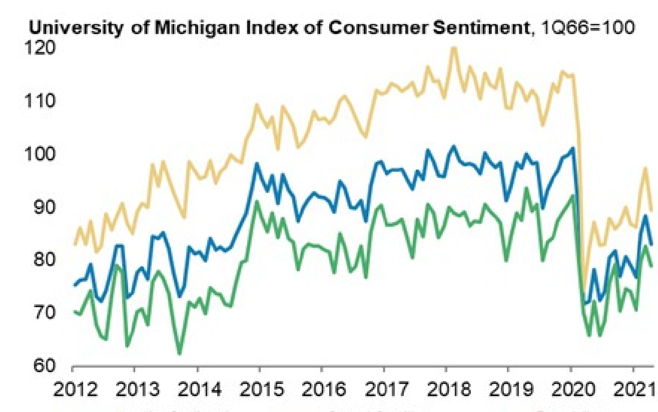
From a consumer standpoint, inflation expectations have also surged higher (Exhibit 10) and from our standpoint this is the beginning of a new trend that is more sustainable and less transitory than perhaps the Fed thinks. Having said that **we also recognize these trends can ebb and flow** and would not be surprised if there is some demand destruction in the short term and overheating that leads to consumer sentiment cooling a bit in the near term (Exhibit 11).

Exhibit 10: Higher Inflation Expectations



Source: Bloomberg, Morgan Stanley Research

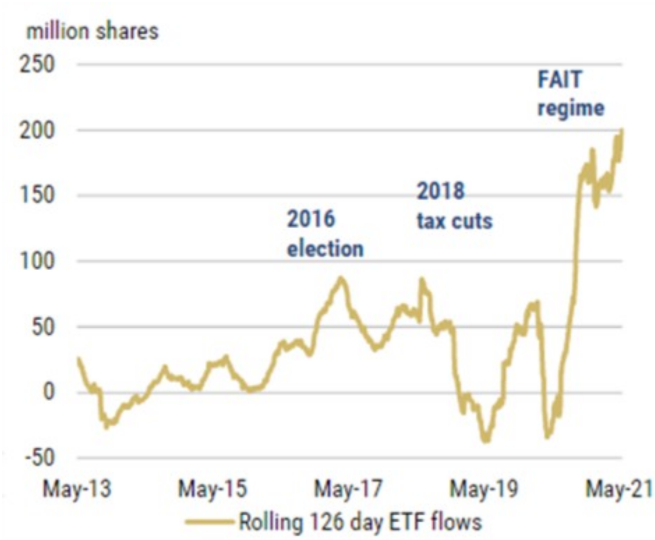
Exhibit 11: May Start to Weigh on Sentiment



Source: Bloomberg, Morgan Stanley Research

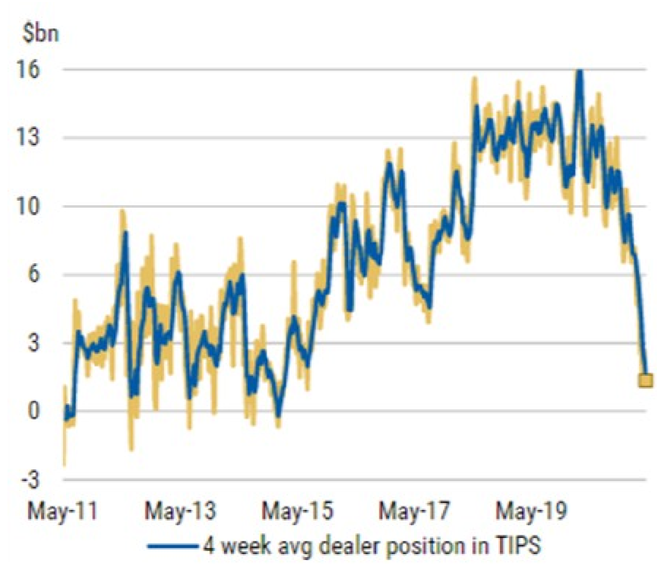
Finally, our rates strategy team have pointed out that inflation expectations have gotten ahead of reality in the bond market too. Specifically, they cite extreme positioning in the TIPs market where investor expectations may have been swayed too far by last month's blowout CPI print (Exhibits 12 and 13). In their view, May's release scheduled for June 10th could prove to be a key inflection point for the breakevens market, which is already pricing in considerably more upside than what the Fed's "transient" view embeds. **Bottom line, investors are positioned for higher inflation at this point in both the stock and bond markets. Any disappointment in the next data series could unleash some pain for very crowded consensus trades – long commodities, TIPs, reflation winners and short dollar and interest rate sensitive assets.** For equity markets, this would simply be an accelerant for our de-rating call as higher real rates and less ability to pass on higher prices would be a bad cocktail for multiples writ large. Therefore, we continue to recommend a strategy that favors higher quality stocks *at a reasonable price*. This means defensively oriented quality like Staples and Healthcare combined with GARPy quality, which can be found across a wide variety of sectors.

