

September Market Recap



MARKET INSIGHTS | GLOBAL LIQUIDITY TEAM | September 2026

Federal Reserve Board

On September 16, the Federal Open Market Committee (FOMC) unanimously voted 12-0 to raise the target range for the federal funds rate by 25 basis points to 3.75%-4.00%, as persistent, above-target inflation outweighed risks to the labor market. Chair Kevin Warsh highlighted the resilience of the U.S. economy, noting strength in domestic spending, productivity growth and capital investment, while job gains have kept pace with the workforce and the unemployment rate has changed little. The Committee characterized the increase as removing a dose of accommodation rather than moving policy into restrictive territory. Updated projections showed 2026 core personal consumption expenditures (PCE) inflation at 3.4% and real gross domestic product (GDP) growth at 2.3%, while the median policy rate projection implied one additional 25 basis point increase this year. Officials did not pre-commit to a particular rate path, with future decisions remaining dependent on incoming inflation and labor market data.

European Central Bank

On September 10, the European Central Bank (ECB) unanimously raised the Deposit Rate by 25 basis points to 2.50%, as inflation risks associated with the Middle East conflict outweighed concerns about the growth outlook. Policymakers cited higher energy prices as the most immediate source of inflation pressure and also highlighted the risk of broader second-round effects on prices and wages. The euro area economy has remained resilient, providing additional support for the decision. The ECB revised its projections higher for both inflation and growth, with headline inflation expected at 3.0% in 2026, 2.5% in 2027 and 2.1% in 2028, while GDP growth is projected at 0.9%, 1.4% and 1.5%, respectively. The Governing Council reiterated that decisions will be made meeting-by-meeting and that it is not pre-committing to a particular rate path, with future policy dependent on inflation and activity data, energy prices, and broader financial conditions.

Bank of England

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 judged 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 the central bank projecting around 0.4% GDP growth in the third quarter, while labor market conditions remain soft. Consumer price index inflation rose to 3.1% in August, and the official forecast expects inflation could exceed 4% in early 2027 before gradually moderating. The MPC also unanimously continued its balance-sheet reduction, setting out a multi-year plan for gilt holdings to decline to zero at an average pace of £46 billion per year through 2034. Future policy decisions remain data dependent, with particular focus on the persistence of inflation, wage developments and geopolitical risks.

DISPLAY 1

Monthly Interest Rate Summary

As of 9/30/26

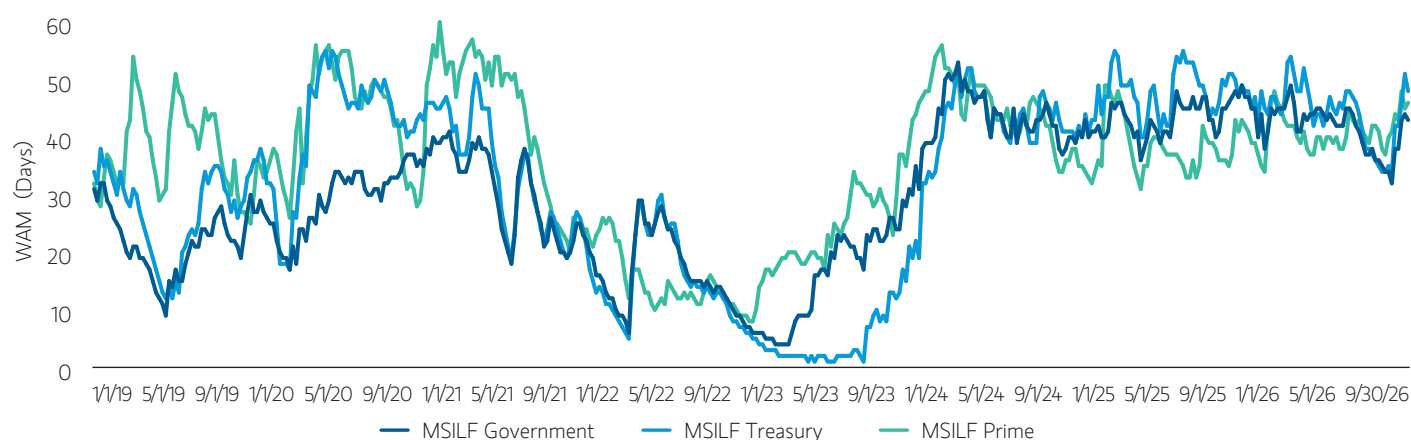
US TREASURY RATES	YIELD (%)	MOM CHANGE (%)
1M UST	3.89	0.14
3M UST	4.11	0.28
6M UST	4.33	0.34
12M UST	4.54	0.40
2Y UST	4.89	0.55
5Y UST	5.09	0.59
10Y UST	5.28	0.53
30Y UST	5.63	0.39

