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June 29, 2026 11:31 AM GMT

Morgan Stanley Research
Global



Morgan Stanley Global Macro Forum

Volatility Regime Shift: Signals Across Markets

June 29, 2026

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Michael Gapen

Chief US Economist

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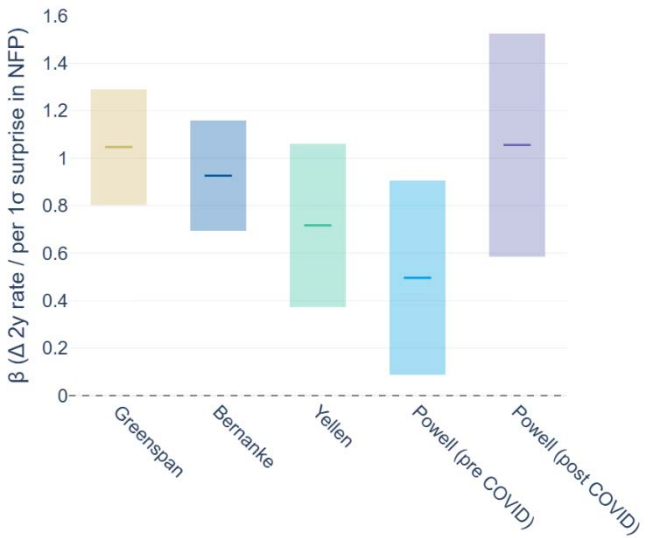
Shaun Zhou

US Interest Rate Strategist

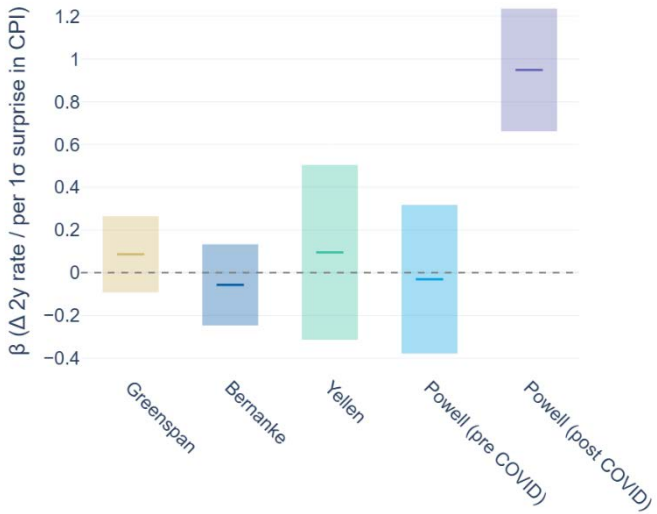
How High Can Vol Go Up Under Warsh?

Market sensitivity to data surprises went down from Greenspan to Powell. Now Warsh could reverse this.

2y sensitivity to NFP surprises



2y sensitivity to CPI surprises



Source: Morgan Stanley Research. Bloomberg; Note: Data as of 22 June 2026.

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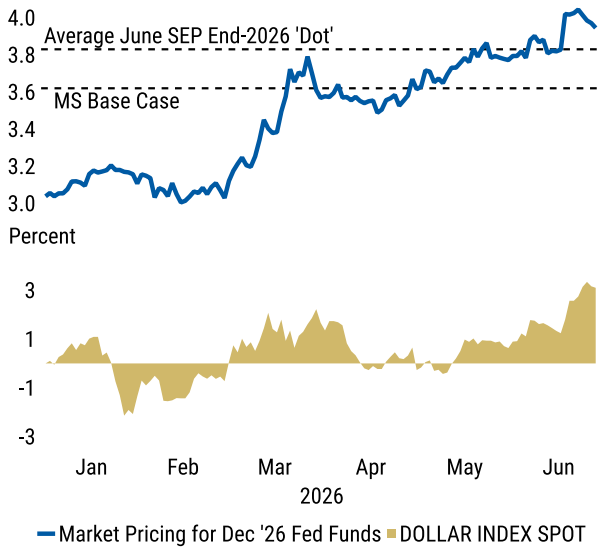
David Adams

