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IDEA

November 2, 2026 05:01 AM GMT

US Equity Strategy | North America

Weekly Warm-up: Enter Sandman

We think the correction that began months ago is in its final phase, with the S&P 500 catching down as breadth improves, consistent with our call. We expect near-term clearing events to provide an attractive opportunity to add risk to quality cyclicals that have de-rated as we head into 2027.

- **The Index Catch-Down Is Likely the Final Stage of This Correction.** We have argued that the mid-cycle transition would end with the index catching down toward weaker breadth, and that process is now underway even as the average stock improves. With 10-year yields declining, the equal weight S&P has outperformed the cap-weighted S&P and the lower quality Russell 2000 by 6% and 4%, respectively, since September—in line with our views. We are getting close, but would like to see either further confirmation from our sentiment indicator or the S&P 500 to reach our previously identified downside tactical target of 7100-7300 before adding risk more aggressively. Our year-end base case remains 8000 for the S&P 500.
- **Financial Conditions Are Doing the Fed's Work; Liquidity Remains A Risk.** Last week, Fed Chair Warsh acknowledged the tightening already delivered by financial conditions to some extent, but his comments suggest the bar for a more dovish Fed pivot remains high—i.e., he was unwilling to say financial conditions are outright "tight." A TGA drawdown from the Treasury into year-end could provide some relief should it play out as could less back-end issuance, making this week's Quarterly Refunding Announcement important.
- **Midterms Should Help Clear Another Important Overhang.** Historically, large cap stocks have gained approximately ~15% in the six months following midterms, with similar strength in both the cap-weighted index and average stock. A Democrat sweep is already anticipated by investors, although the magnitude of that sweep remains uncertain to market participants. Meanwhile, many of the policies most relevant to markets remain under the executive branch's control. The more notable risk comes post the election with the potential for renewed military escalation with Iran or tariffs.
- **Earnings Season Continues to Favor Quality, Particularly Free Cash Flow.** In line with our quality rotation call since July, the market is becoming more discerning as the cycle progresses, with free cash flow surprises driving larger next-day price reactions than EPS surprises. This reinforces our preference for companies with durable cash generation, strong balance sheets and improving earnings revisions. As we progress past the upcoming clearing events, the opportunity set is likely to become richer for quality cyclicals, in particular—Industrials remains our top pick, while more crowded areas of the index may still have some work to do on the downside as part of the final capitulation of this correction.

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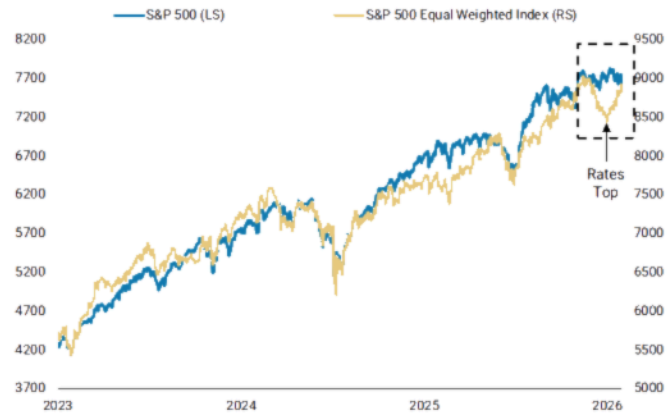
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Enter Sandman with Correction in Final Innings

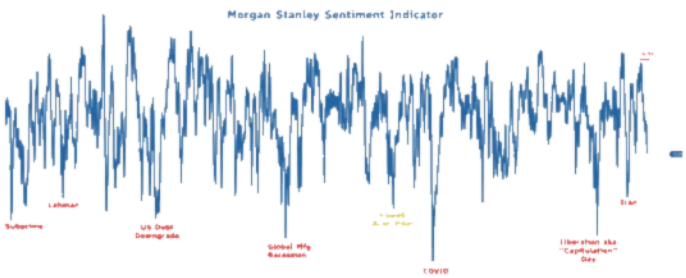
Given last week's price action, we think the correction that began in June is now in the final innings, with the S&P 500 and breadth meeting in the middle, as we expected. As is typical of mid-cycle transitions, the damage has been worst in early cycle groups, with Semiconductors, Capital Goods, Transports, Banks and Retailers falling materially from their summer peaks. Importantly, breadth has been improving more recently as the still crowded areas like parts of cyclical tech catch down—part of the capitulation process. Since the end of September, 10-year Treasury yields have declined by nearly 40bp, while the percentage of S&P 500 stocks above their 200-day moving average has risen ~20 percentage points to 62%. Over the same period, the equal-weighted S&P 500 has gained nearly 5%, outperforming the cap-weighted index by almost 6%. This supports our view heading into October that back-end yields were likely approaching a peak, and that the equal weight S&P was the more attractive expression of the broadening trade. The lower quality Russell 2000 likely needs a bigger decline in rates than what we've seen already, while the equal weight S&P can work with more of a stabilization in the long end. While we still think a final capitulatory event is possible, particularly with our Market Sentiment Indicator (MSI) not yet at levels that typically mark the end of corrections, the price action last week suggests we are getting close.

Exhibit 1: Breadth Has Improved Materially As the Cap Weighted Index Has Consolidated



Source: Bloomberg, Morgan Stanley Research

Exhibit 2: Our Composite Sentiment Indicator Is Nearing Capitulatory Levels, but Not Quite There, Yet



Source: Bloomberg, Morgan Stanley Research

Warsh's comments at last week's FOMC meeting included some acknowledgment of the tightening in financial conditions we have been highlighting, but they still centered on the continuing efforts to combat inflation. Importantly, Warsh distinguished between financial conditions being "tighter" and actually being "tight," suggesting he remains comfortable with the adjustment underway. The most important aspect of Warsh's comments, from our perspective, was that he did not double down on his message from Jackson Hole that the market interpreted as an effort to get inflation to target *quickly*. Thus, the Fed has flexibility to pause for now, although the bar for additional liquidity support still appears relatively high. In our view, liquidity may be tighter than was acknowledged last week, so this particular clearing event may still have some work to do.

One potential source of relief, even without a change in Fed policy, is the expected reversal of Treasury's recent cash buildup. Since mid-July, the Treasury General Account (TGA) has increased approximately $244 billion, alongside a $249 billion decline in bank reserves, while Fed assets have remained essentially unchanged. Treasury anticipated this buildup, projecting a late-October TGA peak near ~$1.05 trillion followed by a decline toward ~$850 billion by year-end. A more material drawdown in the TGA would be welcome should it play out given slower Fed balance sheet growth and the economy's significant demand for capital. One key question is whether the expected drawdown also coincides with less restrictive financial conditions more broadly across rate and energy markets. If it doesn't, markets may ultimately need more liquidity from the Fed. Another question for financial markets is what form does it take this time—is it an orderly and proactive response from the Fed like last year or something more disruptive like in 2018? In short, last week's Fed meeting was not a full clearing event for liquidity and may require more pressure to resolve or simply a curtailment of the heavy supply of issuance that still lies ahead.

The midterms represent the most obvious clearing event we discussed in last week's note, with history providing an encouraging signal. Since 1982, large cap stocks have gained approximately 15% on a cap-weighted basis and 16% on an equal-weighted basis in the six months following midterms, with both measures rising roughly 22% over the subsequent year. A Democrat sweep via a narrow Senate majority is anticipated by investors and therefore unlikely to be a major market surprise, while a much more decisive Senate victory would potentially push the equity market to look further out to 2028 in terms of pushback against deregulation. With that said, many of the policies that have moved markets most over the last 2 years, including tariffs, foreign policy and agency-led deregulation, remain largely under executive branch's control, and equities typically don't think 2 years ahead very often or for very long. On the data center front, opposition to data center development is often driven more by local incumbent dynamics than party affiliation. There are also potential upside risks from a Democrat majority, including efforts to delay or reverse Medicaid and SNAP cuts that could support consumption. Further, the prospect of a different policy environment in 2028 could pull forward some investment and M&A activity. We think the more significant risk is the potential for renewed military escalation with Iran or additional tariffs after the election, particularly if higher energy prices push inflation expectations and long-end yields higher in the former risk scenario.

Exhibit 3: Midterm Seasonality

Average Top 1000 Equal Weighted Performance (Relative) around Midterm Election Year by Industry Group since 1982

	Prior 9M	Prior 6M	Prior 3M	Next 1M	Next 3M	Next 6M	Next 9M	Next 12M
Energy	1.5%	2.4%	-0.3%	-0.5%	-7.8%	-8.2%	-9.2%	-10.7%
Materials	-0.5%	-1.8%	0.0%	-1.2%	-0.1%	0.7%	0.7%	0.1%
Capital Goods	-1.2%	-2.7%	-0.5%	0.1%	0.6%	0.7%	4.2%	2.8%
Commercial & Professional Services	0.1%	1.2%	-0.2%	-0.4%	-0.6%	-1.3%	-3.3%	-3.4%
Transportation	-3.7%	-4.2%	-2.9%	1.1%	0.9%	0.7%	1.0%	-1.2%
Automobiles & Components	-3.0%	-4.2%	-2.7%	1.0%	1.9%	0.1%	4.0%	-0.3%
Consumer Durables & Apparel	-2.9%	-3.6%	-3.0%	0.1%	2.3%	2.6%	2.5%	-0.1%
Consumer Services	-1.9%	-3.5%	-2.2%	0.3%	1.3%	5.2%	7.0%	5.1%
Consumer Discretionary Distribution & Retail	3.6%	1.6%	0.2%	0.9%	2.9%	6.5%	7.3%	4.4%
Consumer Staples Distribution & Retail	9.5%	6.7%	2.5%	1.3%	2.1%	0.7%	-0.5%	-0.7%
Food, Beverage & Tobacco	8.7%	7.0%	1.3%	1.3%	-0.4%	-3.5%	-5.2%	-2.6%
Household & Personal Products	3.1%	3.2%	-0.4%	1.5%	2.2%	4.3%	0.8%	1.1%
Health Care Equipment & Services	7.0%	6.2%	3.0%	-1.0%	-0.2%	2.9%	0.6%	-3.1%
Pharmaceuticals, Biotechnology & Life Sciences	8.5%	7.9%	5.0%	0.8%	0.8%	3.9%	2.7%	3.9%
Banks	-0.7%	-1.8%	-2.4%	-1.7%	-3.5%	-8.3%	-9.7%	-8.8%
Financial Services	-1.5%	-2.1%	-0.6%	2.2%	2.4%	6.2%	7.2%	5.7%
Insurance	1.2%	0.1%	0.0%	-1.1%	-0.9%	-4.2%	-7.7%	-6.6%
Software & Services	-2.6%	-1.7%	-0.2%	2.4%	6.0%	11.3%	14.7%	17.4%
Technology Hardware & Equipment	-5.9%	-3.9%	-0.7%	2.6%	6.6%	10.9%	14.6%	16.8%
Semiconductors & Semiconductor Equipment	-5.5%	-9.3%	-4.1%	3.7%	8.4%	21.7%	32.6%	39.5%
Telecommunication Services	1.7%	3.6%	2.3%	2.3%	2.2%	-2.1%	-2.1%	-1.5%
Media & Entertainment	-1.2%	-0.1%	0.2%	-0.2%	0.2%	1.6%	3.7%	2.7%
Utilities	5.1%	5.2%	2.8%	-0.3%	-0.9%	-7.2%	-10.9%	-7.3%
Equity Real Estate Investment Trusts (REITs)	3.2%	2.8%	0.5%	-1.7%	-2.3%	-4.2%	-8.4%	-8.1%
Real Estate Management & Development	-5.7%	-8.3%	2.3%	-3.7%	-3.9%	3.3%	-4.0%	-21.9%
Top 1000 (Cap Weighted)	-1.4%	-3.0%	-1.1%	4.0%	7.0%	15.3%	22.2%	21.9%
Top 1000 (Equal Weighted)	-2.8%	-5.1%	-2.6%	3.6%	7.2%	16.4%	23.8%	22.4%
Value vs Growth	4.1%	1.6%	0.5%	-0.8%	-1.9%	-6.0%	-6.7%	-6.7%
Quality vs Junk	6.7%	7.1%	2.4%	0.5%	0.2%	-4.7%	-6.4%	-5.7%
Cyclical vs Defensive	-5.2%	-6.2%	-3.0%	0.5%	1.1%	4.1%	7.4%	5.7%
Small vs Large	-3.2%	-4.9%	-4.1%	-1.0%	0.0%	2.7%	3.6%	2.1%

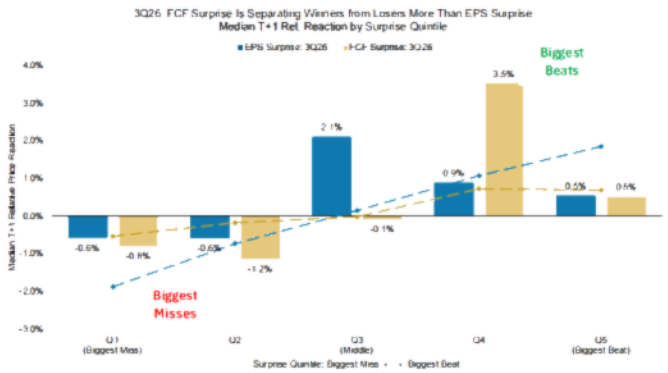
Source: Compustat, Morgan Stanley Research

A few risks have weighed on the cap-weighted index recently, facilitating this latest catch down in S&P 500 performance toward improving breadth. These variables include the pace of AI-related capex, credit spread widening in certain segments of the AI trade, tighter liquidity, uncertainty around the Middle East situation and the upcoming midterm elections. While the second derivative on EPS growth is expected to slow into next year, this is not the primary driver of last week's price action, in our view. Historically, equity markets continue to show strength even as the rate of change on growth slows as long as it's still above 0%—leadership, though, shifts to high quality. What tends to impact economically sensitive sectors more in this type of environment is rapid increases in the cost of capital. Cyclical areas were the first to price the most recent adjustment in cost of capital from Jackson Hole to the beginning of October. Since the beginning of October when yields topped, the equal weighted S&P (a higher quality expression of breadth) has surged back as shown above. Credit spreads also feed into that cost of capital dynamic and have been in focus recently for investors from a risk standpoint. In our view, credit markets have become more discerning about issuance, although demand remains solid for IG issuance, and hyperscaler supply is still a relatively small share of the market. We view this as consistent with the greater differentiation on quality as both the business and AI investment cycle mature, rather than evidence of a broader credit problem.

