Morgan Stanley

December 4, 2016

CROSS-ASSET STRATEGY

Cross-Asset Playbook – December 2016

Top Trades for 2017

Macro Outlook – Reflation and Fatter Tails

We think the odds of both 'boom' and 'bust' have gone up. Reflation has strong tailwinds into 1Q17, but we are sceptical beyond: headwinds from tighter financial conditions and moderating China growth loom large.

Market Playbook – Equities > Credit and Japan > US

Overall, we lower credit to raise equities and cash. Contrary to consensus, we think 'reflation' trades of higher stocks, yields and inflation work better in Japan and Europe than the US.

Strategy Changes and Key Trades

Our top trades to position for reflation are long Japan equities and European value, JGB inflation breakevens, EUR rates payers and long USDJPY. Our preferred hedges lie in credit and FX and we like buying credit volatility and shorting CMBX as cycle turn hedges; and USDKRW and EURUSD puts as protectionist/political risk hedges. We like select EM credit (Argentina, Brazil and Indonesia) and front-end EM local rates (Brazil, Russia, Korea) offering value. We also discuss several relative value trades.

Current Cross-Asset Strategy Allocation

MS Asset Allocation Views (- … +)	Top-Down Allocation		Relative Allocation		O/W vs. Benchmark
Equities	+4% +4%		-1%		+3% +4%
US	+1% +1%		-1% -2%		0% -1%
Europe	+1% +1%		0% +1%		+1% +2%
Japan	+1% +1%	+	+2% +3%	=	+3% +4%
EM	+1% +1%		-2% -2%		-1% -1%
Govt. Bonds	-4%		-1% -1%		-5% -1%
Treasuries	-1%		+1% -1%		0% -1%
Bunds	-1%		-2%		-3%
JGBs	-1%		-1% +1%		-2% +1%
EM Local	-1%	+	+1% -1%	=	0% -1%
Credit	0% -4%		-1% -1%		-1% -5%
US Corp.	0% -1%		-2% -1%		-2% -2%
EU Corp.	0% -1%		0%		0% -1%
EM Sov.	0% -1%		0% +1%		0%
Securitized	0% -1%	+	+1% -1%	=	+1% -2%
Other					+3% +2%
Cash					+3% +2%

Current
Previous

Source: Morgan Stanley Research; Note: Latest allocation changes made in *2017 Global Strategy Outlook: Sparkle and Fade*, November 27, 2016.

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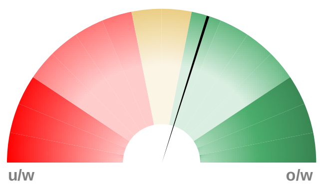
All information as of December 1, 2016, unless otherwise indicated.

Executive Summary | Morgan Stanley Asset Allocation

EQUITIES — O/W

Strategic Allocation

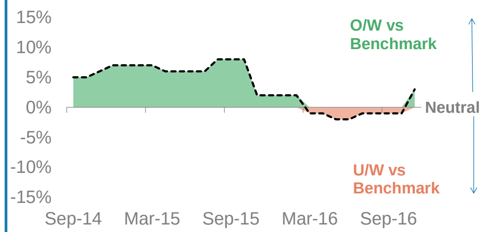
+3% vs benchmark



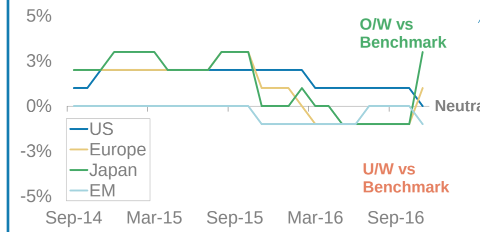
Regional/Asset Tilt

	-		N		+
US		Current		Previous	
Europe		Previous	Current		
Japan		Previous			Current
EM	Current		Previous		

Risk History



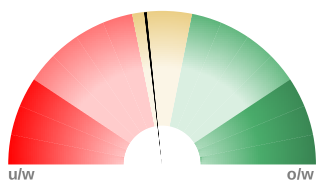
Tilt History



CREDIT — E/W

Strategic Allocation

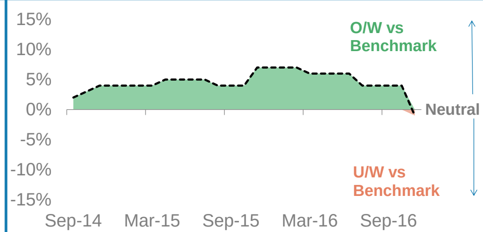
-1% vs benchmark



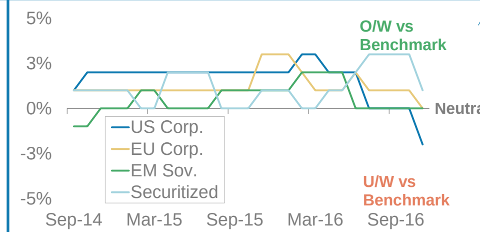
Regional/Asset Tilt

	-		N		+
US Corp.	Current	Previous			
EU Corp.			Current		
EM Sov.		Previous	Current		
Securitized				Current	Previous

Risk History



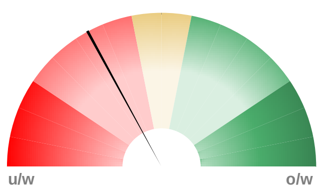
Tilt History



RATES — U/W

Strategic Allocation

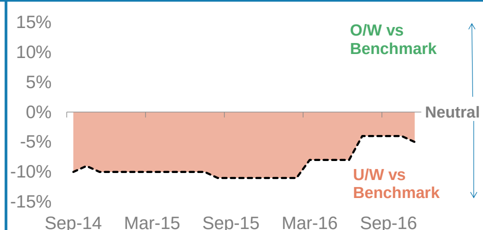
-5% vs benchmark



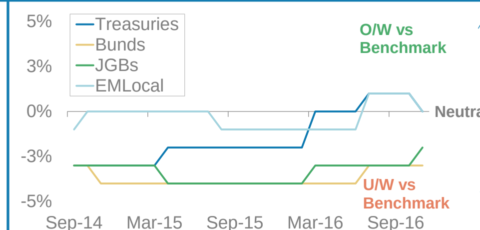
Regional/Asset Tilt

	-		N		+
Tsy				Current	Previous
Bunds	Current				
JGBs	Previous	Current			
EM Local				Current	Previous

Risk History



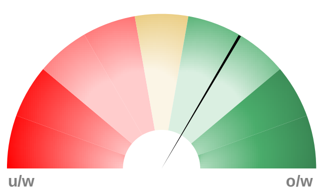
Tilt History



CASH — O/W

Strategic Allocation

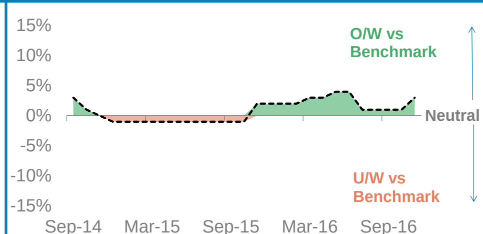
+3% vs benchmark



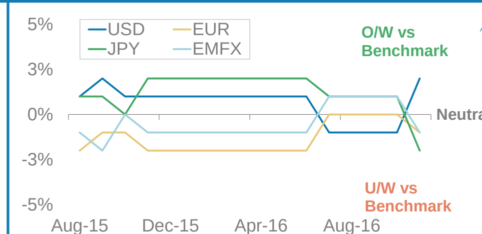
Regional/Asset Tilt

	-		N		+
USD				Current	
EUR	Current				
JPY					Current
EMFX		Current			

Risk History



Tilt History



Current
Previous

Executive Summary | **Top Trades**

Top Trades	Alpha	Beta	Hedge/ Div	Value	Mom.	Corr. To ACWI	E(r)	Vol.	ER/Vol	Size* ($MM/ $K dv01)
Trade #1 | Long Japanese Equities (FX Hedged)		✓		▲	●	41%	28%	24%	1.2x	35MM
Trade #2 | Long European Value		✓		◆	●	84%	12%	23%	0.5x	35MM
Trade #3 | Buy S&P 500 6m Calls (103 Strike)		✓		●	▲	86%	5.6%	8%	0.7x	40MM
Trade #4 | Long China A Shares, Short EM	✓			▲	●	-37%	33%	30%	1.1x	25MM
Trade #5 | Buy EUR 6m10y ATM Payers		✓		●	◆	36%	44	35	1.3x	110K DV01
Trade #6 | Buy Japan 10y Breakevens (JGBei)		✓		◆	●	3%	40	40	1.0x	50K DV01
Trade #7 | Long Gilts vs Bunds	✓			●	◆	-3%	84	53	1.6x	150K DV01
Trade #8 | Long USDJPY		✓		◆	●	36%	12%	11%	1.1x	75MM
Trade #9 | Long USDKRW			✓	●	●	-37%	11%	13%	0.9x	60MM
Trade #10 | Short NOKRUB	✓			◆	●	-7%	17%	16%	1.0x	50MM
Trade #11 | Buy EURUSD 6m ATM Puts (1.06 Strike)			✓	▲	◆	-38%	8%	5%	1.5x	80MM
Trade #12 | Receive Brazil DI Jan '19s		✓		▲	●	7%	40	177	0.2x	50K DV01
Trade #13 | Long Credit in Argentina, Brazil, Indo (1:1:1)		✓		●	◆	45%	90	141	0.6x	110K DV01
Trade #14 | Buy CDX HY Mar-17 Risk Reversal (105/102)			✓	◆	▲	-73%	1.8%	2%	0.8x	95MM
Trade #15 | Short CMBX.BBB-			✓	▲	▲	-64%	4.1%	10%	0.4x	40MM
Trade #16 | Long SnrFin vs Main	✓			▲	◆	23%	0.8%	2%	0.4x	75MM

Key Event Driven Trades

December FOMC | Long USDJPY, Long TOPIX in anticipation of rate hike

Trump administration takes shape | Buy S&P Calls for first half reflation, Long USDKRW as a medium-term hedge against protectionism

Europe political risk/Italian Referendum | Buy EURUSD puts as a strategic 6m hedge but Long Senior Fin. Vs. iTraxx Main

Shenzhen/Hong Kong Stock Connect | Long China A shares vs. EM

Note: "Corr. to ACWI" is 10yr correlation to MSCI ACWI. Sizes are scaled to achieve similar volatility contribution (equivalent of 10% vol for a 100MM portfolio) unless liquidity is constrained.

Executive Summary | Our Trade Portfolio Characteristics

A Reflationary Portfolio

- **Modestly long stocks:** Portfolio has net long exposure to stocks, with S&P calls, European value, EM credit and TOPIX longs providing the primary equity beta exposure. CDX HY shorts, EUR puts and USDKRW provide some of the hedging offset
- **Short rates:** Portfolio is positioned for rising rates, with EUR payers, USDJPY longs and SPX calls providing this exposure even as EM credit positions provide some offset.
- **Very long DXY:** Portfolio has fairly high exposure to DXY, with EURUSD puts followed by USDJPY and NOKRUB short providing the primary USD exposure.
- **Marginally long oil:** Portfolio has only marginally positive exposure to oil prices, primarily provided by European value, S&P calls and EM credit positions.

Top Trades – Exposure to Stocks, Rates, DXY and Oil

	Asset	Beta to ACWI
	Overall	**73%**
1	Buy SPX Calls	40%
2	L Europe Value	38%
3	Long Brazil Credit	21%
4	L TOPIX	19%
5	Long Indonesia Credit	17%
6	L USDJPY	17%
7	Buy EUR 6m10y payers	15%
8	Receive BRL Rates	3%
9	L SenFin vs Main	2%
10	L JGB Breakevens	1%
11	L Gilts vs. Bunds	-2%
12	S NOKRUB	-3%
13	Short CMBX BBB	-14%
14	L China A vs EM	-16%
15	L USDKRW	-16%
16	Buy EURUSD Puts	-18%
17	S CDX HY	-34%

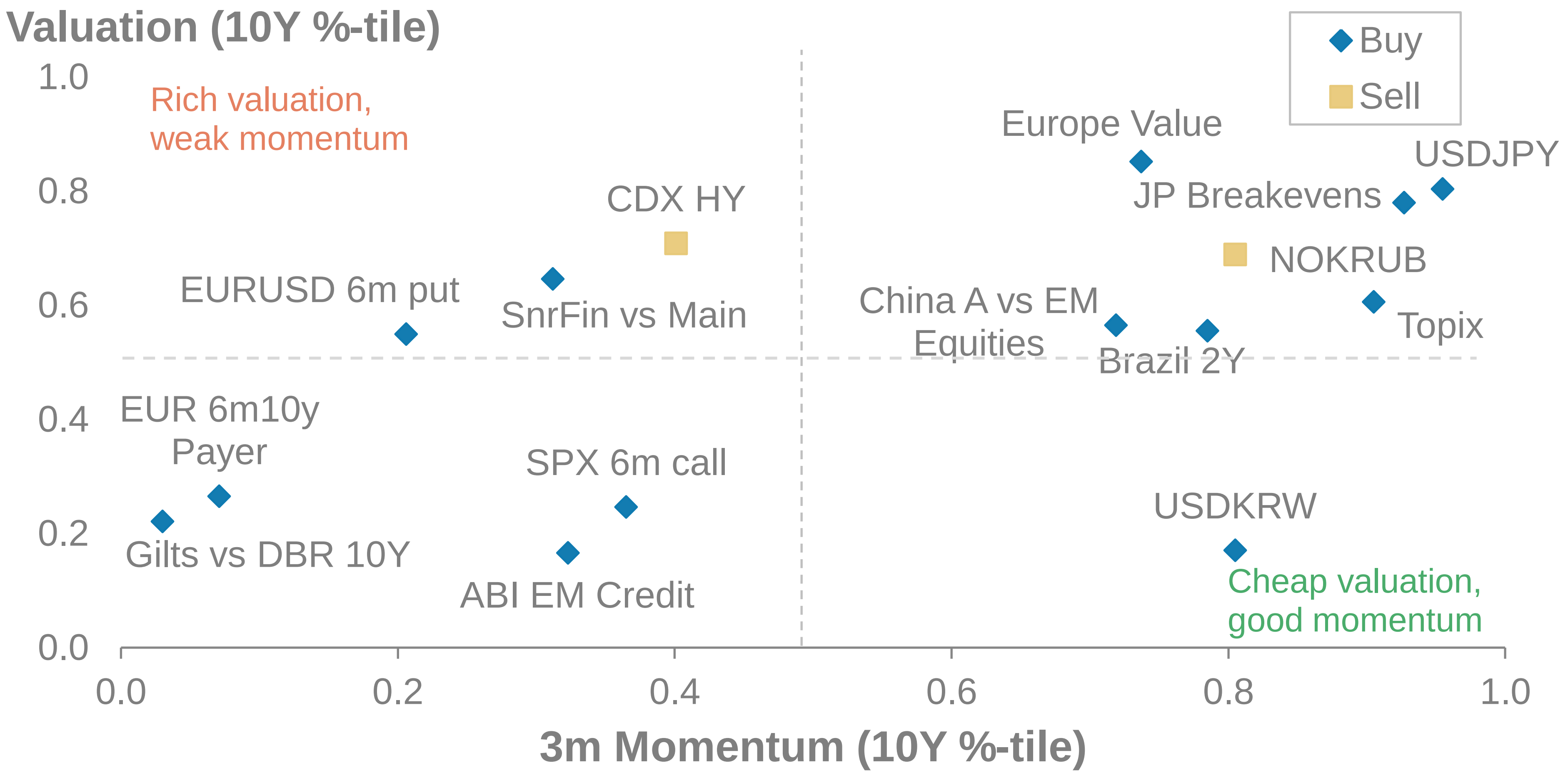
	Asset	Beta to UST10yr
	Overall	**-49%**
1	Long Indonesia Credit	61%
2	Long Brazil Credit	56%
3	S CDX HY	45%
4	L China A vs EM	15%
5	Short CMBX BBB	15%
6	L USDKRW	9%
7	Buy EURUSD Puts	4%
8	L JGB Breakevens	1%
9	S NOKRUB	-3%
10	L SenFin vs Main	-4%
11	L Gilts vs. Bunds	-7%
12	L TOPIX	-10%
13	Receive BRL Rates	-14%
14	L Europe Value	-38%
15	Buy SPX Calls	-51%
16	L USDJPY	-57%
17	Buy EUR 6m10y payers	-70%

	Asset	Beta to DXY
	Overall	**150%**
1	Buy EURUSD Puts	90%
2	L USDJPY	32%
3	S NOKRUB	31%
4	S CDX HY	26%
5	L China A vs EM	15%
6	L USDKRW	15%
7	Buy EUR 6m10y payers	15%
8	L JGB Breakevens	0%
9	Receive BRL Rates	0%
10	Short CMBX BBB	0%
11	L SenFin vs Main	-3%
12	Long Indonesia Credit	-3%
13	L TOPIX	-5%
14	L Gilts vs. Bunds	-8%
15	Long Brazil Credit	-12%
16	Buy SPX Calls	-21%
17	L Europe Value	-23%

	Asset	Beta to Oil
	Overall	**9%**
1	L Europe Value	9%
2	Buy SPX Calls	8%
3	Long Brazil Credit	7%
4	Long Indonesia Credit	5%
5	L USDJPY	3%
6	L TOPIX	3%
7	Receive BRL Rates	2%
8	S NOKRUB	1%
9	L SenFin vs Main	0%
10	L JGB Breakevens	-1%
11	L Gilts vs. Bunds	-1%
12	L USDKRW	-3%
13	L China A vs EM	-4%
14	Short CMBX BBB	-4%
15	Buy EUR 6m10y payers	-5%
16	Buy EURUSD Puts	-6%
17	S CDX HY	-8%

Source: Morgan Stanley Research, Bloomberg

Executive Summary | Top Trades Valuation and Momentum



Source: Morgan Stanley Research, Bloomberg

Executive Summary | Our Advice

What We Expect	What's Priced in	Our Advice
Faster reflation, fatter tails: Fiscal stimulus boosts growth in our base case but risks of fatter tails, both boom *and* bust, rise.	**Less in the price in non-US stocks:** US-led reflation is less in the price for Japan and Europe equities compared to the US.	**Stocks over credit:** Stocks have more to gain from reflation than credit, but prefer Japan stocks and European value over US.
DM policy easing at the end of the road: Fed hikes six times by end of 2018, risk of ECB tapering and BoJ inching target yield up.	**Less in the price in EUR and JPY rates:** US rates reflect some rate hikes but EUR and JPY inflation and term premiums don't.	**Final leg of a USD rally:** USD appreciates another 6%, stay long USDJPY. Long JGBei breakevens and buy EUR payers.
EM eases policy, growth improves: EM growth should rise. Further EM rate cuts likely despite USD headwinds.	**High EM real yields:** Despite rise in US rates, real rates differentials remain high relative to DM, allowing room to cut rates.	**Long select EM FI:** Receive front-end rates in key EM local rates – Brazil, Russia, India and Korea. Long select EM $ credit.
Political risks elevated: Escalation of protectionist rhetoric or political risks in Europe remain tail risks.	**BTPs spreads wide:** BTPs de-risked but EUR hasn't to the same extent. AXJ FX vulnerable to escalation of protectionist rhetoric.	**Position for EUR and KRW weakness:** Buy EURUSD puts and equity hedges contingent on weaker EUR. Long USDKRW.
Wide range of tail scenarios: Our bull-bear forecasts are wider than before, reflecting a range of fiscal stimulus and tail risks.	**Implied volatility low:** Volatility in a number of asset classes remains low vs. history. US equity skew still very steep.	**Buy vol in equity, rates and credit:** Buy S&P 500 calls, EUR 6m10y payers, EUR puts and credit risk reversals.

Executive Summary | What's Changed?

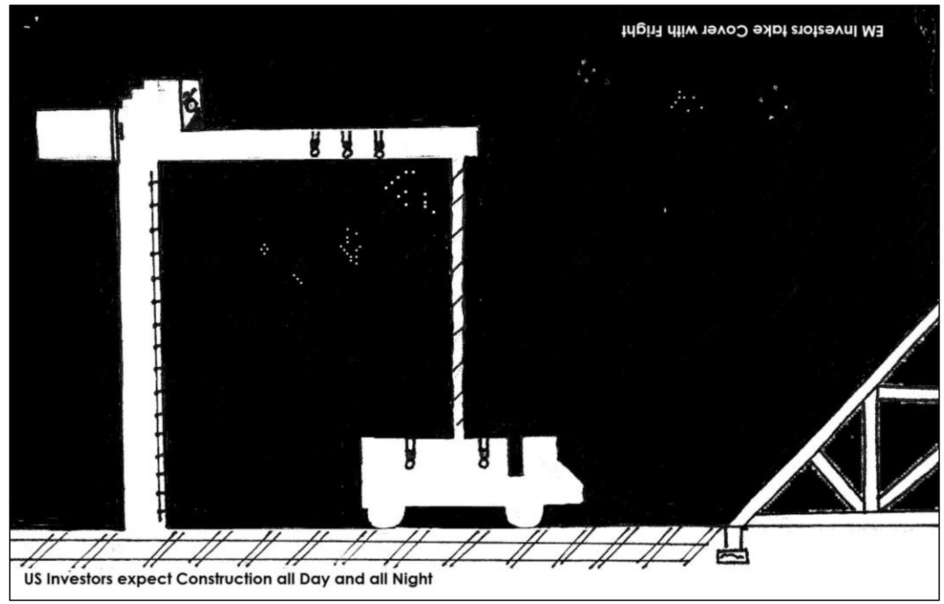
	OLD	REVISED
VIEWS	• **Policy remains easy:** Lower for longer, measured Fed hikes.	• **The end of (DM) easing:** Fiscal stimulus late in the cycle boosts inflation and provokes policy response.
VIEWS	• **Cycle in 'expansion':** Protracted cycle with slow growth, slow reflation, easy monetary policy.	• **'Late-cycle' increases risk of 'boom' and 'bust':** Accelerated cycle brings growth and policy response forward, raises risk of boom and bust.
VIEWS	• **China weakens through 2H16:** Benefits of policy stimulus start flagging into 2H16.	• **China stimulus supportive but short-lived:** The stimulus impact has been stronger than we expected but will lead to reduced stimulus later.
TRADES	• **US > ROW equities:** We prefer higher-quality, more defensive US market.	• **Japan> EU > US equities:** EPS inflection, cheap valuations and JPY and EUR weakness make US market look less attractive.
TRADES	• **Weaker GBP:** Brexit uncertainty and fundamental challenges weaken GBP.	• **More neutral on GBP, bearish on JPY:** The scale of valuation adjustment in GBP has been large enough for us to turn neutral for now.
TRADES	• **Credit favoured:** Credit offers attractive carry in a low growth, easy policy world.	• **Equities favoured over credit:** Credit lacks the upside to reflation that equities has but is exposed to a turn in an already advanced cycle.

Executive Summary | **Where We Differ**

ECONS	**3.4%**	vs. 3.5% cons.	Real Global GDP 2017
ECONS	**6 hikes**	vs. 4*	From Fed by YE18
ECONS	**-3.75%**	vs. -2.9%*.	Chg in Brazil policy rate in 2017
ECONS	**2H17**	vs. -.	ECB considers tapering
RATES	**0.9%**	vs. 0.6% fwd.	DBR 10yr at YE17
RATES	**1.25%**	vs. 1.8% fwd.	UKT 10yr at YE17
FX	**0.97**	vs. 1.08 fwd.	EUR by YE17
FX	**125**	vs. 112 fwd.	JPY by YE17
FX	**1300**	vs. 1168 fwd.	KRW at YE17
EQUITIES	**+28%**	vs. +19% cons.	TOPIX EPS Growth 2017
EQUITIES	**+12%**	vs. +14% cons.	MSCI Europe EPS Growth 2017
EQUITIES	**+7%**	vs. +12% cons.	S&P 500 EPS Growth 2017

Source: Morgan Stanley Research; Note:*Refers to consensus.

The Outlook


EM Investors take Cover with Fright
US Investors expect Construction all Day and all Night

Outlook | Faster Reflation, Fatter Tails

Faster growth = higher odds of boom and bust

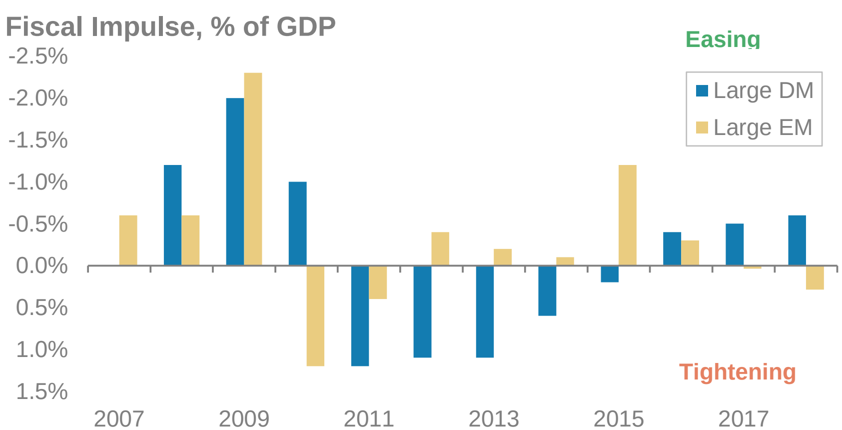
- **DM growth:** We see it stable in 2017, with higher growth in the US and Japan offsetting slower growth in Europe. DM growth supported by more expansionary fiscal policy.
- **China growth:** Expect some moderation in growth in 2017 and 2018, with weaker auto sales and cooling housing sector the main drags. However, fiscal support could offset these.
- **EM ex-China:** Growth continue to rise for EM, with our conviction strongest for Brazil and Russia. But robustness of the EM recovery could be tested by a stronger USD and risk of protectionism.