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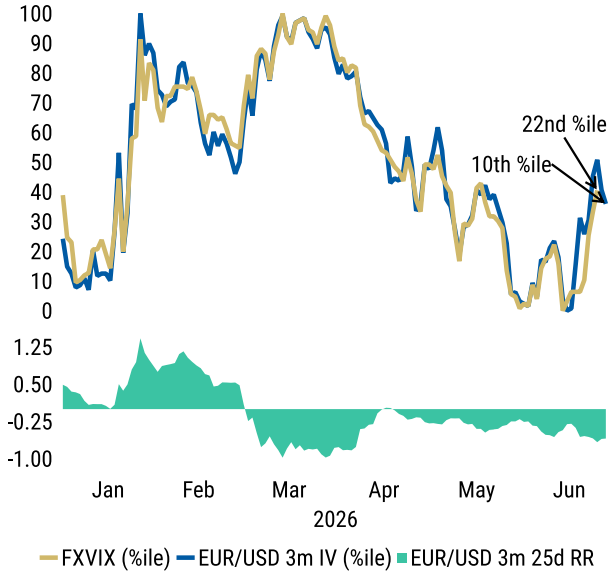
Please Return to Your Seats – The Seatbelt Sign Is On

Fed pricing has overshot, but reduced forward guidance means more *symmetrical* volatility in pricing. The stretched USD rally and a dovish narrative pivot raise risks of a volatile 'snapback'.

The hawkish Fed repricing has propelled the USD to YTD highs



FX vol is under-pricing 'the noisiest front-end in a generation'



Source: Bloomberg, Macrobond, Morgan Stanley Research

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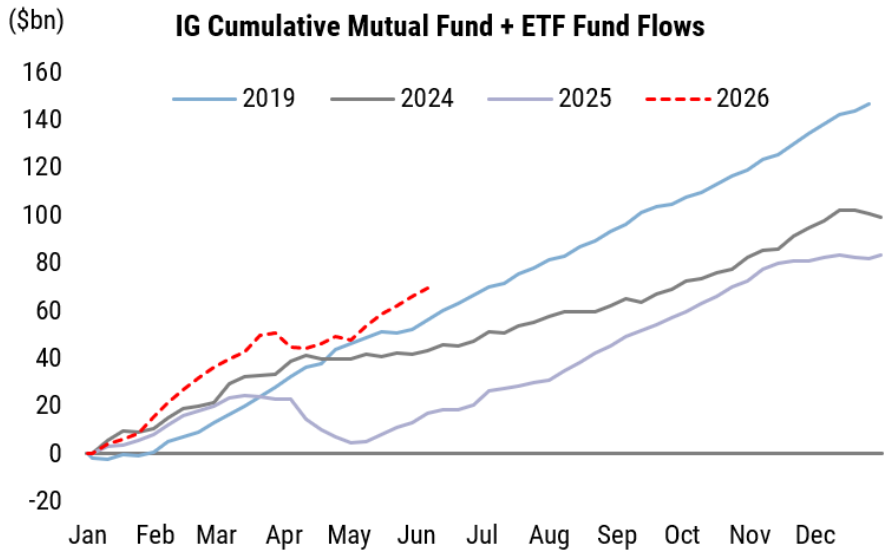
Vishwas Patkar

Head of US Credit Strategy

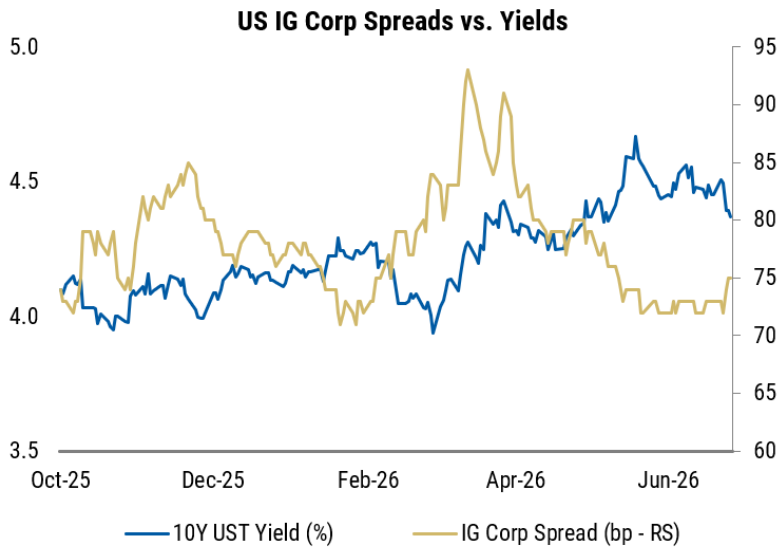
The Pain Trade for Credit Is Lower Yields More than Rates Vol

Credit remains more insulated from rates vol than other markets. Persistent rates volatility could dent fund flows, but high all-in yields support robust demand from insurance companies and overseas investors.

