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US Equity Strategy | North America

Weekly Warm-up: Clearing Events Still Ahead

Equity markets have been adjusting to the mid-cycle transition (peak rate of change in growth) since June. This has been exacerbated by slowing growth in the Fed's balance sheet, capital scarcity and the midterms. Several clearing events lie ahead that should mark the end of the correction.

- **Mid-cycle transition well advanced at the style and factor level.** Our mid-cycle transition that began in June with the peak rate of change in growth and more hawkish policy has been priced at the stock level for the most part. This transition has been seen in the of early cycle leaders that tend to have higher operating and financial leverage. As a result, the quality factor has consistently led during this shift and is now breaking out, as shown in last week's note. While we expect quality to continue to perform well, our call is now well understood and appreciated via positioning. We have argued the transition typically ends with the index (S&P 500) converging with weaker breadth under the surface. During this period, the quality factor can still hold up even if the index trades down towards our tactical downside target (7100-7200, a slight break of the 200-day moving average). Breadth has started to improve across the S&P from narrow levels which lends itself to our initial thinking that index and breadth would "meet in the middle" as the mid-cycle transition is digested. Our year-end base case remains 8000 for the S&P 500.
- **We see 3 clearing events ahead that are likely to play a role in ending this correction.** 1) AI-related investor concerns around the supply and cost of capital, safety and NIMBYism. These should all come to a head over the next 3-4 weeks but may present a headwind for the market until resolved. 2) Midterm elections are typically a market headwind initially and usually then lead to very strong 6-12 month returns post the event. The path between here and there is likely a messy one and may linger a few days or weeks after election day with the administration hinting at a potentially more aggressive military stance once the election is over. 3) Financial conditions have tightened significantly over the past several months with the Fed beginning to hike rates with limited visibility on how many hikes are likely to follow, a reduction in the growth of the Fed's balance sheet and higher energy prices. This tightening is weighing on risk assets and will likely linger into November and/or until market developments lead the Fed to pivot.
- **Of all the concerns, we think liquidity presents the biggest risk and catalyst for a final low.** Warsh came into the job with an emboldened commitment to get inflation back to 2%, a target he said the Fed failed to achieve for almost 5 years. Since then, the Fed has only hiked rates one time, raising questions about its intent and strategy to get inflation back to target.

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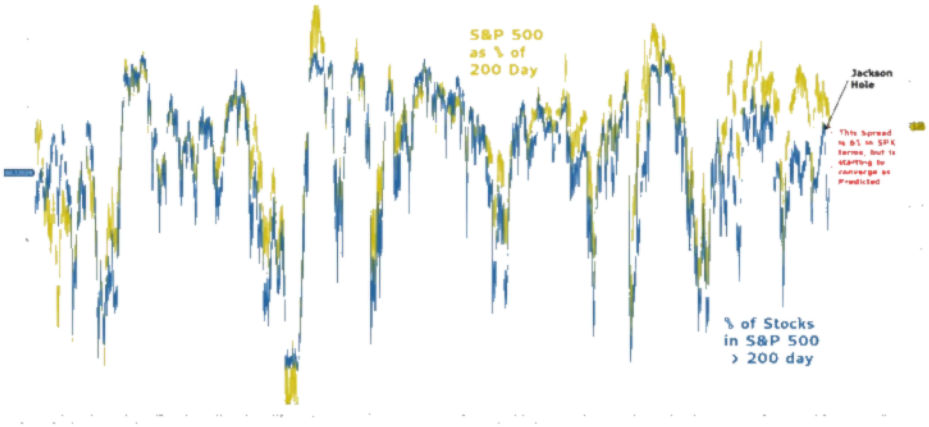
Indeed, more hikes are expected in the forward curve, and back-end rates have risen more than 100 bps since February even after the recent declines. This is the market tightening for the Fed and when combined with the sharp rise in energy prices, this may be enough to slow growth and inflation back to target. However, it could also cause stress in the markets they cannot tolerate which leads to a pivot before the job is complete. That would be asset price bullish in the short term even if it implies a more extended path to reaching the Fed's inflation goals.

Clearing Events Still Ahead

The equity markets have been correcting since June. We identified this correction as a mid-cycle transition that coincided with the initial peak rate of change in earnings revision breadth that arrived after a recessionary low—in this case, the Rolling Recession trough which was reached near Liberation Day. Early cycle stocks (semis, financials, consumer cyclicals) tend to underperform during this transition as the market moves toward higher quality factors. Mid-cycle transition winners include more asset-light, services-oriented stocks with lower operating and financial leverage—i.e., quality.

Over the past month, we have been wrestling with the wide divergence between the poor breadth of the market and the resilience of the S&P 500 Index (Exhibit 1). This too is typical during mid-cycle transitions when the market rotates toward quality. After all, there is no higher quality large cap index in the world than the S&P 500, so it makes sense for investors to crowd into the S&P 500 during this transition.

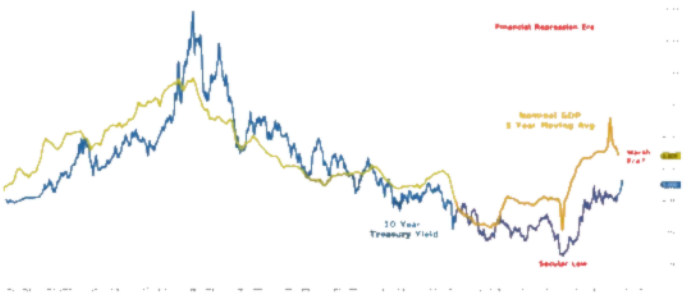
Exhibit 1: The S&P 500 and breadth measures are starting to converge by meeting in the middle, as we suggested a few weeks ago. This is a sign we are getting closer to the end of the correction.



Source: Bloomberg, Morgan Stanley Research

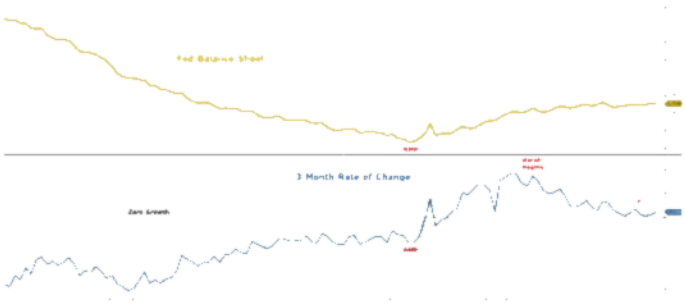
In addition to a peaking rate of change in earnings revisions, we also typically witness a Fed pivoting toward a more hawkish stance as growth runs too hot and inflation shows up. While others have focused on the war in Iran and the spike in energy prices as the primary reasons for inflation and higher back-end rates, we have argued it's been mostly about stronger-than-expected nominal GDP growth dragging both the front-end pricing and back-end rates higher (Exhibit 2). Warsh's desire to let markets trade to fair value also inspired traders to embrace this theme. This was core to our "run it hot" thesis from the summer of 2025, which inevitably reached a point where the Fed had to react. We reached that point in June, and the Fed has chosen to let the market do most of the work via back-end rates and fed funds re-pricing. Meanwhile, they have slowed the rate of balance sheet expansion by about half (Exhibit 3), which helps to explain why the rotations have been more violent than normal, in our view. This was further amplified by the significant crowding in the price momentum factor levered to early cycle stocks (i.e., semis).

Exhibit 2: Rates have been repressed for years. Warsh signaled a change.



Source: Bloomberg, Morgan Stanley Research.

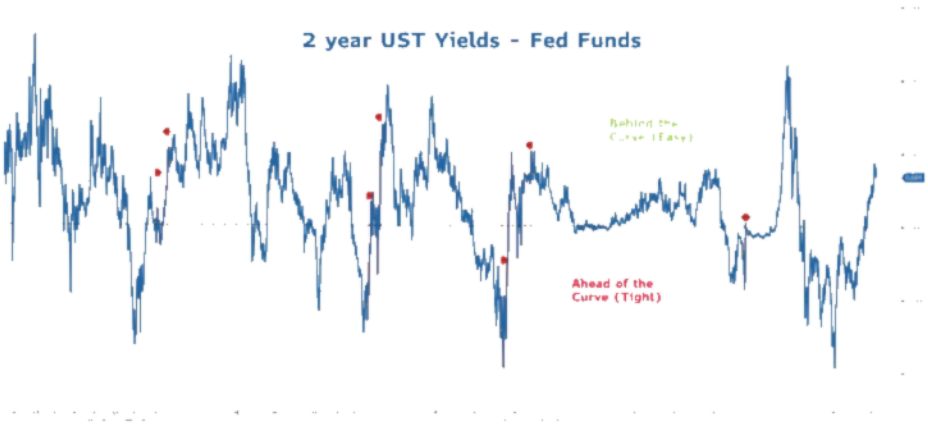
Exhibit 3: While Warsh has only hiked once, he has slowed the growth of the balance sheet.



Source: Bloomberg, Morgan Stanley Research

In many ways, Warsh has lived up to his initial billing to hold rates lower to help Main Street, but has been less generous with the balance sheet. Now, one could argue half of Main Street is hurting, but he can't exactly cut rates with inflation running well above target. Instead, he can remain behind the curve (Exhibit 4) while providing less liquidity. We think this also helps to explain some of the market action over the past several months. To be more specific, financial conditions have tightened substantially, and Warsh seems to be ok with that, including the damage it is causing within both the stock and credit markets. Our quality call was fundamentally driven but has been exacerbated by tighter liquidity provisions at a time when the demands for liquidity have been rising.

Exhibit 4: Fed is normalizing policy, but is not tight in terms of the 2-year vs. fed funds spread.



Source: Bloomberg, Morgan Stanley Research

As noted many times in our research, the damage beneath the surface of the market has been significant. The breadth of the decline in early cycle sectors (semis, consumer, autos, media and financials) has been on par with significant drawdowns in the past. That's encouraging to us, but it also appears there is still some unfinished business at the index level, as noted above, and breadth needs to improve to actual buying rather than just short covering as gross exposures are reduced.

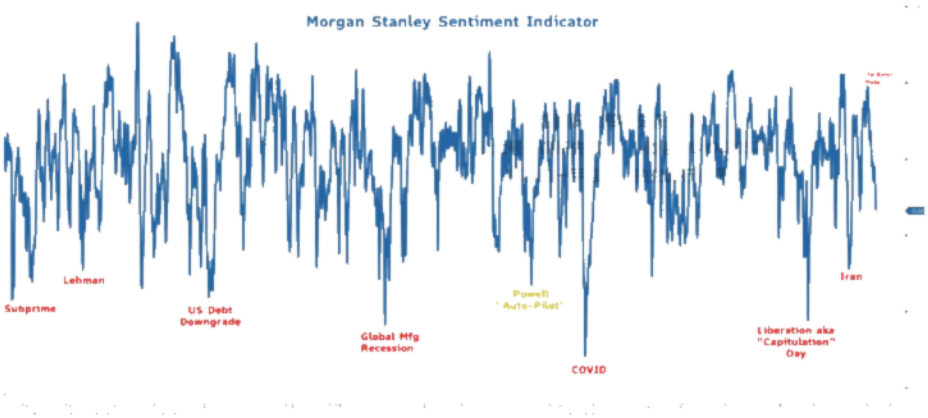
Exhibit 5: ~60% of all stocks in the Russell 3000 are down more than 20% since earnings revisions breadth peaked and the mid cycle transition began in June. It's been worse for early cycle stocks.

% of Stocks with x% Max Drawdown since June 1	>10%	>15%	>20%	>30%	>40%	>50%
Russell 3000	**91%**	**76%**	**59%**	**36%**	**20%**	**12%**
Media & Entertainment	93%	79%	**65%**	44%	19%	11%
n Services	92%	80%	**72%**	40%	28%	24%
Automobiles & Components	100%	94%	86%	**57%**	26%	9%
Consumer Discretionary Distribution & Retail	96%	80%	**70%**	39%	20%	7%
Consumer Durables & Apparel	95%	85%	**66%**	33%	10%	1%
Consumer Services	97%	91%	**75%**	**37%**	18%	9%
Consumer Staples Distribution & Retail	92%	**63%**	33%	13%	0%	0%
Food Beverage & Tobacco	95%	**75%**	**57%**	25%	5%	0%
Household & Personal Products	92%	**69%**	35%	23%	12%	0%
Energy	96%	78%	**55%**	24%	16%	11%
Banks	**56%**	23%	7%	2%	1%	0%
Financial Services	93%	79%	**57%**	31%	13%	6%
Insurance	79%	**56%**	27%	12%	4%	0%
Health Care Equipment & Services	88%	**69%**	**50%**	27%	13%	6%
Pharmaceuticals Biotechnology & Life Sciences	95%	88%	78%	**60%**	38%	20%
Capital Goods	96%	88%	**73%**	45%	30%	21%
Commercial & Professional Services	90%	**70%**	**47%**	23%	9%	5%
Transportation	97%	86%	**71%**	40%	22%	14%
Semiconductors & Semiconductor Equipment	99%	99%	96%	87%	**73%**	**42%**
Software & Services	99%	94%	77%	**48%**	28%	21%
Technology Hardware & Equipment	99%	88%	**72%**	**48%**	36%	24%
Materials	96%	85%	**69%**	**45%**	22%	13%
Equity Real Estate Investment Trusts (REITs)	96%	**73%**	**41%**	11%	4%	2%
Utilities	82%	**59%**	25%	14%	4%	1%

Source: FactSet, Bloomberg, Morgan Stanley Research

Positioning has come down substantially within the hedge fund community, even as retail and other passive investors remain more fully invested. While several of our sentiment measures are reaching extreme levels, our comprehensive measure remains more in the middle and not quite yet at levels that argue it's time to add risk aggressively (Exhibit 6). While we would not expect this measure to reach full-blown recession levels (Liberation Day, COVID, etc.), we do think a reading near the lows seen earlier this year when the Iran war began is likely before this mid cycle transition/correction is over.

Exhibit 6: Our comprehensive Sentiment Indicator is only at "Neutral" levels. It could make a quick push to more extreme levels to signal the end of this correction.

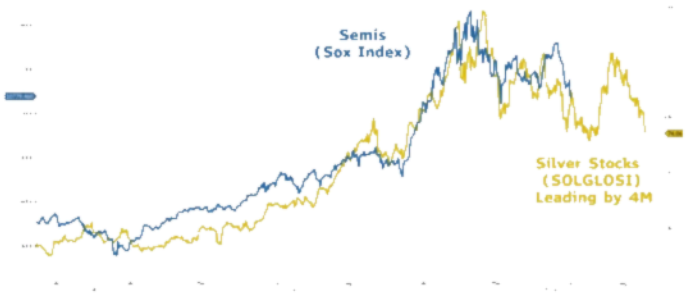


Source: Bloomberg, Morgan Stanley Research

More specifically, we think there are 3 clearing events ahead that could lead to a final capitulation and mark the end of the correction.

AI-related questions. There are several investor concerns lingering over AI-related stocks at the moment. First, doubts about the eventual return on capital have arisen again as investors began to question the timing and size of the revenue opportunity. Second, there are new questions about the cost of capital for certain players in the space and even the availability of capital in credit markets to fund the spending, given all of the demands from governments and non-AI-related capex. Over the next month, markets may need to absorb even more supply. Focus on that supply is normal but will linger until it's completed. Credit spreads for lower quality players may stay wider during this time, keeping financial conditions tight. The supply is the event, and once it's cleared, this risk should subside. Semiconductors and other capex beneficiaries represent the epicenter of these funding concerns. After identifying the top for semis in June based on our revisions breadth analysis and mid cycle transition thesis, we now believe the group is in the final stages of its correction. The charts below suggest we should find support in mid-November, about 10-15% lower. We think that low will coincide with the funding concerns bottoming.

Exhibit 7: Semis should start to carve out a low over the next 3-4 weeks.



Source: Bloomberg, Morgan Stanley Research

Exhibit 8: Technical support also indicates a low for the Sox in mid November (9500).



Source: Bloomberg, Morgan Stanley Research

Midterms. It's well understood that midterm election years bring weakness to equity markets. It's also understood they tend to lead to strong equity markets once they are over. The history is compelling (Exhibit 9), and we don't see why this time is different. However, every midterm season is different, and the timing and magnitude of the lows are unpredictable.

