Caron's Corner Transcript – 4.28.2026

Markets in the Fog: Why Equities Climbed While the World Held Its Breath

- Somebody made the statement: "the bears are making sense, but the bulls are making money" – relating the US-Iran war to market prices. I'd like to approach this discussion as someone who's spent decades watching markets navigate moments exactly like this—when geopolitics dominates headlines, and yet, somewhat counterintuitively, equity markets push higher.
- Let's start with the obvious: the Middle East conflict has been a shock. Oil prices spiked, inflation fears resurfaced, and volatility returned. At one point, Brent crude surged from below $73 a barrel to over $110. That's not trivial—it's the kind of move that, historically, has tipped economies toward recession.
- Think back to 1973, the oil embargo. Or 1990, Iraq's invasion of Kuwait. In both cases, oil shocks didn't just rattle markets—they derailed growth. So it's natural that investors today are asking: *why hasn't that happened this time?*
- The answer lies in a few words: duration & energy independence.
- Markets are constantly asking—*is this temporary, or is this lasting?* Because if higher energy prices persist, they act like a tax on the consumer. Also, the Middle East isn't the only source of energy – the US is an exporter too. Otherwise, demand falls, growth slows, and valuations compress. That's the classic playbook.
- But today, the oil market is telling a different story. The market signaling: *this is a supply shock, not a structural shortage*. Yes, near-term inflation pressure is real, but it's not expected to spiral into a full-blown growth scare.
- And that distinction—between a price shock and a valuation shock—is everything. Let's get into it!

Jim Caron: Hello, this is Jim Caron, CIO of the Portfolio Solutions Group. Welcome to another edition of Caron's Corner powered by The BEAT, our asset allocation framework across Bonds, Equities, Alternatives, Taxes and short-term Transitional (cash) investing.

Somebody made the statement that the bears are making sense while the bulls are making money, and this was in relation to the U.S./Iran war and prices. I'd like to approach this discussion as someone who has spent decades watching markets navigate moments exactly like this, when geopolitics dominates headlines and yet, somewhat counterintuitively, equity markets push higher.

Let's start with the obvious. The Middle East conflict has been a shock. Oil prices spiked, inflation fears resurfaced and volatility returned. At one point, Brent crude surged from below $73/barrel to over $110/barrel. That's not trivial. It's the kind of move that historically has tipped economies toward recession. Think back to 1973, the oil embargo, or 1990, Iraq's invasion of Kuwait. In both cases, oil shocks didn't just rattle markets – they derailed growth.

So it's natural that investors today are asking why hasn't that happened this time? The answer lies in a few words duration and energy independence. Markets are constantly asking, is this temporary or is this lasting? Because if higher energy prices persist, they act like a tax on the consumer. Also, the Middle East isn't the only source of energy anymore. The U.S. is an exporter too. Otherwise demand falls, growth slows and valuations compress. That's the classic playbook. But today the oil market is telling a different story. The market is signaling this is a supply shock not a structural shortage. Yes, near-term inflation pressures is real, but it's not expected to spiral into a full-blown growth scare. And that's the distinction between a price shock and a valuation shock. It's everything. Let's get into it.

So let's talk about asset prices versus geopolitical risks. Now let's tackle the question I get almost daily: why have U.S. equities risen despite persistent geopolitical risks? At first glance, it seems irrational. But markets aren't ignoring risk – they're repricing it. When the conflict began, investors were dealing with what we call ambiguity. They had no framework, no probabilities, no clear sense of escalation paths. And when that happens, markets do what they always do. They de-risk aggressively. You can think of it like driving in a dense fog. You slow down, maybe even stop because you don't know what's ahead. In market terms, that's meant investors focused heavily on left tail risks. The worst-case scenarios: oil at $150, for example, supply chains disrupted, or a broader regional war – that fear pushed equity prices lower. But here's what's changed, over time, ambiguity has evolved into uncertainty and that's subtle but a critical shift. Uncertainty means we don't know exactly what will happen but we can assign probabilities. We can model outcomes. Markets function again, to extend the analogy, the fog hasn't lifted completely, but now you can see the road and keep driving. And when markets can model risk, something important changes, the risk premium begins to fall.

