

September 1, 2016

## CROSS-ASSET STRATEGY

## Global In the Flow

## September 2016

## Performance – Relatively Quiet Summer

This summer has been quiet as S&P stayed rangebound but there were key moves within asset classes, with EM equities up 2.5% in total returns, US HY posting another solid 2.9%, EM credit up 2.6% and Global Financials up 3.5%, the best performing sector across regions. Oil also bounced back last month, with Brent up 10.8%. Post Jackson Hole, the market probability of a Fed hike by year-end has risen but markets are still pricing in a relatively gradual pace of hikes. USD stayed largely unchanged in August.

## Technical – EM Net Issuance Going Strong

EM issuance continued to rise in August, with gross issuance up by 21% YoY. DM IG issuance remained relatively stable, with gross issuance up 6% YoY. Unlike their peers, DM sovereigns and HY issuance, both gross and net, continued their downward trend.

## Sentiment – Market Fear Stays Low

Measures of market fear remained low last month. VIX, currently at ~13%, stayed range-bound throughout the month. Similarly, the MS Global Risk Demand Index\* stayed around 1 before declining to a current level of 0.4.

## Market Implied Pace of Hikes is Still Low

## MS - Market Implied Pace of Hikes



Source: Morgan Stanley Research, Bloomberg

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\*Global Risk Demand Index – US Pat. 7,617,143

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## Highlights from August

### Global Equities

MSCI EM total returns in August at: **2.5%**

Russia was the best performing market overall in August, rising (in \$): **6.1%**

### Global Fixed Income

In August, US 10yr yields rose by: **+13bp**

US HY posted YTD excess returns of: **10.6%**

### FX

NOK was the strongest G10 currency, rising: **1.4%**

In August, ZAR depreciated by: **5.7%**

### Technical/Sentiment

Morgan Stanley Standardized GRDI\* fell to: **0.4**

VIX currently stands at: **13.4%**

### Flows and Issuance

YoY change in DM IG gross issuance: **+6%**

YoY change in EM gross issuance: **+21%**

### What We're Watching

Number of US rate hikes expected over next 12m: **0.9**

Market-implied date for first rate hike by the ECB pushed back to: **Oct '21**

\*Global Risk Demand Index – US Pat. 7,617,143

## Table of Contents

<b>1. Highlights from August</b>	<b>2</b>
<b>2. Market Review &amp; Trends</b>	<b>4</b>
Equity • Fixed Income • Credit • FX & Commodities	
<b>3. Valuations</b>	<b>18</b>
Equity • Fixed Income • Credit • FX	
<b>4. Technicals</b>	<b>28</b>
Sentiment • Speculative Positioning • Mutual Fund Flows • Issuance	
<b>5. What We're Watching</b>	<b>36</b>
DM Cycle Indicators • US • Europe • Japan • China • EM	

## In Case You Missed It...

7 Aug	<a href="#"><u>Cross-Asset Playbook: Trading Cautiously</u></a> Our economic forecasts expect disappointing DM growth to keep the Fed on hold through 2017 and USD weaker through year-end. We think this backdrop favours 'Quality Carry' – assets that can beat inflation, with some protection against weaker growth. Securitized products and EM local rates fit this bill.
29 Jul	<a href="#"><u>Cross-Asset Dispatches: US Elections: What's the Best Option?</u></a> We think that options markets are pricing in too little risk that the US election drives volatility, especially in FX and interest rates.
17 Jul	<a href="#"><u>Global Strategy Summer Outlook: Dealing with Disappointment</u></a> With a backdrop of disappointing growth and return forecasts, investors should look for quality and carry in 2H. Credit remains our top asset class, but tighter spreads and an on-hold Fed lead us to reduce corporates and add to securitised products, Treasuries and EM local rates.
7 Jul	<a href="#"><u>Cross-Asset Strategy: The New Diversifiers</u></a> With yields at historical lows, can bonds still 'do their job' in multi-asset portfolios? We think bonds will no longer be as effective and explore potential diversifiers in this note.
29 Jun	<a href="#"><u>Cross-Asset Playbook: Our Plan for No Plan</u></a> The UK has voted to leave the EU without a plan about how to do so. This increases uncertainty and economic risk, enough that we no longer expect the Fed to hike this year. Systemic risk measures, however, remain well-behaved. We discuss what happens post-Brexit and highlight the trades we like.
24 Jun	<a href="#"><u>Cross-Asset Strategy: What Leave Means</u></a> The UK has voted to leave the EU. We look at the implications of 'Leave' across different asset classes.

*We acknowledge Ankit Modi's contribution to this report.*

# Market Review & Trends

## MARKET REVIEW

## Cross-Asset Performance

Market		Ccy	Latest	1Y	CHANGES			PERFORMANCE			VALUATIONS			
					1 Mth Δ	3 Mth Δ	YTD Δ	1 Mth	3 Mth	YTD	Latest	10YAvg	10Y Pctile	
EQUITIES				Level	Price Returns (%)			Total Returns (%)			Fwd P/E			
US	S&P 500	USD	2171	<div><div></div></div>	-0.1	3.5	6.2	0.1	4.1	7.8	17.1x	14.1x	97%	<div><div></div></div>
Europe	MSCI EUROPE	EUR	1393	<div><div></div></div>	0.9	2.5	-1.4	1.2	3.2	1.8	15.1x	12.1x	90%	<div><div></div></div>
Asia	TOPIX	JPY	1330	<div><div></div></div>	0.5	-3.6	-14.1	0.6	-3.5	-13.0	13.2x	15.1x	29%	<div><div></div></div>
EM	MSCI EM	USD	894	<div><div></div></div>	2.3	10.7	12.5	2.5	12.1	14.8	12.4x	11.0x	83%	<div><div></div></div>
RATES				Yield (%)	Yield Change (bp)			Total Returns (%)			Real Yield			
USTs	2 Year	USD	0.81	<div><div></div></div>	15	-7	-24	-0.2	0.4	1.2	0.01	0.45	32%	<div><div></div></div>
	5 Year	USD	1.20	<div><div></div></div>	17	-17	-56	-0.8	1.2	3.9	0.40	1.25	36%	<div><div></div></div>
	10 Year	USD	1.58	<div><div></div></div>	13	-27	-69	-1.1	2.9	7.9	0.78	2.03	57%	<div><div></div></div>
	30 Year	USD	2.23	<div><div></div></div>	5	-42	-78	-0.9	9.8	19.2	1.43	2.77	63%	<div><div></div></div>
Bunds	2 Year	EUR	-0.62	<div><div></div></div>	1	-10	-27	-0.1	0.1	0.3	-0.82	0.66	64%	<div><div></div></div>
	5 Year	EUR	-0.50	<div><div></div></div>	3	-13	-46	-0.2	0.5	2.3	-0.70	1.18	78%	<div><div></div></div>
	10 Year	EUR	-0.07	<div><div></div></div>	5	-20	-69	-0.5	2.1	7.3	-0.27	1.82	82%	<div><div></div></div>
	30 Year	EUR	0.46	<div><div></div></div>	12	-39	-103	-2.7	9.4	25.0	0.26	2.42	85%	<div><div></div></div>
JGBs	5 Year	JPY	-0.17	<div><div></div></div>	9	5	-20	-0.5	-0.3	1.0	0.23	0.32	54%	<div><div></div></div>
	10 Year	JPY	-0.06	<div><div></div></div>	13	4	-33	-1.3	-0.4	3.4	0.34	0.90	66%	<div><div></div></div>
CREDIT				Spread (bp)	Spread Change (bp)			Excess Returns (bp)			Spread (bps)			
US	IG Corporates	USD	134	<div><div></div></div>	-11	-14	-30	109	185	336	134	187	32%	<div><div></div></div>
	HY Corporates	USD	513	<div><div></div></div>	-55	-90	-182	286	470	1056	513	624	38%	<div><div></div></div>
EUR	IG Corporates	EUR	80	<div><div></div></div>	-3	-24	-37	50	210	346	80	133	86%	<div><div></div></div>
	HY Corporates	EUR	367	<div><div></div></div>	-35	-50	-81	186	309	589	367	443	79%	<div><div></div></div>
EM	EM	USD	361	<div><div></div></div>	-31	-60	-84	261	516	858	361	347	36%	<div><div></div></div>
FX				Spot	% Change			Total Returns			Rate Differential (US - loc)			
G10	EURUSD	-	1.11	<div><div></div></div>	-0.3	-0.1	2.1	-	-	-	1.4	0.0	100%	<div><div></div></div>
	GBPUSD	-	1.31	<div><div></div></div>	-0.7	-10.1	-11.3	-	-	-	0.7	-0.4	100%	<div><div></div></div>
	USDJPY	-	103	<div><div></div></div>	1.2	-7.1	-14.2	-	-	-	1.0	1.0	76%	<div><div></div></div>
EM	BRLUSD	-	0.31	<div><div></div></div>	1.7	10.2	22.4	-	-	-	-11.5	-10.7	39%	<div><div></div></div>
	INRUSD	-	0.01	<div><div></div></div>	0.0	0.5	-1.2	-	-	-	-6.0	-6.3	65%	<div><div></div></div>
	RUBUSD	-	0.02	<div><div></div></div>	2.7	1.1	13.1	-	-	-	-8.0	-7.4	34%	<div><div></div></div>

Note: Under 1Y range column, a dot to the right represents higher equity/FX prices, higher yields for rates and wider credit spreads. Under valuations column, a higher percentile means the asset class is expensive compared to history. EUR spreads used here are asset swap spreads.

Source: Morgan Stanley Research, Bloomberg, Datastream, Markit iBoxx

## MARKET REVIEW

## Equity Markets by Region &amp; Market Cap – Total Returns

## World

	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
MSCI EM	2.8	2.5	11.1	14.8
MSCI Europe	1.2	0.3	1.8	-0.3
MSCI ACWI	0.7	0.4	5.0	6.4
S&P 500	0.1	0.1	7.8	7.8

## MSCI ACWI

	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
Large Cap	0.8	0.5	4.9	6.3
Small & Mid Cap	0.4	0.0	5.8	7.7
Growth	0.0	-0.3	3.5	5.1
Value	1.4	1.1	6.4	7.7

## DM

	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
Hong Kong Hang Seng	5.2	5.3	8.1	8.1
Germany DAX	2.5	2.1	-1.4	1.1
Netherlands AEX	1.9	1.5	6.4	9.1
UK FTSE 100	1.7	0.3	12.1	-0.4
Spain IBEX 35	1.5	1.1	-5.6	-3.2
Switzerland SMI	0.9	-0.7	-3.7	-1.9
Italy FTSE MIB	0.6	0.2	-18.2	-16.2
Japan Topix	0.6	-0.4	-13.0	1.1
France CAC 40	0.0	-0.4	-1.1	1.4
Australia ASX	-1.3	-2.4	6.5	10.0

## MSCI US

	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
Large Cap	0.2	0.2	7.5	7.5
Small & Mid Cap	0.4	0.4	10.0	10.0
Growth	-0.3	-0.3	5.3	5.3
Value	0.6	0.6	10.1	10.1

## MSCI Europe

	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
Large Cap	1.1	0.3	1.8	-0.3
Small & Mid Cap	1.6	0.8	2.1	-0.3
Growth	0.1	-0.8	1.6	0.1
Value	2.3	1.5	2.2	-0.7

## EM

	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
Russia RTS	6.1	6.1	32.5	32.5
China Shanghai SE	3.7	3.0	-11.1	-13.7
Indonesia SE	3.3	1.6	19.2	24.3
Thailand SET 100	2.5	3.2	25.0	29.9
Mexico IPC	2.1	1.4	12.0	2.5
Brazil Bovespa (\$)	1.0	1.0	33.6	63.4
Korea KOSPI	0.9	0.6	3.8	9.5
South Africa JSE	0.3	-5.5	5.8	11.4

Source: MSCI, Datastream, Bloomberg, Morgan Stanley Research

## MARKET REVIEW

## Equity Markets by Sector – Total Returns

## MSCI ACWI

	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
Financials	3.8	3.4	-0.1	1.6
Information Technology	2.5	2.5	9.2	10.5
Industrials	1.5	1.2	7.5	10.1
Energy	1.2	0.9	16.0	16.1
Materials	1.2	0.7	15.8	18.2
Consumer Discretionary	0.2	-0.2	-0.1	2.0
Consumer Staples	-0.3	-0.8	8.0	8.4
Telecommunication Services	-2.3	-2.8	7.0	8.7
Health Care	-3.7	-4.0	-1.6	-0.9
Utilities	-4.3	-4.5	8.7	9.6

## MSCI EM

	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
Information Technology	5.1	5.5	17.6	20.5
Financials	4.2	3.9	9.7	13.7
Consumer Discretionary	3.4	1.8	6.0	9.2
Energy	2.0	2.0	15.9	23.0
Industrials	1.6	1.7	3.7	6.2
Materials	0.2	-0.2	20.2	25.5
Consumer Staples	0.1	-0.4	7.3	11.2
Health Care	-0.1	-0.7	1.3	3.4
Utilities	-0.2	-0.4	9.2	14.7
Telecommunication Services	-1.3	-1.8	8.3	10.0

## MSCI US

	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
Financials	3.5	3.5	4.1	4.1
Energy	2.6	2.6	15.7	15.7
Information Technology	2.3	2.3	9.8	9.8
Industrials	1.4	1.4	12.7	12.7
Materials	1.1	1.1	13.6	13.6
Consumer Staples	-0.6	-0.6	9.0	9.0
Consumer Discretionary	-1.0	-1.0	3.9	3.9
Health Care	-3.0	-3.0	1.8	1.8
Telecommunication Services	-5.4	-5.4	18.9	18.9
Utilities	-5.9	-5.9	15.2	15.2

## MSCI Europe

	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
Financials	6.7	5.8	-9.8	-11.9
Industrials	3.3	2.5	9.8	9.1
Materials	2.9	2.1	17.5	16.1
Consumer Discretionary	0.9	0.2	-3.7	-5.2
Energy	0.2	-0.7	21.5	14.3
Consumer Staples	0.1	-0.9	10.5	7.0
Information Technology	0.0	-0.5	4.2	4.5
Telecommunication Services	-0.1	-0.8	-6.8	-9.7
Utilities	-4.3	-5.0	3.3	0.7
Health Care	-4.4	-5.5	-4.0	-5.0

Source: MSCI, RIMES, Morgan Stanley Research

## MARKET REVIEW

## Fixed Income Markets – Total and Excess Returns

## Total Returns

WORLD	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
Global HY	2.1	2.0	13.4	13.5
Asia \$ Broad IG	0.8	0.8	8.5	8.5
EM Sovs	0.3	1.8	9.7	14.6
EUR Broad IG	0.0	-0.4	5.8	8.5
Global Broad IG	-0.1	-0.5	6.2	9.1
US Broad IG	-0.1	-0.1	6.0	6.0

US Fixed Income	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
HY Corporates		2.2		14.6
IG Corporates		0.3		9.4
ABS		0.0		2.1
Treasuries		-0.6		5.5

US Corporates	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
AA		0.0		7.4
A		0.1		8.2
BBB		0.5		11.2
BB		1.6		12.1
B		2.7		13.7
CCC		3.6		26.6

EUR Fixed Income	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
EUR HY Corporates	1.7	1.3	7.6	10.4
ABS	0.5	0.1	6.2	8.9
EUR IG Corporates	0.3	-0.1	6.2	8.9
Covered Bonds	0.1	-0.3	3.7	6.4
German Bunds	-0.5	-0.9	6.4	9.1

## Excess Returns

WORLD	August-16 (%)		YTD (%)	
	in USD		in USD	
Dur-Adj Excess Returns*				
EM Sovs	2.6		8.6	
Global HY	2.6		9.8	
Asia \$ Broad IG	1.5		3.9	
US Broad IG	0.6		0.7	
Global Broad IG	0.3		3.1	
EUR Broad IG	0.3		2.9	

US Fixed Income	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
Dur-Adj Excess Returns*				
HY Corporates	2.9		10.6	
IG Corporates	1.1		3.4	
ABS	0.2		0.8	
Treasuries	0.0		0.0	

US Corporates	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
Dur-Adj Excess Returns*				
AA	0.8		1.7	
A	0.9		2.2	
BBB	1.4		5.0	
BB	2.2		7.7	
B	3.2		9.9	
CCC	4.1		23.7	

EUR Fixed Income	August-16 (%)		YTD (%)	
	Local Ccy	in USD	Local Ccy	in USD
Dur-Adj Excess Returns**				
EUR HY Corporates	1.9	1.8	5.9	7.1
ABS	0.7	0.8	4.0	5.1
EUR IG Corporates	0.5	0.6	3.5	4.5
Covered Bonds	0.3	0.4	1.4	2.4
German Bunds	0.0	-0.1	0.0	2.7

Note: (\*) versus duration-matched US Treasuries for local ccy; (\*\*) versus duration-matched EUR Bunds for local ccy.; versus US Treasuries for USD returns.

