October 27, 2026 04:01 AM GMT

From the Global Director of Research | North America

Charts That Caught My Eye

Katy L. Huberty, CFA
Global Director of Research
Kathryn.Huberty@morganstanley.com +1 212 761-6249

Analyst
erteam@morganstanley.com



your investment process by delivering unique insights that separate the signal from the noise. An intuitively designed and well-crafted chart can often accomplish this with exceptional clarity.

With that mission in mind, these charts in our recently published research stood out to me.

1. **US Public Policy:** The S&P 500 has historically tracked a typical year following midterms that produce divided government or a full party flip, while a cohesive Democratic majority could offer slight upside to growth, and a fragile majority risks fiscal brinkmanship.
2. **Powering AI:** We expect power shortfalls to persist, as rising electricity demand from AI infrastructure, industrial investment, and air conditioning more than offsets efficiency gains and additional capacity.
3. **Tech Diffusion: AI Adoption:** Rising open-weight model adoption could lower inference costs, favoring software vendors with strong workflow moats and creating opportunities for on-prem IT services.
4. **Japan Equity Strategy:** Consensus expects 38.4% Y/Y earnings growth for AI-related stocks in 2Q26 versus 5.1% for non-AI stocks.
5. **Tech Diffusion - US Financials:** Our analysis suggests agentic AI will have only a limited effect on bank deposit costs and broker sweep economics.
6. ***Global Economics:*** Persistent energy shocks are driving higher shipping and producer costs, raising the risk of spillovers into core inflation and a more synchronized response by global central banks.
7. **India Equity Strategy:** A stronger investment cycle, improving demand, and rising corporate profitability could drive India's ROEs to new highs over the next 3–4 years.
8. **Europe Consumer Staples:** Structural growth pressures and defensive rotations have weakened the sector's inverse relationship with bond yields, though higher rates still threaten earnings and valuations.

Please reach out to me with feedback on these or any other key investment debates. Thank you for your partnership.

Katy Huberty
Global Director of Research

investors should be aware that the firm may have a conflict of

Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

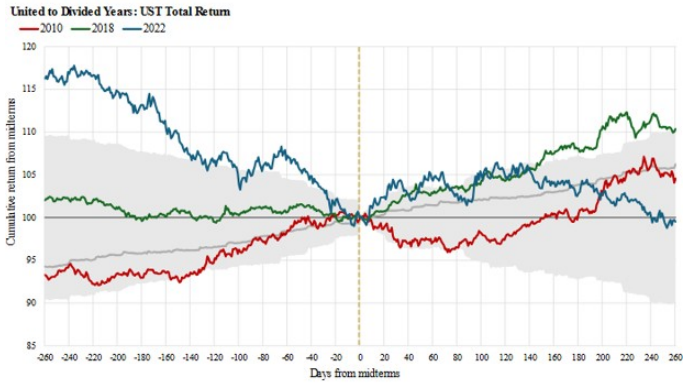
US Public Policy

Midterms FAQs: Two Weeks Out

Historically, in the three to six months following midterms that produce either divided government or a full party flip, the S&P 500 has tracked a "typical" year. Prediction markets currently imply a high probability of a change in House control: We believe a cohesive Democratic majority could present slight upside risk to growth forecasts, while a fragile majority suggests fiscal brinkmanship and less legislative throughput. Regardless of the outcome, tariffs and deregulation should persist.

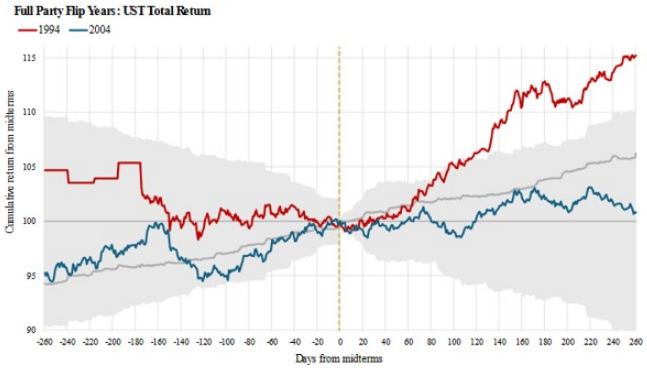
See Midterms FAQs: Two Weeks Out (20 Oct 2026)

Exhibit 1: In united to divided government outcomes, the S&P 500 tracks roughly the same as any typical year...



represents +/- 1.5SD based on all years since 1989, indexed to October 31.

