Morgan Stanley

INVESTMENT MANAGEMENT

Walking a Fine Line

MARKET INSIGHTS | GLOBAL LIQUIDITY TEAM | October 2025

Federal Reserve Board[1]

On October 29, the Federal Open Market Committee (FOMC) lowered the federal funds rate by 25 basis points to a target range of 3.75%-4.00%, citing moderate economic growth, slowing job gains and elevated inflation. This decision passed on a 10-2 vote, with one dissenting member favoring a 50 basis point cut and the other preferring to hold rates steady. The FOMC highlighted rising downside risks to employment and heightened uncertainty in the economic outlook. Additional policy announcements included plans to conclude the reduction of the Federal Reserve's (Fed) securities holdings on December 1. Officials reaffirmed their commitment to achieving maximum employment and returning inflation to its 2% goal, and assessing the Fed's policy stance by continuing to closely monitor incoming data, the evolving economic outlook and the balance of risks.

European Central Bank[1]

In October, the European Central Bank (ECB) Governing Council left its key interest rates unchanged, noting that inflation remains near its 2% medium-term target and the inflation outlook remains steady. Economic growth has continued despite global headwinds, supported by a strong labor market and solid private sector balance sheets, though uncertainty persists due to trade and geopolitical tensions. The ECB highlighted its commitment to price stability and emphasized a data-dependent, meeting-by-meeting approach to future policy decisions, without pre-committing to a specific rate path.

DISPLAY 1

Monthly Interest Rate Summary

As of 10/31/2025

US TREASURY RATES	YIELD (%)	MOM CHANGE (%)
1M UST	3.90	(0.20)
3M UST	3.80	(0.13)
6M UST	3.80	(0.03)
12M UST	3.68	0.06
2Y UST	3.57	(0.03)
5Y UST	3.69	(0.05)
10Y UST	4.08	(0.07)
30Y UST	4.65	(0.08)

Source: Bloomberg

Bank of England

At the September meeting, the Bank of England (BoE) Monetary Policy Committee (MPC) voted 7-2 to keep the bank rate unchanged at 4.00%, with the two dissenting members preferring a 0.25% cut to 3.75%. The MPC also voted 7-2 to reduce its holdings of U.K. government bonds by £70 billion over the next year, bringing the total to £488 billion. The MPC noted that disinflation has continued over the past two and a half years, though price pressures persist in some areas. Consumer price index (CPI) inflation was 3.80% in August and is expected to rise slightly in September before declining toward the 2% target. Pay growth remains high but is slowing, and services inflation

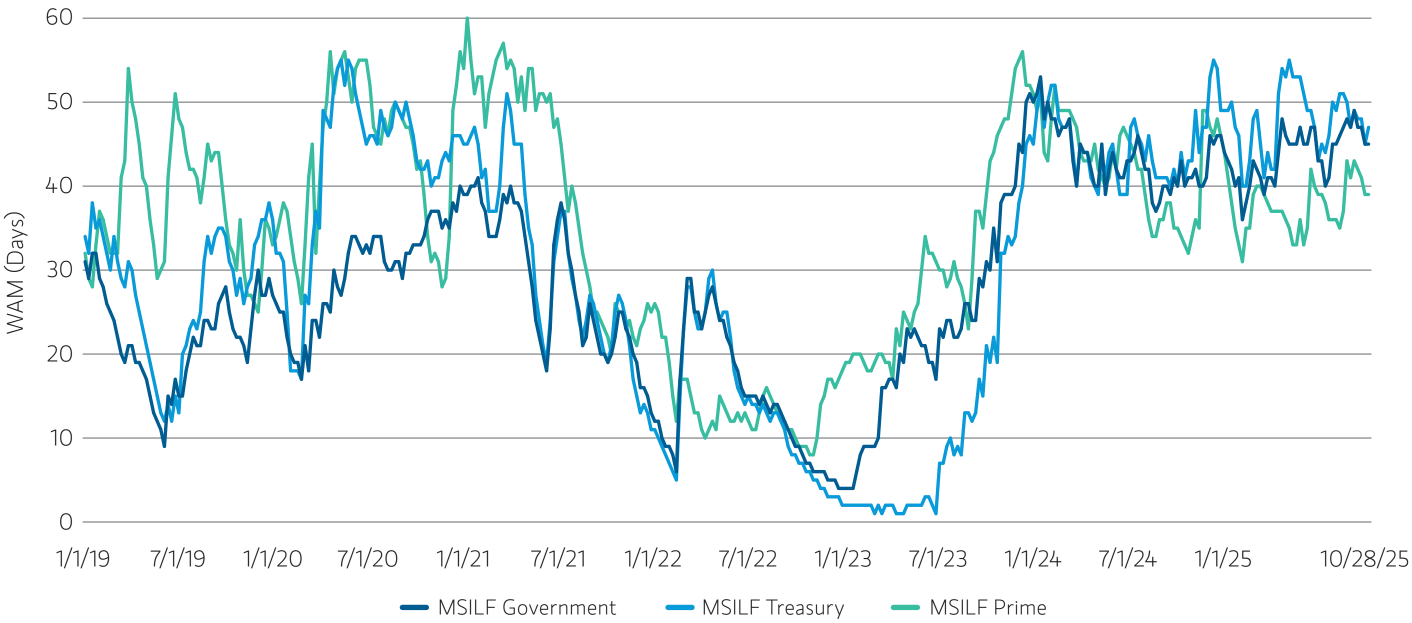
[1] Source: Bloomberg.