Finally, 3Q earnings season continues to reinforce the market's preference for quality even as the high quality indices (SPX and NDX) underperform the average stock. For the record, this is what we expected and noted in recent research so that makes us feel more confident we are closer to the end of this correction. Free cash flow (FCF) surprises are driving larger next-day price reactions than EPS surprises, with the largest FCF beats generating meaningful upside and misses being penalized more heavily than has typically been the case. While a similar pattern is evident for EPS, the response to FCF surprises has been more pronounced relative to history. Investors are no longer overlooking FCF shortfalls as they often did earlier in the cycle, consistent with a more typical mid- to late-cycle environment where earnings durability and cash conversion matter more. This

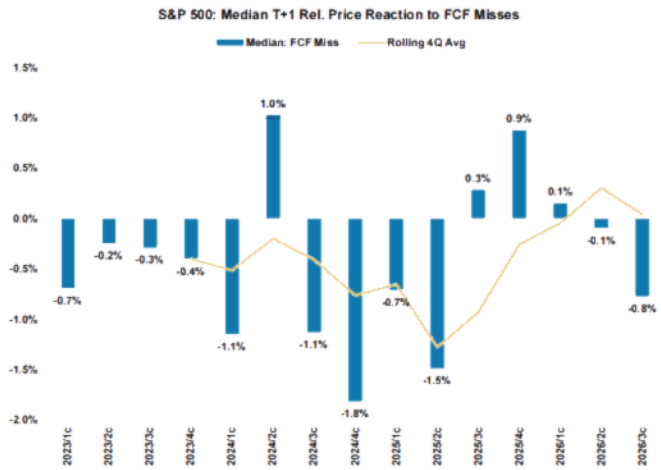
supports our continued preference for quality, including higher-quality cyclicals with improving earnings revisions. As the remaining policy and liquidity uncertainties clear, we think the opportunity to add risk more aggressively is approaching, with earnings growth ultimately reasserting itself as the primary driver of returns.

Exhibit 4: Quality in Focus As FCF Is Driving Price Action More than EPS



Source: FactSet, Morgan Stanley Research

Exhibit 5: Stocks Are Sensitive to FCF Misses This Quarter



Source: FactSet, Morgan Stanley Research

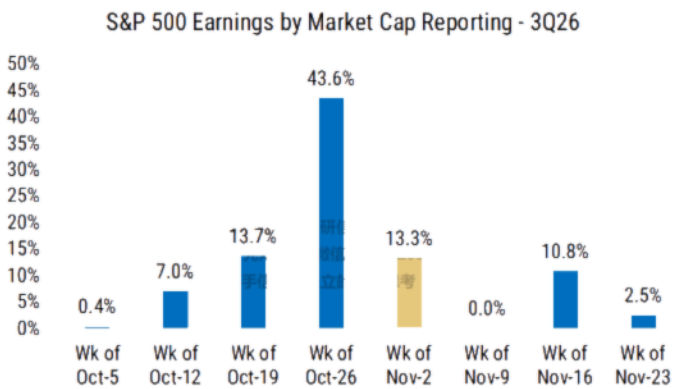
Bottom line: over the last month, we've conveyed the view that index and breadth were likely to converge as yields topped— Exhibit 1. Now we are seeing the leadership of the market catch down, which is typically the last phase of a correction. This one started several months ago and is in its final innings, from our perspective. One stat that's pretty striking is that 60% of Russell 3000 stocks have already seen at least a 20% correction since June, while the P/E multiple for the S&P 500 has declined by 20% from its high a year ago. Upcoming clearing events should provide an opportunity to add risk to quality cyclicals that have de-rated significantly already.

Earnings Season Chartbook

- Median T+1 price reaction is at +0.1% on an absolute basis and +0.4% on a relative basis.
- EPS surprise at 4% which is slightly below the historical average and well below recent quarters. Sales surprise at 2.0% which is above the historical average of +1.3%.
- 3Q EPS is expected at +28% Y/Y and sales at +12% Y/Y.
- Earnings Revision Breadth is at+7%, which is lower than the previous 6-month level. ERB has not rebounded as strongly during 3Q EPS season which suggests upward revisions to 2027 have slowed this quarter. We think this slowing in estimate momentum alongside FCF surprise have been key drivers this earnings season.
- Calendar 2026/2027 earnings growth is now 32%/16%.
- Mag 7 earnings are expected to grow 25% in 3Q26 vs. 22% for the SP493, both historically strong. For 2027, this flips and has the SP493 growing 17% vs 12% 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 EPS previews are +21% versus +27% for NTM EPS last quarter. Results have been similar at +15% vs +30% in 2Q.

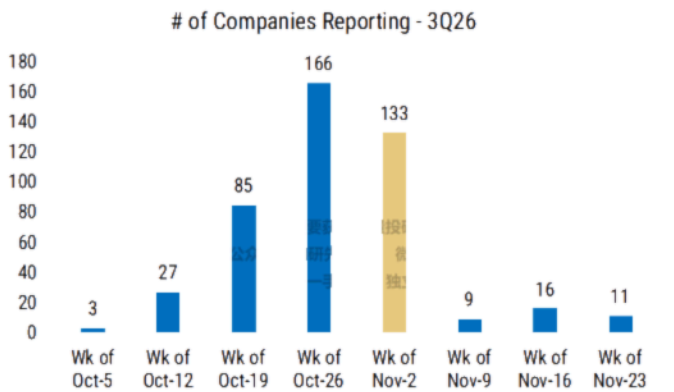
Key Charts

Exhibit 6: 3Q Reporting Season by Market Cap



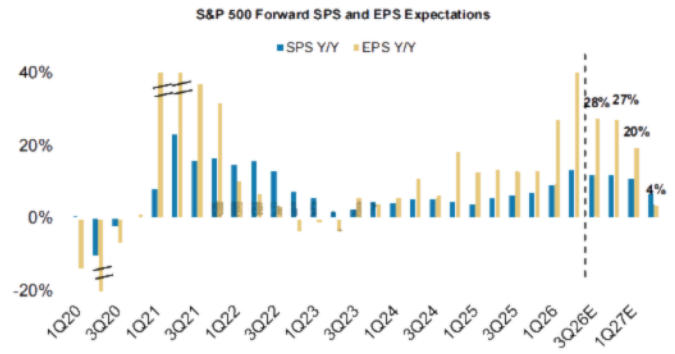
Note: Includes 451 of S&P 500 companies and 92% of S&P market cap reporting from Oct. 5 to Nov 27th
Source: Bloomberg, Morgan Stanley Research

Exhibit 7: 3Q Reporting Season by Company Count



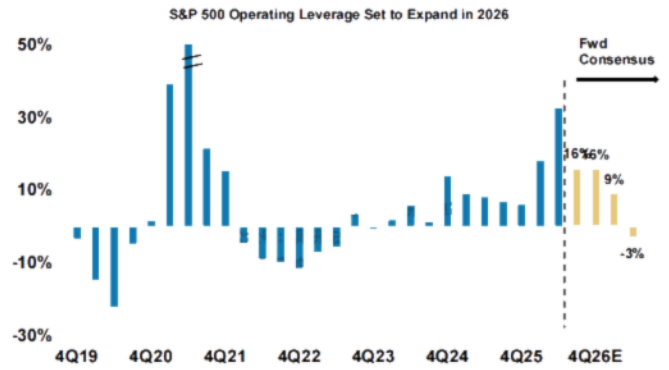
Note: Includes 451 of S&P 500 companies and 92% of S&P market cap reporting from Oct. 5 to Nov 27th
Source: Bloomberg, Morgan Stanley Research

Exhibit 8: Forward SPS and EPS Expectations



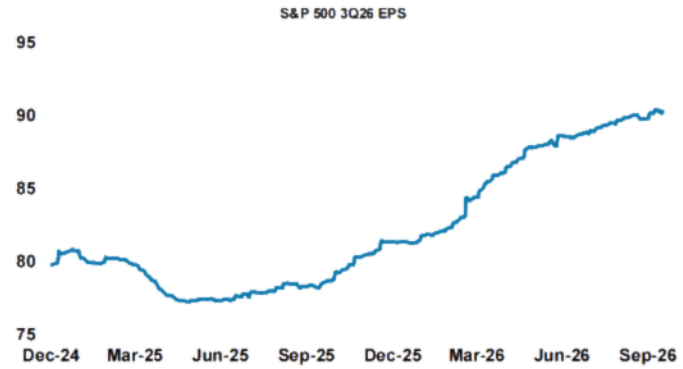
Source FactSet, Morgan Stanley Research

Exhibit 9: Operating Leverage is Set to Expand in 2026



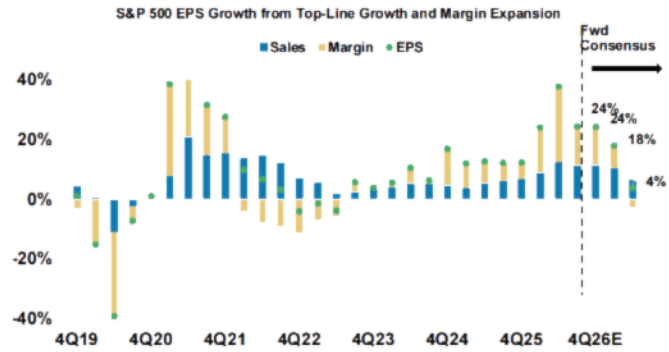
Source FactSet, Morgan Stanley Research

Exhibit 10: 3Q Estimates Push Higher into EPS Season



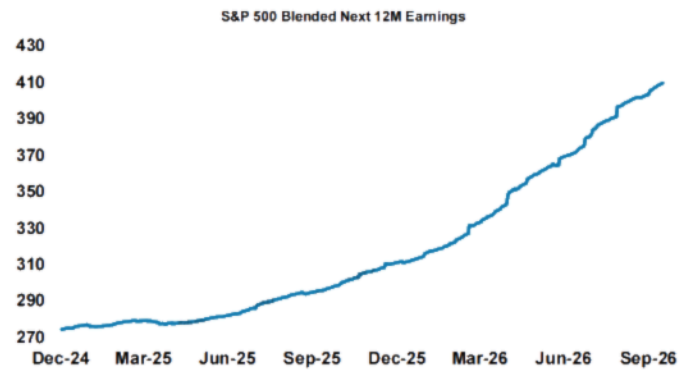
Source FactSet, Morgan Stanley Research

Exhibit 11: EPS Growth is Coming from Both Top-Line Growth and Margin Expansion



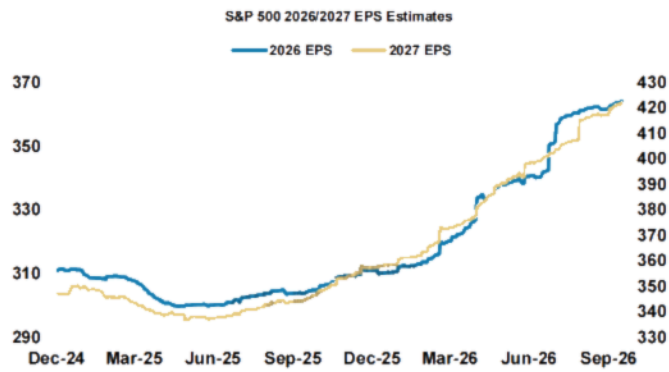
Source Refinitiv, Morgan Stanley Research

Exhibit 12: Blended Next 12M Earnings Rising Further



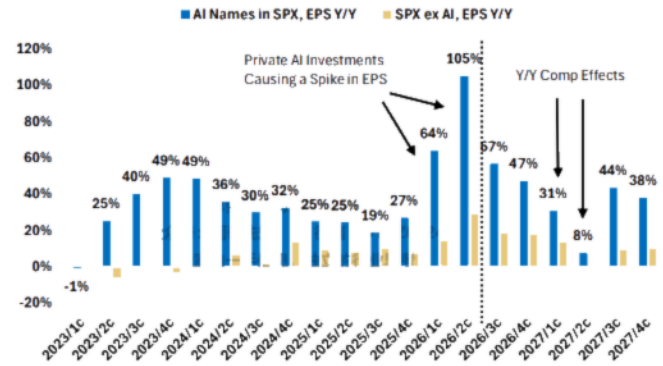
Source FactSet, Morgan Stanley Research

Exhibit 13: 2026/2027 EPS Estimates Continue to Revise Higher



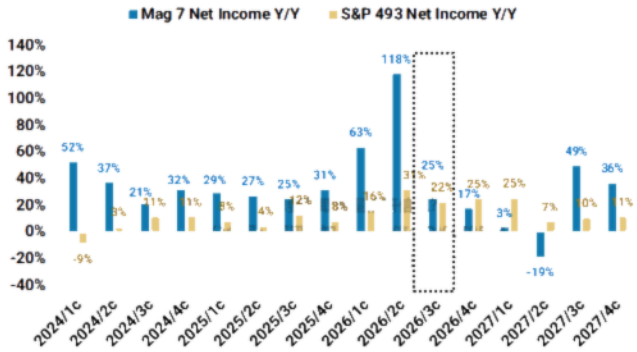
Source FactSet, Morgan Stanley Research

Exhibit 14: AI vs Non-AI Related Names within S&P 500



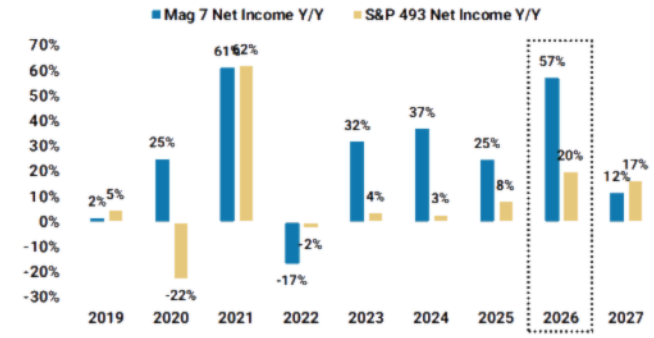
Source: FactSet, Morgan Stanley Research

