

# A Quieter Month for Central Banks

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LIQUIDITY | GLOBAL LIQUIDITY TEAM | INVESTMENT INSIGHT | NOVEMBER 2019

## Federal Reserve Board<sup>1</sup>

After a busy few months the Federal Reserve (Fed) had no planned monetary policy meeting in the month of November.

## European Central Bank<sup>1</sup>

The European Central Bank (ECB) did not meet in the month of November. Although no formal policy meeting occurred in November, Christine Lagarde took over as president of the ECB from Mario Draghi.

## Bank of England<sup>1</sup>

The Bank of England Monetary Policy Committee (MPC) met on November 6 and voted 7-2 to maintain the Bank Rate at 0.75%. Lingering Brexit uncertainty continues to weigh on the U.K. economy as a whole, resulting in a material slowdown to U.K. gross domestic product growth. Future economic data remains uncertain, which suggests the MPC remain open-minded about future policy decisions. Brexit will need to be monitored closely as the January 31, 2020 deadline outcome could have a potentially significant impact on the U.K. economy.

## Portfolio Strategy

### MSLF EURO LIQUIDITY FUND (LVNAV)

The knock-on impact of tiering in euro deposit markets continued in November. We were active in adjusting our overnight deposit counterparties to

take advantage of the new market levels. However, efforts to invest into longer-dated assets in the steeper yield curve were frustrated by a gradual reduction in Fund size through the month, and we instead prioritised providing liquidity to clients. Fund WAM therefore ended at 49 days, down slightly from the October month-end position of 53 days. Fund WAL was unchanged through the month at just under 54 days. Despite the outflows, the weekly liquidity asset total was kept well above the 30% minimum requirement.

### MSLF STERLING LIQUIDITY FUND (LVNAV)

With an election due in December and polls showing a likely victory for the Conservatives, there was little to be gained by extending the Fund through November, especially as markets started to price in a small probability of a Labour coalition victory. As such, over November the WAM of the Fund was taken shorter through the month, from a high of 50 days at the start to a low of 39 days mid-month, before month-end outflows moved the WAM longer again. The WAL was, however, increased slightly as we continued to take advantage of recent spread widening in the floating rate note space.

### MSLF U.S. DOLLAR LIQUIDITY FUND (LVNAV)

Minutes from the October Federal Open Market Committee (FOMC) meeting indicated that participants viewed monetary policy as “well calibrated” after cutting interest rates for the

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<sup>1</sup> Source: Bloomberg.

The views and opinions expressed are those of the Portfolio Management team as of November 2019 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

## DISPLAY 1

### Overnight Rates

As of 30/11/19

|           | SONIA (%) | EONIA (%) | OBFR (%) |
|-----------|-----------|-----------|----------|
| Overnight | 0.71      | -0.45     | 1.55     |

Source: Bloomberg

third time this year and would likely “remain so as long as incoming information about the economy did not result in a material reassessment of the economic outlook.” With the Fed indicating a high hurdle to either cut or raise interest rates in the near term, 3-month LIBOR remained relatively static month-over-month, ending the reporting period at 1.91%. On the month we continued to take advantage of recent spread widening in the wholesale funding market, opportunistically adding floating rate securities to the portfolio, predominantly in the 9- and 12-month tenors. As we look ahead to the remainder of 2019 and into 2020, we continue to manage our portfolios from a conservative positioning standpoint, maintaining our emphasis on high levels of weekly liquidity and structuring our portfolios to respond to changes in monetary policy.

## MSLF U.S. DOLLAR TREASURY LIQUIDITY FUND (PUBLIC DEBT CNAV)

Overnight repo rates averaged in the mid-1.50s most of the month, except on month-end when overnight rates increased by 10 basis points to the mid-1.60s due to Treasury settlements the Friday after Thanksgiving. Yields on Treasuries moved slightly higher towards month-end but the overall Treasury yield curve remained very flat. We purchased mainly fixed-rate Treasuries between 3- and 8-month maturity tenors that offered some yield pick-up in an environment where it appears unlikely for any FOMC rate action in the near future. We continued to maintain a large portion of the portfolio in overnight repurchase agreements and manage the portfolio to be responsive to changes in market conditions and interest rate levels.

## DISPLAY 2

### LIBOR Rates

As of 30/11/19

|           | GBP LIBOR (%) | EUR LIBOR (%) | USD LIBOR (%) |
|-----------|---------------|---------------|---------------|
| Overnight | 0.68          | -0.57         | 1.54          |
| 1 week    | 0.69          | -0.54         | 1.59          |
| 1 month   | 0.71          | -0.52         | 1.70          |
| 2 months  | 0.76          | -0.46         | 1.84          |
| 3 months  | 0.79          | -0.43         | 1.91          |
| 6 months  | 0.86          | -0.39         | 1.90          |
| 12 months | 0.95          | -0.29         | 1.95          |

Source: Bloomberg

## DISPLAY 3

### Yield Curves

As of 30/11/19

|         | U.K.<br>GOVERNMENT BONDS | GERMAN<br>GOVERNMENT BONDS | U.S.<br>GOVERNMENT BONDS |
|---------|--------------------------|----------------------------|--------------------------|
| 2 year  | 0.54                     | -0.64                      | 1.61                     |
| 5 year  | 0.51                     | -0.59                      | 1.63                     |
| 10 year | 0.70                     | -0.36                      | 1.78                     |
| 30 year | 1.21                     | 0.14                       | 2.21                     |

