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10 Themes for 2023 – Q1 Progress Report

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All information as at 14th April 2023

10 Themes for 2023

	Theme	Thesis Progress – Thesis Update	Analyst
Macro	1. **Margin Pressure** – Company earnings and margins are likely to come under pressure. Play Pricing Power.	1/5 - A slower start than projected but expect further pressure in Q2 for US/Europe	Wilson, Secker
	2. **Inventory** – Inventory has grown sharply while demand for goods is falling. Play Deflation Enablers	2/5 – Price cuts across several sectors in 1Q but expect further unwind ahead	Weaver, Wilson
	3. **China Reopening** – a V-shaped recovery in China growth is now likely. Play >20% Revenue exposed.	5/5 - China reopening largely playing out as expected; Long EM from here	Garner, Blake
ESG	4. **ESG Rate of Change** – We think ESG rate of change will be a critical focus for alpha generation.	4/5 - Thesis intact and performance indicative of alpha generation	Byrd, Sanchez
	5. **Earthshots** – We need more decarbonisation accelerants; 40 equities are most exposed.	3/5 – Growth in projects continues to take share but with more challenging funding	Stanley, Byrd
	6. **Downround IPOs & Cash Calls** – The year of the downround but a year for opportunistic investors.	4/5 – Structured/down rounds accelerated by post-SVB credit tightening. $40bn Q cash-burn. Awaiting IPOs	Stanley, De Maere
	7. **India's Decade** - An underappreciated, multi-year theme with gathering momentum.	2/5 - Slow-burn theme with AI creating debate over Gen-Z employment risks	Desai, Ahya
	8. **Rise of Saudi** –c$1 trn in gigaprojects, and rapid demographic shifts favour contractors and Luxury.	3/5 - Slow-burn theme. Social and Giga reforms continue. Oil price the key variable	Zavolock, Yamanari
	9. **Multi-Earner Era** – With the emergence of ChatGPT, the future of work multiplicative.	4/5 - The emergence of HustleGPT suggests this secular theme is on track	Stanley, Richers
Micro	10. **Obesity x Social Media** – From a linear secular theme to an exponential one	3/5 - Supply bottlenecks have slowed roll-out but demand thesis accelerating	Purcell, Flynn

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Cross Asset: Relative Performance

1999	2000	2001	2002	2003	2004	2005	2006
US Venture 163%	Global Commodity 21.08%	US Real Estate 11.51%	Global Commodity 23.90%	US Venture 63.13%	US Real Estate 37.96%	EM Equity 34%	US Real Estate 42.12%
EM Equity 63.70%	US Real Estate 12.75%	US Fixed Income 9.19%	Global Fixed 22.37%	EM Equity 55.82%	EM Equity 25.55%	Global Commodity 17.50%	EM Equity 32.17%
DM ex-U.S. Equity 23.67%	US Fixed Income 10.86%	Small Cap US Equity 5.62%	US Fixed Income 10.26%	Small Cap US Equity 47.25%	DM ex-U.S. Equity 20.38%	US Real Estate 15.35%	DM ex-U.S. Equity 25.17%
Small Cap US Equity 19.77%	Global Fixed 4.02%	US High Yield 5.09%	US Real Estate 2.82%	US Real Estate 40.69%	Small Cap US Equity 18.33%	DM ex-U.S. Equity 14.47%	Small Cap US Equity 18.37%
Large Cap US Equity 19.64%	Cash 0.26%	Global Fixed 0.74%	Cash 1.78%	DM ex-U.S. Equity 39.42%	Global Fixed 12.54%	Large Cap US Equity 4.91%	Large Cap US Equity 15.79%
Global Commodity 18.06%	US High Yield -5.69%	Cash 0.15%	US High Yield -1.37%	US High Yield 28.97%	US Venture 12.42%	Small Cap US Equity 4.55%	US High Yield 11.85%
US Real Estate 6.28%	Small Cap US Equity -8.46%	EM Equity -4.82%	EM Equity -6.16%	Large Cap US Equity 28.68%	US High Yield 11.13%	Cash 3.07%	US Venture 8.45%
US High Yield 2.39%	Large Cap US Equity -12.66%	Large Cap US Equity -10.53%	DM ex-U.S. Equity -15.80%	Global Commodity 22.70%	Large Cap US Equity 10.88%	US High Yield 2.74%	Global Fixed 8.16%
Cash 1.15%	DM ex-U.S. Equity -14.13%	DM ex-U.S. Equity -17.83%	Small Cap US Equity -20.48%	Global Fixed 19.36%	Global Commodity 7.60%	US Fixed Income 2.43%	Cash 4.85%
US Fixed Income -2.54%	US Venture -25.5%	Global Commodity -20.11%	Large Cap US Equity -22.10%	US Fixed Income 4.10%	US Fixed Income 4.34%	US Venture -5.07%	US Fixed Income 4.33%
Global Fixed -5.63%	EM Equity -31.80%	US Venture -21.3%	US Venture -47.13%	Cash 1.15%	Cash 1.33%	Global Fixed - 8.65%	Global Commodity -2.70%

