Good morning. I will be reading a statement on behalf of Morgan Stanley. Today's presentation will refer to Morgan Stanley's 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'll now turn the call over to Chairman and Chief Executive Officer, James Gorman.

James Gorman

Thank you, operator. Good morning, everyone. Thank you for joining us. We sincerely hope that you, your families, and your colleagues are all well in these very difficult times. We're obviously in the middle of a public health crisis, one that is devastating to many. And along with it, the world is being tested from a humanitarian, economic, and financial perspective. As long as the duration and scale of the pandemic and economic slowdown remains uncertain, I expect markets will continue to be fragile. The resulting stress on the global economy is real and will take time to recover.

The speed of the actions taken by policymakers has been remarkable. Central banks acted swiftly around the globe. The policies have been thoughtful. Fiscal stimulus measures and support for small businesses and individuals have been put into place. And unlike the global financial crisis, the banking system is being leveraged to be a critical part of the solution. The Federal Reserve and other central banks are taking steps to support the economy and we wanted to do our part. In March, we voluntarily suspended share repurchases. We do not expect to restart these repurchases until we have a better understanding of the shape and depth of the economic recovery. Despite these extremely challenging times, our businesses held up remarkably well.

Of course, we saw an increase in our credit provisions and declines in investment revenues in Investment Management. And there were natural consequences of the market turmoil, namely the decline in deferred compensation plan investments and increase in the amount of prepayment amortization. Notwithstanding all of this, the firm generated $9.5 billion of revenues and an ROTCE of 9.7%. Importantly, the operating plan functioned well. The results serve as a testament to the stability of the business mix and the balance we worked diligently to achieve over the last decade.

Ultimately, the outlook is much more important than the last couple of months. Shorter term, the decline in asset prices, zero interest rates and the potential slowdown in activity levels will have an impact. With respect to our strategic objectives, which we outlined our goals at the beginning of the year, we said we assumed a normal market environment. This environment is anything but normal. Given the circumstances, the objectives we laid out would take longer to achieve. We will have much greater visibility to discuss these objectives towards the end of this year. Despite these short-term challenges, our franchise is strong, our strategy is clear and consistent. Coming into this, we were conservatively positioned and this remains true today.

Let me finish with a few words on how we’ve responded to this crisis. All of our employees and I are working hard to do our best to support our clients and communities. We've benefitted in this period from robust business planning and from years of investment in our technology infrastructure. These teams are doing an unbelievable job in this environment. We adapted quickly to a new way of life. Over 90% of our employees are currently working from home as we continue to serve our clients globally.

I frequently speak of the strength of Morgan Stanley's culture and our tenured leadership team. During periods of crisis, that matters even more. Our operating committee has worked together in various ways for over a decade. Nearly all of us were at Morgan Stanley during the financial crisis. The strength of those relationships enabled our team to react to recent events in an expedited, coordinated manner, allowing us to quickly pivot to a work-from-home model. We will be equally thoughtful as we think about a path towards returning to work, whenever that is deemed safe by health officials and our local governments. I could not be proud of this firm. It is during times like this that you take a measure of an organization, and my esteem for Morgan Stanley is now even higher than it was before. We will all get through this, and we will have all learned a great deal. And in the meantime, we will continue to do our part for broader society.

I will now turn the call over to Jon to discuss the results of the first quarter in greater detail, our perspectives on the outlook given the current environment, and then take it back where we’ll both answer your questions. Thank you. Jon?

Jon Pruzan

Thank you, James, and good morning.

In the first quarter, firm revenues were $9.5 billion, down 13% sequentially. First quarter PBT was $2.1 billion and EPS was a $1.01 resulting in an

ROTCE of 9.7%. Our business mix and strategy, which emphasizes more durable sources of revenues, supported our results during the recent market disruption.

The quarter was divided in two distinct periods: January and February were characterized by buoyant risk assets, rising markets, and engaged clients; March proved to be unprecedented. As the COVID-19 virus spread globally and shelter-in-place orders became common, we saw significant volatility, volumes and market dysfunction. Historical relationships broke down and liquidity dried up. Clients reacted by reducing risk and raising cash. The Federal Reserve and central banks acted quickly and aggressively with large scale and targeted actions to restore market mechanics and liquidity. During this time, we remain close to our clients as we all manage through challenges together. We moved swiftly to a work from home strategy. 60% of our employees were working from home by mid-March and 90% plus today. Over this time period, volumes rose to 2.5 times average levels and margin calls rose to 4x times the average levels.

Our technology and operations performed quite well. During this period of volatility, we also risk-managed well. With market function and liquidity essentially restored, clients are weighing the major factors at play, including significant unemployment and economic disruption versus monetary and fiscal actions larger than any others in history.

During this period, the firm extended credit and intermediated trading, responding to client needs and supporting open and functioning markets. First, we extended credit to clients across the firm. We financed key transactions to help COVID-impacted clients across sectors including transportation, healthcare, leisure, and consumer among others. We also saw approximately $13 billion gross draw-downs, $5 billion of new facilities in corporate lending, and $3 billion in retail commitments.

We supported our clients by trading -- intermediating trading, including managing record volumes across voice and MSET. In March, Morgan Stanley was an underwriter of over $70 billion of corporate and municipal bonds globally. Additionally, we continue to work with clients to access the new Federal Reserve and treasury programs to meet their financing needs.