Exhibit 9: Midterm elections consistently lead to above average equity returns

S&P 500 After Midterm Elections, 1950–2022

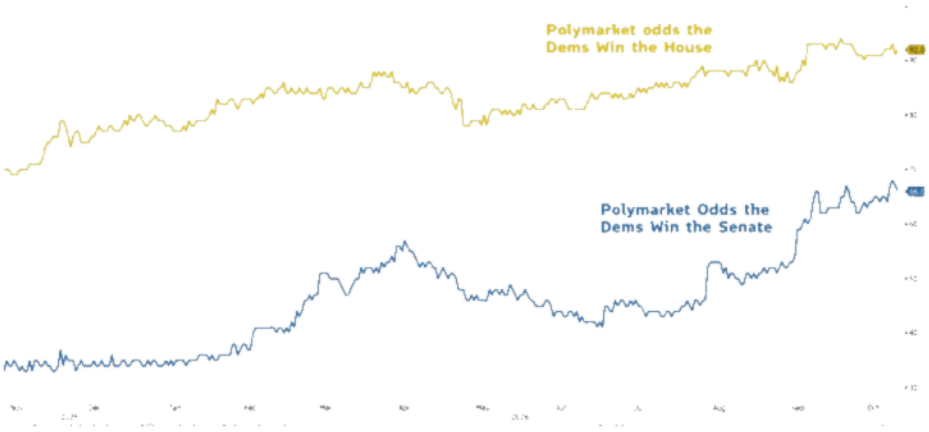
Year	Midterm (president)	Prior 3M (Aug–Oct)	Election month (Nov)	Election day → Dec 31	Next 3M (Nov–Jan)	Next 6M (Nov–Apr)	Next 12M (Nov–Oct)	House control (before → after)	Senate control (before → after)	Chambers flipped	# flipped
1950	Truman, D	+9.1%	+0.1%	-7.1%	-10.9%	+14.8%	+17.8%	D → D	D → D	0	0
1954	Eisenhower, R	+2.6%	+8.1%	+13.2%	+15.6%	+19.8%	+33.6%	R → D	R → D	2 (House and Senate to D)	2
1958	Eisenhower, R	-6.8%	+2.2%	-7.1%	+8.0%	+12.2%	+12.1%	D → D	D → D	0	0
1962	Kennedy, D	+7.9%	+10.2%	+8.1%	+17.1%	+23.7%	+30.9%	D → D	D → D	0	0
1966	Johnson, D	+4.1%	+0.3%	-0.5%	+8.0%	+17.2%	+17.1%	D → D	D → D	0	0
1970	Nixon, R	+6.7%	+4.7%	-4.6%	-11.2%	+4.9%	+13.2%	D → D	D → D	0	0
1974	Ford, R	-6.8%	-5.3%	-8.7%	+4.2%	+18.1%	+30.1%	D → D	D → D	0	0
1978	Carter, D	+7.1%	+1.7%	-2.4%	+7.3%	+9.2%	+9.3%	D → D	D → D	0	0
1982	Reagan, R	+24.9%	+3.6%	-2.7%	+8.7%	+23.6%	+39.7%	D → D	R → R	0	0
1986	Reagan, R	+3.1%	+2.7%	-1.6%	+10.3%	+18.2%	+18.2%	D → D	R → D	1 (Senate to D)	1
1990	GHW Bush, R	+14.7%	+6.0%	+6.0%	+13.1%	+21.5%	+26.1%	D → D	D → D	0	0
1994	Clinton, D	+3.1%	+4.0%	-1.6%	-0.1%	+9.0%	+23.1%	D → R	D → R	2 (House and Senate to R)	2
1998	Clinton, D	+6.8%	+5.9%	+10.7%	+16.5%	+21.5%	+24.7%	R → R	R → R	0	0
2002	GW Bush, R	+6.8%	+5.7%	-3.9%	-3.1%	+3.5%	+18.8%	R → R	D → R	1 (Senate to R)	1
2006	GW Bush, R	+7.9%	+1.8%	+2.8%	+4.4%	+7.8%	+12.4%	R → D	R → D	2 (House and Senate to D)	2
2010	Obama, D	+7.4%	-0.2%	+5.8%	+8.7%	+11.2%	+15.9%	D → R	D → D	1 (House to R)	1
2014	Obama, D	+4.5%	+2.1%	+2.3%	+7.1%	+3.3%	+3.0%	R → R	D → R	1 (Senate to R)	1
2018	Trump, R	-3.7%	+1.8%	-9.0%	-2.3%	+8.6%	+15.0%	R → D	R → R	1 (House to D)	1
2022	Biden, D	-6.3%	+3.9%	+0.3%	+3.3%	+7.7%	+8.3%	D → R	D → D	1 (House to R)	1
Average, 1950–2022		**+1.8%**	**+2.7%**	**+2.6%**	**+7.9%**	**+14.8%**	**+16.6%**	**6 House flips**	**6 Senate flips**	**12 flips in 19 elections**	**12**
Average, 1982–2022		**+2.0%**	**+2.8%**	**+1.2%**	**+5.8%**	**+12.8%**	**+14.7%**			**10 flips in 11 elections**	**10**
Avg — 21 chamber flipped		**+1.8%**	**+2.8%**	**+0.9%**	**+4.6%**	**+10.2%**	**+13.4%**			**9 elections**	
Avg — no chamber flipped		**+1.2%**	**+2.9%**	**+4.3%**	**+10.8%**	**+18.8%**	**+19.6%**			**10 elections**	
% of midterms positive		**53%**	**79%**	**68%**	**79%**	**100%**	**100%**				
2026	Trump, R — to date	+2.3%						*Pending*	*Pending*	*Pending*	

Source: Bloomberg, Morgan Stanley Research

First of all, midterm elections often lead to lost seats for the incumbents. So, a blue wave

would not be a surprise in this regard, not to mention the fact that it's the expected outcome according to both the polls and the betting markets (Exhibit 10). The bigger surprise would be if the Republicans win the Senate or if it's a very wide margin of victory by the Democrats in the Senate. In our view, that would require at least 53-55 seats. Nothing is impossible, but we would caution investors against thinking a blue sweep is a surprise at this point—i.e., this is part of the reason why the market has been weaker over the past few weeks, in our view. Markets also loathe uncertainty and so just having it behind us can provide a positive catalyst in and of itself no matter what the outcome.

Exhibit 10: Polymarket midterm election odds

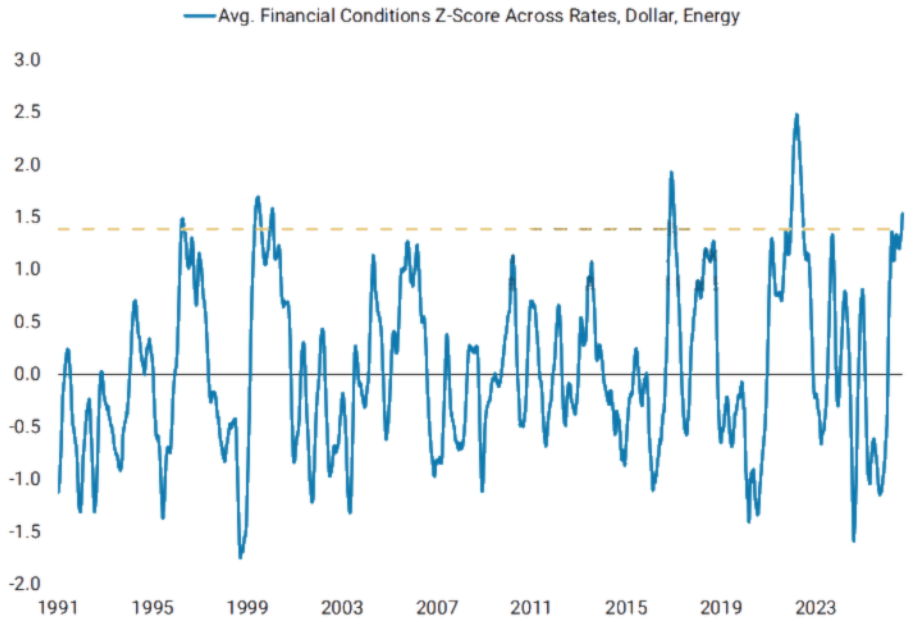


Source: Bloomberg, Morgan Stanley Research

The bigger overhang for the markets related to the midterms is the indication the administration has been floating about potentially escalating the war in Iran or perhaps some other action they would be willing to take once the election is over. In fact, in our recent conversations with clients, this particular concern has moved front and center as a risk for markets given its unknown character. Most clients, including ourselves, have little ability to predict such things. However, one dynamic we do feel more comfortable with is our view that such surprises have often led to excellent buying opportunities in the short term and are exactly the kind of variable that could cause the final capitulation discussed earlier. Bottom line, the midterms should be a clearing event given the anxiety around the event itself and the possible post-event surprise(s). The historical performance of equity markets post-midterms should provide investors with the extra confidence to step in should a quick downdraft arise.

Financial conditions and Warsh's resolve to fight inflation. We have already discussed how the Fed has been modestly tightening this year with one rate hike and slower growth in its balance sheet since Warsh's arrival. These actions, combined with the real economy's thirst for capital, have led to a rather sharp tightening in financial conditions that may not be *fully* appreciated. Combined with the sharp rise in energy prices, this tightening is on par with what happened in 2018 and almost as severe as the Fed's very deliberate tightening in 2022.

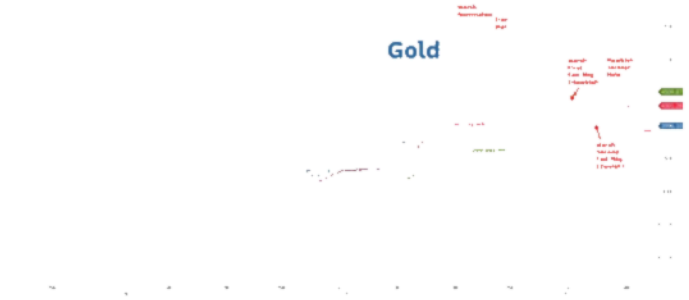
Exhibit 11: Financial conditions have tightened materially



Source: Bloomberg, Morgan Stanley Research

In addition to financial conditions, we track both gold prices and volatility as signals for whether money is too tight. On that score, gold has been weaker lately, along with crypto, and we think that is directly related to Warsh's most recent stance at both Jackson Hole and the last Fed meeting, at which the Fed raised rates by 25 bps. Looking at Exhibit 12 , gold has been a good barometer of how the market thinks about Warsh as Fed chair. Currently, he is viewed as more hawkish than at other times since his nomination. We will be watching closely this week to see if there is any change in this perception after the FOMC meeting. With front- and back-end rates having repriced ~30-40 bps lower over the past few weeks, we aren't expecting any major changes in that regard this week. To be clear, equity multiples have been closely aligned with forward fed funds pricing for the past year, and so it does matter considerably if this were to change in a material way.

Exhibit 12: Gold reflects FCI tightening...



Source: Bloomberg, Morgan Stanley Research

Exhibit 13: ...as do valuation levels



Source: Bloomberg, Morgan Stanley Research

We think the more important development for monetary policy could come through the balance sheet and other sources of liquidity provided by both the Fed and Treasury. First, on the Fed, we think it's unlikely there will be any meaningful change in balance sheet growth without more stress first. In the past, we have tracked funding markets as a key barometer to watch, and on that score, things appear to be stable. SOFR spreads and

interbank rates are not behaving in a way that would force intervention. The most recent example was last year, when spread widening forced the Fed to first end QT and then begin buying assets in December with the Reserve Management Program. We will be watching this closely for early signs the Fed is about to add liquidity. This is what happened in 2018 as well and why we alluded to that earlier as a potential clearing event for this correction—i.e., liquidity conditions may need to get worse before they get better. To be clear, we respect the new Chair's resolve to only use the balance sheet as an "emergency" policy tool; however, it's hard to define what that means exactly. We think funding market stress has triggered action from the Fed in the past, and we think it could again under this new leadership. The question is how acute does it have to get before it gets better.

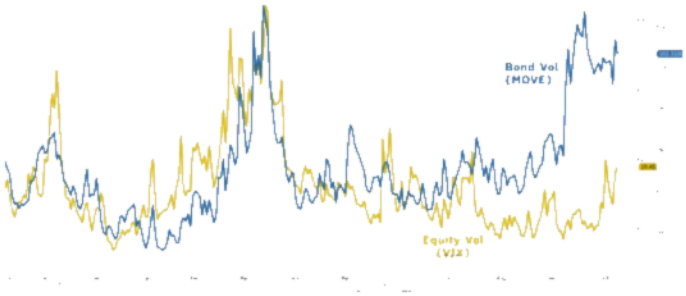
Of course, there are other liquidity measures that can be taken by the Treasury. In fact, buybacks have been used independently from the Fed as a means of suppressing bond volatility more than as a direct attempt to lower rates at the back end. These buybacks worked very well in March and April to reduce bond volatility as a means of increasing liquidity via higher collateral availability in the lending system. More recently, bond vol has been stickier to the upside, perhaps due to the limited size of these buybacks compared to March and April—i.e., Treasury may need to increase further. The good news is it has a sizable balance in its General Account that could be utilized, if necessary. Meanwhile, we expect issuance to continue to be skewed more to the front end as another way to control bond volatility and even rate levels at the back end. In short, the Fed and Treasury have tools to manage liquidity, which does appear to be tight at the moment. The question is what has to shift for them to act more aggressively? In that context, this may be the most important clearing event of all. We will be monitoring our proprietary sentiment indicator shown above and other indicators below as signs things are getting closer to a place where the Fed and Treasury will act. Stay tuned.

Exhibit 14: SOFR vs. fed funds spread...



Source Bloomberg, Morgan Stanley Research.

Exhibit 15: ...and bond volatility worth watching closely



Source Bloomberg, Morgan Stanley Research.

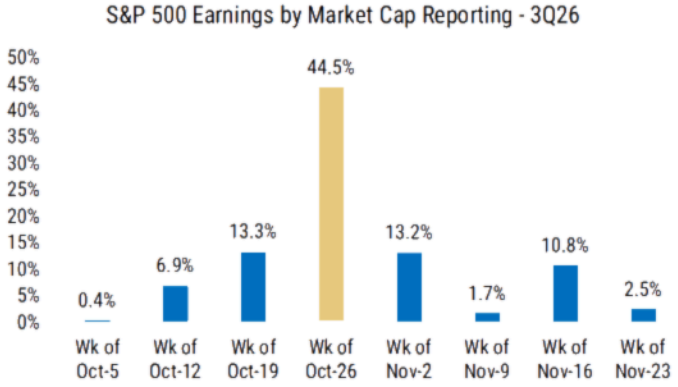
Bottom line: We think the correction that began in June is now in its final stages, with much of the damage already done beneath the surface. However, a final convergence of index toward weaker, but improving, breadth is possible as several clearing events play out over the next few weeks. Ultimately, we think this should provide attractive buying opportunities as the market looks ahead to another leg higher in earnings growth. In the meantime, we continue to favor quality while remaining patient for a better opportunity to add risk more aggressively.

Earnings Season Chartbook

- Median T+1 price reaction is flat (0.0%) on an absolute basis and +0.4% on a relative basis.
- EPS beat rates are at 2% which is lower than the historical average the recent quarters. The sales beat rate is in-line with historical average at +1.3%.
- 3Q EPS is expected at +27% Y/Y and sales at +11% Y/Y.
- Short-term Earnings Revision Breadth showing positive signs. S&P 500 earnings revisions breadth (FY2) is lower at +7% but short-term ERB shows a positive spike which should lift the aggregate number.
- Calendar 2026/2027 earnings growth is now 33%/16%.
- Mag 7 earnings are expected to grow 32% in 3Q26 vs. 20% for the SP493, both historically strong. For 2027, this flips and has the SP493 growing 17% vs 11% for the Mag 7 but this is largely on difficult comp effects for the Mag 7 from one-off benefits (non-operating income).
- Analyst previews are positive but less so than last quarter. Net KPI and EPS previews are +20% versus +27% for NTM EPS last quarter. Results have been similar at +13% vs +30% in 2Q.