Now, the other aspect of this is that epic fury is transforming into economic fury. Let me give you a concrete example. In the early days of the conflict, what we referred to as epic fury, the distribution of outcomes was heavily skewed to the downside. The left tail was fat; the right tail positive outcomes were barely considered. Fast forward to today – the market has recalibrated. The conflict is increasingly viewed through an economic lens. Sanctions, trade routes, energy flows – what we call economic fury. Take the Strait of Hormuz, early fears centered on a full closure, a catastrophic scenario for global oil supply. Today, markets assign a lower probability to that outcome. It's still there but probably not as permanent as one might have thought earlier. It's still a risk, but not the base case. So what's happened? The left tail has shrunk. The right tail scenarios where growth remains intact has expanded, and when that happens, the balance shifts. Equity prices move higher not because risks disappear but because they're better understood and earnings always drive prices. Now layer in this factor of earnings strength. Despite everything, U.S. corporates have continued to deliver. Margins have held up. Productivity gains, especially from AI adoption, are starting to show through, and fiscal support remains meaningful. Think about where the U.S. consumer started this shock energy. Energy as a share of household spending is near historical lows. That's a huge buffer. It's one reason why, even with gasoline prices rising, consumption hasn't collapsed. Compare that to Europe, where energy dependence is far higher, or Asia where supply chains are more exposed to Middle East flows. The U.S. simply entered this period from a position of higher strength and growth remains on track.

Let me pause here and offer a historical parallel. In 2014, during the Crimea crisis, markets initially sold off sharply, but within months equities had recovered and moved higher. Why? Because the event, while serious, didn't materially alter global growth trajectories. We're seeing a similar dynamic today. Markets are not saying geopolitics don't matter. They're saying given what we know, the most likely outcomes do not derail growth materially. Now this brings us to positioning. The key takeaway here is that this has been a dislocation, not a deterioration. Prices move sharply, sentiment shifted but the underlying fundamentals, particularly in the U.S., have remained reasonably intact. Historically, those are moments that create opportunity. After the Gulf War in 1991, equities rallied strongly once it became clear that the conflict would be contained. After the 2011 Arab Spring, markets experienced volatility but ultimately moved higher as growth persisted. Time and again, we see the same pattern when markets transition from fear of the unknown to management of the known risk assets recover.

Now it's going to be bumpy but not broken as far as markets are concerned. Now that doesn't mean the path forward is smooth. Volatility will remain. Oil prices are unlikely to return to pre-conflict lows anytime soon, and inflation pressures, especially at the consumer level, may linger for a longer period of time. We've already seen how refined products, gasoline and diesel are amplifying the impact at the pump. That's real and it will weigh on sentiment. But stepping back, the broader picture is one of resilience. The U.S. continues to benefit from structural tailwinds, fiscal policy, deregulation, technological innovation. Europe and Asia face more challenges, particularly around energy security but even their policy responses are beginning to take shape.

So where does that leave us? For financial advisors, the message is clear. First, don't confuse volatility with deterioration. They are not the same. Second, understand how markets process risk. This shift from ambiguity to uncertainty is often the turning point. And third, recognize that dislocations, while uncomfortable, often present the best opportunities to re-engage with the long-term growth strategies. Markets are forward looking. I'll leave you with this thought: markets don't wait for clarity, if they did, we'd all invest too late. They move when the worst-case scenarios become less likely, not when they disappear, and that's exactly what we've seen in recent weeks.

Thank you all for listening to this edition of Caron’s Corner, and we'll be back with another one soon.

RISK CONSIDERATIONS

Diversification does not eliminate the risk of loss.

Catalyst events, such as AI, Crypto, and Tokenization adoption, carries the risk that such catalysts may not occur, may be delayed, or that the market may react differently than expected. Companies focused on these areas may have limited product lines, markets or financial resources, and their management and performance may be particularly impacted by events that adversely affect AI adoption, such as rapid changes in product technology cycles, product obsolescence, government regulation, cybersecurity concerns and competition.

