

Yields On the Rise

Signals, Flows, & Key Data: A weekly summary of key cross-asset monitors, data, moves, and models tracking sentiment, fund flows, and positioning. Last week, Topix rose 2.0%, UST 30Y yields reached its highest level in 2 decades, NZDUSD fell 0.7%, and Brent fell 1.8%.

Key highlights from last week:

- Topix rose 2.0%. Our Japan equity strategists think [consensus has yet to fully reflect the scope for upward earning revisions given that FY2026 1Q earnings were the strongest in the past 20 years.](#)
- UST 30Y yields reached its highest level in two decades. Our US rates strategists [recommend entering positions that benefit from a FOMC that stays on hold, but hedge against rate hikes.](#)
- NZDUSD fell 0.7%. Our G10 FX strategists' option pricing data indicate that [investors increased long NZD positions and increased short DXY positions.](#)
- Brent fell 1.8%. Nonetheless, our [commodity strategists have raised their Brent forecasts given tightening supply and a diminishing SPR buffer.](#)

Exhibit 1: Morgan Stanley forecasts

	As of Aug 31, 2026	Q2 2027 Forecast			Q2 2027 Return Forecast			Volatility	Base Case Return/Risk
		Bear	Base	Bull	Bear	Base	Bull		
Equities									
S&P 500	7,686	5,900	8,300	9,400	-22.2%	9.0%	23.4%	18%	0.49
MSCI Europe	2,595	1,820	2,810	3,080	-27.0%	11.1%	21.5%	15%	0.76
Topix	4,156	2,600	4,300	4,900	-35.5%	5.4%	19.8%	18%	0.29
MSCI EM	1,719	1,100	1,800	2,100	-34.0%	6.7%	24.1%	17%	0.40
FX									
JPY*	160	163	156	145	-5.4%	-0.6%	7.4%	9%	-0.06
EUR	1.16	1.00	1.16	1.30	-15.3%	-1.6%	10.5%	7%	-0.22
GBP	1.35	1.20	1.34	1.45	-11.4%	-1.1%	7.0%	9%	-0.12
AUD	0.72	0.68	0.73	0.76	-4.6%	2.4%	6.6%	10%	0.24
INR*	95.2	92.0	95.0	100.0	6.6%	2.8%	-1.9%	5%	0.59
ZAR*	16.1	15.0	16.3	18.7	10.2%	1.5%	-11.0%	15%	0.11
BRL*	5.19	4.40	4.90	5.40	25.7%	13.6%	3.8%	15%	0.91
MXN*	17.0	16.5	17.2	19.5	6.0%	1.7%	-9.8%	12%	0.14
Rates (% percent)									
UST 10yr	4.75	5.10	4.20	3.55	1.4%	8.6%	14.1%	7%	1.30
DBR 10yr	3.32	3.05	2.45	2.40	5.5%	10.4%	10.9%	6%	1.81
UKT 10yr	5.06	4.65	4.40	4.20	7.8%	9.9%	11.5%	7%	1.50
JGB 10yr	2.94	3.10	2.25	1.40	2.0%	8.9%	16.2%	3%	3.50
Credit (bps)									
US IG	78	125	90	70	-2.0%	-0.2%	1.2%	3%	-0.05
US HY	261	425	275	230	-3.9%	1.8%	3.7%	5%	0.33
EUR IG	79	150	80	60	-2.5%	0.6%	1.5%	2%	0.34
EUR HY	260	500	300	225	-6.3%	0.1%	2.7%	4%	0.02
EM \$ Sov	235	400	260	210	-8.5%	0.3%	3.5%	7%	0.05
Sec. Products (bps)									
US Agency MBS	29	40	20	15	-0.4%	0.8%	1.1%	2%	0.43
US CMBS AAA	73	110	75	60	-3.1%	0.4%	1.9%	2%	0.26
US CMBS BBB-	455	750	470	390	-25.4%	2.3%	10.2%	3%	0.68
Commodities									
Brent	90	60	90	120	-24.6%	13.0%	50.7%	39%	0.33
Copper	14,446	10,670	13,000	16,248	-25.1%	-8.7%	14.1%	21%	-0.41
Gold	4,437	3,920	4,900	6,125	-14.6%	6.8%	33.5%	16%	0.42

Source: Bloomberg, MSCI, Morgan Stanley Research forecasts; Note: Returns are total returns, except for credit, where we forecast excess returns vs government bonds. Commodity returns are calculated relative to futures to account for carry. Volatility is 10y realized vol. All currency returns are shown as XXXUSD return. *Currency forecasts shown for USDXXX. Copper data as of Aug 28, 2026.

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Recent Research:

- [Cross-Asset Brief: Are Higher Bond Yields a Headwind for Equities? Key Debates in Under 5 Minutes – August 2026 \(28 Aug 2026\)](#)
- [Cross-Asset Conversations: Back to School, Back to Steepeners | Ep. 156 \(27 Aug 2026\)](#)
- [Cross-Asset Dispatches: Climbing Yields, Climbing Correlations \(24 Aug 2026\)](#)
- [Cross-Asset Playbook: Back To School \(21 Aug 2026\)](#)

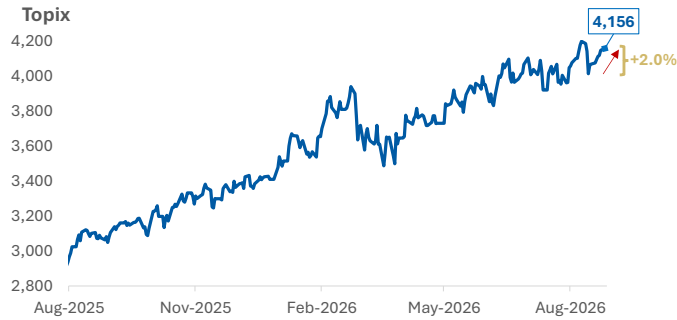
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Charts You Can't Miss

Exhibit 2: Topix rose 2.0%



Source: Bloomberg, Morgan Stanley Research

Exhibit 3: UST 30Y yields reached its highest level in two decades



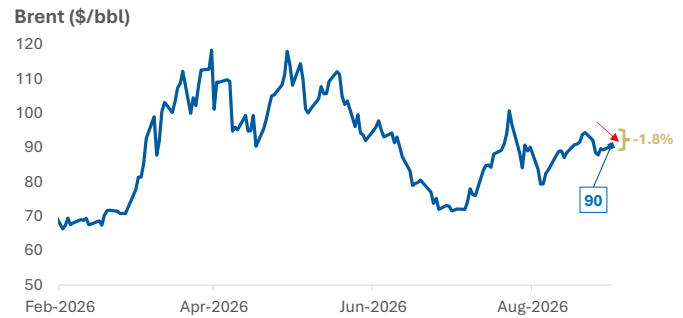
Source: Bloomberg, Morgan Stanley Research

