Morgan Stanley

INVESTMENT MANAGEMENT

July Market Recap

MARKET INSIGHTS | GLOBAL LIQUIDITY TEAM | July 2026

Federal Reserve Board

On July 29, the Federal Open Market Committee (FOMC) voted 9-3 to maintain the federal funds rate at its target range of 3.50%-3.75%, marking the fifth consecutive meeting without a policy change. While the decision was widely expected, the three dissents in favor of a 25 basis point rate increase highlighted growing concern that inflation remains above the Federal Reserve's (Fed) 2% objective. The policy statement was largely unchanged, continuing to cite solid economic growth, a resilient labor market and elevated inflation uncertainty, while reaffirming the FOMC's commitment to restoring price stability. During his press conference, Chair Kevin Warsh reinforced a hawkish tone, emphasizing that the Fed would not tolerate inflation above its target and that tighter financial conditions are already helping restrain economic activity. Policymakers indicated that future decisions will continue to depend on incoming economic data and the evolution of inflation and labor market conditions.

European Central Bank

On July 23, the European Central Bank (ECB) left its deposit facility rate unchanged at 2.25%, signaling a preference to pause and assess incoming economic data amid heightened uncertainty stemming from the conflict in Iran. While President Christine Lagarde noted that discussions about a potential rate hike had taken place, the Governing Council unanimously agreed to leave rates unchanged. The ECB acknowledged that elevated energy prices continue to pose upside risks to inflation as the Committee focuses on the 2% medium-term target. Although economic growth remains modest and uneven across the eurozone, resilient labor market conditions and improving domestic demand continue to provide support. The ECB reiterated that policy will remain guided by the economic outlook and inflation data, while standing ready to adjust rates as needed to ensure inflation returns sustainably to target.

Bank of England

On July 30, the Bank of England's Monetary Policy Committee (MPC) voted 6-3 to leave the Bank Rate unchanged at 3.75%, with three members favoring a 25 basis point rate increase. While policymakers noted continued evidence of easing domestic inflation pressures, they emphasized that the full impact of higher energy prices on inflation remains uncertain. The MPC highlighted a softer labor market, slowing wage growth and moderating inflation, while acknowledging that escalating geopolitical tensions could pose upside risks to the inflation outlook. The MPC reaffirmed its meeting-by-meeting approach to policy, noting that future decisions will depend on the extent to which higher energy prices feed through to wages, prices and inflation expectations. The MPC continues to expect inflation to rise later this year before gradually moving back toward its 2% target over the medium term.

DISPLAY 1

Monthly Interest Rate Summary

As of 7/31/26

US TREASURY RATES	YIELD (%)	MOM CHANGE (%)
1M UST	3.6694	0.01
3M UST	3.7529	(0.06)
6M UST	3.9421	(0.03)
12M UST	4.0325	0.06
2Y UST	4.2912	0.12
5Y UST	4.4489	0.22
10Y UST	4.7347	0.27
30Y UST	5.2724	0.32

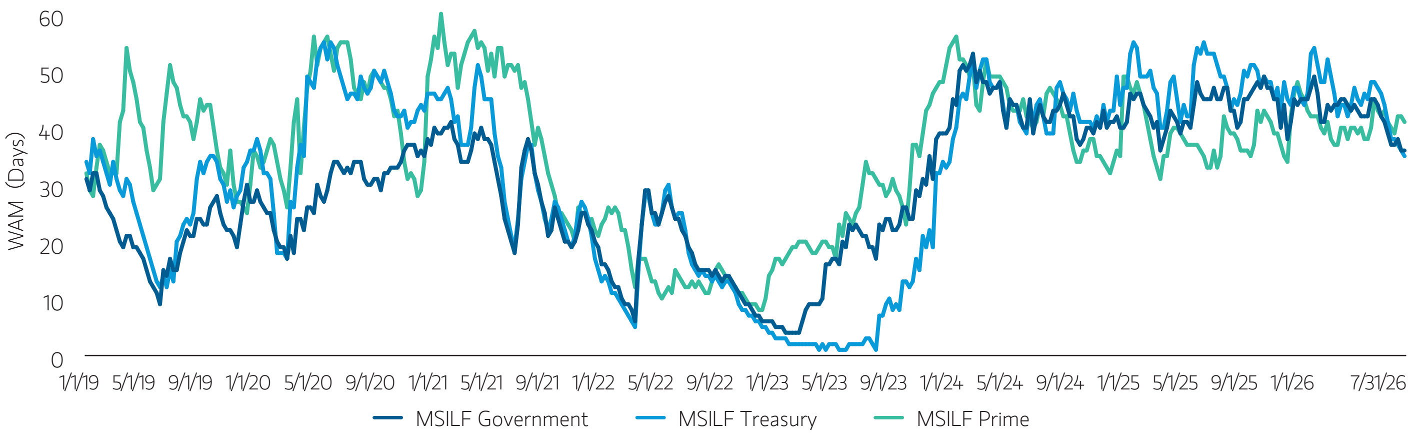
Source: Bloomberg

The views and opinions expressed are those of the Portfolio Management team as of July 31, 2026 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

DISPLAY 2

MSILF Weighted Average Maturities (WAM) Summary[1]

As of 7/31/26



Source: iMoneyNet

Portfolio Strategy

GOVERNMENT/TREASURY STRATEGY

Markets continued to fluctuate as expectations shifted around the timing of potential interest rate hikes through year-end. With uncertainty surrounding a July rate increase, we allowed the portfolios to naturally roll down while selectively adding fixed-rate exposures that we believe offered attractive value and were positioned to perform well in the event rate hikes came to fruition earlier than expected.

As tensions in the Middle East intensified, concerns over higher oil prices and the potential for higher, stickier inflation led markets to bring forward expectations for interest rate hikes. At its July meeting, the Federal Reserve left rates unchanged, though three policymakers dissented in favor of a 25 basis point increase. During his press conference, Chair Kevin Warsh again provided limited guidance on the future path of monetary policy. The combination of renewed geopolitical tensions and the Fed's decision to hold rates steady in July could make a September rate increase the most likely outcome, assuming economic data remains broadly supportive. We will continue to monitor incoming data closely and remain flexible as the outlook evolves.

As expected, Treasury bill supply increased during July and is expected to increase further for most of August. The continuation of reserve management purchases (RMPs) could keep funding markets fairly benign, though levels are likely to stay anchored well above the May and June lows.

PRIME STRATEGY

July was characterized by continued uncertainty around the timing and pace of potential Federal Reserve policy changes, as mixed economic data, evolving inflation trends and a developing Fed policy backdrop kept markets focused on the outlook for interest rates. While geopolitical risks persisted, credit fundamentals remained healthy and, as expected, spreads seasonally tightened amid lighter issuer activity. Rate expectations drifted modestly lower following the July FOMC meeting and a less hawkish-than-expected press conference; however, future meetings are still interpreted by the market as "live." During July, we capitalized on shifting rate expectations by rotating out of longer fixed-rate structures to add floating-rate exposure. These rotations allowed the portfolios to shorten weighted average maturity (WAM), while maintaining a longer weighted average life (WAL) relative to peers.

We continue to find attractive opportunities across high quality spread sectors, with wholesale funding products offering compelling relative value versus many financial corporate bonds. Elevated front-end yields continued to provide attractive income opportunities while maintaining a balanced allocation across fixed- and floating-rate securities allows portfolios to remain well positioned as the outlook for monetary policy evolves. Corporate bonds can continue to provide access to high quality, non-financial issuers that are not available in the commercial paper market.

[1] 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.

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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

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

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