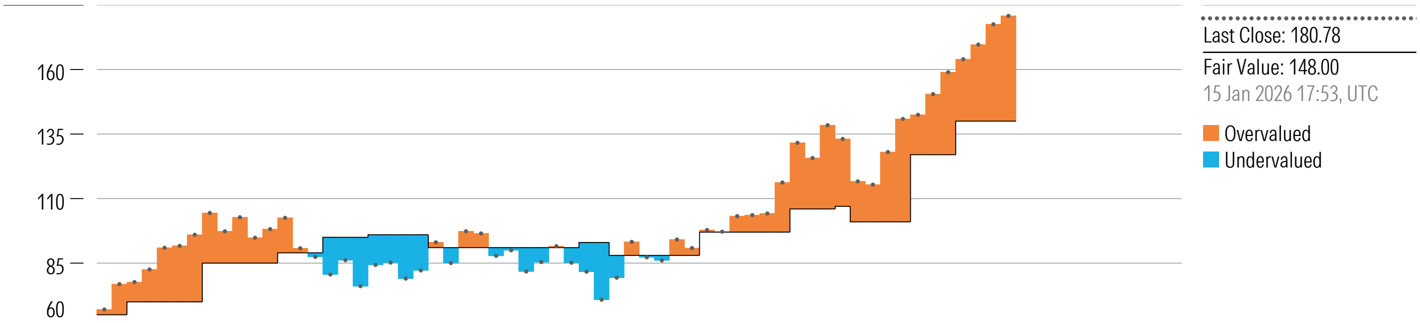
Morningstar Equity Analyst Report | Report as of 15 Jan 2026 18:03, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 1 of 26

Morgan Stanley MS ★★ 15 Jan 2026 17:57, UTC

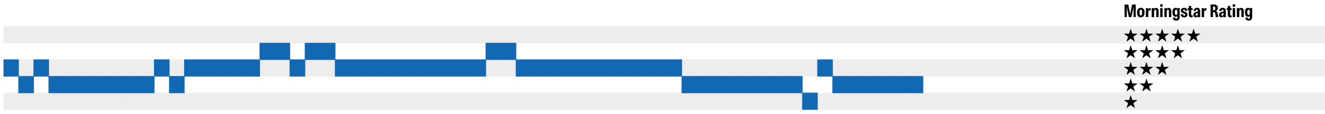
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
180.78 USD 14 Jan 2026	148.00 USD 15 Jan 2026 17:53, UTC	1.22	304.31 USD Bil 15 Jan 2026	Wide	Large Value	High	Exemplary	7 Jan 2026 06:00, UTC

Price vs. Fair Value



	2021	2022	2023	2024	2025	YTD	
	1.15	0.93	1.06	1.19	1.27	1.22	Price/Fair Value
	46.30	-10.38	13.50	38.63	44.27	1.83	Total Return %

Morningstar Rating



Total Return % as of 14 Jan 2026. Last Close as of 14 Jan 2026. Fair Value as of 15 Jan 2026 17:53, UTC.

Contents

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

Morgan Stanley Earnings: Shares Priced for Perfection After Another Stellar Quarter

Analyst Note Sean Dunlop, CFA, Director, 15 Jan 2026

Morgan Stanley reported fourth-quarter 2025 earnings, posting outstanding 21.8% returns on tangible common equity for the quarter, quarterly revenue growth of 10.3%, and improving efficiency ratios.

Why it matters: Earnings, in our view, illustrate a couple of key points: significant progress toward management's long-term targets, a validation of the firm's outstanding wealth management business that represents the crux of its wide economic moat, and a clear demonstration of the power of the integrated bank amid an amenable market backdrop.

- For context, Morgan Stanley's $9.3 trillion in client assets are within a hairsbreadth of the firm's $10 trillion-plus long-term target, its 68% efficiency ratio clocked in ahead of its 70% target (lower is better), and its wealth management segment margins of 31.4% exceeded the firm's 30% aspiration.
- Overall, we're impressed with results and expect the bank to continue to outperform its long-term targets through 2026 amid fiscal and monetary stimulus, a likely deregulatory tailwind, and a still-solid consumer spending backdrop.

The bottom line: As we digest earnings, we've raised our fair value estimate for Morgan Stanley to $148 from $140. The bulk of the increase is tied to a stronger near-term outlook in investment banking and trading, where results have remained robust driven by high asset prices, falling short-term borrowing costs, strong client risk appetite, and a solid economic backdrop.

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Sector	Industry
Financial Services	Capital Markets

Business Description

Morgan Stanley is a massive global financial services firm, with offices in 42 countries and more than 80,000 employees as of year-end 2024. The firm cut its teeth in investment banking and institutional trading, where it maintains a strong presence today, but generates the lion share of its income from wealth and asset management franchises, where it boasted $7.9 trillion in client assets at the end of its most recent fiscal year. After reincorporation as a bank holding company in the wake of the global financial crisis, Morgan Stanley also boasts a top 10 banking franchise by deposits, with nearly $400 billion in customer deposits, predominately attributable to cash sweeps from its wealth management and brokerage businesses.

- We now expect 11% industrywide investment banking revenue growth in 2026, with 28% growth in Morgan Stanley's core equity capital markets vertical. That implies a $115 billion global revenue pool for investment banking and marks a significant lift from our expectation for a modest 2026 correction.
- Against that backdrop, we expect 2.2% growth for Morgan Stanley in institutional trading, in lieu of a modest correction, which we now expect to materialize in 2028.

Business Strategy & Outlook Sean Dunlop, CFA, Director, 15 Jan 2026

We view Morgan Stanley's strategic approach as appropriate as it effectively leverages the firm's strengths in wealth management and investment banking and trading.

The firm's business has evolved significantly since the global financial crisis, with former CEO James Gorman spearheading a massive transition toward more stable, diversified, and fee-based businesses like wealth and investment management, which today comprise around 54% of revenue (up from 43% in 2007). Driven by a series of prudent acquisitions, including Smith Barney, E*Trade, and most recently, Eaton Vance, the firm has carved out a formidable wealth management franchise, with $9.3 trillion in client assets at year-end 2025.

Elsewhere, the firm has maintained its strength in institutional securities and investment banking, where it maintains a massive prime brokerage desk and routinely finishes in the global top three for M&A advisory and equity underwriting. Its trading desk is strongest in equity intermediation and prime brokerage, but Morgan Stanley has also grown its fixed income, currency, and commodities offerings substantially, particularly over the past three years as European peers have retrenched. It's no coincidence that the five banks that consistently top Dealogic league tables for investment banking revenue are also the five banks with the largest global institutional trading businesses: Morgan Stanley is one of only a handful of banks capable of handling and distributing the most complex global transactions, underpinning the firm's strong market share in equity underwriting.

We're least constructive about the firm's investment management business, which generates cost of capital returns and anemic organic flows. Much of that business was acquired in 2021, and we see its utility predominately in the support that it provides for the attractive wealth management segment. The firm has $270 billion in alternative AUM, and managed another $685 billion through acquired Parametric Portfolios, best known for its tax-loss harvesting strategies. Both of those are attractive to, and ultimately strengthen switching costs with, high net worth clientele in the global wealth business.

