



A business of Morgan Stanley
760 W. Main, Barrington, IL



Graystone Consulting

2nd Quarter 2020 Investment Outlook

George T. Cook

Managing Director

Institutional Consulting Director

george.t.cook@msgraystone.com

Carl H. Viard

Senior Vice President

Institutional Consulting Director

carl.h.viard@msgraystone.com

Mary L. Tomanek

Senior Vice President

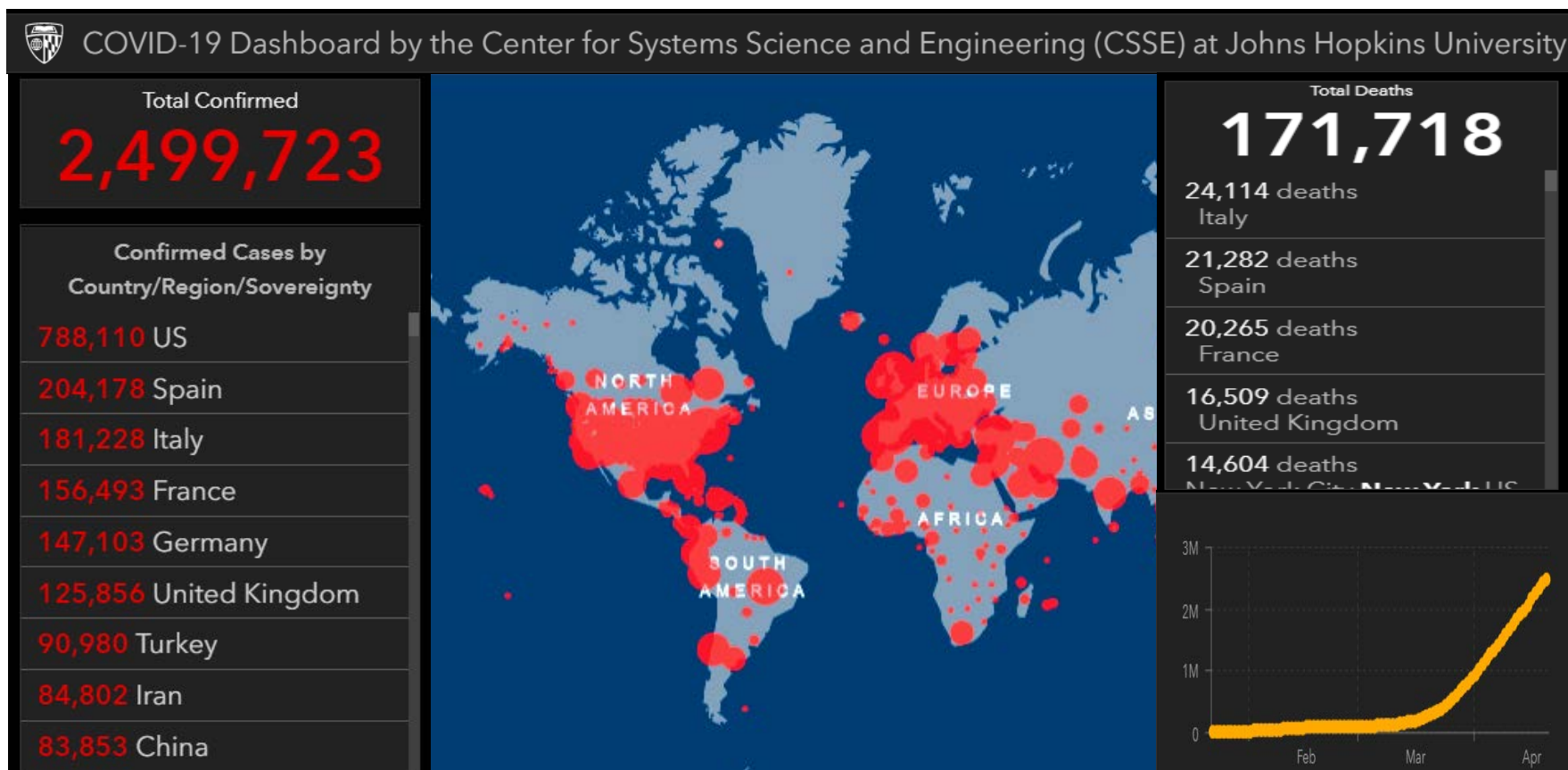
Institutional Consulting Director

Mary.l.tomanek@msgraystone.com



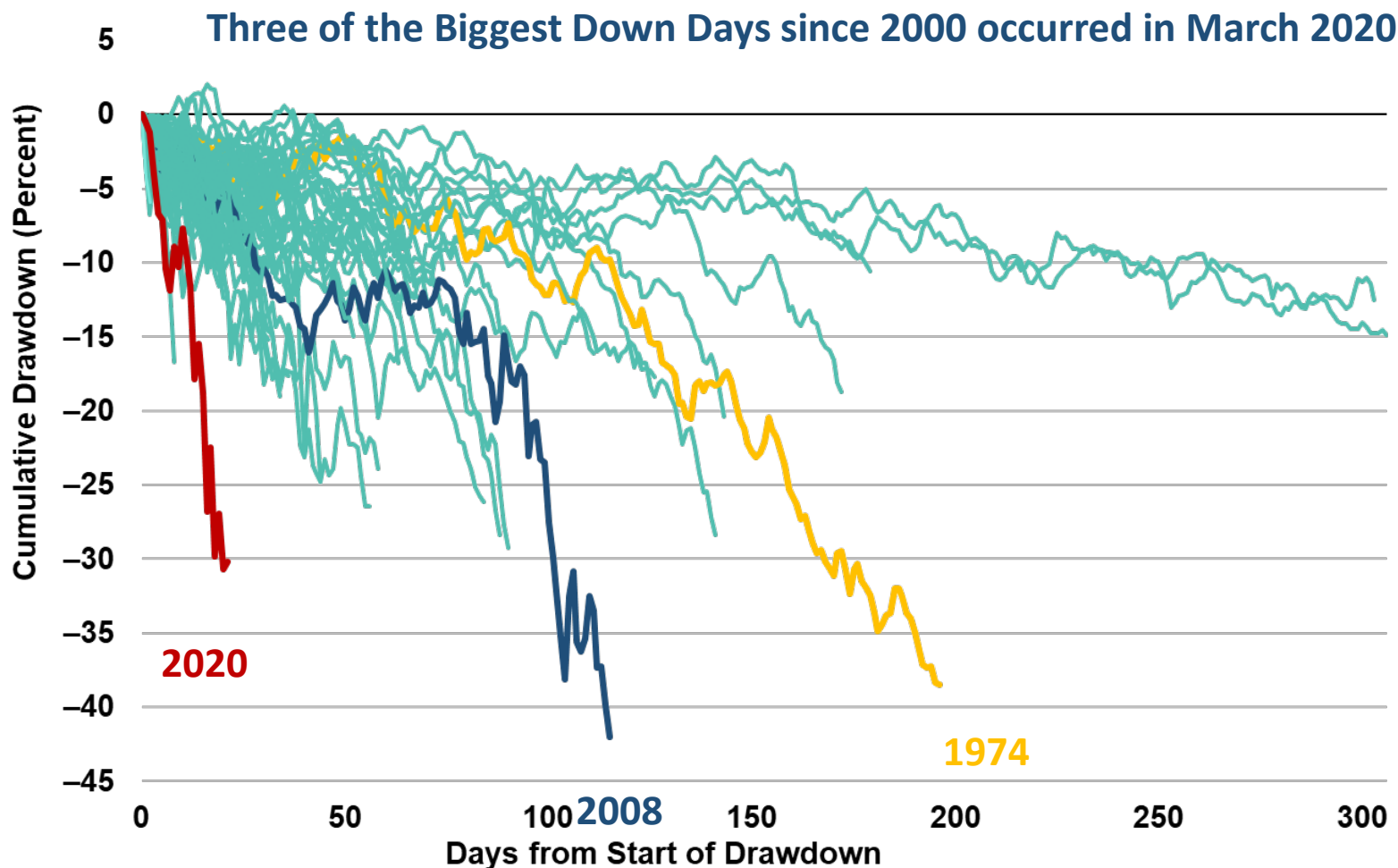
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How Will Covid-19 Impact Higher Education?



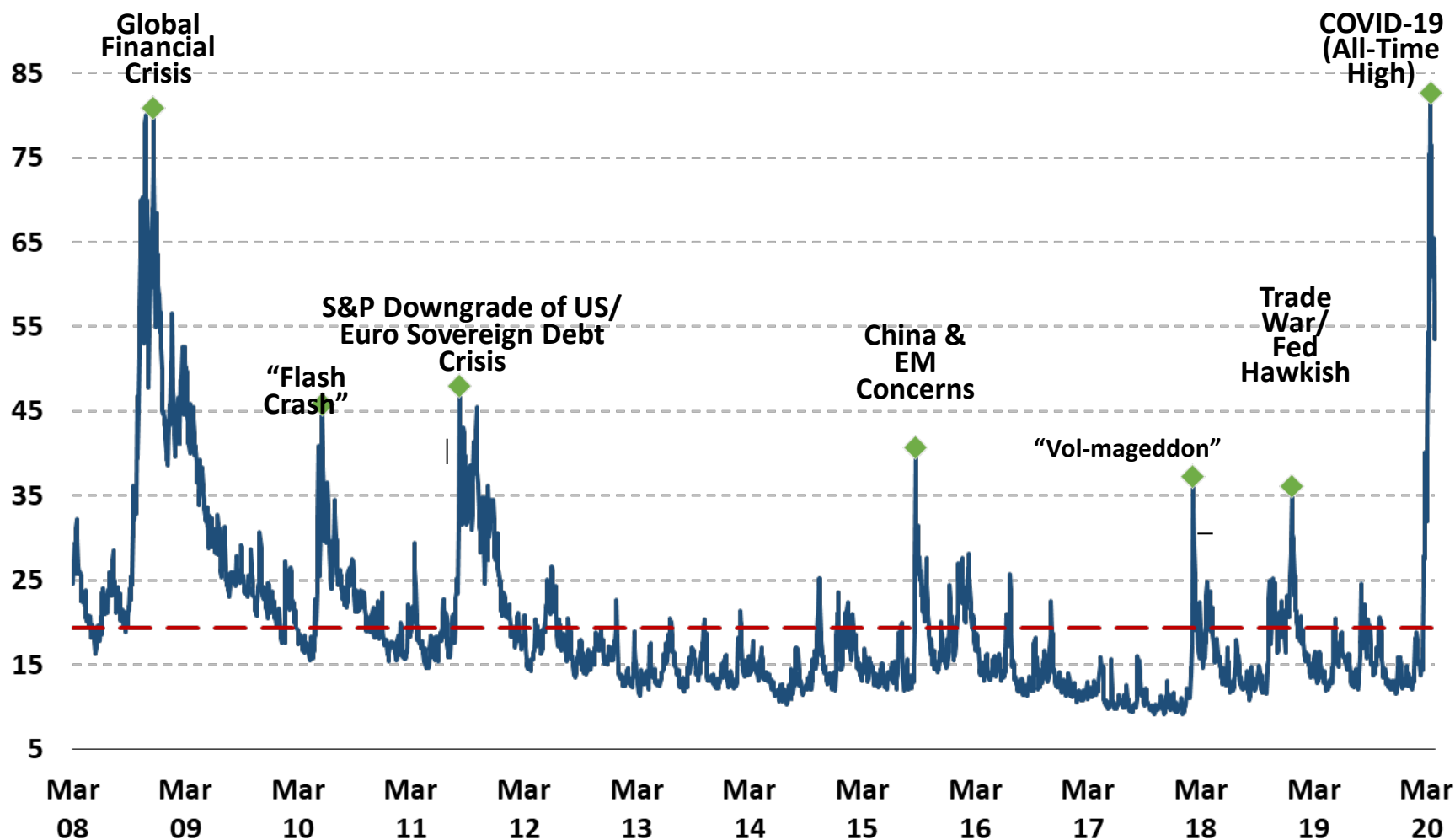
Source: Johns Hopkins <https://coronavirus.jhu.edu/map.html> as of 04-15-2020

Most Rapid Stock Market Correction in Decades



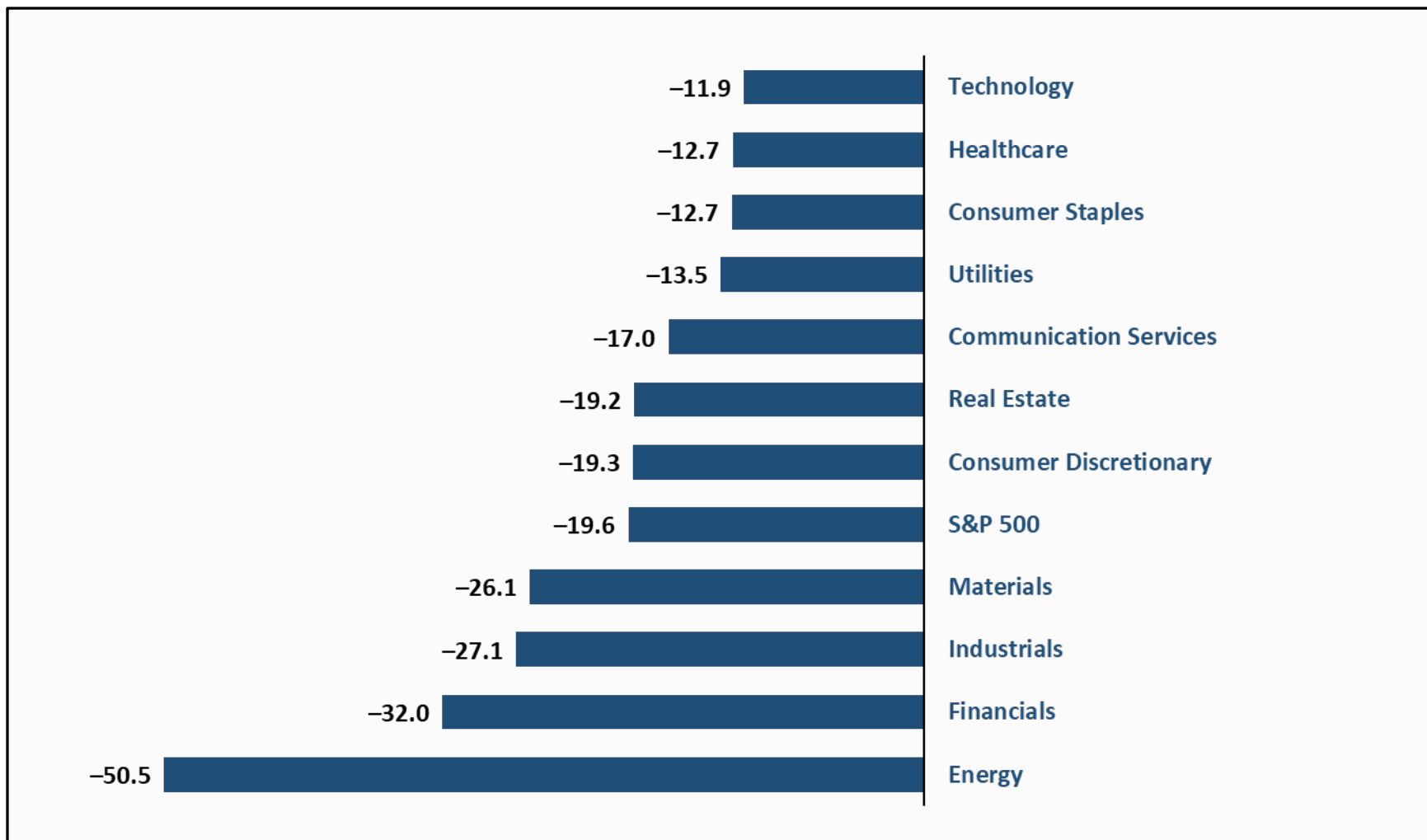
Source: Alliance Bernstein CMO April, 2020 Chart shows all drawdowns greater than 5% since 1965. Global equities are represented by MSCI World (USD). of March 19, 2020

