Morgan Stanley

INVESTMENT MANAGEMENT

Market Insights

Central Banks Hold the Line on Accommodation

LIQUIDITY | GLOBAL LIQUIDITY TEAM | INVESTMENT INSIGHT | FEBRUARY 2021

Federal Reserve Board[1]

While no formal policy meeting occurred in February, Chairman Jerome Powell presented the Federal Reserve's (Fed) semiannual monetary policy report to Congress. The chairman kept his prepared remarks very consistent with recent Fed language and Federal Open Market Committee (FOMC) press releases. He reiterated that the Fed is committed to maximum employment and price stability in addition to its current monetary policy stance. The next FOMC meeting will be held on March 16-17 and will feature an updated summary of economic projections.

European Central Bank[1]

The European Central Bank (ECB) also did not hold a formal policy meeting in February. In the upcoming March meeting, analysts expect the ECB to leave policy unchanged. Outside of policy, the ECB's commentary on the ongoing impact of national lockdowns on economic data will be highly sought. Additionally, investors are paying close attention to any insight the ECB can offer on the European Union's vaccine rollout and the path of the Eurozone's economic recovery.

DISPLAY 1

Monthly Interest Rate Summary

As of 2/28/2021

US TREASURY RATES	YIELD (%)	MOM CHANGE (%)
1M UST	0.02	(0.03)
3M UST	0.03	(0.02)
6M UST	0.05	(0.02)
12M UST	0.07	(0.01)
2Y UST	0.13	0.02
5Y UST	0.73	0.31
10Y UST	1.40	0.34
30Y UST	2.15	0.32
USD LIBOR CURVE		
O/N LIBOR	0.08	0.01
1M LIBOR	0.12	(0.00)
3M LIBOR	0.19	(0.01)

Source: Bloomberg

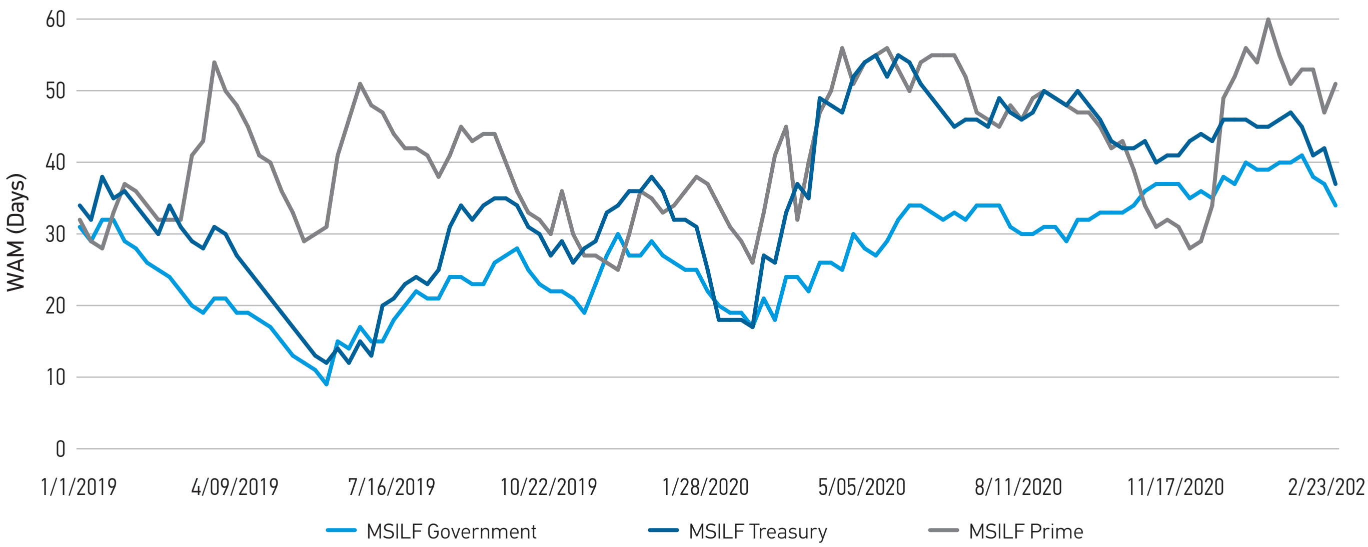
[1] Source: Bloomberg.

The views and opinions expressed are those of the Portfolio Management team as of January 31, 2021 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) Summary[2]

As of 2/28/2021



Source: iMoneyNet

Bank of England[1]

The Bank of England Monetary Policy Committee (MPC) voted unanimously to maintain the Bank Rate at 0.10% and leave its U.K. government bond purchase program unchanged at its February meeting. The press release noted that fourth quarter gross domestic product (GDP) growth softened as the U.K. reintroduced lockdowns to contain the spread of COVID-19 but markets have remained "resilient." The committee expects inflation to increase in the spring, although the labor market remains "difficult to interpret." Consistent with its prior meeting, the MPC projects GDP to increase "rapidly" as the vaccine rollout continues and restrictions are lifted. Looking ahead, the MPC believes current policy is appropriate; however, if the inflation outlook deteriorates the committee "stands ready to take whatever additional action is necessary to achieve its remit."