We remain focused on managing our controllable expenses. Total non-interest expenses were $7.3 billion for the quarter. Non-compensation expenses were $3.1 billion while compensation expenses were $4.3 billion. We tightly managed professional services spend and saw declines in marketing business development, given the global shutdown. We continued our efforts to reduce dependence on contingent workers, leveraging our global in-house centers. These efforts were more than offset by increases in activity related expenses including BC&E and transaction taxes.

Now to the businesses. Our Institutional Securities business reported revenues of $4.9 billion. Robust results in sales and trading were offset by markdowns on held for sale loans increased loan loss provision, and lower levels of investment banking activity.

Non-compensation expenses increased 14%, driven by higher BC&E and transaction taxes on elevated sales and trading volumes and an ACL on unfunded commitments of $115 million. In the face of uncertain markets, we supported our institutional clients with insightful content. Our research team generated almost 1.5 million interactions through written pieces, webcast and conference calls related to COVID-19. Clients remain engaged. And since the markets have begun to stabilize, their focus has shifted from macro thematic reads to interest in single name securities. Our world-class intellectual capital supported by innovative distribution remains a key differentiator when servicing clients.

Investment Banking generated revenues of $1.1 billion. The environment weighed on results across products and regions. First, underwriting activity was impacted as the global shelter-in-place actions started to roll across the world, followed by significant volatility, which dampened M&A dialogue and announcements. Advisory revenues declined 45% sequentially, reflecting lower completed M&A industry volumes.

Equity underwriting revenues were also impacted, declining 20% versus the previous quarter. Industry activity fell off meaningfully with global IPO volumes declining by over 70% compared to the prior quarter. This was partially offset by an increase in accelerated primary offerings and secondary activity as we held clients across the global monetize equity stakes. Fixed income underwriting declined 11% versus the prior quarter. While event-driven activity was limited, investment grade bond issuance reached record levels, especially in March.

The spread of COVID-19 and subsequent market volatility have disrupted deal activity. However, new issue markets are slowly opening with a few IPOs and high yield deals being completed over the last few weeks. Issuers continue to evaluate financing needs looking to strengthen their balance sheets and raise liquidity. We have a strong pipeline across products and equity underwriting and a robust pipeline in investment grade and non-investment grade business, which are dependent on market access. We would expect IPO activity to remain muted and we’ll have to see whether other markets continue to open around the globe.

Equity sales and trading is number one globally and revenues increased 26% sequentially to $2.4 billion with strong performance across all business lines and particular strength in Asia.

Cash results were robust, reflecting the nearly 50% increase in global market volumes compared to the prior year. Derivative revenues increased sequentially as we facilitated client needs during periods of severe market dislocation. Partially offsetting the results were losses on collateral calls and announcements in Europe of interruptions to dividends. In March, 40% of the euro stocks announced dividend cuts or suspensions in 2020.

Prime brokerage performed well on higher levels of activity, partially offset by slightly lower average balances. In mid-February, we reached a record level of gross balances, only to then see a sharp reversal. In late March, we reached a recent low in balances as market levels declined and we saw clients significantly degross. [Ph] We entered the second quarter with lower spot balances, down close to 30% and a more challenged environment in Europe.

Fixed income sales and trading produced revenues of $2.2 billion, increasing 73% from the prior quarter. Strong client activity in macro and commodities drove robust results. Multiyear efforts to reshape this business, focusing on deepening client penetration, increasing velocity of balance sheet and greater trading discipline contributed to the results. Macro performance was very strong across products, particularly over the last weeks of the quarter. The business benefitted from higher levels of client activity and wider bid offer spreads. Micro revenues were more challenged and declined sequentially. Performance was strong within credit corporate, which saw good velocity. However, this was offset by markdowns on inventory in munis and securitized products, which were negatively impacted by the dislocated market and significantly wider spreads. Strong commodity results were supported by increased client activity, driven by meaningful swings in energy and metal prices.

Other sales and trading increased significantly in the quarter. This line includes economic hedges on our held for sale loans, which benefitted from the spread widening. This was partially offset by movements related to deferred cash compensation plans, which is also recognized in this line.

Losses in investments were driven by a markdown on a commodities investment that was impacted by movements in energy markets. And losses within other revenues reflect mark to market adjustments on held for sale loans and a provision for credit losses for funded held for investment loans.

Looking across other sales and trading and other revenues, three main factors drove approximately $1.1 billion of losses embedded in these two lines. First, mark to market losses net of hedges on our $47 billion held for sale portfolio; second, ACL associated with our $49 billion funded HFI portfolio. Together, the ACL provision and mark to market net of hedges accounted for approximately $900 million of the aforementioned loss. And third, losses from investments associated with employee deferred cash base compensation plans represent approximately $200 million of the loss.

Now, I will give some more color around our CECL provisioning for our $49 billion held for investment loan portfolio. Provisions for loan losses were $273 million and our March 31 allowance for loans was $529 million. This represents an 82% increase versus our day-one CECL allowance. We had approximately $32 million of charge-offs or 7 basis points, representing our first charge-off in the last 15 months. And as you can see on page 10 of the financial supplement, ISG loans were $76 billion, $64 billion designated as loans held for investment and $36 billion held for sale or fair value. Held for investment loans were up $11 billion and 29%, driven almost entirely by corporate draw-downs. Of the HFI portfolio, $15 billion is corporate, $7 billion is commercial real estate and $26 billion are secured lending facilities. Our allowance for corporate loans is 1.7% and our allowance for CRE is 2.4%.