Exhibit 4: NZDUSD fell 0.7%



Source: Bloomberg, Morgan Stanley Research

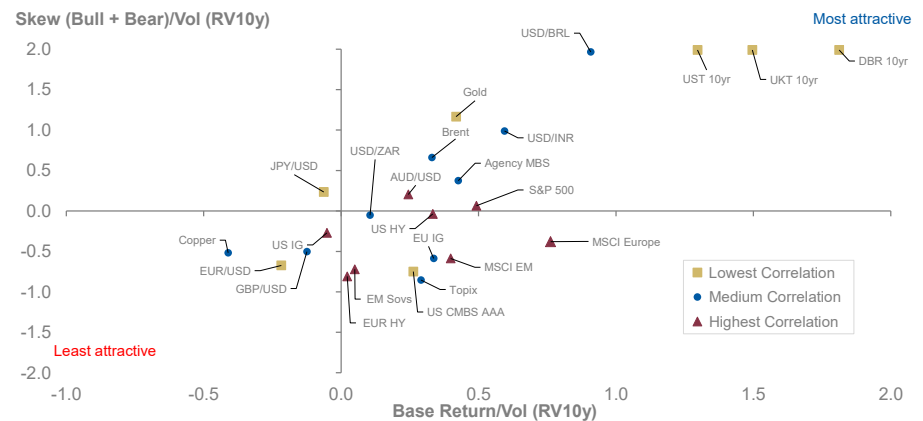
Exhibit 5: Brent fell 1.8%



Source: Bloomberg, Morgan Stanley Research

Exhibit 6:

Global asset classes – expected 2Q27 return vs. risk



Source: Bloomberg, MSCI, Morgan Stanley Research forecasts; Note: 'Expected returns' based on Morgan Stanley strategy 2Q27 forecasts. Correlation is 10y relative to global equities (MSCI ACWI). Returns are total returns, except for credit, where we forecast excess returns versus government bonds. Commodity returns are calculated relative to futures to account for carry. All currency returns are shown as XXXUSD return. Volatility is 10y realised vol.

Cross-Asset ETF Flows

Exhibit 7: Weekly US ETF flows



Flows for week ending Mon 31 August 2026

Source: Bloomberg, Morgan Stanley Research; Note: Equity flows include flows from US ETFs to both domestic and international equities.

We track daily fund flows across ~5,000 ETFs globally, covering ~US \$7 trillion of assets. For more on the full set of data we cover, see [here](#).

The new monitor provides a gauge of demand across assets and regions, allowing us to better analyze cross-asset sentiment and positioning.

Exhibit 8: US ETF fund flows summary

US ETF Fund Flows													
Name	Assets (US\$ bn)	Short Interest		Trailing 1W		Trailing 3M		Trailing 12M		5Y Zscore			3M Flow
		Latest	1M Chg	Flow (US\$ mln)	1W %	Flow (US\$ bn)	3M %	Flow (US\$bn)	12M %	1W	3M	12M	
EQUITIES	11,669	2.4%	↓	14,307	0.1%	268.4	2.4%	908.9	10.4%	-0.1	0.4	0.4	
US	9,274	2.7%	↓	11,004	0.1%	207.6	2.3%	658.3	9.3%	-0.1	0.3	0.1	
International	2,396	1.4%	↓	3,302	0.1%	60.8	2.6%	250.6	14.9%	0.0	0.5	1.0	
Global	2,086	1.7%	↓	2,897	0.1%	50.9	2.5%	216.4	14.8%	-0.1	0.5	1.0	
Europe	93	1.7%	↓	120	0.1%	3.1	3.6%	3.2	4.2%	0.1	0.4	-0.1	
Japan	56	1.0%	↑	88	0.2%	2.5	4.9%	9.4	25.1%	0.0	0.4	1.0	
APxJ	110	7.1%	↓	-47	-0.0%	4.0	3.7%	6.8	8.3%	-0.1	0.4	0.1	
EM	545	2.4%	↓	729	0.1%	13.5	2.5%	55.1	14.9%	0.0	0.3	1.2	
FIXED INCOME	2,184	2.1%	↑	5,507	0.3%	108.5	5.2%	364.4	20.0%	-0.1	1.4	2.3	
US FI	1,868	2.3%	↑	3,742	0.2%	90.4	5.0%	298.1	18.9%	-0.3	1.2	2.1	
US Agg	492	0.4%	↓	1,658	0.3%	23.4	4.9%	75.2	18.0%	0.3	1.1	0.8	
US Govt	548	3.2%	↑	896	0.2%	29.5	5.6%	108.6	24.7%	-0.5	-0.3	-0.3	
US MBS	77	0.5%	↑	800	1.0%	2.9	3.9%	3.3	4.4%	1.1	0.4	-0.8	
US IG	338	2.8%	↑	16	0.0%	17.5	5.4%	52.2	18.0%	-0.3	1.2	2.3	
US HY	114	13.8%	↑	-171	-0.1%	2.7	2.5%	4.4	4.0%	-0.2	0.0	-0.4	
Munis	171	0.6%	↓	376	0.2%	8.4	5.1%	32.5	24.1%	-0.2	0.2	0.5	
EM Credit	25	7.2%	↑	80	0.3%	1.3	5.4%	1.7	8.1%	0.2	0.8	0.7	
EM Local	9	1.4%	↑	125	1.5%	0.3	3.3%	2.1	33.3%	0.8	0.0	1.0	
COMMODITIES	343	2.3%	↓	249	0.1%	4.1	1.2%	26.8	12.2%	0.1	0.1	0.7	
Energy	4	6.8%	↑	-34	-0.8%	-0.1	-2.7%	0.0	-1.6%	-0.2	0.0	0.6	
Gold	315	2.3%	↓	-31	-0.0%	2.6	0.8%	22.6	11.1%	-0.1	0.1	0.6	
ESG	124	0.4%	↓	1,151	0.9%	3.2	2.6%	13.0	14.1%	1.6	0.7	0.4	
ESG Equity	114	0.5%	↑	1,127	1.0%	2.6	2.3%	11.1	13.3%	1.6	0.7	0.4	
ESG FI	10	0.3%	↓	25	0.2%	0.5	5.5%	1.9	21.4%	-0.2	0.2	-0.2	

Note:

Data as of Mon 31 August 2026

Totals show assets and flows for unlevered funds only. Categories not exhaustive.

Short interest <10th percentile are highlighted in green, >90th percentile are in red.

'T3M Flow' shows rolling 3M net flows over the last 12 months.

