Morgan Stanley

INVESTMENT MANAGEMENT

Changing Tides

MARKET INSIGHTS | GLOBAL LIQUIDITY TEAM | May 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 May. Congruent with the higher-for-longer sentiment, Federal Reserve (Fed) Chair Powell downplayed the need to lower rates immediately as the press release noted that there has been a “lack of further progress” toward the 2% inflation target. However, the committee believes employment and inflation objectives have moved into better balance over last 12 months. The FOMC also announced it is slowing the pace of its balance sheet reduction by moving the monthly the cap to $25 billion from $60 billion for Treasury securities. The cap for agency debt and agency mortgage-backed securities remains unchanged at $35 billion per month.

European Central Bank[1]

The European Central Bank’s (ECB) Governing Council left the deposit rate unchanged at 4.00% at the conclusion of its policy meeting on April 11. The ECB suggested that a rate cut could be on the horizon as its medium-term outlook has been “broadly confirmed.” Food and goods pricing has led to declining inflation while wage growth continues to soften. Sufficiently restrictive rates in the eurozone have kept financial conditions tight and have weighed on demand. President Lagarde confirmed the ECB’s current sentiment toward a rate cut in her press conference, which was a first since the deposit rate peaked at 4.00% in September.

DISPLAY 1

Monthly Interest Rate Summary

As of 5/31/2024

US TREASURY RATES	YIELD (%)	MOM CHANGE (%)	PRIOR MONTH
1M UST	5.35	(0.02)	5.37
3M UST	5.40	0.01	5.39
6M UST	5.38	(0.01)	5.39
12M UST	5.18	(0.06)	5.24
2Y UST	4.87	(0.16)	5.04
5Y UST	4.51	(0.21)	4.72
10Y UST	4.50	(0.18)	4.68
30Y UST	4.65	(0.14)	4.78

Source: Bloomberg

Bank of England[1]

The Bank of England (BoE) Monetary Policy Committee (MPC) voted 7-2 to hold the Bank Rate steady at 5.25% at the conclusion of its May meeting. Two dissenting members favored decreasing the rate 0.25% to 5.00%. U.K. gross domestic product is expected to have grown 0.4% in the first quarter while the committee projects 0.2% growth in the second quarter. At 3.2%, March 12-month headline inflation data came in below February’s 3.4% print. BoE members believe inflation will trend toward 2% in the “near term,” ending the year near 2.50% due to “unwinding of energy-related base effects.” However, geopolitical risks remain, which could materially impact oil prices and therefore its inflation projections.

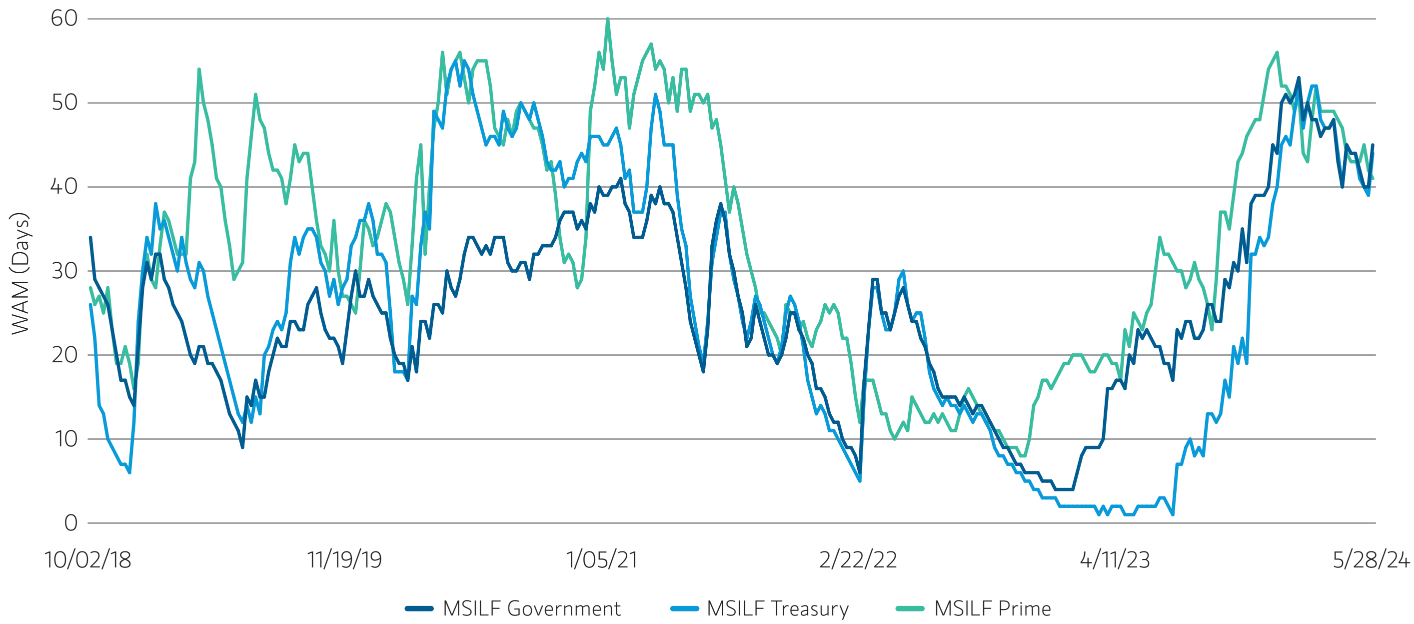
[1] Source: Bloomberg.

