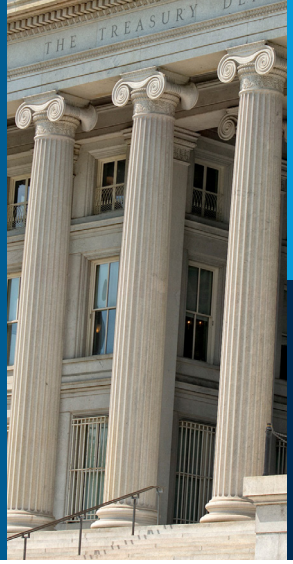
Morgan Stanley

INVESTMENT MANAGEMENT



October Market Recap

MARKET INSIGHTS | GLOBAL LIQUIDITY TEAM | October 2026

Federal Reserve Board

On October 28, the Federal Open Market Committee (FOMC) voted 10-2 to hold the target range for the federal funds rate at 3.75%-4.00%. Federal Reserve (Fed) Board Governor Lisa Cook and Cleveland Fed President Beth Hammack dissented in favor of another 25 basis point increase. The Committee upgraded its assessment of economic activity from a solid pace to a strong pace, citing resilient domestic spending, robust capital investment and continued productivity growth. Chair Kevin Warsh acknowledged that September's increase has begun to influence financial and credit conditions, but there is still room for additional tightening, and emphasized that inflation remains too high. With September consumer price index (CPI) inflation at 3.7% year-over-year[1] and the labor market remaining resilient, the dissents and the Fed's messaging suggest further rate increases. Warsh also announced that, beginning in 2027, one of the eight scheduled meetings will be dedicated exclusively to policy strategy and will not include a policy rate decision. In 2028, there will be two policy strategy meetings.

European Central Bank

On October 29, the European Central Bank (ECB) unanimously left the Deposit Rate unchanged at 2.50%. Higher oil and gas prices tied to the Middle East conflict pushed euro area inflation to 3.8% in September from 3.2% in August.[2] The ECB noted that underlying inflation remains broadly stable and wages have yet to respond materially, but warned that the size and persistence of the energy shock raise the risk of second-round effects. The euro area economy has remained resilient, with continued expansion in the third quarter and a robust labor market, although tighter financing conditions and weaker consumer confidence pose downside risks to growth. Separately, President Lagarde announced that she will step down from her role on February 7, 2027, about eight months before her term ends. The Governing Council reiterated that decisions will remain data-dependent and meeting-by-meeting, with no pre-commitment to a rate path.

Bank of England

At its most recent meeting on September 17, the Bank of England's Monetary Policy Committee (MPC) voted 6-3 to leave the Bank Rate unchanged at 3.75%, with three members preferring a 25 basis point increase to 4.00%. The MPC indicated that higher energy prices stemming from the Middle East conflict have increased upside risks to inflation, while evidence of second-round effects on wages and prices remains limited. Economic activity has been somewhat stronger than expected, with around 0.4% gross domestic product (GDP) growth projected for the third quarter, while labor market conditions remain soft.[3] CPI inflation rose to 3.1% in August,[4] and the official forecast expects it could exceed 4% in early 2027 before gradually moderating. The MPC also unanimously continued its balance sheet reduction, with a multi-year plan for gilt holdings to decline to zero at an average pace of £46 billion per year through 2034. Future decisions remain data-dependent, with a focus on inflation persistence, wages and geopolitical risks.

DISPLAY 1

Monthly Interest Rate Summary

As of 10/31/26

US TREASURY RATES	YIELD (%)	MoM CHANGE (%)
1M UST	3.95	0.06
3M UST	4.08	(0.03)
6M UST	4.26	(0.06)
12M UST	4.37	(0.17)
2Y UST	4.59	(0.30)
5Y UST	4.72	(0.37)
10Y UST	4.93	(0.36)
30Y UST	5.31	(0.32)

