

# The Balancing Act



MARKET INSIGHTS | GLOBAL LIQUIDITY TEAM | September 2025

## Federal Reserve Board<sup>1</sup>

The Federal Open Market Committee (FOMC) announced on September 17 that it is lowering the federal funds rate by 0.25%, to a target range of 4.00%-4.25%. Most voting members supported the move, though one dissented in favor of a larger 0.50% cut. The decision reflects slow economic growth, weaker job gains, a modest rise in unemployment and inflation still above the Federal Reserve's (Fed) 2.00% target. The Committee stated it will continue reducing its holdings of Treasury securities and agency debt, including agency mortgage-backed securities, as part of its broader strategy to manage monetary policy. The Committee emphasized that it would continue to closely monitor incoming data, the evolving economic outlook and the balance of risks, and signaled its readiness to adjust policy further if risks intensify.

## European Central Bank<sup>1</sup>

The European Central Bank (ECB) Governing Council kept the deposit rate unchanged at 2.00% at the conclusion of its September policy meeting. Economic activity showed modest growth, supported by resilient domestic demand and a strong labor market. However, trade tensions, a stronger euro and global competition pose headwinds. Inflation edged up slightly in August, but underlying pressures are easing as wage growth moderates and food inflation is expected to decline. The ECB reiterated its data-dependent, meeting-by-meeting approach and commitment to a 2.00% medium-term inflation target.

### DISPLAY 1

#### Monthly Interest Rate Summary

As of 9/30/2025

US TREASURY RATES	YIELD (%)	MOM CHANGE (%)
1M UST	4.10	(0.21)
3M UST	3.93	(0.21)
6M UST	3.84	(0.12)
12M UST	3.61	(0.22)
2Y UST	3.61	(0.01)
5Y UST	3.74	0.04
10Y UST	4.15	(0.08)
30Y UST	4.73	(0.20)

Source: Bloomberg

## Bank of England

In September, the Bank of England (BoE) Monetary Policy Committee (MPC) voted 7-2 to maintain the Bank Rate at 4.00%, with the two dissenting members preferring a 0.25% cut. The Committee also voted 7-2 to reduce its stock of U.K. government bonds by £70 billion, from £100 billion, over the next year, lowering total holdings to £488 billion. While inflation has fallen sharply over the past two and a half years, consumer price index inflation stood at 3.8% in August and is expected to ease toward the 2.00% target after a brief uptick in September. Wage growth remains

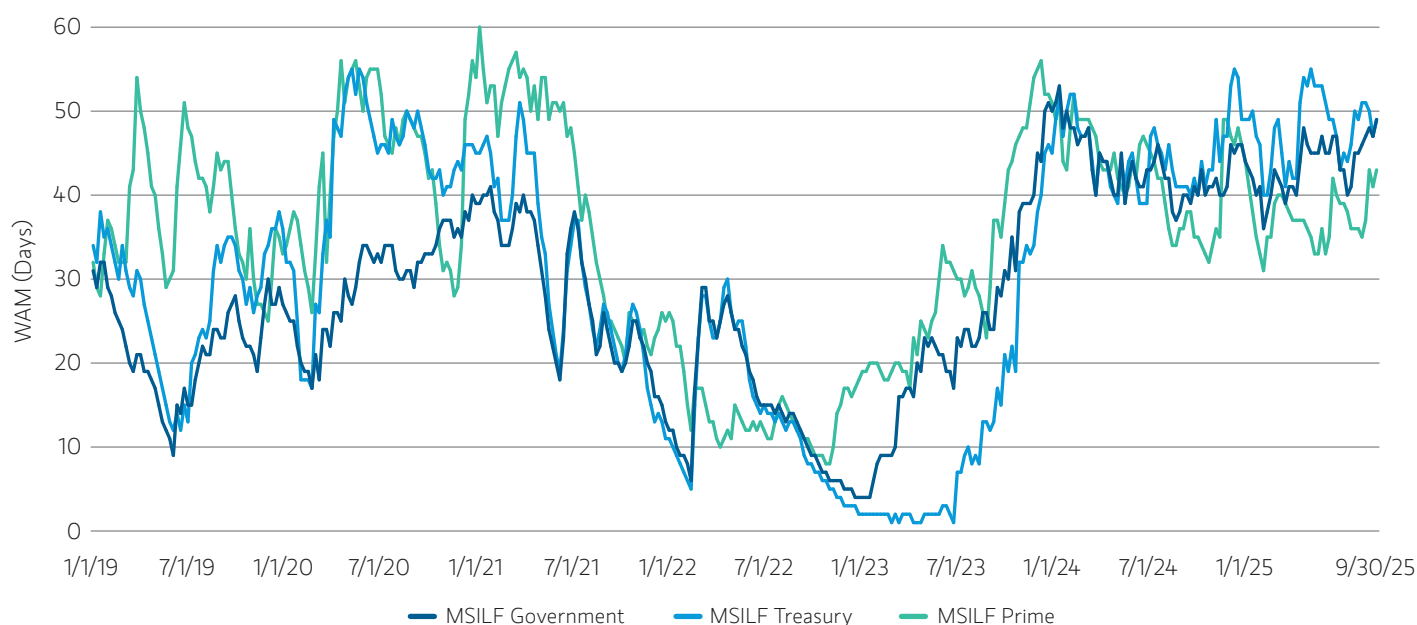
<sup>1</sup> Source: Bloomberg.

