Morgan Stanley
INVESTMENT MANAGEMENT

The Age of Maybe

MARKET INSIGHTS | GLOBAL LIQUIDITY TEAM | May 2025

Federal Reserve Board[1]

In May, the Federal Open Market Committee (FOMC) decided to maintain the federal funds target rate at 4.25% to 4.50%, while also slowing the pace of balance sheet runoffs by reducing its holding of Treasury securities. Despite the press release calling attention to the increased economic uncertainty, current unemployment rates are low, labor market conditions remain solid, and inflation is slightly elevated. The Fed will continue to monitor the incoming data and adjust the stance of monetary policy in support of its dual mandate to maximize employment and achieve the 2.00% inflation objective. The Fed noted, President Trump's "Liberation Day" tariff announcement may lead to a rise in inflation, higher unemployment, and slower economic activity. Looking forward, the Fed indicated they believe the path ahead remains uncertain and will maintain its data-dependent approach in considering further rate cuts.

DISPLAY 1
Monthly Interest Rate Summary
As of 5/31/2025

US TREASURY RATES	YIELD (%)	MOM CHANGE (%)
1M UST	4.26	(0.03)
3M UST	4.33	0.05
6M UST	4.31	0.14
12M UST	4.10	0.25
2Y UST	3.90	0.29
5Y UST	3.96	0.24
10Y UST	4.40	0.24
30Y UST	4.93	0.25

Source: Bloomberg

European Central Bank[1]

The European Central Bank (ECB) Governing Council lowered the key deposit rate by 25 basis points at the conclusion of its policy meeting in April to 2.25%. The ECB credited the cut to the "disinflation process [being] well on track." Wage growth is subsiding and prices in certain sectors are "buffering" the effect of the previously increased wage growth. The Governing Council will follow a "meeting-by-meeting and data-dependent" approach to monetary policy decisions, with a medium-term inflation target of 2%. In addition, the current effect of tariffs has resulted in a "negative demand shock," with the expectation that the net impact on inflation will materialize over time. The Governing Council is not pre-committing to a particular rate path and remains data dependent as the path ahead remains uncertain.

Bank of England

The Bank of England (BoE) Monetary Policy Committee (MPC) voted by a majority of 5-4 to reduce Bank Rates by 0.25 percentage points, to 4.25%. Two members preferred to reduce the Bank Rate by 0.50 percentage points to 4.00% and two members preferred to keep the Bank Rate unchanged at 4.50%. The BoE has adopted a gradual approach in removing policy restraint in the absence of material developments. Twelve-month consumer price

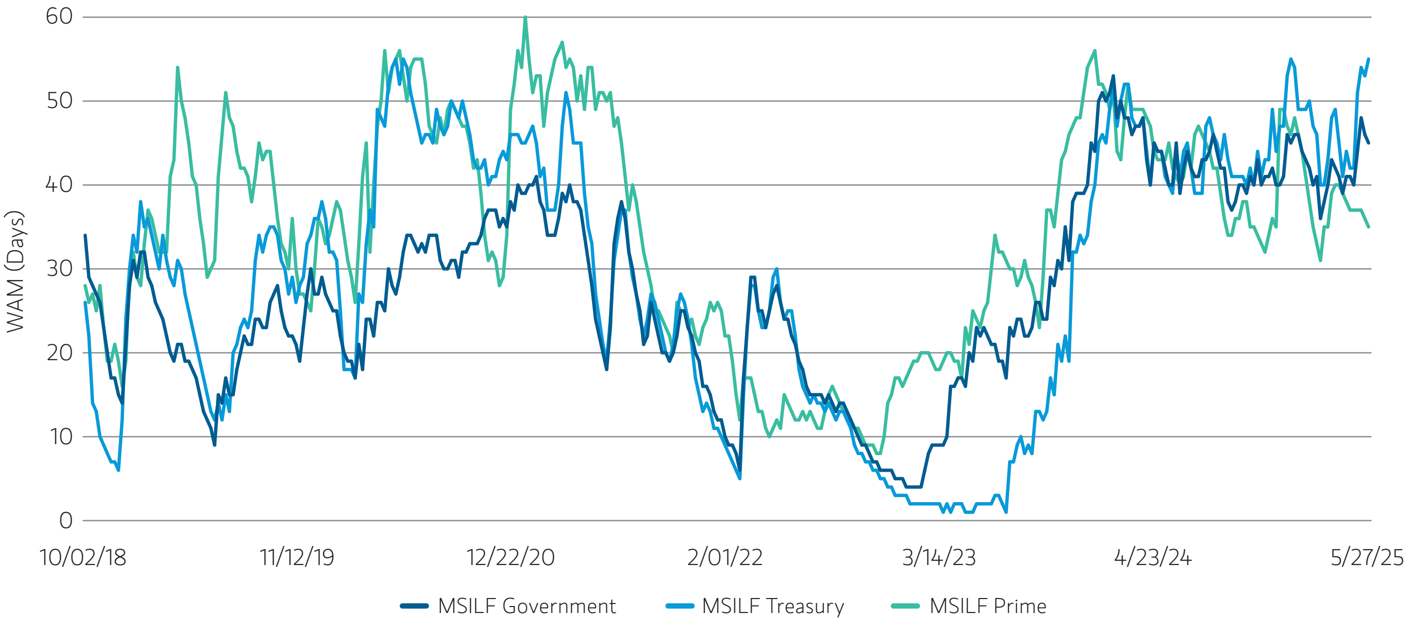
[1] Source: Bloomberg.