Exhibit 15: Mag 7 vs SP493 Earnings Growth



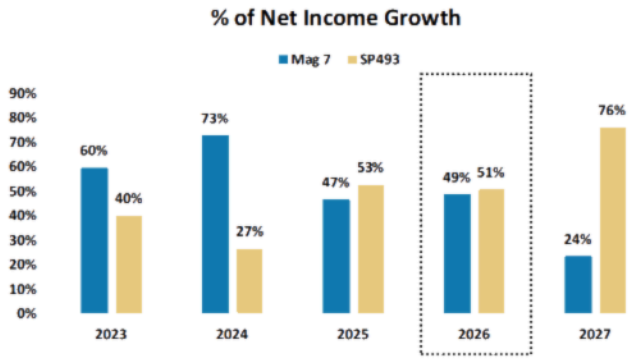
Source: FactSet, Morgan Stanley Research

Exhibit 16: Mag 7 vs SP493 Annuals: SP493 is now Higher in 2027



Source: FactSet, Morgan Stanley Research

Exhibit 17: Contribution to S&P 500 Earnings Growth



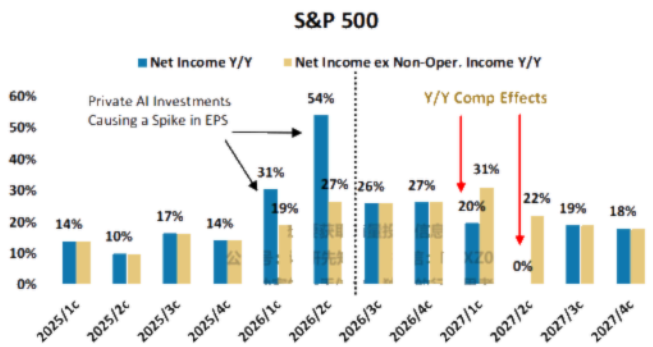
Source: FactSet, Morgan Stanley Research

Exhibit 18: S&P 500 earnings are being skewed by unrealized gains in AI investments...



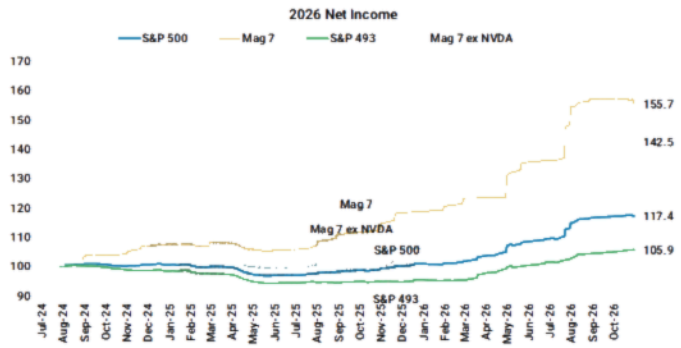
Source: FactSet, Morgan Stanley Research

Exhibit 19: ...and accelerated 1Q/2Q earnings are affecting forward growth rates



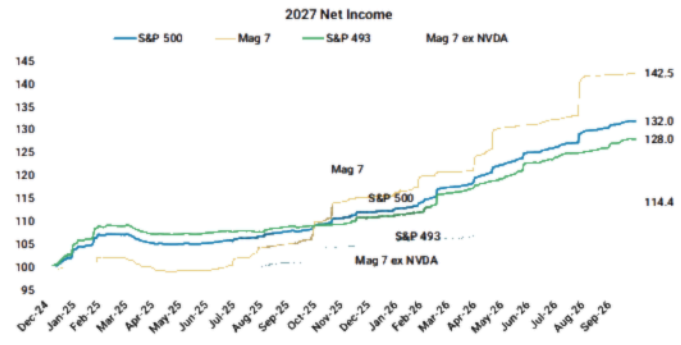
Source: FactSet, Morgan Stanley Research

Exhibit 20: 2026 Net Income Revisions



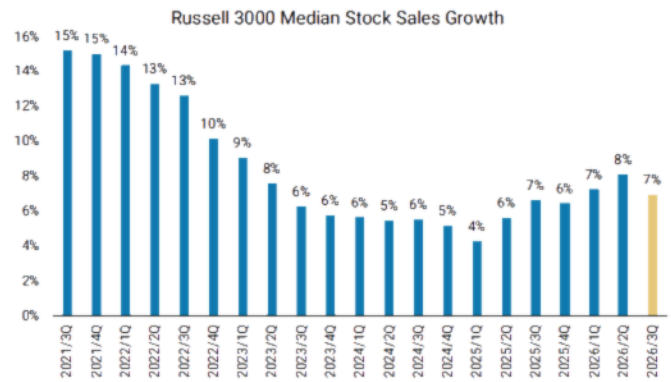
Source: FactSet, Morgan Stanley Research

Exhibit 21: 2027 Net Income Revisions



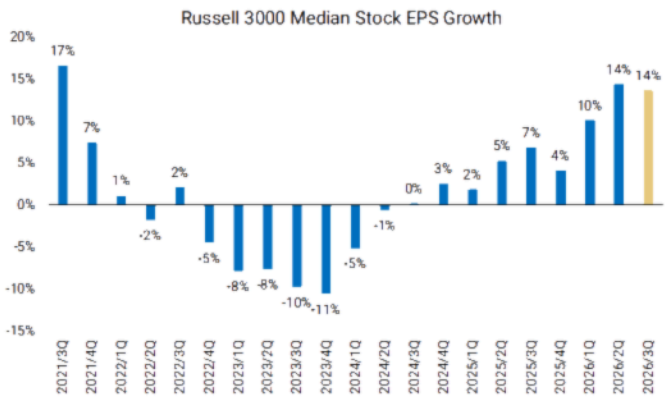
Source: FactSet, Morgan Stanley Research

Exhibit 22: Median Sales Growth is Strong



Source: FactSet, Morgan Stanley Research

Exhibit 23: Median EPS Growth is Accelerating



Source: FactSet, Morgan Stanley Research

Scorecards

Exhibit 24: Earnings Scorecard

S&P 500 3Q26 Preliminary Earnings Analysis											
Sector	# Reported	# Cos Rptd	% of Cos Rptd	% Mktcap Rptd	Surprise Ratios Above	Surprise Ratios All/Above	Surprise Ratios Below	$ Actual vs. Est. 3Q26	$ Actual vs. Est. 2Q26	**3Q26 Y/Y %	Growth Contribution
Communication Services	9/20	9	45%	90%	44%	78%	22%	-19.7%	3.7%	13.4%	1.3%
Media & Entertainment	*5/16*	*5*	*31%*	*89%*	*40%*	*60%*	*40%*	*-30.0%*	*2.7%*	*16.3%*	*1.0%*
Telecommunication Services	*4/4*	*4*	*100%*	*100%*	*50%*	*100%*	*0%*	*6.6%*	*7.3%*	*8.9%*	*0.3%*
Consumer Discretionary	28/46	28	61%	80%	36%	82%	18%	4.7%	4.4%	2.7%	0.3%
Automobiles & Components	*3/4*	*3*	*75%*	*99%*	*67%*	*100%*	*0%*	*6.3%*	*2.5%*	*11.8%*	*0.2%*
Consumer Durables & Apparel	*8/11*	*8*	*73%*	*82%*	*50%*	*88%*	*13%*	*5.4%*	*31.8%*	*-8.2%*	*-0.1%*
Consumer Services	*10/17*	*10*	*59%*	*46%*	*30%*	*70%*	*30%*	*7.1%*	*5.3%*	*12.4%*	*0.1%*
Consumer Discretionary Distribution & Retail	*7/14*	*7*	*50%*	*81%*	*14%*	*86%*	*14%*	*3.5%*	*1.6%*	*0.1%*	*0.0%*
Consumer Staples	15/32	15	47%	60%	27%	93%	7%	3.3%	8.3%	6.3%	0.4%
Consumer Staples Distribution & Retail	*1/8*	*1*	*13%*	*28%*	*0%*	*100%*	*0%*	*3.2%*	*17.8%*	*15.0%*	*0.1%*
Food Beverage & Tobacco	*10/17*	*10*	*59%*	*83%*	*40%*	*100%*	*0%*	*3.8%*	*5.8%*	*7.0%*	*0.3%*
Household & Personal Products	*4/7*	*4*	*57%*	*88%*	*0%*	*75%*	*25%*	*4.0%*	*2.0%*	*1.1%*	*0.0%*
Energy	11/21	11	52%	71%	64%	100%	0%	11.4%	9.9%	150.7%	7.5%
Financials	59/75	59	79%	91%	10%	92%	8%	3.2%	14.4%	9.2%	2.3%
Banks	*13/13*	*13*	*100%*	*100%*	*23%*	*77%*	*23%*	*-5.5%*	*18.3%*	*4.2%*	*0.4%*
Financial Services	*30/39*	*30*	*77%*	*92%*	*3%*	*93%*	*7%*	*9.9%*	*12.0%*	*16.2%*	*1.8%*
Insurance	*16/23*	*16*	*70%*	*72%*	*13%*	*100%*	*0%*	*9.5%*	*13.0%*	*2.6%*	*0.1%*
Health Care	31/60	31	52%	74%	45%	97%	3%	53.9%	18.4%	10.2%	1.4%
Health Care Equipment & Services	*17/34*	*17*	*50%*	*60%*	*35%*	*100%*	*0%*	*11.4%*	*15.2%*	*17.9%*	*0.7%*
Pharmaceuticals Biotechnology & Life Sciences	*14/26*	*14*	*54%*	*81%*	*57%*	*93%*	*7%*	*83.2%*	*21.6%*	*7.3%*	*0.7%*
Industrials	60/80	60	75%	77%	28%	100%	0%	7.8%	7.3%	50.5%	3.9%
Capital Goods	*40/53*	*40*	*75%*	*76%*	*33%*	*100%*	*0%*	*9.9%*	*8.2%*	*78.7%*	*3.5%*
Commercial & Professional Services	*8/13*	*8*	*62%*	*81%*	*13%*	*100%*	*0%*	*2.6%*	*2.2%*	*9.4%*	*0.1%*
Transportation	*12/14*	*12*	*86%*	*80%*	*25%*	*100%*	*0%*	*3.6%*	*7.1%*	*14.1%*	*0.3%*
Information Technology	33/74	33	45%	35%	24%	100%	0%	8.0%	10.9%	97.9%	15.8%
Semiconductors & Semiconductor Equipment	*9/20*	*9*	*45%*	*24%*	*33%*	*100%*	*0%*	*8.9%*	*9.4%*	*389.6%*	*10.8%*
Software & Services	*15/29*	*15*	*52%*	*76%*	*20%*	*100%*	*0%*	*3.8%*	*12.4%*	*16.8%*	*2.0%*
Technology Hardware & Equipment	*9/25*	*9*	*36%*	*15%*	*22%*	*100%*	*0%*	*21.1%*	*10.6%*	*293.7%*	*3.0%*
Materials	16/24	16	67%	80%	25%	88%	13%	1.4%	5.9%	59.7%	1.4%
Real Estate	21/30	21	70%	77%	5%	100%	0%	3.0%	4.5%	127.8%	1.7%
Equity Real Estate Investment Trusts (REITs)	*19/28*	*19*	*68%*	*76%*	*6%*	*100%*	*0%*	*3.1%*	*4.5%*	*148.6%*	*1.8%*
Real Estate Management & Development	*2/2*	*2*	*100%*	*100%*	*0%*	*100%*	*0%*	*0.0%*	*0.0%*	*-31.4%*	*0.0%*
Utilities	14/31	14	45%	46%	64%	100%	0%	21.1%	3.8%	11.8%	0.3%
S&P 500	297/493	297	60%	61%	28%	94%	5%	3.9%	9.9%	36.3%	36.3%

