Morgan Stanley

INVESTMENT MANAGEMENT

Market Insights

Central Banks Leave Rates and Stimulus Unchanged

LIQUIDITY | GLOBAL LIQUIDITY TEAM | INVESTMENT INSIGHT | JULY 2020

Federal Reserve Board[1]

As expected, the Federal Open Market Committee (FOMC) kept the range for the federal funds rate unchanged at 0.00% to 0.25% at the conclusion of its July meeting. Although no structural policy changes were made in the month, the Federal Reserve (Fed) extended the duration of its pandemic lending facilities such as the Money Market Liquidity Facility (MMLF), Primary Dealer Credit Facility (PDCF) and others to December 31, 2020. Many of the pandemic lending facilities were set to expire at the end of September.

Economic activity and employment have "picked up somewhat," the July release noted, but such data are "well below" pre-pandemic levels. While Chairman Powell and the committee acknowledged positive economic data, they believe the "path of the economy will depend significantly on the course of the virus." Going forward, the FOMC continues to pledge that it "will use its tools and act as appropriate to support the economy."

DISPLAY 1
Monthly Interest Rate Summary
As of 7/31/2020

US TREASURY RATES	YIELD (%)	MOM CHANGE (%)
1M UST	0.08	(0.01)
3M UST	0.08	(0.05)
6M UST	0.09	(0.04)
12M UST	0.11	(0.04)
2Y UST	0.11	(0.04)
5Y UST	0.20	(0.08)
10Y UST	0.53	(0.13)
30Y UST	1.19	(0.22)
USD LIBOR CURVE		
O/N LIBOR	0.09	0.01
1M LIBOR	0.15	(0.01)
3M LIBOR	0.25	(0.05)

Source: Bloomberg

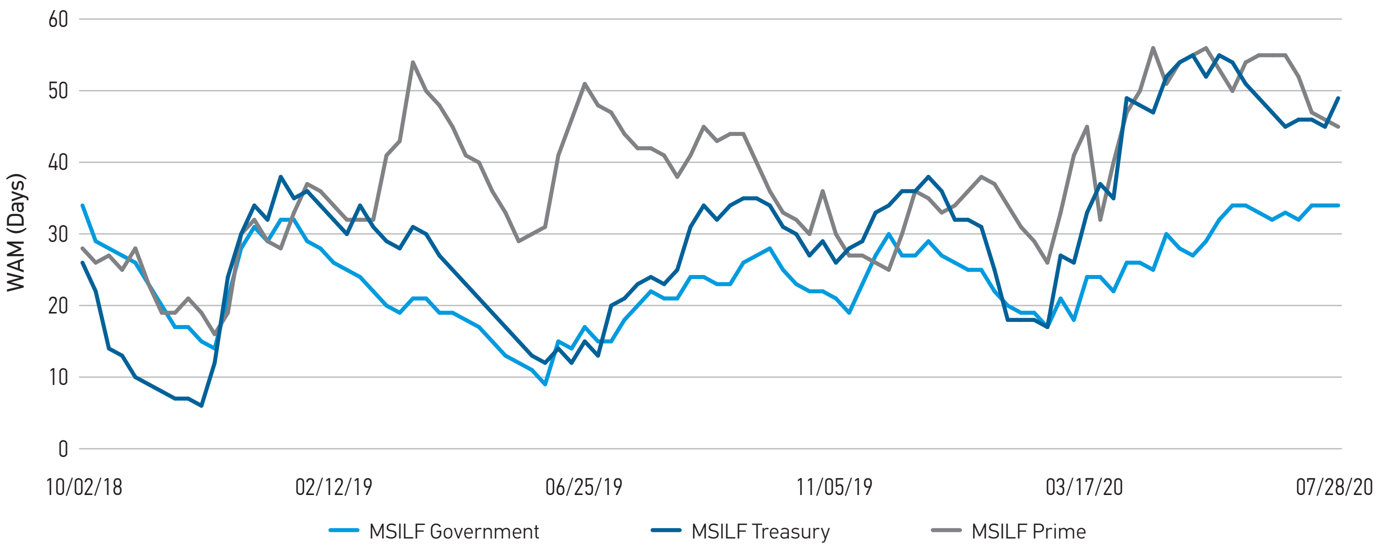
[1] Source: Bloomberg.