2007	2008	2009	2010	2011	2012	2013	2014
EM Equity 39.38%	US Fixed Income 5.24%	EM Equity 78.51%	Small Cap US Equity 26.85%	US Fixed Income 7.84%	US Real Estate 27.73%	US Venture 48.82%	US Venture 25.11%
US Venture 27.37%	Global Fixed 4.39%	US High Yield 58.21%	US Real Estate 19.63%	US High Yield 4.98%	US Venture 20.67%	Small Cap US Equity 38.82%	US Real Estate 15.02%
DM ex-U.S. Equity 12.44%	Cash 2.06%	US Venture 54.73%	EM Equity 18.88%	Global Fixed 4.36%	EM Equity 18.23%	Large Cap US Equity 32.39%	Large Cap US Equity 13.69%
Global Fixed 11.03%	US High Yield -26.16%	US Real Estate 37.13%	Global Commodity 16.70%	US Venture 2.39%	DM ex-U.S. Equity 16.41%	DM ex-U.S. Equity 21.02%	US Fixed Income 5.97%
Global Commodity 11.10%	US Venture -32.6%	DM ex-U.S. Equity 33.67%	US High Yield 15.12%	Large Cap US Equity 2.11%	Small Cap US Equity 16.35%	US High Yield 7.44%	Small Cap US Equity 4.89%
US Fixed Income 6.97%	Small Cap US Equity -33.79%	Small Cap US Equity 27.17%	Large Cap US Equity 15.06%	Cash 0.10%	Large Cap US Equity 16%	US Real Estate 3.67%	US High Yield 2.45%
Large Cap US Equity 5.49%	Global Commodity -36.60%	Large Cap US Equity 26.47%	US Venture 11.06%	Small Cap US Equity -4.18%	US High Yield 15.81%	Cash 0.07%	Cash 0.03%
Cash 5%	Large Cap US Equity -37%	Global Commodity 18.70%	DM ex-U.S. Equity 8.95%	US Real Estate -6.46%	US Fixed Income 4.21%	US Fixed Income -2.02%	EM Equity - 2.19%
US High Yield 1.87%	DM ex-U.S. Equity -43.56%	Global Fixed 7.53%	US Fixed Income 6.54%	DM ex-U.S. Equity -12.21%	Global Fixed 4.09%	EM Equity -2.6%	Global Fixed -3.09%
Small Cap US Equity -1.57%	US Real Estate -48.21%	US Fixed Income 5.93%	Global Fixed 4.95%	Global Commodity -13.40%	Cash 0.11%	Global Fixed -3.08%	DM ex-U.S. Equity -4.32%
US Real Estate -7.39%	EM Equity -53.33%	Cash 0.21%	Cash 0.13%	EM Equity -18.42%	Global Commodity -1.10%	Global Commodity -9.60%	Global Commodity -17.30%