Source: Bloomberg, Morgan Stanley Research

Exhibit 9: US fixed income ETF flows summary

US ETF Fund Flows - Fixed Income													
Name	Assets (US\$ bn)	Short Interest		Trailing 1W		Trailing 3M		Trailing 12M		5Y Zscore			3M Flow
		Latest	1M Chg	Flow (US\$ mln)	1W %	Flow (US\$ bn)	3M %	Flow (US\$bn)	12M %	1W	3M	12M	
Domestic	1,868	2.3%	↑	3,742	0.2%	90.4	5.0%	298.1	18.9%	-0.3	1.2	2.1	
Agg	492	0.4%	↓	1,658	0.3%	23.4	4.9%	75.2	18.0%	0.3	1.1	0.8	
Government	548	3.2%	↑	896	0.2%	29.5	5.6%	108.6	24.7%	-0.5	-0.3	-0.3	
Ultra Short	206	0.8%	↓	-641	-0.3%	14.5	7.6%	52.5	34.8%	-0.5	-0.2	-0.2	
Short-Term	86	3.7%	↓	7,641	9.7%	10.1	13.1%	19.2	28.5%	9.4	2.1	1.1	
Intermediate	170	2.2%	↑	-6,578	-3.7%	-4.6	-2.6%	33.3	24.5%	-3.4	-1.6	-0.3	
Long-Term	86	10.1%	↓	474	0.6%	9.6	12.0%	3.6	4.1%	-0.1	0.2	-1.0	
Inflation Protected	78	2.1%	↓	73	0.1%	5.0	6.6%	15.6	24.1%	0.1	1.0	0.7	
MBS	77	0.5%	↑	800	1.0%	2.9	3.9%	3.3	4.4%	1.1	0.4	-0.8	
Municipals	171	0.6%	↓	376	0.2%	8.4	5.1%	32.5	24.1%	-0.2	0.2	0.5	
Corporate	452	5.1%	↑	-155	-0.0%	20.2	4.6%	56.7	14.1%	-0.3	0.8	1.1	
IG	338	2.8%	↑	16	0.0%	17.5	5.4%	52.2	18.0%	-0.3	1.2	2.3	
HY	114	13.8%	↑	-171	-0.1%	2.7	2.5%	4.4	4.0%	-0.2	0.0	-0.4	
International	316	0.8%	↑	1,765	0.6%	18.1	6.0%	66.3	26.6%	0.7	1.0	1.3	
Glb Agg	248	0.1%	↓	1,407	0.6%	14.1	6.0%	53.8	27.6%	0.7	0.9	1.2	
Glb Corp	29	0.2%	↑	70	0.2%	2.4	9.1%	7.6	35.5%	-0.3	0.1	-0.4	
EM	25	7.2%	↑	80	0.3%	1.3	5.4%	1.7	8.1%	0.2	0.8	0.7	
EM Local	9	1.4%	↑	125	1.5%	0.3	3.3%	2.1	33.3%	0.8	0.0	1.0	

Note:

Data as of Mon 31 August 2026

Totals show assets and flows for unlevered funds only. Categories not exhaustive.

Short interest <10th percentile are highlighted in green, >90th percentile are in red.

'T3M Flow' shows rolling 3M net flows over the last 12 months.

Source: Bloomberg, Morgan Stanley Research

Exhibit 10: EU ETF fund flows summary

European ETF Fund Flows											
Name	Assets (US\$ bn)	Trailing 1W		Trailing 3M		Trailing 12M		5Y Zscore			T3M Flow
		1W Flow (US\$ mln)	1W %	3M Flow (US\$ mln)	3M %	12M Flow (US\$ mln)	12M %	1W	3M	12M	
EQUITIES	2,624	3,112	0.1%	54,023	2.2%	155,894	8.1%	0	0.8	0.2	
Europe	518	938	0.2%	3,722	0.8%	24,605	6.0%	0.4	0	0.4	
International	2,106	2,175	0.1%	50,301	2.5%	131,288	8.7%	-0.2	0.8	0	
Global	1,009	1,472	0.1%	29,684	3.1%	85,176	12.5%	-0.2	0.9	0	
US	895	401	0.0%	16,709	2.0%	28,426	4.1%	-0.2	0.5	-0.4	
Japan	70	125	0.2%	2,781	4.4%	6,380	13.4%	0.3	1.6	1.5	
APxJ	85	139	0.2%	1,119	1.3%	7,360	11.9%	0	-0.3	0.3	
EM	247	192	0.1%	3,415	1.4%	27,781	18.0%	-0.3	-0.4	1.1	
FIXED INCOME	576	-720	-0.1%	5,599	1.0%	16,461	3.2%	-1	-0.2	-0.9	
EU FI	260	29	0.0%	3,596	1.4%	11,537	4.8%	-0.4	-0.7	-1.2	
EU Agg	9	7	0.1%	177	1.9%	585	6.7%	-0.1	-0.1	-0.5	
EU Govt	94	-51	-0.1%	1,464	1.6%	4,240	4.8%	-0.5	-0.6	-0.9	
EU IG	109	120	0.1%	177	0.2%	62	0.1%	0	-0.4	-0.9	
EU HY	14	-2	-0.0%	287	2.1%	703	5.2%	-0.1	0.1	0.1	
EM Credit	25	31	0.1%	639	2.6%	1,167	5.4%	0.2	0.9	1.5	
EM Local	11	-160	-1.5%	-160	-1.5%	1,298	15.1%	-0.8	0	1	
COMMODITIES	246	1,471	0.6%	1,680	0.7%	4,175	2.5%	1.3	0.5	0.8	
Energy	3	-11	-0.4%	40	1.4%	-66	-4.5%	0	0.1	0.3	
Gold	212	1,506	0.7%	2,508	1.2%	986	0.7%	1.5	0.7	0.5	
ESG	376	678	0.2%	1,934	0.5%	-11,250	-3.4%	0.2	-0.4	-0.9	
ESG Equity	310	615	0.2%	1,420	0.5%	-5,306	-2.0%	0.3	-0.4	-0.8	
ESG FI	65	63	0.1%	515	0.8%	-5,944	-8.6%	0	-0.3	-1.2	

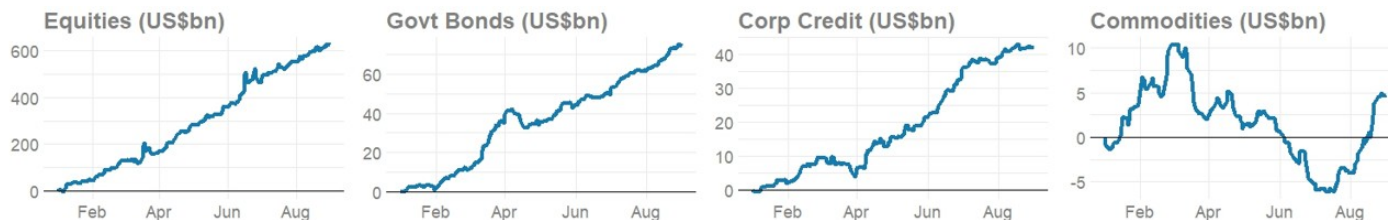
Note:

Data as of Mon 31 August 2026

Totals show assets and flows for unlevered funds only. Categories not exhaustive.

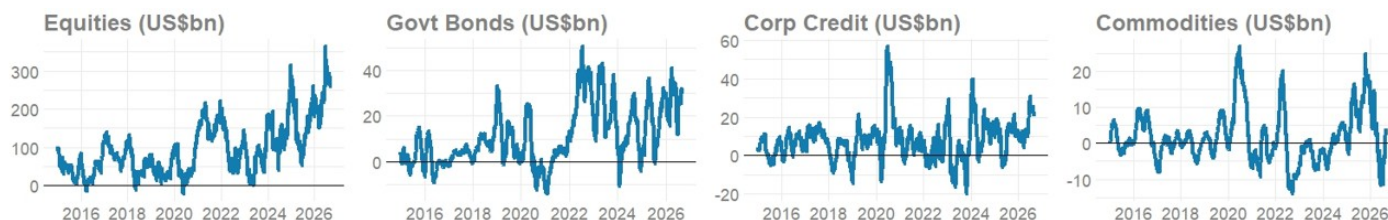
'T3M Flow' shows rolling 3M net flows over the last 12 months.