Persistent rates volatility might dent strong inflows…



… but attractive all-in yields provide a strong anchor

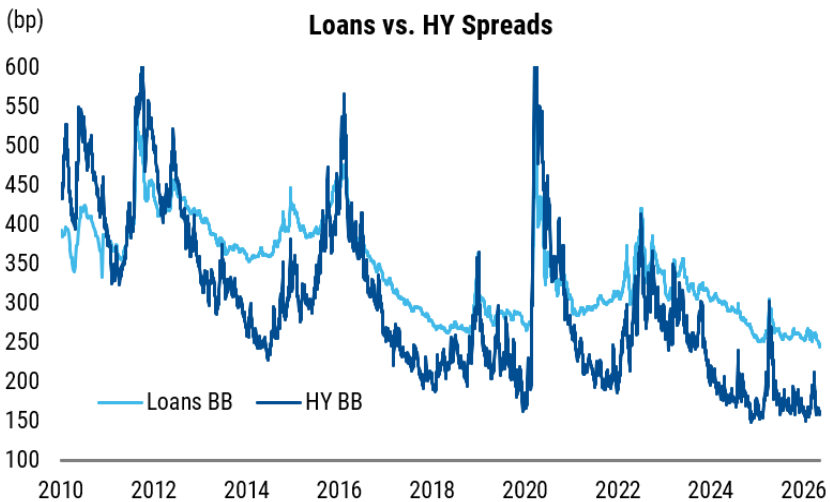


Source: Bloomberg, Refinitiv, Morgan Stanley Research

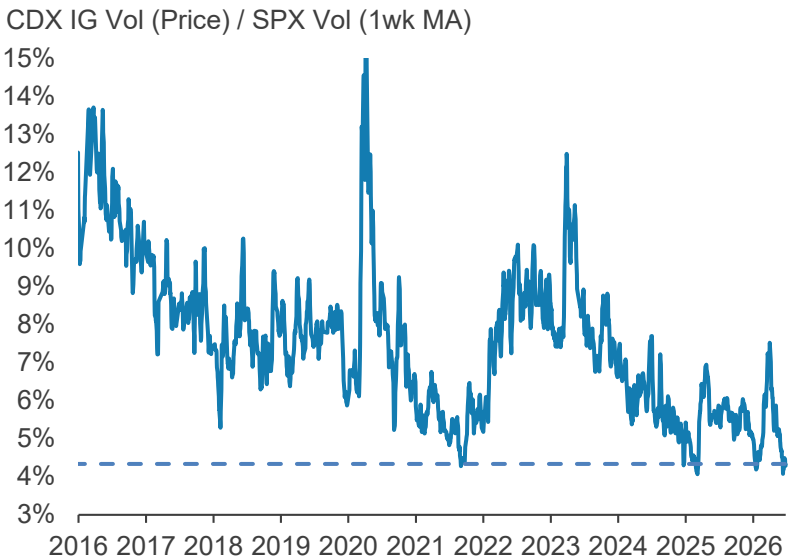
BB Loans for Carry, Credit Vol Extremely Low, Skew Steep

BB loans provide a spread pick-up versus similar-rated bonds, and cushion against front-end rates volatility. Credit vol remains very low, and skew steep.

We like BB loans to cushion against front-end rates volatility



Credit volatility relative to equities at multi-year lows, while downside skew is very steep