Exhibit 2: ...as is the case for full party flip outcomes.



represents +/- 1.5SD based on all years since 1989, indexed to October 31.

Powering AI

Hot Summer, Short Fall: Power Constraints and Rising Global Demand

We continue to see power availability as a critical constraint on AI infrastructure, with our estimated 2026–28 net power shortfall for US companies rising to 38GW, even after accounting for additional grid capacity, behind-the-meter solutions, and data center spillover into Asia Pacific. Despite substantial gains in tokens produced per watt, overall data center power demand continues to rise. Beyond AI, we expect industrial electricity demand growth to exceed incremental data center demand through 2030, while residential and commercial consumption add further pressure on global power infrastructure.

See Hot Summer, Short Fall: Increased Power Shortfall, Increased BTM Clarity, and Addressing Rubin Rack kW Misconceptions (26 Oct 2026) and Agents, Aircons, Allshoring: All Not Priced In (26 Oct 2026)

Exhibit 3: Our US 2026-28 Power Shortfall, inclusive of US DC Spillover into APAC, Rises to 38GW from 32GW.

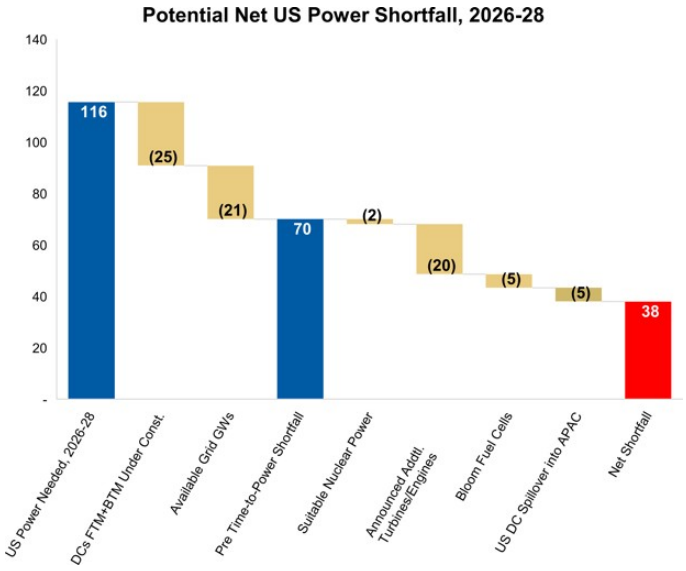


Exhibit 4: While Headline Power Demand Numbers Increase to a Total of 116GW of Cumulative Demand Through 2028, YoY Increases in Token Production Outpace Wattage Increase.

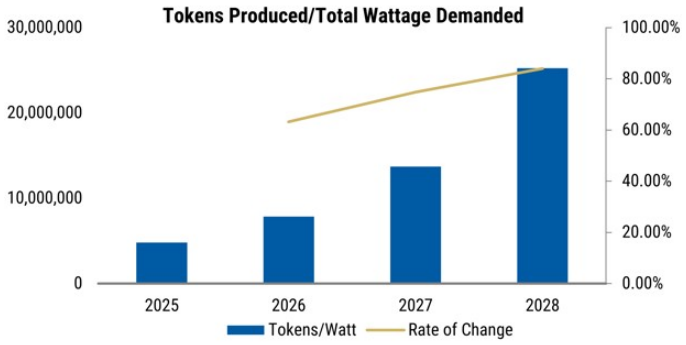
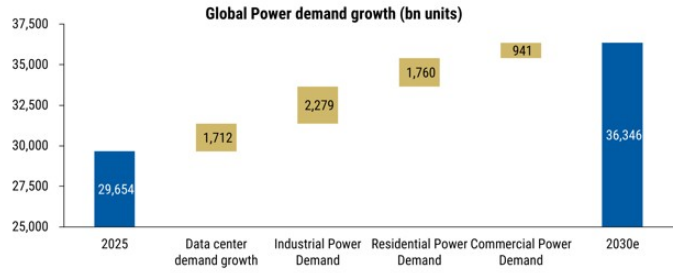


Exhibit 5: Growth in global power demand is much broader than AI: Industry is the largest driver, while cooling alone adds more electricity demand than data center growth through 2030.



the meter power demand.

Tech Diffusion – AI Adoption

Token Thoughts – How Will Rising Open-Weight Model Adoption Impact Software?

Open-weight AI models' share of tokens processed on OpenRouter rose from roughly 22% to 72% over the past year – and CIOs expect even greater usage across enterprise AI workloads over the next three years. Lower inference costs and greater deployment flexibility could expand economically viable AI applications, favoring software providers with proprietary data and deep workflow expertise. The ability to run models on-prem could also improve AI returns, data security, and compute availability, creating potential opportunities for IT services providers.