2015	2016	2017	2018	2019	2020	2021	2022	2023
US Venture 23.19%	Small Cap US Equity 21.31%	US Venture 55.82%	US Venture 8.52%	US Venture 53.66%	US Venture 67.91%	US Venture 23.15%	Global Commodity 13.75%	US Venture 10.71%
Large Cap US Equity 1.38%	US High Yield 17.13%	EM Equity 37.28%	Cash 1.87%	Large Cap US Equity 31.49%	Small Cap US Equity 19.96%	Large Cap US Equity 28.71%	Cash -1.75%	DM ex-U.S. Equity 7.83%
US Fixed Income 0.55%	Large Cap US Equity 11.96%	DM ex-U.S. Equity 24.21%	US Fixed Income 0.01%	Small Cap US Equity 25.52%	Large Cap US Equity 18.40%	Global Commodity 27.1%	US High Yield -10.98%	Large Cap US Equity 7.34%
Cash 0.05%	Global Commodity 11.40%	Large Cap US Equity 21.83%	US High Yield -2.08%	DM ex-U.S. Equity 22.49%	EM Equity 18.31%	US Real Estate 26.09%	DM ex-U.S. Equity -15.34%	US Fixed Income 3.98%
US Real Estate -0.79%	EM Equity 11.19%	Small Cap US Equity 14.65%	Global Fixed -2.15%	US Real Estate 21.19%	Global Fixed 10.11%	Small Cap US Equity 14.82%	US Fixed Income -15.76%	Global Fixed 3.72%
DM ex-U.S. Equity -3.04%	US Real Estate 4.06%	Global Fixed 10.51%	Large Cap US Equity -4.38%	EM Equity 18.44%	DM ex-U.S. Equity 7.59%	DM ex-U.S. Equity 12.62%	Global Fixed -16.25%	EM Equity 3.06%
Small Cap US Equity -4.41%	DM ex-U.S. Equity 2.75%	US Real Estate 10.36%	US Real Estate -5.63%	US High Yield 14.32%	US Fixed Income 7.51%	US High Yield 5.28%	Large Cap US Equity -19.44%	US High Yield 1.45%
US High Yield -4.47%	US Fixed Income 2.65%	US High Yield 7.5%	Small Cap US Equity -11.01%	US Fixed Income 8.72%	US High Yield 7.11%	Cash 0.05%	EM Equity -20.56%	Cash 1.2%
Global Fixed -6.02%	Global Fixed 1.49%	US Fixed Income 3.54%	Global Commodity -13.0%	Global Commodity 5.40%	Cash 0.67%	US Fixed Income -1.54%	Small Cap US Equity -21.56%	Small Cap US Equity 0.39%
EM Equity -14.92%	US Venture 0.36%	Cash 0.86%	DM ex-U.S. Equity -14.09%	Global Fixed 5.09%	Global Commodity -3.50%	EM Equity -2.54%	US Real Estate -26.25%	US Real Estate -0.21%
Global Commodity -24.70%	Cash 0.33%	Global Commodity 0.70%	EM Equity -14.57%	Cash 2.28%	US Real Estate -9.04%	Global Fixed -7.05%	US Venture -54.88%	Global Commodity -3.7%

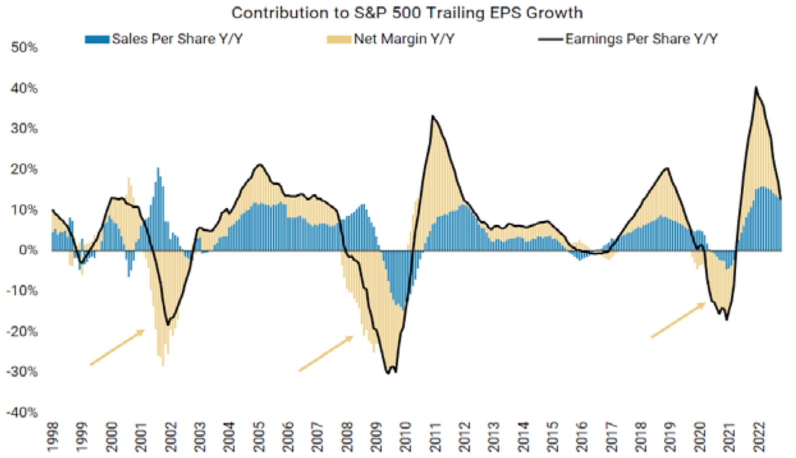
Sources: Bloomberg, Morgan Stanley Research

