

November 17, 2025 05:28 AM GMT

US Equity Strategy

2026 US Equities Outlook: The Rolling Recovery Is Here

We raise our S&P 500 price target to 7,800 driven by strong earnings growth. Valuation stays supported as the rolling recovery leads to broadening in leadership. We upgrade small caps to OW relative to large caps. At the sector level, we upgrade Consumer Discretionary Goods and Healthcare to OW.

- The Rolling Recovery Is Here...** The capitulation around Liberation Day marked the end of a three-year rolling recession and the start of a rolling recovery. We believe that we're in the midst of a new bull market and earnings cycle, especially for many of the lagging areas of the index. We think that most of the elements of a classic early-cycle environment are with us today – compressed cost structures that set the stage for positive operating leverage, a historic rebound in earnings revisions breadth, and pent-up demand across wide swaths of the market/economy that were mired in the preceding rolling recession. Early supporting evidence of an earnings recovery can be found in 3Q results – a 2.2% S&P 500 revenue beat rate (2x average) and 8% EPS growth for the median stock in the Russell 3000 (the strongest growth in four years).
- Implications of the "Run It Hot" Playbook...** The missing ingredient for the typical broadening in stock performance that happens early in a new business cycle is more significant rate cuts than the market expects. While there's uncertainty around this dynamic in the short term, over the next 6-12 months, we think that moderate weakness in lagging labor data and the administration's desire to "run it hot" will lead to an accommodative monetary policy backdrop involving both rates and the balance sheet. This, in addition to the stronger earnings environment that we expect for the average/median stock, is supportive of a broadening in leadership in 2026 – an out-of-consensus view based on our conversations with investors.
- We Raise Our 12-Month S&P 500 Price Target to 7,800 (22x forward EPS of \$356)...** This expectation incorporates higher-than-consensus EPS throughout our forecast horizon. We see 2025 EPS of \$272 (12% growth), 2026 EPS of \$317 (17% growth), and 2027 EPS of \$356 (12% growth). Key drivers of our bullish earnings/cash flow view include a return of positive operating leverage, greater pricing power, AI-driven efficiency gains (see [AI Adoption to Help Drive the Broadening in 2026](#)), accommodative tax and regulatory policies that facilitate a public to private growth transition, and contained interest rates throughout the curve. We expect valuation to compress modestly versus current levels, but stay elevated relative to history at 22x. Our work shows that it's rare to see meaningful multiple compression in periods of above-median EPS growth (~7-8%) and accommodative monetary policy. Near-term risks to our call: monetary policy

MORGAN STANLEY & CO. LLC

Michael J Wilson

Equity Strategist

M.Wilson@morganstanley.com

+1 212 761-2532

Andrew B Pauker

Equity Strategist

Andrew.Pauker@morganstanley.com

+1 212 761-1330

Michelle M. Weaver, CFA

Equity Strategist

Michelle.M.Weaver@morganstanley.com

+1 212 296-5254

Diane Ding, Ph.D.

Quantitative Strategist

Qian.Ding@morganstanley.com

+1 212 761-6758

Nicholas Lentini, CFA

Equity Strategist

Nick.Lentini@morganstanley.com

+1 212 761-5863

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

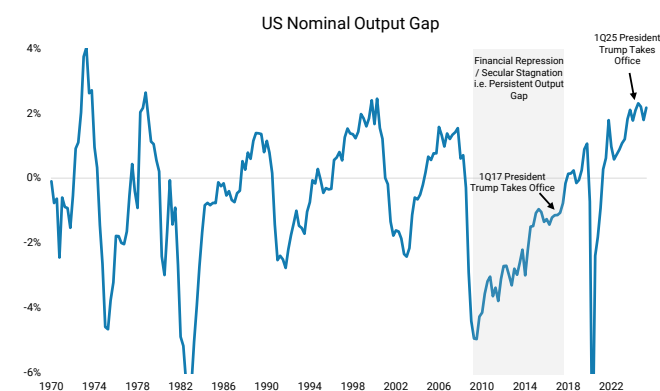
is not dovish enough, and tighter liquidity serves as a headwind to high momentum areas, a development that has already begun and could persist in the short-term. Longer-term risk: [running it hot](#) leads to an inflationary impulse that policy makers can't ignore (see our [hotter but shorter](#) cycle framework). We think this risk is beyond our 12-month forecast horizon, but it could arrive sooner than we expect.

- **Sector/Style Recommendations...**In line with our call for a broadening in leadership amid a healthy EPS environment, we see small caps outperforming large caps and cyclicals outperforming defensives. We reiterate our overweight stances in Financials and Industrials and upgrade Consumer Discretionary Goods to overweight from underweight. Healthcare remains our preferred exposure to quality growth, and we upgrade the sector to overweight as well. See the [Trade Ideas and Screens](#) section for additional trade recommendations and stock screens.

The Rolling Recovery Is Here

We think 2026 is a continuation of the story we have been telling for the past year. To review, our US equity outlook a year ago was for a challenging first half followed by a strong second half. At the time of publication, this was an out of consensus stance as many expected a strong first half as President Trump took office for his second term followed by a more challenging second half due to the return of inflation. Our differentiated view was based on the notion that policy sequencing in the new Trump administration would be growth-negative to start (i.e., “the kitchen sink”), but would transition to being growth-positive around mid-year. The main reason we thought it was likely to be sequenced differently than in President Trump's first term was because the economy had much less slack this time compared to 2017 ([Exhibit 1](#)). Earnings revisions breadth and other cyclical indicators were also in a phase of deceleration at the end of 2024/beginning of 2025. In contrast, at the end of 2016/beginning of 2017 when we were out of consensus bullish ([Classic Late Cycle](#)), earnings revisions breadth and many cyclical gauges were starting to reaccelerate after the manufacturing/commodity downturn of 2015/2016.

Exhibit 1: Economy Had Much Less Slack at the Start of President Trump's Second Term Vs. His First Term



Source: Bloomberg, Morgan Stanley Research.

Exhibit 2: Earnings Revisions Also Trended Differently At the Start of President Trump's First Term Vs. His Second Term



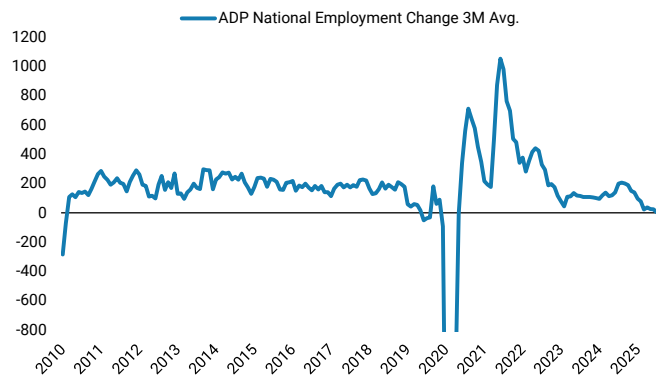
Source: FactSet, Morgan Stanley Research.

Looking back on this year, this cadence of policy sequencing did broadly play out—developments just happened faster and more dramatically than we expected. Our views on the policy front still appear to be out of consensus with many questioning whether policies enacted this year will ultimately lead to better growth going forward, especially for the average stock. From our perspective, the “deals” being made are growth positive for 2026 and are largely in line with our “run it hot” thesis (more on this below).

Embedded in our more constructive take is that April marked the end of a rolling recession that began 3 years prior. The final stages were a recession in government as a result of DOGE (see the Challenger job cuts data below), a rate of change trough in expectations around AI capex growth and trade policy, and a growth deceleration in consumer services that is still ongoing. In short, we believe a new bull market and rolling recovery began in April which means it's still early days, and not obvious, especially for many lagging parts of the economy and market.

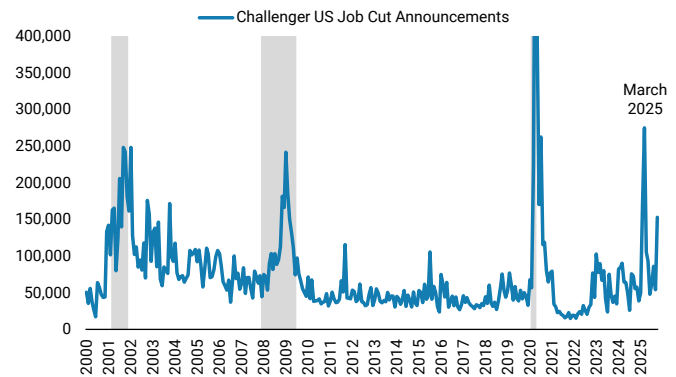
The missing ingredient for the typical broadening in stock performance that happens in a new business cycle is rate cuts. Normally, the Fed would have cut rates more in this type of weakening labor market, but due to the imbalances and distortions of the COVID cycle, we think the Fed is later than normal in easing policy, and that has held back the full rotation toward early cycle winners. Ironically, the government shutdown has weakened the economy further, but has also delayed Fed action due to the lack of labor data releases. This is a near-term risk to our bullish 12-month forecasts should delays in the data continue and/or lagging labor releases (i.e., September jobs) not corroborate the recent weakness in the alternative jobs data. This alternative data shown below illustrate a jobs backdrop that's slowing, albeit not in an accelerating/non-linear way. In our view, this type of labor market weakness coupled with the administration's desire to "run it hot" means that, ultimately, the Fed is likely to deliver more dovish policy than the market currently expects. In the near term, though, it's a question of timing.

Exhibit 3: ADP Employment Slowing



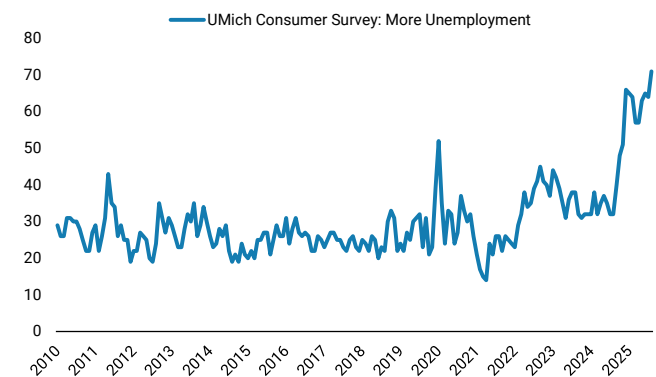
Source: Bloomberg, Morgan Stanley Research.

Exhibit 4: Challenger Job Cuts Picking Up Again, but Still Well Below March Highs



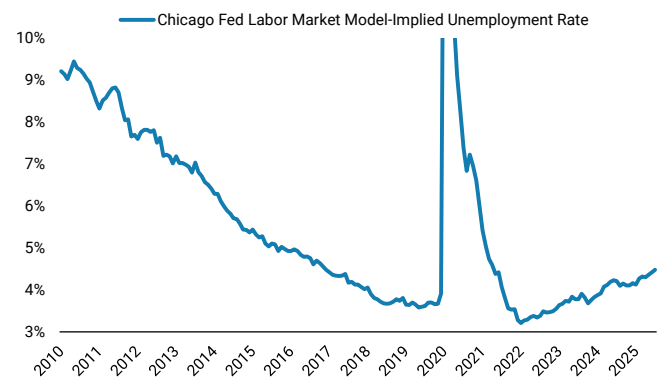
Source: Bloomberg, Morgan Stanley Research. Grey bars are recessions.

Exhibit 5: U. Michigan Consumer Sentiment Survey Suggesting More Unemployment



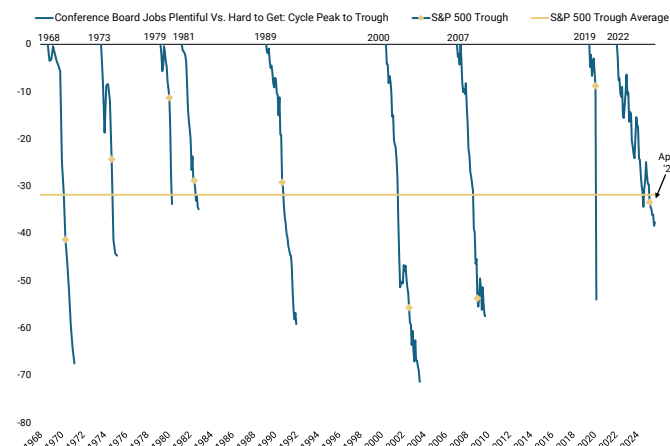
Source: Bloomberg, Morgan Stanley Research.

Exhibit 6: Chicago Fed Model Implied Unemployment Rate Ticking Higher



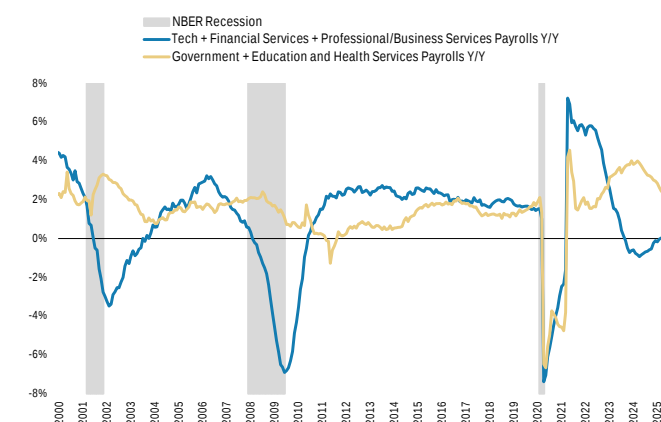
Source: Bloomberg, Morgan Stanley Research.

Exhibit 7: Conference Board Jobs Plentiful Vs. Hard to Get Spread Illustrates Rolling Recession of 2022-Early 2025; S&P Bottomed (in April) When It Typically Does During this Deceleration in Labor Conditions



Source: Bloomberg, Morgan Stanley Research.

Exhibit 8: Government Hiring Has Helped to Offset Private Payroll Weakness During the Preceding Rolling Recession



Source: Haver Analytics, Morgan Stanley Research.

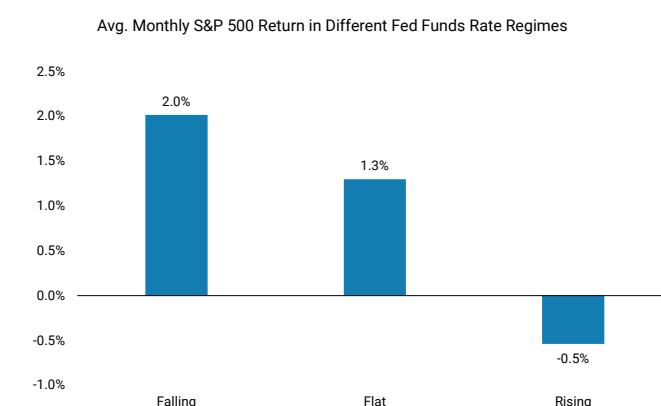
Ultimately, we think the Fed is likely to be more accommodative than the market currently thinks into 2026. Our work shows that this is supportive of valuation and large cap index performance. [Exhibit 9](#) shows that valuation historically expands 91% of the time when the fed funds rate is down on a year-over-year basis and earnings growth is above average (our view on 2026). In this regard, one could argue we are being conservative in our forecast for modest multiple compression at the index level, though we are also giving some weight to the extended nature of absolute valuation levels in this expectation. Further, we'd point out that equity returns tend to be strong when the Fed is reducing the policy rate as [Exhibit 10](#) shows below.

Exhibit 9: Valuation Rarely Contracts in Periods of Above Median EPS Growth and Accommodative Monetary Policy

S&P 500 Fwd. P/E 12M Rate of Chg. in > Median EPS Growth + Accommodative* Fed Policy Environments	
Avg.	8.1%
Median	5.6%
Positive Hit Rate	91%
Max	22.6%
Min	-4.4%

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

Exhibit 10: Equities Tend to Perform Well During Fed Cutting Regimes

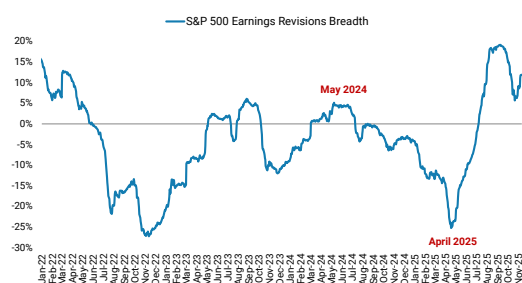


Source: Bloomberg, FactSet, Morgan Stanley Research.

Just as private payroll growth has been weaker than many believe over the past 3-4 years (offset by government hiring), earnings growth for the median stock was also quite weak during this 2022-early 2025 period. The good news is that we now believe we have come out of this malaise and that most of the elements of a classic early-cycle environment from an earnings standpoint are with us today – compressed cost structures that set the

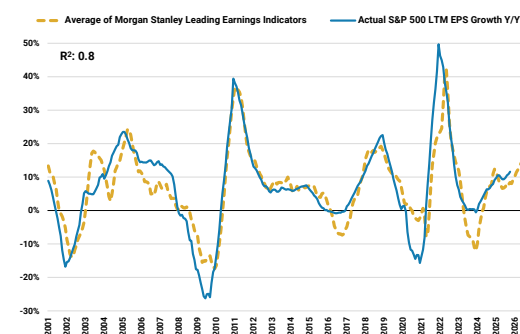
stage for positive operating leverage, a historic rebound in earnings revisions breadth, and pent-up demand across wide swaths of the market/economy that were mired in the preceding rolling recession. Early supporting evidence of an earnings recovery can be found in 3Q results – a 2.2% S&P 500 revenue beat rate (2x average) and 8% EPS growth for the median stock in the Russell 3000 (the strongest growth in four years).

Exhibit 11: Earnings Revisions Breadth Is Rebounding Once Again



Source: FactSet, Morgan Stanley Research

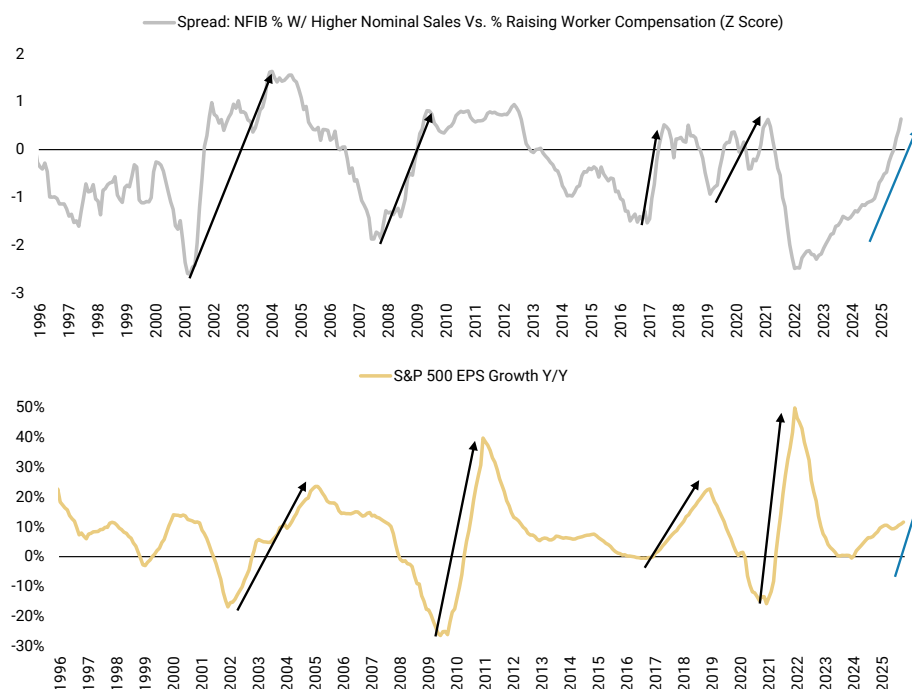
Exhibit 12: An Average of our Leading Earnings Models Points to Mid/High-Teens EPS Growth over the Next 12 Months



Source: FactSet, Bloomberg, Morgan Stanley Research forecasts

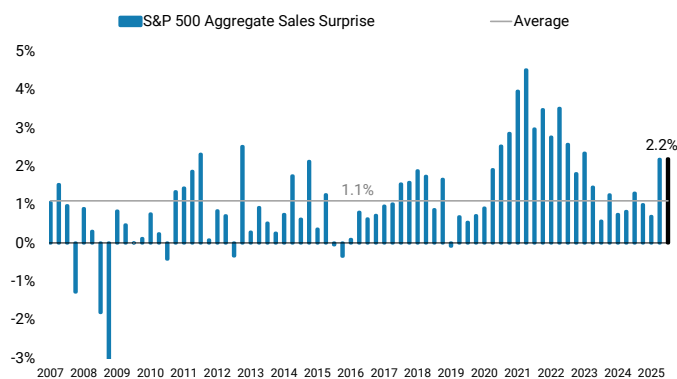
Exhibit 13:

Leaner Cost Structures Driven by Reduced Compensation Expense Coupled with a Stabilizing Nominal Revenue Environment Mean That a Steep Rebound in EPS Growth Is Likely on the Horizon



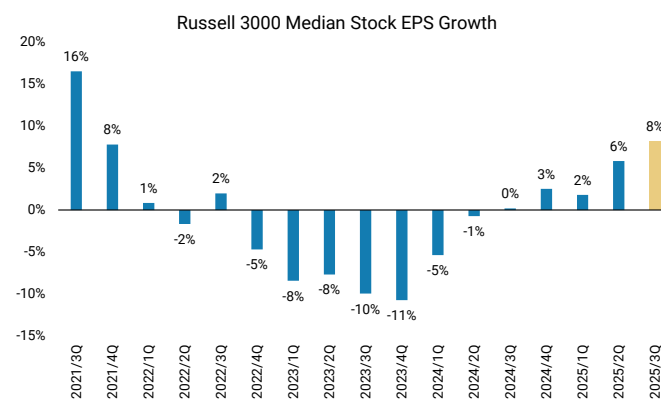
Source: FactSet, Haver, Morgan Stanley Research.

Exhibit 14: The Standout This Quarter Has Been the Revenue Beat Rate, Which Is Running 2x the Historical Run Rate; Top Line/Pricing Power Firming



Source: Factset, Morgan Stanley Research

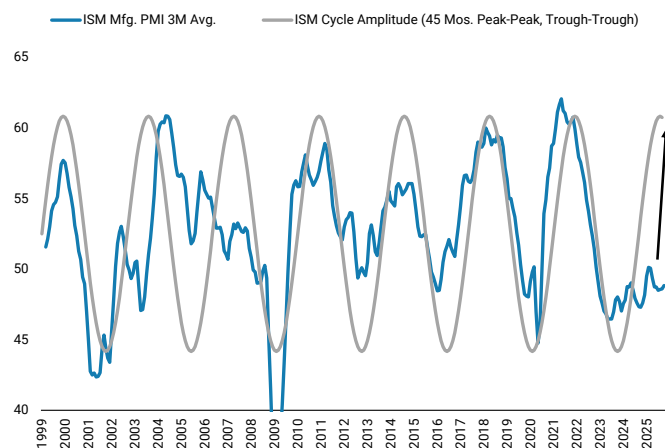
Exhibit 15: Median Stock EPS Growth Is Continuing Its Rebound; Strongest Growth in 4 Years



Source: Compustat, Morgan Stanley Research.

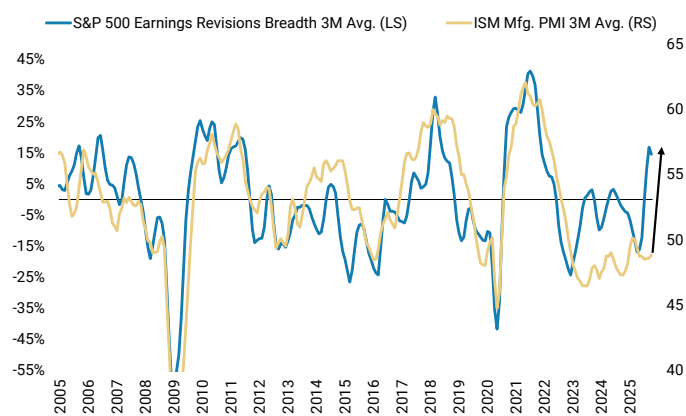
In short, we believe a new bull market began in April with the end of a rolling recession and bear market (S&P 500 was down ~20% and the average S&P stock was down ~30%). This narrative remains underappreciated, and we believe there is significant upside to earnings over the next year as the recovery broadens and operating leverage returns with better volumes and pricing in many parts of the market/economy. Our forecasts reflect this upside to earnings which is another reason why many stocks are not as expensive as they appear despite our acknowledgement that some areas of the market may appear somewhat frothy—i.e., certain unprofitable, speculative growth areas.

Exhibit 16: The Ending Phase of the Rolling Recession + Liberation Day Stifled the ISM Recovery That Was Implied by the Historical Cycle Amplitude...



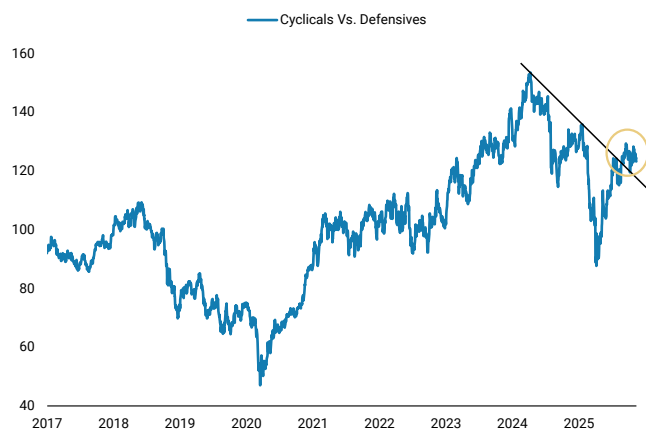
Source: FactSet, Bloomberg, Morgan Stanley Research.

Exhibit 17: ...The Rebound in Earnings Revisions Breadth Suggests We're Now Going to See a Catch Up



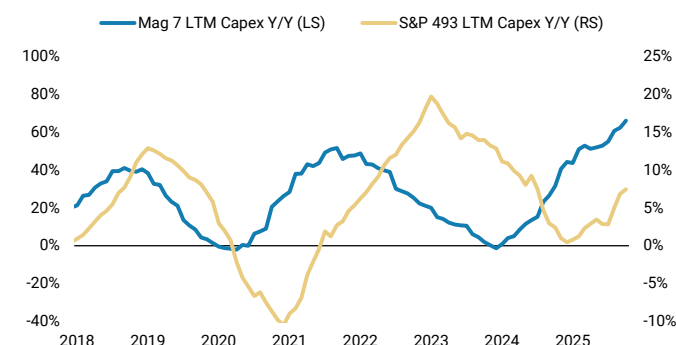
Source: Bloomberg, Morgan Stanley Research.

Exhibit 18: Cyclical Vs. Defensives Ratio Is Signaling an Improving Growth Backdrop, Breaking the Downtrend That Started in Early 2024



Source: Bloomberg, Morgan Stanley Research. Note: The basket shown in the exhibit above was originated by Sales & Trading and is not a product of Morgan Stanley Research. No investment recommendation is made with respect to the basket referenced herein. Investors should conduct their own due diligence in making investment decisions with respect to this basket.

Exhibit 19: Capex Growth Is Improving for Both the Mag 7 and S&P 493



Source: FactSet, Morgan Stanley Research.

Forecast Update

We raise our 12-month S&P 500 price target to 7,800 (22x forward EPS of \$356). This expectation incorporates higher-than-consensus EPS throughout our forecast horizon. We see 2025 EPS of \$272 (12% growth), 2026 EPS of \$317 (17% growth), and 2027 EPS of \$356 (12% growth). Key drivers of our bullish earnings/cash flow view include a return of positive operating leverage, greater pricing power, AI-driven efficiency gains, accommodative tax and regulatory policies that facilitate a public to private growth transition, and contained interest rates throughout the curve. We expect valuation to compress modestly versus current levels, but stay elevated relative to history at 22x. Our work shows that it's rare to see meaningful multiple compression in periods of above-median EPS growth (~7-8%) and accommodative monetary policy. In line with our call for a broadening in leadership amid a healthy EPS environment, we see small caps outperforming large caps and cyclicals outperforming defensives. We reiterate our overweight stances in Financials and Industrials and upgrade Consumer Discretionary Goods to overweight from underweight. Healthcare remains our preferred exposure to quality growth, and we upgrade the sector to overweight as well.

Exhibit 20: Morgan Stanley US Equity Strategy Forecast Table

	Current Price	MS Next 12M Price Target	MS Next 12M Price Target % to Current	Current P/E	MS Next 12M P/E Target	MS Top Down EPS Estimates			Bottom Up Consensus EPS Estimates		
						2025	2026	2027	2025	2026	2027
Bear	6,734	5,600	-17%	22.3x	20.0x	\$268	\$281	\$280	\$270	\$307	\$351
Growth						10%	5%	0%	11%	14%	14%
Base	6,734	7,800	16%	22.3x	22.0x	\$272	\$317	\$356	\$270	\$307	\$351
Growth						12%	17%	12%	11%	14%	14%
Bull	6,734	9,000	34%	22.3x	23.0x	\$274	\$338	\$393	\$270	\$307	\$351
Growth						13%	23%	16%	11%	14%	14%

Source: FactSet, Morgan Stanley Research.

