

**A Sub-Fund of Morgan Stanley Investment Funds**  
**Global High Yield Bond Fund**

**HIGH YIELD TEAM**

**Performance Review**

In the one month period ending 31 January 2026, the Fund's Z shares returned 0.45% (net of fees)<sup>1</sup>, while the benchmark returned 0.57%.

Publishing & printing and technology were the Fund's top-performing sectors relative to the benchmark. Relative outperformance in publishing & printing was driven by favorable credit selection and was led by a lack of exposure to a leading provider of label solutions for consumer brands. The company filed for bankruptcy in January after grappling with challenging customer demand and approaching debt maturities. In technology, relative outperformance was driven by sound credit selection and an underweight position. The primary individual contributor was an overweight position in a French IT services and consulting company. The company released its fiscal year first quarter earnings statement, which was largely in line with guidance.

Health care and energy were the Fund's worst-performing sectors relative to the benchmark during the month. Relative underperformance in health care was driven by challenging credit selection and was led by an overweight position in a provider of cloud-based health care technology services whose bonds came under pressure from the fear of disintermediation from artificial intelligence (AI)-related solutions. The bonds were down a little more than 2% for the one-month period. In energy, relative underperformance was driven by adverse credit selection and an underweight position in this outperforming sector. The primary individual detractor was a lack of exposure to a privately held, Midwest-based supplier of refined fuels and propane. The company's bonds rallied amid strong demand for its products as record-cold weather gripped much of the U.S. in January.

In terms of performance by ratings segment, credit selection in B-rated and BB-rated bonds detracted from relative performance during the month. A modest allocation to cash also hurt in a positive month for global high yield markets. Conversely, credit selection in bonds rated CCC or below contributed positively to relative returns. An allocation to BBB-rated bonds also helped.

Finally, credit selection and an underweight position in France and credit selection in Germany detracted from relative returns. Conversely, credit selection in the United States and an overweight position in sterling-denominated bonds aided relative performance.

**Market Review**

Performance across most of the high yield market was initially strong in January, with the average spread in U.S. markets tightening to a new post-Global Financial Crisis (GFC) low mid-month, before widening modestly to finish the month in close proximity to where it began January. The primary drivers of the early strength included strong macroeconomic data in the U.S. and a supportive initial batch of fourth quarter earnings. Continued appetite for emerging market (EM) assets saw strong inflows into that market and drove outperformance from EM high yield during the month. Risk appetite softened mid-month amid geopolitical concerns, anticipation of a partial government shutdown in the U.S., and weakness in the global technology sector. The impact of the increasing fear of AI disintermediation within the software segment had a lesser impact on the high yield market relative to the leveraged loan market, due to high yield's relatively low exposure to technology and, more specifically, software. Early outperformance in the U.S. CCC-rated segment was erased after pronounced weakness in lower-rated credit in the final week of the month.<sup>2</sup>

The ICE BofA Developed Markets High Yield Excluding Subordinated Financial Index USD-Hedged posted a total return of 0.57% in January. The yield-to-worst finished the month 4 basis points (bps) higher at 6.38%. The spread-to-worst closed the period 1 basis point higher at 298 bps.<sup>2</sup>

Some of the top-performing sectors for the month were banking & thrifts, transport excluding air & rail, and energy. The publishing & printing, entertainment & film, and technology sectors were among the worst-performing sectors in January.<sup>2</sup>

The middle-to-higher quality segments of the high yield market generally outperformed in January, following late-period weakness in lower-rated credit. BB-rated bonds performed best, followed by the B-rated segment.<sup>2</sup>

Technical conditions were balanced during the month. U.S. total gross issuance increased from \$21.8 billion in December to \$30.0 billion in January. By use of proceeds, refinancing accounted for 76.4% of monthly issuance, acquisition-related financing increased to 14.4%, and general corporate purposes accounted for approximately 9.2%. Lower-rated issuance increased to 14.6% of monthly issuance. In an extremely busy month in the European high yield primary markets, €16 billion of high yield corporate debt priced. This elevated number comes hot on the heels of the second-largest year ever for primary market issuance in 2025. U.S. high yield

<sup>1</sup> Source: Morgan Stanley Investment Management. Data as of 31 January 2026.