Source: Morgan Stanley Research, BAML



## MARKET REVIEW

## FX &amp; Commodities Market

## Currencies

G10	August 2016 (%)	YTD (%)
NOK	1.4	5.5
NZD	0.7	6.0
USD	0.4	-1.1
SEK	0.0	-1.8
EUR	-0.1	2.1
CAD	-0.5	5.9
GBP	-0.7	-11.3
AUD	-1.0	3.2
JPY	-1.3	16.6
CHF	-1.5	0.5

ASIA	August 2016 (%)	YTD (%)
INR	-0.4	-0.7
KRW	-0.4	5.5
CNY	-0.6	-2.8
IDR	-1.6	4.2

CEEMEA	August 2016 (%)	YTD (%)
TRY	0.9	-1.3
RUB	0.9	12.5
HUF	0.3	3.2
ZAR	-5.7	5.6

LATAM	August 2016 (%)	YTD (%)
BRL	0.7	22.7
ARS	0.4	-13.2
MXN	-0.2	-7.5

## Commodities

S&P GSCI	August 2016 (%)	YTD (%)
Energy	6.1	4.0
S&P GSCI	1.8	1.9
Industrial Metals	-3.2	5.1
Precious Metals	-4.0	24.1
Agriculture	-5.7	-5.8

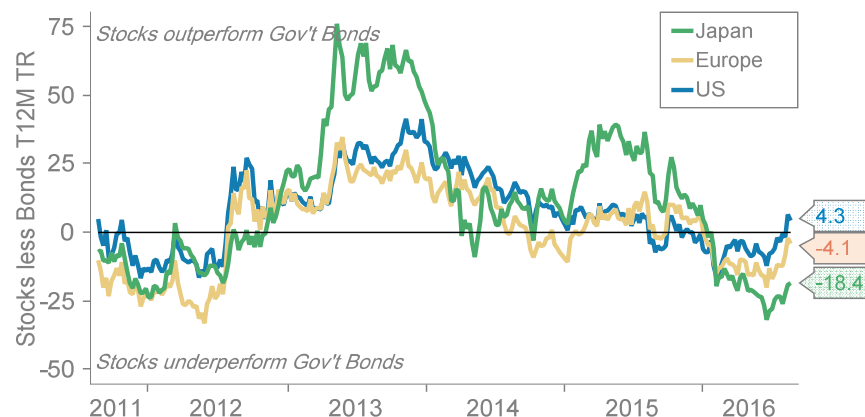
	August 2016 (%)	YTD (%)
Brent Crude	10.8	29.0
Heating Oil	10.5	30.7
Sugar	5.3	32.4
Cocoa	2.2	-10.3
Coal	1.3	-7.7
Coffee	0.6	18.9
Natural Gas	0.4	-31.7
CRB Futures Index	-0.4	3.0
Aluminum	-0.9	6.2
Gold	-3.0	23.4
Live Cattle	-5.7	-22.0
Copper	-6.3	-2.7
Soybeans	-7.0	9.7
Platinum	-8.4	20.9
Silver	-8.5	34.5
Corn	-9.9	-16.0
Cotton	-11.9	2.1

Note: Price returns. Per USD for all currencies. Fed Broad Trade-weighted USD is used for USD.  
Source: Bloomberg, Morgan Stanley Research

## MARKET TRENDS

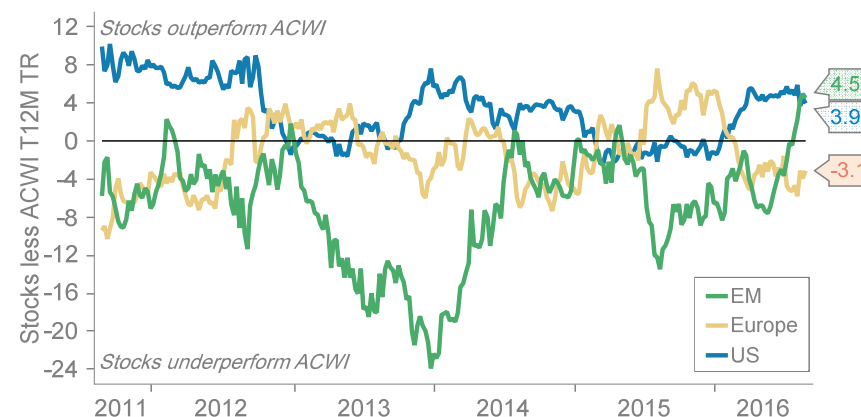
# Relative Performance – Total Returns Differences

## Equities versus Govt. Bonds (%)



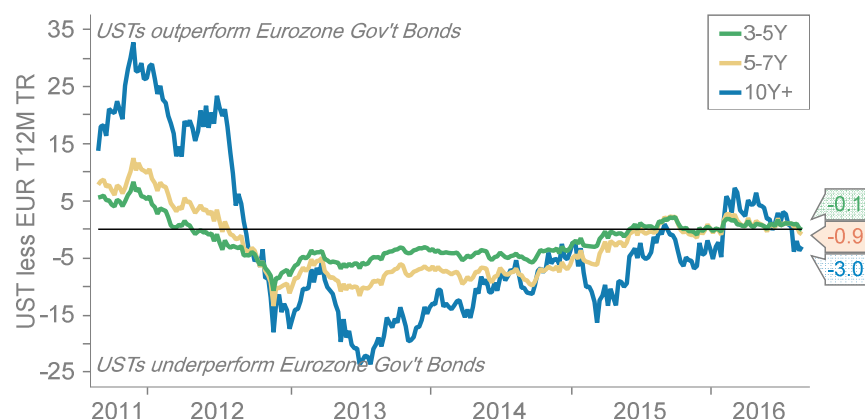
Source: Bloomberg, Macrobond, MSCI, Morgan Stanley Research

## Regional Equities vs. MSCI ACWI (%)



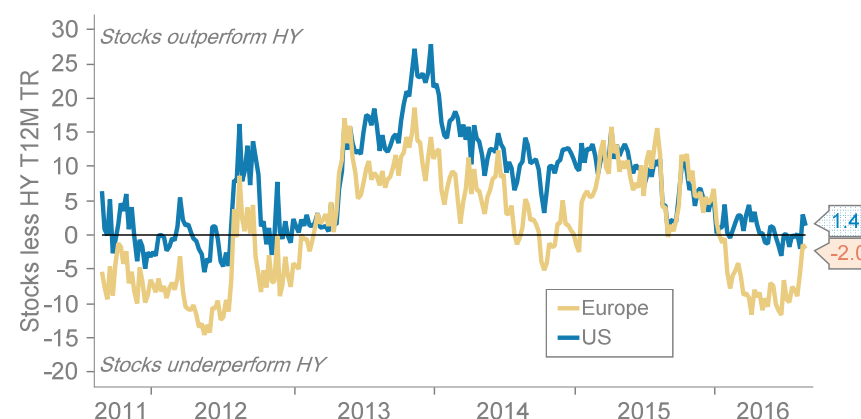
Source: Macrobond, MSCI, Morgan Stanley Research

## US versus Eurozone Govt. Bonds (%)



Source: Bloomberg, Macrobond, Morgan Stanley Research

## Equities versus High Yield (%)



Source: Macrobond, Markit iBoxx, MSCI, The Yieldbook, Morgan Stanley Research

## MARKET TRENDS

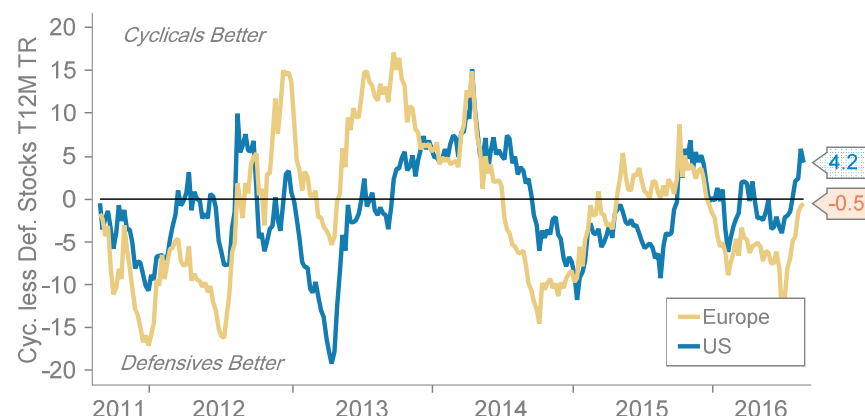
### Relative Performance – Total Returns Differences

#### EM versus DM Equities (%)



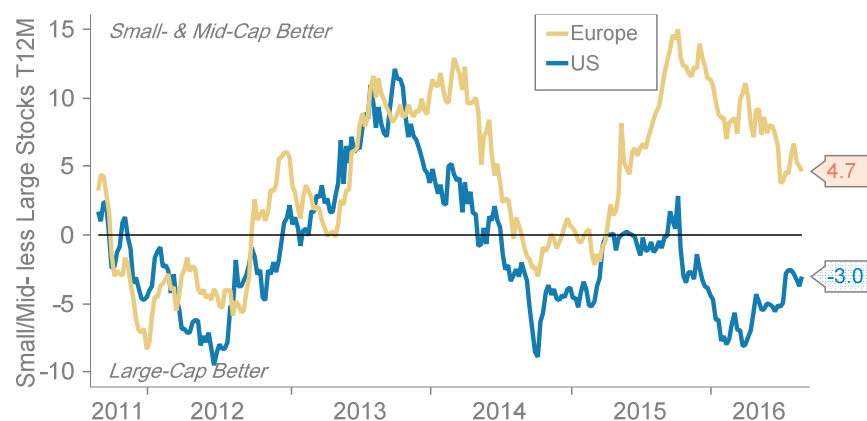
Source: Macrobond, MSCI, Rimes, Morgan Stanley Research

#### Cyclical versus Defensive Equities (%)



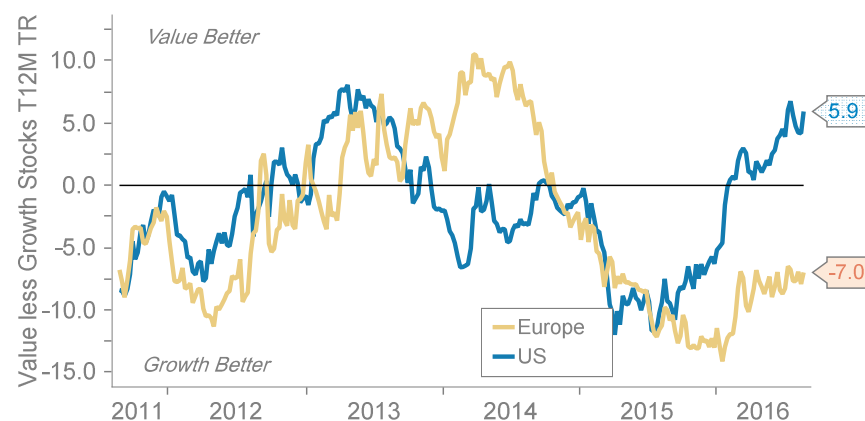
Source: Macrobond, MSCI, Rimes, Morgan Stanley Research

#### Small- & Mid-Cap versus Large-Cap Equities (%)



Source: Macrobond, MSCI, Rimes, Morgan Stanley Research

#### Value versus Growth Equities (%)



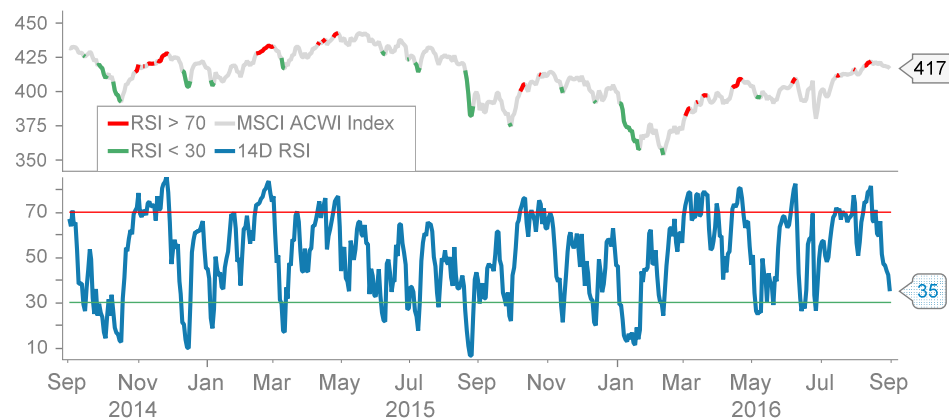
Source: Macrobond, MSCI, Rimes, Morgan Stanley Research

## MARKET TRENDS

### Equity Markets by Region

#### Developed Market

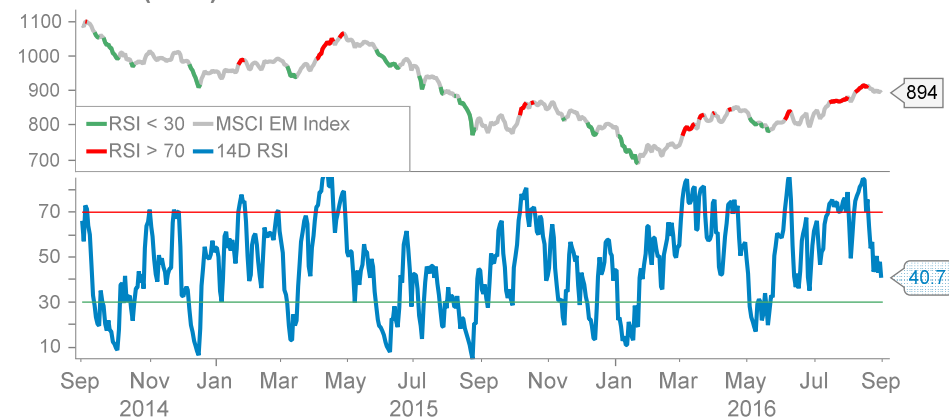
##### MSCI World Local Index



Source: Bloomberg, Macrobond, MSCI, Morgan Stanley Research

#### Emerging Market

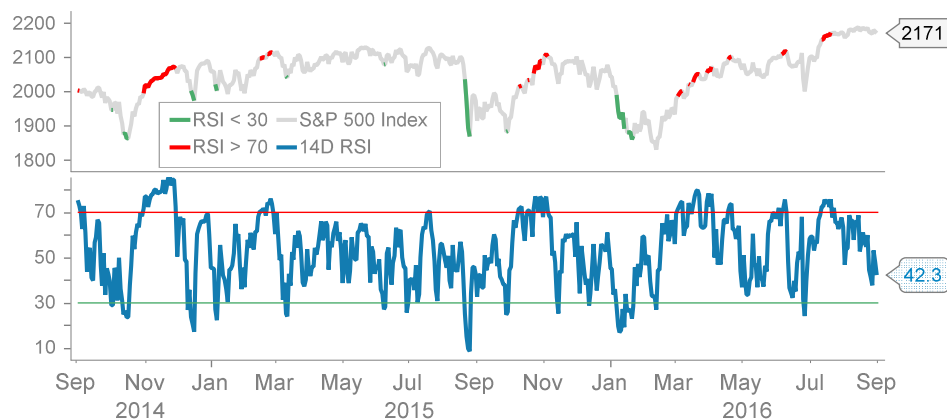
##### MSCI EM (USD)



Source: Bloomberg, Macrobond, MSCI, Morgan Stanley Research

#### US

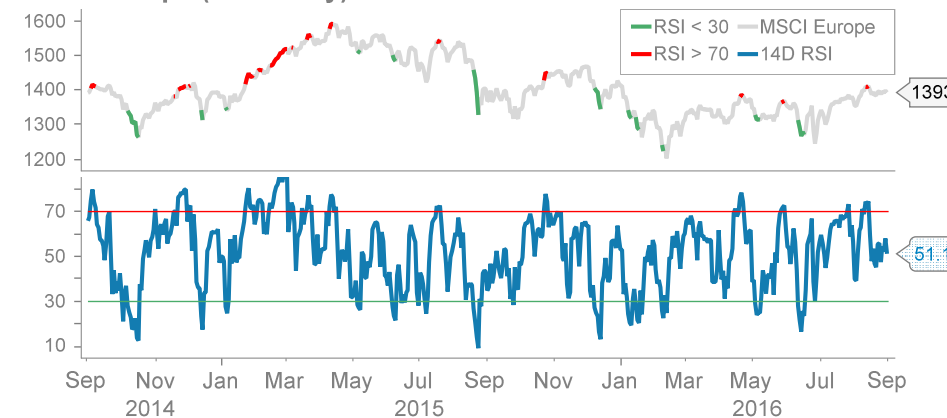
##### S&P 500



Source: Bloomberg, Macrobond, Morgan Stanley Research

#### Europe

##### MSCI Europe (Local Ccy)

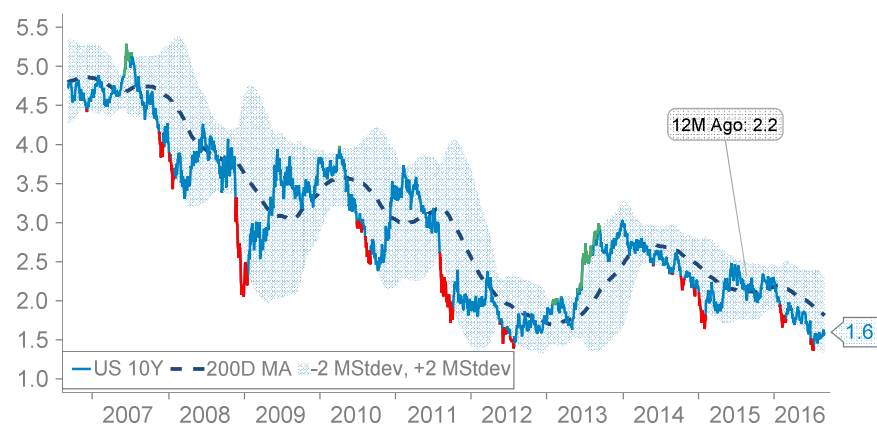


Source: Bloomberg, Macrobond, Morgan Stanley Research

## MARKET TRENDS

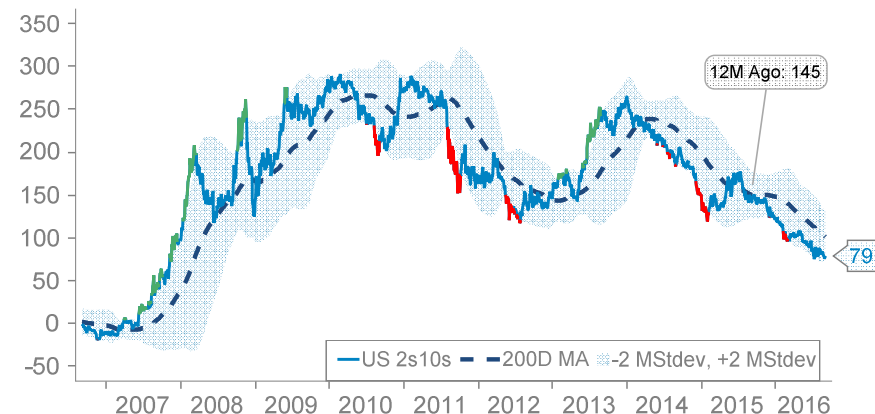
### Government Bond Markets

#### UST 10Y (%)



Source: Bloomberg, Macrobond, Morgan Stanley Research

#### US 2s10s (bp)



Source: Bloomberg, Macrobond, Morgan Stanley Research

#### Bunds 10Y (%)



Source: Bloomberg, Macrobond, Morgan Stanley Research

#### JGB 10Y (%)



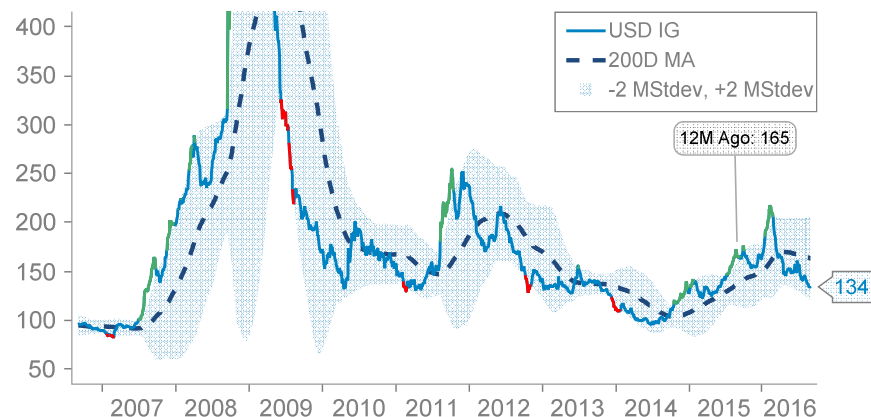
Source: Bloomberg, Macrobond, Morgan Stanley Research

Note: Red indicates index at 2 standard deviations below 220D moving average; green indicates index at 2 standard deviations above 200D moving average.