Underappreciated Objectives of the New Policies

It has long been our view that the US economy has been quite unbalanced due to certain bi-partisan policies enacted over the past several decades. From our observation, it

appears that the administration agrees and is trying to change this with certain policy initiatives. We see this rebalancing happening on 3 axes as it pertains to growth impacts/investment implications:

1. Current/Capital Account Deficit/Surplus: The current account deficit is currently -4.4% of GDP. While an improvement from the low of -5.9% in 2006, it has doubled since COVID and is heading in an expanding direction relative to the past 20+ years. Some may argue this is a positive as it allows US consumers greater access to cheap goods they would not be able to afford otherwise. The administration appears to have taken the view that we have hollowed out many parts of the economy to the point that running a historically large current account deficit no longer serves the long term financial health of the country and its citizens well on a net-net basis. It's clear that tariffs are the primary policy tool being used by the administration to try and rebalance this deficit. While less obvious, it appears a weaker currency may also be part of this strategy as currency is arguably the most important non-tariff barrier to more balanced trade outcomes. Early signs suggest meaningful tariff revenues are being collected with limited impact on the overall economy, so far. While that impact may still be in front of us, we think most businesses have moved on, with the cost of the tariffs being shared between exporters, importers and end consumers where pricing power is available (more industrial than consumer products). This is in line with views expressed in our [Mid Year Outlook](#) in May and now appears to be more consensus thinking. Nevertheless, the rate of change impact from tariffs is well behind us, in our view. For more on the IEEPA tariff dynamics/upcoming decision, please see this [work](#) from our policy strategists.

2. Over-Consumption and Under-Investment: It's no secret that America is the largest consumer in the world. Overconsumption is a function of many variables including active policy choices made over the last 30 years. First, policy makers have tried to bring forward consumption with negative real interest rates and quantitative easing. Given the risk of a balance sheet depression after the Great Financial Crisis, the Fed decided to use aggressive policy tools never tried in the United States to this extent to shift consumption from the future to the present in an effort to avoid an outcome like the 1930s (as outlined in Ben Bernanke's speech [Deflation - making sure "it" doesn't happen here, Nov. 2002](#)). While well intentioned at the time, these extraordinary policies have now become embedded as ordinary tools used at the first signs of economic trouble or financial distress. In the process, economic and market participants have become conditioned to such actions, and acted accordingly by assuming risk markets will be supported by easy monetary policy. This has only exacerbated the consumption vs. real investment imbalance, in our view. The Trump administration appears to be trying to reverse this trend by limiting consumption via tariffs/introducing less fiscal directed at consumers, while incentivizing investment via the Big Beautiful Bill. So far, consumption appears unfazed, at least at the high end, while investment trends beyond AI are yet to be determined (though there are some signs broader capex is picking up a bit as shown above). Nevertheless, the intent is clear and makes sense to us in this context. The goal, of course, is that higher investment should lead to better real growth via higher productivity, something that has been missing for the past 20 years. We think this strategy is compelling in that regard even if it creates some demand shortfall in the short term. Real capital investment will need to expand and broaden (AI and non-AI related spend) if this is to be successful—areas like energy, manufacturing efficiency via robotics and other processes, healthcare delivery/outcomes, education and a re-tooling of the American

workforce for more trade versus office jobs.

3. The K-Economy for Both Consumers and Corporates: There is little debate that the United States suffers from a widening income and wealth inequality gap between the lower/middle and upper income consumers. More recently, this phenomenon has spread to the corporate world with the largest companies doing well, while many smaller businesses have been crowded out by government, interest rates and regulations that appear to disproportionately affect smaller, “average” businesses. The best evidence of this claim is the much slower earnings growth shown above for the median company from the 2022-mid 2025 period versus an index of larger businesses or even the market cap weighted average. The primary policy changes that the administration has deployed to address this imbalance are immigration controls and de-regulation. If immigration controls are successful, there is a case to be made that real wages do pick up in certain, affected areas such as consumer services. Yes, this is potentially inflationary, but inflation through the wage channel is likely much healthier than the kind of inflation we have seen since COVID—i.e., government subsidized consumer spending across income cohorts. In short, wage inflation for quality work could turn into a virtuous circle as it lifts many individuals and communities to a higher standard of living, which can then be directed back into the economy via higher spending. Offsetting this higher wage growth at the low/middle end may be wage pressure at the higher end as AI reduces the need for headcount growth in professional services. This could go a long way toward rebalancing the K-economy, in our view, at least in terms of the consumer.

With respect to corporate imbalances, we believe lower interest rates and de-regulation could provide the boost necessary to see better health in the smaller business cohort. As noted many times, we believe the Fed has kept rates too high, for too long mainly because their policy decisions are largely based on “aggregate” economic data that have been boosted by large companies, wealthy consumers and heavy government spending and hiring. In short, interest rate levels are “fine” for those cohorts that either have significant access to capital or other means to finance their spending. However, policy in this sense is likely too restrictive for the majority of economic participants. Similarly, regulations cost smaller businesses much more per employee or dollar of revenue because they don’t have the scale to diffuse these costs. [Work](#) on the topic shows that regulations cost small businesses (less than 50 employees) ~\$15,000 per employee/per year with these costs as high as ~\$50,000 per employee for small *manufacturing* businesses. Obviously, some regulation is good and helpful for protecting consumers, the environment and other important constituencies but some de-regulation is likely helpful for small businesses.

Bottom line, we think many of the economic policies implemented by the Trump administration since taking office add up to an economy that should grow faster in the longer term via higher productivity and should be more balanced in terms of trade, consumption vs. investment and real wage growth distribution.

Hotter but Shorter

All of this fits nicely with our core thesis since COVID that the US economy is now firmly in an inflationary regime, much like the post-WWII period. As a result, we are likely to experience hotter but shorter cycles than the prior 40 years when economic expansions lasted an abnormally long ~10 years. One key dynamic here is that inflation has now

exceeded the Fed's target of 2% for over 4 years, implying that the Fed may be willing to tolerate a higher target no matter which party is in power. Actions often speak louder than words and its actions seem to support this notion.

First, the Fed has resumed cutting rates after a long pause this year. Market expectations are for 3 more 25bp cuts over the next year which seems "moderate" amid a view that rates are still above "neutral". On the other hand, if the Fed is truly concerned about its inflation mandate and no longer running an asymmetric inflation policy, then what would be the justification for cutting rates further in light of an economy that is expected to see real economic growth well over 3% in the 3rd quarter with earnings growth for the median stock at its strongest level in 4 years? Second, the Fed has recently decided to end quantitative tightening sooner than they expected under the assumption that bank reserves may no longer be adequate. For the record, we agree with *that* view and have discussed it previously in our research. In fact, we believe the Fed's third mandate of financial stability is, and has been, a key determinant of its policy over the past decade. The dual mandate of employment and inflation are more in focus when financial markets are stable and not forcing the Fed's hand, like today.

Once again, let's follow what the Fed is doing. It has ended QT earlier than expected and reiterated its intent to provide liquidity via the overnight repo facility, the SRF. To wit, that facility has been utilized more heavily recently although nothing like in 2019, yet. Nevertheless, the Fed remains ready to provide that liquidity support under the assumption it's necessary for financial stability. Moreover, Dallas Fed President Lorie Logan has indicated the Fed is ready to intervene as necessary in the funding markets to ensure stability. In our view, this is another avenue the Fed could use to help the Treasury fund the government as it issues more T Bills relative to notes and bonds. With the reverse repo facility now drained to nearly zero, the Fed will likely find additional ways to facilitate this dynamic and effectively help to monetize the debt. Treasury buybacks are another creative approach. Overall, this has inflationary implications in the longer term and contrasts with the Fed's price stability mandate given inflation is still well above its 2% target.

We think this is all part of an overall strategy to run the economy hot to deal with the massive debt and deficits, something we have written about over the past several years. The main message is that with debt and deficits so high as a percentage of GDP, the government has no choice but to let inflation run hot. Of course, this won't work without better *real* growth, too. The end goal, in our view, is to get *nominal* GDP growth as far above the cost of borrowing as possible to bring down the debt/GDP ratio over time. The wider the spread, the better. With borrowing costs fast approaching 4% since the Fed raised rates in 2022, the bogey for nominal GDP growth could be 6-7% with roughly half of the contribution coming from real growth and the other half coming from inflation. Lowering rates can also play a role, but with the back-end rising sharply last year when the Fed cut rates, it's questionable how low borrowing costs can fall.

If this is correct, it would imply the Fed would need to move away from its stated 2 percent inflation target. Meanwhile, real GDP will also need to rise which is the goal of the administration's policy initiatives as discussed earlier. The "rebalancing" of the economy on 3 levels (exports > imports, investment > consumption, and real wage growth redistribution) is a good blueprint to achieve that goal, in our view. Success is still very much to be determined, but we think the market is taking the view that this is a step in

the right direction, and we concur. Notably, we don't think this is a partisan choice. While one can debate what strategy has the best chance of success, we would argue capital allocation done by the private sector has a better chance of driving productivity, while a shift in real wage growth is a more sustainable approach to stabilizing lower/middle income consumption. In our view, a real GDP growth mix that favors productivity over labor force growth is ultimately more favorable for capital markets and equities as an asset class.

Since we started writing about the notion that we have entered into an inflationary regime in early 2021, the evidence suggests we are now in a 2 years on / 1 year off market cycle that resembles the hotter but shorter macro cycles we've discussed previously:

- 2020-21 were very strong years for both earnings growth and revisions. The stock market traded quite well as a result, and leadership was broad in terms of market participation as accelerating inflation translated into tremendous revenue/earnings growth.
- 2022 was a poor year for both earnings growth and equity performance as the Fed had to respond to inflation that was materially above target. The associated rise in rates set off the beginning of the rolling recession we believe finally ended in April of this year. Tech was the first sector to bottom in this rolling recession and led the overall market higher in the subsequent years.
- 2023 into 2024 marked a strong period of performance for the leading, market cap weighted indices as the Fed signaled less restrictive policy was ahead and the AI investment theme came to life and drove earnings growth for a narrow group of large stocks that dominated the S&P 500 and Nasdaq indices. We also saw the consumer services sector take the baton from the goods sector which has been in a growth malaise since 2021, but may now finally be emerging. Performance for the average stock/deep cyclicals was generally poor during this period as earnings growth did not return to many areas with inflation falling and volume growth anemic in numerous parts of the economy.
- July 2024-April 2025 was quite weak in terms of performance for many stocks, both large and small, as earnings revisions rolled over and Fed was late to cut and then paused. Cyclicals vs. defensives was down ~50% over this period and the Magnificent 7 saw 2 separate 20%+ corrections—i.e., bear markets.
- We believe a 2-year up cycle began in April 2025 with firming pricing power/inflation and broadening earnings growth and will likely last until the Fed has to tighten policy again, as it can only tolerate inflation to a point, in our view. We think the risk of that is at least 12 months out which is beyond our forecast period. Nevertheless, we want to make it clear to readers that our early cycle view should be taken with the acknowledgment that this cycle will also likely be hotter and shorter in duration.

Bottom line, by using the “break glass in the event of emergency” policy of helicopter money in 2020 to get us out of the COVID recession, we now find ourselves in an inflationary regime that is likely to last for years, if not decades, like the post World War II period. The primary difference relative to that period is the fact that currencies are free-floating and gold no longer trades at a fixed price to the US dollar. In many ways this makes it easier to keep inflation going via currency depreciation while repressing rates—i.e., free floating currencies make the financial repression easier to manage. On the other

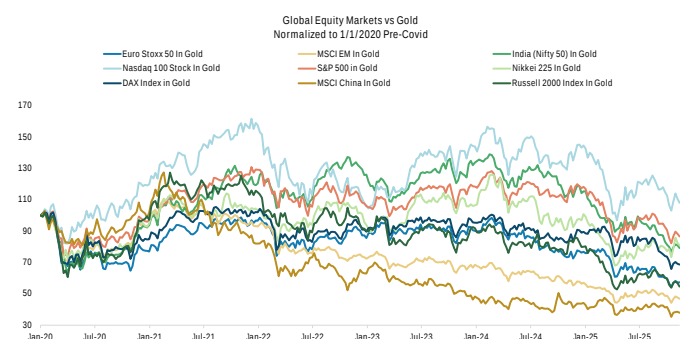
hand, the demographics are much less favorable for the over-indebted countries than during the 1940s-50s. This makes it more difficult to generate the real GDP growth portion necessary to durably bring down debt/GDP. Finally, the Marshall plan was not optional and had no financial constraints with respect to ROIC. Today's capital spending which is using the balance sheets of rich companies and individuals will stop if it appears these investments are not going to pay off. While we don't think that day of reckoning is in the near term, the discipline that private markets can put upon these capital spending decisions can arrive quickly and without notice.

What Are the Markets Saying?

Since 2020, it's fair to say that markets seem to agree with our narrative. Perhaps the best evidence that our "run it hot" thesis is appreciated by the marketplace is how well gold and crypto have traded over the past 5 years, both in absolute terms and relative to other assets. In a world in which inflation is now the main concern for asset owners, it's imperative to own assets that do better when inflation is rising. Arguably the worst place to be in this type of backdrop is long-term fixed income instruments. Cash and shorter-term instruments are fine so long as you are getting a reasonable yield over inflation for a relatively short period of time (i.e., 1-2 years). However, currency must also be considered in this decision given the fact that FX can float against other currencies and hard assets. While past is not prologue, bonds have been weak performers the past 5 years, while stocks have handily beaten cash that has basically kept investors flat with inflation and currency depreciation. As mentioned, the best performing assets to own have been gold, crypto and high quality stocks, which has made sense in the context of our narrative. Precious metals are perhaps the most well established hedge against both inflation and governments trying to inflate their way out of debt problems. They are also a hedge against geopolitical tensions and associated change like we are seeing today. High quality stocks have outperformed because in an uncertain, inflationary world, one wants to own the most defensible business models that can withstand significant change and continue to grow earnings and cash flow faster than inflation and currency depreciation (i.e., strong pricing power has also been key).

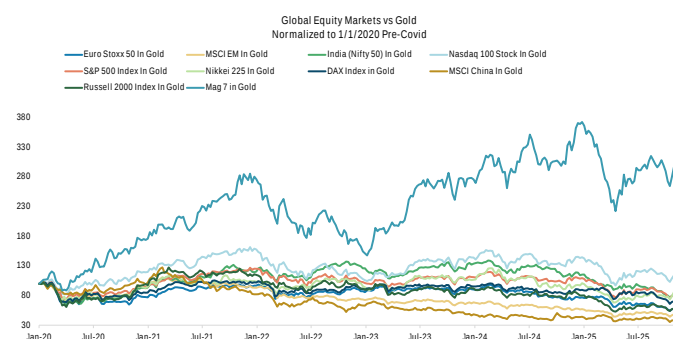
While the Mag 7 gets the majority of the press, this high-quality factor outperformance is a global phenomenon. The S&P 500 and Nasdaq 100 have significantly outperformed the major international equity indices, but there are plenty of high-quality foreign stocks that have kept up and even outperformed the leading US indices at times—i.e., TSMC, ASML, SAP, etc. There just aren't as many of them as there are in the S&P 500 and Nasdaq 100, nor are they as big. The point here is that high quality stocks are a great place to be in a world of greater uncertainty especially with respect to inflation.

Exhibit 21: Of Major Indices, Only the NDX Has Outperformed Gold Over the Last 5 Years



Source: Bloomberg, Morgan Stanley Research.

Exhibit 22: Mag 7 Has Been A Clear Outperformer As An Inflation Hedge



Source: Bloomberg, Morgan Stanley Research.

Does that mean that small caps and lower quality stocks are destined to underperform as long as inflation is a primary concern? Not in our view. As part of our hotter but shorter cycle framework we believe smaller capitalization/lower quality stocks can outperform under very specific circumstances—when inflation is accelerating but the Fed is loosening policy, or at least not tightening. These are exactly the conditions that existed in 2020-21 which was the last time we were overweight small caps. We think we are setting up for another period like that in 2026—i.e., pricing power/inflation reaccelerates cyclically but the Fed tolerates it and even eases policy, aka “run it hot.” What this leads to is better than expected earnings growth for a wider group of companies that have high operational leverage (i.e., lower quality) to a faster growing economy via both real GDP and inflation. In essence, it’s the return of pricing power as many sectors of the private economy emerge from the rolling recession they have endured for the past 3 years. If we are right, stocks can outperform gold next year as they did between March 2020 and December 2021.

This framework and narrative impacts our 2026 outlook not only at the index level but also in terms of what we are recommending at the stock, sector and factor level, which we detail through the following pages. Many of our micro views are likely out of consensus which stems from our unorthodox view on the macro and cycle analysis that underpins much of our investment framework. We hope you find it helpful as you navigate what has been a unique period since COVID and is likely to remain so.

Key Themes to Focus On

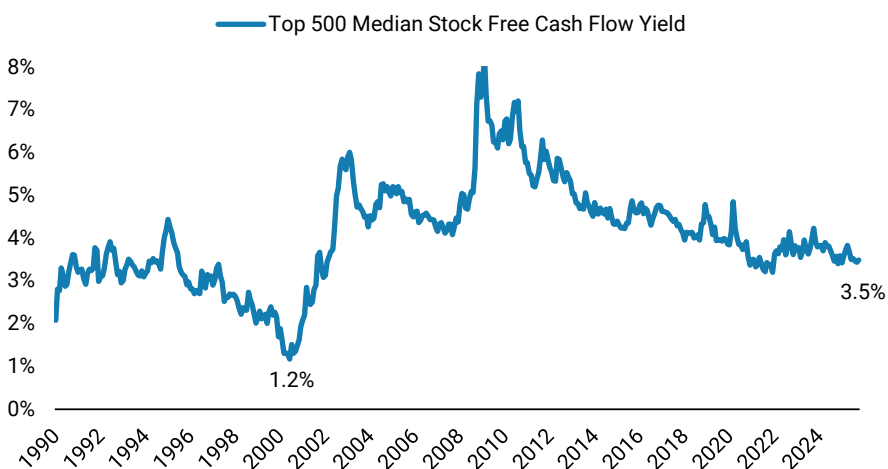
We see momentum building around AI adoption, alongside significant [ROI](#) and [efficiency gain](#) opportunities for corporates. On this score, we raise our estimates in terms of the positive impact of AI-driven efficiency gains on profit margins—adds 40bps of net margin expansion in 2026 (up from 30bps previously) and 60bps in 2027 (up from 50bps previously). See the [AI Adoption to Help Drive the Broadening in 2026](#) section below for more. The share of companies citing quantifiable benefits from AI adoption related to cost and revenue has been increasing steadily based on our [systematic analysis](#) of 7,400 earnings transcripts. Our research department's extensive work around [AI mapping](#) identifies stock-picking opportunities among this adopter cohort. We've also seen M&A return, with 3Q25 announced volumes up 43%Y and large strategic transactions leading the way. We expect a further broadening out in activity, with sponsors next. This rebound

in M&A activity is supportive of our overweight stance on the Financials sector. Our [proprietary analysis and quant models](#) offer stock ideas on this front. Finally, we expect demand for compute and subsequently power to continue to intensify amid the AI capex cycle, supporting investment ideas tied to the powering GenAI theme. Innovative 'time to power' solutions, including natural gas turbines, Bloom Energy fuel cells, nuclear, and crypto to data center conversions, continue to look attractive as the [race to acquire power intensifies](#).

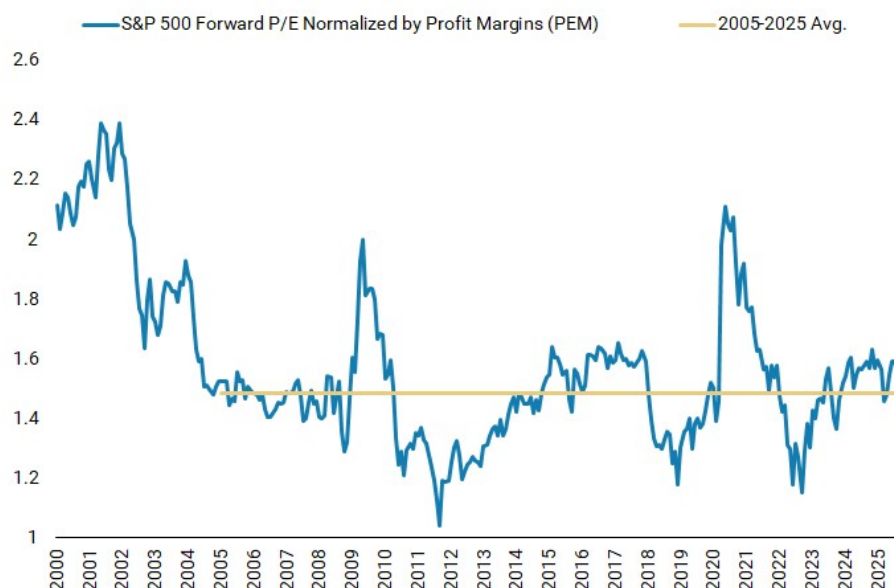
Valuation Can Stay Supported and We See Differences Vs. 1999 in This Regard

Given the AI capex boom, we've continued to field questions from investors on the extent to which there are parallels to the late 1990s. More specifically, some market participants are focused on whether we're toward the ending stages of a valuation bubble, like 1999-2000. We see some important differences on this front. First, we think it's important to point out that equity indices today have higher quality characteristics than they did during this historical period. For example, free cash flow yield for the median large cap stock is almost three times higher than it was in 2000. The cash flow benefits of the Big Beautiful Bill also make these multiples cheaper than they appear as FCF will likely end up being higher than expected. Further, adjusting the S&P 500's forward P/E ratio for profit margins shows that the index is currently trading at a ~35% discount to the tech bubble highs. Then, as we've noted above, the earnings and macro regime we think we're entering into in 2026 is also supportive of valuation. Bottom line, operational efficiency, strong profitability, and free cash flow generation are all characteristics of a higher quality index than what we saw during the late 1990s.

Exhibit 23: Free Cash Flow Yield for the Median Stock Is Materially Higher Than It Was at the Height of the Tech Bubble



Source: Compustat, Morgan Stanley Research.

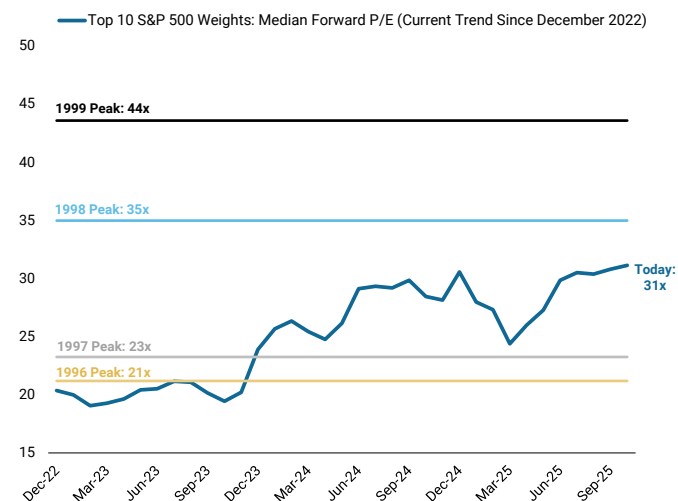
Exhibit 24: When Adjusted for Profit Margins, Valuation Looks Much More Reasonable

Source: FactSet, Morgan Stanley Research.

There's also been a high degree of focus on the valuation levels of the largest weights in the index. Some are of the view that this dynamic is unsustainable and that this cohort is unlikely to see valuation supported over the next 12 months. Further, some investors subscribe to the view that the only way we can see a durable rotation to small caps and economically sensitive areas of the market is if these top index weights come under pressure and essentially force a rotation. We're thinking about the set up differently given our out of consensus view that we're transitioning to a rolling recovery/early cycle backdrop where earnings growth is likely to be strong and the Fed is cutting rates.

While more economically sensitive areas of the market are likely to see a catch up in terms of performance and earnings contribution in this environment, we don't think this means the largest weights see sustained valuation compression in absolute terms over the next 6-12 months. For historical valuation perspective on the top index weights, we would highlight [Exhibit 25](#). This exhibit shows the median forward P/E among this cohort since the end of 2022, just before the AI capex cycle began to significantly drive index performance and leadership. We then compare this series to 1996-99 annual valuation highs. Today, with this measure at 31x, we're trading between 1997 and 1998 valuation levels. To emphasize this point, this gauge is currently trading at a 13-turn discount to 1999 valuation highs. Going back to the profitability angle discussed previously, [Exhibit 26](#) shows that the median operating margin for the top 10 S&P 500 weights is over 20% higher than it was in 1999.

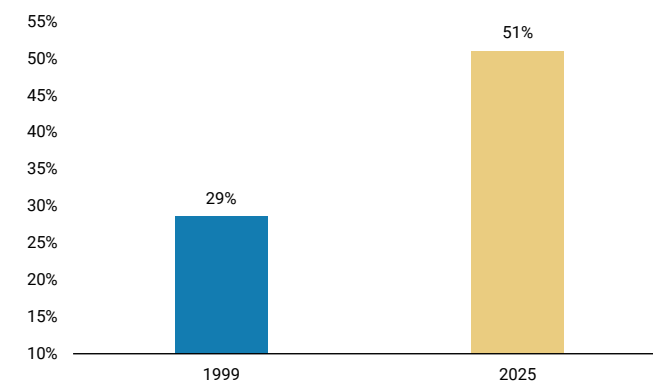
Exhibit 25: Top Index Weights Are Trading at a Material Discount to 1999 Valuation Levels; In Fact, They're Trading at a 4 Turn Discount to 1998 Valuation Levels...



Source: FactSet, Morgan Stanley Research.

Exhibit 26: ...Further, Profitability/Margin Characteristics of the Top Index Weights Are Much More Durable Today vs. 1999

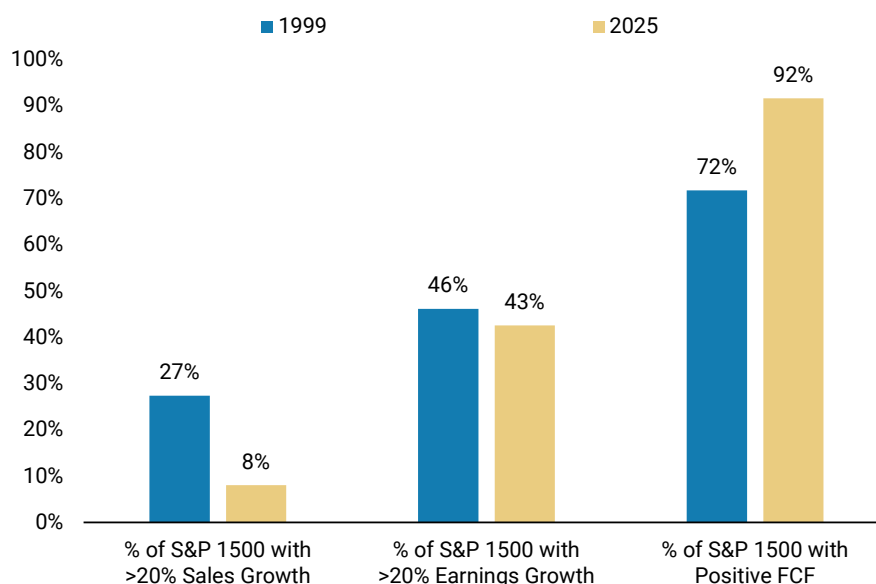
Top 10 S&P 500 Weights: Median Operating Margin



Source: FactSet, Morgan Stanley Research.

Across the broader market, 1999 saw a significantly higher percentage of stocks growing top line at 20%+. That said, the percentage of stocks growing earnings at 20%+ is quite similar today (43% vs. 46% then). This speaks to the strength of profitability today and the differences in the composition of the index. It's also worth noting that a significantly higher percentage of the S&P 1500 is free cash flow positive today (92%) relative to this period (72%).

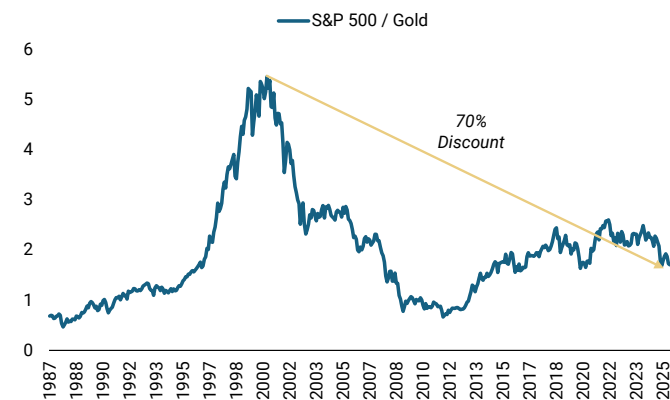
Exhibit 27: While We Don't Have as Many 20%+ Top Line Growers Today, We Have About as Many 20%+ Net Income Growers; Further, 92% of the S&P 1500 Is FCF Positive Today vs. 72% in 1999



Source: FactSet, Morgan Stanley Research.