Looking at the entire portfolio, including the 53% secured lending facilities, our total allowance is 1.1%. Our secured lending portfolio has attractive look through LTVs and structural protections, and we are the sole lender on approximately two-thirds of this portfolio.

Now turning to Wealth Management. We reported first quarter revenues of $4 billion and pretax profit of $1.1 billion. The pretax profit margin was 26.1%. In the quarter, however, results were materially impacted by two negative factors, movements in investments associated with employee deferred cash based compensation plans and prepayment amortization. The combined impact was approximately $500 million to revenues and 150 basis points to margin. The underlying fundamentals of this business remain quite strong.

As indicated in our Form 10-K, as of February 2020, we had granted approximately $3 billion of deferred compensation obligations for Wealth Management employees. The notional value of these awards is allocated at our employees' discretion. Although subject to quarterly reallocations, generally 60% is held in equity investments.

Given the S&P index declined 20% in the first quarter, the negative revenue impact was elevated. While changes in compensation expense related to these investments will generally be offset by changes in revenue, there can be some timing differences due to vesting schedules in a given period.

Transactional revenues were $399 million. After excluding the impact of DCP transactional revenues was up more than 15% versus prior quarters. Client activity was extremely strong, reflecting high levels of engagement throughout the quarter as clients repositioned portfolios and moved into cash and other short-term securities. Today, clients hold approximately 23% of assets in cash and short-term securities.

Asset management revenues increased slightly from the prior quarter. Higher asset levels at the beginning of the first two months of the quarter helped insulate these revenues from the subsequent market decline in March. Total client assets of $2.4 trillion declined 11% sequentially, largely on market depreciation. Positive flows partially offset these lower asset levels. We had fee-based flows of $18 billion and generated strong net new assets at a pace above our historical run rate, highlighting the stability and health of this business. We saw improvements in new asset flows over an already strong 1Q '19 from both existing and new retail clients.

Our growth strategy is working as clients are seeking professional advice during turbulent times, particularly with increased complexity. Strong loan growth continued in the first quarter. Lending balances increased 15% versus the prior year to $83 billion, driven by tailored and mortgages. The loan portfolio continues to perform extremely well. We saw elevated margin calls in the quarter with limited losses. The mortgage portfolio had 90-day plus delinquencies decline slightly to 21 basis points.

Currently, we've had borrowers call for forbearance of $690 million in mortgage loans or less than 2%. Our smallest portfolio, the $14 billion tailor book is also performing well with just a handful of special mentioned loans.

Net interest income declined 13% to $896 million. The benefits of higher lending and the $31 billion increase in BDP balances were more than offset by lower interest rates and the resulting higher projected moorage prepayments. In order to understand the impact of lower interest rates, it's helpful to look at our historical disclosures. At year-end, we disclosed that 100 basis points instantaneous shock to interest rates would reduce NII for the U.S. banks by approximately $640 million over the next 12 months. While this disclosure covers both, banks, some of which relates to ISG, the vast majority of the NII is in Wealth Management. Assuming rates still rise for the remainder of the year, the disclosed figure is broadly representative of the impact of lower rates on wealth NII.

Total expenses were $3 billion. The sequential decline was driven by lower compensation expense, principally related to the movements in DCP-related investments. Non-compensation expenses also declined from the fourth quarter, reflecting typical seasonality.

Finally, we continue to make progress on the integration of Solium now part of Morgan Stanley at Work. This offering is resonating with corporate clients. In the quarter, we added over 100 new clients to the platform for stock plan and financial wellness services, bringing the total new clients since we announced the acquisition to over 455.

Investment Management reported revenues of $692 million in the first quarter. We had extensive engagement with our global clients throughout the quarter and the business continues to see strong net flows, despite the challenging environment. Total AUM rose 6% to $584 billion. Long-term net flows were $6.7 billion, driven by capital being deployed within alternatives and inflows into public equity and fixed income funds. Our global active concentrated equity strategies continue to outperform their benchmarks. Total net flows of $57 billion benefitted from a significant new long-term client partnership and our liquidity business.

Asset management fees is $665 million, declined 10% sequentially. Higher management fees on higher average AUM were more than offset by lower performance fees. As a reminder, performance fees are mostly recognized in the fourth quarter. Asset management fees were up 8% versus 1Q '19. Investment revenues were $63 million in the quarter. We saw meaningful markdowns in reversals of carried interest in our real estate infrastructure and PE funds offset by a significant gain in an underlying investment subject to sales restrictions within our Asia private equity fund. Also of note, the business was able to see some successful modernizations despite the difficult environment.

Total expenses decreased 40% sequentially, largely driven by lower accrued carried interest compensation. Non-compensation expenses also declined on lower BC&E and professional service expenses.