Exhibit 12: TIPs ETF flows have been hefty



Source: Morgan Stanley Research

Exhibit 13: And primary dealer inventory is low



Source: Morgan Stanley Research

Refreshing Our Quality Screens

As several risks to the broader market remain present (see US Equity Mid-Year Outlook: Mid-Cycle Brings More Risk than Reward), we continue to favor a skew toward Quality. **In an effort to identify single stock opportunities within Quality, we refreshed our Quality + GARP and Quality + Defensive screens.**

In Exhibit 14, we leverage our Quant team's factor framework to screen for high Quality, Growth stocks that trade at relatively attractive EV/second 12-month sales ratios and are not Underweight rated by Morgan Stanley analysts. We also exclude stocks trading in the top third of forward P/E levels within the Top 1000 by market cap universe. This screen is diversified across Communication Services, Consumer Discretionary, Industrials and Tech.

Exhibit 14: Quality + GARP Screen

Ticker	Company	Sector	Industry Group	Current Price	Current Market Cap ($M)
ATVI	ACTIVISION BLIZZARD INC	Communication Services	Media & Entertainment	$97.25	$75,565
GOOGL	ALPHABET INC	Communication Services	Media & Entertainment	$2,362.68	$1,583,381
EA	ELECTRONIC ARTS INC	Communication Services	Media & Entertainment	$142.93	$41,110
FB	FACEBOOK INC	Communication Services	Media & Entertainment	$332.75	$943,502
COLM	COLUMBIA SPORTSWEAR CO	Consumer Discretionary	Consumer Durables & Apparel	$104.39	$6,937
PII	POLARIS INC	Consumer Discretionary	Consumer Durables & Apparel	$132.10	$8,090
OLLI	OLLIE'S BARGAIN OUTLET HLDGS	Consumer Discretionary	Retailing	$80.39	$5,268
ORLY	O'REILLY AUTOMOTIVE INC	Consumer Discretionary	Retailing	$529.10	$36,911
ROST	ROSS STORES INC	Consumer Discretionary	Retailing	$125.66	$44,812
TJX	TJX COS INC (THE)	Consumer Discretionary	Retailing	$67.24	$81,091
SYY	SYSCO CORP	Consumer Staples	Food & Staples Retailing	$80.44	$41,152
SEIC	SEI INVESTMENTS CO	Financials	Diversified Financials	$63.38	$9,051
AON	AON PLC	Financials	Insurance	$253.88	$57,287
HCA	HCA HEALTHCARE INC	Health Care	Health Care Equipment & Services	$213.69	$72,000
IQV	IQVIA HOLDINGS INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	$237.46	$45,512
PRAH	PRA HEALTH SCIENCES INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	$170.93	$11,075
GWW	GRAINGER (W W) INC	Industrials	Capital Goods	$459.12	$23,925
LECO	LINCOLN ELECTRIC HLDGS INC	Industrials	Capital Goods	$129.06	$7,684
MAS	MASCO CORP	Industrials	Capital Goods	$60.47	$15,346
AOS	SMITH (A.O.)	Industrials	Capital Goods	$71.10	$11,408
TNET	TRINET GROUP INC	Industrials	Commercial & Professional Services	$76.66	$5,050
JBHT	HUNT (JB) TRANSPRT SVCS INC	Industrials	Transportation	$172.26	$18,203
SWKS	SKYWORKS SOLUTIONS INC	Information Technology	Semiconductors & Semiconductor Equipment	$170.87	$28,209
DBX	DROPBOX INC	Information Technology	Software & Services	$27.77	$11,142
CDW	CDW CORP	Information Technology	Technology Hardware & Equipment	$167.18	$23,439
EXP	EAGLE MATERIALS INC	Materials	Materials	$148.13	$6,278
RPM	RPM INTERNATIONAL INC	Materials	Materials	$93.74	$12,140
SMG	SCOTTS MIRACLE-GRO CO	Materials	Materials	$215.48	$12,003

Source: ClariFI, Morgan Stanley Research, FactSet.

In Exhibit 15, we leverage our Quant team's factor framework to screen for high Quality, Defensive stocks that have stronger relative earnings revisions breadth vs. the Russell 1000 over the past month. This screen is largely made up of stocks in Health Care and Consumer Staples.