See Token Thoughts – How Will Rising Open-Weight Model Adoption Impact Software? (26 Oct 2026) and Can AI Make DXC, KD, and On-Prem Fashionable Again? (26 Oct 2026)

Exhibit 6: Open-Weight Models are Gaining Share of OpenRouter Tokens.

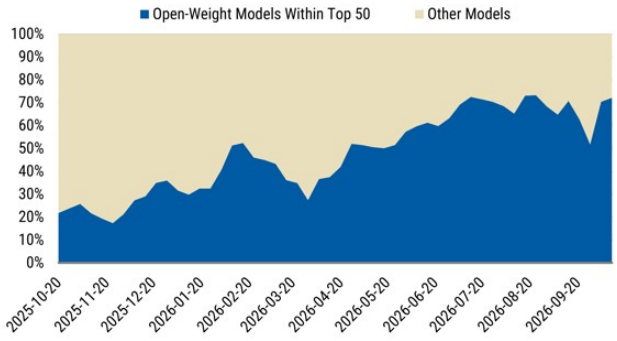
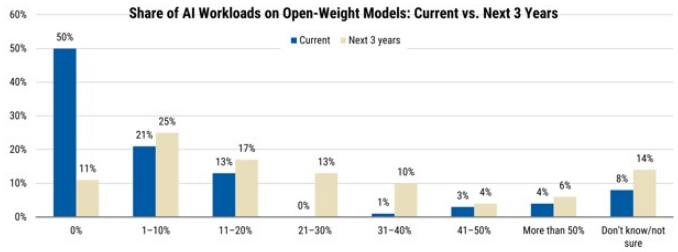


Exhibit 7: CIOs Expect Open-Weight Models to Support a Greater Share of AI Workloads Over the Next Three Years.





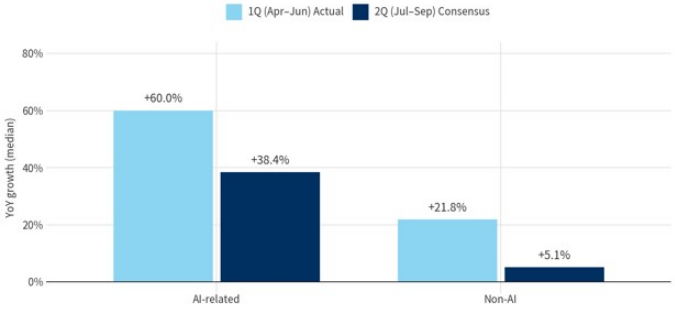
Japan Equity Strategy

Less Leverage, More Growth: Focus List Changes

Consensus expects 38.4% year-over-year earnings growth for Japan AI-related stocks in 2Q26 versus 5.1% for non-AI stocks, raising the hurdle for positive surprises. We have rebalanced our Japan Focus List toward lower-leverage, higher-growth companies to diversify earnings sources and reduce reliance on the AI investment cycle. Our screen of large-cap, low-leverage, high-growth stocks has also outperformed TOPIX and beneficiaries of lower yen interest rates this year, supporting our shift toward more sustainable earnings growth.

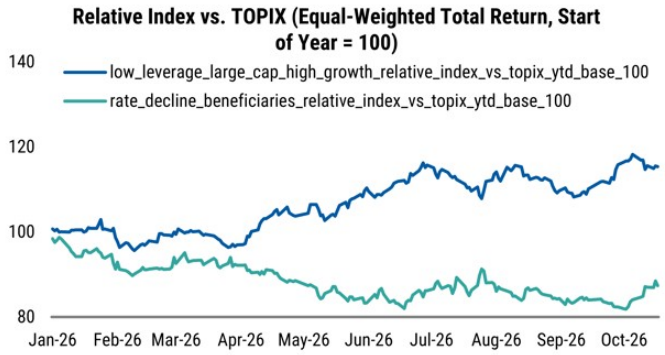
See Sho-Time: Less Leverage, More Growth: Focus List Changes (23 Oct 2026)

Exhibit 8: 2Q consensus sets a higher bar for AI-related areas, including semiconductor manufacturing equipment, than for non-AI areas.



Kioxia Holdings and SBG (selected from semiconductor manufacturing equipment-related companies, semiconductor and substrate materials, electronic components, substrates and chips, optical fibers and optical components, among others). Median by company.