Turning to the balance sheet. Total spot assets rose to $948 billion as we deployed our balance sheet to support clients during this challenging period and retail clients saw safety, increasing our deposits by $45 billion. Advanced RWAs increased to $426 billion, while standardized RWAs increased to $416 billion. The increase in RWAs was driven primarily by increased client trading activity and market volatility as well as lending. As a result, our advanced common equity Tier 1 ratio, which is our applicable ratio for the first quarter declined to 15.3. As a reminder, our stressed capital buffer will be calculated off of our standardized approach which was 15.7.

In the first quarter, we repurchased approximately 29 million shares or $1.3 billion of common stock and the Board declared a $0.35 dividend per share. Our tax rate was 18.5% for the quarter, excluding $31 million of intermittent net discrete tax benefits. Our tax rate will increase in subsequent quarter and we continue to expect our full year 2020 tax rate will be approximately 22% to 23%. With respect to our intent to acquire ETRADE, the HSR waiting period has expired. We filed our application with the Federal Reserve in March and we will soon file the proxy statement prospectus. ETRADE will hold the shareholder vote this summer and we remain on track to close the transaction in the fourth quarter.

Taken in full, we are very pleased with the Firm's results and stability of the business model. We will continue to benefit from the significant repositioning of our balance sheet and business strategy over the last decade. Our client-driven model combined with strong capital and liquidity will help deliver relative earnings strength in this uncertain environment. But, there are several factors that will impact our earnings power in the near term, including lower asset values and balances, interest rates near zero as well as volatility and economic uncertainty impacting capital markets and M&A volumes.

The second half of the year remains uncertain and the path of the economy will be driven by the time it takes to resolve the health crisis and the impact of the unprecedented fiscal and monetary response.

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

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Christian Bolu with Autonomous. Your line is now open.

Christian Bolu

Good morning, James and Jon. And James, it’s good to you hear you’re well, good to hear that.

James Gorman

Thank you, Christian.

Christian Bolu

My first question is on ROTCE for the firm. How to think about downside ROTCE? I mean, given you are putting up 10% ROTCE in what is a very choppy backdrop, how should investors now think about the downside case for the firm? Is a 10% or close to 10% ROTCE now your bottom line as opposed to a couple of years ago where that was your actual long-term target?

James Gorman

Well, Christian, let me take a go at it, and the way, we're all coordinating from different locations here. So, if Jon and I have a little logistical mess-up, forgive us, but I can see him on the screen. So, I think, we'll manage through. We're in a most unprecedented environment. I mean, if you'd said three months ago that 90% of our employees will be working from home and the firm would be functioning fine, I'd say that is a test I'm not prepared to take because the downside of being wrong on that is massive. If you'd said that every restaurant around the country would be shut over a two-week period and remain closed, I would say it's just not physically possible. So, we're seeing -- you saw the jobs numbers, the applications for unemployment benefits, et cetera coming through. We're in an extraordinary period. So, listen, what I look at is, how do the businesses perform underlying in this environment? How do we trade through it, what was our risk exposure and how do we manage that, where do we take hits across the various parts of the plant? And you're going to take them whether it's in the margin book, whether it's in the asset management portfolios, whether it's in the trading businesses and how did all of that look.

Now, we didn't have a full quarter of being in absolute crisis, we had a half quarter or two thirds of the quarter being in absolute crisis. But boy, it was an absolute crisis. And for this fund, we’ve come through that and generated $9.5 billion of revenue, and that's net of the deferred compensation plans, which actually puts us a bit over of $10 billion in revenue, effectively flat to a year ago. I thought it was remarkable. Now, maybe it's my job to think that's remarkable, but I do think it was remarkable. I think, the stability and breadth of the franchise, the diversification clearly showed that we have an underlying sort of backstop of our performance. I can't tell you it's 10% ROTCE. I know, coming into the second quarter, we’ll have less market volume, we have lower interest rates, we have lower asset prices at the moment. Although, we reprice our assets every month, we’ll probably have lower non-comp expenses I suspect in the second quarter for a variety of reasons. So, there will be a lot of things going back and forward.

So, is 10% a bottom? I don't want to call that now, because I just don't know how deep this recession is going to be. But, given what we went through to produce that felt like a really resilient franchise.

Christian Bolu

Great, okay. Thank you. And then, my follow-up, maybe this one is more for Jon. On the deposits, you had a pretty big surge in deposits, and I'm trying to just maybe size potential tailwind to funding cost over time. So, could you remind us how much of your -- how much high cost deposits you still have on the books today? Maybe, what the blended costs of those high cost deposits are versus sort of the swift deposits that are coming in the door?

Jon Pruzan

Sure. And we did see a surge in deposits in March, almost $30 billion in the month of March alone, and the balances are up $45 billion for the quarter. Now, it's generally a result of people shifting out of equities and going into cash in the wealth system. You can see I think on page 11 of the supplement, Christian, the various balances in the banks. Right now, most of that excess cash -- excuse me, excess deposits is actually sitting in cash. You can see we've -- we increased our loans a little bit. We've increased our securities portfolio a little bit, but most of that cash is undeployed. And we'll have to see around the resilience of that. Our expectation is that it will be pretty sticky for a while. But again, depending on what our clients do as investment options, that might come down a bit, but it clearly puts us in a much better position. I think, our BDP, which is our cheapest source of deposits, which currently have a cost of 1 basis point is now about 65% of the portfolio. It was close to the 60 or 58 a little while ago. Our high cost deposits, I think the blend between the CDs and some of the other products we have in there, is about 160 basis points. And so, obviously as we can shift more the BDP, that will be significantly beneficial. And I think, our deposit costs at the end of the quarter were about 56 or 57 basis points, and those should come down a little bit as we've just repriced our savings product down in light of the rate environment.