Exhibit 15: Quality + Defensive Screen

Ticker	Company	Sector	Industry Group	Current Price	Current Market Cap ($M)
GOOGL	ALPHABET INC	Communication Services	Media & Entertainment	$2,362.68	$1,583,381
FB	FACEBOOK INC	Communication Services	Media & Entertainment	$332.75	$943,502
COST	COSTCO WHOLESALE CORP	Consumer Staples	Food & Staples Retailing	$387.50	$171,482
SYY	SYSCO CORP	Consumer Staples	Food & Staples Retailing	$80.44	$41,152
HSY	HERSHEY CO	Consumer Staples	Food, Beverage & Tobacco	$173.45	$35,904
K	KELLOGG CO	Consumer Staples	Food, Beverage & Tobacco	$65.54	$22,316
CL	COLGATE-PALMOLIVE CO	Consumer Staples	Household & Personal Products	$83.69	$70,799
HLF	HERBALIFE NUTRITION LTD	Consumer Staples	Household & Personal Products	$52.73	$6,224
EL	LAUDER (ESTEE) COS INC -CL A	Consumer Staples	Household & Personal Products	$303.55	$110,041
ACHC	ACADIA HEALTHCARE CO INC	Health Care	Health Care Equipment & Services	$63.74	$5,720
ALGN	ALIGN TECHNOLOGY INC	Health Care	Health Care Equipment & Services	$599.77	$47,464
AMED	AMEDISYS INC	Health Care	Health Care Equipment & Services	$260.79	$8,494
CHE	CHEMED CORP	Health Care	Health Care Equipment & Services	$494.62	$7,889
CI	CIGNA CORP	Health Care	Health Care Equipment & Services	$259.50	$89,046
CVS	CVS HEALTH CORP	Health Care	Health Care Equipment & Services	$86.42	$113,778
EHC	ENCOMPASS HEALTH CORP	Health Care	Health Care Equipment & Services	$85.05	$8,466
ENSG	ENSIGN GROUP INC	Health Care	Health Care Equipment & Services	$82.20	$4,519
NVST	ENVISTA HOLDINGS CORP	Health Care	Health Care Equipment & Services	$44.00	$7,074
GMED	GLOBUS MEDICAL INC	Health Care	Health Care Equipment & Services	$71.75	$7,177
IDXX	IDEXX LABS INC	Health Care	Health Care Equipment & Services	$554.04	$47,249
IART	INTEGRA LIFESCIENCES HOLDNGS	Health Care	Health Care Equipment & Services	$68.96	$5,831
LHCG	LHC GROUP INC	Health Care	Health Care Equipment & Services	$200.30	$6,343
MCK	MCKESSON CORP	Health Care	Health Care Equipment & Services	$194.31	$30,737
MOH	MOLINA HEALTHCARE INC	Health Care	Health Care Equipment & Services	$250.28	$14,616
WST	WEST PHARMACEUTICAL SVSC INC	Health Care	Health Care Equipment & Services	$344.70	$25,447
AVTR	AVANTOR INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	$31.97	$18,611
MTD	METTLER-TOLEDO INTL INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	$1,297.12	$30,183
PPD	PPD INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	$46.14	$16,204
SGEN	SEAGEN INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	$151.10	$27,421
WAT	WATERS CORP	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	$323.74	$19,975
GWW	GRAINGER (W W) INC	Industrials	Capital Goods	$459.12	$23,925
IDA	IDACORP INC	Utilities	Utilities	$97.60	$4,930
MDU	MDU RESOURCES GROUP INC	Utilities	Utilities	$33.54	$6,748
NRG	NRG ENERGY INC	Utilities	Utilities	$32.34	$7,915
OGE	OGE ENERGY CORP	Utilities	Utilities	$34.57	$6,920
UGI	UGI CORP	Utilities	Utilities	$45.36	$9,467

Source: ClariFI, Morgan Stanley Research, FactSet.

Fresh Money Buy List

Each week, we will use a section of our Weekly Warm Up to provide brief updates on select stocks on our Fresh Money Buy List and the exhibits below shows performance stats. The table below shows the performance stats before reflecting today's changes.

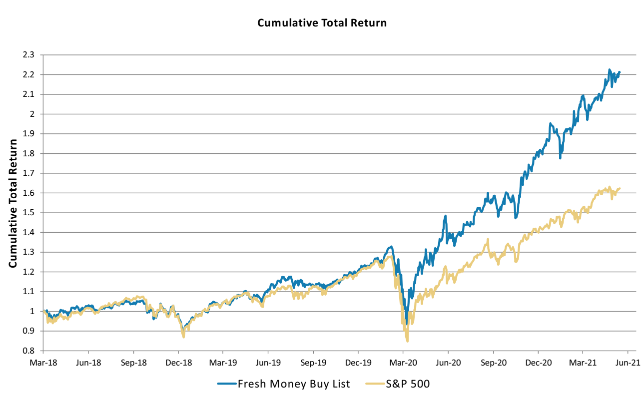
Exhibit 16: Fresh Money Buy List - Stats & Performance

