Morgan Stanley

INVESTMENT MANAGEMENT

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Morgan Stanley Investment Funds

Global Balanced Income Fund

MARKETING COMMUNICATION | GLOBAL BALANCED RISK CONTROL TEAM | MONTHLY COMMENTARY | 30 APRIL 2023

Performance Review

In the one month period ending 30 April 2023, the Fund's Z shares returned 0.20% (net of fees)[1].

In April, markets remained focused on sticky inflation and increasing recession risks – and how central banks might weigh the two in determining the direction of monetary policy. Although concerns about financial sector health continued to cloud the outlook, economic data were generally considered positive, supporting gains in global equities and government and corporate bonds. In commodities, gold gained but the industrial metals and energy complexes declined. Our allocations to MSCI Europe ESG (environmental, social and governance) equities, Lyxor Euro Stoxx Banks ETF and WisdomTree Brent ETC EUR were the top contributors to the Fund's performance over the month of April. Our allocation to MSCI All Country Far East ex Japan ESG equities, MSCI Emerging Markets ESG equities and ETFS Copper ETC ETF detracted from the Fund's performance.

Market Review

United States

The MSCI USA Index returned 1.24% in U.S. dollar terms (USD) and -0.25% in euro terms in April. U.S. gross domestic product (GDP) growth in the first quarter of 2023 was estimated at 1.1% (annualised) according to the government's initial release, slowing from 2.6% in the fourth quarter of 2022. The Institute for Supply Management (ISM) Manufacturing PMI rose to 47.1%, from 46.3% in March, as new orders and production declined at slower rates while headcounts resumed growth after contracting the previous month. The ISM Services PMI increased to 51.9% in April, from 51.2% in March. The April PMIs also indicated that inflation pressures persist across both the manufacturing and service sides of the economy. The U.S. Bureau of Labor Statistics data showed the headline consumer price index (CPI) rising 5.0% in the 12 months ended March 2023, easing from 6.0% in February. Core CPI, which excludes food and energy, was up 5.6% in the same 12-month period, a slight increase from 5.5% in February.

Europe

The MSCI Europe Index returned 2.50% in euro terms and 4.03% in USD terms in April. Eurostat's flash estimate showed GDP in the first quarter of 2023 grew 0.1% in the euro area and 0.3% in the European Union quarter-over-quarter. The HCOB Eurozone Manufacturing PMI (formerly S&P Global Eurozone Manufacturing PMI) fell to 45.8 in April, from 47.3 in March. Output shrank after two months of expansion while the decline in new orders accelerated. The HCOB Eurozone Services PMI (formerly S&P Global Eurozone Services PMI) improved to 56.2 in April, up from 55.0 in March. Eurostat estimates annual headline inflation in the euro area increased slightly to 7.0% in April 2023, up from 6.9% in March. Annual core inflation, which excludes energy, food, alcohol and tobacco, ticked lower to 5.6% in April, from 5.7% in March. In a separate report, Eurostat said unemployment in the euro area declined to 6.5% in March 2023, from 6.6% in February, and was stable in the EU at 6.0% in March compared with February.

Japan

The MSCI Japan Index returned 2.68% in yen terms and -1.11% in euro terms in April. Japan's manufacturing sector moved further toward stabilisation. The au Jibun Bank Japan Manufacturing PMI rose to 49.5 in April from 49.2 in March, largely driven by a softer decline in new orders and a pick-up in hiring activity. However, production volumes weakened at a faster rate month-over-month. The au Jibun Bank Japan Services PMI rose to a survey high of 55.4 in April, up from 55.0 in March, as consumer spending and tourism continued to rebound following the lifting of pandemic restrictions. New business sharply accelerated, and headcounts grew at a faster rate. Government data showed headline CPI was up 3.2% in the year ended March 2023, a slight decrease from 3.3% in February 2023. Unemployment rose to 2.8% in March 2023, from 2.6% in February.

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[1] Source: Morgan Stanley Investment Management Limited. Data as of 30 April 2023.

Portfolio Activity

We remain cautious and balanced rather than defensive in our positioning as we believe a slowdown in economic activity and a reduction in longer-term inflation risks are beneficial in the long run. We trimmed some of cyclical bets in April and added to assets that we believe provide attractive value opportunity or carry. The effective equity exposure at the end of the month was 58.2%.

Strategy and Outlook

U.S. headline inflation slowed for the ninth consecutive period to 5.0% in March 2023,[2] coming in below market forecasts of 5.2%[3] and the lowest level since May 2021. The Federal Open Market Committee (FOMC) announced a rate hike of 25 basis points after its May meeting. This brings the target range to 5.25%,[4] the highest since 2007. However, the language seemed softer than last time with no indication of a further hike. The U.S. jobs market is still tight, but cooling slowly, re-enforcing the prospect that the Federal Reserve may be done with further rate hikes for the time being. However, if inflation becomes de-anchored, the FOMC likely will be quick to hike again.

