Morgan Stanley
INVESTMENT MANAGEMENT

Synchronized Swimming

MARKET INSIGHTS | GLOBAL LIQUIDITY TEAM | November 2024

Federal Reserve Board[1]

In November, the Federal Open Market Committee (FOMC) lowered the federal funds target rate by 25 basis points to a targeted range of 4.50% to 4.75%. This is the second time in a row that the Federal Reserve (Fed) has reduced interest rates. The press release remained relatively unchanged, noting that "inflation has made progress" toward the 2% target while acknowledging that "labor market conditions have generally eased." The committee highlighted that inflation and unemployment risks are roughly in balance.

European Central Bank[1]

The European Central Bank (ECB) Governing Council lowered the key deposit rate by 25 basis points at the conclusion of its policy meeting in October. The ECB credited the rate cut to the "disinflationary process" being "well on track". The Governing Council noted that the inflationary impact of high wage growth was buffered by profits while financing conditions remain restrictive. Inflation forecasts were revised slightly lower considering a weaker contribution from domestic demand. The path ahead remains uncertain as the Governing Council reiterated that it is not committed to a particular rate path and will remain data dependent.

Bank of England[1]

The Bank of England (BoE) Monetary Policy Committee (MPC) voted 8-1 to reduce the Bank Rate by 25 basis points to 4.75% at the conclusion of its November meeting. The one dissenting member favored leaving the Bank Rate unchanged at 5%. The BoE has adopted a gradual approach to reducing policy restraint in the absence of material developments. The MPC forecasts inflation to rise to 2.5% by the end of the year as declines in energy prices last year fall out of the annual comparison. Despite progress toward the 2% target for inflation, the committee remains cautious in determining the appropriate degree of policy easing.

DISPLAY 1
Monthly Interest Rate Summary
As of 11/30/2024

US TREASURY RATES	YIELD (%)	MOM CHANGE (%)
1M UST	4.61	(0.05)
3M UST	4.49	(0.06)
6M UST	4.44	(0.02)
12M UST	4.28	0.01
2Y UST	4.15	(0.02)
5Y UST	4.05	(0.11)
10Y UST	4.17	(0.12)
30Y UST	4.36	(0.12)

Source: Bloomberg

Portfolio Strategy

GOVERNMENT/TREASURY STRATEGY

We continued to lock in longer-term, fixed-rate securities where appropriate. Specifically, we added fixed-rate Treasury and repo securities in 6-month to 1-year terms. During the month, the Fed continued cutting interest rates with a

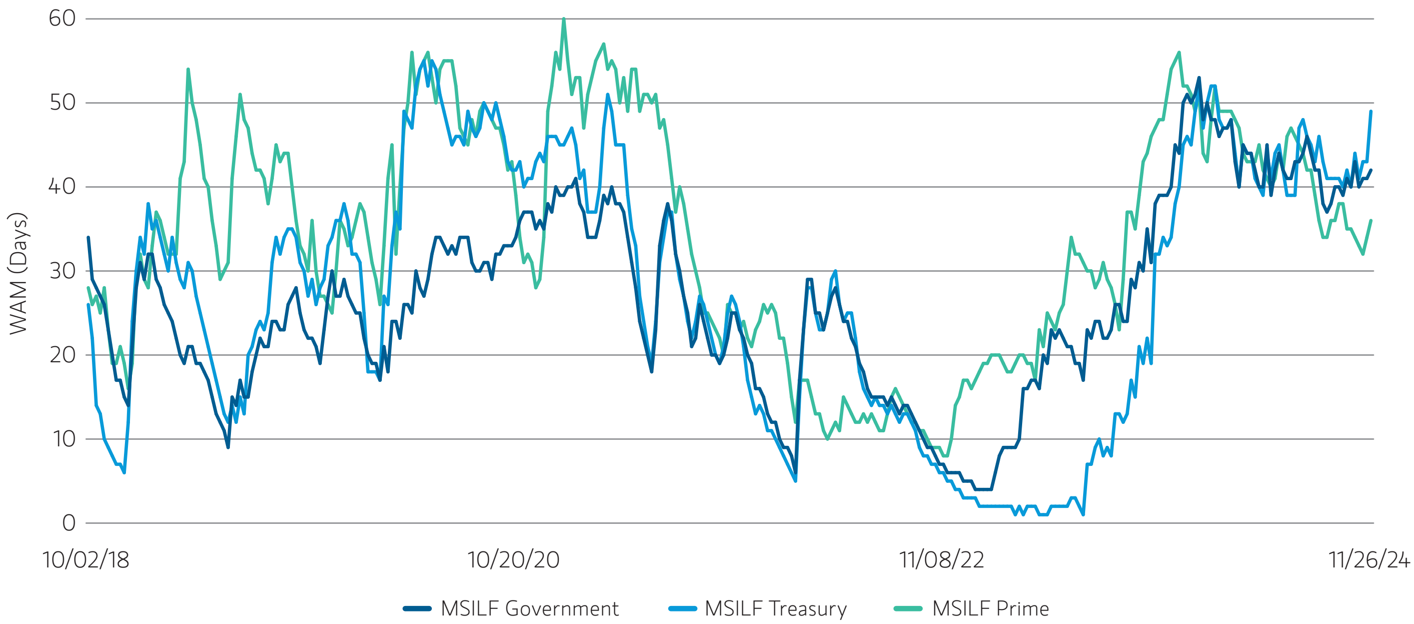
[1] Source: Bloomberg.