EM Growth Likely to Accelerate, Disappoint by Less than DM

	2016	2017		2018	
% YoY SA	Actual	MS	Cons.	MS	Cons.
Global	**3.0**	**3.4**	**3.5**	**3.6**	**3.6**
G10	**1.5**	**1.6**	**1.7**	**1.7**	**1.8**
US	1.6	2.0	2.2	2.0	2.2
EA	1.6	1.4	1.3	1.6	1.5
JPN	0.8	1.3	0.8	0.9	0.7
UK	2.0	1.0	0.9	1.1	1.4
EM	**4.1**	**4.7**	**4.8**	**5.0**	**4.9**
China	6.7	6.4	6.4	6.2	6.0
India	7.4	7.6	7.7	7.8	7.7
Brazil	-3.3	1.1	1.0	2.8	2.0
Russia	-0.5	1.2	1.2	1.6	1.5

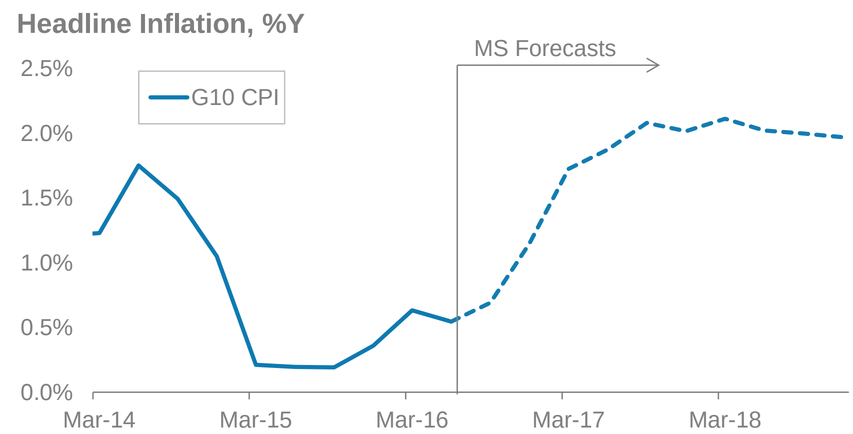
Source: IMF, Morgan Stanley Research forecasts

Fiscal Impulse Likely to Stay Positive in 2017



Source: IMF, Morgan Stanley Research forecasts

Inflation to Inflect Higher in DM



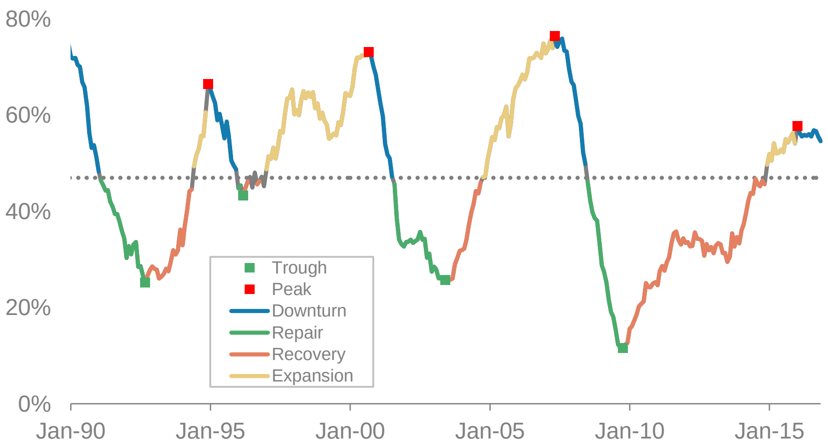
Source: Morgan Stanley Research forecasts, Haver Analytics, IMF, National sources

Outlook | A More 'Late-Cycle' Market – What We're Watching

Several Cycle Indicators Have Moved Lower

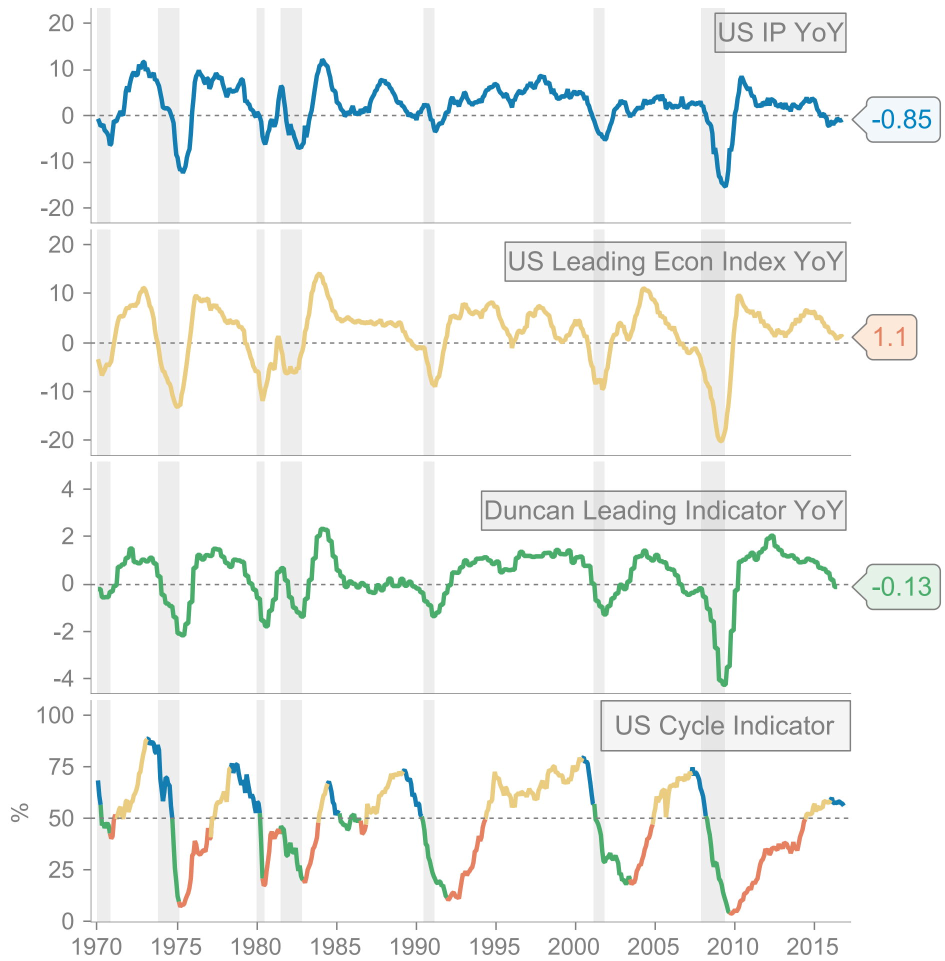
- **Our cycle model has potentially peaked,** led by steeper yield curves and weaker corporate aggressiveness. But EPS trend and credit growth seem to suggest the cycle is fine.
- **What could this mean for the outlook?** Late-cycle as projected by our economists can risk inflation overshoots, and more aggressive policy response.
- **What could this mean for returns?** Risk assets underperform significantly in true 'downturns'. For 'false' cycle turns, on the other hand, risk assets tend to see strong returns after the cycle peak.

Developed Markets Cycle Indicator



Source: Morgan Stanley Research, Bloomberg; Note: Weighted average of US, EU and Japan cycles, with weights of 50%, 35%, 15%.

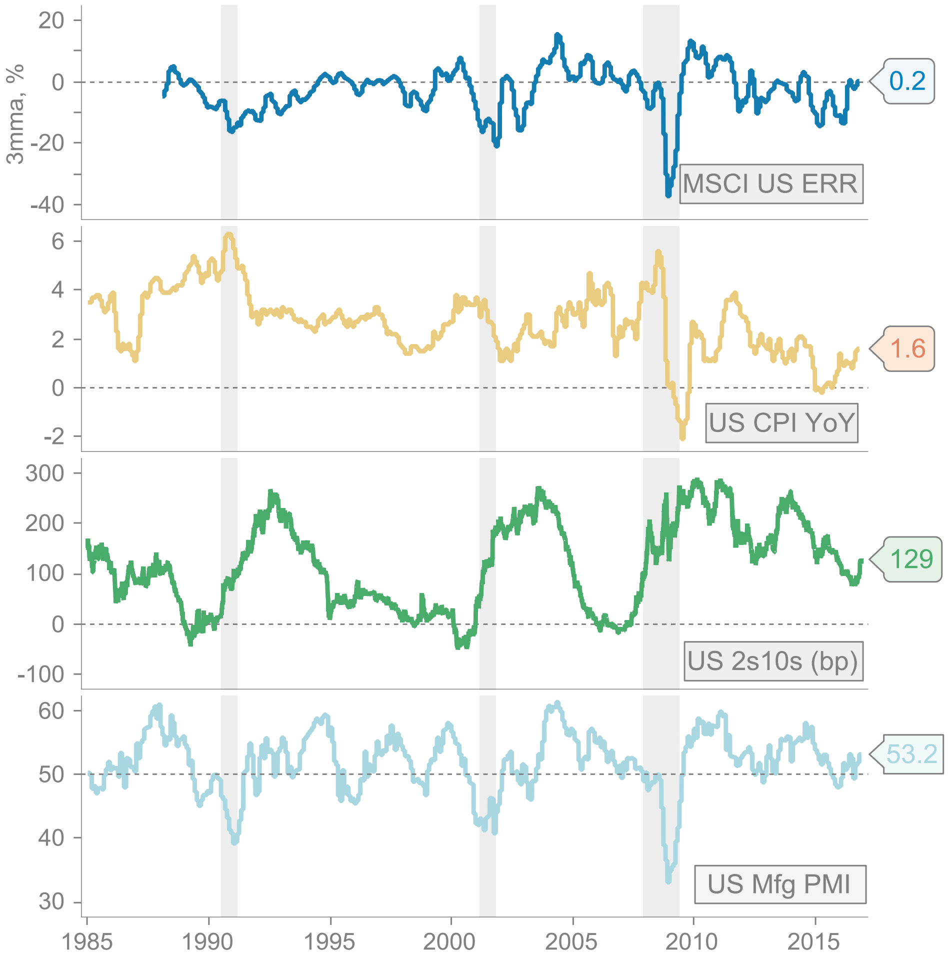
Other Indicators Suggest the US Is 'Late Cycle



Source: Morgan Stanley Research, Bloomberg

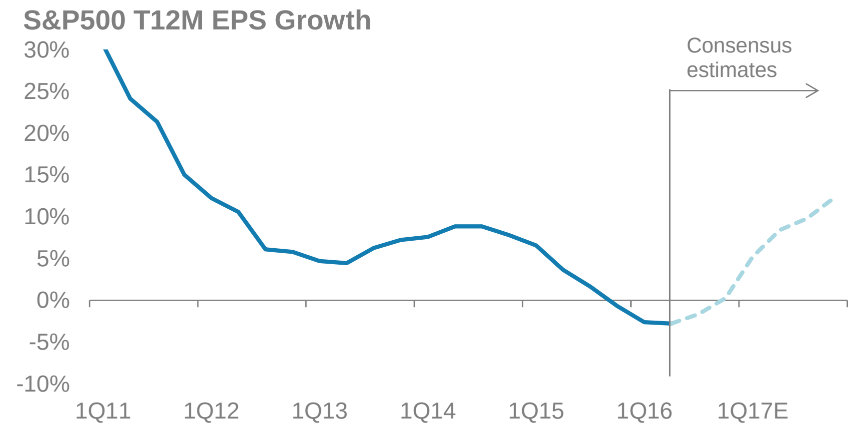
Outlook | ‘Sparkle’ (Part 1): Reflation Has Tailwinds into Early Next Year

US Econ and Market Indicators Have Turned Up



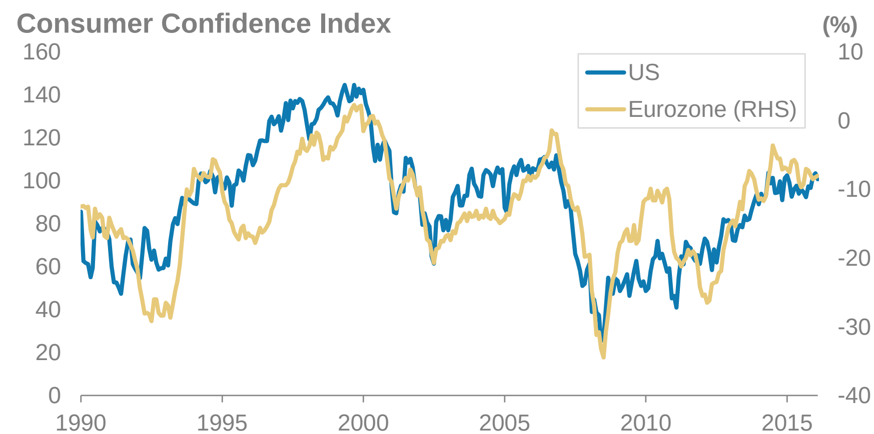
Source: Morgan Stanley Research, Bloomberg, Conference Board, IBES

S&P Earnings Growth Inflecting Higher



Source: Morgan Stanley Research, Thomson Financial, S&P

Consumer Confidence Remains High



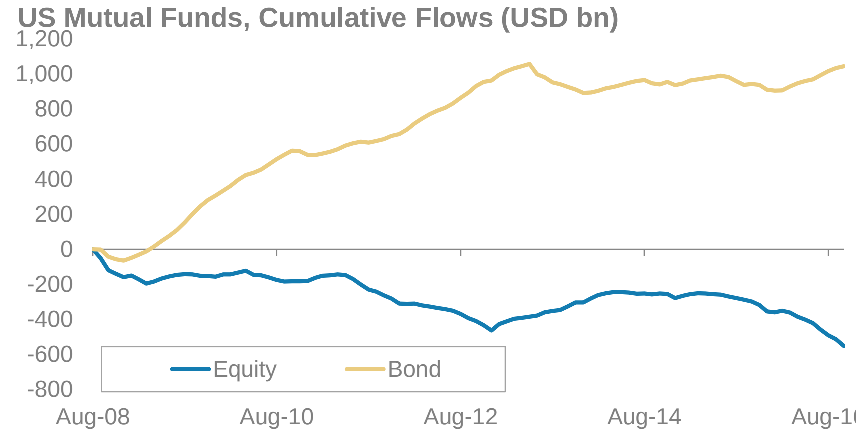
Source: Morgan Stanley Research, Bloomberg

Outlook | ‘Sparkle’ (Part 2): The Risk of Real ‘Greed’

Bull Markets Often End with Euphoria

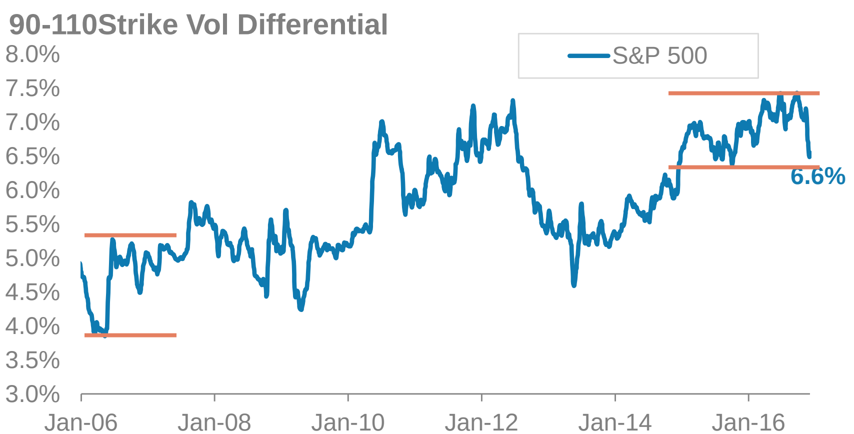
- **‘Caution’ has ruled the post-crisis world,** with less risk-taking from financial institutions, investor flows from equities into bonds, and implied volatility elevated vs. realised.
- **A cocktail for ‘greed’:** Hope for US fiscal spending and tax cuts. Hope for less financial and corporate regulation. Hope for a large reallocation from bonds to stocks. More aggressive corporate risk-taking.
- **Fundamental support for higher volatility:** Our bull/bear range is wider across most asset classes. Calls in S&P 500 more attractive than being long the index outright.

Retail Money Hasn’t Flowed into US Equities Since 2008



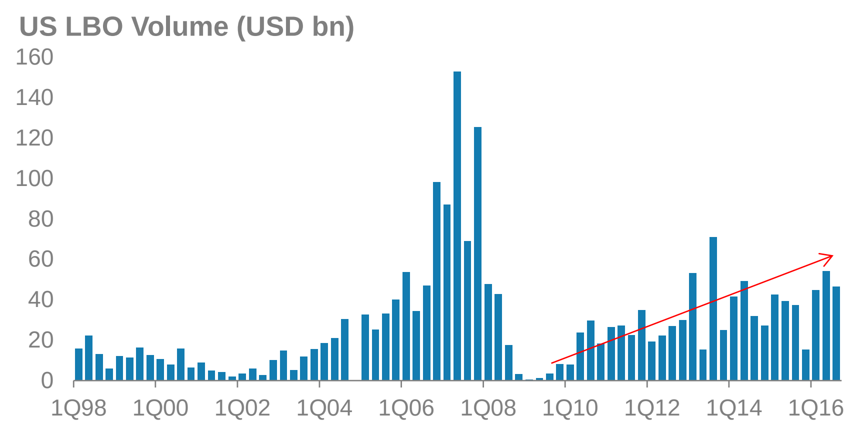
Source: Morgan Stanley Research, Haver Analytics, ICI

Post-Crisis, a Steep Skew: Put Buying in Vogue in Recent Years



Source: Morgan Stanley Research, Bloomberg, Conference Board, NBER; Note: Shaded area shows recession periods.

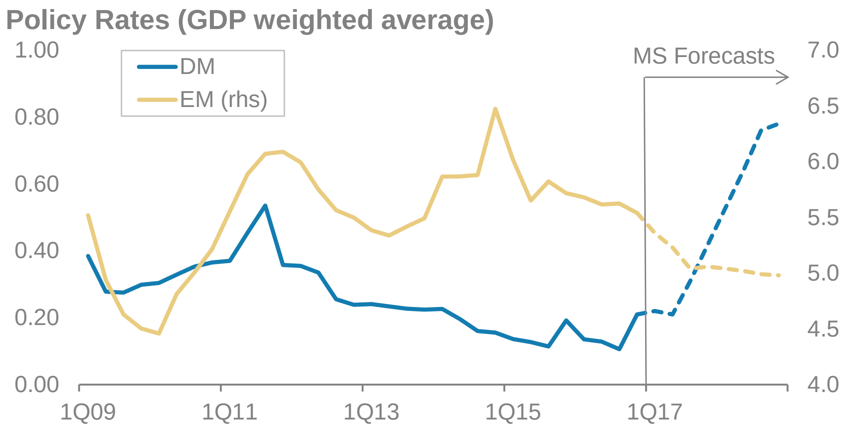
Will Corporates Get More Aggressive?



Source: Morgan Stanley Research, Haver Analytics, BEA

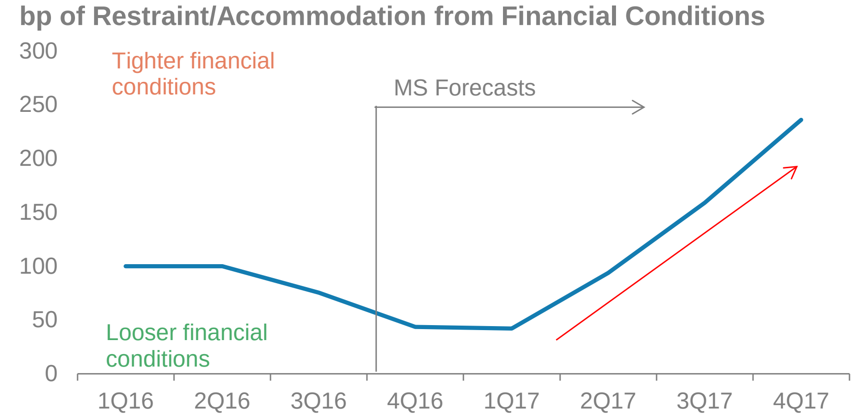
Outlook | …and 'Fade': Conditions Look More Challenging Post 1Q

Monetary Policy: Tighter in DM, Easier in EM



Source: Morgan Stanley Research forecasts, Haver Analytics, IMF, National sources

Financial Conditions to Tighten from 2Q17

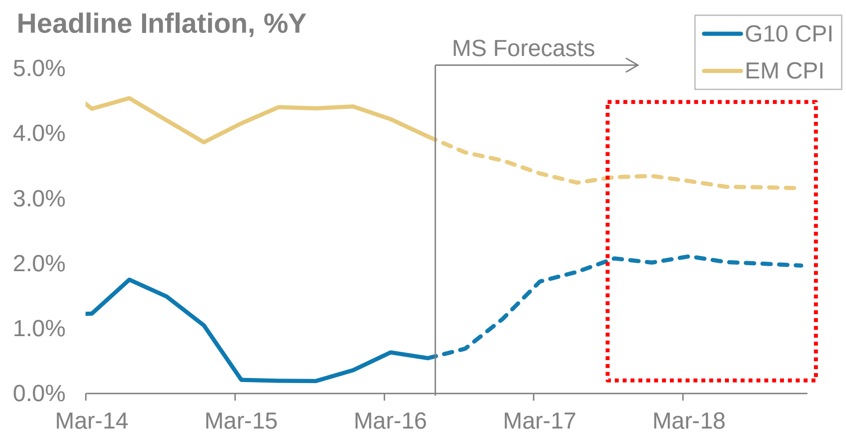


Source: Morgan Stanley Research forecasts; Note: We forecast this financial conditions index using our strategists' 12m forecasts for S&P500, USD, UST yields (5Y, 10Y, 30Y).

Improvement in China PPI Not Sustainable

Source: Morgan Stanley Research, Bloomberg

We See Inflation Flattening Out in 2H17

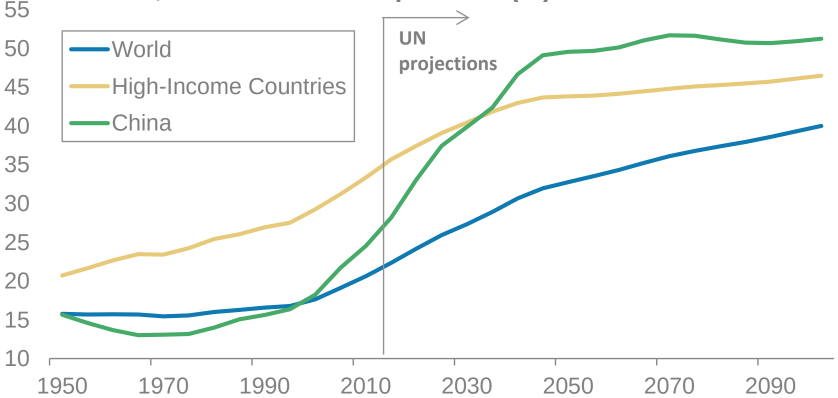


Source: Morgan Stanley Research forecasts, Haver Analytics, IMF, National sources

Outlook | Long-Term Challenges of ‘Stagnation’ Have Not Gone Away

Aging Populations in DM and China Need ‘Yield’

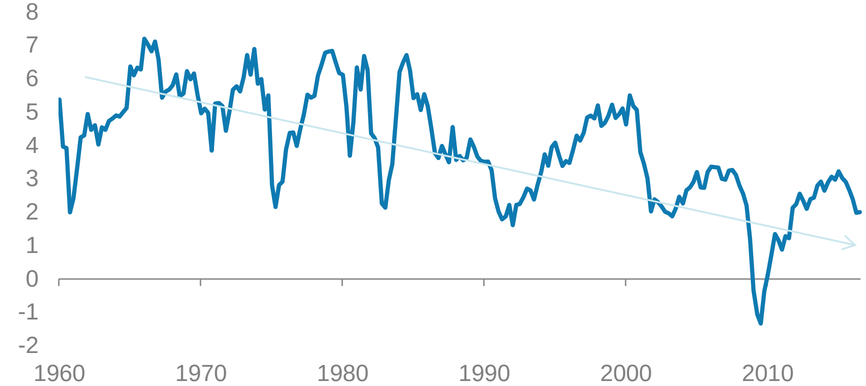
50+ Yr Olds, Share of Total Population (%)



Source: Morgan Stanley Research, UN Population Division; Note: Data from 2015 onwards based on medium projections.

Can Productivity Rebound, Given Low Investment?

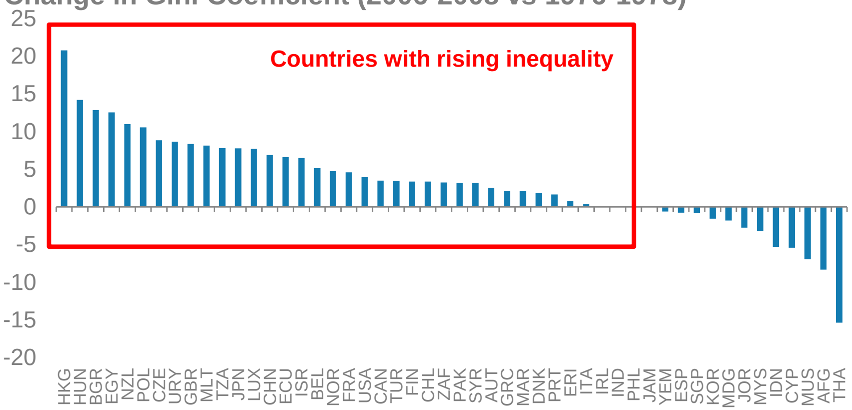
Net Investment as % of GDP



Source: Morgan Stanley Research, BEA

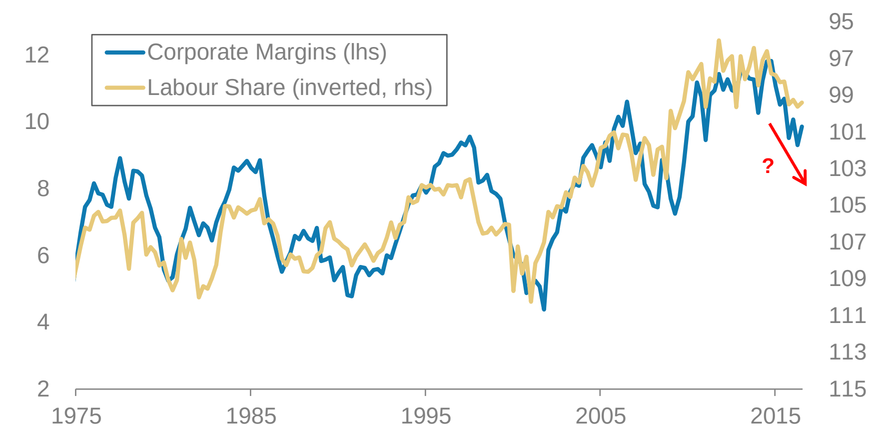
Inequality Has Increased, Driving Up Savings

Change in Gini Coefficient (2006-2008 vs 1976-1978)



Source: University of Texas, http://utip.lbj.utexas.edu/data.html

Rise in Labour Compensation Is a Risk to Margins



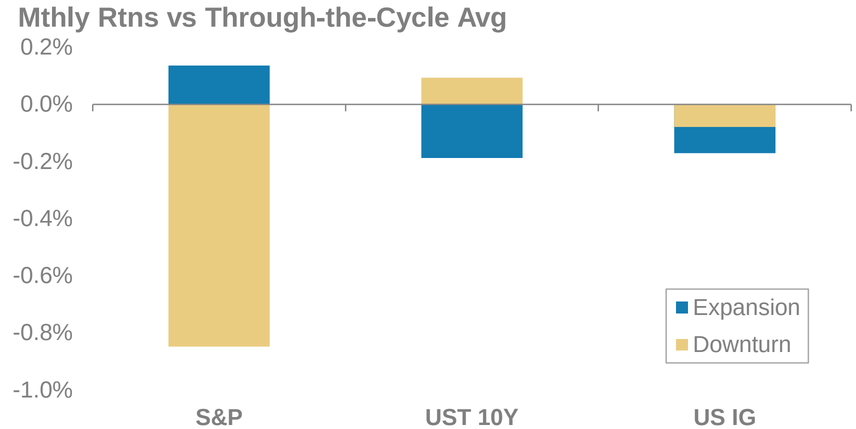
Source: Morgan Stanley Research, BEA, BLS; Note: ‘Corporate Margins’ refer to US NonFin profits after tax (with IVA and CCAdj)/Gross Value-Added of NonFins.’Labour Share’ is index of the portion of current-dollar output remitted to labour in compensation.

Outlook | Our Framework – Equities Favoured in Late-Cycle Expansion

Pillar 1: Long-Run Risk Premiums Compressed for Bonds

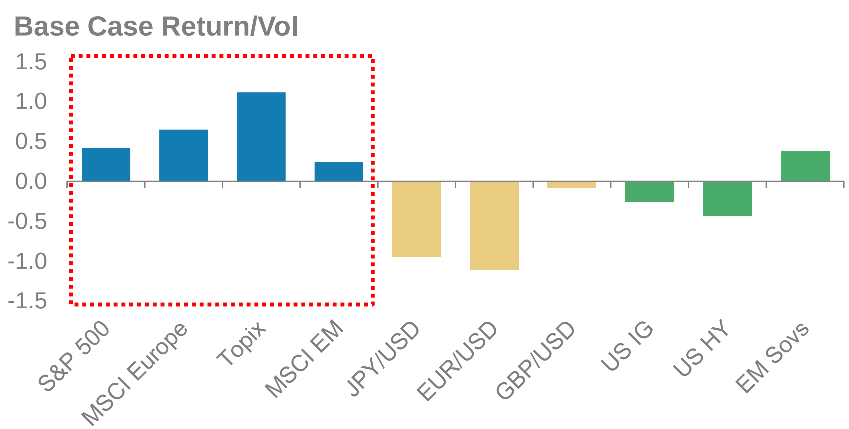
Source: Morgan Stanley Research; Note: Average risk premium for US, Europe, UK and Japan. Risk premium for equities represent ERP, and bonds real expected returns.

Pillar 2: Credit Fares Badly in Either Expansion or Downturn



Source: Morgan Stanley Research, Bloomberg

Pillar 3: Our 12M Forecasts Highest for Equities



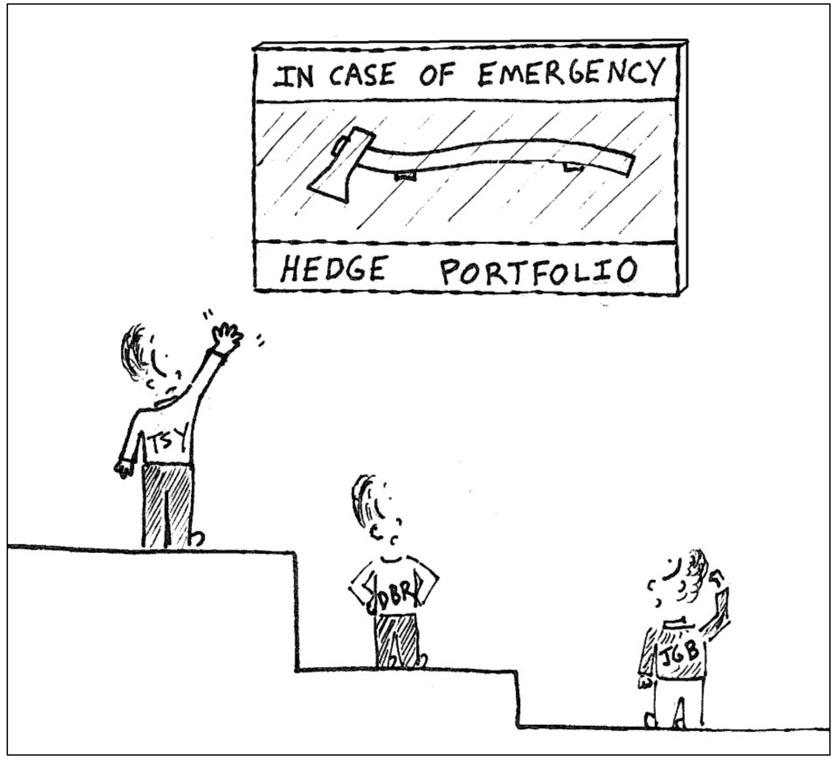
Source: Morgan Stanley Research forecasts, Bloomberg, the Yield Book

Our Cross-Asset Framework in One Place

		#1: LR Valuations	#2: Cycle	#3: 12M Forecasts
		Risk Premium	Cycle Score and Returns* Expansion / Downturn	Base Case Returns
Equities	US	1.6%	/	6%
	Europe	5.1%	/	12%
	Japan	8.3%	/	27%
	EM	7.2%	/	5%
Bonds	Treasuries	1.0%	/	1.6%
	Bunds	-0.2%	/	-4.3%
	JGBs	-0.5%	/	-1.1%
Credit	US IG	1.7%	/	-0.7%
	US HY	1.4%	/	-2.5%
	EUR IG	1.2%	/	0.1%
	EUR HY	1.3%	/	1.0%

Source: Morgan Stanley Research forecasts; Note: Risk premium for equities represent ERP, bonds real yields and credit show spreads. *'Cycle score' shows returns in phases relative to average, For base case returns, total returns for equities and bonds, excess returns for credit.