Exhibit 9: Screening performance of high-quality stocks (low leverage, high growth, large-cap and highly liquid) and stocks benefiting from lower yen interest rates.



excluding financials. Stocks benefiting from lower yen interest rates (38 stocks): names that showed a statistically significant tendency to underperform the market (interest-rate beta <0, t-value ≤−2) during periods of rising 10-year JGB yields over the past 5 years (October 2021–September 2026), and the same tendency in the longer-term sample since 2010 (Exhibit 5). High-quality stocks (32 stocks): market cap of at least ¥1tn, D/E ratio (including lease liabilities) of 0.3x or lower, two-year operating profit CAGR (last fiscal year's actual to the forecast two years ahead) of at least 15% and operating profit growth of at least 10% next fiscal year (Exhibit 3). Each basket is equal-weighted and rebalanced daily on total returns, shown relative to TOPIX (end-2025 = 100), with constituents as of the October 20, 2026 screen applied to the whole period.The information contained herein has been prepared solely for informational purposes and is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Products and trades of this type may not be appropriate for every investor. Please consult with your legal and tax advisors before making any investment decision. Please

guide to future performance.

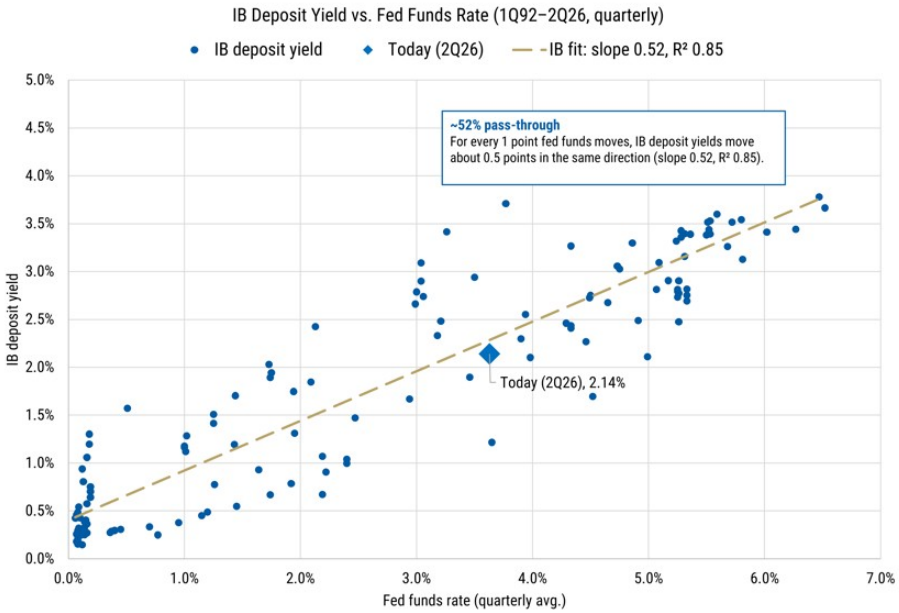
Tech Diffusion – US Financials

Agentic AI in Financials: Less Sweep Than Feared

We believe agentic AI poses less risk to bank deposit costs and broker sweep economics than markets fear, as decades of easier access to higher-yielding alternatives have not fundamentally altered deposit pricing. Over the past 34 years, interest-bearing deposit yields have shown roughly 52% pass-through from changes in the Fed funds rate, with 2Q26 yields slightly below the historical trend. AI could accelerate cash sorting without materially raising terminal deposit betas, as liquidity needs and regulatory constraints limit automated transfers. Brokers could also offset potential sweep revenue pressure through alternative fee structures.

See Agentic AI In Financials: Less Sweep Than Feared (23 Oct 2026)

Exhibit 10: Despite online banks, mobile apps and instant transfers making it easier than ever to shop for higher rates and move money, IB deposit yields remain consistent with their 34-year historical relationship to Fed Funds (~52% pass-through). In fact, 2Q26 deposit yields sit slightly below the historical trendline, suggesting that greater digital access has not materially altered deposit pricing.