Bulls Say Sean Dunlop, CFA, Director, 15 Jan 2026

- The largest financial services firms could capture substantial market share on the back of technology investments in areas like underwriting, pricing, due diligence, and customer service.
- If trading and financing revenues stay structurally—rather than cyclically—higher, large trading banks

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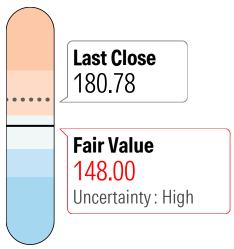
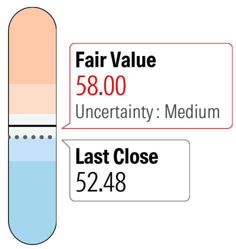
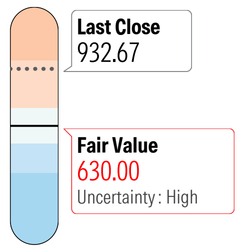
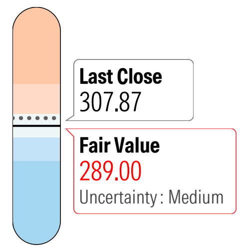
Competitors









	Morgan Stanley MS	Bank of America Corp BAC	The Goldman Sachs Group Inc GS	JPMorgan Chase & Co JPM
Economic Moat	Wide	Wide	Wide	Wide
Currency	USD	USD	USD	USD
Fair Value	148.00 15 Jan 2026 17:53, UTC	58.00 14 Jan 2026 20:22, UTC	630.00 14 Oct 2025 16:37, UTC	289.00 13 Jan 2026 17:47, UTC
1-Star Price	229.40	78.30	976.50	390.15
5-Star Price	88.80	40.60	378.00	202.30
Assessment	Overvalued 14 Jan 2026	Fairly Valued 14 Jan 2026	Overvalued 14 Jan 2026	Fairly Valued 14 Jan 2026
Morningstar Rating	★★15 Jan 2026 17:57, UTC	★★★14 Jan 2026 22:37, UTC	★★14 Jan 2026 22:36, UTC	★★★14 Jan 2026 22:35, UTC
Analyst	Sean Dunlop, Director	Sean Dunlop, Director	Sean Dunlop, Director	Sean Dunlop, Director
Capital Allocation	Exemplary	Standard	Standard	Exemplary
Price/Fair Value	1.22	0.90	1.48	1.07
Price/Sales	4.50	3.56	5.11	4.69
Price/Book	2.87	1.37	2.70	2.42
Price/Earning	18.54	13.77	18.82	15.47
Dividend Yield	2.13%	2.06%	1.50%	1.88%
Market Cap	287.32 Bil	383.23 Bil	279.73 Bil	830.08 Bil
52-Week Range	94.33—188.82	33.07—57.55	439.38—961.69	202.16—337.25
Investment Style	Large Value	Large Value	Large Value	Large Value

like Morgan Stanley would benefit disproportionately.

- A changing regulatory climate could provide significant upside for banks, driving some combination of higher sector M&A activity, capital returns to shareholders, or reinvestment in growth.

Bears Say Sean Dunlop, CFA, Director, 15 Jan 2026

- Equity underwriting volumes could remain perpetually lower, disproportionately impacting equity underwriting specialists like Morgan Stanley.
- Protectionist trade policy could result in slower global growth and capital markets activity, to the detriment of large global trading and investment banks.
- Many banks have tried to increase cross-selling and organization across business units, but few have succeeded. Failure of the integrated firm strategy could render long-term financial targets out of reach.

Economic Moat Sean Dunlop, CFA, Director, 15 Jan 2026

The US financial-services industry is intensely competitive, but we assign Morgan Stanley a Morningstar Economic Moat Rating of wide. We base its wide moat on switching costs in its high-net-worth wealth management franchise and intangible assets in its global investment banking operations, suggesting that it is more likely to generate excess returns over the next 20 years. The firm has evolved significantly since the nadir of the global financial crisis. It has reincorporated as a bank holding company, diversified its funding base, de-risked its trading operations, and most importantly, expanded its stable, fee-generating revenue base to roughly 55% of sales over the past three years. While the transition took the better part of a decade and required the deft integration of a handful of acquisitions—Smith Barney, E-Trade, and most recently Eaton Vance—we believe that Morgan Stanley has emerged significantly stronger than its pre-global-financial-crisis vintage, and should generate midteens returns on equity through the cycle, comfortably north of our 9.5% cost of equity estimate for the name. To this effect, our forecasts contemplate average returns on equity of 15.9% over the decade to come, ahead of the 12.6% average over the past five years as the firm benefits from a durable mix-shift toward its higher-return wealth management business, and proportionately stronger forecast growth in higher-return investment banking than in institutional trading.

In this report, we'll briefly outline our assessment of the firm's evolution over the past two decades, consider our economic moat thesis for each of its three core operating segments, and tie our thoughts together with a consideration of the appropriate moat duration for the firm.

In the past, we've trodden with caution when awarding wide economic moats to investment banks due to the perceived risk of material economic value destruction tied to their trading businesses, volatile and concentrated revenue streams, and thin capitalization—three risks that became painfully apparent amid the failure of Bear Sterns and Lehman Brothers in 2008. While we believe that caution is still warranted, particularly for investment bank pure players with proprietary trading arms, we believe that the thesis warrants revisiting for the largest, diversified trading and investment banks. More concretely, shifting regulations have significantly de-risked trading operations at banking institutions, while more stringent capital requirements have left banks with a much larger buffer of high-quality capital to absorb losses that they do incur. To illustrate this, Dodd-Frank trading restrictions prohibit banks and bank holding companies, including firms like wide-moat Goldman Sachs and Morgan Stanley, from engaging in proprietary trading, while limiting participation in risky activities like private equity and hedge fund investing to just 3% of those firms' Tier 1 capital base. Regarding the denominator—capitalization—Morgan Stanley has deleveraged to 11-12 times assets/equity over the past five years, from a striking 28 times average between 2000-07. Further mitigating risk, Morgan Stanley has invested heavily to build up more durable, fee-based revenue streams in wealth and investment management that are less volatile than investment banking and trading, and which carry the auxiliary benefit of funding diversification through stable, low-cost sweep deposits. The net result is a trading business that largely supports the firm's moaty investment banking apparatus, with similar

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average returns but significantly lower return volatility than the pre-crisis vintage. Considering these changes, we believe that the risk of material value destruction for diversified financial services firms like Goldman Sachs and Morgan Stanley looks small and note that both firms generated operating profitability even during the nadir of the global financial crisis.

Considering the firm's segments in sequence, we believe that Morgan Stanley's wealth management business warrants a wide economic moat rating, qualitatively justified by switching costs on both the financial advisor and high-net-worth client sides of the ledger. This view is supported by the firm's generally affluent clientele, strong client retention ratios, and Morgan Stanley's status as a premier asset gatherer in an attractive wealth management vertical, features which together underpin durable, mid- to high-20% segment returns on equity now that the firm has achieved requisite scale and integrated its E*Trade acquisition. Briefly outlining switching costs, financial advisors tend to be reluctant to leave their firm for two key reasons—retraining on a new set of systems and products, requiring significant time investment, and the involuntary loss of just shy of 20% of client assets, on average, during the transition (Cerulli). On the other side of the ledger, high-net-worth clients are reluctant to shuffle around between wealth management providers, particularly at higher income strata, due to lost product access and the need to absorb costly tax hits when unwinding structured products, alternative asset or proprietary fund holdings, and any securities that aren't available with a new custodian (where relevant). Similar to software companies, we believe that client stickiness increases in the volume and complexity of products that clients utilize with their wealth manager, so a high-net-worth individual that uses financial planning, tax and estate planning, proprietary alternative investments, private bank loans, tax loss harvesting overlays, or structured notes is much less likely to leave their provider than a retail investor with $250,000 in assets that invests predominately in liquid funds, ETFs, or equity securities that are universally available. This is why we view high-net-worth wealth managers like Julius Baer as warranting wide economic moats, while assets under robo-advisory arrangements or with lower average client assets—like Edward Jones' $240,000-$250,000—look generally less sticky. With 99% reported retention among clients with more than $1 million in assets, and with an average of $1.2 million in assets per client, by our math, we believe that Morgan Stanley's wealth management arm skews toward a wide, rather than a narrow moat. As we see it, Morgan Stanley offers a sufficiently robust assortment of services, from financial and estate planning to tax loss harvesting through Parametric Portfolios, direct indexing through Calvert Funds, and alternative asset access, with $240 billion in alternative asset AUM, to distinguish it from lower-touch wealth management providers in the mass channel, like privately held Edward Jones or narrow-moat LPL Financial in the eyes of advisors and clients.

