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 www.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, and thank you for joining us. The second quarter was met with a mixed market backdrop. The quarter began on a strong footing, but macroeconomic and political uncertainties affected sentiment and conviction. Despite the sharp decline in interest rates and the slowdown in global growth, the business model held up well. Collectively we produced revenues over $10 billion, and ROE of 11%, and an ROTCE of nearly 13%. Our year-to-date efficiency ratio of 71%, below the 73% target, reflects our commitment to managing expenses tightly given the risk to global growth.

Despite the challenging environment, Institutional Securities' results were solid, with aggregate revenues over $5 billion. Our Equity Underwriting franchise performed well, and continued to bring new companies to markets. Issuers were opportunistic and took advantage of fertile markets when available. In Advisory, M&A announcements picked up as the quarter progressed. We expect our equity franchise to remain number one globally, and fixed income results were at lower end of our expectations. Wealth Management produced record PBT and a margin of 28%, at the top end of the guidance range we gave through 2019. These results illustrate the resilience of the model. Higher asset levels and strong loan balance growth more than offset the effects of lower interest rates.

Investment Management had very strong second quarter results. This business has meaningfully evolved since we reorganized it approximately four years ago, under Dan Simkowitz's leadership. While results do have the potential to be lumpy in this business, obviously, to put the growth in perspective, revenues over the last 12 months are up nearly $900 million since full-year 2016. Moreover, increased net long-term inflows should aid asset management fees going forward. We continue to invest in the business, and looking forward to sharing more about Investment Management in the months ahead.

Turning briefly to the results of this year's CCAR exam, in late June, we announced that we will increase our quarterly dividend for the sixth consecutive year to $0.35 a share a quarter, up from $0.30. We also intend to increase our repurchase of common stock from $4.7 billion to $6 billion. Collectively, this represents approximately 100% gross payout. In addition to increasing our return of capital to shareholders, we were able to invest in the business and completed the acquisition of Solium in the second quarter. We look forward to continuing to work with the Federal Reserve in returning high levels of capital in few tiers. All in all, we produced a solid quarter in a difficult environment, topped with a strong CCAR result.

With that, I'll now turn it over to Jon to discuss the quarter in greater detail.

Jonathan Pruzan

Thank you, and good morning. In the second quarter, firm revenues were $10.2 billion, essentially unchanged from the prior quarter. PBT was $2.9 billion, and EPS was $1.23. Returns were in line with our target ranges with an ROE of 11.2%, and an ROTCE of 12.8%. Given the global growth outlook is uncertain, we remain focused on expenses. Total non-interest expenses were $7.3 billion. On a year-to-date basis, total non-interest expenses declined 3%, and our expense efficiency ratio was 71%. Focus on our more controllable sources of spend, particularly marketing and business development and professional services continues to help self-fund our ongoing investments, including at the technology, workplace enhancements, and the integration of Solium.

Now, to the businesses, Institutional Securities generated revenues of $5.1 billion in the second quarter, a 2% sequential decrease. Stronger performance in the Americas, particularly investment banking was offset by relative softness in Asia. Non-comp expenses were $1.9 billion for the quarter, a 4% increase from the prior quarter, and compensation expenses were $1.8 billion, resulting in a compensation to net revenue ratio of 35%. In Investment Banking, we generated revenues of $1.5 billion, up 28% sequentially, with advisory, equity, and debt underwriting all improving versus the first quarter. Despite lower completed M&A industry volumes, advisory revenues increased 25% quarter-over-quarter to $506 million. Underwriting results were resilient considering the mixed backdrop.

Equity underwriting was very strong, recovering from a challenging first quarter. Revenues were $546 million, up 61% sequentially. Equity volumes picked up across all regions. IPO issuance rebounded strongly as the U.S.

market normalized following the government shutdown. We also witnessed a healthy pickup and follow-on activity. Fixed income underwriting revenues increased 3% sequentially to $420 million despite lower industry issuance volumes in investment-grade bonds and leveraged loans. Overall advisory and underwriting pipelines remain healthy. CEOs remain engaged, focusing on potential M&A across the size [ph] spectrum as an investment for future growth. Geographically, while activity in the U.S. remained strong, M&A activity in the Asia-Pacific region is down notably compared to last year, driving in reduced cross border volume.

As we look ahead, macroeconomic uncertainty and geopolitical events can impact the conversion fro pipeline to realized, but for now the environment continues to support activity generally. In equity sales and trading, we retained our leadership position and expect to be number one globally. Revenues were $2.1 billion, increasing 6% quarter-over-quarter. Across products activity peaked mid-quarter before subsiding in June. Prime brokerage revenues rose sequentially, consistent with the seasonal patterns in Europe. Client balances grew versus one quarter, and client conviction remains subdued.