## MARKET TRENDS

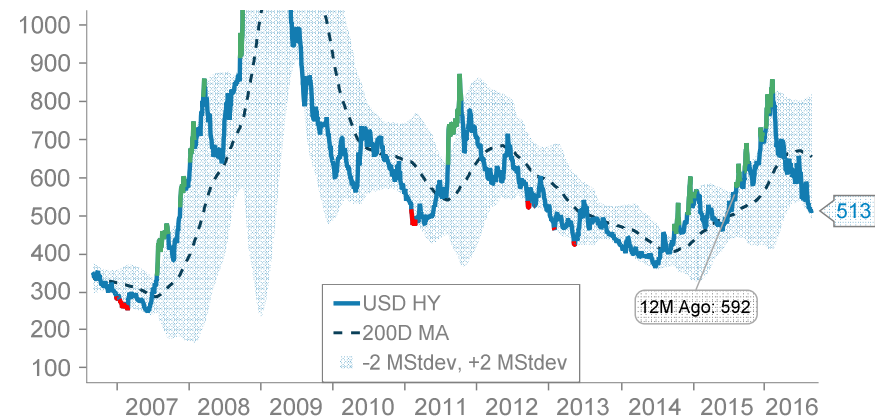
### Credit Markets

#### USD Investment Grade Credit (OAS bp)



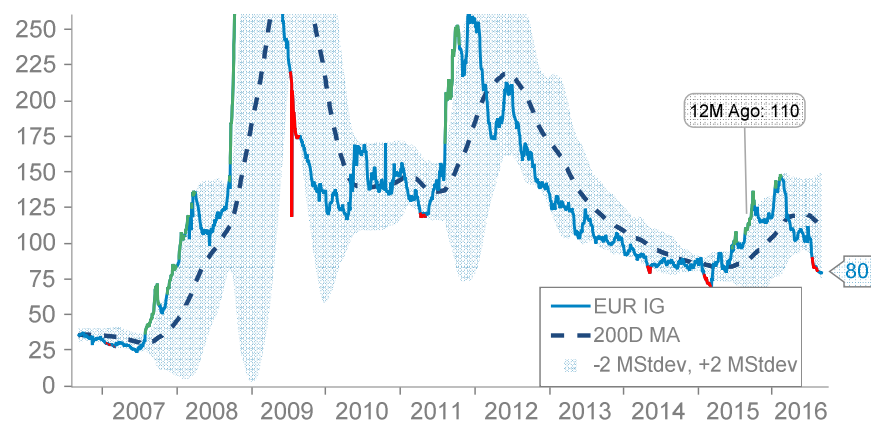
Source: The Yield Book, Macrobond, Morgan Stanley Research

#### USD High Yield Credit (Spread to Worst bp)



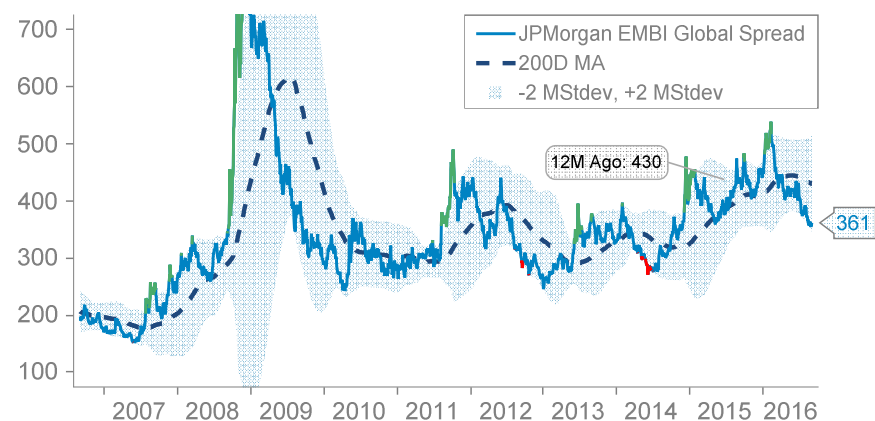
Source: The Yield Book, Macrobond, Morgan Stanley Research

#### EUR Investment Grade Credit (ASW bp)



Source: Markit, Macrobond, Morgan Stanley Research

#### EMBI Global Spread (ASW bp)



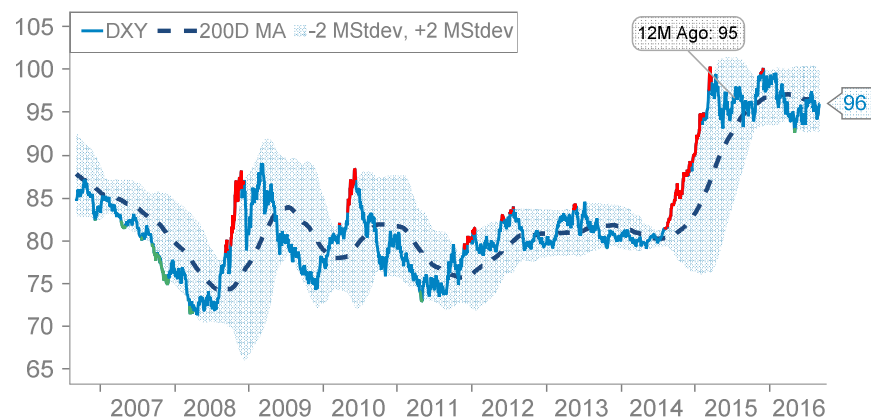
Source: Bloomberg, Macrobond, Morgan Stanley Research

Note: Red indicates index at 2 standard deviations below 220D moving average; green indicates index at 2 standard deviations above 200D moving average.

## MARKET TRENDS

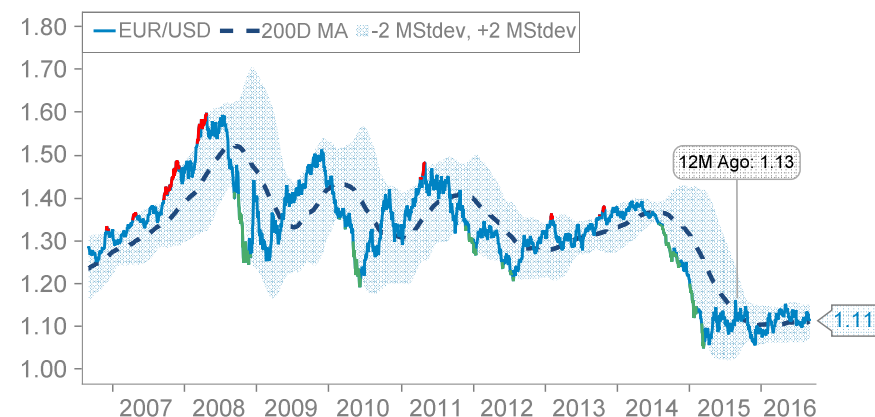
### FX Markets

#### DXY Index



Source: Bloomberg, Macrobond, Morgan Stanley Research

#### EUR/USD



Source: Bloomberg, Macrobond, Morgan Stanley Research

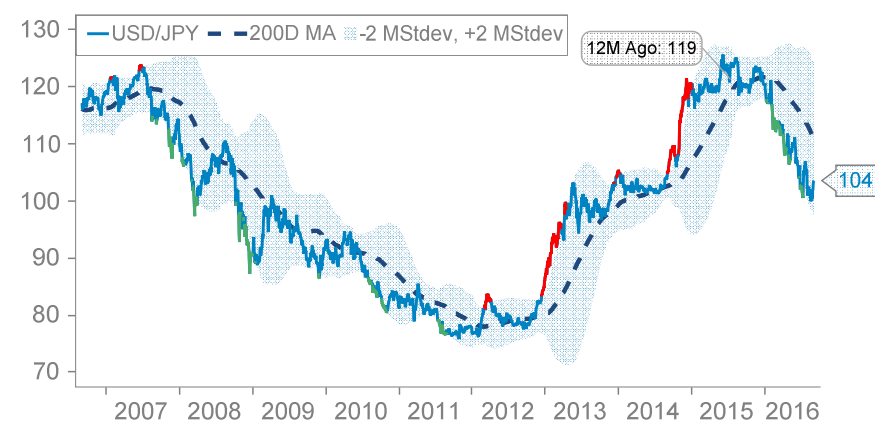
#### FXEM Index



Source: Bloomberg, Macrobond, Morgan Stanley Research

Note: Red indicates index at 2 standard deviations above 220D moving average; green indicates index at 2 standard deviations below 200D moving average.

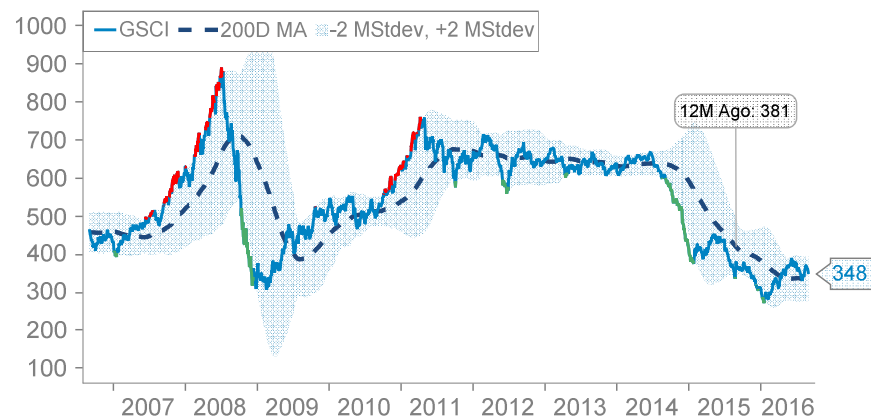
#### USD/JPY



Source: Bloomberg, Macrobond, Morgan Stanley Research

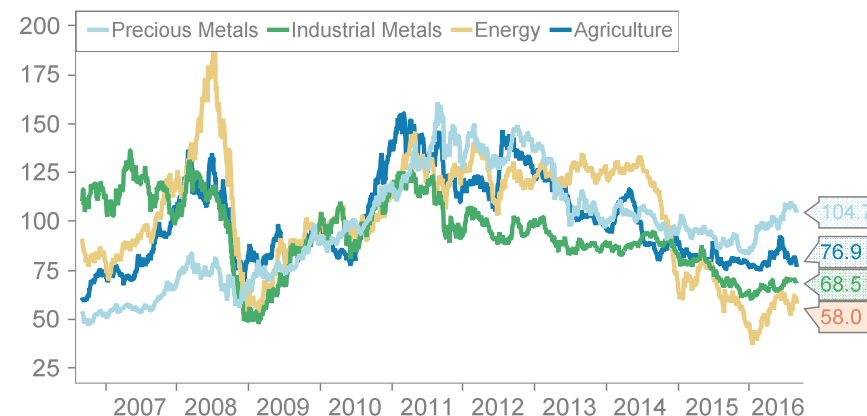
## MARKET TRENDS Commodity Markets

### GSCI



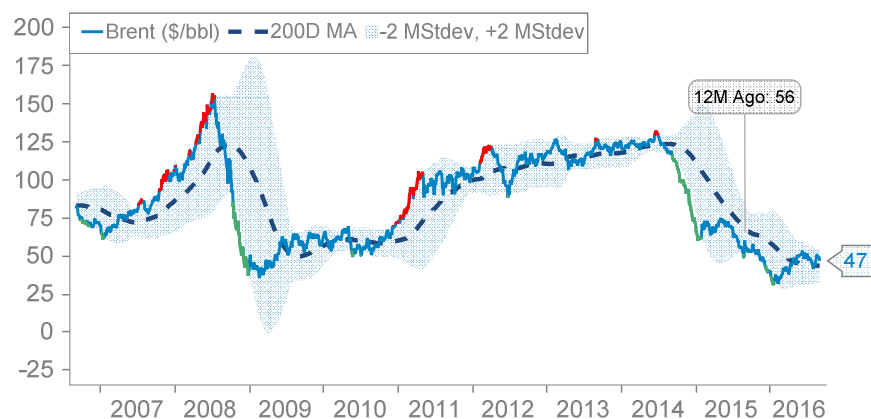
Source: Bloomberg, Macrobond, Morgan Stanley Research

### S&P GSCI Indices (2013=100)



Source: Bloomberg, Macrobond, Morgan Stanley Research

### Brent



Source: Bloomberg, Macrobond, Morgan Stanley Research

### Gold



Source: Bloomberg, Macrobond, Morgan Stanley Research

Note: Red indicates index at 2 standard deviations above 220D moving average; green indicates index at 2 standard deviations below 200D moving average.



## MARKET TRENDS

### Cross-Asset Correlations

#### Global Correlation Index

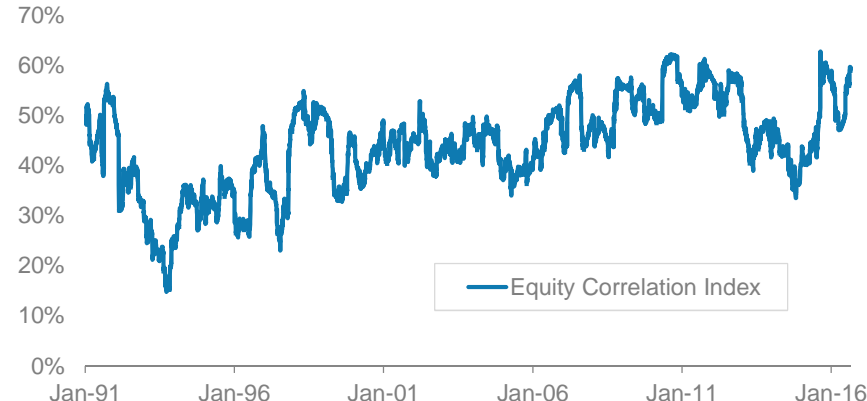
##### 6m Correlation



Source: Bloomberg, Morgan Stanley Research

#### Equity Market Correlations

##### 6m Correlation



Source: Bloomberg, Morgan Stanley Research

Note: Equity Correlation Index is average of the pairwise correlation of five regional equities (US, Europe, Japan, UK and EM). Rates Correlation is the average pairwise correlation of G4 Rates Markets. Equity-FX and Equity-Rates Correlation indices are the average of the correlation between Equity-FX pairs and Equity-Rates pairs in G4 countries respectively. Oil correlation average of correlation to S&P 500, Eurostoxx, US IG, US HY, EM Credit, UST 10yr and UST 2yr.

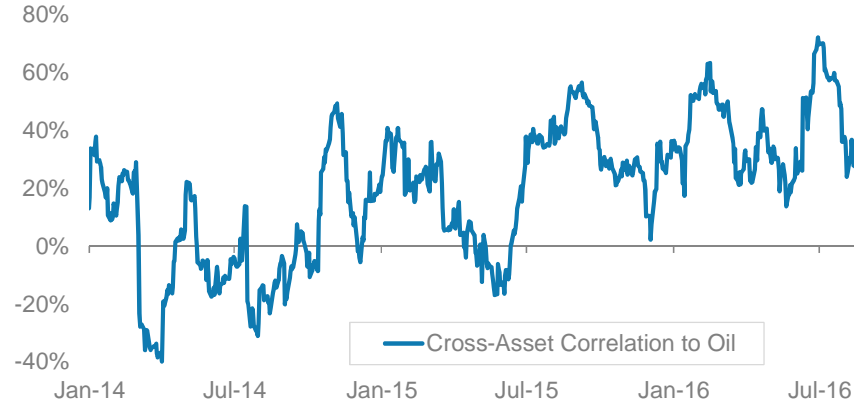
#### Global Correlation Index Components

	6m Correlation	Correlation on LT range	Long-Term Min	Long-Term Max	Deviation from LT Avg
<b>Global Correlation</b>	47%		11%	50%	+13%
<b>Regional Correlations</b>	50%		19%	52%	+12%
Equity	59%		33%	63%	+11%
Rates	30%		10%	44%	+2%
Credit	68%		-5%	74%	+21%
DM FX	44%		8%	59%	+14%
EM FX	47%		0%	58%	+15%
<b>Cross-Asset Correlations</b>	44%		1%	49%	+15%
Equity-Credit	57%		-6%	60%	+24%
Equity-FX	31%		-10%	31%	+21%
Rates-Equity*	30%		-8%	69%	-5%
Rates-Credit*	58%		-10%	66%	+19%
FX-Rates	0%		-15%	22%	-5%

Note: \* Sign inverted and rates correlations in yield terms here. Source: Bloomberg, Morgan Stanley Research

#### Cross-Asset Correlation to Oil

##### 1m Correlation



Source: Morgan Stanley Research, Bloomberg

# Valuations

## VALUATIONS

## Equity Valuation by Region and Sector

Index	Level	1yr Range	Forward		Trailing		Trailing		Trailing		Composite Value	
			Fwd P/E	20yr Range	P/B	20yr Range	Div Yield	20yr Range	EV/EBIT	20yr Range	vs. ACWI	20yr Range
MSCI ACWI	417		15.6		2.1		2.6		18.5		n/a	n/a
S&P 500	2,171		17.1		2.9		2.1		18.8		123%	
MSCI Europe	1,393		15.1		1.7		3.6		19.5		90%	
EuroStoxx 50	3,023		14.7		1.4		4.0		15.3		81%	
CAC 40	4,438		13.6		1.4		3.8		16.8		77%	
DAX 30	10,593		12.6		1.7		2.9		15.4		81%	
FTSE 100	6,782		16.1		1.8		4.1		32.9		95%	
FTSE MIB (Italy)	16,943		11.7		0.9		4.1		16.3		59%	
Swiss Market Index	8,202		16.8		2.5		3.6		21.6		114%	
TOPIX	1,330		13.2		1.2		2.2		13.1		70%	
Hang Seng	22,977		11.8		1.2		3.5		11.2		66%	
MSCI Australia	1,084		16.7		1.9		4.6		22.1		98%	
MSCI EM	894		12.4		1.5		2.6		14.2		77%	
Brazil	1,651		12.4		1.5		3.0		34.6		76%	
China	62		11.8		1.5		2.6		12.5		76%	
India	491		17.9		3.2		1.4		20.5		134%	
Korea	403		10.4		1.0		1.6		11.3		57%	
Mexico	5,306		18.7		2.7		2.1		16.1		125%	
Russia	493		5.8		0.8		4.6		6.2		37%	
S&P Fins.	330		19.6		1.3		2.3				94%	
EU Fins.	96		8.7		0.6		4.9				41%	
US Growth	3,539		18.9		4.7		1.3		18.0		174%	
US Value	2,221		16.1		2.1		2.9		21.5		102%	
EU Growth	2,246		18.1		3.4		2.4		18.4		140%	
EU Value	2,013		12.9		1.1		4.8		20.8		69%	
US Large Cap	1,419		17.2		3.0		2.2		18.4		126%	
US Small Cap	753		22.2		2.1		1.5		30.0		122%	
EU Large Cap	835		14.9		1.7		3.8		20.2		88%	
EU Small Cap	382		16.5		1.8		2.4		23.1		96%	

**Note:** The Composite Value vs ACWI is an average of forward P/E and P/B of the index against ACWI. It shows where the index is trading at as compared to ACWI. MSCI ACWI and MSCI EM countries are denoted in USD, the rest are in local currency. For 20-year ranges, we show as much history as possible in cases without 20 years of historical data.