So, I would say, we should -- if we have the opportunity to deploy those deposits into loans, we'll see a benefit there clearly, but we're going to be cautious and just see have those deposits behave for a little while before we sort of fully deploy them.

Operator

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

Brennan Hawken

Good morning. How are you guys doing? James, I’m glad to see you on the call and good to hear that you're on the meds. Hope you're feeling better.

James Gorman

Thanks Bren. I appreciate it.

Brennan Hawken

So, could you speak a bit, maybe Jon, you gave some color on the $49 billion HFI portfolio, which is helpful. Thanks. Could you speak to the allocation of that portfolio to some of those sectors that are considered higher risk? And if you've seen or received any forbearance requests from any of those borrowers, or you're seeing any other -- any kind of early indications of risk or stress in any of those -- tied to any of those loans?

Jon Pruzan

Sure. I'll take a crack. On the allocation, the corporate book, the vulnerable sectors, those are evolving pretty rapidly in terms of which sectors are being hit. But clearly, energy, auto, air travel, lodging, leisure, retail on our corporate book, which totals about $108 billion, we probably have $10 billion or $11 billion to those sectors. Obviously, there'll be different caliber in terms of the ratings across those $10 billion or $11 billion. You heard me talk about the increase in the reserve for the funded loans. We increased for the quarter to bring our reserve level on funded loans up to 1.7 there. What we did see is the funded loans go up by about $15 billion. That $15 billion was actually more skewed to investment grade, about 45% of that was investment grade, a third of it was BB, so very little single B exposure there. And a good chunk of the BB in some of what we -- the new stuff we put out were actually secured and well collateralized.

So, we do -- so, we have taken provisions there. We've also -- as you heard from my comments, marked those loans that are held for sale. We took about -- net of our hedge is about $600 million of marks on that held for sale portfolio. And then, the last point I would make is on the forbearance. Where we've seen some forbearance asks, really have been in the commercial real estate book, which is only -- it's about $11 billion in total, 20% of that is in hotels and retail. We've had 16 requests or about $1.4 billion of loans request forbearance. We would expect that number to go up as we get into the May and June payments. But, at this point, it's a very high quality portfolio. It's about 58% LTVs to the top tier borrowers in the real estate business. And we have a good protection in the assets. So, the forbearance has mostly been, Brennan, in the CRE book right now and then again, a little bit in the residential mortgage that I mentioned.

Brennan Hawken

Yes. Okay. Thanks for all that color. I really appreciate that, Jon. So, another question and my follow-up, you committed, James, that there is not going to be any risk this year, which you can appreciate the idea that this would reassure your employees in extremely challenging time. It makes a commitment to ensure continued health coverage for your employees, which is tied to employment in this country and given what we're facing, you can appreciate. But -- and you're a bit hedged because of incentive compensation being a big part. But, how is that going to come into play with controlling of expenses, which is obviously a big factor when you're coming into or likely coming into a recession year and being part of investment bank, obviously expense control becomes big. So how do you adjust those things and what levers are you thinking to pull on the expense side here as the revenue -- if the revenue environment continues to get difficult?

James Gorman

Hey, Brennan. Firstly, I'd just say, as a CEO, you get to make a lot of decisions, you get some really, really hard ones, and you get some others. I would put this in one of easiest decisions I've ever made. And by the way, it was unanimous call of our operating committee. We're in a 100-year crisis right now. And it's a health crisis first and foremost. And the personal anxiety and stress to our employees and to their families can be overwhelming. And we thought guaranteeing their jobs this year and getting the support that we have from our employees, 92% of them in previous surveys have said they're proud to work at Morgan Stanley was a total no brainer and extremely shareholder friendly. The worst possible thing you can show in a crisis is the lack of leadership and support for the people upon whom you depend to get the job done. So, this was to me a really easy call. If it means that expense ratio is 1 point higher for the year, which is maybe what it might have been, but frankly if we've done a rift, you have severance with the rift. So, the actual economics through the year are not so obvious that they are short term favorable. And given that we're in a sort of short term massive prices and a longer term recession of some time, and we'll talk about that later I'm sure, economically, I'm just not sure would be good idea to do a major rift this year. But psychologically, I think it would be a disaster.

So, we have other things we can do on the expenses and will be doing obviously. And non-comp expenses were extremely inflated in the first quarter. If you look at transaction taxes, if you look at BC&E, the levels of volumes just drove that answer. There was no way around it. As we get through the year, do I think that that's going to hold up? No, I don't. I think, our non-comps will be lower through the year and get back to sort of reasonable levels. We had reasonable comp accruals for the first quarter. We did that because we wanted to be sure that we can get through this year safely and soundly and keep the organization in tact as we get better visibility on the rest of the year. Obviously, we'll be in a better position to judge those accruals. But, we're very comfortable with what we did at this point.