<sup>2</sup> Source: ICE Data Indices, Bloomberg L.P., Morgan Stanley Investment Management. Data as of 31 January 2026.

retail funds recorded a net outflow of approximately \$1.3 billion in January, following an inflow of \$18.1 billion for full year 2025. European high yield retail funds saw a net inflow of approximately €0.7 billion during the month, which means there has been more than €10 billion of net inflows since the start of 2025.<sup>3</sup>

In the U.S., default volume in leveraged credit decreased in January due to a decrease in liability management exercises (LMEs), and the mix of default activity continued to incrementally shift toward high yield bonds. According to J.P. Morgan, the high yield trailing 12-month par-weighted default rate including distressed exchanges increased 9 bps, ending January at 1.97%. Excluding distressed exchanges, the rate increased to 1.12%. For loans, the trailing 12-month par-weighted default rate including distressed exchanges decreased by 9 bps, closing the month at 2.78%. Excluding distressed exchanges, the rate settled at 1.41%. In Europe, default activity was limited during the month, with only one issuer deferring a coupon. As a result, the trailing 12-month par-weighted default rate ended the month at 2.75%, which is its lowest level since October 2024. Excluding distressed exchanges, the rate is below 2%. Expectations are for an increase in the overall default level, with a couple of large issuers expected to default shortly.<sup>3</sup>

## Strategy and Outlook

As we progress through 2026, the high yield market continues to find itself on improved footing. We anticipate an environment characterized by decent economic growth across much of North America and Europe, softening labor markets, elevated but likely declining core inflation, evolving monetary policy complicated by political pressure on central banks, and supportive fiscal policy in the U.S. ahead of the midterm elections. While 2026 will not be a year without volatility, we expect corporate balance sheets to largely remain resilient, with increasing dispersion in earnings, and valuations that adjust to more accurately reflect this reality. Despite some volatility in January, the average spread in high yield begins the year only marginally above post-GFC lows,<sup>4</sup> and we expect this to adjust modestly wider as risk premium appropriately continues to transition from a beta-led compression trade to reflect a range of idiosyncratic outcomes. At the same time, we think the quality and health of high yield issuers, coupled with a historically attractive yield, should continue to attract global institutional capital. This outlook is informed by a thorough analysis of macroeconomic and fundamental factors, including the trajectory of U.S. and global economic growth, evolving monetary and fiscal policy, consumer health, issuer fundamentals, technical conditions, and valuations.

We begin February with an average yield and spread in close proximity to 2026 starting levels, despite intra-period volatility. At month-end, the average spread was approximately 21 bps above post-GFC lows, reached in January 2025, and the average yield was approximately in line with the 10-year historical average.<sup>4</sup> We believe valuations across several segments of the high yield market adjusted closer to fair value in the fourth quarter, more accurately reflecting the many risks facing our market. This decompression trade is likely to continue and, at the ICE BofA Developed Markets High Yield Excluding Subordinated Financial Index level, we expect to reach modestly wider peak spreads in 2026. The increase in dispersion in the high yield market in the final months of the year also created opportunity. We continue to identify idiosyncratic situations to capture spread compression, even in segments where we think valuations at the sector level are full. Additionally, we anticipate that an increase in net issuance volume, and acquisition-related financing in particular, will likely lead to interesting relative value opportunities in the primary market and also potentially lead to wider spreads in the secondary market, within select segments of the high yield market. At the sector level, we continue to evaluate new opportunities in more cyclical segments that appear to be at or near cycle troughs. A prime example is the building materials sector. Finally, we believe there remains opportunity in challenged segments where neatly structured covenants, adequate loan-to-value ratios, and appropriate risk compensation form to represent compelling investment opportunities.