Asset Class Views



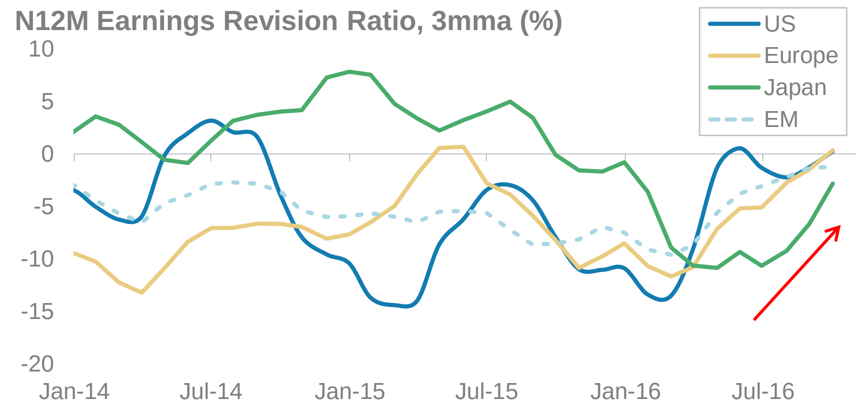
Global Equities | Buy Japan and European Value; Reducing US and EM

Morgan Stanley 12m Equity Forecasts

Index	Curent Price	New Target Price		
		Bull	Base	Bear
S&P 500	2191	3050	2300	1625
		39%	*5%*	*(26%)*
MSCI Europe	1381	1770	1500	1100
		28%	*9%*	*(20%)*
TOPIX	1483	2110	1800	960
		42%	*21%*	*(35%)*
MSCI EM	858	1115	880	590
		30%	*3%*	*(31%)*

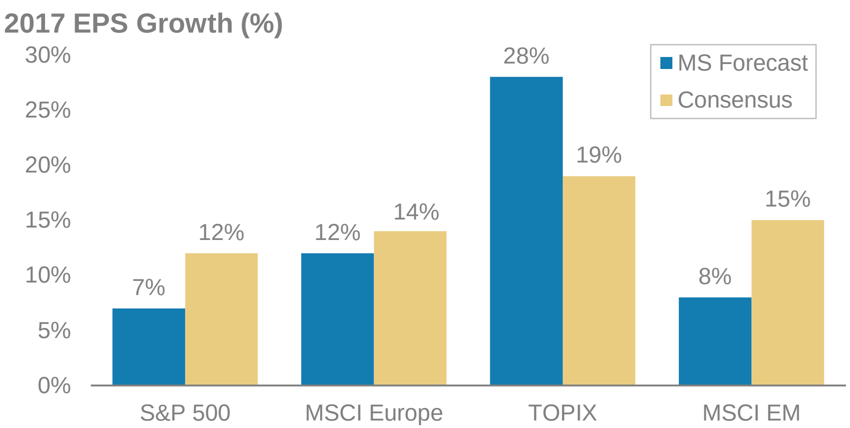
Source: Morgan Stanley Research forecasts

Earnings Revision Ratios Rising in Most Equity Markets



Source: Morgan Stanley Research, IBES

Below-Consensus 2017 EPS Growth Forecasts Except Japan



Source: Morgan Stanley Research forecasts, MSCI, IBES, Thomson Financial, S&P

Morgan Stanley Sector/Style Preferences Across Regions

	S&P 500	MSCI Europe	TOPIX	MSCI EM
Overweight	Industrials, Biotechnology, Utilities	Banks, Insurance, Energy, Healthcare	Cons. Discretionary, IT, Insurance, Div Financials	Technology, Industrials Staples
Underweight	Cons. Discretionary. Software, Staples	Cons. Discretionary, Staples, Industrials, Utilities	Staples, Telecoms, Utilities	Energy, EEME Telecom, Latam Utilities
Style Preference	Small-caps	Large caps, value	Corporate Governance and Shareholder Rewards	Best Business Models (Quality)

Source: Morgan Stanley Research

Global Equities | Global Equities Sectors/Style: Four Observations

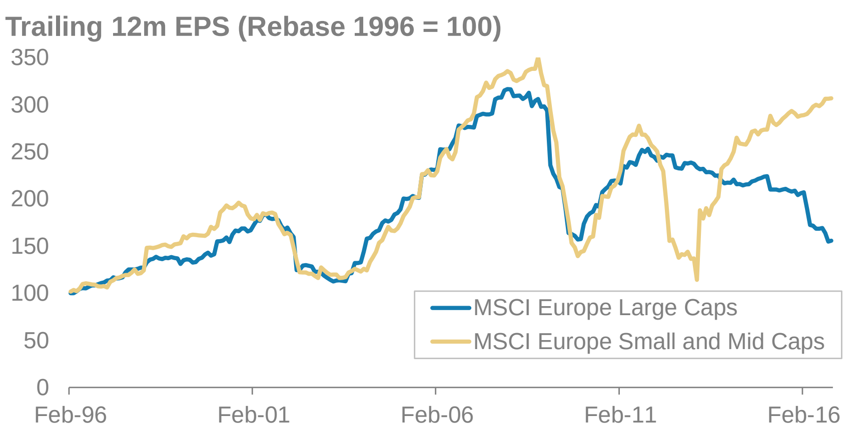
US Large Caps Valuations Are Average vs. Small Caps

Source: Morgan Stanley Research, MSCI, RIMES

European Value Remains Cheap on P/BV

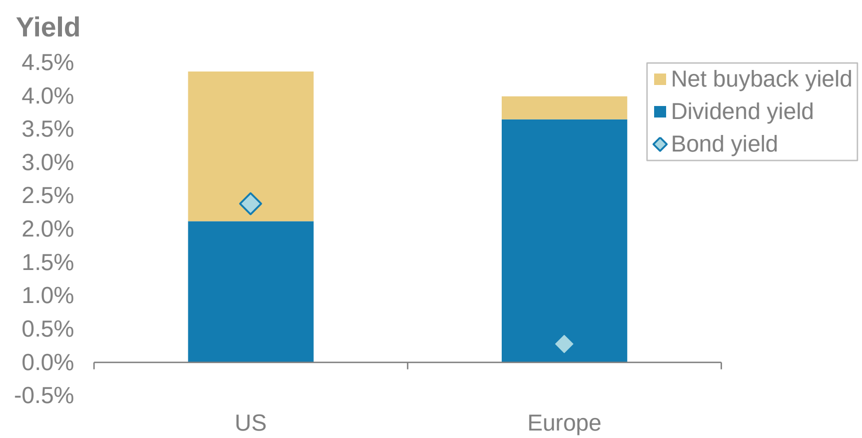
Source: Morgan Stanley Research, MSCI, RIMES

We See Better EPS Trends for European Large-Caps in 2017



Source: Morgan Stanley Research, MSCI, RIMES

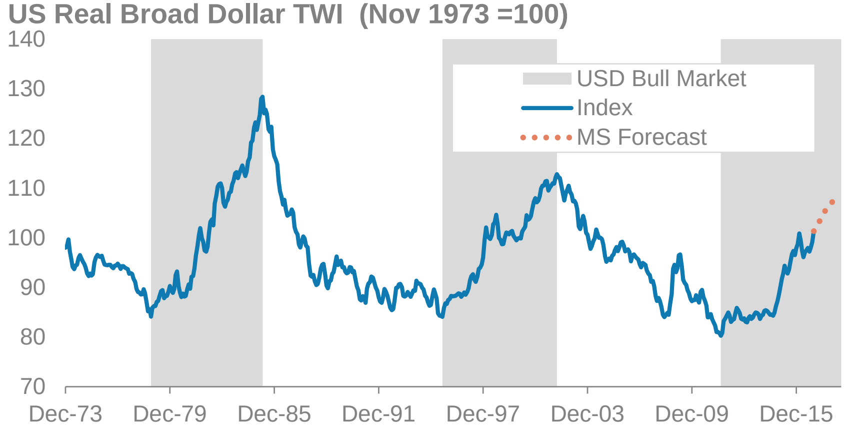
Equity Carry More Attractive than Bonds



Source: Morgan Stanley Research, MSCI, FactSet Fundamentals, Bloomberg

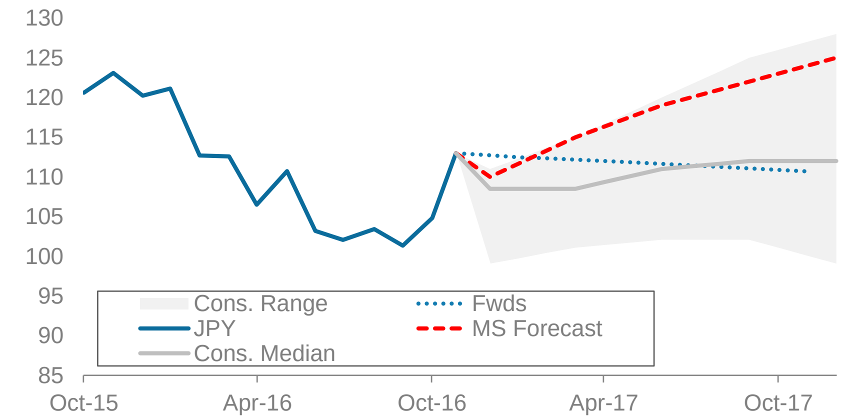
Global FX | Last Leg of USD Rally; Expect Significant Downside in JPY

We Think This Is a Pause, Not a Peak, for USD



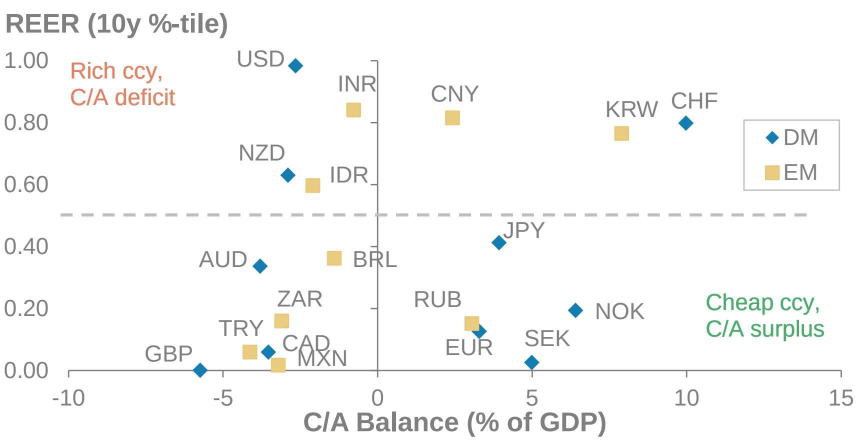
Source: Morgan Stanley Research forecasts, Bloomberg; Note: Real TWI forecasts is derived from Morgan Stanley's nominal TWI forecasts.

JPY to Weaken Significantly vs. Forwards and Consensus



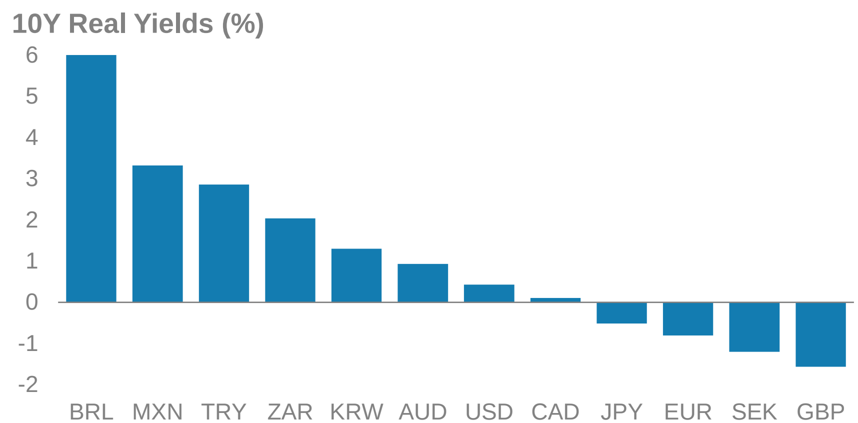
Source: Morgan Stanley Research forecasts, Bloomberg

REER versus Current Account Balance



Source: Morgan Stanley Research, Bloomberg

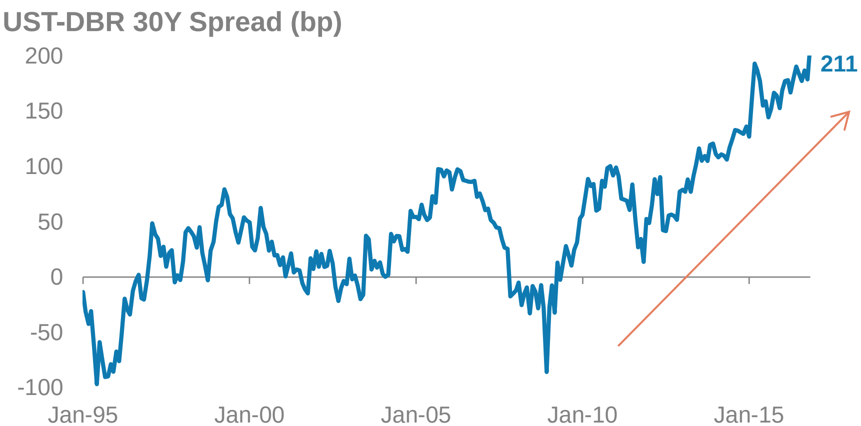
High Real Yields Differentials Mean BRL Can Still Outperform



Source: Morgan Stanley Research, Bloomberg; Note: Real yield is calculated as difference between 10y yields and core inflation.

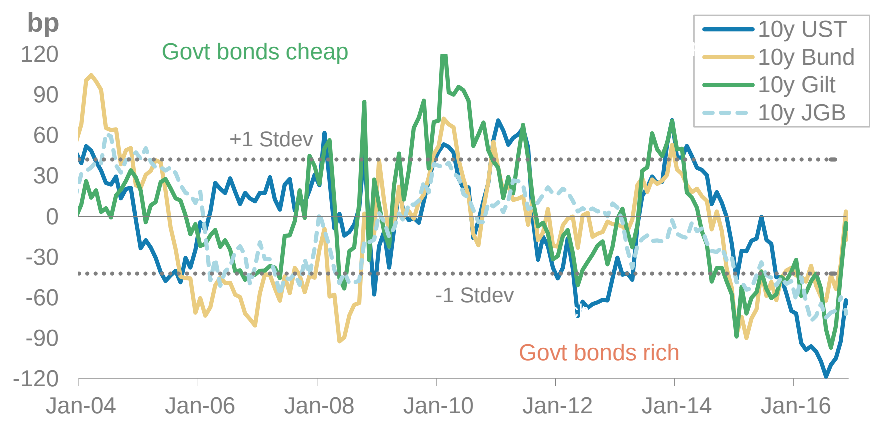
Global Rates | US vs. Europe

UST-Bund Spread at Historical Highs



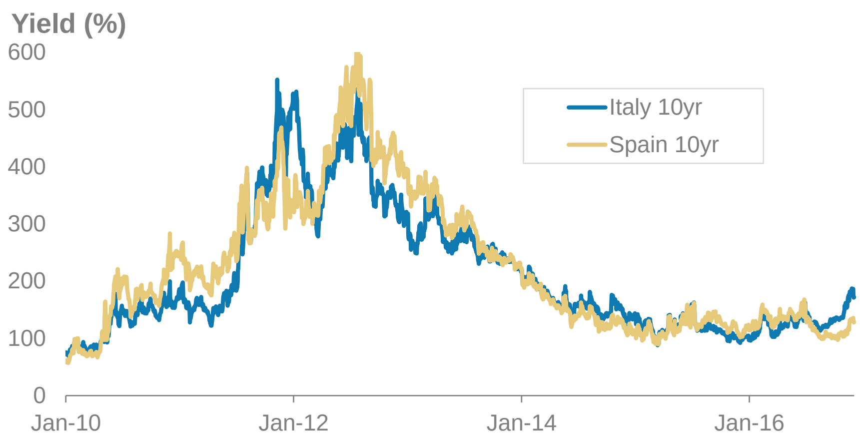
Source: Morgan Stanley Research, Bloomberg

Bond Valuations Are Not Cheap Yet



Source: Morgan Stanley Research, Bloomberg; Note: Chart shows the residual from a 4-factor regression model for rates valuation.

Peripheral Spreads Are Still Tight After Recent Moves



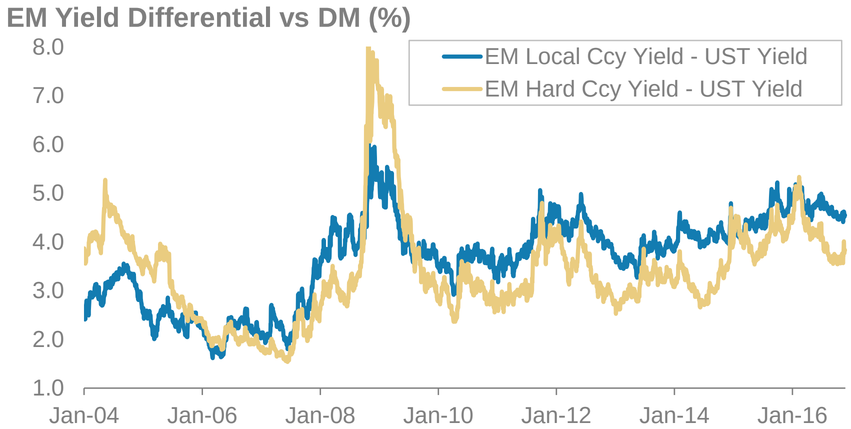
Source: Morgan Stanley Research, Bloomberg

Steeper UST Curves in 1H17 an Opportunity to Enter Flatteners

Source: Morgan Stanley Research forecasts

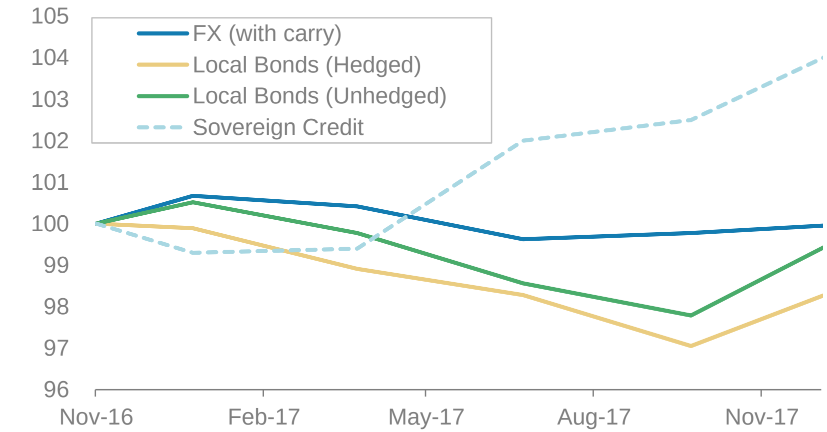
Global EM Fixed Income | Alpha Trumps Beta

EM Yield Differentials Still Attractive vs. DM



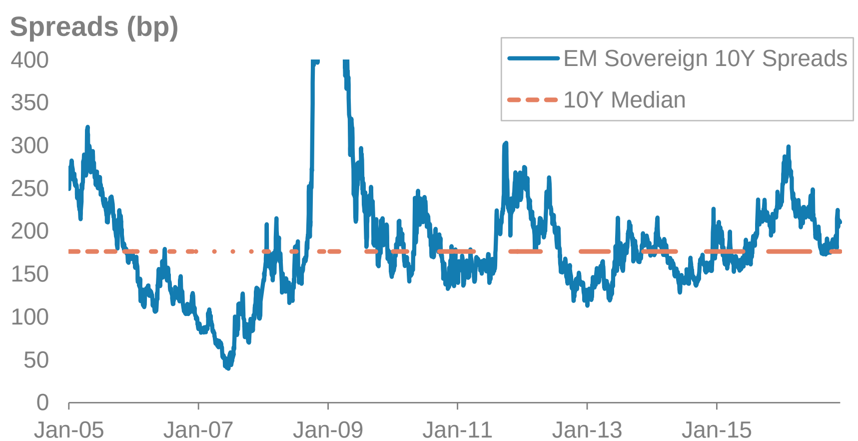
Source: Morgan Stanley Research, Datastream

Our EM Total Returns Projection



Source: Bloomberg, Morgan Stanley Research forecasts

EM Credit Spreads Are Cheap vs. History



Source: Morgan Stanley Research, Bloomberg; Note: Index shown is a 10-year constant-maturity series for all major non-distressed sovereigns, providing a better historical comparison.

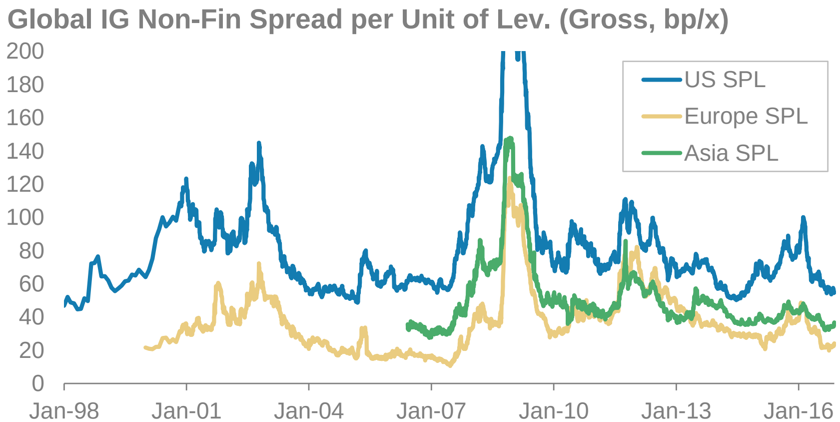
Our Top Picks in EM Fixed Income

	Rates	Credit
Likes	Argentina	Argentina
	Brazil	Brazil
	India	Indonesia
	Korea	Serbia
	Peru	Ukraine
	Russia	
Dislikes	Hungary	Colombia
	Malaysia	Mexico
	Mexico	South Africa
	South Africa	

Source: Morgan Stanley Research; For valuation methodology and risks, see slide 61.

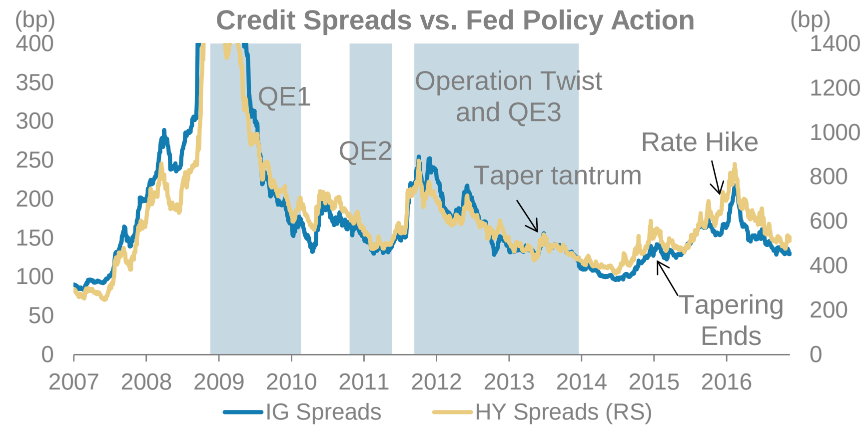
Global Credit | Late-Cycle Blues

Valuations Rich Across Credit Markets Globally



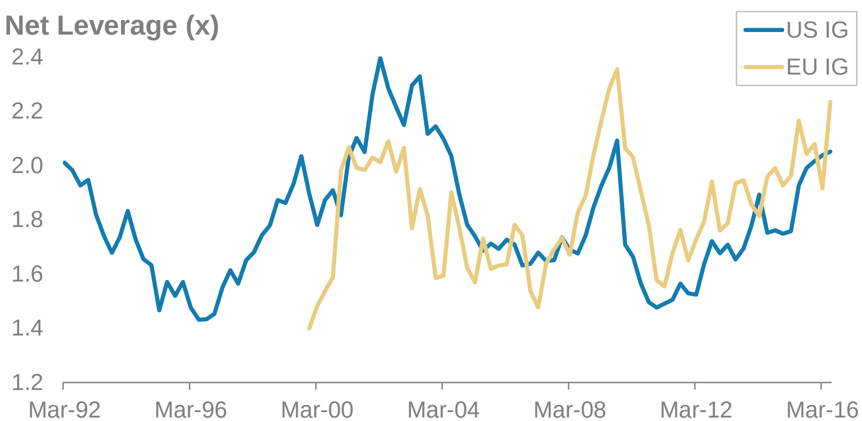
Source: Morgan Stanley Research, Bloomberg, Markit, Citigroup Index LLC

Fed Tightening Coincides with Credit Spreads Widening



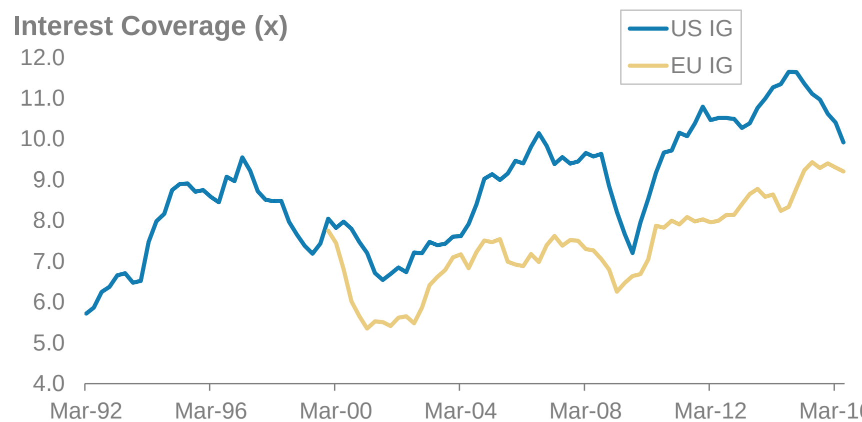
Source: the Yield Book, Morgan Stanley Research

Net Leverage Is High…



Source: Morgan Stanley Research, Bloomberg Finance LP, Citigroup Index LLC, Thomson Financial, company data

…but Interest Coverage Is Still Relatively High



Source: Morgan Stanley Research, Bloomberg Finance LP, Citigroup Index LLC, Thomson Financial, company data

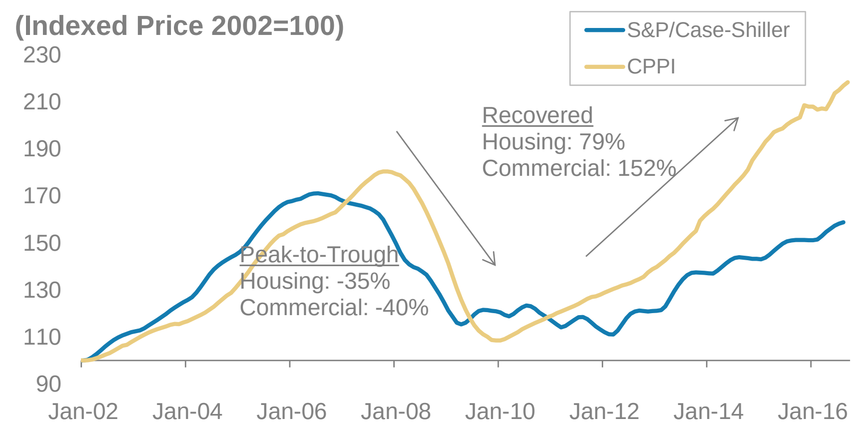
Global Securitized | Increase Exposure to Resi and Senior CLOs and CMBS

Securitized Products Offer Reasonable Carry

	Current Level (bp)	Base Case	
		Spreads (bp)	XS Rtns (%)
US Non-Agency Legacy (Alt-A)	265	275	2.00
CRT M1	125	150	0.75
CRT M2/M3	360	435	(0.90)
US CMBS AAA	100	100	1.00
US CMBS BBB-	490	550	(1.10)
Agency CMBS (10yr)	65	65	0.50
US CLO AAA	145	145	1.45
US CLO BBB	425	500	(1.13)
EU CLO 2.0 Seniors	96	105	0.79

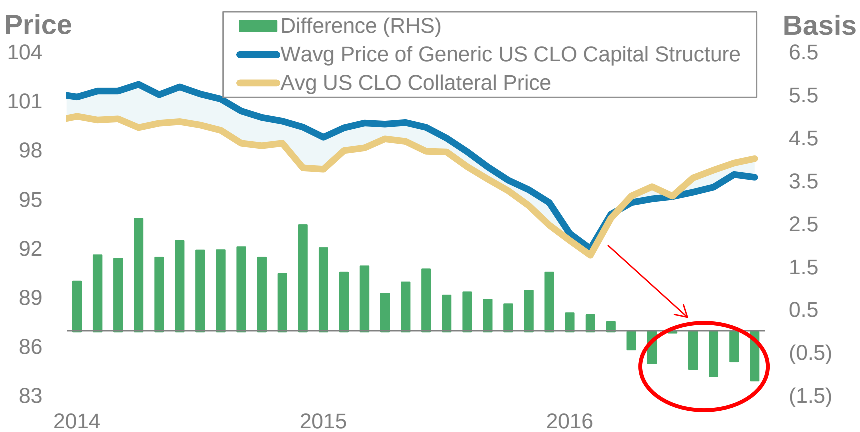
Source: Morgan Stanley Research forecasts; Current level as of November 23, 2016.
Note: US non-Agency MBS spread refers to generic Legacy Alt-A senior paper; US CMBS and Agency CMBS spreads expressed as spreads to swap rate and the rest as spreads to Libor/Euribor. EU CLO 2.0 senior DMs reflect market-implied forward EURIBOR curve floored at 0%.