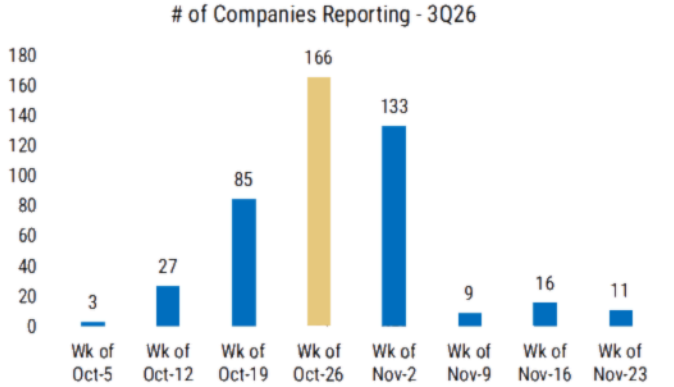
Key Charts

Exhibit 16: 3Q Reporting Season by Market Cap



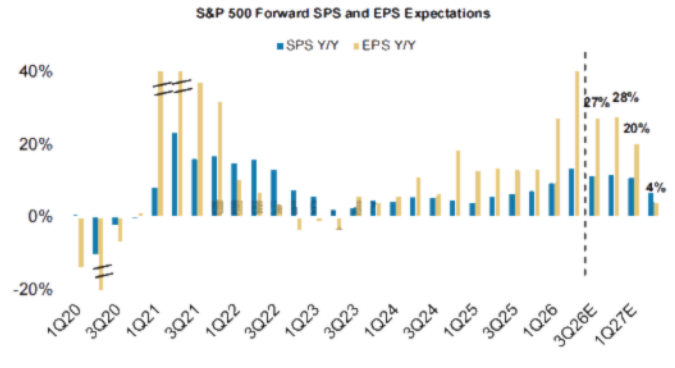
Note: Includes 451 of S&P 500 companies and 92% of S&P market cap reporting from Oct. 5 to Nov 27th
Source: Bloomberg, Morgan Stanley Research

Exhibit 17: 3Q Reporting Season by Company Count



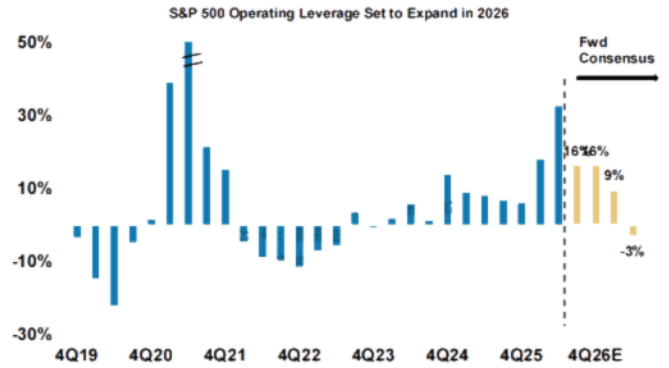
Note: Includes 451 of S&P 500 companies and 92% of S&P market cap reporting from Oct. 5 to Nov 27th
Source: Bloomberg, Morgan Stanley Research

Exhibit 18: Forward SPS and EPS Expectations



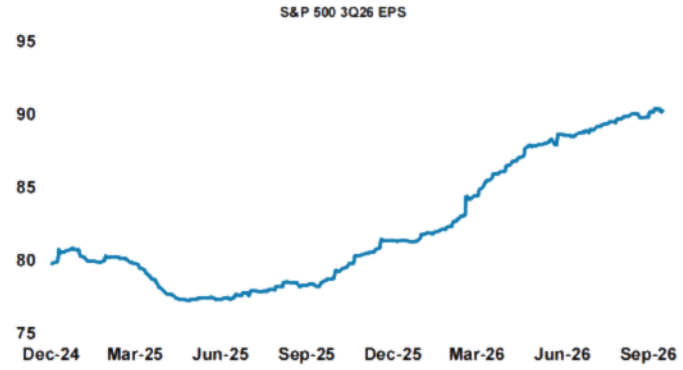
Source: FactSet, Morgan Stanley Research

Exhibit 19: Operating Leverage is Set to Expand in 2026



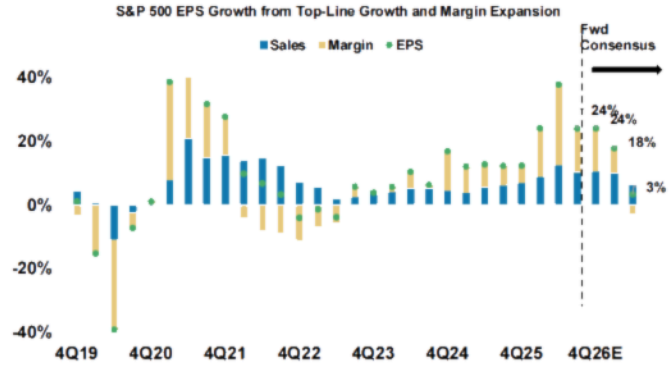
Source: FactSet, Morgan Stanley Research

Exhibit 20: 3Q Estimates Push Higher into EPS Season



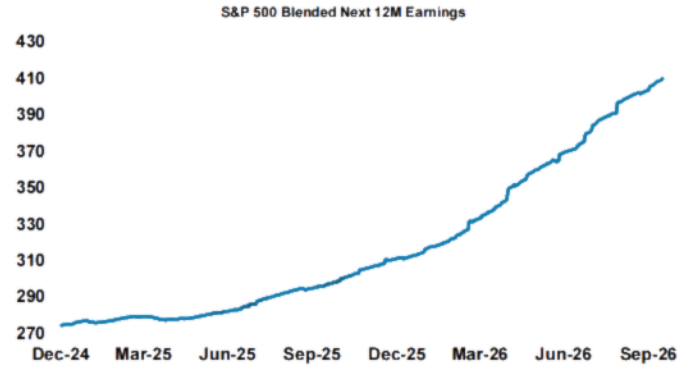
Source: FactSet, Morgan Stanley Research

Exhibit 21: EPS Growth is Coming from Both Top-Line Growth and Margin Expansion



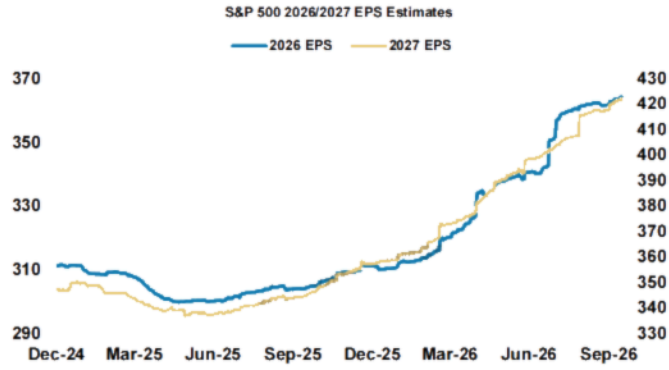
Source: Refinitiv, Morgan Stanley Research

Exhibit 22: Blended Next 12M Earnings Rising Further



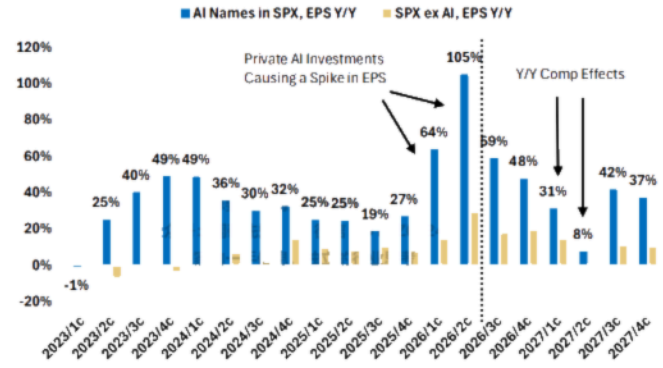
Source: FactSet, Morgan Stanley Research

Exhibit 23: 2026/2027 EPS Estimates Continue to Revise Higher



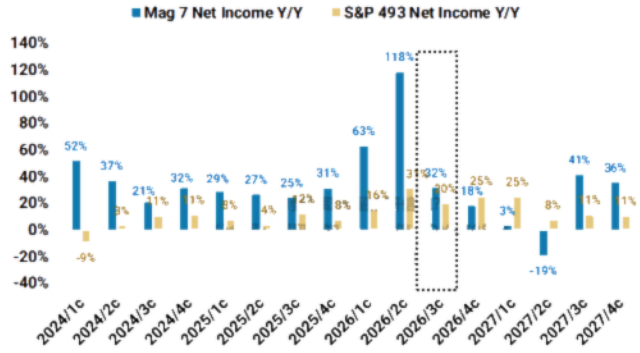
Source: FactSet, Morgan Stanley Research

Exhibit 24: AI vs Non-AI Related Names within S&P 500



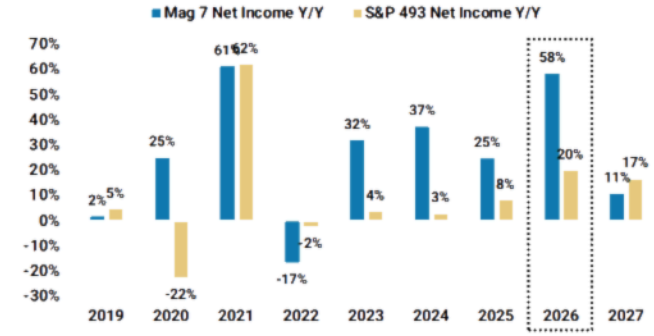
Source: FactSet, Morgan Stanley Research

Exhibit 25: Mag 7 vs SP493 Earnings Growth



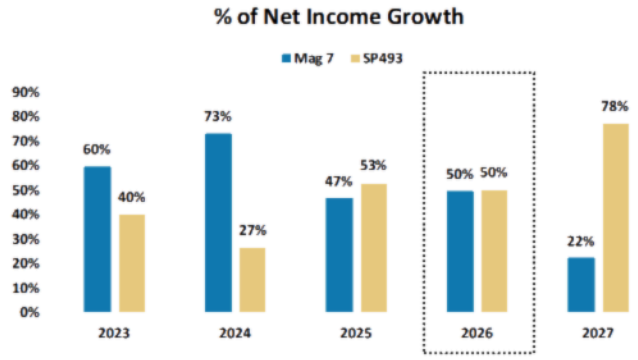
Source: FactSet, Morgan Stanley Research

Exhibit 26: Mag 7 vs SP493 Annuals: SP493 is now Higher in 2027



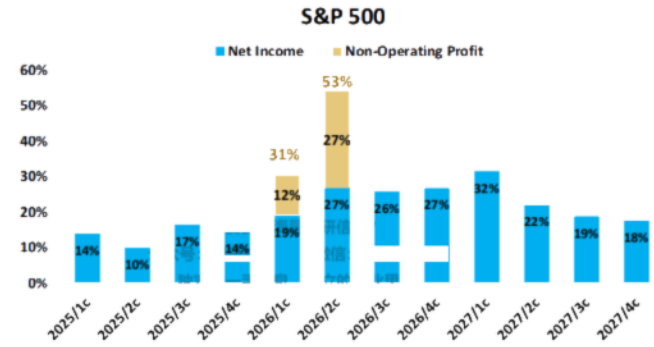
Source: FactSet, Morgan Stanley Research

Exhibit 27: Contribution to S&P 500 Earnings Growth



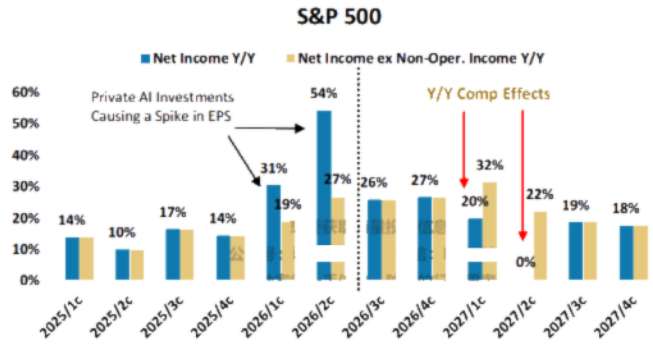
Source: FactSet, Morgan Stanley Research

Exhibit 28: S&P 500 earnings are being skewed by unrealized gains in AI investments...



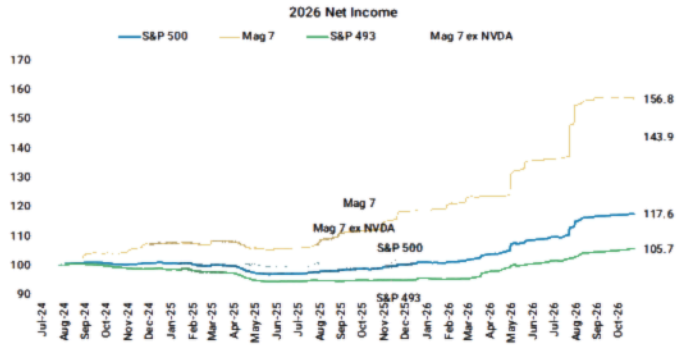
Source: FactSet, Morgan Stanley Research

Exhibit 29: ...and accelerated 1Q/2Q earnings are affecting forward growth rates



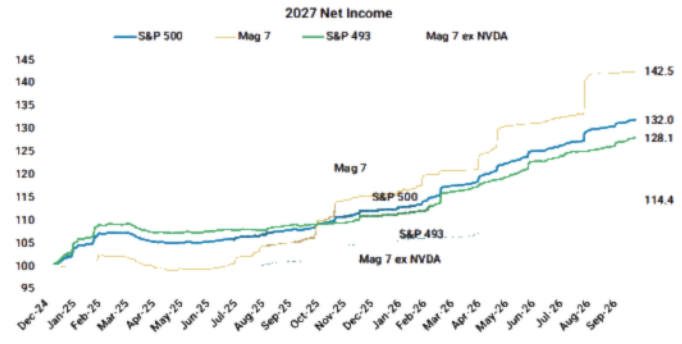
Source: FactSet, Morgan Stanley Research

Exhibit 30: 2026 Net Income Revisions



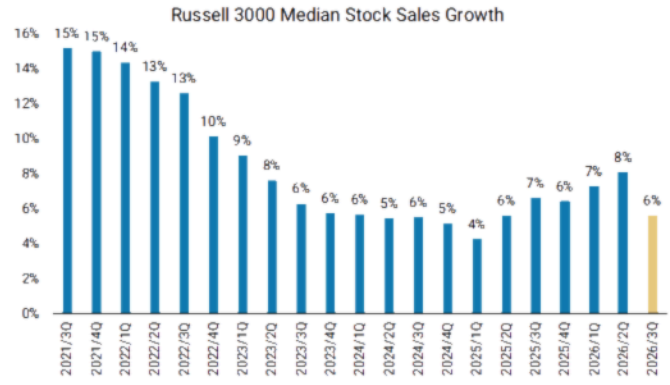
Source: FactSet, Morgan Stanley Research

Exhibit 31: 2027 Net Income Revisions



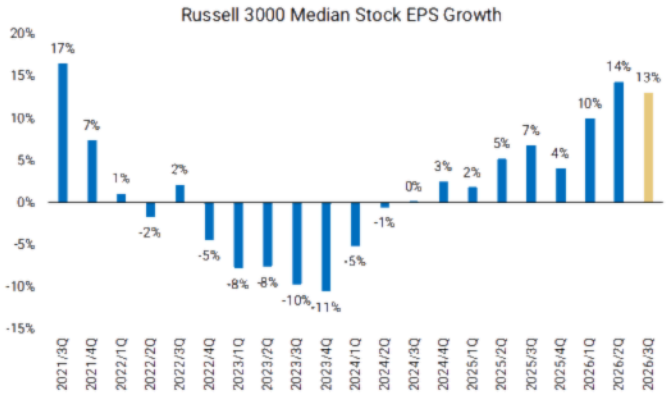
Source: FactSet, Morgan Stanley Research