Meanwhile, in Europe, the U.K. remains the only western European country with double-digit inflation at 10.1%.[5] Higher-than-expected core inflation and continued labour market tightness is forcing the Bank of England (BoE) to keep policy tight. Eurozone inflation was relatively better at 6.9%,[6] falling sharply as plunging energy prices continue to ease pressure on the cost of living. With inflation still very high, especially compared to the U.S. and long-term targets, we expect more work from the European Central Bank (ECB) and BoE.

After the turmoil in the banking sector in recent weeks, credit spreads appear to have calmed and smaller bank risks seem to be fading. That said, tighter lending conditions are likely to linger. However, the economy's surprising strength, acceleration and positive momentum from the first quarter is likely to make it difficult for the economy to decelerate enough to produce a continuous negative growth rate in the second quarter.

The overall effects of central bank tightening have yet to be fully felt, even though the risk of a recession in the short term appears to have diminished. This implies that despite the recent improvement in data, balanced portfolio diversification remains crucial in the face of significant volatility. Within equities, we trimmed exposure to U.S. energy stocks and MSCI China equities, and added to U.S. small-cap equities. Small caps' relative valuations compared to U.S. large caps are at historically attractive levels. Furthermore, bearish consensus and an overreaction of U.S. small caps to the recent banking instability are also supportive factors. Within fixed income, we dialled back the overweight to European high yield bonds as we expect intensifying refinancing and economic headwinds. We added to global asset-backed securities as we continue to favour the high carry and low duration profile.

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

FUND FACTS

Launch date	Base currency
31 July 2014	Euro

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Class Z Shares	1.86	-8.91	9.53	-3.32	9.21	-6.23	4.75	4.83	5.08	--	--

All performance data is calculated NAV to NAV, net of fees, and does not take account of commissions and costs incurred on the issue and redemption of units. The sources for all performance and Index data is Morgan Stanley Investment Management. **Please visit our website www.morganstanley.com/im to see the latest performance returns for the fund's other share classes.**

2 Source: U.S. Bureau of Labor Statistics, Consumer Price Index Summary, 12 April 2023, before seasonal adjustment.
3 Source: Morningstar.com, "Markets Brief: March CPI Report Forecasts Show Inflation Still Running High", 6 April 2023.
4 Source: U.S. Federal Reserve FOMC Statement press release 3 May 2023.
5 Source: U.K. Office for National Statistics CPI 12-month rate as of March 2023.
6 Source: Eurostat data as of March 2023.

Share Class Z Risk and Reward Profile

The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in a range of assets with different levels of risk and the fund's simulated and/or realised return has experienced medium rises and falls historically.
- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.

This rating does not take into account other risk factors which should be considered before investing, these include:

- The value of bonds are likely to decrease if interest rates rise and vice versa.
- The value of financial derivative instruments are highly sensitive and may result in losses in excess of the amount invested by the Sub-Fund.
- Issuers may not be able to repay their debts, if this happens the value of your investment will decrease. This risk is higher where the fund invests in a bond with a lower credit rating.
- The fund relies on other parties to fulfill certain services, investments or transactions. If these parties become insolvent, it may expose the fund to financial loss.
- Sustainability factors can pose risks to investments, for example: impact asset values, increased operational costs.
- There may be an insufficient number of buyers or sellers which may affect the funds ability to buy or sell securities.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.
- The derivative strategy aims to increase the income paid to investors, but there is potential for the fund to suffer losses.
- Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. The value of investments and the income from them can go down as well as up and investors may lose all or a substantial portion of his or her investment.
- The value of the investments and the income from them will vary and there can be no assurance that the Fund will achieve its investment objectives.
- Investments may be in a variety of currencies and therefore changes in rates of exchange between currencies may cause the value of investments to decrease or increase. Furthermore, the value of investments may be adversely affected by fluctuations in exchange rates between the investor's reference currency and the base currency of the investments.

Please refer to the Prospectus for full risk disclosures. All data as of 30 April 2023 and subject to change daily.

Applications for shares in the 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 official language of your local jurisdiction at morganstanleyinvestmentfunds.com or free of charge from the Registered Office of Morgan Stanley Investment Funds, European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxemburg B 29 192.

Information in relation to sustainability aspects of the Fund and the summary of investor rights is available at the aforementioned website.

If the management company of the relevant Fund decides to terminate its arrangement for marketing that Fund in any EEA country where it is registered for sale, it will do so in accordance with the relevant UCITS rules.

INDEX INFORMATION

The **MSCI USA Index** is designed to measure the performance of the large and mid cap segments of the US market. With 631 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.

The **MSCI Japan Index** is a free-floated adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on the Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.

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