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.

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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. 2018 began on a very strong footing. In the first quarter, firm revenues and net income were a record, $11.1 billion and $2.7 billion respectively. The ROE of 14.9% comfortable exceeded our targets, albeit in what is typically a seasonally strong quarter. Importantly, the quarter's performance demonstrated our inherent operating leverage in an attractive market environment. Results across all businesses were consistently strong.

Our sales and trading businesses performed exceptionally well against the backdrop of heightened volatility and client activity. Equity Sales & Trading benefited from strong volumes across all regions. Return volatility in rates and FX markets provided clients with an opportunity and a catalyst to rebalance their portfolios. This activity combined with the rise in U.S. interest rates and changes in inflation expectations contributed to strong fixed income results. We remain appropriately sized to take advantage of active markets when they present themselves. Investment banking demonstrated sustained strength despite new issue markets being punctuated by periods of elevated volatility.

Wealth management remains solid. For the quarter, the combination of continued advisory growth supported by secular trends and the businesses scale driven operating leverage produced record pretax profit of $1.2 billion. This represents an almost 20% year-on-year increase in PBT with the margin and the range we set to achieve out of the 2 years. At the same time, we continue to actively invest in the business building out our digital offerings, banking products and technology capabilities more broadly.

Investment management again witnessed net long-term inflows over the quarter as the team continues to produce strong investment returns across both alternatives and public markets. We expect attractive returns from investment management in the years ahead particularly as we take advantage of our global platform. In the quarter, we closed the Mesa West acquisition and made several key highs. We have often said that wealth and investment management give us balance and our other businesses make up the engine that drives this going forward in more active markets. That is exactly what we witnessed in the first quarter. For the past several years, a lot of focus has been put on the importance of the stability that wealth management has brought to our firm. This focus has been appropriate. Margins of 26.5% on revenues of $4.4 billion would have been unthinkable just 3 years ago.

However, what is not being discussed as often is our continued commitment to strengthen the institutional securities businesses. In institutional securities alone, the dominance of equities, the strength of fixed income and the breadth of investment banking generated over $6 billion in revenue. Along with the rest of the industry, we recently submitted our 2018 CCAR plan. As is being widely reported, this year's scenario is more severe than previous years. Of course we don't have full transparency into the Fed models, but over the years we have seen a reasonable degree of variability. Therefore we are prepared for a range of outcomes this year.

More importantly, beyond this year the Fed Reserve has recently requested comments on several proposed rulemakings. We expect that we and the U.S. financial sector more broadly will benefit from more sensible and less complex regulation. We believe we have sufficiently capitalized and expect to maintain our attractive capital return profiles over the coming years. As we look forward our objectives remain the same to execute on our strategy and deliver on the medium-term goals laid out at the beginning of this year. I am confident that given our business model makes and the competitive strength of our global franchise we are very well-positioned.

I will now turn it over to Jon to discuss the quarter in detail.

Jonathan Pruzan

Thank you and good morning. The first quarter's results were strong across businesses and regions. Global markets were active, our institutional securities businesses benefited from increased trading volumes and a return of healthy volatility across many asset classes, while wealth and investment management businesses delivered solid results weathering softer asset prices. Revenues were up 17% sequentially to $11.1 billion, a firm record after excluding the impact of DVA in prior periods. PBT was $3.4 billion, EPS was $1.45, ROE was 14.9% and return on tangible common equity was 17.2%. Total non-interest expense was $7.7 billion, up 10% year-over-year. The increase was driven by a combination of higher compensation expenses and execution related costs associated with higher revenues and business volumes respectively. Continued investment into technology also contributed to the increase. Over that same period revenue growth was 14%. In the quarter the firm efficiency ratio was 69% with all segments contributing to strong operating leverage. The gross-up impact of the new accounting guidance for revenue recognition was not material at the firm level. The details are more fully described in the quarterly supplement.

Now, I will turn to businesses. Institutional securities generated revenues of $6.1 billion. This represents a 35% sequential increase and the best performance for the segment as a whole since 2007. Investment banking, equities and fixed income all contributed to the results. Non-compensation expenses were $1.8 billion for the quarter, a 6% increase driven by higher execution expenses. Compensation expenses were $2.2 billion, representing compensation to net revenue ratio of 35.4%. In investment banking, we have generated revenues of $1.5 billion, a 5% increase over a strong fourth quarter. The results reflect the combination of increased advisory revenues and stability in underwriting, all regions demonstrated strength. Advisory revenues for the quarter were $574 million, up 10% sequentially. Announced M&A volumes have had a strong start to the year. Notably there has been a pickup in both larger and cross-border transactions. Clients remained engaged and pipelines are healthy.

Turning to underwriting, new issue market conditions were more challenged during periods in the quarter, despite doubts of heightened equity volatility, rising interest rates and wider credit spreads, results remain solid. Equity underwriting revenues of $421 million were up 1% sequentially. The market backdrop impacted our ability to convert some of our IPO backlog, but follow-on activity remained robust. Regionally, we witnessed strength in Asia and the Americas. We also saw issuers take advantage of higher volatility through increased convertible issuance. Fixed income underwriting revenues increased 4% sequentially to $518 million. A decrease in high yield financing was offset by increased investment grade issuance. This was supported in part by event driven activity including one large financing we provided together with our partner MUFG. Overall, investment banking pipelines remain healthy and diversified across products, regions and sectors. However, as demonstrated by recent market dynamics future activity may be impacted by regulatory, macro economic and geopolitical factors.