Cash revenues improved quarter-over-quarter driven by the Americas. And derivative revenues were essentially flat. Fixed incomes, sales and trading revenues were $1.1 billion in the second quarter. This represents a decline of 34% from a seasonally strong one quarter which had significant structured activity compared to a more challenging backdrop this quarter and limited structure activity revenues.

Macro revenues declined sequentially. The sharp move lower in U.S. interest rates had a negative impacts on the rates business. Additionally, persistent low volatility dampened FX results. While credit complex results declined sequentially, they were strong by historical standards driven by securitized products performance. Credit trading businesses benefited from robust client activity and balance sheet velocity was maintained.

Commodity revenues declined quarter over quarter on lower trading results. Investments increased to $130 million sequentially driven by $106 million in realized gains associated with in investments, initial public offering, and subsequent mark-to-market gains on the remaining holdings subject to sale restrictions. We hold a series of strategic and business related investments around the world in various platforms and exchanges. And this is another example of our ability to monetize these investments.

Wealth management reported record revenues and pre-tax profits of $4.4 billion and $1.2 billion respectively. The PBT margin was 28.2%, the highest margin post the acquisition. Asset management revenues were $2.5 million.

Up 8% quarter-over-quarter, benefiting from the improved asset levels we saw at the prior quarter's end. Transaction revenues were $728 million. This represents an 11% decline from 1Q which included large gains in our deferred compensation plan investments.

Retail investors remained cautious given record market level, short intra-quarter market swings and heightened levels of uncertainty. Transactional activity remained subdued but has been consistent over the last several quarters. Total client assets ended the quarter at $2.6 trillion, up 4% higher versus the prior quarter. Net fee based assets was over $10 billion. Net interest income declined to $1 billion. The sequential decline was largely driven by two factors. One, greater than expected deposit outflows due in part to tax payments resulting in a higher cost liability mix. And two, the divergence between LIBOR and Fed funds which impacted the spread on our variable rate loans.

On a year-to-date basis, net interest income is up 2%. And including the impacts of mortgage prepayments was better than our stated expectations of year-over-year mid single digit growth. Looking ahead, the shape of the forward curve and our deposit mix will continue to affect NII. We now expect NII ex-prepayments in the third quarter to be largely in line with the third quarter of 2018 with potentially a more material impact in the fourth quarter if the forward curve is realized.

We continue to expect loan balances to grow by mid single digits for the full year. Loan balance growth in the quarter was healthy. Total bank lending ended the quarter at $74 billion, increasing $3 billion from 1Q on strong growth in SPLs and continued progress in mortgages. Loans have grown 6% year-over-year reflecting deeper client engagement. Other revenues were $120 million, increasing 48% sequentially as a result of realized gains from our investment portfolio.

In the quarter, these gains largely offset the negative impact of prepayment, amortization on net interest income. Total expenses were essentially unchanged compared to the first quarter. Lower compensation expenses driven by movements in our deferred compensation plans were partially offset by seasonally higher non-compensation expenses as well as Solium expenses in the cost related to ongoing integration.

We closed the Solium acquisition on May 1st and have been pleased with the progress. We will be investing in our workplace offering for the next 18 to 24 months. This business is on very strong footing. And over the medium term, the margin will improve as revenues rise. Investment management produced very strong results. Revenues of $839 million were the highest for the segment and over five years, improving 4% sequentially. This was primarily driven by strength in investments.

The business saw strong net flows, and we continue to see positive momentum in capital raising. Investment revenues of $247 million were driven by continued strong performance across our private funds including in our private equity Asia, real estate, and infrastructure businesses. Total AUM of $497 billion increased 4% versus 1Q, with long-term AUM of $334 billion also increasing 4%. Market-related growth and positive net flows across all of our asset classes drove the higher long-term AUM.

Asset management fees of $612 million were essentially flat to the first quarter. The higher management fees on the back of rising average AUM over the quarter were offset by the seasonality of performance fees. As we have mentioned before, most of any year's performance fees will be recognized in the first and fourth quarters. Total expenses were up modestly to the first quarter on the back of higher revenues.