**Source:** Bloomberg, Rimes, Datastream, Morgan Stanley Research

## VALUATIONS

## Fixed Income Valuation

## Rates

Market	Rating	10yr Yield	1yr Range	Range	Breakeven	Range	Real Yield	Range	2s10s	Range	10s30s	Range	1yr Vol (bp)	Range	Carry+Roll / Vol	Range
United States	Aaa	1.58			1.47		0.11		0.77		0.65		72		3.1	
United Kingdom	Aa1	0.64			2.61		-1.96		0.50		0.63		82		1.7	
Germany	Aaa	-0.07			0.84		-0.91		0.55		0.52		62		1.6	
Italy	Baa2	1.15			0.64		0.50		1.23		1.05		78		3.4	
Spain	Baa2	1.01			0.69		0.32		1.19		1.09		79		3.2	
Portugal	Ba1	3.04			n/a	n/a	n/a	n/a	2.51		0.88		128		3.8	
Japan	A1	-0.06			0.33		-0.39		0.13		0.49		39		n/a	n/a
South Korea	Aa2	1.48			0.53		0.95		0.16		0.05		45		3.8	
Australia	Aaa	1.82			1.62		0.21		0.39		n/a	n/a	80		2.9	
Brazil	Ba2	12.08			6.11		5.97		-0.31		n/a	n/a	287		4.1	
Mexico	A3	5.85			3.11		2.74		0.60		0.51		62		10.0	
Indonesia	Baa3	7.09			n/a	n/a	n/a	n/a	0.62		0.57		130		5.8	
Russia	Ba1	8.20			n/a	n/a	n/a	n/a	-0.67		n/a	n/a	144		5.4	
South Africa	Baa2	9.07			7.13		1.94		1.02		0.61		184		5.3	
Turkey	Baa3 *	9.60			7.17		2.43		1.34		n/a	n/a	174		5.7	

## Credit (Spread)

Market	Rating	Spread	1yr Range	20yr	Hist. Loss	---	Loss-Adj.	20yr	Lev.*	20yr	Cov.*	20yr	1yr Vol. (bp)	20yr	Carry+Roll / Vol	20yr
US Inv. Grade	A3	134			0.19%		115		2.0		10.4		25		8.6	
EU Inv. Grade	Baa1	121			0.20%		99		1.9		9.4		26		5.1	
US High Yield	B1	513			2.61%		189		4.2		4.2		150		2.7	
EU High Yield	B1	428			2.61%		159		3.0		3.6		106		5.5	
EM Sovereign^																
Brazil	Ba2	260			1.54%		105						170		2.8	
Mexico	A3	138			0.19%		125						75		3.3	
Indonesia	Baa3	146			0.28%		119						89		n/a	n/a
Russia	Ba1	220			1.54%		67						137		n/a	n/a
South Africa	Baa2	261			0.28%		232						127		2.5	
Turkey	Baa3 *	245			0.28%		217						110		3.7	

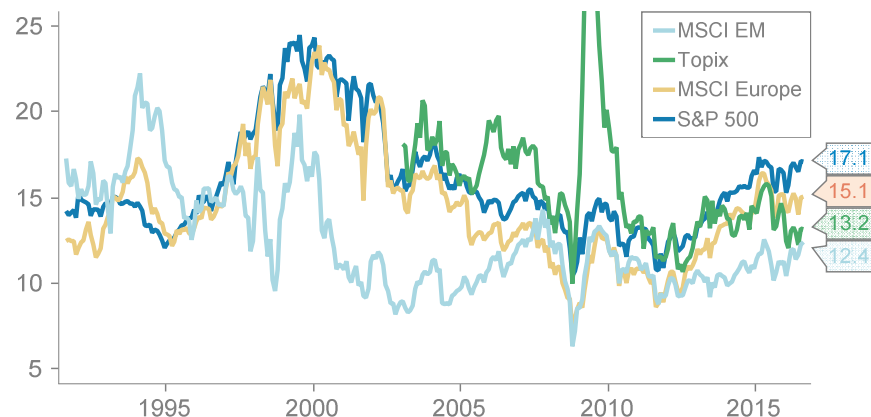
**Note:** Real yields are calculated as 10y yields – 10y breakevens. Leverage is calculated as net debt/EBITDA, and interest coverage as EBITDA/interest. Credit loss numbers are based on whole letter rating. Carry and roll are adjusted for 1Y volatility. EU spreads used here are benchmark spreads as they have a longer history. Range represents 20 years or the entire history, whichever is shorter.

^ EM sovereign spreads are based on 5y CDS spreads.

**Source:** Bloomberg, the Yield Book, Morgan Stanley Research

## VALUATIONS Equity Markets by Region

### Price/Earnings (NTMe)



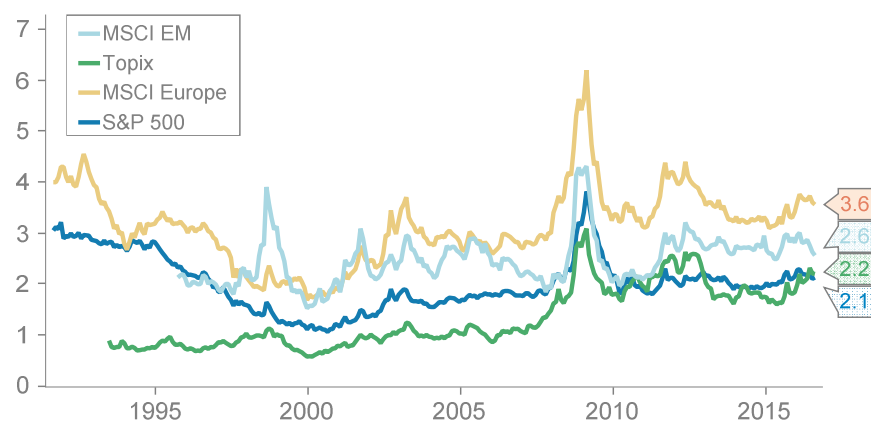
Source: Datastream, IBES, Macrobond, Morgan Stanley Research

### Cyclically Adjusted P/E



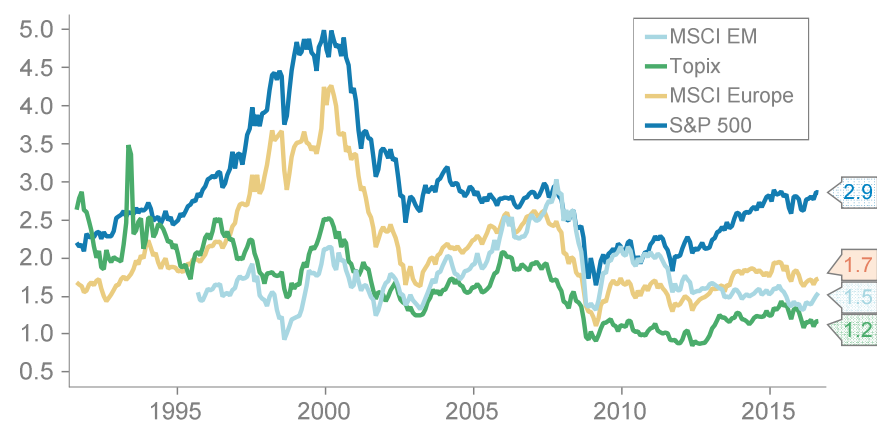
Source: Morgan Stanley Research, MSCI, Bloomberg, Macrobond

### Dividend Yield (%)



Source: Bloomberg, Macrobond, Morgan Stanley Research

### Price/Book



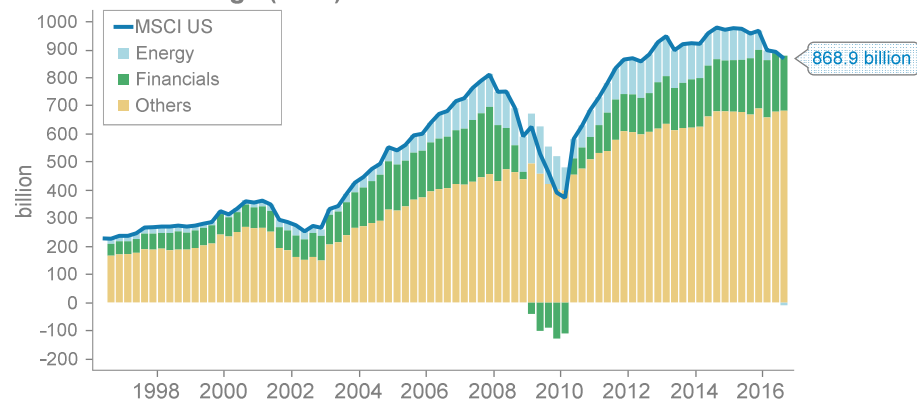
Source: Bloomberg, Macrobond, Morgan Stanley Research

## VALUATIONS

### Equity Markets Sector Earnings Trend

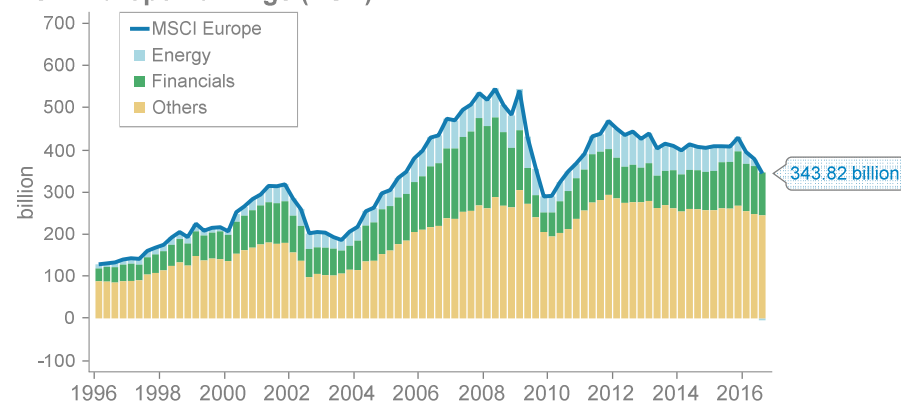
#### US

MSCI USA Earnings (USD)



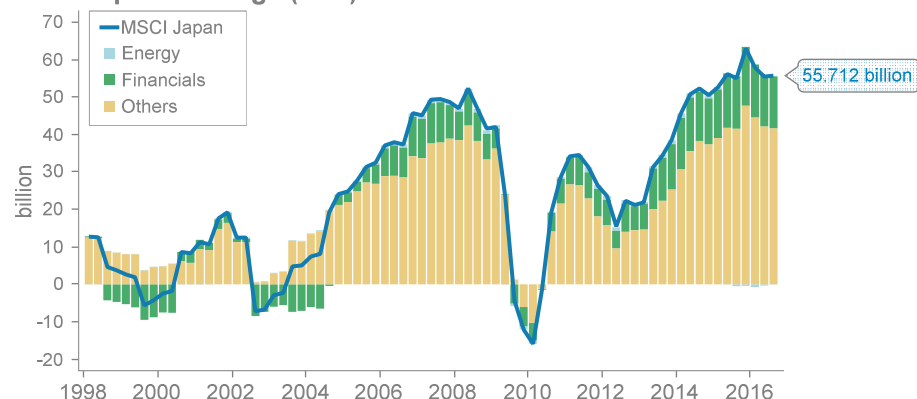
#### Europe

MSCI Europe Earnings (EUR)



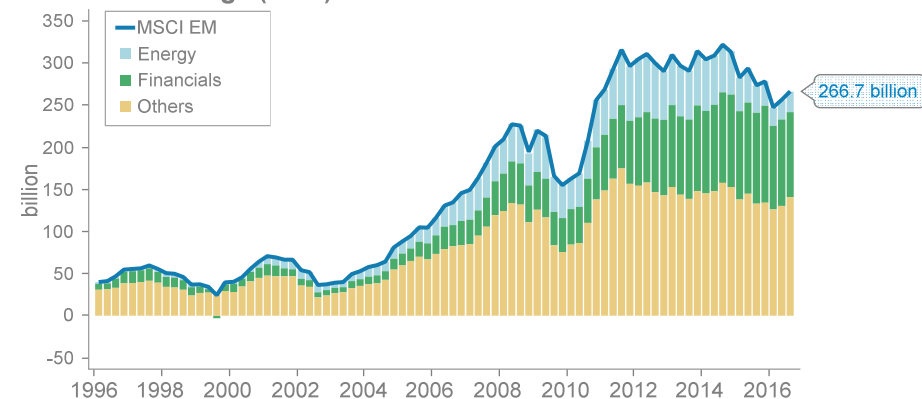
#### Japan

MSCI Japan Earnings (JPY)



#### EM

MSCI EM Earnings (USD)

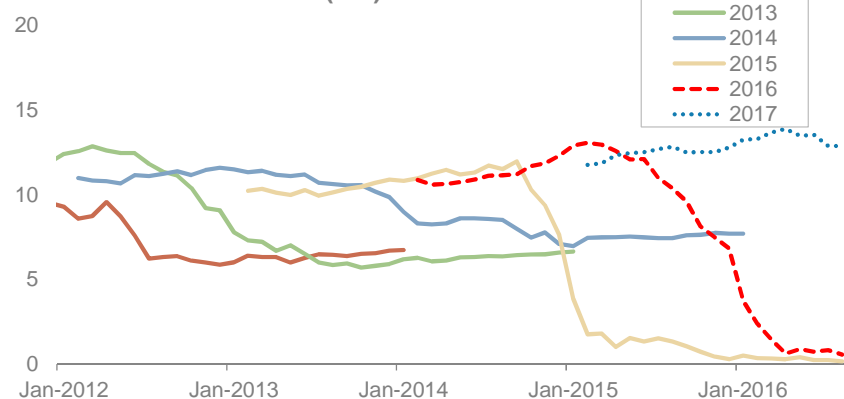


## VALUATIONS

### Equity Markets Earnings Growth Revisions

#### US

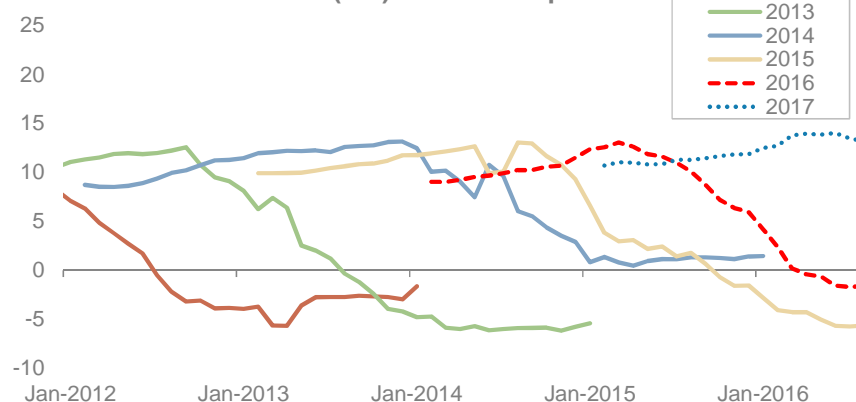
Consensus EPS Growth (Y%) - S&P 500



Source: MSCI, Datastream, IBES, Morgan Stanley Research

#### Europe

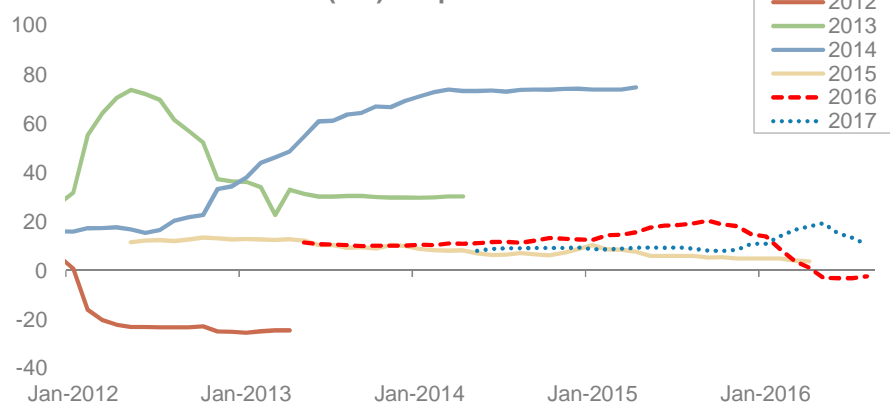
Consensus EPS Growth (Y%) - MSCI Europe



Source: MSCI, Datastream, IBES, Morgan Stanley Research

#### Japan

Consensus EPS Growth (Y%) - Topix

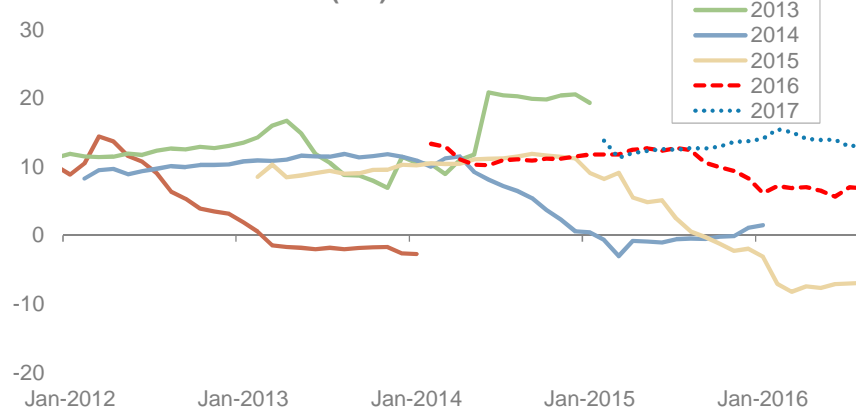


Source: MSCI, Datastream, IBES, Morgan Stanley Research

\*All EPS growth numbers are based off financial year (e.g. 2016 numbers are growth in EPS from Apr 2015 to Mar 2016)

#### EM

Consensus EPS Growth (Y%) - MSCI EM



Source: MSCI, Datastream, IBES, Morgan Stanley Research. Note: in USD

## VALUATIONS

### Equity Markets Earnings Growth Revisions

#### US

N12M Earnings Revision Ratio, 3mma (%)



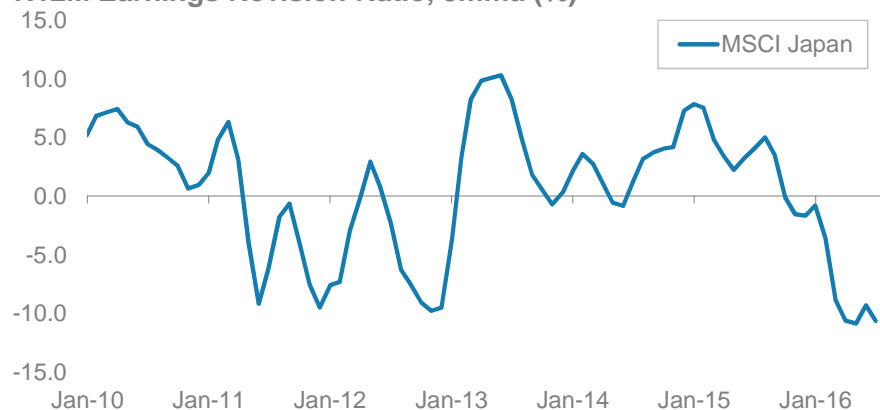
#### Europe

N12M Earnings Revision Ratio, 3mma (%)



