Good morning. This is Sharon Yeshaya, Head of Investor Relations. During today's presentation, we will refer to our earnings release and financial supplement, copies of which are available at morganstanley.com. Today's presentation may include forward-looking statements that are subject to risks and uncertainties that may cause actual results to differ materially. Please refer to our notices regarding forward-looking statements and non-GAAP measures that appear in the earnings release. This presentation may not be duplicated or reproduced without our consent.

I will now turn the call over to Chairman and Chief Executive Officer, James Gorman.

James Gorman

Thank you, Sharon. Good morning, everyone. Thank you for joining us. I will keep my remarks brief today when describing the quarter's performance as results are relatively straight forward. This is the second quarter, the firm generated revenues in excess of $10 billion. We achieved the return on equity of 13% and a return on tangible equity of approximately 15%. Institutional securities continued to demonstrate leadership in areas of traditional strength. Investment banking and equities reported very strong results and fixed income continued to perform well.

Wealth management remained solid. The segment generated a pre-tax margin of approximately 27%, while continuing to invest in the business. Our technological capabilities have evolved from an exploratory phase in the tangible tools that aim to enhance FA productivity, streamline operations and support further asset growth. Investment management attracted long-term inflows for the sixth consecutive quarter. Additionally, we successfully integrated Mesa West over the quarter, complementing our unique platform of alternative and traditional products. John will walk through the financials in more detail shortly.

I would like to spend a bit of time on this year's CCAR results. 2018 was the eighth year of the CCAR stress test. Each year, the test has become increasingly more demanding and in fact has yielded results significantly more severe than what we and many other banks experienced during the 2008 global financial crisis.

There have been important reasons to increase the severity of the test over time, ensuring the safety and soundness of the large institutions and decreasing systemic risk of the U.S. financial system. At Morgan Stanley, capital as expressed by our CET-1 and total capital ratios is strong, both on absolute and relative basis.

Several institutions including Morgan Stanley were provided the option to hold capital distributions flat to 2017 or the average of 2016 and ‘17. We did just that, keeping aggregate distributions the same as in 2017 but we changed our mix slightly. We increased our dividend to $0.30 per quarter, reflecting our confidence in the stability of the firm, and lowered our buyback commensurately to accommodate the dividend.

We will not get ahead of our sales in predicting what the Fed will do next year, but 2018 appears to be a transition year. Going forward, we expect to be able to continue to invest in our business and offer our shareholders an attractive capital return while maintaining a prudent capital base.

Now, as we look forward, we fully expect the third quarter to experience the seasonality common to the summer months. But as we all know, the near-term landscape can change quickly. Whatever transpires this quarter, we remain confident in the medium term goals we laid out at the beginning of the year and are well on track with each of them.

I’ll now turn the call over to Jon.

Jonathan Pruzan

Thank you and good morning.

Second quarter results were strong. We reported revenues of $10.6 billion. Year-to-date revenues were $21.7 billion, a firm record after excluding the impact of DVA in prior periods. Second quarter diluted EPS was $1.30, ROE was 13%, and return on tangible common equity was 14.9%. Institutional securities displayed strength across the segment. Investment banking performed very well as new issue markets remained open and receptive to corporate strategic activity. Equity sales and trading was buoyed by active global markets and fixed income benefitted from strong client flow. We delivered solid results across wealth and investment management, our sources of more stable revenues.

Total non-interest expense was $7.5 billion in the quarter. On a year-to-date basis, our efficiency ratio was 70%, an almost 200 basis-point improvement compared to the same period last year. This improvement reflects operating leverage across both compensation and non-comp expenses. In addition to the impacts from revenue recognition accounting, increased expenses have primarily been driven by higher compensation and execution related costs associated with higher revenues. Discretionary spending has been well-controlled. And this discipline has allowed us to continue to make investments across the firm, especially in technology.

Now, to the businesses. Institutional securities generated revenues of $5.7 million in the second quarter. Continued strength across investment banking, equities and fixed income has contributed to year-to-date revenues of $11.8 billion, our strongest first half of the year excluding DVA since 2007 and a 19% increase versus the same period last year. Non-compensation expenses were $1.9 billion for the quarter, a 4% sequential increase, driven by higher professional services expenses. Compensation expenses were $2 billion, representing a compensation to net revenue ratio of 34.9.

In investment banking, all products and regions performed well, generating revenues of $1.7 billion. The results represented 12% increase versus the strong first quarter. Advisory revenues for the quarter were $618 million, up 8% sequentially. M&A volumes have continued at record levels, supported by larger strategic transaction and cross-border activity. Clients remain engaged and pipelines are healthy.

New issue market conditions remained favorable in the quarter with significant investor demand across both equity and fixed income, supporting strong underwriting results. Equity underwriting revenues of $541 million were up 29% sequentially as favorable backdrop allowed us to convert a strong IPO backlog and convertible activity also remained robust. Clients in Asia continue to be active including a number of larger IPOs in the quarter.

Fixed income underwriting results increased 4% sequentially to $540 million with stable results across both high-yield and investment grade issuance. Whereas the effects of U.S. tax reform and rising rates have weighed on investment grade flow issuance, this has been more than offset by increased strategic financings. We believe this benefits our franchise which is more oriented towards non-commoditized debt products and activity.