Our sales and trading businesses produced revenues of $4.4 billion, up 64% quarter-over-quarter, increased market activity, strong client engagement and more favorable bid offer spreads particularly during the first half of the quarter drove the improvement in results. In equities, we retained our leadership position and expect to be number one globally. Revenues were $2.6 billion, up 33% sequentially on strength across all products and all regions. Derivatives had a very strong quarter as episodes of volatility created significant trading activity and strong client demand for hedging solutions. A combination of higher client balances and increased engagement generated a sequential rise in prime brokerage revenues. And cash revenues also saw quarter-over-quarter increase benefiting from strong volumes globally particularly in Europe and Asia.

Fixed income was also strong. Revenues in the first quarter were $1.9 billion more than doubling fourth quarter results. While seasonal patterns were a contributing factor, the sharp rise in interest rates in the early part of the quarter heightened volatility levels and the rise in inflation expectations aided activity and our performance. Our macro business performance was solid driven by improved sequential performance across rates in FX. The credit businesses performed well.

Our securitized product group had one of its best quarters in close to 4 years driven by strength in Europe and a more active trading backdrop. Deepening our institutional lending footprint has aided this revenue stream. Commodity revenues were also strong. The results benefited from both an increase in flow activity and more structured transactions, which can be episodic. Fixed income results demonstrate the operational flex in the business and the segment’s ability to service clients in a range of market environments. Average trading VAR for the period was $46 million, up from $38 million in the fourth quarter 2017. The increase was driven by higher market volatility and facilitation of increased client activity.

Turning to wealth management, revenues of $4.4 billion were down 1% quarter-over-quarter as continued growth in asset management was offset by the impact of mark-to-market un-deferred compensation planned investments. Despite lower sequential revenues, the segment produced record pre-tax profit of $1.2 billion resulting in a PBT margin of 26.5%. The 40 basis points of sequential margin increase and 250 basis point uplift compared to last year’s first quarter demonstrates the operating leverage in this scale business. On a year-over-year basis, non-compensation expenses are flat despite an 8% growth in revenues.

Total client assets, was essentially unchanged at $2.4 trillion reflecting softness in domestic and international equity indices. Fee-based assets continue to be a source of long-term organic growth for the business supported by both conversions from brokerage and net new asset flows into the firm. Net fee-based asset flows of $18 billion were strong. As a result, fee-based assets reached a new high of $1.1 trillion or 45% of total client assets. Asset management revenues were $2.5 billion. Positive flows in last quarter’s higher asset levels were partially offset by the effect of fewer calendar days in the quarter.

Net interest income was $1.1 billion. Higher average balances and yields were offset by an increase in funding costs driven primarily by higher rates on our deposits. Lower suite deposit balances also impacted NII as retail clients have continued to deploy cash into the market. Cash in our clients accounts remains at historical lows and equity allocations remain at historic highs hovering around 54% of client assets. On a year-over-year basis, net interest income is up 8%. This has been driven primarily by an increase in wealth management lending in the U.S. banks. Loan balances were up $6.7 billion or 11% with growth across both SBL and mortgage.

In the quarter, loans grew by 1% to $68.3 billion. The more modest space of sequential loan growth was driven by rising rates, deepening pay-downs and a lower level of mortgage production as we transitioned to our in-house origination platform. Retail engagement was strong in the quarter as investors actively repositioned portfolios and responded to market volatility. However, total transaction revenues of $747 million, was down 5% driven principally by the impact of mark-to-market on deferred compensation plans. This quarter's results underscore the stability of the segment despite gyrations in equity markets and our pace of investment, pre-tax profit reached new highs. We continue to pursue enhancements to our digital capabilities and we are continuously introducing new applications to the organization. Over time, we believe that these advancements will enable our advisors to provide better advice in service and broaden their client relationships.

In investment management, revenues were $718 million, up 13% sequentially driven by higher asset management fees and the assets of last quarter's impairment charge. Total AUM of $469 billion was down 2% quarter-over-quarter with long-term AUM of $312 billion, up 2% quarter-over-quarter. Although we saw outflows in our liquidity business as clients manage their cash balance needs around the turn of the year, our long-term strategy saw continued positive flows. In the quarter, we also closed the Mesa West acquisition, adding private real estate credit capabilities for our platform. Asset management fees of $626 million were up 9% sequentially on the back of higher average AUM for the quarter. We continue to see stability in fee rates earned on our long-term assets. Invested revenues were $77 million, down by 31% relative to last quarter, impacted by lower market performance in certain private equity related funds. Total expenses increased by 2% quarter-over-quarter, largely driven by the revenue recognition gross-up related to this segment.