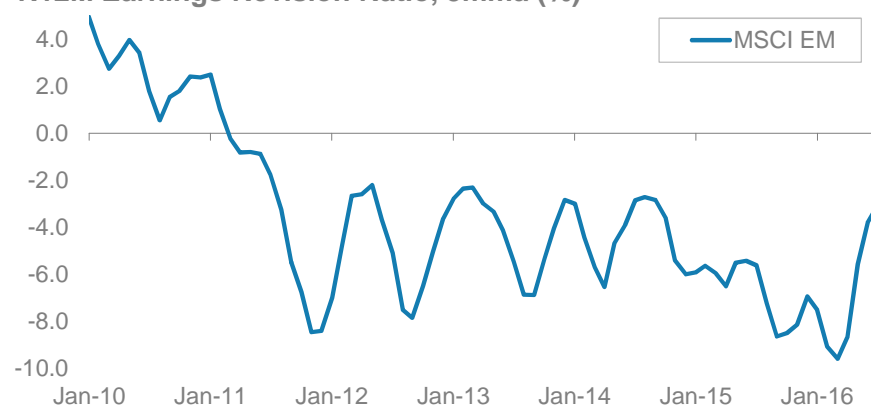
#### Japan

N12M Earnings Revision Ratio, 3mma (%)



#### EM

N12M Earnings Revision Ratio, 3mma (%)



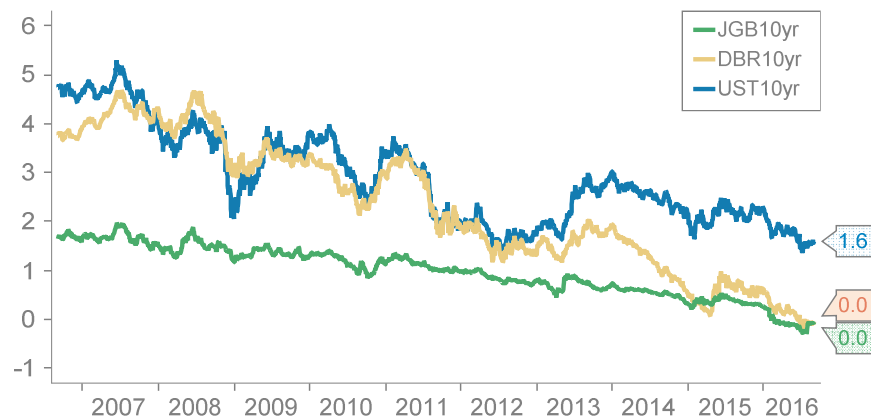
Note: Earnings revisions ratio calculated as (# of upgrades - # of downgrades)/(# of estimates)



## VALUATIONS

### Fixed Income Markets

#### Nominal Yields (%)



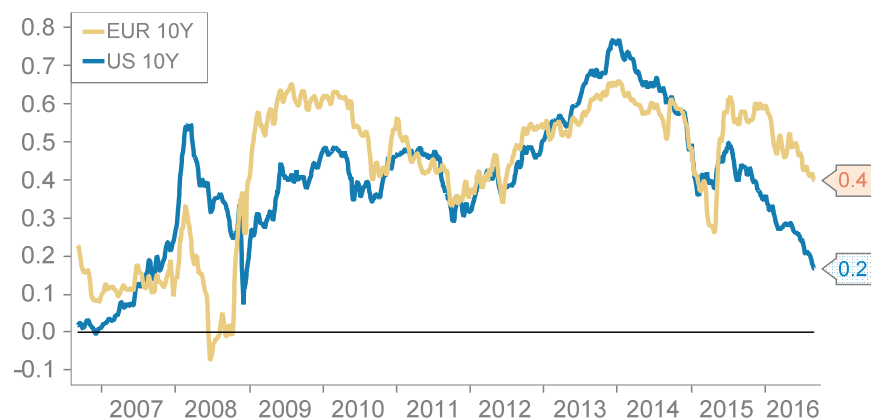
Source: Morgan Stanley Research, Bloomberg, Macrobond

#### Real 10-Year Yields (bp)



Source: Bloomberg, Macrobond, Morgan Stanley Research. Note: Calculations based on swaps.

#### 1yr Carry + Roll Down, Adjusted for Volatility (%)



Note: Adjusted for 3yr volatility. Calculation done using swaps.  
Source: Bloomberg, Macrobond, Morgan Stanley Research

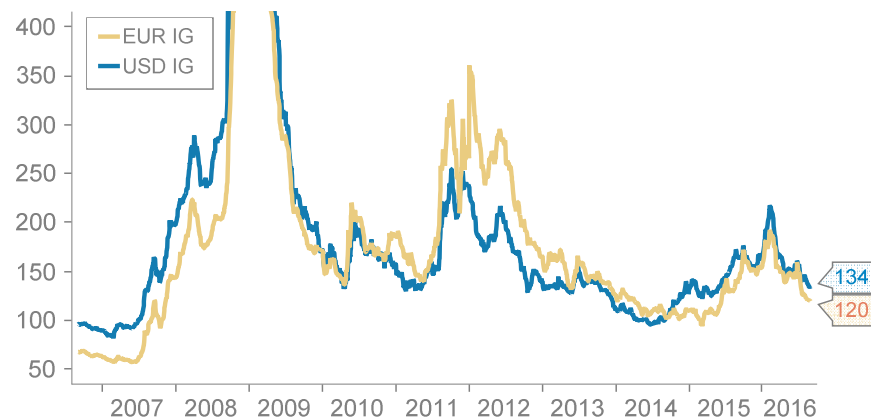
#### 10-Year Breakeven Inflation (%)



Source: Bloomberg, Macrobond, Morgan Stanley Research

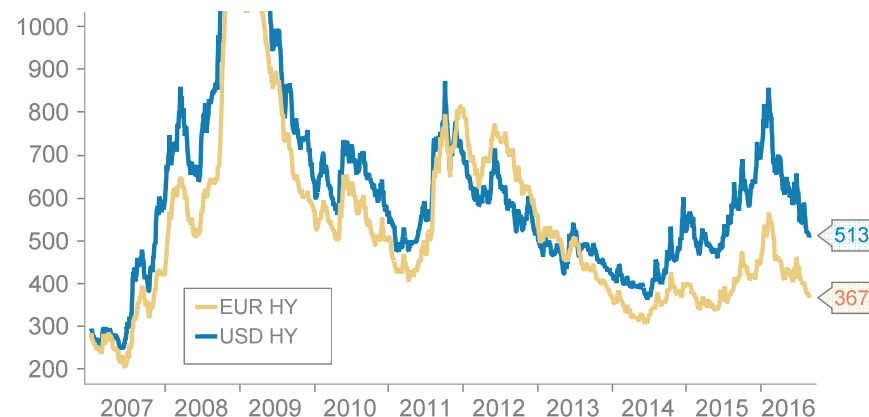
## VALUATIONS Credit Markets

### Global IG Credit Spreads (bp)



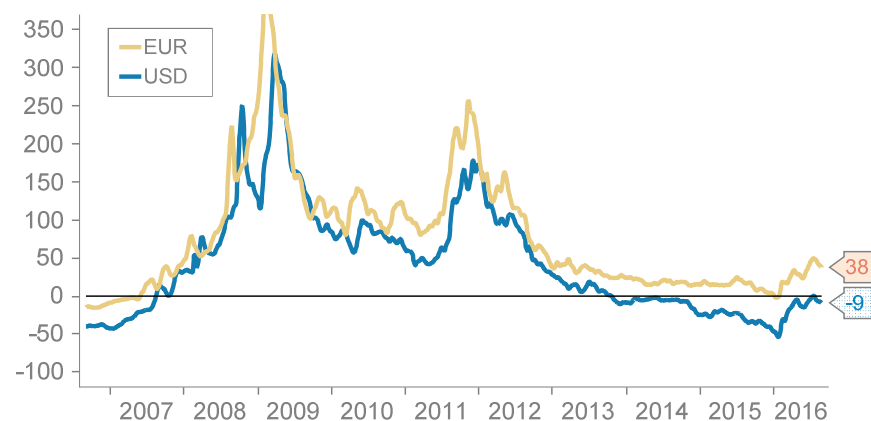
Source: Markit, The Yieldbook, Bloomberg, Morgan Stanley Research

### Global High Yield Spreads (bp)



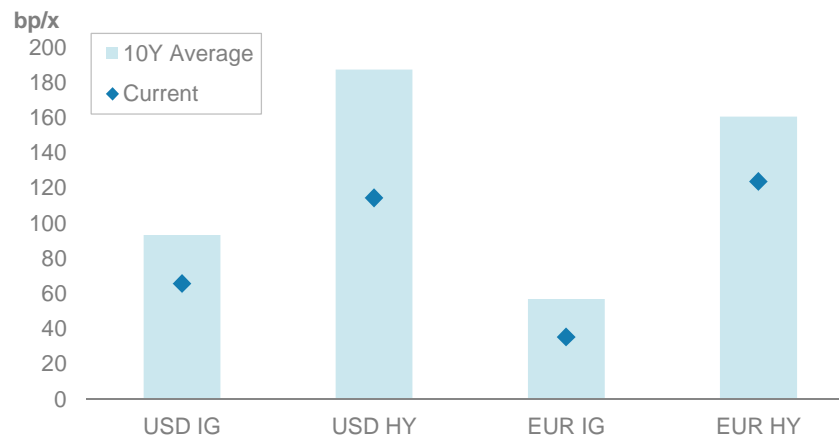
Source: Markit, The Yieldbook, Bloomberg, Morgan Stanley Research.  
Note: Asset swap spreads are used for EUR HY.

### Financial vs. Non-Financial Spreads (bp)



Source: Markit, Macrobond, Morgan Stanley Research

### Spread per Leverage, by Market



Note: Defined as non-financials cash spreads over net debt/trailing 12m EBITDA.  
Source: Morgan Stanley Research

## VALUATIONS FX Markets

### Real Effective Exchange Rate – USD



Source: Morgan Stanley Research, Bloomberg, Macrobond

### Real Effective Exchange Rate – EUR



Source: Morgan Stanley Research, Bloomberg, Macrobond

### Real Effective Exchange Rate – JPY



Source: Morgan Stanley Research, Bloomberg, Macrobond  
\*Data as of June 2016.

### Real Effective Exchange Rate – AUD



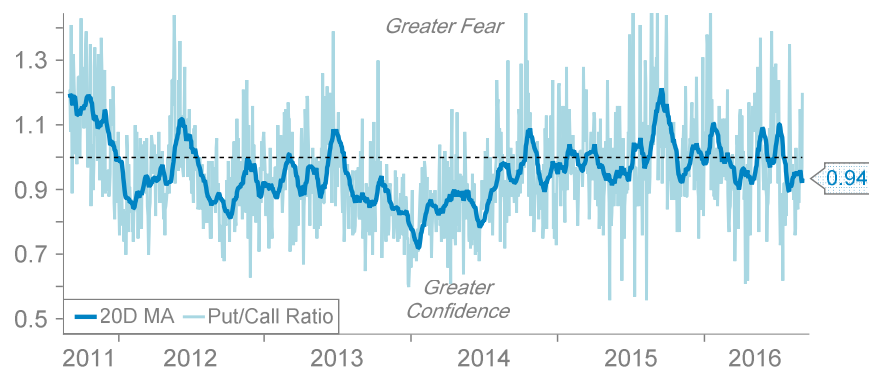
Source: Morgan Stanley Research, Bloomberg, Macrobond

# Technicals

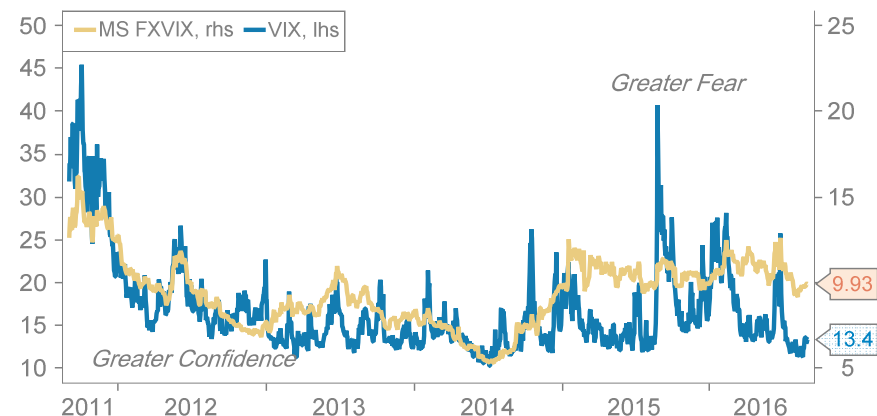
## TECHNICALS Sentiment Indicators

### US Equity Put/Call Ratio

#### Equity Put/Call Ratio

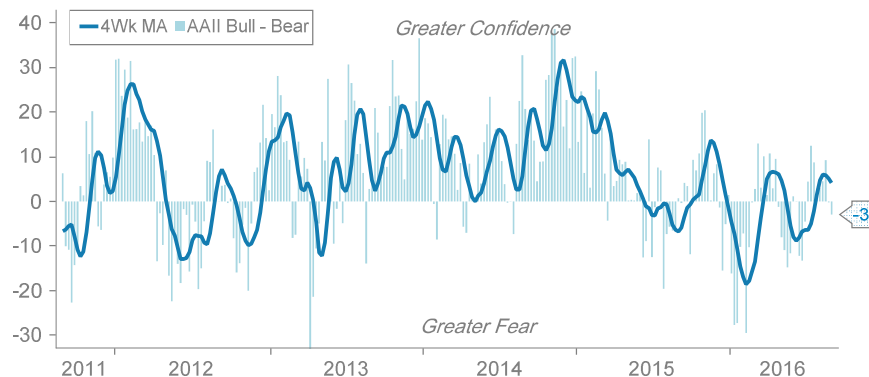


### VIX and FX VIX

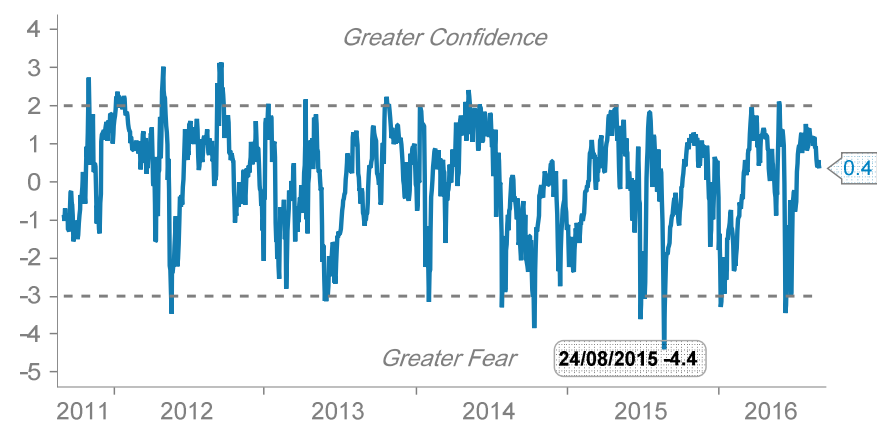


### AAll Bulls-Bears

#### Retail Investor Sentiment

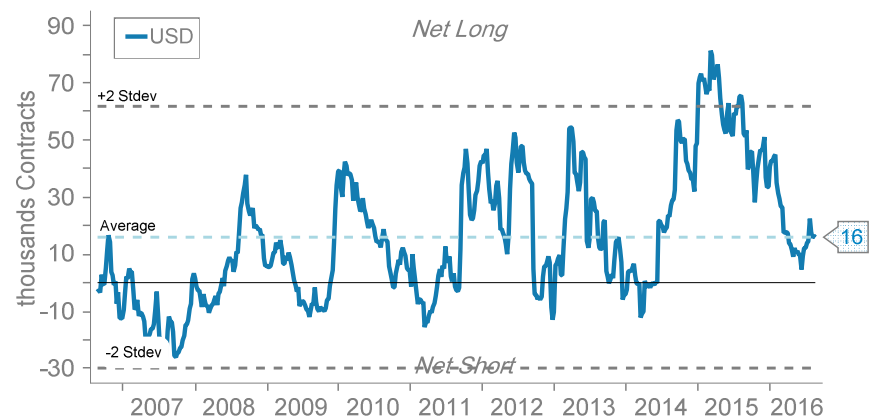


### Morgan Stanley Standardized Global Risk Demand Index



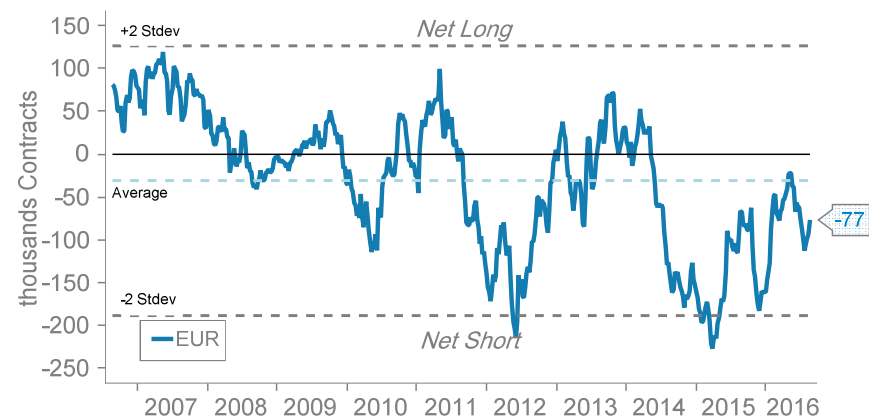
## TECHNICALS Speculative Positioning – FX

### USD (thousands contracts)



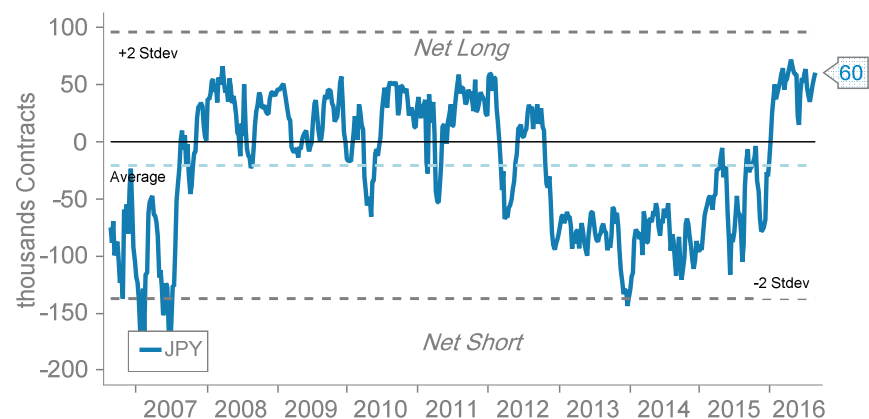
Source: CFTC, Bloomberg, Macrobond, Morgan Stanley Research