Investment banking pipelines remained constructive across products and regions. Both, advisory and underwriting revenues should benefit from the elevated level of strategic activity in the year so far. However, given the continued macroeconomic and geopolitical uncertainties, we are watching markets for volatility that may slow future issuance.

In equities, we've retained our leadership position and expect to be number one globally. Revenues were $2.5 billion with strong results across all regions, particularly Europe. Prime brokerage revenue saw sequential increase, aided by seasonal factors in Europe and stable client balances. Derivatives and cash revenues remained robust, although lower than in Q1 as market volatility and global volumes trended lower.

Fixed income continued to perform well with quarterly revenues of $1.4 billion. Each business lines saw sequential decline versus a very strong Q1, but divisional revenues were up 12% year-over-year. Seasonality and a decrease in rate volatility, particularly in the latter part of the quarter, contributed to the sequential decline.

In our macro business, we saw strong client activity in FX. Rate was impacted by range-bound yields in the second half of the quarter.

Our credit businesses performed well as activity remained robust, despite widening credit spreads. Our institutional lending franchise also continues to grow as we provide financing across a wide range of asset classes globally.

In commodities, revenues were down due to a fewer structured transactions which can be episodic. Fixed income strength has been supported by deeper relationships and better client activity. The business continues to build on its gains and we are encouraged by its momentum. Average trading VAR for the period was $44 million, down from $46 million in the first quarter, driven principally by lower volatility.

Now, turning to wealth management. Revenues were $4.3 billion for the quarter as continued growth in asset management was offset by slowdown in transactional revenues. On a year-to-date basis, however, revenues of $8.7 million are up 6%. For the quarter, despite the slight revenue decrease, the segment's pre-tax profit remained at $1.2 billion. This resulted in a PBT margin of 26.8%, a new high, post JV. The business continues to demonstrate strong operating leverage. Year-to-date revenue growth has been twice the rate of expense growth and has translated into pre-tax profit growth of 14%. Both non-comp and comp expenses have contributed to this margin expansion.

Total client assets of $2.4 trillion is up 2% compared to last quarter. Net fee-based flows remained strong at $15 billion, contributing to record fee-based assets of $1.1 trillion or 45% of total client assets. Asset management revenues were $2.5 billion. Positive flows were partially offset by the first quarter's lower market levels. Net interest income was $1 billion for the quarter, down 2% sequentially, driven primarily by lower prepayment amortization gains.

Year-to-date NII of $2.1 billion represents a 5% increase. Higher NII year-to-date reflects continued growth in balances and higher yields, which has been partially offset by increase in funding costs as we continue to diversify our funding base. In the quarter, we initiated a redesign of our cash sweep program in an effort to simplify our larger client sweep options. The initial phases of redesign became effective at the end of the quarter, resulting in approximately $10 billion of incremental sweep deposits. This increase was partially offset by outflows in the quarter, primarily driven by tax season and continued market deployment. Additional changes scheduled to be implemented in the third quarter are expected to generate a similar amount of sweep deposits. Rates on these incremental balances will be in line with the current money fund sweeps. Whilst lending in the U.S. banks grew by 2% to $70 billion in the seasonally strong quarter as client choose their SBL lines to manage liquidity through the tax season, year-over-year, loans have grown approximately 8%.

Following a strong first quarter, retail engagement declined in the second quarter. A flatter yield curve has also shifted clients investing into shorter duration products at lower commission rates. Consequently, transactional revenues of $691 million were down 7%, sequentially. This quarter results demonstrate stability and health of our wealth business. Despite some headwinds faced by the segment this quarter, pre-tax profit remained near record levels. Fundamentals remained strong.

Our sources of annuitized revenues continue to grow with consistent fee-based flows and record balances for both fee-based assets and loans. Additionally, we believe our investments to create a modern client and FA experience supported by integrated digital capabilities will enhance growth and further operating leverage over time.

Investment management witnessed another solid quarter with a continuation of positive long-term flows. Revenues were $691 million, a 4% decline relative to last quarter. Asset management fees of $610 million were down 3% sequentially. Year-over-year, revenue has grown 13%, driven by continued strong investment performance and positive flows, particularly in our active fundamental equity and multi-asset strategies. Investment revenues were $55 million, down 29%, sequentially. Investment performance continues to be solid, but we did see volatilities in markets and FX and our Asia Pacific funds in particular.

Turning to the balance sheet. On a sequential basis, total spot assets of $876 billion were up $17 billion, driven by increases in liquidity. Our standardized RWAs are expected to remain relatively unchanged at $388 billion. Our Basel III standardized common equity Tier 1 and supplementary leverage ratios are expected to increase to 15.8 and 6.4% respectively as we accredited capital in the quarter. During the second quarter, we repurchased approximately $1.25 billion of common stock or approximately 24 million shares and our Board declared a $0.30 dividend per share, up from $0.25 per share.

Our tax rate in the second quarter was 20.6%, reflecting $88 million of intermittent net discrete tax benefits. For the remainder of the year, we continue to expect our tax rate to be at the upper end of our 22 to 25% full year guidance. Our first half results have been strong with two consecutive quarters with revenues greater than $10 billion. All of our businesses are positioned for growth and to support our clients if activity levels remain high.