The VIX Attains a New High-Water Mark



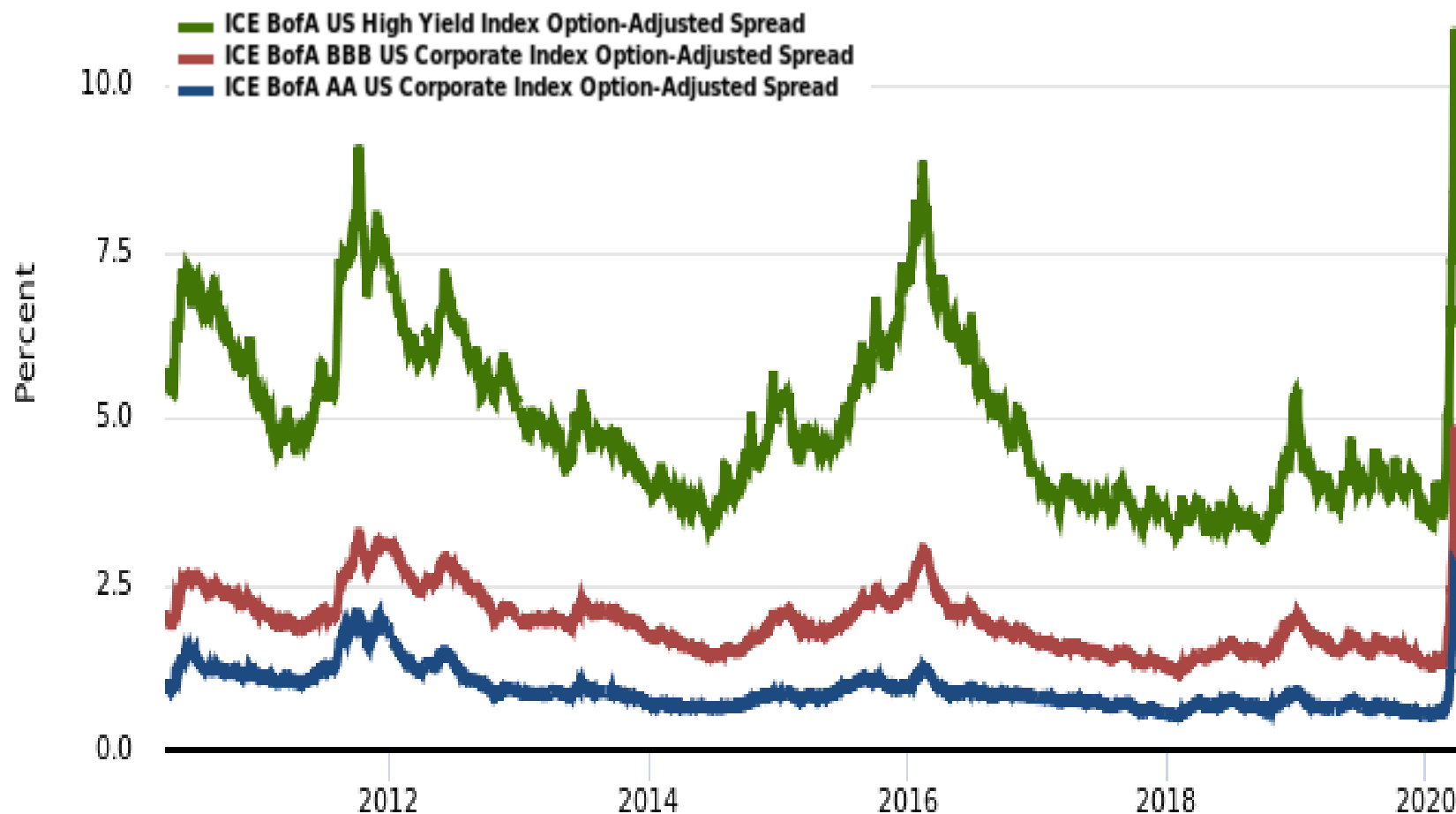
Source: Alliance Bernstein CMO April 2020 Data from March 1, 2008, through March 31, 2020

Not a One Spared: S&P 500 and Sector Total Returns



Source: Alliance Bernstein CMO April 2020 Data first quarter ending March 31, 2020

Corporate Spreads 'Blow Wide Open'



Ice Data Indices, LLC, ICE BofA US High Yield Index Option-Adjusted Spread [BAMLH0A0HYM2], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/BAMLH0A0HYM2>, April 14, 2020.

Real (After Inflation) Yield of 10 Year Treasury



Board of Governors of the Federal Reserve System (US), 10-Year Treasury Constant Maturity Rate [DGS10], <https://fred.stlouisfed.org/series/DGS10>, April 21, 2020.
U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL]

Oil Prices Collapse

Last 50 Years

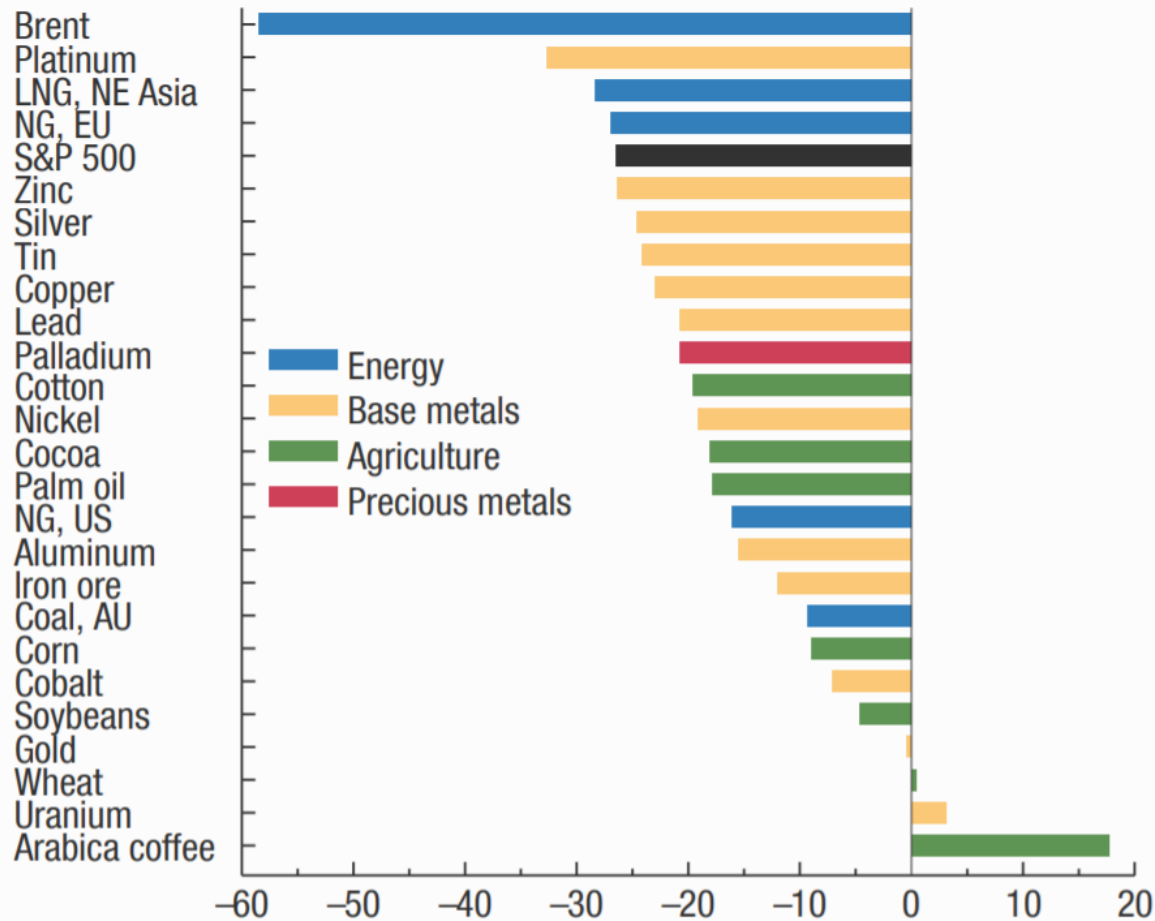
04-20-2020: May Futures



Federal Reserve Bank of St. Louis, Spot Crude Oil Price: West Texas Intermediate (WTI) [WTISPLC], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/WTISPLC>, April 14, 2020 Reuters April 20-2020.

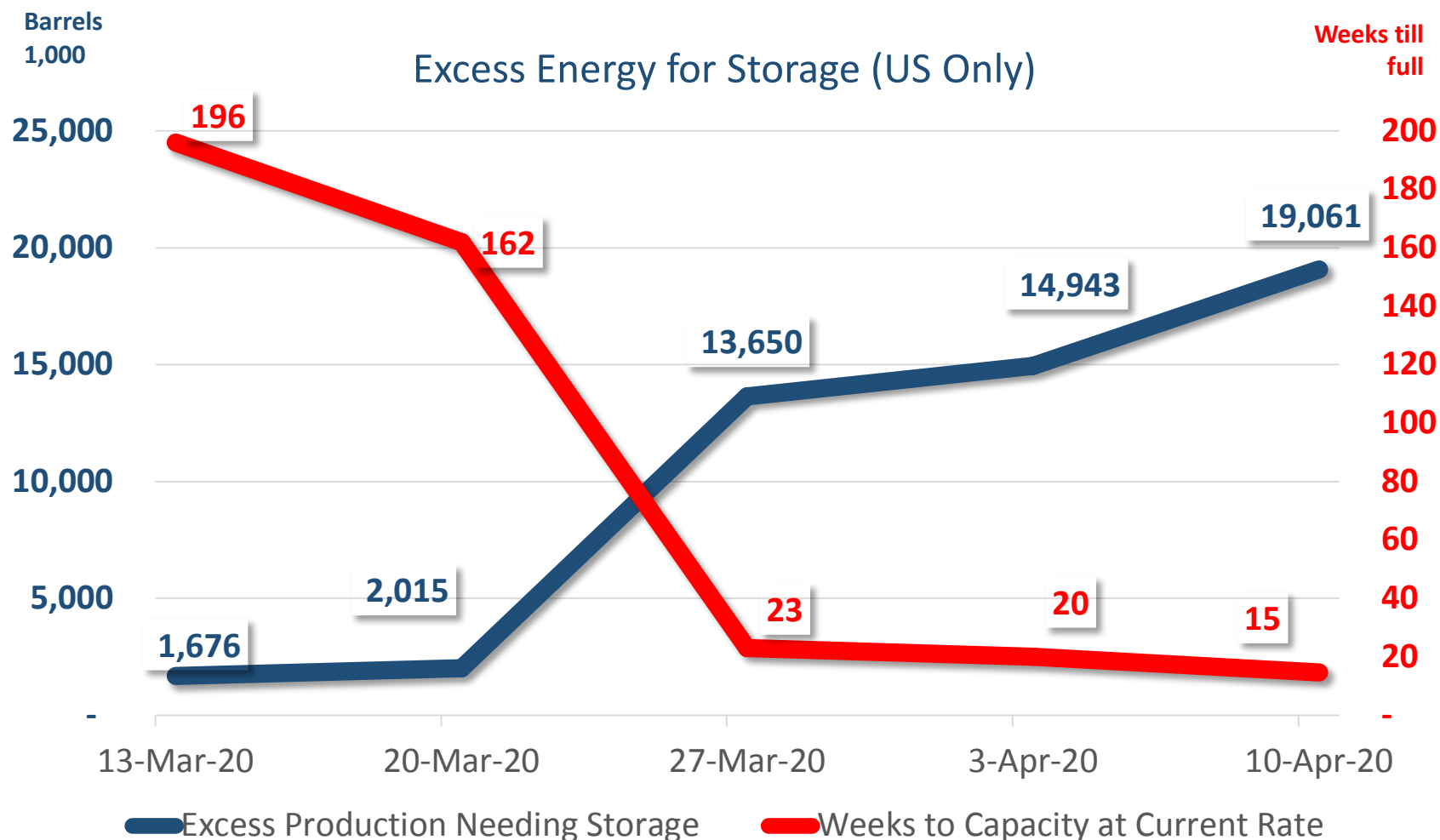
Commodity Prices Collapse

1. Impact on Commodity Prices



Source IMF World Economic Outlook 04-14-2020

Energy Storage Capacity



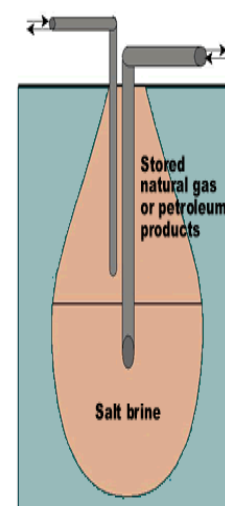
Source: Energy Information Administration 04-20-20

SPR Total Storage Capacity 713.5MMB Current Available 78.5MMB

SPR Storage Locations



A typical cavern holds 10 million barrels and is cylindrical in shape with a diameter of 200 feet and a height of 2,500 feet.



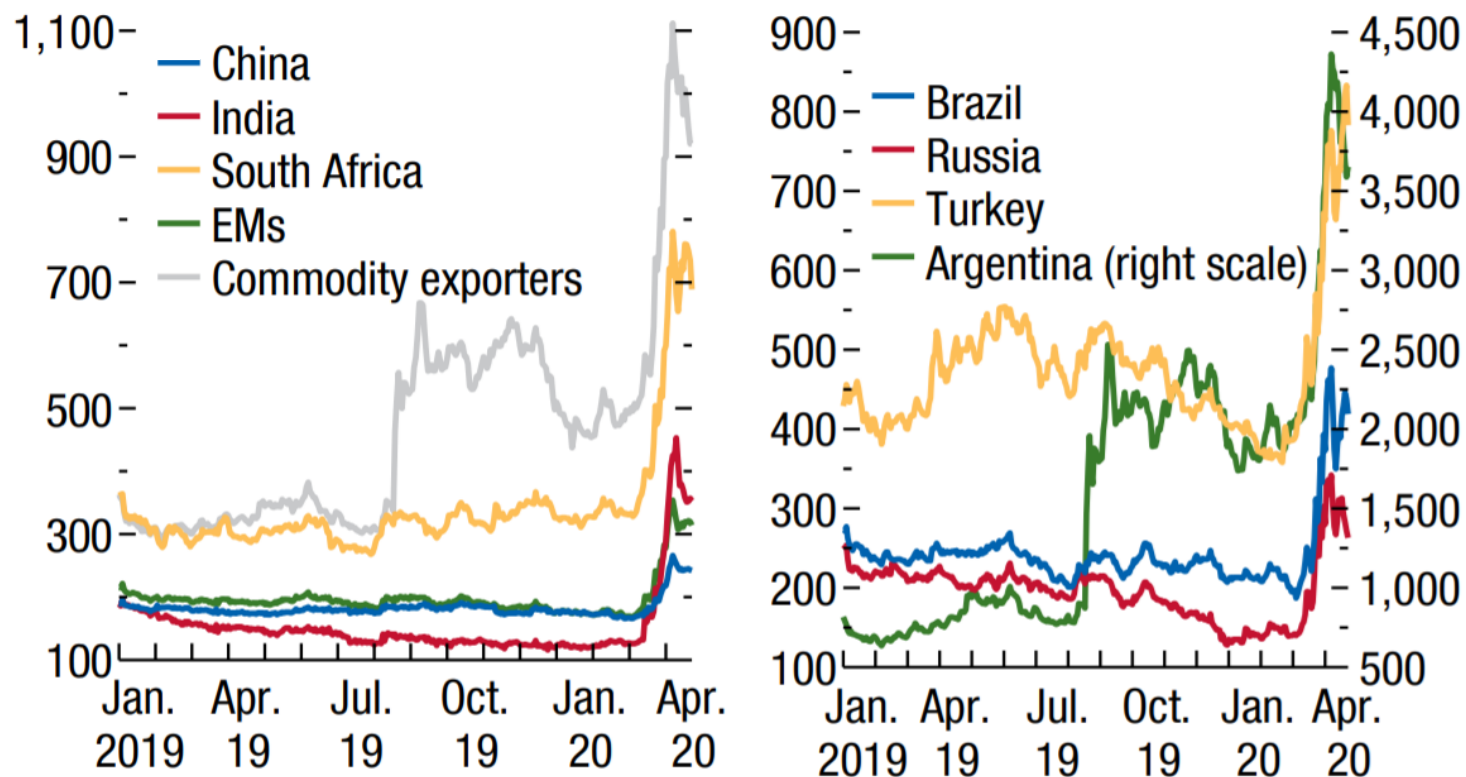
To withdraw crude oil, fresh water is pumped into the bottom of a cavern.