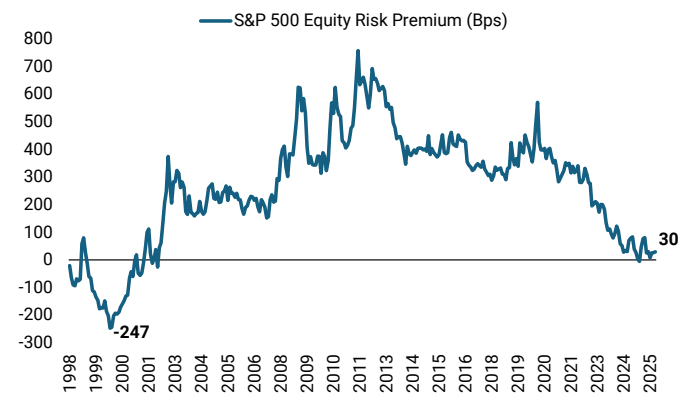
As covered at length over the past several years, we think the S&P 500 in gold terms is a reasonable way to show equity prices in an inflation adjusted context. It's also a helpful ratio for thinking about secular bull and bear markets over time (we think we're in a secular bull market today). This ratio is currently 70% below where it peaked in 1999, having fallen further this year amid the rise in gold prices (until very recently). Thus, not only are equities trading at a significant discount to where they were during this period in real terms, but if one truly believes our "run it hot" thesis into 2026, many equities (especially cyclical ones) should offer a better return profile than gold given they are more of an offensive inflation hedge. For those who look at the equity risk premium, this gauge is trading nearly 300bps higher than it was in early 2000 when inflation wasn't part of the equity bull story. In other words, stocks back then were discounting much higher earnings growth which then had to get priced out quickly once the tech unwind started in 2000 and recession arrived in 2001. Today, stocks are trading well due to solid (albeit not unachievable) earnings growth assumptions and the view that stocks offer a real hedge to asset owners' top challenge—higher than expected inflation.

Exhibit 28: In Gold Terms, The S&P 500 Trades at a 70% Discount to Tech Bubble Highs...



Source: Bloomberg, Morgan Stanley Research.

Exhibit 29: ...While the Equity Risk Premium Is Nearly 300bps Higher Today

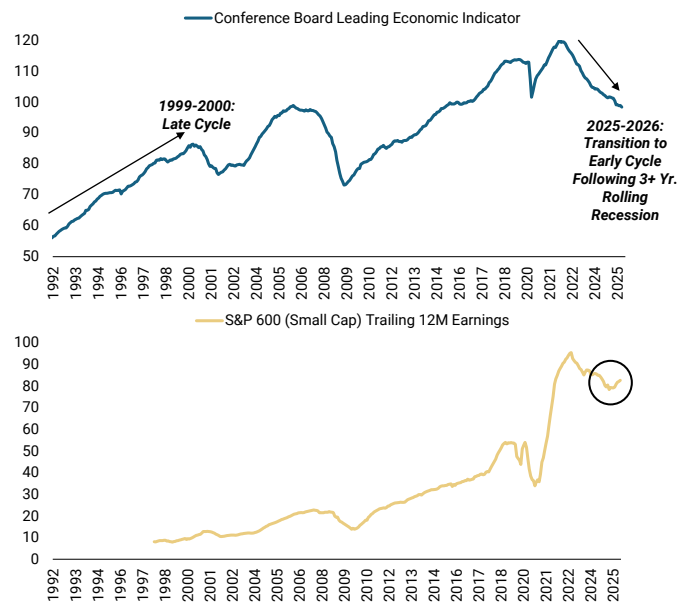


Source: Bloomberg, Morgan Stanley Research.

In our view, the macro backdrop also helps to explain some important differences relative to 1999-2000. For one, as [Exhibit 30](#) shows, the economy was very much late cycle in this historical period. The Conference Board Leading Economic Indicator series was in its 9th year of expansion since the 1990-1991 recession as was the Conference Board Employment Trends Index. Similarly, the unemployment rate had been in steady decline since 1992. Today, we would argue we're transitioning to an early cycle environment and coming out of the rolling recession that transpired in 2022-2025. The decline in the Conference Board LEI has captured this rolling recession well, and the leading *earnings* data we look at suggest that we should now start to see the macro data stabilize. [Exhibit 30](#) shows one example of this dynamic as small cap earnings (more economically sensitive) have found a bottom in recent months and are starting to turn higher. See our prior, extensive work on the historic rebound in earnings revisions breadth for more signals on this front. We think this is a precursor to the macro data, including the Conference Board LEI, stabilizing and turning higher into 2026, consistent with our out of consensus rolling recovery/early cycle transition view. Importantly, the Fed was hiking rates in 1999-2000, which played a role in the valuation compression that followed. Today, it is cutting rates, and we expect it to continue to do in 2026, along with potential balance sheet expansion. These different actions and reaction functions are more

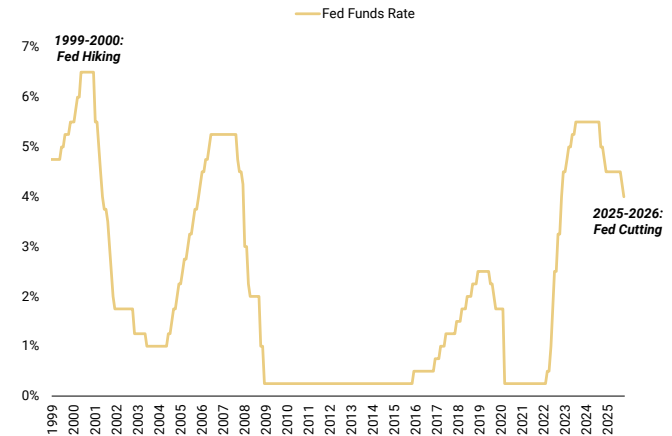
supportive of valuation than in 2000.

Exhibit 30: 1999-2000 Was Classic Late Cycle; Today, We're Transitioning to Early Cycle Following the 3+ Year Rolling Recession



Source: Bloomberg, Morgan Stanley Research.

Exhibit 31: Fed Was Hiking in 1999-2000; Today, They're Cutting and We Expect Them to Continue to Cut in 2026



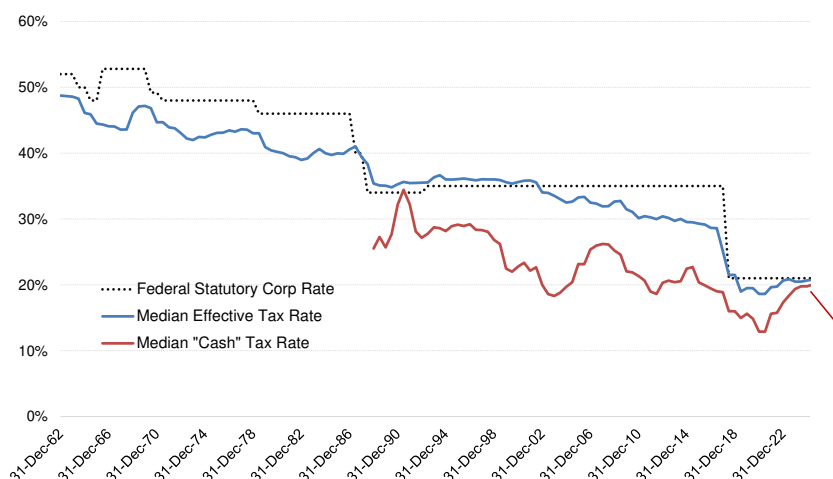
Source: Bloomberg, Morgan Stanley Research.

OBBBA Impacts

Corporate Earnings & Cash Flow Implications: The majority of the policies in the One Big Beautiful Bill Act (OBBBA) will primarily impact cash flows versus reported P&L tax rates and earnings. This is because items such as bonus depreciation and R&D expensing are timing differences and generally do not impact the income statement.

However, the cash flow benefits appear to be significant in the near term given the upfront deductibility of investment.

The exhibit below illustrates the statutory tax rate, the reported P&L effective tax rate, and the cash tax rate. Given reinstated and expanded expensing, we believe the "cash" (economic) tax rate will likely now test prior lows, which is a positive for free cash flow.

Exhibit 32: Cash Tax Rate Should Test New Lows

Source: FactSet, Morgan Stanley Research

Upfront R&D Expensing: While the OBBBA does not lower the statutory corporate tax rate, it does include a couple of elements that are meaningful near-term tailwinds for large cap corporates. Upfront R&D expensing is one of these tailwinds. As our tax policy strategists have [discussed](#), the TCJA required that companies amortize R&D expenses over a 5-year period starting in 2022. President Trump's new bill allows corporates to return to upfront R&D expensing.

Most importantly, the provision also allows companies to accelerate deductions that were deferred from 2022 to 2024 when the 5-year amortization schedule applied. Both of these elements of the provision should accelerate cash tax savings for corporates. In particular, companies in Tech, Communication Services and Healthcare should benefit more meaningfully.

Bonus Depreciation: The new tax bill also brings back 100% first-year bonus depreciation for qualified property and equipment. 100% bonus depreciation was in place from 2017 to 2022, but has been phased out over the last 3 years in 20% increments.

In 2025, bonus depreciation under the TCJA phase out schedule was limited to 40% of the price of qualifying assets. Thus, like immediate R&D expensing, this is an incremental positive for corporates. The sectors likely to see the greatest impact are capital intensive—Aerospace and Defense, Telecom, Technology, Energy, and Multi-Industry/Capital Goods.

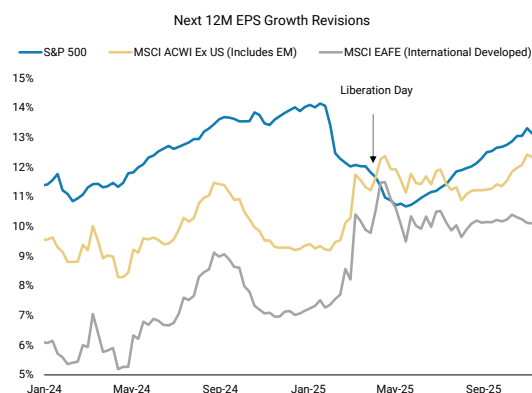
This component of the bill supports our overweight stance on Industrials as the space is capital intensive and should benefit from the bonus depreciation aspect (i.e., first derivative, cash tax savings impact). The sector should also benefit from a second derivative standpoint as this provision should incentivize a pickup in equipment investment, benefitting multi-industry plays.

On the Global Stage, We Continue to Prefer US Equities

Earnings strength is the main driver of our preference for owning US equities on a relative

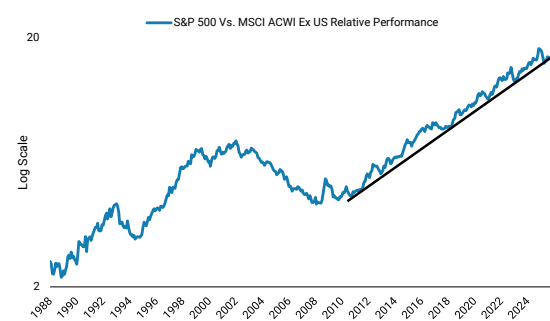
basis. We forecast a 14% 2025-27 EPS CAGR for the S&P 500, outpacing the TOPIX at 12%, MSCI EM at 11%, and MSCI Europe at 5%. Positive operating leverage, the re-emergence of pricing power, easy comparisons for the average stock, AI-driven efficiency gains, and growth-positive tax and regulatory policies support our constructive view on US earnings and cash flow growth throughout our forecast horizon. Our out-of-consensus view that the US equity market is entering an early-cycle environment suggests that small-cap stocks and economically sensitive pockets of the market should see outsized earnings growth relative to large-caps stocks.

Exhibit 33: S&P 500 EPS Growth Revisions Have Reaccelerated Post 'Liberation Day'



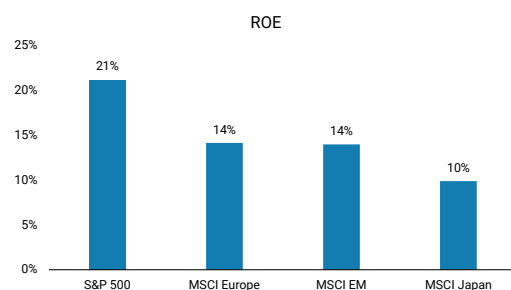
Source: FactSet, Morgan Stanley Research; Note: Based on bottom-up consensus revisions.

Exhibit 34: US Relative Performance Versus International Equities Remains in a Long-Term Uptrend



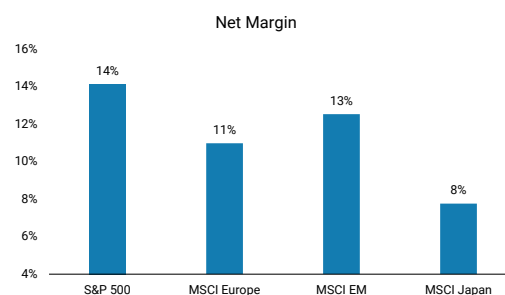
Source: FactSet, Morgan Stanley Research

Exhibit 35: US Shows Relative Strength from an ROE...



Source: FactSet, Morgan Stanley Research

Exhibit 36: ...and Profit Margin Standpoint



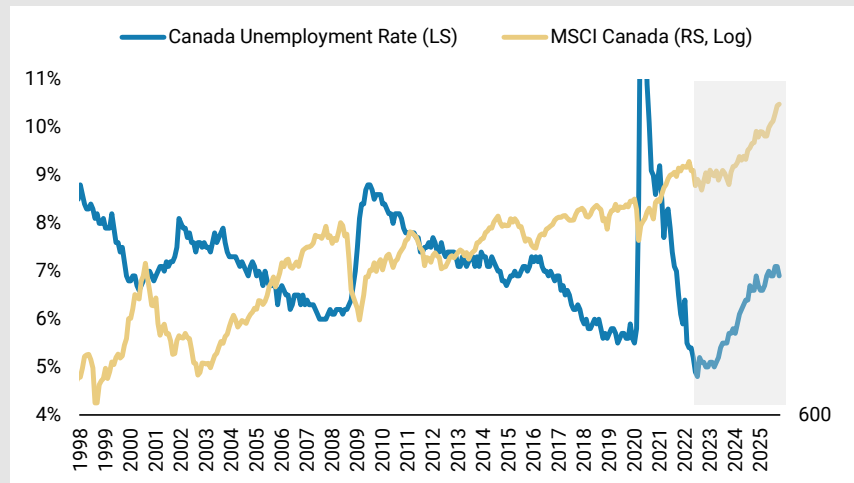
Source: FactSet, Morgan Stanley Research

Look To Canada for an Interesting Labor Market Parallel?

What's gone on in Canada is interesting in terms of the recent relationship between equities and the labor market. Their unemployment rate has gone up much more than it has in the US, but in a break from history, their equity market has gone up as the unemployment rate has risen. Why? For one, their central bank has cut the policy rate by almost 300bps since last June. In addition, the weakness in the jobs market has been moderately paced as an acute shock tied to a non-linear rise in the unemployment rate has been avoided (as it has in the US). Interestingly, the Canada job market weakness appears to now be stabilizing

following this policy response as our economists [point out](#). There are, of course, differences in economic and equity composition between the two countries, but this could be an instructive parallel to some degree to the extent one believes softness in alternative jobs data portends moderate weakness in "official" US jobs data.

Exhibit 37: In a Break from the Typical Trend, Canada's Stock Market Has Surged As Its Unemployment Rate Has Gone Up; Is This A Helpful Parallel in Some Regards?



Source: Bloomberg, Morgan Stanley Research.

Bull Case Scenario

In our bull case outcome (9,000 price target), earnings growth is even stronger than it is in our base case. Specifically, we see 13% EPS growth in 2025, 23% in 2026 and 16% in 2027. EPS growth upside is driven by an even more robust positive operating leverage dynamic as margin expansion is over 250bps cumulatively from 2025 through 2027. This is aided by strong AI driven efficiency gains (60/80bps margin lift in 2026/2027) and top line growth that comes in stronger via resilient unit demand across the industrial, consumer and technology complexes and pricing power.

As in our base case, the Fed is accommodative, but is likely cutting rates for longer—i.e., through 2026 vs. more front-half loaded. This scenario also likely involves net asset purchases from the Fed at the front-end of the yield curve that continue into next year. The equity market is likely to view this development as liquidity-positive. We would expect a broadening in leadership to take place in this scenario (as in our base case), but there's likely more valuation support for both the average stock and the Mag 7 (market multiple expands to 23x). For the Mag 7, valuations continue to expand driven by strong revenue revisions and accelerating data center capex growth expectations.

On the fiscal policy side, bonus depreciation and upfront R&D expensing drive a broad capex recovery that benefit sectors across industrials, tech and commodities. Financials benefit from a clear reacceleration in loan growth and a booming capital markets cycle. Foreign demand for US equities rises amid strong relative earnings growth and structural growth trends, and retail investors continue to add exposure as money market assets

transition to equity allocations.

The dollar likely weakens more than it does in our house baseline as lower front-end rate differentials counter demand for US-denominated assets (i.e., DXY to 90 or below). This is a tailwind for US multinational revenues. While growth is strong, the long end of the yield curve remains contained given a combination of easy monetary policy, Treasury buybacks, a lack of back-end issuance and other measures that prove successful (i.e., stablecoin issuance).

Trade dynamics with China settle in a de-escalatory steady state and tariffs prove to be muted in terms of their impact on related companies. In fact, they drive pricing power for companies that have had a lack of it, and consumers are much more receptive to higher price points in these categories (i.e., consumer goods) than originally thought. The administration's effort to get velocity in the housing market going again proves successful amid a combination of drivers (i.e., relaxing zoning and permitting requirements, offering builders greater incentives, potentially mortgage portability, and suppressing the back end of the yield curve via measures previously discussed).

Bear Case Scenario

Our bear case (5,600) centers around a Fed that needs to reverse course on monetary policy much sooner than expected and actually needs to start raising interest rates in the back half of 2026. The driver of this view is an inflation impulse that reemerges in full force in the first half of next year driven by a combination of tariff-induced goods inflation, sticky services inflation in consumer and healthcare segments, higher than expected rental inflation and wage pressures as a result of the immigration dynamics. The main driver of performance downside in this scenario is multiple compression as the correlation between equity returns and bond yields falls deeply into negative territory and stays there. This outcome resembles 2022 in some ways as earnings start to come under pressure as well given the interest rate upside, but a technical economic recession is avoided. We'd expect high beta and longer duration areas of the equity market to underperform in this type of an environment. Specifically, we see multiple compression from ~22.3x today to 20x at the end of next year in this scenario. EPS growth drops from 10% this year to 5% in 2026 and then 0% in 2027.

The Economy and the Equity Market...Only Distant Cousins

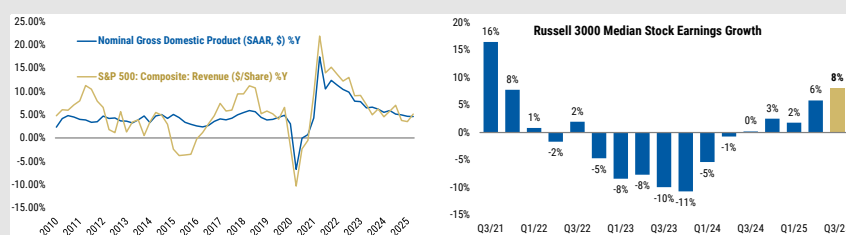
Rajeev Sibal and US Equity Strategy

Strong equity market performance and earnings revisions, particularly in the US, have raised the question as to why nominal GDP data are not reflecting the same resilience of these indicators. However, even casual reflection reveals that although the intuitive correlation between nominal GDP and revenues can be found, there is often wide divergence. That fact should not surprise because nominal GDP measures **final** output while equity revenues derive from **all steps in the value chain**. This fact means that the prices many firms received are not included in GDP deflators, CPI, or PCE inflation.

The correlation between nominal GDP and earnings is even weaker. Again, given the many drivers for profits, there should be scant surprise. Lean cost structures, a weaker dollar, and benefits from the OBBBA all drive earnings/cash flow but are not captured in GDP measures. Similarly, the big increase in capex spending on AI had a more muted effect on GDP, because many of the components were imported, and imports offset investment in the GDP calculation.

A deviation between nominal GDP and revenues has started and could increase. Immediately prior to Covid, the relationship was weak, but since then the two have tracked, reflecting mostly the path of inflation in recent years. For example, in 2024 average nominal GDP growth was 5.4%Y relative to top-line growth of 5.3%Y, and in 2025 we expect nominal GDP growth to be 4.6%Y relative to top-line growth of 5.2%Y. However, in 2026, we think that the spread between nominal GDP growth and revenue growth could widen as corporates push prices higher and the dollar benefits revenues from overseas (particularly in 1H). The early signs of the deviation are apparent in 3Q reporting as the revenue beat rate for the S&P 500 is running at twice the long-term average.

Exhibit 38: The Deviations Between Nominal GDP and Revenues Can Be Wide and Persistent. The Median Stock Is Seeing Its Best Earnings Growth in Four Years



Source: BEA, Haver Analytics, Compustat, Morgan Stanley Research

For earnings, the disconnect between nominal GDP growth and profits is greater; profits reflect operating performance from input to output, while nominal GDP is just about final output. These differences can be amplified by the phase of the economic cycle. For example, the equity strategy view for margin expansion is driven by lean cost structures and operating leverage fueled by AI efficiency gains. And as important as the fundamentals are, the equity market is forward looking, so the market itself can disconnect even more from the economy at any point in time.

Trade Ideas and Screens

Trade Ideas

Upgrading Small Caps to Overweight Relative to Large Caps

We've been underweight small caps for the vast majority of the past 4 years, having removed our overweight rating in March of 2021 following a strong period of outperformance post-covid and before a multi-year run of underperformance. What gives us conviction to upgrade the group to overweight now? The main reason is tied to our out of consensus view that we're now entering an early cycle environment following the rolling recession of 2022-early 2025. To recap, we believe the four key pillars of an early cycle set-up are with us today, a combination of variables that uniquely support small cap outperformance. These four elements are: compressed cost structures that set the stage for positive operating leverage to resume, pent up demand, a historic rebound in EPS revisions breadth and a Fed that is cutting rates. Early evidence suggests the small cap earnings recovery is underway ([Exhibit 39](#)).

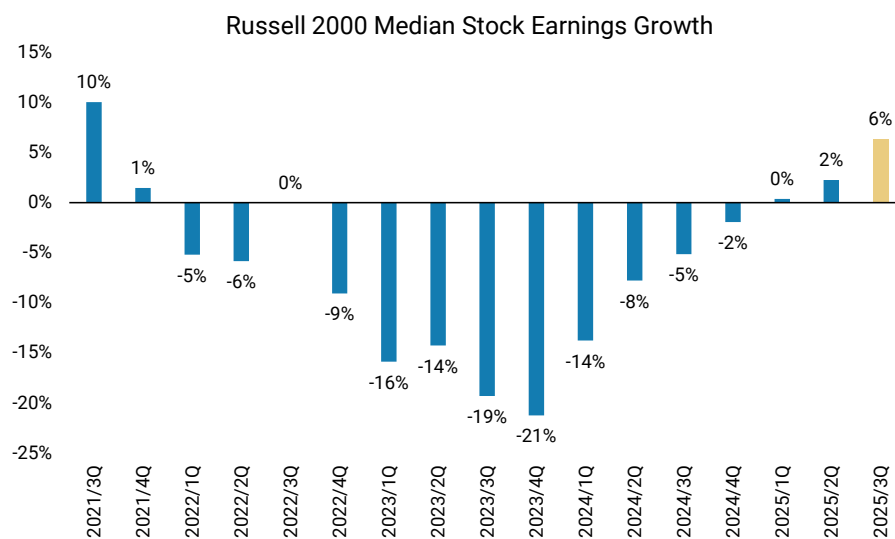
On the operating leverage point, the top panel of [Exhibit 40](#) shows the spread between the NFIB Small Business Survey series on revenue versus worker compensation expectations. Note how this spread is inflecting materially higher as it typically does at the onset of a new business cycle. In the past, we've shown how a rise in this spread tends to point to a subsequent, significant increase in EPS growth for large caps. In the chart below, we've added small cap earnings growth to the bottom panel. Notably, small cap earnings growth tends to outpace even the strong EPS growth for large caps in these environments. This reinforces the notion that small caps are even more sensitive to (1) positive operating leverage dynamics and (2) wage costs as it relates to corporate cost structures. Compensation expense is the most pervasive cost pressure that small caps face. Thus, in periods where cost structures are getting leaner as a result of a broad reduction in the second derivative on wage growth, a little bit of top line goes a long way in terms of leading to a powerful earnings recovery.

Importantly, small cap earnings revisions are now starting to turn higher against large caps ([Exhibit 41](#)), a key development we were waiting for before upgrading the group to overweight. [Exhibit 42](#) helps to reinforce the notion that small caps tend to outperform the broader market in early cycle backdrops. While the Fed is currently not cutting as much as they typically would be in an early cycle set up, we think lagging, moderate labor market weakness (as indicated by the alternative labor data) coupled with the administration's desire to "run it hot" means that, ultimately, the Fed is likely to deliver more dovish policy than the market currently expects. We don't think small cap stocks are going to wait around to discount this development.

[Exhibit 43](#) and [Exhibit 44](#) offer further evidence of small caps' increasingly evident relative earnings momentum. Lastly, we'd note that small caps continue to trade at a significant (7-turn) valuation discount to large caps ([Exhibit 45](#) and [Exhibit 46](#)), which

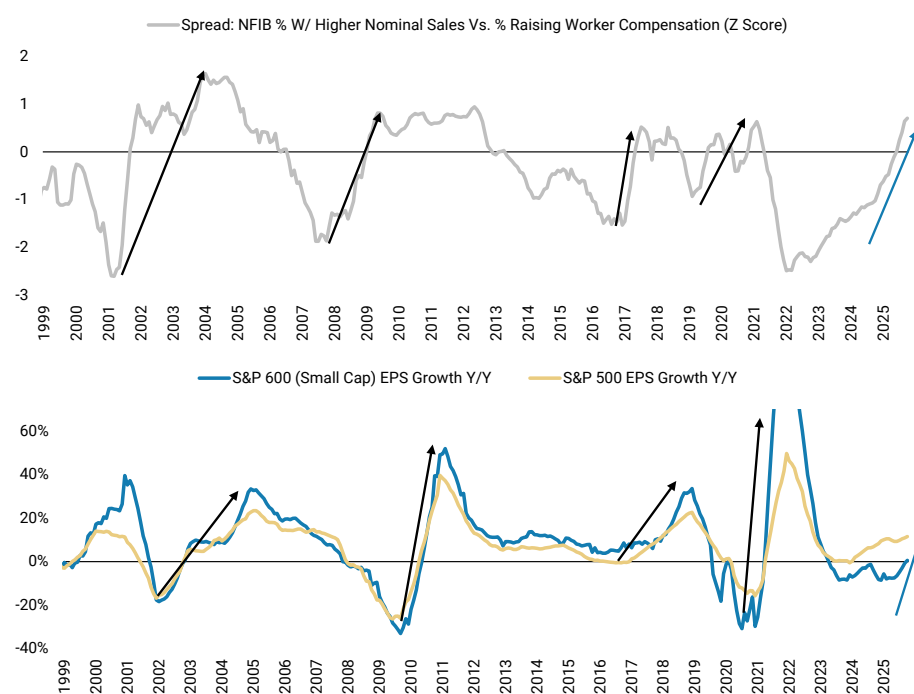
adds evidence to the case that the aforementioned positive tailwinds are not priced. Within small caps, we recommend a barbell of profitable, economically sensitive (more value-oriented) stocks alongside Biotech given some of the tailwinds that should support this cohort during a Fed cutting cycle as discussed below. For single stock ideas on the small cap front, see the stock screen section in today's report.

Exhibit 39: Small Cap Median Stock Earnings Growth Is Inflecting Higher



Source: Compustat, Morgan Stanley Research.

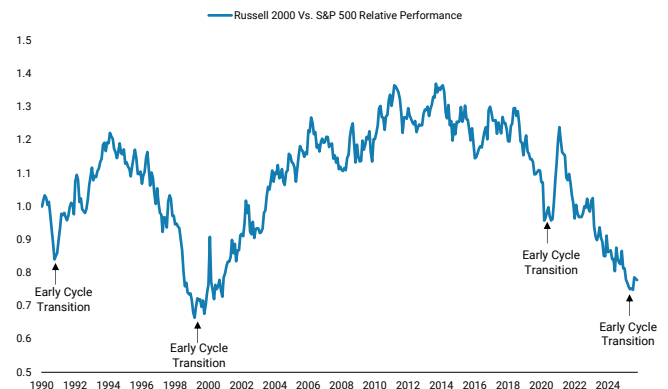
Exhibit 40: Small Cap Earnings Are Particularly Sensitive to Positive Operating Leverage



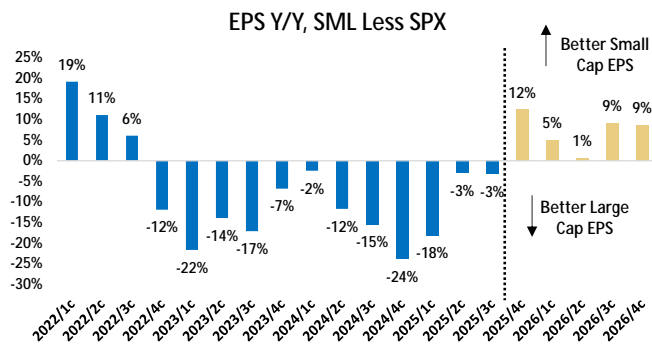
Source: Haver Analytics, FactSet, Morgan Stanley Research.