Near term, we are cognizant of the typical summer slowdown. And of course there are number of uncertainties that may impact investor sentiment. Trade tensions, political uncertainties across Europe and the potential for an inverted yield curve to name a few are factors that remain in play. However, as we have demonstrated before, as long as markets are opening and functioning and bouts of volatility do not give way to client inactivity, we feel confident that we will achieve our medium term targets.

With that, we will now open the line to questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Glenn Schorr of Evercore. Your line is now open.

Glenn Schorr

Hi. Thanks very much. A question on debt capital markets. It's like the one area across both trading and banking that I feel like there is room for you to improve towards peers. You've done so well in other things. Curious on how you think about the opportunities, given your relationships with the sponsors, and then, how that factors in from what you're willing to risk perspective?

Jonathan Pruzan

Sure. Listen, from an overall underwriting perspective, we're very happy with the results. As I mentioned earlier, there has been some pockets of activity that we're generally better suited for, but we're very comfortable with our overall positions, Glenn. And when we think about our risk profile and our business mix, we like the business that we're doing, and we're very happy with the results.

Glenn Schorr

Okay. How about -- on the net issues income front and wealth management, I think down sequentially for two quarters. Balances are growing, loans are growing, clients are growing, rates are up. I wonder if we could talk towards the -- what you mentioned about diversifying your funding base, what exactly it is, how much of that is the CD promo that you guys did and then how much of the flat curve is having an impact?

Jonathan Pruzan

Sure. And there is a lot of moving pieces obviously and this is the wealth management segment. But year-to-date, as I mentioned, I think I mentioned net interest income is up 5%. So, good growth year-over-year, which I think is a better metric to look at. Clearly, quarter-over-quarter we saw a slight tick down, some of that is driven by the prepayments I mentioned. We've seen good loan growth. Our average earning asset yields are up, as you said given our mix profile and the rate moves but that has been offset by the rising interest expense related to the diversification of the deposits. I would describe our sort of ALM position as sort of modestly asset sensitive at this point in the segment. So, growth is going to continue to come from balanced growth on the asset side. And we do expect to continue to grow NII in that sort of 4% to 5% range, which is where we've been growing it year-to-date.

So, the diversification impact is really away from the sweep deposits that generally have a lower costs into savings and CDs. The proportion of CDs are now much higher percentage than what they were clearly a year ago. And that's really been the primary driver of the impact. I also mentioned the sweep redesign has also had an impact on the interest expense. So, there is a lot of different moving parts. But, I would say the growth is really going to come from balanced growth as opposed to rate movements going forward in this segment.

Glenn Schorr

Okay. I appreciate. Just one clarification, on the CDs. That's for money that comes in from people that bring in new money. Right? In another words, you're not chasing hot CD rates, you're providing high rates to people that bring more balances to their Morgan Stanley relationship?

Jonathan Pruzan

Again, certainly in the wealth management channel, the new CD promotional rates and savings rates have been for new money, as you said and we've seen really good uptick on that. What we've generally seen, we haven't had a lot of those promotional periods for a while. So, we haven't seen a lot of activity yet. That's going to happen this summer. But, what we've generally seen in some of the smaller programs that we've run is that money is new money for the system that's come in. And it's generally been redeployed mostly back into their investment accounts in both fixed income and equity. So, it stays within the system. We do also raise CDs outside of the network externally. And we've been raising those as well to continue to diversify the stability of the mix.

Operator

Thank you. Our next question comes from the line of Guy Moszkowski, Autonomous Research. Your line is now open.

Guy Moszkowski

Thanks. Moszkowski, but I guess you guys know that.

Jonathan Pruzan

Good morning, Guy.

Guy Moszkowski

So, let me just follow up if I might on Glenn's question about the deposits. So, your deposits for the institution are up about $12 billion or so, linked quarter about 8%. We didn't see quite that much growth in lending. I think, lending and commitment -- the balance sheet lending commitments up about $8 billion, and so, really $4 billion on the balance sheet. You're talking about the seeps adding another $10 billion probably as you implement the next phase in 3Q. Just help us think a little bit from a very big picture point of view, how you're thinking about deploying deposit funding despite the fact that it's clearly getting more extensive?

Jonathan Pruzan

Sure. And again, I think you've identified most of the pieces, but let's just step back for a second. So, if you look at the disclosure, the U.S. bank deposits are up about $13 billion. I would categorize them really in three buckets. One, you mentioned the diversification of the product offering really promotional CDs and savings as well as we continue to roll out new products. We're out testing a new every day cash management product right now in a few complexes. So, we continue to try to modify our product offerings. But that bucket, if you will, is up about $2 billion this quarter. The sweep deposits are also up about $2 billion. You mentioned we did sweep in -- that change caused the sweep in of about $9 billion or so. But we saw outflows, both going to tax payments and redeployment into the market, so that net impact is about 2. And then, the third channel, as I mentioned, is a wholesale source CDs. We actually were pretty active in that space this quarter. And that number is up about $9 billion. A couple of things there. As I mentioned, we do have a couple of big promotional rates CD offerings that we ran through the system last year rolling off. So, we want to get ahead of that as our expectation is a lot of that money, some will stay in deposits, but a lot of that will get reinvested into the market. And we wanted to be in advance of that. So, we had the appropriate amount of liquidity to continue to fund both the wealth channel and the ISG lending growth.

