Morgan Stanley

INVESTMENT MANAGEMENT

Treading Water

MARKET INSIGHTS | GLOBAL LIQUIDITY TEAM | July 2025

Federal Reserve Board[1]

In July, The Federal Open Market Committee (FOMC) decided to maintain the federal funds target rate at 4.25% to 4.50%. Voting members of the Committee largely supported the lack of policy action; however, two members dissented, preferring a slight reduction in the target range. This decision reflects the Committee's assessment of current economic conditions, including moderate growth in economic activity, low unemployment and elevated inflation. The Committee will continue to reduce 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's decision-making process involves a comprehensive evaluation of various economic indicators, including labor market conditions, inflation pressures and financial developments. Looking forward, the Committee is prepared to modify its policy stance if risks emerge that could hinder the achievement of its goals.

DISPLAY 1

Monthly Interest Rate Summary

As of 7/31/2025

US TREASURY RATES	YIELD (%)	MOM CHANGE (%)
1M UST	4.35	0.15
3M UST	4.34	0.05
6M UST	4.27	0.02
12M UST	4.09	0.13
2Y UST	3.96	0.24
5Y UST	3.97	0.18
10Y UST	4.37	0.15
30Y UST	4.90	0.13

Source: Bloomberg

European Central Bank[1]

The European Central Bank (ECB) Governing Council kept the deposit rate unchanged at the conclusion of its policy meeting in July. This decision aligns with the Governing Council's recent assessment that inflation is stabilizing around the 2.00% target, despite ongoing uncertainties in the global economy. The ECB observed a continued easing of domestic price pressures, accompanied by slower wage growth. As the path ahead remains uncertain, the Governing Council will not pre-commit to a particular rate path by continuing to "follow a data-dependent and meeting-by-meeting approach."

Bank of England

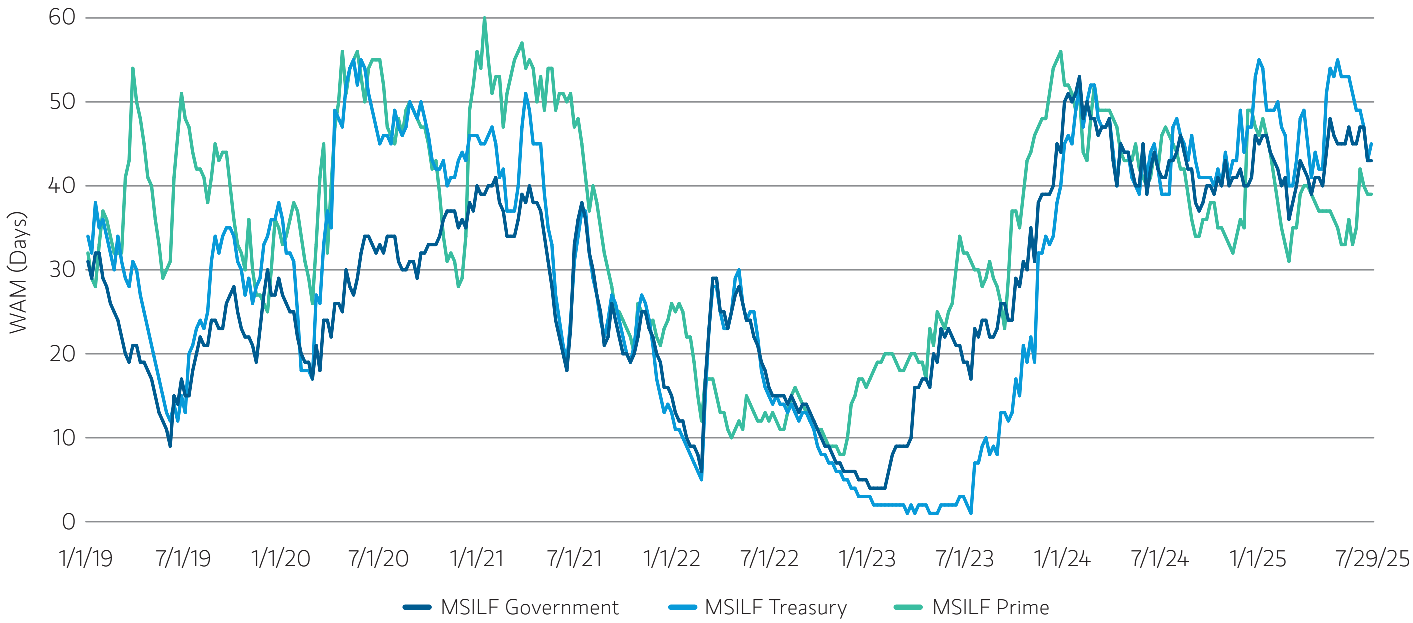
In June, the Bank of England (BoE) Monetary Policy Committee (MPC) voted by a majority of 6-3 to maintain the Bank Rate at 4.25%. Three members preferred to reduce the Bank Rate by 0.25% to 4.00%. The BoE has adopted a gradual approach in removing policy restraint in the absence of material developments. Despite weak gross domestic product growth and a loosening labor market, inflation remains a concern, with consumer price index (CPI) inflation at 3.4% in May, driven by regulated prices and energy costs.