Source: Bloomberg, Morgan Stanley Research

Exhibit 11: US ETF cumulative flows year-to-date

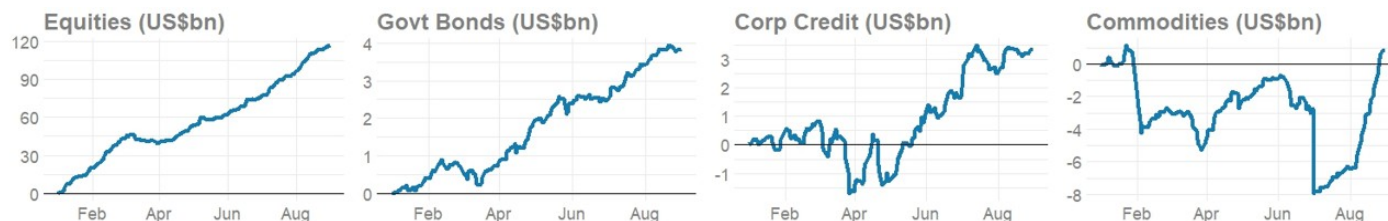
Data as of Mon 31 August 2026

Source: Bloomberg, Morgan Stanley Research; Note: Equity flows include flows from US ETFs to both domestic and international equities.

Exhibit 12: US ETF trailing 3M flows

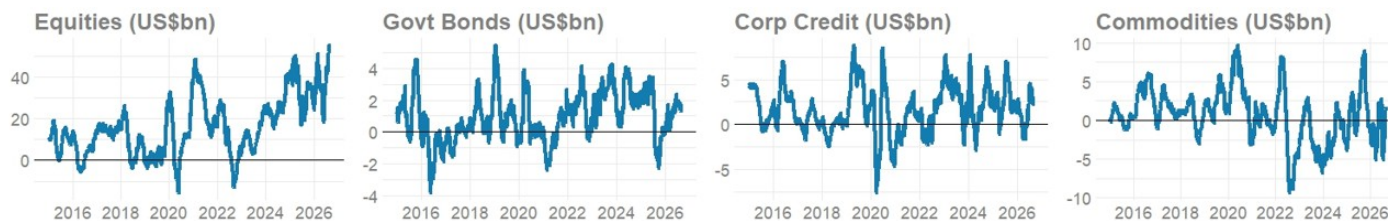
Data as of Mon 31 August 2026

Source: Bloomberg, Morgan Stanley Research; Note: Equity flows include flows from US ETFs to both domestic and international equities.

Exhibit 13: European ETF cumulative flows year-to-date

Data as of Mon 31 August 2026

Source: Bloomberg, Morgan Stanley Research; Note: Equity flows include flows from European ETFs to both domestic and international equities.

Exhibit 14: European ETF trailing 3M flows

Data as of Mon 31 August 2026

Source: Bloomberg, Morgan Stanley Research; Note: Equity flows include flows from European ETFs to both domestic and international equities.

Cross-Asset ICI Fund Flows

We track daily fund flows globally coming from ICI; this covers almost all US ETFs and mutual funds, with a caveat being that data points arrive with longer lags and less granularity.

Exhibit 15: Flows summary

Asset	AUM (\$bn)	FLOW (\$bn)					AS % OF AUM				
		1W	4W	13W	26W	52W	1W	4W	13W	26W	52W
ALL	48,517	34	102	332	601	1,128	0.1%	0.3%	0.8%	1.6%	3.2%
Equity	30,209	12	35	113	205	290	0.0%	0.1%	0.5%	0.9%	1.4%
US	23,552	9	21	102	140	105	0.0%	0.1%	0.5%	0.8%	0.6%
RoW	6,657	4	13	11	65	184	0.1%	0.3%	0.2%	1.4%	4.2%
Hybrid	1,885	-1	-5	-14	-34	-72	0.0%	-0.3%	-0.8%	-2.0%	-4.5%
Bond	8,250	21	66	235	433	873	0.3%	0.9%	3.4%	6.4%	13.9%
Taxable	4,811	18	58	204	378	762	0.4%	1.3%	4.7%	8.9%	19.0%
Muni	1,093	2	8	31	55	111	0.2%	0.8%	3.3%	6.0%	12.5%
Commodity	315	2	5	-1	-4	37	0.6%	2.9%	-0.7%	-2.5%	29.0%
MMFs	7,935	6	81	155	138	728	0.1%	1.2%	2.3%	2.2%	12.0%
Tax-Exempt	7,854	1	-0	2	6	13	0.0%	-0.2%	1.5%	4.4%	11.3%
Govt	7,780	6	75	145	136	678	0.1%	7.7%	15.4%	14.4%	78.7%
Tsy & Repo	7,797	-18	25	71	143	319	-0.2%	1.2%	3.6%	8.1%	18.7%
Tsy & Agency	7,207	25	50	74	-8	358	0.3%	1.3%	2.1%	-0.2%	11.2%
Prime	7,733	-1	6	8	-4	37	0.0%	0.5%	0.7%	-0.3%	3.6%

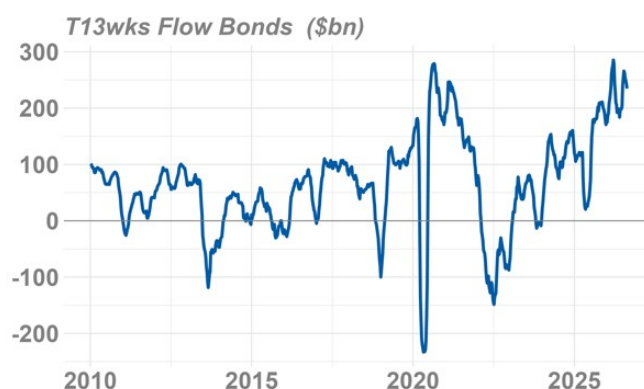
Source: ICI, Haver Analytics, Morgan Stanley Research; Note: AUM data is available monthly with a lag.