So, those three components make up to $13 billion, not all of that is wealth sourced and not all of that goes to support the wealth business. We see a continuation of clients making investment choices of how they want to deploy their cash. They had been putting it more into the longer term fixed income and equity markets cash relative percentage in the system. It's still at or near its all-time lows and percentage in equities is at or near its all time high. So, we're going to continue to see this trend of a diversification away from the sweet deposits, which are lowest cost funding source into some of these more higher cost products, and that's what really is going to drive interest expense going forward.

Guy Moszkowski

Okay. That's helpful to have that breakdown of the different moving parts. Thank you for that. Changing the subject a little bit. James opened up with some comments on CCAR. And I was wondering, if you could help us summarize what your thinking is with respect to moving forward towards the stress capital buffer. How you're positioned, how are you thinking about that, and how it might interact with your ability to return capital?

James Gorman

I think it's a little premature, I mean, not to duck the question, Guy. But we're still on the comment period. This was obviously a challenging CCAR period where the stress test scenarios were extremely tough. And for the eighth year, they go sort of got tougher each year, but this year, they got really tough. And I think everybody's kind of taken a little pause on that and trying to figure out what is the right level of capital you need in the financial system to fund the economic growth and what's right leverage of the institutions. And I think, we have the comment period on ECB [ph] buffer where we're in that process now. From my perspective, the most important thing is the recognition that the capital that truly matters is risk weighted capital. Leverage ratios are important to sort of one instrument. But in terms of looking at what is actually on the balance sheet that you're levering that's much more important, you leverage treasuries or illiquid investments.

So, I think, as I said in the opening comment, we're in the transition period. I think we should let -- the Fed is going through this process. And I think we should respect the process. And we'll respond once we start seeing what the actual numbers are. The bottom line is where we're distributing I think that's

$6.8 billion of capital through the first six months of this year, I believe we've had earnings of $4.8 billion. Highly likely, we will have earnings about $6.8 billion this year. So, we continue to create excess capital under just this year's analysis. So, I don't expect us to be cutting our capital distribution program going forward and because frankly we're very well capitalized.

Operator

Thank you. And our next question comes from the line of Devin Ryan of JMP Securities. Your line is now open.

Devin Ryan

Hey. Good morning. I guess, first question here just on the retention loans and wealth management where I think the balance was $3.6 billion at last quarter. So, it seems like the last few quarters, we're seeing pretty flat financial advisor headcount. And I know you've spoken about kind of external recruiting being more modest. And so, as we get closer to the Smith Barney retention piece rolling off next year, is the expectation still that the vast majority of that is going to drop to pre-tax? And then, when we think about the non-Smith Barney piece, which is actually the majority, are we getting closer to a cliff where we'll start to maybe see that roll off at an accelerated pace. And I'm just trying to kind of think about the moving part here because I know it's important to the kind of the forward margin story.

James Gorman

I'll try to think some of those. I'm not sure I fully follow all the questions. But generally speaking, the retention notes amortize over a long period of time, seven or eight years. Typically, the cliff event in January of '19 from Smith Barney clearly gives us optionality that continue to invest in the franchise. But again, our expectation is that will allow us to improve the overall margin in the business. I would say the trend over the seven or eight years has been that recruiting -- not only is recruiting being going down but the size of retention packages have also been going down. So, this acceleration or deceleration of amortization expenses actually already have been happening over the last couple of years. And we will get to a period, although albeit over time that that number will become actually reasonably stable as we have slowed down the recruiting and the attrition has also slowed down. So again, I think we're sort of through the peak hiring or the peak amortization periods in the old notes. We have this cliff event in January. And both of those things will be -- allow us real flexibility to continue to invest in the business as well as showing operating leverage.

Devin Ryan

Okay. That’s great color. Thank you. And then, just a follow-up here just on the EMEA revenues, nice step up sequentially and year-over-year. And I know the equities in that region could be strong this quarter. But, maybe if you could give us a little bit more detail on what’s driving that momentum. It sounds like it’s across the business but just a little bit of more color there and just confluence of moving parts that you mentioned on trade retentions and Brexit. So, just level of bit more maybe detail on the outlook as well just by the businesses?

Jonathan Pruzan

Sure. And I think you mentioned it. The real strength in EMEA this quarter was both in our equities business where there is some seasonality as well as in our investment banking business. And quarter-over-quarter, year-over-year, it’s been good strength in those businesses. And I would say, if you look over a much longer period of time, it’s probably from a depressed levels, but there has been good activity levels and good flows right now and it’s really dominated around IBD and equities.