Turning to the balance sheet, on a sequential basis, total spot assets of $860 billion was essentially flat. As a result of higher lending commitments supporting relationship and event activity in the quarter, our standardized RWAs grew by approximately $12 billion to $389 billion. Basel III standardized common equity Tier 1 ratio is expected to decrease to 15.6%. Our supplementary leverage ratio is expected to remain relatively unchanged at 6.3%. During the fourth quarter we repurchased approximately $1.25 billion of common stock or approximately 22 million shares and our Board declared a $0.25 dividend per share. This morning, we announced the share repurchase plan with MUFG. As part of our regular repurchase program, we will make pro rata purchases directly from MUFG. This will help ensure compliance with their passivity commitments of the Federal Reserve by maintaining their ownership below 24.9%. This will not impact our strategic alliance.

Our tax rate in the first quarter was 20.9% reflecting the reduced U.S. corporate tax rate and benefits associated with share-based payments. Our guidance for the full year remains at 22% to 25%. Since the vast majority of share based award conversions are placed in the first quarter, we expected the tax rate for the remaining quarters to be at the upper end of this range. This quarter demonstrates the strength of our franchise and the benefit of our global business model. As we look forward, we remain confident that we are well-positioned to execute the medium-term strategic objectives that we laid out earlier this year. In the year – in the near-term we are aware of the fragility of market sentiment. We have emphasized the importance of open and functioning markets as it relates to our performance. This quarter results demonstrate that increased levels of activity and client engagement are broadly beneficial to our business.

With that we will now open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Steven Chubak of Nomura. Your line is now open.

Steven Chubak

Thanks. Good morning all.

James Gorman

Good morning.

Steven Chubak

So I was hoping to just unpack James some of your comments surrounding the recent proposed changes to capital regime, as we think about the capital constraints that you are looking to manage to longer term, historically you have been a bit more leverage constrained, we now have this enhanced SLR and SEB proposals that are out there and there are some expectation that risk based ratios could once again become a bit more binding. And just based on the new proposals as outlined in your initial read, which constraints are you now more focused on in terms of what informs not just future payout capacity, but also how you are thinking about your balance sheet strategy longer term?

James Gorman

There is – well, there is a bunch in that, obviously. I think the first point just to reiterate his acknowledgment that this year's CCAR test or at least the economic scenarios which are driven by the 10% unemployment requirement under Dodd-Frank and when your unemployment is currently run 4%, 4.1% in this country, you need some very severe shocks to hit 10%, so it's sort of – it's an academic approach if you will to achieve an outcome which then generates models which are very severe. So, this year will be kind of interesting to see how it all plays out. We obviously believe we are well capitalized, but we kind of anticipate how all these – the tests this year will play out. So, what we are really focused on is 2019 ongoing and you are right the SEB buffer comes into play. Historically, you are right, our constraint has been our leverage ratio it's been – I think are constrained on every tests going back and maybe not the first one, I can't remember exactly, but I am pretty sure. And it will remain the constrained under the traditional CCAR model. Under the SEB proposal, I think you are right that the likelihood is that the CET1 ratio would be the constraint rather than the leverage ratio. For Morgan Stanley, I don't think that's unfriendly news, where it comes out and we are on a common period at the moment, but the Fed Reserve has asked for its sponsors to the multiple road changes and Jon may have something to add to these comments by the way, but the Fed has asked for a comment on that and where that comes out remains to be seen, but I have always found it slightly surreal that the binding constraint would be the balance sheet, debt balance sheet irrespective of the content of assets that comprised that balance sheet. Having a capital as the leverage ratio of cash or treasuries or other forms of government securities versus highly illiquid high-risk securities seems to me the kind of thing one would want to differentiate against.

So, I have always in my mind leverage ratio should have played a – should have been a secondary ratio to the core capital ratio. So, it's been just my personal view, because it leads to a very bizarre outcome, but in order to if your constrained as leverage ratio, it might cause you to be very aggressive on the risk-based assets, because frankly, they don't matter if leverage ratio is your constraint, that's clearly not an outcome that regulators here or anywhere in the world would want. So, I am kind of welcoming the shift to the SEB model, I think if it translates to Morgan Stanley, which I think it all, the constraint being poor capital, I think that's more sensible from a regulatory perspective. And I don't think we are going to be, let me just say, I don't think we are going to be worse off under that scenario than we are today. Whether and how much better off, but I don't want to prejudge that.

Steven Chubak

Alright. Thanks, James. As a very comprehensive response, I will switch over to the business side specifically wealth management, it's certainly encouraging to see continued robust fee-based flows, improvement in pre-tax profitability probably the one area that maybe fell a bit short of our expectation was NII driven in part by slower loan growth. I know you had spoken if some of the factors, including the migration of mortgage originations in-house, but how should we think about the outlook for loan growth in the coming year and maybe against the backdrop of rising funding cost, how does it inform your outlook for the NIM trajectory from here?