Exhibit 16: Trailing 3m equity flows

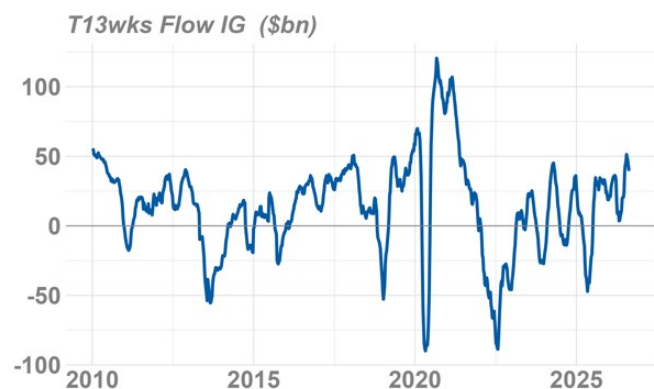


Source: ICI, Haver Analytics, Morgan Stanley Research. Note: Data is lagged by a week

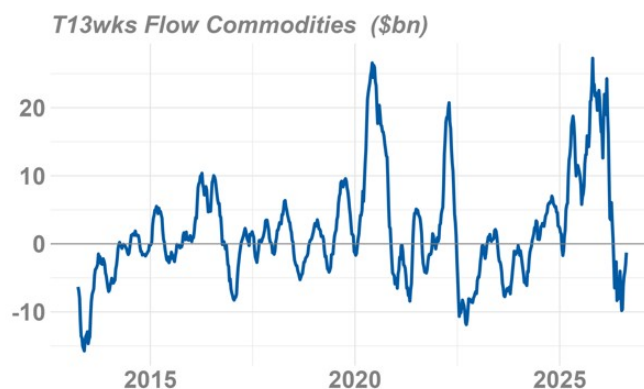
Exhibit 17: Trailing 3m bond flows



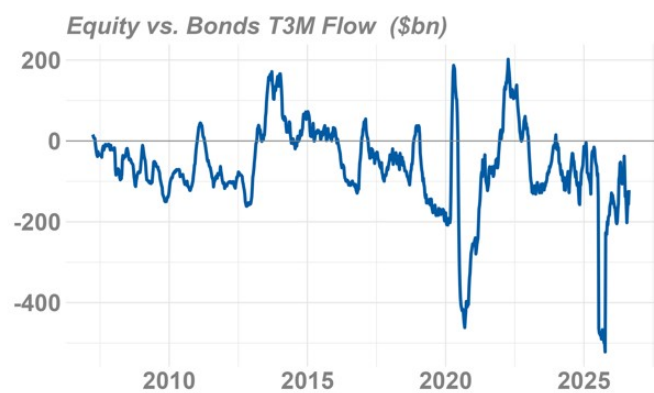
Source: ICI, Haver Analytics, Morgan Stanley Research. Note: Data is lagged by a week

Exhibit 18: Trailing 3m IG flows

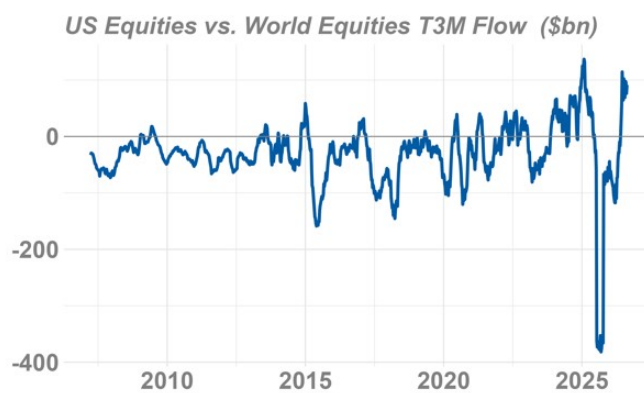
Source: ICI, Haver Analytics, Morgan Stanley Research. Note: Data is lagged by a week.

Exhibit 19: Trailing 3m commodities flows

Source: ICI, Haver Analytics, Morgan Stanley Research. Note: Data is lagged by a week.

Exhibit 20: Trailing 3m equity vs. bonds flows

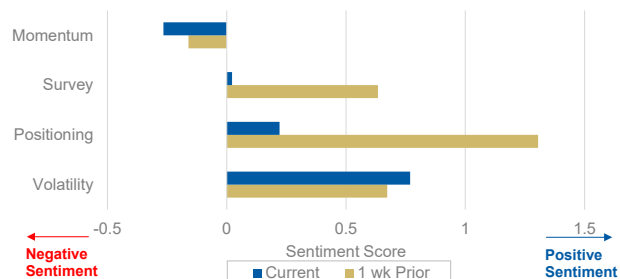
Source: ICI, Haver Analytics, Morgan Stanley Research. Note: Data is lagged by a week.

Exhibit 21: Trailing 3m US equity vs. World equity flows

Source: ICI, Haver Analytics, Morgan Stanley Research. Note: Data is lagged by a week.

Market Sentiment Indicator (MSI)

Exhibit 22: Current indicator reading by group



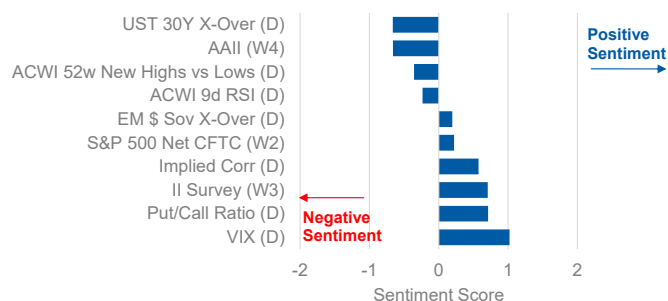
Source: Bloomberg, LSEG, CFTC, Morgan Stanley Research

Our MSI aggregates survey positioning, volatility, and momentum data to quantify market stress and sentiment. We construct risk-on/risk-off signals based on both the *level* and the *change* of our MSI. For more on the methodology, refer to [this](#). The series can be found under the usual Bloomberg tickers.

MSXAMSIL Index – Morgan Stanley Market Sentiment Indicator *Level*.

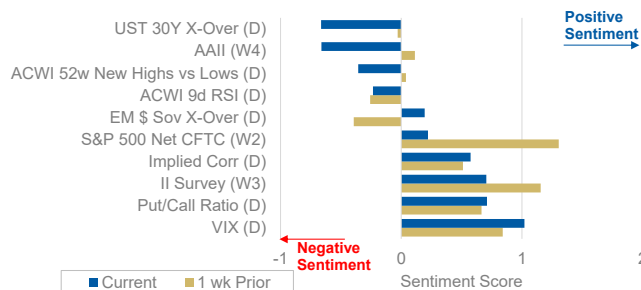
MSXAMSIS Index – Morgan Stanley Market Sentiment Indicator *Signal*.

Exhibit 23: Current indicator reading



Source: Bloomberg, LSEG, CFTC, Morgan Stanley Research; Note: W2 = weekly updates (every Tuesday), W3 = weekly updates (every Wednesday), W4 = weekly updates (every Thursday), D = daily updates.