James Gorman

I think, to me, the important takeaway is this business is very global and we are extremely well positioned where it matters around the world. Our partnership in Japan is very positive. The franchise we have across Europe, and yes, we saw some sort of idiosyncratic moves to that this quarter but the franchise is very strong. Brazil, Mexico very strong, and obviously China -- Greater China, Hong Kong and Southeast Asia all very well represented. So, this was a moment when EMEA kind of popped a little bit, which was great, but Asia was less strong this quarter relative to the other regions. But again, the key is, we’ve got capability in all these markets. And when the market is doing well, we’re doing well in that market.

Operator

Thank you. Our next question comes from the line of Brennan Hawken of UBS. Your line is now open.

Brennan Hawken

Hi. Thanks for taking the question. Good morning. I just wanted to follow up on the recruiting question that Devin asked. Have you seen -- now, it’s been probably a little over six months since you guys have exited broker protocol. And we’ve seen FA headcount definitely be very, very stable. And you’ve indicated in the past the desire to emphasize recruiting less. Have you seen any impact from that? Where is the market for FA recruiting at this point?

Are you seeing competitors step up as far as competition for Morgan Stanley FAs? Any color on that will be great.

James Gorman

Why don't I talk about that, because I've sort of watched this for about 25 years? The fundamental shift in this industry was the consolidation of firms. So, instead of recruiting in 10 different firms, in our case, Kidder, Hutton, Shearson, Lehman, Dean Witter, Reynolds, Robi Humphrey, Legg Mason, we now own all of those firms. So, you've effectively absorbed your competitive -- the competitive group that would be recruiting in and out from all these firms in this kind of crazy weekly event that went on. And now there is basically 3.5, 4 big firms, and the amount of recruiting they're doing from each other is -- it's very small and it's small for good reason. We don't need to recruit a lot of people. We're growing organically; we're very comfortable with that. So, you're just seeing the whole space of the market now versus 10 years ago little and 20 and 30 years ago, it's just very, very different.

Now, that said, there is obviously the independent advisory channel where some people move to. There is always that prospect of somebody setting up a boutique on their own. But that's where the sort of power of the franchise, the quality of the research, the capability of technology, the extensive compliance, all of these things lead people to want to be part of an institution like ours. So, we're seeing honestly very little attrition. And as a result, we are doing very little recruiting. We like growing in-house. And we're doing that successfully. And clearly, it's economically a much better proposition.

Brennan Hawken

Sure, great. Thanks for that James. And in there you've referenced some of the tech investments that you guys made. So, I wanted to transition for the follow-up and a non-comp grew sequentially this quarter, both in wealth and in ISG. Was there any noise in that line? I know, we -- you guys had highlighted I believe BC&E last quarter. Volumes were lower, but maybe there was some incremental tech invest. How should we think about that line as we're jumping off points from here?

Jonathan Pruzan

Yes. Listen, Brennan, I think quarter-over-quarter comparisons have some seasonality. There is marketing and business development. You highlighted BC&E, which is generally more skewed to equity. So it's sort of as equity trading volumes are up and down, as a result you'll see some up and down. But I think the right way to think about it is just more of a year-to-date. So, you can capture that six-month period. And as I mentioned in my comments, we've been very controlled on discretionary spend. A lot of the increases, either rev-rec and/or revenue related, i.e. higher rev, higher comp, higher sales and trading results, higher BC&E and transaction taxes. The one other area that you're seeing good growth is really, I guess from an SEC disclosure standpoint, the IP and T line, which is where you'll see some of the impact of our technology investments, where we continue to make those investments to improve technology, both outward facing and inward facing across the whole plan. And I think we're very comfortable with our 73% or below target or currently at 70, there's a numerator and a denominator effect in there. But we feel that we have good operating leverage and we'll be able to make the investments required to stay competitive and to grow.

Operator

Our next question will be from the line of Mike Mayo of Wells Fargo. Your line is now open.

Mike Mayo

I'll state my premise and you can review it, I guess. But I would say, today's results are result of what I would call repositioning 1.0. You restructured FICC and that's coming through. You had Smith Barney. You have the fee-based assets and the high margin equities benefit from the strength of balance sheet. Today's results are result of what you've done for last several years. And that's I'll call it repositioning 1.0. My question is, do you need a repositioning 2.0 and it might seem ironic since results are among the best they've been since you've been CEO, James. But looking at what you're doing now, it's kind of playing out the game plan that you set forth. But now, a lot of your peers are doing all sorts of more aggressive strategic changes, whether it's national digital backings or artificial intelligence, or a lot more branches or your competitor has a new CEO. So, it seems like the pace of strategic change at your competitors is now interestingly faster than the pace of your strategic change.

So, that's my premise. So, you can either agree or disagree. But I guess really the question is, when you look out over the next several years, what are the areas of greatest strategic change? And I get your tech expo, which we appreciated you having that, maybe that's the sign of where you're headed.

James Gorman

Mike, there's a lot in that question. It's a fair question. I think just pick apart a little bit a few of the layers. I think describing it as sort of 1.0 is not really accurate. I mean, we probably made more strategic change to this institution the last five or eight years than we made in the previous 80. We had a wealth management business in 2006 that had revenues of $5 billion and pre-tax profits of $300 million; it currently has revenues of I don't know $17 billion to $18 billion and pre-tax profits of $4 billion to $4.5 billion. So that's not a modest shift. We had a massive physical commodities businesses, we don't own; we had MSCI, we don't own; we had Discover card, we don't own; on and on and on.