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

Source: FactSet, Morgan Stanley Research

Exhibit 25: Revenue Scorecard

S&P 500 3Q26 Preliminary Revenue Analysis											
Sector	# Reported	# Cos Rptd	% of Cos Rptd	% Mktcap Rptd	Surprise Ratios Above	Surprise Ratios All/Above	Surprise Ratios Below	$ Actual vs. Est. 3Q26	$ Actual vs. Est. 2Q26	**3Q26 Y/Y %	Growth Contribution
Communication Services	9/20	9	45%	90%	56%	89%	11%	0.6%	0.8%	15.5%	1.6%
Media & Entertainment	*5/16*	*5*	*31%*	*89%*	*60%*	*100%*	*0%*	*0.6%*	*1.3%*	*25.1%*	*1.6%*
Telecommunication Services	*4/4*	*4*	*100%*	*100%*	*50%*	*75%*	*25%*	*0.6%*	*-0.6%*	*1.6%*	*0.1%*
Consumer Discretionary	28/46	28	61%	80%	39%	75%	25%	1.5%	1.5%	6.3%	1.0%
Automobiles & Components	*3/4*	*3*	*75%*	*99%*	*33%*	*100%*	*0%*	*1.3%*	*1.9%*	*0.3%*	*0.0%*
Consumer Durables & Apparel	*8/11*	*8*	*73%*	*82%*	*25%*	*50%*	*50%*	*-0.8%*	*0.6%*	*-4.2%*	*-0.1%*
Consumer Services	*10/17*	*10*	*59%*	*46%*	*30%*	*80%*	*20%*	*-0.2%*	*0.5%*	*4.5%*	*0.1%*
Consumer Discretionary Distribution & Retail	*7/14*	*7*	*50%*	*81%*	*71%*	*86%*	*14%*	*2.4%*	*1.7%*	*12.3%*	*0.9%*
Consumer Staples	15/32	15	47%	60%	67%	93%	7%	1.7%	1.1%	7.5%	0.6%
Consumer Staples Distribution & Retail	*1/8*	*1*	*13%*	*28%*	*0%*	*100%*	*0%*	*0.8%*	*0.8%*	*11.1%*	*0.3%*
Food Beverage & Tobacco	*10/17*	*10*	*59%*	*83%*	*80%*	*100%*	*0%*	*2.5%*	*2.3%*	*5.6%*	*0.2%*
Household & Personal Products	*4/7*	*4*	*57%*	*88%*	*50%*	*75%*	*25%*	*1.5%*	*-0.1%*	*3.9%*	*0.0%*
Energy	11/21	11	52%	71%	82%	91%	9%	5.1%	15.6%	31.7%	2.8%
Financials	59/75	59	79%	91%	27%	71%	29%	0.1%	6.5%	7.8%	1.1%
Banks	*13/13*	*13*	*100%*	*100%*	*0%*	*77%*	*23%*	*-1.3%*	*7.0%*	*7.6%*	*0.4%*
Financial Services	*30/39*	*30*	*77%*	*92%*	*40%*	*83%*	*17%*	*1.9%*	*9.8%*	*10.7%*	*0.6%*
Insurance	*16/23*	*16*	*70%*	*72%*	*25%*	*44%*	*56%*	*-0.8%*	*-0.4%*	*3.4%*	*0.1%*
Health Care	31/60	31	52%	74%	74%	97%	3%	3.2%	2.8%	5.3%	0.8%
Health Care Equipment & Services	*17/34*	*17*	*50%*	*60%*	*71%*	*94%*	*6%*	*2.6%*	*2.4%*	*2.1%*	*0.2%*
Pharmaceuticals Biotechnology & Life Sciences	*14/26*	*14*	*54%*	*81%*	*79%*	*100%*	*0%*	*4.7%*	*4.5%*	*12.6%*	*0.6%*
Industrials	60/80	60	75%	77%	87%	88%	12%	2.3%	2.7%	14.2%	1.8%
Capital Goods	*40/53*	*40*	*75%*	*76%*	*60%*	*85%*	*15%*	*2.7%*	*2.9%*	*14.7%*	*1.2%*
Commercial & Professional Services	*8/13*	*8*	*62%*	*81%*	*38%*	*88%*	*13%*	*1.3%*	*1.0%*	*7.3%*	*0.1%*
Transportation	*12/14*	*12*	*86%*	*80%*	*58%*	*100%*	*0%*	*1.5%*	*2.9%*	*14.6%*	*0.5%*
Information Technology	33/74	33	45%	35%	70%	100%	0%	4.2%	3.3%	41.5%	3.6%
Semiconductors & Semiconductor Equipment	*9/20*	*9*	*45%*	*24%*	*78%*	*100%*	*0%*	*6.4%*	*5.8%*	*117.2%*	*1.9%*
Software & Services	*15/29*	*15*	*52%*	*76%*	*53%*	*100%*	*0%*	*1.8%*	*1.5%*	*15.8%*	*0.9%*
Technology Hardware & Equipment	*9/25*	*9*	*36%*	*15%*	*89%*	*100%*	*0%*	*8.8%*	*2.8%*	*84.1%*	*0.8%*
Materials	16/24	16	67%	80%	50%	69%	31%	0.1%	0.5%	10.9%	0.4%
Real Estate	21/30	21	70%	77%	33%	81%	19%	0.6%	2.1%	11.4%	0.1%
Equity Real Estate Investment Trusts (REITs)	*19/28*	*19*	*68%*	*76%*	*27%*	*84%*	*16%*	*2.0%*	*2.7%*	*10.9%*	*0.1%*
Real Estate Management & Development	*2/2*	*2*	*100%*	*100%*	*0%*	*50%*	*50%*	*-2.2%*	*0.3%*	*12.4%*	*0.1%*
Utilities	14/31	14	45%	46%	43%	64%	36%	6.1%	-2.1%	5.9%	0.1%
S&P 500	297/493	297	60%	61%	61%	84%	16%	2.0%	3.6%	13.9%	13.9%

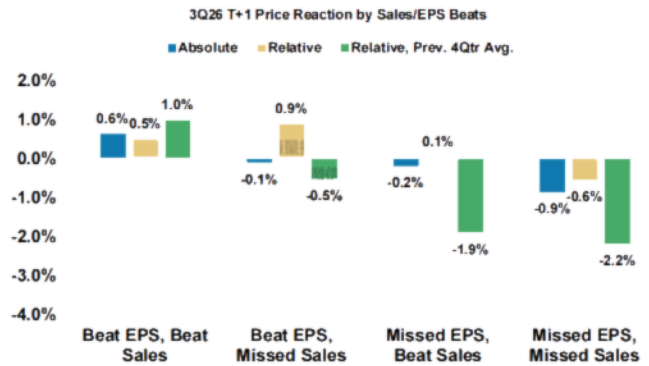
Source: FactSet, Morgan Stanley Research

Price Reaction

- Median T+1 price reactions at 0.1% on an absolute basis and +0.4% relative to the broad index.

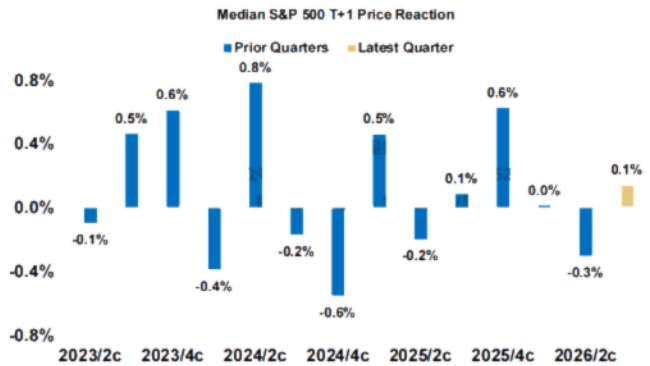
- Breadth of positive returns increased to 51%.

Exhibit 26: 3Q Price Reaction by Sales/EPS Beats



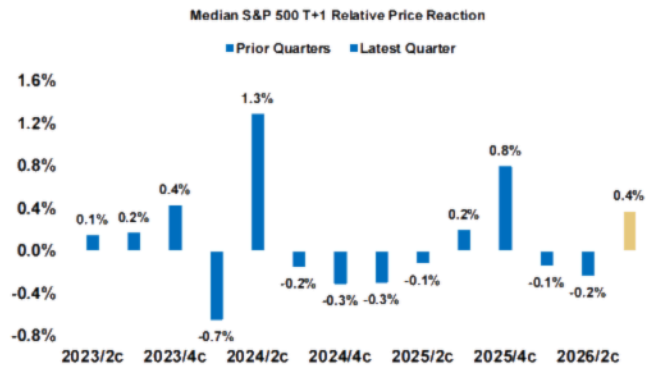
Source: Factset, Morgan Stanley Research

Exhibit 27: T+1 Price Reactions



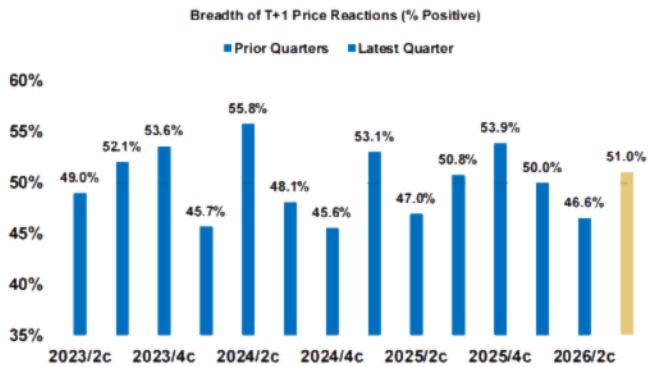
Source: Factset, Morgan Stanley Research

Exhibit 28: T+1 Relative Price Reactions



Source: Factset, Morgan Stanley Research

Exhibit 29: Breadth of T+1 Price Reactions

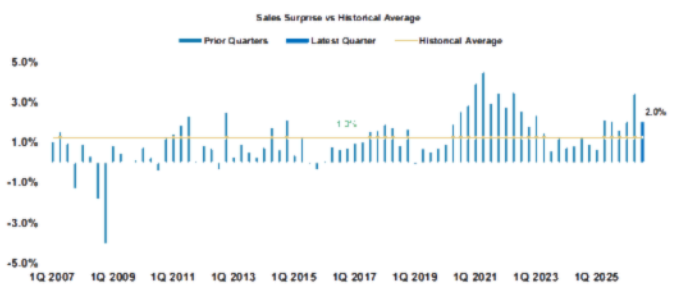


Source: Factset, Morgan Stanley Research

Surprise

- 3Q Sales surprise at 2.0%, in-line with the historical average of 1.3%.
- 3Q EPS surprise at 3.9%, 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 30: Sales Surprise: Averages +1% Historically



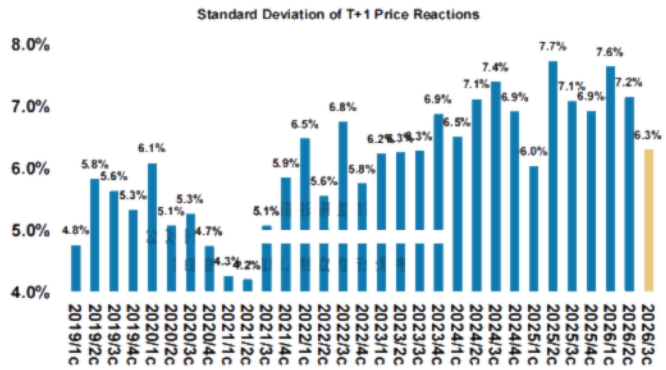
Source: Factset, Morgan Stanley Research

Exhibit 31: EPS Surprise: Averages 4-5% Historically



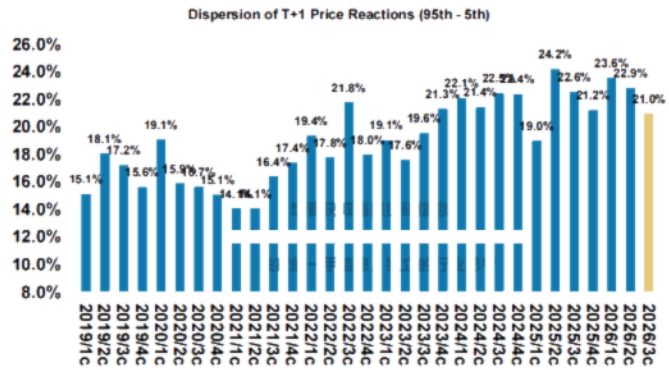
Source: Factset, Morgan Stanley Research

Exhibit 32: Standard Deviation of T+1 Price Reactions



Source: FactSet, Morgan Stanley Research

Exhibit 33: 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%.
- Earnings Revisions Breadth (ERB) has not spiked as high as previous quarters and suggests upward revisions to 2027 have been more tepid this quarter. This week is the last major week for S&P 500 earnings so we will be monitoring ERB closely to see if this changes the trend.
- Industrials and Real Estate have the most positive ERB in the last 2 weeks while Communication Services and Discretionary have seen the weakest.

Exhibit 34: S&P 500 Earnings Revision Breadth



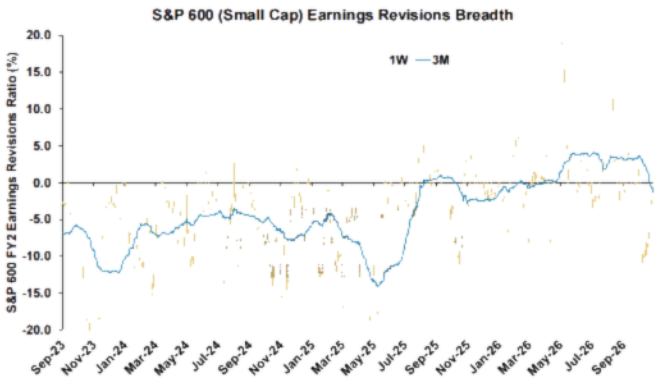
Source: FactSet, Morgan Stanley Research

Exhibit 35: S&P 500 Short-term Earnings Revisions Breadth



Source: FactSet, Morgan Stanley Research

Exhibit 36: S&P 600 Short-term Earnings Revisions Breadth



Source: FactSet, Morgan Stanley Research

Exhibit 37:

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.
Telecom	11%	2%	-2%	1%	-11%
Household & Personal Products	10%	-2%	-5%	3%	23%
Autos	10%	12%	-3%	-12%	-6%
Transportation	9%	-11%	-46%	-55%	-28%
Capital Goods	6%	-22%	-29%	-20%	-11%
Industrials	**5%**	**-18%**	**-31%**	**-27%**	**-17%**
Diversified Financials	5%	0%	-17%	-14%	-11%
Semis	4%	-15%	-18%	-11%	-14%
Banks	2%	1%	-35%	-38%	-22%
Real Estate	**2%**	**-8%**	**-15%**	**-12%**	**-8%**
Retailing	2%	-7%	-10%	-13%	-1%
Energy	**2%**	**-5%**	**8%**	**17%**	**-1%**
Financials	**1%**	**-4%**	**-19%**	**-15%**	**-8%**
Software & Services	0%	-22%	-21%	-22%	4%
Tech	**-1%**	**-21%**	**-21%**	**-2%**	**-1%**
S&P 500 Earnings Revisions Breadth	**-1%**	**-14%**	**-20%**	**-15%**	**-11%**
Pharma, Biotech, & Life Sciences	-2%	-34%	-40%	-35%	-13%
Utilities	**-2%**	**-1%**	**-1%**	**0%**	**-6%**
Commercial & Professional Services	-3%	-11%	-18%	-20%	-32%
Materials	**-3%**	**-8%**	**-10%**	**-15%**	**-26%**
Health Care	**-3%**	**-22%**	**-31%**	**-24%**	**-14%**
Staples	**-4%**	**-14%**	**-17%**	**-10%**	**-3%**
HC Equipment & Services	-4%	-13%	-23%	-15%	-15%
Food & Staples Retailing	-5%	-10%	-13%	-5%	5%
Consumer Discretionary	**-6%**	**-18%**	**-26%**	**-27%**	**-17%**
Food Beverage & Tobacco	-9%	-22%	-25%	-21%	-20%
Insurance	-9%	-13%	-12%	-3%	10%
Tech Hardware	-9%	-24%	-24%	-5%	-2%
Consumer Services	-10%	-25%	-28%	-19%	-12%
Communication Services	**-11%**	**-12%**	**-9%**	**-1%**	**-17%**
Media & Ent	-15%	-15%	-11%	-1%	-18%
Consumer Durables	-19%	-35%	-61%	-47%	-43%

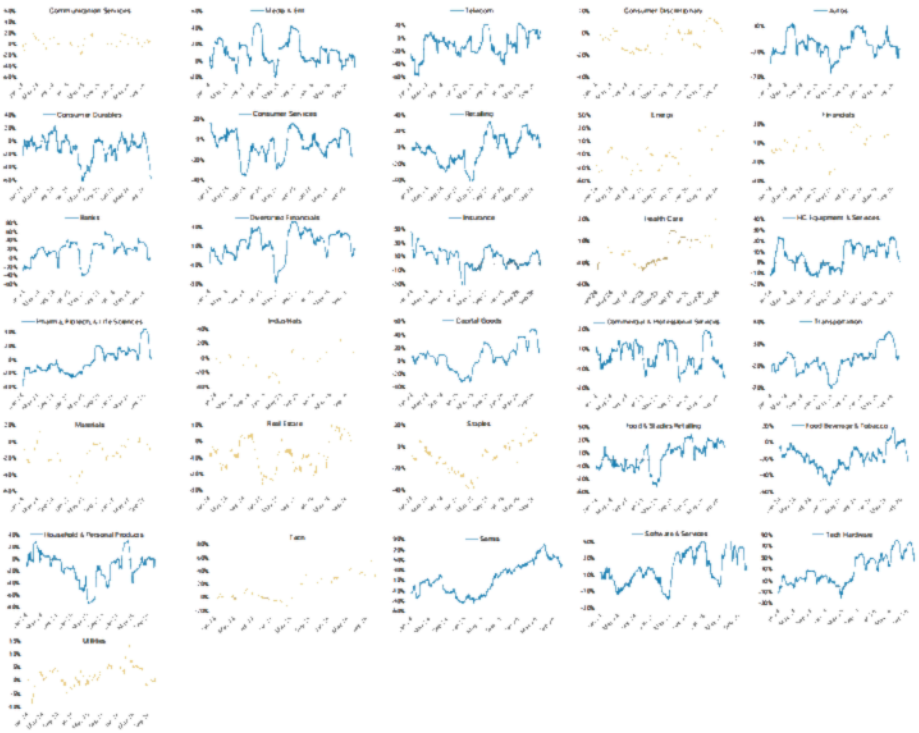
Source: Factset, Morgan Stanley Research

Exhibit 38: Revisions to 3Q26, 2026, and 2027 Earnings Estimates

	YTD			Since 5/31/2026		
Sector, Industry Group	**3Q26**	**2026**	**2027**	**3Q26**	**2026**	**2027**
Communication Services	**-19.9%**	33.4%	6.5%	**-21.2%**	**18.4%**	1.5%
Media & Entertainment	**-29.7%**	35.6%	4.6%	**-27.3%**	**22.0%**	2.2%
Telecom	17.6%	10.7%	6.4%	4.3%	2.3%	-1.0%
Consumer Discretionary	-2.6%	22.4%	1.2%	0.2%	**17.8%**	1.3%
Autos	2.0%	1.6%	-6.0%	**11.0%**	1.5%	-2.3%
Consumer Durables	**-13.4%**	-7.3%	**-17.6%**	-6.0%	-3.7%	**-12.6%**
Consumer Services	-3.2%	-2.6%	-2.8%	-0.1%	0.0%	-2.0%
Retailing	-1.2%	**40.2%**	6.8%	-0.4%	**29.7%**	5.1%
Energy	**133.3%**	**98.9%**	**53.0%**	**35.8%**	**27.7%**	**27.0%**
Financials	3.6%	6.7%	4.0%	4.1%	5.3%	2.7%
Banks	-4.0%	8.0%	6.2%	-3.4%	5.0%	3.5%
Diversified Financials	5.9%	5.4%	4.0%	6.8%	5.2%	3.1%
Insurance	**14.0%**	8.8%	0.2%	**13.2%**	6.7%	0.5%
Health Care	-4.4%	-7.7%	1.6%	-4.7%	-2.2%	0.4%
HC Equipment & Services	1.4%	4.5%	0.7%	3.6%	4.0%	1.7%
Pharma, Biotech, & Life Sciences	-7.4%	**-14.6%**	2.3%	-9.0%	-6.0%	-0.2%
Industrials	3.1%	2.3%	2.1%	4.2%	0.6%	0.2%
Capital Goods	5.6%	6.0%	3.8%	6.5%	2.0%	2.1%
Commercial & Professional Services	-1.3%	-1.1%	-1.5%	-0.6%	-0.1%	-1.1%
Transportation	-1.0%	-5.3%	0.7%	-0.2%	-2.7%	-4.0%
Materials	17.9%	15.1%	11.9%	-0.8%	-0.4%	-0.1%
Real Estate	0.5%	0.8%	0.2%	1.3%	0.7%	0.3%
Staples	-5.6%	-1.1%	-2.5%	-4.9%	-0.5%	-1.8%
Food & Staples Retailing	-1.4%	3.5%	0.8%	-1.5%	3.5%	0.9%
Food Beverage & Tobacco	-7.8%	-2.6%	-3.4%	**-8.4%**	-2.7%	-3.7%
Household & Personal Products	-3.7%	-1.8%	-3.4%	-0.2%	-0.4%	-0.8%
Tech	28.6%	25.8%	**49.4%**	9.1%	7.7%	**20.1%**
Semis	**46.7%**	**42.0%**	**84.5%**	**12.2%**	**11.8%**	**31.9%**
Software & Services	3.4%	4.8%	4.2%	2.8%	1.2%	1.3%
Tech Hardware	25.2%	23.7%	**36.0%**	9.0%	**7.4%**	**12.3%**
Utilities	3.4%	0.5%	-0.4%	2.3%	-0.1%	-1.1%
S&P 500	11.4%	16.9%	18.6%	3.1%	7.7%	8.5%

Source: FactSet, Morgan Stanley Research

Exhibit 39: S&P 500 ERB by Sector (yellow), Industry Group (blue)

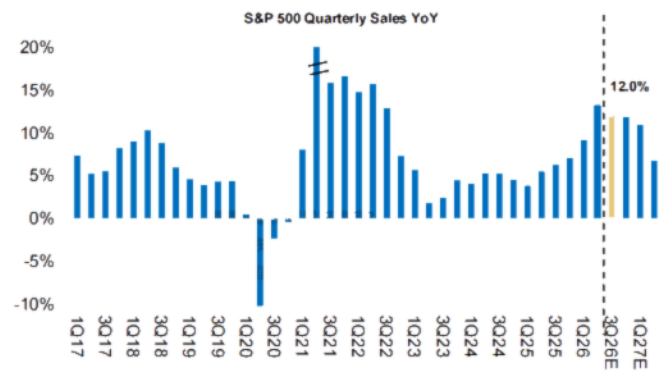


Source: FactSet, Morgan Stanley Research

Sales

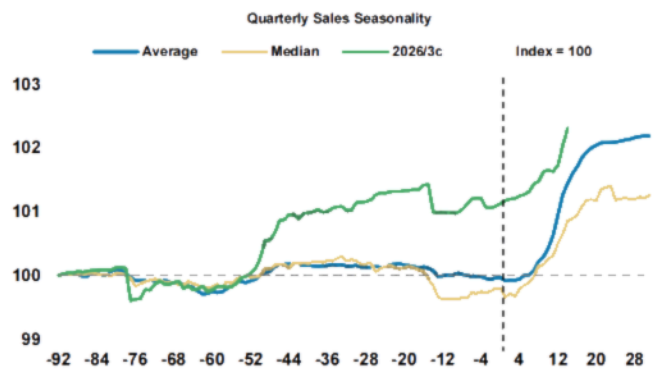
- Consensus expects 12% sales growth in 3Q.
- Consensus expects 12% 2026 sales growth and 8% 2027 sales growth

Exhibit 40: Quarterly Sales Growth



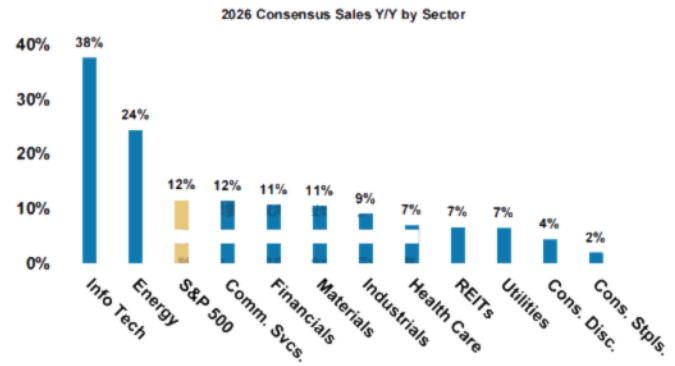
Source: FactSet, Morgan Stanley Research

Exhibit 41: Quarterly Sales Seasonality



Source: FactSet, Morgan Stanley Research

Exhibit 42: 2026 Consensus Sales



Source FactSet, Morgan Stanley Research

Exhibit 43: 2027 Consensus Sales

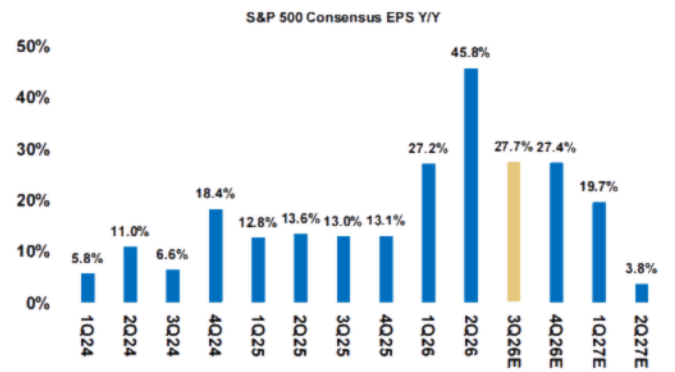


Source FactSet, Morgan Stanley Research

EPS

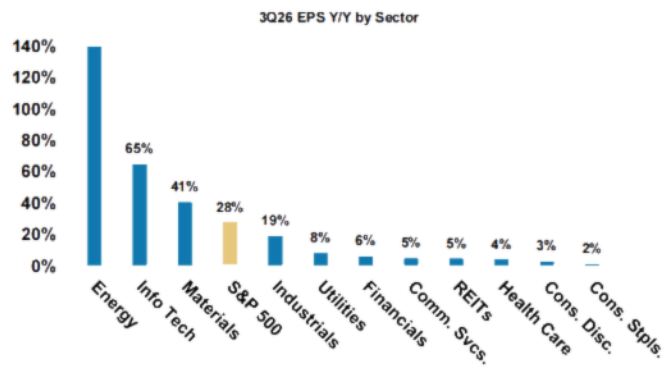
- Consensus expects 28% EPS growth in 3Q.
- Consensus expects 32% 2026 EPS growth and 16% 2027 EPS growth.