The views and opinions expressed are those of the Portfolio Management team as of September 30, 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<sup>2</sup>

As of 9/30/2025



Source: iMoneyNet

elevated, but is slowing, while services inflation has leveled off. Gross domestic product growth remained subdued, with signs of slack in the economy, paired with domestic and geopolitical risks. The MPC emphasized a cautious, evidence-based approach to further easing, noting that monetary policy is not on a pre-set path and future decisions will depend on how disinflationary pressures evolve.

## Portfolio Strategy

### GOVERNMENT/TREASURY STRATEGY

We extended duration across our portfolios using Treasury, agency and repo securities throughout August and September leading into the mid-month 0.25% rate cut from the FOMC. Rate moves are typically clustered, and the FOMC has made it clear that it's increasingly focused on the "no hire/no fire" status of the labor market. Funding markets stayed firm through quarter-end, and we looked to optimize our exposure to overnight repo and SOFR (secured overnight financing rate) floating-rate securities to seek to maximize current income.

We think additional rate cuts are likely forthcoming and as the labor market continues to cool. Tariff impacts so far seem more benign than feared. A government shutdown beginning in October will likely cause key economic data releases to be delayed—further clouding the picture for both the Fed and market participants in general.

Auction participation for short-term Treasury bills has been strong despite continued large issuance sizes. Late month, we did start to see auction sizes increased again and expect to see some additional increases in early October.

In the meantime, we have no concerns on liquidity to note.

### PRIME STRATEGY<sup>3</sup>

With the Fed appearing to prefer front-loading rate cuts, as evidenced by two cuts projected for the remainder of 2025 in the September FOMC dot-plot, we remain comfortable with our overweight to fixed-rate securities, trying to lock in duration through 2026 to minimize coupon reset and reinvestment risk. The weighted average maturity (WAM) of our funds remains on the longer end of the peer group as

<sup>2</sup> **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.

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

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we continue to add fixed-rate securities, taking advantage of sell-offs to capitalize on a higher starting yield of newly purchased securities.

Credit spreads remained relatively unchanged month-over-month and at near-term tights, allowing us to remain patient and opportunistic when deploying capital. Corporate bonds

continue to be an attractive asset class, offering a yield pickup to wholesale funding equivalents with the benefit of diversification\* away from programs that don't offer commercial paper/certificates of deposit programs.

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

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<sup>4</sup> Differentiation does not eliminate the risk of loss.

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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.**

#### FLOATING NAV

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