The views and opinions expressed are those of the Portfolio Management team as of November 30, 2024 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

DISPLAY 2

Morgan Stanley Institutional Liquidity Funds (MSILF) Weighted Average Maturities (WAM) Summary[2]

As of 11/30/2024



Source: iMoneyNet

25 bp move, and generally view the policy rate as still in a restrictive posture. We believe that while the Fed may not necessarily proceed by cutting every meeting, the path of least resistance remains lower rates at a deliberate pace. We also added to longer-dated, floating-rate note exposure this month, notably topping off SOFR (secured overnight financing rate) exposure and reducing our underweight in Treasury floating-rate securities as we believe levels were attractive and added good ballast to the portfolios given the incoming new political regime.

As the FOMC has formally acknowledged that their mandates of labor and inflation are now closer in alignment, the focus has moved to reducing the outright level of restrictiveness their policy rate currently places on the economy. The Fed has now delivered 75 bps of rate cuts, and is eyeing one more for 2024 in December. We expect the Fed to become a bit more patient and deliberate with cuts in 2025, but still believe there is room to cut rates back closer to neutral.

Treasury and agency auctions have been orderly—especially considering the condensed schedule surrounding the Thanksgiving holiday. November likely represented a high point in Treasury bill supply, with some reductions to auction sizes coming in December. We have no concerns or issues to raise with respect to T-bill liquidity.

Looking ahead, the Fed has initiated its rate-cutting cycle, and the market continues to contend with the results of the recent presidential election and what future policies may look like. Funding markets perked up for month-end, providing attractive opportunities in the overnight markets for lending cash. We expect settlement dates and month/quarter-end dates to continue to be volatile in the funding space.

[2] **Weighted Average Maturity (WAM):** Measures the weighted average of the maturities of the portfolio's individual holdings, taking into account reset dates for floating rate securities.

[3] The Portfolio will be required to price and transact in their shares at a floating net asset value ("NAV").

The views and opinions expressed are those of the Portfolio Management team as of November 30, 2024 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

PRIME STRATEGY[3]

Both the weighted average maturity (WAM) and weighted average life (WAL) of the portfolios extended throughout the month as we continue to opportunistically lock in 6-month and longer fixed-rate securities on the back of the recent sell-off. Following the repricing of expectations for monetary policy next year—with only three rate cuts priced in by the end of 2025—we believe adding fixed-rate exposure further out the curve is an attractive proposition given the positive carry compared to overnight funding levels, which wasn't the case only a few months ago.

As the FOMC has formally acknowledged that their mandates of labor and inflation are now closer in alignment, the focus has moved to reducing the outright level of restrictiveness their policy rate currently places on the economy. The Fed has now delivered 75 bps of rate cuts, and is eyeing one more for 2024 in December. We expect the Fed to become a bit more patient and deliberate with cuts in 2025, but still believe there is room to cut rates back closer to neutral.

With respect to credit, while spreads on the short end of the curve remain tight, secondary rolled-down corporate bonds continue to provide the most value and have been trading dislocated and cheap relative to their wholesale equivalents.

Looking ahead, dealer balance sheets remain mostly unconstrained heading into year-end, but we expect pressures to build next month. The Fed has initiated its rate-cutting cycle, and the market continues to contend with the results of the recent presidential election and what future policies may look like.

The views and opinions expressed are those of the Portfolio Management team as of November 30, 2024 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

One basis point = 0.01%

The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment.

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

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

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

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

Charts and graphs provided herein are for illustrative purposes only. **Past performance is no guarantee of future results.**

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

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

Current and future portfolio holdings are subject to change. The forecasts in this piece are not necessarily those of Morgan Stanley, and may not actually come to pass.

Certain information herein is based on data obtained from third party sources believed to be reliable. However, we have not verified this information, and we make no representations whatsoever as to its accuracy or completeness.

Please consider the investment objectives, risks, charges and expenses of the portfolios carefully before investing. The prospectus contains this and other information about the portfolios. To obtain a prospectus, download one at www.morganstanley.com/liquidity or call 1.800.236.0992. Please read the prospectus carefully before investing.

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events.

STABLE NAV

You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at any time, including during periods of market stress.

FLOATING NAV

You could lose money by investing in the Fund. Because the share price of the Fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The Fund may impose a fee upon sale of your shares. The Fund generally must impose a fee when net sales of Fund shares exceed certain levels. An investment in the Fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at any time, including during periods of market stress. The Portfolio will be required to price and transact in their shares at a floating Net asset value ("NAV"). The Portfolio will be required to impose a mandatory liquidity fee when the Fund experiences daily net redemptions that exceed 5% of net assets, unless the Fund's liquidity costs are de minimis.

The Tax-Exempt Portfolio may invest a portion of its total assets in bonds that may subject certain investors to the federal Alternative Minimum Tax (AMT). Investors should consult their tax adviser for further information on tax implications.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

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

morganstanley.com/liquidity

RO 4109689 Exp. 12/31/2025 24Q40427_KC_1224 Lit-Link: LMINSIGHT-US-1124 LTR