10 Themes For 2023

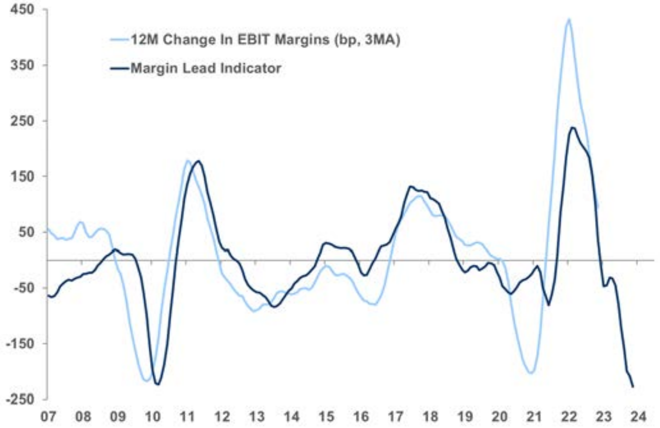
Theme 1: Margin Pressure (US)

Analysts: Michael Wilson, Michelle Weaver

We believe S&P 500 earnings will face significant pressure in 2023 and enter an earnings recession. The reason is negative operating leverage—when cost growth exceeds sales growth, earnings growth takes a steep hit. This phenomenon may be even more acute this cycle given (1) stickier wage costs amid a still tight employment market/labor shortages in certain industries and (2) excess inventory that was acquired at higher price points amid supply shortages and is just now being discounted in end markets (i.e., flowing through the income statement). See report here



Sources: Factset, Morgan Stanley Research



Sources: Factset, Bloomberg, Morgan Stanley Research

Margin Pressure (Europe)

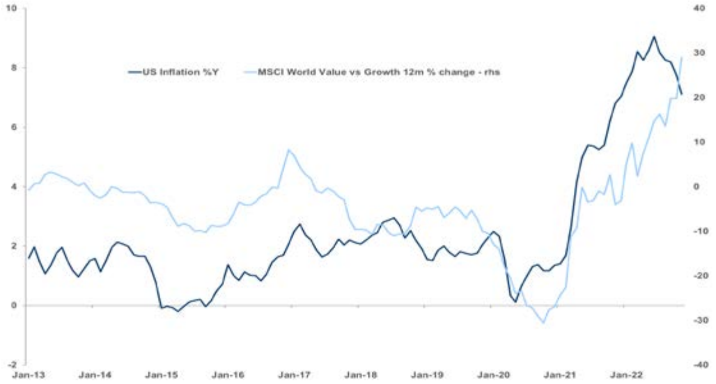
Analyst: Graham Secker

We assume European earnings will fall 10% this year as top line growth moderates and margins fall significantly. Our European margin lead indicator is pointing to over 200bps of margin contraction over the next 12m, comparable to that seen during the GFC. Higher wages, further cost inflation, slowing end demand and falling pricing power should all contribute to the negative operating leverage that we expect. See report here

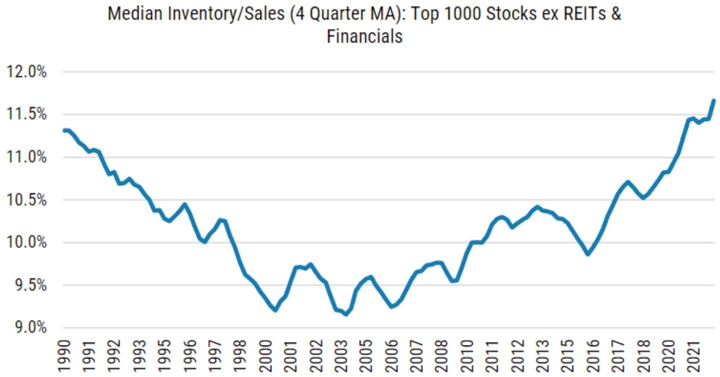
Theme 2: From stagflation to disinflation (and recession?) …

Analysts: Michael Wilson, Graham Secker

Inflation and higher rates have been the dominate driver of asset markets and sector performance trends in 2022. For 2023 we think the emphasis shifts to lower inflation and slower growth. Our US economists expect US inflation to fall materially over the coming quarters which should put downward pressure on bond yields and favour defensives and GARP stocks.