There is a certain elegance to the competitive landscape in wealth management, where firms compete for advisors by offering access to intellectual capital, technology platforms, and product breadth. These resources enable financial advisors to target higher-value clientele and increase their productivity. In turn, advisors cede a greater share of their gross income to wirehouse firms that provide those services, assuming that the higher advisor productivity enabled by these firms, measured by client assets per advisor, outstrips the lower advisor payout ratios they receive. Our math suggests that this is generally true. At industry average productivity levels, an advisor would earn the same amount of money working for a wirehouse firm with a 40% payout ratio as an independent RIA would with a 90% payout. In practice, this means that more productive advisors are drawn to wirehouse firms, which provide them with the complex services they need to service high-net-worth clients, increasing their earnings power, while more affluent clients gravitate toward firms with the breadth of products and caliber of advisers needed to service their more complex financial needs. We suspect that the modest net migration we have seen toward the hybrid RIA and RIA channels over the past few decades is driven largely by clients that have smaller asset bases or less complex needs, who can be adequately serviced (and more profitably serviced, from the adviser's perspective) by the likes of smaller wealth management firms. While there is nothing that explicitly prohibits companies like Morgan Stanley and Bank of America from competing more aggressively for less affluent customers, we believe that the lower incremental returns, higher churn rates, and risk of cannibalizing the core franchise—as doing so would likely necessitate developing a lower-touch, higher payout wealth management channel—don't justify the incremental benefit of doing so. This is particularly true when net flows are positive and returns in the core franchise remain strong, as is currently the case.

Our final point in favor of a wide moat designation for the wealth franchise is Morgan Stanley's position as a premier organic asset gatherer. While the firm's $9.3 trillion in client assets across its wealth management, self-directed brokerage, and investment management arms at year-end 2024 are indicative of past success, placing the firm ahead of wirehouse competitors like Bank of America ($4.8 trillion), JPMorgan Chase ($7.1 trillion), and Wells Fargo ($2.5 trillion), strong organic inflows are an important leading indicator of future performance. Over the past decade, the firm has generated strong organic net inflows of 6%-7% annually, comfortably ahead of Bank of America's 1%-2% annual growth and Wells Fargo's 1% annual decline.

Pivoting to investment banking and institutional trading, we believe that Morgan Stanley has carved out a durable competitive edge around its brand and global distributional capabilities, particularly in equity underwriting, which looks poised for a rebound after a significant lull during 2022–24. The firm is also quite competitive in mergers and acquisitions advisory, the most attractive investment banking niche, finishing second in Dealogic league table rankings in equity capital markets markets behind JPMorgan Chase and third in M&A advisory behind JPMorgan Chase and Goldman Sachs in 2025. Our view is corroborated by 14% average segment returns on equity over the past half-decade, and by forecast 17%-18% returns over the decade to come—weighed down by sluggish projected trading revenue growth but more than offset by a mix-shift toward higher-return investment banking.

In investment banking, firms compete based on reputation, prior performance, brand, league table rankings, research coverage, and distributional capabilities. This underpins a self-reinforcing cycle in which the largest global banks with global distribution capabilities consistently win the largest, most lucrative deal flow, in turn attracting the most productive investment bankers who bolster those firms' execution capabilities and reputations. While boutique peers can compete ably in the middle market or for single-market deals—an Australian firm raising capital in Australia may not care loads if the bank leading its syndicate has boots on the ground in Manhattan—global reach and balance sheet capacity are prerequisites for competing for the most lucrative deal flow that seeks access to global capital. This is best evidenced by most European issuers usually requiring the participation of a US investment bank to access US capital pools, a dynamic that favors JPMorgan Chase, Goldman Sachs, Morgan Stanley, and to a lesser extent, Bank of America and Citigroup, relative to smaller peers. It's no coincidence, in our view, that the five largest global investment banks also boast the largest institutional trading desks by revenue, as the ability to attract marquee institutional investors is a core part of those firms' value propositions—and clients are willing to pay for this, with bulge bracket investment banks earning a 13% premium, adjusted for transaction size, relative to second tier competitors (Golubov et al, Journal of Finance). By our math, Morgan Stanley maintained average investment banking market share of 7.1% over the past five years, with pronounced strength in equity underwriting. We expect this to strengthen to 8.1% over the five years to come, driven by a recovery in equity capital markets revenue, which remains cyclically low, and view the firm as one of the long-term winners in the space as companies tap public markets later and at larger valuations—a dynamic that squeezes middle-market banks like no-moat Jefferies.

Finally, we believe that a no-moat rating is appropriate in Morgan Stanley's investment management segment, which also carries the largest risk (if still small) of material value destruction given its exposure to riskier private equity, private credit, real estate, and infrastructure through its alternative asset management portfolio. This view is embodied by the segment's return profile, with our projections calling for average segment returns on equity of just 12.2% over the next decade, only incrementally ahead of the firm's 9.5% cost of capital. Given its relative immateriality to consolidated results, we'll largely limit our discussion to the ecosystem benefits of investment management: the firm's alternative asset portfolio and Parametric portfolio tax loss harvesting strategies (acquired in 2021 with the Eaton Vance purchase) and investment overlays are a unique, differentiating factor that caters to high-net-worth wealth management clients and serves to increase switching costs in that critical business. Net flows have been above average, with relative strength in fixed income and alternative assets outweighing weak performance in active equity, which is secularly pressured. Positive long-term flows are probably more reflective of the firm's captive distribution through wealth management rather than attributable to performance or a brand intangible asset, with very average Morningstar fund ratings for the subset of AUM that the ratings agency covers.

Tying our thoughts together, we believe that Morgan Stanley warrants a wide economic moat, built upon durable switching costs in its wealth management segment and intangible assets in its investment banking and trading operations. In our view, the long client lives implied by 99% retention among an attractive, high-net-worth clientele, consistently strong organic inflows, and outsize advisor productivity suggest that a wide, rather than a narrow moat is appropriate for the segment. In investment banking and trading, we view Morgan Stanley as one of only a handful of global investment banks capable of competitively underwriting and distributing the largest global deals, in an industry expected to grow increasingly top-heavy over time. Finally, we believe that the combination of revenue diversification, cultural and regulatory changes that limit participation in riskier trading categories, and significantly lower leverage leaves us comfortable with a wide moat rating, as we view the risk of material value destruction as low.

Fair Value and Profit Drivers Sean Dunlop, CFA, Director, 15 Jan 2026

We've raised our fair value estimate for Morgan Stanley to $148 per share from $140 after digesting fourth-quarter results. This is largely attributable to a better-than-expected operating environment in 2026, with consumer health holding up surprisingly well, with asset prices remaining elevated, sponsor activity picking up quickly, interest rates set to decline, and clients remaining active. Said otherwise, it would be challenging to imagine a more favorable backdrop at the start of a year, although rising geopolitical tension, fiscal deficits, the risk of higher inflation, and a wobbly labor market remain risks worth monitoring. Notwithstanding those considerations, our base case contemplates strong growth in investment banking (11%) and flat to low-single-digit growth in institutional trading (2.2% for Morgan Stanley), up from expectations for declines in that year as recently as the third quarter of 2025. Our revised valuation corresponds with a 12.1 times price/2026 earnings multiple and 2.8 times price/ tangible book.