Exhibit 41: Small Cap Relative Earnings Revisions Turning Higher

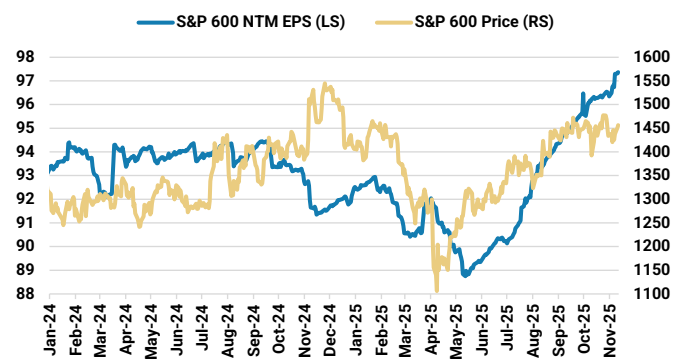
Source: FactSet, Morgan Stanley Research.

Exhibit 42: Small Caps Are A Classic Early Cycle Outperformer

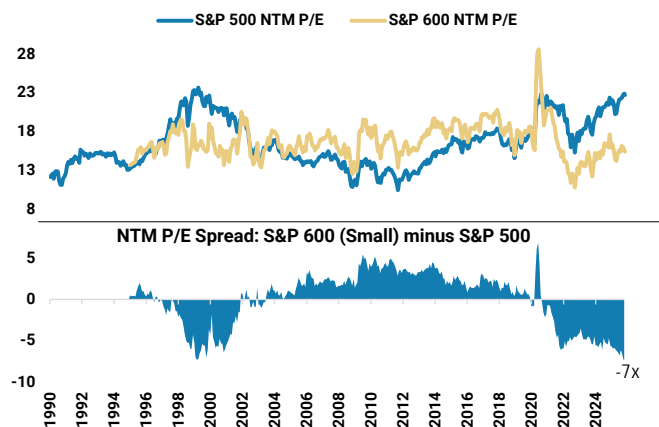
Source: Bloomberg, Morgan Stanley Research.

Exhibit 43: Small Cap EPS Growth Set to Outpace Large Cap Growth in Coming Quarters

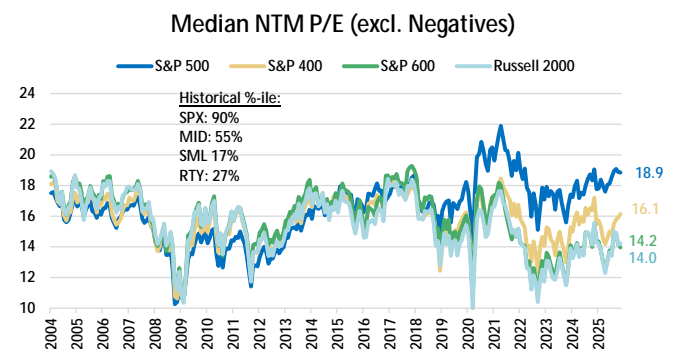
Source: FactSet, Morgan Stanley Research.

Exhibit 44: Forward EPS Estimates Have Been Strong

Source: FactSet, Morgan Stanley Research

Exhibit 45: Small Caps Continue to Trade at a Significant Valuation Discount to Large Caps...

Source: FactSet, Morgan Stanley Research.

Exhibit 46: ...We Also See This for the Median Small Cap Stock

Source: FactSet, Morgan Stanley Research.

Consumer Discretionary Goods over Services

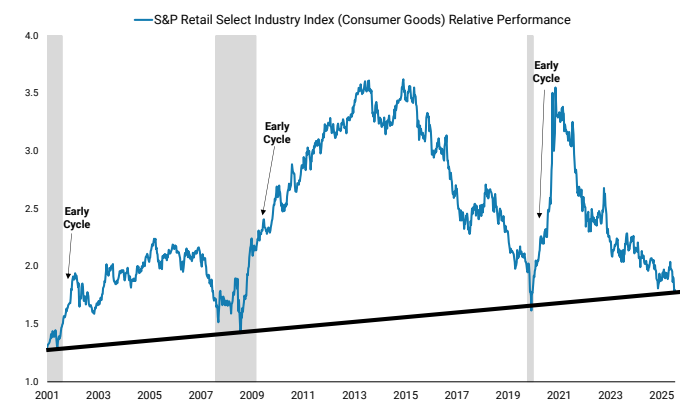
Like small caps, we have remained underweight Consumer Discretionary Goods for much of the last several years as the space has persistently underperformed amid several meaningful headwinds: significant payback in demand post-covid, wallet share shift to services, elevated interest rates, poor pricing power and most recently, tariffs. Today, we double upgrade the industry to overweight and express a preference for Consumer Discretionary Goods over Services after an extended period where we preferred Services over Goods. With relative performance of Discretionary Goods near all-time lows, we feel the aforementioned risks are in the price. Looking forward, we think the following variables benefit Discretionary Goods on a relative basis, including against Discretionary Services:

- An early cycle backdrop—in line with our macro view (see above), this is the cyclical environment when this area of the market tends to outperform.
- Rebounding relative earnings revisions which points to upside in relative performance.
- Stabilizing pricing for Goods, while pricing for Services moderates.
- Early signs that wallet share shift (in units) is moving toward Goods from Services.
- More insulation from wage pressures that Services could face amid a tighter labor pool.
- Declining interesting rates both at the front-end and back-end of the yield curve (see our macro views above); this benefits housing related equities within the Discretionary Goods industry on a relative basis.
- Strong household balance sheets driven by the high end consumer who contributes the majority of personal consumption.
- Depressed sentiment/positioning in the space.

Further, our Softlines Retail analysts' work indicates that tariff impact seems largely factored into consensus estimates. Their analysis suggests that: "tariffs are largely factored into consensus '26e estimates – if mgmt. forecasts are correct. More specifically, the Street assumes: 1) '26e GM expands ~5 bps y/y, vs. our implied tariff analysis pointing to down ~15 bps y/y; 2) '26e EBIT/EBITDA margin expands ~30 bps y/y, vs. our implied tariff analysis at ~10 bps y/y; & 3) '26e EBIT/EBITDA increases +10% y/y, vs. our implied tariff analysis suggesting +8% y/y. In other words, our tariff analysis points to just ~20 bps downside to '26e consensus margins & ~2% downside to Street '26e EBIT/EBITDA. We also note our analysis may prove overly punitive, as several companies have indicated expectations for further potential '26e tariff mitigation – a lever not contemplated in our work given it is based on '25e magnitudes provided by mgmt." See [Still Talking About Tariffs: 5 Key Investor Questions Answered](#) by Alex Straton for more.

As [Exhibit 47](#) shows, Consumer Discretionary Goods relative performance is approaching all-time lows and has found long-term support at current levels. From a macro standpoint, household balance sheets remain quite strong in aggregate, which is supportive of consumption trends despite lower end weakness. [Exhibit 48](#) through [Exhibit 50](#) illustrate that net worth to disposable income remains high, debt to disposable income remains low, and excess savings stock is extended.

Exhibit 47: Relative Performance of Consumer Discretionary Goods Vs. the Broader Market Has Neared All-Time Lows and Long-Term Support



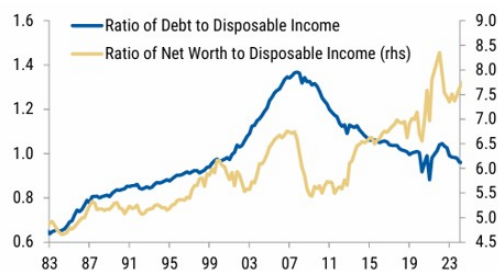
Source: Bloomberg, Morgan Stanley Research

Exhibit 49: Household Wealth (Indexed 4Q19=100) Has Risen Dramatically Over the Past Several Years Driven By Corporate Equities and Real Estate



Source: Federal Reserve, Cooper and Dynan (Journal of Economic Surveys, 2016), Morgan Stanley Research.

Exhibit 48: Household Net Worth Remains Elevated, While Debt to Disposable Income Remains in a Downtrend



Source: New York Fed, Federal Reserve, Bureau of Economic Analysis, Morgan Stanley Research.

Exhibit 50: Excess Savings Stock Still Elevated

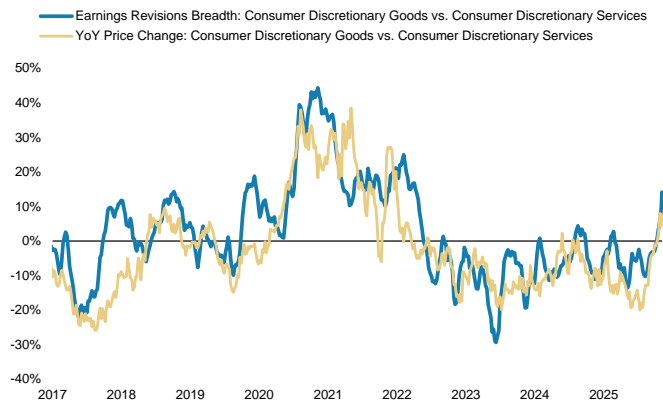


Source: Bureau of Economic Analysis, Federal Reserve, Morgan Stanley Research.

Meanwhile, relative earnings revisions of Consumer Discretionary Goods relative to Services is picking up, pointing to relative outperformance ahead ([Exhibit 51](#)). The long term performance ratio of this pair is also near historical lows and just starting to turn higher ([Exhibit 52](#)). On the pricing power front, we think it's important to note that Goods pricing is starting to stabilize from depressed levels, while Services pricing is starting to decelerate from extended levels ([Exhibit 53](#)). Interestingly, we also find that in unit (quantity) rate of change terms, we're starting to see wallet share shift back toward Goods from Services ([Exhibit 54](#)). We think this is supportive of the notion that the high end consumer is likely to slowly shift consumption dollars from Services to Goods in 2026 after a ~4-year period of under-consumption in this category post-covid. We also think Consumer Discretionary Goods is much more insulated from wage cost pressure than Services is. As [Exhibit 55](#) shows, jobs openings for Consumer Services remain elevated, an indication of a tighter labor pool for this cohort, which is likely added to as a result of recent immigration dynamics. Finally, interest rate sensitive areas of Discretionary (i.e., housing related) have been under pressure given elevated interest rates for several years now. That said, the 10-year yield has come down by more than 60bps

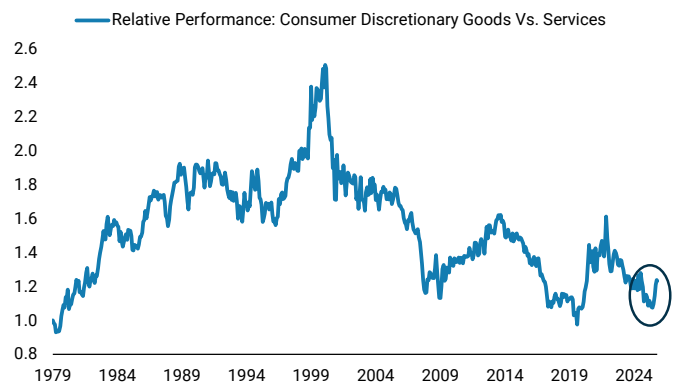
since January and our rates strategists think this continues as a primary trend into next year.

Exhibit 51: Consumer Discretionary Goods Vs. Services Relative Earnings Revisions Inflecting Higher...



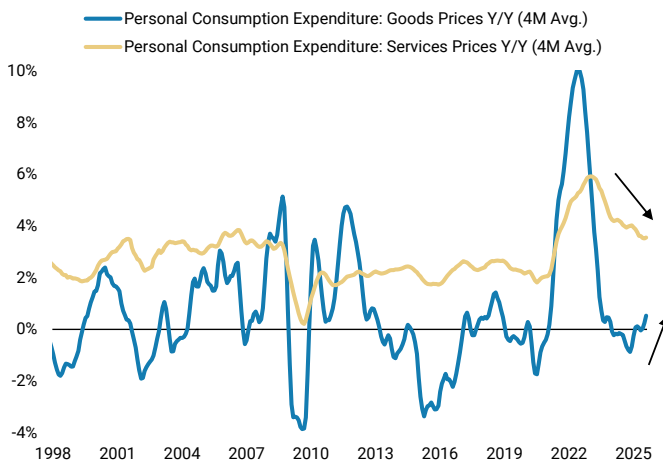
Source: Compustat, Morgan Stanley Research.

Exhibit 52: ...While Relative Performance Is Turning Up from the Lower Bound of the Historical Range



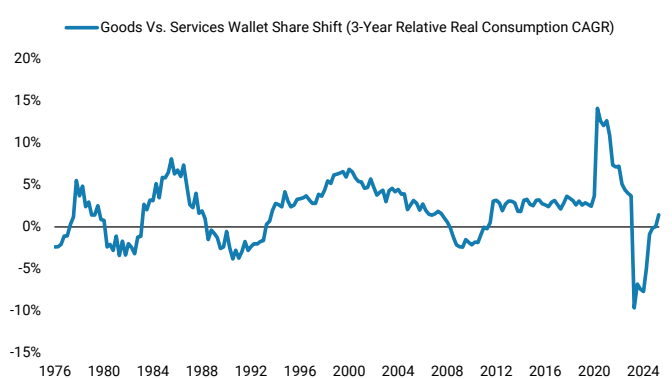
Source: Compustat, Morgan Stanley Research.

Exhibit 53: Discretionary Goods Pricing Power Starting to Pick Up While Services Pricing Starting to Fade



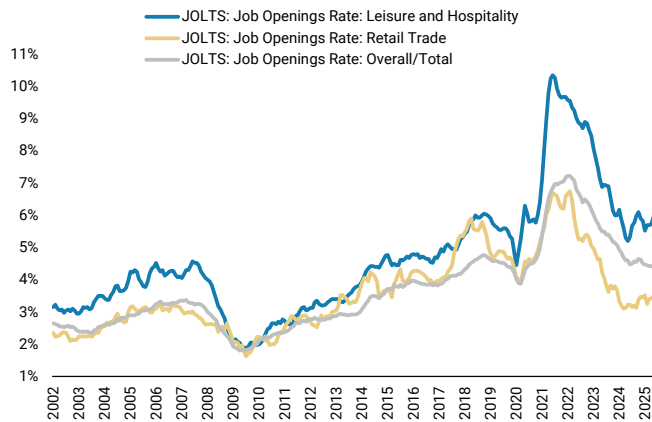
Source: Haver Analytics, Morgan Stanley Research.

Exhibit 54: Wallet Share Shift (in Units) Heading Back Toward Goods from Services



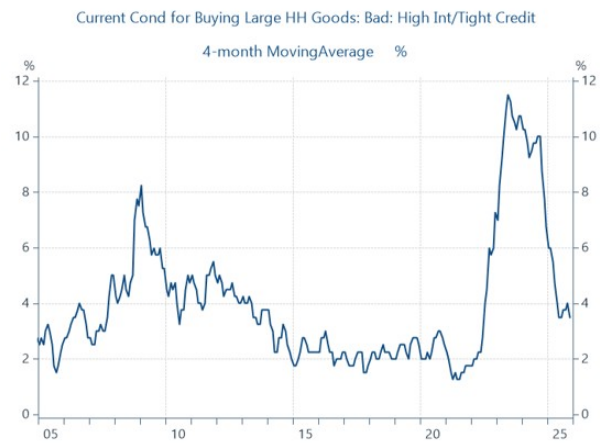
Source: Haver Analytics, Morgan Stanley Research.

Exhibit 55: Labor Pool Remains Tighter for Consumer Services; Could Mean Wage Pressures Pick Up



Source: Haver Analytics, Morgan Stanley Research. 4 mo. avg.

Exhibit 56: Consumer Sentiment Around High Rates Is Getting Less Onerous As Yields Have Come in and the Fed Has Cut



Source: University of Michigan/Haver Analytics

Source: Haver Analytics, Morgan Stanley Research.

Long Financials

Financials have shown some of the strongest earnings revisions breadth both over the last month and since the April lows. [Exhibit 57](#) and [Exhibit 58](#) show that revisions are improving for both Banks and Diversified Financials.

One of the more encouraging macro signals we are tracking is the improvement in the Senior Loan Officer Survey data in recent quarters. As [Exhibit 59](#) illustrates, the easing credit conditions reflected in this survey point to a rebound in C&I loan growth into next year (also a tailwind for Industrials). We think this adds to the investment case for owning mid-cap banks as well in 2026. Manan Gosalia who covers this group has an attractive industry view on the space driven by:

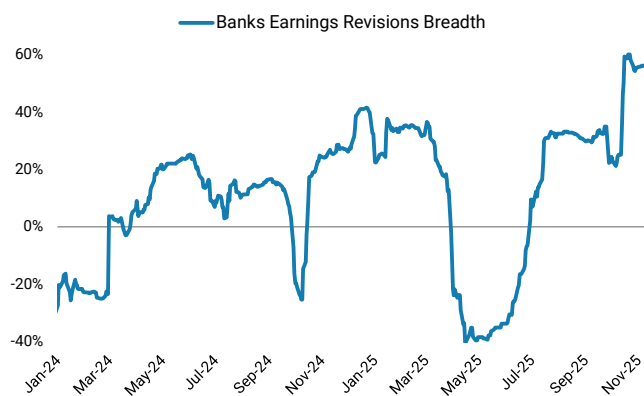
- A steepening yield curve with lower short-end rates is an ideal backdrop for mid-cap Banks.
- Lower short-end rates drive lower deposit costs, while fixed rate asset repricing and loan growth drive more NII and NIM upside.
- Lower rates are also credit positive, with several credit metrics already stabilizing.
- All in, we expect y/y EPS growth of 10% in 2026 / 14% in 2027 for the group.
- Despite these positives, the group is cheap. Mid-cap banks have underperformed the largest banks by 30% YTD, with their 3x P/E discount near its widest in 10 years.

We've also seen **M&A** return with 3Q25 announced volumes up 43%Y and large strategic transactions leading the way—a key tailwind for capital markets plays within the space. We expect a further broadening out in activity, with sponsors next. Our [proprietary analysis and quant models](#) offer stock ideas on this front.

Lastly, valuation remains attractive for Financials. [Exhibit 61](#) and [Exhibit 62](#) highlight that both relative forward P/E and price/book have dipped below historical averages. The bottom line, we see the Financials sector as an outperformer next year on the back of improving earnings revisions, stabilizing loan growth, rebounding capital markets activity,

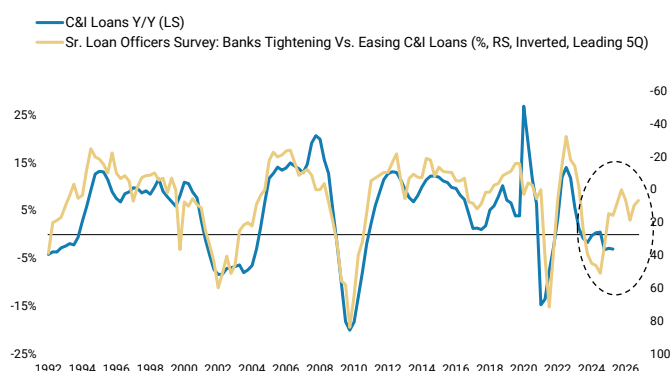
de-regulation, AI efficiency tailwinds and attractive valuation. Given the drivers mentioned previously for mid-cap banks, we think it makes sense to also look down the cap curve for early cycle opportunities within the broader Financials sector.

Exhibit 57: Banks Earnings Revisions Breadth Has Improved Dramatically Since the April Lows...



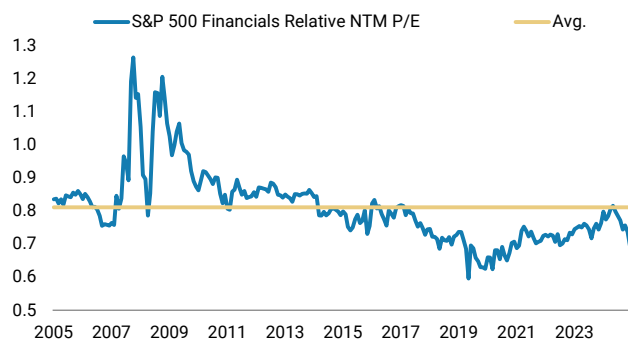
Source: FactSet, Morgan Stanley Research.

Exhibit 59: An Easing in Credit Conditions As Measured by the Senior Loan Officer Survey Indicate That Loan Growth Is Set to Improve into Next Year



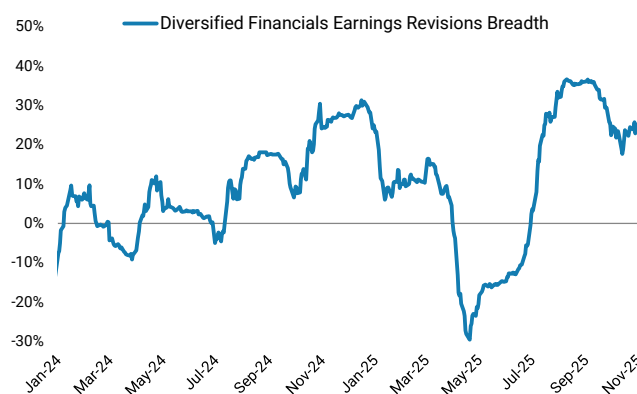
Source: Haver Analytics, Morgan Stanley Research.

Exhibit 61: Financials Relative Forward P/E...



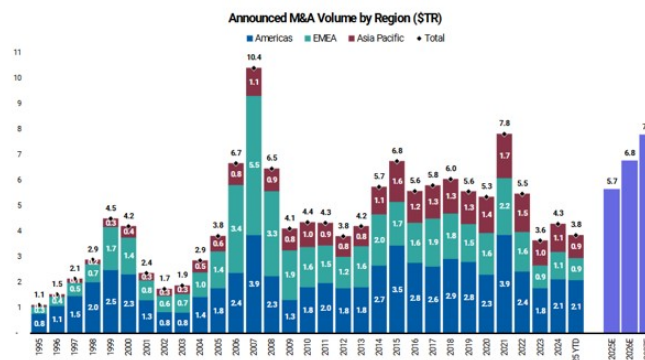
Source: FactSet, Morgan Stanley Research.

Exhibit 58: ...As Has Revisions Breadth for Diversified Financials



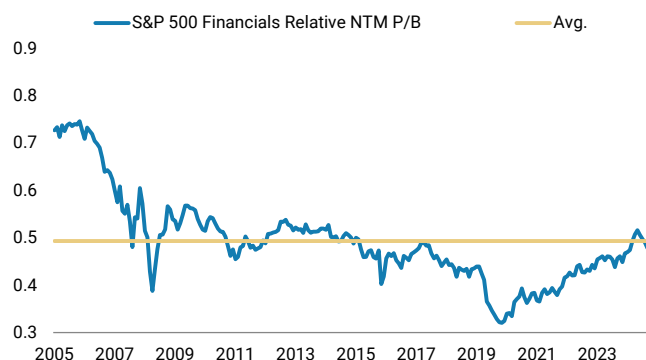
Source: FactSet, Morgan Stanley Research.

Exhibit 60: We See a Significant, Sustained M&A Rebound Ahead



Source: Dealogic, Morgan Stanley Research forecasts; Note: 2025 YTD as of 3Q25. Data include strategic, sponsor, and buyback deals; data exclude rejected/cancelled deals. See [M&A Returns](#) by Andrew Sheets and team for more.

Exhibit 62: ...and Price/Book Ratios Are Attractive Vs. History

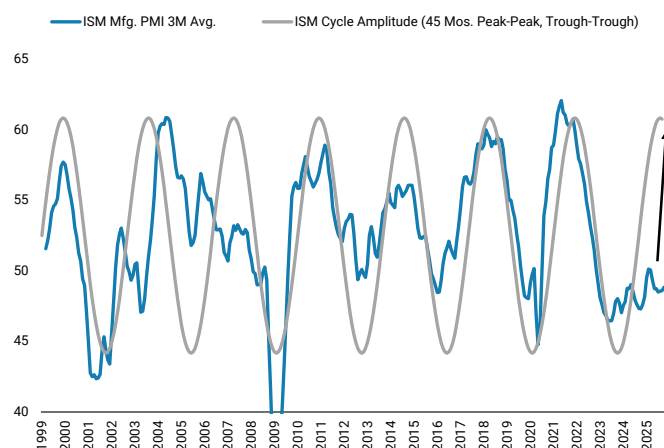


Source: FactSet, Morgan Stanley Research.

Long Industrials

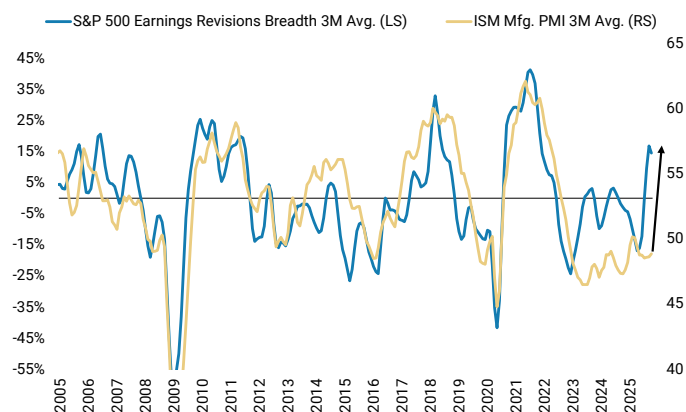
We remain overweight Industrials into 2026 as we anticipate market broadening on the back of stronger top-line growth and positive operating leverage. The sector benefits from these tailwinds and others. Manufacturing PMIs have been in contraction territory for three years as a rolling recession worked through the US economy. That said, as our analysis below points to, the rebound in earnings revisions breadth now signals a reacceleration in the ISM. Further, Industrials are the main beneficiary of the emerging US capex cycle and the space benefits from the current administration's focus on the domestic infrastructure buildout. See our work in the section above on the capex cycle starting to turn. Corporates are adopting a region-for-region buildout to better navigate the tariff environment and serve domestic demand. Further, given our broadening out thesis, we expect capex expectations to revise higher for the average US company. In a related vein, the space should also benefit from the continuation of the Fed cutting cycle into 2026. Lower rates should unlock longer-cycle projects, spur M&A, and give confidence to management teams on the economic outlook, and we are already seeing signs of a pickup in industrial investment ([Exhibit 65](#)). The chart in the Financials section above shows that C&I loan growth is also set to pick up. Bonus depreciation and domestic manufacturing tax credits remain tailwinds as companies see an increase in free cash flow. Lastly, reshoring remains a structural tailwind and the multipolar world is a positive for the US industrial sector ([Exhibit 66](#)).

Exhibit 63: The Ending Phase of the Rolling Recession + Liberation Day Stifled the ISM Recovery That Was Implied by the Historical Cycle Amplitude...



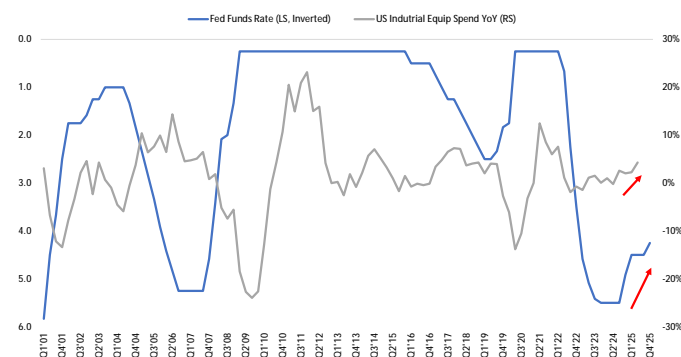
Source: FactSet, Bloomberg, Morgan Stanley Research.

Exhibit 64: ...The Rebound in Earnings Revisions Breadth Suggests We're Now Going to See a Catch Up



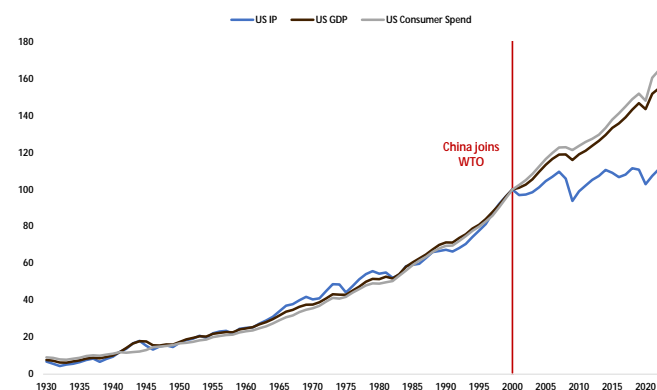
Source: Bloomberg, Morgan Stanley Research.

Exhibit 65: Capex Spending Is Restarting with the Fed Cutting Cycle in Progress



Source: US Census Bureau, Morgan Stanley Research. US multi-industry team.

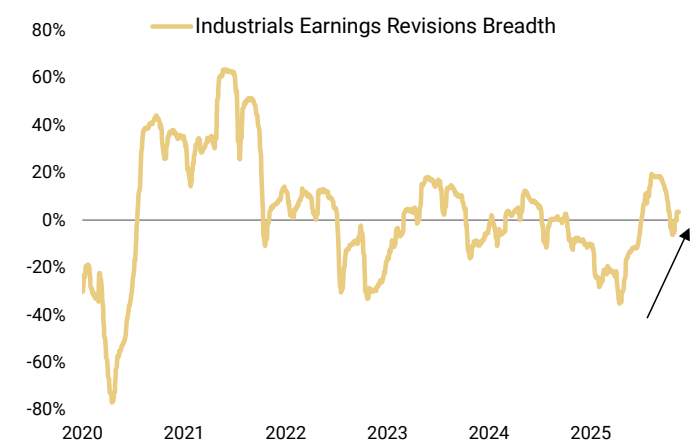
Exhibit 66: US Has Incurred 20+ Years of Industrial Stagnation after China Joined with WTO in 2000; However, We See the Tide Beginning to Turn



Source: US Census Bureau, Morgan Stanley Research. US multi-industry team.

