

A Quieter Month for Central Banks

LIQUIDITY | GLOBAL LIQUIDITY TEAM | INVESTMENT INSIGHT | NOVEMBER 2019

Federal Reserve Board¹

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

European Central Bank¹

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 England¹

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.

DISPLAY 1

Monthly Interest Rate Summary

As of 11/30/19

US TREASURY RATES	YIELD (%)	MOM CHANGE (%)
1M UST	1.59	0.05
3M UST	1.57	0.04
6M UST	1.60	0.05
12M UST	1.59	0.09
2Y UST	1.61	0.09
5Y UST	1.63	0.11
10Y UST	1.78	0.08
30Y UST	2.21	0.03
USD LIBOR CURVE		
O/N LIBOR	1.54	(0.06)
1M LIBOR	1.70	(0.09)
3M LIBOR	1.91	0.00

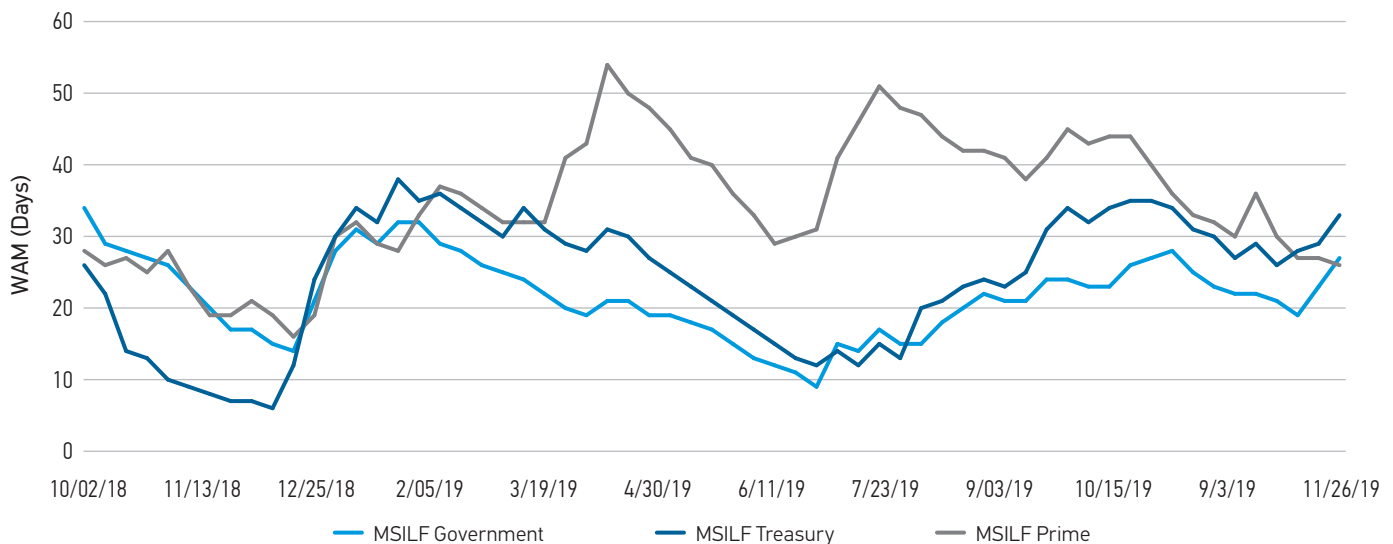
Source: Bloomberg

¹ 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 2**Morgan Stanley Institutional Liquidity Funds (MSILF) Weighted Average Maturities (WAM)²**

As of 11/30/19



Source: iMoneyNet

Portfolio Strategy**PRIME STRATEGY³**

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 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.

GOVERNMENT/TREASURY STRATEGY⁴

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 and agencies moved slightly higher towards month-end, but the overall yield curve remained very flat. We purchased mainly fixed-rate Treasuries and agencies with up to 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 continue to manage the portfolios to be responsive to changing market conditions and to invest a significant portion of most portfolios in overnight repurchase agreements.

² **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.

³ The Portfolio will be required to price and transact in their shares at a floating net asset value (“NAV”) and will be permitted to impose a liquidity fee on redemptions or temporarily restrict redemptions in the event that the Portfolio's weekly liquid assets fall below certain thresholds.

⁴ Government and Treasury Funds are Stable NAV funds.

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TAX-EXEMPT STRATEGY³

At the short end of the curve, yields for variable rate demand obligations (VRDOs) were little changed over the course of November. The SIFMA Index,⁵ which measures yields for weekly VRDOs, dropped from 1.12% at the beginning of the month to finish the

month at 1.10%. Yields at the longer end of the municipal money market maturity range were little changed as well. The Municipal Market Data One-Year Note Index finished the month at 1.18%, down 0.02% from the prior month. As yields have moved lower in recent months, we have opportunistically added duration

to the portfolio, purchasing fixed-rate municipal notes and tax-exempt commercial paper. We continue to watch how monetary policy unfolds and determine what impact it may have on municipal yields.

⁵ The **SIFMA Municipal Swap index** is a 7-day high-grade market **index** comprised of tax-exempt VRDOs reset rates that are reported to the Municipal Securities Rule Making Board's (MSRB's) SHORT reporting system.

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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 insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Funds' sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

FLOATING NAV FUNDS

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