Exhibit 32: Median Sales Growth is Strong



Source: FactSet, Morgan Stanley Research

Exhibit 33: Median EPS Growth is Accelerating



Source: FactSet, Morgan Stanley Research

Scorecards

Exhibit 34: Earnings Scorecard

S&P 500 3Q26 Preliminary Earnings Analysis											
Sector	# Reported	# Cos Rptd	% of Cos Rptd	% Mktcap Rptd	Surprise Ratios Above	At/Above	Below	$ Actual vs. Est. 3Q26	$ Actual vs. Est. 2Q26	**3Q26 Y/Y %	Growth Contribution
Communication Services	5/20	5	25%	42%	60%	80%	20%	-19.6%	3.7%	62.9%	4.8%
Media & Entertainment	3/16	3	19%	43%	33%	67%	33%	-31.0%	2.7%	146.2%	4.5%
n Services	2/4	2	50%	40%	100%	100%	0%	8.2%	7.3%	6.7%	0.3%
Consumer Discretionary	14/46	14	30%	27%	36%	86%	14%	3.5%	4.4%	3.0%	0.2%
Automobiles & Components	2/4	2	50%	96%	50%	100%	0%	1.7%	2.5%	13.0%	0.3%
Consumer Durables & Apparel	6/11	6	55%	46%	50%	83%	17%	9.9%	31.8%	-10.9%	-0.2%
Consumer Services	3/17	3	18%	6%	0%	67%	33%	-5.4%	5.3%	-12.4%	0.0%
Consumer Discretionary Distribution & Retail	3/14	3	21%	2%	33%	100%	0%	3.5%	1.6%	5.5%	0.0%
Consumer Staples	7/32	7	22%	38%	29%	100%	0%	4.1%	8.3%	4.2%	0.4%
Consumer Staples Distribution & Retail	1/8	1	13%	28%	0%	100%	0%	3.2%	17.8%	15.0%	0.2%
Food Beverage & Tobacco	5/17	5	29%	39%	40%	100%	0%	3.2%	5.8%	3.3%	0.1%
Household & Personal Products	1/7	1	14%	64%	0%	100%	0%	6.2%	2.0%	-0.3%	0.0%
Energy	4/21	4	19%	12%	50%	100%	0%	11.0%	9.9%	179.3%	3.4%
Financials	36/75	36	48%	63%	8%	92%	8%	2.2%	14.4%	8.5%	3.6%
Banks	13/13	13	100%	100%	23%	77%	23%	-5.5%	18.3%	4.2%	0.9%
Financial Services	17/39	17	44%	48%	0%	100%	0%	12.0%	12.0%	16.7%	2.4%
Insurance	6/23	6	26%	43%	0%	100%	0%	11.1%	13.0%	4.3%	0.2%
Health Care	8/60	8	13%	28%	38%	100%	0%	8.4%	18.4%	11.7%	1.2%
Health Care Equipment & Services	5/34	5	15%	37%	40%	100%	0%	13.4%	15.2%	29.1%	1.3%
Pharmaceuticals Biotechnology & Life Sciences	3/26	3	12%	24%	33%	100%	0%	4.0%	21.6%	-1.0%	-0.1%
Industrials	24/80	24	30%	34%	25%	100%	0%	8.2%	7.3%	19.7%	2.0%
Capital Goods	13/53	13	25%	30%	31%	100%	0%	12.1%	8.2%	24.9%	1.5%
Commercial & Professional Services	4/13	4	31%	28%	0%	100%	0%	1.9%	2.2%	10.4%	0.1%
Transportation	7/14	7	50%	55%	29%	100%	0%	2.4%	7.1%	12.2%	0.4%
Information Technology	12/74	12	16%	11%	8%	100%	0%	5.2%	10.5%	224.6%	23.1%
Semiconductors & Semiconductor Equipment	3/20	3	15%	15%	0%	100%	0%	5.0%	9.4%	577.4%	21.8%
Software & Services	6/29	6	21%	13%	17%	100%	0%	4.6%	12.4%	15.7%	0.9%
Technology Hardware & Equipment	3/25	3	12%	3%	0%	100%	0%	11.5%	10.6%	98.5%	0.7%
Materials	4/25	4	16%	#N/A	50%	100%	0%	8.2%	5.9%	60.9%	0.8%
Real Estate	4/30	4	13%	18%	0%	100%	0%	1.8%	4.5%	66.2%	0.6%
Equity Real Estate Investment Trusts (REITs)	3/28	3	11%	15%	0%	100%	0%	1.9%	4.5%	99.9%	0.7%
Real Estate Management & Development	1/2	1	50%	77%	0%	100%	0%	0.0%	0.0%	-17.3%	0.0%
Utilities	2/31	2	6%	15%	0%	100%	0%	2.4%	3.8%	1.9%	0.0%
S&P 500	120/494	120	24%	26%	23%	95%	5%	2.0%	9.9%	40.0%	40.0%

**3Q26 Earnings Y/Y is derived growth rate

Source: FactSet; Morgan Stanley Research

Exhibit 35: Revenue Scorecard

S&P 500 3Q26 Preliminary Revenue Analysis											
Sector	# Reported	# Cos Rptd	% of Cos Rptd	% Mktcap Rptd	Surprise Ratios Above	At/Above	Below	$ Actual vs. Est. 3Q26	$ Actual vs. Est. 2Q26	**3Q26 Y/Y %	Growth Contribution
Communication Services	5/20	5	25%	42%	60%	100%	0%	1.5%	0.8%	13.1%	1.3%
Media & Entertainment	3/16	3	19%	43%	67%	100%	0%	1.8%	1.3%	25.6%	1.3%
n Services	2/4	2	50%	40%	50%	100%	0%	1.2%	-0.6%	-0.5%	0.0%
Consumer Discretionary	14/46	14	30%	27%	29%	57%	43%	0.4%	1.5%	0.9%	0.0%
Automobiles & Components	2/4	2	50%	96%	50%	100%	0%	1.6%	1.9%	1.8%	0.1%
Consumer Durables & Apparel	6/11	6	55%	46%	17%	33%	67%	-2.1%	0.6%	-5.4%	-0.1%
Consumer Services	3/17	3	18%	6%	33%	67%	33%	-1.4%	0.5%	1.1%	0.0%
Consumer Discretionary Distribution & Retail	3/14	3	21%	2%	33%	67%	33%	0.1%	1.7%	5.0%	0.1%
Consumer Staples	7/32	7	22%	38%	71%	100%	0%	1.1%	1.1%	8.4%	1.0%
Consumer Staples Distribution & Retail	1/8	1	13%	28%	0%	100%	0%	0.8%	0.8%	11.1%	0.7%
Food Beverage & Tobacco	5/17	5	29%	39%	80%	100%	0%	1.4%	2.3%	5.2%	0.2%
Household & Personal Products	1/7	1	14%	64%	100%	100%	0%	2.1%	-0.1%	4.0%	0.1%
Energy	4/21	4	19%	12%	100%	100%	0%	6.2%	15.8%	29.4%	1.2%
Financials	36/75	36	48%	63%	28%	78%	22%	0.0%	6.5%	8.4%	2.0%
Banks	13/13	13	100%	100%	0%	77%	23%	-1.3%	7.0%	7.6%	0.9%
Financial Services	17/39	17	44%	48%	41%	88%	12%	2.4%	8.8%	11.9%	1.0%
Insurance	6/23	6	26%	43%	50%	50%	50%	-0.9%	-0.4%	4.0%	0.2%
Health Care	8/60	8	13%	28%	63%	100%	0%	1.3%	2.8%	2.4%	0.4%
Health Care Equipment & Services	5/34	5	15%	37%	80%	100%	0%	1.5%	2.4%	1.3%	0.2%
Pharmaceuticals Biotechnology & Life Sciences	3/26	3	12%	24%	33%	100%	0%	0.4%	4.5%	7.1%	0.2%
Industrials	24/80	24	30%	34%	46%	88%	13%	1.5%	2.7%	14.1%	1.6%
Capital Goods	13/53	13	25%	30%	54%	85%	15%	2.2%	2.9%	12.9%	0.9%
Commercial & Professional Services	4/13	4	31%	28%	25%	75%	25%	0.3%	1.0%	8.7%	0.0%
Transportation	7/14	7	50%	55%	43%	100%	0%	0.5%	2.9%	16.7%	0.7%
Information Technology	12/74	12	16%	11%	67%	100%	0%	3.8%	3.3%	63.9%	4.5%
Semiconductors & Semiconductor Equipment	3/20	3	15%	15%	67%	100%	0%	4.7%	5.5%	220.4%	3.7%
Software & Services	6/29	6	21%	13%	50%	100%	0%	1.9%	1.5%	12.6%	0.6%
Technology Hardware & Equipment	3/25	3	12%	3%	100%	100%	0%	7.6%	2.8%	31.8%	0.3%
Materials	4/25	4	16%	#N/A	50%	100%	0%	0.8%	0.5%	18.1%	0.3%
Real Estate	4/30	4	13%	18%	25%	50%	50%	-1.8%	2.1%	9.7%	0.1%
Equity Real Estate Investment Trusts (REITs)	3/28	3	11%	15%	33%	67%	33%	0.4%	2.7%	2.1%	0.0%
Real Estate Management & Development	1/2	1	50%	77%	0%	0%	100%	-2.5%	0.3%	12.3%	0.1%
Utilities	2/31	2	6%	15%	0%	0%	100%	-6.6%	-2.1%	0.4%	0.0%
S&P 500	120/494	120	24%	26%	44%	83%	18%	1.3%	3.6%	12.5%	12.5%

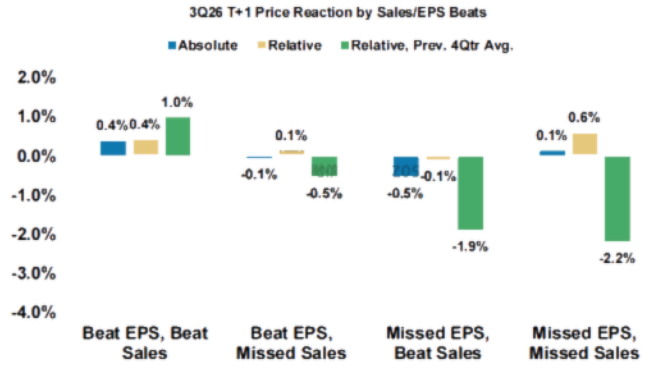
Source: FactSet; Morgan Stanley Research

Price Reaction

- Median T+1 price reactions at 0.0% on an absolute basis and +0.4% relative to the broad index.

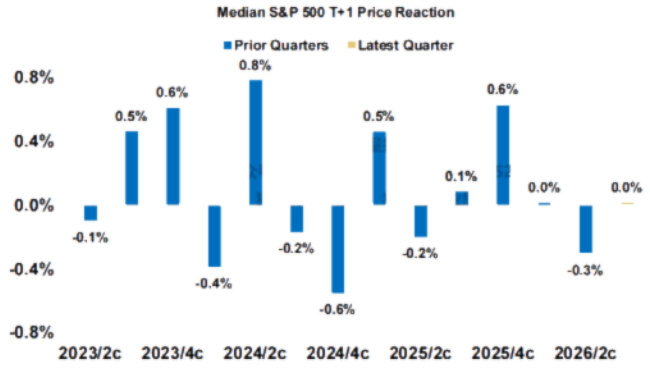
- Breadth of positive returns increased to 50%.

Exhibit 36: 3Q Price Reaction by Sales/EPS Beats



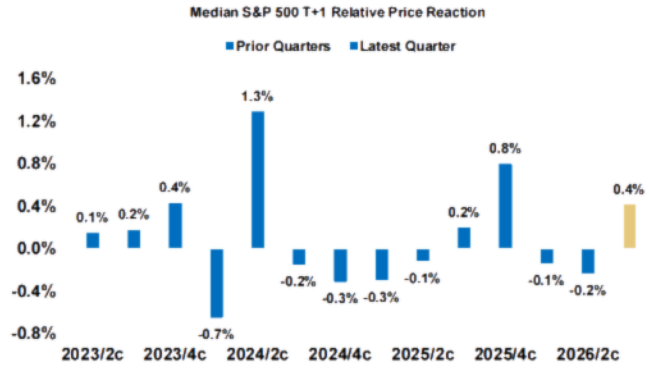
Source: Factset, Morgan Stanley Research

Exhibit 37: T+1 Price Reactions



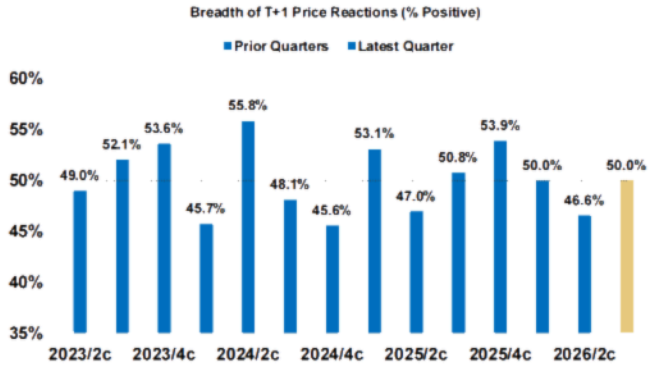
Source: Factset, Morgan Stanley Research

Exhibit 38: T+1 Relative Price Reactions



Source: Factset, Morgan Stanley Research

Exhibit 39: Breadth of T+1 Price Reactions



Source: Factset, Morgan Stanley Research

Surprise

- 3Q Sales surprise at 1.3%, in-line with the historical average of 1.3%.
- 3Q EPS surprise at 2%, below the historical average of 4.4%.
- Last quarter (2Q26) EPS surprise was +26%, strongly ahead of the historical average of 4.4%. Non-operating profits from private AI investments skewed 1Q/2Q higher but it was still a historically strong quarter ex-these gains.

Exhibit 40: Sales Surprise: Averages +1% Historically



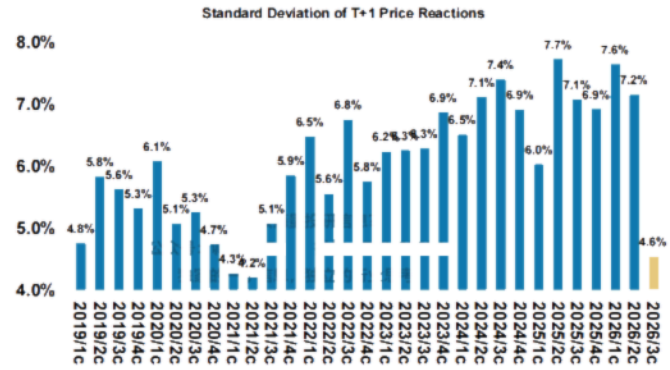
Source: Factset, Morgan Stanley Research

Exhibit 41: EPS Surprise: Averages 4-5% Historically



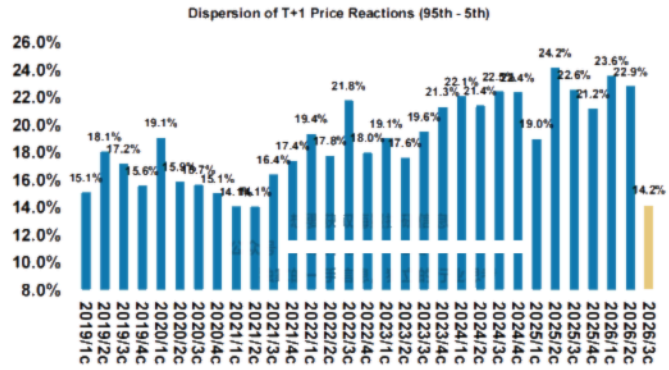
Source: Factset, Morgan Stanley Research

Exhibit 42: Standard Deviation of T+1 Price Reactions



Source: FactSet, Morgan Stanley Research

Exhibit 43: Dispersion of T+1 Price Reactions

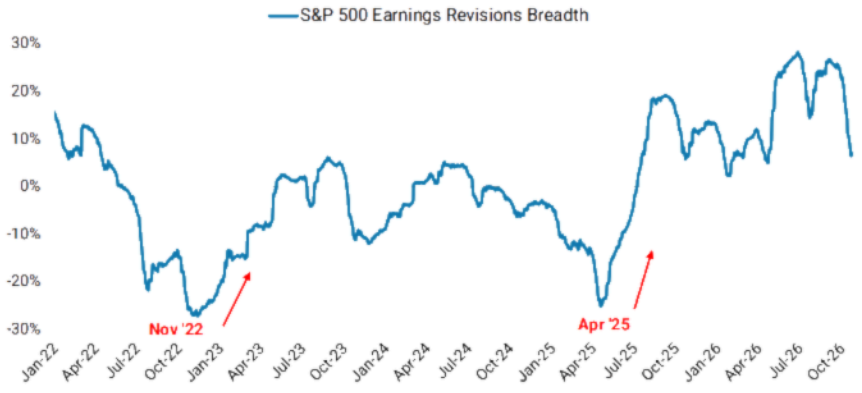


Source: FactSet, Morgan Stanley Research

Company Guidance & Revisions

- S&P 500 earnings revisions breadth (FY2 estimates) is positive at +7% heading into Q3 earnings season. However, we are seeing positive signs in short-term earnings revisions breadth after seeing more reports last week.
- Energy and Comm. Services have the most positive ERB in the last 2 weeks while Consumer Discretionary and Tech have seen the weakest.