Portfolio Strategy

PRIME STRATEGY[3]

On the short end of the curve, an abundance of cash and an increase in reserves pushed three-month LIBOR to all-time lows, setting at 0.17525% on February 19, while clearing levels in the wholesale funding market continue to go through 3 to 5 basis points tighter. With spreads remaining tight and LIBOR[4] and SOFR[5] continuing to grind lower, we maintained our strategy of adding fixed rate investments to the portfolio, seeking to avoid reset risk associated with floating rate notes. Weekly liquidity in our portfolios remains elevated, in excess of 50% throughout the month.

GOVERNMENT/TREASURY STRATEGY[6]

During February, yields continued to be under pressure across the curve with one-year Treasury bill yields hitting a new low of 0.07% and SOFR also marking a new low of 0.01%. This contrasts with the long end of the curve where yields pushed much higher during the month. The U.S.

---

[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] The **London Interbank Offered Rate (LIBOR)** is the short-term interest rate that banks charge one another and that is generally representative of the most competitive and current cash rates available.

[5] The **Secured Overnight Financing Rate (SOFR)** is a benchmark rate for US dollar-denominated loans and securities based on overnight transactions in the U.S. Treasury repurchase market.

[6] Government and Treasury Funds are Stable NAV funds.

The views and opinions expressed are those of the Portfolio Management team as of February 28, 2021 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

Treasury cut bill supply after its quarterly refunding meeting, eliminating two cash management bills from its auction schedule. We expect the continued decline of the Treasury's cash balances and bill cuts will only pressure short rates further. While a new stimulus package is working its way through Congress, it is uncertain if bill supply will increase in the near term. We continued to buy U.S. Treasury bills and coupons and add in short-term repurchase agreements across the portfolios. We continue to seek to ensure high levels of liquidity and manage the portfolios to be responsive to changes in market conditions and interest rate levels.

TAX-EXEMPT STRATEGY[3]

Treasury yields experienced significant volatility during the latter part of February, while equities pulled back from all-time highs, as optimism surrounding a swift U.S. economic recovery built on the heels of an impending $1.9 trillion stimulus package and a continued drop in COVID-19 cases prompted questions about the Fed's accommodative monetary policy. At the short end of the municipal curve, yields for variable rate demand obligations (VRDOs) were little changed during the month. The SIFMA Index,[7] which measures yields for weekly VRDOs, dropped 0.01% from the end of January to finish the month at 0.03%.

Yields at the longer end of the municipal money market maturity range trended higher, following Treasuries, while supply remained constrained. The Bloomberg BVAL One-Year Note Index[8] finished the month at 0.14%, up 0.04% from the prior month-end. With the positive tailwinds of a lighter settlement calendar and the arrival of March 1 cash, we expect VRDO rates to remain near these near-zero yields into early March, before gradually climbing over the course of the month when quarter-end and tax time outflows drive rates higher.

[7] 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.

[8] The **Bloomberg BVAL One-Year Note Index** represents tax-exempt municipal bonds that have an average rating of AAA by Moody's and S&P.

The views and opinions expressed are those of the Portfolio Management team as of February 28, 2021 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment.

Past performance is no guarantee of future results. This document represents the views of the portfolio management team. The authors' views are subject to change without notice to the recipients of this document. It does not reflect the opinions of all portfolio managers at Morgan Stanley Investment Management and may not be reflected in other strategies and products that the Firm offers.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

Current and future portfolio holdings are subject to change. The forecasts in this piece are not necessarily those of Morgan Stanley, and may not actually come to pass.

Certain information herein is based on data obtained from third party sources believed to be reliable. However, we have not verified this information, and we make no representations whatsoever as to its accuracy or completeness.

Please consider the investment objectives, risks, charges and expenses of the portfolios carefully before investing. The prospectus contains this and other information about the portfolios. To obtain a prospectus, download one at www.morganstanley.com/liquidity or call 1.800.236.0992. Please read the prospectus carefully before investing.

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events.

STABLE NAV FUNDS

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

You could lose money by investing in the Fund. Because the share price of the Fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The Fund may impose a fee upon the sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. 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.

The Tax-Exempt Portfolio may invest a portion of its total assets in bonds that may subject certain investors to the federal Alternative Minimum Tax (AMT). Investors should consult their tax adviser for further information on tax implications.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A BANK DEPOSIT

Explore our site at **www.morganstanley.com/liquidity**

CRC 3488694 Exp. 3/31/2022 Lit-Link: LMINSIGHT-US-0221 9995035_KC_0321
US