STRATEGIC PETROLEUM RESERVE INVENTORY					
CURRENT SPR INVENTORY AS OF April 17, 2020 (MMB)					
<u>SWEET</u>	<u>SOUR</u>				<u>TOTAL</u>
250.3	384.7 million bbls				635.0

Source: Energy.gov <https://www.energy.gov/fe/services/petroleum-reserves/strategic-petroleum-reserve/spr-storage-sites>,
<https://primis.phmsa.dot.gov/>

Emerging Markets Sovereign Spreads 'Blow Out'

Sovereign Spreads: Basis Points



IMF World Economic Outlook April 14-2020

Market Returns

ASSET CLASS	INDEX IN USD	1-MONTH	YTD	1-YR	3-YR ANN	5-YR ANN
Global Equity						
Global Equity	MSCI All Country World	-13.4%	-21.3%	-10.8%	2.0%	3.4%
US Equity	S&P 500	-12.4%	-19.6%	-7.0%	4.0%	6.2%
International Equity	MSCI All Country World ex US	-14.4%	-23.3%	-15.1%	-1.5%	-0.2%
Emerging Markets Equity	MSCI Emerging Markets	-15.4%	-23.6%	-17.4%	-1.3%	-0.2%
Global Fixed Income						
IG Fixed Income	Barclays US Aggregate	-0.6%	3.1%	8.9%	4.8%	3.3%
Inflation-Linked	Barclays Inflation-Linked	-3.4%	0.3%	4.5%	3.7%	3.6%
High Yield	Barclays Global High Yield (H)	-13.4%	-14.5%	-9.2%	-0.3%	2.6%
EM Fixed Income	JP Morgan EM Bonds in USD	-11.1%	-15.2%	-6.5%	-1.3%	1.0%
Alternative Investments						
Global REITs	FTSE EPRA/NAREIT GI REITs	-22.3%	-28.4%	-23.0%	-2.4%	-0.8%
Commodities	Bloomberg Commodities	-12.8%	-23.3%	-22.3%	-9.2%	-8.4%
MLPs	Alerian MLP	-47.2%	-57.2%	-61.0%	-29.6%	-21.1%
Hedged Strategies	HFRX Hedge Fund Index	-5.9%	-6.9%	-1.4%	-0.6%	-0.7%
Managed Futures	HFRX Macro/CTA Index	-1.0%	-1.3%	4.4%	1.1%	-1.1%
Private Real Estate	NCREIF Private Real Estate	-	0.0%	6.4%	6.7%	8.2%
Global Cash						
Cash	Citigroup 3-month T- Bill	0.1%	0.4%	2.0%	1.7%	1.1%
Other Fixed Income						
Municipal Fixed Income	Barclays Municipal Bond	-3.6%	-0.6%	3.8%	4.0%	3.2%

Source: Morgan Stanley Wealth Management As of March 31, 2020; Private Real Estate as of January 31, 2020

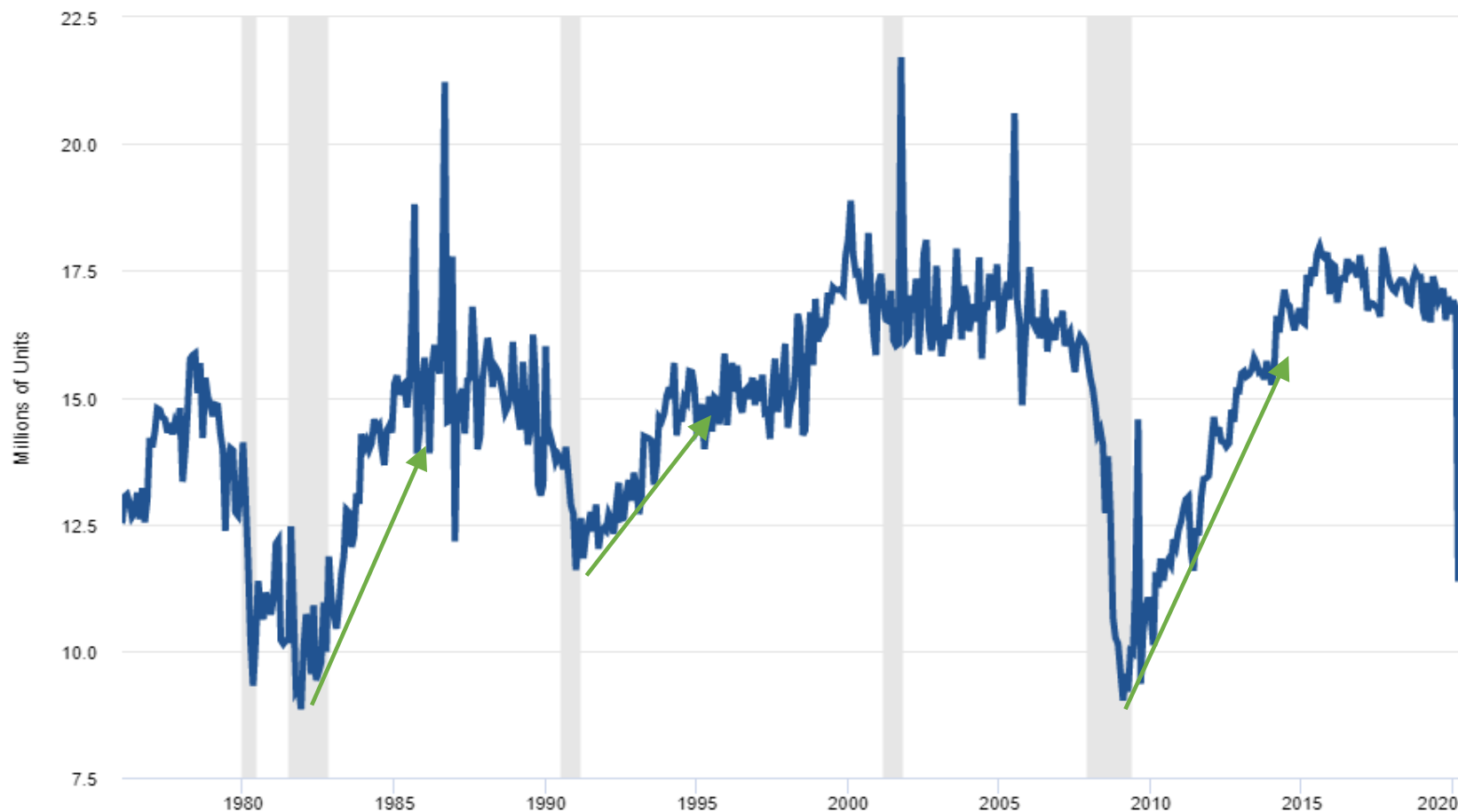
Sentiment Now Matches Severe Recession in the US

Index of Consumer Sentiment – Seven Day Moving Average



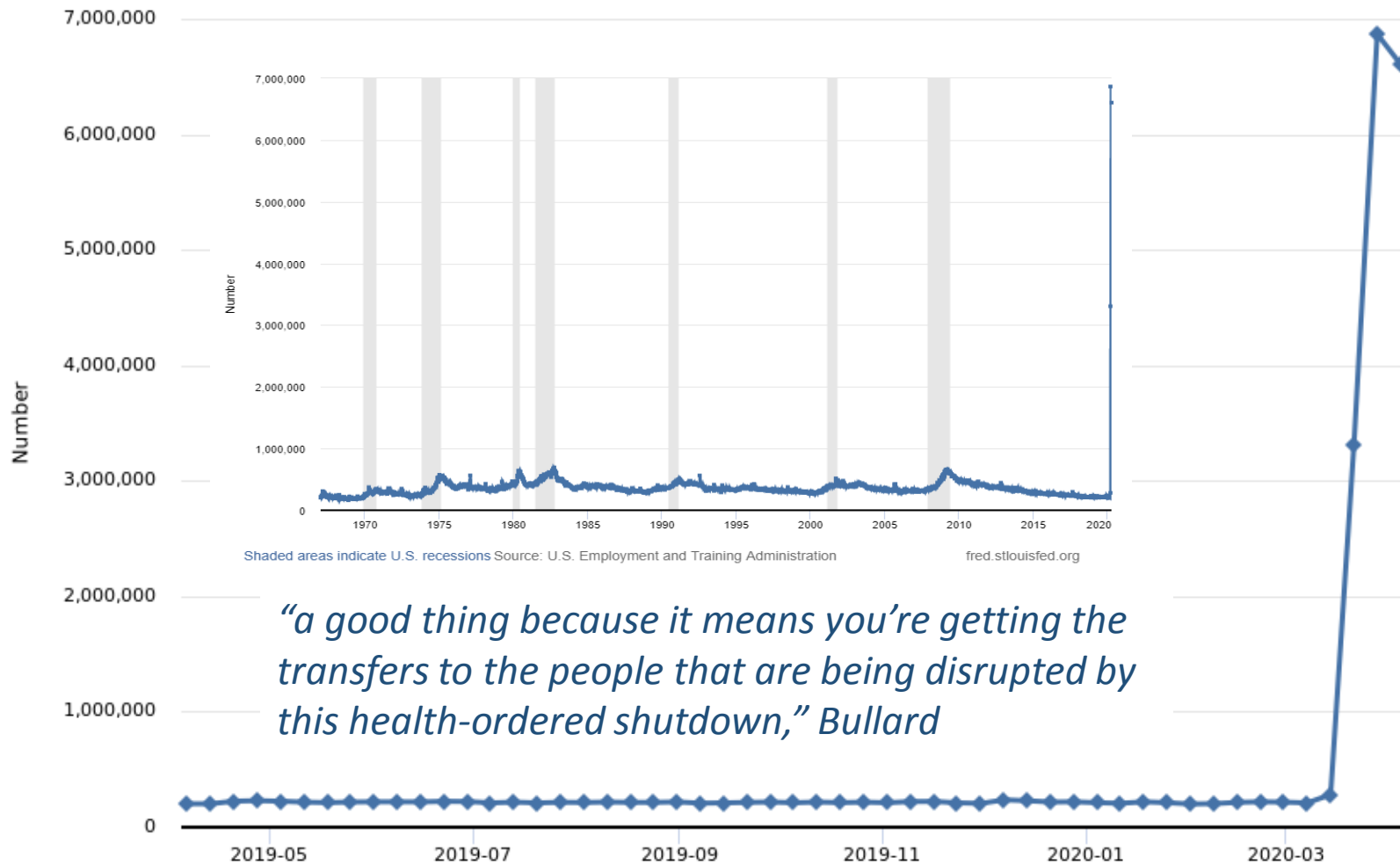
University of Michigan, University of Michigan: Consumer Sentiment [UMCSENT], retrieved from FRED, Federal Reserve Bank of St. Louis;
<https://fred.stlouisfed.org/series/UMCSENT>, April 13, 2020.

'Shelter in Place' has shut down production and halted auto sales



U.S. Bureau of Economic Analysis, Total Vehicle Sales [TOTALSA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/TOTALSA>, April 14, 2020

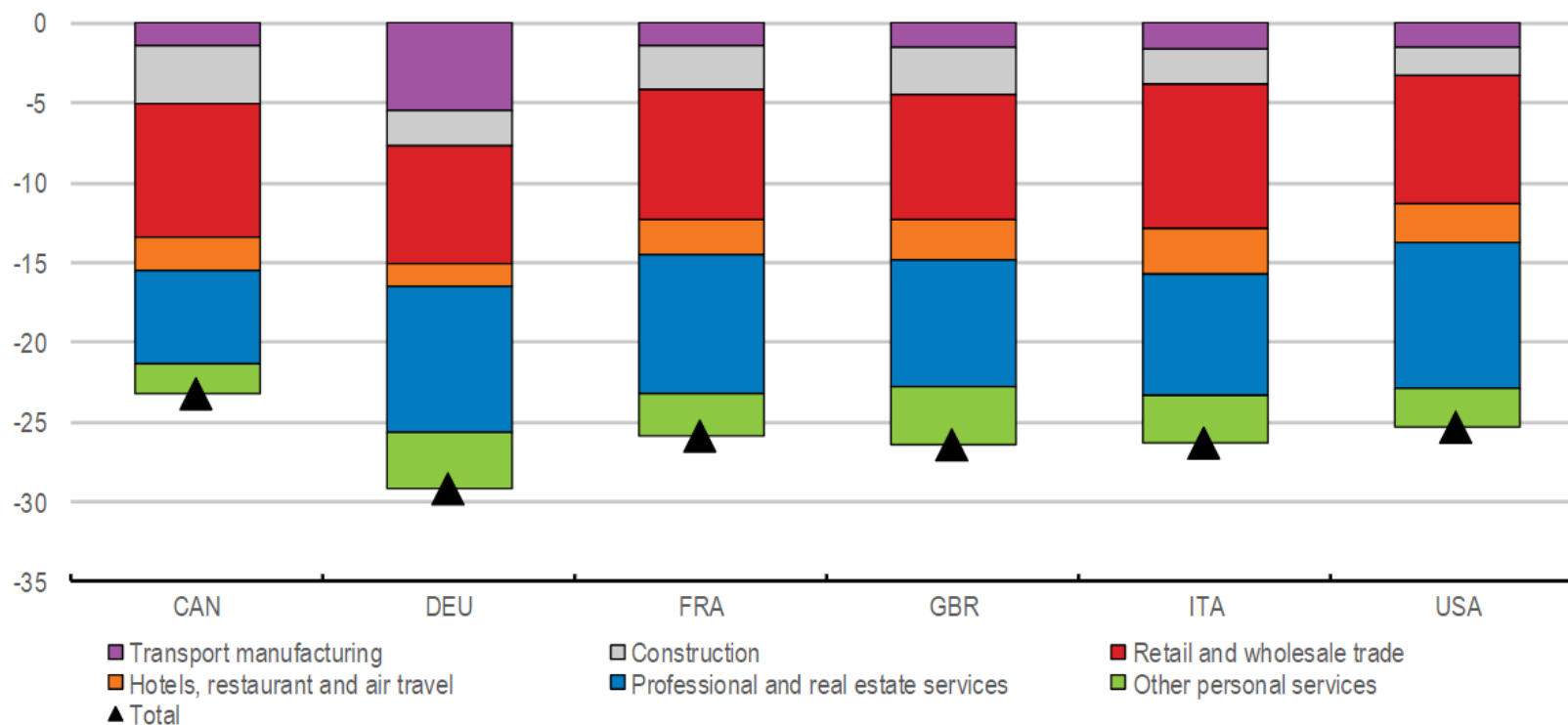
Initial Unemployment Claims



U.S. Employment and Training Administration, Initial Claims [ICSA], retrieved from FRED, Federal Reserve Bank of St. Louis;
<https://fred.stlouisfed.org/series/ICSA>, April 13, 2020.

The potential impact of partial or complete shutdowns on activity in the selected G7 economies