Turning to the balance sheet, total spot assets rose to $892 million as we continue to support our clients. Derivatives and lending activity within sales and trading also drove an increase in our RWAs, resulting in a decrease in our common equity Tier 1 ratio to 16.3%. During the second quarter, we repurchased approximately $1.2 billion of common stock or 26 million shares at $44.53, and the Board declared a $0.35 dividend per share. Our tax rate in the second quarter was 22.6%. We continue to expect our full-year tax rate will be similar to the 2018 tax rate excluding intermittent discrete items.

Looking ahead, Investment Banking pipelines remain healthy. Wealth Management's fee-based revenue should benefit from higher asset levels, and investment management remains focused on growth and delivering increased value to clients. The third quarter is off to a strong start, but we are cognizant of the typical summer slowdown, and that conviction remains lackluster compared to this time last year. The uncertainties around global growth have risen, which may impact confidence and activity levels. That said, we remain committed to our strategic objectives, and expect to perform well if markets remain open and functioning.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Brennan Hawken of UBS. Your line is open.

Brennan Hawken

Good morning. Thanks for taking the question. I would like to start, Jon, you walked through some of the deposit dynamics that impacted NII this quarter; that was helpful. Curious about what you're seeing since tax season, and your outlook for deposits, do you think that remix is effectively going to remain off balance sheet or do you think there'll be some return of some of those lower cost deposits as we go forward from here?

Jonathan Pruzan

Sure. Let me try to give you a little bit more color, Brennan. In terms of the actual deposits, remember there are three buckets that sort of impact NII which is really the mix of deposits, the rate profile, and then obviously the balance. In terms of our deposits we saw about $10 billion of outflows in BDP, some from lager tax payments as we mentioned, some other just as people continue to look at their cash as an investment vehicle and they've seen some higher yielding alternatives, but they are still pretty defensive. We did have lower rates that obviously impacted both yields and prepayments. And then lastly, we had increased balances, so that was a positive.

The one thing that we would say on the deposit side that was positive is that the replacement of those $10 billion of deposits, although at a higher rate, were primarily driven from our wealth channel, so we had a lot of demand for our different products as we continue to build out that product set. And so that continues to be a nice source to bring new money into the firm.

In terms of what happens going forward, I think that's a trickier question. We've seen post the tax payments, probably the last five or six weeks of stabilization in those deposit levels, but again customer behavior, the forward curve, what happens to rates and the competitive dynamic will drive ultimately that outcome, but I think we feel very good about the deposit products that we've been rolling out. We've been continuing to enhance our cash management products. We came out with a new high-yield savings product that had a lot of interest from the field, so again we should be able to source deposits pretty easily if that trend continues.

Brennan Hawken

Okay, terrific. Thank you for all that color, that's really helpful. And then another question, you identified the trade web mark and tailwinds which was great to seek clarification on that. Another point that we had -- questions we had heard from investors on the back of the results were around the mark in Investment Management that seemed strong again this quarter. Is that just primarily monetizations and we should think about as chunky? Was there anything unusual in that larger revenue line this quarter? Thanks.

Jonathan Pruzan

Again, I think chunky is the right word, but if you just think about the market environment, the monetization activity has picked up, and we've been selling it to strength across the private spectrum. And as I said, we saw nice gains in the Asia portfolios; we saw nice gains in real estate and infrastructure. It's just been a very good environment for monetizations, and we'll continue to take advantage of that environment. Another key driver is the flows. We had positive net flows across all four categories, equity, fixed income, alternatives, and liquidity. The equity performance continues to be quiet good, and so we're very pleased with the shape and the position of that business.

Operator

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

Gerard Cassidy

Thank you. Good morning. Jon, can you share with us if the fed starts to cut deposit -- the fed fund rates there's an expectation that the deposit rates for the high net worth customers of some of your peers will start to fall. Have you guys modeled out how long after the fed actually starts to cut rates where you think you might be able to take your deposit rates down?

Jonathan Pruzan

We obviously run lots of different scenarios and lots of different models. But I would tell that the guidance that I told you about what we think is going to happen to NII is based on the forward curve. And so the forward curve has sort of by July 30 basis points, but September I think around 50, and then almost three full cuts by the end of the year. So if the realized rates is different than the forward curve that will obviously impact performance. If it's slower that's positive for the rate component that I talked about, if it's faster it's negative. So we obviously model all sorts of scenarios. We've used the 50% beta, give or take, for a while in our models, and that's what we continue to do. And what happens to actual betas will be, as I said, a function of really sort of the competitive environment, what alternative investments look like, and what not.