In conclusion, we are transitioning into an environment where we expect growth in the U.S. to slow from the surprising high level experienced over the last few quarters, but ultimately remain supportive, and where we think the trajectory of inflation and labor data will likely remain top of mind and the primary sources of episodic volatility. Fundamentals and technical conditions remain largely favorable and, on average, yield compensation is broadly appropriate. A modest increase in spread dispersion in the fourth quarter was both welcome and presented opportunity; however, average spreads remain in close proximity to post-GFC lows, leaving valuations exposed to future bouts of volatility. We expect 2026 will likely be a competitive period for high yield, where starting yield ultimately generates attractive return, while average spreads move modestly wider. Geopolitical tensions in the Middle East, Eastern Europe and South America remain elevated, and the evolving situation in Venezuela presents the possibility for deterioration or successful conclusion. Meanwhile, legislative dysfunction in the U.S. continues to stymie the passage of meaningful legislation, funding-related or otherwise, and the midterm elections will likely add to the political circus. Amid an uncertain and potentially volatile backdrop, we will continue to spend our time concentrating on what we do best — focusing on bottom-up fundamental credit analysis with a discerning eye on relative value, as we seek to generate positive risk-adjusted alpha for our clients.

**For further information, please contact your Morgan Stanley Investment Management representative.**

## Fund Facts

Launch date	27 April 2017
Base currency	U.S. dollars
Benchmark	ICE BofA Developed Markets High Yield Excluding Subordinated Financial Index USD-Hedged

<sup>3</sup> Source: J.P. Morgan. Data as of 2 February 2026.

<sup>4</sup> Source: ICE BofA Developed Markets High Yield Excluding Subordinated Financial Index, Morgan Stanley Investment Management. Data as of 31 January 2026.

## Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Class Z Shares	0.45	8.10	8.08	12.96	-9.07	5.39	4.44	14.45	-1.63	--	--
ICE BofA Developed Markets High Yield Excluding Subordinated Financial Index USD-Hedged	0.57	8.24	8.59	13.77	-10.58	5.05	5.61	14.29	-1.90	--	--

All performance data is calculated NAV to NAV, net of fees, and does not take account of commissions and costs incurred on the issue and redemption of units. The sources for all performance and Index data is Morgan Stanley Investment Management. **Please visit our website [www.morganstanley.com/im](http://www.morganstanley.com/im) to see the latest performance returns for the fund's other share classes.**

## Share Class Z Risk and Reward Profile

- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.
- The value of bonds is likely to decrease if interest rates rise and vice versa.
- The value of financial derivative instruments are highly sensitive and may result in losses in excess of the amount invested by the Sub-Fund.
- Issuers may not be able to repay their debts, if this happens the value of your investment will decrease. This risk is higher where the fund invests in a bond with a lower credit rating.
- The fund relies on other parties to fulfill certain services, investments or transactions. If these parties become insolvent, it may expose the fund to financial loss.
- Sustainability factors can pose risks to investments, for example: impact asset values, increased operational costs.
- There may be an insufficient number of buyers or sellers which may affect the funds ability to buy or sell securities.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.

Applications for shares in the Sub-Fund should not be made without first consulting the current Prospectus and the Key Information Document ("KID") or Key Investor Information Document ("KIID"), which are available in English and in the language of countries authorized for fund distribution and is available online at [Morgan Stanley Investment Funds Webpages](http://Morgan Stanley Investment Funds Webpages) or free of charge from the Registered Office at European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192.

The summary of investor rights is available in the aforementioned languages and website location under the General Literature section.

Information in relation to sustainability aspects of the Fund is available from the Prospectus of the Fund.

If the management company of the relevant Fund decides to terminate its arrangement for marketing that Fund in any EEA country where it is registered for sale, it will do so in accordance with the UCITS rules.

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- The value of the investments and the income from them will vary and there can be no assurance that the Fund will achieve its investment objectives.
- Investments may be in a variety of currencies and therefore changes in rates of exchange between currencies may cause the value of investments to decrease or increase. Furthermore, the value of investments may be adversely affected by fluctuations in exchange rates between the investor's reference currency and the base currency of the investments.

Please refer to the Prospectus for full risk disclosures, available at [www.morganstanleyinvestmentfunds.com](http://www.morganstanleyinvestmentfunds.com). All data as of 31.01.2026 and subject to change daily.

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The use of leverage increases risks, such that a relatively small movement in the value of an investment may result in a disproportionately large movement, unfavourable as well as favourable, in the value of that investment and, in turn, the value of the Fund.

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