Morgan Stanley
INVESTMENT MANAGEMENT

Marketing Communication | **MONTHLY COMMENTARY** 31 January 2026

A Sub-Fund of Morgan Stanley Investment Funds

Global Bond Fund

BROAD MARKETS FIXED INCOME TEAM

Important Information

- The Fund invests primarily in domestic, international and Euromarket fixed income securities of varying maturities denominated in US Dollars and other currencies, including emerging markets.
- Investment involves risks. Key risks for this fund include Interest Rate Risk, Credit Risk, High Yield Securities Risk, Exchange Rate Risk, Emerging Market Currency Risk, Derivatives Risk, Downgrading Risk, Unrated Securities Risk and Risk of Exposure to the Euro and Eurozone.
- There is a risk that you may potentially lose your entire investment in this Fund.
- The investment decision is yours but you should not invest unless the intermediary who sells it to you has advised you that it is suitable for you and has explained why, including how buying it would be consistent with your investment objectives. You should not make any investment decision solely based on this document. Please read the relevant offering document carefully for further fund details including risk factors.
- The Fund may use derivatives for investment or efficient portfolio management (including hedging) purposes which may expose to higher counterparty, liquidity and valuation risks. The Fund may suffer losses from its derivatives usage.

Performance Review

In the one month period ending 31 January 2026, the Fund's A shares returned 1.08% (net of fees)[1], while the benchmark returned 0.94%.

January's results were primarily driven by macro positioning, which delivered the largest contributions across rates and foreign exchange (FX), while spread sectors, including securitized credit and high yield, added further support to returns. There were no material detractors from performance in the month.

Macro Positioning

- **FX Positioning:** Significantly added to performance, with gains primarily driven by emerging market (EM) currencies. The Fund's underweight U.S. dollar stance versus a diversified basket of currencies benefited from appreciation in Mexican peso and Brazilian real, supported by high carry and strong sentiment/technicals within EM debt.[2]
- **New Zealand Duration:** New Zealand rates cheapened through January as markets consolidated after the late-2025 easing cycle, with the Reserve Bank of New Zealand holding the Official Cash Rate steady at 2.25% pending its next review on 18 February 2026. Yields drifted higher amid still-soft domestic activity and stable inflation expectations, leaving the Fund's underweight duration stance in New Zealand dollar bonds a contributor for the month.
- **Mexico Duration:** Mexican rates also added to performance, with Mbonos benefiting from a stable macro backdrop and softer yield levels. The 10-year bond eased over the month, down from late-December readings and modestly lower on the month. The incremental rally, supported by contained inflation and orderly primary markets, lifted overweight duration exposure, while carry remained attractive relative to regional peers.
- **Brazil Duration:** Brazil was a constructive rates story in January. Local yields retreated from early-month highs, with the 10-year moving lower through the second half of the month. The combination of a firmly restrictive Selic at 15% anchoring real carry and easing near-term funding pressures supported demand for longer-dated debt, helping compress term premia. Against this backdrop, measured long duration exposure benefited from the mild rally, with carry remaining a tailwind through the period.
- **South Africa Duration:** Extended its strong run into January, supported by improving fiscal sentiment and a stable policy stance. The South African Reserve Bank held the repo rate at 6.75% at its January meeting, and benign inflation dynamics helped sustain the prior months' momentum. The 10-year yield, which had already fallen sharply over the fourth quarter, drifted lower across January to among its lowest levels since 2018. This steady bid for South African government bonds allowed our overweight duration exposure to contribute meaningfully, aided by supportive curve roll-down and continued foreign inflows.
- **Euro Area Duration:** With European Central Bank policy unchanged since December (deposit facility 2.00%) and no fresh signals during January, outright duration delivered muted results. Instead, the curve expressions in intermediates added via supportive roll-down and a late-month drift lower in core yields, which left euro area curves more orderly into month-end.

Spread Sector Exposures

[1] Source: Morgan Stanley Investment Management Limited. Data as of 31 January 2026.
[2] Diversification neither assures a profit nor guarantees against a loss in a declining market.

- **Securitized:** Securitized exposures added to returns in January, led by long non-agency commercial mortgage-backed securities (CMBS), where seasoned collateral and stable credit performance kept spreads well anchored and allowed carry and security selection to drive gains. Our overweight agency residential mortgage-backed securities (RMBS) also contributed as early-year demand remained firm, technicals stayed constructive and balanced convexity profiles were rewarded. Overweight asset-backed securities (ABS) positions delivered incremental carry-led gains amid orderly primary markets and a supportive tone across consumer and commercial shelves.
- **Credit Spreads:** Credit contributed modestly in January, led by the Fund's long high yield exposure, where resilient risk appetite, elevated carry and spreads holding near historically tight ranges supported returns. Security selection in investment grade credit added modestly, while our underweight remained helpful amid rich valuations and limited compression potential.