Gerard Cassidy

Okay. And then as a follow-up, obviously you guys had good growth on a year-over-year basis in your residential real estate portfolio within the Wealth Management division. There's been some evidence that the high end housing market in New York City and other areas, the condo market, is really showing some signs of weakness. Have you -- and obviously many of your customers are high net worth customers. Can you share with us just some of your underwriting standards of those types of mortgages, assuming you make them, and just how there should not be that much risk even if that market price comes down for those types of properties?

Jonathan Pruzan

Sure. Let me just take the two parts of that question separately. We've seen good growth in the mortgage portfolio, really has been a function around the changes we made in that platform. So we in-sourced and outsourced process last year, and we wanted to make sure, given that these are our customers and they're high net worth customers, that we had the right service levels and the right attention to that project. And therefore we sort of gradually transitioned from outsource to in-source.

And then over the last year, as we've gotten more mature in that process and our turn times have come down and our process has gotten better, we've been able to prosecute more applications, and that's really been the pickup. And sort of we slowed it down to make sure that we got it right, and now we're in a better position to fulfill our customer demand. In terms of the underwriting criteria, we haven't changed the underwriting criteria. It has a very strong FICO, a good LTV product. That product from an overall credit performance has been quite good. And we haven't seen any material changes in both the profile or the credit statistics.

James Gorman

I'd just add, Gerard, that that portfolio is based upon lending money to existing clients whose assets we hold here, so it's very different from a typical mortgage portfolio at a bank. There are very high net worth people, we have their assets, we have their transactions, we know what their activity is. And as Jon said, their FICO scores are extremely high, the [indiscernible] is attractive. It historically has not been an issue for the business.

Operator

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

Jim Mitchell

Hey, good morning. Maybe just a quick question on capital and DFAST, it looks -- I don't know if you can give us your calculation on what the SEB is. And just I guess to bigger picture, given the size of the SEB potential is there any discussion with the fed or ability to kind of walk through why it seems like their model tends to punish you more than your peers. It seems pretty sizable relative to your more steady wealth management business. And just want to help understand or unpack the dynamic in the SEB for you guys.

Jonathan Pruzan

Why don't I -- I'll try to kick off, and I'm sure James will have some comments. I think, first of all, just on the SEB, Vice Chairman Quarles has mentioned that this is a top priority of his, and he would like to implement it in 2020. So, I think it's still a little premature given that he said that last year, and we just don't really know what the new rules are. In a recent speech he's talked about transparency, simplicity, and volatility, so all good things when we think about it. So in terms of commenting specifically on an SEB, I think it's a little premature to do that. If you look at the CCAR results, again in totality, we're at 100% payout ratio. We're increasing our buyback by 27%, and we have six consecutive years of -- or increases in our -- consecutive years in out dividend, so confirmation that we have strong capital level, so we're very pleased with that result.

In terms of their models and our models, clearly [technical difficulty 00:02:18] you see from our DFAST data and their results that we still don't sync up as closely as we would like. It looks like that they have given us a little bit more disclosure this year, but again, I think you highlight that it looks like they think that our costs could be a little sticker than we think they are. But again, we're engaged in those discussions, and we'll continue to have those discussions going forward.

James Gorman

Yes, I'd add to that, specifically the PPNR number is something that we're struggling to understand. The good news is this is the first time we have some transparency to it. It is not a function of a divergent view around our revenues, which is good. It apparently is a function of a divergent view on our non-interest expense. It's hard for us to understand how non-interest expense is sticky unless it relates to financial compensation, which by definition is on a grid and is not sticky, but if one were to assume that you had to pay that notwithstanding the grid structure then clearly it would be sticky. That's an assumption that frankly has never borne out by history. We've never had an instance where we've gone off grid. And I've been running these businesses for over 20 years, and I've never taken financial advisors off grid, nor has anybody else in the industry, to my knowledge.

So, this is something we are clearly highly engaged with. Again, good news, we have a little bit of transparency. The only sources of differential that I can plausibly figure out, which is several billions dollars over a year, and obviously two-and-a-half times of that or two-and-a-quarter times of that over nine quarters is something relating to compensation expense, and probably operating losses that are still bleeding through on the time series, which we don't have full disclosure of, of how the Federal Reserve runs those operating losses. So in plain English, we're still suffering from the deeds at this firm 10 years ago. And my attitude is we're a very, very different firm now.

