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US Equity Strategy | North America

Weekly Warm Up: Nature of Crisis Drives Bigger Bailout and Truncated Credit Cycle

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Crises lead to bailouts and this time it's extreme given health angle. As a result, the inevitable credit crunch could be truncated this time, leaving us buyers of dips. Recession is trigger for Growth to Value rotation as is 1Q earnings season.

Minsky moment and health crisis elicit extraordinary policy. We believe excess leverage – both in corporate credit and in shadow banking – is why the move has been so ferocious. With forced liquidation now behind us, unprecedented monetary and fiscal support, and elevated equity risk premia, we stick to our view that the worst is behind us and current levels are buying points on a 6-12 month horizon. We're not saying it's a straight line up from here, and a pull-back is likely in order after last week's rally. However, our base case is that the lows are in for this bear market for most stocks.

Debating 2021 earnings. Investors are understandably focused on earnings. 2020 is likely to be substantially below 2019 but we're not as negative as others. Even in a bearish outcome for 2020 EPS (down 20% or more), we think 2021 will see a strong rebound. Benchmarking against the financial crisis, and adjusting for some of the areas of the market uniquely hard hit by this recession, scenario analysis suggests 2021 S&P 500 EPS should reach the $150s. Part of our view is based on our assertion that we have already been in a broad and severe earnings recession. With the government effectively underwriting the labor cycle, operating leverage could be extreme on the other side of the recession.

Recession and greater earnings risk than perceived in many Growth stocks should kick off rotation to Value. We think groups where performance is correlated to sales growth, expectations are not yet reflecting recession style declines, and multiples are still elevated vs history pose the most risk – Tech Hardware and Software stand out. The importance of these groups to Growth means that whatever retest of recent lows we get in the coming week(s) will likely be driven more by Growth than Value on the downside. This should be the beginning of the long-awaited rotation to Value that we said would require a recession, which has now arrived.

An attractive equity risk premium (ERP). At 588 bps, the ERP on the S&P 500 still looks attractive and the same is true across most sectors & industry groups. Looking back over the current ERP regime (secular stagnation and financial repression), over half of all sectors are above the 85th percentile and 6 / 24 industry groups are above the 90th percentile. Financials stand out for their elevated ERP, as does Tech for its relatively low ERP levels.

What to Focus on This Week

After a 20% Rally, Where to From Here?

A Recession & Excess Leverage vs Policy Support

A Minsky moment. In the past month, we've experienced a full bear market (-20%) *and* a full bull market (+20%). Of course, this extreme volatility follows a period of extreme calm during which we observed some of the lowest volatility readings in history. As noted by famed economist Hyman Minsky, the onset of a market collapse can be brought on by the reckless speculative activity that defines an unsustainable bullish period – i.e. the Minsky moment. Sound familiar? If one accepts that 4Q19 was a speculative frenzy driven by liquidity rather than fundamentals, such a conclusion is compelling.

Excess leverage explains the ferocity of the decline in risk assets and the economy. While the focus right now is on COVID-19 as the cause of the bear market, the conditions have to be in place for a market and economic crash like we have just experienced. We think that is important to acknowledge as it may help us understand and predict what happens from here. The necessary conditions for a Minsky-type moment referred to above require leverage in the system. We think there are two primary areas of excess leverage in this particular episode that have been building for the past decade – corporate credit and the shadow banks.

First on corporate credit. We have never seen corporate leverage as high as it is now. Much of this credit was added because credit markets have rarely been so inviting to issuers. This is the direct result of the financial repression era orchestrated by central banks during and after the Great Recession. In short, the abnormally low cost of borrowing has encouraged companies to lever up and use this financial leverage to drive better earnings growth in what has been a sluggish economic recovery. Companies are capitalist entities and so they are simply acting in their fiduciary duty to shareholders when they behave in such a manner. Much of this financial arbitrage has been executed via share buybacks, which is now being criticized by members of Congress as they pass the largest fiscal stimulus in history. It's important to note that low growth is very different from negative growth. Now that we have entered a recession, the corporate bond market knows the risk of default is much greater – hence the dramatic moves we have seen in credit spreads in the past month. As an aside, the correction in stocks really took a turn for the worse when tensions between Russia and OPEC caused a collapse in oil prices. This is what triggered the stress in corporate credit markets, in our view, which contributed significantly to the crash in stocks and the economy. Many acknowledge that credit markets are more important to the functioning of the economy than equity. As bad as the moves were in stocks this month, they were much worse in credit than they were in equities on a risk-adjusted basis.

Second is the shadow banks which are unregulated financial market participants. Without singling out one particular group, these entities also ballooned in size and scope after the financial crisis. Some of this is due to the easy monetary conditions and low borrowing costs provided by central banks while it's also due to the fact that the traditional banking system is more tightly regulated, which has allowed many of these entities to get bigger in direct lending type activities. Because the shadow banks are unregulated, they may have become too big, which is why they are now having an outsized impact on financial markets as they lever, like last year, and then de-lever like last month.

The good news is that the regulated banking system is stronger than normal for this part of the cycle – when we are entering a recession – which means credit should still remain available. The Fed has a viable system to get the capital they are providing to the places that need it most as the economy contracts and cash flows dry up. This is very different than 2008-09 and one reason we believe the Fed's extraordinarily aggressive actions to date, which include intervening in the corporate credit markets directly, will ultimately shorten the duration of this recession even if they can't stop the severity of the slowdown in the very near term. They are, in effect, bailing out the bad actors in the corporate credit market, which should truncate the pain for both investors and issuers, and – eventually – the economy. The fact that a health crisis is now the villain of this recession arguably makes this correction less painful than it would have been otherwise for credit markets, and the shadow banks.

In addition to the Fed, the spending bill just passed by Congress is the largest fiscal stimulus in history as a percentage of GDP. As a result, our economists estimate the US fiscal deficit will balloon to 18% of GDP, a level not seen since World War II. In short, the Fed will go a long way to calming the credit markets while the fiscal stimulus will create a recovery path from 2Q20 economic data that equity markets can begin to discount sooner rather than later, in our view.

Where to From Here?

Do we think US equity markets will make fresh lows in this bear market? This is the number one question we get beyond our earnings estimates (see following section). Our short answer is no for the major averages and most stocks. The longer answer is based on several key factors we think are unique to this correction and which tie into our introductory comments above.

1. **Recent lows were made during what can only be described as a forced liquidation by levered players** – aka shadow banks. Based on data and analysis from our Quantitative and Derivative Strategies and Prime Brokerage content teams, we think both systematic strategies and active managers are now basically "sold out" and have very low risk/leverage at this point. In other words, it's **hard to imagine the kind of liquidation that we just witnessed in March could happen again** from these much lower levels of leverage.