End of CRE Bull Cycle; Resi Home Prices Have Room to Rise



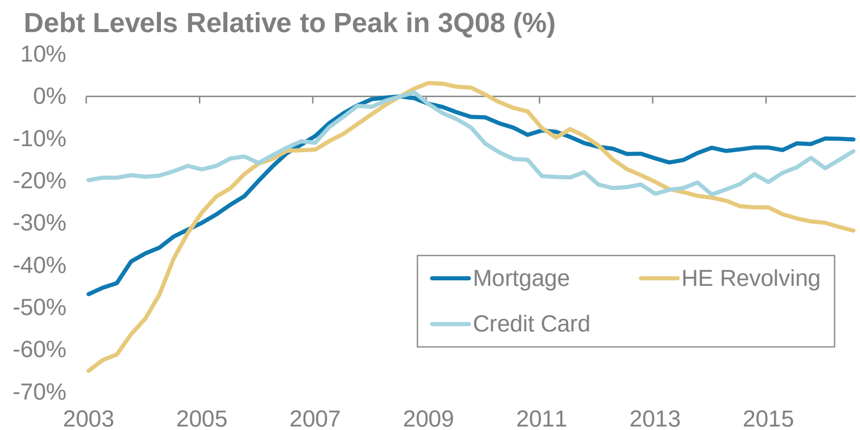
Source: Morgan Stanley Research, Moody's/RCA, Case-Shiller

CLOs Are Better Value Relative to Loans



Source: Morgan Stanley Research, Intex, Markit

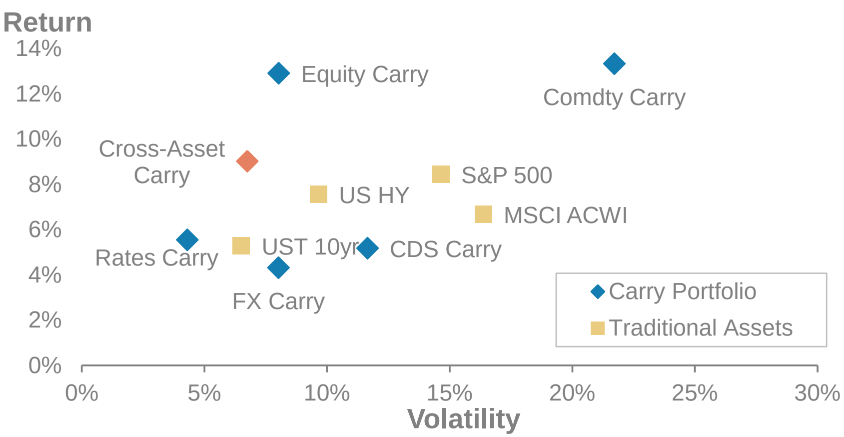
Consumer Re-Leveraging Still in Early Stages



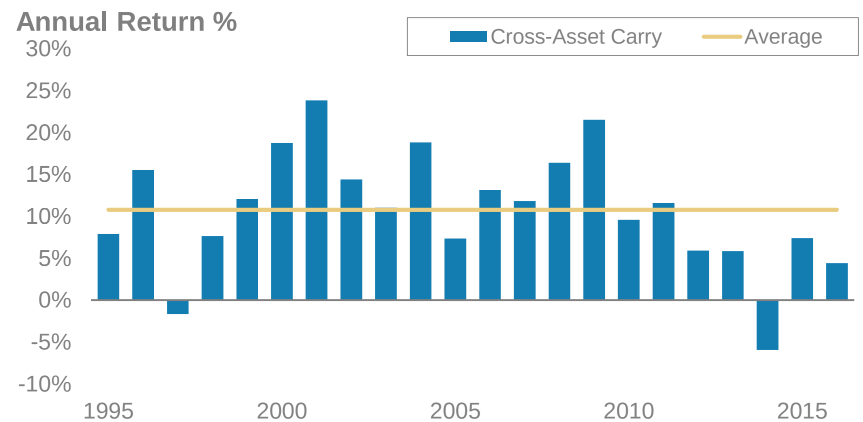
Source: Morgan Stanley Research, NY Fed

Cross-Asset Quant | Turn to Momentum Late in the Cycle

Cross-Asset Carry: Higher Returns with Lower Vol

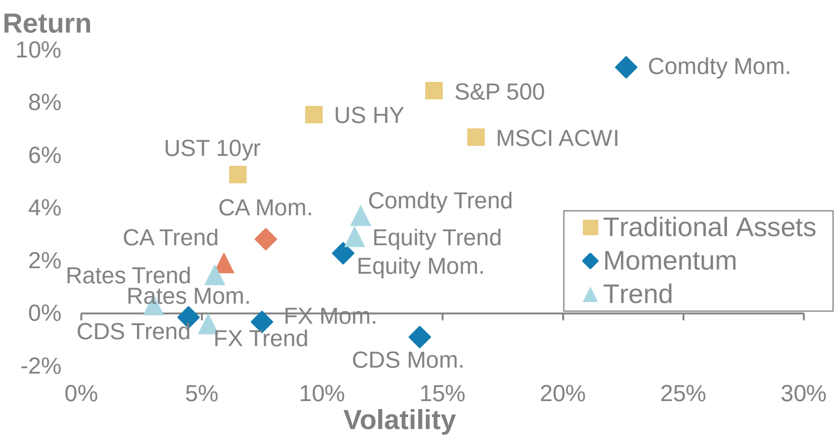


Carry Performance Is Not Overextended Recently

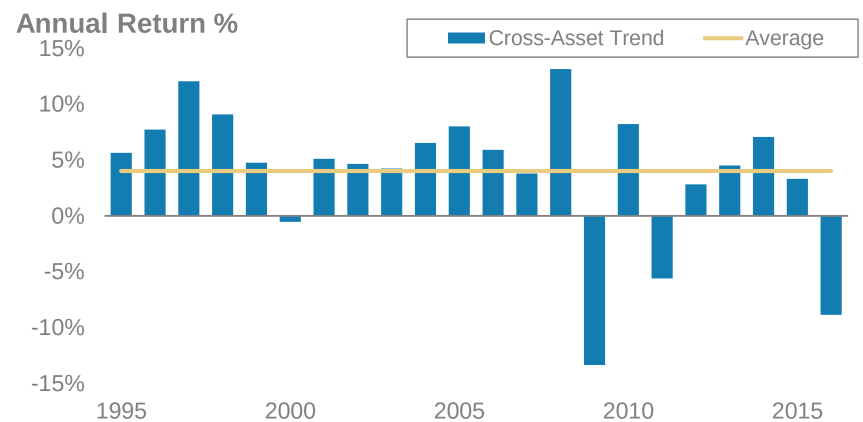


Note: Carry for an asset class defined as long the best quartile and short the worst quartile securities for that asset class. Cross-asset carry is the equally weighted average of the individual asset class. Time period covered from 2006-2016 where available. Source: Morgan Stanley Research, Bloomberg. (see Cross-Asset Quant: Why We Like Carry)

Cross-Asset Momentum and Trend for Diversification



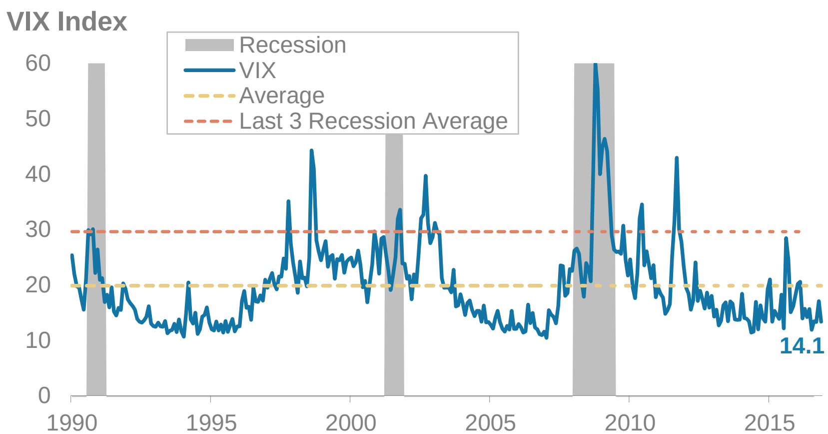
Trend Can Work In a Cycle Turn



Note: Trend portfolio for an asset class defined as being long all assets in the asset class with positive 12m returns and short all assets in the asset class with negative 12m returns. Cross-asset trend is the equal-weighted average of the individual asset class trend portfolios. Source: Morgan Stanley Research, Bloomberg. (see Cross-Asset Quant: Momentum for Diversification)

Cross-Asset Quant | Less of Slower for Longer; Buy the Tails

Equity Volatility Has Fully Normalised Post-Election



Source: Morgan Stanley Research, Bloomberg, NBER

Our Bull-Bear Forecasts Wider than Option Breakevens

	Strangle (25-Delta) Breakeven Range	MS Bull-Bear Range
S&P 500	31%	65%
Eurostoxx	39%	49%
Topix	41%	81%
EM Equities	44%	63%
HY Credit*	10%	13%
EURUSD~	9%	18%
AUDUSD~	11%	16%
USDBRL	37%	30%
USDMXN	34%	25%
USD 10yr	171	220
EUR 10yr	121	190

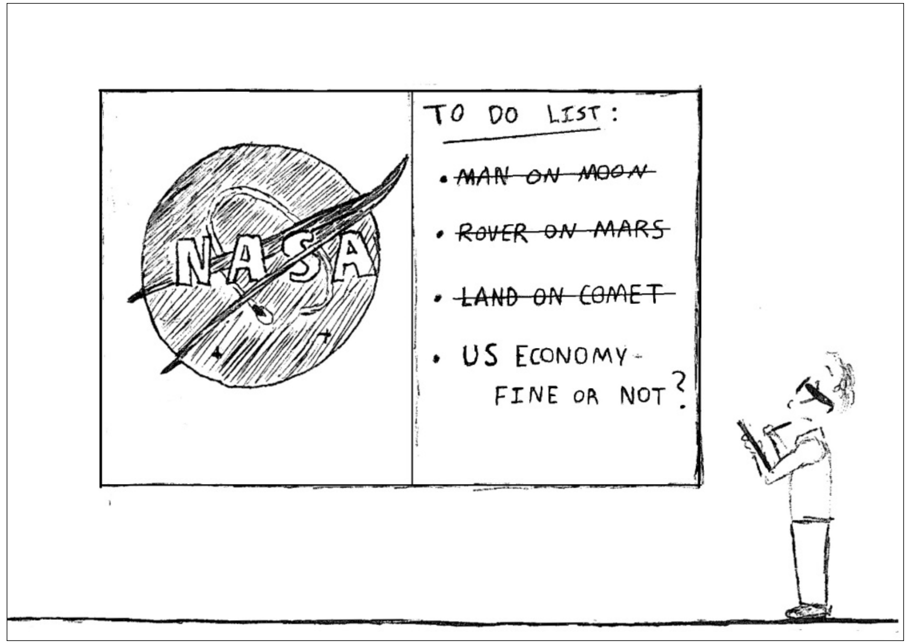
Source: Morgan Stanley Research, Bloomberg

Volatility Particularly Low in Equity and Credit

	Implied Vol 3m		Vol Skew 3m	
Index	Now	Δ1y on 10y Range	Now	Δ1y on 10y Range
Equities				
S&P 500	12.1%		6.2%	
Russell 2000	17.9%		4.6%	
Eurostoxx 50	18.8%		4.3%	
Nikkei	19.5%		2.7%	
MSCI EM	19.1%		3.6%	
FX				
JPY	12.4%		-0.5%	
GBP	10.0%		1.1%	
EUR	9.2%		1.5%	
AUD	10.9%		1.7%	
BRL	16.4%		2.9%	
KRW	11.5%		2.1%	
Rates				
US10y	85		0	
EU10y	57		14	
Credit				
CDX IG	29		17.5%	
CDX HY	5.7%		4.1%	
Commodities				
BrentCrude	43.3%		3.5%	
Gold	14.5%		1.9%	
Copper	26.5%		-1.3%	

Source: Morgan Stanley Research

Key Debates

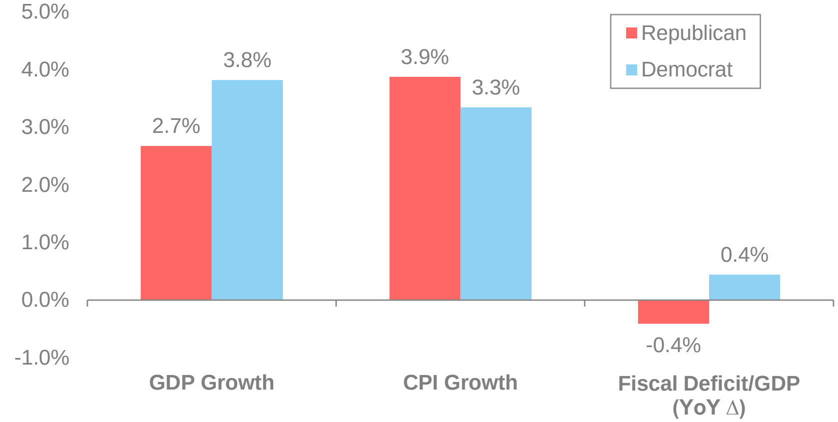

NASA
TO DO LIST:
• ~~MAN ON MOON~~
• ~~ROVER ON MARS~~
• ~~LAND ON COMET~~
• US ECONOMY - FINE OR NOT?

US Elections | Other Fundamentals Matter More than the Party in Power

Conventional Wisdom May Not Hold

- **Growth and inflation are non-partisan:** Since 1947, GDP growth has been marginally higher under Democratic administrations (3.8%) than under Republican ones (2.7%), but well within what we'd consider a margin of error.
- **Republican presidents aren't 'better for the stock market':** There is little statistical evidence that the 'business-friendly' GOP is correlated with better equity returns.
- **Is that bad timing?** More Republican presidents have been elected during 'late-stage' readings of our US Cycle Model. This may also apply to President-elect Trump.

Macro Performance by Presidency

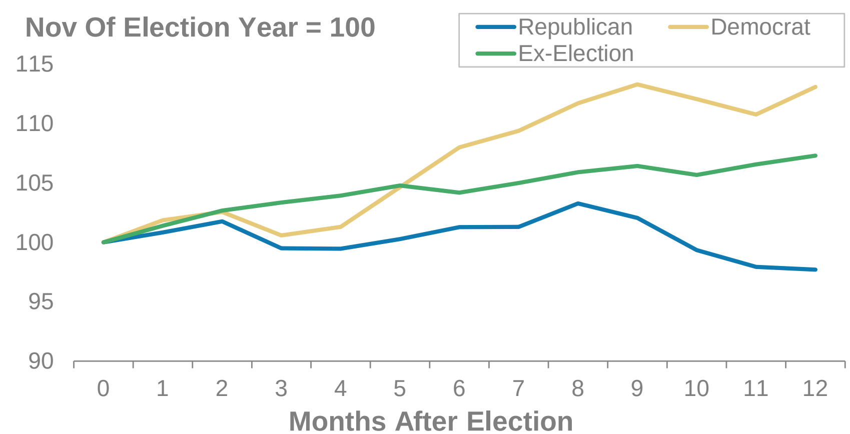


Source: Morgan Stanley Research, BEA, Bloomberg, senate.gov, house.gov; Note: Calculated since June 1947 for GDP and CPI and since 1968 for the fiscal deficit.

Business Cycle Stage by President's Party

Source: Morgan Stanley Research forecasts, US government (house.gov, senate.gov); Note: Red shading indicates Republican president and blue shading indicates Democratic president.

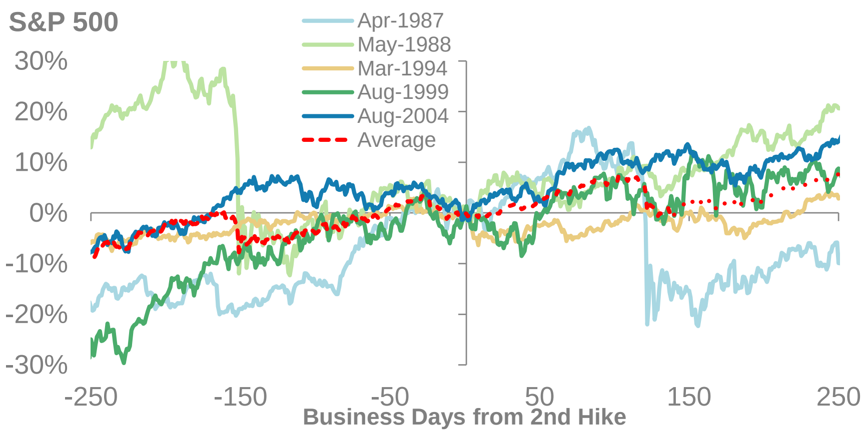
S&P 500 Performance in Republican vs. Democrat Presidencies



Source: Morgan Stanley Research, Bloomberg, senate.gov, house.gov; Note: We observe 22 presidencies since 1928, 10 of which elected Republicans, and 12 of which elected Democrats. The ex-election line observes returns starting in Nov of non-election years.

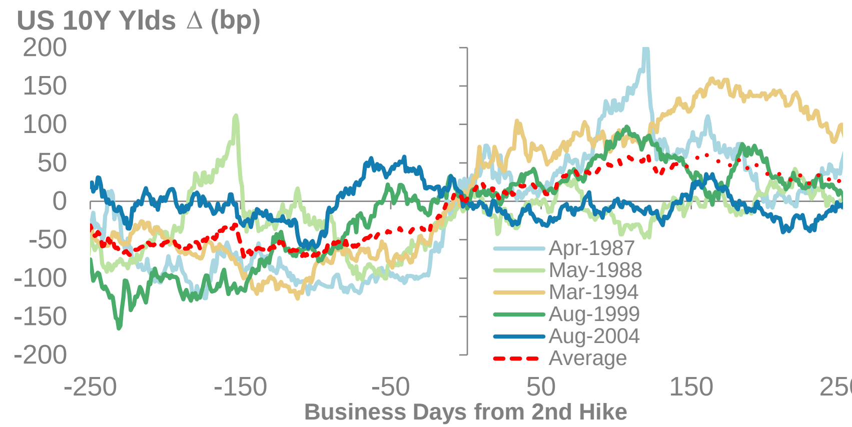
Fed Hike | Performance After the Second Hike: Equities, Rates, Dollar, Credit

S&P 500 Generally Rises Going Into and Out of Second Hike



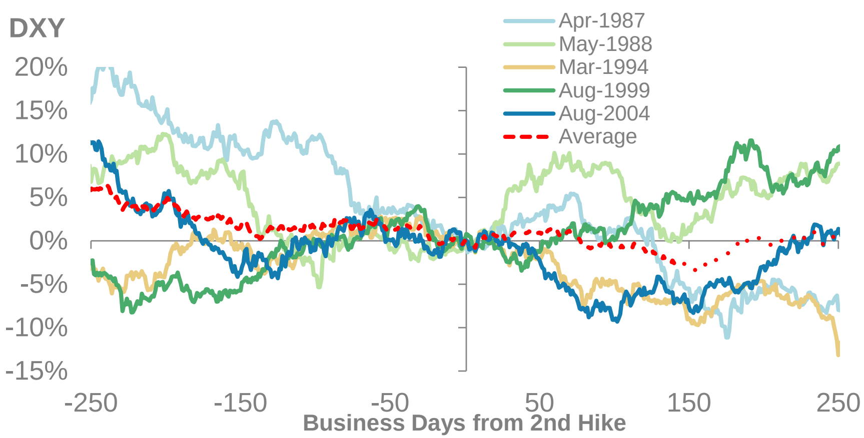
Source: Morgan Stanley Research, Bloomberg

UST 10Y Ylds: A Clear Rising Trend Going Into and Out of Hike



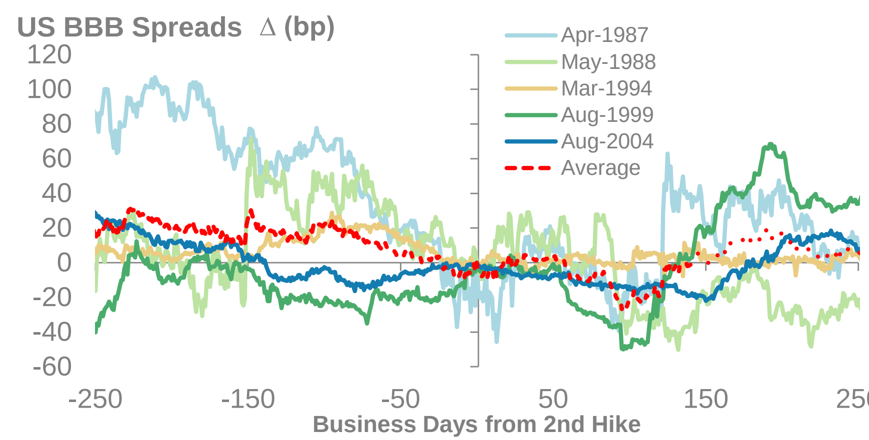
Source: Morgan Stanley Research, Bloomberg

DXY: Mixed Performance Going Into and Out of Second Hike



Source: Morgan Stanley Research, IBES, Datastream

US BBB Spreads Generally Tighten Right After Second Hike



Source: Morgan Stanley Research, the Yield Book, Moody's

European Politics | Our Views on the UK, France and Germany

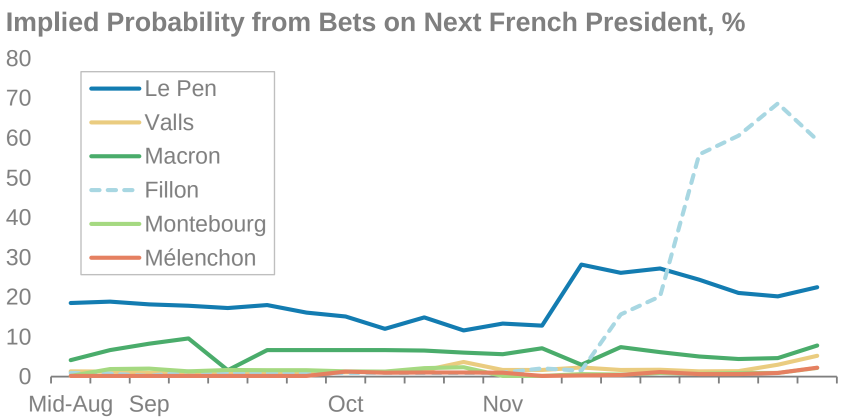
A Risk, but Manageable in Our Base Case

- **UK parliament unlikely to block Brexit, but it could be 'softer' (Dec 5-8):** MPs lean towards Remain, and their involvement could push the UK away from a 'hard' exit.
- **French elections (Spring 2017):** Fillon's win in the first round reduces the odds of a victory for Marie Le Pen. Prediction markets put her odds of winning at ~23%.
- **German elections (September 2017):** We believe that the race is Merkel's to lose, even as immigration remains a controversial issue.

GBP Could Trade Back to Aug Levels, Pricing in 'Soft' Brexit

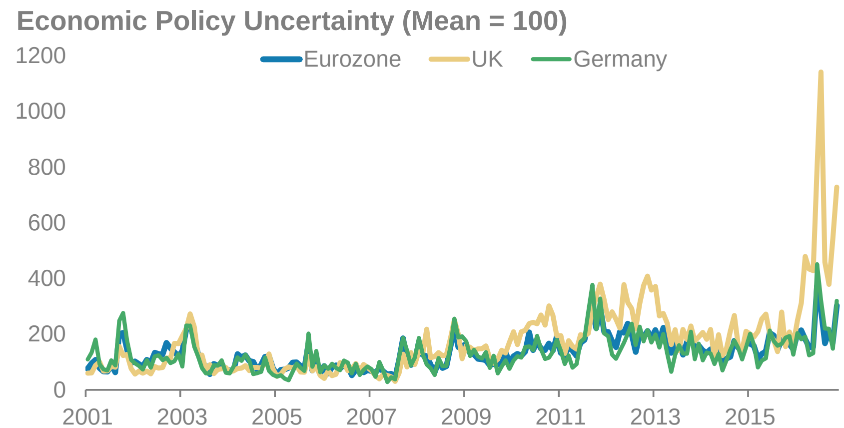
Source: Morgan Stanley Research, Bloomberg

Implied Betting Market Odds of Fillon Victory Have Increased



Source: Morgan Stanley Research, Betfair Exchange

Economic Policy Uncertainty Is Elevated



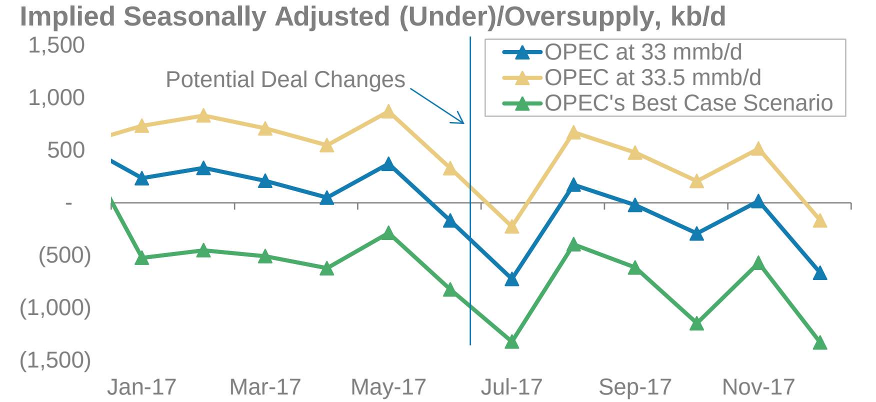
Source: Morgan Stanley Research, Baker, Bloom, Bundesbank

Oil | OPEC Agreement Is Headline Positive, but Oversupply Could Persist

In Best Case, Inventory Draws Could Begin in 1H17

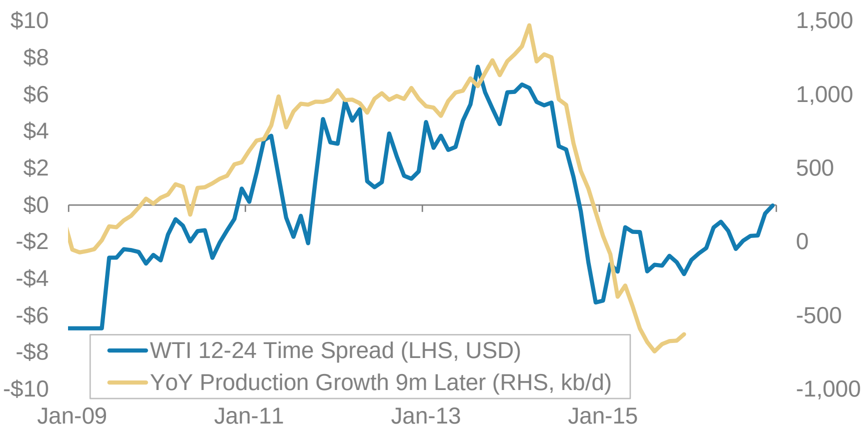
- **Market balance in scenario of full compliance:** The 1.2 mmb/d OPEC cut plus a 600 kb/d cut non-OPEC cut could lead to inventory draws and push prices to a US$45-65 range.
- **Investor scepticism could limit upside:** For now, a US$40-55 range remains most likely. OPEC has consistently over-produced vs. its quota. Compliance from non-OPEC (Russia in particular) is also suspect.
- **Higher prices could lead to more investment:** If there is follow-through, our oil strategists expect to see US production respond and there is evidence of a potential response ex-US as well. This could lead to higher supplies and lower prices.