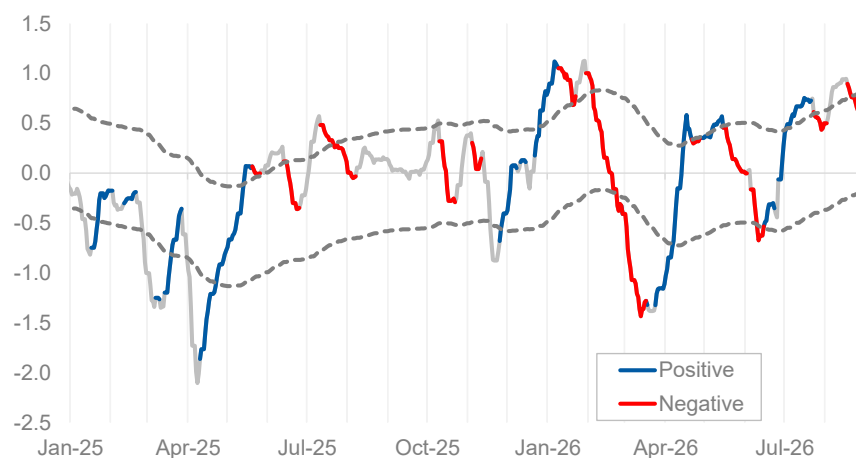
Exhibit 24: Indicator moves versus 1 week ago



Source: Bloomberg, LSEG, CFTC, Morgan Stanley Research; Note: W2 = weekly updates (every Tuesday), W3 = weekly updates (every Wednesday), W4 = weekly updates (every Thursday), D = daily updates

Exhibit 25:

Market Sentiment Indicator (MSI)



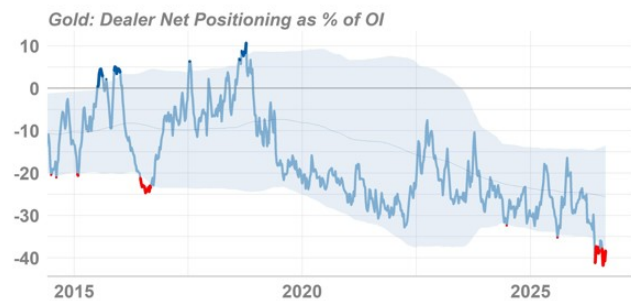
Source: Morgan Stanley Research

Cross-Asset Positioning

Exhibit 26: Net positioning summary

Market	Asset Managers	Hedge Funds	Dealers*	Others	Prod.
Equities					
US Equities	29%	-8%	-21%	-1%	
Japan Equities	30%	-1%	-7%	4%	
EM Equities	50%	3%	-53%	-2%	
Bonds					
UST	22%	-13%	-12%	-2%	
UST 2Y	34%	-26%	-9%	2%	
UST 5Y	40%	-29%	-13%	0%	
UST 10Y	37%	-30%	-9%	1%	
LT UST	36%	-29%	-8%	1%	
Commodities					
Brent	6%		-19%	3%	12%
Gold	38%		-38%	14%	-5%
Copper	28%		2%	3%	-33%
FX					
DXY	29%	19%	-57%	6%	
EUR	30%	-6%	-29%	1%	
GBP	-31%	17%	12%	1%	
JPY	-4%	-19%	10%	14%	
CHF	-23%	-8%	40%	-1%	
CAD	-17%	-21%	35%	2%	
AUD	-13%	15%	-10%	1%	
ZAR	46%	7%	-59%	2%	
BRL	37%	11%	-35%	-17%	
MXN	24%	24%	-42%	-8%	

Source: CFTC, Bloomberg, Morgan Stanley Research; Note: Shading indicates net positioning as Z-score – blue background shading indicates net positioning >1.5 SD, red background shading indicates <-1.5 SD. **Dealers* refer to dealers and swap counterparty, Prod. refers to producers (commodities only), Others refer to (Corporates/Central Banks, etc.).

Exhibit 27: Extreme short 1

Source: Bloomberg, CFTC, Morgan Stanley Research

Exhibit 28: Extreme short 2

Source: Bloomberg, CFTC, Morgan Stanley Research

Exhibit 29: Extreme long 1

Source: Bloomberg, CFTC, Morgan Stanley Research

Exhibit 30: Extreme long 2

Source: Bloomberg, CFTC, Morgan Stanley Research

COVA: Cross-Asset Correlation-Valuation Framework

Our correlation-valuation (COVA) scorecard aims to identify good portfolio diversifiers at reasonable prices, rewarding assets that have: 1) a more negative correlation to equities, 2) a more stable correlation, 3) a more negative downside beta, 4) more attractive valuations, and 5) more attractive carry. The higher the score, the better the portfolio diversifier is. For more details on the framework, see [here](#).

Exhibit 31: Cross-asset diversifiers: Top diversifiers based on COVA

Long/Short	Asset	Corr.	Stability	Downside Beta	Correlation score	Valuation	Cost of Carry	Valuation score	Overall COVA score	Hedge Ratio (\$mn per \$1mn of equity risk)
Long	Cons Staples vs Mkt*	88	99	74	84	98	98	98	90	1.0
Short	US HY (Spread)	88	100	70	83	92	98	95	88	9.0
Short	MXNUSD	82	82	75	79	99	99	99	87	3.1
Short	EM Credit XS	81	92	68	78	99	99	99	86	7.8
Short	ZARUSD	82	100	69	81	88	94	91	85	1.8
Short	Copper	79	78	75	77	100	88	94	84	0.8
Long	Utilities vs Mkt*	82	74	68	75	99	85	92	82	1.4
Short	US IG (Spread)	78	93	59	74	93	94	94	82	18.5
Long	Healthcare vs Mkt*	80	75	61	72	93	93	93	80	1.3
Long	US HY vol	87	100	57	78	99	54	76	77	4.4
Short	BTP Spread 10y	78	78	57	69	90	70	80	74	11.0
Short	AUDUSD	86	100	69	82	99	11	55	71	2.0
Short	Gold	72	56	57	63	96	70	83	71	0.9
Long	USDZAR vol	78	77	53	68	97	54	75	71	3.4
Long	Russell 2000 vol	89	100	60	79	70	42	56	70	3.6

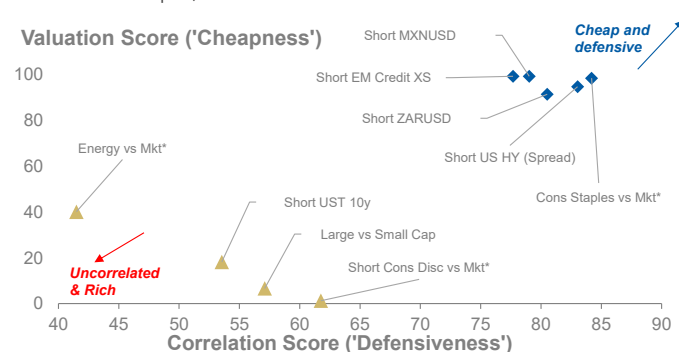
Source: Morgan Stanley Research; Note: Overall score is a weighted average of correlation score (60%) and valuation score (40%). We show "long" for assets with correlation <0% based on average of 10yr and 6m correlation to MSCI ACWI*, and "short" otherwise. Scores are based on the direction of the trade. Hedge ratio is computed using the inverse of historical beta to global equities over the last year. For assets with low correlation to MSCI ACWI* (<20%), we use the inverse of relative vol to global equities as its hedge ratio. Hedge ratios of long vol strategies are expressed in terms of how much an investor would need to do to get an 8% vol equivalent of risk. *Mkt refers to MSCI ACWI.