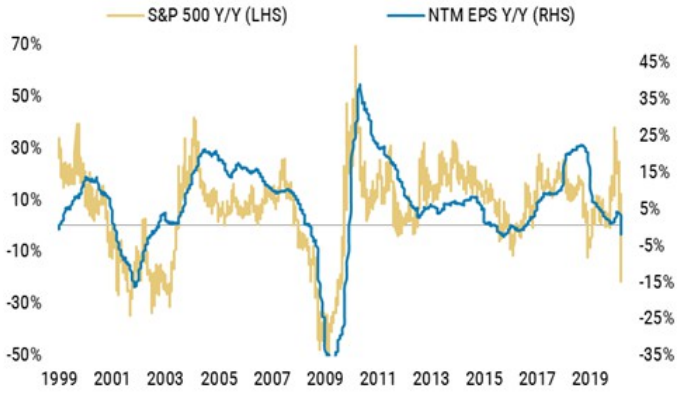
2. **This past week, credit markets stabilized thanks to unprecedented support from the Federal Reserve and other central banks.** After the past 10 years, we have no doubt in their resolve to stabilize both the funding and credit markets. Most investors we speak with agree and are actively looking to put capital into IG, Mortgages, Agency, Securitized paper and anything else the Fed has said they will

be buying directly. Even high yield has responded positively, which the Fed is not buying. Perhaps the most positive market signal last week was the fact that high yield remained in positive territory on Friday even after equity markets sold off sharply into the close. **The weaker US dollar is also a good sign that policy (both monetary and fiscal) is now viewed as getting ahead of the curve.**

3. **Economic and earnings data will be grim over the next month, but equity markets may have already discounted these revisions based on valuation and some simple relationships we track.** First, the equity risk premium for the S&P 500 got as high as 700bps last Monday; it's the second-highest level we have on record (2011 was higher post the downgrade of Treasuries to AA). If we look at this from a sector and stock standpoint, we are at all-time highs. We think this suggests the index can hold the old lows even if some of the most favored sectors and stocks do not (see final section). As for some simple relationships, we compare the y/y change in the S&P to the y/y change in earnings growth and revisions breadth, PMIs, and consumer confidence. Based on the 20% y/y decline in the S&P 500, a very rare event usually associated with recessions, we think the market has discounted the recessionary economic and earnings data we expect to see next month (Exhibits 1-4). Having said that, it has *not* discounted a full-blown financial crisis like we experienced in 2008-09.

4. Finally, from our hundreds of conversations with clients the past few weeks, **there is a strong consensus for lower lows on a retest over the next month or two.** While that doesn't mean the consensus can't be right, we would remind readers that we never got a retest of the December 2018 lows which happened under a similar type forced liquidation. Time-tested technical tools like retests with a positive divergence may not work as well in a world dominated by oversized shadow banks which have become the marginal buyer/seller that really sets the price in the short term.

Exhibit 1: S&P 500 has discounted typical NTM EPS drawdown in a recession

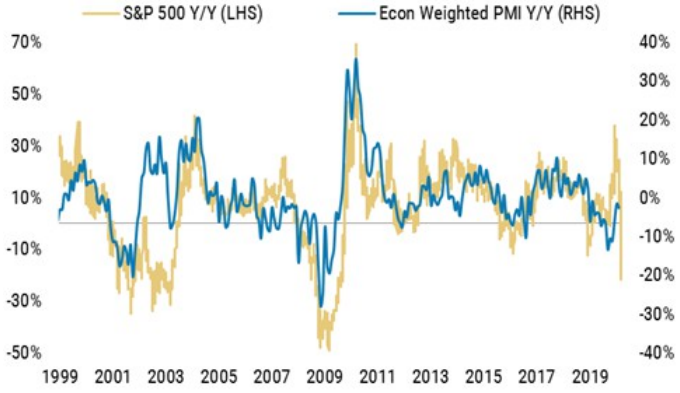


Source: Factset, Bloomberg, Morgan Stanley Research

Exhibit 2: Same for earnings revision breadth….

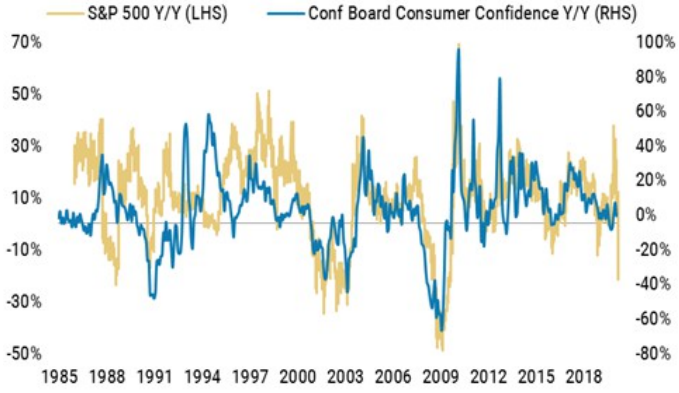
Source: Factset, Bloomberg, Morgan Stanley Research

Exhibit 3: And PMIs…..



Source: Bloomberg, Morgan Stanley

Exhibit 4: As well as Consumer Confidence



Source: Bloomberg, Morgan Stanley

Rarely do markets become so dislocated as they have in the past month, but such are the conditions from which great investment opportunities are born. We have been less bullish than most over the past several years under the view we were headed toward the end of the cycle. While we never know what will tip us into a recession, the conditions for one have to be in place and the excesses in the credit world were exhibit A in that regard. Now that we are here, we would like to remind readers that bear markets *end* with recessions, they don't begin with them. Given that most stocks have been in a bear market for two years or longer, we recommend investors start buying stocks now because we cannot be sure if the next pull back will lead to lowers lows or not given we already experienced forced liquidation. Bottom line, we believe 2400-2600 on the S&P 500 will prove to be very good entry points for those with a time horizon of 6-12 months.

Stress Testing Earnings

S&P 500 Earnings Path 2020 & 2021

How low will earnings go? Many of our conversations with investors over the last week have focused on how low earnings are likely to go for the S&P 500. The range of estimates we have heard reflects the high degree of uncertainty in the market. Given the focus on the topic, we wanted to share a bit more detail on how we're thinking about it.

Assessing earnings downside risk against 08/09. We looked to prior recessions for guidance on the degree of earnings declines the market is likely to see, and the severity of this recession meant that the 2008-2009 crisis was the right recession to comp against to build a proper bear case. In the trough quarter, trailing 4Q earnings growth on the S&P was -33% and -26% for the S&P ex-Financials. One year later, those growth numbers were 44% and 28% respectively. Every situation is different and the index itself is different so we wanted to go into a bit more detail in making our comparisons. Here was our approach:

1. **Company-specific growth:** Calculated (A) peak to trough and (B) trough + 1 yr later net income changes for every company in the S&P during the recession.

2. **Industry medians:** Calculated GICS Industry (level 3 classification) median earnings changes over the periods above.

3. **Apply industry median changes to today's S&P:** Applied the median changes to 2019 earnings for current S&P 500 members.

4. **Subjective adjustments:** In many cases, the 08/09 earnings patterns may not match the current situation. For instance, we believe the decline in earnings for Airlines and Hotels/Restaurants/Leisure are likely to be significantly greater in 2020 than at any point in 08/09. On a more positive note, we think it is unlikely that Financial sector earnings are hit as hard. We applied subjective industry-specific assumptions to 2020 and 2021 growth rates to these industries, among others, trying to err on the side of conservatism. For example, we assume that airline 2021 earnings are still 40% below 2019 levels.

Across most scenarios, 2021e EPS look to be in the $150s. We tested the subjective assumptions a number of different ways, but in most cases found that EPS could be down in the mid-20s in 2020 and then up in the low 30s (on a % basis) in 2021. Generally, this left EPS in the mid-high $150s next year. We thought the sensitivity analysis was helpful, but also strongly believe that the size of the fiscal and monetary response, along with the easier comps from flat earnings last year, mean that the downside to earnings will not be as large as in the last recession. In our bear case, we assume earnings are "only" down 20% y/y in 2020, but in trying to be conservative, we also assume a smaller rebound in 2021, which ultimately leaves most of our forecasts for 2021 in the mid-high $150s. Our extreme bear case of 2000 for the S&P by year end assumes the earnings hit is slightly worse than in the last recession and the rebound is less than half as strong in 2021, something we view as low probability.