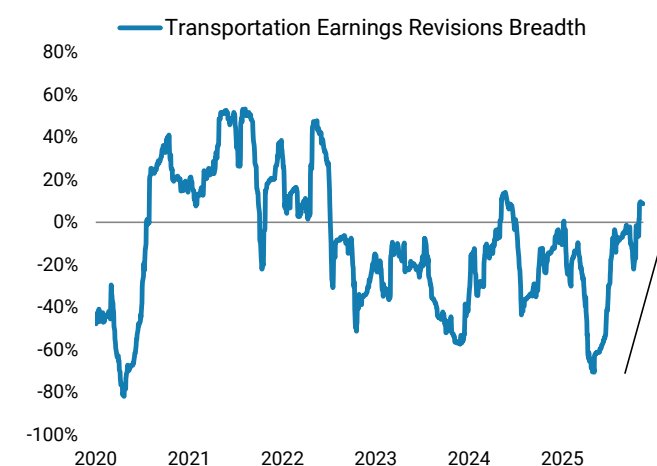
On the fundamental side, we look towards earnings to be the driver of upside both at the overall market and Industrials levels. 2025 was a year for earnings stabilization within Industrials (expected to see 6% growth) ahead of a clearer rebound in 2026 (15% growth). The exhibits below show that earnings revisions breadth for the overall sector is picking up once again after a brief pause. Meanwhile, Transports, in particular, are showing relative EPS revisions strength. On the valuation front, we have seen relative valuations move back towards long-term averages in recent months. We believe this represents a fair entry point ahead of a strong earnings outlook.

Exhibit 67: We See Industrials Earnings Revisions Momentum Continuing into 2026 After the Recent Pause



Source: FactSet, Morgan Stanley Research

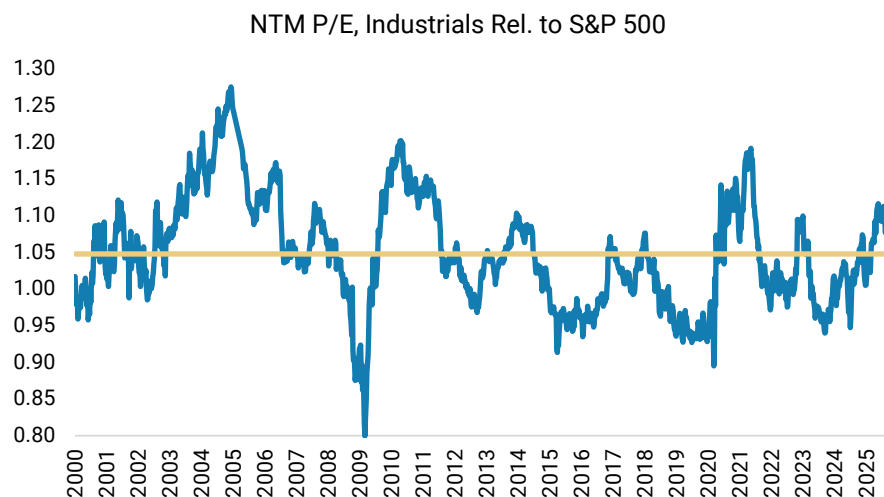
Exhibit 68: Transports, in Particular, Are Showing Relative Strength



Source: FactSet, Morgan Stanley Research

Exhibit 69:

Valuation Is Back Near Long-Term Averages



Source: Bloomberg, FactSet, Morgan Stanley Research

Healthcare for Quality Growth Exposure

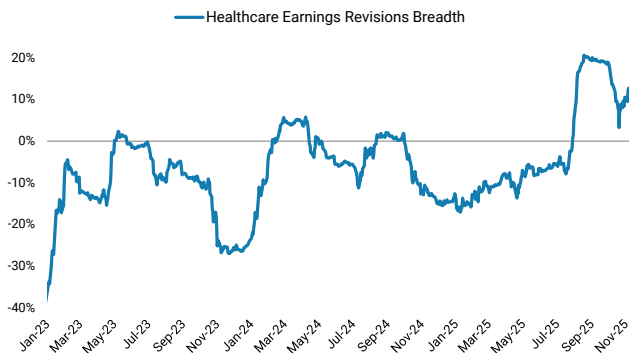
Healthcare benefits from rate cuts into 2026, supportive earnings momentum, undemanding valuations, lessening policy overhangs and M&A tailwinds. Biotech, in particular, tends to see strong relative performance 6–12 months post the first Fed cut, though the sector overall sees relative outperformance.

On the earnings front, we're seeing earnings revisions accelerate across Pharma/Biotech and Equipment/Services, a clear positive tailwind for the space. Further, relative valuation for the sector remains in the bottom 6th percentile of historical levels back 30 years.

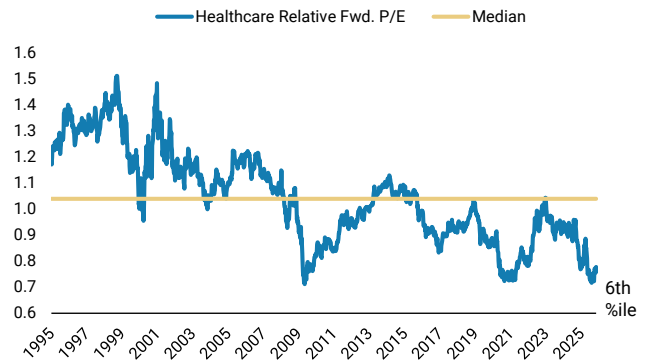
In terms of policy, clearer CMS pricing guidance, on time PDUFA, and tariff/MFN dynamics are increasingly reflected in prices as overhangs on these fronts are being reduced. This has brought generalists back into the Healthcare trade from our conversations.

It's also worth noting that M&A tailwinds are building as large cap balance sheets can accommodate deals, and 2025 already shows 30+ biotech/biopharma deals totaling ~\$70bn+ YTD; expect sustained activity as companies backfill pipelines ahead of patent cliffs.

Lastly and importantly, a powerful internal dynamic is emerging within the biotech ecosystem: a new generation of small- and mid-cap biotechs transitioning into sustainable, cash-generative enterprises. Within Morgan Stanley's SMID US Biotech coverage, we've identified 26 companies with commercial-stage products, several of which we expect to organically grow into larger-cap biopharma players in the coming years. See [Vital Signs Improve: Healthcare Rallies on Friendlier Macro](#) and [Biopharma: What Could Improve Sentiment?](#) for more. **The bottom line, we upgrade Healthcare to overweight from equal weight.**

Exhibit 70: Healthcare Earnings Revisions Breadth Inflecting Higher

Source: FactSet, Morgan Stanley Research.

Exhibit 71: Relative Valuation Remains Attractive

Source: FactSet, Morgan Stanley Research.

Exhibit 72:

Relative Returns During Various Interest Rate Regimes: Biotech & Other Potentially Rate Sensitive Cohorts



Source: Compustat, Bloomberg, Morgan Stanley Research. Average quarterly returns shown. Relative benchmark index for the S&P Biotech Select Industry Index is cap weighted Top 1500. For all others it's equal weighted Top 1500. Equal Weight Biotech based on a Top 1500 universe. High Leverage is top quintile of debt to EBITDA. Unprofitable is represented by Top 1500 companies with no earnings ex-Biotech. High Revenue Growth Software is companies in the Software industry with high revenue growth (over 30%). Based on 10-year yield.

Exhibit 73: Average Relative Return Across Healthcare Subsectors After First Rate Cut Since 1989

	Previous 9M	Previous 6M	Previous 3M	Next 1M	Next 3M	Next 6M	Next 9M	Next 12M
Russell 1000								
Healthcare	9.7%	4.9%	3.3%	-3.2%	-0.2%	2.5%	6.9%	6.4%
Healthcare Equipment & Supplies	13.4%	8.4%	7.1%	-2.9%	3.2%	5.3%	9.7%	10.3%
Healthcare Providers & Services	7.5%	4.7%	3.0%	-4.1%	0.3%	-1.6%	2.9%	-3.7%
Healthcare Technology	22.4%	13.7%	10.0%	-3.6%	-1.1%	-5.6%	3.3%	-4.2%
Biotechnology	8.6%	3.0%	4.8%	-1.3%	0.1%	21.2%	27.6%	34.4%
Pharmaceuticals	11.3%	5.5%	3.4%	-4.4%	-1.5%	3.5%	4.3%	2.8%
Life Sciences Tools & Services	4.2%	5.2%	5.9%	0.5%	-0.2%	-1.5%	12.1%	17.9%

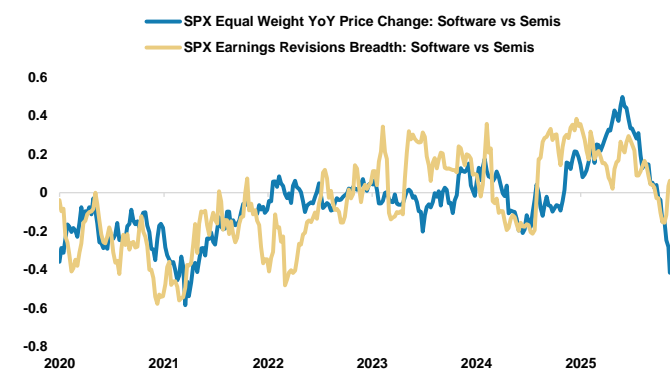
Source: Morgan Stanley Research, Bloomberg, Compustat.

Equal Weight Software over Equal Weight Semis

Within Tech, we have a preference for equal weight software over equal weight semiconductors. Relative earnings revisions breadth for this trade turned higher in late October and momentum is continuing on this front in recent weeks. Despite this

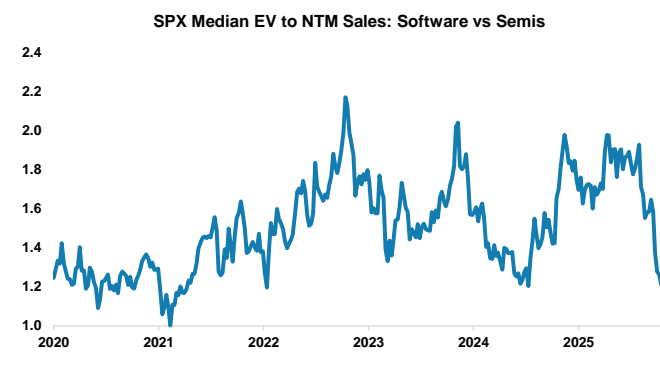
inflection, software relative performance has faded, nearing 2021 relative lows. We think this sets up a rebound in software relative performance as earnings revisions improve. The median software stock has typically traded at a premium to the median semiconductor stock. That's no longer the case as the median stock EV/sales multiple for the pair has compressed notably.

Exhibit 74: Relative Earnings Revisions for Software vs. Semis Picking Up, Pointing to a Catch Up in Relative Performance



Source: FactSet, Morgan Stanley Research

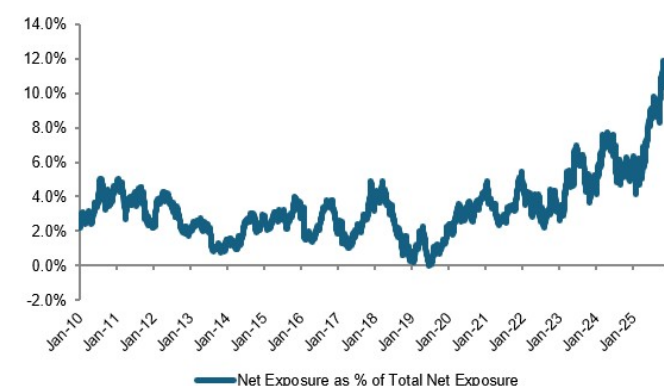
Exhibit 75: Relative EV to NTM Sales Multiples for Software Have Compressed Back to 2021 Levels



Source: Compustat, Morgan Stanley Research

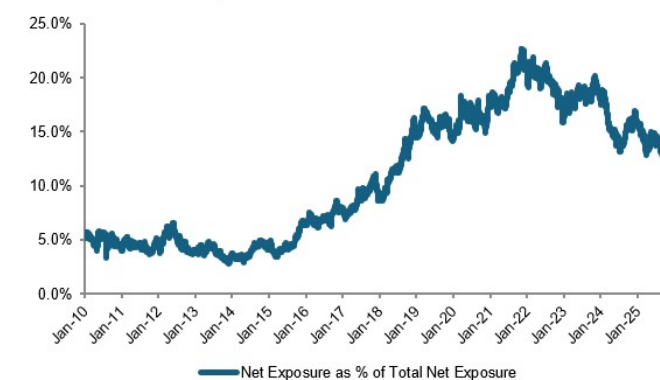
Semiconductor net exposure remains elevated—it is in the 89th percentile versus the past 12 months and the 99th percentile relative to data since 2010 with hedge funds heavily overweight the group. By contrast, software remains underowned, with net exposure sitting in just the 2nd percentile over the past year and the 52nd percentile since 2010 despite improving relative fundamentals more recently as alluded to above.

Exhibit 76: Semis Net Exposure



Source: MS PB Content

Exhibit 77: Software Net Exposure

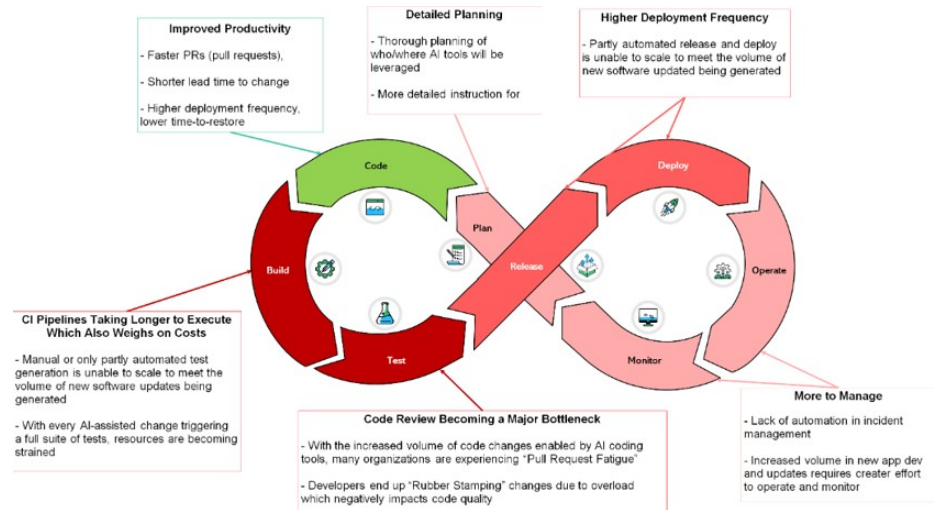


Source: MS PB Content

As highlighted by this positioning data, sentiment around software has been muted as investors remain concerned about GenAI disruption of the industry and the possibility that fewer software developers will be needed in the AI era. Keith Weiss, our software analyst, disagrees [arguing that productivity unleashed by AI](#) will expand the pool of developers and spur a wave of app modernization initiatives, supporting growth in developer seats. While use of AI coding assistance tools has created more code, it has also resulted in more bottlenecks which require more AI automation, creating growth opportunities for incumbents.

Joe Moore our semiconductor analyst believes AI remains a strong secular tailwind for semiconductors broadly, but recent supply/demand dynamics have been most supportive for the memory trade, where a supercycle is beginning. In areas less directly exposed to AI, the recovery continues at a steady pace, though the upside appears more long-term than near-term.

Exhibit 78: AI's Impact on the Software Development Life Cycle



Source: Morgan Stanley Software Research/Keith Weiss/Sanjit Singh.

Stock Screens

Cyclicals + Historical Early Cycle Outperformance + MS Overweight

We used the following screening criteria:

- Stock is a member of top 1000 US stocks by market cap universe.
- Stock is classified as cyclical based on our proprietary classification model.
- Stock outperformed index (equal-weight top 1000) during the 2 year period post market bottoms in both GFC and Covid.
- Overweight by Morgan Stanley Research Analyst

Exhibit 79: Cyclical + Historical Early Cycle Outperformance + MS Overweight

Ticker	Company Name	Sector	Industry Group	Market Cap (\$MM)	Price
GOOGL	ALPHABET INC CLASS A	Communication Services	Media & Entertainment	3,129,922	278.57
LYV	LIVE NATION ENTMT IN	Communication Services	Media & Entertainment	31,771	136.82
DKS	DICKS SPORTING GOODS	Consumer Discretionary	Consumer Discretionary Distribution & Retail	14,550	220.10
GAP	GAP INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	9,013	24.29
HD	HOME DEPOT	Consumer Discretionary	Consumer Discretionary Distribution & Retail	366,372	368.07
PAG	PENSKE AUTO GRP	Consumer Discretionary	Consumer Discretionary Distribution & Retail	10,525	159.81
ULTA	ULTA BEAUTY INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	23,938	533.87
TPR	TAPESTRY INC	Consumer Discretionary	Consumer Durables & Apparel	20,621	100.76
DRI	DARDEN REST	Consumer Discretionary	Consumer Services	20,404	175.42
MAR	MARRIOTT INTL	Consumer Discretionary	Consumer Services	77,132	287.43
LNG	CHENIERE ENERGY	Energy	Energy	45,910	213.30
CVX	CHEVRON CORP	Energy	Energy	313,264	155.58
COP	CONOCOPHILLIPS	Energy	Energy	110,498	89.42
DVN	DEVON ENERGY	Energy	Energy	21,981	35.04
HAL	HALLIBURTON CO	Energy	Energy	22,741	27.02
DINO	HF SINCLAIR CORP	Energy	Energy	9,939	54.03
OKE	ONEOK INC	Energy	Energy	43,694	69.44
SLB	SLB LTD	Energy	Energy	54,244	36.31
WMB	WILLIAMS COS INC	Energy	Energy	72,772	59.59
BAC	BANK OF AMERICA	Financials	Banks	386,083	52.87
FITB	FIFTH THR BNCP	Financials	Banks	28,053	42.44
HBAN	HUNTGTN BKSHR	Financials	Banks	24,699	15.71
BX	BLACKSTONE INC	Financials	Financial Services	103,036	139.53
COF	CAPITAL ONE FINANCIA	Financials	Financial Services	137,827	216.80
MSCI	MSCI CLASS A	Financials	Financial Services	43,081	573.34
SPGI	S&P GLOBAL INC	Financials	Financial Services	152,296	502.96
LNC	LINCOLN NATL CP	Financials	Insurance	7,803	41.08
MET	METLIFE INC	Financials	Insurance	52,362	79.47
IDXX	IDEXX LABS	Health Care	Health Care Equipment & Services	56,014	701.48
THC	TENET HEALTHCARE	Health Care	Health Care Equipment & Services	17,283	196.66
CMI	CUMMINS INC	Industrials	Capital Goods	64,531	467.49
DE	DEERE & CO	Industrials	Capital Goods	127,977	473.41
ETN	EATON CORP PLC	Industrials	Capital Goods	137,521	354.07
ROK	ROCKWELL AUTOMATION	Industrials	Capital Goods	42,629	379.69
URI	UNITED RENTAL	Industrials	Capital Goods	53,657	843.26
CAR	AVIS BUDGET GROUP	Industrials	Transportation	4,841	137.55
R	RYDER SYSTEM INC	Industrials	Transportation	6,836	169.30
UAL	UNITED AIRLINES HOLD	Industrials	Transportation	31,458	97.17
AMAT	APPLIED MATERIALS	Information Technology	Semiconductors & Semiconductor Equipment	177,834	223.23
MU	MICRON TECHNOLOGY IN	Information Technology	Semiconductors & Semiconductor Equipment	265,968	236.95
MKSI	MKS INC	Information Technology	Semiconductors & Semiconductor Equipment	9,680	144.11
NVDA	NVIDIA CORP	Information Technology	Semiconductors & Semiconductor Equipment	4,540,698	186.86
INTU	INTUIT INC	Information Technology	Software & Services	181,254	650.11
AAPL	APPLE INC	Information Technology	Technology Hardware & Equipment	4,033,206	272.95
STX	SEAGATE TECHNOLOGY H	Information Technology	Technology Hardware & Equipment	56,072	262.56
EMN	EASTMAN CHEM	Materials	Materials	7,154	62.72
FCX	FREEPORT-MCMORAN INC	Materials	Materials	58,213	40.54
LIN	LINDE PLC	Materials	Materials	200,153	428.64
STLD	STEEL DYNAMICS	Materials	Materials	22,576	154.59
SHW	The Sherwin-Williams	Materials	Materials	83,996	338.84
AES	AES CORP	Utilities	Utilities	9,735	13.67

Source: Compustat, Factset, Morgan Stanley Research

Small Caps: High Earnings Revisions Breadth + High Earnings Revisions + MS Overweight / Equal Weight

We used the following screening criteria:

- Stock is a member of bottom 500 within top 1500 US stocks by market cap universe.
- Stock is above median of up/down earnings revisions breadth.
- Stock is above median of 1M earnings revisions of NTM EPS.
- Overweight or Equal Weight by Morgan Stanley Research Analyst.

Exhibit 80: Small Caps: High Earnings Revisions Breadth + High Earnings Revisions + MS Overweight / Equal Weight

Ticker	Company Name	Sector	Industry Group	Market Cap (\$MM)	Price
WBTN	WEBTOON ENTERTAINMEN	Communication Services	Media & Entertainment	1,646	12.60
LEA	LEAR CORP	Consumer Discretionary	Automobiles & Components	5,587	107.72
VC	VISTEON CORP	Consumer Discretionary	Automobiles & Components	2,892	105.98
WRBY	WARBY PARKER INC-CLA	Consumer Discretionary	Consumer Discretionary Distribution & Retail	1,827	17.28
BC	BRUNSWICK CORP	Consumer Discretionary	Consumer Durables & Apparel	4,160	63.97
PTON	PELOTON INTERACTIVE	Consumer Discretionary	Consumer Durables & Apparel	2,938	7.31
PII	POLARIS INC	Consumer Discretionary	Consumer Durables & Apparel	3,646	64.82
EAT	BRINKER INTL	Consumer Discretionary	Consumer Services	5,206	117.16
DRVN	DRIVEN BRANDS HOLDIN	Consumer Discretionary	Consumer Services	2,352	14.30
GBTG	GLOBAL BUSINESS TRAV	Consumer Discretionary	Consumer Services	3,754	7.17
HGV	HILTON GRAND VACATIO	Consumer Discretionary	Consumer Services	3,393	39.66
LAUR	LAUREATE EDUCATION I	Consumer Discretionary	Consumer Services	4,486	30.44
MH	MCGRAW HILL INC	Consumer Discretionary	Consumer Services	2,859	14.97
RRR	RED ROCK RESORTS INC	Consumer Discretionary	Consumer Services	3,535	58.95
CHEF	CHEFS WAREHOUSE HOLD	Consumer Staples	Consumer Staples Distribution & Retail	2,421	59.50
RIG	TRANSOCEAN LTD	Energy	Energy	4,417	4.01
STEP	STEPSTONE GROUP INC-	Financials	Financial Services	4,924	62.23
VCTR	VICTORY CAPITAL HOLD	Financials	Financial Services	4,113	63.34
WEX	WEX Inc	Financials	Financial Services	4,831	140.89
ACAD	ACADIA PHARM	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	3,999	23.64
FOLD	AMICUS THERAPEUTICS	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	2,894	9.38
REVG	REV GROUP INC	Industrials	Capital Goods	2,575	52.76
PL	PLANET LABS PBC	Industrials	Commercial & Professional Services	3,272	11.41
SLAB	SILICON LABORATORIES	Information Technology	Semiconductors & Semiconductor Equipment	4,064	123.70
NCNO	NCINO INC	Information Technology	Software & Services	2,951	25.48
SPSC	SPS COMMERCE INC	Information Technology	Software & Services	3,102	82.25
PRM	PERIMETER SOLUTIONS	Materials	Materials	3,796	25.66
MAC	MACERICH	Real Estate	Equity Real Estate Investment Trusts (REITs)	4,423	17.27
OUT	OUTFRONT MEDIA INC	Real Estate	Equity Real Estate Investment Trusts (REITs)	3,629	21.70
RHP	RYMAN HOSPITALITY PR	Real Estate	Equity Real Estate Investment Trusts (REITs)	5,913	93.85
SLG	SL GREEN RLTY	Real Estate	Equity Real Estate Investment Trusts (REITs)	3,436	48.38
CWK	CUSHMAN & WAKEFIELD	Real Estate	Real Estate Management & Development	3,597	15.53
OGS	ONE GAS INC	Utilities	Utilities	4,921	82.01
SR	SPIRE INC	Utilities	Utilities	5,263	89.16

Source: Compustat, Factset, Morgan Stanley Research

Large Caps: High Earnings Revisions Breadth + High Earnings Revisions + MS Overweight

We used the following screening criteria:

- Stock is a member of top 1000 US stocks by market cap universe.
- Top tercile of up/down earnings revisions breadth.
- Top tercile of 1M earnings revisions of NTM EPS.
- Overweight by Morgan Stanley Research Analyst.

Exhibit 81: Large Cap Stocks: High Earnings Revisions Breadth + High Earnings Revisions + MS Overweight

Ticker	Company Name	Sector	Industry Group	Market Cap (\$MM)	Price
RDDT	REDDIT INC-CL A	Communication Services	Media & Entertainment	26,107	189.42
SPOT	SPOTIFY TECHNOLOGY S	Communication Services	Media & Entertainment	132,870	645.33
TTWO	TAKE TWO	Communication Services	Media & Entertainment	43,894	237.55
BWA	BORG WARNER	Consumer Discretionary	Automobiles & Components	9,712	45.40
TSLA	TESLA INC	Consumer Discretionary	Automobiles & Components	1,336,946	401.99
BURL	BURLINGTON STOR	Consumer Discretionary	Consumer Discretionary Distribution & Retail	17,843	283.07
CVNA	CARVANA CO	Consumer Discretionary	Consumer Discretionary Distribution & Retail	45,049	318.54
CHWY	CHEWY INC - CLASS A	Consumer Discretionary	Consumer Discretionary Distribution & Retail	7,537	33.49
W	WAYFAIR INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	11,382	106.49
DUOL	DUOLINGO	Consumer Discretionary	Consumer Services	7,464	186.54
H	HYATT HOTELS CORP-CL	Consumer Discretionary	Consumer Services	6,362	152.12
VIK	VIKING HOLDINGS LTD	Consumer Discretionary	Consumer Services	18,787	59.52
WYNN	WYNN RESORTS	Consumer Discretionary	Consumer Services	12,790	123.01
WMT	WALMART INC	Consumer Staples	Consumer Staples Distribution & Retail	817,536	102.54
CELH	CELSIUS HOLDINGS INC	Consumer Staples	Food, Beverage & Tobacco	11,345	44.01
MNST	MONSTER BEVERAGE COR	Consumer Staples	Food, Beverage & Tobacco	69,447	71.08
ELF	ELF BEAUTY INC	Consumer Staples	Household & Personal Products	4,436	74.39
DVN	DEVON ENERGY	Energy	Energy	21,981	35.04
DINO	HF SINCLAIR CORP	Energy	Energy	9,939	54.03
MPC	MARATHON PETROLEUM C	Energy	Energy	58,491	194.58
TRGP	TARGA RESOURCES CORP	Energy	Energy	36,430	169.71
BAC	BANK OF AMERICA	Financials	Banks	386,083	52.87
SCHW	CHARLES SCHWAB	Financials	Financial Services	169,449	95.36
EVR	EVERCORE INC	Financials	Financial Services	11,859	306.61
STT	STATE STREET CORP	Financials	Financial Services	33,037	118.28
VOYA	VOYA FINANCIAL INC	Financials	Financial Services	6,789	71.34
ALL	ALLSTATE CP	Financials	Insurance	55,257	211.16
BTSG	BRIGHTSPRING HEALTH	Health Care	Health Care Equipment & Services	5,726	31.75
MCK	MCKESSON CORP	Health Care	Health Care Equipment & Services	104,449	846.24
SOLV	SOLVENTUM CORP	Health Care	Health Care Equipment & Services	13,047	75.22
CYTK	CYTOKINETICS	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	8,011	65.52
JAZZ	JAZZ PHARMACEUTICALS	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	8,611	141.71
NTRA	NATERA INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	27,695	200.67
NBIX	NEUROCRINE BIOS	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	14,374	144.17
TEM	TEMPUS AI INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	11,744	67.94
AYI	ACUTY INC	Industrials	Capital Goods	10,820	353.46
AXON	AXON ENTERPRISE INC.	Industrials	Capital Goods	43,976	557.29
CW	CURTIS-WRIGHT	Industrials	Capital Goods	20,139	546.16
FTAI	FTAI AVIATION LTD	Industrials	Capital Goods	15,694	153.00
GEV	GE VERNOVA LLC	Industrials	Capital Goods	151,443	558.17
HWM	HOWMET AEROSPACE INC	Industrials	Capital Goods	80,935	201.30
JCI	JOHNSON CONTROLS INT	Industrials	Capital Goods	78,657	120.20
LOAR	LOAR HOLDINGS INC	Industrials	Capital Goods	6,415	68.52
LMT	LOCKHEED MARTIN CORP	Industrials	Capital Goods	105,483	455.85
RBC	RBC BEARINGS INC	Industrials	Capital Goods	13,642	431.55
VRT	VERTIV HOLDINGS LLC	Industrials	Capital Goods	62,566	163.64
DAL	DELTA AIRLINES INC	Industrials	Transportation	39,119	59.91
UBER	UBER TECHNOLOGIES IN	Industrials	Transportation	190,703	91.78
UAL	UNITED AIRLINES HOLD	Industrials	Transportation	31,458	97.17
MU	MICRON TECHNOLOGY IN	Information Technology	Semiconductors & Semiconductor Equipment	265,968	236.95
MKSI	MKS INC	Information Technology	Semiconductors & Semiconductor Equipment	9,680	144.11
APP	APPLIED CORP-CLASS	Information Technology	Software & Services	171,070	556.15
ESTC	ELASTIC NV	Information Technology	Software & Services	9,703	91.30
SAIL	SAILPOINT INC	Information Technology	Software & Services	10,682	19.19
SHOP	SHOPIFY INC - CLASS	Information Technology	Software & Services	179,657	146.34
U	UNITY SOFTWARE INC	Information Technology	Software & Services	15,901	37.16
SNDK	SANDISK CORP	Information Technology	Technology Hardware & Equipment	35,696	243.57
STX	SEAGATE TECHNOLOGY H	Information Technology	Technology Hardware & Equipment	56,072	262.56
SNX	TD SYNNEX CORP	Information Technology	Technology Hardware & Equipment	12,253	150.46
CMC	COMMERCIAL METAL	Materials	Materials	6,606	59.53
WELL	WELLTOWER INC	Real Estate	Equity Real Estate Investment Trusts (REITs)	131,137	191.07
CBRE	CBRE GROUP INC - A	Real Estate	Real Estate Management & Development	45,582	153.17
SRE	SEMPRA	Utilities	Utilities	60,190	92.22

Source: Compustat, Factset, Morgan Stanley Research

AI Adopters

AI High Materiality + High Pricing Power:

- AI Exposure: Adopter or Enabler & Adopter.
- AI Materiality: Core to Thesis or Significant.
- Pricing Power: High.
- Overweight by Morgan Stanley Research Analyst.

