Morgan Stanley X

Space Jam

Retirement Portfolio

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Morgan Stanley

SKILLS

CHALLENGE

Impact Statement

The Situation

- Tasked with constructing a traditional 60/40 retirement portfolio for a 55 years old client
- Client with $2.5 invest
  - $1.5 million to equities
  - $1 million to fixed income
- Allocated portfolio across sectors with consideration of market conditions (e.g., interest rates, tariffs) to align with client's long-term goals.

Extension Response

- Conducted macroeconomic and sector analysis using a PESTEL framework
- Evaluated client risk profile and income needs to guide allocation decisions
- Recommended a core balanced strategy with diversified equity and fixed income holdings

Impact

- Strengthened client confidence through risk-aware, market-responsive design
- Promoted tax efficiency and long-term financial sustainability
- Reinforced Morgan Stanley's commitment to fiduciary excellence

Investment Checklist

- Does each selected asset have a strong historical track record and fundamental rationale for inclusion in a retirement-focused portfolio?

- Is the current macroeconomic environment (e.g., interest rates, inflation, global trends) considered in selecting and balancing these assets?

- Does the asset fit the client's risk tolerance, income needs, and long-term financial goals?

- Would holding this asset even in the face of market downturns provoke confidence?

Agenda

1
Client Persona

2
Risk Assessment

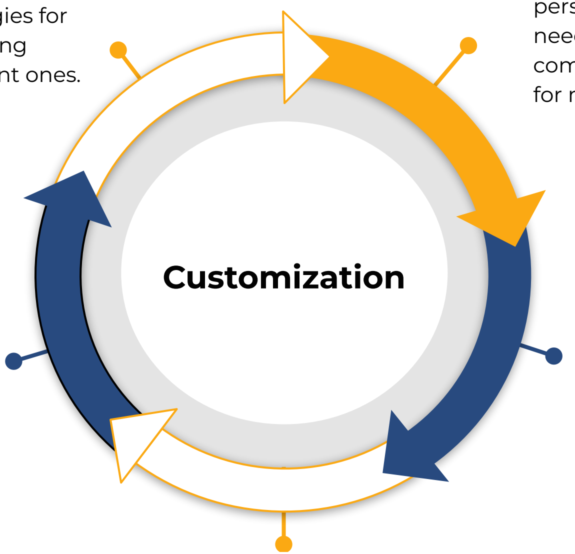
3
PESTEL Analysis

4
Investment Thesis

5
Final Solution

6
Scenarios Analysis

Target Persona (IDIC)



Identify & Differentiate
Understand audience's personalities, values, and needs to tailor communication strategy for maximum impact.

Engage
Segment and differentiate the target audience, then apply tailored CRM strategies to build meaningful and lasting customer relationships.

Interaction
Use client interactions to understand their expectations, align our offerings with needs, and gather feedback to improve service

Customize
Continue engagement with clients to build loyalty and use insights from our interactions to shape future strategies.

Retain & Improve
Consider feedback & design new connection strategies for future clients, maintaining relationships with current ones.

Target Persona: (I) Identify

Personal	Challenges	Values	Common Objections	Corresponding Solutions
• **Identify** current **customer demographic** and future customer demographic: • Age • Generation • Education • Near future goals • Investment values	• **Savings lifespan** • Market volatility • Increasing healthcare costs • Social Security concerns • Cognitive decline • Navigating financial advice	• **Trust and credibility** • Clear, transparent communication Personalized advice • Stability and security • Proven performance record • Access to information and support • Tax-efficiency • Reduced financial stress	• Money loss • Healthcare and living costs • Lack of trust in financial advisors • Confusion about complex products • Improper planning– **ultimately not saving enough**	• Diversify 60/40 allocation for protection • Illustrate long-term data • Highlight positive investments • Showcase Morgan Stanley's values • Use transparent language • Demonstrate portfolio longevity through modeling

Target Persona (DIC)
Differentiate, Interact, Customize

Engage

Personalized Email Campaigns & Social Media marketing: tailor content based on demographics & goals

Interact

Retirement Planning Support: income strategies, tax-efficiency, and portfolio diversification.

Customize

Provide ongoing customized resources, solutions, and adjustments based on evolving needs.

Improve

Follow-up content: based on feedback. Use surveys and feedback to design personalized campaigns.

Risk Assessment and Mitigation Strategy

Risk 1: Market Volatility	Risk 2: Interest Rate	Risk 3: Inflation
• **Impact**: Major - significant potential loss in equity value, tariffs influence short term disruptions • **Likelihood**: Medium (~30%) • **Client Subset**: Higher-equity clients / near-retirees • **Mitigation**: ○ Diversify across sectors/geographies ○ Include defensive sectors (e.g., healthcare, staples) ○ Rebalance regularly ○ Hedging strategies	• **Impact**: Moderate – bond values fall as rates rise • **Likelihood**: High (~50%) • **Client subset**: Clients with long-duration bonds • **Mitigation**: ○ Shorten bond duration ○ Use floating-rate bonds ○ Diversify into high-quality bonds & TIPS	• **Impact**: Major – reduces purchasing power and real returns • **Likelihood**: Medium (~25%) • **Client subset**: All clients, especially retirees on fixed income • **Mitigation**: ○ Allocate to TIPS, commodities ○ Include inflation-resilient equity sectors ○ Review and adjust portfolio as needed

PESTEL Analysis

Political Factors

- Midterm elections on Nov 3 2026
- Potential new policies could: -influence tax rates,
- -shift labour laws
- -influence Tariffs (short term)
- Pending tax rate changes: increase federal tax rate from 21% → ~27%. Good for tech + pharma, bad for US large-caps.