Most Realistic Case Is Oversupply Until 2H17



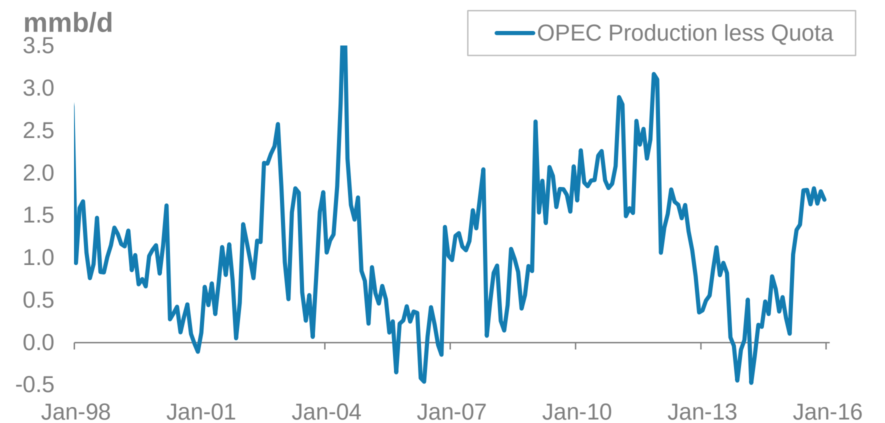
Source: Morgan Stanley Research, OPEC, IEA, EIA, JODI, HPDI, Rystad, Wood Mackenzie; Note: Assumes no US response, no seasonality, full year cut, and best case includes non-OPEC 600 kb/d cut.

Higher Prices Could Result in Higher US Production in ~9Mo



Source: Morgan Stanley Research, EIA, Bloomberg

OPEC Production Has Exceeded Quotas Historically



Source: Morgan Stanley Research, OPEC; Note: The OPEC allocation reflect some changes in OPEC membership/requirements.

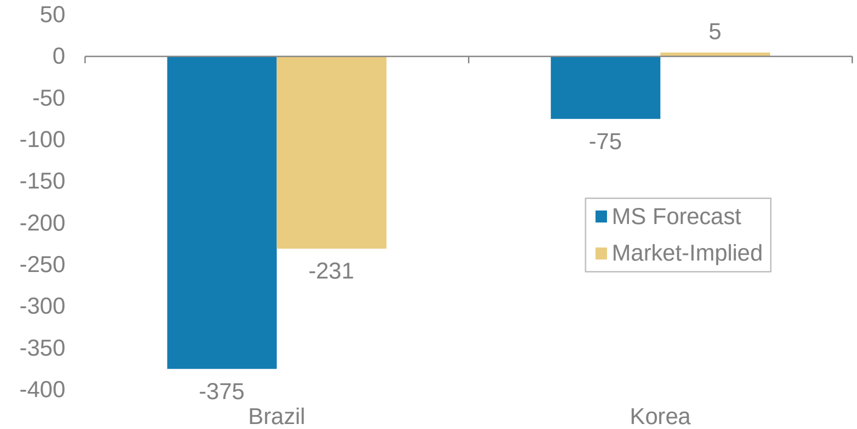
EM Policy | Our Most Out-of-Consensus Rate Calls: Brazil and Korea

Significantly More Easing than Markets Price

- **375bp of rate cuts in Brazil through end-2017:** Brazil is likely to come out of recession, but with still-muted growth. As a result, and in addition to base effects, economists expect inflation to decline to below 5%Y, allowing the BCB to cut rates aggressively.

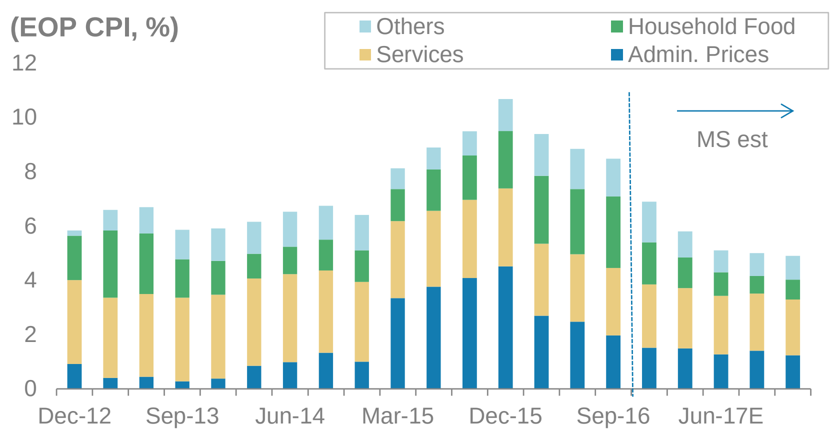
- **BoK to cut rates and move towards QE:** Weak structural fundamentals (e.g., high leverage, an ageing population, inefficient resource allocation) and external demand shocks have led to a slow grind down for growth, with real rates > real GDP growth. We expect 75bp of cuts through 2017 and QE in 2H18.

Rate Cuts Are Not Yet in the Price for Brazil and Korea



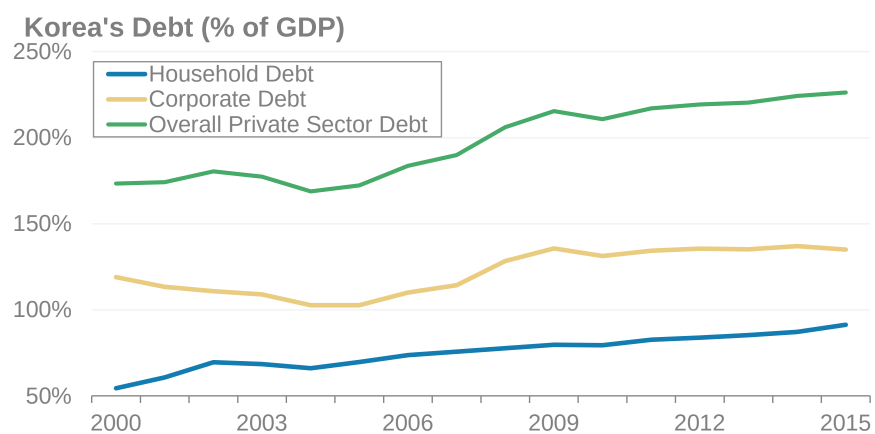
Source: Bloomberg, Morgan Stanley Research forecasts

Brazilian Inflation Is Likely to Decline



Source: IBGE, Morgan Stanley Research estimates

Korean Debt Has Not Stabilised



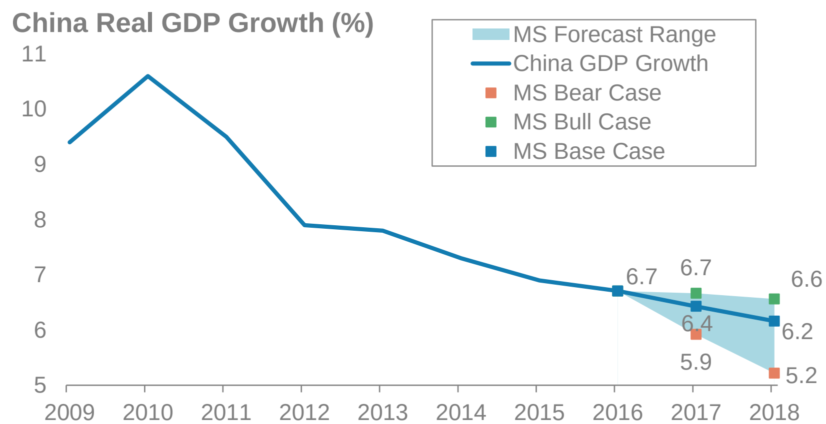
Source: Morgan Stanley Research, CEIC; Note: Refers to flow of funds data. Corporate debt excludes external debt.

China | Short-Lived Reflation and Mixed Bag of Policies

Fiscal Support Stems Growth Moderation

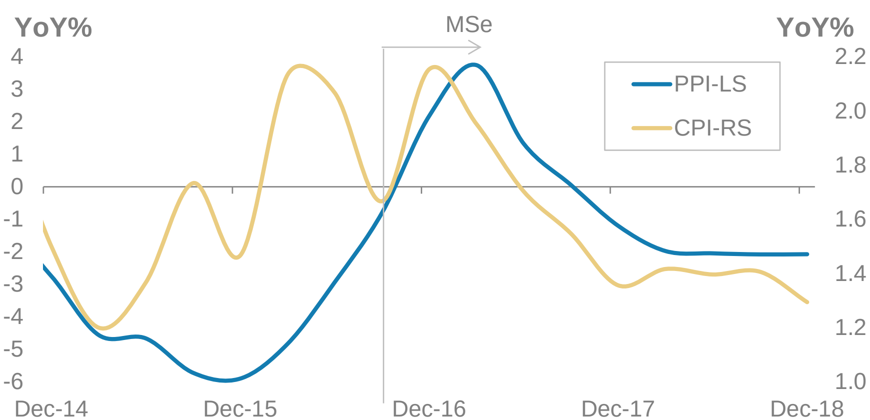
- **Short-lived cyclical bounce in reflation:** Higher inflation in recent months was a result of weather that pushed commodity prices higher as well as a low base. We expect non-food prices to remain subdued as economic growth weakens.
- **More expansionary fiscal policy, but less dovish monetary policy:** Fiscal spend amid a political reshuffle could support growth, but rising concerns over asset bubbles mean tightening housing policies and interbank liquidity and delayed rate cuts.
- **Risks to growth are skewed lower,** with 0.5pp of downside to GDP in the bear case in 2017 and 1pp in 2018, with potential US trade protectionism and tightening of housing market.

More Downside Potential to Growth Forecasts



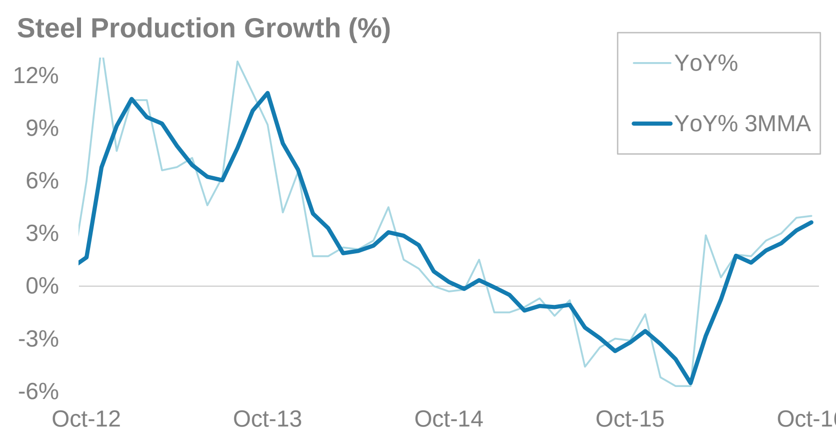
Source: CEIC, Morgan Stanley Research estimates

PPI and CPI to Peak in Early 2017 and Decline Thereafter



Source: CEIC, Morgan Stanley Research estimates

Steel Production Indicates Fiscal Spending on Infrastructure



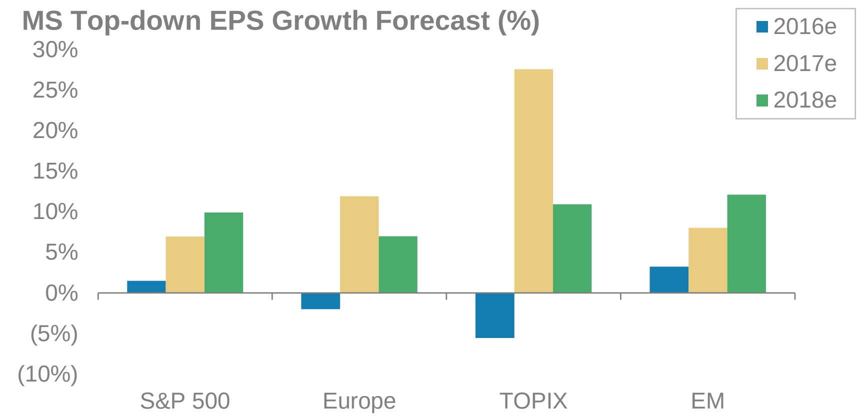
Source: CEIC, Morgan Stanley Research

Earnings | Global Earnings Recession Is Ending

An Inflection in Earnings (Finally)

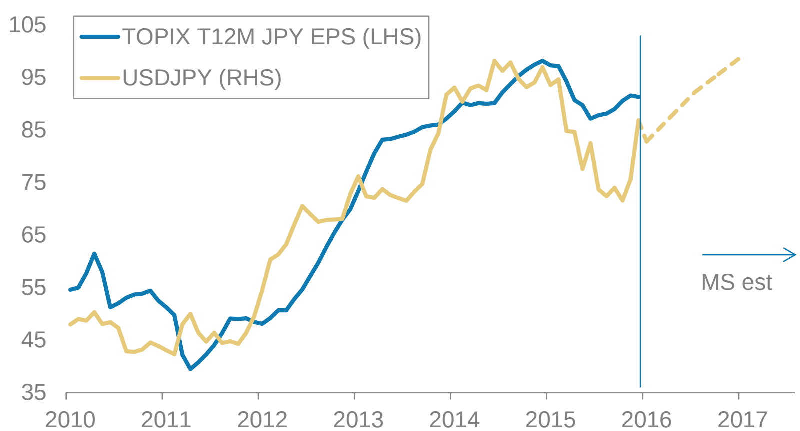
- **Europe:** European earnings have fallen in total by 30% since 2011, but modest global growth and support from commodity prices mean that 2017 EPS growth can reach 12%, with UK earnings growth even higher at close to 20%.
- **Japan:** A *much* weaker JPY (at 130 by mid-2018), accelerating local growth and stronger global outlook drive our above-consensus view on Japanese 2017 EPS growth of 28%.
- **US and EM:** We still expect positive growth in 2017 although slower than in other regions (7%Y and 8%Y, respectively).

Earnings Growth Likely to Rise Globally



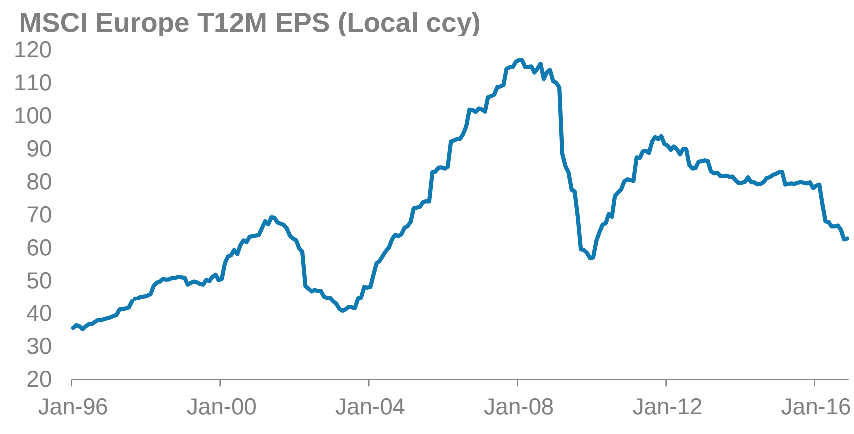
Source: Morgan Stanley Research forecasts

A Weaker JPY Bodes Well for Japanese EPS



Source: Datastream, Bloomberg, Morgan Stanley Research estimates

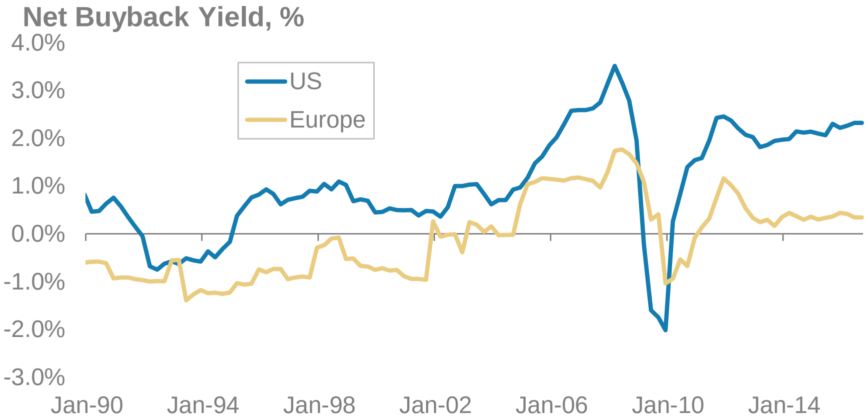
We Expect the Declining Trend in European EPS to Reverse



Source: Morgan Stanley Research, RIMES

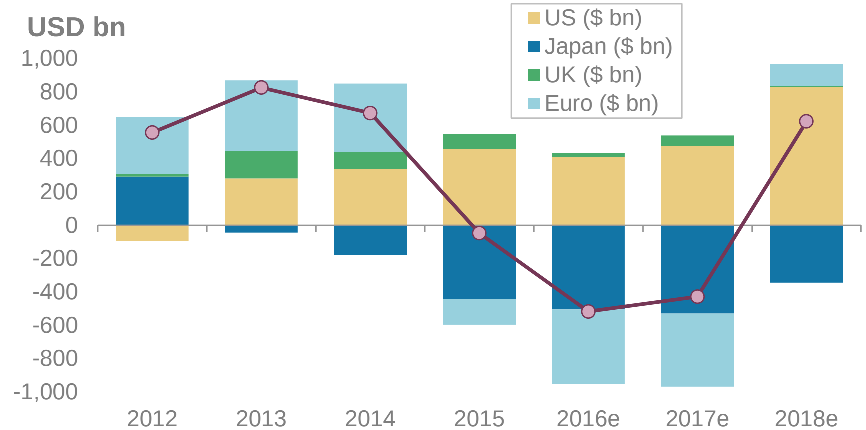
Technicals & Flows | Supply and Demand Remain Supportive…for Now

Global Equities – Net Buyback Yield Still Elevated



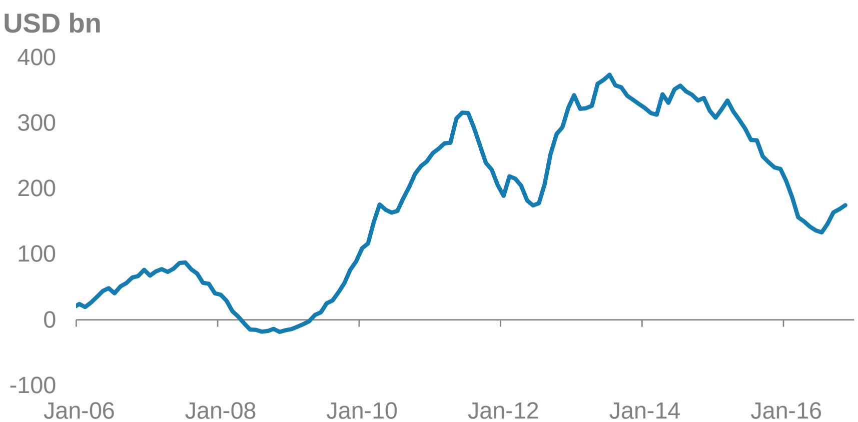
Source: Morgan Stanley Research, ClarifFi, MSCI, FactSet Fundamentals

Global Rates – Net Issuance After Central Bank Buying



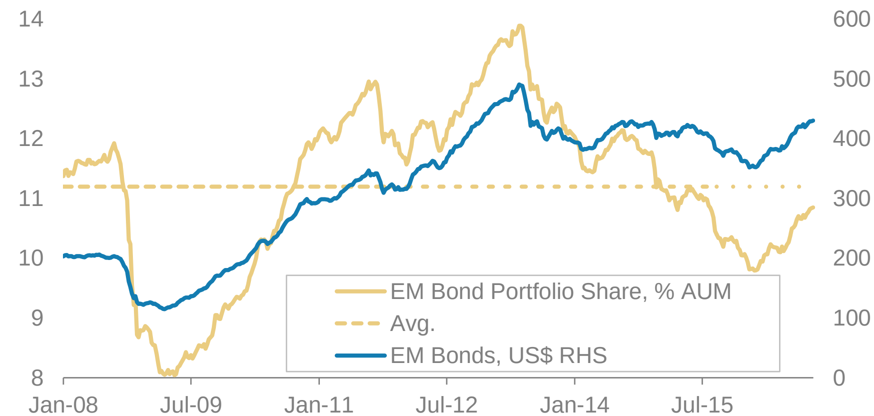
Source: Morgan Stanley Research forecasts, National Treasuries, National central banks

High Yield – Net Issuance Still Low



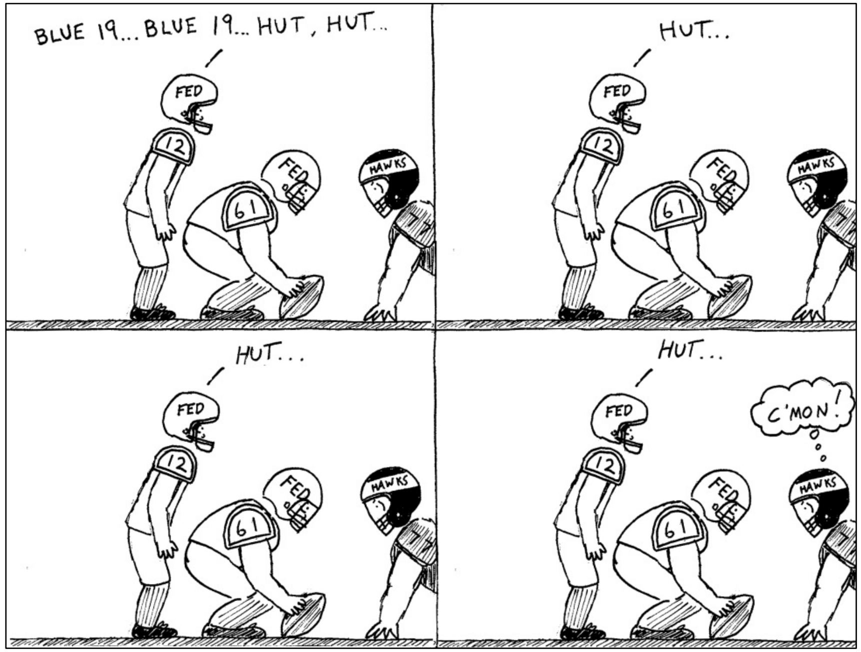
Source: Morgan Stanley Research, Dealogic

EM Debt Holdings Are Still Below 2012 Peaks



Source: Morgan Stanley Research, IIF

Recommended Trades



Strategy Type

Alpha	Beta	Hedge

Trade #1 | Long Japanese Equities (FX-Hedged)

Entry Level/Current

1460

Current TOPIX level

Reassess/Target

1800

MS base case target

Rationale

- A number of factors are supportive of Japan EPS growth (est +28% YoY), including a weaker yen and stronger growth both within Japan and globally.
- Japan's growth is stimulated by fiscal spending, easy monetary policy and structural reforms.
- We also expect a higher multiple amid BoJ support via ETF purchases and foreign flows into equities.
- Valuations are near 5Y average, but Japan equity risk premium is the highest across all regions.

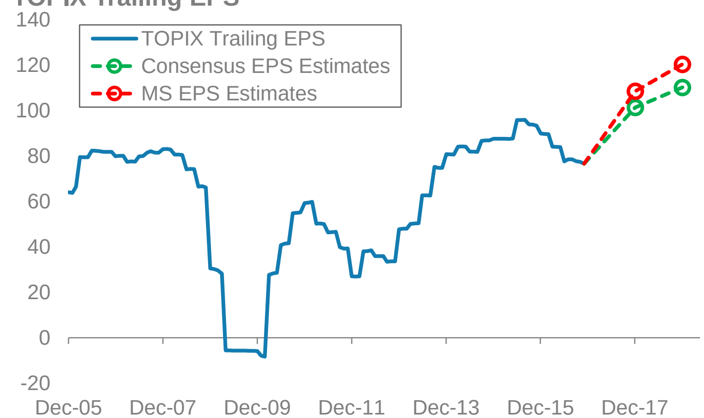
Risk(s)

- Trade protectionism and potential yen strength

Related Reports

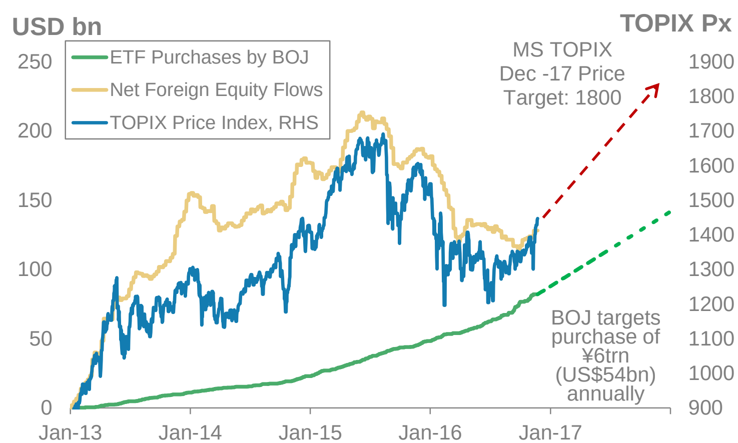
[2017 Asia/EM Equities Outlook: Double Upgrade Japan to OW; Downgrade EM/APxJ to UW](), Nov 27, 2016

Japanese Earnings Set to Pick Up Dramatically



Source: Morgan Stanley Research, IBES, Datastream

P/E Re-Rating Helped by Central Bank Purchases



Source: Morgan Stanley Research, Bank of Japan, Bloomberg, FactSet
Note: Data as of November 23, 2016.

Potential Upside

12M Rtn: 28%

Base case 12m return implied by MS Forecasts

Volatility

Ann. Vol: 24%

Assumes vol equals average experience of last 10 years.

Risk-Adjusted Rtns

Rtn/Vol: 1.2x

Base case MS forecast return as % of 10yr vol

Valuation

Fair

Based on long-run trend in Fwd P/E.

Correlation to ACWI

Medium

Based on 10Y correlation

Strategy Type

Alpha	Beta	Hedge

Trade #2 | Long European Value

Entry Level/Current

12%

We expect value to outperform Europe equities

Reassess/Target

Brent @ 45

Vulnerable to commodity prices and political risk

Rationale

- Value tends to outperform growth in reflationary environments as yields and breakevens are rising.
- European value earnings have deteriorated sharply vs. growth, leaving easier comps, and its recent outperformance is muted relative to historical levels.
- On P/E metrics, value looks slightly expensive vs. growth, but its premium to growth is below its LT median on dividend yield and book value metrics, which could be more relevant in an environment of low earnings.

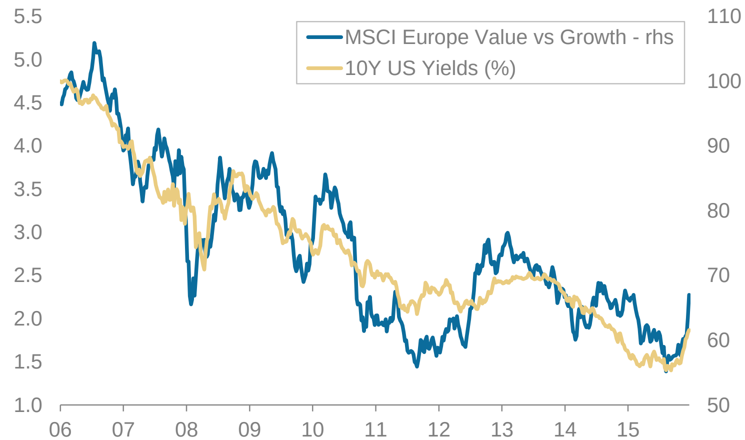
Risk(s)

- European political risks overshadow reflation and growth. OPEC fails to keep oil prices floored.

Related Reports

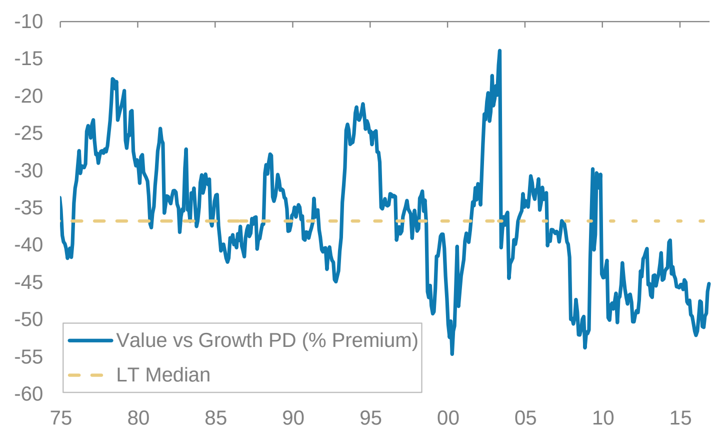
2017 European Equity Outlook: Earnings Trumps Uncertainty, Nov 27, 2016

Value Stocks Tend to Track 10Y Bond Yields



Source: Morgan Stanley Research, Datastream, MSCI

Value Dividend Yield Looks Depressed vs. Growth



Source: Morgan Stanley Research, MSCI; Note: PD = price to dividends.