Exhibit 82: AI Adopter Screen

Ticker	Company	Sector	Industry Group	AI Exposure	Materiality	Pricing Power	MS rating	Market Cap (\$MM)	Price
GOOGL	Alphabet Inc.	Communication Services	Media & Entertainment	Enabler/Adopter	Core to Thesis	High	Overweight	3,129,922	278.57
META	Meta Platforms Inc	Communication Services	Media & Entertainment	Enabler/Adopter	Core to Thesis	High	Overweight	1,328,273	609.89
AMZN	Amazon.com Inc	Consumer Discretionary	Consumer Discretionary Distribution & Retail	Enabler/Adopter	Core to Thesis	High	Overweight	2,539,781	237.58
DUOL	Duolingo Inc	Consumer Discretionary	Consumer Services	Adopter	Core to Thesis	High	Overweight	7,464	186.54
TSLA	Tesla Inc	Consumer Discretionary	Automobiles & Components	Enabler/Adopter	Significant	High	Overweight	1,336,946	401.99
HAL	Halliburton Co	Energy	Energy	Adopter	Significant	High	Overweight	22,741	27.02
NOV	NOV Inc.	Energy	Energy	Adopter	Significant	High	Overweight	6,570	15.27
SLB	Schlumberger NV	Energy	Energy	Adopter	Significant	High	Overweight	54,244	36.31
SPGI	S&P Global Inc	Financials	Financial Services	Enabler/Adopter	Significant	High	Overweight	152,296	502.96
ABSI	ABSCI CORP	Health Care	Pharmaceuticals Biotechnology & Life Sciences	Enabler/Adopter	Core to Thesis	High	Overweight	397	2.64
AXON	Axon Enterprise Inc	Industrials	Capital Goods	Adopter	Core to Thesis	High	Overweight	43,976	557.29
BE	Bloom Energy Corp.	Industrials	Capital Goods	Enabler/Adopter	Significant	High	Overweight	24,491	103.55
GEV	GE Vernova	Industrials	Capital Goods	Enabler/Adopter	Significant	High	Overweight	151,443	558.17
JCI	Johnson Controls International Plc	Industrials	Capital Goods	Enabler/Adopter	Core to Thesis	High	Overweight	78,657	120.20
TT	Trane Technologies PLC	Industrials	Capital Goods	Enabler/Adopter	Core to Thesis	High	Overweight	91,988	414.85
AAPL	Apple, Inc.	Information Technology	Technology Hardware & Equipment	Enabler/Adopter	Core to Thesis	High	Overweight	4,033,206	272.95
TEAM	Atlassian Corporation PLC	Information Technology	Software & Services	Enabler/Adopter	Significant	High	Overweight	25,551	152.05
HUBS	HuSpot, Inc.	Information Technology	Software & Services	Enabler/Adopter	Significant	High	Overweight	20,462	380.61
MSFT	Microsoft	Information Technology	Software & Services	Enabler/Adopter	Core to Thesis	High	Overweight	3,740,641	503.29
NVDA	NVIDIA Corp.	Information Technology	Semiconductors & Semiconductor Equipment	Enabler/Adopter	Core to Thesis	High	Overweight	4,540,698	186.86
OS	OneStream Inc	Information Technology	Software & Services	Enabler/Adopter	Significant	High	Overweight	1,952	21.62
SAIL	SailPoint Inc.	Information Technology	Software & Services	Enabler/Adopter	Significant	High	Overweight	10,682	19.19
CRM	Salesforce, Inc.	Information Technology	Software & Services	Enabler/Adopter	Core to Thesis	High	Overweight	228,889	240.43
NOW	ServiceNow Inc	Information Technology	Software & Services	Enabler/Adopter	Core to Thesis	High	Overweight	176,736	849.69
SHOP	Shopify Inc	Information Technology	Software & Services	Enabler/Adopter	Significant	High	Overweight	179,657	146.34
VRTX	Vertex Inc.	Information Technology	Software & Services	Enabler/Adopter	Significant	High	Overweight	1,576	20.37
WIX	Wix.Com Ltd	Information Technology	Software & Services	Enabler/Adopter	Significant	High	Overweight	7,068	126.92
AES	AES Corp.	Utilities	Utilities	Enabler/Adopter	Significant	High	Overweight	9,735	13.67
NEE	NextEra Energy Inc	Utilities	Utilities	Enabler/Adopter	Significant	High	Overweight	174,918	83.99
TLN	Talen Energy Corp	Utilities	Utilities	Enabler/Adopter	Core to Thesis	High	Overweight	16,221	355.04
VST	Vistra Corp.	Utilities	Utilities	Enabler/Adopter	Core to Thesis	High	Overweight	58,129	171.56

Source: Factset, Morgan Stanley Research

Operational Efficiency + MS Overweight

We used the following screening criteria:

- Stock is a member of top 1000 US stocks by market cap universe.
- Top quintile of Operational Efficiency Score.
- Overweight by Morgan Stanley Research Analyst.

Exhibit 83: Operational Efficiency + MS Overweight

Ticker	Company Name	Sector	Industry Group	Market Cap (\$MM)	Price
SPOT	SPOTIFY TECHNOLOGY S	Communication Services	Media & Entertainment	132,870	645.33
BWA	BORG WARNER	Consumer Discretionary	Automobiles & Components	9,712	45.40
TSLA	TESLA INC	Consumer Discretionary	Automobiles & Components	1,336,946	401.99
AN	AUTONATION	Consumer Discretionary	Consumer Discretionary Distribution & Retail	7,178	196.82
CHWY	CHEWY INC - CLASS A	Consumer Discretionary	Consumer Discretionary Distribution & Retail	7,537	33.49
LOW	LOWE'S COMPANIES	Consumer Discretionary	Consumer Discretionary Distribution & Retail	129,814	231.47
PAG	PENSKE AUTO GRP	Consumer Discretionary	Consumer Discretionary Distribution & Retail	10,525	159.81
W	WAYFAIR INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	11,382	106.49
HAS	HASBRO	Consumer Discretionary	Consumer Durables & Apparel	11,073	78.90
ONON	ON HOLDING AG-CLASS	Consumer Discretionary	Consumer Durables & Apparel	12,425	42.40
DPZ	DOMINOS PIZZA INC	Consumer Discretionary	Consumer Services	13,808	408.68
HLT	HILTON INC	Consumer Discretionary	Consumer Services	62,732	269.89
COST	COSTCO WHOLESALE	Consumer Staples	Consumer Staples Distribution & Retail	409,976	925.08
MNST	MONSTER BEVERAGE COR	Consumer Staples	Food, Beverage & Tobacco	69,447	71.08
SFD	SMITHFIELD FOODS INC	Consumer Staples	Food, Beverage & Tobacco	8,515	21.66
ELF	ELF BEAUTY INC	Consumer Staples	Household & Personal Products	4,436	74.39
DINO	HF SINCLAIR CORP	Energy	Energy	9,939	54.03
MPC	MARATHON PETROLEUM C	Energy	Energy	58,491	194.58
C	CITIGROUP INC	Financials	Banks	180,125	100.67
ALLY	ALLY FINANCIAL INC	Financials	Financial Services	12,079	39.21
BK	BANK OF NEW YORK MEL	Financials	Financial Services	77,434	111.04
SCHW	CHARLES SCHWAB	Financials	Financial Services	169,449	95.36
CRBG	COREBRIDGE FINANCIAL	Financials	Financial Services	15,162	29.13
EOH	EQUITABLE HOLDINGS I	Financials	Financial Services	12,937	45.15
LNC	LINCOLN NATL CP	Financials	Insurance	7,803	41.08
GMED	GLOBUS MEDICAL	Health Care	Health Care Equipment & Services	11,241	83.99
MCK	MCKESSON CORP	Health Care	Health Care Equipment & Services	104,449	846.24
STE	STERIS Ltd	Health Care	Health Care Equipment & Services	25,561	260.44
UNH	UNITEDHEALTH GRP	Health Care	Health Care Equipment & Services	301,209	332.52
EXEL	EXELIXIS INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	11,355	42.35
GILD	GILEAD SCIENCES INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	155,333	125.20
HALO	HALOZYME THERAPEUTIC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	8,372	71.19
JAZZ	JAZZ PHARMACEUTICALS	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	8,611	141.71
BE	BLOOM ENERGY CORP- A	Industrials	Capital Goods	24,491	103.55
GEV	GE VERNOVA LLC	Industrials	Capital Goods	151,443	558.17
JCI	JOHNSON CONTROLS INT	Industrials	Capital Goods	78,657	120.20
NOC	NORTHROP GRUMMAN COR	Industrials	Capital Goods	79,638	558.00
REZI	RESIDEO TECHNOLOGIES	Industrials	Capital Goods	4,668	31.18
ROK	ROCKWELL AUTOMATION	Industrials	Capital Goods	42,629	379.69
LUV	SOUTHWEST AIRLINES	Industrials	Transportation	17,087	33.04
FSLR	FIRST SOLAR INC	Information Technology	Semiconductors & Semiconductor Equipment	27,534	256.59
MU	MICRON TECHNOLOGY IN	Information Technology	Semiconductors & Semiconductor Equipment	265,968	236.95
APP	APPROVIN CORP-CLASS	Information Technology	Software & Services	171,070	556.15
SHOP	SHOPIFY INC - CLASS	Information Technology	Software & Services	179,657	146.34
U	UNITY SOFTWARE INC	Information Technology	Software & Services	15,901	37.16
CSCO	CISCO SYSTEMS	Information Technology	Technology Hardware & Equipment	305,898	77.38
DELL	DELL TECHNOLOGIES -C	Information Technology	Technology Hardware & Equipment	45,125	133.94
HPE	HWLT PCKRD ENTRP	Information Technology	Technology Hardware & Equipment	30,255	22.93
SNDK	SANDISK CORP	Information Technology	Technology Hardware & Equipment	35,696	243.57
STX	SEAGATE TECHNOLOGY H	Information Technology	Technology Hardware & Equipment	56,072	262.56
WDC	WESTERN DIGITAL	Information Technology	Technology Hardware & Equipment	53,733	157.16
AA	ALCOA CORP	Materials	Materials	9,890	38.19
BALL	BALL CORP	Materials	Materials	12,847	47.94
CMC	COMMERCIAL METAL	Materials	Materials	6,606	59.53
CTVA	CORTEVA INC	Materials	Materials	44,733	66.20
CCK	CROWN HOLDINGS	Materials	Materials	11,647	100.97
AEP	AMERICAN ELECTRIC PO	Utilities	Utilities	65,024	121.48
DTE	DTE ENERGY	Utilities	Utilities	28,602	137.72
TLN	TALEN ENERGY CORP	Utilities	Utilities	16,221	355.04

Source: Compustat, Factset, Morgan Stanley Research

High Quality Growth + MS Overweight

We used the following screening criteria:

- Stock is a member of top 1000 US stocks by market cap universe.
- Above median Quality Composite Score.
- Classified as Growth based on our proprietary classification model.
- Overweight by Morgan Stanley Research Analyst.

Exhibit 84: High Quality Growth + MS Overweight

Ticker	Company Name	Sector	Industry Group	Market Cap (\$MM)	Price
GOOGL	ALPHABET INC CLASS A	Communication Services	Media & Entertainment	3,129,922	278.57
META	META PLATFORMS INC	Communication Services	Media & Entertainment	1,328,273	609.89
NFLX	NETFLIX INC	Communication Services	Media & Entertainment	489,085	1154.23
PINS	PINTEREST INC- CLASS	Communication Services	Media & Entertainment	15,951	26.77
RDDT	REDDIT INC-CL A	Communication Services	Media & Entertainment	26,107	189.42
SPOT	SPOTIFY TECHNOLOGY S	Communication Services	Media & Entertainment	132,870	645.33
TTWO	TAKE TWO	Communication Services	Media & Entertainment	43,894	237.55
TSLA	TESLA INC	Consumer Discretionary	Automobiles & Components	1,336,946	401.99
BURL	BURLINGTON STOR	Consumer Discretionary	Consumer Discretionary Distribution & Retail	17,843	283.07
CHWY	CHEVY INC - CLASS A	Consumer Discretionary	Consumer Discretionary Distribution & Retail	7,537	33.49
EBAY	EBAY INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	38,162	84.43
LOW	LOWES COMPANIES	Consumer Discretionary	Consumer Discretionary Distribution & Retail	129,814	231.47
ULTA	ULTA BEAUTY INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	23,938	533.87
W	WAYFAIR INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	11,382	106.49
ONON	ON HOLDING AG-CLASS	Consumer Discretionary	Consumer Durables & Apparel	12,425	42.40
TPR	TAPESTRY INC	Consumer Discretionary	Consumer Durables & Apparel	20,621	100.76
DPZ	DOMINOS PIZZA INC	Consumer Discretionary	Consumer Services	13,808	408.68
DKNG	DRAFTKINGS INC	Consumer Discretionary	Consumer Services	14,779	29.69
DUOL	DUOLINGO	Consumer Discretionary	Consumer Services	7,464	186.54
WING	WINGSTOP INC	Consumer Discretionary	Consumer Services	6,530	235.00
WMT	WALMART INC	Consumer Staples	Consumer Staples Distribution & Retail	817,536	102.54
MNST	MONSTER BEVERAGE COR	Consumer Staples	Food, Beverage & Tobacco	69,447	71.08
ELF	ELF BEAUTY INC	Consumer Staples	Household & Personal Products	4,436	74.39
TRGP	TARGA RESOURCES CORP	Energy	Energy	36,430	169.71
BX	BLACKSTONE INC	Financials	Financial Services	103,036	139.53
SCHW	CHARLES SCHWAB	Financials	Financial Services	169,449	95.36
MA	MASTERCARD INCORPORA	Financials	Financial Services	495,156	555.57
V	VISA INC-CLASS A SHA	Financials	Financial Services	567,179	336.08
IDXX	IDEXX LABS	Health Care	Health Care Equipment & Services	56,014	701.48
SYK	STRYKER CORP	Health Care	Health Care Equipment & Services	142,805	373.42
THC	TENET HEALTHCARE	Health Care	Health Care Equipment & Services	17,283	196.66
AXSM	AXSOME THERAPEUTICS	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	6,927	137.40
EXEL	EXELIXIS INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	11,355	42.35
GILD	GILEAD SCIENCES INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	155,333	125.20
HALO	HALOZYME THERAPEUTIC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	8,372	71.19
NTRA	NATERA INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	27,695	200.67
TEM	TEMPUS AI INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	11,744	67.94
ZTS	ZOETIS INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	53,394	121.16
CW	CURTISS-WRIGHT	Industrials	Capital Goods	20,139	546.16
ETN	EATON CORP PLC	Industrials	Capital Goods	137,521	354.07
HWM	HOWMET AEROSPACE INC	Industrials	Capital Goods	80,935	201.30
LMT	LOCKHEED MARTIN CORP	Industrials	Capital Goods	105,483	455.85
ROK	ROCKWELL AUTOMATION	Industrials	Capital Goods	42,629	379.69
TT	TRANE TECHNOLOGIES P	Industrials	Capital Goods	91,988	414.85
VRT	VERTIV HOLDINGS LLC	Industrials	Capital Goods	62,566	163.64
EFX	EQUIFAX INC	Industrials	Commercial & Professional Services	25,336	207.00
ALAB	ASTERA LABS INC	Information Technology	Semiconductors & Semiconductor Equipment	24,402	144.47
FSLR	FIRST SOLAR INC	Information Technology	Semiconductors & Semiconductor Equipment	27,534	256.59
MU	MICRON TECHNOLOGY IN	Information Technology	Semiconductors & Semiconductor Equipment	265,968	236.95
NVDA	NVIDIA CORP	Information Technology	Semiconductors & Semiconductor Equipment	4,540,698	186.86
APP	APPOVIN CORP-CLASS	Information Technology	Software & Services	171,070	556.15
TEAM	ATLASSIAN CORP	Information Technology	Software & Services	25,551	152.05
ADSK	AUTODESK INC	Information Technology	Software & Services	63,297	297.17
NET	CLOUDFLARE INC - CLA	Information Technology	Software & Services	67,319	213.54
ESTC	ELASTIC NV	Information Technology	Software & Services	9,703	91.30
INTU	INTUIT INC	Information Technology	Software & Services	181,254	650.11
MSFT	MICROSOFT CORPORATIO	Information Technology	Software & Services	3,740,641	503.29
NTNX	NUTANIX INC - A	Information Technology	Software & Services	17,996	66.46
PANW	PALO ALTO NETWORK IN	Information Technology	Software & Services	140,059	204.77
NOW	SERVICENOW	Information Technology	Software & Services	176,736	849.69
SNOW	SNOWFLAKE INC-CLASS	Information Technology	Software & Services	87,044	256.92
WIX	WIX.COM LTD	Information Technology	Software & Services	7,068	126.92
ZS	ZSCALER INC	Information Technology	Software & Services	48,852	308.60
AAPL	APPLE INC	Information Technology	Technology Hardware & Equipment	4,033,206	272.95
ANET	ARISTA NETWORKS	Information Technology	Technology Hardware & Equipment	164,085	130.30
WDC	WESTERN DIGITAL	Information Technology	Technology Hardware & Equipment	53,733	157.16
ECL	ECOLAB INC	Materials	Materials	74,202	261.88
SHW	The Sherwin-Williams	Materials	Materials	83,996	338.84
TLN	TALEN ENERGY CORP	Utilities	Utilities	16,221	355.04

Source: Compustat, Factset, Morgan Stanley Research

High Alpha + MS Overweight

We used the following screening criteria:

- Stock is a member of top 1000 US stocks by market cap universe.
- Stock is in top quintile of alpha- defined as the residual after removing the effect of market (equal weighted top 1000) beta from a cross sectional regression over a rolling 5Y window. Stocks are ranked across the market.
- Overweight by Morgan Stanley Research Analyst

Exhibit 85: High Alpha + MS Overweight

Ticker	Company Name	Sector	Industry Group	Market Cap (\$MM)	Price
GOOGL	ALPHABET INC CLASS A	Communication Services	Media & Entertainment	3,129,922	278.57
FWONK	LIBERTY MEDIA CORP-L	Communication Services	Media & Entertainment	32,638	100.73
META	META PLATFORMS INC	Communication Services	Media & Entertainment	1,328,273	609.89
TSLA	TESLA INC	Consumer Discretionary	Automobiles & Components	1,336,946	401.99
AN	AUTONATION	Consumer Discretionary	Consumer Discretionary Distribution & Retail	7,178	196.82
AZO	AUTOZONE INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	63,525	3819.29
DKS	DICKS SPORTING GOODS	Consumer Discretionary	Consumer Discretionary Distribution & Retail	14,550	220.10
ORLY	O REILLY AUTOMOTIVE	Consumer Discretionary	Consumer Discretionary Distribution & Retail	83,018	98.35
PAG	PENSKE AUTO GRP	Consumer Discretionary	Consumer Discretionary Distribution & Retail	10,525	159.81
TPR	TAPESTRY INC	Consumer Discretionary	Consumer Durables & Apparel	20,621	100.76
CELH	CELSIUS HOLDINGS INC	Consumer Staples	Food, Beverage & Tobacco	11,345	44.01
PM	PHILIP MORRIS	Consumer Staples	Food, Beverage & Tobacco	241,512	155.15
AR	ANTERO RSRCS CRP	Energy	Energy	10,594	34.34
LNG	CHENIERE ENERGY	Energy	Energy	45,910	213.30
COP	CONOCOPHILLIPS	Energy	Energy	110,498	89.42
DVN	DEVON ENERGY	Energy	Energy	21,981	35.04
FRNG	DIAMONDBACK ENERGY I	Energy	Energy	41,389	144.38
EQT	EQT CORP	Energy	Energy	37,600	60.25
XOM	EXXON MOBIL CORP	Energy	Energy	500,957	118.79
DINO	HF SINCLAIR CORP	Energy	Energy	9,939	54.03
MPC	MARATHON PETROLEUM C	Energy	Energy	58,491	194.58
TRGP	TARGA RESOURCES CORP	Energy	Energy	36,430	169.71
WMB	WILLIAMS COS INC	Energy	Energy	72,772	59.59
BK	BANK OF NEW YORK MEL	Financials	Financial Services	77,434	111.04
HLI	HOULIHAN LOKEY	Financials	Financial Services	9,831	180.34
LPLA	LPL FINANCIAL HOLDIN	Financials	Financial Services	29,809	372.44
ALL	ALLSTATE CP	Financials	Insurance	55,257	211.16
BSX	BOSTON SCIENTIFIC CO	Health Care	Health Care Equipment & Services	155,627	104.98
CAH	CARDINAL HEALTH	Health Care	Health Care Equipment & Services	48,959	206.06
MCK	MCKESSON CORP	Health Care	Health Care Equipment & Services	104,449	846.24
THC	TENET HEALTHCARE	Health Care	Health Care Equipment & Services	17,283	196.66
ABBV	ABBVIE INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	410,546	232.29
LLY	ELI LILLY & CO	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	967,005	1022.87
GILD	GILEAD SCIENCES INC	Health Care	Pharmaceuticals, Biotechnology & Life Sciences	155,333	125.20
AYI	ACUITY INC	Industrials	Capital Goods	10,820	353.46
AXON	AXON ENTERPRISE INC.	Industrials	Capital Goods	43,976	557.29
BE	BLOOM ENERGY CORP- A	Industrials	Capital Goods	24,491	103.55
CW	CURTISS-WRIGHT	Industrials	Capital Goods	20,139	546.16
ETN	EATON CORP PLC	Industrials	Capital Goods	137,521	354.07
HWM	HOWMET AEROSPACE INC	Industrials	Capital Goods	80,935	201.30
NOC	NORTHROP GRUMMAN COR	Industrials	Capital Goods	79,638	558.00
RTX	RTX CORP	Industrials	Capital Goods	233,241	173.96
TT	TRANE TECHNOLOGIES P	Industrials	Capital Goods	91,988	414.85
URI	UNITED RENTAL	Industrials	Capital Goods	53,657	843.26
VRT	VERTIV HOLDINGS LLC	Industrials	Capital Goods	62,566	163.64
CAR	AVIS BUDGET GROUP	Industrials	Transportation	4,841	137.55
R	RYDER SYSTEM INC	Industrials	Transportation	6,836	169.30
AMAT	APPLIED MATERIALS	Information Technology	Semiconductors & Semiconductor Equipment	177,834	223.23
AVGO	BROADCOM INC	Information Technology	Semiconductors & Semiconductor Equipment	1,605,510	339.98
FSLR	FIRST SOLAR INC	Information Technology	Semiconductors & Semiconductor Equipment	27,534	256.59
MU	MICRON TECHNOLOGY IN	Information Technology	Semiconductors & Semiconductor Equipment	265,968	236.95
NVDA	NVIDIA CORP	Information Technology	Semiconductors & Semiconductor Equipment	4,540,698	186.86
CDNS	CADENCE DESIGN SYSTE	Information Technology	Software & Services	86,013	315.99
NET	CLOUDFLARE INC - CLA	Information Technology	Software & Services	67,319	213.54
NTNX	NUTANIX INC - A	Information Technology	Software & Services	17,996	66.46
PANW	PALO ALTO NETWORK IN	Information Technology	Software & Services	140,059	204.77
ZS	ZSCALER INC	Information Technology	Software & Services	48,852	308.60
ANET	ARISTA NETWORKS	Information Technology	Technology Hardware & Equipment	164,085	130.30
DELL	DELL TECHNOLOGIES - C	Information Technology	Technology Hardware & Equipment	45,125	133.94
STX	SEAGATE TECHNOLOGY H	Information Technology	Technology Hardware & Equipment	56,072	262.56
WDC	WESTERN DIGITAL	Information Technology	Technology Hardware & Equipment	53,733	157.16
STLD	STEEL DYNAMICS	Materials	Materials	22,576	154.59
WELL	WELLTOWER INC	Real Estate	Equity Real Estate Investment Trusts (REITs)	131,137	191.07
VST	VISTRA CORP	Utilities	Utilities	58,129	171.56

Source: Compustat, Factset, Morgan Stanley Research

Consumer Discretionary Goods + MS Overweight

We used the following screening criteria:

- Stock is a member of Top 1000.
- Stock is within Consumer Discretionary sector, but not in Consumer Services industry group.
- Stock is rated as Overweight by MS analyst.

Exhibit 86: Consumer Discretionary Goods + MS Overweight

Ticker	Company Name	Sector	Industry Group	Market Cap (\$MM)	Price
BWA	BORG WARNER	Consumer Discretionary	Automobiles & Components	9,712	45.40
TSLA	TESLA INC	Consumer Discretionary	Automobiles & Components	1,336,946	401.99
AMZN	AMAZON.COM INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	2,539,781	237.58
AN	AUTONATION	Consumer Discretionary	Consumer Discretionary Distribution & Retail	7,178	196.82
AZO	AUTOZONE INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	63,525	3819.29
BURL	BURLINGTON STOR	Consumer Discretionary	Consumer Discretionary Distribution & Retail	17,843	283.07
CVNA	CARVANA CO	Consumer Discretionary	Consumer Discretionary Distribution & Retail	45,049	318.54
CHWY	CHEVY INC - CLASS A	Consumer Discretionary	Consumer Discretionary Distribution & Retail	7,537	33.49
DKS	DICKS SPORTING GOODS	Consumer Discretionary	Consumer Discretionary Distribution & Retail	14,850	220.10
EBAY	EBAY INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	38,162	84.43
GAP	GAP INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	9,013	24.29
HD	HOME DEPOT	Consumer Discretionary	Consumer Discretionary Distribution & Retail	366,372	368.07
LOW	LOWES COMPANIES	Consumer Discretionary	Consumer Discretionary Distribution & Retail	129,814	231.47
ORLY	O REILLY AUTOMOTIVE	Consumer Discretionary	Consumer Discretionary Distribution & Retail	83,018	98.35
PAG	PENSKE AUTO GRP	Consumer Discretionary	Consumer Discretionary Distribution & Retail	10,525	159.81
TJX	TJX CO INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	162,934	146.40
ULTA	ULTA BEAUTY INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	23,938	533.87
URBN	URBAN OUTFITTERS I	Consumer Discretionary	Consumer Discretionary Distribution & Retail	5,669	63.20
W	WAYFAIR INC	Consumer Discretionary	Consumer Discretionary Distribution & Retail	11,382	106.49
HAS	HASBRO	Consumer Discretionary	Consumer Durables & Apparel	11,073	78.90
ONON	ON HOLDING AG-CLASS	Consumer Discretionary	Consumer Durables & Apparel	12,425	42.40
TPR	TAPESTRY INC	Consumer Discretionary	Consumer Durables & Apparel	20,621	100.76

Source: Compustat, Factset, Morgan Stanley Research

AI Adoption to Help Drive the Broadening in 2026

Momentum Around AI Adoption Is Building

For more see: [Momentum Around AI Adoption Is Building](#).

One question we frequently get from investors is: "To what extent are companies seeing quantifiable benefits from AI adoption?" **In collaboration with the QuantWise team, we leveraged the GPT model to analyze approximately 7,400 earnings transcripts and 6,100 conference transcripts, tracking how management teams are communicating the quantitative benefits of AI to investors.**

Our analysis includes transcripts from the beginning of 2023 onward since company discussions of AI picked up after the launch of ChatGPT in 2022. **Our universe includes two groups, (1) the S&P 500 and (2) stocks identified by our analysts as "AI Adopters" or "Enablers & Adopters" where AI's relevance to the stock debate is "core to the thesis, significant, or moderate" (see [Mapping AI's Rate of Change: The Broadening Trend Continues](#) for more).** For stocks tagged as "Enablers & Adopters," we focused on the adopter side of the story, meaning we did not include mentions of benefits that AI enablers' customers are seeing. Another dynamic to note — our quarterly labels correspond to the date the conference or earnings call transcript occurred as opposed to the earnings quarter the call is referencing.