Exhibit 5: Our S&P 500 Bull/Base/Bear Case Estimates & Targets

Index	Current Price	MS Forecast Dec-20 (% to Current)	MS Tgt Fwd P/E Dec-20	Current Fwd P/E	MS Top-Down Base Case EPS/Growth			Consensus Forecast EPS/Growth		
					2019	2020	2021	2019	2020	2021
Bull	2,541	3,000	17.5x	15.1x	$163	$155	$170	$163	$164	$187
		18%			0.6%	-5.0%	10.0%	0.6%	0.6%	13.8%
Base	2,541	2,700	17.0x	15.1x	$163	$142	$159	$163	$164	$187
		6%			0.6%	-13.0%	12.0%	0.6%	0.6%	13.8%
Bear	2,541	2,400	15.5x	15.1x	$163	$130	$156	$163	$164	$187
		-6%			0.6%	-20.0%	20.0%	0.6%	0.6%	13.8%

Source: Morgan Stanley Research

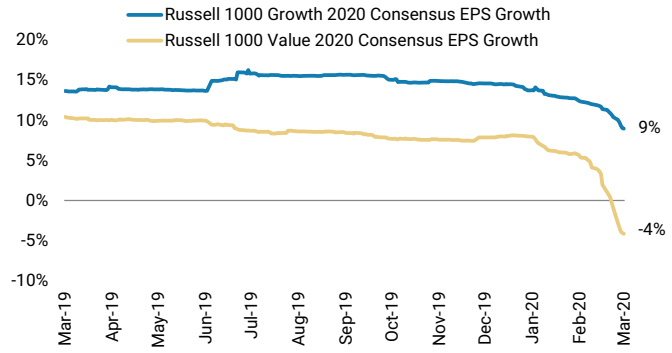
Growth to Value: The Recession Trigger Is Here

In November 2019, we published a detailed note on the idea that a Growth to Value rotation was getting closer to happening (see Value Over Growth: A Recession Could Trigger A Secular Shift, November 14, 2019). As the title of the report indicates, **we viewed a recession as the necessary catalyst to drive a more sustainable rotation.** We saw both Growth and Value declining in absolute performance terms into a recession, but thought Growth would underperform more given already stretched valuation levels and underappreciated cyclicality in certain pockets including Software & Services and Internet. Coming out of the recession, we expected large-scale fiscal stimulus to spur better growth, higher nominal interest rates, a steeper yield curve and a weaker US dollar – a powerful combination for Value stocks. Since we published our report, Growth has continued to dominate Value as we moved from late cycle to end of cycle. Truth be told, we have been surprised by the persistent relative outperformance of Growth over Value as it became clear we were heading toward a recession over a month ago. Value finally did exhibit some relative outperformance last week over Growth as recession became the consensus view. This may lend some credence to our philosophy that it often takes an engraved invitation for capital to finally give up on such a well-established trend.

What is going to drive part one of our regime shift thesis where Growth underperforms? We continue to believe it will be a negative sales and earnings revisions cycle that impacts the large pockets of Growth – Software & Services and Internet (for more on this negative earnings revisions cycle thesis in Growth see Value Over Growth: A Recession Could Trigger A Secular Shift). Exhibit 6 shows that consensus 2020 earnings growth estimates for Growth have experienced a relatively modest decline during this equity market sell-off – currently 9%, down from 13% when the market peaked in mid February. Value has seen a sharper deceleration – currently -4%, down from 6% during the same period. While Growth stocks are better insulated from an economic downturn, this changes in an actual recession, especially one that arrives so suddenly and severely. Despite the increasing risk of negative revisions within Growth and Tech, net exposure among long/short equity hedge funds to the Technology sector remains around the 100th percentile (based on Morgan Stanley Prime Brokerage data). We think it will take lowering corporate guidance to both change this psyche and lead to more significant downward revisions in consensus sales and EPS for Growth stocks. We would expect more Tech companies to pull guidance or formally guide lower during 1Q reporting season given Covid-19 related risks have only accelerated in recent weeks. While this will likely be a broad trend across sectors and styles, we expect it to hit Growth multiples harder on a relative basis as Growth continues to trade at extreme relative valuation levels (87th percentile vs. Value back to 1997—Exhibit 7). Bottom line: We see downside in Growth on a relative basis into 1Q

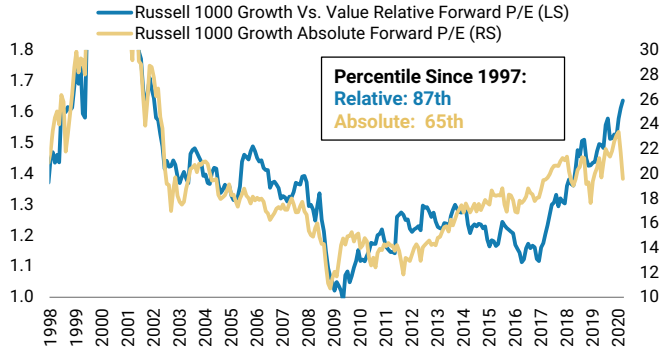
reporting season as relative earnings revisions decline and recession risk gets fully priced. Further, we believe that whatever retest of recent lows we get in the coming week(s) will be driven more by Growth than Value on the downside.

Exhibit 6: Growth has experienced a more modest revision to 2020 Consensus EPS vs. Value



Source: FactSet, Morgan Stanley Research as of March 27, 2020.

Exhibit 7: Growth relative forward P/E vs. Value is elevated—87th percentile since 1997



Source: FactSet, Morgan Stanley Research as of March 27, 2020.

Risk of Downward Revisions and Associated Multiple Compression Is Especially Elevated in Tech

Into earnings season, we're focused on groups where (1) performance is correlated to sales growth; (2) the spread between the Financial Crisis sales decline and the current expected decline is significant; and (3) the current price/sales ratio is elevated versus history – Tech Hardware and Software stand out.

Exhibit 8 shows 3 data points across S&P 500 industry groups: (1) the current 52-week correlation of price vs. consensus forward sales (based on a y/y rate of change for both series); (2) the spread between the consensus forward sales decline during the Financial Crisis and the current decline which began in mid-February; and (3) the current price to forward sales ratio.

We focus on top line in this analysis to normalize for growthier areas of the market for which EPS is a less relevant measure. Further, we think the market has already been processing the margin pressure narrative for some time now. This is why 2020 EPS growth estimates for the S&P started to decline in mid *January* and have fallen from 10% to 1% over that time. In contrast, 2020 sales growth estimates started their decline in mid *March* and have only declined by 3% over that period (they are currently 2%, higher than consensus EPS growth). In short, we think the demand destruction narrative is only now starting to be processed.

In Exhibit 8, we are focused on industry groups where (1) performance is correlated to sales growth (column 1 >0.4); (2) the spread between the consensus forward sales decline during the Financial Crisis and the current decline is significant (>10%); and (3) the current forward price/sales ratio is elevated versus history (>75%). **In our view, the groups that fit this description are more susceptible to downward sales revisions and are more likely to see multiple contraction as a result of that downtrend in estimates.**

Tech Hardware and Software & Services stand out as the groups that fit into this category. Software & Services is a large weighting within Growth (25% of the Russell

1000 Growth Index; 22% of the S&P 500 Growth Index – largest weights in both). Tech Hardware is also a deceivingly large weight within the Russell 1000 Growth Index (10%). Thus, we feel that downward top line revisions and resulting multiple compression within these cohorts will be drivers of our Growth to Value rotation call.