Potential Upside

12M Rtn: 12%

Base case return for MSCI Europe on MS Forecasts

Volatility

Ann. Vol: 23%

Assumes vol equals average experience of last 10 years.

Risk-Adjusted Rtns

Rtn/Vol: 0.5x

Base case MS forecast return as % of 10yr vol

Valuation

Rich

Based on long-run trend in Fwd P/E.

Correlation to ACWI

High

Based on 10Y correlation

Trade #3 | Buy S&P 500 Calls (103 Strike)

Strategy Type
Alpha | **Beta** | Hedge

Cost
2.2%
6m 103 strike calls

Reassess/Target
5.6%
Probability-weighted net payout

Rationale

- Although our base case returns for US equities are modest and we prefer Japan/Europe for reflation plays, we like owning S&P calls to position for the bull case scenario.
- A large fiscal support package and lower corporate taxes, with an accommodative Fed but without an escalation of protectionist rhetoric, translates into 40% upside in our bull case forecast.
- S&P 500 implied vol is back at the lows and skew, while off the highs, is still steep (i.e., calls are cheap on a relative basis).

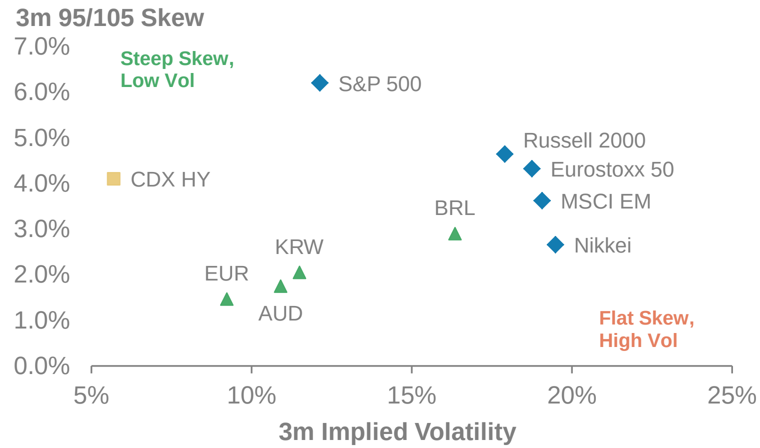
Risk(s)

- Heightened uncertainty and fears of Fed hikes reduce upside.

Related Reports

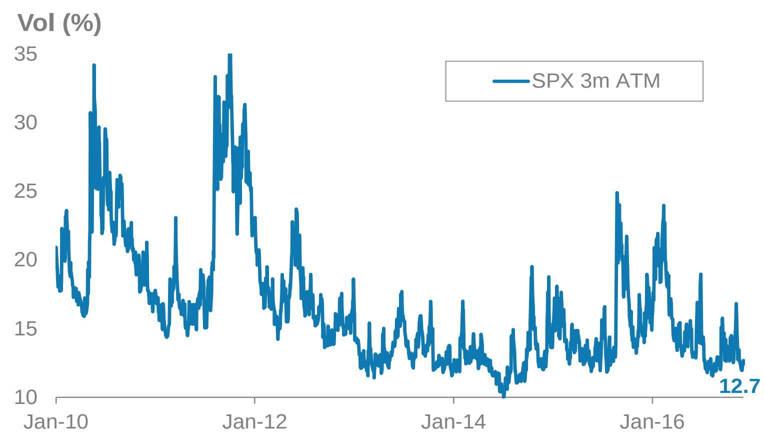
2017 Global Strategy Outlook: Sparkle and Fade, Nov 27, 2016
2017 US Equity Outlook, Nov 28, 2016

S&P 500 Outlier in Terms of Skew/Vol



Source: Morgan Stanley Research, Bloomberg

S&P 500 Vol Close to Multi-year Lows



Source: Morgan Stanley Research, Bloomberg

Potential Upside
12M Rtn: 5.6%
Probability weighted net payout on our B/B/B scenarios.

Volatility
Ann. Vol: 7.5%
Based on the option delta x 10yr realized vol for S&P 500

Risk-Adjusted Rtns
Rtn/Vol: 0.7x
Base case MS forecast return as % of 10yr vol

Valuation
Cheap
Based on vol percentile vs. history

Correlation to ACWI
Medium
High upside correlation but muted downside correlation

Strategy Type

Alpha	Beta	Hedge

Trade #4 | Long China A Shares vs. EM

Potential upside

33%

Based on MS equity base case returns

Reassess/Target

Feb 2017

Gauge China and US monetary and fiscal path

Rationale

- Our equity strategists expect the onshore A share market to enter into a new bull market driven by asset class rotation away from property in the context of relatively easy monetary and fiscal policy in 1H17.
- This, as before, will help to re-rate the offshore equity universe, particularly as the Shanghai/HK connect is already up and running and the Shenzhen/HK connect is likely to be launched imminently.
- China's growth is self-funded and hence it is one of the markets in EM least exposed to the issue of rising US rates/higher EMBI yields

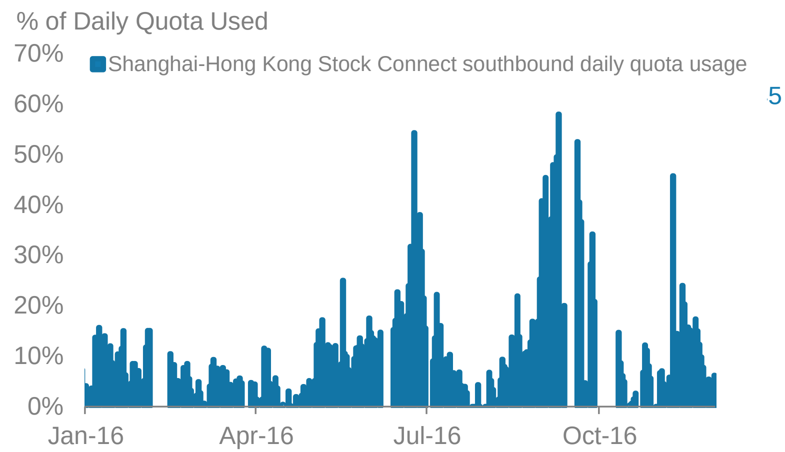
Risk(s)

- China tightens policy further or protectionist rhetoric escalates.

Related Reports

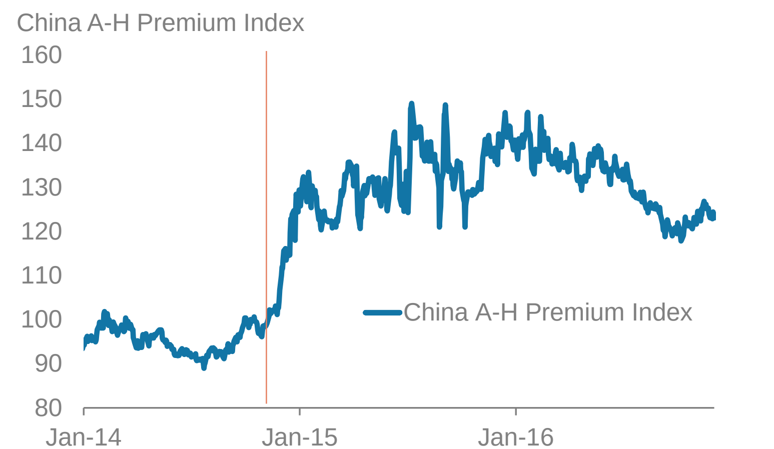
[2017 Asia/EM Equities Outlook: Double Upgrade Japan to OW; Downgrade EM/APxJ to UW](), Nov 27, 2016

Accelerating Net Purchases in Recent Months



Source: Morgan Stanley Research, Bloomberg

China A Shares Trade at 20%+ Premium to H Shares



Source: Morgan Stanley Research, Bloomberg

Potential Upside

12M Rtn: 33%

Based on MS Equity Base case returns

Volatility

Ann. Vol: 30%

Assumes vol equals average experience of last 10 yrs.

Risk-Adjusted Rtns

Rtn/Vol: 1.1x

Assumes returns realized with vol typical of last 10yrs.

Valuation

Fair

Based on Fwd PE percentile vs. history

Correlation to ACWI

Low

Based on 10Y correlation

Strategy Type

Alpha	Beta	Hedge

Trade #5 | Buy EUR 6m10y ATM Payers

Running Cost

16bp

Running spread for 6m10y ATM payer

Reassess/Target

44bp

Probability-weighted net payout

Rationale

- We think US-led reflation will push global bond yields higher but believe EUR rates are more vulnerable to reflation than US rates now.
- Base effects weighing on inflation should diminish soon and wage dynamics start to recover gradually as rebalancing progresses.
- We expect an extension of the QE programme in December, but an improving inflation outlook should mean the ECB starts to guide the market towards its intention to taper purchases.

Risk(s)

- ECB turns more aggressive on QE due to political risks.

Related Reports

[2017 Global Strategy Outlook: Sparkle and Fade](), Nov 27, 2016
[2017 European Economics Outlook](), Nov 27, 2016

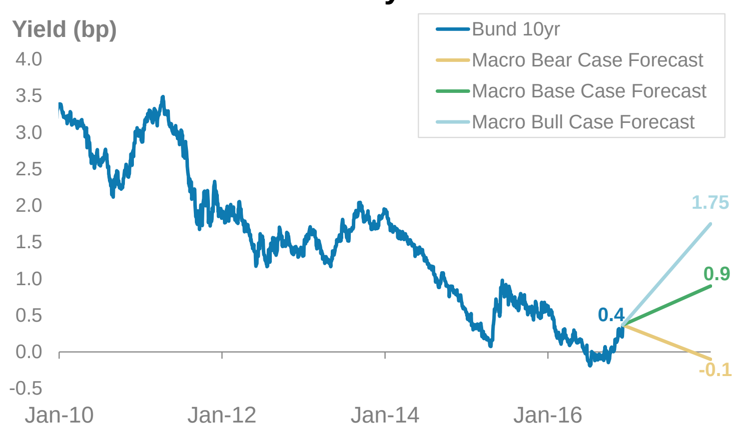
EUR Rates Volatility Is Below Long-Term Average

Normalized Volatility (bp)

Source: Morgan Stanley Research, Bloomberg

MS Forecast for Bund 10yr

Yield (bp)



Source: Morgan Stanley Research forecasts, Bloomberg

Potential Upside

Payout: 44bp

Probability-weighted net payout on MS B/B/B scenarios.

Volatility

Ann. Vol: 35bp

Based on the option delta x 10yr realized vol for EUR 10y

Risk-Adjusted Rtns

Rtn/Vol: 1.3x

Probability-weighted net payout vs Ann. volatility.

Valuation

Cheap

Based on 10Y yield percentile of EUR 10yr.

Correlation to ACWI

Medium

High upside correlation but muted downside correlation

Strategy Type: Alpha | **Beta** | Hedge

Trade #6 | Buy Japan 10y Breakevens (JGBei)

Entry Level/Current

56bp

Current spread

Reassess/Target

95bp

MS base case target

Rationale

- Japan core CPI picks up dramatically in 2017 as the negative contribution from energy price and JPY appreciation dissipates. Fiscal policy impact and structural reform are further supportive factors.
- OPEC agreement only reinforces the prospects for base effects to reverse and realised inflation to rise.
- Yield curve targeting means US rate hikes feed differentials and weaken JPY. We forecast sharp depreciation in JPY to 125 by YE 17 and 130 by 2Q18. Imported inflation rises on the yen weakness that we expect.

Risk(s)

- Weaker USD and CNY relative to JPY dampens the inflation pick-up.

Related Reports

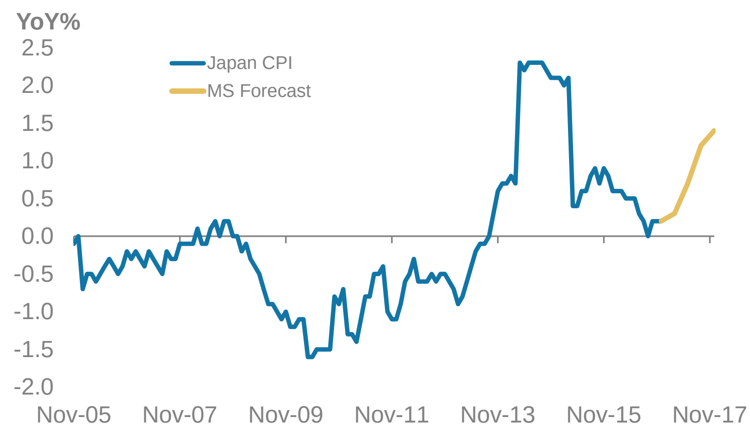
2017 Global Strategy Outlook: Sparkle and Fade, Nov 27, 2016

2017 Japan Economic Outlook: Keep Trusting, but Keep Verifying, Nov 27, 2016

JGBei Breakevens Still Below 1yr Highs

Source: Bloomberg, Morgan Stanley Research

MS Forecast for a Sharp Recovery in CPI



Source: Bloomberg, Morgan Stanley Research forecasts

Potential Upside

12M Rtn: 40bp

MS Base case target

Volatility

Ann. Vol: 40bp

Assumes average 1yr vol.

Risk-Adjusted Rtns

Rtn/Vol: 1.0x

MS Base case target vs Ann. volatility.

Valuation

Rich

Based on Breakeven percentile over 5yrs.

Correlation to ACWI

Low

Based on 1Y correlation

Strategy Type

Alpha	Beta	Hedge

Trade #7 | Long Gilts vs. Bunds

Entry Level/Current	Reassess/Target
119bp	**35bp**
Yield diff. between UKT 10yr and DBR 10yr	Basis based on MS 1yr base case forecast

Rationale

- Brexit uncertainty will likely weigh on the economy and keep the MPC accommodative despite rising inflation – our economists expect the MPC to cut rates one final time to 0.10%, likely in May, with further stimulus in 2018 possible. Triggering Article 50 could also lead to weaker growth and further rate cuts.
- Our rates strategy team see valuations for gilts as more attractive than Bunds, with the spread between the 10y gilt term premium and the 10y Bund term premium having compressed through the recent sell-off in recent months.

Risk(s)

- GBP weakens further, pushing up inflation more than we expect.

Related Reports

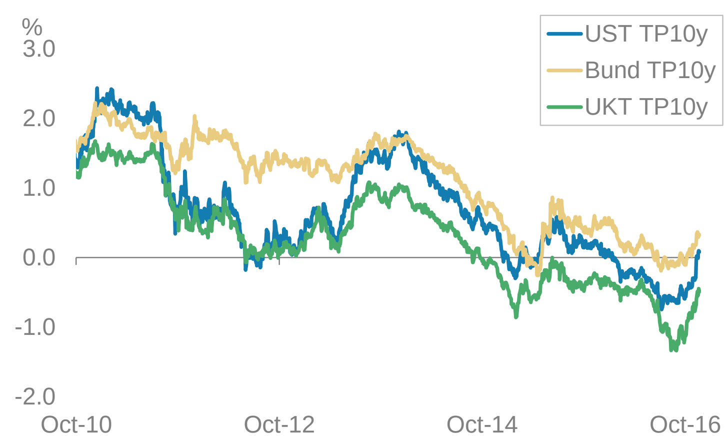
2017 Global Strategy Outlook: Sparkle and Fade, Nov 27, 2016
2017 UK Economics & Strategy Outlook, Nov 27, 2016

Gilts/Bunds Basis Elevated

UKT 10yr - DBR 10yr Basis (bp)

Source: Morgan Stanley Research, Bloomberg

UK Term Premium Has Increased Significantly



Source: Morgan Stanley Research, New York Federal Reserve

Potential Upside

12M Chg: 84bp

Base case 12m MS forecast change in the basis

Volatility

Ann. Vol: 53bp

Assumes average 10yr vol.

Risk-Adjusted Rtns

Rtn/Vol: 1.6x

MS Base case forecast change vs long-term volatility.

Valuation

Cheap

Based on LT yield differential percentile

Correlation to ACWI

Low

10Y correlation to ACWI

Strategy Type: Alpha | **Beta** | Hedge

Trade #8 | Long USDJPY

Entry Level/Current

113

Current USDJPY level

Reassess/Target

125

MS FX 1yr base case forecast

Rationale

- We expect rates in the US to continue to rise (our economists expect five hikes over 2017-18), while yield curves in Japan should remain well-anchored, widening yield differentials.
- Japan will likely expand fiscal spending in 2017, lifting inflation expectations and lowering real yields through the managed curve – weakening JPY.
- More predictable yield curve incentivises Japanese banks to take on more risk; lending abroad weakens JPY while lending inside Japan raises inflation expectations.

Risk(s)

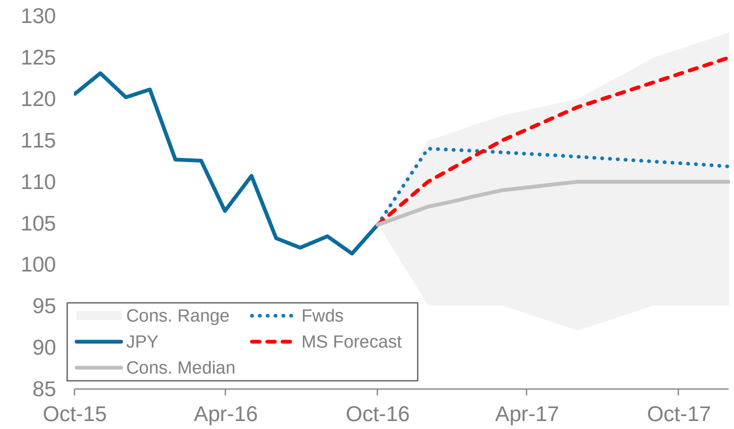
- Weaker US growth delays Fed hikes.

Related Reports

2017 Global FX Outlook: Top 10 FX Trades, Nov 27, 2016

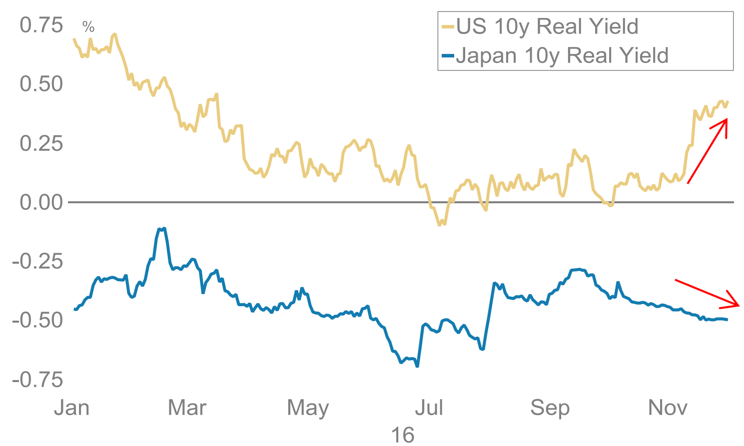
2017 Japan Economic Outlook: Keep Trusting, but Keep Verifying, Nov 27, 2016

JPY: Weaker than Consensus and Forwards



Source: Morgan Stanley Research, Bloomberg

Falling JPY Real Rates Support USD/JPY



Source: Morgan Stanley Research, Bloomberg, Macrobond

Potential Upside

12M Chg: 12%

Base case 12m MS forecast return

Volatility

Norm. Vol: 11%

Assumes average 10yr vol.

Risk-Adjusted Rtns

Rtn/Vol: 1.1x

MS Base case forecast return vs long-term volatility.

Valuation

Rich

Based on REER

Correlation to ACWI

Medium

Based on 10Y correlation

Strategy Type: Alpha | Beta | **Hedge**

Trade #9 | Long USDKRW

Entry Level/Current

1180

Current USDKRW level

Reassess/Target

1300

MS FX 1yr base case forecast

Rationale

- We hold an out-of-consensus call for looser policy from BoK – three cuts in 2017, followed by QE in 2H18, given the weak growth outlook from debt overhang and declining productivity; widening yield differentials versus the US will likely weaken KRW.
- The possibility of greater trade protectionism will likely disadvantage the trade-exposed KRW.
- Our more bearish outlook for RMB and JPY also implies that KRW will face competitiveness and disinflationary pressures from its major regional trade partners.

Risk(s)

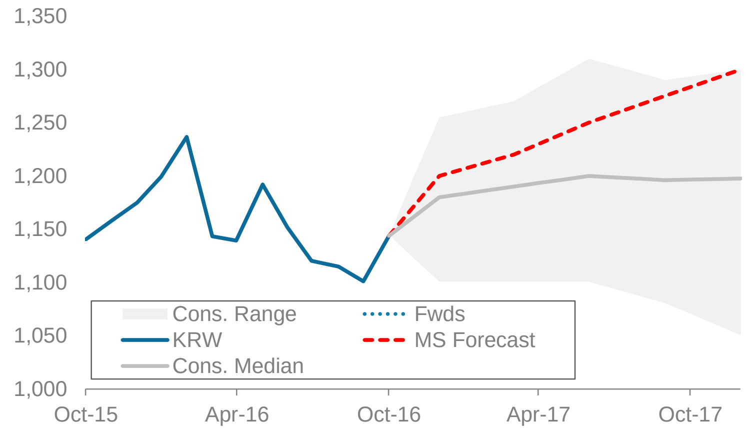
- Weaker US growth delays Fed hikes.
- Significant rebound in Korea's growth.

Related Reports

2017 Global FX Outlook: Top 10 FX Trades, Nov 27, 2016

Why Korea May Be Next in Line for QE, Oct 27, 2016

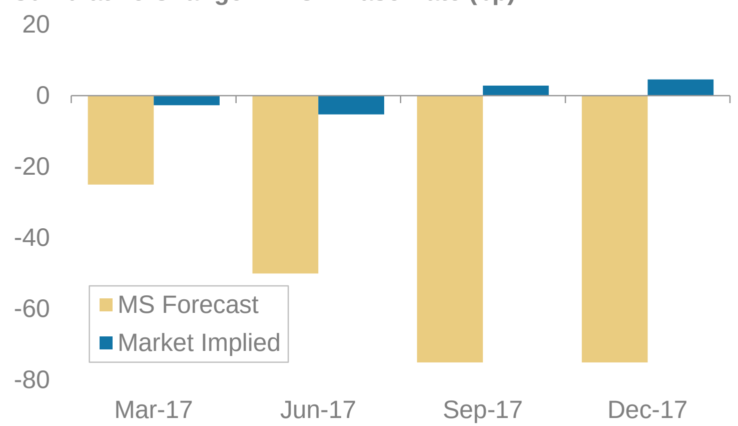
KRW: MS Forecasts vs. Consensus and Forwards



Source: Morgan Stanley Research forecasts, Bloomberg

We Expect Larger BoK Rate Cuts vs. Market Implied

Cumulative Change in BOK Base Rate (bp)



Source: Morgan Stanley Research forecasts, Bloomberg

Potential Upside

Price Chg: 11%

Base case 12m MS forecast return

Volatility

Ann. Vol: 13%

Assumes average 10yr vol.

Risk-Adjusted Rtns

Rtn/Vol: 0.9x

MS Base case forecast return vs long-term volatility.

Valuation

Cheap

Based on 10yr REER Percentile

Correlation to ACWI

Low

Based on 10Y correlation

Strategy Type
Alpha | Beta | Hedge

Trade #10 | Short NOKRUB

Entry Level/Current

75

Current NOKRUB level

Reassess/Target

70

MS FX 1yr base case forecast

Rationale

- NOK lacks carry support relative to RUB, which has one of the highest carry across EM currencies.
- We believe that the market is too long NOK and needs to adjust as growth expectations weaken with our expectation of slower fiscal stimulus.
- RUB also has better fundamental support, as we believe the region's in a well-advanced adjustment process. Moreover, our economists expect less easing in Russia than consensus, given inflation likely being above the CBR's target by year-end.

Risk(s)

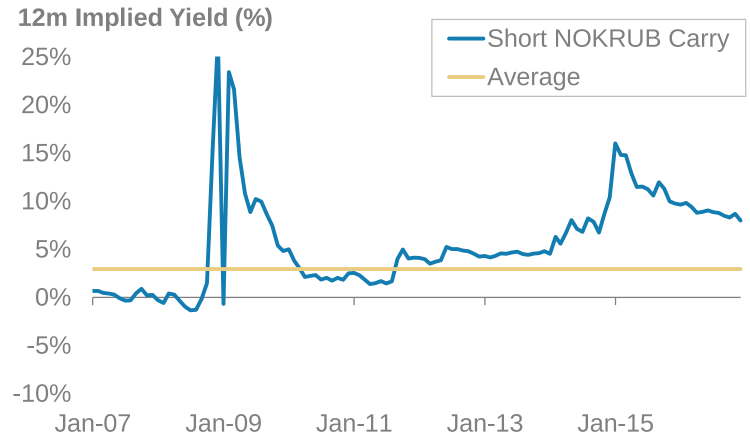
- Large drop in oil prices or rise in geopolitical tensions.

Related Reports

2017 Global FX Outlook: Top 10 FX Trades, Nov 27, 2016

2017 CEEMEA Economic Outlook: Down, but Not Out, Nov 27, 2016

RUB Offers Attractive Carry



Source: Morgan Stanley Research, Bloomberg

Both Currencies Are Equally Cheap

Source: Morgan Stanley Research, Bloomberg

Potential Upside

12m Rtn.: 18%

Base case 12m MS forecast return

Volatility

Ann. Vol: 16%

Assumes average 10yr vol.

Risk-Adjusted Rtns

Rtn/Vol: 1.1X

MS Base case forecast return vs long-term volatility.

Valuation

Fair

Based on net REER valuation vs. 10y history.

Correlation to ACWI

Low

Based on 10Y correlation

Strategy Type: Alpha | Beta | **Hedge**

Trade #11 | Buy EURUSD 6m ATM Puts (1.06 Strike)

Entry Level/Current

3.0%

Option cost

Reassess/Target

7.6%

Probability-weighted net payout

Rationale

- A host of factors on both sides should keep EURUSD weak. On the USD side, we think that the broader reflation theme and associated USD strength should be reflected vs. EUR as well.
- On the EUR side, the ECB remains accommodative in the short term and political uncertainty remains a key overhang.
- The results of the French elections in particular will be critical to the performance of EUR.

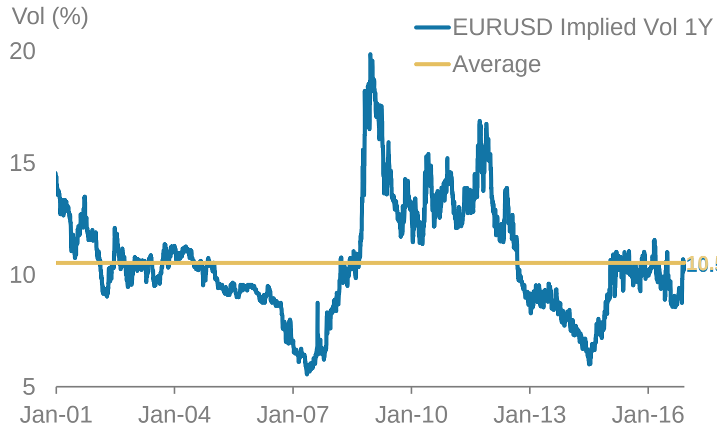
Risk(s)

- Fear of ECB tapering can prop up EUR.

Related Reports

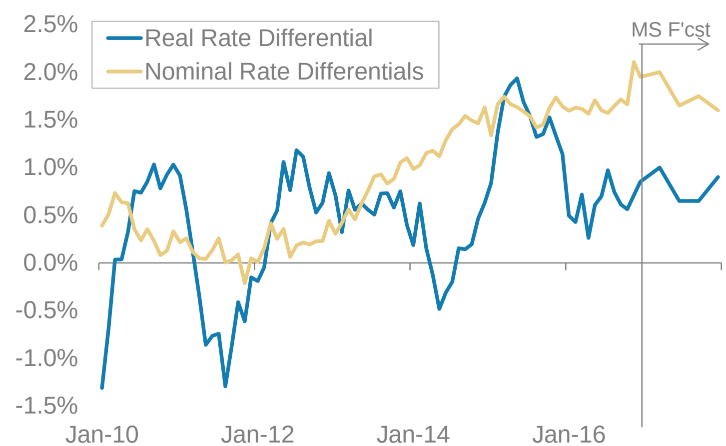
2017 Global Strategy Outlook: Sparkle and Fade, Nov 27, 2016
2017 Global FX Outlook: Top 10 FX Trades, Nov 27, 2016

EURUSD Vol in Line with LT Averages



Source: Morgan Stanley Research, Bloomberg, BIS

Rate Differentials Should Disadvantage EUR



Source: Bloomberg, Morgan Stanley Research forecasts

Potential Upside

Payout: 7.6%

Probability weighted net payout on MS B/B/B scenarios.