Sources: Factset, Morgan Stanley Research



Sources: Compustat, Morgan Stanley Research

… via Inventory Unwind

Analysts: Michael Wilson, Michelle Weaver

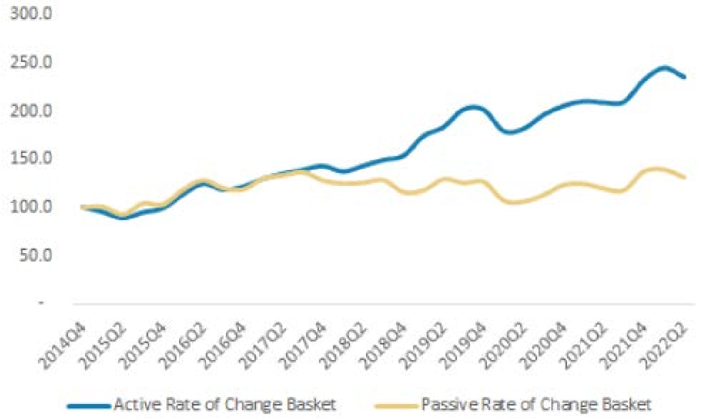
The problem with inventory is twofold - supply chains bottlenecks have cleared while demand, especially demand for goods, is slowing. Supply chains have stabilized for most industries and goods imports into the United States have surged higher on both a real and nominal basis. Inventory to Sales for the median US company has been on the rise since the Financial Crisis and is now at the highest level since 1990. We believe many companies will turn to aggressive discounting to solve their inventory problem.   See report here

Theme 3: China/Asia re-opening

Analysts: Jonathan Garner, Daniel Blake, Graham Secker

Unlike Western economies that are likely to slow further during 2023, we see an improving outlook for China/Asia as policy restrictions ease and the region enjoys a re-opening upturn. In conjunction with the USD weakness that we expect, this backdrop should encourage increased investor interest and flow into Asia/EM/China assets, both fixed income and equities. We see >50 global stocks exposed to China (BBG ticker MSREGLCH Index) and >50 with exposure specifically listed in Europe (see appendix). A strong rally in this group is currently underway: **See report here for EM** and **here for Europe**

Sources Reuters, Morgan Stanley Research estimates



Sources: Thomson, Morgan Stanley Research

Theme 4: ESG Rate of Change Drives Alpha

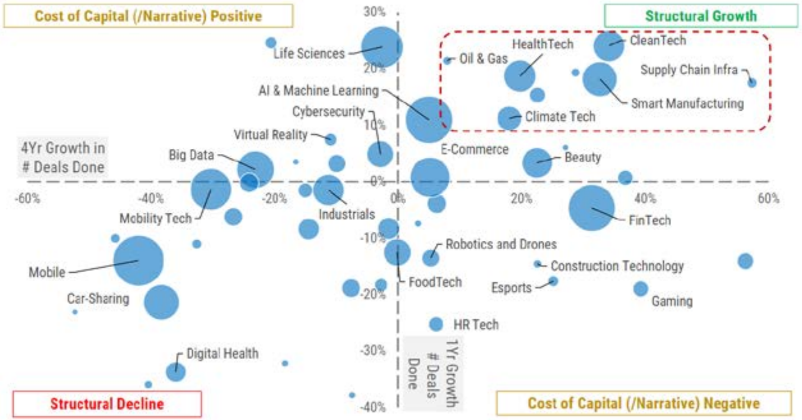
Analyst: Stephen Byrd

We think ESG rate of change will be a critical focus for investors looking to identify companies that can generate alpha and ESG impact. Of our global coverage, there are 90 stocks that our analysts believe will see significant improvement in at least one ESG metric, leading to a positive impact on financials and valuation. We believe our work is a better gauge of the likely future ESG rate of change of stocks than typical data services, which are often backward-looking and/or are not driven by in-depth, sector-specific analyses: **See report here**