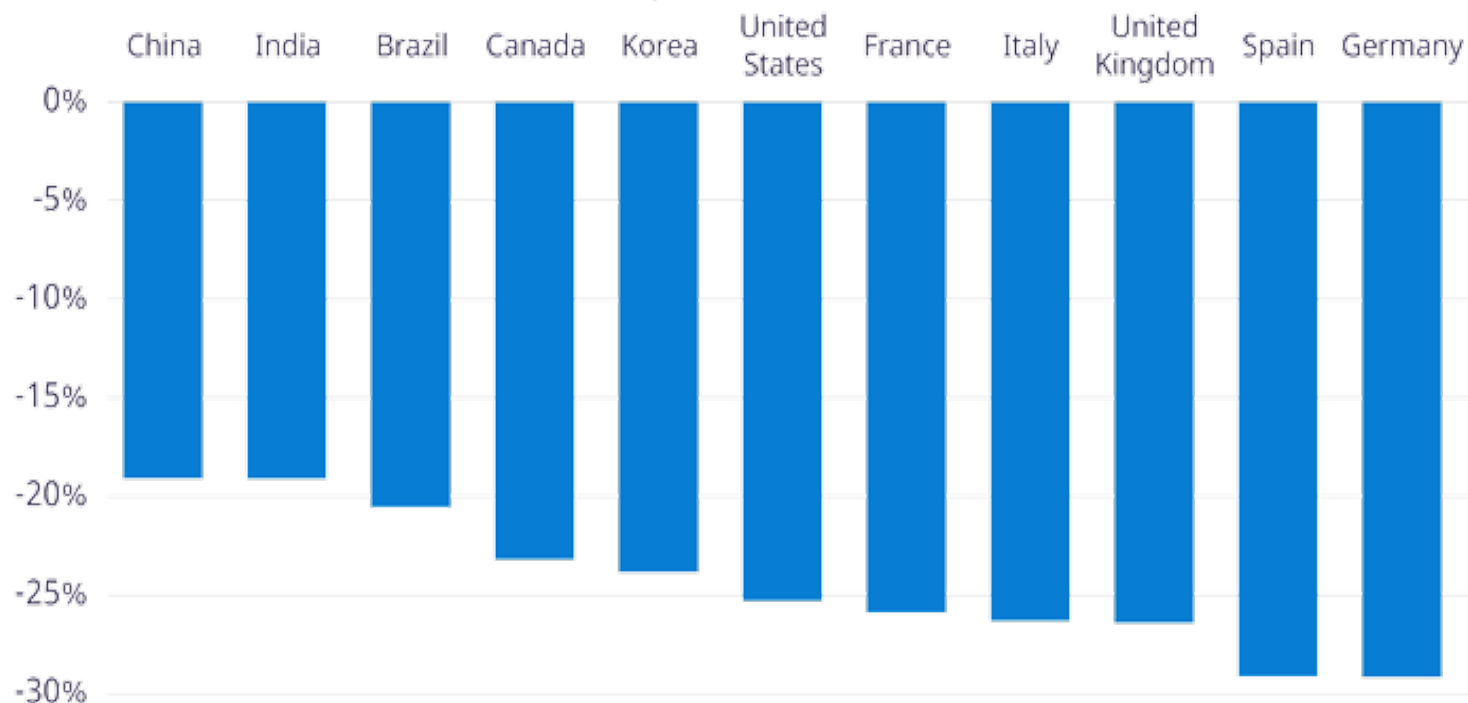
Per cent of GDP at constant prices



Source: OECD Annual National Accounts as of 3-26-2020

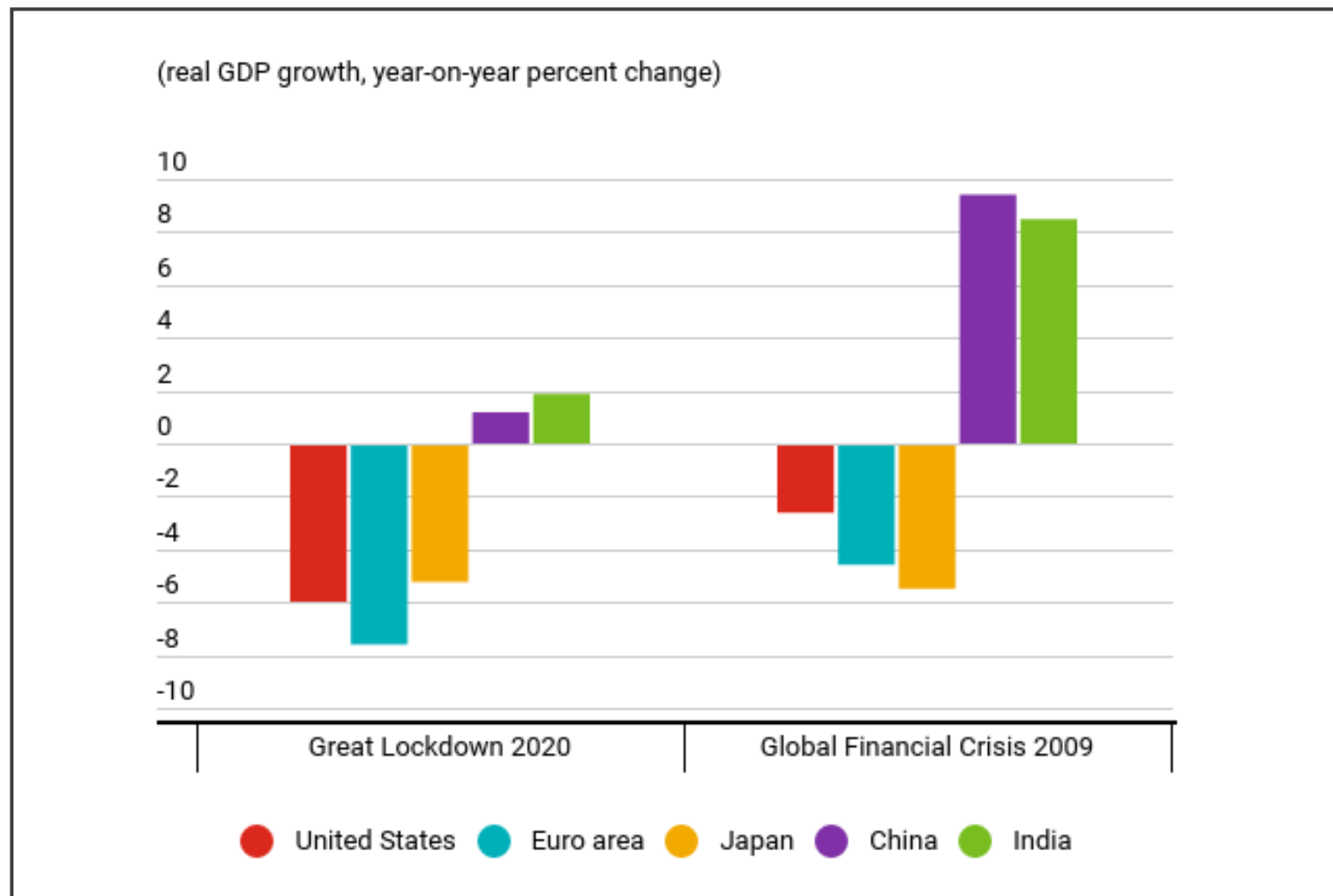
The initial impact of containment measures will be felt worldwide

Selected countries, in % of GDP at constant prices



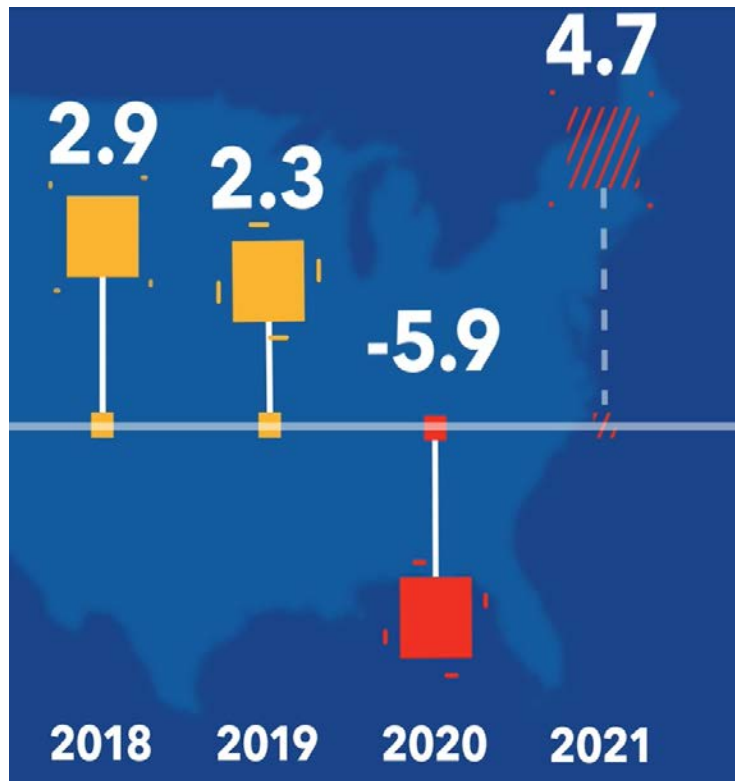
Source: OECD Annual National Accounts; OECD Trade in Value-Added database; Statistics Korea; Brazilian Institute of Geography and Statistics; and OECD calculations. As of 03-26-2020

Real GDP Growth Year on Year Percent Change

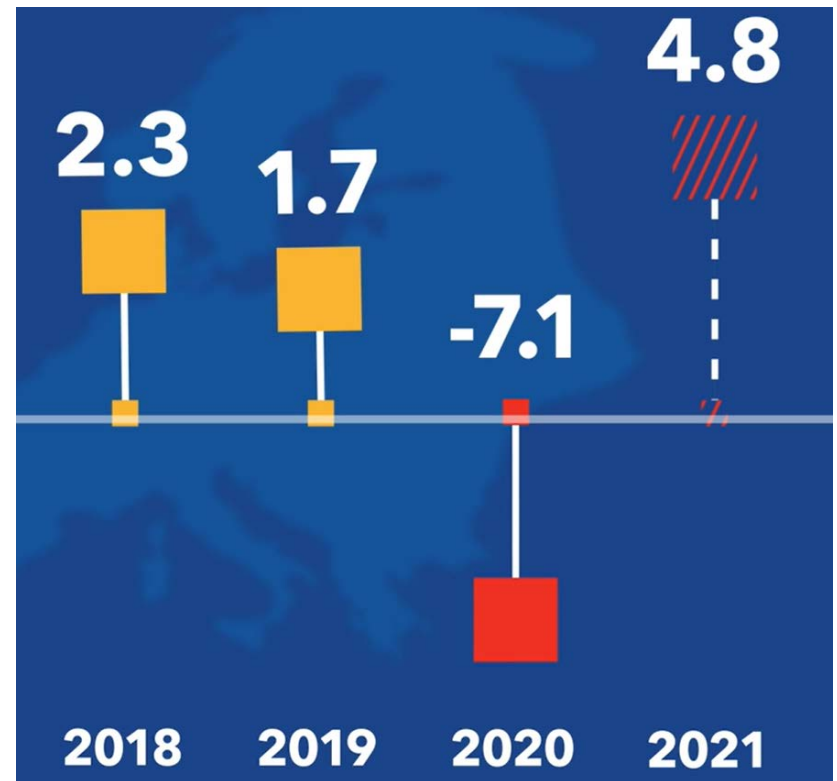


Source: IMF World Economic Outlook 04-14-2020

United States



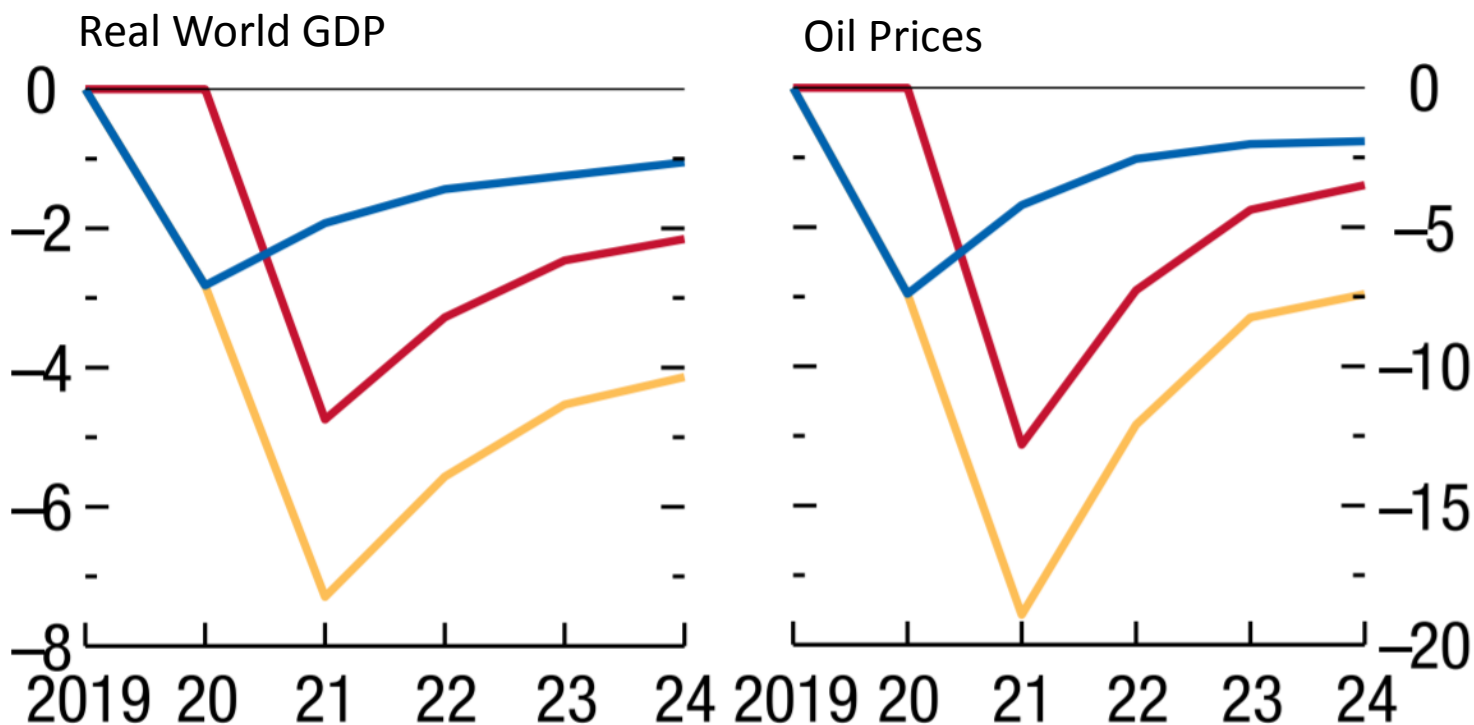
Europe



IMF World Economic Outlook April 14-2020

IMF Concern: Road to Recovery is Uncertain

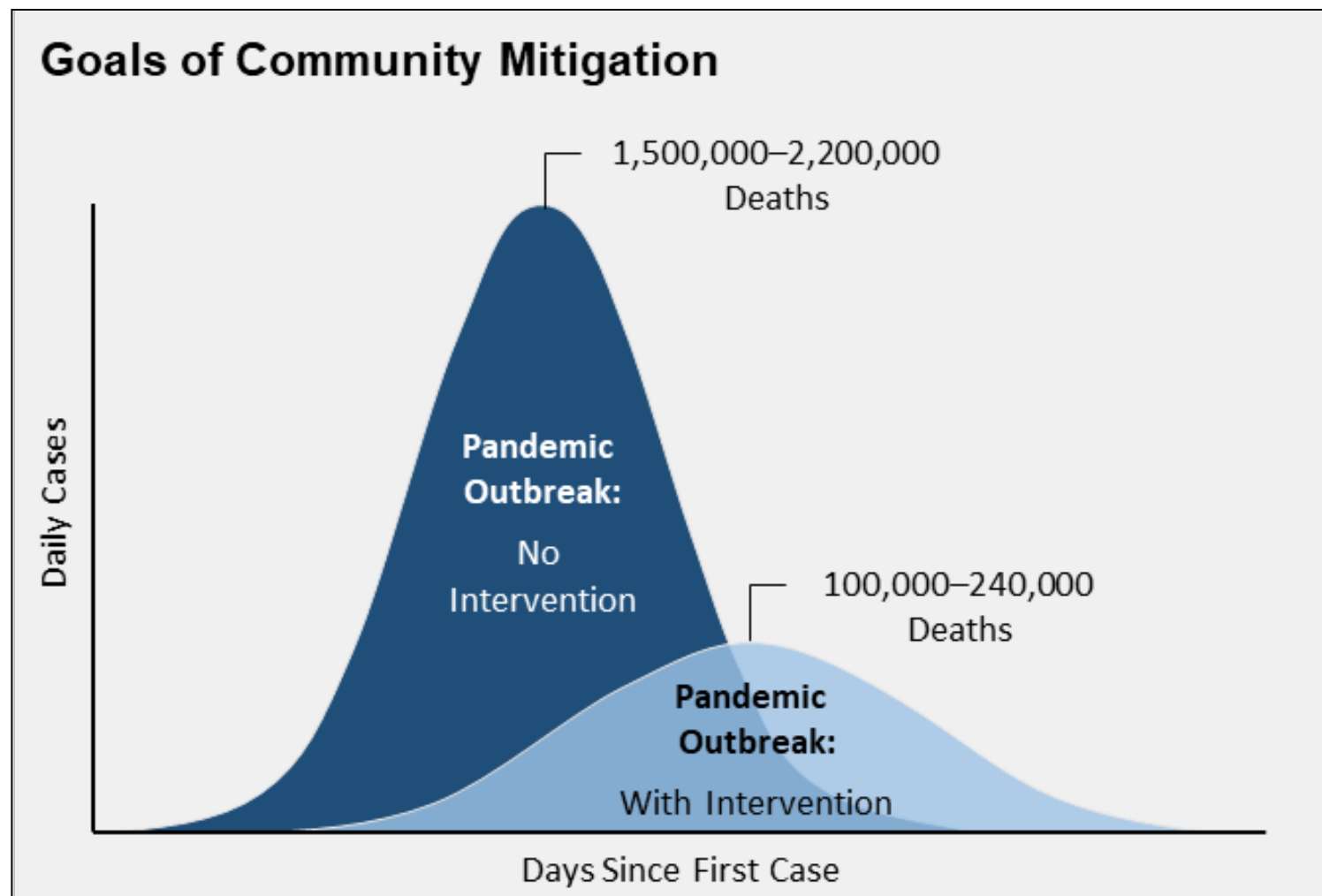
- Longer outbreak in 2020
- New outbreak in 2021
- Longer outbreak in 2020 plus new outbreak in 2021



'This could be a long, hard road that we have ahead of us until we get to either an effective therapy or a vaccine.'

