

Data Compass



MARKET INSIGHTS | GLOBAL LIQUIDITY TEAM | January 2026

Federal Reserve Board¹

On January 28, the Federal Open Market Committee (FOMC) decided to maintain the federal funds rate at its existing target range of 3.50%–3.75%. The decision was supported by most members, though two dissenters preferred a 25 basis point rate cut at this meeting. The Committee cited solid economic expansion, subdued job gains, signs of stabilization in the unemployment rate, and inflation that remains somewhat elevated. Policymakers emphasized that uncertainty around the economic outlook is still high and reiterated their attentiveness to risks on both sides of their dual mandate. The FOMC reaffirmed its commitment to achieving maximum employment and returning inflation to its 2% objective, noting that future policy adjustments will be guided by incoming data, the evolving outlook and a careful assessment of risks.

European Central Bank¹

On December 18, the European Central Bank (ECB) Governing Council decided to keep its three key interest rates unchanged, reaffirming its view that inflation remains on track to stabilize at its 2% medium-term target. Updated projections indicate that inflation is expected to moderate gradually over the coming years, alongside a modest upward revision to growth expectations, largely supported by stronger domestic demand. Although the inflation outlook for 2026 was revised higher—reflecting persistent pressures in the services sector—the ECB emphasized that the disinflation process is expected to continue over time. The Governing Council reiterated its commitment to maintaining

price stability and stressed that policy decisions will remain data-dependent and assessed on a meeting-by-meeting basis, without pre-committing to a specific rate path.

Bank of England

At its December meeting, the Bank of England’s Monetary Policy Committee (MPC) voted 5–4 to cut the Bank Rate by 25 basis points to 3.75%, reflecting continued progress on disinflation alongside signs of softening economic momentum. Consumer price index inflation has fallen to 3.2% and is expected to move closer to the 2% target more quickly, supported by moderating services inflation, easing pay growth and a loosening labor market. However,

DISPLAY 1 Monthly Interest Rate Summary

As of 1/30/2026

US TREASURY RATES	YIELD (%)	MOM CHANGE (%)
1M UST	3.67	0.08
3M UST	3.65	0.03
6M UST	3.62	0.02
12M UST	3.46	(0.01)
2Y UST	3.52	0.05
5Y UST	3.79	0.06
10Y UST	4.24	0.07
30Y UST	4.87	0.03

Source: Bloomberg

¹ Source: Bloomberg.

The views and opinions expressed are those of the Portfolio Management team as of January 30, 2026 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 1/30/2026



Source: iMoneyNet

wage growth and inflation expectations remain elevated. Economic activity remains subdued, with gross domestic product growth close to stagnation and unemployment continuing to rise, increasing the risk that weak demand could weigh on inflation over the medium term. The MPC emphasized that any further policy easing would be gradual and data-dependent, reiterating that monetary policy is not on a preset path and that future decisions will be guided by evolving inflation risks.

Portfolio Strategy

GOVERNMENT/TREASURY STRATEGY

Weighted average maturity (WAM) and weighted average life (WAL) naturally decreased during the month due to asset inflows in the portfolios. We also sold longer-dated securities with yields below the overnight repo rate to reinvest in higher-yielding repo securities and competitive fixed-rate bonds further out the curve. With the Federal

Reserve's (Fed) bias still clearly toward rate cuts, we believe it was important to maintain a reasonable amount of WAM in the portfolios as cash came in.

The December nonfarm payrolls and consumer price index reports pushed future interest rate cuts further out the curve, with the market pricing in approximately two cuts for the rest of the year. At the January FOMC press conference, Chair Powell said that the risks to both inflation and the labor market—the two sides of their dual mandate—have decreased and are more in line with each other. Chair Powell affirmed that the Fed remains data dependent, which we believe suggests that a March rate cut is still in the realm of possibility, albeit less probable than previously expected. President Trump announced Kevin Warsh as his nominee to succeed Powell as Fed chair, pending confirmation from the U.S. Senate. In response to his nomination, the market has not priced in any meaningful changes to the timing of future interest rate cuts this year.

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.

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As expected, auction sizes started increasing in January, though the market had no issue digesting the increased supply. The Fed's active purchasing of secondary bills continues to add more cash into the system, allowing funding markets to remain stable on large settlement dates. We did see a temporary spike in funding markets at month-end due to minor balance sheet constraints, but markets quickly normalized within days afterward. We expect Treasury bill auction sizes to likely remain steady until March then reduces as tax receipts begin coming in.

Currently we have no concerns on market liquidity to note.

PRIME STRATEGY³

Following the year-end turn, January unfolded largely in line with expected seasonal dynamics, with front-end credit spreads tightening. The January FOMC meeting struck a balanced tone, reinforcing a data-dependent stance and signaling no immediate urgency to ease policy. While the market continues to price two rate cuts in the back half of 2026, the front-end yield curve remains broadly flat. During

the second half of the month, investment grade spreads began tightening aggressively, particularly during month-end index selling. We took advantage of this by selling into the tightening trend and rotating into longer-dated wholesale instruments offering attractive carry and roll-down potential, especially if the Fed cuts rates sooner than anticipated. As a result of our active management, WAM and WAL are positioned on the longer end of the peer group.

Strong investor demand at the front end is keeping credit spreads tight, with no near-term catalyst for widening. We found value in selling into the tightening investment grade market and redeploying cash into mostly fixed-rate wholesale structures. We believe corporate bonds are currently less attractive versus the wholesale funding market because there is no longer a yield advantage but the corporate segment continues to offer opportunities to diversify into high-quality non-financials due to secondary rolled-down bonds.⁴

Liquidity remains healthy as dealers continue to competitively bid paper when liquidity needs arise.

³ The Portfolio will be required to price and transact in their shares at a floating net asset value ("NAV").

⁴ Diversification neither assures a profit nor guarantees against loss in a declining market.

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One basis point = 0.01%

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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 a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at any time, including during periods of market stress.

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