Jonathan Pruzan

Sure. So, I would say that the NII results and lending results were actually in line with our own expectations. I think what we have talked about coming into the – throughout last year as well as coming into this year was a couple of factors that we suggested would slowdown NII growth in this segment and that's what we obviously saw this year or this quarter excuse me. We still do believe that we will have good loan growth and that will be a driver of the NII growth going forward. Last year, we grew loans by about $7 billion or $8 billion. Our portfolio is now about $70 billion. So, we will grow probably at a slower pace for the reasons you highlighted the transition and sort of rising rates, but we still think that's healthy growth on a $70 billion portfolio. We still feel like there is opportunity within our client set if you look at penetration numbers and whatnot that will continue to grow that line, but at a slower pace. We also told you last year that we saw that the deposit deployment strategy that we had in place was going to play out and we were planning on diversifying our deposit and liability structure, which we obviously have done. What we have seen and we talked about this last quarter and again this quarter or excuse me last year, our clients are deploying more cash into the markets and then putting it into different types of investments. The good news is that we still capture those assets when they go into advisory accounts and other transaction-related accounts, but it has brought down our sweep accounts and we have replaced those with higher cost deposits and you are seeing that on the net interest expense line item. The other point I would make just quickly or briefly is that we had seen very receptive network if you will to our new products, particularly around some of the CDs and savings promotions that we have been running. So, we have been able to raise $10 billion odd deposits since last summer albeit at a higher price. So, I think this is actually playing out as we expected and it is going to be growth, but it will be slower.

Operator

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

Brennan Hawken

Good morning, just wanted to ask another question here on the lending and such, Jon, you highlighted that the institutional lending supported – or lent some support to big trading results here this quarter. We certainly saw strong growth in the institutional balances here. Is some of this funding that you are doing for CDs being used to fund some of the institutional loan growth, what's the plan for how long that would stay on the balance sheet and does this provide a pipeline for some DCM activity here in the coming quarters?

Jonathan Pruzan

So a lot of questions in there and I would basically say yes to all of them. But let's just quickly kick-off. So if you look in our disclosures I think on one of the pages in the supplementary deck has the U.S. banks. You will see that as you mentioned that the institutional lending has increased, a lot of that has been in our Fed secured business or our warehousing businesses which have been very active. There is good velocity in those facilities. We have seen really good strength actually in Europe as we help finance some of our clients to buy some of these portfolios that the banks have been selling. So that has been a good business for us, good velocity, good yield and that is actually financed in the bank. You don't see that in the net interest income that we talked about in wealth management, because it shows up in the ISG lines. So there is good asset sensitivity and good growth in that line item, it's just embedded in some of the fixed income and sales and trading line items, so good growth in that area. We continue to see or have the ability to invest in that area and grow that business and it's been a good source of revenues for us, stable revenues.

Brennan Hawken

Terrific. So, the follow-up would be then I would expect that at least what was certainly volatility supported some of the trading strength here this quarter, there is also some annuitized component to some of the revenue strength here in trading that sits on the balance sheet and another component which you might not have touched upon, so I want to try and get out it different way, is the CD or is the CD is being used to fund this and are those deposit costs being born in the NII line in wealth, but not necessarily getting the benefit of the NII and so it's just a geography issue, so we are all going to – my focus on the wealth NII, but you really are generating economics this is not pulling through that line? Thanks.

Jonathan Pruzan

So yes, I mean again within fixed income there are lots of businesses macro and micro corporate trading commodities are within our FPG business, a larger percentage of that that line item over time will be coming from these lending activities. And we have seen good growth in that area. Again, the bank – the primary funding sources for the bank are deposits and they are being used whether that's the suite deposit that savings of the time as well as some of the other external sources that we have to fund the institutional part of the lending program. So again, you are right that it is a growing part of that segment, but it's still relatively small to the overall pie. It does give us some stability and we like the credit characteristics and the yield characteristics of that business and we will continue to try to grow it going forward.

Operator

Thank you. Our next question comes from line of Glenn Schorr of Evercore. Your line is now open.

Glenn Schorr

Hi, thanks very much. Just a question historically the whole industry, but Morgan Stanley specifically had big seasonality in the first quarter, I thought a chunk of that had to do with the physical commodities business which is no longer there, but putting aside that this was a more active first quarter in general, you talked about securitized products, you also talked about some structure transactions and commodities, I know it's an impossible question, but should we be expecting seasonality of the past given that the higher activity levels and those specific components this quarter?

James Gorman

I am glad your processed that by saying it's an impossible question, which means that actually I am going to go back to Brennan's question because I realized that and that's the second part and then Glenn I will get back to you, but…

Jonathan Pruzan

On the NII comment, obviously we transfer price across segments. So, some of the benefit of those deposits is being born in the NII of the banks clearly and how it falls within the segment is ultimately a function of usage in activity level. And now to Glenn, in terms of seasonality, we did exit many of our physical commodities businesses that I would say added to the seasonality because we were generally owners of commodities in oil during the winter with the weather you saw different seasonality components to that business. It's obviously now a smaller component of it. And generally speaking though, if you look back over 5, 10 years of first quarter has generally been seasonally strong, particularly in ISG sales and trading and whether that's just because people have new money to invest or they are repositioning for the year or the start of the measurement period in terms of their performance, but there generally has been real seasonality in sales and trading. We clearly saw that in the first quarter this year. If you look at the wallets at least based on some of the early data, it suggests that the equity wallet is up, fixed income wallet is also up, but I think also if you look certainly quarter-over-quarter, year-over-year, equity wallet would be up and it looks like fixed income is actually quite balanced.