Overall, we're constructive regarding Morgan Stanley's five year outlook, with our forecasts contemplating a 5.3% compound annual growth rate in postprovision net revenue between 2026-30. Most of that is driven by the wealth business, where we expect to see the firm grow its client asset base at a 9.1% compound annual growth rate between 2026-30, split about 40%/60% between organic net new asset growth and market appreciation. Partially attributable to operating leverage, and partially attributable to our thesis that technology investments should continue to drive lower compensation ratios at the big banks, we're also constructive on the operating expense side of the ledger, with our estimates calling for a 2030 efficiency ratio of 68.9%, in line with company targets for a 70% or better operating efficiency ratio over the long term. To be fair, this contemplates no incremental improvement from 2025 levels, and investment banking activity still remains muted in the firm's strongest equity underwriting vertical, so we don't view company targets as unduly aggressive. Taken together, this drives a midterm compound annual growth rate of 5.1% in operating profit.

The key valuation drivers for the firm are growth in net new assets, market appreciation in the wealth and investment management businesses, firmwide efficiency ratio, and projected leverage. Long-term revenue growth in trading and investment banking is also important, but those lines are subject to wild annual gyrations. We project through-the-cycle annual geometric growth of 2.6% in investment banking and 0.4% in institutional trading and financing over the half-decade to come.

Risk and Uncertainty Sean Dunlop, CFA, Director, 15 Jan 2026

Assign Morgan Stanley a High Uncertainty Rating, reflective of both our quantitative methodology and our view that current policy and economic volatility underpin an unusual degree of cash flow uncertainty for capital markets services providers like Morgan Stanley. We have historically awarded Medium Uncertainty Ratings for capital markets providers and intend to revisit this rating as trade policy and economic effects clarify over the next few quarters.

Consistent with many other diversified banks, Morgan Stanley is sensitive to largely exogenous variables like economic growth, changes in interest rates, interest rate levels, asset pricing levels, and macroeconomic volatility. While an increasingly diversified business model and lower financial leverage have mitigated the volatility of the firm's swings in profitability and returns, Morgan Stanley still remains sensitive to investor risk appetite and asset prices, which drive its institutional trading and financing revenues and wealth management sales.

From an environmental, social, and governance perspective, we view Morgan Stanley's risks as moderate. The firm's largest risk is regulatory, as it must comply with sometimes conflicting standards across its 42 markets. Fines for noncompliance can be punitive for violations of anti-money-laundering, Bank Secrecy Act, and know-your-customer regulations. A secondary risk ties to human capital management, with intense competition among the largest global financial institutions for top talent—particularly for the most productive investment bankers and traders.

Capital Allocation Sean Dunlop, CFA, Director, 15 Jan 2026

We believe that Morgan Stanley warrants an Exemplary Morningstar Capital Allocation Rating. This is reflective of our assessment that the firm's balance sheet health looks sound and that its investment strategy looks judicious, tempered by a mixed view of shareholder distributions, which too often come in the form of share repurchases at prices higher than our intrinsic valuation.

Considering these in sequence, we believe that Morgan Stanley's balance sheet health is sound. The firm has done an excellent job diversifying its revenue and funding sources, curtailing leverage, and exiting businesses with risks of material value destruction in the period after the global financial crisis period. As we see it, leverage looks manageable, with our forecasts calling for the firm to operate between 12 and 13 times leverage (assets/equity) over the next five years, broadly in line with global systemically important bank competitors, and the firm's 15.0% common equity Tier 1 ratio ratio at the end of 2025 is comfortably ahead of its 11.8% regulatory minimum as of October 2025), suggesting that

Morgan Stanley is more than adequately capitalized for its risk exposure. The prime brokerage business is the only area where we could see concentrated losses emerge, but strict exposure limits render this unlikely. Losses tied to Archegos Capital in 2021 were not indicative of systematic risk management failures, in our view, although the firm was much slower to react than Goldman Sachs in curtailing its exposure.

Turning to investments, the firm's track record is excellent, with the Smith Barney, E*Trade, and Eaton Vance acquisitions all looking value-accretive in hindsight. Looking forward, we believe that the firm's strategy to grow its wealth business gradually and across all three core channels—advisor-led, self-directed brokerage, and workplace—is judicious, and should allow the company to continue to capture market share in that attractive and competitively advantaged segment. We also appreciate that Morgan Stanley has consistently provided conservative guidance regarding segment profitability, affording it the flexibility to invest in operating profit accretive (but operating margin dilutive) platforms like its workplace retirement solutions. On balance, we continue to expect the management team to deliver value through its investment strategy, with our forecasts calling for strong growth in the attractive wealth management and investment banking lines, and commensurately strengthening returns on equity, from 12.6% on average over the past five years to an average of 15.9% over our 10-year explicit forecast period.

Overall, we're appreciative of reinvestment in the wealth management and institutional securities group businesses at current return levels, although we anticipate fewer opportunities in the latter business as intermediation and financing revenues normalize over the medium term. Our math suggests that banks may be over-earning by as much as 20% to 30% in the trading business, which we would expect to grow approximately in line with global GDP over the long run. Market share gains and exits by European banks could support a structurally higher level of trading revenue, but even adjusting for this suggests that trading banks are likely operating near peak revenue levels for this cycle, in our view.

From an incentive alignment perspective, we think that the firm does generally well, although we would like to see a higher ratio of long-term and performance-based compensation (75%) to cash-based compensation (25%). Many peers operate closer to 90% or even 95% for named executive officers. That said, we appreciate that Morgan Stanley links what we view as reasonable, value-accretive targets to performance-vested equity: return on tangible common equity, total shareholder return, and firm efficiency ratio for 2024, considered over a three-year period (we're waiting still on the 2025 proxy statement). Those are good shareholder outcomes and come with fewer agency problems than short-term metrics like EPS.

Finally, we view Morgan Stanley's approach to distributions as mixed. The firm has returned 110% of net income to shareholders, on average, over the past five years, with a slight skew toward share repurchases (58% of capital returns). It has been good to see the firm consistently grow its dividend payout ratio as its mix of more stable, fee-based businesses has grown, but share repurchases have come far too often at prices comfortably ahead of our fair value estimate.

Analyst Notes Archive

Stress-Test Regulatory Changes Slightly Positive for US Banks; 2026 Scenario Also Looks Less Harsh

Maoyuan Chen,Equity Analyst,27 Oct 2025

The Federal Reserve released a new proposal for the bank stress-test framework and 2026 stress-test scenarios on Oct. 24. Why it matters: The Fed estimated that the new proposal would lower the average stress capital buffer for US banks by 23 basis points, equivalent to 2.2% of current required capital. All else equal, lower required capital supports a higher return on equity. US global systemically important banks are expected to benefit more than the industry average, with an estimated 25-basis-point decline in the SCB. The new stress-test framework also increases transparency as the Fed is now disclosing more details regarding model assumptions that were previously in a "black box." The Fed will also consider banks' feedback before finalizing the scenarios. The bottom line: We will maintain our fair value estimates for US banks under our coverage, as we have already modeled flat to slightly declining common equity Tier 1 ratios for our US bank coverage over the next several years. We believe the US banking system is well capitalized, and the banks have excess capital to return to shareholders via share buybacks. While we view money center banks' share prices as expensive, regional banks' valuations are less demanding, and buybacks at current price levels should be accretive for most regional banks under our coverage. Key stats: The Fed also released the 2026 severely adverse scenario for public comment. We view it as less harsh than the 2025 version, which should benefit stress capital test results in 2026, in addition to the positive impact from the model changes. The 2026 severely adverse scenario includes real gross domestic product declining by 4.8% (2025: negative 7.8%), the unemployment rate rising by 5.5% (2025: 5.9%), and house prices falling by 29% (2025: negative 33%). Partially offsetting this, equity prices drop by 54% (versus 50% in 2025), and commercial real estate prices fall by 40% (versus 30%).