Company Name	Ticker	MS Rating	Sector	Market Cap ($Bn)	Price	MS PT	% to MS PT	Date Added	Total Return Since Inclusion	
									Absolute	Rel. to S&P
Alphabet Inc.	GOOGL	Overweight	Communication Services	$1,598.4	$2,356.85	$2,575.00	9.3%	4/5/2021	10.7%	5.8%
Citizens Financial Group, Inc	CFG	Overweight	Financials	$21.3	$49.90	$57.00	14.2%	4/20/2020	168.4%	119.4%
Exxon Mobil Corporation	XOM	Overweight	Energy	$247.1	$58.37	$71.00	21.6%	2/22/2021	13.1%	5.0%
Humana Inc	HUM	Overweight	Health Care	$56.5	$437.70	$500.00	14.2%	7/19/2018	40.8%	(16.7%)
Lamar Advertising Co.	LAMR	Overweight	Real Estate	$10.6	$104.82	$115.00	9.7%	2/22/2021	23.8%	15.8%
MasterCard, Inc.	MA	Overweight	Information Technology	$357.4	$360.58	$444.00	23.1%	3/2/2020	25.0%	(20.3%)
Simon Property Group Inc	SPG	Overweight	Real Estate	$42.2	$128.49	$140.00	9.0%	2/16/2021	18.9%	11.6%
Synchrony Financial	SYF	Overweight	Financials	$27.6	$47.41	$56.00	18.1%	2/22/2021	25.1%	17.1%
T-Mobile US, Inc.	TMUS	Overweight	Communication Services	$176.4	$141.45	$146.00	3.2%	3/14/2018	118.1%	56.7%
Welltower Inc.	WELL	Overweight	Real Estate	$31.2	$74.77	$79.00	5.7%	2/22/2021	10.2%	2.2%
Current List Performance										
Average (Eq. Weight)				$256.9			12.8%		45.4%	19.7%
Median				$49.3			12.0%		24.4%	8.7%
% Positive Returns (Abs. / Rel.)									100%	80%
% Negative Returns (Abs. / Rel.)									0%	20%
Avg. Hold Period (Months)										12.1
All Time List Performance										
Average (Eq. Weight)									34.5%	15.7%
Median									19.2%	5.8%
% Positive Returns (Abs. / Rel.)									81%	58%
% Negative Returns (Abs. / Rel.)									19%	42%
Avg. Hold Period (Months)										12.6

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

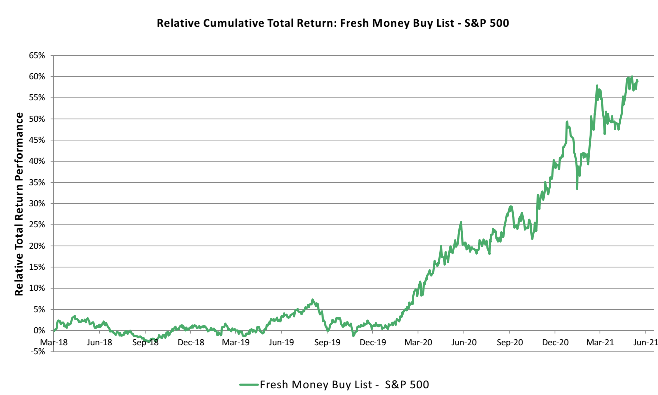
Source: Bloomberg, Morgan Stanley Research.

Exhibit 17: Fresh Money Buy List & S&P 500 Cumulative Total Return



Source: Bloomberg, Morgan Stanley Research.

Exhibit 18: Fresh Money Buy List / S&P 500 Cumulative Relative Return

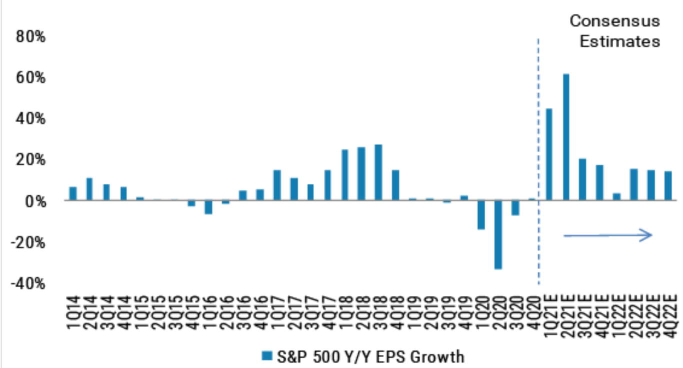


Source: Bloomberg, Morgan Stanley Research.