James Gorman

I just make an observation that yes, historically the first quarter has been the seasonally stronger quarter across Wall Street, but you have got to also take into account what the business mix is. 10 years ago or 12 years ago when I started here, I was running wealth management, I think our revenues in wealth management be in the quarter-to-quarter and our pre-tax at that point was around 3% or something in that order. Obviously, we are in a very different planet now. So, that $4.4 billion plus or minus a quarter and pre-tax over $1 billion, you add wealth, the way I think about this, I had wealth and asset management together and say we start off every quarter at $5 billion in the bank. And then if you think about equities and investment banking have historically, it's been a long time I think since we have had an equities quarter below $1.5 billion and quite a long time since we have had a banking quarter much below $1 billion, I mean, they have been I think some in the high 900s. So, I think at $2.5 billion pretty much in the bank from those. So, every quarter kind of begins with roughly $7.5 billion. The flex is obviously how strong the markets are reflecting in the new issue calendar which pumps up the banking reflecting in equity activity, depending – the season, what time of the year it is and then obviously fixed income. And as you correctly point out, the tail that wagged the dog for a while in fixed income was the big physical commodities in some of the very large multiple structured trades we did. A lot of that has gone away. So, fixed income won't have the huge ups that we had in 2006 and '07 most of which we gave back by the way, but it won't have – it's unlikely to have the kinds of downs that we had before we got rid of the physical stuff and restructured the business. So, I think the range of this firm is kind of a worst case scenario without the market completely imploding around $7.5 billion a quarter. That was not the case 10 years ago and it was not the case 5 years ago. So, that's what we are playing for is the sort of balanced and then the speed obviously in a good market, the seasonally strong market, an active market, which we had in the first quarter slightly lower tax rate, slightly lower preferred that we have every other quarter, then you are going to be at the highest end of – or towards the higher end of your ranges.

Glenn Schorr

I appreciate that much more than I thought. Appreciate it.

Operator

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

Guy Moszkowski

Good morning. James, I think I got the gist of what you were trying to say at the outset when you talked about this year's CCAR and being prepared for a range, but I think you were trying to send some messages there and I was just hoping that you could elaborate a little bit on what you mean by that versus how you might view future CCARs?

James Gorman

Well, very simply, Guy and I appreciate that follow-up question there. Very simply put, we have increased the dividend I think 4 years in a row and increased the buyback 4 years in a go. We have gone from $0.05 and $0.5 billion to $1 and $5 billion. And this test is, I mean, this is a hard test. If you have to generate a 10% unemployment number and the unemployment is currently 4.1%, you have to provide some pretty extraordinary shocks to hit us. That's just mathematical, that doesn't – I am not saying people actually believe that's what's going to happen. In a scenario it's certainly much for us than what happened in the financial crisis of '08, but that's the reality of the Dodd Frank legislation and the outcome that has to be generated. We obviously – the firm has not materially grown in anyway that would suggest we need more capital. The firm is more profitable than it was, so it's creating more earnings. The firm is operating of the tax rate nearly 10 points below what it was a year ago. The firm has more earnings coming out of wealth management which are more stable. So on any objective assessment, you would say that there is – we are approaching 100% payout last year, I think we are in the high-90s if memory serves me. You would expect us to be paying out certainly anything that we accrete and some that would be any objective assessment would say that. I am just saying against the backdrop of the way the particular models of this test is splitting out for 2018. And I don't think this will be the case for 2019. So I want to really separate those discussions. I am saying it's less clear. I mean we are pretty confident and we will ask for what we think we should be getting and what I think our business throws off, obviously that's between us and the Federal Reserve until the results are outlined. But I have seen over the years I have seen that PPNR numbers come out at $6.4 billion, that's a $5.5 billion swing. So I have seen some pretty unusual result over the years and I just can't predict exactly how it's going to play out, so I am prepared and I said it very deliberately which you picked up, I am prepared for the range of outcomes for 2018.

Guy Moszkowski

Okay, that's helpful clarity. Thank you. The other question I just wanted to pick up on that was something that Jonathan mentioned in his remarks was the concept of the bid offer which was up very strongly in the early part of the quarter, I guess across a wide range of products and I would just be interested in a little bit more color on what you saw, where you saw it and in terms of products and areas and to what extent should we think that this has probably normalized already?

James Gorman

Just before he does say, I just want to be clear. We are highly confident in this firm's capital position. If it was strong last year, it's stronger now and that's where we stand as a firm. So there is nothing that I am trying to suggest or indicate that would imply that we don't feel very strongly about our capital. We have capital sufficient last year by definition every dollar you accrete from then on you would either give back to shareholders and put to good use. So we are highly confident about that position. What I am anticipating is I have been around this track [ph] long enough and made sure enough of these tests and seen enough variability that when you dial the scenario up to the level it got out up it can lead to unintended consequences. Jonathan?

Jonathan Pruzan

I would add you heard, Guy that we repurchased $1 billion in the quarter. This quarter we have a $5 billion authorization that James referenced and it's our intent to use that authorization in the second quarter. In terms of the bid offer spread, it really anytime you see heightened volatility in the equity markets around some of our market making activities, you would generally see that spread widen out and it's really just a function of volatility. So as the volatility changes you will see changes in that bid offer spread I think it's just simple as that.