Source: Bloomberg, PitchBook | LCD, Morgan Stanley Research

Morgan Stanley

Michael Wilson

Chief Investment Officer and Chief US Equity Strategist



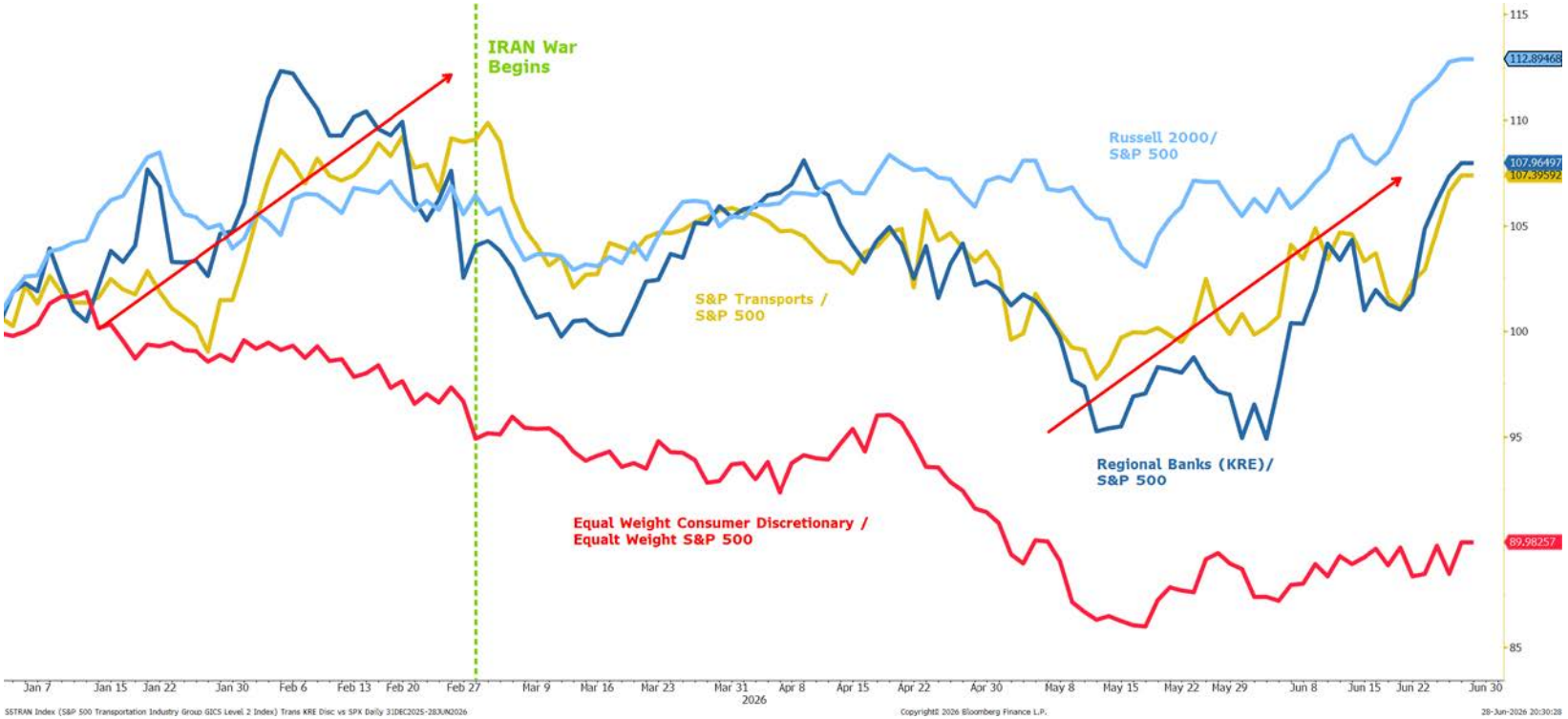
The Signal From Gold and Equities Is That Warsh Was the Right Pick for Fed Chair