Exhibit 44: Consensus Expects 28% EPS Growth in 3Q



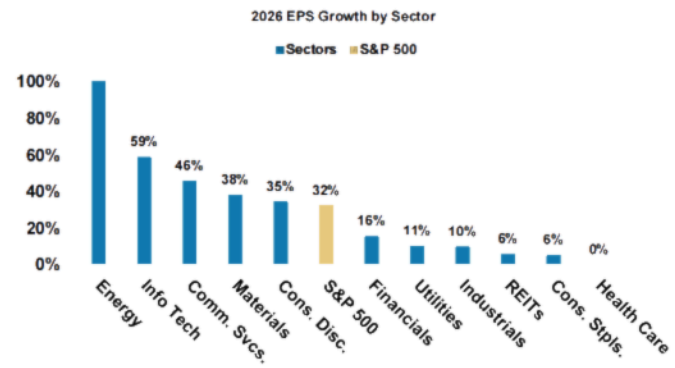
Source FactSet, Morgan Stanley Research

Exhibit 45: 3Q26 EPS by Sector



Source FactSet, Morgan Stanley Research

Exhibit 46: 2026 EPS Growth by Sector



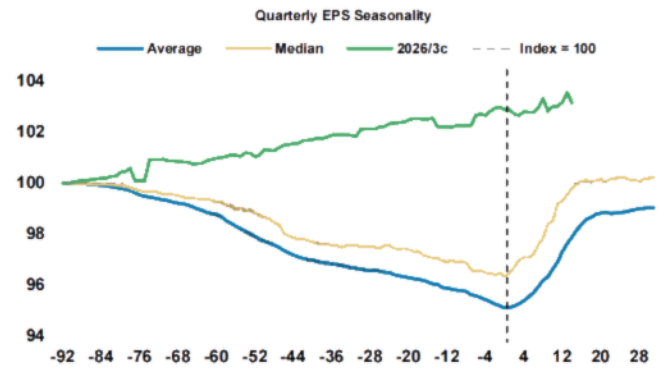
Source FactSet, Morgan Stanley Research

Exhibit 47: 2027 EPS Growth by Sector



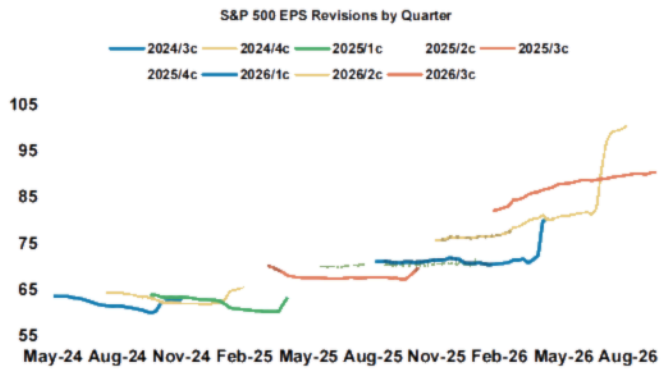
Source FactSet, Morgan Stanley Research

Exhibit 48: Quarterly EPS Seasonality



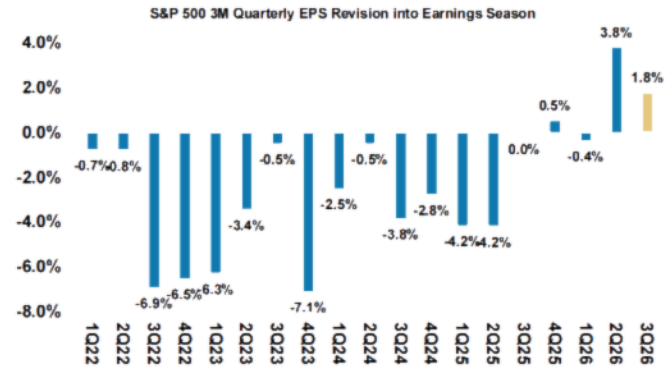
Source: FactSet, Morgan Stanley Research

Exhibit 49: S&P 500 EPS Revisions by Quarter



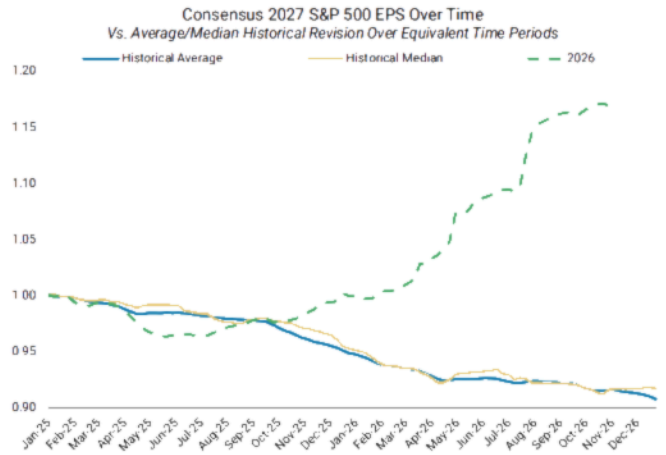
Source: FactSet, Morgan Stanley Research

Exhibit 50: Earnings Revisions into Reporting



Source: FactSet, Morgan Stanley Research

Exhibit 51: Seasonality of Out-Year Earnings Estimates vs 2026

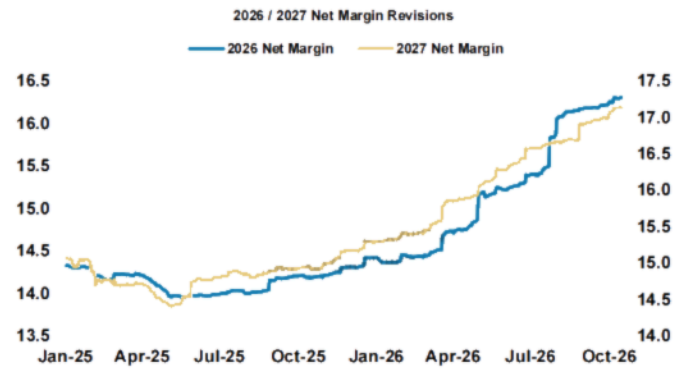


Source: FactSet, Morgan Stanley Research

Margins

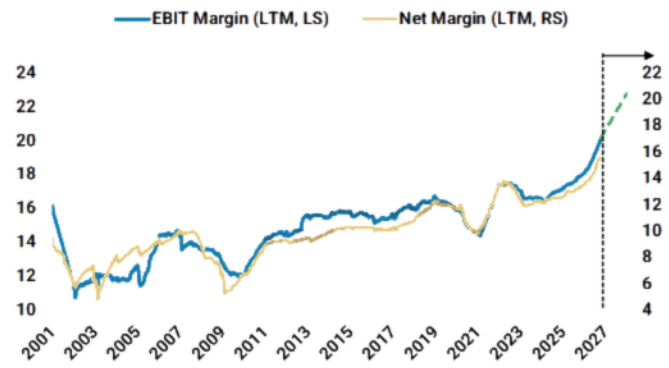
- Realized (LTM) EBIT margins are at 20.2% today and are expected to be 20.6% for FY2026 and 22.8% for FY2027.
- Realized (LTM) net margins are at 15.8% today and are projected at 16.2% for FY2026 and 17.2% for FY2027.
- 3Q consensus margins are at 15.6% for the S&P 500

Exhibit 52: Annual Net Margin



Source: FactSet, Morgan Stanley Research

Exhibit 53: Margins Are Expected to Push Higher though 2027



Source: FactSet, Morgan Stanley Research

Exhibit 54: 2026 EBIT Margin

2026 EBIT Margin

Sector, Industry Group	12/31/2025	10/30/2026	Spread
Communication Services	26.5	26.1	-0.4
Media & Entertainment	27.7	29.2	1.5
Telecom	22.3	19.3	-3.0
Consumer Discretionary	12.5	12.6	0.2
Autos	6.4	6.5	0.0
Consumer Durables	13.0	12.8	-0.2
Consumer Services	21.9	21.4	-0.5
Retailing	12.5	12.9	0.4
Energy	13.0	18.8	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	31.3	-5.3
Industrials	15.3	14.9	-0.4
Capital Goods	15.6	15.4	-0.2
Commercial & Professional Services	22.3	22.3	0.0
Transportation	12.8	11.7	-1.0
Materials	17.0	17.9	0.9
Real Estate	33.2	31.5	-1.7
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	40.2	2.9
Semis	51.6	57.0	5.3
Software & Services	37.2	37.4	0.2
Tech Hardware	25.1	26.7	1.7
Utilities	24.6	24.3	-0.3
S&P 500	19.4	20.6	1.2

Source: FactSet, Morgan Stanley Research

Exhibit 55: 2026 Net Margin

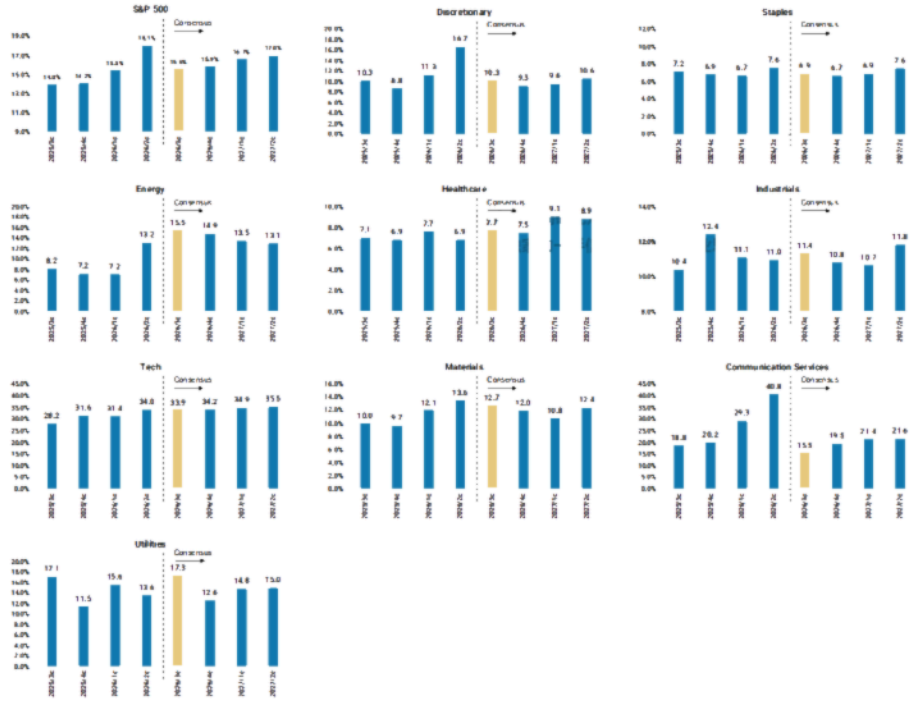
2026 Net Margin

Sector, Industry Group	12/31/2025	10/30/2026	Spread
Communication Services	20.3	26.6	6.4
Media & Entertainment	22.3	33.6	11.3
Telecom	13.5	11.6	-1.9
Consumer Discretionary	9.7	11.8	2.1
Autos	5.2	5.5	0.3
Consumer Durables	10.0	9.8	-0.3
Consumer Services	15.9	15.6	-0.3
Retailing	9.9	13.6	3.6
Energy	8.5	13.1	4.6
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	12.2	0.9
Real Estate	21.0	21.4	0.3
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	21.6	1.4
Utilities	15.2	15.0	-0.3
S&P 500	14.4	16.2	1.8

Source: FactSet, Morgan Stanley Research

Exhibit 56:

Net Margins by Sector



Source: FactSet, Morgan Stanley Research

3Q Systematic Earnings (Full MS Coverage)

Summary:

- **Previews**: KPI previews are +19% vs +32% net positive last quarter and NTM EPS previews are +21% vs +27% last quarter on projected NTM impacts. Previews are currently net positive across all sectors with the exception of Materials.
- **Results**: Results at +15% across MS Coverage vs +27% last quarter. Eight of the eleven sectors have positive NTM EPS revisions with the remaining three in neutral territory. Real Estate (+56%) and Tech (+38%) stand out as the top sectors while Industrials, Materials, and Communication Services sit at neutral.

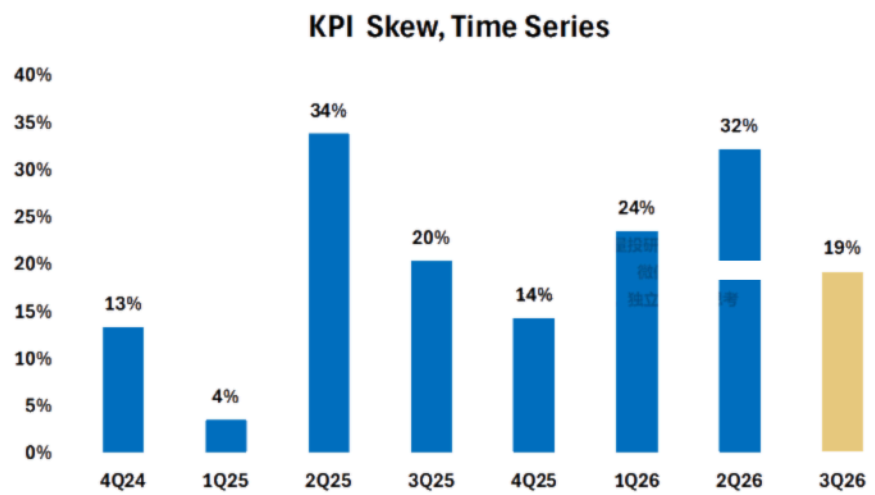
3Q Preview Tracking

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.