We have very different risk profile. We have very different business mix. And yes, every year we get a year further away from that, the time series of it obviously becomes less important relating to those years, but it's still impacting losses. So again, critical topic, Jim, good question, and it's something I am personally very focused on, and I'm glad we're starting to get a little bit under the kimono here, because this is 2019, not 2009. And this firm's capital base is extremely strong, as evidenced by CET1 ratio; it's one of the top couple of capital ratios in the world. And we need to get under this thing, and this is a multibillion dollar movement. So materially affects us if we can unravel it, which I intend to do.

Jim Mitchell

Right. Okay. Thank you very much. And then, maybe just as a follow-up, I think you talked about the pipeline being strong. I think we haven't seen much of a pick-up in activity levels across particularly M&A, and it seems like outside the U.S. has been particularly weak given the overhangs, is your sense that the level of dialog though is pretty high and getting some clarity on the macro could help unleash some activity, or is it, are people still pretty big? I guess, again, particularly outside the U.S., is it still pretty hesitant, given the uncertainties?

Jonathan Pruzan

Yes, I mean, I make a couple of comments. Pipeline is very healthy. In terms of M&A, you heard James; we have seen a pickup in some announced activity in the last four to six weeks. If you step back for a minute and you think about what's driving these transactions; clearly, growth, people looking to buy companies and improve their growth profile. We've seen corporate clarifications, we've seen technology disruption, we've seen activism. So again, I think all of those things are still in play, and so, it's a healthy backdrop for M&A activity. We've seen a lot of activity in again, sort of technology driven, both in terms of the tech sector, but also what technology is doing is causing M&A activity, lots of activity in healthcare financial. So again, a very constructive backdrop, Asia is the one area, given the trade discussions and sort of China activity specifically it has been quite slow, but again, healthy pipeline, good backdrop, activity, feels good. It's taking a little bit longer than it normally does, so sort of a slowdown in the pull-through, but right now pretty constructive.

Operator

Thank you. Your next question comes from the line of Christian Bolu of Autonomous. Your line is open.

Christian Bolu

Good morning. Maybe another question on rate sensitivity, do rate cuts have any impact to the institutional business? I guess, I'm thinking more the prime brokerage business here or some of the more lending oriented parts effect?

Jonathan Pruzan

Yes, I mean, that's a great question, and that's one that we looked at constantly. So modeling NII, which is a small component of the overall revenue of the firm, it's pretty easy. We use the forward curve in the beta. And therefore we have sort of some perspective. But in terms of what it does to both our fixed income business and our equity business is really a function of how people interpret the cut. If it increases some of the volatility and rates and there's more movement in rates generally volatility. That's not GAAP, it's helpful for the fixed income business, if it improves people's view of the world that there were going to extend the economic expansion, and people want to press that view in the equity markets, it could obviously help in the PB activity levels, it could also lead to repositioning of portfolios, which we haven't really seen a lot of. So again, it's sort of really how people interpret that cut. And I know everyone's always focused on NII, which for us is less relevant. But it really is going to be a function of what happens in those sales and trading businesses.

Christian Bolu

Okay. Thank you. My second one, sort of bit of a nerdy accounting question here, but in the release, you kind of mentioned in other sales and trading, revenues increase due to a shift in funding mix and balance sheet composition, I also think in the Q. Last Q, you made some adjustments. I think that we are looking to some of your deposit costs away from wealth management. So maybe just help us understand kind of what's going on with the funding strategy. How it's impacting different businesses and ultimately, the overall economic impact to the firm?

Jonathan Pruzan

Okay. That was pretty nerdy accounting question. But let me just, as you know, there is a lot of things that go into both of the other sales and trading line and the other revenue line. And generally, the way I looked at those things are together. So in the other sales and trading, we do a lot of hedging on our loan portfolios, we do economic hedging on our debt, we've got the DC excuse me Deferred Compensation plans. We have some liquidity attribution. In other revenues, we have some of those offsets, like the mark-to-market on our health for sale loans, as well as some of our MUFG JVs in there. So there are a lot of things that move around and we generally try to call out the larger ones each quarter. And so again, quarter-over-quarter, the main changes in the sales and excuse me other sales and trading was really lower losses on hedges. On our loan portfolios, right w didn't see as much credit movement in credit spreads.

And then on the other revenue line, the mark-to-market gains on loans were lower. So those things sort of moved in tandem. So there's lot of different things moving around, I think you have to look at those both together. I don't, I think I understand the question relative to what you asked about the Q. I don't think that that's what drove what the specifically what we saw this quarter, but hopefully, that's helpful.

Operator

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

Mike Mayo

Hi, can you talk about the pre-tax profit margin in wealth management and the trade-off between optimizing that margin and investing for growth? I think that's an all-time high on a core basis. And I know we've talked before that James, you can always take it higher, but there's a trade-off between investing for growth and making sure you have the revenues coming in over the next several years?