### EUR (thousands contracts)



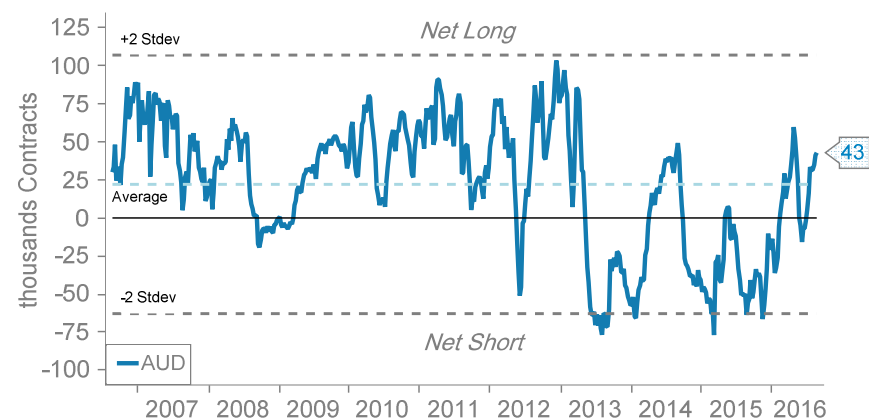
Source: CFTC, Macrobond, Morgan Stanley Research

### JPY (thousands contracts)



Source: CFTC, Macrobond, Morgan Stanley Research

### AUD (thousands contracts)



Source: CFTC, Macrobond, Morgan Stanley Research

## TECHNICALS

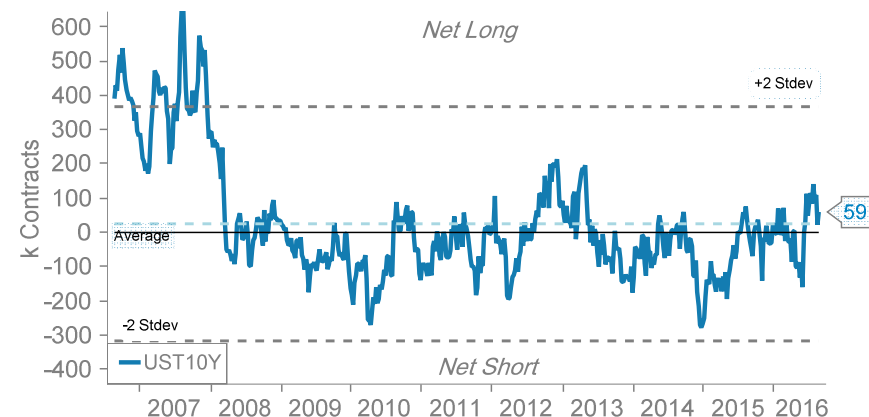
# Speculative Positioning – Stocks, Bonds and Commodities

### S&P 500 (k contracts)



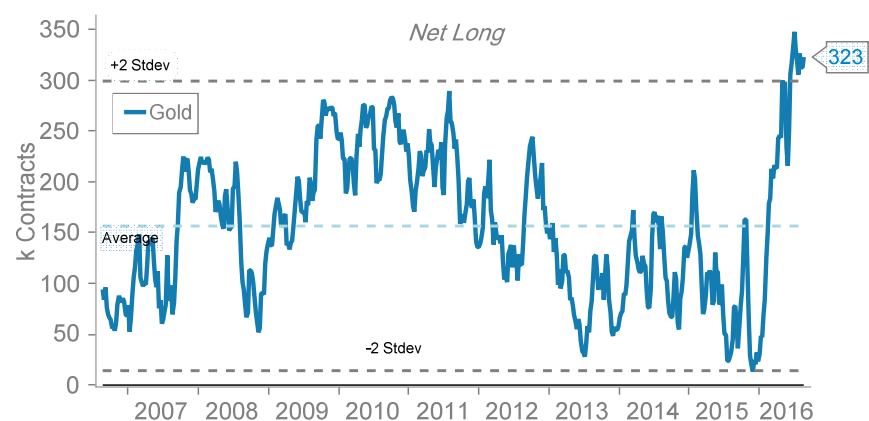
Source: CFTC, Macrobond, Morgan Stanley Research

### UST 10Y (k contracts)



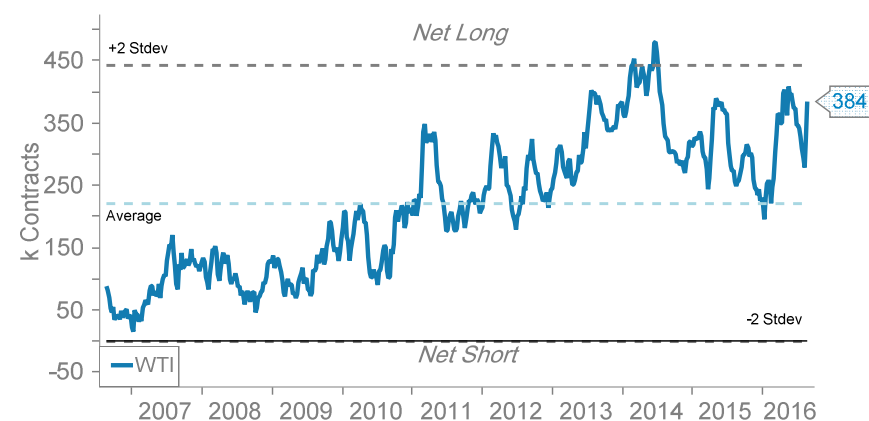
Source: CFTC, Macrobond, Morgan Stanley Research

### Gold (k contracts)



Source: CFTC, Macrobond, Morgan Stanley Research

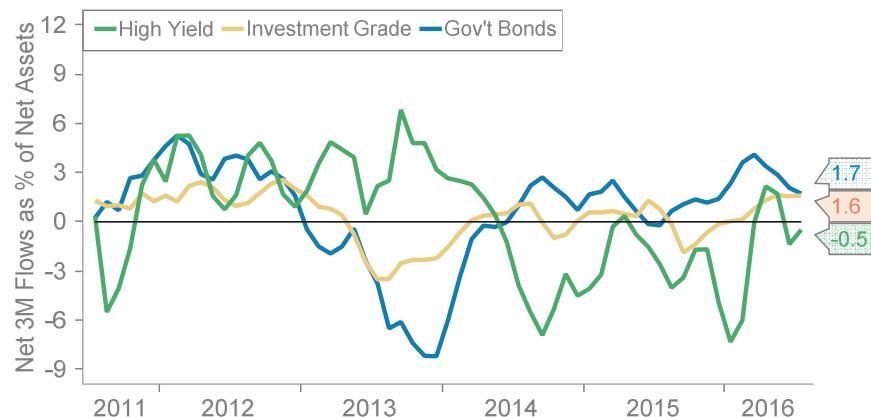
### WTI (k contracts)



Source: CFTC, Macrobond, Morgan Stanley Research

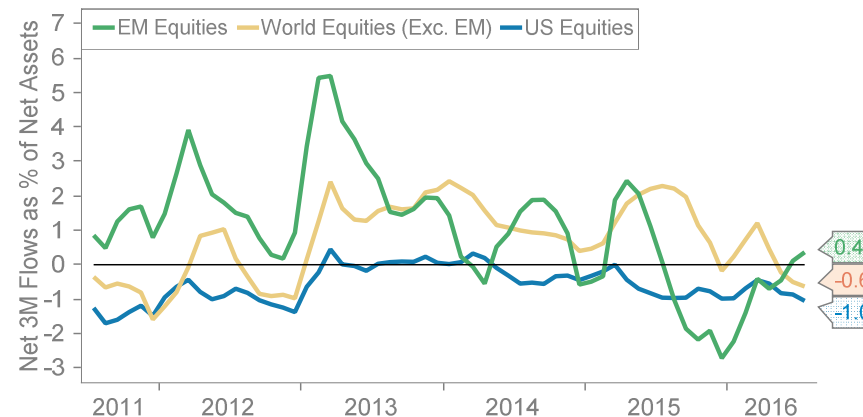
## TECHNICALS US Mutual Fund Flows

### US Fixed Income Fund Flows



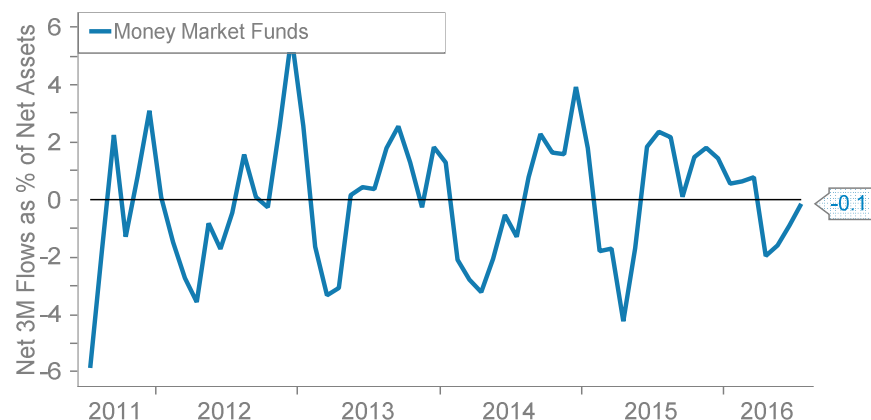
Source: ICI, Macrobond, Morgan Stanley Research

### US Equity Fund Flows



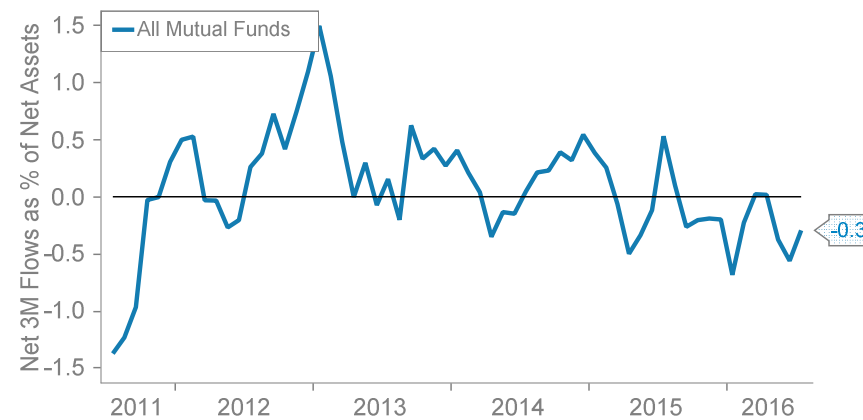
Source: ICI, Macrobond, Morgan Stanley Research

### US Money Market Fund Flows



Source: ICI, Macrobond, Morgan Stanley Research

### US Total Mutual Fund Flows



Source: ICI, Macrobond, Morgan Stanley Research

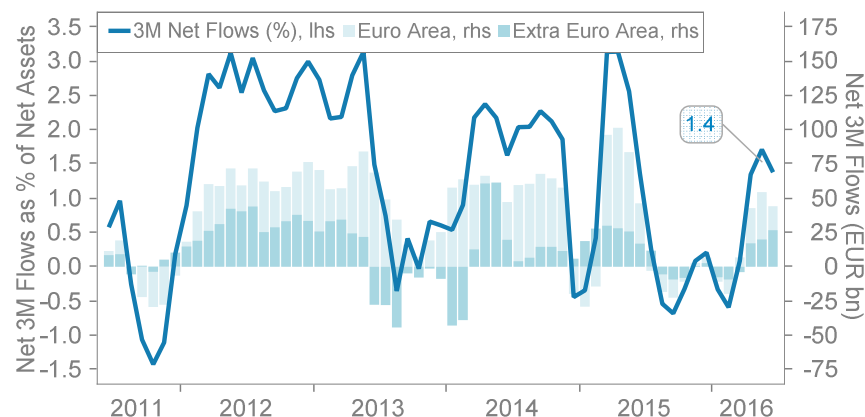
\*All data as of end Jul, 2016.



## TECHNICALS

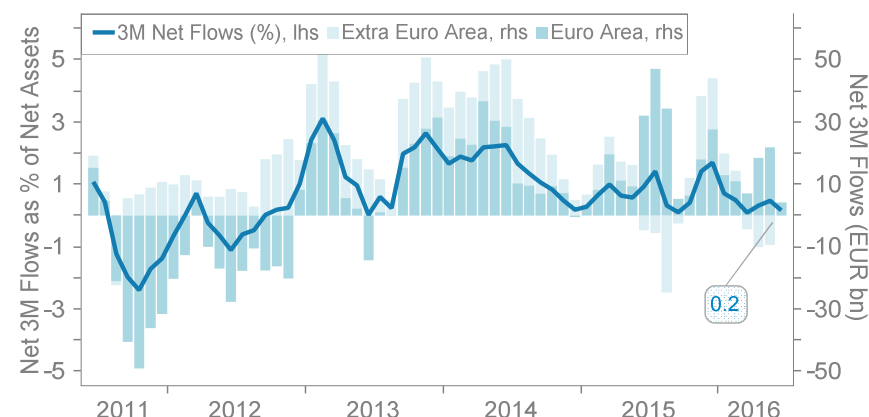
# Euro Area and Japan Investment Fund Flows

## Euro Area Bond Fund Flows



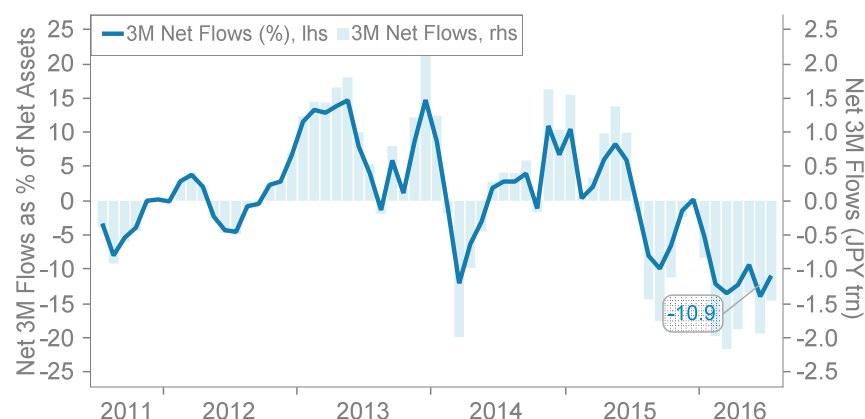
Source: ECB, Macrobond, Morgan Stanley Research. Data as of end Jun, 2016.

## Euro Area Equity Fund Flows



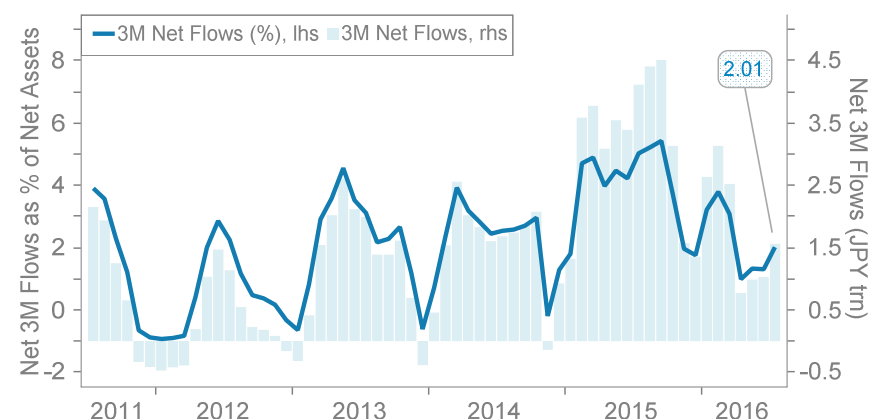
Source: ECB, Macrobond, Morgan Stanley Research. Data as of end Jun, 2016.

## Japan Bond Fund Flows



Source: JITA, Macrobond, Morgan Stanley Research. Data as of end Jul, 2016.

## Japan Equity Fund Flows

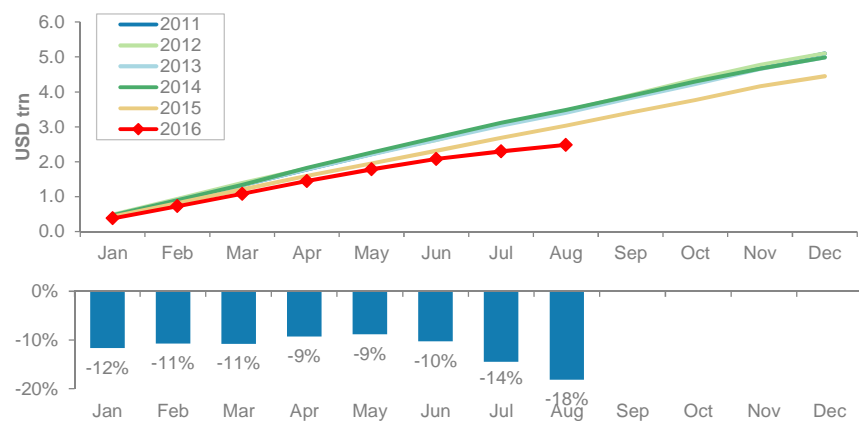


Source: JITA, Macrobond, Morgan Stanley Research. Data as of end Jul, 2016.