We would note that several cyclical groups (Consumer Durables, Transports and Energy) exhibit relatively strong positive correlations versus sales growth and face moderate-to-severe downside in sales estimates based on the '08 analog. However, those groups are not extreme to the upside from a relative valuation standpoint. Retailing is highly correlated to sales growth and is rich versus history from a valuation standpoint. The group also faces some moderate downside in sales revisions versus the Financial Crisis parallel. However, given that this group is heavily weighted toward online retailers, which are benefiting from the COVID-19 shutdown, this cohort may be more resilient in this downturn as compared to prior recessions.

Exhibit 8: Into earnings season, we're focused on groups where (1) performance is correlated to sales growth; (2) spread between Financial Crisis sales decline & current expected decline is significant; & (3) current price/sales ratio is elevated vs. history—Tech Hardware & Software stand out

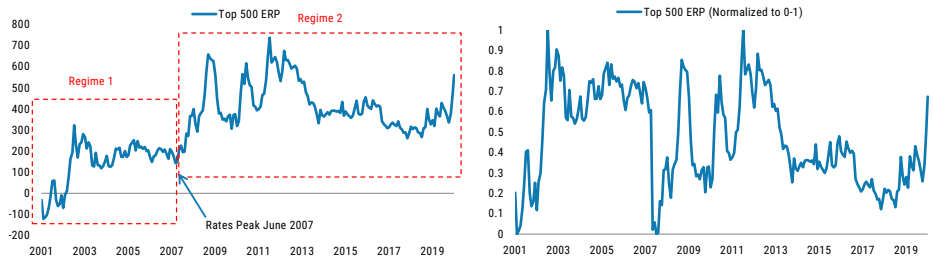
Industry Group	1.) Current 52 Wk. Correlation: Price Vs. Forward Sales	2.) Spread: Financial Crisis Forward Sales % Decline Vs. Current Forward Sales % Decline*	3.) Current Forward Price/Sales % Rank
Technology Hardware & Equipment	0.7	-18%	82%
Retailing	0.7	-7%	86%
Software & Services	0.6	-11%	90%
Consumer Durables & Apparel	0.5	-42%	57%
Transportation	0.5	-8%	29%
Energy	0.5	-27%	0%
Utilities	0.4	-2%	95%
Semiconductors & Semiconductor Equipment	0.3	-34%	83%
S&P 500	*0.2*	-17%	*65%*
Commercial & Professional Services	0.2	-8%	90%
Health Care Equipment & Services	0.2	-2%	38%
Real Estate	0.0	-28%	55%
Food & Staples Retailing	0.0	12%	46%
Consumer Services	0.0	-22%	62%
Insurance	0.0	-16%	7%
Food Beverage & Tobacco	0.0	-8%	74%
Capital Goods	-0.1	-15%	40%
Diversified Financials	-0.2	-16%	26%
Automobiles & Components	-0.2	-49%	32%
Materials	-0.3	-24%	74%
Media & Entertainment	-0.3	-7%	66%
Telecommunication Services	-0.3	-4%	31%
Household & Personal Products	-0.4	-10%	96%
Banks	-0.5	-26%	13%
Pharmaceuticals, Biotechnology & Life Sciences	-0.5	-6%	43%

Source: FactSet, Morgan Stanley Research as of March 27, 2020. *Financial crisis decline: 2007-2009 peak vs. 2007-2009 trough; current decline: March 2017-present peak vs. current level.

Valuation Update – Plenty Still on Sale

Equity risk premium at the market level remains elevated. This week we dug into valuation at the sector and industry group level. We like to account for interest rates when looking at valuation and typically use an equity risk premium (ERP) framework. We calculate the ERP as consensus forward earnings yield less the yield on the 10-year Treasury. The ERP operates in different regimes and it is important to note the range the market is in. In order to calculate percentiles and compare today's ERP to what we saw over the past two recessions, we normalized the data. We used the peak in 10-year Treasury yield in June 2007 as the dividing line between the last regime and the one we are currently in (Exhibit 9). Even with this week's rally, the ERP for the market is currently in the 74th percentile since 2001 and represents a substantial discount versus history (a higher ERP and thus higher percentile represent cheaper valuation).

Exhibit 9: Our Typical ERP Calculation vs. a Normalized ERP

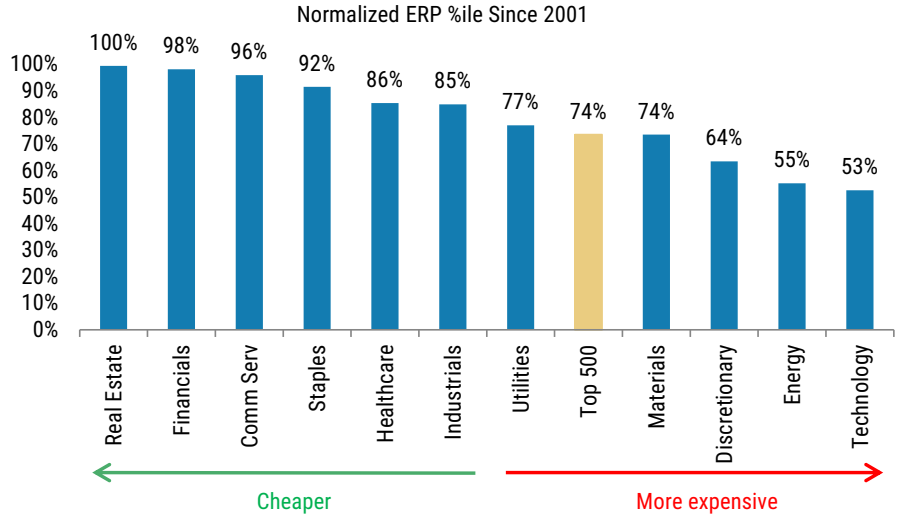


Source: ClariFi, Bloomberg, Morgan Stanley Research. As of Mar 27, 2020. Please note, the ERP figure for March 27 is an approximation. We assumed the daily % return was the same as the % change in the multiple.

Most sectors and industry groups have similarly elevated ERPs. Over half of all sectors are above the 85th percentile and 6 / 24 industry groups are above the 90th percentile (Exhibit 10 and Exhibit 11). Two sectors, Real Estate and Financials, are virtually the cheapest they have been since 2001. At the industry group level, Consumer Services, Banks, Telecom, and Food, Beverage, & Tobacco are trading at *very deep* discounts versus history. Companies in this space will have to grapple with challenges during the recession but they should not be trading as if they won't eventually recover.

Tech remains the last big hold out; the broader sector is at the 53rd percentile. The only industry group with above median valuation is Software and Services at the 40th percentile. We do not think this group will come out of the recession unscathed. **The bear market will likely not be over until all parts of the market, including Software and popular Tech names, take a hit.** Discretionary is skewed by Amazon, which may keep its premium given its unique benefits in the current economic lockdown, while Energy is also unique given the destruction to oil prices, which now appear well below sustainable levels in the longer term assuming some return to normalcy on demand.

Exhibit 10: All sectors are cheaper than their median Level



Source: ClariFi, Bloomberg, Morgan Stanley Research. As of Mar 27, 2020. Please note, the ERP figure for March 27 is an approximation. We assumed the daily % return was the same as the % change in the multiple.