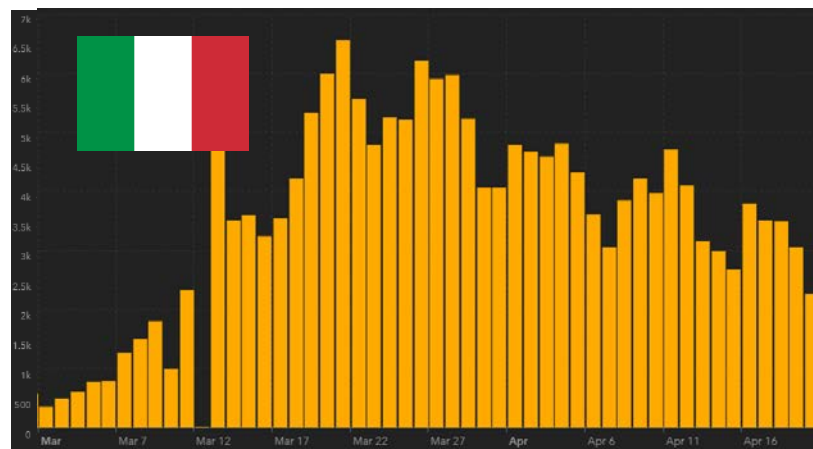
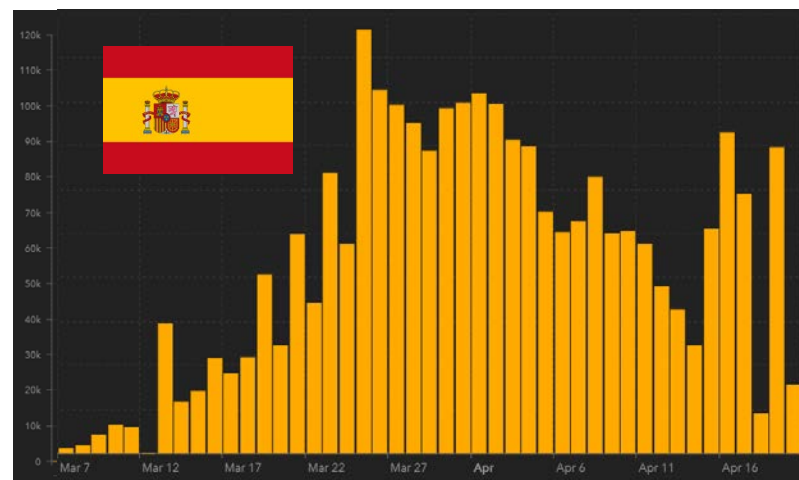
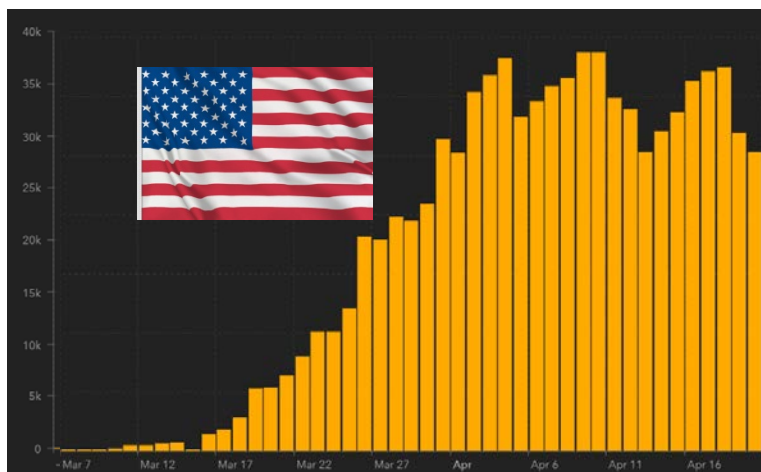
Neel Kashkari - Minneapolis Fed

Source: IMF World Economic Outlook 04-14-2020 Neel Kashkari Federal Reserve 4-12-2020



Source: Alliance Bernstein CMO April 2020 Data as of March 31, 2020 Centers for Disease Control and Prevention (CDC), Drew Harris, Johns Hopkins University

Covid-19 Case Curve in Real Time



Source: Johns Hopkins <https://coronavirus.jhu.edu/map.html> as of 04-21-2020

Covid-19 Case Curve

	Reported Cases	Projected Date of Peak Resource Use*	Projected Date of Zero Daily Deaths*
US	374,329	April 15, 2020	June 19, 2020
New York	141,100	April 8, 2020	May 8, 2020
New Jersey	41,090	April 15, 2020	May 12, 2020
Michigan	17,221	April 8, 2020	April 29, 2020
Louisiana	14,867	April 1, 2020	April 24, 2020
California	14,336	April 14, 2020	May 20, 2020
Massachusetts	13,837	April 18, 2020	May 31, 2020
Florida	13,214	April 21, 2020	June 14, 2020
Pennsylvania	12,980	April 11, 2020	May 13, 2020
Illinois	12,262	April 16, 2020	May 6, 2020

Analysis provided for illustrative purposes only and is subject to revision.

Source: Alliance Bernstein CMO April 2020

Federal Reserve Action

❑ Two emergency rate cuts by the Fed

Rate cuts of 50 b.p. and 100 b.p. leave rates at the zero bound

❑ Unlimited quantitative easing

Fed's initial pledge to purchase \$700 billion in US Treasuries and agency mortgage-backed securities (MBS) is changed to unlimited amounts—including commercial mortgage-backed securities (CMBS)

❑ Fed's emergency powers to create facilities to expand liquidity*

Primary Dealer Credit Facility (PDCF)

Commercial Paper Funding Facility (CPFF)

Money Market Mutual Fund Liquidity Facility (MMLF)

Primary Market Corporate Credit Facility (PMCCF)

Secondary Market Corporate Credit Facility (SMCCF)

Term Asset-Backed Securities Loan Facility (TALF)

Main Street Lending Facility (MSLF)

FIMA Repo Lending Facility

Purchase of Commercial Paper, Muni's, CLOs, CMBS, Corporate Bonds, ETFs, Junk Bonds, ABS: Student Loans, Auto Loans, Credit Cards

Source: Alliance Bernstein CMO April 2020

Congressional Relief

☐ Backstop businesses

\$350 billion in small business loans \$500 billion in corporate aid and loans—administered by US Department of the Treasury
\$25 billion in grants for airlines, along with \$25 billion in loans
\$17 billion in loans to companies (e.g., Boeing) deemed critical to national security

☐ Backstop incomes

Direct payments of \$1,200 per individual, \$500 per child Tax and interest relief, including from mortgages and student loans

☐ Employees

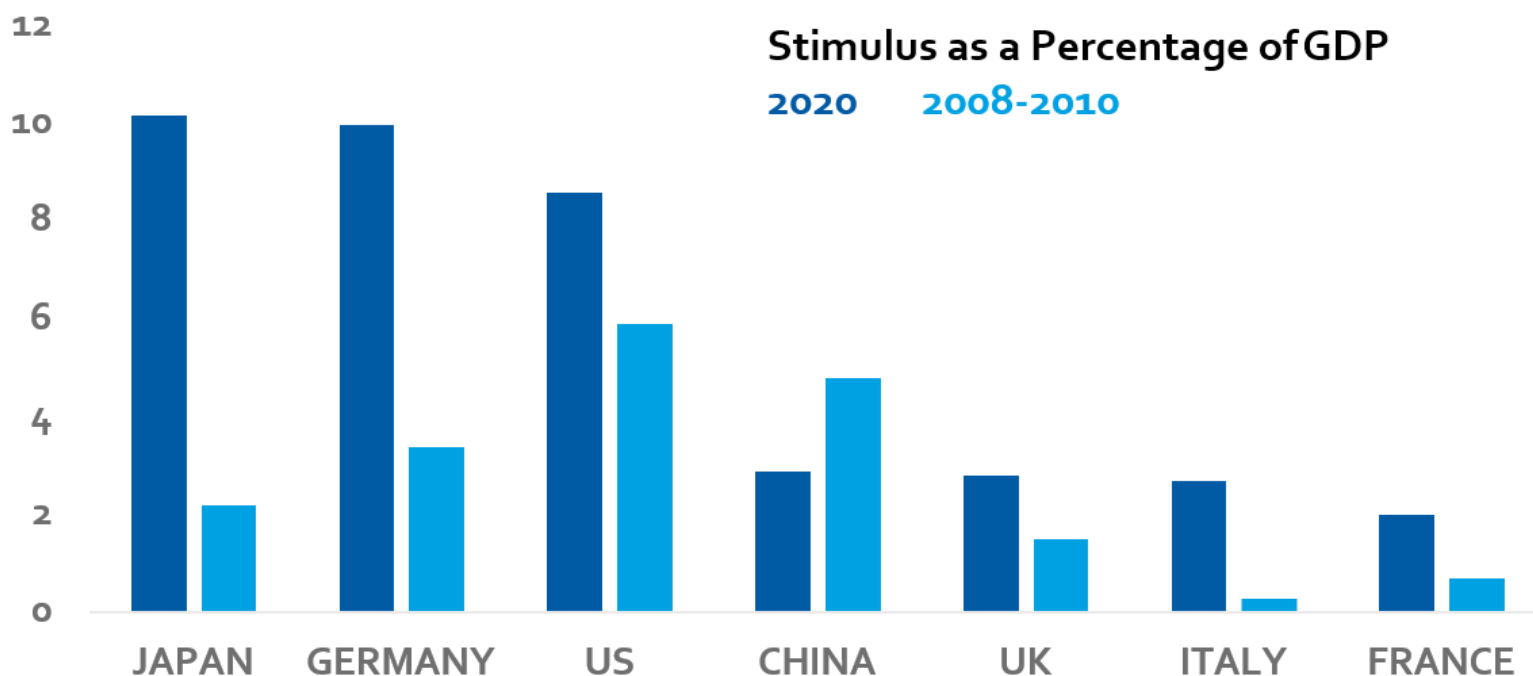
Paid sick leave **(Phase 2)**
Expanded unemployment insurance **(Phases 2 & 3)**

Source: Alliance Bernstein CMO April 2020*The Fed has “emergency powers” through Section 13(3) of the Federal Reserve Act. These powers allow the Fed to create programs or facilities to get liquidity into distressed areas of the economy. As of March 31, 2020. Source: Bloomberg, CNBC, US Federal Reserve, *Wall Street Journal* and AB

Unprecedented Global Response

2020 Has Seen More Global Stimulus Than 2008

As of March 27, 2020

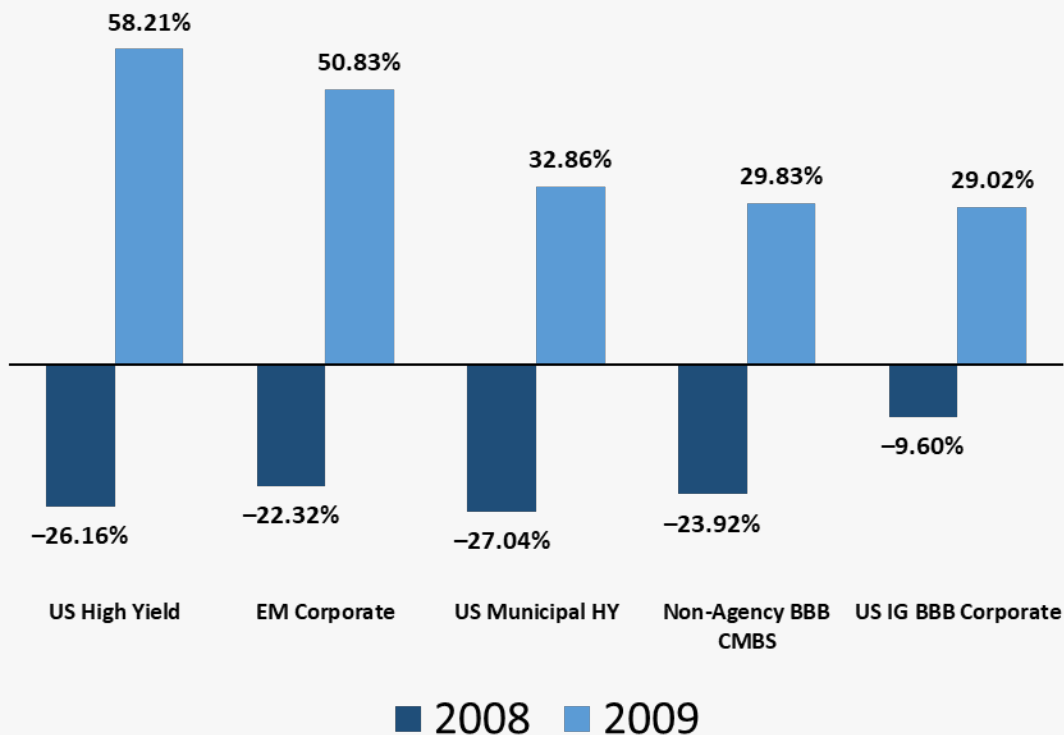


Source: Morgan Stanley Wealth Management 03-27-2020

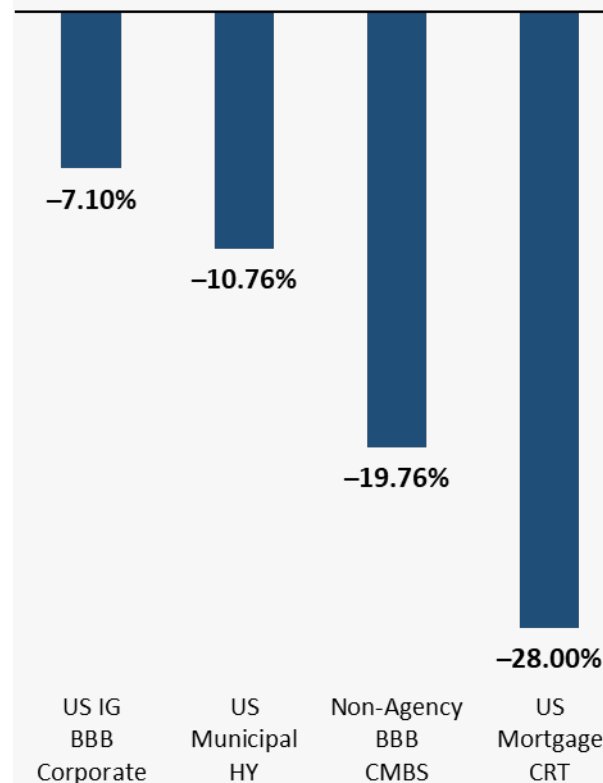
'Beaten Down' Assets may offer Opportunity in Rebound

A Look Back to 2008–2009

Index Returns 2008 and 2009



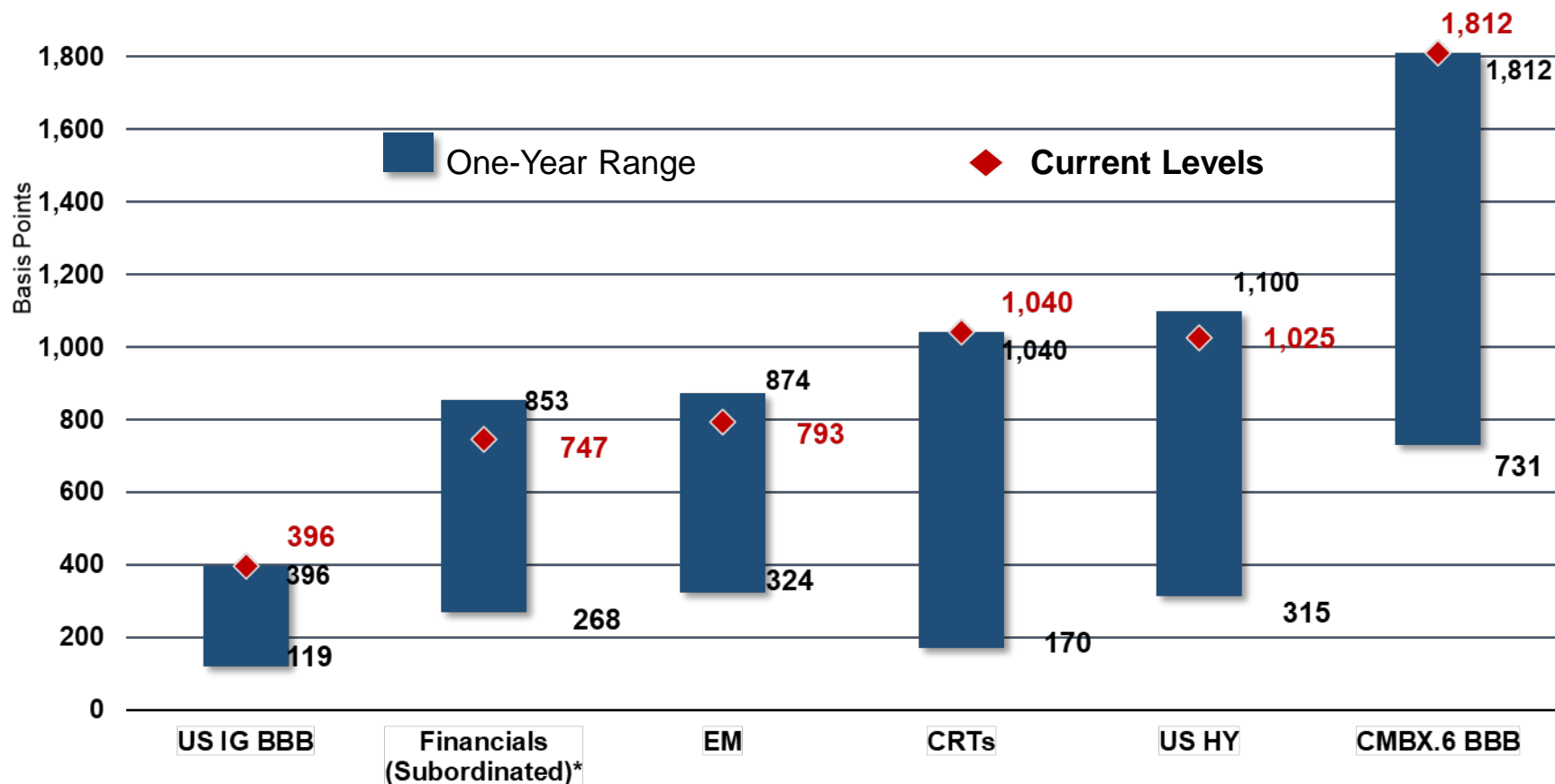
1Q:2020 Edition



Source: Alliance Bernstein CMO April 2020 US high yield (HY) represented by Bloomberg Barclays US High-Yield; emerging-market (EM) corporate by Bloomberg Barclays USD Emerging Markets Corporate; US municipal HY by Bloomberg Barclays Municipal High-Yield; non-agency BBB CMBS by Bloomberg Barclays Non-Agency BBB CMBS; US investment-grade (IG) BBB Corporate by Bloomberg Barclays US Corporate Investment-Grade BBB; CRT 2015 Last Cash Flow/High Loan to Value

'Beaten Down' Assets may offer Opportunity in Rebound

Current Spread vs. Past 12 Months



Source: Alliance Bernstein CMO April 2020 Bloomberg Barclays and ABUS investment grade (IG) represented by Bloomberg Barclays US Corporate Investment-Grade BBB; emerging markets (EM) by Bloomberg Barclays USD Emerging Markets Sovereign; credit risk-transfer (CRT) securities by a representative set of bonds; US high yield (HY) by Bloomberg Barclays US High-Yield. *Subordinated Financials is the Tier 1 component of Bloomberg Barclays Global Capital Securities Index. As of March 25, 2020

Strategy: Look for 'Beaten Down' Sector at the Recession Trough

Tables show sectors that perform worst during peak to trough of recessions have tended to have stronger forward-month returns.