Exhibit 44: S&P 500 Earnings Revision Breadth



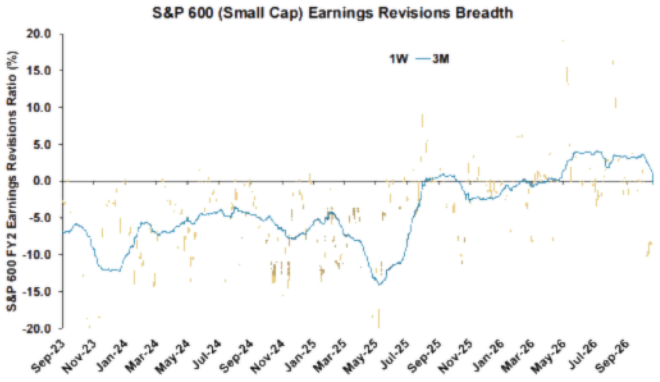
Source: FactSet, Morgan Stanley Research

Exhibit 45: S&P 500 Short-term Earnings Revisions Breadth



Source: FactSet, Morgan Stanley Research

Exhibit 46: S&P 600 Short-term Earnings Revisions Breadth



Source: FactSet, Morgan Stanley Research

Exhibit 47:

Change in Absolute Earnings Revisions Breadth by Sector & Industry Group

Industry Group Level Drivers of Earnings Revisions Breadth

	2 Wk. Chg.	4 Wk. Chg.	8 Wk. Chg.	3 Mo. Chg.	6 Mo. Chg.
Energy	**7%**	**1%**	**10%**	**26%**	**1%**
Telecom	6%	-8%	-8%	-3%	0%
Communication Services	**5%**	**0%**	**3%**	**8%**	**7%**
Media & Ent	5%	1%	5%	10%	11%
Autos	4%	-10%	-14%	-32%	-4%
Banks	3%	-9%	-37%	-36%	-23%
Diversified Financials	1%	-14%	-23%	-20%	-9%
Utilities	**1%**	**1%**	**2%**	**1%**	**-4%**
Materials	**0%**	**-7%**	**-8%**	**-15%**	**-12%**
Financials	**-2%**	**-13%**	**-22%**	**-16%**	**-6%**
Transportation	-2%	-30%	-56%	-59%	-24%
Semis	-3%	-14%	-23%	-19%	-14%
HC Equipment & Services	-5%	-16%	-20%	-4%	-6%
Household & Personal Products	-5%	-7%	-10%	2%	31%
Food & Staples Retailing	-6%	-8%	-8%	-2%	12%
Commercial & Professional Services	-6%	-9%	-13%	-17%	-13%
Real Estate	**-6%**	**-14%**	**-17%**	**-14%**	**0%**
S&P 500 Earnings Revisions Breadth	-7%	-17%	-19%	-10%	-1%
Staples	**-8%**	**-16%**	**-15%**	**-8%**	**10%**
Industrials	**-10%**	**-30%**	**-37%**	**-24%**	**-10%**
Food Beverage & Tobacco	-10%	-25%	-22%	-17%	-4%
Health Care	**-11%**	**-24%**	**-28%**	**-5%**	**-5%**
Consumer Durables	-11%	-31%	-54%	-35%	-31%
Tech Hardware	-13%	-23%	-12%	1%	17%
Tech	**-13%**	**-22%**	**-18%**	**-7%**	**3%**
Insurance	-13%	-13%	-10%	6%	10%
Retailing	-13%	-9%	-14%	-14%	2%
Capital Goods	-14%	-35%	-36%	-14%	-5%
Consumer Discretionary	**-14%**	**-18%**	**-25%**	**-20%**	**-4%**
Pharma, Biotech, & Life Sciences	-18%	-34%	-37%	-5%	-4%
Consumer Services	-19%	-19%	-24%	-7%	3%
Software & Services	-20%	-27%	-19%	-17%	17%

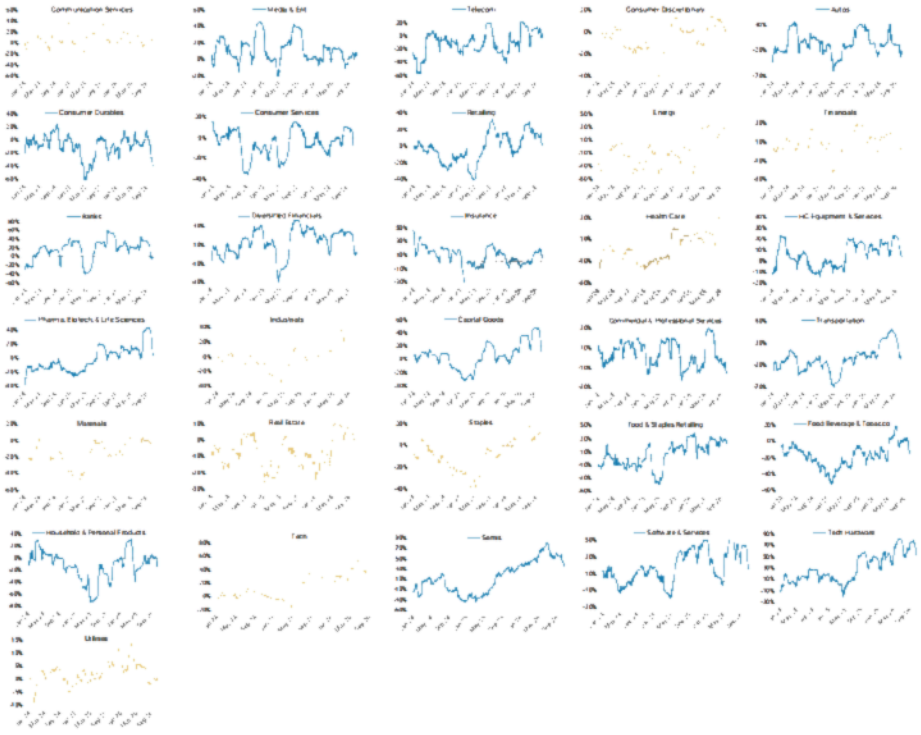
Source: Factset, Morgan Stanley Research

Exhibit 48: Revisions to 3Q26, 2026, and 2027 Earnings Estimates

	YTD			Since 5/31/2026		
Sector, Industry Group	**3Q26**	**2026**	**2027**	**3Q26**	**2026**	**2027**
Communication Services	-6.9%	36.9%	7.4%	-8.4%	21.5%	2.3%
Media & Entertainment	-13.6%	40.0%	5.6%	-10.7%	25.9%	3.2%
Telecom	15.0%	9.9%	6.4%	2.1%	1.5%	-0.9%
Consumer Discretionary	-3.7%	22.3%	0.9%	-0.9%	17.7%	1.0%
Autos	-2.5%	1.0%	-6.3%	6.1%	0.9%	-2.6%
Consumer Durables	-14.6%	-6.7%	-16.3%	-7.3%	-3.1%	-11.2%
Consumer Services	-4.5%	-2.6%	-2.5%	-1.4%	0.1%	-1.7%
Retailing	-1.4%	40.1%	6.1%	-0.5%	29.5%	4.4%
Energy	128.0%	97.3%	52.6%	32.7%	26.8%	26.7%
Financials	2.5%	6.5%	4.0%	3.1%	5.1%	2.7%
Banks	-4.0%	8.1%	6.4%	-3.3%	5.1%	3.6%
Diversified Financials	4.3%	5.1%	4.0%	5.2%	4.9%	3.1%
Insurance	12.5%	8.4%	0.1%	11.8%	6.4%	0.4%
Health Care	-8.9%	-7.6%	1.8%	-9.3%	-2.2%	0.6%
HC Equipment & Services	0.0%	4.3%	0.9%	2.2%	3.9%	2.0%
Pharma, Biotech, & Life Sciences	-13.6%	-14.4%	2.5%	-15.1%	-5.8%	0.0%
Industrials	0.5%	2.0%	2.4%	1.5%	0.3%	0.4%
Capital Goods	2.2%	5.7%	4.0%	3.2%	1.8%	2.3%
Commercial & Professional Services	-1.5%	-1.1%	-1.3%	-0.8%	-0.2%	-0.9%
Transportation	-2.4%	-5.9%	0.9%	-1.7%	-3.2%	-3.9%
Materials	14.9%	14.7%	12.8%	-3.3%	-0.7%	0.7%
Real Estate	-1.0%	0.7%	0.1%	-0.2%	0.5%	0.3%
Staples	-6.4%	-1.2%	-2.5%	-5.7%	-0.6%	-1.8%
Food & Staples Retailing	-1.4%	3.5%	0.8%	-1.5%	3.5%	0.9%
Food Beverage & Tobacco	-8.9%	-2.8%	-3.4%	-9.6%	-2.9%	-3.7%
Household & Personal Products	-4.1%	-1.8%	-3.4%	-0.6%	-0.4%	-0.8%
Tech	27.6%	25.3%	48.1%	8.2%	7.3%	19.1%
Semis	46.5%	41.8%	83.4%	12.1%	11.6%	31.1%
Software & Services	1.3%	4.1%	3.2%	0.6%	0.6%	0.3%
Tech Hardware	23.7%	22.7%	33.9%	7.7%	6.5%	10.6%
Utilities	1.4%	0.5%	-0.2%	0.3%	-0.1%	-0.9%
S&P 500	11.0%	17.0%	18.3%	2.8%	7.8%	8.3%

Source: FactSet, Morgan Stanley Research

Exhibit 49: S&P 500 ERB by Sector (yellow), Industry Group (blue)

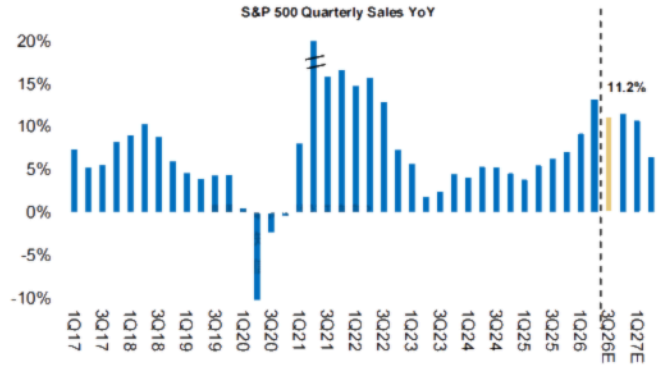


Source: FactSet, Morgan Stanley Research

Sales

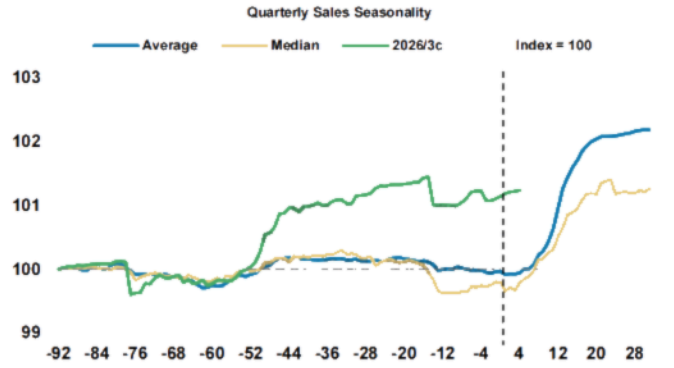
- Consensus expects 11.2% sales growth in 3Q.
- Consensus expects 11% 2026 sales growth and 8% 2027 sales growth

Exhibit 50: Quarterly Sales Growth



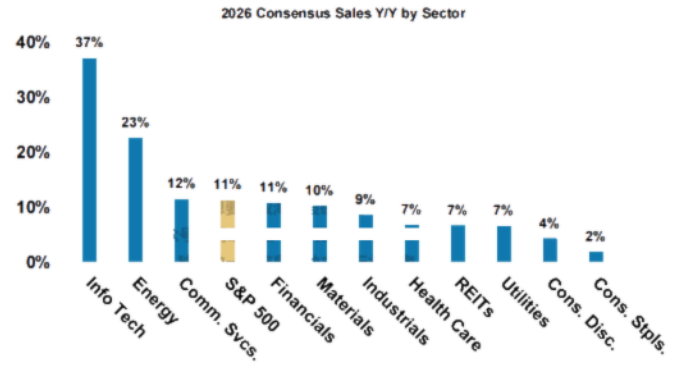
Source: FactSet, Morgan Stanley Research

Exhibit 51: Quarterly Sales Seasonality



Source: FactSet, Morgan Stanley Research

Exhibit 52: 2026 Consensus Sales



Source FactSet, Morgan Stanley Research

Exhibit 53: 2027 Consensus Sales

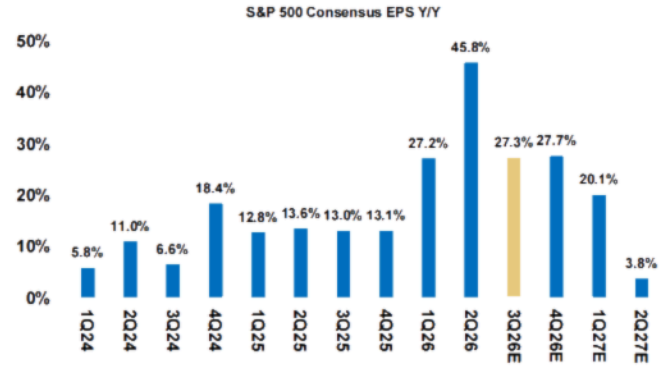


Source FactSet, Morgan Stanley Research

EPS

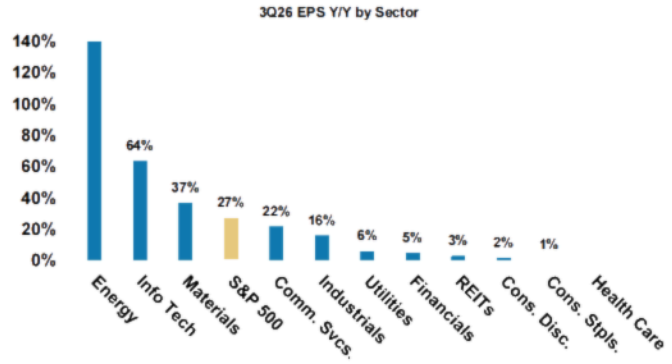
- Consensus expects 27% EPS growth in 3Q.
- Consensus expects 33% 2026 EPS growth and 16% 2027 EPS growth.

Exhibit 54: Consensus Expects 27% EPS Growth in 3Q



Source FactSet, Morgan Stanley Research

Exhibit 55: 3Q26 EPS by Sector



Source FactSet, Morgan Stanley Research

Exhibit 56: 2026 EPS Growth by Sector



Source FactSet, Morgan Stanley Research

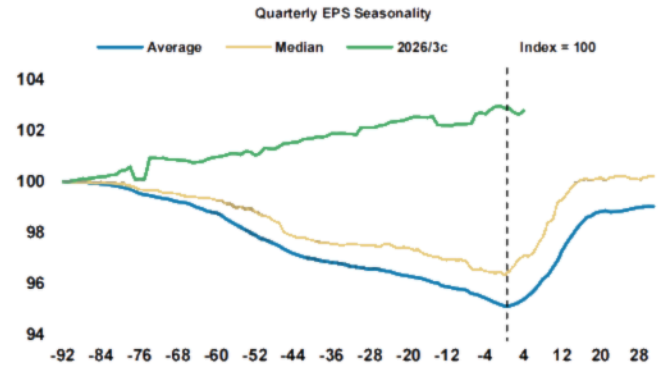
Exhibit 57: 2027 EPS Growth by Sector



Source FactSet, Morgan Stanley Research

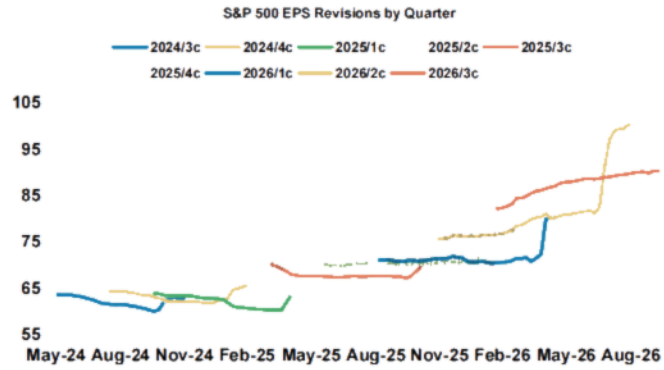
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Exhibit 58: Quarterly EPS Seasonality



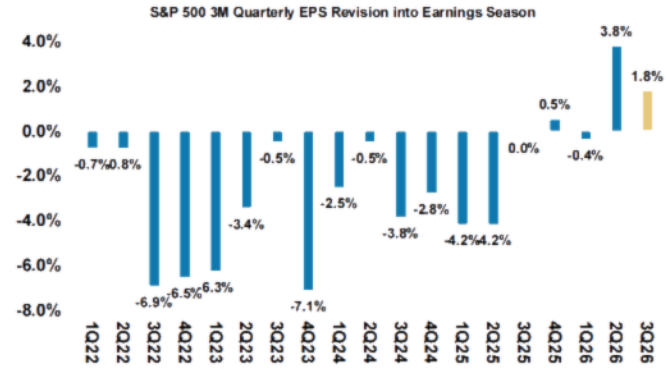
Source: FactSet, Morgan Stanley Research