Market Review

January opened the year with a notably calm macro backdrop and strong technical demand across fixed income markets. Despite concentrated pockets of idiosyncratic stress, both geopolitical and financial, spreads generally tightened or proved resilient, supported by abundant liquidity, heavy reinvestment flows and a sizable pool of sidelined cash following year-end de-risking. Elevated supply across sectors was readily absorbed, reinforcing a constructive technical environment and limiting downside pressure on spreads.

A key macro development during the month was the announcement of nominee Kevin Warsh as the next Federal Reserve (Fed) Chair, which helped reduce tail risks around Fed independence. The appointment reversed a nascent market narrative that had begun to price a near-term inflation shock, triggering a sharp unwind in inflation-sensitive assets and contributing to a calmer global rates backdrop. Curve steepening persisted during the month—driven by improved policy credibility further out the curve and structural shifts in long-duration demand—but proved broadly supportive for yield-oriented fixed income sectors amid stable macro conditions and contained volatility.

Investment grade credit had a very strong January across both U.S. and European markets, with spreads tightening by roughly 5 basis points (bps) in the U.S. and 4 bps in Europe, leaving both indices near the 73-74 bps level.[3] Record January issuance was well absorbed as strong inflows and elevated cash balances from December de-risking provided highly supportive technicals. Financial issuers dominated supply and outperformed, benefiting from limited duration exposure, strong earnings and resilient balance sheets, keeping investment grade spreads tight and range-bound despite the heavy calendar.

High yield delivered solid returns during the month, though performance was uneven as idiosyncratic volatility picked up across select sectors. Spreads finished January largely unchanged around 265 bps, while yields edged modestly higher to 6.58%.[3] Weakness in packaging, software, health care and select financial issuers highlighted the importance of security selection in a low-beta environment. Software-related volatility, driven by isolated negative headlines and fast-money flows, led to exaggerated price moves even among fundamentally sound BB-rated credits, underscoring how quickly sentiment can shift despite manageable net issuance and supportive technicals.

Emerging markets remained resilient in January, with limited drawdowns and a consistent pattern of investors buying on dips, reflecting strong underlying demand across both hard-currency credit and local markets. Flows continued to benefit from diversification away from U.S. assets, supported by improved self-funding discipline following several years of capital scarcity. Country-specific developments drove dispersion, with China's continued pivot toward tech-led growth supporting targeted exposure, Indonesia facing pressure following an MSCI downgrade, and India's less-conservative-than-expected budget prompting an 8-10 bps sell-off in local rates.[3]

Securitized markets delivered another strong month, with spreads tightening broadly across subsectors despite a heavy January issuance calendar. Robust inflows supported oversubscribed deals, many of which priced 5-10 bps tighter than expectations.[3] Agency mortgage-backed securities (MBS) benefited early in the month from policy headlines around a $200 billion government-sponsored enterprise purchase program, leaving spreads meaningfully tighter year-to-date despite some retracement. Improving sentiment in CMBS, stable housing fundamentals and limited impact from political rhetoric reinforced a technical-driven environment in which demand continued to outweigh supply.

Portfolio Activity

We remain constructive on global fixed income markets. The backdrop is compelling: a resilient global economy, still robust corporate and consumer fundamentals, and attractive real yields across the asset class continue to drive flows. These dynamics continue to support our conviction in the Fund's ability to deliver compelling risk-adjusted returns going forward and we remain confident with the Fund's positioning. Given valuations, we believe bottom-up security selection to identify these higher yielding names is fundamental to generate alpha moving forward as we do not expect spreads to tighten significantly from here.

3 Source: Bloomberg L.P. Data as of 31 January 2026.

- **Duration Management**:
  - The Fund increased its duration overweight during the month, reflecting both the constructive macro environment and the improved carry and roll available in select markets. We initiated overweights to Australia and Canada, where front-end curves offer attractive compensation and where policy paths appear increasingly well anchored. The Fund also initiated an overweight in the U.K. on valuations. In contrast, we initiated an underweight to New Zealand duration, as valuations became less compelling following strong outperformance.
- **Foreign Exchange**:
  - In FX, the Fund marginally decreased its underweight U.S. dollar exposure, taking advantage of improved risk sentiment earlier in the month, while continuing to maintain its diversified long basket of EM currencies.[2]
- **Spread Sector Adjustments**
  - During January, the portfolio increased its spread duration overweight by 0.09 years, driven primarily by selective reinvestment of securitized paydowns. We continued to favor areas offering robust structural support, such as securitized credit, where fundamentals remain resilient and supply remains manageable.
  - Broader investment grade and high yield exposures were maintained, reflecting a steady risk posture going into the early part of the year.