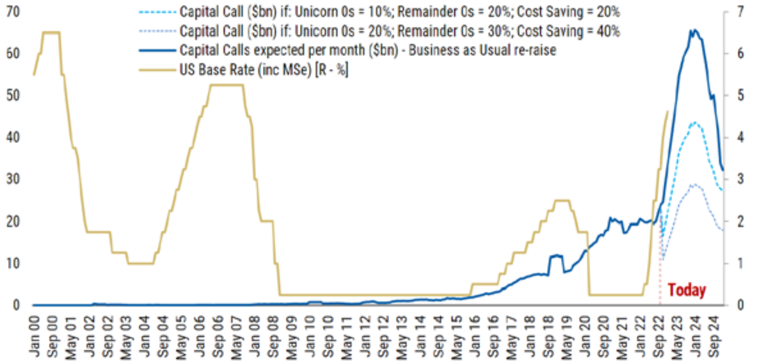
Theme 5: Earthshots

Analysts: Edward Stanley, Stephen Byrd

Our analysts list [>50 companies] with embedded game-changing sustainability technology, from the cutting edge in Ginkgo Bioworks, Codexis and Oxford Nanopore, to the enablers in Siemens, Sunrun and Occidental. Moreover, this report demonstrates the sheer breadth and speed of innovation from c200 private companies funded with $500bn of capital that are jostling to disrupt the lethargic decarbonisation status quo. **See report here**



Sources: Pitchbook, Morgan Stanley Research



Sources: PItchbook, Bloomberg, Morgan Stanley Research estimates. See full note above for detail behind the scenarios.

Theme 6: Downround IPOs & Cash Calls

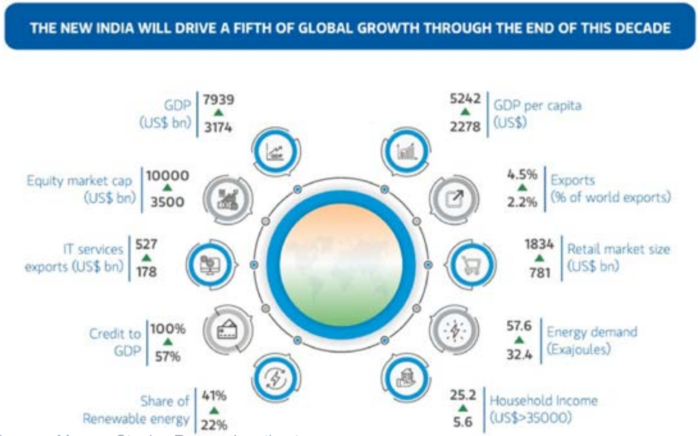
Analyst: Edward Stanley

We are in the upswing of unicorns needing to re-raise. In the absence of unicorn consolidation, expect money to flow out of public equities to support (or compensate for) private investments. Only 3% of 1420 companies IPO'd on a downround over the past 15 years; yet over 50% continued to grow and IPO'd or were acquired at higher subsequent valuations. If downround IPOs are to happen then it is most likely to occur mid-year 2023 for most newly minted unicorns. History suggests that the companies that raised at the peak of the 2021 upswing will raise at a downround around 2Q23 and then could IPO on a subsequent up-round 9-12 months later. **See report here** & **here**

Theme 7: India's Decade

Analyst: Ridham Desai

India has the conditions in place for an economic boom fueled by offshoring, investment in manufacturing, the energy transition, and the country's advanced digital infrastructure. These drivers will make it the world's third-largest economy and stock market before the end of the decade. The New India will drive a fifth of global growth through the end of this decade, led by offshoring, investment in manufacturing, the energy transition, and digital differentiation. See report here