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

Exhibit 87: AI Benefit Classifications



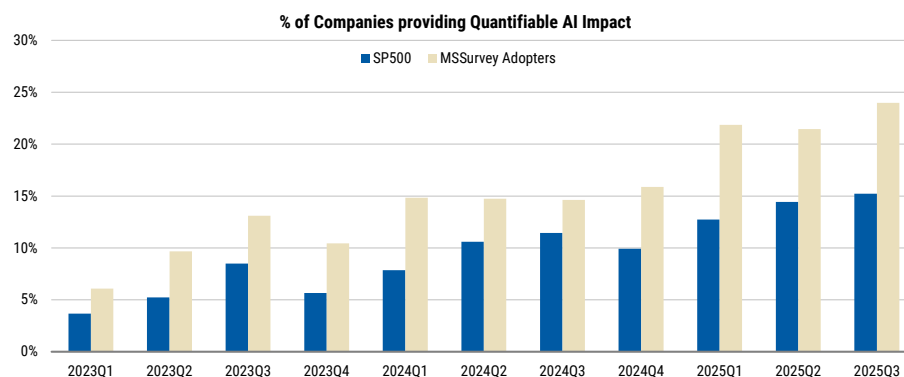
Source: Morgan Stanley Research

Exhibit 88: Classification Definitions

Category	Sub-category	Definition
Financial Impact	Revenue Growth / Generation	Increased revenue, profit, or deal value resulting from AI adoption.
	Cost Savings / Efficiency	Reduction in cost, time, or manual workload due to automation and AI optimization.
	Investment & Capital Impact	AI-related expenditures, ROI, margin effects, or changes in financial structure.
Productivity Gain	Operational & Process Efficiency	Enhanced workflow execution, faster turnaround times, or improved operational throughput.
	Overall Performance Improvement	Overall improvements in performance metrics such as speed, reliability, system outcomes, or overall effectiveness.
Sales, Marketing & Customer Growth	Sales & Marketing Effectiveness	Improved conversions, campaign performance, or ad effectiveness using AI.
	Customer Engagement & Satisfaction	Enhanced customer experience, satisfaction, and retention, or growth in customer base driven by AI solutions
Product Innovation & Development	Product Innovation / Enablement	Development of new AI products, features, or technical innovations.
	Product Demand & Orders	Growth in orders, backlog, or product shipments driven by AI-related demand.
	Usage & Experimentation Growth	Increased experimentation, developer activity, or testing of AI capabilities.
	Future Potential / Pipeline	Indicators of future AI-driven opportunity or revenue potential.
Governance, Risk & Security	Fraud & Risk Reduction	Reduced exposure to fraud, loss, or operational risk through AI.
	Security & Compliance	Strengthened data protection, compliance, or regulatory alignment via AI.
Other / Cross-Functional	Cross-Domain Efficiency	Multi-dimensional impacts combining financial, customer, and operational benefits.

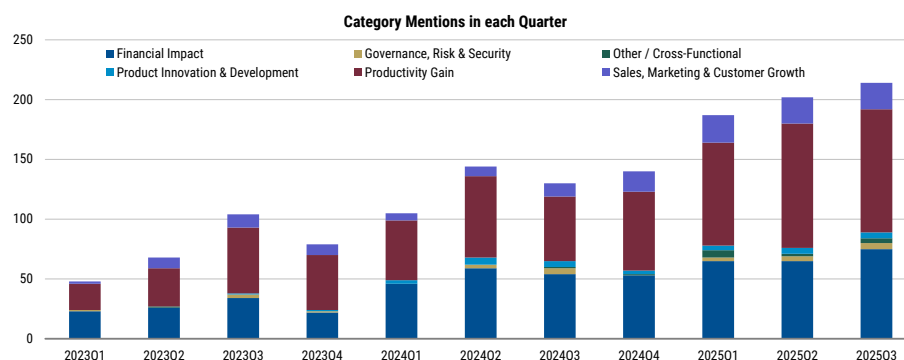
Source: Morgan Stanley Research

The share of companies citing quantifiable benefits from AI adoption has been steadily increasing based on our analysis. **In 3Q25, 24% of companies identified as "adopters" by our analysts mentioned at least one quantitative impact, up from 21% in 2Q25 and 15% in 3Q24.** For the broader S&P 500, **15% of members mentioned at least one measurable benefit, up from 14% in 2Q25 and 11% in 3Q24.** We expect this trend to continue as companies further ramp up their AI adoption efforts and give employees access to more AI tools.

Exhibit 89: Discussions of Quantifiable Benefits from AI Are Rising

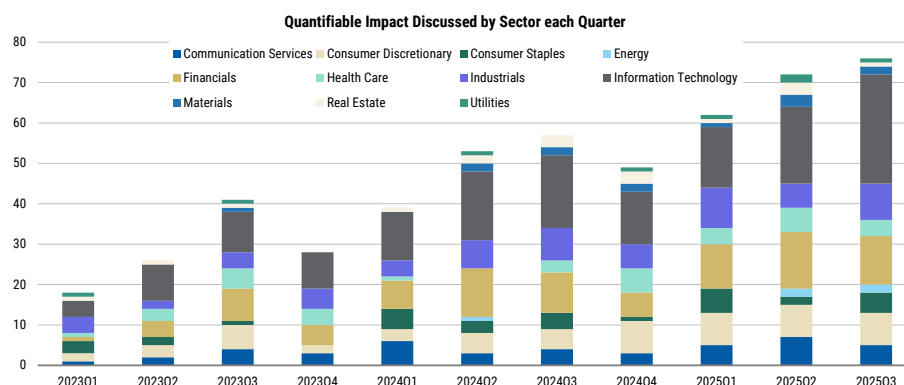
Source: Morgan Stanley Research. Please note, companies mentioning multiple quantifiable benefits from AI are only counted once in this chart.

The majority of discussions of quantifiable benefits are tied to productivity gains (operational & process efficiency or overall performance improvement) or broad financial impacts (revenue growth/generation, cost savings, or investment & capital impacts). There are also a substantial number of mentions around sales, marketing & customer growth.

Exhibit 90: Category level mentions of AI Benefits

Source: Morgan Stanley Research

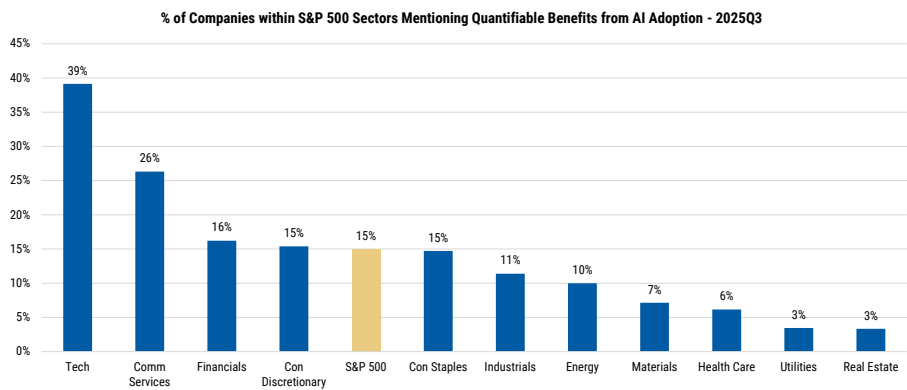
Tech companies are leading the way in discussing measurable impacts from AI, with frequent mentions of quantifiable benefits. Financials firms also show a notable number of mentions.

Exhibit 91: Sector Breakdown

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

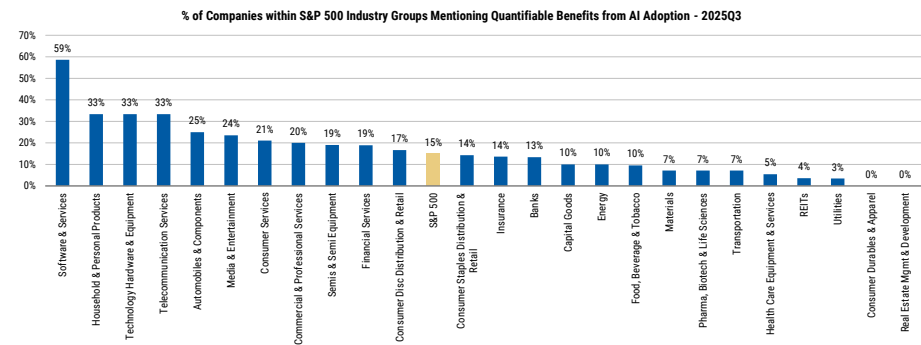
To better understand sector-level adoption, we analyzed the percentage of companies within each S&P 500 sector that referenced tangible AI-driven outcomes. Technology stands out at the top, with 39% of companies highlighting quantifiable benefits. Communication Services follows at 26%, while Financials ranks third with 16%. In terms of the year-over-year trend, Tech has seen the largest increase in mentions (from 26% of the sector in 3Q24 to 39% today), followed by Energy (from 0% of the sector in 3Q24 to 10% today).

Exhibit 92: % of Sectors Mentioning Impacts



Source: Morgan Stanley Research

Exhibit 93: Percent of Companies within S&P 500 Industry Groups Mentioning Quantifiable AI-Related Impacts



Source: Morgan Stanley Research.

In the tables that follow, we provide examples of companies discussing tangible benefits from AI adoption.

Financial Impact Examples:**Exhibit 94: Financial Impact Examples**

Ticker	Name	Sector	Quote
PG.N	Procter & Gamble Co.	Consumer Staples	"We're improving efficiency using AI tools for ad testing, improving quality, cost and speed. Ads can now be tested and optimized in just a few days versus weeks at one-tenth the cost versus prior methods."
EL.N	The Estée Lauder Companies, Inc.	Consumer Staples	"AI has driven a 31% increase in ROI from our North American media campaigns, enabling faster decision-making and stronger real-time market responsiveness."
BAC.N	Bank of America Corp.	Financials	"In addition, as you can see, we have 17,000 programmers using AI coding technology today, saving 10% to 15% in code generation costs, and we expect that to continue to rise."
MCO.N	Moody's Corp.	Financials	"For example, our customer service assistant has enabled a 20% reduction in resources for our support team, while significantly improving response times, all without compromising the quality of customer interactions."
CERT.O	Certara, Inc.	Health Care	"Most of our work results in some kind of a document that has to get created and written. So, we've invested – one of the products we launched recently that we call CoAuthor has to do with basically using AI to write regulatory documents, takes a lot of the time and cost out of that.... And our early estimates are it's not unreasonable to take out 30% of the cost using AI".
IQV.N	IQVIA Holdings, Inc.	Health Care	"For example, one agentic system in commercial allows us to reduce delivery time by two-thirds from 12-weeks to 4-weeks with a net 30% cost reduction."
NTRA.O	Natera, Inc.	Health Care	"On the operation side, for the entire history of the company, many roles have had to scale linearly with commercial volume. For the first time, we have an opportunity to change that relationship, with AI allowing us to scale more efficiently and open up additional operating leverage worth approximately \$200 million in savings over time."
RXR.X	Recursion Pharmaceuticals, Inc.	Health Care	"And so what we at Recursion do is think about what are all the reasons a drug fails as it is being developed? What are all the reasons that we see it fail in clinical trials? And then can we create a better predictive model using AI and other technologies to be able to design a better drug, to be able to understand the technology better, to be able to create a better patient selection tool, so we get the right patients into clinical trials. And so we do a lot of different technologies, but the core goal is to bring them all together. We have also improved the time and cost pretty dramatically. We've seen 80% to 90% decrease in most of the cost and times associated in drug discovery, but the core focus is really on changing that probability of success"
XPO.N	XPO, Inc.	Industrials	"And our new AI-powered linehaul models are driving additional savings, reducing normalized linehaul miles by 3%, empty miles by over 10%, and freight diversions by more than 80%."
U.N	Unity Software, Inc.	Information Technology	"In iOS, where we've now had enough time to develop reliable data, Vector is providing a 15% to 20% lift in both the number of installs and the value of in-app purchases when compared to our old model."

Source: Morgan Stanley Research

Productivity Gain Examples:**Exhibit 95: Productivity Gain Examples**

Ticker	Name	Sector	Quote
IAS.O	Integral Ad Science Holding Corp.	Communication Services	"Our AI labeling is now 29 times faster and 45% more precise than human annotators. We process 50 years of video content per day, up from just two years of video less than 24 months ago."
DUOL.O	Duolingo, Inc.	Consumer Discretionary	"In terms of the language courses, we added 148 new language courses. All of this content was done with AI and it was – it really took us about a year to add these 148 language courses. And like you mentioned, the previous 100-ish courses took us about 12 years to make. So this is an incredible speed up."
WMT.N	Walmart, Inc.	Consumer Staples	"One example is that we've used generative AI to improve our product catalog... Without the use of generative AI, this work would have required nearly 100 times the current head count to complete in the same amount of time.... The progress behind it – maybe we'll just start with customers, the thing that Doug mentioned in his earlier remarks about using GenAI for the catalog has been a great enabler over the last few months. It's about 100 times more productive to use GenAI versus having people work through each product display page.... So, the GenAI product that we're using has helped us populate the attributes and the characteristics of hundreds of millions of items and that would have taken, as I said, 100 times longer if we had tried to do that manually."
LBRT.N	Liberty Energy, Inc.	Energy	"In the last three years, the average life expectancy has increased 27% for engines, 40% for fluid ends, and an impressive 37% for power ends over the last two years, in part through the implementation of AI driven predictive maintenance strategies and continuous machine learning."
UPST.O	Upstart Holdings, Inc.	Financials	"We also reached an all-time high of 92% of loans, fully automated, meaning the entire process from rate request to loan closing is entirely driven by AI-powered software with no human intervention by Upstart."
WTW.O	Willis Towers Watson Plc	Financials	"In some instances, we've seen a 75% reduction in routine work and processing time... AI-powered solutions are enhancing real-time analytics and reducing manual effort by streamlining data ingestion, analysis, and workflows."
GH.O	Guardant Health, Inc.	Health Care	"As a reminder, we introduced the Guardant Galaxy suite of advanced AI analytics for digital pathology applications in partnership with Lunix to enhance our portfolio of cancer tests, starting with the TissueNext PD-L1 test shown to improve biomarker detection by more than 20% in non-small-cell lung cancer."
PACB.O	Pacific Biosciences of California, Inc.	Health Care	"This resource was used to retrain Google's DeepVariant AI model, resulting in a 34% reduction in erroneous variant calls genome wide, with even greater improvements in the most difficult regions."
JCI.N	Johnson Controls International Plc	Industrials	To-date, we have enhanced the existing connectivity of over 11,000 chillers through OpenBlue, representing a 79% increase year-over-year.
SNDR.N	Schneider National, Inc.	Industrials	"It's taken some of the meaningful work that you have to do, but it's not always value added and put our people against other, more important work. And so we probably didn't get as much press on this but in the last quarter, we grew our carrier broker. So matching the load to the broker through automation and through the AI at 61% improvement in productivity year-over-year and don't have less brokers. We redeployed them in other places to generate freight versus put it against the carrier side of the house."

Source: Morgan Stanley Research

Sales, Marketing, & Customer Growth Examples:

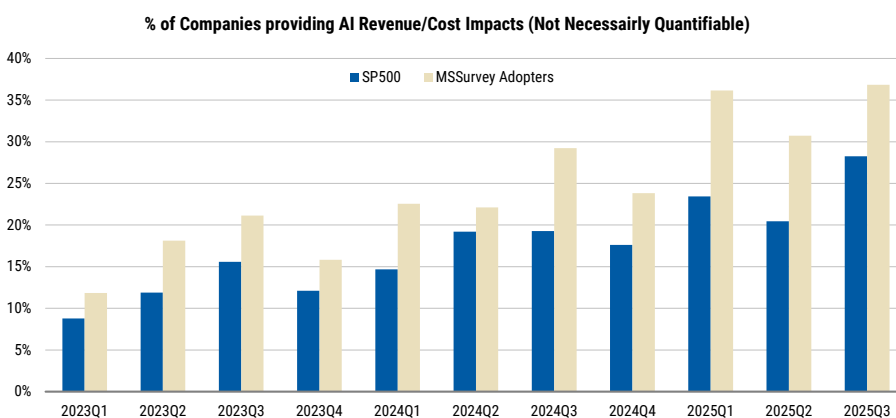
Exhibit 96: Sales, Marketing, & Customer Growth Examples

Ticker	Name	Sector	Quote
MTCH.O	Match Group, Inc.	Communication Services	"We launched a new AI-powered recommendation algorithm in March that is driving a 15% increase in matches and contact exchanges, driving meaningfully more dates for our users."
META.O	Meta Platforms, Inc.	Communication Services	"In the last six months, improvements to our recommendation systems have led to a 7% increase in time spent on Facebook, a 6% increase on Instagram and 35% on Threads."
SPOT.N	Spotify Technology SA	Communication Services	"And now in more than 60 markets, DJ takes music requests, serving up suggestions using AI and also insights from our global editorial experts. So now you can ask the DJ questions that require Spotify to understand the wider world, like, for example, play me that song where Bruce Springsteen invites up that fan on stage in the music video. And DJ will understand that you are requesting Dancing in the Dark. We also clearly see that the more people interact with DJ, the better and longer their sessions get. This has resulted in a nearly 45% increase in DJ streams globally, driving tens of millions of interactions to date."
CMG.N	Chipotle Mexican Grill, Inc.	Consumer Discretionary	"We saw with the AI tool about a 46%, 47% uplift in engagement through that welcome journey, so that informed what we are now calling the win-back journey."
EBAY.O	eBay, Inc.	Consumer Discretionary	"In late 2024, we introduced AI-generated subject lines and pre-headers for personalized CRM e-mails in the US, which drove a greater than 40% increase in quality visits versus our prior approach."
YUM.N	Yum! Brands, Inc.	Consumer Discretionary	"Across the organization, AI is supercharging our marketing. Over 200 million AI-generated communications have been sent this year, delivering up to 5 times incrementality compared to traditional approaches."
CL.N	Colgate-Palmolive Co.	Consumer Staples	"And when we deploy Generative AI into just helping us decide what is the most effective way to deploy content and drive engagement in the online world. And what this did is it changed the visuals, optimized how we communicated those visuals and the language we use. And you can see that it improves our engagement level. So, engagement level, how consumers interact with that thumbprint in the online world by 2x."
HUBS.N	HubSpot, Inc.	Information Technology	"We've been at the forefront of leveraging it, and we've seen clear improvements in e-mail conversion rates up to 80% improvement in email conversion rates through leveraging AI for personalization."
NOW.N	ServiceNow, Inc.	Information Technology	"We see this in a 16x improvement from lead-to-sale conversion and an over 86% deflection of the soul crushing work people used to do themselves."
WIX.O	Wix.com Ltd.	Information Technology	"Almost one year ago we launched our AI Website Builder, which is now available in 20 languages and has been a game changer in our user onboarding strategy. Today, more than 50% of new users are choosing to create their online presence through our AI-powered onboarding process. The tool is resonating particularly well with small businesses and entrepreneurs, as paid subscriptions originated from this AI-powered onboarding are 50% more likely to have a business vertical attached and significantly more likely to start selling on Wix."

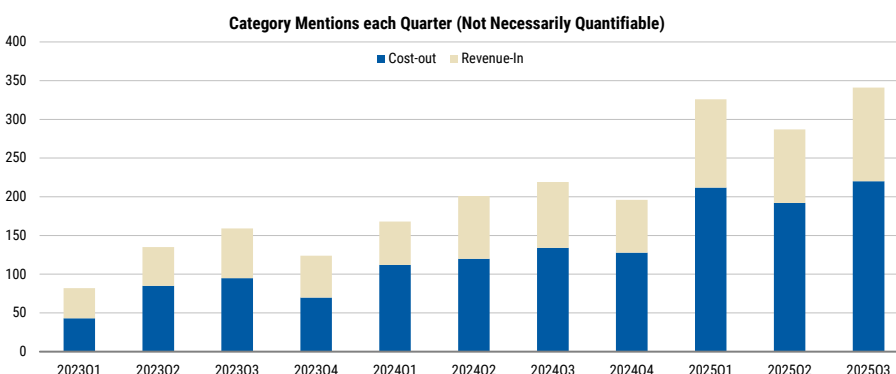
Source: Morgan Stanley Research

Given that our primary analysis is limited to quantifiable examples, we thought it would also be helpful to conduct a follow-up analysis that more broadly captures mentions of AI benefits that fall under the 6 buckets listed above (even when they weren't tied to specific metrics).

We found that 28% of S&P 500 companies discussed some form of AI-related cost or revenue benefit, while 37% of MS AI adopters did the same. The majority of these mentions leaned heavily toward cost reduction, with nearly twice as many references to lowering expenses compared to boosting revenue. This suggests that, at this stage of AI integration, companies are primarily emphasizing efficiency gains and operational streamlining rather than top-line growth.

Exhibit 97: Percent of Companies Broadly Discussing Cost or Revenue Impacts from AI Adoption

Source: Morgan Stanley Research

Exhibit 98: Cost vs. Revenue Benefits from AI Adoption

Source: Morgan Stanley Research

AI Adoption and the Future of Work: Industry Impacts

For more see: [AI Adoption and the Future of Work](#).

In an effort to evaluate the AI adoption opportunity across industries on a relative basis, we developed the comprehensive analysis shown in [Exhibit 99](#). This heat map incorporates the value creation TAM for both agentic and embodied AI in addition to a number of other criteria discussed below. It builds on our initial [work](#) on this topic from early 2024 by leveraging the differentiated data sets introduced in this report. **We find that Healthcare Equipment & Services, Transportation, Consumer Services, Software & Services, Capital Goods, Automobiles & Components, and Staples Distribution & Retail screen as having a more significant potential relative opportunity with respect to AI-driven value creation and efficiency.**

We think Industrials is an underappreciated structural beneficiary based on this analysis, which is supportive of our overweight stance. While Real Estate is not included in the heat map given that certain criteria are less applicable for the industry, we would highlight the opportunity for the space detailed in [How GenAI May Reshape the Real Estate Industry](#).

It's worth noting that pockets of broader industries that are more out of favor with investors for reasons not tied to AI do screen opportunistically based on this analysis. This includes Healthcare Equipment & Services (due to policy considerations and mixed earnings results) and Staples Distribution & Retail (due to thinner margins, tariff risks and weaker pricing power). AI-related structural opportunities as highlighted by the analysis below could be a potential positive offset for these groups amid more muted investor sentiment/positioning.

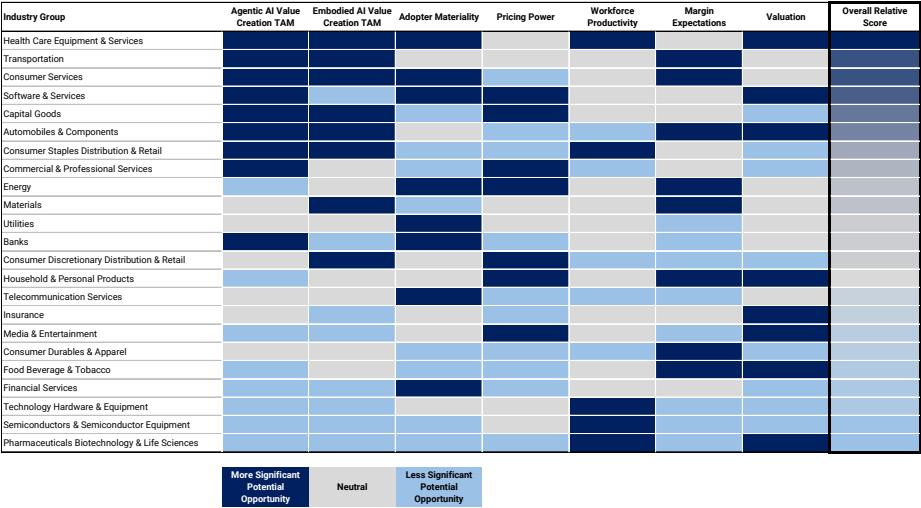
In terms of methodology for this heat map, industry groups are percent ranked based on the measures below. A weighted average is then taken across the various metrics to determine the overall score. Industries are generally assessed on a median and average stock basis.

- **Agentic AI Value Creation TAM** (30% weight): The average stock agentic AI TAM/pretax income across each industry based on the approach described in [Framing AI Adoption Impacts Across the S&P 500](#).
- **Embodied AI Value Creation TAM** (15% weight): The average stock embodied AI TAM/pretax income across each industry based on the approach described in [Framing AI Adoption Impacts Across the S&P 500](#). This measure has a lower weight in the overall score than agentic AI TAM because the majority of its impact on value creation/efficiency gains is likely to occur outside of our forecast horizon (i.e., beyond 2027).
- **Adopter Materiality** (15% weight): As a part of [Mapping AI's Rate of Change](#) led by our thematic research team, Morgan Stanley's equity analysts assessed the stocks under their coverage in the following context: (1) the company's role in, or impact from, AI; and (2) the speed of expected diffusion of disruption from AI to the investment debate on the stock. For the purposes of this report, we focus on the list of adopters and enablers/adopters. Each stock is then given a scaled score based on the importance of AI to the stock's debate. We then aggregate those scores up to the GICS level 2 industry group level and normalize by the number of companies in each industry group. Industry groups are then ranked based on their adopter concentration.
- **Pricing Power** (15% weight): This criteria is also based on the survey from [Mapping AI's Rate of Change](#) that asks analysts to assess companies' pricing power versus the sector average (i.e., companies' ability to retain cost savings and investment ROIC versus passing this on to customers). Each stock is given a score based on analysts' input and an average is taken across industry groups.
- **Workforce Productivity** (10% weight): Assesses (1) output per employee growth and (2) dispersion of output per employee growth. For the former, we look at the CAGR of revenue per employee from 2019 to 2024 for the median company within each industry group. For the latter, we calculate the standard deviation of revenue per employee CAGRs across companies in each industry group. Groups with low revenue per employee CAGRs and high dispersion are seen as having more significant potential efficiency gains. The rationale is that these cohorts may have more upside opportunity from a productivity standpoint if they can successfully adopt and integrate AI into their operating models. Further, this potential upside in productivity may be underappreciated given these cohorts' relatively low revenue

per employee CAGR at the median company level. Incorporating dispersion then allows us to assess where there is clear bifurcation between highly productive and less highly productive companies within industries. If an industry group has a low median revenue per employee CAGR, but high dispersion, there are companies within the industry that are executing more effectively on productivity and operational efficiency. AI adoption could then lead to a broader productivity catch up for the median company across the cohort where the industry laggards have the opportunity to partially catch up to the industry leaders.

- **Margin Expectations** (10% weight): We look at longer-term net profit margin expectations out to 2027 (i.e., FY2) at the stock level across the S&P 500. We then compare these estimates to the historical median FY2 expectation as of the same point in prior years. Lastly, we aggregate this comparison up from the company level to the industry group level and compare industries on this basis. Groups in the top tercile (i.e., relatively high margin expectations) are denoted as having a less significant potential opportunity as estimates are already elevated. Groups in the bottom tercile are denoted as having a more significant potential opportunity. Groups in the middle tercile have a neutral reading.
- **Valuation** (5% weight): Based on relative forward P/E percent rank back 10 years for the median stock in each industry group. Cheaper groups have a more significant opportunity.

Exhibit 99: AI Value Creation Opportunities: Relative Industry Rankings



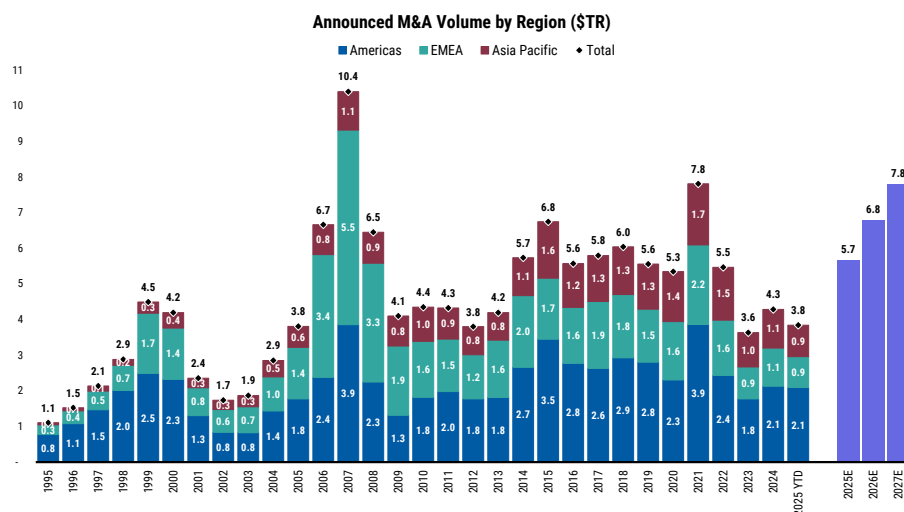
Source: FactSet, Morgan Stanley Research. In terms of methodology for this heat map, industry groups are percent ranked based on the measures mentioned in the headers. A weighted average is then taken across the various metrics to determine the overall score. Industries are generally assessed on a median and average stock basis.