Volatility

Ann. Vol: 5.1%

Based on the option delta x 10yr realized vol for EURUSD

Risk-Adjusted Rtns

Rtn/Vol: 1.5x

Payout vs. volatility.

Valuation

Fair

Based on net REER valuation vs. 10y history.

Correlation to ACWI

Low

Based on 10Y correlation

Strategy Type

Alpha | **Beta** | Hedge

Trade #12 | Receive Brazil DI Jan'19s

Entry Level/Current

11.65%

Current level

Reassess/Target

11.25%

Stop loss at 12.4%

Rationale

- External headwinds have been in full swing since the US election, but we think that Brazil is now in a better position to handle such external shocks than in 2013. The government's willingness to address longer-term sustainability and a constructive reform outlook make local rates more resilient.
- The curve is not pricing in enough rate cuts despite very tight monetary policy, high nominal and real rates, low growth, falling inflation and continuous progress towards fiscal reforms. We expect the BCB to deliver more rate cuts than the market is pricing in (375bp vs. 300bp).

Risk(s)

- The central bank could be more cautious than we expect, given a less supportive external environment.

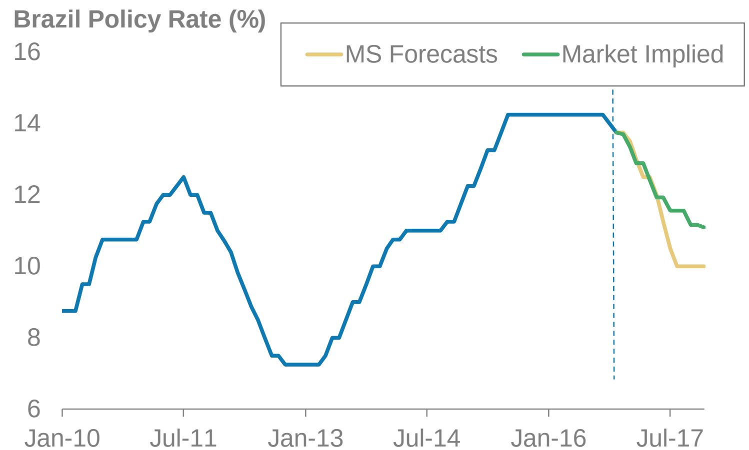
Related Reports

Global EM Fixed Income Outlook: Alpha Trumps Beta, Nov 29, 2016

Spread to Core Rates Still Wide

Source: Morgan Stanley Research, Bloomberg

We Expect More Rate Cuts in Brazil than the Market



Source: Morgan Stanley Research forecasts, Bloomberg

Potential Upside

12M Rtn: 40bp

Assumes MS Base case 12m Forecast

Volatility

Ann. Vol: 177bp

Assumes vol equals average experience of last10years.

Risk-Adjusted Rtns

Rtn/Vol: 0.2x

MS Base case forecast change vs long-term volatility.

Valuation

Fair

Based on LT percentile

Correlation to ACWI

Low

10Y correlation

Strategy Type
Alpha | Beta | Hedge

Trade #13 | Long Credit in Argentina, Brazil, Indonesia (1:1:1)

Entry Level/Current

340bp

Current

Reassess/Target

300bp

12M target based on MS base forecast

Rationale

We will combine our likes in EM credit in a single trade:

- Argentina: A constructive outlook with re-rating potential, high growth expectations in 2017 and still high yield keeps us overweight.
- Brazil: As the positive domestic adjustment continues through fiscal adjustment, we expect the government to continue making good progress.
- Indonesia: C/A deficit reduction and structural reforms should enable the country to develop its manufacturing base.

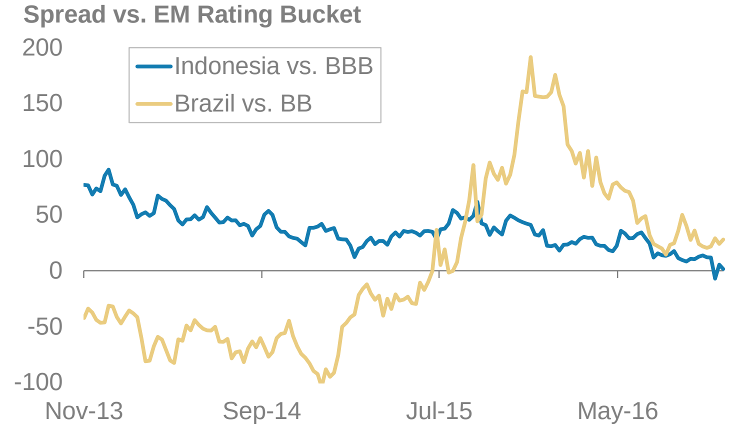
Risk(s)

- Fed hikes much faster than we expect.
- Vulnerable to sell-offs in OW EM-dedicated funds.

Related Reports

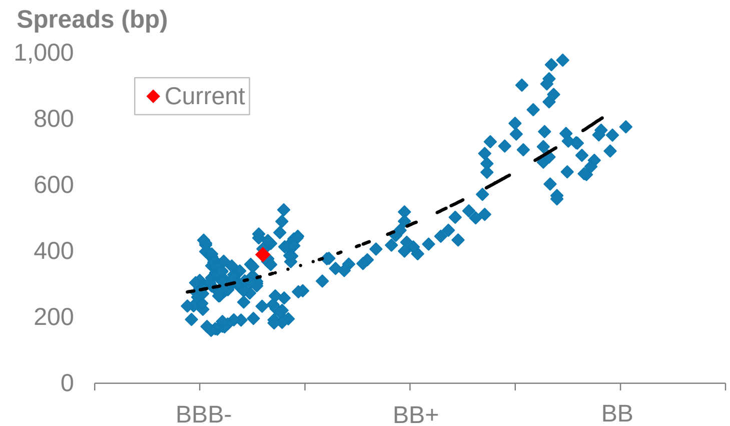
Global EM Fixed Income Outlook: Alpha Trumps Beta, Nov 29, 2016

Slightly Cheap vs. Average Ratings



Source: Morgan Stanley Research, Bloomberg

EM Credit Spreads vs. EM Sovereign Ratings



Source: Morgan Stanley Research, Bloomberg

Potential Upside

12M Rtn: 90

Assumes MS Base case 12m Forecast + Carry

Volatility

Ann. Vol: 141

Assumes vol equals average experience of last 3 years.

Risk-Adjusted Rtns

Rtn/Vol: 0.6x

MS Base case forecast return vs long-term volatility.

Valuation

Cheap

Based on implied carry of trade vs. LT average

Correlation to ACWI

High

10Y correlation to ACWI

Strategy Type

Alpha | Beta | **Hedge**

Trade #14 | Buy CDX HY Mar-17 Risk Reversal (105/102)

Cost

0.7%

Current yield

Wtd. Payout

1.8%

Probability-wtd. payout across B/B/B scenarios

Rationale

- Similar to our cautious view on credit, CDX HY has little upside in a late-cycle boom and faces asymmetric downside as the cycle speeds up and potentially ends faster.
- CDX HY spreads at 410bp are pricing in cumulative defaults below our expectations for this cycle, suggesting a very low risk premium above expected losses.
- 105/102 Mar-17 HY risk reversal provide payout of 1.8%, which is higher than our base case 12M return forecast for US HY.

Risk(s)

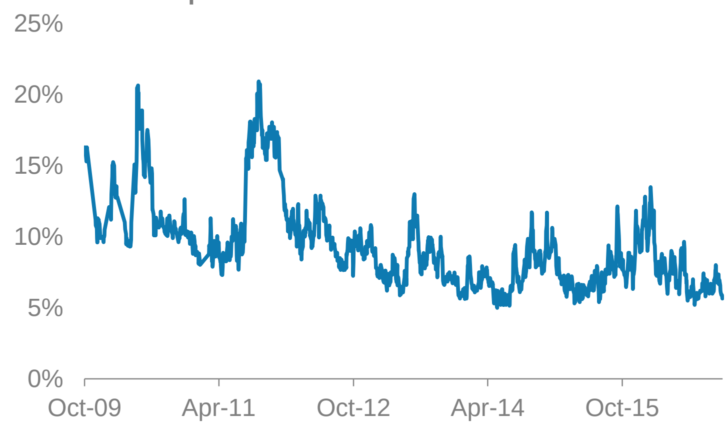
- Credit rallies materially, with earnings boost coming from fiscal reforms.

Related Reports

US Credit Outlook: From Cubs to Bears, Nov 28, 2016

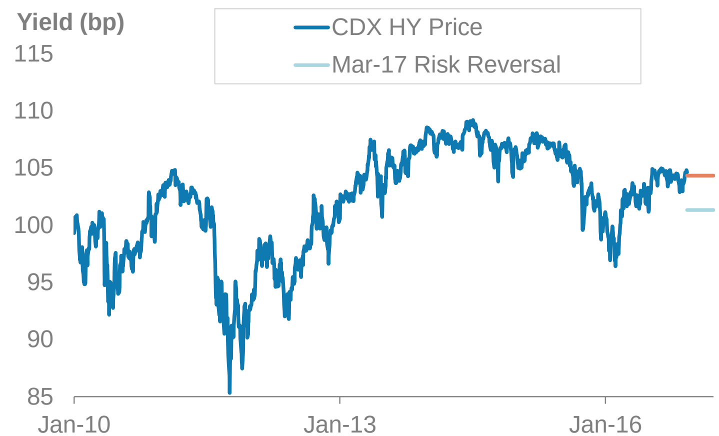
Implied Credit Volatility Close to Post-Crisis Lows

CDX HY 3m Implied Price Vol



Source: Bloomberg, Morgan Stanley Research

Risk Reversal Offers Good Downside Protection



Source: Bloomberg, Morgan Stanley Research

Potential Upside

Wtd. Payout: 1.8%

Probability-wtd. payout across B/B/B scenarios

Volatility

Ann. Vol: 2.0%

Assumes vol equals average experience of last10years.

Risk-Adjusted Rtns

Rtn/Vol: 0.8x

MS Base case forecast return vs long-term volatility.

Valuation

Cheap

Based on 10Y history of Vol.

Correlation to ACWI

Low

Based on 10Y correlation

Strategy Type

Alpha	Beta	**Hedge**

Trade #15 | Short CMBX.BBB-

Entry Level/Current

490bp

Current level

Reassess/Target

550bp

12M MS base forecast

Rationale

- We expect 2017 to mark the end of bull cycle for US CRE, with a fifth straight quarter of net tightening in CRE lending standards and reflationary forces pushing valuations higher over the year.
- We recommend short CMBX.BBB-.8 as a hedge for a CRE cycle turn for its low credit quality and little upside with appreciation in CRE valuations.
- With one of the most negatively skewed returns within our coverage, CMBX.BBB- bear case involves large downside, with -26.1% of excess returns.

Risk(s)

- Improving growth acts as a counter-weight and Fed hikes slower than we expect.

Related Reports

Global Securitized Products Outlook: Policy Crossroads, Nov 29, 2016

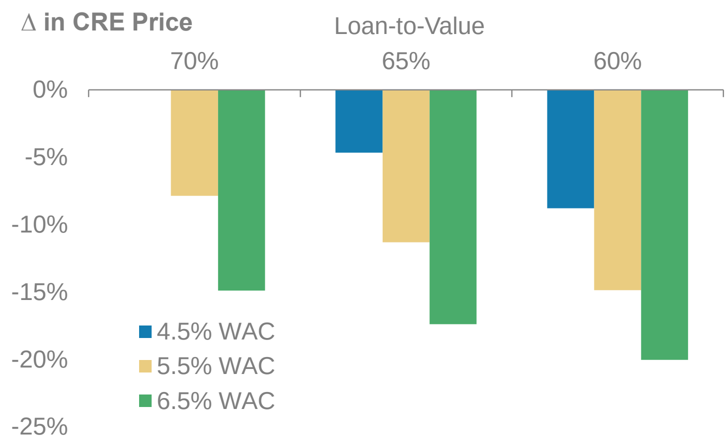
2017 CRE Debt Outlook: The Best Offense Is a Good Defense, Nov 30, 2016

Cap Rates Tend to Fall When Yields Rise

Period Start	Period End	Change in Cap Rate (%)	Change in UST 10y (%)
3Q83	2Q84	-1.30	2.45
2Q86	3Q87	0.09	2.27
2Q88	1Q89	-1.97	0.40
4Q93	4Q94	-1.11	2.44
3Q98	4Q99	0.70	2.02
2Q05	2Q06	-0.21	1.22
4Q12	4Q13	-0.31	1.27
Average		-0.59	1.72

Source: Morgan Stanley Research, NCREIF, Bloomberg

If NOI Does Not Rise, CRE Prices Likely to Fall



Source: Morgan Stanley Research, NCREIF, Bloomberg

Potential Upside

12M Rtn: 4.1%

Probability weighted return on MS B/B/B scenarios.

Volatility

Ann. Vol: 10%

Assumes vol equals average experience of last10years.

Risk-Adjusted Rtns

Rtn/Vol: 0.4x

Probability Wtd forecast return vs long-term volatility.

Valuation

Fair

Based on 2yr history of spreads.

Correlation to ACWI

Low

Based on 10Y correlation

Trade #16 | Long SenFin vs. Main (1:1)

Strategy Type: **Alpha** | Beta | Hedge

Entry Level/Current

28bp

Current level

Reassess/Target

10bp

Target level

Rationale

- Consistent with our base case of political risks to remain contained, we will go long SenFin over Main (on a 1:1 ratio). Italian banks CDS have already widened by 40-60bp ahead of the Italian referendum and the basis is only 9bp off the Brexit wides.
- SenFin today trades with a fair amount of risk premium relative to Main. The trade has a positive carry of 27bp with relative low volatility.
- We expect bank credit to outperform non-financials because valuations are less distorted, technicals remain supportive and regulatory pressures on the sector are easing.

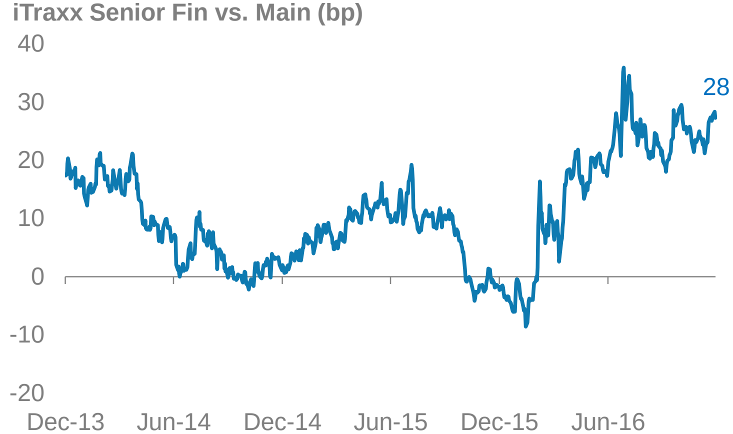
Risk(s)

- Escalation of political risks could trigger more extreme price action in bank credit.

Related Reports

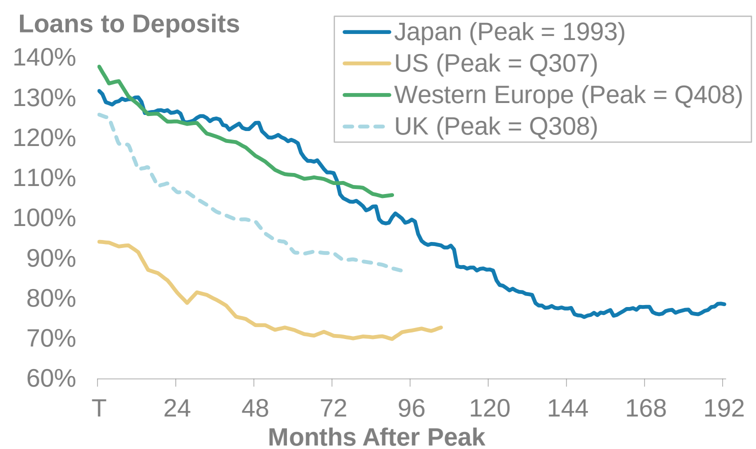
European Credit Outlook: As Good as It Gets, Nov 28, 2016

iTraxx SenFin-Main Basis Is Elevated



Source: Bloomberg, Morgan Stanley Research

Structural Deleveraging Story in Europe Continues



Source: Bloomberg, Morgan Stanley Research forecasts

Potential Upside

12M Rtn: 0.8%

Assumes MS Target Return + Carry

Volatility

Ann. Vol: 2%

Assumes vol equals average experience of last10years.

Risk-Adjusted Rtns

Rtn/Vol: 0.4x

Forecast return vs long-term volatility.

Valuation

Fair

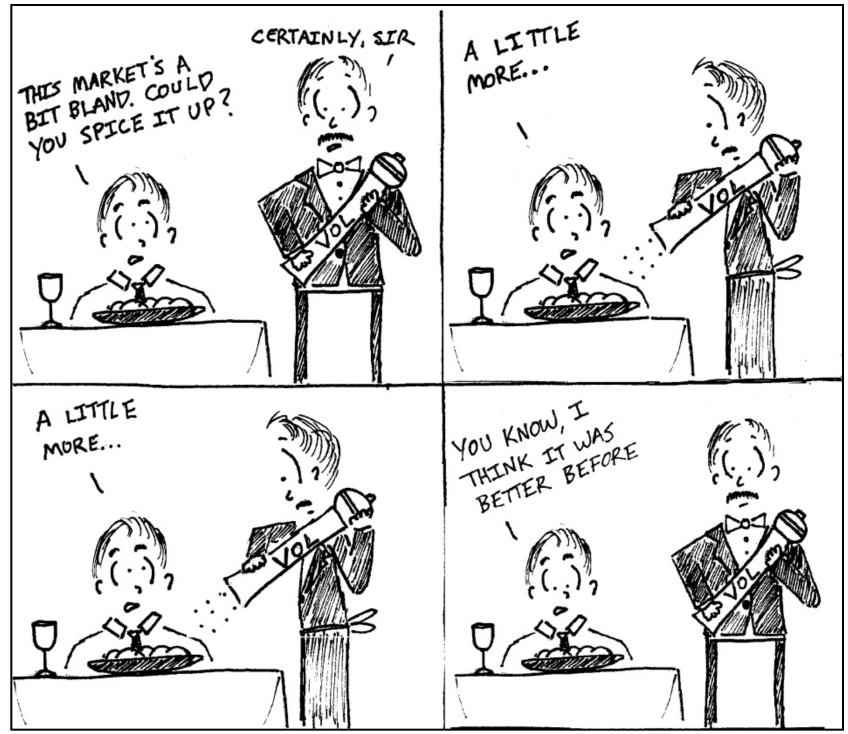
Based on 10Y history of spreads.

Correlation to ACWI

Medium

Based on 10Y correlation

Risk/Reward Snapshot



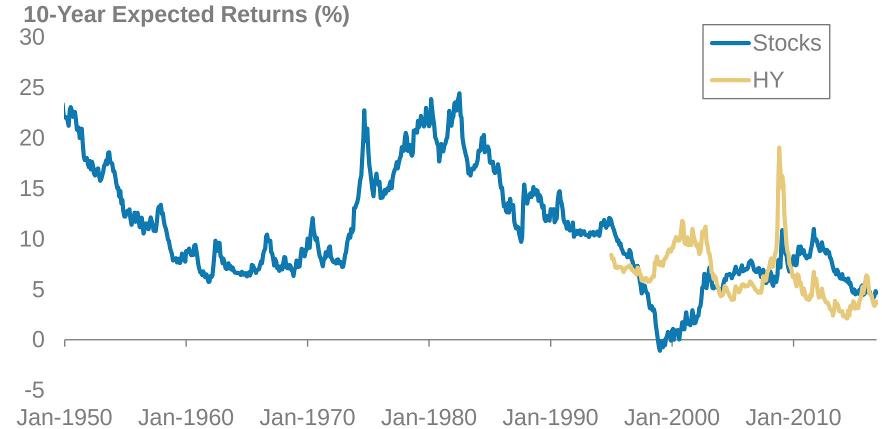
Forecasts | Morgan Stanley 10-Year Expected Returns Forecasts, Across Major Assets

	(A) Rtn from Income	(B) Rtn from Earnings	(C) Rtn from Repricing	MS Modelled Long-Run rtns = (A) + (B) + (C) Nominal		%-ile	Real		%-ile	Risk Premium		%-ile
EQUITIES												
S&P 500	2.3	5.2	-2.8	4.7		28%	2.6		27%	1.6		47%
MSCI Europe	2.3	8.2	-4.3	6.2		47%	4.4		67%	5.0		79%
MSCI UK	1.9	12.2	-6.2	7.7		52%	4.6		49%	6.3		75%
MSCI Japan	3.4	2.5	2.1	8.1		75%	7.5		65%	8.1		82%
MSCI EM	3.3	7.1	-0.6	10.2		72%	8.1		74%	7.1		82%

	(A) Starting Yld	(B) Rtn from Avg Roll	(C) Credit Loss	MS Modelled Long-Run rtns = (A) + (B) - (C) Nominal		%-ile	Real		%-ile	Risk Premium		%-ile
AGGREGATES												
USD Agg	2.6	0.9	0.1	3.4		28%	1.4		26%	0.6		20%
EUR Agg	0.5	1.0	0.1	1.4		5%	0.6		1%	0.7		72%
GOV'T BONDS												
UST10Y	2.4	0.6	0.0	3.0		20%	1.0		18%	n/a	n/a	n/a
DBR10Y	0.3	0.7	0.0	1.0		4%	-0.1		3%	n/a	n/a	n/a
UKT10Y	1.4	0.0	0.0	1.4		3%	-1.7		2%	n/a	n/a	n/a
JGB10Y	0.0	0.0	0.0	0.0		4%	-0.5		10%	n/a	n/a	n/a
CORPORATE CREDIT												
USD IG Corp	3.4	1.6	0.3	4.7		21%	2.7		21%	1.7		52%
USD HY Corp	6.6	0.0	2.8	3.8		14%	1.8		17%	1.3		40%
BBB	3.7	1.5	0.3	5.0		16%	3.0		17%	2.0		44%
BB	4.9	0.0	1.0	3.8		13%	1.9		12%	1.3		32%
EUR IG Corp	1.0	0.9	0.2	1.7		4%	0.6		3%	1.2		63%
EUR HY Corp	4.5	0.0	2.8	1.7		7%	0.6		7%	1.3		35%
BBB	1.3	1.0	0.2	2.0		4%	0.9		3%	1.5		52%
BB	3.0	0.0	1.0	2.0		6%	0.9		7%	1.6		44%
EM $ CREDIT												
EM $ Credit	6.2	0.8	1.0	6.0		29%	4.0		32%	3.7		44%
EM $ Asia	4.1	0.8	1.0	4.0		9%	1.9		9%	1.6		13%
EM $ Europe	5.4	1.3	1.0	5.7		30%	3.7		34%	3.4		41%
EM $ Latam	7.6	0.9	1.0	7.5		45%	5.4		47%	5.1		61%

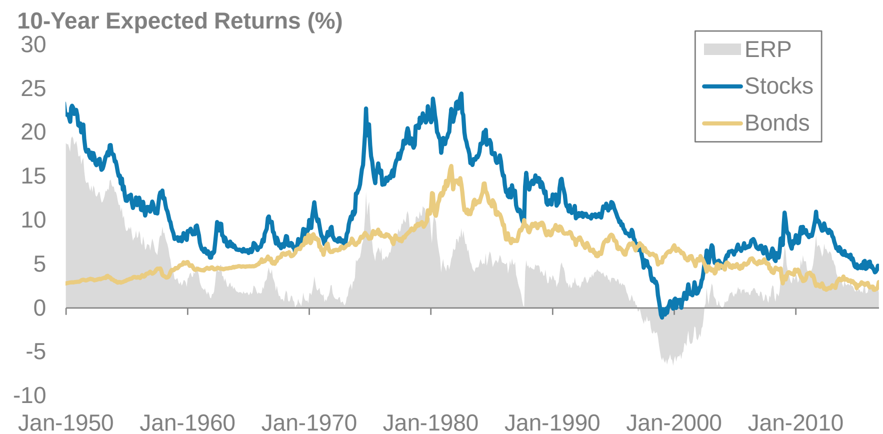
Note: See What Will Markets Return? October 23,2015, for methodology.
Source: Morgan Stanley Research estimates, Bloomberg

US – Stocks vs HY



Source: Morgan Stanley Research estimates, Bloomberg

US Equity Risk Premium



Source: Morgan Stanley Research estimates, Bloomberg

Asset Allocation | Portfolio Allocation – Overweight in Credit, Equal-weight in Equities

Translating Our Cross-Asset Views into Portfolio Allocations over a 6- to 12-Month Investment Horizon

A two-step process:

1) A strategic view (Red dot) allocating across different asset classes without regard to region; and

2) An asset-specific view (Blue dot), making additional adjustments based on our relative preferences within the asset class.

Our view

We are positioned for reflation into 1Q17, with a modest overweight in equities and cash, equal-weight in credit and a modest underweight in government bonds.

We prefer Japan over the rest of the world in equities.

In rates, we are most bearish on EU and Japan rates relative to US rates.

In credit, we are long securitized credit over DM corporate and EM credit, with a preference for EU over US credit.

Current Cross-Asset Strategy Allocations

MS Asset Allocation Views	Top-Down Allocation		Relative Allocation		O/W vs. Benchmark
Equities	+4% +4%	+	-1%	=	+3% +4%
US	+1% +1%		-1% -2%		0% -1%
Europe	+1% +1%		0% +1%		+1% +2%
Japan	+1% +1%		+2% +3%		+3% +4%
EM	+1% +1%		-2% -2%		-1% -1%
Govt. Bonds	-4%	+	-1% -1%	=	-5% -1%
Treasuries	-1%		+1% -1%		0% -1%
Bunds	-1%		-2%		-3%
JGBs	-1%		-1% +1%		-2% +1%
EM Local	-1%		+1% -1%		0% -1%
Credit	0% -4%	+	-1% -1%	=	-1% -5%
US Corp.	0% -1%		-2% -1%		-2% -2%
EU Corp.	0% -1%		0%		0% -1%
EM Sov.	0% -1%		0% +1%		0%
Securitized	0% -1%		+1% -1%		+1% -2%
Other					+3% +2%
Cash					+3% +2%

Current
Previous

Source: Morgan Stanley Research, Bloomberg . Note: For a 6-12m view

Forecasts | Morgan Stanley One-Year Forecasts, Across Assets

Morgan Stanley Key Market Forecasts

	As of Dec 01, 2016	Q4 2017 Forecast Bear	Base	Bull
Equities				
S&P 500	2,191	1,625	**2,300**	3,050
MSCI Europe	1,381	1,100	**1,500**	1,770
Topix	1,483	960	**1,800**	2,110
MSCI EM	858	590	**880**	1,115
FX				
USD/JPY	114.1	106.3	**125.0**	132.0
EUR/USD	1.07	0.87	**0.97**	1.02
GBP/USD	1.26	1.20	**1.26**	1.45
AUD/USD	0.74	0.62	**0.65**	0.75
USD/INR	68.3	69.0	**72.0**	75.0
USD/ZAR	14.1	13.8	**15.7**	17.0
USD/BRL	3.48	3.00	**3.60**	4.00
Rates (% percent)				
UST 10yr	2.45	3.85	**2.50**	1.50
DBR 10yr	0.37	1.75	**0.90**	-0.10
UKT 10yr	1.50	2.10	**1.25**	0.50
JGB 10yr	0.03	0.30	**0.20**	-0.10
Credit (bps)				
US IG	128	206	**162**	119
US HY	477	843	**643**	450
EUR IG	67	102	**86**	61
EUR HY	381	566	**410**	331
Italy 10yr	168	175	**155**	135
EM Sovs	389	520	**410**	340
US CMBS	100	155	**100**	85
Agency MBS	5	25	**10**	0

Source: Markit iBoxx, MSCI, Bloomberg, The Yield Book, Morgan Stanley Research forecasts
Note: Brent returns are vs. the forward.