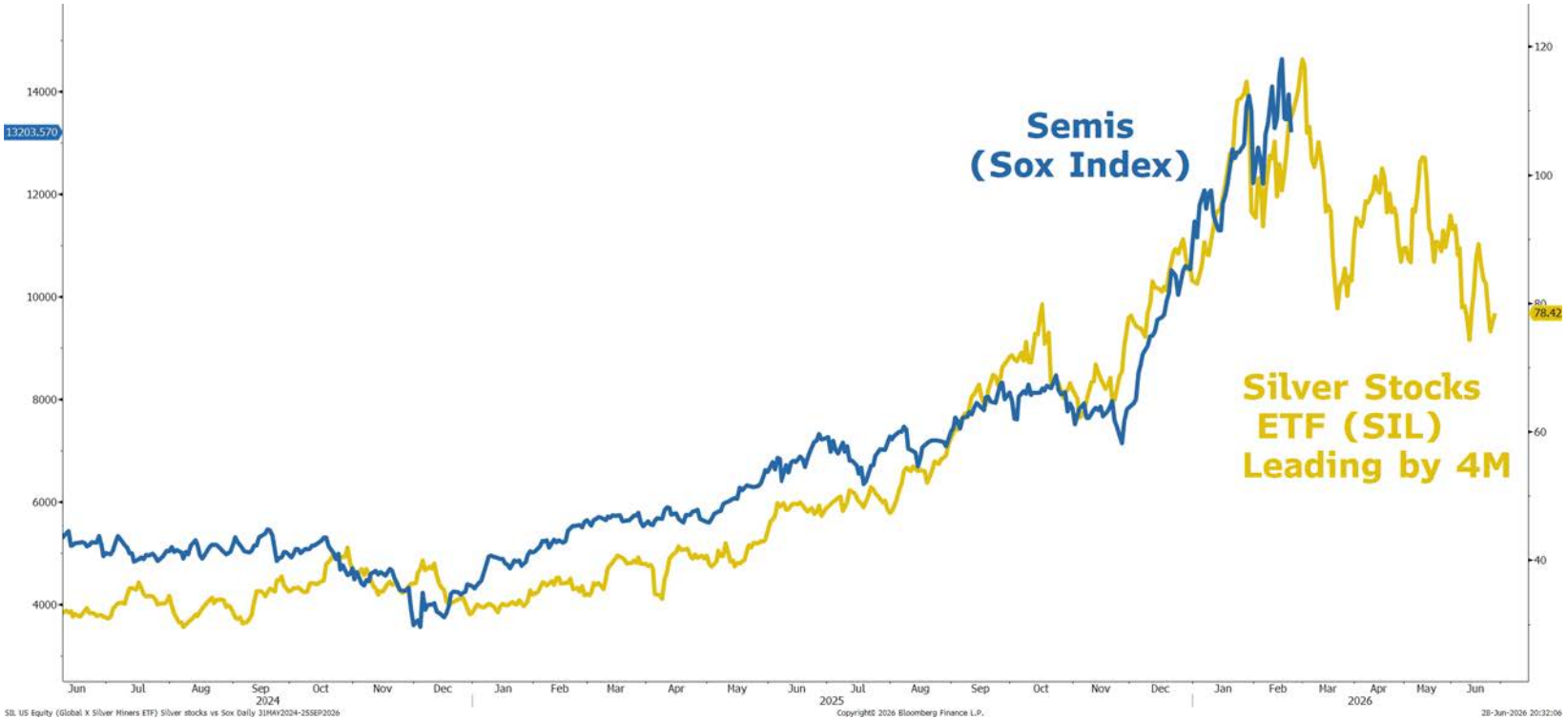
Source: Bloomberg, Morgan Stanley Research

The Broadening Out Story Is Re-Emerging as Market Starts to Believe the "Run it Hot" and Rebalancing Strategy Is Sustainable



Source: Bloomberg, Morgan Stanley Research

And, It Could Be Aided by a Peak in Momentum Leadership—Semis



Source: Bloomberg, Morgan Stanley Research

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Jay Bacow

Co-Head of Securitized Products Research

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Principal is returned on a monthly basis over the life of the security. Principal prepayment can significantly affect the monthly income stream and the maturity of any type of MBS, including standard MBS, CMOs and Lottery Bonds. Yields and average lives are estimated based on prepayment assumptions and are subject to change based on actual prepayment of the mortgages in the underlying pools. The level of predictability of an MBS/CMO's average life, and its market price, depends on the type of MBS/CMO class purchased and interest rate movements. In general, as interest rates fall, prepayment speeds are likely to increase, thus shortening the MBS/CMO's average life and likely causing its market price to rise. Conversely, as interest rates rise, prepayment speeds are likely to decrease, thus lengthening average life and likely causing the MBS/CMO's market price to fall. Some MBS/CMOs may have "original issue discount" (OID). OID occurs if the MBS/CMO's original issue price is below its stated redemption price at maturity, and results in "imputed interest" that must be reported annually for tax purposes, resulting in a tax liability even though interest was not received. Investors are urged to consult their tax advisors for more information. Government agency backing applies only to the face value of the CMO and not to any premium paid.

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(as of May 31, 2026)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	**1542**	**42%**	**465**	**51%**	**30%**	**707**	**43%**
Equal-weight/Hold	**1571**	**43%**	**369**	**40%**	**23%**	**723**	**44%**
Not-Rated/Hold	**3**	**0%**	**0**	**0%**	**0%**	**1**	**0%**
Underweight/Sell	**551**	**15%**	**86**	**9%**	**16%**	**201**	**12%**
Total	**3,667**		**920**			**1632**	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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