Exhibit 11: Industry Group Breakdown

Industry Group Breakdown

Industry Group	%ile
Consumer Services	99.5%
Food, Beverage & Tobacco	99.5%
Banks	99.5%
Telecommunication Services	99.5%
Real Estate	99.5%
Transportation	96.9%
Pharmaceuticals, Biotechnology & Life Sciences	96.9%
Capital Goods	94.7%
Utilities	91.2%
Health Care Equipment & Services	89.0%
Diversified Financials	87.7%
Consumer Durables & Apparel	84.6%
Semiconductors & Semiconductor Equipment	81.5%
Materials	78.5%
Household & Personal Products	75.0%
Media & Entertainment	73.2%
Automobiles & Components	71.4%
Food & Staples Retailing	71.4%
Insurance	71.0%
Energy	65.7%
Technology Hardware & Equipment	65.7%
Commercial & Professional Services	61.4%
Retailing	55.2%
Software & Services	41.2%

Source: ClariFi, Bloomberg, Morgan Stanley Research. As of Mar 27, 2020. Please note, the ERP figure for March 27 is an approximation. We assumed the daily % return was the same as the % change in the multiple.

Fresh Money Buy List Updates

Each week, we will use a section of our Weekly Warm Up to provide brief updates on select stocks on our Fresh Money Buy List.

Exhibit 12: Fresh Money Buy List - Stats & Performance

Company Name	Ticker	MS Analyst Rating	Sector	Market Cap ($Bn)	Price	MS PT	% to MS PT	MS Analyst	Date Added	Total Return Since Inclusion	
										Absolute	Rel. to S&P
Amazon.com Inc	AMZN	Overweight	Consumer Discretionary	$1,003.5	$1,900.10	$2,400	26%	Nowak, Brian	2/10/2020	(8.6%)	14.8%
Walt Disney Co	DIS	Overweight	Communication Services	$191.5	$96.40	$170	76%	Swinburne, Benjamin	3/14/2018	(4.4%)	(0.1%)
Humana Inc	HUM	Overweight	Health Care	$41.1	$297.07	$343	15%	Goldwasser, Ricky	7/19/2018	(5.2%)	1.4%
Johnson & Johnson	JNJ	Overweight	Health Care	$337.9	$123.16	$160	30%	Lewis, David	2/3/2020	(16.7%)	4.2%
Linde PLC	LIN	Overweight	Materials	$93.9	$167.34	$250	49%	Andrews, Vincent	3/23/2020	10.6%	0.3%
MasterCard, Inc.	MA	Overweight	Information Technology	$266.6	$247.65	$266	7%	Faucette, James	3/2/2020	(14.7%)	(0.8%)
Microsoft	MSFT	Overweight	Information Technology	$1,199.1	$149.70	$180	20%	Weiss, Keith	3/14/2018	63.4%	67.7%
Procter & Gamble Co.	PG	Overweight	Consumer Staples	$282.4	$110.17	$127	15%	Mohsenian, Dara	3/18/2019	10.4%	18.5%
S&P Global Inc	SPGI	Overweight	Financials	$60.1	$239.75	$319	33%	Kaplan, Toni	3/23/2020	14.8%	4.5%
T-Mobile US, Inc.	TMUS	++	Communication Services	$73.2	$81.72	++	++	Flannery, Simon	3/14/2018	25.8%	30.1%
Current List Performance											
Average (Eq. Weight)				$354.9			30%			7.5%	14.1%
Median				$229.0			26%			3.0%	4.4%
% Positive Returns (Abs. / Rel.)										50%	80%
% Negative Returns (Abs. / Rel.)										50%	20%
Avg. Hold Period (Months)											11.2
All Time List Performance											
Average (Eq. Weight)										2.8%	5.1%
Median										(4.5%)	0.1%
% Positive Returns (Abs. / Rel.)										45%	50%
% Negative Returns (Abs. / Rel.)										55%	50%
Avg. Hold Period (Months)											10.0

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

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

Source: Bloomberg, Morgan Stanley Research

Microsoft Corp (MSFT) - Keith Weiss

- **Framing the Uncertainty and Picking Our Spots** - Microsoft (Remain OW, PT = $180): During the crisis, benefits from supporting remote working for enterprises largely offsets the macro drags on the transactional business (largely in Server & Tools). Post the crisis, Microsoft's positioning for core secular growth trends is likely even stronger. Along with the strong expense discipline (and strong management team), these dynamics likely prove EPS growth relatively durable at Microsoft.

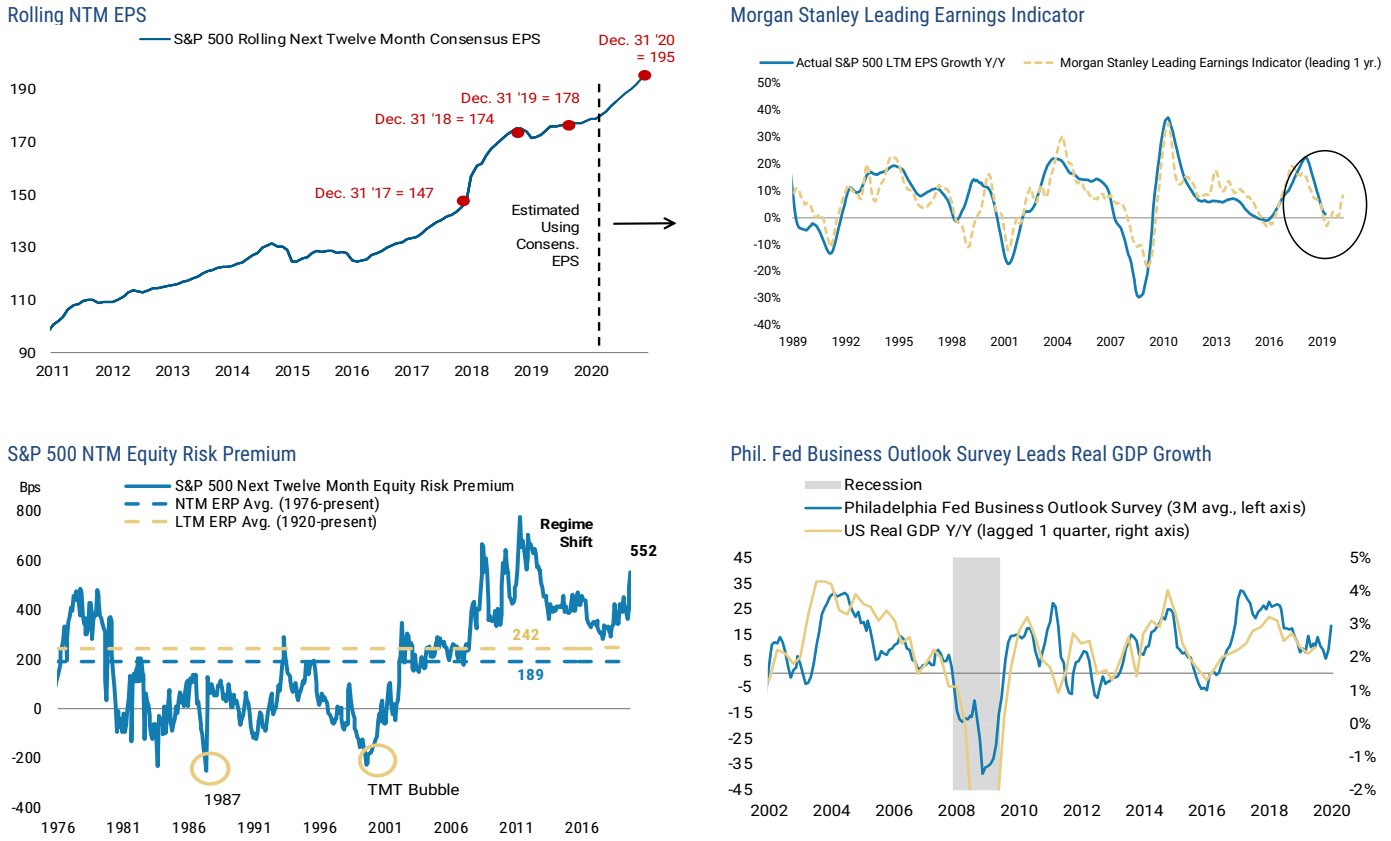
T-Mobile US (TMUS) - Simon Flannery

- **T-Mobile Accelerates roll-out of $15/2GB & $25/5GB T-Mobile Connect Plans** - In light of the challenging environment, T-Mobile announced today that it will be moving up the roll-out of its $15 2GB and $25 5GB T-Mobile Connect prepaid plans to March 25. These plans were originally announced as part of a broader package on November 7, 2019 and were due to come into effect once the Sprint merger closed. While these lower end plans will not appeal to everyone, given average monthly smartphone usage is approaching 10 GB per line, cable companies have had good success with their by-the-Gig offerings, and in these stay at home times,