James Gorman

Where can I start with this? It's -- yes, it is an all-time high. It's actually slightly above the range that we put out of 26% to 28%. And I don't sort of jump around and start dancing, when we're a little a few basis points above a range and I'm not going to be too distressed. If it's a few basis points into the range at any point this year. We're it's in a great position to imagine that business. We're still investing with that margin a lot in the business. It's not like we are sitting back saying, "Boy, we are really milking this or we're starving it?" The team discussions we've had with Andy and Shelly and the whole field organization. I'm not suggesting that in any way, we're holding back on what they need to do to spend necessarily.

The reality is, Mike, as you know, the incremental dollar revenue in that business comes on with a much higher margin than 28% today. I don't know exactly where it is, but it's clearly well into the 30s. So there's almost no way in which you can, if we are growing revenues, you're not going to grow that margin in the business unless you have some sort of, operating issue, et cetera.

So, revenue growth, where incremental revenue is coming on higher than the existing margin, you could clearly see this margin go higher and we could force it to go higher from where we are. We are choosing not to do that because we're playing for the long run. But I guess my short answer is, I think the business is in balance, I think we're investing as we should be. And I think the margin is just the math. Revenue growth delivers the margin. I look at the Solium acquisition, we've got -- there's a bunch of investments we are making around that and also the integration costs. So that's something, which I guess is some sort drag on the mountain right now, but and will be for the next couple of quarters. But I think that's a smart drag.

Mike Mayo

And then a follow-up but certainly the right environment takes a toll on NII, you've talked about that, can you remind us to the sensitivity of wealth management to higher stock prices. In other words, if the stock market stays at this higher level what impact would that have on the pre-tax margin in the third quarter?

James Gorman

Again, we would expect given where the market closed the prior quarter that asset management fees are going to go up in the third quarter. And again, that's a positive. We've seen positive momentum in that space, both in terms of flows as well as market appreciation. And so that should be a positive and that there's always gives and takes in the business. And obviously we talked about the NII on the other side.

Operator

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

Devin Ryan

Hi, thanks. Good morning. First question just on wealth management and customer engagement, the transaction activity has been muted even with markets at highs and that's normally not the case. And at the same time, we're seeing pretty healthy engagement at some of the e-brokers and I understand that's a different client mix. But I'm just trying to potentially tie together the move that you're seeing the fee based advisor relationships with transactional activity slowing meeting that we're eventually going to be left with your brokerage relationships where the assets aren't turning over much and that's fine or is that maybe an overrated and there was a whole case for transactional activity.

James Gorman

Oh, yes. I think that's a good question and you probably have highlighted a lot of the drivers. I would just say in terms of the sentiment, if you will. We are at all-time highs in some -- in the market levels, but I think as I mentioned earlier, there seems to be a lack of conviction around that in terms of both where is it going from here and given all the uncertainty around the rate profile as well as the growth profile, I think the retail investor is inundated with information every day.

We also saw a lot of volatility in the quarter which is generally, generally not good for the retail sentiment. And what we've seen in our portfolios is sort of a little bit of a defensive posture in the sense that there is a decent chunk of the investment assets in short dated fixed income securities more so than we've seen in the last couple of years. So they are pretty defensive today in terms of how they react to the economic environment, the core transactional volume is probably on a downward trend because of this shift from brokerage to fee based accounts. On the other hand obviously, there's a component of calendar so that will move around with the calendar and whether those markets are open and closed. But it's been pretty stable for the last several quarters and I think it's just really a function of what people think about outlook and stability. And we'll have to just keep tracking it, but there is going to be pressure as we see more people go into these managed accounts.

Devin Ryan

Great, thanks. And just a follow-up on expenses, so you guys made the decision last fall to tighten expense management just heading into a more uncertain environment and that you managed, you mentioned just even last quarter that you're going to manage expenses tightly. So I'm just curious how you guys are feeling about the spending plan today relative to how the macro environment is developing meaning is the business environment that we're seeing today developing in line with how things kind of you were looking out last fall and thinking about. So you're just staying on course or some of these newer uncertainties like on interest rates are they changing views or creating a catalyst to maybe look for other areas to tighten?