So, we're being reasonably conservative on the expense side, meaning we've -- we haven't tried to chisel the organization in the first quarter, didn't feel like the right time, didn't feel necessary. And I think long term, even medium term, is definitely the right call for our shareholders and have had great support from them. I'd just tell you a personal story. I had hundreds and hundreds and hundreds of emails on that decision. One of them was from a lady who works here in one of our support functions. They come on the night before. Her husband had just been laid off from the small business he was working for. She came home, both crying and they came in the next morning, she got the email from us saying everybody's job is secure. And she was just overwhelmed. And those kinds of results at a human level, and we've got to remember this isn't just about 13 weeks of earnings, I'm much more focused on the integrity of this organization over the next decade or two decades. And this kind of thing sets that up. So, thank you for asking the question. It's a personal one, but it's a very important one.

Operator

Thank you. And next question comes from Steven Chubak with Wolfe Research. Your line is now open.

Steven Chubak

Hi. Good morning. So, I wanted to start the question on the loan loss provision. And I was hoping you could help us frame following the significant provision build that we saw in ISG this quarter. Just how we should be thinking about the provision trajectory for the remainder of this year? And maybe just any additional color you can give on some of the underlying macro assumptions that are embedded within your CECL model today?

Jon Pruzan

Sure. I'll try to do that in a coherent way. But, you certainly know that CECL is model based and it's judgment based, and there's a lot of things that go into it, including multiple scenarios and multiple rankings and ratings against those scenarios, as well as the qualitative and quantitative assessment. We obviously -- and just the timing of all of the events, we updated our models for what was going on at the time. When we got to the end of the quarter, in light of what was -- what we were seeing in the rapidly changing sort of economic outlook, which at this point I would say, and James has mentioned it a couple of times. The range of potential outcomes is the widest I've seen in quite some time in terms of what's going to happen in the future. And so, we relied heavily on the sort of qualitative and environmental reserve. And we looked at the downgrades, we looked at what loans we thought would be downgraded, the stress draw scenarios, we did some loss given default sensitivities, we looked at criticized asset trends, and we factored all of that into our analysis that ultimately led to the $350 million reserve build on the entire portfolio or a 74% increase from our day one CECL.

So, the economic scenarios are going to impact people differently across the plant. As you know, the numbers I've just given you are institutional numbers. Our retail and wealth business had very little reserve build, given the performance in that portfolio in the Company. We obviously don't have any exposure to credit cards or unsecured credit. So, we're a slightly different beast than some of the others. And we'll have to see the economic outlook plays out over the next couple of quarters and next couple of months. But clearly in June, we'll have a lot more information to have a better sense of those models. So, we think the qualitative adjustments that we made are appropriate and brought our reserves to an appropriate level.

Steven Chubak

Thanks, Jon. Quite helpful. James, maybe a question for you. You spoke of some of the risks to the target that you laid out at the start of the year, certainly not surprising given the world, using some of your words, is anything but normal. But admittedly, the message is a bit more cautious than maybe what you conveyed in your March shareholder letter. And I was hoping you could speak to what macro and market assumptions are informing your more cautious outlook? I know there's a wide range of outcomes to consider. But, if we do see a U-shaped recovery beginning in '21, is there a path to delivering on some of the targets that you outlined at the start of the year?

James Gorman

Yes is the short answer. The macro environment that I'm making the assumptions on, I mean, take the $5 million -- 5 million job claims this morning for unemployment benefits. I mean, this is -- we're in a wild period. We're going to have negative GDP of, I don't know, 30%. So, short term, anybody, and I don't mean to disparage anybody, but a CEO who stands by their short term targets that was set right before this virus hit, I don't know what planet they're on. It's just you can't predict that. Over a two-year period, yes, the targets were by the end of '21, and there are the three targets, the pretax margin of 28 to 30, the ROTCE I think of 13 to 15, and the efficiency ratio of 72%. Sure, could we beat it by the end of 2021 on some of these targets? Definitely. But we said and have always said, the targets are in normalized environment. This is not a normalized environment. We will not hit those targets in the second quarter that I can promise you. We did not hit them in the first quarter. But beyond that, let's see how this plays out. If the equity markets recover, we're not going to have mortgage prepay, our non-comps are going to be down. Obviously we're affected by where interest rates are. And if they change, obviously if there's any move, I'll put through 2021 that's enormously helpful and things start getting a lot more interesting 12 months from now than they are right now. But honestly, it would be irresponsible of me to recommit to those targets on this call.

Now, on the annual letter, that was different. What I was saying in the annual letter was these were our targets we laid out in 2019. We're not ignoring them. We're not hiding from them. They're what we believe that the business will perform at in a normalized environment. And it will. I'm totally confident about that. But for right now, given we're dealing with an earnings call and the earnings outlook, right now, those targets are not achievable in the second quarter. They weren't achieved in the first quarter. And it's too early to make the call on what 2021 looks like. But, Steven, to question is it possible? It's absolutely possible. Is it probable at this point? You could -- nobody could say that it's probable. You've got to see what the environment plays at it.

Steven Chubak

No. Thanks for that helpful context, James.

James Gorman

Sure.

Operator

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

Glenn Schorr

Hi. Thanks. Jon, maybe one quick clean up. So, you mentioned some losses on collateral calls. I'm just curious if it was any meaningful amount that we need to know about. And more curious about -- you lost almost nothing in '08 and maybe just contextualize it. Is this -- was this a, just a sharper drop? Is it more produced by the quantum systematic trading side? Just curious, if you can contextualize that in the context of the deleveraging you mentioned.