Operator

Thank you. And our next question comes from line of Mike Mayo of Wells Fargo Securities. Your line is now open.

Mike Mayo

Hi, this question might do on the category of no good deed goes unpunished, but you have the biggest gap between your return on equity and your targeted return on equity, so the fact that you are not raising estimates or targets yet, I guess it could be because it's seasonal or you don't extrapolate some results because of something you see or because you compete away the tax benefits or you just want to be super-safe especially after your first couple of years and CEO, James, you got started, but you missed a couple of targets and now you are exceeding them and you are exceeding them by wide margin, so why not increased target?

James Gorman

Well, Mike, glad you asked the question, not to correct you, but I will – actually we had a bigger gap between our return targets and our performance and that was when we generated 2% ROEs and we had a 10% target which if memory serves me you reminded us pretty frequently on these calls. So, it's a happy gap in the other direction. But seriously, this is an all science, there is – there are these things called the markets that operate here and we build our business models to function well in bad markets. If Morgan Stanley's strategy could be defined simply, it would be that we will do fine when the markets are tough and we would do well when the markets are good. There are others who might do better when the markets are good that's fine. What I care about is how we do when the markets are tough. So, when we put in a target range, we don't anticipate firstly we would never change it after one quarter and you wouldn't expect us do it, so it's I think we called it a medium-term range, so I think about those for a couple of years. So, it would be kind of silly to bounce around after one quarter, but putting that aside, just philosophically, the target range is supposed to represent a normal set of outcomes under kind of tough market environment and a good market environment. This was a very good market environment as we sit right at the outset, not perfect, we can definitely do better. The underwriting calendar was not phenomenal. Wealth management transaction activity is extremely light. We had very few gains in the investment portfolio where we are managing expenses strongly, but not ruthlessly. So, there is things we could do clearly to drive returns higher up putting aside revenue growth. But what we are focused on is how we are going to do in a difficult microenvironment. So, seasonally just add in the extra preferred agreement tax rate up to the sort of 23%, 25% range that Jon talked about and the return to this quarter probably dropped from 14.9% to rough math about 14%. So, think of it as starting basis is 14%, yes, the high end of our target was 13%, but as I said, a very good environment. If we go to the end of this year and we were consistently above 13%, then I will come back to and I am prepared to renegotiate our goals at that point.

Mike Mayo

Fair enough. And one follow-up in terms of environment now that you have $70 billion of loans, up almost 20% year-over-year, how do you reassure investors that these loans will stay of good quality?

Jonathan Pruzan

Again, I think from the overall credit quality, there is a couple of components, one is obviously mix, a good portion of that or it's the vast majority of the wealth management loans, virtually all are secured in one way, shape or form whether that be via house or our bigger portfolios around the security-based lending where we have good LTVs and good data protections. On the mortgages, I think you know our portfolio has been very, very clean and then on the institutional side, again all of that lending is secured. The warehouse business has good structural protections and good haircuts. Our commercial real estate portfolio also has performed nicely in terms of its LTVs and whatnot, but again, we are in a pretty good credit environment. I would suspect at some point we will get into a credit cycle and you will see more losses from that portfolio. But at this point, it's been very clean. It's been a good risk return profile with healthy yields and very strong credit characteristics.

Operator

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

Gerard Cassidy

Thank you. Good morning. Jon, can you share with us your thoughts on you talked about the mortgage production and moving it in-house may have contributed to some of the slower growth, but I know it's early, but your clients tend to be obviously higher net worth type of clients. Have you seen any evidence ye that the salt issue when it comes to the state and local taxes and that restriction is impacting people's borrowing habits on mortgages yet?

Jonathan Pruzan

To be honest, the answer is no. And I know there was a lot of discussion about people moving and particularly at places like California, New York, but we haven't really seen any activity based on that dynamic. We did obviously – our provider was PHH, they have changed their business models, so we had to bring change ours. So, we brought it in-house and we have purposely slowed down that production to make sure that we have the right infrastructure and level of client service required for our clients. We still think there is opportunity to grow. As rates rise, we will also see presumably less runoff, but again we feel good about where we are in terms of the lending growth slower first quarter, but as expected.

Gerard Cassidy

Very good and then just pivoting to the trading area in equities, obviously you have made a meaningful commitment to technology in low touch trading versus the traditional high touch trading, can you share with us how those trends are moving, is the high touch trading falling fast and it's really coming more of a low touch trading environment and which you guys of course are one of the leaders in?

Jonathan Pruzan

Yes. I think there has been a multiyear trend of more electronic trading versus voice trading. And we have seen that quarter-over-quarter. We benefited obviously this quarter as we have seen that transition. The volumes are going up dramatically and although there is different pricing dynamics around price versus actually the voice versus electronic. We have been making up a lot of it in volume, but there is clearly pressure on the voice trading part of the business.

Gerard Cassidy

Thank you.

Operator

Thank you. Our next question comes from the line of Michael Carrier of Bank of America/Merrill Lynch. Your line is now open.