We have risk weighted assets in fixed income of I think $380 billion; we had a balance sheet of $1.2 trillion; we had capital of $30 billion. I mean, on every measure, this is a very, very different profile firm. And our revenues are high. We've just had two consecutive $10 billion revenue quarters; we haven't had one in the previous 320 quarters. And we're hitting goals we laid out.

So that to me is a lot of strategic change in a very short period of time for a company of this size and complexity. I think, it is unwise to run strategy through envy. Every other institution has to do what they do based upon their own capabilities, their own DNA, their own particular challenges. I think, it's also -- I never presume just because somebody announces the strategy is going to work or it's actually going to matter. I mean what matters is things that create material change to institutions, and doing that to regulated banks of 40 billion in revenue size is hard. And our job is to make sure that we don't feel compelled to act simply because we read the newspapers about stuff. But we feel compelled direct because we see opportunities, which we can prosecute and believe we can deliver great bottom line too. As to where we're making changes, obviously, the investment in technology and thank you for the comment about the tech expo the folks did is real. That's not trivial; that is a real evolution within both, wealth management, the trading businesses that we're very focused on.

The potential for growing revenues in asset management given the diversification of the base, the range of products and the alternative space and the traditional space and the performance of that business is real. The share gains that we're seeing across banking, equities and fixed income is real that's happened last year, and it's happening again this year. All of those things are real, and the bank and what we're doing with the deposit strategy and also respecting the questions that came earlier around net interest income, the bank will remain a very important source of growth over many years; and then, our geographic repositioning, particularly in Asia where we're investing stronger than we need to for example in the U.S. So, a huge amount going on. We mightn't be making a lot of announcements about it, which is fine. I care about results. And a huge amount going on still within this institution. So, I don't know if that answers your question. But, our job, as I've said to one of our team recently, and that said, what's our strategy? I said, what about make some money. Our job is to deliver for our shareholders and not to try and mimic what others do. We do what we think is right for Morgan Stanley.

Mike Mayo

That's helpful. So, if you had 80 years of change in the last eight years, I guess my follow up is your appetite for deals, your appetite to more aggressively reallocate capital to fewer areas, I think you've kind of answered that but -- or maybe tax spend, are you looking to ramp up, how much you spend on that?

James Gorman

We're definitely increasing our tech spend across digital, automation; we just hired a new Head of AI, the cyber spend we're doing. So that's kind of a given. You can't be in the space and not be frankly investing in technology with the pace of change. On deals, I mean we did the Mesa West deal. We love to do things that we are confident we can absorb. I believe in being very aggressive when you see an opportunity that is right in your wheelhouse and being very cautious when you see things that our extensions into new space. And that will be our philosophy on deal making. But, I think for any of the big banks to engage on large scale transactions is probably a premature is my guess at this point. But small scale things that make sense, of course, we'll do them all day long. But the most important thing is we just see a lot of growth across our businesses and a lot of our opportunity for share gain, and that's what we're focused on.

Operator

Thank you. Our next question comes from the line of Gerard Cassidy from RBC. Your line is now open.

Gerard Cassidy

Thank you. Good morning. Can you guys give us some color? You had some really good loan growth in the institutional securities bank data on slide 12. Corporate loans are up about 36%, year-over-year. Can you share with us -- I'm sorry 48% year-over-year. Can you share with us you know where that growth is coming from? How much is leverage loans? And also, can you talk about underwriting standards? Are they getting more conservative, less conservative in that leverage loan business please?

Jonathan Pruzan

Sure. I'm just flipping to page 12 here to see the numbers. So, again, we've had good growth in the ISG segment, as I said. That's a couple of different products in our FID secured businesses where we're lending loan-on-loan secured by different asset classes around the world. We've seen growth in that business. You see that in the corporate loan line. Corporate lending is generally a relationship in the bank we've seen particularly on the commitment side, continued growth in that area. And again, that will be -- you won't necessarily see big changes quarter-over-quarter. But broadly speaking in the ISG business, we've seen good, attractive investment and growth opportunities. Virtually, all of that -- not virtually, all of that is secured lending. It's all variable rates. So, there is good ALM profile to that. And we're happy with the credit profile and we'll continue to grow that business.

Specifically around even, a lot of activity this quarter. Little bit more skewed to LBO activity, but basically our backlog or our pipeline is generally on a percentage basis more skewed to larger strategic investment grade deals. But, there has been some more activity on the LBO front pipes, still very good velocity in terms of our ability to distribute and syndicate. We have seen a little bit of repricing in the risk base, particularly in the high-yield, more so in leverage loans. But again, liquidity is deep. The CLO markets are healthy. So, we're seeing a lot of activity levels. Yields going forward have been repriced for the new risk metrics, if you will. And the deals that are in the pipeline are getting done, and they're getting done efficiency within our flex. So, we still feel very good about that.

I would say, the market seems a little bit more selective. And good deals are still getting done well, but we have seen some other deals struggle a little bit, not necessarily in our portfolio. And then, to the last comment, we have not changed our underwriting standards. We are still very-disciplined in that space and we will continue to be so, going forward.