The views and opinions expressed are those of the Portfolio Management team as of July 1, 2020 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 7/31/2020



Source: iMoneyNet

European Central Bank[1]

At the European Central Bank's (ECB) policy meeting in July, President Lagarde and the policy committee kept the ECB deposit rate unchanged at -0.50%, as expected. The committee kept the total size of the Pandemic Emergency Purchase Programme (PEPP) at €1.35 trillion after having increased its size in the month prior. Similarly, the ECB's Asset Purchase Programme (APP) was left unchanged. Moving forward, the committee forecasts rates to "remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2%."

Bank of England[1]

The Bank of England (BoE) Monetary Policy Committee (MPC) met in August and voted unanimously to maintain the Bank Rate at 0.10%. In addition, the MPC voted unanimously to maintain U.K. Gov't bond purchase programmes. While the BoE kept rates and stimulus unchanged, the committee "will continue to monitor the situation closely and stands ready to adjust monetary policy accordingly to meet its remit."

Portfolio Strategy

PRIME STRATEGY[3]

Funding conditions continued to improve throughout the month, with 3-month LIBOR rallying from 0.30% on June 30 to 0.25% on July 31. With the Fed indicating that it is "committed to using its full range of tools to support the U.S. economy," while also pledging to keep rates near zero in the near term, the market is pricing in no changes to the benchmark policy rate until 2022. As the yield curve continues to flatten on the short end, we maintained the duration of the portfolios by purchasing fixed-rate securities in the 5- and 6-month tenors, ending the month with the weighted average maturities of the funds at approximately 50 days. We remain comfortable managing the portfolio with elevated levels of liquid assets, ensuring that we uphold our mandates of capital preservation and liquidity.

GOVERNMENT/TREASURY STRATEGY[4]

The July FOMC meeting played out as expected, with Chairman Powell reiterating the Fed's commitment to do whatever is necessary to support the economy and market functioning. Treasury yields fell during the month, especially at month-end, further flattening the curve as supply reductions

[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.

The views and opinions expressed are those of the Portfolio Management team as of August 1, 2020 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

continued. Washington did not come to an agreement on a new stimulus package during the month. Overnight repo rates were well contained in July, moving slightly higher near the federal tax date. We continued to buy fixed-rate Treasuries within 6-month maturities and agency floating-rate notes indexed off SOFR (secured overnight financing rate). We continue 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]

Yields for variable rate demand notes (VRDNs), which represent the majority of short-term tax-exempt instruments, increased in mid-July in conjunction with the extended federal tax filing deadline. The SIFMA Index, which measures yields for weekly VRDNs, rose to 0.21% on July 15 before dropping back down to 0.11% at month-end. At the long end of the money market range, new issuance continued to bounce back and the Municipal Market Data (MMD) One-Year Note Index dropped 0.11% over the month, finishing at 0.19%.

Municipal issuers have been taking advantage of historically low long-term interest rates, choosing to finance more of their capital needs with longer fixed-rate structures rather than variable-rate paper.

The short-term tax-exempt market is expecting to see good demand throughout the next month as the August coupon payment inflows peak and maturities outweigh new issue supply.

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

The views and opinions expressed are those of the Portfolio Management team as of August 1, 2020 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

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 fund carefully before investing. The prospectus contains this and other information about the fund and can be obtained by contacting your financial professional, or by downloading a copy at www.morganstanley.com/liquidity. Please read the prospectus carefully before investing.

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 3202338 Exp. 08/31/2021 Lit-Link: LMINSIGHT-US-0720 9885365_KC_0820
US