Michael Carrier

Thanks guys. Jon, you guys generated good operating leverage in the quarter, comp ratio lower, just on the non-comp side, we expected somewhat with just the activity, but maybe just some color on what's being driven by activity versus what you guys mentioned on the investments in wealth management like what we should be expecting is more ongoing?

Jonathan Pruzan

Again, I think based on sort of our expectations in budgets, we actually were right in line with sort of what our expectations were on sort of the non-revenue related items and then we feel a clearly increase in BC&E which shows up in the BC&E line, an increase in transaction taxes, increases in UK bank levy and some of the other things that would show up in the other expense line. So where we expected the increase is we had a little bit of increase in occupancy as we knew we were renegotiating some leases. We have got some expenses related to some of the planning we are doing in Brexit. So again all of the expected slight increases that we felt we would have, we saw and then the real increase in expenses was virtually all related to the sales and trading and revenue related activities.

Michael Carrier

Okay, got it. And then just as a follow-up on the capital ratios in the stress capital buffer, I just wanted to give or take given that it will be more variable or volatile going forward, do you expect some more transparency in the calculation of the test and if you get that then can you better manage like the current kind of portfolio in the business to maybe navigate that better over the next few years and I know it's early, but…?

Jonathan Pruzan

Again, I would say it's very early, I would say there have been a couple of announcements and Vice Chairman, Carla has testified yesterday or day before and made some comments. I think there is clearly a trend towards simplification. There is a trend towards more transparency. There is a trend towards more bespoke regulation based on your own individual firm risk profile. And there is an element of recalibration 10 years after the fact. And I think transparency for us that might lead to better stability would really be transparency around the actual scenarios. We have seen this test get harder year-after-year as James mentioned at 10% unemployment rate, but also every year when we get there scenarios and upfront market shock in the past, there is always a couple of things in there that surprised us and to be fair are not necessarily are 100% consistent with how we see the world and what would happen in a scenario like that. So anything around transparency, around the scenarios and that's one of things that we are going to comment on. And I think Vice Chairman, Carla has mentioned something about putting out the scenarios for comment. I mean any of that would be helpful for us to plan our business, because we look at things for the longer term and to get a surprise year-after-year based on sort of the scenario does obviously inhibit that – some of that long-term strategy planning.

Operator

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

Jim Mitchell

Good morning, just a follow-up on that, you guys, James as you said you have built more stable you think stable kind of revenue producing business model you had when we look at the stress test, you get hit the hardest in terms of starting point to stress minimum in terms of loss rates that seems, it doesn't seem to jive with what you have built and just therefore you get hit hardest in this SEB even though you have plenty of capital. How do you – is there anything we can view think about or going forward that you can sort of help the Fed or help yourself kind of reduce the higher losses that they attribute to your firm, how do we think about offsets going forward or how do you think about it?

Jonathan Pruzan

This is – I will try to take a chance. Again, the transparency in their models and one of the uncertainty this year is they are continuing this sort of 2-year phase-in transition on some of their PPNR models. As James mentioned, we think we have created a much more stable revenue base yet in the stress cases that they have prepared, our PPNR has been a wildly unpredictable and wildly low. Some of that this year is going to be a function as you know are of significant portion of our revenues in wealth comes from our fee-based flows and if your markets are down 65% and they don't ever recover, that obviously has an impact on our business. The other thing you should know is all these tests were not allowed to do make any sort of management actions. So, we just watch all of this go on and have no ability to react to it. So, we do have a high reduction. Also, some of that has to do with just our RWA density is lower than everyone else's and that while it intuitively means that we have less risk doesn't seem to benefit from the tests, which is also one of the reasons why I think – and I think Vice Chairman, Carla has mentioned this yesterday, we do think that a recalibration of the GCIP methodology, particularly MiFID II would be helpful. Our de-risking strategy has led to a higher GCIP buffer, which intuitively doesn't make sense and we have got a pretty big gap between the MiFID I and MiFID II and so those are some of the types of things that we would like to comment on going forward in this process.

James Gorman

And just specifically on us historically as we said, the constraint was leverage ratio. And if – as the models in the Fed have done, you grow your balance sheet, then that's highly punitive. I think it's been growing 4.3%, 4.5% a year. So, I have said this publicly and I have said it privately, I don't – I can't anticipate a scenario, where your balance sheet grows during the time of financial distress and deflation of financial assets unless you are requiring other institutions, that just is illogical and I have seen no empirical evidence to support balance sheet growth during that time period. And I think that view has started to resonate. And I think Vice Chair, Carla has talked about some of that in one of his speeches recently as they are considering moving to the stress buffer model. But I think in fact our experience was I think our balance sheet strength of memory, certainly 29% post-crisis. So, under that we would be wildly overcapitalized from a leverage ratio perspective. Now, I am not suggesting that, that's appropriate to model it in that regard, because obviously we took very draconian steps because we had to and a stronger institution might take less return draconian steps and we believe we are a stronger institution now. But the bottom line is we have always had the constraint to leverage ratio if you took away the balance sheet growth and just kept it flat, we wouldn't even be having this discussion.