Jon Pruzan

Sure. And I wouldn't describe the -- some of the losses that we took in the derivatives -- trading businesses related to the degrossing that we saw going on. That actually, other than the quantum and the size and the speed and the elevated volumes, didn't necessarily lead to those types of outcomes. As you obviously saw during the quarter, there were significant volatility in certain indices and indexes, there were historical relationships that totally broke down, and went in different directions. So, when people, single strategy firms struggled that their strategy wasn't working. The numbers were not material, but we wanted to highlight that. It wasn't all perfect throughout the plant. As James said, you're going to take and businesses where you trade and put with your clients the potential to take losses. And so, we did take some losses in that area. And then obviously the dividend cuts and the dividend business and the dividend season also had an impact. And we saw that in that equities number. But even despite those losses, we still generated $2.4 billion and we're number one in the world.

Glenn Schorr

Great. That maybe leads into part B is with the degrossing, the number one in the world, having a big prime brokerage problem, big hedge fund business and huge client systematic trading business. Have you seen any releveraging or is the amount of leveraging consistent with how we should think about market adjustments, your equity adjustments going forward? I mean, is there a linear relationship?

Jon Pruzan

It's not really a linear relationship, but I would say, we have -- our equity clients and many of the hedge funds and quants actually performed reasonably well in this environment despite the volatility, we have seen some of the gross balances rebound from the lows that we saw in the end of March. Some of that was just participation as the market went up, but we have seen some people get back and engaged in the market, but it's not significantly a high off of those low points, but it has bounced back a little bit. And obviously the higher market levels helps to gross balances.

Glenn Schorr

Maybe one really quick one at high level on Wealth Management. When the results first come out, you're like, oh, revenue's down, you go through some of the adjustments. Obviously, you spelled out the comp thing. Were revenues actually at record high ex the comp adjustment? I know, we got to deal with lower rates and lower asset levels going down. But, I'm just trying to get the right context. The flows were good, the margins were good all things considered. Are you still in that $50 million to $80 million range on a daily basis? I’m just looking for the right big picture your view of Wealth Management?

Jon Pruzan

Again, I think -- and James can jump in as well. But, I mentioned $500 million of negative revenue. So, that puts the revenues in around $4.5 billion. I don't think that's an actual record, but it certainly is a very healthy performance. And then, an incremental 150 basis points on the 26.1 that we reported is a very healthy margin. And as I discussed, the fundamentals of this business are quite good. We saw a lot of incremental net new assets into the Firm, periods of volatility like this generally we see in our client base look for professional advice. They've consolidated their assets. The technology that we put into place has been really helpful in those initiatives. So, again, the business is fundamentally quite strong. We'll obviously have -- be impacted by the lower asset values and where rates are. But fundamentally, this business is performing quite well.

James Gorman

Yes. I’d just say, Glenn, the loan book performed unbelievably well. We have basically no problems in a huge margin book and all the mortgage book and the other lending that we've done. Because it's a conservative business to people who are clients of ours who we know what their asset and liquidity picture is. So that was very pleasing. This was a great tough test and it survived it comfortably.

Glenn Schorr

Thanks to both. Thanks.

Operator

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

Michael Carrier

Good morning. Thanks for taking the questions. First, I know it’s tough to predict trading. You mentioned some of the color around the equity trading balances, which makes sense. I guess, just any significant change on the fixed side, just to gauge the outlook here?

Jon Pruzan

I'm sorry. The outlook on -- you broke up a little bit. I think, it's our side.

Michael Carrier

Yes. I was just saying, on equity trading, you provided some color around lower balances, which I assume makes sense. I was just wondering on the fixed slide, any significant changes that you've seen in that business, to try to gauge the outlook?

Jon Pruzan

Again, it's very early in the quarter. Clients are still engaged. There's a lot of policy debate going on. There's a lot of debate around the time of the potential, and the health crisis and to the shelter-in-places. There's still a lot of activity. But volatility is clearly more subdued, which will have an impact on the business. Volumes are still pretty healthy, but again, it's only two weeks into the quarter and pretty hard to speculate what's going to happen over the next couple of months.

Michael Carrier

All right, makes sense. And then, just as a follow-up, in Investment Management the investment line tends to be more volatile. In this backdrop, I think you mentioned some gains that offset marks and accrue reversals. Can you provide any color on some of those components just so we have maybe a good level to go off of?

Jon Pruzan

Sure. I'm just trying to find the line. The line was minus -- the line was $63 million, I think. And as I mentioned in my remarks, we had one very substantial gain that made that line positive, similar to the gain we took in the -- similar -- same company that we took the gains from in the fourth quarter. But we did see losses across real estate, as you -- our real estate portfolios as well as some of our infrastructure and private equity funds. Obviously, the gain was larger than the losses. It's an investment that we've made in a company that's gone public that we have shares. We're restricted from selling our stock. But that hopefully will give you some sense of the general sizes of those marks. But clearly, given what happened with risk assets and asset pricings around -- asset prices around the globe, we did see broad-based markdowns in most of the portfolios.

Michael Carrier

Thanks.

Operator

Thank you. Our next question comes from Mike Mayo with Wells Fargo Securities. Your line is now open.