There is no assurance that the Strategy will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this portfolio. Please be aware that this strategy may be subject to certain additional risks. There is the risk that the Adviser's **asset allocation methodology** and assumptions regarding the Underlying Portfolios may be incorrect in light of actual market conditions and the Portfolio may not achieve its investment objective. Share prices also tend to be volatile and there is a significant possibility of loss. The portfolio's investments in **commodity-linked notes** involve substantial risks, including risk of loss of a significant portion of their principal value. In addition to commodity risk, they may be subject to additional special risks, such as risk of loss of interest and principal, lack of secondary market and risk of greater volatility, that do not affect traditional equity and debt securities. **Currency fluctuations** could erase investment gains or add to investment losses. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. **Equity and foreign securities** are generally more volatile than fixed income securities and are subject to currency, political, economic and market risks. **Equity valu**es fluctuate in response to activities specific to a company. **Stocks of small-capitalization companies** carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed markets. **Exchange traded funds (ETFs)** shares have many of the same risks as direct investments in common stocks or bonds and their market value will fluctuate as the value of the underlying index does. By investing in exchange traded funds ETFs and other Investment Funds, the portfolio absorbs both its own expenses and those of the ETFs and Investment Funds it invests in. Supply and demand for ETFs and Investment Funds may not be correlated to that of the underlying securities. **Derivative instruments** can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the portfolio's performance. A **currency forward** is a hedging tool that does not involve any upfront payment. The use of leverage may increase volatility in the Portfolio.

IMPORTANT DISCLOSURES:

Past performance is no guarantee of future results. The returns referred to in the audio are those of representative indices and are not meant to depict the performance of a specific investment.

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

A separately managed account may not be appropriate for all investors. Separate accounts managed according to the particular Strategy may include securities that may not necessarily track the performance of a particular index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required.

For important information about the investment managers, please refer to Form ADV Part 2.

The views and opinions and/or analysis expressed are those of the author or the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm"), and may not be reflected in all the strategies and products that the Firm offers.

Forecasts and/or estimates provided herein are subject to change and may not actually come to pass. Information regarding expected market returns and market outlooks is based on the research, analysis and opinions of the authors or the investment team. These conclusions are speculative in nature, may not come to pass and are not intended to predict the future performance of any specific strategy or product the Firm offers. Future results may differ significantly depending on factors such as changes in securities or financial markets or general economic conditions.

This material has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable. However, no assurances are provided regarding the reliability of such information and the Firm has not sought to independently verify information taken from public and third-party sources.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

The indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index. Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

This material is not a product of Morgan Stanley's Research Department and should not be regarded as a research material or a recommendation.

The Firm has not authorised financial intermediaries to use and to distribute this material, unless such use and distribution is made in accordance with applicable law and regulation. Additionally, financial intermediaries are required to satisfy themselves that the information in this material is appropriate for any person to whom they provide this material in view of that person's circumstances and purpose. The Firm shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary.

This material may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this material in another language, the English version shall prevail.

Eaton Vance is part of Morgan Stanley Investment Management. Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

DISTRIBUTION

This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

MSIM, the asset management division of Morgan Stanley (NYSE: MS), and its affiliates have arrangements in place to market each other's products and services. Each MSIM affiliate is regulated as appropriate in the jurisdiction it operates. MSIM's affiliates are: Calvert Research and Management, Eaton Vance Management, Parametric Portfolio Associates LLC, Parametric SAS, and Atlanta Capital Management LLC.

This material has been issued by any one or more of the following entities:

EMEA:

This material is for Professional Clients/Accredited Investors only.

In the EU, MSIM materials are issued by MSIM Fund Management (Ireland) Limited ("FMIL"). FMIL is regulated by the Central Bank of Ireland and is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at 24-26 City Quay, Dublin 2, DO2 NY19, Ireland.

Outside the EU, MSIM materials are issued by Morgan Stanley Investment Management Limited (MSIM Ltd) is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

In Switzerland, MSIM materials are issued by Morgan Stanley & Co. International plc, London (Zurich Branch) Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland.