Sector Performance During 1990

Peak To Trough Performance	Total Return (%)		Forward Returns	3-mths	6-mths	12-mths	24-mths
Utilities	-1%		Financials	17%	59%	64%	93%
Energy	-4%		Consumer Disc.	13%	45%	50%	72%
Comm. Services	-8%		Health Care	7%	38%	45%	36%
Health Care	-13%		Consumer Staples	10%	37%	41%	65%
Consumer Staples	-14%		Materials	12%	26%	37%	45%
S&P 500 INDEX	-19%		S&P 500 INDEX	8%	30%	34%	45%
Materials	-23%		Industrials	10%	33%	33%	44%
Industrials	-28%		Info Tech	16%	39%	26%	28%
Info Tech	-30%		Utilities	6%	13%	23%	36%
Consumer Disc.	-31%		Energy	-3%	9%	12%	13%
Financials	-33%		Comm. Services	0%	7%	8%	24%

Sector Performance During Tech Bubble

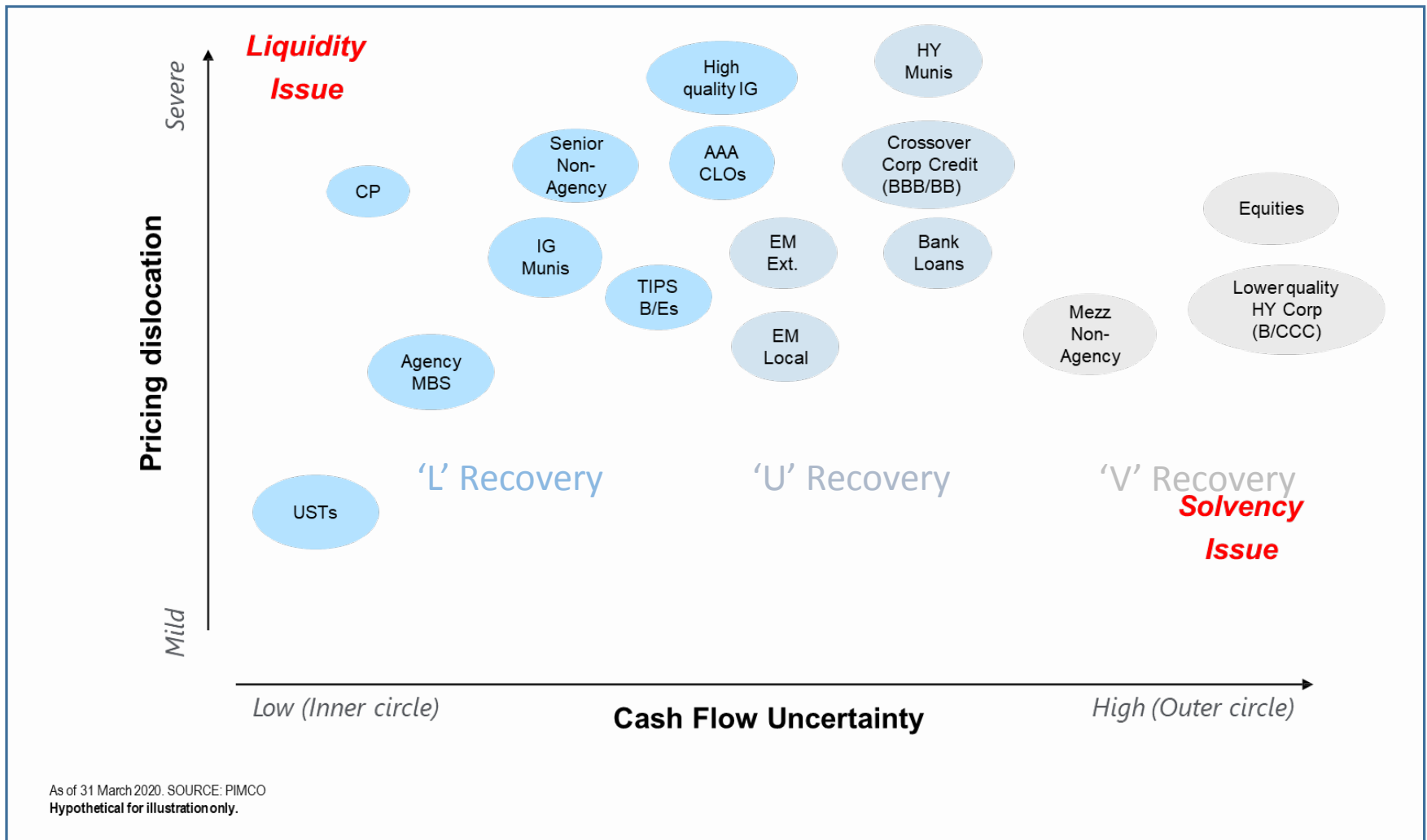
Peak to Trough Performance	Total Return (%)		Forward Returns	3-mths	6-mths	12-mths	24-mths
Consumer Staples	31%		Info Tech	42%	28%	78%	73%
Health Care	-4%		Utilities	36%	25%	52%	82%
Energy	-14%		Financials	27%	18%	47%	62%
Materials	-20%		Materials	24%	13%	41%	74%
Financials	-22%		Consumer Disc.	14%	12%	39%	51%
Industrials	-36%		Industrials	19%	13%	37%	63%
Consumer Disc.	-40%		S&P 500 INDEX	20%	13%	36%	50%
Utilities	-43%		Comm. Services	43%	12%	26%	61%
S&P 500 INDEX	-47%		Energy	9%	7%	22%	76%
Comm. Services	-73%		Health Care	8%	6%	11%	13%
Info Tech	-82%		Consumer Staples	2%	-6%	6%	11%

Sector Performance During Global Financial Crisis

Peak to Trough Performance	Total Return (%)		Forward Returns	3-mths	6-mths	12-mths	24-mths
Consumer Staples	-29%		Financials	101%	135%	149%	176%
Health Care	-38%		Consumer Disc.	53%	69%	103%	154%
Utilities	-43%		Industrials	56%	72%	101%	152%
Energy	-45%		Materials	55%	71%	87%	127%
Comm. Services	-48%		Info Tech	46%	65%	86%	116%
Info Tech	-52%		S&P 500 INDEX	40%	55%	72%	103%
S&P 500 INDEX	-55%		Health Care	17%	33%	48%	57%
Consumer Disc.	-57%		Consumer Staples	22%	31%	46%	64%
Materials	-58%		Energy	30%	31%	42%	91%
Industrials	-64%		Utilities	20%	31%	39%	59%
Financials	-82%		Comm. Services	17%	23%	27%	62%

Source: Morgan Stanley Wealth Management.

Opportunity Set

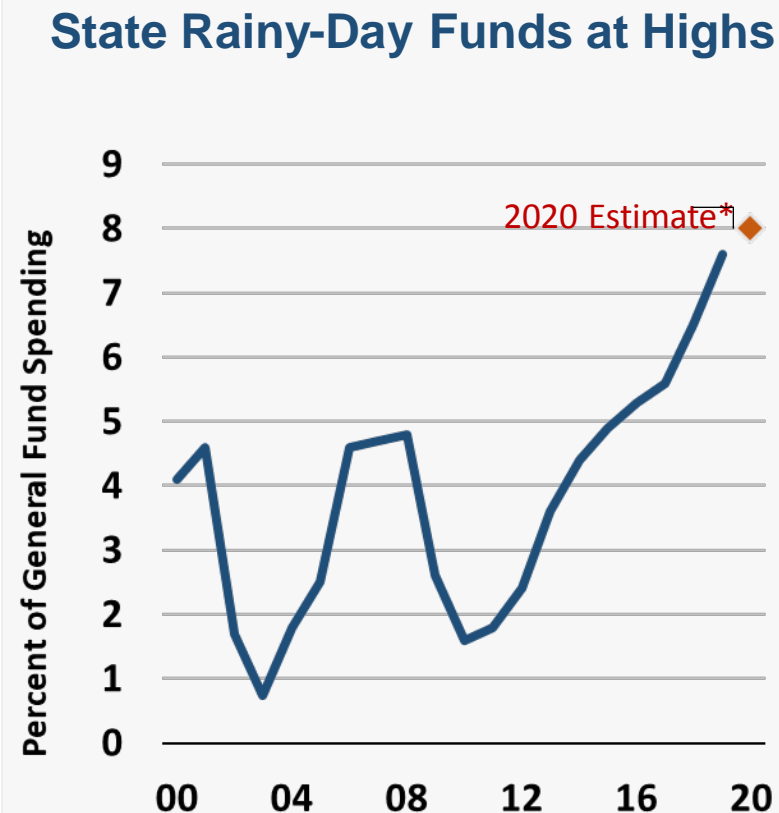
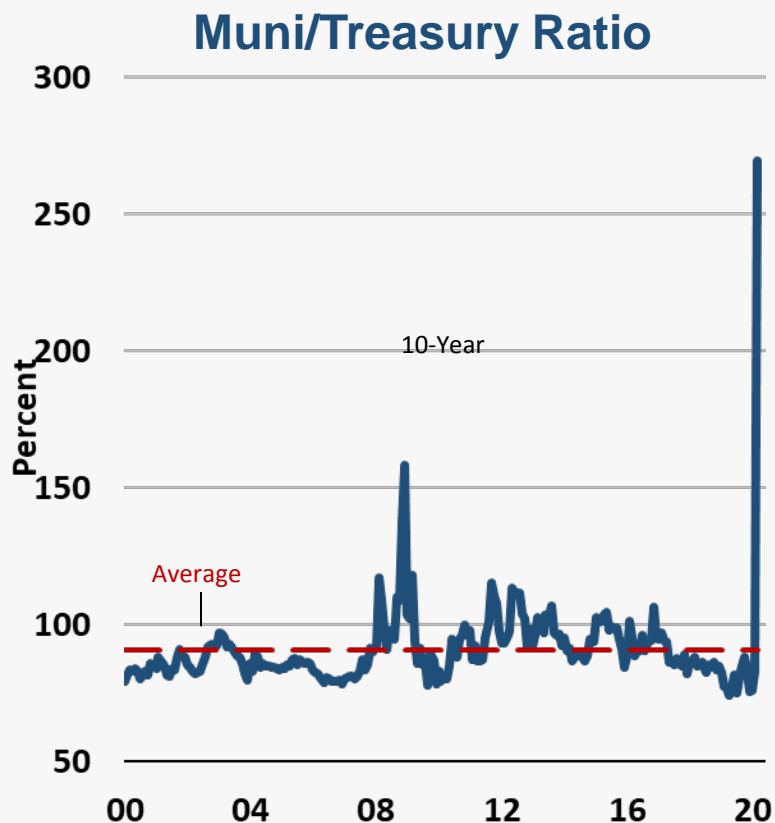


30 Year Fixed Rate Mortgage vs. 10 Year Treasury Yield

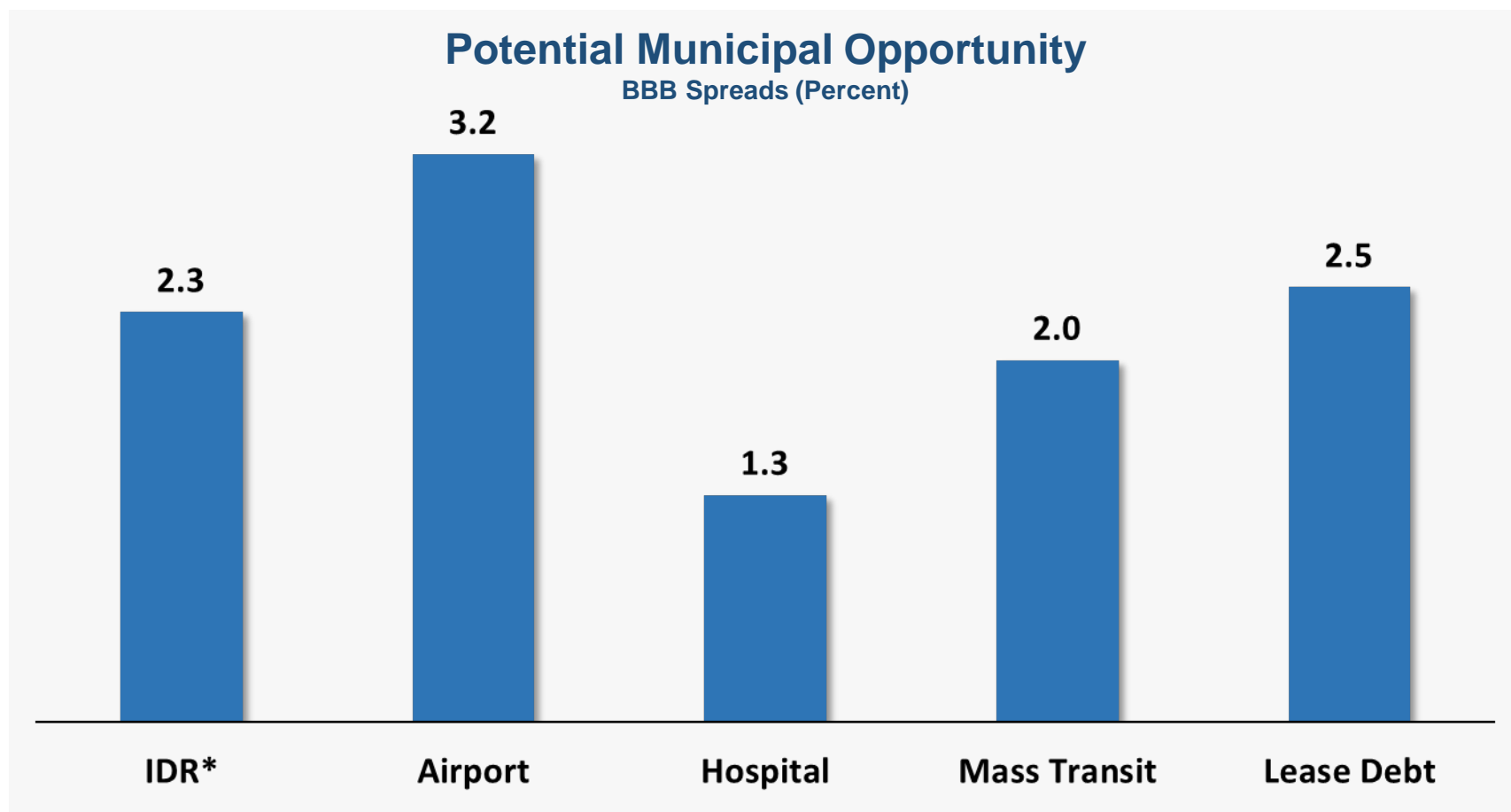


Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MORTGAGE30US>, April 13, 2020.