Morgan Stanley Earnings: After Blowout Quarter, Fair Value Estimate Up on Stronger Growth Outlook

Sean Dunlop, CFA,Director,15 Oct 2025

Morgan Stanley reported third-quarter 2025 earnings, with investors seeking guidance regarding the durability of outsize trading and investment banking revenues across the industry. Capital allocation was also a key focus after great stress test results. Why it matters: Strong quarterly results in trading and investment banking were encouraging, if not surprising, following the robust earnings results from JPMorgan and Goldman Sachs. We're most optimistic regarding Morgan Stanley's disciplined capital allocation approach after strong stress test results. With the firm generating an outstanding 18% return on equity during the quarter, we continue to view internal investments as the highest and best use of incremental capital for the firm. Encouragingly, management seems to agree, prioritizing its dividend, scaling lending relationships with key clients, and building product capabilities while maintaining a minimum 250 basis point buffer relative to its required 11.8% common equity Tier 1 ratio. This aligns with our Exemplary Capital Allocation rating for the firm. The bottom line: After digesting earnings, we've raised our fair value estimate to $140 from $127 for the wide-moat bank. Part of this is driven by quarterly outperformance, with $18.2 billion in post-provision net revenue and $2.80 in diluted EPS topping our estimates by 12.3% and 29.6%, respectively. But most of the change is driven by a stronger growth outlook. More concretely, we've raised our investment banking industry growth forecast to 2.3% from 1.8% on the back of stronger sponsor activity and $2 trillion in private equity dry powder (PitchBook) plus $4 trillion in private equity investments in play (Goldman Sachs). Between stronger investment banking revenues and stronger balance sheet growth expectations, given the firm's swelling base of wealth management deposits, we now forecast 6.5% and 7.8% 5-year compound annual growth in revenue and operating profit, up from 5.6% and 6.7% previously.

Morgan Stanley Earnings: Strong Results in Wealth and Equities Offset Softer Investment Banking

Sean Dunlop, CFA,Director,16 Jul 2025

Morgan Stanley reported second-quarter earnings results, with investors looking for signs of strength across the investment banking and trading businesses during a volatile quarter. Why it matters: Strong results from the largest trading and investment banks suggest that investors have shelved concerns related to trade policy, inflation, and growth headwinds. We believe that this is premature but concede that quarterly results were strong. Morgan Stanley shares traded down around 3% after its earnings release, but we view this as having more to do with unrealistic market expectations than any fundamental weakness, as it comfortably topped FactSet consensus estimates for both revenue and EPS. Its core wealth business, the key driver of our wide moat rating, continues to fire on all cylinders. Net new assets of $59 billion (3.9% annual growth) topped our $23 billion estimate, attesting to the allure of the firm's platform during a seasonally low period. Investment banking was weaker, particularly in attractive mergers and acquisitions advisory, where the firm saw revenue decline by 14% annually despite decent market results (up 5.3%, per Dealogic). That business is inherently lumpy, so we don't harbor serious concern yet but encourage investors to monitor progress there moving forward. The bottom line: As we digest results, we plan to maintain our $127 fair value estimate, with our long-term forecasts for 5% to 6% midterm top-line growth and 30% to 31% operating margins remaining intact. We're constructive regarding the industry outlook, as banks should benefit from improving investment banking appetite and a lighter regulatory touch, but believe that this upside is already priced in. Our banking coverage trades at a 14% cap-weighted premium to our intrinsic valuations. We're less optimistic regarding trading revenue, which looks cyclically high. Our math suggests that banks are overearning by as much as 20% to 30% in trading relative to long-term trends.

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Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
180.78 USD 14 Jan 2026	148.00 USD 15 Jan 2026 17:53, UTC	1.22	304.31 USD Bil 15 Jan 2026	Wide	Large Value	High	Exemplary	7 Jan 2026 06:00, UTC

Morgan Stanley: Raising our Fair Value Estimate and Upgrading Economic Moat After Fresh Look

Sean Dunlop, CFA,Director,15 Jul 2025

We're transferring coverage of Morgan Stanley, a diversified financial services company and global systematically important investment bank, to a new analyst. The bottom line: We're raising our fair value estimate for Morgan Stanley to $127 from $101 after raising our economic moat rating for the firm to wide, from narrow, and raising our revenue growth and operating profit forecasts. In our view, Morgan Stanley boasts the strongest wirehouse wealth management business, with $7.7 trillion in client assets at the end of the first quarter of 2025, 99% retention among clients with more than $1 million in assets, and roughly double the industry average assets per advisor ($156 million, by our math). Its 6.6% average annual organic inflows over the past decade are best-in-class among wirehouse firms. In institutional trading and investment banking, we view Morgan Stanley as one of only a handful of global investment banks that have the capability to effectively underwrite and distribute the largest, most lucrative global deals, with the firm consistently placing in the top three in investment banking league tables and generating midteens segment returns on equity. Big picture: Even after the move, shares trade at roughly a 12% premium to our intrinsic valuation. While we've maintained our Exemplary Capital Allocation Rating for Morgan Stanley, we have raised our Morningstar Uncertainty Rating to High from Medium, consistent with our quantitative methodology and assessment of at least temporarily elevated cash flow uncertainty. There's no doubt that the operating and regulatory environment for banks has improved significantly over the past few quarters, but the industry trades at a 18% cap-weighted premium to our fair value estimates as of July 11, 2025. We continue to maintain that banks are generally overearning in their trading operations, and we don't believe that downside risks like trade policy impacts and slowing growth are adequately priced in.

US Banks' Stress Test Results Look Favorable, With Goldman, Wells Fargo Performing Particularly Well Sean Dunlop, CFA,Director,29 Jun 2025

The Federal Reserve released its annual stress test results on Friday, June 27. With significantly stronger results compared with a year ago, the shares of the 22 tested institutions traded slightly higher in after hours trading.Why it matters: The test results estimate the maximum capital drawdown that banks are likely to experience during a severely adverse scenario, which in turn informs the level of stress capital buffer they are required to hold for the ensuing year. Lower capital requirements correspond with higher leverage and higher returns for banks, which may elect to return excess capital to shareholders, generally through share repurchases.The bottom line: A less punitive stress scenario and strong capitalization across our banking coverage means that the average bank we cover could hold as much as 5% of its market capitalization in excess capital that could theoretically be returned to shareholders. Wide-moat-rated Goldman Sachs and wide-moat Wells Fargo were the biggest winners, with our estimates suggesting these two banks will see their stress capital buffers fall by 1.5 and 1.2 percentage points, respectively, in October.