Source: Bloomberg

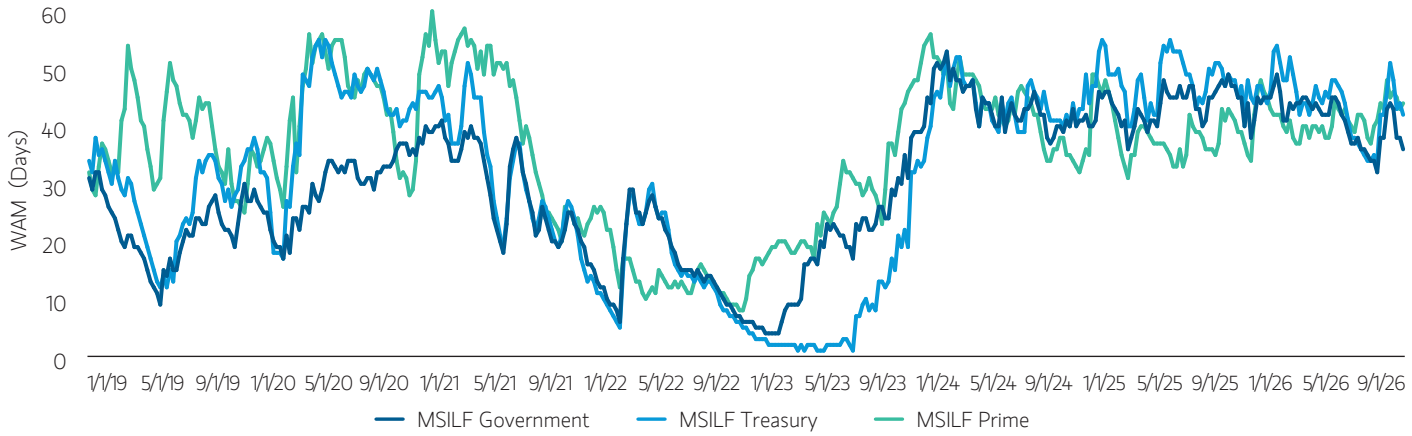
[1] Source: U.S. Bureau of Labor Statistics
[2] Source: Eurostat
[3] Source: Bank of England
[4] Source: U.K. Office for National Statistics

The views and opinions expressed are those of the Portfolio Management team as of October 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[5]

As of 10/31/26



Source: iMoneyNet

Portfolio Strategy

GOVERNMENT/TREASURY STRATEGY

Market pricing for the next rate hike shifted significantly throughout the month of October as various Fed speakers suggested that the Fed could remain patient regarding the timing of its next move. Given this uncertainty, we continued to allow the portfolios to organically roll down the yield curve. We selectively added some fixed-rate exposures while continuing to favor floating-rate exposures across agency, Treasury and repo products.

The FOMC remained on hold at its October 28th meeting, noting that additional data was needed to determine the appropriate next steps for monetary policy. Cleveland Fed President Hammack and Fed Governor Cook dissented in favor of a 25 basis point increase. At the press conference, Chair Warsh did not provide forward guidance on monetary policy but noted that broader financial conditions had already started to respond to the 25 basis point hike from the September FOMC meeting. We believe the December FOMC is likely to be a "live" meeting.

Treasury bill supply increased in October and is expected to continue rising throughout November. Larger auction sizes have resulted in greater allocations to dealer balance sheets as money market funds remain cautious about adding too much fixed-rate exposure amid an uncertain Fed path. Funding markets experienced increased pressure around October month-end due to higher bill issuance, coupon settlements and Canadian year-end balance sheet constraints. Funding market pressures are expected to ease in early November.

Currently, we have no liquidity concerns to report. However, it is widely anticipated that the New York Fed will resume reserve management purchases (RMPs) in either November or December.

PRIME STRATEGY

October was characterized by two-way volatility in front-end rates. The 2-year Treasury yield moved higher early in the month before retracing to approximately 4.61% at month-end, while the Federal Reserve maintained its target range at 3.75%-4.00%. Against this backdrop, we continued to manage weighted average maturity (WAM) and weighted average life (WAL), by looking to add duration when more than three interest rate hikes were priced in. Extensions remained incremental and focused on high quality, liquid issuers, while seeking to preserve flexibility given ongoing interest rate and funding-market uncertainty.

Credit fundamentals remain stable and resilient, in our view, with no material deterioration across the high quality issuer universe. However, spreads began to widen around Canadian banks' year-end as seasonal balance sheet and funding dynamics increased dispersion across the market. Value continues to vary meaningfully by issuer, tenor, structure and liquidity. Select wholesale funding instruments remain attractive on a relative value basis, while opportunities in bonds have been more idiosyncratic and require greater selectivity. We continue to favor a balanced mix of wholesale and bond exposure, with a disciplined focus on liquidity and credit quality. Overall, liquidity conditions remain healthy, supported by solid dealer capacity and consistent demand for high quality, short-duration assets.

[5] 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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