Morgan Stanley 1yr Return/Risk Forecasts

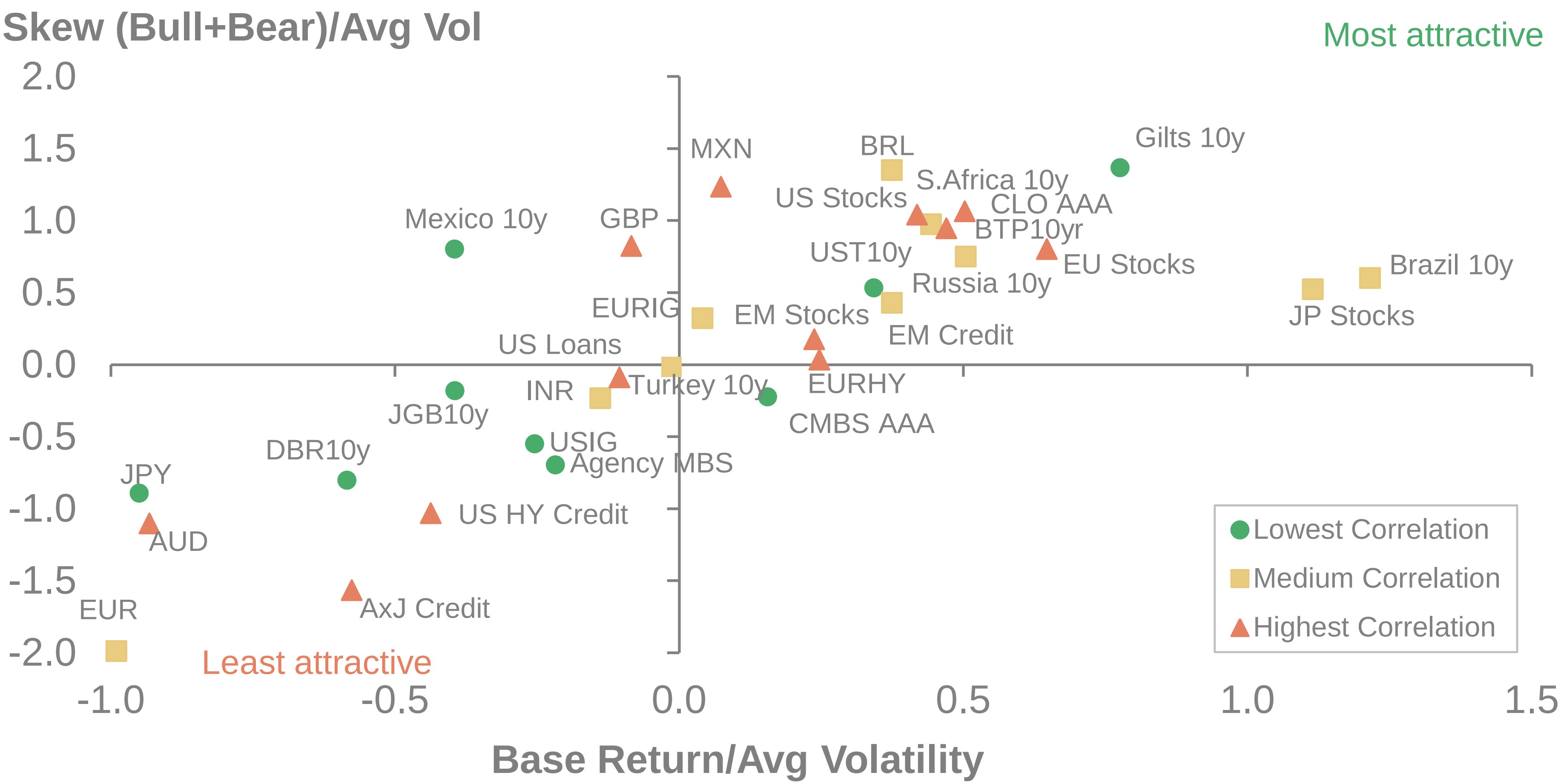
Asset	12m Return Bear Case	12m Return Base Case	12m Return Bull Case	Volatility Option Implied	Volatility LT Average	Return/Risk Base case Return/Vol
Equities						
S&P 500	-24%	7.1%	41%	16%	18%	0.42
MSCI Europe	-17%	12.4%	32%	21%	18%	0.65
Topix	-33%	23.3%	44%	21%	21%	1.12
MSCI EM	-29%	5.1%	32%	23%	20%	0.24
FX						
JPY/USD	-15%	-10.6%	5%	12.3%	10.1%	-0.95
EUR/USD	-20%	-10.9%	-6%	10.5%	9.3%	-1.10
GBP/USD	-6%	-0.8%	14%	11.2%	9.0%	-0.08
AUD/USD	-16%	-11.6%	2%	11.9%	12.9%	-0.93
INR/USD	-5%	-1.0%	3%	7.7%	7.3%	-0.14
ZAR/USD	-10%	-2.9%	9%	19.8%	16.4%	-0.16
BRL/USD	-4%	6.0%	25%	16.9%	15.3%	0.37
Rates						
UST 10yr	-7.6%	2.5%	11.5%	8.0%	6.6%	0.34
DBR 10yr	-9.6%	-3.3%	5.1%	6.2%	5.0%	-0.58
UKT 10yr	-2.0%	5.0%	10.7%	7.5%	5.3%	0.78
JGB 10yr	-2.0%	-1.1%	1.5%	2.5%	3.1%	-0.39
Credit (Excess Return)						
US IG	-3.9%	-1.0%	1.8%	4.1%	3.5%	-0.25
US HY	-9.8%	-2.8%	3.2%	6.5%	6.3%	-0.44
EUR IG	-0.6%	0.1%	1.1%	1.5%	1.6%	0.04
EUR HY	-4.1%	1.5%	4.3%	6.8%	5.0%	0.25
Italy 10yr	1.1%	2.8%	4.4%	5.9%	5.8%	0.47
EM Sovs	-4.4%	2.5%	7.3%	5.3%	8.2%	0.37
US CMBS	-3.8%	1.0%	2.4%	4.8%	8.1%	0.16
Agency MBS	-1.2%	-0.3%	0.4%	1.0%	1.3%	-0.22

Source: Markit iBoxx, MSCI, Bloomberg, The Yield Book, Morgan Stanley Research forecasts

Asset Allocation | Broad Asset Classes – Framing Risk and Reward

Global Asset Classes – Expected Returns versus Risk

Move 'up and right' – assets to the top and right have higher expected returns and lower forecasted risk over the next 6-12 months



Source: Bloomberg, Yield Book, Morgan Stanley Research
Note: 'Expected returns' based on MS Strategy 12m forecasts

Forecasts | Morgan Stanley Economic Forecasts

	Quarterly								Annual		
	2017				2017				2016	2017e	2108e
Real GDP (%Q, SAAR)	1Q	2QE	3QE	4QE	1QE	2QE	3QE	4QE			
Global*	**3.3**	**3.5**	**3.7**	**3.7**	**3.6**	**3.6**	**3.5**	**3.5**	**3.0**	**3.4**	**3.6**
G10	**1.4**	**1.5**	**1.8**	**1.8**	**1.7**	**1.6**	**1.6**	**1.5**	**1.5**	**1.6**	**1.7**
US	1.6	1.7	2.1	2.2	2.1	1.9	1.9	1.7	1.6	2.0	2.0
Euro Area	1.2	1.4	1.4	1.6	1.6	1.6	1.6	1.6	1.6	1.4	1.6
Japan	1.6	1.1	1.9	0.6	0.8	0.4	0.5	0.9	0.8	1.3	0.9
UK	0.4	0.4	0.8	1.2	1.2	1.6	0.8	0.0	2.0	1.0	1.1
EM (%Y)	**4.4**	**4.6**	**4.8**	**4.9**	**5.0**	**5.0**	**4.9**	**4.9**	**4.1**	**4.7**	**5.0**
China	6.6	6.4	6.3	6.3	6.3	6.2	6.1	6.0	6.7	6.4	6.2
India	7.4	7.6	7.6	7.9	7.8	7.8	7.9	7.9	7.4	7.6	7.8
Brazil	-0.7	0.5	1.7	2.5	2.6	2.9	2.7	3.1	-3.3	1.1	2.8
Russia	0.4	1.0	1.5	1.8	1.9	1.8	1.5	1.2	-0.5	1.2	1.6
Consumer price inflation (%Y)											
Global*	**2.7**	**2.7**	**2.8**	**2.8**	**2.8**	**2.7**	**2.7**	**2.7**	**2.5**	**2.7**	**2.7**
G10	**1.7**	**1.9**	**2.1**	**2.0**	**2.1**	**2.0**	**2.0**	**2.0**	**0.8**	**1.9**	**2.1**
US	2.3	2.4	2.6	2.3	2.5	2.3	2.3	2.3	1.3	2.4	2.4
Euro Area	1.3	1.4	1.5	1.6	1.6	1.5	1.5	1.4	0.2	1.5	1.5
Japan	0.3	0.7	1.2	1.4	1.5	1.7	1.8	1.9	-0.3	0.9	1.7
UK	1.7	2.2	2.5	2.8	2.9	2.7	2.3	1.9	0.6	2.3	2.4
EM*	**3.4**	**3.2**	**3.3**	**3.3**	**3.3**	**3.2**	**3.2**	**3.2**	**3.9**	**3.3**	**3.2**
China	1.7	1.6	1.6	1.4	1.5	1.4	1.4	1.3	2.0	1.6	1.4
India	4.2	3.7	4.6	5.3	5.0	4.6	4.6	4.9	5.1	4.5	4.7
Brazil	6.0	5.4	4.7	5.0	4.9	4.7	4.7	4.5	8.8	5.3	4.7
Russia	5.4	5.2	5.0	4.8	4.8	4.8	4.6	4.5	7.1	5.1	4.7
Monetary policy rate (% p.a.)											
Global	**3.2**	**3.1**	**3.0**	**3.1**	**3.1**	**3.2**	**3.2**	**3.2**	**3.2**	**3.1**	**3.2**
G10	**0.2**	**0.2**	**0.3**	**0.4**	**0.5**	**0.6**	**0.8**	**0.8**	**0.2**	**0.4**	**0.8**
US	0.625	0.625	0.875	1.125	1.375	1.625	1.875	1.875	0.625	1.125	1.875
Euro Area	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.10	-0.10	-0.10	0.10
UK	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.10	0.10
EM	**5.39**	**5.25**	**5.05**	**5.07**	**5.06**	**5.03**	**5.01**	**5.00**	**5.56**	**5.07**	**5.00**
China	4.35	4.35	4.10	4.10	4.10	4.10	4.10	4.10	4.35	4.10	4.10
India	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Brazil	12.50	11.25	10.00	10.00	10.00	10.00	10.00	10.00	13.75	10.00	10.00
Russia	9.50	9.00	8.75	8.50	8.50	8.25	8.00	8.00	10.00	8.50	8.00

Source: IMF, Morgan Stanley Research forecasts

Note: Global and regional aggregates for GDP growth are GDP-weighted averages, using PPPs; Japan CPI includes VAT; Japan policy rate is the interest rate on excess reserves; CPI numbers are period averages. Global* and EM* Consumer Price Inflation Aggregates exclude Venezuela and Argentina. ** expected revision *** tracking estimate ^tracking estimate ^^tracking estimate

Global 2017 Outlooks

Economics

2017 Global Macro Outlook: Faster Reflation, Fatter Tails

The global recovery is likely to gain more momentum in 2017 on the back of faster US growth, stable DM growth and rebounding EM momentum. While growth becomes more balanced, material risks emanate from late-cycle fiscal stimulus, faster Fed rate hikes and a broad globalisation backlash.

2017 US Economics Outlook: A Shot in the Arm

2017 European Economics Outlook: Steady Growth Despite Political Turbulence

2017 Japan Economics Outlook: Keep Trusting, but Keep Verifying

2017 China Economics Outlook: Mild Growth Deceleration, Short-lived Reflation

2017 ASEAN, Korea & Taiwan Economic Outlook: Will A Rising US Tide Life All Boats

2017 Asia Ex-Japan Economics Outlook: Stability Amid Divergence

2017 CEEMEA Economics Outlook: Down, but Not Out

2017 Latin America Economic Outlook: Recovering in a Risky World

2017 Hong Kong Economic Outlook: Converging Cross-Currents

2017 India Economic Outlook: Five Themes That Will Shape the 2017 Outlook

FX

2017 Global FX Outlook: Top 10 FX Trades

EM

2017 Global EM Fixed Income Outlook: Alpha Trumps Beta

Global Cross-Asset

2017 Global Strategy Outlook: Sparkle and Fade

Higher odds of both ‘boom’ and ‘bust’ lead us to reduce credit and add to equities. Headwinds to reflation trades grow after 1Q, and the most upside to equities, yields and inflation lies outside the US.

Equities

2016 US Equity Outlook:The Tension Between Higher Earnings and Lower Multiples – Will You Know When to Get Out?

2017 European Equity Outlook: Earnings Trumps Uncertainty

2017 Asia/EM Equities Outlook: Double upgrade Japan to O/W; Downgrade EM/ APxJ to UW

2017 Latam Equity Outlook: From Reflation to Inflation?

Credit

2017 US Credit Outlook: From Cubs to Bears

2017 Global Securitized Products Outlook: Policy Crossroads

2017 Muni Outlook: Follow the Fiscal Road

2017 European Credit Outlook: As Good as It Gets

2017 Asia Credit Outlook: Playing Defense

In Case You Missed It…

Cross-Asset Strategy Reports Published Recently

1 Dec	**Cross-Asset Strategy: Global In the Flow – December 2016** Our monthly data pack with market performance review, valuations, technicals and economic indicators we are watching.
27 Nov	**2017 Global Strategy Outlook: Sparkle and Fade** Higher odds of both 'boom' and 'bust' lead us to reduce credit and add to equities. Headwinds to reflation trades grow after 1Q, and the most upside to equities, yields and inflation lies outside the US.
18 Nov	**Cross-Asset Strategy: Post-Election Playbook** Given the surprising US election results, many investors are trying to put things into context. This publication is designed to show how markets have reacted to various presidential 'regimes'.
9 Nov	**US Election 2016: Electing Uncertainty** A Republican sweep has emerged, against our expectations. Markets must balance a tax-cut stimulus against trade protection risks. Uncertainty hurts risk assets near term. Trade-exposed currencies weaker; yield curves steeper; Banks & Pharma to outperform; Munis to weaken.
7 Nov	**Cross-Asset Brief: Leaning Long** We think that assets have gone from underpricing to overpricing US election outcomes in several key risk markets.
4 Nov	**Cross-Asset Quant: Momentum for Diversification** Cross-asset trend and momentum strategies are less compelling than carry but can provide offset and diversification with low cost.
28 Oct	**Cross-Asset Dispatches: Misperceptions** Are rising bond yields the next big threat for markets? We challenge several perceptions around rising yields, and explore strategies and potential hedges for a rising rates scenario.
23 Oct	**Cross-Asset Dispatches: What Will Markets Return?** We refresh our cross-asset return and risk premium forecasts, and explore what they mean for investors' asset allocation.
16 Oct	**Cross-Asset Dispatches: Double Carry** We discuss three cross-asset relative value trades between correlated assets with very different carry profiles. These are: i) Long RUB vs. oil; ii) Long FX vs. stocks in Brazil; and iii) Long CDX IG 5y and long US swap spreads.
10 Oct	**US Election 2016: Fiscal Action, Market Reaction**

Valuation Methodology and Risks

Trade	Entry Date	Rationale	Risks
Like Brazil Local Bonds	14-Jul-16	We expect the central bank to cut rates by an additional 400bp on the back of low growth and receding inflation expectations. This is not fully priced in by the market.	Delays in fiscal consolidation and stickier inflation than we expect. Political uncertainty including further developments in the Car Wash investigations.
Like Russia Local Bonds	14-Jul-16	A hawkish CBR will anchor the long end of OFZs while a gradual easing policy will confirm investors' expectation of rate cuts. Stabilisation in oil prices also supports the bond market.	Decline in oil prices or persistent upside surprise in Russia CPI.
Dislike South Africa Local Government Bond	31-Aug-16	A stronger USD could weigh on commodities, which South Africa's exports rely on. A weaker ZAR could prevent the SARB from turning dovish any time soon. In addition, ZAR rates remains one of the most sensitive rates to higher UST yield. Foreign positioning in SAGBs is heavy, in our view. We stay bearish on SAGBs now but see opportunity in 2H17 should valuation become cheaper.	The risk to our view is a further decrease in core rates, which pushes EM investors into high yielders such as South Africa.
Like Peru Local Bonds	12-Sep-16	The local yield curve is one of the steepest globally while Peru's macro and political backdrop remain supportive.	Inflation expectations become less anchored and push the BCRP towards delivering additional hikes. FX depreciation is greater than we anticipate.
Like Argentina Local Bonds	20-Oct-16	We are bullish on Argentina local rates on high carry, falling inflation and further currency support. The development of a nominal yield curve in a very short period of time is also positive.	Inflation falls at a slower pace, potentially due to less progress on fiscal consolidation.
Dislike Mexico local bonds	27-Nov-16	Despite cheaper valuations, a combination of higher US rates, a stronger USD and an uncertain bilateral relationship with the US in a Trump presidency put Mexico at risk.	External pressures are less than we expect, thus providing Banxico greater flexibility in terms of monetary policy. MXN enjoys a sustainable rebound.
Dislike Malaysia local bonds	27-Nov-16	We see Malaysia as particularly exposed to higher US rates within AXJ, due to high short-term FX liabilities, as well as high foreign bond ownership.	Rebound in negative EM sentiment, lower US rates or materially higher oil prices.
Dislike Hungary local bonds	27-Nov-16	Inflation in Hungary should increase significantly in 1Q17 thanks to a base effect and tight labour conditions while the NBH is likely to stay on the dovish side. This should further steepen the curve, in addition to the pressure from higher core yields.	CPI surprises on the downside or core rates stabilise.
Like Korea Local Bonds	20-Oct-16	We are bullish on Korea rates, given our economists' expectations for three rate cuts by mid-2017, weak global trade, spillovers from China, and a weak domestic outlook amid ongoing corporate restructuring. Domestic savings are likely to continue rising, supporting demand for bonds.	Stronger growth momentum in the region, boosting China's growth outlook, trade and domestic demand.
Like India Local Bonds	20-Oct-16	The RBI surprised markets with its rate cut on October 4 and a reduction in the real rate target. Our economists now expect two more rate cuts by March 2017. Moderating food inflation following a good monsoon and continued RBI OMOs support our bullish view on IGBs.	Inflation falls at a slower pace, leading the RBI to be more cautious on monetary policy.
Like Argentina Hard Currency Bonds	14-Jul-16	Positive macro adjustment that Argentina is undergoing is leading to reduced credit risks, growth much stronger in 2017 at 3.1%, with continued improvement in fiscal balances, high carry and re-rating potential	Fiscal consolidation efforts falter or confidence in economy does not pick up as expecting, leading to another growth slump
Like Indonesia Hard Currency Bonds	14-Jul-16	Growth favourably vs. rest of EM, C/A deficit is reducing and structural reforms, albeit slow, are developing its manufacturing base. Heavy positioning do make it vulnerable at the initial stages of sell-offs but stronger macro overall prevails. Valuations are still favourable at 15bp wide to an average of BBB credits.	Disappointing fiscal results and slowdown in reforms
Like Ukraine Hard Currency Bonds	14-Jul-16	Near term external risks remain but Ukraine sold off in line with other B credits - we think geo-political risks remain contained. High carry, attractive valuations, good progress on fundamentals (FX reserves now up to US$15.6 billion) are also supportive. Banking system clean-up is proceeding and Naftogaz deficit has nearly been eliminated. Next IMF tranche is likely delayed to 1Q17, yet this should not derail the bonds, given the above buffers. Curve should bull-steepen.	Further delays in IMF programme and/or increased political instability due to US/Russia.
Like Brazil Hard Currency Bonds	27-Nov-16	Good progress expected on fiscal adjustment. Government debt still rising but willingness to address longer-term sustainability is a positive. Pick-up in growth mitigates broader credit risks. Brazil should at least trade in line with BB credits, of which it is currently 30bp wide.	Slow progress on fiscal adjustment and deterioration in political developments.
Like Serbia Hard Currency Bonds	27-Nov-16	Significant fiscal improvement over the last 12 months has reduced vulnerability. Consolidation expected to continue in 2017 with public debt stabilising or falling. Lower exposure to commodity prices, US trade and positioning has reduced significantly to stand at near market-weight.	Fiscal consolidation and structural reform progresses slower than expected.
Dislike South Africa Hard Currency Bonds	14-Jul-16	South Africa still has ratings reviews left this year but our economist assigns a 33% chance of a downgrade. This is priced in, given the rally since July and with spreads now 30bp tighter than an average of BB credits. Some tentative signs of improvement on the domestic front, including growth troughing and increasing savings but much still depends on the outlook for longer-term reforms.	Serious structural reforms are undertaken and political uncertainty subsides materially.
Dislike Colombia Hard Currency Bonds	12-Sep-16	Failure of the peace accord challenges macro and fiscal outlook and we expect higher debt issuance, an increasing debt burden and downward pressure on sovereign ratings. External vulnerability is also high given C/A deficit. Spreads are likely to underperform as fiscal pressures intensify.	Fiscal reform is more ambitious than expected.
Dislike Mexico Hard Currency Bonds	27-Nov-16	Mexico faces very strong headwinds post US election results. Funds are still slightly OW and spreads are already in line with average BBB credits. Supply is again expected to be high in 2017; adding risk in the primary market where new issue premiums are likely to be higher is our recommended strategy.	Strong language from the new US administration that no negative measures will be taken against trade with Mexico.

History of Recommendations

History of recommendations for iTraxx Senior Financials

Instrument	Maturity	Trade	Entry Date	Entry Level	Exit Date	Exit Level	Target/ Objective	Stop/Re-assess	Size of Trade or Unit/Notional	CUSIP/ISIN/ BLOOMBERG	Gross P&L BP	Gross P&L US$K
CDS Index	5 year	Long US bank credit vs iTraxx Senior Financials	14-Jul-16	N/a	N/a	N/a	N/a	N/a	N/a	ITRXESE		

Source: Morgan Stanley Research

History of recommendations for Hungary local bonds

Trade	Entry Date	Exit Date
Like Hungary Local Bonds	13-Jul-16	21-Sep-16

Source: Morgan Stanley Research

Strategy Risk Factors

Buying calls or call spreads: Investors who buy call options risk loss of the entire premium paid if the underlying security finishes below the strike price at expiration. Investors who buy call spreads (buy a call and sell a further OTM call) also have a maximum loss of the entire up-front premium paid. The maximum gain from buying call spreads is the difference between the strike prices, less the upfront premium paid.

Buying puts or put spreads: Investors who buy put options risk loss of the entire premium paid if the underlying security finishes above the strike price at expiration. Investors who buy put spreads (buy a put and sell a further OTM put) also have a maximum loss of the upfront premium paid. The maximum gain from buying put spreads is the difference between the strike prices, less the upfront premium paid.

Selling calls: Investors who sell covered calls (own the underlying security and sell a call) risk limiting their upside to the strike price plus the upfront premium received and may have their security called away if the security price exceeds the strike price of the short call. Additionally, the investor has full downside exposure that is only partially offset by the upfront premium taken in. Investors short naked calls (i.e. sold calls but don't hold underlying security) risk unlimited losses of security price less strike price. Investors who sell naked call spreads (i.e. sell a call and buy a farther out-of-the-money call with no underlying security position) have a maximum loss of the difference between the long call strike and the short call strike, less the upfront premium taken in, if the underlying security finishes above the long call strike at expiration. The maximum gain is the upfront premium taken in, if the security finishes below the short call strike at expiration.

Selling puts: Put sellers commit to buying the underlying security at the strike price in the event the security falls below the strike price. The maximum loss is the full strike price less the premium received for selling the put. Put sellers who are also long a lower dollar-strike put face a maximum loss of the difference between the long and short put strikes less the options premium received.

Buying strangles: The maximum loss is the entire premium paid (put + call), if the security finishes between the put strike and the call strike at expiration.

Selling strangles or straddles: Investors who are long a security and short a strangle or straddle risk capping their upside in the security to the strike price of the call that is sold plus the upfront premium received. Additionally, if the security trades below the strike price of the short put, the investor risks losing the difference between the strike price and the security price (less the value of the premium received) on the short put and will also experience losses in the security position if he owns shares. The maximum potential loss is the full value of the strike price (less the value of the premium received) plus losses on the long security position. Investors who are short naked strangles or straddles have unlimited potential loss since if the security trades above the call strike price, the investor risks losing the difference between the strike price and the security price (less the value of the premium received) on the short call. Additionally, they are obligated to buy the security at the put strike price (less upfront premium received) if the security finishes below the put strike price at expiration. Strangle/straddle sellers risk assignment on short put positions that become in the money. Additionally, they risk having stock called away from short call positions that become in the money.

Options Disclaimer

Options are not for everyone. Before engaging in the purchasing or writing of options, investors should understand the nature and extent of their rights and obligations and be aware of the risks involved, including the risks pertaining to the business and financial condition of the issuer and the underlying stock. A secondary market may not exist for these securities. For customers of Morgan Stanley & Co. LLC who are purchasing or writing exchange-traded options, your attention is called to the publication “Characteristics and Risks of Standardized Options;” in particular, the statement entitled “Risks of Option Writers.” That publication, which you should have read and understood prior to investing in options, can be viewed on the Web at the following address: http://www.optionsclearing.com/about/publications/character-risks.jsp. Spreading may also entail substantial commissions, because it involves at least twice the number of contracts as a long or short position and because spreads are almost invariably closed out prior to expiration. Potential investors should be advised that the tax treatment applicable to spread transactions should be carefully reviewed prior to entering into any transaction. Also, it should be pointed out that while the investor who engages in spread transactions may be reducing risk, he is also reducing his profit potential. The risk/ reward ratio, hence, is an important consideration.

The risk of exercise in a spread position is the same as that in a short position. Certain investors may be able to anticipate exercise and execute a "rollover" transaction. However, should exercise occur, it would clearly mark the end of the spread position and thereby change the risk/reward ratio. Due to early assignments of the short side of the spread, what appears to be a limited risk spread may have more risk than initially perceived. An investor with a spread position in index options that is assigned an exercise is at risk for any adverse movement in the current level between the time the settlement value is determined on the date when the exercise notice is filed with OCC and the time when such investor sells or exercises the long leg of the spread. Other multiple-option strategies involving cash settled options, including combinations and straddles, present similar risk.

Important Information:

- Examples within are indicative only, please call your local Morgan Stanley Sales representative for current levels.
- By selling an option, the seller receives a premium from the option purchaser, and the purchase receives the right to exercise the option at the strike price. If the option purchaser elects to exercise the option, the option seller is obligated to deliver/purchase the underlying shares to/from the option buyer at the strike price. If the option seller does not own the underlying security while maintaining the short option position (naked), the option seller is exposed to unlimited market risk.
- Spreading may entail substantial commissions, because it involves at least twice the number of contracts as a long or short position and because spreads are almost invariably closed out prior to expiration. Potential investors should carefully review tax treatment applicable to spread transactions prior to entering into any transactions.
- Multi-legged strategies are only effective if all components of a suggested trade are implemented.
- Investors in long option strategies are at risk of losing all of their option premiums. Investors in short option strategies are at risk of unlimited losses.
- There are special risks associated with uncovered option writing which expose the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all customers approved for options transactions. The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risky position, and may incur large losses if the value of the underlying instrument increases above the exercise price.
- As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.
- Uncovered option writing is thus suitable only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered writer’s options position, the investor’s broker may request significant additional margin payments. If an investor does not make such margin payments, the broker may liquidate stock or options positions in the investor’s account, with little or no prior notice in accordance with the investor’s margin agreement.
- For combination writing, where the investor writes both a put and a call on the same underlying instrument, the potential risk is unlimited.
- If a secondary market in options were to become unavailable, investors could not engage in closing transactions, and an option writer would remain obligated until expiration or assignment.
- The writer of an American-style option is subject to being assigned an exercise at any time after he has written the option until the option expires. By contrast, the writer of a European-style option is subject to exercise assignment only during the exercise period.

Definitions

Buy/Long: The analyst expects the total or excess return (depending on the nature of the recommendation) of the instrument or issuer that is the subject of the investment recommendation to be positive over the relevant time period.

Sell/Short: The analyst expects the total or excess return (depending on the nature of the recommendation) of the instrument or issuer that is the subject of the investment recommendation to be negative over the relevant time period.

Selling protection or Buying Risk: The analyst expects that the price of protection against the event occurring will decrease over the relevant time period.

Buying protection or Selling Risk: The analyst expects the price of protection against the event occurring will increase over the relevant time period.

Pay: The analyst expects that over the specified time period the variable rate underlying the swap agreement that is the subject of the investment recommendation will increase.

Receive: The analyst expects that over the specified time period the variable rate underlying the swap agreement that is the subject of the investment recommendation will decrease.

Unless otherwise specified, the time frame for recommendations included in the Morgan Stanley Fixed Income Research reports is 6 - 12 months and the price of financial instruments mentioned in the recommendation is as at the date and time of publication of the recommendation.

When more than one issuer or instrument is included in a recommendation, analyst expects one part of the trade to outperform the other trade or combination of other trades included in the recommendation on a relative basis.

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Equal-weight/Hold	**1432**	**43%**	**297**	**45%**	**21%**	**709**	**45%**
Not-Rated/Hold	**69**	**2%**	**8**	**1%**	**12%**	**9**	**1%**
Underweight/Sell	**666**	**20%**	**83**	**13%**	**12%**	**287**	**18%**
Total	**3,321**		**653**			**1579**	

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