The views and opinions expressed are those of the Portfolio Management team as of May 31, 2025 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 5/31/2025



Source: iMoneyNet

index (CPI) inflation fell to 2.60% in March from 2.80% in February; however, energy prices are expected to temporarily increase CPI inflation to 3.50% in the third quarter of 2025, and then fall back to the 2.00% target rate after that. MPC members noted that President Trump's "Liberation Day" tariff announcement increased uncertainty surrounding global trade, which poses risks to global growth and potentially strains the relationship between the U.S. and U.K. The MPC will continue to evaluate economic volatility and the risks of inflation when determining the appropriate degree of monetary policy easing.

Portfolio Strategy

GOVERNMENT/TREASURY STRATEGY

Uncertainty remains elevated, with markets still uncertain on how to interpret the path forward for the economy given tariff implementation. With the market recovering from the extremes of the "recession-fear" rally in April, fixed-rate products continued to look attractive in the six months to one year range. We maintained a weighted average maturity (WAM) in the high 40 days, and allowed our weighted average life (WAL) to roll in slightly as we believed new floating-rate opportunities were less attractive during the month.

We continue to expect the next move from the Fed to be a rate cut; however, Trump administration policies are clouding the timing. The market eagerly awaits the June FOMC and its updated dot plot, as the current projection of two rate cuts this year may ultimately be revised down to one. Currently, market sentiment is anticipating September to be the soonest time for the Fed to cut rates, but we could see this expectation pushed back to December. Against this backdrop, we favor a mix of attractive fixed-rate exposures along with the balance of strong carry from floating-rate securities.

Auction sizes in the shortest Treasury bills have started to be reduced, and the potential for more ad-hoc cash management bills in the near future is rising. While the debt ceiling remains a fluid situation with a variety of potential outcomes, Treasury Secretary Bessent estimates the "X date" when U.S. government can no longer pay its bills will likely land sometime in August.

In the meantime, we have no concerns on market liquidity.

[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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PRIME STRATEGY[3]

We opportunistically added short-dated floating-rate securities this month as tariff negotiations pushed back the timeline for the Federal Reserve to cut interest rates, allowing the portfolios to take advantage of elevated coupons versus their fixed-rate equivalents. The portfolios' WAL decreased month-over-month due to short final maturity of new investments and organic roll-down.

Credit spreads have tightened significantly after widening in April following President Trump's "Liberation Day" tariff announcements. Corporate bonds are now trading relatively in line to their wholesale equivalents.

From a liquidity standpoint, dealer net positions remain robust as spreads continue to grind tighter after April's widening, but there still remains a healthy secondary market for wholesale instruments and corporate bonds.

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

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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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