Gerard Cassidy

Thank you. I appreciate it. And as a follow-up, I apologize if you've already addressed this. Can you share with us, just speaking the pipelines, your pipeline, the backlogs and ECM and DCM and advisory, where do they stand in the second quarter versus how they were in the first quarter?

Jonathan Pruzan

Again, I would describe, all of our pipelines that are three pipelines that you just highlighted as very healthy and constructive. And in the first six months, we've been able to bring those deals to market, whether that be in the advisory space or in the underwriting space. And so, we feel very good about the pipelines. Uncertainty levels and volatility levels will impact our ability to do deals going forward. But we haven't really seen any major impact from any of the headlines year-to-date.

Operator

Thank you. Our next question comes from the line of Marty Mosby of Vining Sparks. Your line is now open.

Marty Mosby

Thanks. Maybe a smaller issue. But one of our analyses actually highlighted that yield on your securities portfolio was one of the lowest amongst the large cap banks. Is there any way for you to be able to take advantage of where -- at least where current market rates are and be able to either maybe extend duration or not even extend duration just current two bonds that create a little bit higher yield in that portfolio?

Jonathan Pruzan

I would say that we're very comfortable with our ALM position this quarter. We're little bit skewed more towards cash because some of the sweep redesigns brought in a lot of cash at the end of the period. But again, I think we're comfortable with our duration of our portfolio and the risk characteristics of it. If there are opportunities to incrementally get more yield in an appropriate and prudent way, we'll do that. But, it's not going to be a big area of growth and that's not where we try to generate excess returns.

Marty Mosby

And then, just, if you look at -- there was a recovery from prior charge-off, where is the location of that in the income statement?

Jonathan Pruzan

The location of that in the income statement would be in other revenues in ISG is where you would see it, which is obviously part of that that line item. But we did have a previously charged off energy loan, fully charged off that we were able to sell until we took a recovery, but we also took it through the negative or had a release of a negative provision line, so it dropped to the bottom-line.

Operator

Our next question comes from the line of Michael Carrier of Bank of America. Your line is now open.

Michael Carrier

Just a question on the wealth management business. So, you guys highlighted some of the technology investments that you've been making in the past few years. Just wanted to give your sense, when that starts to come on line, like what you're seeing and like what are the goals in terms of bringing in new clients, new assets, improving efficiency over time. But over the next few years, is that is all kind of in place? What are goals from these investments?

Jonathan Pruzan

Yes. I would say that you sort of highlighted what our expectations are. We're going to see advancements in the technology help drive FA advice and time and efficiency and an ability to see clients' entire portfolio. So, our expectation is it will be useful tools to help our FAs work with their clients and potentially bring in some of the assets that they hold the way. We would expect also some efficiency on the back end. It's very early. And although we've made significant investments and have that lot of technological change within the business, these trends are going to play out over a significant number of years. And we would expect to get good growth and good efficiency from them.

Michael Carrier

And then, just on the trading side. So, obviously, there's volatility in that business. But you guys' results over the past year or so, do you see more consistent in equities and in fixed than some of the peers. I just wanted to get your sense on either client traction, products. And then probably more importantly, just how you're thinking about managing risk, because it does seem more consistent than a lot of the peers in the industry?

Jonathan Pruzan

Thank you for that. Again, I think we've seen very good client traction, very good diversification among clients, so not a lot of concentrations. And this is across both equities and fixed income. We continue to invest in the footprint and relationship managers and we continue to see good productivity from them. So, we like the risk profile. You noticed our bar hasn't moved around very much. We feel very good about the risk profile of the business. And it's really driven based on our client relationships and client activity and clients flows.

Operator

Our next question comes from the line of Jim Mitchell of Buckingham Research. Your line is now open.

Jim Mitchell

Maybe we can just circle back to the SCB and DFAST. I think obviously this year is not necessarily indicative of what happens next year and I get all that. But you guys have consistently had kind of one of the biggest volatility in the DFAST, from beginning to trough, yet it seems laid out, you made major changes to the franchise over 50% from wealth and asset management. Is there -- I guess, I'm struggling with why is your volatility still high and is there anything you can do to kind of reduce the DFAST stress test volatility going forward? Any thoughts on how to handle that will be great.

Jonathan Pruzan

Yes. I mean, I think your observations are very similar to ours. First of all, these models were designed for an entire industry, not just for our business mix. So, I think there is some calibration to the business model, as well as risk sensitivity. One of the things that we've been asking for is incremental transparency, so we can better understand the models because they do set our capital levels, but they're not the only input into how we thinking. And we clearly don't manage our risk based on Fed models; we manage our risk, based on our own models.

We do have a very large wealth management business in sales and trading practices which are sensitive to the securities and equities markets. So, just as a factual matter, the decline is driven by the equity path or a significant portion is driven by the equity path. As last year, as you know, it was down 65% market that stayed down and that will have an impact. But I think our expectation is that there will be some changes here coming forward. But as James said, we don't want to get ahead of it. We're encouraged by the comments around more tailored supervision. We do think that there are some elements of our business that might not be perfectly captured in the Fed models. And we're not alone here. I mean if you look at some of the results in the other banks, you have PPNR results that are multiple -- Fed models are multiples of what the banks get. So, this is not a Morgan Stanley issue. The test was designed for the entire industry and it served its purpose. It reestablished credibility and confidence in the financial system when there was none; it also recapitalized most of the banks. So it's been a great test. But we're looking forward and we don't want to get ahead of them but we are looking forward to some sort of sensible changes.