The views and opinions expressed are those of the Portfolio Management team as of October 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 10/31/2025



Source: iMoneyNet

has been steady. Economic growth remains subdued, reflecting a loosening labor market and modest slack in the economy, with ongoing domestic and geopolitical risks. The MPC reaffirmed a data-dependent and cautious approach to further easing, emphasizing that monetary policy is not on a preset path and that future rate cuts will depend on sustained disinflationary progress.

Portfolio Strategy

GOVERNMENT/TREASURY STRATEGY

In anticipation of a Fed rate cut at the end of October, leading into the meeting we continued to maintain the portfolios' longer duration stance via Treasury bills, Treasury notes and term repo securities. We've now realized two interest rate cuts this year, and Fed Chair Powell indicated a third cut in December is much more of a "jump-ball" than the market may have previously thought. Funding markets were highly attractive for money market funds (i.e., lenders of cash), which benefited the portfolios' repo and SOFR (secured overnight financing rate) based exposures.

We believe additional rate cuts will likely come – but the Fed seems willing to slow their pace, especially with the government shutdown delaying the release of timely economic data. Presently, the market has limited information to digest, and the Fed has suggested this is an okay place for now. The eventual release of data will be a deciding factor in the Fed's timing of rate cuts. As such, we expect market volatility to persist into year-end.

Auction participation for short bills has been strong despite continued large issuance sizes. Attractive rates in T-bills have drained the reverse repurchase agreement (RRP) program to near zero. Supply continues to be large, and the ability of the market to digest this paper week-over-week has been more challenging at times—which had led to elevated repo market volatility.

Although volatility in the funding market has risen, and the Fed has announced an end to its balance sheet runoff starting in December, we have no concerns about liquidity in the near term. We also note banks' usage of the Fed's

[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").

Standing Repo Facility has increased recently amid month-end funding pressures.

PRIME STRATEGY[3]

Following the 25-basis point rate cut at the October FOMC meeting, the market continues to anticipate in excess of 75 basis points of additional rate cuts over the next calendar year, and consequently the short end of the yield curve remains significantly inverted. As a result, we allowed the maturity profiles of our portfolios to organically roll down and remain patient when incrementally adding risk to the portfolios.

Credit spreads were relatively unchanged month-over-month, holding near their tightest levels in recent months, allowing us to remain patient and opportunistic when deploying capital. In our view, corporate bonds continue to be an attractive asset class, offering a pickup to wholesale funding equivalents with diversification benefits away from programs that don't offer commercial paper/certificates of deposit programs.[4]

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

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

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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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