Exhibit 32: Bottom 5 COVA diversifiers

Long/Short	Asset	Correlation score	Valuation score	Overall COVA score
Long	Large vs Small Cap	57	7	37
Short	Cons Disc vs Mkt*	62	1	38
Long	Brent	34	46	39
Short	UST 10y	54	18	39
Long	Energy vs Mkt*	41	40	41

Source: Morgan Stanley Research

Exhibit 33: Top 5, bottom 5 valuation correlation distribution



Source: Morgan Stanley Research

Cross-Asset Monitor: Levels, Changes, and Valuations

Key highlights from last week

- Topix (+2.0%) outperformed MSCI ACWI (+0.3%) while Russell 2000 (-1.3%) underperformed. Tech (+3.2%) led gains in global equity sectors while healthcare (-2.4%) led losses.
- Credit spreads broadly tightened, led by US HY (-7bp).
- The US Treasury curve bear-flattened.
- The DXY gained 0.4%. NZD fell 0.7% against the USD.
- Gold saw a more than -2SD move and underperformed the BCOMSP (+1.4%).

Exhibit 34: Cross-asset monitor: Levels, changes, valuations

EQUITIES								
Asset	Where are levels on a 1-year range?		Where are moves most extreme?				Where are valuations?	
	Latest	1Y Range	Change				Fwd P/E	
			1D	1W	1M	1Y	Val	10Y %-tile
MAJOR EQUITY MARKETS								
MSCI ACWI	1,149	<div><div></div></div>	-0.3%	0.3%	1.6%	20.7%	18.6	<div><div></div></div>
S&P 500	7,686	<div><div></div></div>	-0.3%	0.4%	1.1%	19.0%	21.4	<div><div></div></div>
Russell 2000	2,956	<div><div></div></div>	-0.5%	-1.3%	-0.9%	24.9%	38.1	<div><div></div></div>
NASDAQ	29,457	<div><div></div></div>	0.1%	1.5%	2.4%	25.8%	25.4	<div><div></div></div>
Eurostoxx 50	6,420	<div><div></div></div>	-1.0%	-0.4%	-0.1%	19.6%	16.3	<div><div></div></div>
DAX	26,258	<div><div></div></div>	-1.2%	0.6%	1.0%	9.2%	17.1	<div><div></div></div>
FTSEMIB	52,613	<div><div></div></div>	-0.0%	0.1%	-0.5%	24.1%	14.2	<div><div></div></div>
FTSE 100	10,824	<div><div></div></div>	0.0%	-0.3%	-0.3%	17.7%	13.4	<div><div></div></div>
TOPIX	4,156	<div><div></div></div>	0.2%	2.0%	5.0%	35.7%	17.2	<div><div></div></div>
MSCI China	76	<div><div></div></div>	-0.1%	1.1%	-1.3%	-9.7%	11.8	<div><div></div></div>
Hang Seng	25,567	<div><div></div></div>	-0.1%	0.2%	-1.7%	-0.2%	11.6	<div><div></div></div>
MSCI EM	1,719	<div><div></div></div>	-0.2%	1.5%	4.1%	35.7%	11.6	<div><div></div></div>
EQUITY SECTORS (MSCI ACWI)								
Cons. Disc.	444	<div><div></div></div>	-0.5%	-0.8%	-2.4%	-0.1%	20.5	<div><div></div></div>
Cons. Staple	304	<div><div></div></div>	-0.2%	-2.1%	-1.0%	3.2%	20.2	<div><div></div></div>
Comm. Serv.	160	<div><div></div></div>	-1.3%	-0.7%	-4.1%	5.6%	16.4	<div><div></div></div>
Energy	354	<div><div></div></div>	1.7%	0.3%	4.8%	35.9%	11.3	<div><div></div></div>
Financials	249	<div><div></div></div>	-0.2%	0.2%	0.5%	16.0%	13.9	<div><div></div></div>
Healthcare	419	<div><div></div></div>	-0.6%	-2.4%	4.3%	17.1%	20.9	<div><div></div></div>
Industrials	525	<div><div></div></div>	-1.0%	-1.1%	-1.6%	16.7%	23.0	<div><div></div></div>
Materials	460	<div><div></div></div>	-1.0%	-1.2%	9.5%	28.0%	17.0	<div><div></div></div>
Tech.	1,250	<div><div></div></div>	0.1%	3.2%	5.1%	43.4%	22.3	<div><div></div></div>
Utilities	198	<div><div></div></div>	-0.7%	-1.3%	-3.5%	7.3%	16.7	<div><div></div></div>
STYLE (MSCI ACWI)								
Large/Small	104%	<div><div></div></div>	0.0%	0.7%	-0.7%	0.9%	1.0	<div><div></div></div>
Value/Growth	49%	<div><div></div></div>	0.2%	-0.6%	0.3%	3.9%	0.6	<div><div></div></div>
Note:								
Data as of Monday 31 August 2026								
Source: Bloomberg, Morgan Stanley Research;								
Note: Valuation bars colors: blue = cheap, red = expensive (e.g. high fwd P/E = expensive, high credit spread = cheap). Shaded numbers are +/-2 SD moves.								

Exhibit 35: Cross-asset monitor: Levels, changes, valuations

CREDIT								
Asset	Sprd (bp)	1Y Range	Change				Spread (bp)	
			1D	1W	1M	1Y	Val	10Y %-tile
US CORPORATE CREDIT								
US AGG	28	<div><div></div></div>	0	0	0	-2	28	<div><div></div></div>
US IG	78	<div><div></div></div>	0	-2	1	-1	78	<div><div></div></div>
US HY	261	<div><div></div></div>	1	-7	-10	-10	261	<div><div></div></div>
US IG BBB	95	<div><div></div></div>	1	-2	1	-3	95	<div><div></div></div>
US HY BB	147	<div><div></div></div>	1	-5	-13	-24	147	<div><div></div></div>
CDX IG	50	<div><div></div></div>	0	0	-1	-1	50	<div><div></div></div>
CDX HY	301	<div><div></div></div>	-1	-1	-4	-21	301	<div><div></div></div>
EUROPE CORPORATE CREDIT								
EUR AGG	45	<div><div></div></div>	1	0	1	-6	45	<div><div></div></div>
EUR IG	79	<div><div></div></div>	1	1	1	-6	79	<div><div></div></div>
EUR HY	260	<div><div></div></div>	-1	-3	-13	-20	260	<div><div></div></div>
EUR IG BBB	91	<div><div></div></div>	1	2	0	-6	91	<div><div></div></div>
EUR HY BB	150	<div><div></div></div>	-1	-2	-13	-36	150	<div><div></div></div>
Main	51	<div><div></div></div>	0	0	-1	-4	51	<div><div></div></div>
XOver	248	<div><div></div></div>	0	-2	-4	-21	248	<div><div></div></div>
EM								
EM \$ Sov	235	<div><div></div></div>	0	-7	-5	-63	235	<div><div></div></div>
CDX EM	138	<div><div></div></div>	0	0	-4	-7	138	<div><div></div></div>
SECURITIZED								
US MBS	29	<div><div></div></div>	2	3	1	-5	29	<div><div></div></div>
EUROPEAN SOV CREDIT								
France 10Y	85	<div><div></div></div>	0	-2	7	6	418	<div><div></div></div>
Italy 10Y	83	<div><div></div></div>	1	0	4	-3	415	<div><div></div></div>
Note:								
Data as of Monday 31 August 2026								
Source: Bloomberg, Morgan Stanley Research;								
Note: Valuation bars colors: blue = cheap, red = expensive (e.g. high fwd P/E = expensive, high credit spread = cheap). Shaded numbers are +/-2 SD moves.								