much of the smartphone usage is likely occurring on wi-fi rather than cell networks anyway for now. With a recession likely upon us, we could also see much more interest in lower ARPU plans. This move does highlight our concerns that 2020 would see increasing wireless competition, although in the near term, store closings and social distancing are already lowering switching and porting activity significantly.

Weekly Charts to Watch

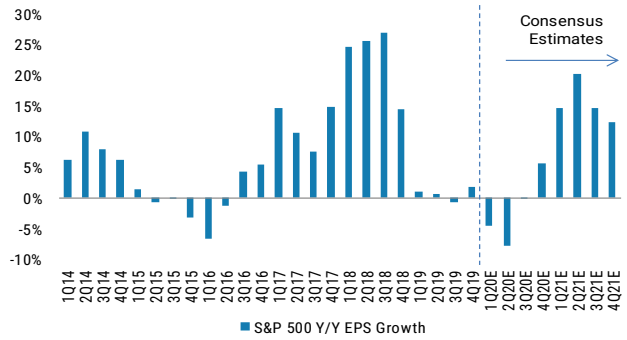
Exhibit 13: Four Charts to Focus On



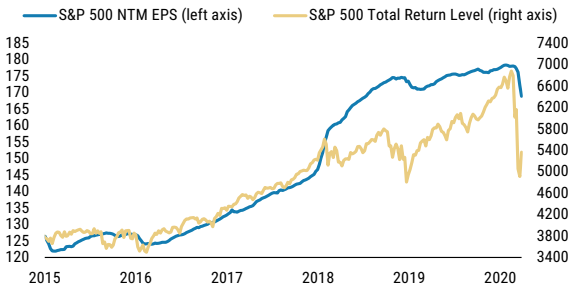
Source: FactSet, Bloomberg, Robert Shiller, Morgan Stanley Research. Top: As of Feb 29, 2020. Bottom Left: As of Mar 26, 2020. Bottom Right: As of Dec 31, 2019. MS Leading Earnings Indicator is a macro factor based earnings model that leads actual earnings growth by one year with a 0.7 12-month leading correlation. Note: S&P 500 fundamental data used post March 1993; Top 500 by market cap data used before 1993. LTM equity risk premium average is since 1920. ERP based on forward earnings yield and 10-year Treasury Yield.

Exhibit 14: US Earnings Snapshot

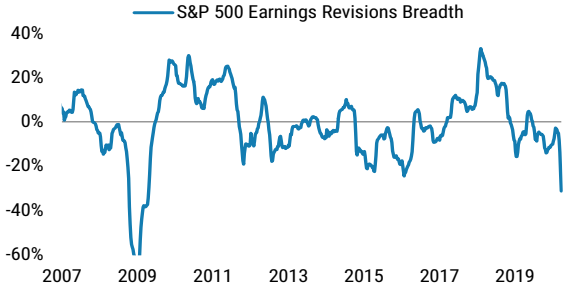
S&P 500 Y/Y EPS Growth



S&P 500 NTM EPS vs. Total Return Level



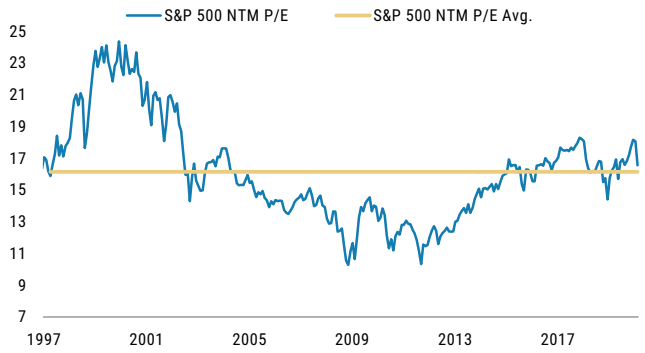
S&P 500 Earnings Revisions Breadth



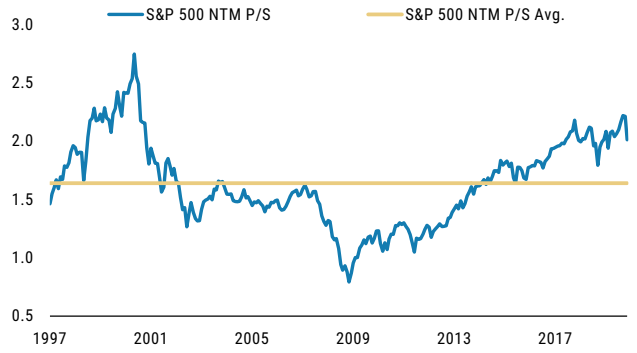
Source: Thomson Financial, FactSet, Morgan Stanley Research. As of Mar 26,, 2020.