The views and opinions expressed are those of the Portfolio Management team as of May 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 5/31/2024



Source: iMoneyNet

Portfolio Strategy

GOVERNMENT/TREASURY STRATEGY

Weighted average maturity (WAM) and weighted average life (WAL) figures were fairly stable month-over-month in the portfolios, as we continued to barbell a conservative approach to floating-rate securities along with laddering in longer-dated, fixed-rate bonds at attractive yields. Specifically, as May brought a signal of patience from the Fed, the 1-year end of the curve reversed some of its deep inversion, making it more attractive and less punitive from a carry standpoint to add some of these positions. We feel these positions offer attractive value once the Fed starts to cut interest rates, as well as offer the added benefit of potentially outperforming if we see a deeper cutting cycle.

Portfolios must balance harvesting the current carry of elevated rates while not being overly exposed to long-dated floating-rate securities given the likelihood of Fed cuts within the next year. We're being deliberate on the floating-rate exposure we own. We feel that if data turns, it will turn quickly, and attractive fixed-rate options will disappear. Therefore, we have sought to incrementally buy into fixed-rate bonds. We are open to the narrative that rates are likely to remain in a choppy pattern through the year, and over the balance of 2024 we have to remain open to the possibility of one to two rate cuts, as well as a scenario of no rate cuts.

Treasury and agency auctions have continued to be orderly. We believe auction sizes in the shortest tenors will likely decrease through June. We would also note that the 6-week cash management bill has been promoted to a benchmark bill, with an effective date later this year. We have no concerns or issues to raise with respect to T-bill liquidity.

PRIME STRATEGY[3]

Hawkish comments from Fed officials throughout the month indicated that officials are in no rush to ease monetary

[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 May 31, 2024 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

policy until they see evidence that inflation is sustainably trending toward their 2% target. As a result, rates remained at elevated levels and the futures curve appears to be priced appropriately, ending the month with the first full rate cut anticipated by the November FOMC meeting and fewer than two cuts total throughout 2024. Spreads remain tight across the short end of the curve, with a lack of supply and dealer balance sheets remaining unconstrained. As a result, the WAL of our portfolios continued to decline, as we patiently wait for a dislocation in pricing before adding risk. We continue to add fixed-rate securities toward the longer end of the curve on the back of sell-offs, locking in fixed yields through the second quarter of 2025, which provide an attractive hedge if the Fed eases sooner or by a larger magnitude than anticipated by the market, while having a more attractive liquidity and roll-down profile compared to its floating-rate equivalents.

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 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.

FLOATING NAV FUNDS

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. 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.

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

RO# 3677128 Exp. 7/31/2025 24Q30150_KC_0624 Lit-Link: LMINSIGHT-US-0524 LTR