Exhibit 36: Cross-asset monitor: Levels, changes, valuations

RATES

Asset	Yields (%)	1Y Range	Change				Real Yields (%)	
			1D	1W	1M	1Y	Val	10Y %-tile
US								
UST 2Y	4.34	<div><div></div></div>	0	11	10	73	1.3	<div><div></div></div>
UST 10Y	4.75	<div><div></div></div>	3	5	7	52	1.8	<div><div></div></div>
UST 30Y	5.24	<div><div></div></div>	4	2	1	32	2.4	<div><div></div></div>
UST 2Y/10Y	0.41	<div><div></div></div>	3	-6	-3	-20	NA	<div><div></div></div>
US B/E 10Y	2.32	<div><div></div></div>	0	-1	6	-9	2.3	<div><div></div></div>
RoW								
DBR 10Y	3.32	<div><div></div></div>	5	7	17	58	0.4	<div><div></div></div>
UKT 10Y	5.06	<div><div></div></div>	0	1	11	31	2.4	<div><div></div></div>
JGB 10Y	2.94	<div><div></div></div>	1	6	12	131	-0.1	<div><div></div></div>

Note:

Data as of Monday 31 August 2026

Source: Bloomberg, Morgan Stanley Research;

Note: Valuation bars colors: blue = cheap, red = expensive (e.g. high fwd P/E = expensive, high credit spread = cheap). Shaded numbers are +/-2 SD moves.

Exhibit 37: Cross-asset monitor: Levels, changes, valuations

FX								
Asset	Spot	1Y Range	Change				REER	
			1D	1W	1M	1Y	Val	10Y %-tile
DM								
AUD/USD	0.7167	<div><div></div></div>	0.0%	0.2%	2.4%	9.4%	109	<div><div></div></div>
EUR/USD	1.1618	<div><div></div></div>	0.3%	-0.4%	0.9%	-0.8%	106	<div><div></div></div>
CHF/USD	1.2371	<div><div></div></div>	0.1%	-0.7%	0.2%	-1.0%	100	<div><div></div></div>
GBP/USD	1.3549	<div><div></div></div>	0.1%	-0.6%	0.9%	0.0%	114	<div><div></div></div>
JPY/USD	0.0063	<div><div></div></div>	0.2%	-0.4%	-1.6%	-7.9%	67	<div><div></div></div>
NOK/USD	0.1070	<div><div></div></div>	0.3%	-0.4%	2.1%	7.0%	90	<div><div></div></div>
NZD/USD	0.5917	<div><div></div></div>	0.0%	-0.7%	0.8%	0.3%	93	<div><div></div></div>
EM								
CNY/USD	0.1488	<div><div></div></div>	0.1%	0.1%	0.5%	6.2%	94	<div><div></div></div>
IDR/USD	0.0564	<div><div></div></div>	-0.2%	-0.0%	1.6%	-7.4%	81	<div><div></div></div>
INR/USD	0.0105	<div><div></div></div>	0.2%	0.6%	0.2%	-7.3%	88	<div><div></div></div>
KRW/USD	0.0731	<div><div></div></div>	0.6%	1.2%	4.5%	1.9%	88	<div><div></div></div>
MYR/USD	0.2483	<div><div></div></div>	-0.0%	0.4%	1.7%	4.9%	108	<div><div></div></div>
ZAR/USD	0.0621	<div><div></div></div>	0.3%	-0.6%	2.5%	9.3%	104	<div><div></div></div>
BRL/USD	0.1929	<div><div></div></div>	0.2%	-0.6%	-1.9%	5.0%	74	<div><div></div></div>
MXN/USD	0.0588	<div><div></div></div>	0.2%	-0.3%	2.0%	9.7%	146	<div><div></div></div>
INDICES								
DXY	99	<div><div></div></div>	-0.3%	0.4%	-0.5%	1.7%	NA	
EUR TWI	113	<div><div></div></div>	0.1%	-0.1%	0.6%	-0.8%	NA	
Note:								
Data as of Monday 31 August 2026								
Source: Bloomberg, Morgan Stanley Research;								
Note: Valuation bars colors: blue = cheap, red = expensive (e.g. high fwd P/E = expensive, high credit spread = cheap). Shaded numbers are +/-2 SD moves.								

Exhibit 38: Cross-asset monitor: Levels, changes, valuations

COMMODITIES								
Asset	Latest	1Y Range	Change				Latest Price	
			1D	1W	1M	1Y	Val	10Y %-tile
BCOMSP	730		0.8%	1.4%	7.9%	34.0%	705	
WTI Crude	86		2.8%	0.9%	6.7%	34.0%	87	
Brent	90		1.3%	-1.8%	8.0%	32.8%	92	
Gold	4,447		-1.1%	-4.6%	9.5%	27.5%	4,560	
Silver	66		-1.2%	-3.5%	14.5%	64.7%	76	
Copper	659		0.5%	-0.2%	0.8%	45.9%	639	
Iron Ore	748		1.2%	2.7%	6.5%	-7.4%	794	
<p>Note:</p> <p>Data as of Monday 31 August 2026</p> <p>Source: Bloomberg, Morgan Stanley Research;</p> <p>Note: Valuation bars colors: blue = cheap, red = expensive (e.g. high fwd P/E = expensive, high credit spread = cheap). Shaded numbers are +/-2 SD moves.</p>								

Exhibit 39: Cross-asset monitor: Levels, changes, valuations

VOLATILITY								
Asset	Latest	1Y Range	Change				Level	
			1D	1W	1M	1Y	Val	10Y %-tile
VIX	14.9		0.5	-0.9	-0.9	-1.2	14.9	
V2X	16.8		1.3	0.4	0.8	-0.8	16.8	
FX Vol	6.5		-0.1	-0.1	-0.1	-1.4	6.5	
<p>Note:</p> <p>Data as of Monday 31 August 2026</p> <p>Source: Bloomberg, Morgan Stanley Research;</p> <p>Note: Valuation bars colors: blue = cheap, red = expensive (e.g. high fwd P/E = expensive, high credit spread = cheap). Shaded numbers are +/-2 SD moves.</p>								

We wish to acknowledge Arvind Annamalai Balasubramanian's contributions to the cross-asset team's work.

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(as of August 31, 2026)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1555	42%	450	48%	29%	767	44%
Equal-weight/Hold	1577	43%	395	42%	25%	770	44%
Not-Rated/Hold	3	0%	1	0%	33%	1	0%
Underweight/Sell	559	15%	93	10%	17%	216	12%
Total	3,694		939			1754	

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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