Exhibit 59: S&P 500 EPS Revisions by Quarter



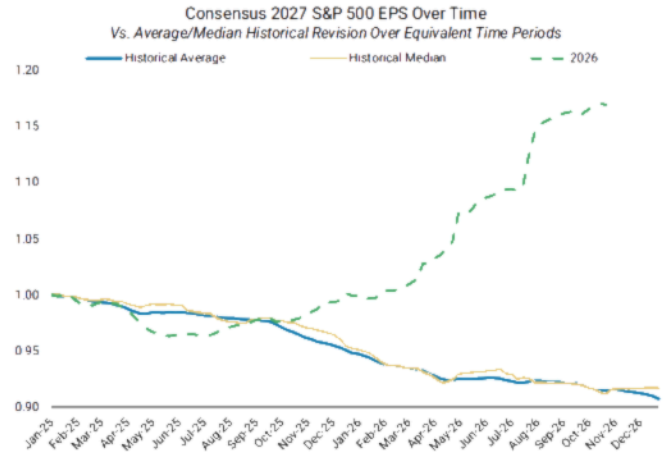
Source: FactSet, Morgan Stanley Research

Exhibit 60: Earnings Revisions into Reporting



Source: FactSet, Morgan Stanley Research

Exhibit 61: Seasonality of Out-Year Earnings Estimates vs 2026

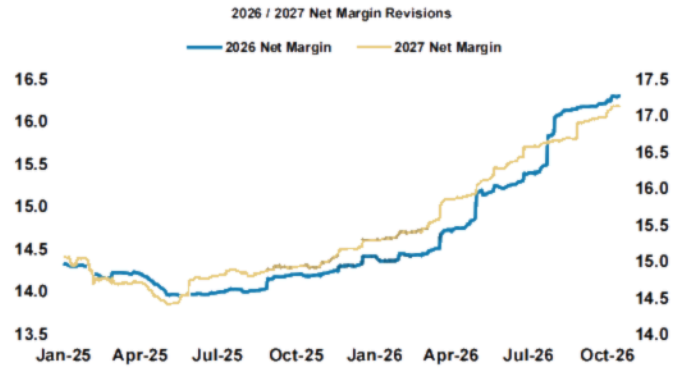


Source: FactSet, Morgan Stanley Research

Margins

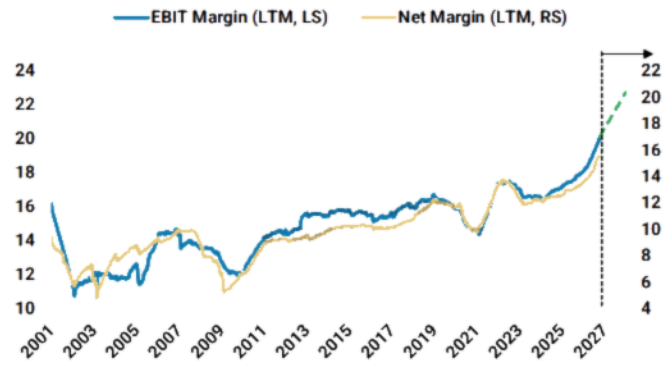
- Realized (LTM) EBIT margins are at 20.1% today and are expected to be 20.6% for FY2026 and 22.7% for FY2027.
- Realized (LTM) net margins are at 15.8% today and are projected at 16.3% for FY2026 and 17.2% for FY2027.
- 3Q consensus margins are at 15.7% for the S&P 500.

Exhibit 62: Annual Net Margin



Source: FactSet, Morgan Stanley Research

Exhibit 63: Margins Are Expected to Push Higher though 2027



Source: FactSet, Morgan Stanley Research

Exhibit 64: 2026 EBIT Margin

2026 EBIT Margin

Sector, Industry Group	12/31/2025	10/23/2026	Spread
Communication Services	26.5	26.3	-0.1%
Media & Entertainment	27.7	29.6	1.9%
Telecom	22.3	19.3	**-3.0%**
Consumer Discretionary	12.5	12.7	0.3%
Autos	6.4	6.9	0.4%
Consumer Durables	13.0	12.7	-0.2%
Consumer Services	21.9	21.4	-0.5%
Retailing	12.5	12.9	0.4%
Energy	13.0	18.9	**5.8%**
Health Care	10.4	9.9	-0.5%
HC Equipment & Services	5.0	5.2	0.2%
Pharma, Biotech, & Life Sciences	36.6	31.4	**-5.2%**
Industrials	15.3	15.0	-0.4%
Capital Goods	15.6	15.4	-0.1%
Commercial & Professional Services	22.3	22.3	0.1%
Transportation	12.8	11.7	-1.0%
Materials	17.0	17.9	0.9%
Real Estate	33.2	31.4	
Staples	9.8	9.7	-0.1%
Food & Staples Retailing	4.3	4.4	0.1%
Food Beverage & Tobacco	16.9	16.8	-0.1%
Household & Personal Products	21.7	21.2	-0.5%
Tech	37.3	40.1	**2.8%**
Semis	51.6	56.9	**5.3%**
Software & Services	37.2	37.2	0.0%
Tech Hardware	25.1	26.6	1.6%
Utilities	24.6	24.1	-0.5%
S&P 500	19.4	20.6	1.2%

Source: FactSet, Morgan Stanley Research

Exhibit 65: 2026 Net Margin

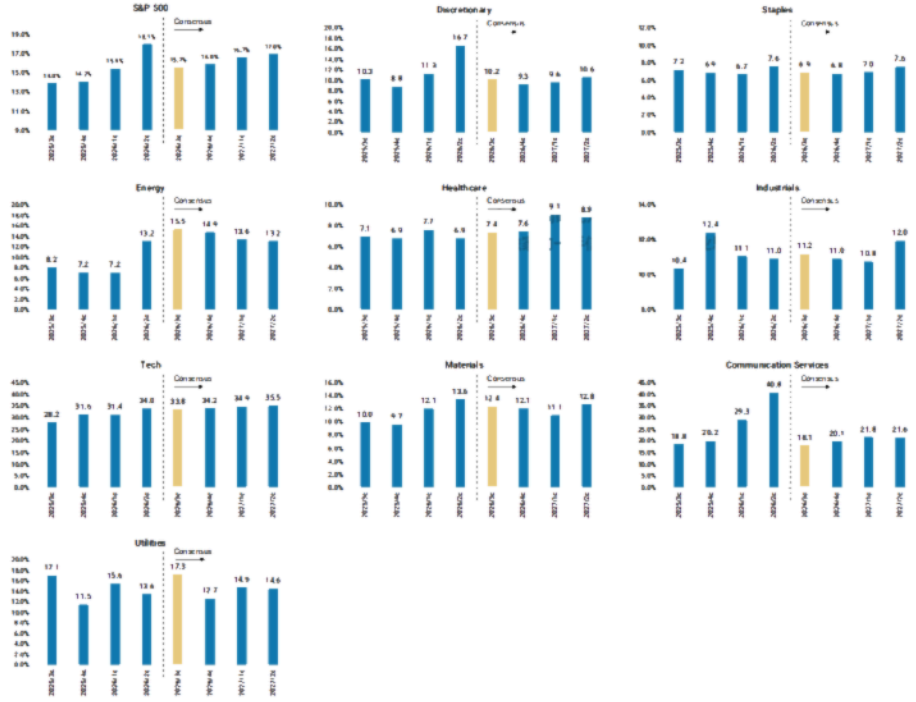
2026 Net Margin

Sector, Industry Group	12/31/2025	10/23/2026	Spread
Communication Services	20.3	27.4	**7.1**
Media & Entertainment	22.3	34.6	**12.4**
Telecom	13.5	11.5	**-2.0**
Consumer Discretionary	9.7	11.8	**2.1**
Autos	5.2	5.5	0.2
Consumer Durables	10.0	9.8	-0.2
Consumer Services	15.9	15.6	-0.3
Retailing	9.9	13.6	**3.6**
Energy	8.5	13.1	**4.7**
Health Care	7.9	7.4	-0.6
HC Equipment & Services	3.6	3.7	0.2
Pharma, Biotech, & Life Sciences	29.3	24.0	**-5.3**
Industrials	11.2	11.1	-0.1
Capital Goods	11.4	11.7	0.3
Commercial & Professional Services	15.7	15.7	0.0
Transportation	9.2	8.2	-1.0
Materials	11.3	12.1	0.9
Real Estate	21.0	21.3	0.2
Staples	7.2	7.1	-0.1
Food & Staples Retailing	3.0	3.1	0.1
Food Beverage & Tobacco	12.4	12.4	0.0
Household & Personal Products	16.6	16.2	-0.4
Tech	30.5	33.2	**2.7**
Semis	43.6	48.0	**4.4**
Software & Services	29.3	30.3	1.0
Tech Hardware	20.3	21.5	1.3
Utilities	15.2	14.9	-0.3
S&P 500	14.4	16.3	1.9

Source: FactSet, Morgan Stanley Research

Exhibit 66:

Net Margins by Sector



Source: FactSet, Morgan Stanley Research

3Q Systematic Earnings (Full MS Coverage)

Summary:

- **Previews**: KPI previews are +20% vs +32% net positive last quarter and NTM EPS previews are +20% vs +27% last quarter on projected NTM impacts. Previews are currently net positive across all sectors with the exception of Materials.
- **Results**: Results at +13% across MS Coverage vs +27% last quarter. Eight of the eleven sectors have positive NTM EPS revisions with Consumer Discretionary and Consumer Staples in negative territory. The majority of reports have been focused in Financials (+3%) and Industrials (+9%) thus far.

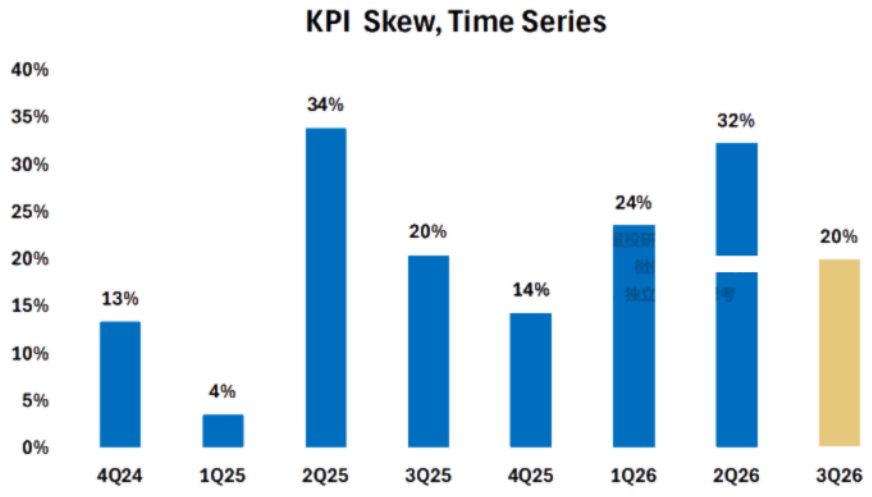
3Q Preview Tracking

Our Morgan Stanley Analysts submit a systematic earnings preview where they forecast two items: 1) **KPI** and 2) **NTM EPS** impact. Below we summarize the sector and industry summaries of these previews. The population is the Morgan Stanley US coverage, which is broader than the S&P 500 and roughly similar to the Russell 1000.

Methodology: Each analyst identifies the key performance indicator (KPI) for each individual stock and it may differ from NTM EPS. For example, the KPI for a Financial Services or Semiconductor company may be net assets or GPU demand and this may differ from NTM EPS (although, it is often similar). Each analyst chooses one of five forecasts for both KPI and EPS: very negative, negative, in-line, positive, or very positive. We roll up these previews into a net score by taking (positive-negative)/total reactions.

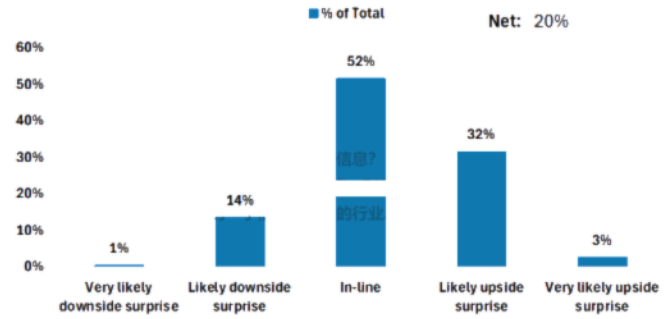
Key Performance Indicator (KPI) Previews

Exhibit 67: KPI Previews from MS Analysts - Net KPI



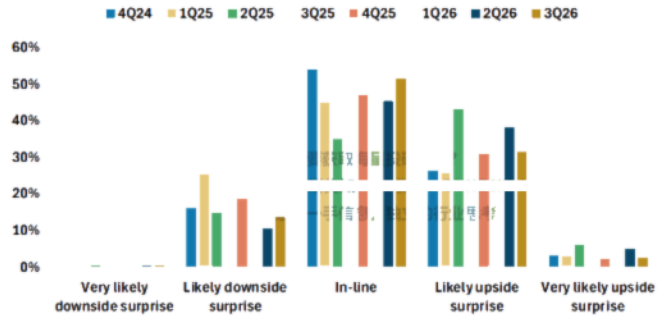
Source: Morgan Stanley Research

Exhibit 68: KPI Preview from MS Analysts - 3Q26



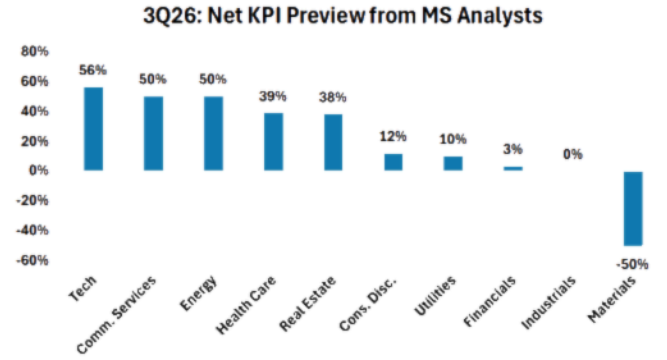
Source: Morgan Stanley Research

Exhibit 69: KPI Preview- Quarterly Time Series



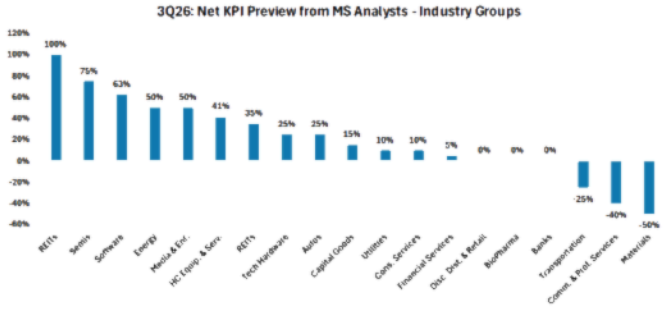
Source: Morgan Stanley Research

Exhibit 70: KPI Preview by Sector



Source: Morgan Stanley Research

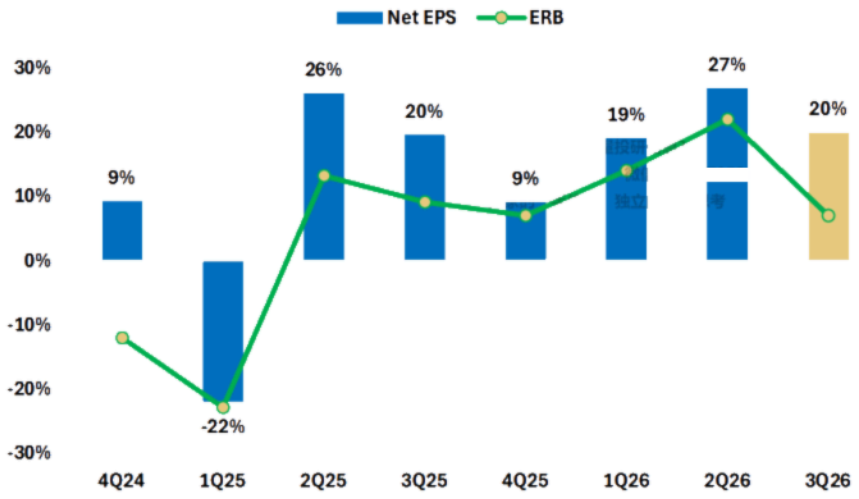
Exhibit 71: KPI Preview by Industry Group



Source: Morgan Stanley Research

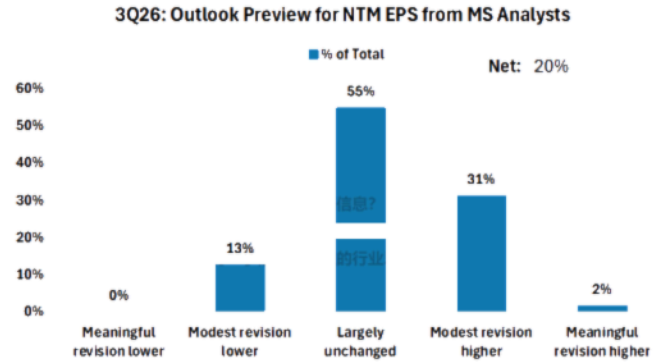
EPS Previews

Exhibit 72: EPS Preview from MS Analysts - Net EPS



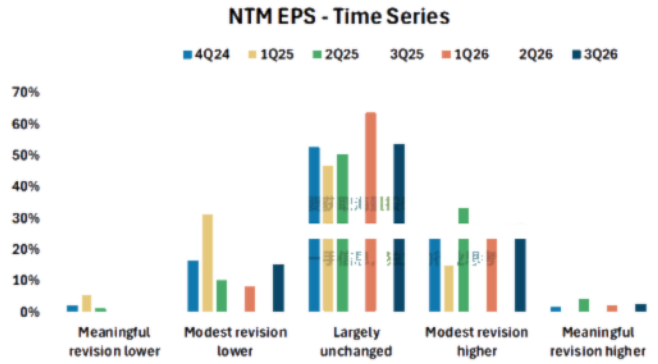
Source: Morgan Stanley Research. ERB is earnings revisions breadth.

