

Morgan Stanley

INVESTMENT MANAGEMENT

SLIMMON'S TAKE > TAKEAWAYS & KEY EXPECTATIONS

Equity Market Commentary

SOLUTIONS & MULTI-ASSET | APPLIED EQUITY ADVISORS TEAM | SLIMMON'S TAKE | MARCH 2023

US Core: MUOIX

Global Concentrated: MLNIX

Global Core: MLMIX

7 Reasons the Equity Market is Rallying

1. *It's what the market does the year after a 25% decline.*¹

AEA positioning: Many stocks declined more than 25%.² Adding depressed cyclical quality stocks.

2. *Declines happen the year before an earnings slowdown, rallies happen the year of the slowdown.*³

AEA positioning: The time to be defensive was last year.

3. *Wall Street/investors are overwhelmingly bearish with epic levels of cash.*⁴

AEA positioning: While always mindful of beta risk, fully invested in anticipation of equity cash capitulation as market rallies.⁵

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¹ Since 1950, the S&P 500 has been up over the next 12 months, 9 of the 10 times it experienced a 25% decline. Bloomberg.

² The NASDAQ declined 30%. Bloomberg.

³ Since 1950, there have been 11 greater or equal to -10% down earnings years. The S&P 500 produced a positive return in 9 of those 11 years. Bloomberg.

⁴ Average allocation to stocks is only 52%. Historically, at these low levels, stocks generated positive returns 95% of time. Bank of America. March 1st, 2023.

⁵ AEA equity strategies are 98%-99% invested. Only 1%-2% cash.

The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment. **Past performance is no guarantee of future results.** See Disclosure section for index definitions.

4. Excluding a handful of mega-cap tech stocks, the market is not that expensive.⁶

AEA positioning: Reduced very large companies relative to benchmarks.

5. It's not a bear market bounce. Look at what is leading: Cyclical, transports, Europe. It's a bull phase.

AEA positioning: Increased positioning in cyclical stocks and Europe.

6. Mid-term returns historically weak (2022) while year 3 Presidential year positive 95% of time (2023).⁷

AEA positioning: First half of 2023 will surprise on upside.

7. Inverted yield curve's forecasting ability has diminished; consumer/corporate rate sensitivity has declined; Fed's tightening less impactful on economy.⁸

AEA positioning: Respect the yield curve but listen to Main Street.

Andrew

⁶ The S&P is trading at 18 x 2023 consensus earnings. Ex AAPL, AMZN, GOOGL, MSFT, NVDA, TSLA market trading at 15.5 x 2023 earnings and 14.5 x 2024 earnings. March 1st, 2023. Bloomberg.

⁷ Year 3 of the Presidential cycle, the S&P 500 has been down once since 1939.

⁸ Empirical Research. March 3rd, 2023.

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