Source: Bloomberg

DISPLAY 2

MSILF Weighted Average Maturities (WAM) Summary¹

As of 9/30/26



Source: iMoneyNet

Portfolio Strategy

GOVERNMENT/TREASURY STRATEGY

The FOMC raised interest rates by 25 basis points at its September meeting, reiterating the Committee's commitment to returning inflation to its 2% target. Updated dot plots were also released, with the median projection now indicating one additional 25bp rate hike by year-end. During his press conference, Chair Warsh highlighted the continued strength of the U.S. economy while acknowledging that inflation has not moderated as quickly as desired. He continued to refrain from providing specific forward guidance on the path of future policy moves. The market is currently pricing approximately 25 basis points of additional tightening by the December FOMC meeting, while October remains a "live" meeting.

Markets remain volatile as expectations continue to evolve around the timing and pace of potential interest rate hikes through year-end. Given the uncertainty surrounding a potential October rate increase, we allowed the portfolios to naturally roll down while selectively adding floating-rate exposure that we believe can benefit from higher interest rates. Our funds remain well positioned if rate hikes occur sooner or at a faster pace than currently anticipated.

Treasury bill supply turned negative heading into corporate tax day but is expected to increase again in October and November before decreasing in December. While reserve management purchases remain on hold for the time being, funding markets could experience increased pressure in the coming weeks as Treasury auction sizes rise.

Currently, we have no concerns on liquidity to note.

PRIME STRATEGY

September was characterized by a shifting monetary policy backdrop as markets assessed resilient economic activity, still-elevated inflation and the implications for the path of Federal Reserve policy. At its September meeting, the FOMC raised the federal funds target range by 25 basis points to 3.75%-4.00%, emphasizing the need to support a timely return of inflation to its 2% objective. Against this backdrop, front-end rates repriced higher, with Treasury bill yields moving up through the month as investors adjusted expectations for the policy path. Credit fundamentals remained healthy, though we continue to be selective in extending the portfolio as spreads are still relatively tight with continued front-end demand. We continue to position weighted average maturity (WAM) and weighted average life (WAL) toward the longer end of the peer group, as fixed starting yields offer attractive current accruals and floating-rate notes allow the portfolio to fully capture any additional rate hikes.

We remain constructive on high-quality credit, with relative value most evident in select wholesale funding instruments, which continue to offer what we consider attractive spread and income relative to comparable financial corporate bonds. We are also finding opportunities in high-quality non-financial corporates, which provide additional diversification² and access to issuers less active in short-term funding markets. With policy uncertainty persisting, we continue to favor a balanced mix of fixed- and floating-rate exposure while maintaining a disciplined focus on liquidity, credit quality and relative value.

Liquidity conditions remain healthy, in our view, supported by solid dealer balance sheet capacity and consistent demand across high-quality, short-duration assets.

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.

² Diversification neither assures a profit nor guarantees against a loss in a declining market.

The views and opinions expressed are those of the Portfolio Management team as of September 30, 2026 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

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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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.

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