Most US Banks Won't Benefit Directly From Enhanced Supplemental Leverage Ratio Changes Sean Dunlop, CFA,Director,26 Jun 2025

The Federal Reserve, with the support of the Office of the Comptroller of the Currency and the Federal Deposit Insurance, released draft changes to the enhanced supplemental leverage ratio today. The Morningstar US Banks Index rose by 0.6% on the news, while the broader market was flat.Why it matters: The move is important largely for what it signals: that more consequential changes, like revisions to global systematically important bank surcharges and lower Basel III capital requirements, toward alignment with global standards, are increasingly likely. The eSLR changes don't look too consequential on a stand-alone basis, as all the banks in our coverage are currently constrained by common equity Tier 1—or Tier 1 leverage at the trust banks—rather than eSLR requirements. Neither do we believe that the move will spur meaningful incremental near-term growth. Despite purportedly freeing up significant capital at depositary institutions ($210 billion), the demand backdrop remains weak in the US, regardless of lending capacity, with just 3% annual loan growth last quarter.The bottom line: While eSLR changes aren't very significant for our coverage, Basel III changes, which are next in the pipeline, could be more so. In agreement with the market, we view the proposed regulation as very slightly positive, but don't expect to make changes to our intrinsic valuations across the sector, with our forecasts already largely pricing this in. A heightened willingness to hold low-risk, lower-return assets like Treasury is the biggest likely ramification of the proposed rule, as we see it. Elsewhere, we had estimated that the 2023 proposal would have resulted in 20% average growth in risk-weighted assets for banks in our coverage, while the September 2024 draft would have increased capital requirements by anywhere from 9% for G-SIB banks to 0.5% for smaller institutions. A revised framework is likely to yield even lower increases.

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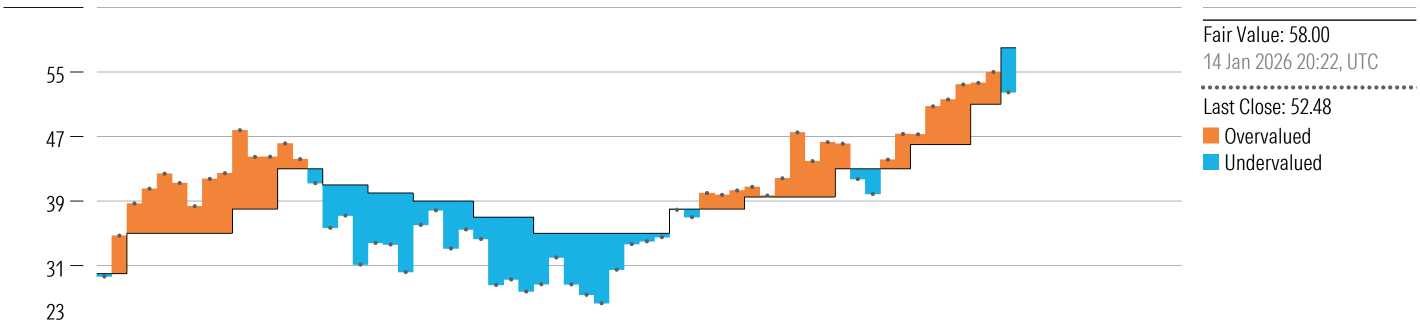
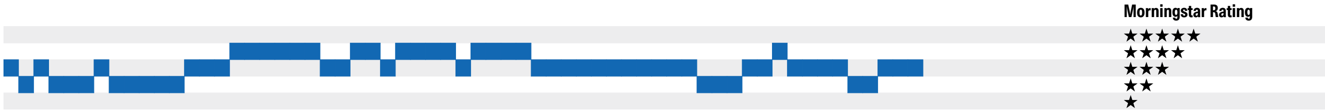
Competitors Price vs. Fair Value

Bank of America Corp BAC



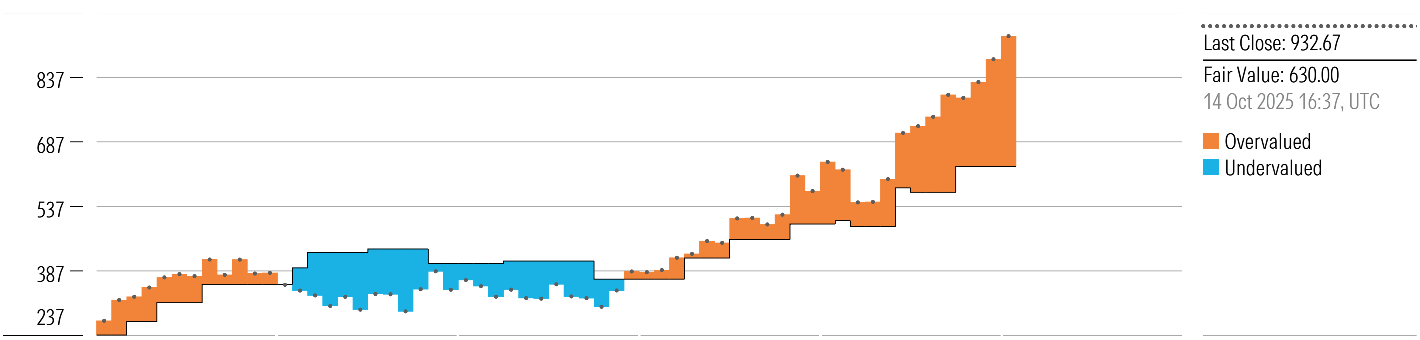
	2021	2022	2023	2024	2025	YTD	
	1.17	0.85	0.96	1.11	1.08	0.90	Price/Fair Value
	49.36	-23.62	4.44	33.50	27.60	-4.58	Total Return %

Morningstar Rating



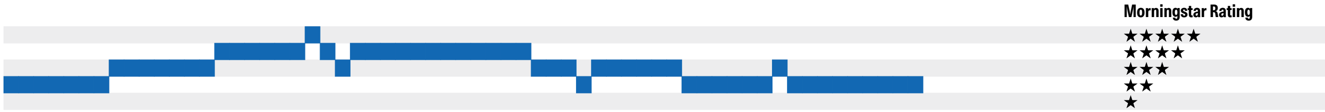
Total Return % as of 14 Jan 2026. Last Close as of 14 Jan 2026. Fair Value as of 14 Jan 2026 20:22, UTC.

The Goldman Sachs Group Inc GS



	2021	2022	2023	2024	2025	YTD	
	1.07	0.85	1.05	1.15	1.40	1.48	Price/Fair Value
	47.53	-7.89	15.40	51.42	55.95	6.11	Total Return %

Morningstar Rating



Total Return % as of 14 Jan 2026. Last Close as of 14 Jan 2026. Fair Value as of 14 Oct 2025 16:37, UTC.

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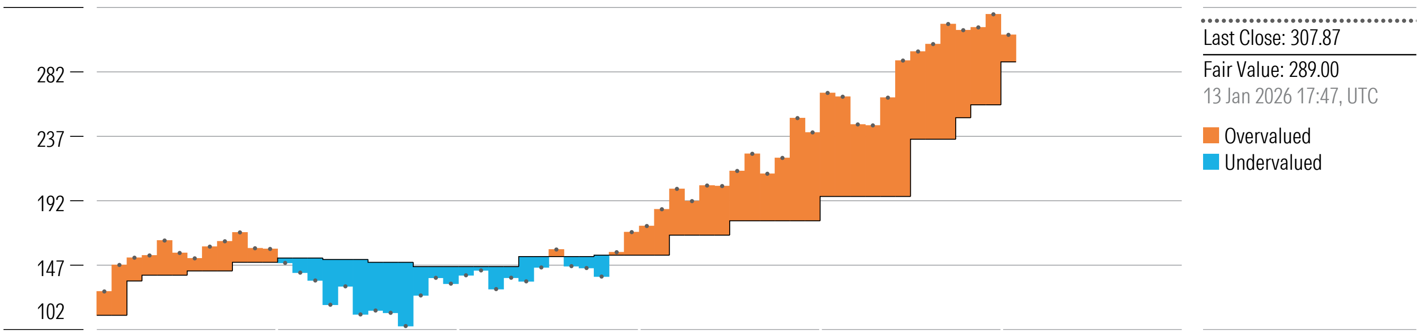
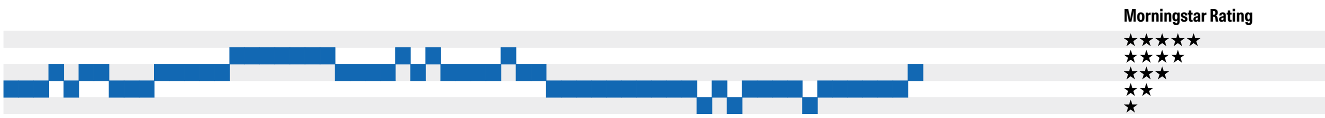
Competitors Price vs. Fair Value