Strategy and Outlook

Broad Markets Fixed Income Global Asset Allocation and Outlook

Developed Market Rate/Foreign Currency

(Neutral duration, curve steepeners and USD underweight)

Following the recent repricing of inflation risk and a stabilization in global rates volatility, we maintain a neutral duration stance across developed markets, complemented by targeted regional expressions. The announcement of nominee Kevin Warsh as the next Fed chair has helped reduce tail risks around Federal Reserve credibility, reinforcing a backdrop in which rates are more likely to trade within established ranges rather than reprice sharply. Within this environment, carry is expected to remain the dominant driver of returns, though opportunities to harvest carry vary meaningfully by region.

In the U.S., we are neutral on outright Treasury duration and currently neutral on the curve, reflecting the view that much of the steepening driven by rising term premia has already been priced. Our working range for the U.S. 10-year yield remains 3.95%-4.25%, and despite yields sitting near the top of that band, we are holding off on adding duration. While curve steepening pressures remain structurally intact—driven by persistent fiscal deficits, elevated issuance and reduced central bank balance-sheet demand—near-term risk-reward has become more balanced following the recent repricing.

The U.S. macro backdrop entering 2026 remains strong, with real gross domestic product growth consistently exceeding expectations and high-frequency indicators pointing to elevated nominal growth supported by resilient consumption, healthy real income growth and highly expansionary fiscal conditions. Against this backdrop, market pricing for the Fed appears slightly too dovish, with close to two cuts priced for 2026 that would leave policy only marginally restrictive—an outcome we do not expect to be fully realized. In inflation-linked markets, we are now neutral on U.S. breakevens following the unwind in inflation-hedge positioning, while retaining flexibility to re-engage if valuations become more attractive.

Outside the U.S., we continue to hold curve steepeners in Germany and France, primarily in the 5s-30s and 10s-30s segments, where structural forces continue to pressure the long end and offer more attractive carry and roll dynamics than in U.S. rates. Similar steepening structures remain in place in the U.K. and Australia, where fiscal dynamics and issuance profiles continue to support curve-based expressions over outright duration. In Japan, we are neutral on duration following the repricing of policy normalization expectations earlier in the year. While the market has adjusted meaningfully to the Bank of Japan's trajectory, weaker technicals and elevated issuance needs continue to differentiate Japan from other developed rates markets.

In FX, we remain tactically bearish the U.S. dollar, reflecting earlier Fed easing relative to peers, tariff-driven inflation dynamics and a shift in foreign financing toward U.S. equities that weakens traditional U.S. dollar (USD) demand. We have increased exposure to higher-carry emerging markets FX. These positions reflect our view that, in a benign volatility environment, carry-driven FX strategies can continue to perform, while remaining selective given ongoing policy and geopolitical risks.

Emerging Market Debt

(Overweight)

Emerging market (EM) sovereign and corporate debt remains an attractive opportunity for 2026, particularly in a benign global macro environment where carry and income are likely to be key drivers of returns. Lower inflation, elevated real yields and credible reform momentum across several countries underpin a supportive backdrop, while valuations—especially in local markets—remain attractive. Many EM currencies also remain undervalued relative to the U.S. dollar, reinforcing the case for selective exposure. Dispersion across countries remains high, making policy discipline and country selection critical, with preference for markets exhibiting credible monetary frameworks, improving fundamentals and attractive real yield differentials versus developed markets.

Corporate Credit

(Underweight investment grade, small overweight high yield)

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

We remain underweight investment grade credit, reflecting tight valuations and asymmetric risk rather than any near-term deterioration in fundamentals. While balance sheets remain healthy—characterized by strong liquidity, low downgrade risk and conservative leverage—spreads are tight by historical standards, leaving little margin for error. January's exceptionally strong technical backdrop and well-absorbed issuance have reinforced spread resilience, but at current levels, even modest spread widening could materially erode excess carry, particularly given longer spread duration.

Looking ahead, elevated issuance of long-dated debt to fund artificial intelligence (AI)-related capital expenditure, alongside an active merger and acquisition (M&A) pipeline, has the potential to challenge technicals over time, especially if volatility normalizes or investor demand softens. Regionally, we prefer Europe over the U.S., supported by more balanced supply dynamics. From a sector perspective, we favor financials—particularly banks—given strong capital positions, resilient earnings and limited net supply, while remaining underweight single-A non-financials where M&A risk is more acute.

We maintain a modest overweight to select high yield issuers in both the U.S. and Europe. Fundamentals remain supportive, with improved average credit quality, low default rates and manageable leverage. While spreads are near post-crisis tights, the higher carry, shorter spread duration and increased issuer dispersion continue to create opportunities for security-level positioning. Recent episodes of idiosyncratic volatility underscore the importance of selectivity, but defaults are expected to rise only modestly and remain contained, supporting ongoing investor demand.