Exhibit 15: US Equity Market Traditional Valuation Measures

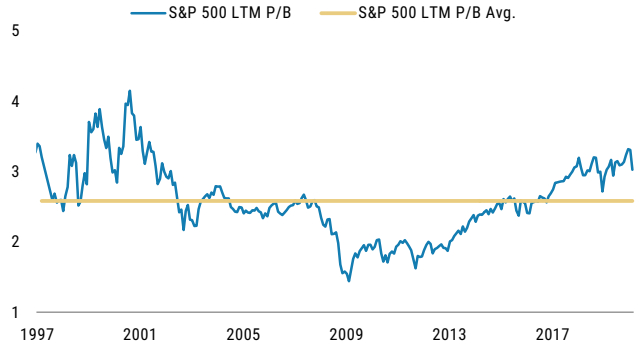
S&P 500 NTM P/E



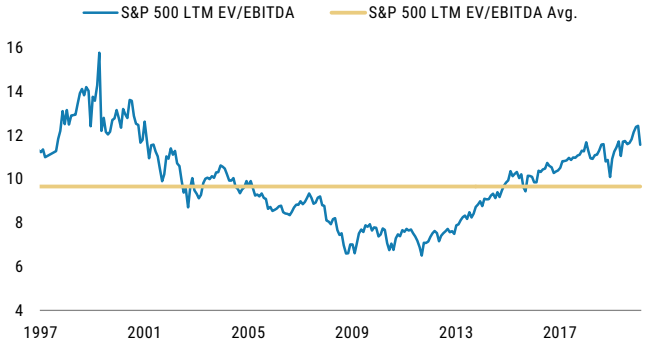
S&P 500 NTM P/S



S&P 500 NTM P/B



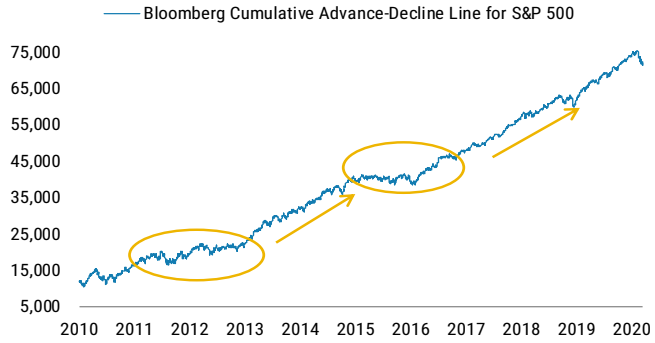
S&P 500 NTM EV/EBITDA



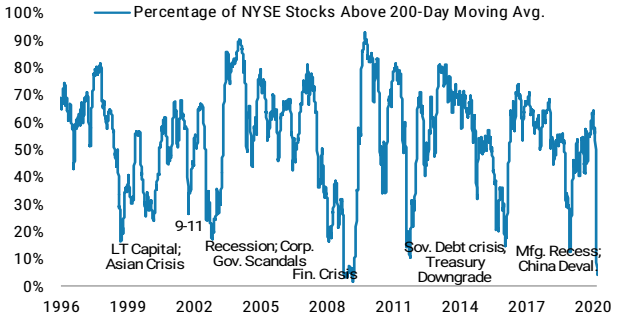
Source: FactSet, Morgan Stanley Research as of Feb 29, 2020. Monthly Data. Note: S&P 500 fundamental data used post March 1993; Top 500 by market cap data used before 1993.

Exhibit 16: US Equity Market Technicals and Financial Conditions

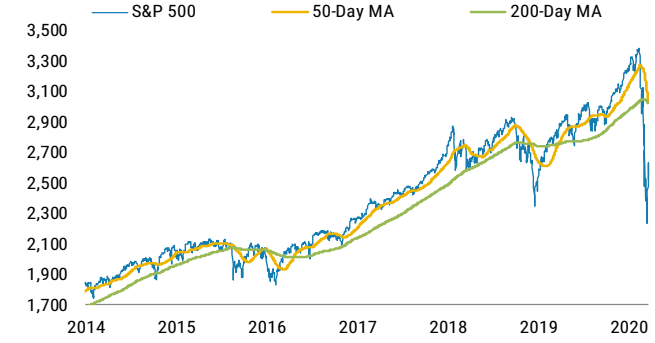
S&P 500 Cumulative Advance-Decline



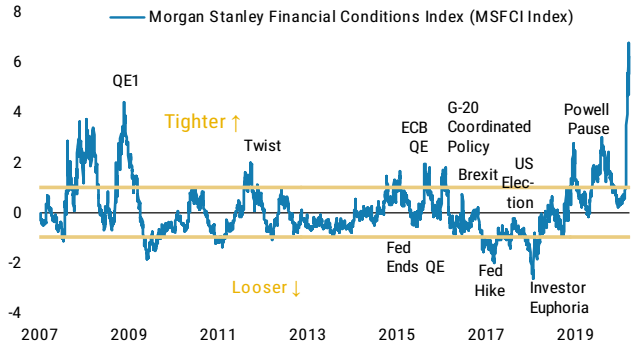
S&P 500 Percent Members Above 200-Day Moving Average



S&P 500 with Moving Averages

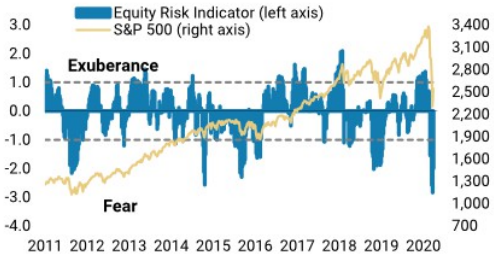


Morgan Stanley Financial Conditions Index



Source: Bloomberg, Morgan Stanley Research. All: As of Mar 26, 2020

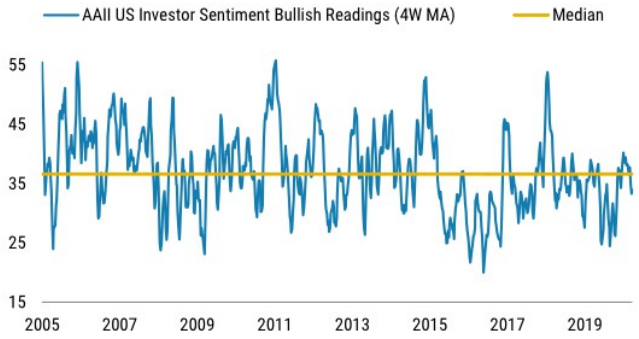
Exhibit 17: US Equity Market Sentiment



Indicator	Latest	% Rank Vs. Last Three Years
MS & Co. Standardized GRDI	-1.3	
US AAII % Bulls	32.9%	
S&P 500 Mutual Fund Beta	1.0	
S&P 500 30-Day Rel. Strength Index	41.7	
% S&P 500 Members > 200-Day MA	6.2%	
% S&P 500 >/< 200-Day MA	-16.1%	
S&P 500 Put/Call[1]	0.9	
VIX Index[1]	65.5	

0% 20% 40% 60% 80% 100%

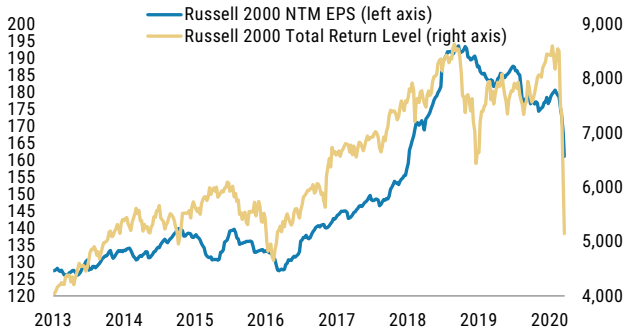
Fear Exuberance



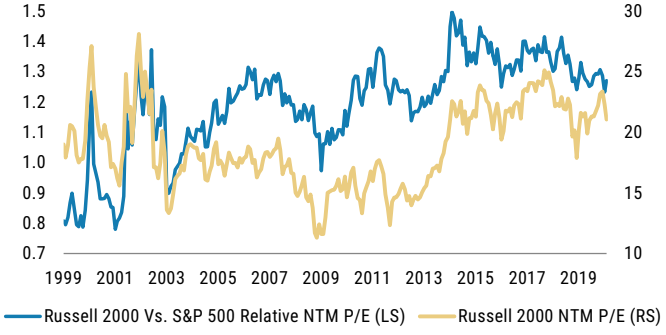
Source: Bloomberg, FactSet, Morgan Stanley Research. As of March 31,, 2020.