JPMorgan Chase & Co JPM



2021	2022	2023	2024	2025	YTD	
1.06	0.92	1.10	1.35	1.24	1.07	Price/Fair Value
27.53	-12.79	29.87	43.63	36.74	-3.99	Total Return %



Total Return % as of 14 Jan 2026. Last Close as of 14 Jan 2026. Fair Value as of 13 Jan 2026 17:47, UTC.

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Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
180.78 USD 14 Jan 2026	148.00 USD 15 Jan 2026 17:53, UTC	1.22	304.31 USD Bil 15 Jan 2026	Wide	Large Value	High	Exemplary	7 Jan 2026 06:00, UTC

Morningstar Valuation Model Summary

Financials as of 15 Jan 2026	Actual			Forecast				
Fiscal Year, ends 31 Dec	2023	2024	2025	2026	2027	2028	2029	2030
Net Interest Income (USD Mil)	8,230	8,611	10,046	10,664	11,739	10,569	10,493	12,493
Non Interest Income (USD Mil)	45,913	53,150	60,599	68,175	72,065	70,579	73,573	79,004
Total Pre-Provision Revenue (USD Mil)	54,143	61,761	70,645	78,839	83,804	81,149	84,066	91,497
Provision for Loan Losses (USD Mil)	532	264	349	228	362	232	248	356
Operating Expenses (USD Mil)	41,798	43,901	48,342	52,903	58,337	57,099	58,700	63,019
Operating Income (USD Mil)	11,813	17,596	21,954	25,707	25,105	23,817	25,119	28,122
Net Income Available to Common Stockholders (USD Mil)	9,087	13,390	16,861	19,809	19,344	18,355	19,355	21,663
Adjusted Net Income (USD Mil)	8,530	12,800	16,249	19,224	18,713	17,716	18,679	20,951
Weighted Average Diluted Shares Outstanding (Mil)	1,646	1,611	1,592	1,566	1,511	1,468	1,439	1,412
Earnings Per Share (Diluted) (USD)	5.18	7.95	10.21	12.28	12.39	12.06	12.98	14.84
Adjusted Earnings Per Share (Diluted) (USD)	5.18	7.95	10.21	12.28	12.39	12.06	12.98	14.84
Dividends Per Share (USD)	3.25	3.55	3.55	3.85	4.73	4.89	5.58	6.39

Margins & Returns as of 15 Jan 2026		Actual			Forecast					
	3 Year Avg	2023	2024	2025	2026	2027	2028	2029	2030	5 Year Avg
Net Interest Margin %	0.8	0.7	0.8	0.8	0.8	0.8	0.7	0.6	0.7	0.7
Efficiency Ratio %	72.2	77.2	71.1	68.4	67.1	69.6	70.4	69.8	68.9	69.2
Provision as % of Loans	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Growth & Ratios as of 15 Jan 2026		Actual			Forecast					
	3 Year Avg	2023	2024	2025	2026	2027	2028	2029	2030	5 Year Avg
Net Interest Income Growth %	2.5	-11.8	4.6	16.7	6.2	10.1	-10.0	-0.7	19.1	4.5
Non Interest Income Growth %	11.0	3.6	15.8	14.0	12.5	5.7	-2.1	4.2	7.4	5.5
Total Pre-Provision Revenue Growth %	—	0.9	14.1	14.4	11.6	6.3	-3.2	3.6	8.8	—
Operating Expenses Growth %	—	6.4	5.0	10.1	9.4	10.3	-2.1	2.8	7.4	—
Operating Income Growth %	—	-16.2	48.9	24.8	17.1	-2.3	-5.1	5.5	12.0	—
Net Income Growth %	15.5	-17.6	47.3	25.9	17.5	-2.4	-5.1	5.4	11.9	—
Earnings Per Share Growth %	18.4	-15.8	53.3	28.5	20.3	0.9	-2.6	7.6	14.3	7.8

Valuation as of 15 Jan 2026	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
Price/Earning	18.0	15.8	17.4	14.7	14.6	15.0	13.9	12.2
Price/Book	—	—	—	—	—	—	—	—
Price/Tangible Book	2.3	2.8	3.6	3.4	3.1	2.8	2.5	2.3
Dividend Yield %	2.8	2.2	2.1	2.1	2.6	2.7	3.1	3.5
Dividend Payout %	67.6	47.9	37.8	31.4	38.2	40.6	43.0	43.0

Operating Performance / Profitability as of 15 Jan 2026	Actual			Forecast				
Fiscal Year, ends 31 Dec	2023	2024	2025	2026	2027	2028	2029	2030
ROA %	0.8	1.1	1.3	1.4	1.3	1.1	1.1	1.2
ROE %	9.1	13.2	15.7	17.6	16.4	14.6	14.6	15.5
Return on Tangible Equity %	12.8	18.5	21.7	23.9	21.8	19.2	18.8	19.7

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Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
180.78 USD 14 Jan 2026	148.00 USD 15 Jan 2026 17:53, UTC	1.22	304.31 USD Bil 15 Jan 2026	Wide	Large Value	High	Exemplary	7 Jan 2026 06:00, UTC

Financial Leverage (Reporting Currency)

Fiscal Year, ends 31 Dec	Actual 2023	Actual 2024	Actual 2025	Forecast 2026	Forecast 2027	Forecast 2028	Forecast 2029	Forecast 2030
Equity/Assets %	8.3	8.6	7.8	7.8	7.8	7.8	7.8	7.8

Forecast Revisions as of

Prior data as of	2026 Current	2026 Prior	2027 Current	2027 Prior	2028 Current	2028 Prior
Fair Value Estimate Change (Trading Currency)	148.00	—	—	—	—	—
Net Interest Income (USD Mil)	10,664	9,508	11,739	9,801	10,569	10,309
Total Pre-Provision Revenue (USD Mil)	78,839	70,856	83,804	71,640	81,149	78,554
Operating Income (USD Mil)	25,707	21,579	25,105	19,536	23,817	23,370
Net Income (USD Mil)	—	—	—	—	—	—
Earnings Per Share (Diluted) (USD)	12.28	10.09	12.39	9.54	12.06	11.92
Adjusted Earnings Per Share (Diluted) (USD)	12.28	10.09	12.39	9.54	12.06	11.92
Dividends Per Share (USD)	3.85	3.85	4.73	4.09	4.89	5.13

Key Valuation Drivers as of 15 Jan 2026

Cost of Equity %	9.0
Stage II Net Income Growth Rate %	5.3
Stage II Incremental ROIC %	14.7
Perpetuity Year	20

Additional estimates and scenarios available for download at https://pitchbook.com/.