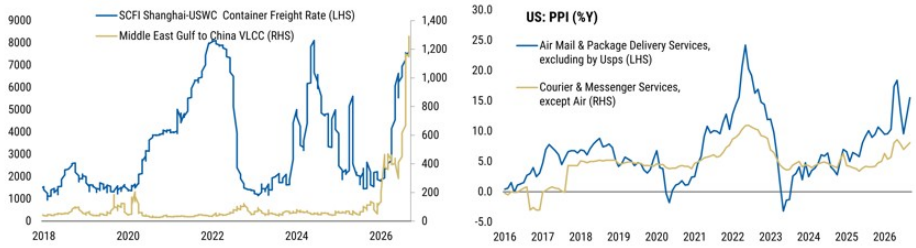
Global Economics

Your Rate Hikes Have Been Shipped

Persistent energy shocks are increasingly moving downstream, as rising crude freight and transpacific shipping costs raise delivered prices and US shipping-services producer inflation approaches pandemic-era levels. September CPI offers early evidence of potential pass-through to core goods inflation, although broader second-round effects remain limited. The resilience of demand will determine how much of these higher costs businesses pass through to consumers rather than absorb in margins, potentially prompting a more synchronized response by global central banks.

See The Weekly Worldview: Your Hikes Have Been Shipped (26 Oct 2026)

Exhibit 11: Crude freight rates and transpacific shipping costs have surged, and US transport PPIs are heading toward pandemic levels.



India Equity Strategy

India's Path to Higher ROEs

India's corporate ROEs could reach new highs over the next three to four years as a stronger investment cycle and improving demand drive a profitability upcycle. MSCI India's ROE rose to 15.9% in 2025, just shy of its 2023 peak, while its return on assets remained the highest among peers. We project the investment-to-GDP ratio to reach 37.5% over the next five years, supporting productivity gains, while stronger demand and capacity utilization could lift corporate profits as a share of GDP beyond their 2008 peak.

See India's Path to Higher ROEs (18 Oct 2026)

Exhibit 12: Share of Profits in GDP Likely to Make a New High in the Coming Years.

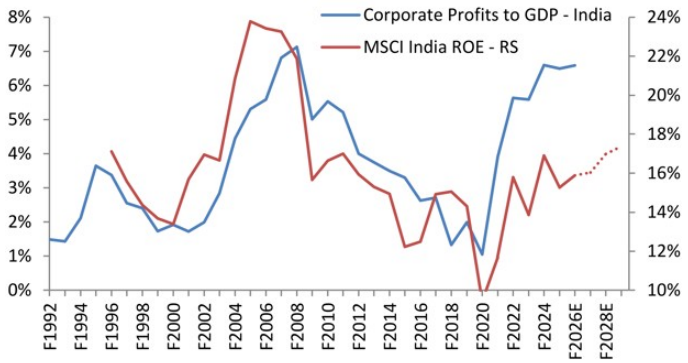
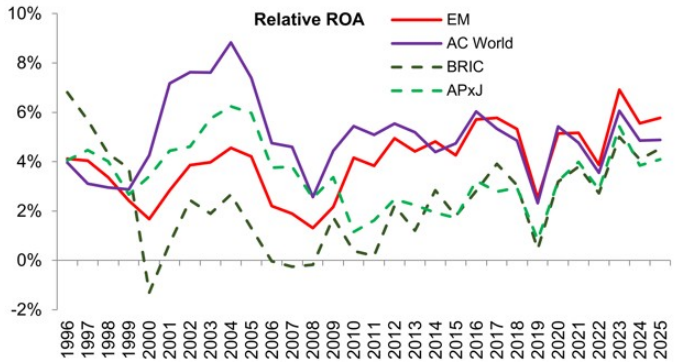


Exhibit 13: 2025 Relative ROA: Highest Among Peers.



Europe Consumer Staples

Bond Yields Playbook

We believe structural growth pressures and defensive rotations have weakened Europe Staples' inverse relationship with bond yields, though higher rates still impact earnings and valuations. We maintain our In-Line industry view across the Europe Staples industries (Beverages, Food Producers, and HPC).

See Bond Yields Playbook (20 Oct 2026)

Exhibit 14: EU Staples P/E vs German 10-year bond yield.

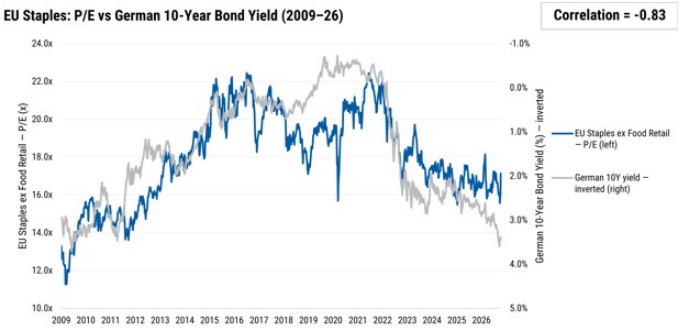


Exhibit 15: EU Staples relative P/E to MSCI World vs US 10-year bond yield.