James Gorman

I think right now we're suddenly pleased. We got a little ahead of the expense thing, where you know we're pretty determined to run a tight ship through the end of this year. There's no going to be no slack on that whether we turn the dials more, I'd say right now probably not. I think we're -- we've got a lot of expense initiatives going right now that we feel comfortable with. If you know things were materially to deteriorate on the revenue front for some reason, then we'll take action. I would point out this is we've had four quarters of $10 billion of revenue in our history and each of those have been in the last six quarters and we had a $9.8 billion quarter along the way there. So we've I'm conscious of the need obviously to be very disciplined and we put out I think a 73% target this quarter is a bit under 72% for expense efficiency ratios.

So that's definitely in line with what we wanted. At the same time, we've got to invest and keep growing the business. We can't just manage it for the next three months. We've got to manage it for the next 5, 10 years. So it's that balance but we're definitely not taking our foot off expenses, I'm just not sure we're going to be pushing down harder unless we saw something materially shift. I think as John said, the pipeline outlook is good. The assets were priced at a nice level. Asset management is coming along nicely, we've started the quarter quite strongly, we're feeling so. I certainly don't think this is a time to panic, but we will be disciplined through the year. There's no question about that.

Operator

Thank you. Our next question comes from the line of Steven Chubak of Wolfe Research. Your line is open.

Steven Chubak

Hi, good morning.

James Gorman

Good morning.

Steven Chubak

So James, I wanted to spend some time just digging into some of your earlier comments in terms of the pre-tax margin outlook. And I know on this call and in June you had cited your ability to really support high levels of investment and wealth as you noted and the higher incremental margins that each additional revenue dollar that's coming through all, what that supports in terms of improved profitability. I guess if I look back over the last five to six years a lot of the pre-tax margin expansion has been facilitated by stronger growth and higher margin NII. And as we look to NII now becoming a headwind versus a tailwind, do you think beyond 2019 you can still hold the line on that 26% to 28% or does the pressure on the NII revenue source in particular impact your ability to really sustain that level of profitability?

James Gorman

Well, I mean you definitely pointed out the NII on the other hand, we've had DCP worked against us this quarter, we've had prepayments which have flushed out a bit. We've had very low transaction activity. I mean I think I'm surprised at how low the transaction activity has been notwithstanding the move to asset management product. I'd be more surprised if it goes further down. I think we're sort of reaching a basic threshold where people are buying and selling different securities because the bonds maturing or whatever. So it's not what drives the numbers it's not just NII, we've had there are lot of moving parts in here more money going to annuitize the accounts, the average velocity on those accounts, I think is about 20 basis points higher than the transaction accounts and that's for both fixed income and equity accounts.

So that's attractive. We just priced the assets at a very high level at the beginning of this quarter. We've got more money going to in unitization. We're driving up the lending book. So yes, NII is clearly it's clearly a focus that's a huge focus for all the banks. It's not as important to this institution but it's clearly important, it's clearly important for that business. But there are a lot of things going on under the cover Steve and I would say I'm confident about the target of 26% to 28%. This was a business that back in 2006 when we started the margins were 3% and people said we couldn't get to Unit 15 and then they said we couldn't get to 20, they said we couldn't get to 25. And it just clicks on in some quarters that you might bounce around by 50 basis points, backwards or forwards. But the trajectory is pretty clear. And if you have decent asset prices, we continue to have the annuitize assets, we are originating more loans in the bank book, the NII is clearly not helpful but we can absorb some of that. So I've no reason to step back from the target range that we've put out of 26% to 28%.

Steven Chubak

Thanks for the helpful color, James. And just maybe one follow-up for Jon, just on the NII guidance based on some of the investor feedback that we've gotten at least since Q&A kicked off, there appears to be some confusion around the 3Q NII guide. I was wondering if you could give the dollar NII guidance for 3Q or at a minimum maybe quantify the impact from premium amortization that you expect in the upcoming quarter.

Jonathan Pruzan

The guidance that I gave was ex any sort of prepay. And I based it off third quarter of 2018 when there was no prepay impact and I said it would be more or less in line with third quarter 2018. So I think that's very clear. I'm sorry, it was confusing in the jumble of all the other information I gave. So that is the guidance on the third quarter and as you know mortgage prepayments is going to be impacted by the rates in sort of the five to 10 year shape of the curve and so I just gave you guidance ex-prepay if that those numbers go down dramatically, you'll see the prepayments hurt us and if they go up you'll see a reversal of the prepayment.

James Gorman

And I just the state obvious Steve because we've now had, I don't know six or seven callers in and I think five or six talked had NII, we have some other businesses over here and some of those businesses chugging along quite nicely. The M&A pipeline we talked about the asset management business is doing really well, the annuitized assets. So again NII is important to us. It's not as important as it is to some of the other banks. Other things are also important to us, equity underwriting is extremely important to us. So I just -- I put it in that context, it's clearly a headwind but it's not like we don't have some other things going on under the hood here.