Discounted Cash Flow Valuation as of 15 Jan 2026

	USD Mil
Present Value Stage I	0
Present Value Stage II	0
Present Value of the Perpetuity	0
Total Common Equity Value before Adjustment	**0**
Other Adjustments	—
Equity Value	**229,784**
Projected Diluted Shares	1,552
Fair Value per Share (USD)	**148.00**

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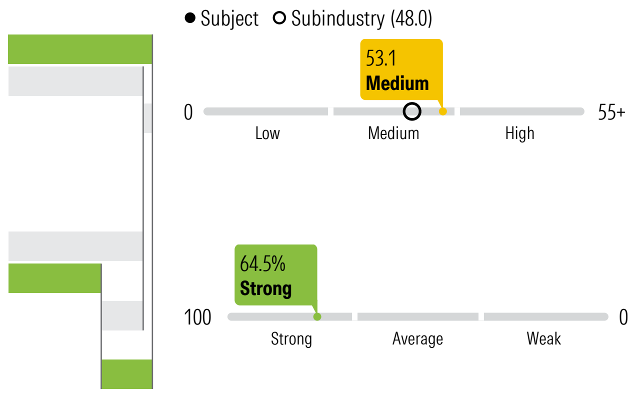
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
180.78 USD 14 Jan 2026	148.00 USD 15 Jan 2026 17:53, UTC	1.22	304.31 USD Bil 15 Jan 2026	Wide	Large Value	High	Exemplary	7 Jan 2026 06:00, UTC

ESG Risk Rating Breakdown

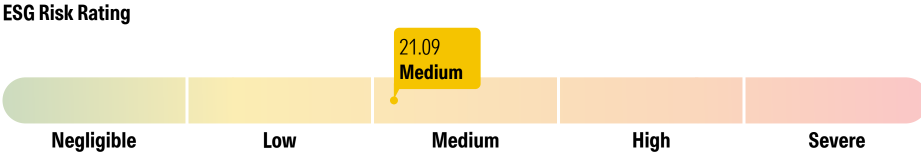
Exposure	
Company Exposure[1]	53.1
– Manageable Risk	49.7
Unmanageable Risk[2]	**3.4**
Management	
Manageable Risk	49.7
– Managed Risk[3]	32.0
Management Gap[4]	**17.7**
Overall Unmanaged Risk	**21.1**



- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating



ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 64.5% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment[5]

ESG Risk Rating is of Jan 07, 2026. Highest Controversy Level is as of Jan 08, 2026. Sustainalytics Subindustry: Investment Banking and Brokerage. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 07 Jan 2026

Peers are selected from the company's Sustainalytics-defined Subindustry and are displayed based on the closest market cap values

Company Name	Exposure		Management		ESG Risk Rating	
Morgan Stanley	53.1 | Medium	0 – 55+	64.5 | Strong	100 – 0	21.1 | Medium	0 – 40+
Bank of America Corp	52.6 | Medium	0 – 55+	68.1 | Strong	100 – 0	19.2 | Low	0 – 40+
The Goldman Sachs Group Inc	53.0 | Medium	0 – 55+	64.7 | Strong	100 – 0	21.0 | Medium	0 – 40+
JPMorgan Chase & Co	51.1 | Medium	0 – 55+	72.4 | Strong	100 – 0	16.6 | Low	0 – 40+
Evercore Inc	43.7 | Medium	0 – 55+	42.7 | Average	100 – 0	25.8 | Medium	0 – 40+

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Appendix
Historical Morningstar Rating

Morgan Stanley MS 14 Jan 2026 22:35, UTC

Dec 2026	Nov 2026	Oct 2026	Sep 2026	Aug 2026	Jul 2026	Jun 2026	May 2026	Apr 2026	Mar 2026	Feb 2026	Jan 2026
—	—	—	—	—	—	—	—	—	—	—	★★
Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
★★	★★	★★	★★	★★	★★★	★	★★	★★	★★	★★	★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★	★★	★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★	★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★	★★★	★★★★	★★★★	★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★	★★★	★★	★★	★★	★★	★★	★★	★★	★★★	★★	★★★

Bank of America Corp BAC 14 Jan 2026 22:37, UTC

Dec 2026	Nov 2026	Oct 2026	Sep 2026	Aug 2026	Jul 2026	Jun 2026	May 2026	Apr 2026	Mar 2026	Feb 2026	Jan 2026
—	—	—	—	—	—	—	—	—	—	—	★★★
Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
★★★	★★★	★★	★★	★★★	★★★	★★★	★★★	★★★★	★★★	★★★	★★
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Dec 2026	Nov 2026	Oct 2026	Sep 2026	Aug 2026	Jul 2026	Jun 2026	May 2026	Apr 2026	Mar 2026	Feb 2026	Jan 2026
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Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

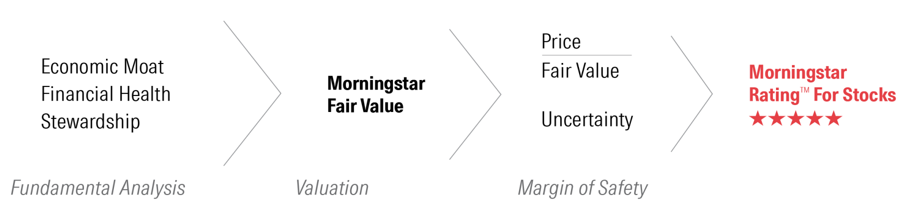
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future

Morningstar Equity Research Star Rating Methodology



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outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

Qualitative Analysis Uncertainty Ratings	Margin of Safety ★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

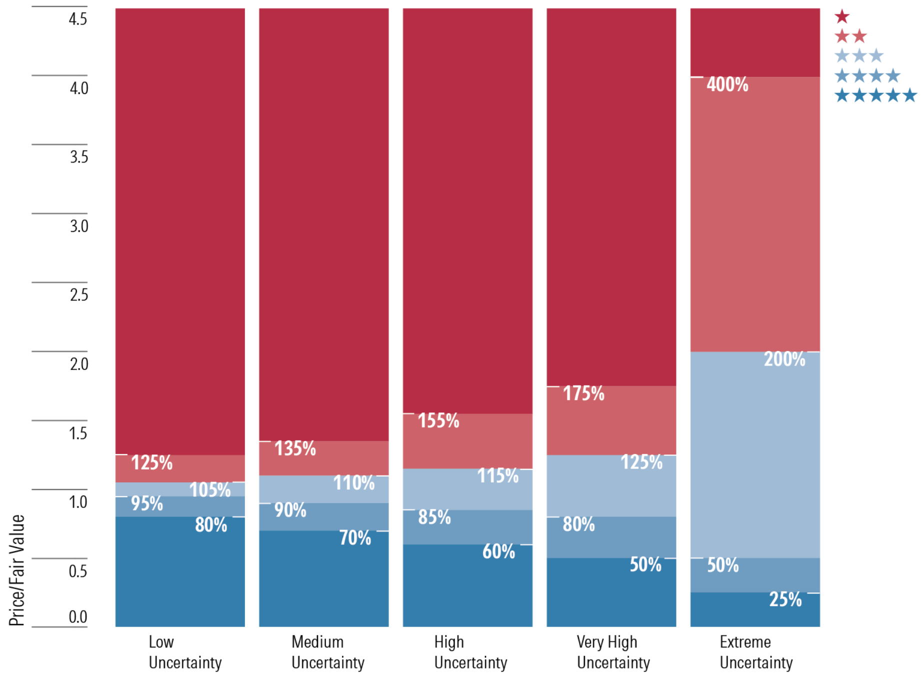
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments,

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and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

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