Exhibit 73: EPS Preview from MS Analysts - 3Q26



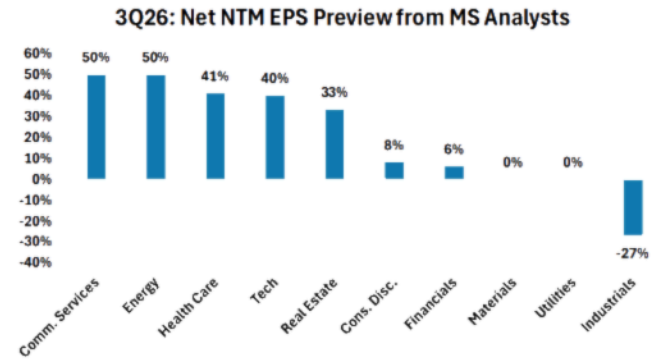
Source: Morgan Stanley Research

Exhibit 74: EPS Preview - Quarterly Time Series



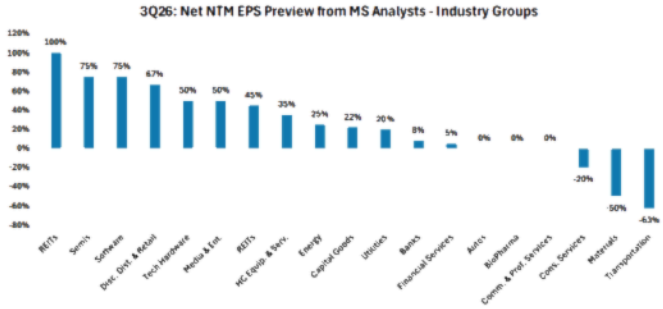
Source: Morgan Stanley Research

Exhibit 75: EPS Preview by Sector



Source: Morgan Stanley Research

Exhibit 76: EPS Preview by Industry Group



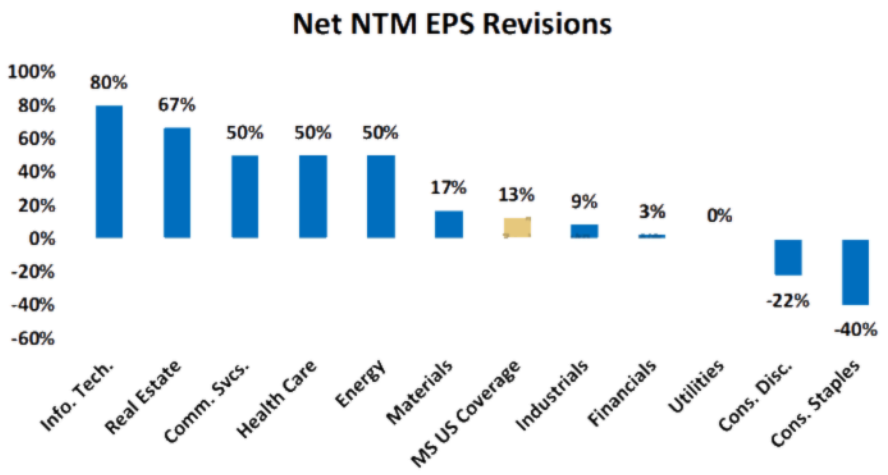
Source: Morgan Stanley Research

3Q Results Tracking

Our MS Analysts submit systematic earnings reactions following earnings releases. Below we summarize these systematic reports. The population is the Morgan Stanley US coverage, which is broader than the S&P 500 and roughly similar to the Russell 1000.

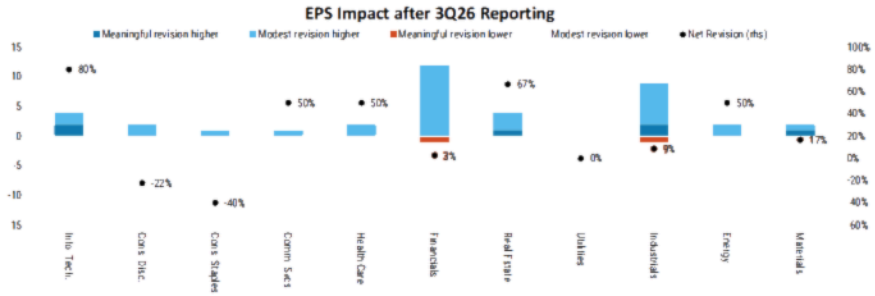
Methodology: Each Analyst chooses one of five reactions on NTM EPS following the company earnings: very negative, negative, in-line, positive, or very positive. We roll up these reactions into a net score by taking (positive-negative)/total reactions.

Exhibit 77: Net NTM EPS Revisions Post Reporting



Source: Morgan Stanley Research

Exhibit 78: MS US Coverage - 3Q26 Results



Source: Morgan Stanley Research

Exhibit 79: MS US Coverage - 3Q26 Results Table

		Exp. Impact to N12M Consensus EPS						Financial results versus Consensus					
By Sector	# Results	Net Revision higher	Meaningful revision lower	Modest revision lower	Largely unchanged	Modest revision higher	Meaningful revision higher	Net Beat	Meaningful shortfall	Modest shortfall	In-line	Modest upside	Meaningful upside
	Qtd # Results	Net 12m EPS Rev.	▼▼	▼	–	▲	▲▲	Net Beat	▼▼	▼	–	▲	▲▲
Info. Tech	5	80%						80%					
Cons. Disc.	9	-22%						-22%					
Cons. Staples	5	-40%						100%					
Comm. Svcs.	2	50%						100%					
Health Care	4	50%						50%					
Financials	38	3%						29%					
Real Estate	6	67%						33%					
Utilities	1	0%						100%					
Industrials	23	9%						61%					
Energy	4	50%						25%					
Materials	6	17%						17%					
MS US Coverage	101	13%		–				78%					

Data as of 10/ 2/26. Source: Morgan Stanley Research

Screen 1: Favored Stocks with Positive Surprise Expected

We screen for OW-rated stocks that are expected to beat on key KPI, or to see N12M consensus EPS revised higher post results.

Exhibit 80: Favored Stocks with Positive Surprise Expected

Ticker	Company	Analyst	Sector	Mkt Cap ($bn)	Last Price	MS Rating	Reporting date	Analyst Identified KPI	Outlook for KPI Trend	Exp. N12M Cons. EPS Impact Trend	Analyst Top Pick
WELL	Welltower Inc	Ronald Kamdem, CFA	Real Estate	179	239.6	OW	10/26/2026	same store NOI growth	↑	↑	
BKR	Baker Hughes Co	Joe Laetsch, CFA	Energy	62	62.11	OW	10/27/2026	Chart integration and 2027 M&A Lift Upstream Spending Outlook	↑	↑	Top
LH	Laboratory Corp. of America Holdings	Erin Wright	Health Care	27	306.54	OW	10/28/2026	Organic volume	↑	↑	-
EXE	Expand Energy Corp	Devin McDermott	Energy	23	98	OW	10/28/2026	3Q Capex	↑	↑	-
MSFT	Microsoft	Adam Wood	IT	3758	505.86	OW	10/28/2026	Azure Revenue YoY Growth in CC	↑	↑	-
STX	Seagate Technology	Erik W Woodring	IT	198	847.2	OW	10/28/2026	December quarter EPS guidance	↑	↑	Top
PSX	Phillips 66	Joe Laetsch, CFA	Energy	96	209.83	OW	10/28/2026	Shareholder returns	↑		-
EBAY	eBay Inc	Nathan Feather	Cons. Disc.	47	107.27	OW	10/29/2026	FY27 EBIT Guidance	↑	↑	Top
TMUS	T-Mobile Inc	Elizabeth Porter, CFA	IT	410	241.34	OW	10/29/2026	Organic Revenue	↑	↑	-
AEP	American Electric Power Co	David Arcaro, CFA	Utilities	67	122.71	OW	10/29/2026	EPS	↑	↑	-
TT	Trane Technologies PLC	Tobi Omotara	Industrials	103	454.31	OW	10/29/2026	Americas Orders	↑	↑	-
SBUX	Starbucks Corp	Brian Harbour, CFA	Cons. Disc.	109	107.26	OW	10/29/2026	NA SSS	↑	↑	-
FSLR	First Solar Inc	David Arcaro, CFA	IT	23	238.1	OW	10/30/2026	3Q Bookings & Pricing	↑		-
CVX	Chevron Corporation	Devin McDermott	Energy	402	199.77	OW	10/30/2026	EPS, Production	↑		-
XOM	Exxon Mobil Corporation	Devin McDermott	Energy	643	156.44	OW	10/30/2026	EPS, Production	↑		-
RVTY	Revvity, Inc	Erin Wright	Health Care	43	545.08	OW	11/2/2026	CAG Ex Recurring Organic Revenue Growth	↑	↑	-
BKNG	Booking Holdings Inc	Matthew Cost	Cons. Disc.	167	202.56	OW	11/3/2026	Room Nights and Bookings	↑		-
MPC	Marathon Petroleum Corp	Joe Laetsch, CFA	Energy	107	368.34	OW	11/3/2026	Refining margin	↑		-
COR	Corp.	Erin Wright	Health Care	61	321.23	OW	11/4/2026	US HC Solutions AOI	↑	↑	-
IFF	International Flavors & Fragrances	Lisa M De Neve	Materials	22	86.85	OW	11/4/2026	1H Adj EBITDA	↑	↑	Top
APP	AppLovin Corp	Matthew Cost	Comm., Svcs.	185	312.63	OW	11/4/2026	Revenue/EBITDA	↑	↑	-
MCK	McKesson Corporation	Erin Wright	Health Care	105	890.51	OW	11/4/2026	Oncology & Multispecialty AOI	↑	↑	-
TRGP	Targa Resources Corp.	Robert S Kad	Energy	67	288.95	OW	11/5/2026	EBITDA	↑	↑	-
CAH	Cardinal Health Inc	Erin Wright	Health Care	56	226.13	OW	11/5/2026	Pharma & Specialty AOI	↑	↑	-
REG	Regency Centers Corp	Ronald Kamdem, CFA	Real Estate	14	75.46	OW	11/5/2026	same-store NOI	↑	↑	-
CMI	Cummins Inc	Angel Castillo	Industrials	79	573.87	OW	11/5/2026	3Q26 Power Systems margins	↑	↑	-
DDOG	Datadog, Inc.	Sanjit K Singh	IT	80	242.53	OW	11/6/2026	Revenue	↑	↑	-

For valuation methodology and risks associated with any price targets referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834 6860; Sydney +61 (0)2 9770 1505; Tokyo +81 (0)3 5424 4349. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management) New York, NY 10036 USA. Note: Screen systematically looks at MS Analyst earnings previews and filters for Underweight or Equal Weight rated stocks where the Analyst expects upside in the Key Performance Indicator (KPI). The KPI may differ from their view on EPS impact. Source: Bloomberg, Morgan Stanley Research

Screen 2: Less Favored Stocks with Negative Surprise Expected

We screen for stocks that are rated Equal Weight or Underweight by our analyst and are expected to miss on their key KPI. Note that the KPI may be different than N12M EPS.

Exhibit 81: Less Favored Stocks with Negative Surprise Expected

Ticker	Company	Analyst	Sector	Mkt Cap ($bn)	Last Price	MS Rating	Reporting date	Analyst Identified KPI	Outlook for KPI Trend	Exp. N12M Cons. EPS Impact Trend
ARE	Alexandria Real Estate Equities, Inc.	Ronald Kamdem, CFA	Real Estate	9	52.28	UW	10/26/2026	same-store NOI growth	↓	
OKE	Oneok Inc.	Robert S Kad	Energy	60	94.72	EW	10/27/2026	EBITDA	↓	
RJF	Raymond James Financial Inc	Michael J. Cyprys, CFA, CPA	Financials	35	176.11	EW	10/21/2026	Investment Banking Revenues	↓	↓
MGM	MGM Resorts International	Stephen W Grambling	Cons. Disc.	21	42.97	UW	10/21/2026	Property EBITDAR	↓	↓
LII	Lennox International Inc	Tobi Omotara	Industrials	14	391.15	UW	10/21/2026	HCS Organic and Margins	↓	↓
ICE	Exchange Inc	Michael J. Cyprys, CFA, CPA	Financials	92	161.24	EW	10/29/2026	Mortgage Tech Revenues	↓	
RSG	Republic Services Inc	Toni Kaplan	Industrials	67	216.27	EW	10/29/2026	Adj. EBITDA margin	↓	
AMP	Ameriprise Financial, Inc.	Michael J. Cyprys, CFA, CPA	Financials	51	556.77	UW	10/29/2026	Net New Asset Growth	↓	↓
CARR	Carrier Global Corp.	Tobi Omotara	Industrials	50	58.14	EW	10/26/2026	Americas Margins	↓	↓
VMC	Vulcan Materials Company	Angel Castillo	Materials	36	272.65	EW	10/30/2026	2H26 Aggregates Cash Gross Profit Per Ton	↓	↓
GWW	W W Grainger Inc.	Christine Yao	Industrials	62	1321.88	EW	11/4/2026	N TNA Gross Margin	↓	
MOS	Mosaic Company	Vincent Andrews	Materials	8	29.76	EW	11/4/2026	Phosphate EBITDA	↓	↓

For valuation methodology and risks associated with any price targets referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834 6860; Sydney +61 (0)2 9770 1505; Tokyo +81 (0)3 5424 4349. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management) New York, NY 10036 USA. Note: Screen systematically looks at MS Analyst earnings previews and filters for Equal Weight or Underweight rated stocks where the Analyst expects downside in the Key Performance Indicator (KPI). The KPI may differ from their view on EPS impact. Source: Bloomberg, Morgan Stanley Research

Fresh Money Buy List

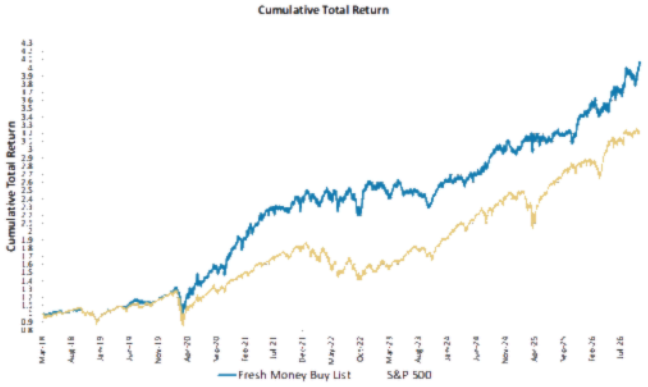
Exhibit 82: Fresh Money Buy List - Stats & Performance