Leveraged Loans

(Underweight)

We expect heavier net supply and rising dispersion in leveraged loans. While collateralized loan obligation (CLO) demand remains a key technical support, economically sensitive sectors are showing signs of strain, contrasting with strength in software and technology-linked issuers. Given expectations for Fed rate cuts, we prefer fixed-rate exposure over floating-rate assets and remain underweight the asset class.

Securitized Products

(Overweight)

Agency MBS and non-agency RMBS remain our highest-conviction overweight for 2026. Our overweight to agency MBS delivered strong absolute, excess and relative returns in 2025, supported by favorable curve dynamics, low implied volatility and a steady improvement in market technicals. Entering 2026, agency MBS continue to offer an attractive spread pickup relative to both historical levels and other core fixed income sectors, providing compelling relative value versus investment grade corporates and cash alternatives.

Technical factors remain the dominant driver of performance. Demand for agency MBS is supported by strong money manager interest in high-quality collateral with attractive carry, alongside a measured and well-telegraphed pace of Federal Reserve balance sheet runoff that has limited net supply pressure. While policy rates may remain restrictive, the predictability of the policy path and contained volatility have reinforced a supportive environment for spread sectors such as agency MBS.

Non-agency RMBS also offers an attractive opportunity set, underpinned by stable home prices, low loan-to-value ratios and historically low delinquency rates. Supply-demand dynamics remain favorable, with limited new issuance and minimal refinancing risk given the high proportion of borrowers locked into low mortgage rates. These factors continue to support the sector's resilient credit profile and attractive carry characteristics.

Within CMBS, fundamentals remain resilient, particularly in higher quality segments, and sentiment has continued to improve. We see attractive opportunities in hospitality—especially luxury and trophy properties—where demand trends and cash flows have stabilized. Office CMBS presents selective value, supported by improving occupancy trends and a more stable rate environment, while logistics, storage and high quality multifamily assets continue to exhibit strong operating performance. Dispersion across property types and geographies is increasing, making selectivity critical, with a focus on the SASB (single-asset, single-borrower) market to maintain transparency and control over underlying cash flows.

Lastly, we remain constructive on Danish covered bonds. The market's depth, strong legal framework, and backing by a politically stable economy and resilient housing market support its defensive characteristics. Valuations remain compelling for high quality assets, and the steep Danish government curve continues to offer attractive U.S. dollar-hedged yields for global investors.

For further information, please contact your Morgan Stanley Investment Management representative.

Fund Facts

Launch date	01 November 1989
Base currency	U.S. dollars
Benchmark	Custom- Blended Benchmark

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Class A Shares	1.08	8.29	-1.26	5.46	-17.05	-5.48	10.05	8.33	-2.99	9.13	1.91
Blended Benchmark	0.94	8.17	-1.69	5.72	-16.25	-4.71	9.20	6.84	-1.20	7.39	2.09

Investment involves risks. All performance data is calculated NAV to NAV, net of fees, and assume the reinvestment of all dividends and income. The sources for all performance and index data is Morgan Stanley Investment Management ('MSIM Ltd'). Please refer to the relevant offering documents for fund details, including risk factors.

Applications for shares in the Sub-Fund should not be made without first consulting the current Prospectus and the Key Information Document ("KID") or Key Investor Information Document ("KIID"), which are available in English and in the language of countries authorized for fund distribution and is available online at Morgan Stanley Investment Funds Webpages or free of charge from the Registered Office at European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192.

The summary of investor rights is available in the aforementioned languages and website location under the General Literature section.

Information in relation to sustainability aspects of the Fund is available from the Prospectus of the Fund.

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INDEX INFORMATION

The **Blended Index** performance shown is calculated using the **JPM Global Traded Unhedged Index** from inception through 31 March 2004, the **FTSE WGBI Index** to 31 January 2010 and the **Bloomberg Global Aggregate Bond Index** thereafter.

The **Bloomberg Global Aggregate Index**: provides a broad-based measure of the global investment grade fixed-rate debt markets. Total Returns shown is unhedged USD.

The **JPM Global Traded Unhedged Index:** provides a broad-based measure of the global investment grade fixed-rate debt markets. Total Returns shown is unhedged USD.

The **FTSE WGBI Index:** measures the performance of fixed-rate, local currency, and investment grade sovereign bonds. The WGBI provides a broad benchmark for the global sovereign fixed income market.

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A blended benchmark has been used because there has been a change in benchmark during the reporting period shown.

Inflation measured by the **consumer price index (CPI)** is defined as the change in the prices of a basket of goods and services that are typically purchased by specific groups of households with the G7 countries.

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