Municipal Bonds



*Source: Alliance Bernstein CMO April 2020 Municipal Market Data, National Association of State Budget Officers Figures for fiscal 2020 are projected based on states' enacted budgets. Data as of March 31, 2020



*Source: Alliance Bernstein CMO April 2020 Credit rating is a measure of the quality and safety of a bond or portfolio, based on an issuer's financial condition. AAA is the highest (best) and D is the lowest (worst). Investment-grade securities are those rated BBB and above. Ratings are subject to change. *Industrial development revenue

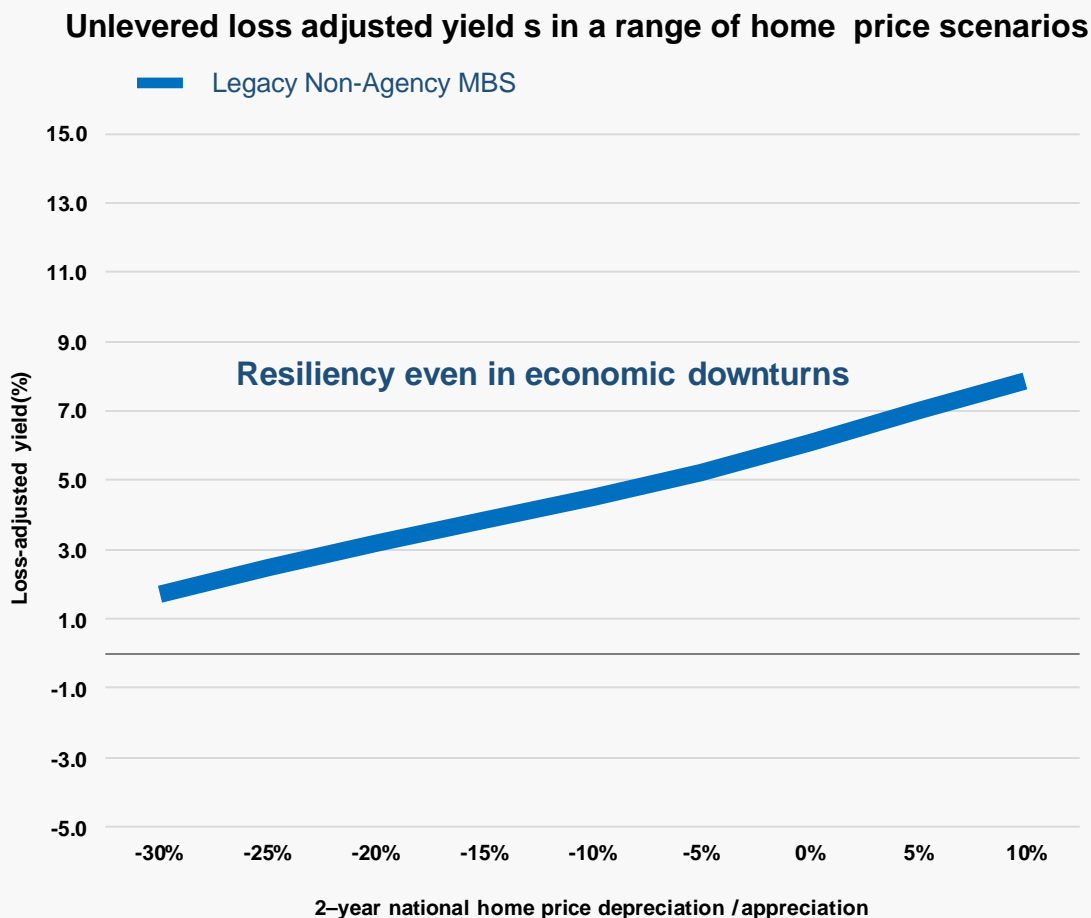
Residential Mortgage Backed Bonds

Seniority: Emphasis on senior tranches of very seasoned loans. Even in an economic slowdown, we expect these bonds to be relatively insulated

Favorable fundamentals: Homeowners underlying the bonds have been making payments for over a decade with high levels of equity / low LTVs

Focus on resiliency across a wide range of economic environments

Above is Pimco Commentary



For illustrative purposes only. Past performance is not a guarantee or a reliable indicator of future results.
As of 22 March 2020. Source: PIMCO, Bloomberg

If Looking for a 'V' Recovery: High Yield Bonds

Forward Returns of Various Asset Classes After HY Spreads Peak

As of March 31, 2020

Average Returns Around HY Spreads Peaking*	Months Before/After HY Spreads Peaked					
	-3 mths	-1 mths	+3 mths	+6 mths	+12 mths	+24 mths
Barclays Agg HY Index	-14%	-9%	12%	25%	39%	53%
Bloomberg Barclays Agg IG Index	2%	1%	1%	2%	5%	7%
S&P 500	-19%	-9%	5%	12%	26%	41%
Bloomberg Commodity Index	-15%	-9%	5%	8%	18%	23%

*uses HY peaks in '01/02 recession, GFC, 2011 debt crisis, 2015/16 shale bust

Source: Bloomberg, Morgan Stanley Wealth Management GIC

Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized..

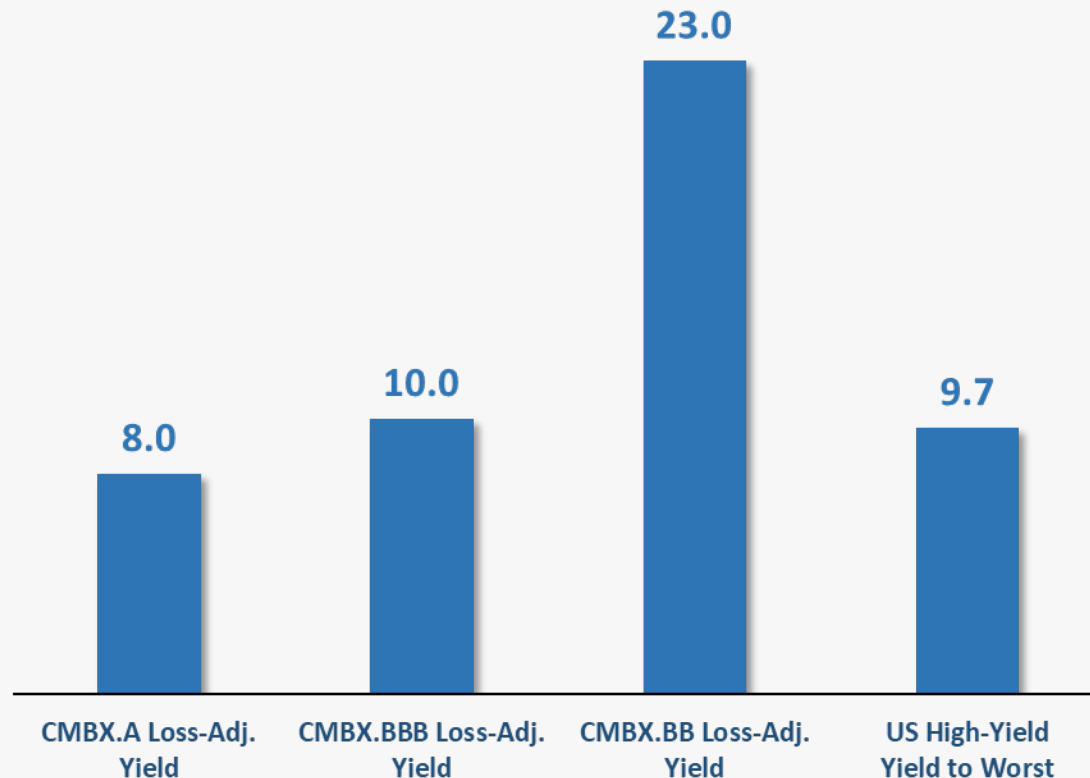
If looking for a 'V' Recovery: CMBS

CMBX.6 Updated Base Case Assumptions

- + Decline in the net operating income margins that is more severe than that experienced in 2008–2009, for all properties including nonretail
- + 20% reduction in sales
- + Reduction in occupancy (rent as a percentage of sales) costs to 10% or lower
- + Decline in occupancy rates to 80% (from low 90s today) for all malls, including those of the highest quality

AB Commentary

CMBX.6 Yields Extremely High After Adjusting for Losses April 2015–March 2020 (Percent)



Source: Alliance Bernstein Capital Market Outlook April 2020 Data as of March 27

If Looking for a 'V' Recovery: ABS and CRT

	3/26/20 Spread	2/28/20 Spread	Spread Difference
ABS			
2yr Credit Card AAA	210	25	185
3yr Prime Auto AAA	250	40	210
3yr Subprime Auto BBB	700-1000	110	740
Private Student Loan AAA	600	110	490
Senior Consumer Loan	1100	65	1035
Franchise BBB	575-625	220	380
Solar	775-825	220	580
Residential Mortgage Credit			
Jumbo 2.0 - LCF	400	140	260
CRT - M1	750	75	675
CRT - M2	1250	200	1050
CRT - B1	2000+	365	1635+

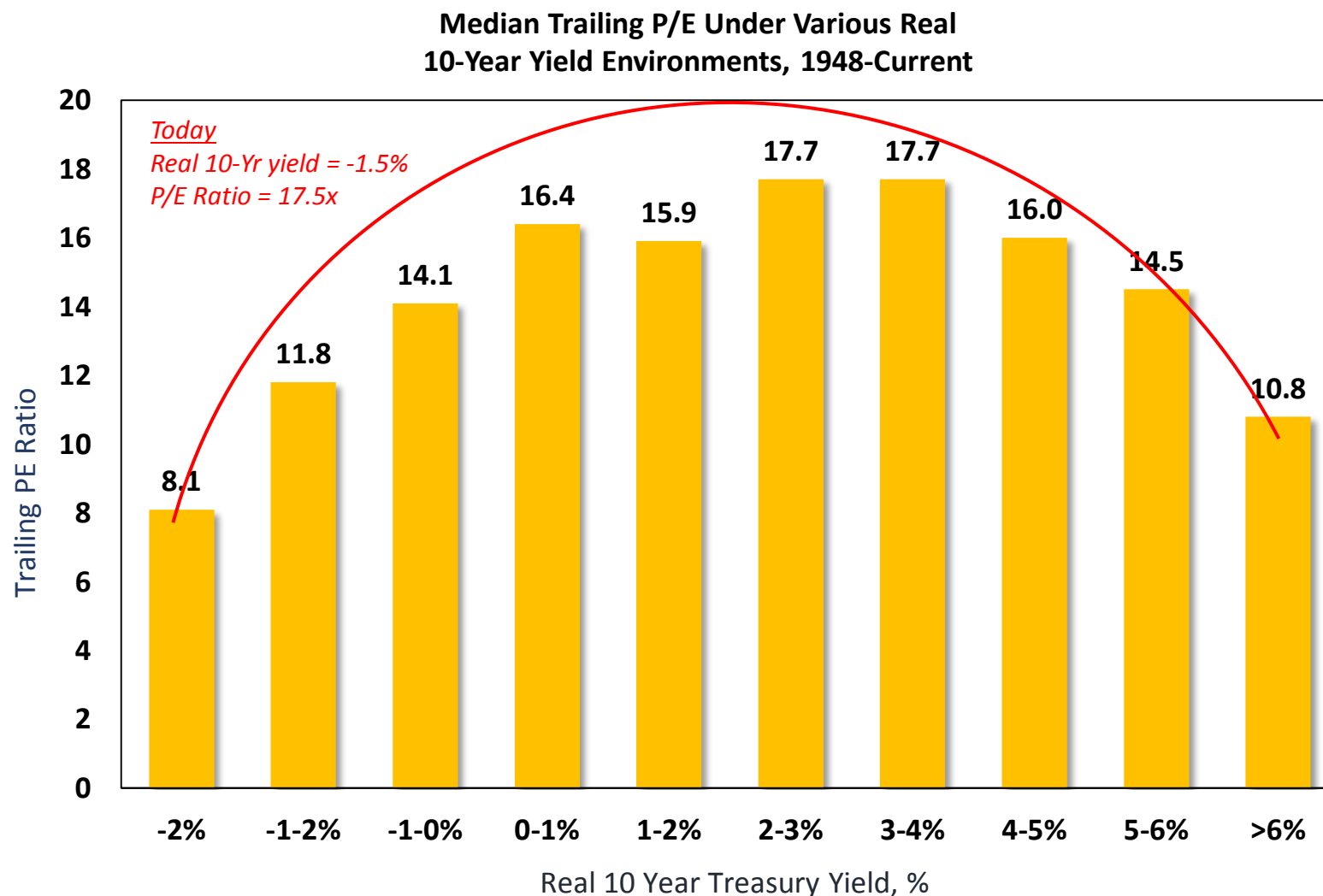
3/26/20. Source: Bloomberg Barclays and Voya Investment Management.

If looking for a 'V' Recovery: Stocks

P/E Ratio	S&P EPS								
	\$126	\$132	\$138	\$145	\$151	\$157	\$163	\$170	\$176
	19	2394	2508	2622	2755	2869	2983	3097	3230
	18	2268	2376	2484	2610	2718	2826	2934	3060
	17	2142	2244	2346	2465	2567	2669	2771	2890
	16	2016	2112	2208	2320	2416	2512	2608	2720
	15	1890	1980	2070	2175	2265	2355	2445	2550
	14	1764	1848	1932	2030	2114	2198	2282	2380
	13	1638	1716	1794	1885	1963	2041	2119	2210
	12	1512	1584	1656	1740	1812	1884	1956	2040
	11	1386	1452	1518	1595	1661	1727	1793	1870

Source: Alliance Bernstein CMO April 2020, Standard and Poor's

What's Fair Value for S&P Earnings?