[1] Source: Bloomberg.

DISPLAY 2

Morgan Stanley Institutional Liquidity Funds (MSILF) Weighted Average Maturities (WAM) Summary[2]

As of 7/31/2025



Source: iMoneyNet

Officials expect CPI to remain broadly at current levels for the rest of the year before falling back toward the target rate next year. The Committee remains vigilant about inflation persistence and global uncertainties, including rising energy prices due to geopolitical tensions. The MPC emphasizes a gradual approach to withdrawing monetary policy restraint, ensuring inflation returns sustainably to the target.

Portfolio Strategy

GOVERNMENT/TREASURY STRATEGY

The target fed funds rate remained unchanged in the July Federal Reserve (Fed) meeting, but the view of the U.S. economy was mildly downgraded as the Fed referenced moderating growth in economic activity in the first half of the year. We continued to add longer-dated fixed-rate securities as appropriate in addition to the active management of our positions in the 6-month sector of the curve, maintaining the portfolios' weighted average maturity (WAM) in the mid-40 days. On weighted average life (WAL), we capitalized on adding some additional Treasury floating-rate notes that we believe offer a strong hedge in a slower-paced rate cutting cycle.

The market continues to anticipate the first Fed rate cut of the year to take place in September, but potential for the first cut occurring in December remains. The Trump administration continues to urge for rate cuts, while the Fed holds its "wait and see" approach, relying on key data prints such as inflation and payrolls. Repo levels have remained somewhat elevated with a slight drop mid-month in reflection of SOFR (secured overnight financing rate) normalizing from the June month-end high of 4.40%. We continue to like adding duration when the curve flattens out and harvesting strong carry in financing markets as Treasury supply rises.

Auction participation for short-maturity Treasury bills has increased, with large issuance sizes including $100 billion sold in the 1-month auction. We continue to capitalize on auction participation as appropriate, primarily within the 6-week, 1-month and 2-month tenors along with opportunistic participation in longer-dated 4-month to 1-year tenors, locking in attractive fixed rates as we anticipate a cut in September.

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

[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.

The views and opinions expressed are those of the Portfolio Management team as of July 31, 2025 and are subject to change based on market, economic and other conditions. **Past performance is not indicative of future results.**

PRIME STRATEGY[3]

We continue to remain opportunistic amid uncertainty on the timing of Fed rate cuts. WAM increased as we slowly started adding some fixed-rate commercial paper that offered an attractive yield pick-up to overnight repo. WAL decreased as a result of organic portfolio roll-down.

Credit spreads remained relatively unchanged month-over-month as the implementation of Fed rate cuts remains uncertain. Fixed-rate commercial paper issuance increased this month as the market started adding to their fixed-rate allocations. Corporate bond spreads continue to offer a small yield pick-up to their wholesale alternatives.

Liquidity in our markets 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").

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One basis point = 0.01%

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

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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