M&A Returns

The "return of M&A" is here: 2023 saw the lowest level of global M&A in 30+ years (adjusted for the size of the economy). That's over, with 3Q25 announced volume +43%Y across aggregate strategic and sponsor deals. **We continue to expect a major, multiyear rebound in activity, aided by strength in global equities, lower rates, open capital markets, greater corporate confidence, less policy uncertainty, positive regulatory change, and growing pressure on private asset managers to act.** Looking ahead, we forecast global M&A announced volumes to increase by 32%Y this year, 20%Y next year, and reach \$7.8 trillion in 2027, inclusive of strategic, sponsor, and buyback deals.

Fewer reasons to wait. More reasons to go: Uncertainties that led corporate actors to wait continue to fade. As they do, we see "more reasons to go": easy fiscal policy, easing regulatory policy, easing monetary policy, wide-open capital markets, and a step-change in corporate investment.

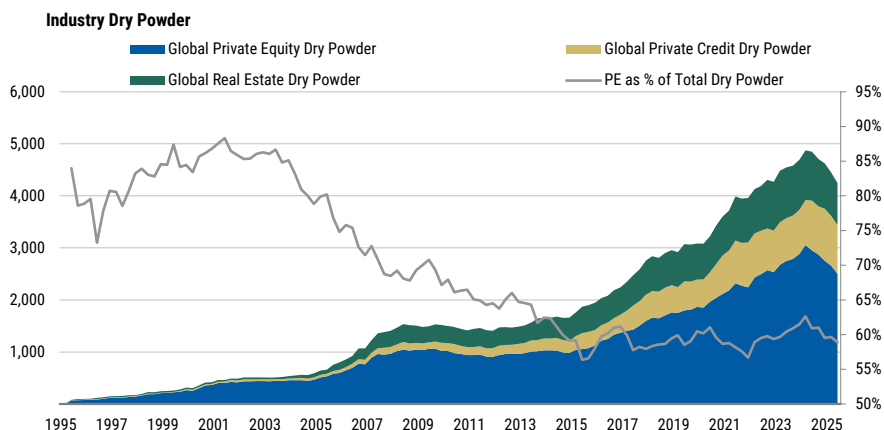
Exhibit 100: We forecast global announced M&A volumes up 32% in 2025. We see a significant, sustained rebound ahead.



Source: Dealogic, Morgan Stanley Research forecasts; Note: 2025 YTD as of 3Q25. Data include strategic, sponsor, and buyback deals; data exclude rejected/cancelled deals.

Still expecting a "sponsors spark": The private markets industry has amassed \$4.2 trillion of dry powder, or ~\$8 trillion of buying power including potential leverage. Management commentary is becoming increasingly positive, suggesting that the private markets flywheel can accelerate amid an improving IPO environment and M&A activity. Announced sponsor-backed M&A through 3Q25 is up 42% compared to the same period last year, with 3Q quarterly volumes marking the highest levels since 2Q22.

Exhibit 101: The private markets industry has amassed \$4.2T in dry powder, primarily concentrated in private equity though diversifying

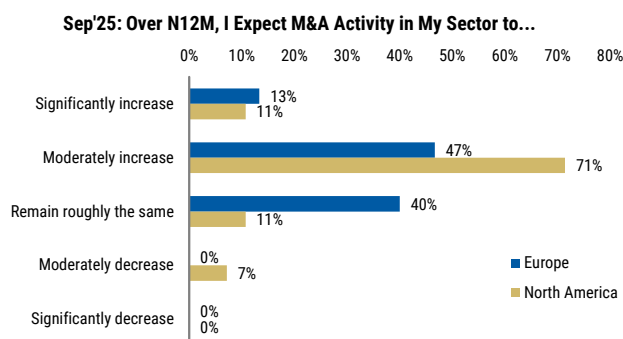


Source: Cobalt data. Morgan Stanley Research as of June 2025. Note: Buyout includes private equity, growth equity, and venture capital. Real Estate includes real estate, infrastructure, and natural resources. Data excludes secondaries, fund-of-funds, and co-investment

Our analysts see a strong environment ahead for increased M&A activity. In North America, 11% of analysts believe M&A activity will significantly increase in their sector over the next 12 months while 71% believe it will moderately increase. In Europe, 13% of analysts believe activity will significantly increase while 47% believe it will moderately increase. Very few analysts expect activity to deteriorate further, indicating that the trough is likely behind us.

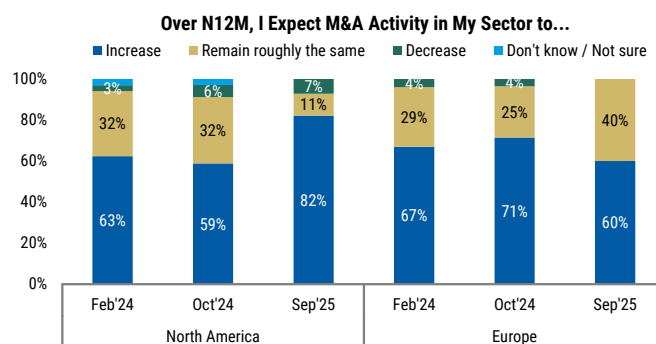
In North America, analysts have become moderately more bullish on M&A prospects while in Europe analysts have become modestly less bullish on M&A compared to the prior wave of the survey. We note though that in Europe there were no sector analyst expecting M&A activity to decline in their respective sector, vs. 7% in North America.

Exhibit 102: M&A Expectations



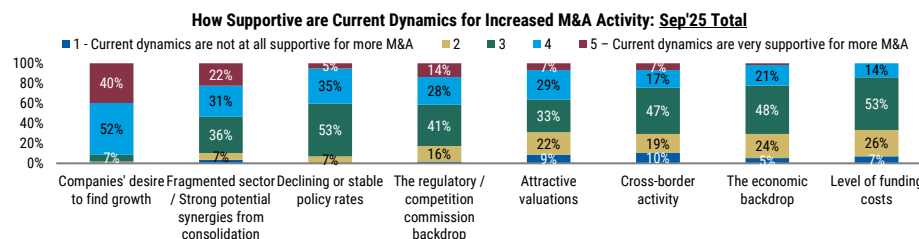
Source: AlphaWise, Morgan Stanley Research

Exhibit 103: M&A Expectations: current survey vs prior waves



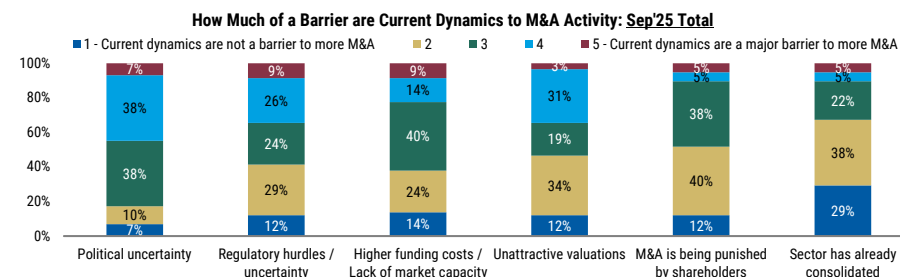
Source: AlphaWise, Morgan Stanley Research

Our analysts view companies' desire to find growth as the dynamic which is the most broadly supportive for increased M&A activity. They also view fragmented sectors/strong potential synergies from consolidation and declining or stable policy rates as being supportive for M&A activity. Current conditions for cross-border activity and funding costs are viewed negatively, with nearly a third of analysts rating those factors as not being supportive for more M&A activity. Valuations, cross-border activity, economic backdrop and funding costs are viewed negatively, with roughly a third of analysts rating those factors as not being supportive for more M&A activity.

Exhibit 104: Support for M&A - Sep 2025

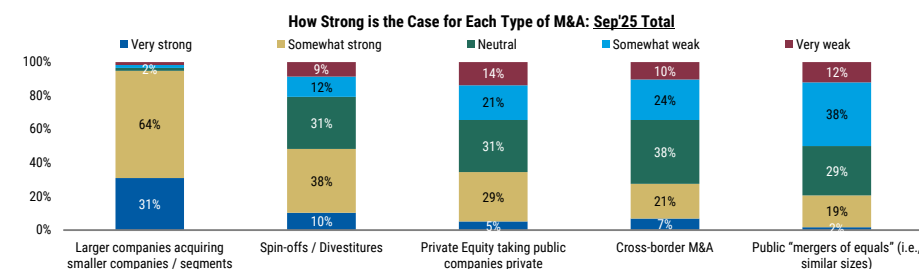
Source: AlphaWise, Morgan Stanley Research

Political uncertainty, regulatory hurdles, and unattractive valuations are currently seen as the biggest barriers to M&A. Few analysts believe lack of market capacity is a significant barrier to M&A. Compared to October 2024, analyst concern around all barriers has increased, with every category having at least some analysts flag it as a major barrier. The only category where this was accompanied by decreased overall concern is sector consolidation; almost 70% of analysts believe it not to be a barrier.

Exhibit 105: Barriers to M&A - Sep 2025

Source: AlphaWise, Morgan Stanley Research

Analysts believe that larger companies acquiring smaller companies is the strongest cases for M&A. Spin-offs/divestitures are still considered a strong case by almost half of the analysts. Little opportunity is seen for companies to engage in public "mergers of equals."

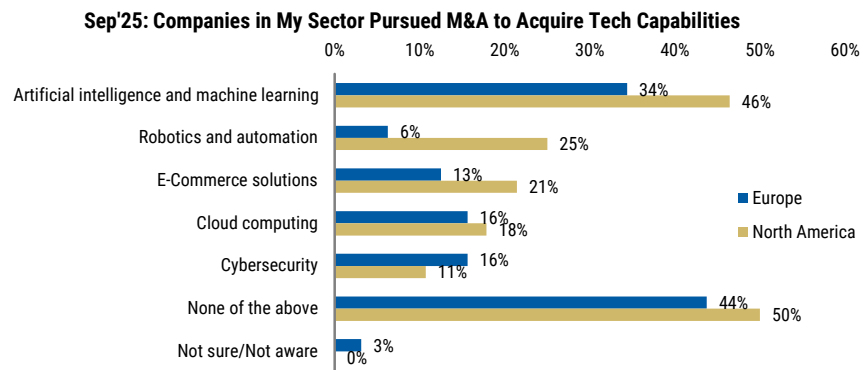
Exhibit 106: Cases for M&A - Sep 2025

Source: AlphaWise, Morgan Stanley Research

Technology diffusion is one of Morgan Stanley Research's four key themes, and acquiring new tech capabilities is a major reason companies pursue M&A. The most common focus was AI/ML, with just under half of analysts in North America and one third in Europe reporting that companies in their sector engaged in M&A to gain these capabilities. In North America, robotics and automation, along with e-commerce solutions, were the next

most cited areas. In Europe, cloud computing and cybersecurity followed AI/ML as the most common tech capabilities driving M&A.

Exhibit 107: M&A for Tech Capabilities - Sep 2025



Source: AlphaWise, Morgan Stanley Research

For more details, please see the full note [M&A Returns](#).

Fresh Money Buy List

We are making a number of pro-cyclical changes to our Fresh Money Buy List to reflect our view for market broadening ahead. We are swapping five names to better align the portfolio with our sector views.

Removing: KO, CL, MCD, PGR, PEG

Adding: DAL, EQT, KNX, TEAM, TGT

Bottom-Up Rationale for Additions:

- **DAL (Overweight, Analyst: Ravi Shanker):** DAL's strong brand loyalty, mgmt. team, premium customer demand, and metered growth plans should continue to benefit from industry tailwinds such as premium, international, corporate, and domestic leisure. We continue to see DAL on a path towards \$7+ EPS in the near term and potentially \$10+ by 2027-28. While investors are waiting for 1-2 clean quarters before re-entering the space, we believe the market should gravitate towards DAL's compounding growth story (esp. with a now-restored dividend and investment-grade balance sheet).
- **EQT (Overweight, Analyst: Devin McDermott):** EQT's peer leading cost structure and vertical integration are key differentiators vs peers. We expect shares to continue to re-rate as management executes on further deleveraging, delivery of "upside" synergies, and strategic growth (including potential midstream & power opportunities). Differentiated exposure to rising demand from LNG and Power, with a track record of premium-priced gas sales to utilities for power generation needs.
- **KNX (Overweight, Analyst: Ravi Shanker):** KNX is the best positioned to be the biggest beneficiary of structural supply headwinds and the expected demand upcycle, given their scale, exposure, and nimbleness. Approximately 70% of KNX's truckload business is in the one-way market, which is where the majority of capacity attrition is expected to be concentrated and, if enforcement efforts are sustained and effective, there could be a meaningful shift in the supply-demand dynamic in 2026. KNX's unique diversification should also allow them to capture opportunities from multiple Transportation modes as well as position them well for LT structural opportunities such as nearshoring and autonomous. KNX's normalized earnings are likely much higher than the market appreciates.
- **TEAM (Overweight, Analyst: Keith Weiss):** With sustained 20%+ top-line growth and further margin expansion, we see a path to durable 25%+ FCF growth for Atlassian, yet that is greatly underappreciated at just 17x EV/CY27 FCF (0.72x growth-adjusted) vs large-cap median of 26x (1.42x). TEAM's -36% YTD underperformance and deeply discounted valuation largely reflect investor concerns about GenAI's impact on the durability of Atlassian's business, concerns we view not only as overstated but fundamentally wrong. As Workflow Automation platforms likely emerge as primary conduits for enterprise GenAI adoption, Atlassian is well positioned to capture the opportunity ahead.
- **TGT (Overweight, Analyst: Simeon Gutman):** While comps remain subdued as

TGT still grapples to find its design/style authority, the company still has the 'bones' for a successful turnaround: An established retail brand, an extensive supply chain (with ~75% of U.S. households within ~10 miles of one of its 1,982 stores), and a sizable digital business (at ~\$20bn in revenue). Undemanding valuation at 12x '26e P/E and property value (as TGT owns ~75% of its retail store network) limit downside risk with the stock geared to an improving consumer goods spending outlook among U.S. middle-income households.

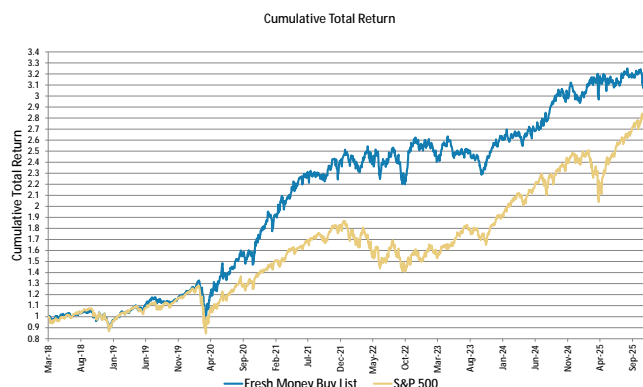
Exhibit 108: Fresh Money Buy List - Stats & Performance

Company Name	Ticker	MS Rating	Sector	Market Cap (\$Bn)	Price	MS PT	% to MS PT	MS Analyst	Date Added	Total Return Since Inclusion	
										Absolute	Rel. to S&P
Abbvie Inc.	ABBV	Overweight	Health Care	\$412.4	\$233.35	261.00	11.8%	Flynn, Terence	8/12/2024	28.7%	0.1%
American Tower Corp.	AMT	Overweight	Real Estate	\$85.8	\$183.35	235.00	28.2%	Swinburne, Benjamin	4/7/2025	(15.2%)	(49.4%)
CenterPoint Energy Inc.	CNP	Equal-Weight	Utilities	\$25.8	\$39.59	39.00	(1.5%)	Arcaro, David	3/21/2022	50.2%	(9.5%)
Delta Airlines, Inc.	DAL	Overweight	Industrials	\$39.5	\$60.48	90.00	48.8%	Shanker, Ravi	11/17/2025	-	-
EQT Corp.	EQT	Overweight	Energy	\$38.0	\$60.84	69.00	13.4%	McDermott, Devin	11/17/2025	-	-
Knight-Swift Transportation Holdings Inc.	KNX	Overweight	Industrials	\$7.3	\$44.82	67.00	49.5%	Shanker, Ravi	11/17/2025	-	-
Northrop Grumman Corp.	NOC	Overweight	Industrials	\$79.7	\$558.49	720.00	28.9%	Liwig, Kristine	8/12/2024	15.6%	(13.0%)
Allianian Corporation PLC	TEAM	Overweight	Information Technology	\$40.9	\$155.50	320.00	105.8%	Weiss, Keith	11/17/2025	-	-
Target Corp.	TGT	Overweight	Consumer Staples	\$41.8	\$91.93	112.00	21.8%	Gutman, Simeon	11/17/2025	-	-
Walmart Inc.	WMT	Overweight	Consumer Staples	\$825.0	\$103.47	115.00	11.1%	Gutman, Simeon	3/27/2023	122.9%	46.4%
Current List Performance											
Average (Eq. Weight)				\$159.6			31.8%			40.44%	(5.07%)
Median				\$41.3			25.0%			28.7%	(9.5%)
% Positive Returns (Abs. / Rel.)										80%	40%
% Negative Returns (Abs. / Rel.)										20%	60%
Avg. Hold Period (Months)											11.4
All Time List Performance											
Average (Eq. Weight)										29.9%	4.3%
Median										19.2%	(2.7%)
% Positive Returns (Abs. / Rel.)										77%	45%
% Negative Returns (Abs. / Rel.)										23%	55%
Avg. Hold Period (Months)											17.0

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.

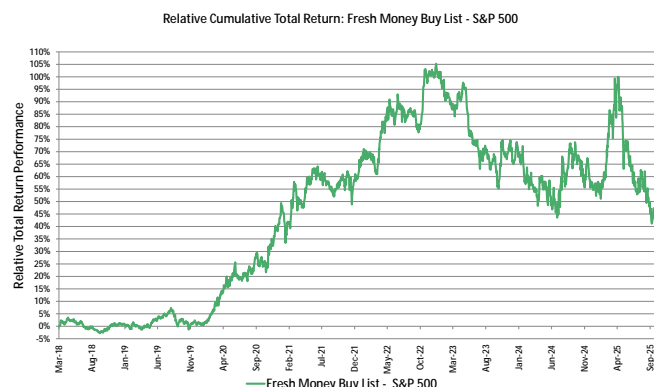
Source: Bloomberg, Morgan Stanley Research

Exhibit 109: Fresh Money Buy List & S&P 500 Cumulative Total Return



Source: Bloomberg, Morgan Stanley Research

Exhibit 110: Fresh Money Buy List / S&P 500 Cumulative Relative Return



Source: Bloomberg, Morgan Stanley Research

Appendix: Sector Preferences Summary

Exhibit 111: Sector Recommendations

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

Source: Morgan Stanley Research

Disclosure Section

The information and opinions in Morgan Stanley Research were prepared by Morgan Stanley & Co. LLC, and/or Morgan Stanley C.T.V.M. S.A., and/or Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., and/or Morgan Stanley Canada Limited. As used in this disclosure section, "Morgan Stanley" includes Morgan Stanley & Co. LLC, Morgan Stanley C.T.V.M. S.A., Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., Morgan Stanley Canada Limited and their affiliates as necessary.

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any recommendation, rating or price target referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Diane Ding, Ph.D.; Nicholas Lentini, CFA; Andrew B Pauker; Michelle M. Weaver, CFA; Michael J Wilson.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictolicies. A Portuguese version of the policy can be found at www.morganstanley.com.br

Important Regulatory Disclosures on Subject Companies

The analyst or strategist (or a household member) identified below owns the following securities (or related derivatives): Nicholas Lentini, CFA - Delta Airlines, Inc. (common or preferred stock). As of October 31, 2025, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: Abbvie Inc., American Tower Corp., Atlassian Corporation PLC, CenterPoint Energy Inc, Coca-Cola Co., Colgate-Palmolive Co, Delta Airlines, Inc., EQT Corp., Knight-Swift Transportation Holdings Inc, McDonald's Corporation, Northrop Grumman Corp., Public Service Enterprise Group Inc, Target Corp, The Progressive Corp., Walmart Inc.

Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of Abbvie Inc., American Tower Corp., CenterPoint Energy Inc, Colgate-Palmolive Co, McDonald's Corporation, Northrop Grumman Corp., Public Service Enterprise Group Inc, Walmart Inc.

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from Abbvie Inc., American Tower Corp., CenterPoint Energy Inc, Coca-Cola Co., Colgate-Palmolive Co, Delta Airlines, Inc., McDonald's Corporation, Northrop Grumman Corp., Public Service Enterprise Group Inc, Walmart Inc.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Abbvie Inc., American Tower Corp., Atlassian Corporation PLC, CenterPoint Energy Inc, Coca-Cola Co., Colgate-Palmolive Co, Delta Airlines, Inc., EQT Corp., McDonald's Corporation, Northrop Grumman Corp., Public Service Enterprise Group Inc, Target Corp, The Progressive Corp., Walmart Inc.

Within the last 12 months, Morgan Stanley has received compensation for products and services other than investment banking services from Abbvie Inc., American Tower Corp., Atlassian Corporation PLC, CenterPoint Energy Inc, Coca-Cola Co., Colgate-Palmolive Co, Delta Airlines, Inc., EQT Corp., McDonald's Corporation, Northrop Grumman Corp., Public Service Enterprise Group Inc, Target Corp, The Progressive Corp., Walmart Inc.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Abbvie Inc., American Tower Corp., Atlassian Corporation PLC, CenterPoint Energy Inc, Coca-Cola Co., Colgate-Palmolive Co, Delta Airlines, Inc., EQT Corp., McDonald's Corporation, Northrop Grumman Corp., Public Service Enterprise Group Inc, Target Corp, The Progressive Corp., Walmart Inc.

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: Abbvie Inc., American Tower Corp., Atlassian Corporation PLC, CenterPoint Energy Inc, Coca-Cola Co., Colgate-Palmolive Co, Delta Airlines, Inc., EQT Corp., McDonald's Corporation, Northrop Grumman Corp., Public Service Enterprise Group Inc, Target Corp, The Progressive Corp., Walmart Inc.

An employee, director or consultant of Morgan Stanley is a director of Walmart Inc. This person is not a research analyst or a member of a research analyst's household.

Morgan Stanley & Co. LLC makes a market in the securities of Knight-Swift Transportation Holdings Inc, Public Service Enterprise Group Inc.

The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues. Equity Research analysts' or strategists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report. Morgan Stanley trades or may trade as principal in the debt securities (or in related derivatives) that are the subject of the debt research report.

Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of October 31, 2025)

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

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

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1501	41%	384	46%	26%	703	41%
Equal-weight/Hold	1609	44%	370	44%	23%	788	46%
Not-Rated/Hold	4	0%	1	0%	25%	1	0%
Underweight/Sell	568	15%	80	10%	14%	223	13%
Total	3,682		835			1715	

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.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC or Morgan Stanley or any of their affiliates, are available on the Morgan Stanley Wealth Management disclosure website at www.morganstanley.com/online/researchdisclosures. For Morgan Stanley specific disclosures, you may refer to www.morganstanley.com/researchdisclosures.

Each Morgan Stanley research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval is conducted by the same person who reviews the research report on behalf of Morgan Stanley. This could create a conflict of interest.

Other Important Disclosures

A member of Research who had or could have had access to the research prior to completion owns securities (or related derivatives) in the Atlassian Corporation PLC. This person is not a research analyst or a member of research analyst's household.

Morgan Stanley Research policy is to update research reports as and when the Research Analyst and Research Management deem appropriate, based on developments with the issuer, the sector, or the market that may have a material impact on the research views or opinions stated therein. In addition, certain Research publications are intended to be updated on a regular periodic basis (weekly/monthly/quarterly/annual) and will ordinarily be updated with that frequency, unless the Research Analyst and Research Management determine that a different publication schedule is appropriate based on current conditions.

Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Matrix at <http://www.morganstanley.com/matrix>.

Morgan Stanley Research is provided to our clients through our proprietary research portal on Matrix and also distributed electronically by Morgan Stanley to clients. Certain, but not all, Morgan Stanley Research products are also made available to clients through third-party vendors or redistributed to clients through alternate electronic means as a convenience. For access to all available Morgan Stanley Research, please contact your sales representative or go to Matrix at <http://www.morganstanley.com/matrix>.

Any access and/or use of Morgan Stanley Research is subject to Morgan Stanley's Terms of Use (<http://www.morganstanley.com/terms.html>). By accessing and/or using Morgan Stanley

Research, you are indicating that you have read and agree to be bound by our Terms of Use (<http://www.morganstanley.com/terms.html>). In addition you consent to Morgan Stanley processing your personal data and using cookies in accordance with our Privacy Policy and our Global Cookies Policy (http://www.morganstanley.com/privacy_pledge.html), including for the purposes of setting your preferences and to collect readership data so that we can deliver better and more personalized service and products to you. To find out more information about how Morgan Stanley processes personal data, how we use cookies and how to reject cookies see our Privacy Policy and our Global Cookies Policy (http://www.morganstanley.com/privacy_pledge.html). Please use the provided link to review the Terms and Conditions and Most Important Terms and Conditions for Morgan Stanley India Company Private Limited (https://www.morganstanley.com/assets/pdfs/about-us-global-offices/india/Terms_and_conditions.pdf) and the following link to review the audit report (https://www.morganstanley.com/assets/pdfs/about-us-global-offices/india/Research_Audit_Report.pdf).

If you do not agree to our Terms of Use and/or if you do not wish to provide your consent to Morgan Stanley processing your personal data or using cookies please do not access our research. Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

The "Important Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

Morgan Stanley may make investment decisions that are inconsistent with the recommendations or views in this report.

To our readers based in Taiwan or trading in Taiwan securities/instruments: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Any non-customer reader within the scope of Article 7-1 of the Taiwan Stock Exchange Recommendation Regulations accessing and/or receiving Morgan Stanley Research is not permitted to provide Morgan Stanley Research to any third party (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities regarding Morgan Stanley Research which may create or give the appearance of creating a conflict of interest. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. Neither this report nor any part of it is intended as, or shall constitute, provision of any consultancy or advisory service of securities investment as defined under PRC law. Such information is provided for your reference only.

Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A. located at Av. Brigadeiro Faria Lima, 3600, 6th floor, São Paulo - SP, Brazil; and is regulated by the Comissão de Valores Mobiliários; in Mexico by Morgan Stanley México, Casa de Bolsa, S.A. de C.V. which is regulated by Comisión Nacional Bancaria y de Valores. Paseo de los Tamarindos 90, Torre 1, Col. Bosques de las Lomas Floor 29, 05120 Mexico City; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents) and by Morgan Stanley Bank Asia Limited; in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and by Morgan Stanley Bank Asia Limited, Singapore Branch (Registration number T14FC0118); in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited having Corporate Identification No (CIN) U22990MH1998PTC115305, regulated by the Securities and Exchange Board of India ("SEBI") and holder of licenses as a Research Analyst (SEBI Registration No. INH000001105); Stock Broker (SEBI Stock Broker Registration No. INZ000244438), Merchant Banker (SEBI Registration No. INM000011203), and depository participant with National Securities Depository Limited (SEBI Registration No. IN-DP-NSDL-567-2021) having registered office at Altimus, Level 39 & 40, Pandurang Budhkar Marg, Worli, Mumbai 400018, India; Telephone no. +91-22-61181000; Compliance Officer Details: Mr. Tejarshi Hardas, Tel. No.: +91-22-61181000 or Email: tejarshi.hardas@morganstanley.com; Grievance officer details: Mr. Tejarshi Hardas, Tel. No.: +91-22-61181000 or Email: msic-compliance@morganstanley.com. Morgan Stanley India Company Private Limited (MSICPL) may use AI tools in providing research services. All recommendations contained herein are made by the duly qualified research analysts; in Canada by Morgan Stanley Canada Limited; in Germany and the European Economic Area where required by Morgan Stanley Europe S.E., authorised and regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin) under the reference number 149169; in the US by Morgan Stanley

& Co. LLC, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, disseminates in the UK research that it has prepared, and research which has been prepared by any of its affiliates, only to persons who (i) are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Order"); (ii) are persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order; or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended) may otherwise lawfully be communicated or caused to be communicated. RMB Morgan Stanley Proprietary Limited is a member of the JSE Limited and A2X (Pty) Ltd. RMB Morgan Stanley Proprietary Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited. The information in Morgan Stanley Research is being disseminated by Morgan Stanley Saudi Arabia, regulated by the Capital Market Authority in the Kingdom of Saudi Arabia, and is directed at Sophisticated investors only.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA) or by Morgan Stanley & Co. International plc (ADGM Branch), regulated by the Financial Services Regulatory Authority Abu Dhabi (the FSRA), and is directed at Professional Clients only, as defined by the DFSA or the FSRA, respectively. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria of a Professional Client. A distribution of the different MS Research ratings or recommendations, in percentage terms for Investments in each sector covered, is available upon request from your sales representative.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided exclusively to persons based on their risk and income preferences by the authorized firms. Comments and recommendations stated here are general in nature. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages relating to such data. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Indicators and trackers referenced in Morgan Stanley Research may not be used as, or treated as, a benchmark under Regulation EU 2016/1011, or any other similar framework.

The issuers and/or fixed income products recommended or discussed in certain fixed income research reports may not be continuously followed. Accordingly, investors should regard those fixed income research reports as providing stand-alone analysis and should not expect continuing analysis or additional reports relating to such issuers and/or individual fixed income products.

Morgan Stanley may hold, from time to time, material financial and commercial interests regarding the company subject to the Research report.

Registration granted by SEBI and certification from the National Institute of Securities Markets (NISM) in no way guarantee performance of the intermediary or provide any assurance of returns to investors. Investment in securities market are subject to market risks. Read all the related documents carefully before investing.