## TECHNICALS

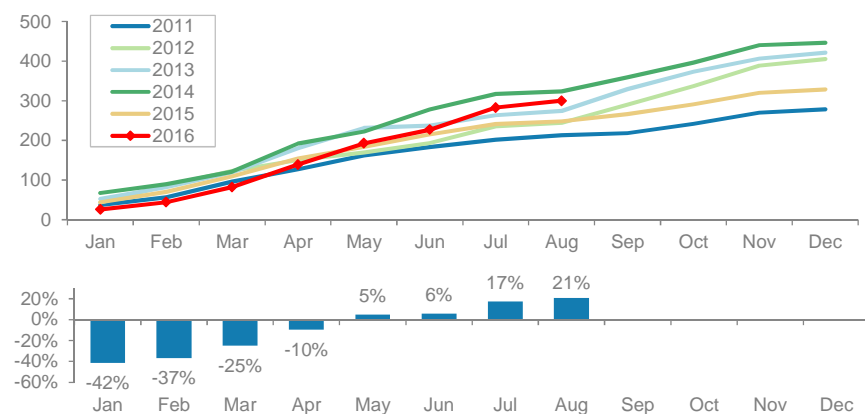
# Global Fixed Income Gross Issuance – Run Rate & YoY Trend

### DM Sovereigns



Source: Dealogic, Morgan Stanley Research

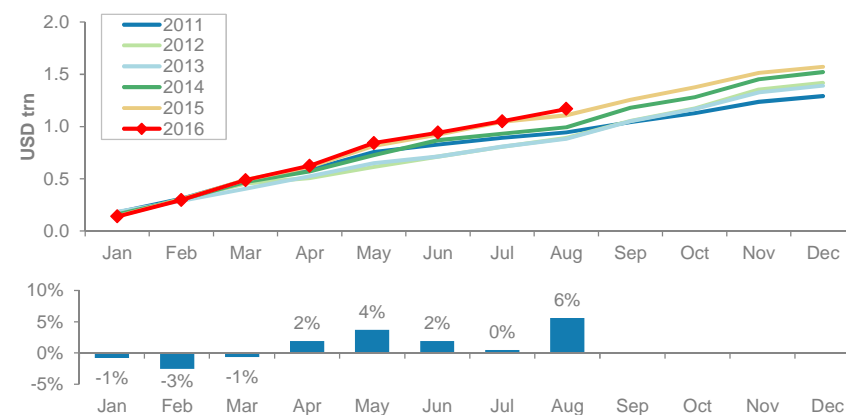
### Emerging Market Debt



Source: Dealogic, Morgan Stanley Research

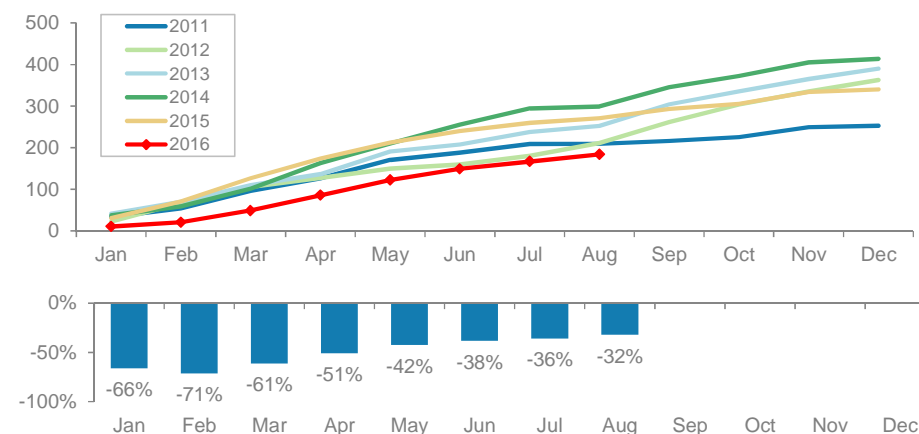
Note: Blue bar charts represent YoY % change in issuance between 2015 and 2016 for each month

### DM Investment Grade Credit



Source: Dealogic, Morgan Stanley Research

### DM High Yield Credit

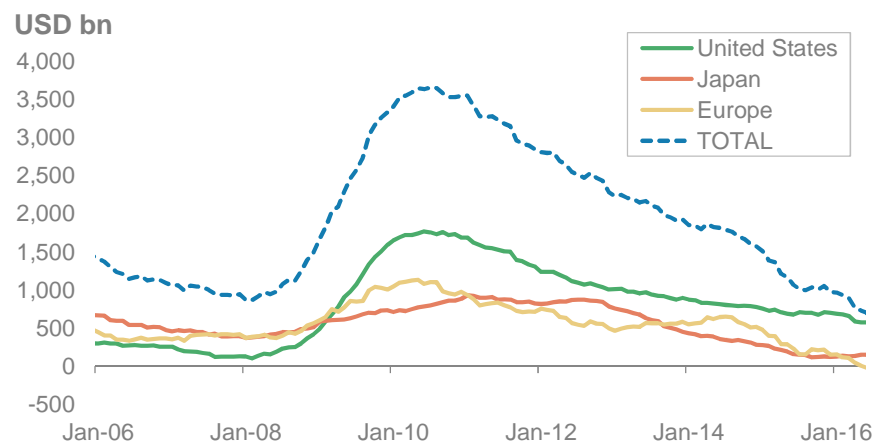


Source: Dealogic, Morgan Stanley Research

## TECHNICALS

# Global Fixed Income Net Issuance

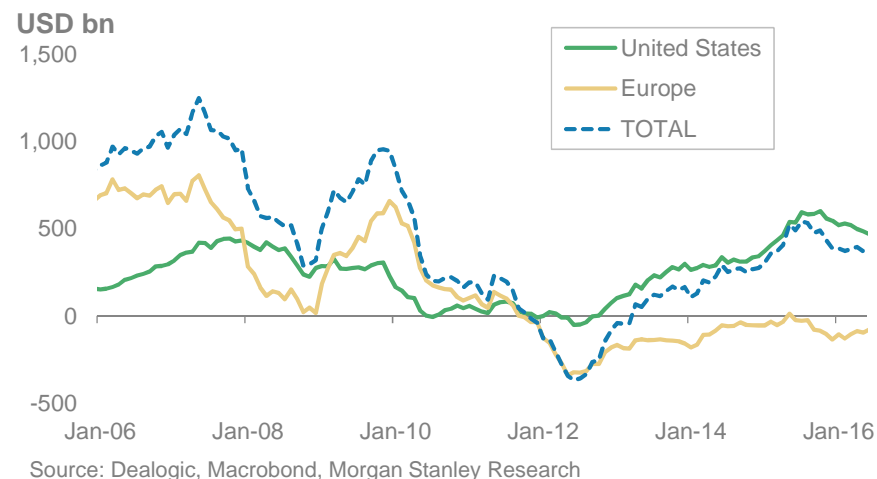
## DM Sovereigns: Trailing 12M Net Issuance



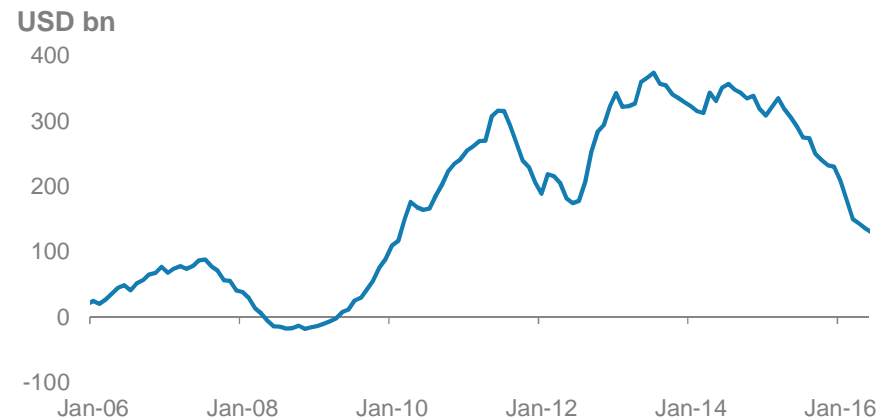
## EM Trailing 12M Net Issuance



## IG Corporate Trailing 12M Net Issuance



## HY Corporate Trailing 12M Net Issuance



## **What We're Watching**

WHAT WE'RE WATCHING | GLOBAL INFLATION MONITOR  
**Inflation Snapshot**

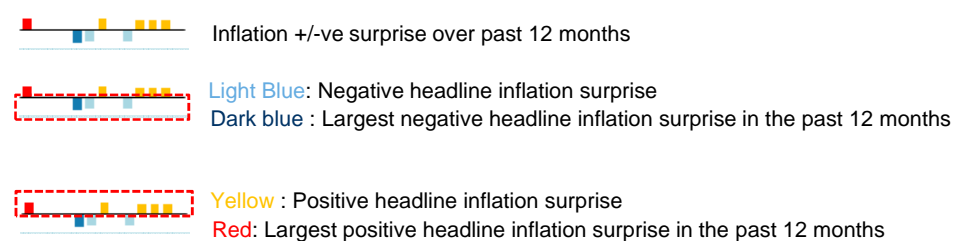
Region	Latest	Target Inflation*	YoY Headline Inflation	YoY Core Inflation	YoY Headline Inflation (%)	YoY Core Inflation (%)	3m Ann Headline Inflation (%)	3m Ann. Core Inflation (%)	12-Month Inflation Surprise Index
<b>DEVELOPED MARKETS</b>									
US	Jul-16	2			0.8	1.6	1.1	1.3	
EuroArea	Aug-16	<2			0.2	0.8	1.0	1.1	
Japan	Jun-16	2			-0.5	0.4	-1.2	0.4	
UK	Jul-16	2			0.6	1.3	2.5	2.5	
Canada	Jul-16	2 (Band: 1-3)			1.3	2.0	1.9	2.9	
Australia	Jun-16	2-3			1.0	1.6	1.5	1.2	
<b>EMERGING MARKETS</b>									
Brazil	Jun-16	4.5 (Band: 2.5-6.5)			8.9	6.8	7.8	5.7	
Russia	Jul-16	4			7.3	7.5	9.1	8.3	
India	Jul-16	4 (Band: 2-6)			6.0	4.6	4.4	3.1	
China	Jul-16	3			1.9	1.6	0.5	2.1	
S. Africa	Jul-16	3-6			6.1	5.7	7.0	5.5	
Mexico	Jul-16	3			2.7	3.0	3.2	3.2	

**Construction Details:**

\*Note: inflation targets are not official for certain countries or regions. We have used closest available benchmarks where appropriate. We have generally used seasonally adjusted inflation series from Haver Analytics, where available.

- 1) In YoY and 3m annualized columns, light blue shading indicates realized inflation is below target. Red indicates realized inflation above target.
- 2) In YoY and 3m annualized spark lines, blue dots indicate that realized inflation is below zero. Or that the region/country is in deflation.
- 3) 12-Month Inflation Surprise Index uses headline target inflation.
- 4) The surprise index is calculated by taking the current headline inflation surprise relative to Bloomberg consensus divided by standard deviation of surprises over the trailing 36 months.

Source: Morgan Stanley Research, Bloomberg, Haver Analytics

**Legend**

## WHAT WE'RE WATCHING | GLOBAL INFLATION MONITOR

## Headline Inflation Surprise Indices &amp; Morgan Stanley CPI Forecasts

## DM Headline Inflation Surprise Index

Headline Inflation Surprise, +/- StDev



Source: Morgan Stanley Research, Bloomberg

## EM Headline Inflation Surprise Index

Headline Inflation Surprise, +/- StDev



Source: Morgan Stanley Research, Bloomberg

## DM Inflation Forecasts

		MS	Consensus	Above/ Below
US	2016	1.2	1.3	Yellow
	2017	1.9	2.2	Red
EA	2016	0.3	0.3	Yellow
	2017	1.5	1.3	Green
Japan	2016	-0.2	-0.1	Yellow
	2017	0.9	0.7	Green
UK	2016	0.6	0.7	Yellow
	2017	2.2	2.2	Yellow

Note: CPI Inflation numbers are annual period averages. Red indicates below consensus, green indicates above consensus. US is PCE. UK and Japan CPI. Euro Area is HICP.

Source: Morgan Stanley Research estimates, Bloomberg

## EM Inflation Forecasts

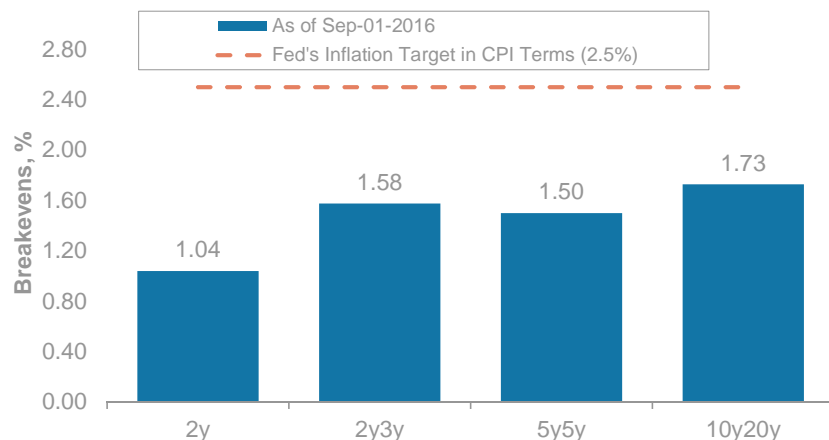
		MS	Consensus	Above/ Below
China	2016	1.8	2.0	Red
	2017	1.5	2.0	Red
India	2016	5.1	4.9	Green
	2017	4.5	5.3	Red
Brazil	2016	8.9	8.6	Green
	2017	5.8	5.5	Green
Russia	2016	7.2	7.2	Yellow
	2017	5.5	5.5	Yellow

Note: CPI/ Inflation numbers are annual period averages. Red indicates below consensus, green indicates above consensus. Brazil is National CPI. Russia, India and China, forecasts are of their respective CPIs.

Source: Morgan Stanley Research estimates, Bloomberg

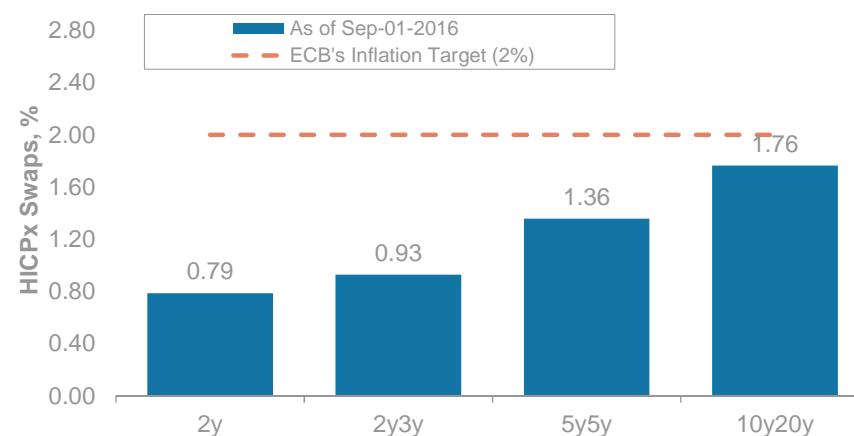
WHAT WE'RE WATCHING | GLOBAL INFLATION MONITOR  
**Global Market Pricings Relative to Target**

## US



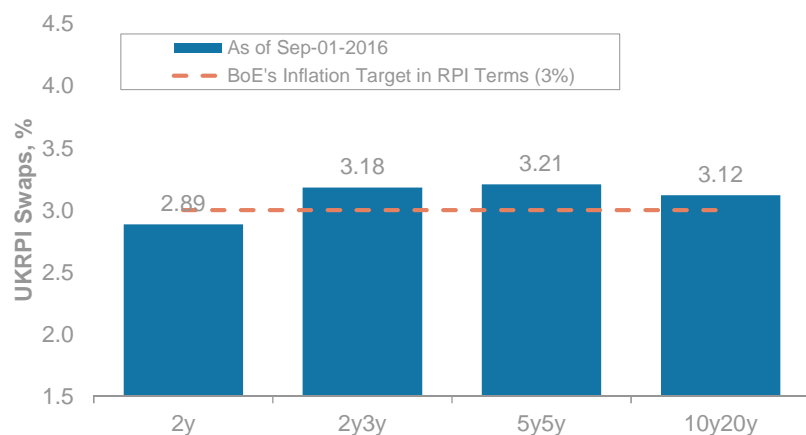
Note: Assume 50bp CPI-PCE wedge, consistent with history.  
Source: Morgan Stanley Research, Bloomberg

## Eurozone



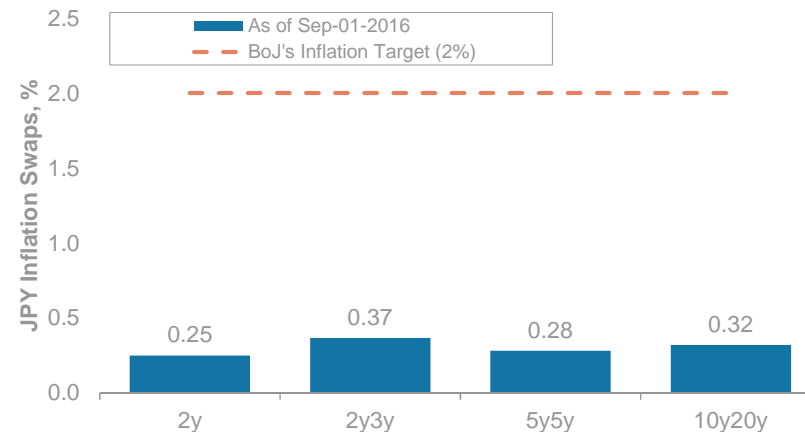
Source: Morgan Stanley Research, Bloomberg

## UK



Note: Assume 100bp RPI-CPI wedge, consistent with history.  
Source: Morgan Stanley Research, Bloomberg

## Japan

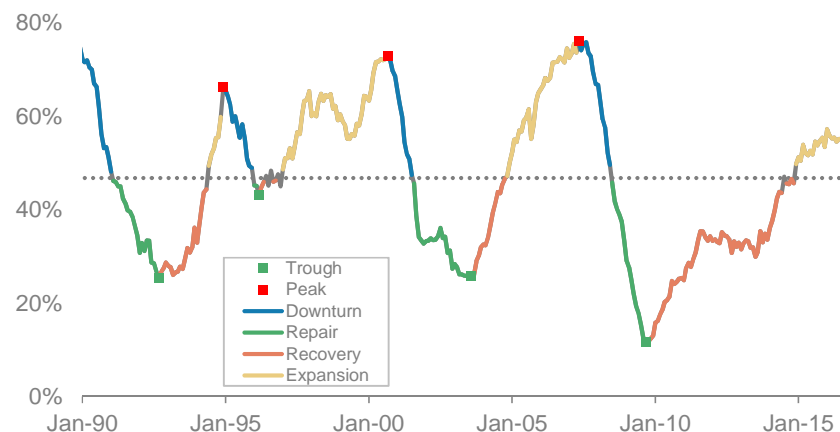


Source: Morgan Stanley Research, Bloomberg

## WHAT WE'RE WATCHING

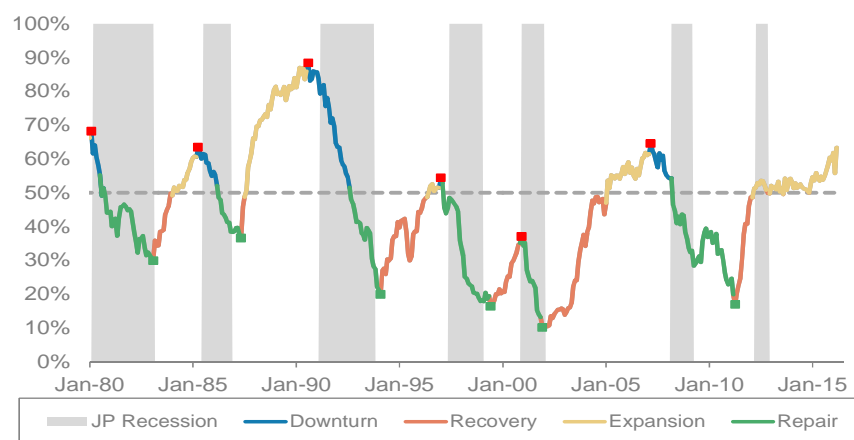
# Morgan Stanley Cycle Indicators

## DM Cycle Indicator



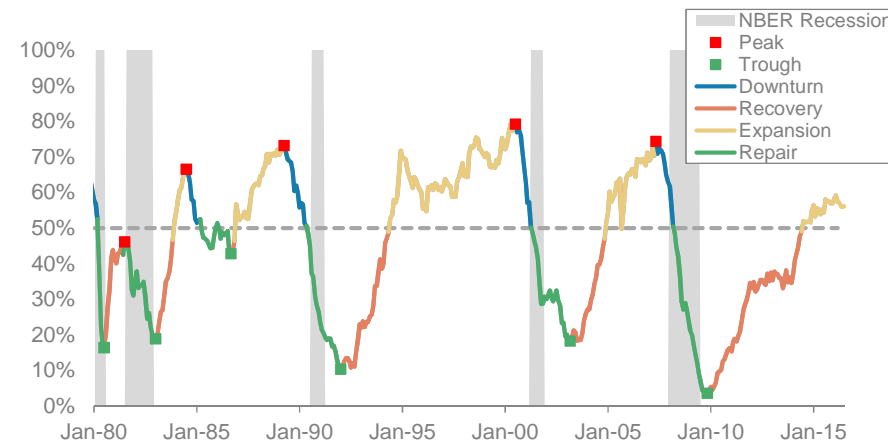
Note: Weighted average of US, EU and Japan cycles, with weights of 50%, 35%, 15%.  
Source: Morgan Stanley Research