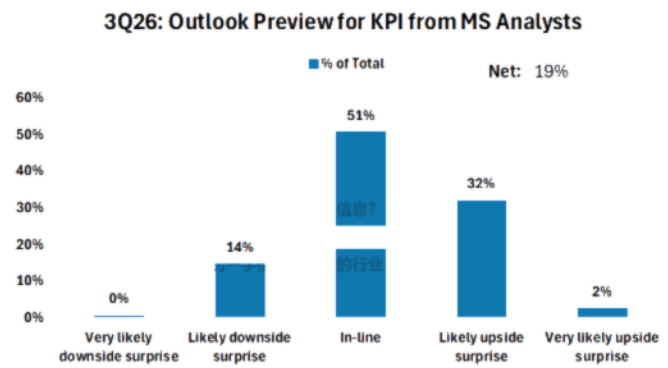
Key Performance Indicator (KPI) Previews

Exhibit 57: KPI Previews from MS Analysts - Net KPI



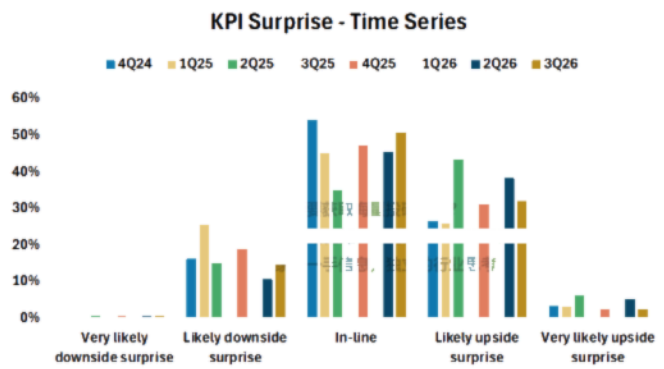
Source: Morgan Stanley Research

Exhibit 58: KPI Preview from MS Analysts - 3Q26



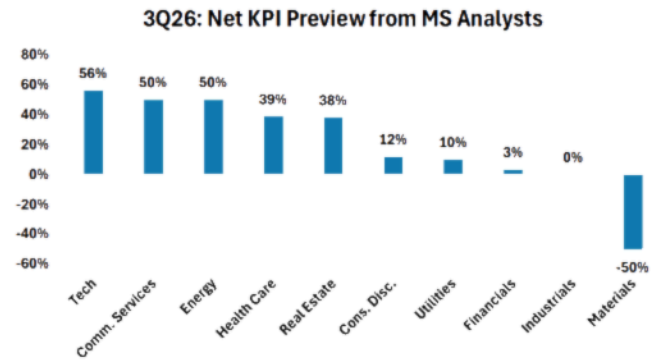
Source: Morgan Stanley Research

Exhibit 59: KPI Preview- Quarterly Time Series



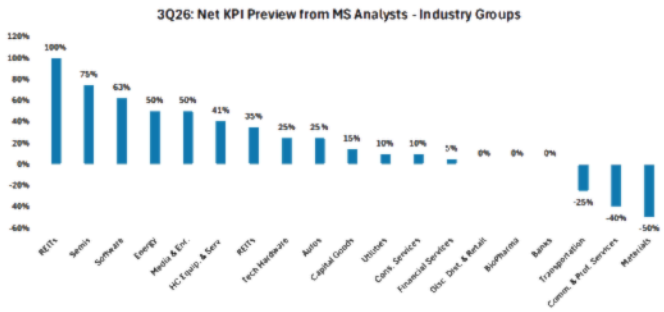
Source: Morgan Stanley Research

Exhibit 60: KPI Preview by Sector



Source: Morgan Stanley Research

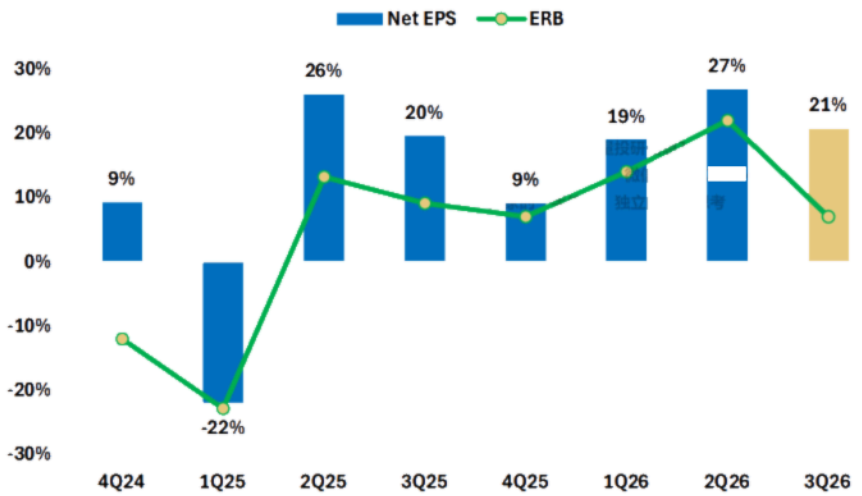
Exhibit 61: KPI Preview by Industry Group



Source: Morgan Stanley Research

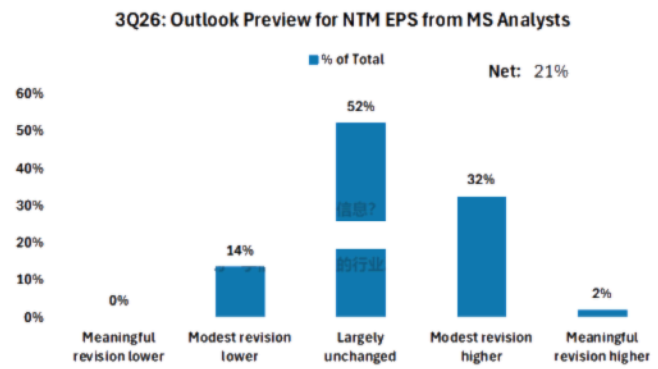
EPS Previews

Exhibit 62: EPS Preview from MS Analysts - Net EPS



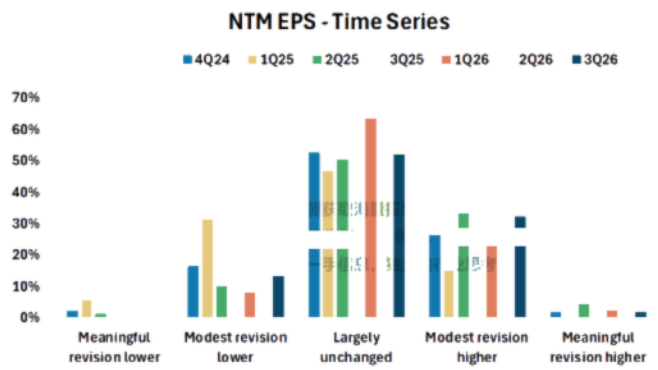
Source: Morgan Stanley Research. ERB is earnings revisions breadth.

Exhibit 63: EPS Preview from MS Analysts - 3Q26



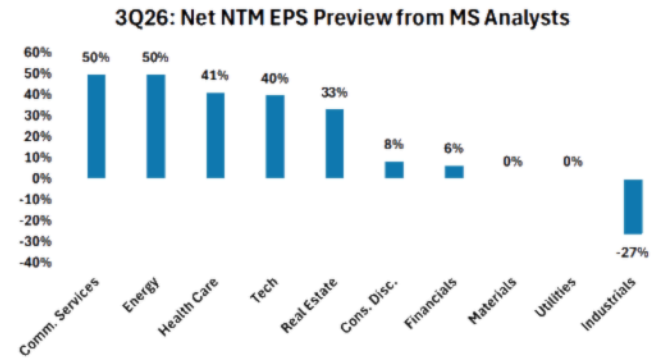
Source: Morgan Stanley Research

Exhibit 64: EPS Preview - Quarterly Time Series



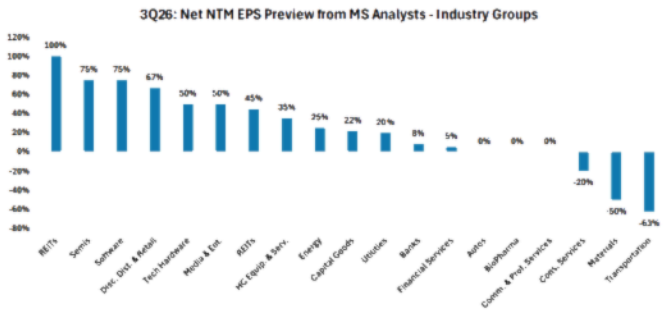
Source: Morgan Stanley Research

Exhibit 65: EPS Preview by Sector



Source: Morgan Stanley Research

Exhibit 66: EPS Preview by Industry Group



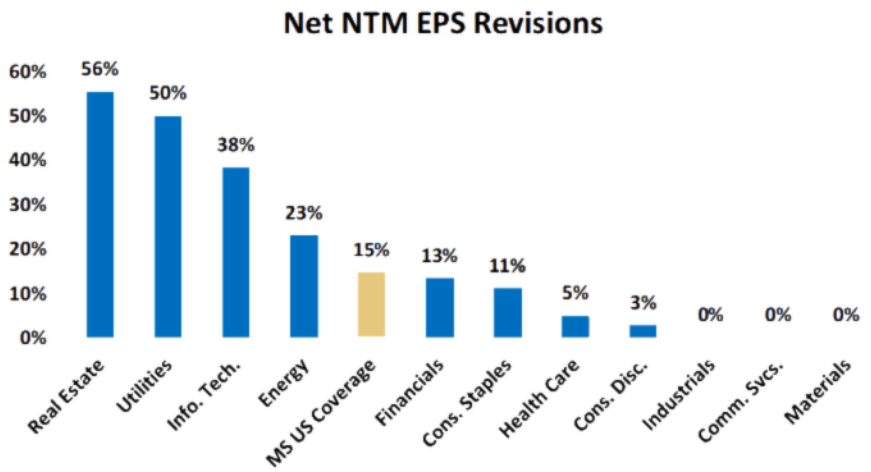
Source: Morgan Stanley Research

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.

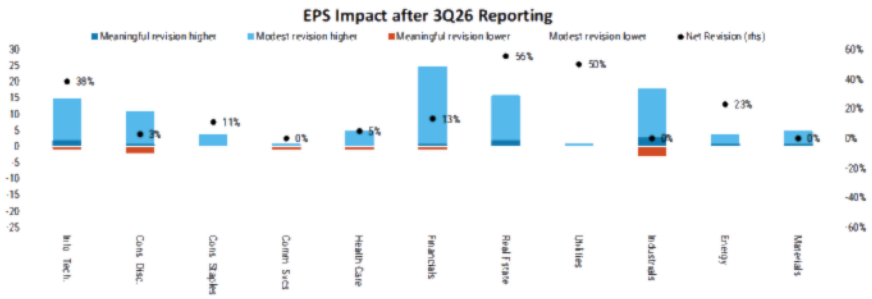
Methodology: Each Analyst chooses one of five reactions on NTM EPS following the company earnings: very negative, negative, in-line, positive, or very positive. We roll up these reactions into a net score by taking (positive-negative)/total reactions.

Exhibit 67: Net NTM EPS Revisions Post Reporting



Source: Morgan Stanley Research

Exhibit 68: MS US Coverage - 3Q26 Results



Source: Morgan Stanley Research

Exhibit 69: 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	26	38%						50%					
Cons. Disc.	35	3%						43%					
Cons. Staples	9	11%						100%					
Comm. Svcs.	6	0%						83%					
Health Care	20	5%						70%					
Financials	67	13%						43%					
Real Estate	27	56%						52%					
Utilities	2	50%						100%					
Industrials	55	0%						45%					
Energy	13	23%						23%					
Materials	18	0%						0%					
MS US Coverage	278	15%						80%					

Data as of 10/9/26 Source: Morgan Stanley Research

Fresh Money Buy List

Exhibit 70: 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	$408.1	$186.40	214.00	14.8%	Hyma Yerramr	8/1/2024	16.4%	-3.1%
American Tower Corp	AMT	Overweight	Real Estate	$84.2	$178.75	220.00	23.1%	Mcveigh, Cameron	4/16/2025	(9.0%)	(61.1%)
Constellation Energy Inc	CEG	Equal-Weight	Utilities	$67.2	$241.61	280.00	15.9%	Adam, David	6/13/2022	63.1%	(17.6%)
Delta Air Lines, Inc	DAL	Overweight	Industrials	$32.5	$60.36	75.00	24.2%	Shanker, Ravi	11/17/2025	30.6%	24.5%
DTE Corp	DTE	Overweight	Energy	$25.2	$134.75	157.00	16.5%	Weinstock, Pavel	11/17/2025	(8.7%)	(20.5%)
Kansas City Southern Holdings Inc	KSU	Overweight	Industrials	$25.9	$260.58	320.00	22.8%	Shanker, Ravi	11/17/2025	43.3%	24.1%
Northrop Grumman Corp.	NOC	Overweight	Industrials	$78.7	$552.77	750.00	35.6%	Lewis, Phillip	8/12/2024	17.2%	(28.6%)
Abbvie Corporation PLC	TEVA	Overweight	Information Technology	$55.4	$220.12	180.00	(18.2%)	Abdo, Adam	11/17/2025	26.3%	12.7%
Target Corp	TGT	Overweight	Consumer Staples	$67.7	$148.97	170.00	14.1%	Gurnee, Simeon	11/17/2025	76.2%	62.4%
Altria Plc	MO	Overweight	Consumer Staples	$82.3	$118.77	131.00	5.2%	Gurnee, Simeon	3/7/2023	121.5%	71.5%
Current List Performance											
Average (Eq. Weight)				$186.9			20.8%			48.7%	0.35%
Median				$61.9			19.4%			40.4%	15.8%
% Positive Returns (Abs. / Rel.)										88%	56%
% Negative Returns (Abs. / Rel.)										13%	44%
Avg. Hold Period (Months)											13.1
All Time List Performance											
Average (Eq. Weight)										32.7%	4.4%
Median										22.7%	(1.7%)
% Positive Returns (Abs. / Rel.)										77%	48%
% Negative Returns (Abs. / Rel.)										23%	52%
Avg. Hold Period (Months)											16.2

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.