Jim Mitchell

Right, absolutely. Thanks for that. And then maybe a follow-up on just as awful chatter about the Volcker rule, I don't know when you talked to your traders, has the uncertainty and complexity of that rule kind of hurt them in anyway, do they feel like some greater simplicity would help a lot or just a little, I mean, is it more of an expense issue? Just trying to think through if there is any kind of material impact where the revenue and expense is from some simplicity in the Volcker rule?

James Gorman

Yes, it's probably going to take too long to pull apart all the aspects of the Volcker rule for this call. So, just given the time, I won't go into it, but clearly what Paul Volcker was trying to do was restrict deposit-taking institutions from putting their own capital at risk in proprietary trading or investing and it walked into something, which is far more complex requires a lot of attestations and many people's view has impinged on lack of liquidity and move from focused on proprietary activity to principal trading activity. I think the regulators are obviously very aware of the industry response on this and this is an opportunity where they are taking a hard look at it. I do not expect the Volcker rule to be removed. I am not sure it should be removed, because I am not sure banks should point large parts of their capital at risk in proprietary trading or proprietary investment position. So the essence of what Volcker was trying to do I would personally agree with, the way in which it was executed left some revision would be appropriate.

Operator

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

Christian Bolu

Good morning James. Good morning Jonathan. Thanks for squeezing me in here. On the wealth management side, just want to follow-up on the NII questions, I guess just to wrap it all up, how should we think about sequential quarter progress going forward, should we be thinking about growth for Q1 base and also if you have the deposit, the brokering deposit number for the quarter that would be helpful also?

Jonathan Pruzan

Sure and again the way I would describe this first of all I think you have heard James talk a lot about this business being balanced, so it's not going to move quarter-over-quarter sequentially very much, that's why we like it a lot, it sort of grinds it out. If you look over the year-over-year comparison, NII is up 8% driven by very nice loan growth. And I would say going forward, we have – I have tried to highlight in this call that the loan growth to be at a slower rate than last year. We are also up of a bigger base and we are also not going to get the benefit of sort of the lower betas or the betas – actual betas sort of below sort of the predicted model beta is 50%, I think we are going to start seeing the betas and we already have creep up towards that 50% type of level. So again, we do expect NII growth, it will be slower than we have had over the last 5 years. I mean we have tripled our loan portfolio in 5 years. We clearly can't continue with that clip as we started with a lot of new products and a lot of new strategies. But we will continue to see growth just at a slower pace.

Christian Bolu

Okay. Just sorry the growth is sequential or year-over-year growth, I guess that's what I am trying to…?

James Gorman

I am sorry, when we talk about NII growth, we are talking year-over-year, so if you look at historically we have been growing NII year-over-year on average $500 million, we are clearly telling you that we are going to grow NII in '18 versus '17, but it's going to be at a slower pace.

Operator

Thank you. Our next question comes from the line of Kian Abouhossein of JPMorgan. Your line is now open.

Kian Abouhossein

Yes. It's Kian Abouhossein, securitized products you mentioned it's one of the best performances you have seen over the last 4 years and I was just wondering why that is because I wouldn't expect that looking at industry data and you particularly highlighted Europe in that context as well which historically is a very small part at least if you look at that logic data in terms of revenues, issuance revenues, I am just wondering what is driving that for you, it looks like you are gaining market share, so I want to understand what you are doing in globally, but also in Europe in particular in this area?

James Gorman

Again, I would say broadly fixed income was strong. There weren't a lot of elephant type transactions in the quarter, so it's really just sort of small out-performance in a lot of places across the globe, number one. In terms of FPG and one of the things that we highlighted, Europe is again in this – in our warehouse business we have been very active supporting clients as some of the larger banks have been getting out of real estate portfolios as they continue to de-leverage and we been providing financing for European clients, that's been a very good business for us. We obviously some combination of both syndicating out that exposure, but also securitization activity on the back of it has been very good for us. So again, I called out FPG just because if you look at percentages it did sort of outshine if you will the other areas with both fixed – excuse me, FX and commodities, but it wasn't – it was just a little bit better in a lot of different places all overall the world across products and that geographies.

Operator

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

Brian Kleinhanzl

Yes. Thanks. Just had a quick question on the wealth management space, we saw that the reps were down 1% year-on-year, I mean going forward is that just the right way to think about your advisors in that business, there is going to be a declining based from here or will there be a some point we can actually see growth in advisors?

Jonathan Pruzan

I mean I think generally the attrition has been pretty low 1% is a relatively small number given the size of the franchise with the ages and retirements and some people still leaving. What we have seen to-date this year is actually a significant slowdown in the number of people who have had left. Generally, the size of the production of the people who have been leaving has been quite low. We have deemphasized recruiting. We have only recruited a handful of people over the first quarter, but I think generally speaking flattish and plus or minus 1%, I sort of bucket into the flattest categories sort of how we see this certainly in the near term as we continue to invest in our current franchise, our current FAs and our current infrastructure.

James Gorman

Yes. I would focus on total assets and assets per adviser more than the number of advisers, but you won’t see radical shifts in numbers. We are at the last question I know there are other people on the line, I am sorry about that, we went a little longer on some of these questions early, because they were a little more dense. So, if you need to cause your own, then please do. We will answer everybody’s questions offline. Thank you so much.