Impact: **Mid**

Economic Factors

- Current Economy: Stagnant
- Strong GDP growth: Good for cyclical sectors (Industrials, Financials). Improves credit-spread outlook.
- Interest Rates:
- -Rising rates → higher discount rates, bad for sectors like utilities and REITs
- -Bond prices fall as yields climb, floating-rate notes gain.

Impact: **High**

Social Factors

- Increased demand for healthcare
- Healthcare sector benefits
- Remote + Hybrid Work style increase
- Good for tech firms EG Zoom.
- Continued increase of online activity
- Communication services and general technology firms benefit

Impact: **Low**

Technological Factors

- Machine learning: -Accelerate revenue growth in AI services, boosts margins through automation. -Widens spreads for companies unable to adapt.
- Quantum Computing R&D -Early upside in specialized hardware, materials science and cybersecurity firms.

Impact: **High**

Environmental Factors

- Corporations face value loss from climate change.
- Move away from companies with large asset footprints
- Foreign pollution fee act can impose carbon-emission tariffs on certain imports - gaining traction in Congress
- Potential cost inflation for energy intensive industries.

Impact: **Mid**

Legal Factors

- SEC Climate-Risk and ESG Disclosure rules will drive capital away from issuers based on their reported emissions
- Cybersecurity and Data-Privacy Law
- Emerging federal privacy legislation will impose new rules on companies, increasing Cap-Ex for tech and financial issuers.

Impact: **High**

Investment Thesis

01 Asset Selection

Equity

- U.S. Large-Cap Equity (e.g., S&P 500 Index)
- Dividend-Paying Stocks or ETFs
- International Equities (Developed Markets)

Fixed Income

- US Treasuries
- Investment-Grade Corporate Bonds
- **Municipal Bonds** (for tax efficiency)

02 Asset Overview & Appeal

- U.S. large-cap equities and dividend-paying stocks offer broad market exposure, reliable long-term growth, and consistent income
- Dividend-Paying Stocks or ETFs offer appreciation-based income
- International equities provide diversification, exposure to global markets, and tap into international growth.
- US Treasuries offer low risk (dependable via US Government), lower yields, increased liquidity.
- Investment-grade corporate bonds: increased yield (higher than treasuries), with increased risk and taxability
- Municipal bonds: tax-efficient income, which is valuable for high-net-worth clients.

Feasibility Study

Option 1

Core Balanced "Baseline"

Rationale: Low tracking error; meets income target in a low-yield world; easy-to-implement and liquid.

Equities (1.5 M):
Broad U.S. large-cap index (e.g. S&P 500) 60%;
small-cap index 10% (via Russell 2000 ETF);
dividend-growth ETF 10%;
sector mini-tilts: +5% Tech, +5% Financials, −5% Energy.

Fixed Income (1 M):
U.S. Aggregate Bond ETF 50%;
short-duration Treasuries 20%;
investment-grade corporate credit 20%;
floating-rate notes 10%.

Option 2

Income-Enhancement "Yield Letter"

Boosts yield to ≥4%; muni sleeve leverages SALT relief potential; balanced credit risk for spread pickup.

Equities (1.5 M):
High-dividend ETF 20%;
REIT ETF 15%;
utilities/Staples blend 15%;
core U.S. equity index 50%.

Fixed Income (1 M):
Municipal bonds 30%;
high-yield corporate bonds 20%;
securitized credit 20%;
U.S. Treasuries 30%.

Option 3

Thematic & ESG-Tilted "Sustainable Growth"

Captures high-growth, sustainable themes; aligns with ≥25 % ESG mandate; retains defensive ballast via Treasuries.

Equities (1.5 M):
ESG-screened large-cap ETF 30%;
clean-energy/renewables ETF 10%;
AI-cloud technology ETF 10%;
healthcare/aging-population ETF 10%;
core U.S. equity index 40%.

Fixed Income (1 M):
Green bonds 20%;
social-impact (affordable housing, health) 20%;
corporates with strong ESG scores 30%;
U.S. Treasuries 30%.

Best Option

Evaluation Criteria

- Return & Income – Ability to hit 5–6 % total return and ≥3.5 % yield
- Risk & Drawdown – Volatility ≤10 % and max drawdown ≤15 %
- Duration & Credit Profile – Avg. duration 4–6 yrs; ≥A–/BBB+ average rating
- Diversification – No sector >25 % of equities; low bond–equity correlation
- Tax & Cost Efficiency – Expense ratio ≤0.40 %; tax-aware in fixed income

Option 3 is best fit.

Profit and Loss Scenario Analysis

Bear

- Equity markets fall **~25–30%** during downturns
- Interest rates rise by **150–200** basis points, causing bond values to drop **5–10%**
- Inflation reaches **6–8%**, eroding real portfolio returns
- Client may need to delay retirement by **3–5** years or reduce withdrawals by **20–30%**

Base

- Portfolio grows at **~5–7%** annualized return (historical 60/40 portfolio average).
- Equity market grows **6–8%**, fixed income contributes **2–3%** yield.
- Inflation stays around **2–3%** (Fed target).
- Client stays on track to retire at age **65** with **~75–85%** income replacement rate.
- Minimal adjustments: **1–2** portfolio rebalances per year

Bull

- Annual portfolio returns exceed 10%, driven by strong equity performance (**12–15%**) and dividend growth (**3–4%**).
- Interest rates decline by **50–100** basis points, causing bond prices to rise **4–7%**.
- Inflation stays below **2%**, enhancing real returns.
- Client reaches retirement goal **5+** years early, with surplus capital for additional investment or legacy planning.

By planning for all scenarios, we ensure the client is protected—while always aiming to deliver the best-case outcome.

Q&A/Contacts Page

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Thank you!