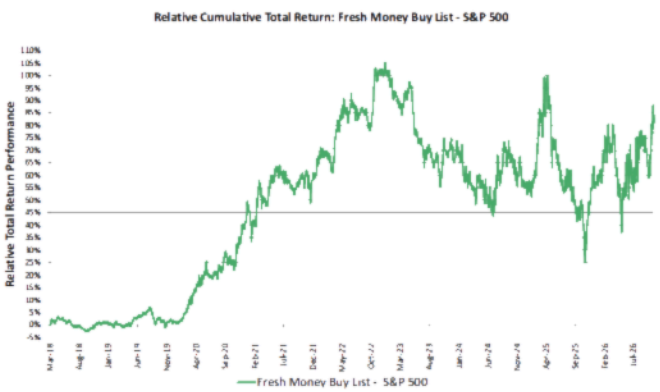
Source: Bloomberg, Morgan Stanley Research

Exhibit 71: Fresh Money Buy List & S&P 500 Cumulative Total Return



Source: Bloomberg, Morgan Stanley Research

Exhibit 72: Fresh Money Buy List / S&P 500 Cumulative Relative Return

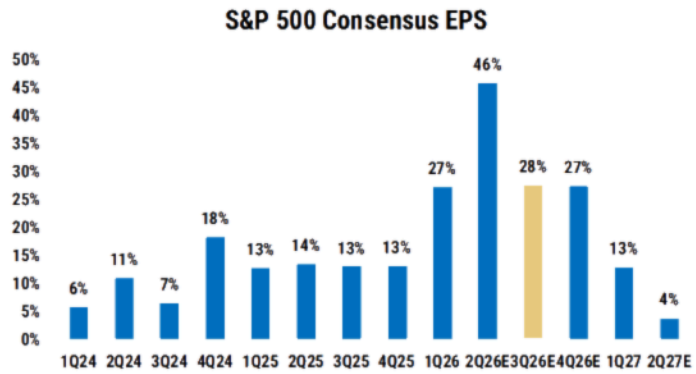


Source: Bloomberg, Morgan Stanley Research

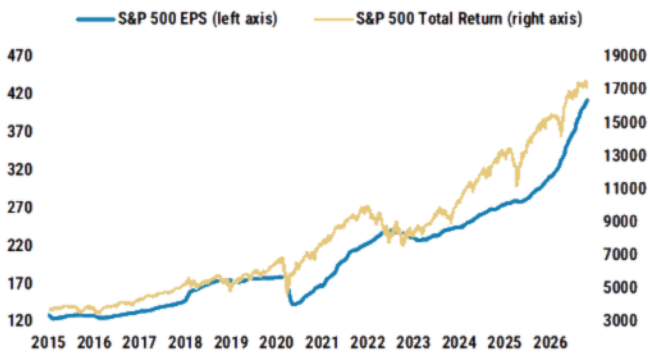
Weekly Charts to Watch

Exhibit 73: US Earnings Snapshot

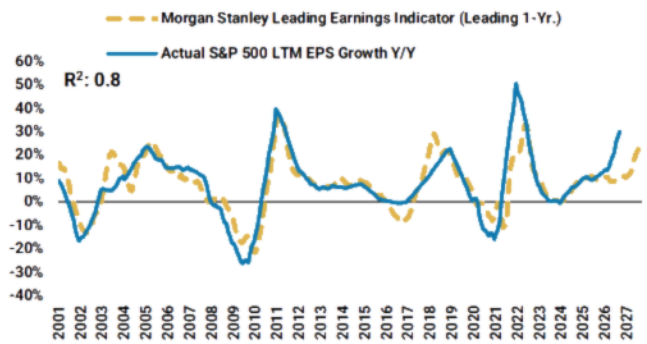
S&P 500 Y/Y EPS Growth



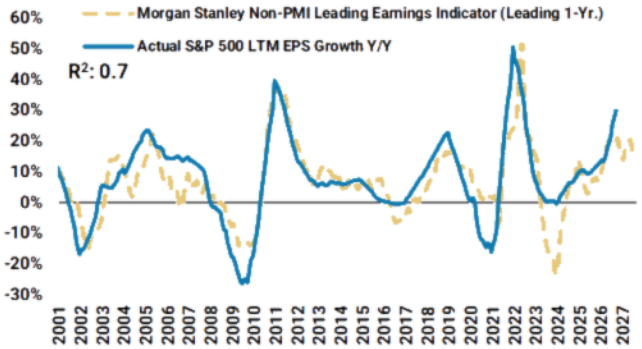
S&P 500 NTM EPS vs. Total Return Level



US Leading Earnings Indicator



US Non-PMI Leading Earnings Indicator



Source: Refinitiv, FactSet, Morgan Stanley Research. Top: As of Oct. 30, 2026. Bottom left as of Sept. 30, 2026. Bottom right as of Sept. 30, 2026. Government data has delayed further updates. Actual S&P 500 LTM EPS as of 9/30/26. 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 (universe signal), NFIB small bus. most important problem inflation (inverse signal), and Brave-Butters-Kelley cycle component of monthly GDP. Weightings are fixed over time.

Exhibit 74: 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	2028	2026	2027	June 2028	2028
Bear	7,580	6,900	-22%	18.7x	19.0x	$299	$300	$311	$322	$364	$424	$436	$497
Growth						3%	0%	4%	7%	32%	16%	17%	17%
Base	7,580	8,300	9%	18.7x	20.5x	$339	$380	$404	$429	$364	$424	$436	$497
Growth						23%	12%	13%	13%	32%	16%	17%	17%
Bull	7,580	9,400	24%	18.7x	21.0x	$352	$416	$448	$480	$364	$424	$436	$497
Growth						28%	18%	17%	16%	32%	16%	17%	17%

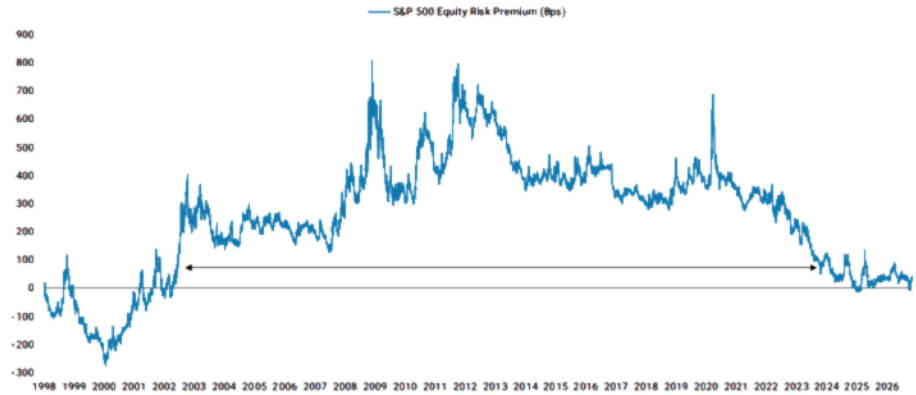
Source: FactSet, Morgan Stanley Research

Exhibit 75: 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

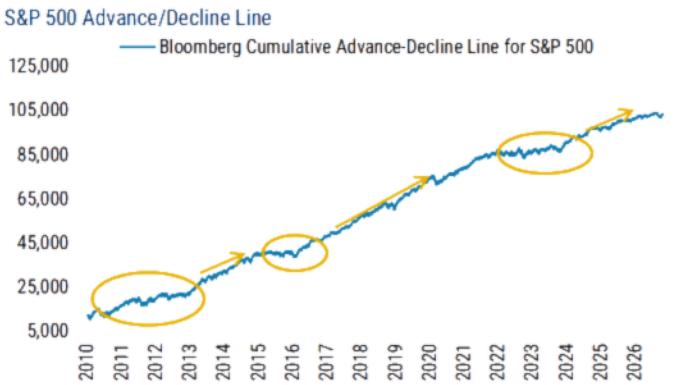
Exhibit 76: Equity Risk Premium

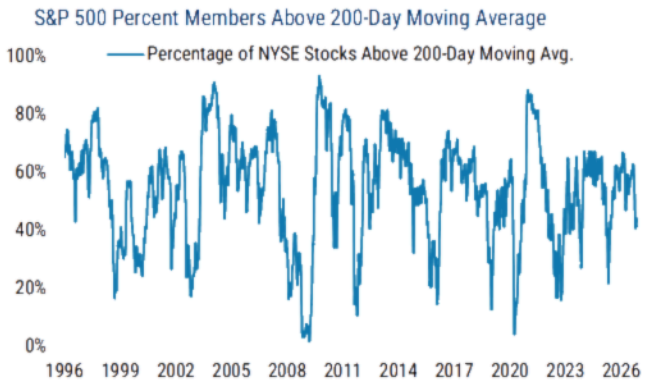


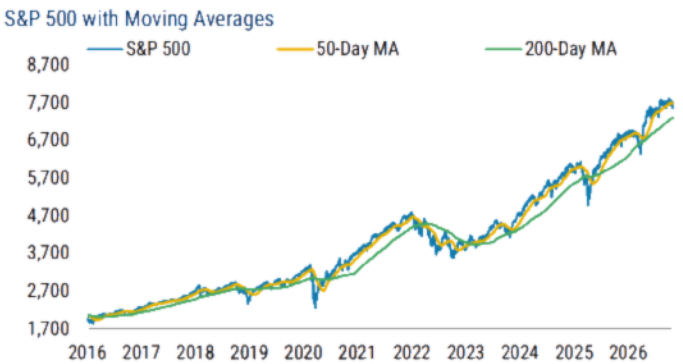
Note: Equity risk premium is calculated as the S&P 500 forward 12M earnings yield minus the nominal 10-Year Treasury.

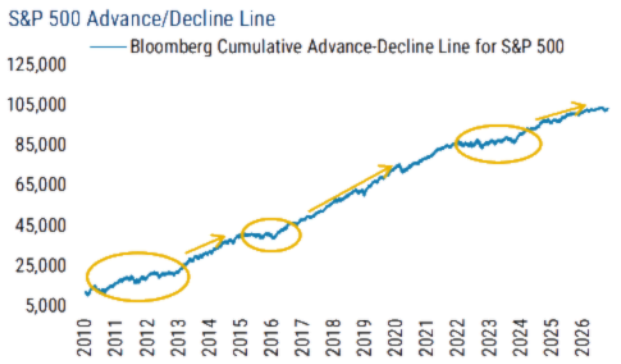
Source: As of Oct 30, 2025. Bloomberg, Morgan Stanley Research

Exhibit 77: US Equity Market Technicals and Financial Conditions





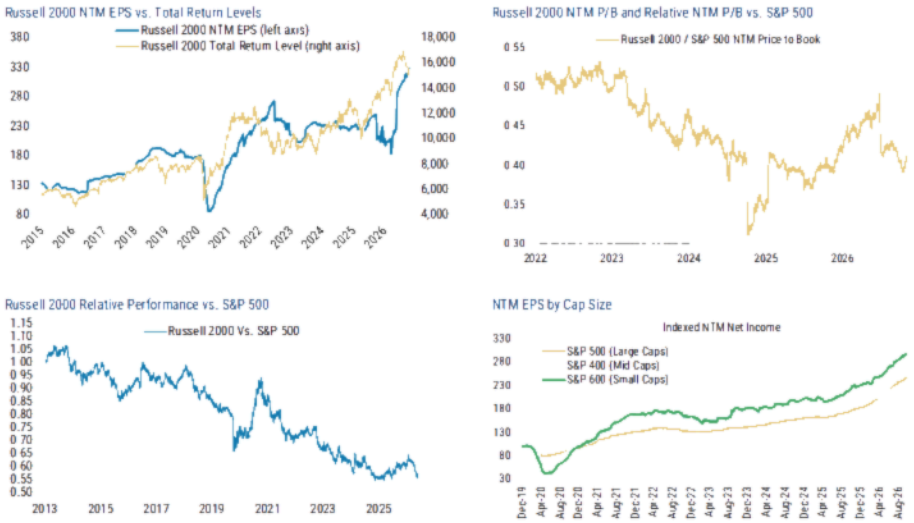




Source: Bloomberg, Morgan Stanley Research. As of Oct 30, 2025.

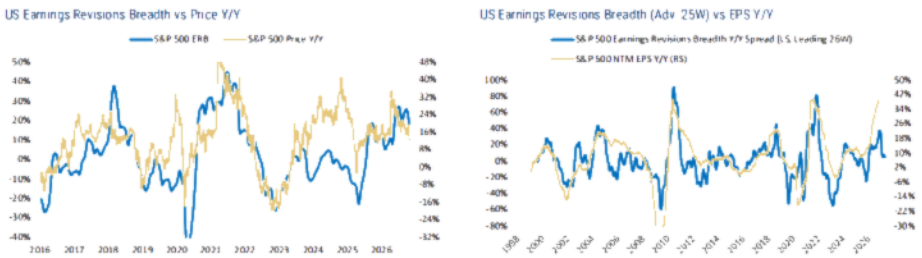
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更多资料请加V1

Exhibit 78: US Small Cap Equities



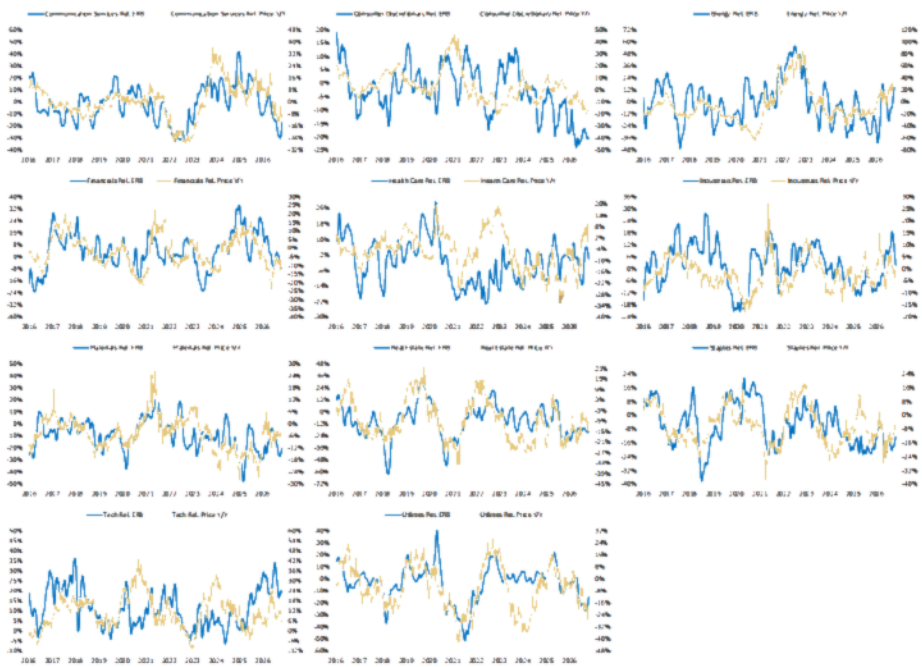
Source: FactSet, Morgan Stanley Research. As of Oct 30 2026

Exhibit 79: Earnings Revisions Breadth



Source: FactSet, Morgan Stanley Research

Exhibit 80: Earnings Revisions Breadth vs YoY Performance



Source: FactSet, Morgan Stanley Research. As of Oct 30 2026