Mike Mayo

Hi. Just a clarification. So, you had $600 million mark to market losses, were those realized or simply just mark to market? And what were the loans or securities?

Jon Pruzan

Sure, Mike. It was mark to market. We still have those loans. In the supplement, you can see the investment, ISG loan book is approximately $169 billion. I mentioned in my remarks there's about $47 billion that are held for sale. The vast majority of the marks came on the relationship book, the corporate loans. There were also some marks on the secured lending as well, the secured lending facilities, but we had those $600 million and losses were net of the hedges we have on those -- on that relationship portfolio. We also had a couple of hundred million dollars related to some of the event book, which is also held for sale, and then very little against the other two portfolios. But, it was really the relationship portfolio or the corporate portfolio that you see on page -- a part of that portfolio that you see in the supplement.

Mike Mayo

And then, just a separate question. James, good to have you back, so I can -- glad to see you healthy and so I can also ask you questions on the call. But, as someone who's had COVID now, how do you frame the debate between saving lives and saving jobs and the economy? I mean, what are you advising your clients to do? I mean, how do you think the economy could come back on line? And again, I'm glad you're back with us.

James Gorman

Well, thanks, Mike. I appreciate that. And I'm one of the fortunate people to have had it without having a need to be hospitalized or be in any serious health danger to my lungs. So, I'm very grateful for that. Unfortunately, there are many, many thousands of people now who do not have that kind of outcome. And for them, my heart goes out to them. I don't think it gives me any special expertise having been through this. What I think is -- we'll obviously be guided by the CDC and the state and federal authorities. My assumption is, the right way to do this is to have a staggered people going back to work and to do it either by region or maybe by industry in part. But, I think separate companies or deciding what to do on their own is a bad idea. I think it should be government led. And if it starts let’s say the first day people are hitting back at June 1st, then some are on June 1st, some June 15th, et cetera through the summer. So, sort of a staggered approach. There are clearly a lot of people who've had the virus who are now apparently not infectious, including myself. And there are a lot of young folks who do not appear particularly vulnerable to this virus. So, that's probably where you'd start, if you're -- I'm not a health expert. I'll leave that in the hands of the health experts.

At Morgan Stanley, my hope is we'd be able to test people to make sure that they're healthy and clean and we bring people back in the staggered way as soon as the government lets us do that. We currently have 10% of our employees still at work. We'll be I'm sure rotating employees through the rest of the year. Everybody's got used to working home as I am sure you folks have. And we're all adjusting. So, I don’t know if that gives you a complete answer, but I'm not really an expert, so.

Mike Mayo

All right. I guess, we're all wondering when you can test people and decide if they're clean. And I'd say, we're all in the same boat, but you're in a better position to rely on the experts, and again, advising all the corporations around the world or so many of them. Any -- what's your best guess at that?

James Gorman

Of when people can be tested?

Mike Mayo

Yes. I mean, everybody's doing studies. And I know it's a very difficult question. But, CEOs need to make decisions about resource allocations, et cetera. So, what are you telling CEOs that you advise?

James Gorman

Yes. But, I'm not advising them on when the various testing for antibodies is going to be coming through. I mean, that's -- we're really in the hands of the government. And I think, we're all getting the same information. I was on the President's task force call of CEOs and I'm getting the information from the White House, and they're getting it from the health authorities and the various pharmaceutical companies. I know there's been a lot of work done, Abbott Labs has done -- Abbott has done some work. They're developing some testing. And obviously in other parts of the world, they've got faster testing for anybody. So, I just hope we get it to the U.S. And it's rapidly deployed, which I think is what everybody's working on right now.

So, Mike, I'm sorry, I'm just not -- I can't. I don't advise CEOs on when the testing framework is going to happen.

Guys, we're going to take just one more question I think, because we're running -- we've run over time and we've given you long answers. Hopefully they've been helpful to those who haven't had a chance to ask a question. I apologize for that. But, it's a fairly dense earnings call as you all appreciate. And we're here as follow-ups and through Sharon Yeshaya, Head of Investor Relations, obviously John and myself in the days and weeks ahead.

So, we'll take one more question, operator.

Operator

Thank you. Our final question comes from Gerard Cassidy with RBC. Your line is now open.

Gerard Cassidy

Thank you. Jon, can you share with us, I think, you've mentioned that coming out at the end of the quarter in Wealth Management, 23% of your customers assets were in cash. How does that compare to the start of the year? And what how do you see them bringing that down over the subsequent months or quarters?

Jon Pruzan

That's a great question in terms of how our retail clients are going to reengage with the market. So, let me just give you just some facts. The 23% is cash or cash equivalents including money markets and short term fixed income securities. That number is probably up 3 to 4 points in the last quarter or two. And if you look at the totality of the money, the $2.4 trillion, the equity allocation’s gone from 55 down to 50, and most of that's gone, the 3 to 4 points is gone into this cash and short-term securities.

How long people feel the need to stay in short term and cash? I think, it's going to be a function of what some of the things that we've been talking about on this call, which is people's perspective, when the economy opens up again or the work from home ceases and some of the restaurants and businesses get back into business and people feel more comfortable with the outlook. And that's why we're also not fully deploying those deposits because again they are generally very sticky. But they're also based on the investment decisions of our clients. So, we're going to see, monitor those to make sure that we feel comfortable deploying this.