Italy: MSIM FMIL (Milan Branch), (Sede Secondaria di Milano) Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy. The **Netherlands:** MSIM FMIL (Amsterdam Branch), Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. **France:** MSIM FMIL (Paris Branch), 61 rue de Monceau 75008 Paris, France. **Spain:** MSIM FMIL (Madrid Branch), Calle Serrano 55, 28006, Madrid, Spain. **Germany**: MSIM FMIL, Frankfurt Branch, Grosse Gallusstrasse 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Denmark:** MSIM FMIL (Copenhagen Branch), Gorrissen Federspiel, Axel Towers, Axeltorv2, 1609 Copenhagen V, Denmark.

MIDDLE EAST:
Dubai International Financial Centre: This information does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe for or purchase, any securities or investment products in the UAE (including the Dubai International Financial Centre and the Abu Dhabi Global Market) and accordingly should not be construed as such. Furthermore, this information is being made available on the basis that the recipient acknowledges and understands that the entities and securities to which it may relate have not been approved, licensed by or registered with the UAE Central Bank, the Dubai Financial Services Authority, the UAE Securities and Commodities Authority, the Financial Services Regulatory Authority or any other relevant licensing authority or government agency in the UAE. The content of this report has not been approved by or filed with the UAE Central Bank, the Dubai Financial Services Authority, the UAE Securities and Commodities Authority or the Financial Services Regulatory Authority.

Abu Dhabi Global Market ("ADGM"): This material is sent strictly within the context of, and constitutes, an Exempt Communication. This material relates to content which is not subject to any form of regulation or approval by the Financial Services Regulatory Authority of the Abu Dhabi Global Market (the “FSRA”).

Saudi Arabia: This financial promotion was issued and approved for use in Saudi Arabia by Morgan Stanley Saudi Arabia, Al Rashid Tower, Kings Sand Street, Riyadh, Saudi Arabia, authorized and regulated by the Capital Market Authority license number 06044-37.

U.S.: NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT

Latin America (Brazil, Chile Colombia, Mexico, Peru, and Uruguay)

This material is for use with an institutional investor or a qualified investor only. All information contained herein is confidential and is for the exclusive use and review of the intended addressee, and may not be passed on to any third party. This material is provided for informational purposes only and does not constitute a public offering, solicitation or recommendation to buy or sell for any product, service, security and/or strategy. A decision to invest should only be made after reading the strategy documentation and conducting in-depth and independent due diligence.

ASIA PACIFIC

Hong Kong: This material is disseminated by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to “professional investors” as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this material have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this material shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore:** This material is disseminated by Morgan Stanley Investment Management Company and should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore (“SFA”); (ii) to a “relevant person” (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This publication has not been reviewed by the Monetary Authority of Singapore. **Australia:** This material is provided by Morgan Stanley Investment Management (Australia) Pty Ltd ABN 22122040037, AFSL No. 314182 and its affiliates and does not constitute an offer of interests. Morgan Stanley Investment Management (Australia) Pty Limited arranges for MSIM affiliates to provide financial services to Australian wholesale clients. This material will not be lodged with the Australian Securities and Investments Commission.

Japan: For professional investors, this material is circulated or distributed for informational purposes only. For those who are not professional investors, this material is provided in relation to Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")'s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This is not for the purpose of a recommendation or solicitation of transactions or offers any particular financial instruments. Under an IMA, with respect to management of assets of a client, the client prescribes basic management policies in advance and commissions MSIMJ to make all investment decisions based on an analysis of the value, etc. of the securities, and MSIMJ accepts such commission. The client shall delegate to MSIMJ the authorities necessary for making investment. MSIMJ exercises the delegated authorities based on investment decisions of MSIMJ, and the client shall not make individual instructions. All investment profits and losses belong to the clients; principal is not guaranteed. Please consider the investment objectives and nature of risks before investing. As an investment advisory fee for an IAA or an IMA, the amount of assets subject to the contract multiplied by a certain rate (the upper limit is 2.20% per annum (including tax)) shall be incurred in proportion to the contract period. For some strategies, a contingency fee may be incurred in addition to the fee mentioned above. Indirect charges also may be incurred, such as brokerage commissions for incorporated securities. Since these charges and expenses are different depending on a contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This material is disseminated in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, The Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association.

RO 5431874 Exp. 5/31/2027