## Japan Cycle Indicator



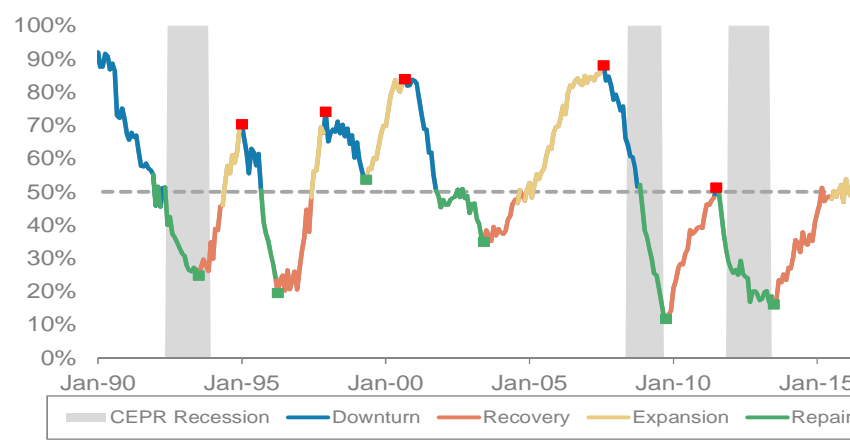
Source: Morgan Stanley Research, Haver Analytics

## US Cycle Indicator



Source: Morgan Stanley Research, Haver Analytics

## Euro Area Cycle Indicator



Source: Morgan Stanley Research, ECB, Haver Analytics



## WHAT WE'RE WATCHING

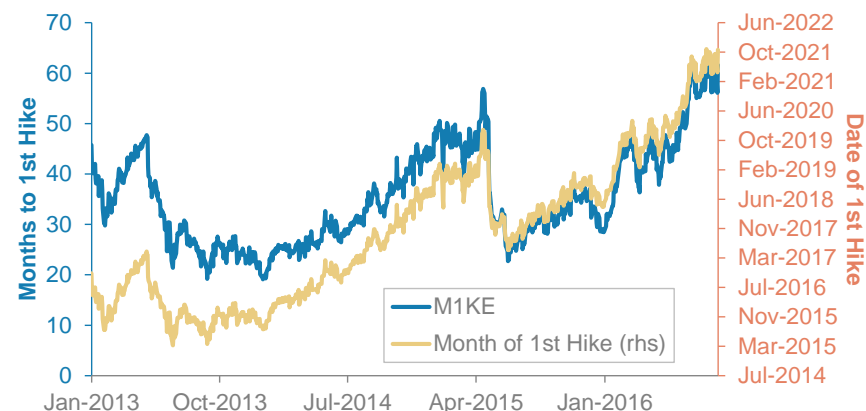
Morgan Stanley Months to 1<sup>st</sup> Hike (M1KE) Indicators

## US – Pace of Rate Hikes

## MS - Market Implied Pace of Hikes



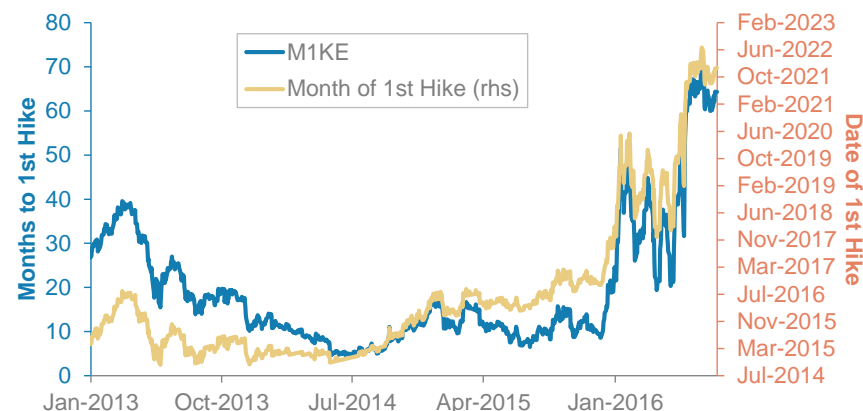
Source: Morgan Stanley Research, Bloomberg.

See [Dropping the M1KE, When's the Next Hike?](#) (December 17, 2015)Euro Area Months to 1<sup>st</sup> Hike

Source: Morgan Stanley Research, Bloomberg

		Cumulative Expected Policy Rate Moves (bp)		
	Month	Fed	ECB	BoE
2016	Sep	+6.1	-1.2	-1.4
	Oct	-	-	-1.4
	Nov	+7.8	-2.4	-7.1
	Dec	+16.1	-4.9	-8.0
	Jan	-	-	-8.0
2017	Feb	+17.8	-6.5	-9.0
	Mar	+22.6	-7.5	-10.2
	Apr	+23.3	-8.1	-10.4
	May	-	-	-10.6
	Jun	+26.5	-9.3	-12.1
	Jul	+29.1	-10.5	-12.1
	Aug	-	-	-12.4
	Sep	+30.5	-11.1	-12.8

Source: Morgan Stanley Research, Bloomberg.

See [What's In The Price \(WITP\) Interactive Tool](#) for more market-implied policy rate changes and our forecasts.UK Months to 1<sup>st</sup> Hike

Source: Morgan Stanley Research, Bloomberg

WHAT WE'RE WATCHING  
US

## Major Economic Indicators

## Leading Indicators

		Period	12M Trend	Actual	Δ	Hit/Miss
ISM Mfg PMI		Jul-16		52.6	→	
ISM Non-Mfg PMI		Jul-16		55.5	→	
Conf. Board Leading Indicator	YoY%	Jul-16		1.2	↑	
Conf. Board Leading Indicator		Apr-16		98.9	↑	
University Of Michigan Survey		Aug-16		89.8	↓	

## Economic Activity

		Period	12M Trend	Actual	Δ	Hit/Miss
Industrial Production	YoY%	Jul-16		-0.5	↑	
Durable Goods New Orders	YoY%	Jul-16		-6.4	↑	
Durable Goods Inventories	YoY%	Jul-16		-2.6	↑	
Retail Sales	YoY%	Jul-16		2.3	↓	
Auto Sales	YoY%	Jul-16		17.8	↑	

## Labor Market

		Period	12M Trend	Actual	Δ	Hit/Miss
Non-Farm Payroll	MoM k	Jul-16		255	→	
Initial Jobless Claims	k	Aug-16		261	→	
Continuing Claims	k	Aug-16		2,145	→	
ADP Employment Change	MoM k	Aug-16		177	↓	
Avg Hourly Earnings	YoY%	Jul-16		2.6	→	

## Prices

		Period	12M Trend	Actual	Δ	Hit/Miss
CPI	YoY%	Jul-16		0.8	↓	
CPI ex Food & Energy	YoY%	Jul-16		2.2	↓	
PPI	YoY%	Jul-16		-2.2	↓	
PPI ex Food & Energy	YoY%	Jul-16		1.0	↓	
Core PCE	YoY%	Jul-16		1.6	↓	

## Housing Market

		Period	12M Trend	Actual	Δ	Hit/Miss
New Home Sales	SAAR k	Jul-16		654	↑	
Existing Home Sales	SAAR k	Jul-16		5.4	↓	
MBA Mortgage Applications	weekly %	Aug-16		2.8	↑	
S&P/Cas-Shiller 20-City Index	YoY%	Jun-16		5.1	↓	

## Legend

- Survey consensus hit/miss over past 12 months
- Blue rectangles:** Metric comes above consensus
- Dark blue rectangle:** largest surprise to the upside over past 12 months
- Grey rectangles:** Metric comes below consensus
- Dark grey rectangle:** largest surprise to the downside over past 12 months

Source: National sources, Haver Analytics, Bloomberg, Morgan Stanley Research

WHAT WE'RE WATCHING  
Europe

## Major Economic Indicators

## Leading Indicators

	Period	12M Trend	Actual	Δ	Hit/Miss
Eurozone (EZ) Mfg PMI	Aug-16		51.8	↓	
EZ Consumer Confidence	Aug-16		-8.5	↓	
Germany ZEW	Aug-16		0.5	↑	
Germany Mfg PMI	Aug-16		53.6	↓	
Germany Ifo Business Survey	Aug-16		106.2	↓	

## Economic Activity

		Period	12M Trend	Actual	Δ	Hit/Miss
EZ Industrial Production	YoY%	Jun-16		0.4	↑	
Germany Ind. Production	YoY%	Jun-16		0.5	↑	
Italy Ind. Production	YoY%	Jun-16		-1.0	↓	
Germany Retail Sales	YoY%	Jul-16		-1.5	↓	
France Consumpt'n of Mfg Gds	YoY%	Jul-16		1.0	↑	

## Labor Market

		Period	12M Trend	Actual	Δ	Hit/Miss
EZ Unemployment Rate	%	Aug-16		10.1	→	
Germany Unemployment Rate	%	Aug-16		4.2	↓	
Italy Unemployment Rate	%	Aug-16		11.4	↓	
EUR Real Effective Ex. Rate	Index	Jul-16		91.1	↓	

## Prices

		Period	12M Trend	Actual	Δ	Hit/Miss
EZ Core CPI	YoY%	Aug-16		0.7	↓	
Germany Core CPI	YoY%	Aug-16		1.1	↓	
France Core CPI	YoY%	Aug-16		0.5	↓	
Italy Core CPI	YoY%	Aug-16		0.4	↓	
Spain Core CPI	YoY%	Aug-16		0.6	↓	

## Lending and Money Supply

		Period	12M Trend	Actual	Δ	Hit/Miss
EZ M1	YoY%	Aug-16		7.9	↓	
EZ M3	YoY%	Aug-16		4.8	→	
EZ Lending to Priv. Sector	SAAR k	Aug-16		3.9	→	
EZ Loans to Corporates	YoY%	Aug-16		1.9	→	
EZ Priv. Sect. LT Borrow Cost	YoY%	Aug-16		2.0	↑	

## Legend

- Survey consensus hit/miss over past 12 months
- Blue rectangles:** Metric comes above consensus
- Dark blue rectangle:** largest surprise to the upside over past 12 months
- Grey rectangles:** Metric comes below consensus
- Dark grey rectangle:** largest surprise to the downside over past 12 months

Source: National sources, Haver Analytics, Bloomberg, Morgan Stanley Research

WHAT WE'RE WATCHING  
**Japan**

## Major Economic Indicators

## Leading Indicators

	Period	12M Trend	Actual	Δ	Hit/Miss
Leading Indicator	Jun-16		99.2	↑	
Eco Watchers: Outlook	Jul-16		47.1	↑	
Tankan Mfg: Outlook	Aug-16		6.0	↑	
Tankan Non-Mfg: Outlook	Aug-16		19.0	↑	
PMI	Aug-16		49.5	↑	

## Economic Activity

		Period	12M Trend	Actual	Δ	Hit/Miss
Industrial Production	YoY%	Jul-16		-3.8	↓	
Vehicle Production	YoY%	Jul-16		-4.1	↓	
Machinery Orders	YoY%	Jun-16		-0.9	↑	
Dept Store Sales	YoY%	Jul-16		-0.1	↑	
Vehicle Sales	YoY%	Aug-16		5.7	↑	

## Labor Market

		Period	12M Trend	Actual	Δ	Hit/Miss
Jobless Rate	%	Jul-16		3.0	↑	
Job-to-Applicant Ratio		Jul-16		1.4	↑	
Regular Employees	YoY%	Jun-16		2.0	→	
Avg Monthly Cash Earnings	YoY%	Jun-16		1.4	↑	
Avg Monthly Hours Worked	YoY%	Jun-16		-0.3	↑	

## Prices

		Period	12M Trend	Actual	Δ	Hit/Miss
CGPI	YoY%	Jul-16		-3.9	-	
CPI	YoY%	Jul-16		-0.4	-	
Core CPI	YoY%	Aug-16		0.1	-	
Export Prices	YoY%	Jul-16		-14.0	-	
Import Prices	YoY%	Jul-16		-21.7	-	

## Housing Market

		Period	12M Trend	Actual	Δ	Hit/Miss
Tokyo Residential Hse Prices	YoY%	May-16		2.9	↓	
Housing Starts	YoY%	Jul-16		8.9	↑	
Construction Orders	YoY%	Jul-16		-10.9	↓	
Tokyo Condo Sales	YoY%	Jul-16		-30.7	↓	
Tokyo Avg Office Vacancies	%	Jul-16		3.9	↑	

## Legend

- Survey consensus hit/miss over past 12 months
- Blue rectangles:** Metric comes above consensus
- Dark blue rectangle:** largest surprise to the upside over past 12 months
- Grey rectangles:** Metric comes below consensus
- Dark grey rectangle:** largest surprise to the downside over past 12 months

Source: National sources, Haver Analytics, Bloomberg, Morgan Stanley Research

WHAT WE'RE WATCHING  
China

## Major Economic Indicators

## Leading Indicators

		Period	12M Trend	Actual	Δ	Hit/Miss
Leading Indicator		Jun-16		98.3	↓	
CFLP Mfg PMI		Aug-16		50.4	↑	
CFLP Non-Mfg PMI		Aug-16		53.5	↓	
HSBC Mfg PMI		Aug-16		50.0	↓	
HSBC Services PMI		Jul-16		51.7	↓	

## Economic Activity

		Period	12M Trend	Actual	Δ	Hit/Miss
Val-Added of Industry	YoY%	Jul-16		6.0	↓	
FAI ex-Rural	YoY%	Jul-16		8.1	↓	
Retail Sales	YoY%	Jul-16		10.2	↓	
Imports	YoY%	Jul-16		-12.5	↑	
Exports	YoY%	Jul-16		-4.4	↑	

## Financial

		Period	12M Trend	Actual	Δ	Hit/Miss
M2	YoY%	Jul-16		10.2	↓	
New Loans	RMB bn	Jul-16		463.6	↓	
Total Loan Growth	YoY%	Jul-16		12.9	↓	
Policy Rate	%	Aug-16		4.4	↓	
RRR	%	Aug-16		17.0	↓	

## Prices

		Period	12M Trend	Actual	Δ	Hit/Miss
CPI	YoY%	Jul-16		1.8	-	
Core CPI	YoY%	Jul-16		1.8	-	
PPI	YoY%	Jul-16		-1.7	-	

## Housing Market

		Period	12M Trend	Actual	Δ	Hit/Miss
Avg Hse Price in 100 cities	RMB/M <sup>2</sup>	Aug-16		12,270	↑	
Avg Hse Price in Beijing		Aug-16		38,926	↑	
Avg Hse Price in Shanghai	YoY%	Aug-16		43,420	↑	
Price of New Resi in Beijing	Index	Aug-16		120	↓	
Price of New Resi in Shanghai	Index	Aug-16		126	↓	

## Legend

	Survey consensus hit/miss over past 12 months
	<b>Blue rectangles:</b> Metric comes above consensus
	<b>Dark blue rectangle:</b> largest surprise to the upside over past 12 months
	<b>Grey rectangles:</b> Metric comes below consensus
	<b>Dark grey rectangle:</b> largest surprise to the downside over past 12 months

Source: National sources, Haver Analytics, Bloomberg, Morgan Stanley Research

WHAT WE'RE WATCHING  
EM

## Major Economic Indicators

## Brazil

		Period	12M Trend	Actual	Δ	Hit/Miss
PMI		Jul-16		46.0	↑	
Industrial Production	YoY%	Jun-16		-6.0	↑	
Imports	YoY%	Jul-16		-16.0	↑	
Exports	YoY%	Jul-16		-12.4	↓	
CPI	YoY%	Jul-16		8.7	-	

## Mexico

		Period	12M Trend	Actual	Δ	Hit/Miss
PMI		Jul-16		50.6	↓	
Industrial Production	YoY%	Jun-16		0.6	↑	
Imports	YoY%	Jul-16		-9.9	↑	
Exports	YoY%	Jul-16		-9.0	↓	
CPI	YoY%	Jul-16		2.7	-	

## Poland

		Period	12M Trend	Actual	Δ	Hit/Miss
PMI		Jul-16		50.3	↓	
Industrial Production	YoY%	Jul-16		-3.4	↓	
Imports	YoY%	Jun-16		2.4	↓	
Exports	YoY%	Jun-16		6.4	↑	
CPI	YoY%	Aug-16		-0.8	-	

## Russia

		Period	12M Trend	Actual	Δ	Hit/Miss
PMI		Aug-16		50.8	↑	
Industrial Production	YoY%	Jul-16		-1.5	↓	
Imports	YoY%	Jun-16		-1.4	↓	
Exports	YoY%	Jun-16		-19.8	↑	
CPI	YoY%	Jul-16		7.2	-	

## India

		Period	12M Trend	Actual	Δ	Hit/Miss
PMI		Aug-16		52.6	↑	
Industrial Production	YoY%	Jun-16		2.1	↑	
Imports	YoY%	Jul-16		-19.0	↑	
Exports	YoY%	Jul-16		-6.8	↓	
CPI	YoY%	Jul-16		3.6	-	

## Legend

- Survey consensus hit/miss over past 12 months
- Blue rectangles:** Metric comes above consensus
- Dark blue rectangle:** largest surprise to the upside over past 12 months
- Grey rectangles:** Metric comes below consensus
- Dark grey rectangle:** largest surprise to the downside over past 12 months

Source: National sources, Haver Analytics, Bloomberg, Morgan Stanley Research

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<b>Equal-weight/Hold</b>	<b>1458</b>	<b>44%</b>	<b>305</b>	<b>47%</b>	<b>21%</b>	<b>727</b>	<b>46%</b>
<b>Not-Rated/Hold</b>	<b>73</b>	<b>2%</b>	<b>7</b>	<b>1%</b>	<b>10%</b>	<b>10</b>	<b>1%</b>
<b>Underweight/Sell</b>	<b>651</b>	<b>20%</b>	<b>86</b>	<b>13%</b>	<b>13%</b>	<b>291</b>	<b>18%</b>
<b>Total</b>	<b>3,322</b>		<b>648</b>			<b>1592</b>	

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