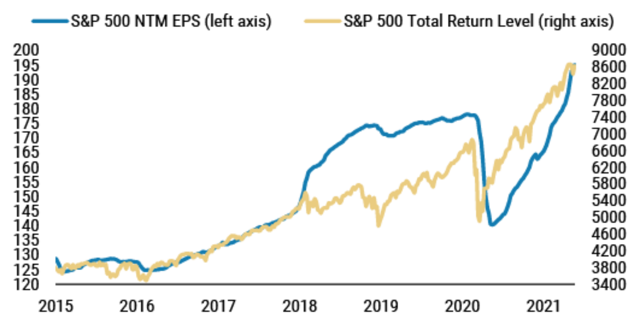
Weekly Charts to Watch

Exhibit 19: US Earnings Snapshot

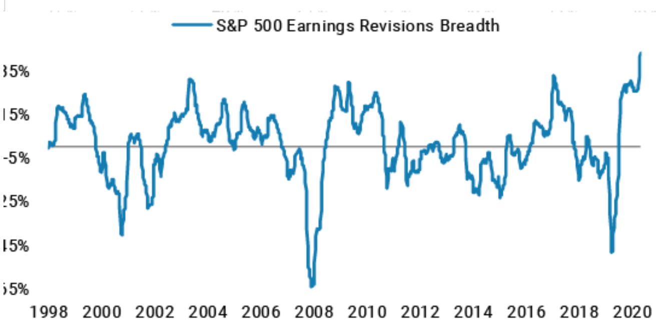
S&P 500 Y/Y EPS Growth



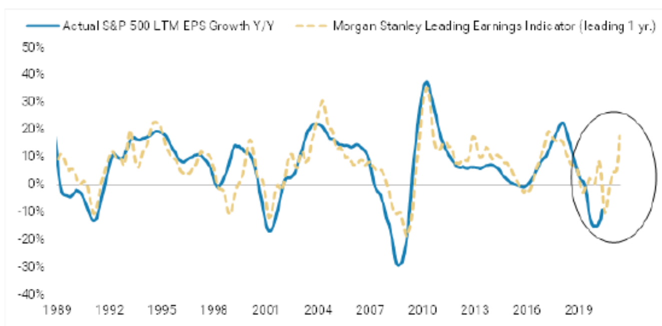
S&P 500 NTM EPS vs. Total Return Level



S&P 500 Earnings Revisions Breadth

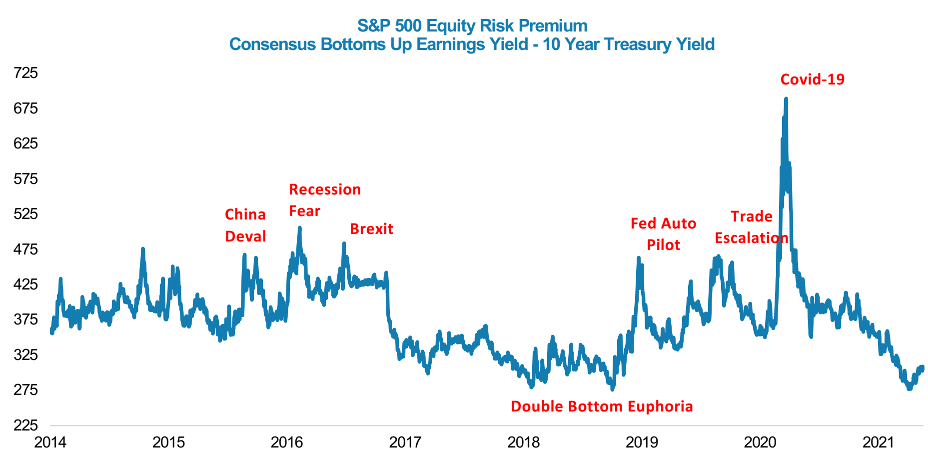


US Leading Earnings Indicator



Source: Thomson Financial, FactSet, Morgan Stanley Research. Top and bottom left: As of May 20, 2021 Bottom right As of April 30, 2021. 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.

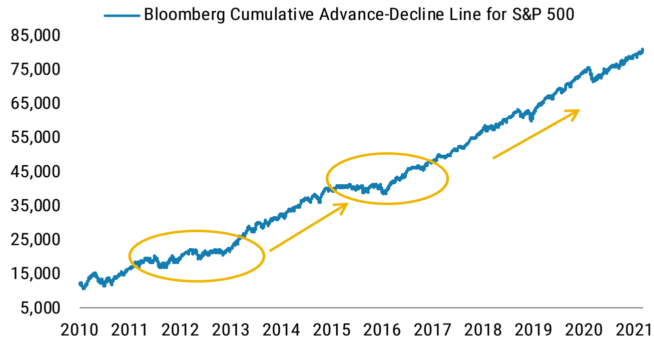
Exhibit 20: S&P 500 Equity Risk Premium



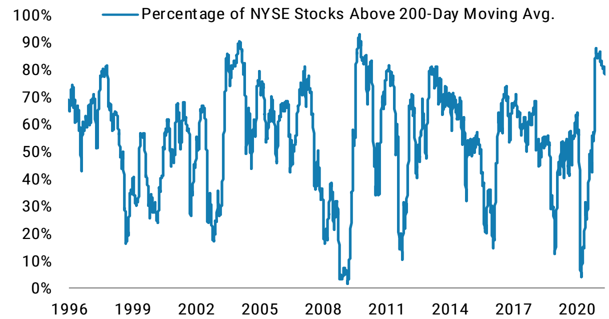
Source: Bloomberg, Morgan Stanley Research. .