Operator

Thank you. Our next question comes from the line of Brian Kleinhanzl from KBW. Your line is open.

Brian Kleinhanzl

Yes, thanks for taking my questions. First question on wealth management is a fee based assets to total assets have plateaued kind of around 45%, over the last year could you just kind of give some color on why that's happened and is it still the desire to grow those fee based assets even above 50% and beyond? Thanks.

Jonathan Pruzan

Sure. And then we have plateaued a little bit. It's bounced around sort of 43%, 44%, 45%. We do still believe that that number will go higher and could clearly go towards 50% and beyond. I do think that as we continue to refine our offering and sort of value based pricing that we'll continue to see more dollars flow into fee based accounts than to brokerage accounts. And right now it's just some of that's just really a function of whether the assets in each of those accounts are growing faster or slower because the composition of those two buckets are little bit different brokerage versus fee based, but we do still think that that number will increase over time.

Brian Kleinhanzl

And then a separate question. You mentioned that you are selling AFS this quarter to offset the pre-pay amortization. Is that an ongoing strategy? Or is that just a one-off action this quarter?

Jonathan Pruzan

Well, two things. It didn't fully offset the amortization. And two, it was not done for that reason. We look at our asset and liability management all the time. And we took an opportunity to sell some securities and reinvest those securities in a different type of security that we thought had a better profile given that the rate outlook. So, again, it mostly offset the prepayment, but not entirely.

Operator

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

Sameer Murukutla

Hi, good morning. This is actually Sameer Murukutla on for Michael. Jon, you highlighted the number one position in equity trading. Yet, it seems a bit -- the results were a bit muted versus peers. Can you provide some details around what went on the quarter? Is this increased competition from more of your peers, or whether the results in the quarter is more about your [indiscernible]?

Jonathan Pruzan

Yes. And we are number one in that business globally. We have seen a turnover in market volumes slower. Cash and derivative muted clearly relative to the fourth quarter. If you look at year-to-date, the wallet -- the size of the wallet is down. But again, I think our expectation is that we will maintain our market share in that business. And we will maintain our number one ranking. It's hard to look at these things quarter to quarter because sometimes people are comparing quarters to good quarters versus bad quarters or higher performance versus lower performance. But again, we are number one in this business. We have been for quite some time. We have got a very comprehensive offering. We are seeing good activity level from our client base. Activity level lower than 80, but good engagement with our clients, and we are very comfortable with that business. And our expectation is to maintain share when markets contract, and that's what we are seeing.

Sameer Murukutla

Thank you.

Operator

Thank you. And our next question comes from the line of Glenn Schorr of Evercore ISI. Your line is open.

Glenn Schorr

Thanks very much. Maybe just a quick follow-up on the equity front, I hear that you are number one in maintaining share, but in PB I think you mentioned something -- or actually ask the question of are client balances also muted just because market keep hitting high? I think of you guys as little over indexed to PB because you so far away the leader, but I am curious if that could have something to do with any given quarter been off a little bit more than peers?

Jonathan Pruzan

Yes, again I think any given quarter is just a very short timeframe to look at, but I would say our PB business is obviously is very healthy and very strong. What we have seen generally is the PB balances have drifted up. But there is not a lot of conviction around that. So as markets go up, balances go up. So the gross books have gone up. Leverage really hasn't gone up. Conviction hasn't really gone up. We haven't seen some historically if you were in this type of environment, you would see a lot of repositioning of portfolios. You would be seeing increasing leverage, and we just really haven't seen that although the balances continue to go up with the market. So healthy, but again I think people are not as -- don't have as much conviction around these levels in this rally.

Glenn Schorr

Okay. Quick one on debt underwriting, it's been a good push. It's been good growth at Morgan Stanley, but my view is it would be good lumpy tie to big M&A transactions. Is that the primary driver in the down 22 or so percent year-on-year just the piece is tied to large financings?

Jonathan Pruzan

Yes. I mean -- well, we have clearly seen lower levels of leverage finance activity which is a higher margin business. We have seen a pickup actually in the last four or five weeks in that space, but our balances and our pipeline in that business for the first half of the year were clearly lower than where they were last year. In investment grade, it's a little bit lower but still pretty healthy, but yes, sort of the chunkier, higher margin stuff is really going to be sort of the delta if you will in those numbers.