Morgan Stanley

INVESTMENT MANAGEMENT

Turning the Tide

MARKET INSIGHTS | GLOBAL LIQUIDITY TEAM | July 2024

Federal Reserve Board[1]

The Federal Open Market Committee (FOMC) held the federal funds target rate at its current range of 5.25% to 5.50% in July. Eight consecutive meetings where the Federal Reserve has left rates unchanged. The press release remained relatively unchanged while acknowledging that "some further progress" toward the 2% inflation target has been made and alluding to the rising unemployment rate. The committee reiterated that employment and inflation objectives have moved into a better balance. Market forecasts are now split between the likelihood of a 25 basis point and a 50 basis point initial rate cut in September.

DISPLAY 1

Monthly Interest Rate Summary

As of 7/31/2024

US TREASURY RATES	YIELD (%)	MOM CHANGE (%)
1M UST	5.37	0.05
3M UST	5.28	(0.07)
6M UST	5.09	(0.24)
12M UST	4.74	(0.37)
2Y UST	4.26	(0.50)
5Y UST	3.91	(0.46)
10Y UST	4.03	(0.37)
30Y UST	4.30	(0.26)

Source: Bloomberg

European Central Bank[1]

The European Central Bank (ECB) Governing Council keep the deposit rate unchanged at the conclusion of its policy meeting in July. The ECB noted that while underlying measures of inflation ticked up in May, most measures were either stable or moved lower in June. Domestic price pressures and service inflation are elevated while headline inflation is likely to remain above the target. The path ahead remains uncertain as the Governing Council is not pre-committing to a particular rate path and maintains data dependence.

Bank of England[1]

The Bank of England (BoE) Monetary Policy Committee (MPC) voted by a majority of 5-4 to reduce the Bank Rate by 0.25% to 5% at the conclusion of its August meeting. The four dissenting members favored leaving the Bank Rate unchanged at 5.25%. Twelve-month consumer price index inflation fell to the BoE's 2% target in May and remained there in June. The decline reflects lower goods price inflation, along with a small decline in services price inflation. The BoE expects inflation to rise temporarily in the second half of the year. Despite overall inflation holding at the 2% target, services inflation is rising and remains above historical averages.

Portfolio Strategy

GOVERNMENT/TREASURY STRATEGY

As data continues to show signs of normalization both in inflation and in the labor market, we continued to pivot our portfolio seeking to lock in longer-term fixed rates where appropriate. Specifically, we looked to add and rotate into fixed-rate Treasury and repo securities from 6-month to 1-year maturities offering yields above 5%. If the Fed

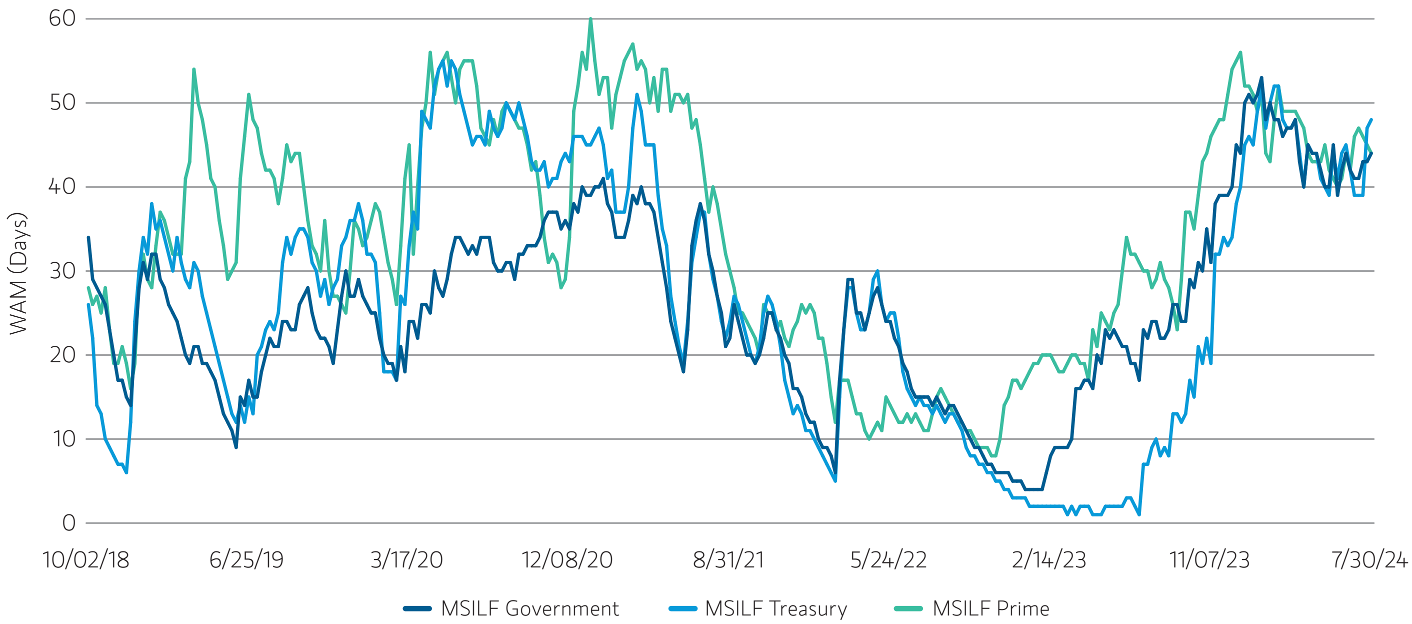
[1] Source: Bloomberg.

The views and opinions expressed are those of the Portfolio Management team as of July 31, 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 7/31/2024



Source: iMoneyNet

commences cutting, likely in September, we believe the balance of these positions can provide attractive longevity and yield to the portfolio. We continue to be cautious on our floating-rate exposure, with a preference for SOFR-based floating-rate securities.

Market sentiment is clearly changing, and the FOMC has acknowledged that their dual mandates of labor and Inflation are now closer in alignment. With the unemployment rate having ticked upward from its trough, the market is on edge for the upcoming labor data. Inflation data has been sufficiently productive, and we believe the market will be willing to look past any brief inflation pops to place greater concern on employment data. We have continued to extend our portfolios where practical.

Treasury and agency auctions have been orderly. We expect modest reductions in short Treasury bill supply toward the end of the summer and approaching the mid-September tax date. Then, in October, we expect issuance sizes across Treasury bills to increase.

We have no concerns or issues with respect to T-bill liquidity. Treasury bills are expected to continue to be approximately 20%-25% of total U.S. Treasury issuance in the near term.

We believe the Fed is likely to initiate a rate-cutting cycle before this year ends while the market will also contend with an upcoming presidential election. Additionally, front-end market participants will closely watch funding markets as the Fed continues to reduce its balance sheet behind the scenes.

PRIME STRATEGY[3]

Continued normalization of inflation and weakening of the labor market has been constructive for rates, with the policy sensitive 2-year treasury rallying 50 basis points through the month of July. We remain resolute with our strategy of adding

[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").

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fixed rate securities further out the curve, seeking to lock in coupons against reset risk of floaters and reinvestment risk of shorter dated maturities. As we head into August, where supply in the wholesale funding market tends to diminish and spreads tighten, we remain comfortable with a duration profile on the longer end of the peer group. While dealer balance sheets remain unconstrained, secondary rolled-down corporate bonds continue to trade dislocated cheap to their wholesale equivalents and provide an attractive format to add duration.

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.

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STABLE NAV FUNDS

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 insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Funds' sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

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