Source: Bloomberg

## 12 Month Performance Periods to Latest Month End (%)

| <b>MSLF Euro Liquidity Fund (LVNAV)</b> | <b>NOV '18<br/>- NOV '19</b> | <b>NOV '17<br/>- NOV '18</b> | <b>NOV '16<br/>- NOV '17</b> | <b>NOV '15<br/>- NOV '16</b> | <b>NOV '14<br/>- NOV '15</b> |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Institutional Accumulation Share Class  | -0.48                        | -0.51                        | -0.50                        | -0.35                        | -0.06                        |
| One Week Euro LIBID Index               | -0.59                        | -0.55                        | -0.53                        | -0.48                        | -0.24                        |
| One Month Euro LIBID Index              | -0.56                        | -0.53                        | -0.52                        | -0.45                        | -0.19                        |
| Euro Overnight Index Average (EONIA)    | -0.39                        | -0.37                        | -0.36                        | -0.31                        | -0.09                        |

| <b>MSLF Sterling Liquidity Fund (LVNAV)</b> | <b>NOV '18<br/>- NOV '19</b> | <b>NOV '17<br/>- NOV '18</b> | <b>NOV '16<br/>- NOV '17</b> | <b>NOV '15<br/>- NOV '16</b> | <b>NOV '14<br/>- NOV '15</b> |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Institutional Distributing Share Class      | 0.69                         | 0.46                         | 0.21                         | 0.42                         | 0.43                         |
| One Week GBP LIBID Index                    | 0.57                         | 0.44                         | 0.13                         | 0.29                         | 0.36                         |
| One Month GBP LIBID Index                   | 0.72                         | 0.59                         | 0.28                         | 0.43                         | 0.52                         |
| SONIA                                       | 0.72                         | 0.55                         | 0.23                         | 0.39                         | 0.45                         |

| <b>MSLF U.S. Dollar Liquidity Fund (LVNAV)</b> | <b>NOV '18<br/>- NOV '19</b> | <b>NOV '17<br/>- NOV '18</b> | <b>NOV '16<br/>- NOV '17</b> | <b>NOV '15<br/>- NOV '16</b> | <b>NOV '14<br/>- NOV '15</b> |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Institutional Distributing Share Class         | 2.33                         | 1.86                         | 1.05                         | 0.46                         | 0.07                         |
| One Week USD LIBID Index                       | 2.12                         | 1.70                         | 0.87                         | 0.29                         | 0.02                         |
| One Month USD LIBID Index                      | 2.16                         | 1.83                         | 0.93                         | 0.34                         | 0.06                         |
| FED Funds                                      | 2.27                         | 1.79                         | 0.96                         | 0.38                         | 0.13                         |

| <b>MSLF U.S. Dollar Treasury Liquidity Fund (Public Debt CNAV)</b> | <b>NOV '18<br/>- NOV '19</b> | <b>NOV '17<br/>- NOV '18</b> | <b>NOV '16<br/>- NOV '17</b> | <b>NOV '15<br/>- NOV '16</b> | <b>NOV '14<br/>- NOV '15</b> |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Institutional Distributing Share Class                             | 2.09                         | 1.59                         | 0.62                         | 0.15                         | 0.00                         |
| FTSE 1 Month Treasury Bill Index                                   | 2.26                         | 1.72                         | 0.74                         | 0.19                         | 0.01                         |

Past performance is not a reliable indicator of future results. The net performance data shown is calculated net of annual fees. 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.

### Institutional Distributing and Institutional Accumulation Share Class Risk and Reward Profile



The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in money market securities and the fund's simulated and/or realised return has experienced low rises and falls historically.

This rating does not take into account other risk factors which should be considered before investing, these include:

- The value of bonds are likely to decrease if interest rates rise and vice versa.
- 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.

- While it is intended that the distributing share classes will maintain a share price of €1/\$1/£1 this may not be achieved due to the creditworthiness of the issuers of investments held or changes in interest rates.

Past performance is no guarantee of future results.

Please refer to the Prospectus for full risk disclosures. All data as of 30 September 2019 and subject to change daily.

### INDEX INFORMATION

**One week Euro LIBID Index** – One week London Interbank Bid Rate - The average interest rate which major London banks borrow Eurocurrency deposits from other banks.

**One Month Euro LIBID Index** – One month London Interbank Bid Rate - The average interest rate which major London banks borrow Eurocurrency deposits from other banks.

**Euro Overnight Index Average (EONIA)** – the standard interest rate at which banks provide loans to each other with a duration of 1 day within the Eurozone.

**FTSE 1 Month Treasury Bill Index** – index calculated by FTSE that is an average of the last one month Treasury bill month-end rates.

**One Week USD LIBID Index** – 1 week London Interbank Bid Rate - The average interest rate which major London banks borrow deposits from other banks.

**One Month USD LIBID** – 1 month London Interbank Bid Rate - The average interest rate which major London banks borrow deposits from other banks.

**FED Funds** – excess cash reserves that commercial banks and other financial institutions deposit at regional Federal Reserve banks; these funds can be onward lent to other market participants with insufficient cash on hand to meet their lending and reserve needs.

**One Week GBP LIBID Index** – 1 week London Interbank Bid Rate - The average interest rate which major London banks borrow deposits from other banks.

**One Month GBP LIBID** – 1 month London Interbank Bid Rate - The average interest rate which major London banks borrow deposits from other banks.

**SONIA** – the standard interest rate at which banks provide loans to each other with a duration of 1 day within the Sterling market.

## DEFINITIONS

**Public Debt Constant Net Asset Value (CNAV) MMF** – a MMF qualifying and authorised as a Public Debt CNAV MMF in accordance with MMF Regulation which seeks to maintain a stable NAV and invests 99.5% of its assets in money market instruments issued or guaranteed by sovereign entities, reverse repurchase agreements secured with government debt and cash.

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