Sources Morgan Stanley Research estimates

Sources: Google Maps, Morgan Stanley Research

Theme 8: Saudi – Emerging at 'Giga'speed

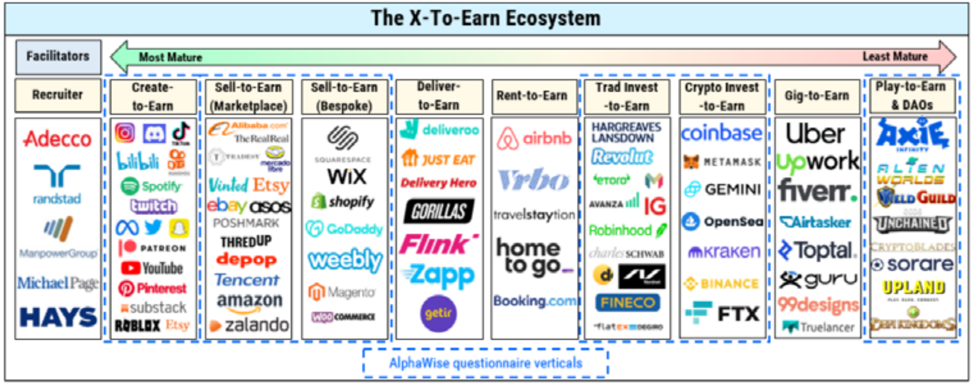
Analysts: Marina Zavolock, Edward Stanley

Saudi's extensive Vision 2030 economic and social reform program was launched in 2016 but gained significant momentum in 2022. Political will behind reforms is high, and the runway for continued momentum should extend into the next decade. We estimate giga, mega, and related project spending commitments to 2030 of c. $900bn (versus an estimated $50bn spent thus far). Korean and Indian contractors as well as Luxury look set to benefit. We see 20 global stocks with exposure to Vision 2030. See report here

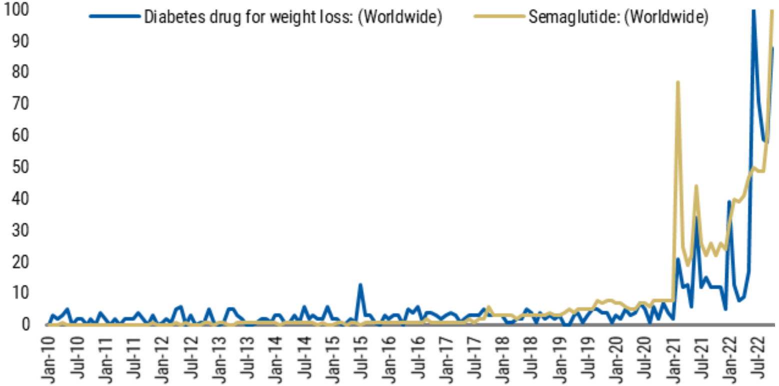
Theme 9: Multi-Earner Era

Analysts: Edward Stanley, Julian Richers

The emergence of ChatGPT and other generative AI tools is beginning to beg the question of how the future of work will look as these systems improve exponentially. Greater flexibility seems like the most likely outcome in the medium and long term. The necessity of pursuing multiple earning streams during the pandemic is now shifting to an opportunity. This is creating a large and growing class of workers whose marginal hour is better spent multi-earning than in low-paying traditional corporate roles. Gen Z is leading the paradigm shift. [See report here]



Sources Morgan Stanley Research



Sources: Google Trends, Morgan Stanley Research

Theme 10: Obesity x Social Media

Analysts: Mark Purcell, Edward Stanley

Wegovy (obesity), Ozempic (diabetes) and semaglutide (in both medicines) are seeing incredibly high YoY growth in the use of these hashtags in TikTok videos and comments. The result, we argue, is the potential for (1) knowledge of and thus (2) demand for drugs to spread exponentially rather than linearly in future. We believe global obesity sales could reach >$50bn in 2030. This would lift obesity from a $2.4bn category to a top-12 therapy area by global spending. Novo Nordisk and Eli Lilly best placed. [See report here]

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(as of March 31, 2023)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1354	37%	279	42%	21%	591	38%
Equal-weight/Hold	1651	45%	302	46%	18%	722	47%
Not-Rated/Hold	5	0%	1	0%	20%	1	0%
Underweight/Sell	646	18%	79	12%	12%	229	15%
Total	3,656		661			1543	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)
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