Exhibit 18: US Small Cap Equities

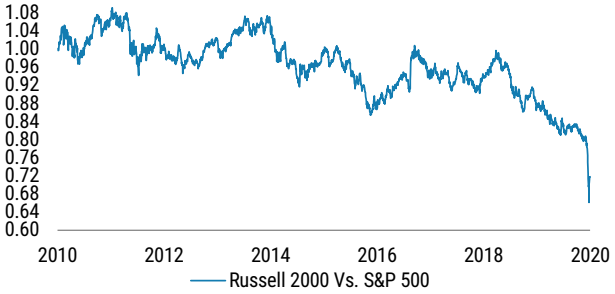
Russell 2000 NTM EPS vs. Total Return Level



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



Russell 2000 Relative Performance vs. S&P 500



Source: FactSet, Morgan Stanley Research. Top Right: As of Feb 29 2020. Top Left and Bottom: As of Mar 26, 2020

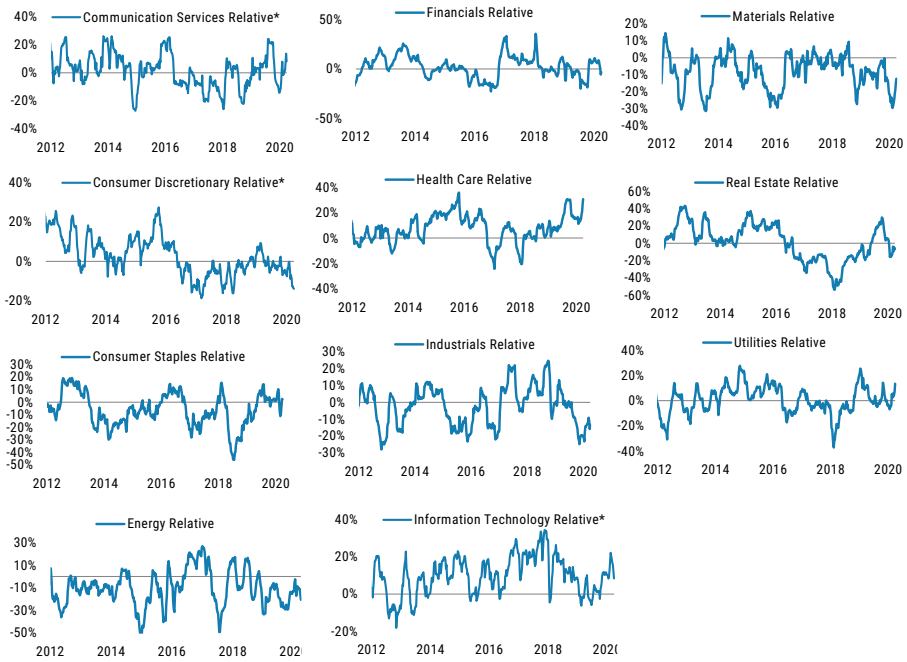
Exhibit 19: We Have a Price Target of $3000

Morgan Stanley S&P 500 Price Target: Year End 2020

Landscape	Earnings	Multiple	Price Target	Upside / Downside
Bull Case	$170	17.5x	3,000	18.0%
Base Case	$159	17.0x	2,700	6.2%
Bear Case	$156	15.5x	2,400	-5.6%
Current S&P 500 Price as of:		3/27/2020	2,542	

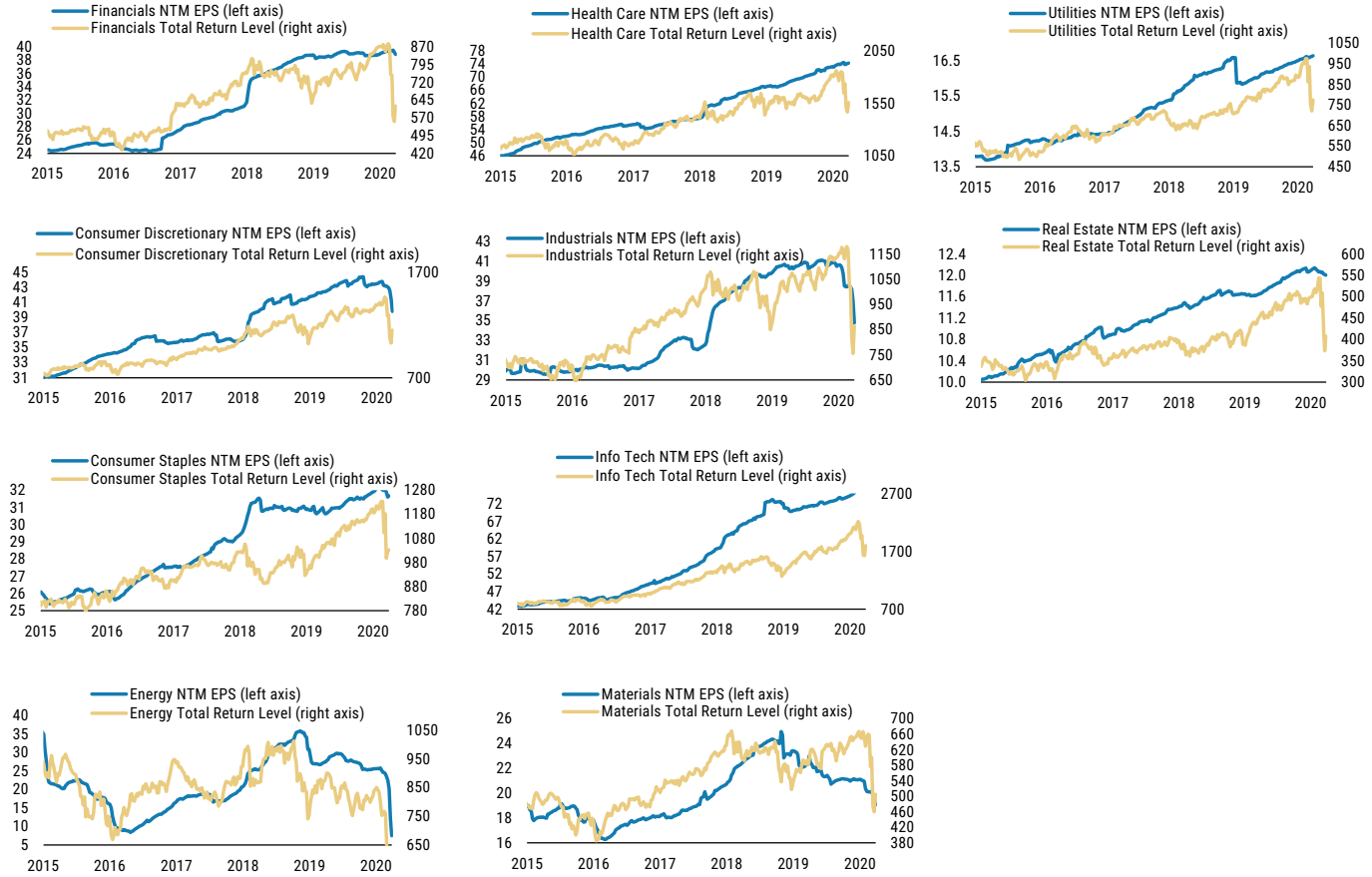
Source: Morgan Stanley Research.
Note: We apply a forward PE multiple to 2021 EPS estimates.

Exhibit 20: Earnings Revisions Breadth



Source: FactSet, Morgan Stanley Research. As of Mar 26, 2020. Sectors with * use current, fixed constituents.

Exhibit 21: US Sector NTM EPS vs. Total Return Level



Source: FactSet, Morgan Stanley Research as of Mar 26, 2020.

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(as of February 29, 2020)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE COUNT	COVERAGE UNIVERSE % OF TOTAL	INVESTMENT BANKING CLIENTS (IBC) COUNT	INVESTMENT BANKING CLIENTS (IBC) % OF TOTAL IBC	INVESTMENT BANKING CLIENTS (IBC) % OF RATING CATEGORY	OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC) COUNT	OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC) % OF TOTAL OTHER MISC
Overweight/Buy	**1194**	**37%**	**311**	**43%**	**26%**	**534**	**37%**
Equal-weight/Hold	**1457**	**45%**	**332**	**46%**	**23%**	**697**	**48%**
Not-Rated/Hold	**2**	**0%**	**1**	**0%**	**50%**	**2**	**0%**
Underweight/Sell	**572**	**18%**	**77**	**11%**	**13%**	**224**	**15%**
TOTAL	**3,225**		**721**			**1457**	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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