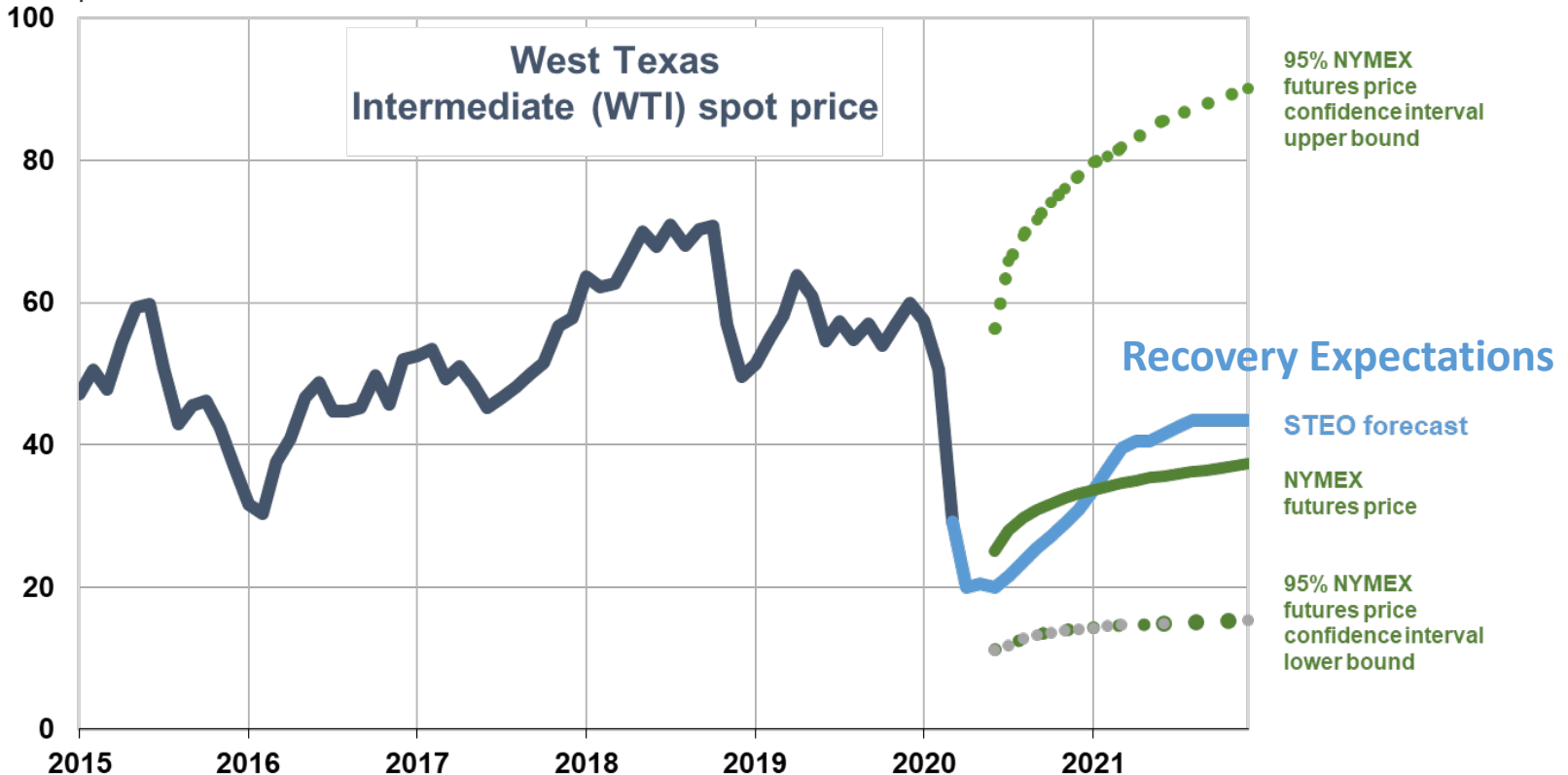


Source: KKR kkrr.com/global-perspectives/publications/keep-calm-and-carry-on

For a Patient Investor: Energy

West Texas Intermediate (WTI) crude oil price and NYMEX confidence intervals

dollars per barrel

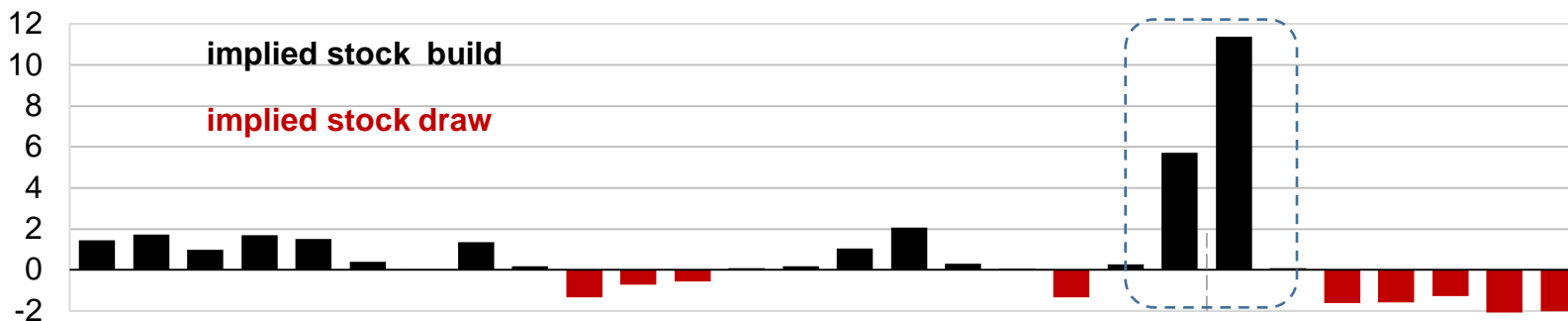
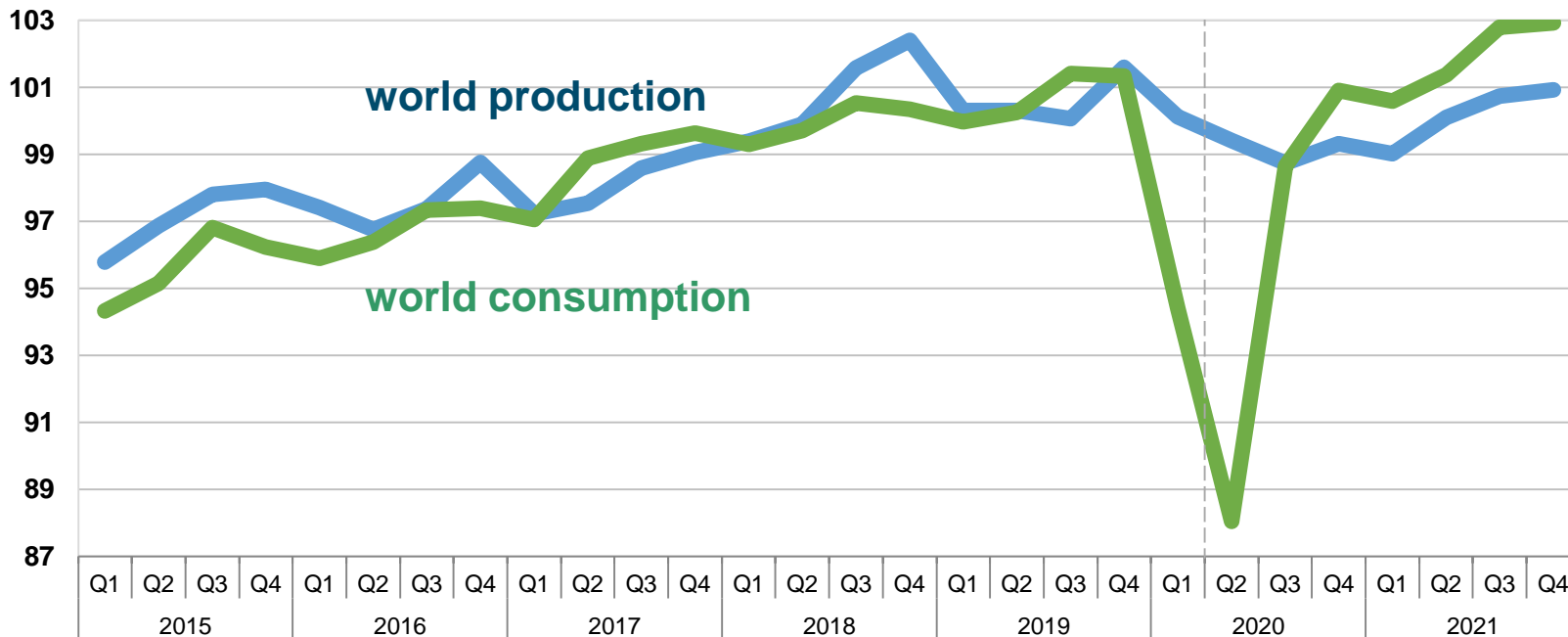


Note: Confidence interval derived from options market information for the five trading days ending Apr 2, 2020. Intervals not calculated for months with sparse trading in near-the-money options contracts.

Sources: Short-Term Energy Outlook, April 2020, and CME Group

For a Patient Investor: Energy

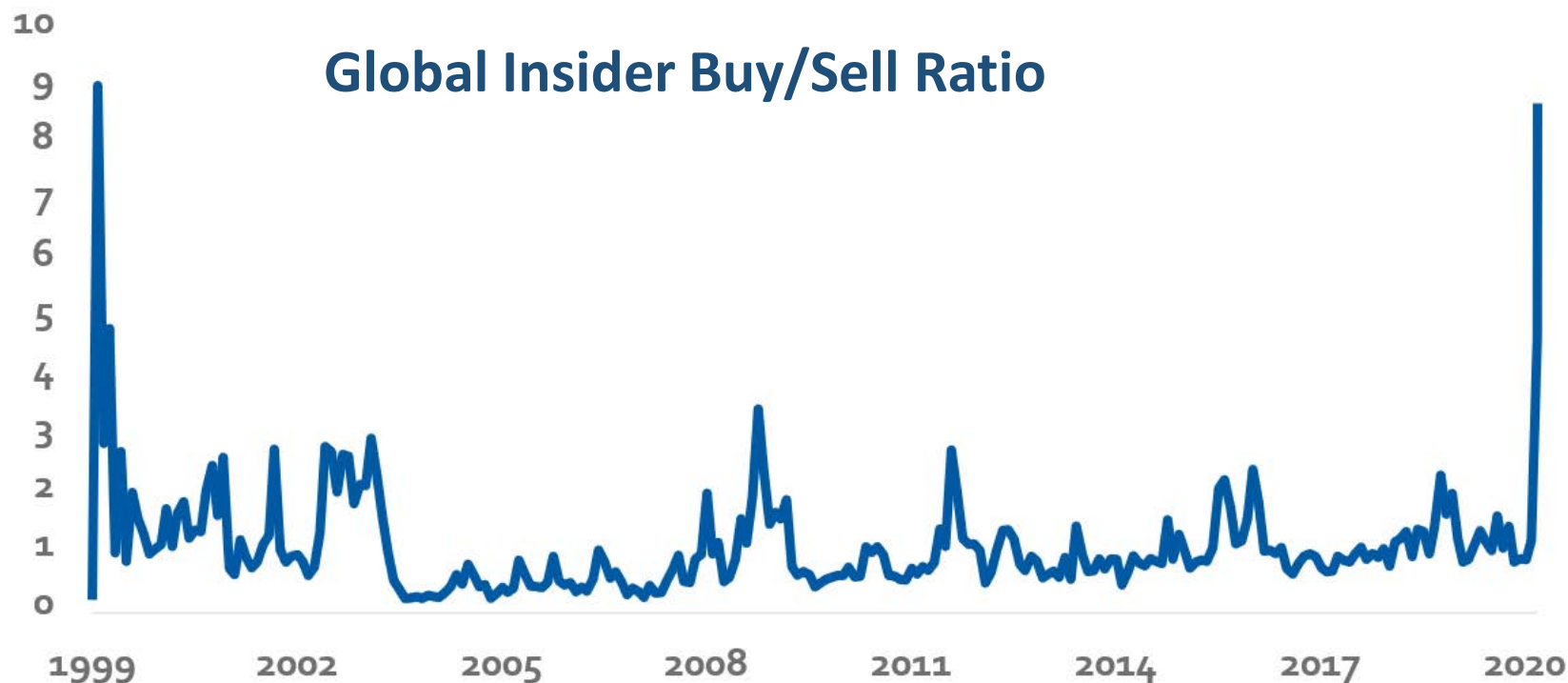
million barrels
per day



Source: Short-Term Energy Outlook, April 2020

Global Insiders Buying Stock at Highest Rate Since 1999

As of March 17, 2020



Source: Morgan Stanley Wealth Management 03-17-2020

Appendix: History of Bear Markets since 1929

Peak	Trough	Total Drawdown	Total Bear Market Duration (months)	Time to 20% Bear Market Threshold (Months)	Performance After Initial 20% Downside to Trough	Time to Trough from 20% Threshold (Months)	T+12M Performance After Trough
16-Sep-29	13-Nov-29	-45%	1.9	1.4	-22%	0.5	-6%
10-Apr-30	16-Dec-30	-44%	8.3	2.2	-30%	6.1	-45%
24-Feb-31	2-Jun-31	-33%	3.3	2.1	-15%	1.1	-62%
26-Jun-31	5-Oct-31	-43%	3.4	2.7	-27%	0.7	-16%
9-Nov-31	1-Jun-32	-62%	6.8	0.8	-51%	6.1	121%
7-Sep-32	27-Feb-33	-41%	5.8	0.2	-25%	5.5	95%
18-Jul-33	19-Oct-33	-29%	3.1	0.1	-11%	3.0	5%
6-Feb-34	14-Mar-35	-32%	13.4	3.8	-14%	9.5	77%
10-Mar-37	31-Mar-38	-54%	12.9	6.0	-42%	6.8	29%
9-Nov-38	11-Apr-39	-24%	5.1	4.7	-5%	0.4	19%
25-Oct-39	10-Jun-40	-32%	7.6	6.7	-13%	0.9	9%
7-Nov-40	28-Apr-42	-34%	17.9	13.0	-18%	4.9	54%
29-May-46	19-May-47	-28%	11.8	3.4	-8%	8.4	19%
15-Jun-48	13-Jun-49	-21%	12.1	12.1	0%	0.0	42%
2-Aug-56	22-Oct-57	-22%	14.9	14.8	0%	0.0	31%
12-Dec-61	26-Jun-62	-28%	6.5	5.6	-6%	1.0	33%
9-Feb-66	7-Oct-66	-22%	8.0	6.7	-2%	1.3	33%
29-Nov-68	26-May-70	-36%	18.1	14.2	-19%	3.9	44%
11-Jan-73	3-Oct-74	-48%	21.0	10.7	-35%	10.3	38%
28-Nov-80	12-Aug-82	-27%	20.7	15.0	-8%	5.7	58%
25-Aug-87	4-Dec-87	-34%	3.4	1.8	0%	1.5	21%
24-Mar-00	21-Sep-01	-37%	18.2	11.8	-18%	6.4	-12%
4-Jan-02	9-Oct-02	-34%	9.3	6.2	-16%	3.0	34%
9-Oct-07	20-Nov-08	-52%	13.6	9.1	-40%	4.5	45%
6-Jan-09	9-Mar-09	-28%	2.1	1.6	-9%	0.5	69%
Average		-36%	10	6.3	-17%	3.7	29%
Median		-34%	8	5.6	-15%	3.0	33%

Source: Bloomberg, Morgan Stanley Wealth Management. Note: Grey shades represent recession within 12 months from Peak S&P 500 date based on Bloomberg Recession Index price returns.

Drawdown is the peak-to-trough decline during a specific period. Data as of March 31, 2020

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Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change, weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

As further described in the offering documents, an investment in alternative investments can be highly illiquid, are speculative and not suitable for all investors. Investing in alternative investments is only intended for experienced and sophisticated investors who are willing to bear the high economic risks associated with such an investment. Investors should carefully review and consider potential risks before investing. Certain of these risks may include: loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; lack of liquidity in that there may be no secondary market for the fund and none is expected to develop; volatility of returns; restrictions on transferring interests in the Fund; potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; absence of information regarding valuations and pricing; complex tax structures and delays in tax reporting; less regulation and higher fees than mutual funds; and manager risk.

Individual funds will have specific risks related to their investment programs that will vary from fund to fund.

REITs are subject to special risk considerations similar to those associated with the direct ownership of real estate. Real estate valuations may be subject to factors such as changing general and local economic, financial, competitive, and environmental conditions. REITs may not be suitable for every investor. Dividend income from REITs will generally not be treated as qualified dividend income and therefore will not be eligible for reduced rates of taxation.

Interest in municipal bonds is generally exempt from federal income tax. However, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax-exemption applies if securities are issued within one's state of residence and, local tax-exemption typically applies if securities are issued within one's city of residence.

International investing may not be suitable for every investor and is subject to additional risks, including currency fluctuations, political factors, withholding, lack of liquidity, the absence of adequate financial information, and exchange control restrictions impacting foreign issuers. These risks may be magnified in emerging markets.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. An investment cannot be made directly in a market index. Investing in smaller companies involves greater risks than those associated with investing in more established companies, including significant stock price fluctuations and illiquidity.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar-denominated, investment-grade, fixed-rate, taxable bond market segment of SEC-registered securities. The index includes bonds from the U.S. Treasury, Government-Related Corporate, Mortgage-Backed, Asset-Backed, and Commercial Mortgage-Backed Securities sectors. An investment cannot be made directly in a market index. Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.

NOTE: High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

Barclays Capital U.S. Credit Bond Index is composed of all publicly issued, fixed-rate, non-convertible, investment-grade, domestic corporate debt (collateralized mortgage obligations are not included). Total return comprises price appreciation/depreciation and income as a percentage of the original investment. This index is rebalanced monthly by market capitalization. An investment cannot be made directly in a market index.

Important Information, continued

Barclays Capital Municipal Bond Index is a broad measure of the municipal bond market with maturities of at least one year. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. An investment cannot be made directly in a market index.

The MSCI EAFE® Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. As of May 2005 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. An investment cannot be made directly in a market index.

The MSCI World Index is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of 23 developed-country markets. An investment cannot be made directly in a market index.

HFR Indices are compiled by Hedge Fund Research, Inc. ("HFR"), an industry service provider. They are based on the performance of hedge funds in various strategies as reported by the hedge fund managers to HFR. While the HFRI Indices are frequently used, they have limitations (some of which are typical of other widely used indices). These limitations include survivorship bias (the returns of the indices may not be representative of all the hedge funds in the universe because of the tendency of lower performing funds to leave the index); heterogeneity (not all hedge funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and limited data (many hedge funds do not report to indices, and the index may omit funds, the inclusion of which might significantly affect the performance shown). The HFRI Indices are based on information self-reported by hedge fund managers that decide on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. Results for funds that go out of business are included in the index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe, and may be biased in several ways. All data is net of all fees, denominated in U.S. dollar and equal-weighted. The information underlying the indices and the classification of the underlying funds have not been independently verified by either HFR or Morgan Stanley Smith Barney, and neither HFR nor Morgan Stanley Smith Barney make any representation as to their accuracy. Past performance does not guarantee future results. Real results may vary.

The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships (MLP)s that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index, which is calculated using a float-adjusted, capitalization-weighted methodology, is disseminated real-time on a price-return bases. An investment cannot be made directly in a market index.

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