Exhibit 21: US Equity Market Technicals and Financial Conditions

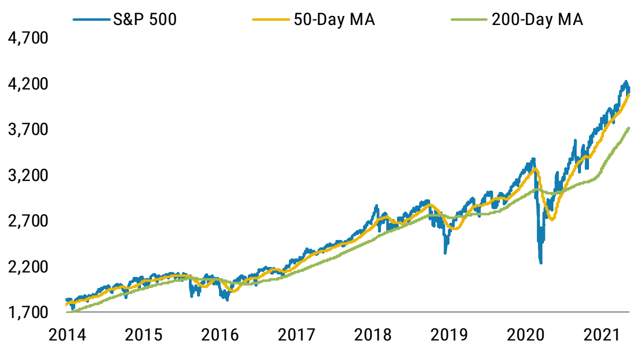
S&P 500 Cumulative Advance-Decline



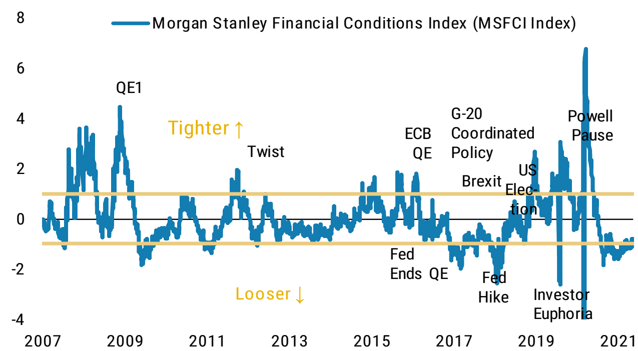
S&P 500 Percent Members Above 200-Day Moving Average



S&P 500 with Moving Averages

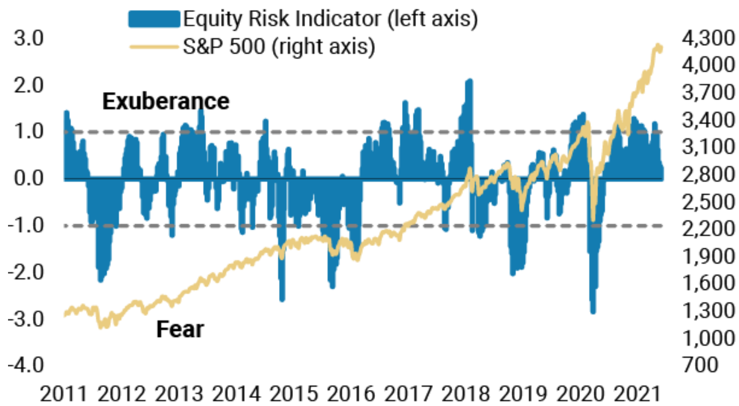


Morgan Stanley Financial Conditions Index

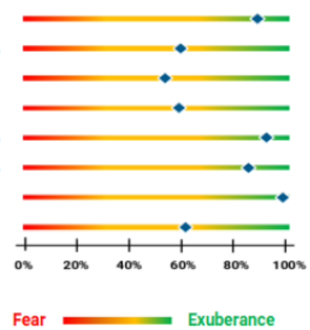


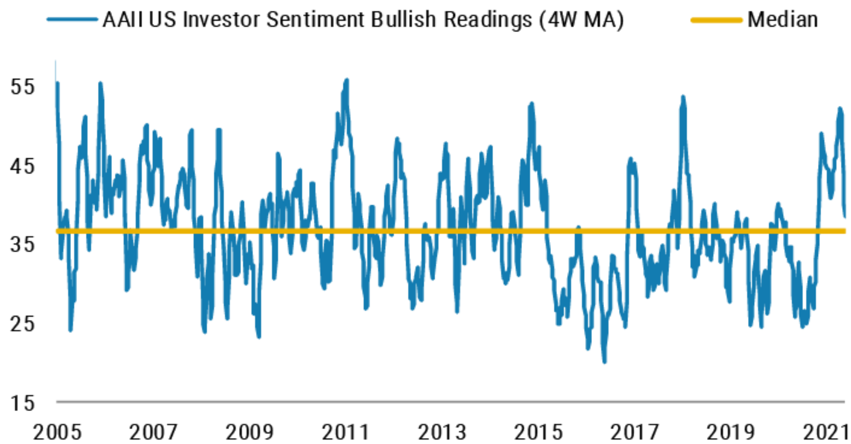
Source: Bloomberg, Morgan Stanley Research.

Exhibit 22: US Equity Market Sentiment



Indicator	Latest	% Rank Vs. Last Three Years
MS & Co. Standardized GRDI	1.5	
US AAII % Bulls	36.4%	
S&P 500 Mutual Fund Beta	1.1	
S&P 500 30-Day Rel. Strength Index	58.3	
% S&P 500 Members > 200-Day MA	91.2%	
% S&P 500 >/< 200-Day MA	12.5%	
S&P 500 Put/Call[1]	0.5	
VIX Index[1]	16.1	

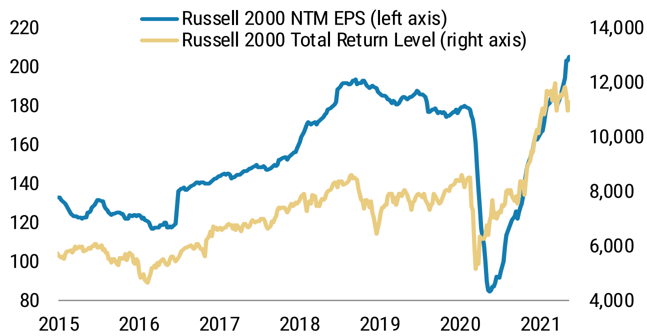




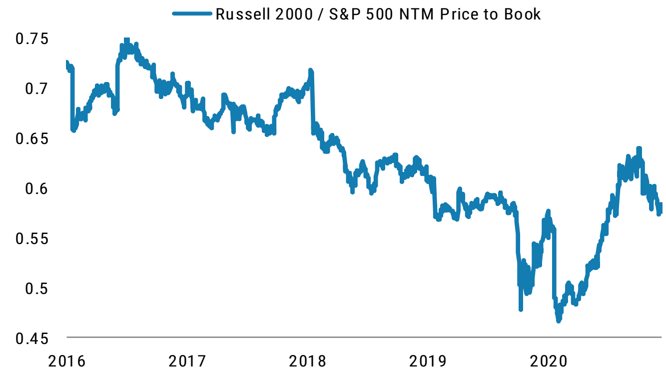
Source: Bloomberg, FactSet, Morgan Stanley Research. As of May 28, 2021.

