

Central Banks Prepare to Confront COVID-19 Second Wave

LIQUIDITY | GLOBAL LIQUIDITY TEAM | INVESTMENT INSIGHT | NOVEMBER 2020

Federal Reserve Board¹

As expected, the Federal Open Market Committee (FOMC) kept the target range for the federal funds rate unchanged at 0.00% to 0.25% at the conclusion of its November 5 meeting. In addition, the FOMC maintained its quantitative easing program, saying, “over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace.” The consistent messaging from the Federal Reserve (Fed) allowed it to maintain a low profile while much of the country focused on the U.S. presidential election.

European Central Bank¹

The European Central Bank (ECB) did not meet in November. During its October meeting, the ECB implied the potential for additional stimulus in response to the renewed national lockdowns and economic risks to the region. Macro data since then have done little to change the markets’ prevailing view that more stimulus is forthcoming. With COVID-19 cases still rising globally, investors will be paying close attention to the ECB’s December meeting for any policy shifts or announcements.

DISPLAY 1

Monthly Interest Rate Summary

As of 11/30/2020

US TREASURY RATES	YIELD (%)	MOM CHANGE (%)
1M UST	0.08	0.01
3M UST	0.08	(0.01)
6M UST	0.09	(0.00)
12M UST	0.11	(0.01)
2Y UST	0.15	(0.00)
5Y UST	0.36	(0.02)
10Y UST	0.84	(0.03)
30Y UST	1.57	(0.09)
USD LIBOR CURVE		
O/N LIBOR	0.09	0.00
1M LIBOR	0.15	0.01
3M LIBOR	0.23	0.01

Source: Bloomberg

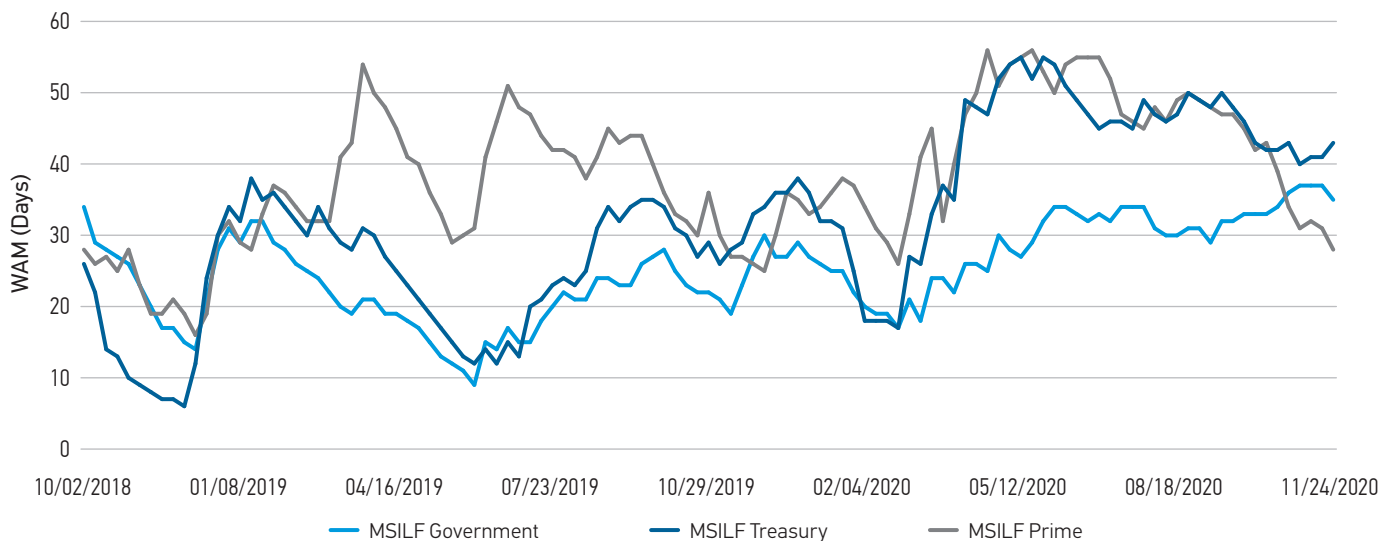
¹ Source: Bloomberg.

The views and opinions expressed are those of the Portfolio Management team as of November 30, 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) Summary²

As of 11/30/2020



Source: iMoneyNet

Bank of England¹

The Bank of England Monetary Policy Committee (MPC) voted unanimously to maintain the Bank Rate at 0.10% at its November 5 meeting. The MPC also voted unanimously to increase its target purchase of U.K. government bonds by an additional £150 billion, bringing the total to £875 billion. Central bank officials downgraded the economic forecast as England entered a four-week lockdown in November and Brexit uncertainty loomed ahead of the December 31 transition period end. The MPC believes it still has more ammunition and will continue to monitor economic and inflation data while standing ready to take “whatever additional action is necessary to achieve its remit.”

Portfolio Strategy**PRIME STRATEGY³**

Fed officials kept interest rates near zero and made no changes to their asset purchases at the November FOMC. While reiterating their message from prior meetings, officials indicated that the ongoing “public health crisis will continue to weigh on economic activity, employment and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.” As positive economic data continues to hit headlines, and the short end of the curve remains flush with cash, three-month LIBOR continues to break all-time lows, setting at 0.20488% on November 20. With spreads remaining tight and potential market volatility likely in the near term, we remain conservatively positioned across our funds,

maintaining elevated levels of liquidity and keeping the weighted average life (WAL) below 50 days.

GOVERNMENT/TREASURY STRATEGY⁴

The November FOMC meeting had no actions announced but highlighted the impact of the virus weighing on economic activity and on the FOMC’s outlook. At mid-month, overnight repurchase agreement rates moved lower on market technicals and recovered as expected to its normal range by month-end. We continued to buy Treasury bills up to 6-month tenors and added in some agency floating-rate notes. 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.

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

The municipal bond market saw the lowest monthly issuance total of the year in November. The lower level was mostly due to issuers rushing to complete financings before the 2020 elections.

The SIFMA Index,⁵ which measures yields for weekly variable rate demand obligations (VRDOs), was unchanged over the course of the month at 0.11%.

Yields at the longer end of the municipal money market maturity range were little changed during the month as well. A lack of clarity around fiscal aid exacerbated broader market volatility during the month.

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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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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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.

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