Company Name	Ticker	MS Rating	Sector	Market Cap ($Bln)	Price	MS PT	% to MS PT	MS Analyst	Date Added	Total Return Since Inclusion	
										Absolute	Rel. to S&P
Abbvie Inc	ABBV	Overweight	Health Care	$450.15	$186.90	210.00	12.4%	Hyma, Terence	4/1/2024	61.6%	15.7%
American Tower Corp	AMT	Overweight	Real Estate	$84.6	$181.17	220.00	21.4%	Mcveigh, Catherine	4/2/2024	(8.4%)	(11.6%)
Constellation Energy Inc	CEG	Equal-Weight	Utilities	$84.9	$343.55	340.00	(1.0%)	Arseni, David	10/10/2024	98.4%	(23.8%)
Delta Air Lines, Inc	DAL	Overweight	Industrials	$42.2	$75.27	102.00	35.5%	Schaneer, Ravi	11/17/2025	30.8%	18.4%
TJX Cos	TJX	Overweight	Energy	$104.2	$154.66	97.00	27.0%	Vellenkoff, Kevin	11/17/2025	(6.2%)	(20.8%)
Knight-Swift Transportation Holdings Inc	KNX	Overweight	Industrials	$8.7	$62.10	100.00	59.6%	Schaneer, Ravi	11/17/2025	44.2%	29.7%
Northrop Grumman Corp.	NOC	Overweight	Industrials	$78.0	$650.61	760.00	38.4%	Lineau, Pauline	8/12/2024	15.8%	(30.7%)
Western Co of North Am	TEAM	Overweight	Information Technology	$56.2	$233.16	150.00	(19.3%)	Pfost, Adam	11/17/2025	58.0%	35.5%
Target Corp.	TGT	Overweight	Consumer Staples	$74.8	$108.13	170.00	7.3%	Gumar, Simeon	11/17/2025	74.3%	50.6%
Walmart Inc.	WMT	Overweight	Consumer Staples	$960.9	$124.12	133.00	3.2%	Gumar, Simeon	3/7/2023	163.7%	82.4%
Current List Performance											
Average (Eq. Weight)				$182.4			14.5%			46.6%	6.4%
Median				$84.6			15.8%			47.1%	15.2%
% Positive Returns (Abs. / Rel.)										80%	60%
% Negative Returns (Abs. / Rel.)										20%	40%
Avg. Hold Period (Months)											22.6
All Time List Performance											
Average (Eq. Weight)										30.7%	6.2%
Median										32.7%	(1.7%)
% Positive Returns (Abs. / Rel.)										77%	46%
% Negative Returns (Abs. / Rel.)										23%	54%
Avg. Hold Period (Months)											19.1

Performance returns shown above and below represent local currency total returns, including dividends and excluding brokerage commission. Returns are calculated using the closing price on the last trading day before the date shown in the "Date Added" column through close on the last trading day prior to publication of this report for stocks currently on the list and through close on the day of removal for stocks formerly on the list. These figures are not audited. Past performance is no guarantee of future results.

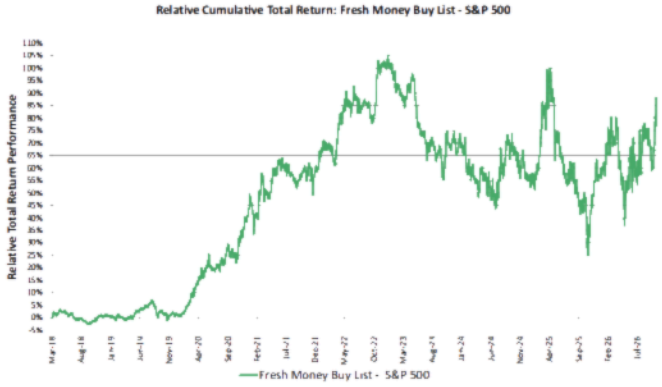
Source: Bloomberg, Morgan Stanley Research

Exhibit 83: Fresh Money Buy List & S&P 500 Cumulative Total Return



Source: Bloomberg, Morgan Stanley Research

Exhibit 84: Fresh Money Buy List / S&P 500 Cumulative Relative Return

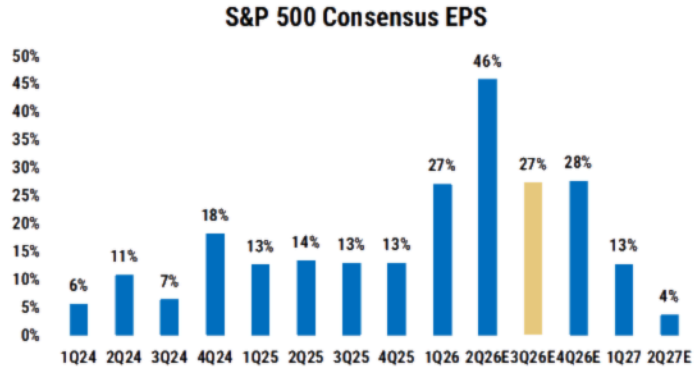


Source: Bloomberg, Morgan Stanley Research

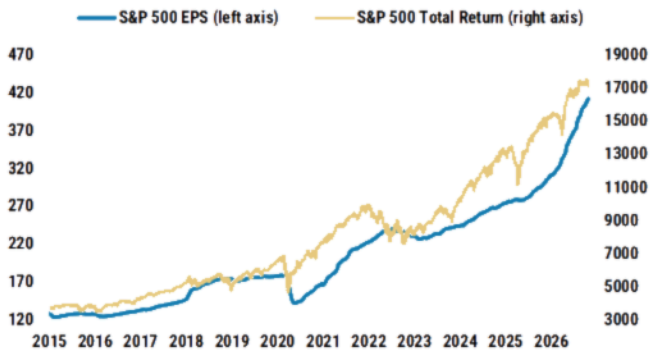
Weekly Charts to Watch

Exhibit 85: US Earnings Snapshot

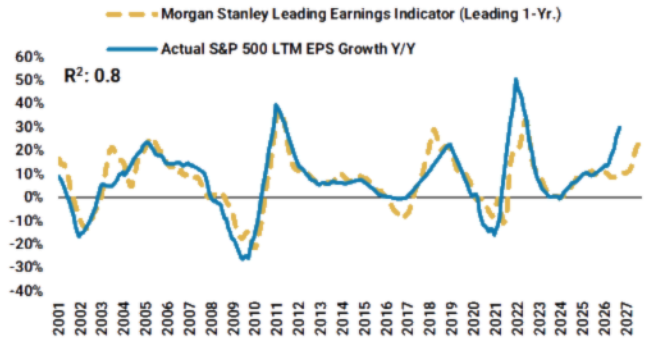
S&P 500 Y/Y EPS Growth



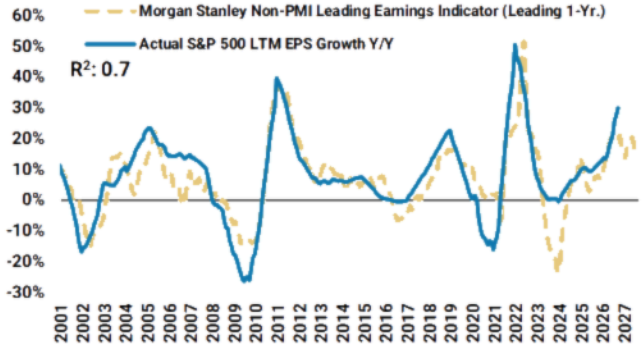
S&P 500 NTM EPS vs. Total Return Level



US Leading Earnings Indicator



US Non-PMI Leading Earnings Indicator



Source: Refinitiv, FactSet, Morgan Stanley Research. Top: As of Oct. 24, 2025. Bottom left as of Sept. 30, 2025. Bottom right as of Sept. 30, 2025. Government data has delayed further updates. Actual S&P 500 LTM EPS as of 9/30/25. The LEI is a top-down macro indicator consisting of the Inventory/Sales ratio, ISM Manufacturing PMI, ISM Manufacturing Employment PMI, Consumer Confidence and credit spreads. MS Non-PMI Leading Earnings Indicator inputs: Philadelphia Fed economic activity, Creighton U. business confidence, Chicago Fed supplier deliveries, Atlanta Fed wage tracker (inverse signal), NFIB small business most important problem inflation (inverse signal), and Bryce-Putters-Kelley cycle component or monthly GDP. Weightings are fixed over time.

Exhibit 86: Morgan Stanley US Equity Strategy Forecast Table

	Current Price	MS Next 12M Price Target	MS Next 12M Price Target % to Current	Current P/E	MS Next 12M P/E Target	MS Top Down EPS Estimates				Bottom Up Consensus EPS Estimates			
						2026	2027	June 2028	2029	2026	2027	June 2028	2028
Bear	7,624	5,900	-23%	18.6x	19.0x	$299	$300	$311	$322	$365	$423	$437	$495
Growth						9%	0%	4%	7%	33%	16%	16%	17%
Base	7,624	8,300	9%	18.6x	20.5x	$339	$380	$404	$429	$365	$423	$437	$495
Growth						23%	12%	13%	13%	33%	16%	16%	17%
Bull	7,624	9,400	23%	18.6x	21.0x	$352	$416	$448	$480	$365	$423	$437	$495
Growth						28%	18%	17%	16%	33%	16%	16%	17%

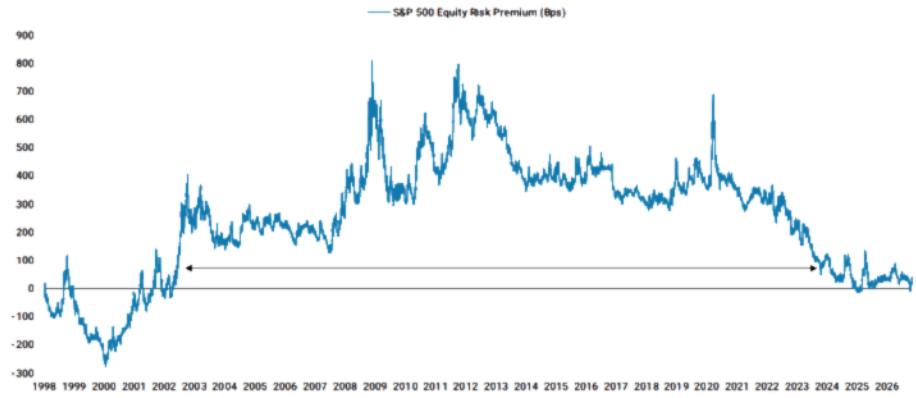
Source: FactSet, Morgan Stanley Research.

Exhibit 87: Sector Ratings

Morgan Stanley Sector Recommendations			
Overweight	Financials	Industrials	Consumer Discretionary Goods
Equal Weight	Tech	Comm. Services	Health Care
	Materials	Utilities	Consumer Services
	Energy		
Underweight	Staples	Real Estate	

Source: Morgan Stanley Research

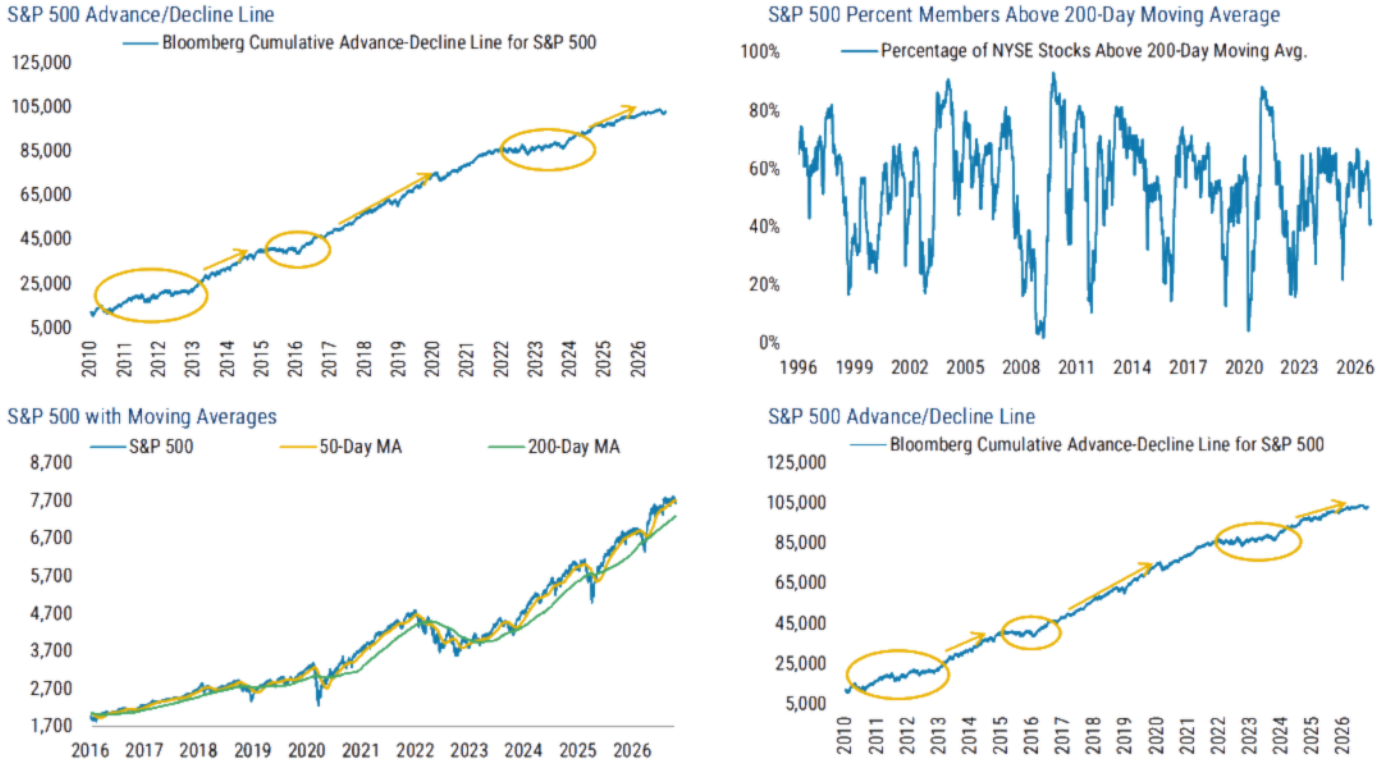
Exhibit 88: Equity Risk Premium



Note: Equity risk premium is calculated as the S&P 500 forward 12M earnings yield minus the nominal 10-Year Treasury.

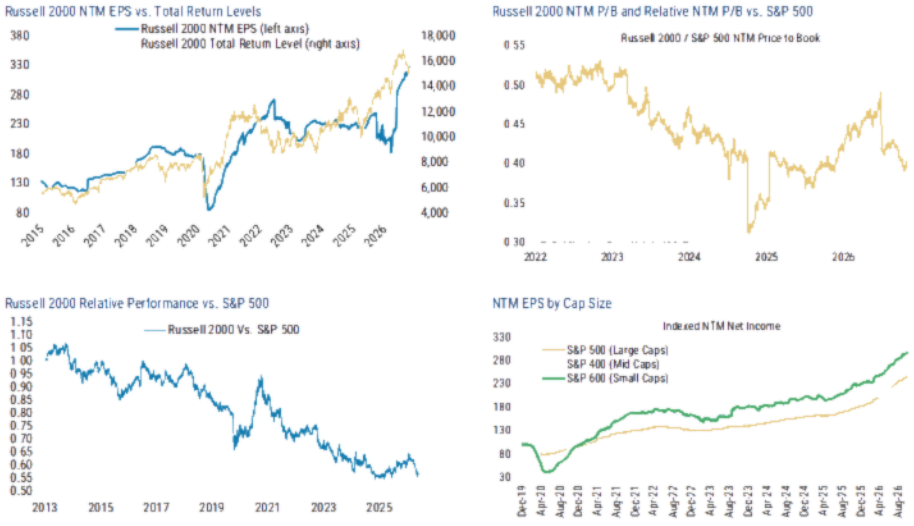
Source: As of Oct 23, 2025, Bloomberg, Morgan Stanley Research

Exhibit 89: US Equity Market Technicals and Financial Conditions



Source: Bloomberg, Morgan Stanley Research. As of Oct 23, 2025

Exhibit 90: US Small Cap Equities



Source: FactSet, Morgan Stanley Research. As of Dec 23 2025

Exhibit 91: Earnings Revisions Breadth



Source: FactSet, Morgan Stanley Research

Exhibit 92: Earnings Revisions Breadth vs YoY Performance



Source: FactSet, Morgan Stanley Research. As of Dec 23 2025