Exhibit 23: US Small Cap Equities

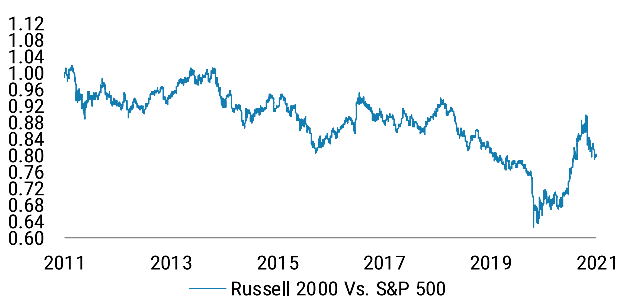
Russell 2000 NTM EPS vs. Total Return Level



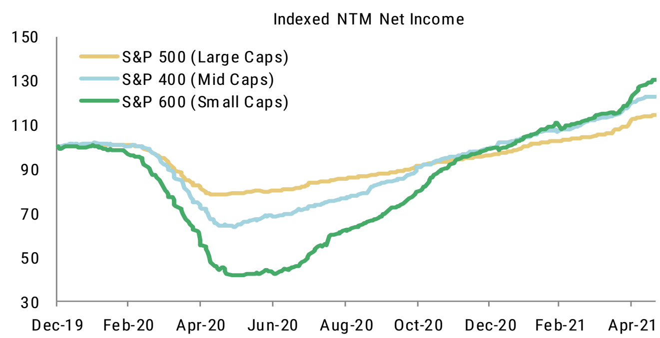
Russell 2000 NTM P/B and Relative NTM P/B vs. S&P 500



Russell 2000 Relative Performance vs. S&P 500



NTM EPS by Cap Size



Source: FactSet, Morgan Stanley Research.

Exhibit 24: S&P 500 Price Target

Morgan Stanley S&P 500 Mid Year 2022 Price Target

Landscape	Earnings	Multiple	Price Target	Upside / Downside
Bull Case	$222	20x	4,450	5.8%
Base Case	$211	20x	4,225	0.5%
Bear Case	$199	19x	3,800	-9.6%
Current S&P 500 Price as of:	5/28/2021		4,204	

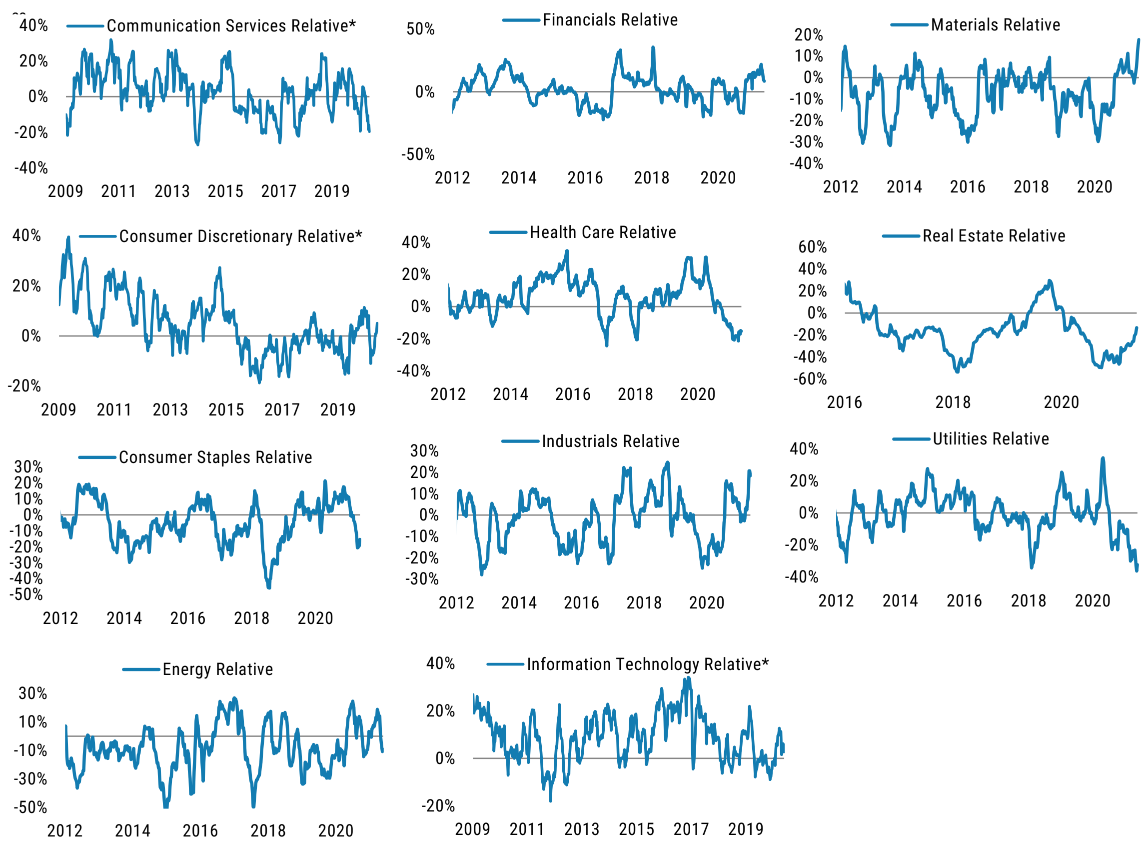
Source: Bloomberg, Morgan Stanley Research

