Morgan Stanley

INVESTMENT MANAGEMENT

BoE Leaves Rates Unchanged at September Meeting

GLOBAL LIQUIDITY TEAM | **MARKET INSIGHT** | 17 September 2026

The Bank of England (BoE) left the Bank Rate unchanged at 3.75% in a 6–3 vote, with policymakers deciding to wait for further evidence on how higher energy prices are feeding through to the economy. However, the three members who voted to raise rates to 4.00%, combined with the Monetary Policy Committee's (MPC's) more hawkish tone, reinforce the view that policy could tighten if inflation becomes more persistent.

The MPC highlighted that the conflict in the Middle East has driven further increases in crude oil, refined fuel, and natural gas prices since July, with inflation risks now seen skewed to the upside. While policymakers continue to see limited evidence of meaningful "second-round" effects on wages and prices. However, they warned that the likelihood of such effects could increase the longer elevated energy costs persist. Recent developments are increasingly consistent with the BoE's previously outlined adverse energy shock scenario, although the outlook remains highly dependent on the evolution of geopolitical tensions.

The UK economy has remained more resilient than expected. The MPC noted activity has been slightly stronger than anticipated and now expects Q3 GDP growth of around 0.4%. However, labour market conditions remain soft, helping to contain domestic inflation pressures. Official data released this week showed CPI inflation rose to 3.1% in August from 2.9% in July, and the BoE expects inflation to rise further over coming quarters as higher energy costs feed through to households and businesses.

The BoE continues to target a sustainable return of inflation to 2% over the medium term. Current projections suggest inflation could exceed 4% in early 2027 before gradually moderating, with the subsequent path dependent on energy prices, wage growth, and inflation expectations. Several MPC members who voted to hold rates indicated that the case for tighter policy would strengthen if upside inflation risks persist.

At the same meeting, the MPC voted unanimously to continue unwinding its balance sheet. The BoE set out a plan to reduce the gilts held for monetary policy purposes to zero through a multi-year quantitative tightening programme, with the remaining portfolio expected to decline at an average pace of £46 billion per year through 2034.

The MPC reiterated that it "stands ready to act as necessary" to ensure inflation returns to target. Market pricing now implies at least one 25bp rate increase by year-end, with investors expecting the Bank Rate to rise toward 4.50% by Q2 2027. Forward guidance remains data dependent, with future policy decisions driven by the persistence of inflationary pressures, wage developments, and geopolitical risks.

Please contact your Morgan Stanley Investment Management Relationship Manager with any questions or visit www.morganstanley.com/liquidity for more information.

Risk Considerations

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. 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. Accordingly, you can lose money investing in these portfolios. **Fixed income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest - rate environment, the portfolio may generate less income. Longer–term securities may be more sensitive to interest rate changes.

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"), 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 the 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.

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

The Firm has not authorised financial intermediaries to use and to distribute this material, unless such use and distribution is made in accordance with applicable law and regulation. Additionally, financial intermediaries are required to satisfy themselves that the information in this material is appropriate for any person to whom they provide this material in view of that person's circumstances and purpose. The Firm shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary.

This material may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this material in another language, the English version shall prevail.

 RO 5936932 Exp. 09/30/2027 Ver Date: 07/30/2026 26Q10038 10922183_CH_0126 LTR

Distribution

This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.
MSIM, the asset management division of Morgan Stanley (NYSE: MS), and its affiliates have arrangements in place to market each other's products and services. Each MSIM affiliate is regulated as appropriate in the jurisdiction it operates. MSIM's affiliates are: Calvert Research and Management, Eaton Vance Management, Parametric Portfolio Associates LLC, Parametric SAS, and Atlanta Capital Management LLC.

This material has been issued by any one or more of the following entities:

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

EMEA

This material is for Professional Clients/Accredited Investors only.
In the EU, MSIM materials are issued by MSIM Fund Management (Ireland) Limited ("FMIL"). FMIL is regulated by the Central Bank of Ireland and is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at 24-26 City Quay, Dublin 2, DO2 NY19, Ireland.

Outside the EU, MSIM materials are issued by Morgan Stanley Investment Management Limited (MSIM Ltd) is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

In Switzerland, MSIM materials are issued by Morgan Stanley & Co. International plc, London (Zurich Branch) Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland.

Italy: MSIM FMIL (Milan Branch), (Sede Secondaria di Milano) Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy. The **Netherlands:** MSIM FMIL (Amsterdam Branch), Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. **France:** MSIM FMIL (Paris Branch), 61 rue de Monceau 75008 Paris, France. **Spain:** MSIM FMIL (Madrid Branch), Calle Serrano 55, 28006, Madrid, Spain. **Germany**: MSIM FMIL Frankfurt Branch, Große Gallusstraße 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Denmark:** MSIM FMIL (Copenhagen Branch), Gorrissen Federspiel, Axel Towers, Axeltorv2, 1609 Copenhagen V, Denmark.

MIDDLE EAST

Dubai International Financial Centre: This information does not constitute or form part of any offer to issue or sell, investment products in the UAE (including the Dubai International Financial Centre and the Abu Dhabi Global Market) and accordingly should not be construed as such. The content of this report has not been approved by or filed with the UAE Central Bank, the Dubai Financial Services Authority, the UAE Securities and Commodities Authority or the Financial Services Regulatory Authority.

Saudi Arabia
This financial promotion was issued and approved for use in Saudi Arabia by Morgan Stanley Saudi Arabia, Al Rashid Tower, Kings Sand Street, Riyadh, Saudi Arabia, authorized and regulated by the Capital Market Authority license number 06044-37.

ASIA PACIFIC

Hong Kong: This document has been issued by Morgan Stanley Asia Limited, CE No. AAD291, for use in Hong Kong and shall only be made available to “professional investors” as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this document have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this document shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong.

Singapore: This material is disseminated by Morgan Stanley Investment Management Company, Registration No. 199002743C. This material may not be circulated or distributed, whether directly or indirectly, to persons in Singapore other than to (i) an accredited investor , (ii) an institutional investor as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (“SFA”); or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This publication has not been reviewed by the Monetary Authority of Singapore.

Australia: This material is provided by Morgan Stanley Investment Management (Australia) Pty Ltd ABN 22122040037, AFSL No. 314182 and its affiliates and does not constitute an offer of interests. Morgan Stanley Investment Management (Australia) Pty Limited arranges for MSIM affiliates to provide financial services to Australian wholesale clients. This material will not be lodged with the Australian Securities and Investments Commission.

JAPAN

This material may not be circulated or distributed, whether directly or indirectly, to persons in Japan other than to (i) a professional investor as defined in Article 2 of the Financial Instruments and Exchange Act (“FIEA”) or (ii) otherwise pursuant to, and in accordance with the conditions of, any other allocable provision of the FIEA. This material is disseminated in Japan by Morgan Stanley Investment Management (Japan) Co., Ltd., Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, the Investment Management Association of Japan, and the Type II Financial Instruments Firms Association.