The only last comment I would make is, even though our trough -- peak to trough decline has been generally larger than most of our peers, we had been able to offer our clients -- or excuse me, our shareholders an attractive return profile. And we would expect to be able to do that in the future as well.

James Gorman

I guess, I would just add three things. Number one, I think Jon hit on something very important that the sort of equities profile of the wealth management business is suggestive that it's more volatile than our actual business is because of the scope scale we've built in and the other sources of revenue. And that's kind of an adjustment that I think and hope will be more appreciated over time in the way the models are constructed under the stress test. If you just look at the stability of that business quarter-after-quarter, it's pretty evident that even in very difficult markets, remained stable. So that's number one.

Number two, as I said earlier, I think just taking a simplistic leverage ratio or supplemental leverage ratio and putting it at the same level as the core capital risk-weighted ratio, it just doesn't make sense to me. And I've been public about that and obviously had discussions with the previous regime at the Fed about it and the current regime. And there is a lot of sympathy for taking a look at that.

And number three, I've always found difficult to understand how you grow a balance sheet during a period of financial distress when assets are actually shrinking value. And the only way you really do it I think is through acquisition which clearly one wouldn't be doing in the time of financial crisis like this.

So, those three things are pretty important, meaty things that really matter, and we will see how all this plays out over the next year or so. I think, the Fed -- and to Jon's point, the stress tests have worked. The banks are better capitalized. The system is clearly safer. And 10 years on, it's time to take a fresh look at whether there are certain things that are in balance relative to other things. We don't want to be chasing the last crisis. We're trying to figure out the next one.

Jim Mitchell

Okay. Those are all fair points. Thanks. And just maybe a follow-up on the wealth management side. I think you guys have talked about mortgage as an important product to penetrate wealth management client base. But, if I look at year-over-year growth, it's definitely slowed. I think, it was 3% year-over-year. Is there -- what's issue driving that. Do you still see significant opportunity to increase that? Just any color will be great.

Jonathan Pruzan

Sure. I think the couple of points. Yes, rising rates is one factor. But I think more importantly is that we had an outside vendor doing origination fulfillment prior. We actually built our own system and brought that in-house. And that transition period, we are now fully off of the old provider. And we are now fully on all applications, are going through our new system. We've liked that for a variety of reasons. One, we controlled customer experience, which is critical to us. We've seen better customer scores and shorter churn times. So, I think that that change is going to be net positive. But as we transitioned from the old platform to the new platform, we obviously were very sensitive to the customer experience and effectively slowed down that business. We now have the rate movements, but we do expect to get more growth going forward. And we do still think that there is opportunities within our existing client base for that product.

Operator

Thank you. Our next question comes from the line of Christian Bolu of Bernstein. Your line is now open.

Christian Bolu

Good morning, guys. Just particularly on the sweep changes that you've made to the deposit program. So, I guess $20 billion, 10 from this quarter -- 10 from last quarter and 10 going forward. Is that it or is there more that you think you can generate after that?

James Gorman

Well, again, from the redesign itself, that will be it. We've raised -- and again, this is for a very small segment of our client base. It's the larger cash balances usually get swept at the $2 million level and now at a $20 million level. So, from the sweep redesign change, the August slug will be the last of it.

Christian Bolu

Okay, perfect. And then, just circling back on your comments. I think, you said something like wealth management NII growth, you expected 4% to 5% kind of yearly growth. Is that a fair way to think about 2019?

James Gorman

I was really referencing 2018. I think it’s little early to get to 2019.

Operator

Thank you. And our next question comes from the line of Brian Kleinhanzl with KBW. Your line is now open.

Brian Kleinhanzl

Great. Thanks. Yes. Just two quick questions. First on the deposit and the remixing and diversifying of the funding. You saw the long-term debt come down. Should we think anything at all about turning out on deposits as ability to take down debt even further or is just simply switching out debt for short term wholesale?

Jonathan Pruzan

I think it’s more of the latter. I think we’re pretty comfortable. We have shifted more to unsecured debt and more towards deposits. We like the durability and the cost profile of those two products, gives us a lot of stability. You saw our liquidity numbers were up and we are carrying excess liquidity, but we’re comfortable with that position of -- give us more flexibility around future issuance. But, I think your characterization is appropriate.

Brian Kleinhanzl

And then, quickly on the capital ratios. You mentioned they were strong, you’re comfortable with where they’re at, and this is a transition year with the stress testing. But you’re going to be accreting capital. So, is the right way to think about that you’re going -- the capital ratios should be increasing over the year or irrespective of client activity? You have the ability to grow the balance sheet and keep the capital ratios flat for the year?

Jonathan Pruzan

Yes. I think, I mean, we have that flexibility. We will be accreting capital. And if there are opportunities to support clients and invest that capital into the business at a good return, we’ll do that.