Exhibit 25: Sector Ratings

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

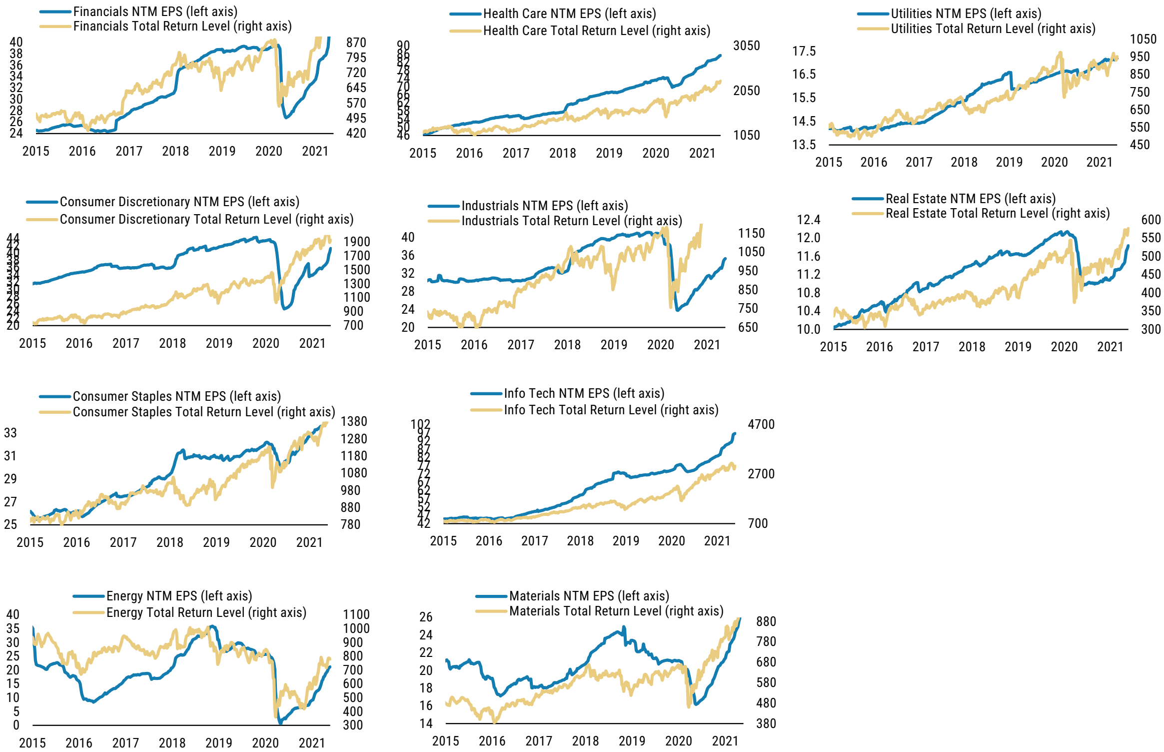
Source: Morgan Stanley Research

Exhibit 26: Earnings Revisions Breadth



Source: FactSet, Morgan Stanley Research. Sectors with * use current, fixed constituents.

Exhibit 27: US Sector NTM EPS vs. Total Return Level



Source: FactSet, Morgan Stanley Research

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STOCK RATING CATEGORY	COVERAGE UNIVERSE COUNT	COVERAGE UNIVERSE % OF TOTAL	INVESTMENT BANKING CLIENTS (IBC) COUNT	IBC % OF TOTAL IBC	IBC % OF RATING CATEGORY	OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC) COUNT	MISC % OF TOTAL OTHER MISC
Overweight/Buy	**1517**	**44%**	**420**	**48%**	**28%**	**673**	**44%**
Equal-weight/Hold	**1430**	**41%**	**361**	**41%**	**25%**	**648**	**42%**
Not-Rated/Hold	**0**	**0%**	**0**	**0%**	**0%**	**0**	**0%**
Underweight/Sell	**530**	**15%**	**91**	**10%**	**17%**	**209**	**14%**
TOTAL	**3,477**		**872**			**1530**	

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.

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