Performance Review†
In December 2019, MSIFT Global Strategist Portfolio (class I shares at NAV) returned 2.86% net of fees. The Fund outperformed both its Morningstar category average return (+2.55%) and its custom benchmark, the MSIM Global Allocation Index, which returned +2.35%. The Fund’s primary benchmark, the MSCI All Country World Equity Index (ACWI), returned 3.52% during the month while the J.P. Morgan Global Government Bond Index returned +0.17%.

The Fund’s asset allocation mix of an overweight to global equities and an underweight in global fixed income had a positive effect on performance relative to the custom benchmark in December. At the sub-asset class level, the main contributors to performance in December were overweight positions in U.S. value stocks vs. expensively-valued and momentum stocks, as well as overweight positions in gold and U.S. inflation swaps (taking the view that inflation will rise). An underweight in U.S. IPO stocks vs. U.S. equities also contributed. The main detractors were an overweight in Eurozone value vs. expensively-valued stocks, and an overweight in U.S. housing stocks vs. U.S. equities.

Market Review‡
Markets continued to reflate in the last month of 2019, driven by increasing confidence in a global growth rebound and relief from geopolitical risk, as the U.S. and China agreed to a phase one trade deal, and the U.K. election handed a large victory to Boris Johnson’s conservative government, helping to reduce Brexit uncertainty. Global equities returned +2.7% in local FX, ending the year up 26.2%. The pound Sterling was among the best-performing developed currencies, rising +2.2% during the month. Global growth data appears stable and even moderately improving. The December global flash all-industry PMI (+0.2 pts to 51.1) showed global GDP tracking 2.5%, and the November U.S. unemployment report was strong (payrolls +266k).

Emerging markets were the regional outperformer among equities in December (MSCI EM Index +5.7% local FX, and +3.0% in USD), driven by the trade deal, risk on sentiment, and dollar weakness (DXY Index -1.9%). Emerging market currencies rising +2.8% during the month.

Yields rose and the curve steepened, with U.S. 2-year Treasury yields falling by -4 bps and 10- and 30-year yields rising +14 and +18 bps, respectively. German 10-year bund yields were up +18 bps. Risky spreads compressed, with high yield and emerging market hard currency spreads compressing by -34 and -32 bps, respectively (Barclays U.S. High Yield Index, JP Morgan EMBI Global Index).

The U.S. core PCE deflator came in at +1.6% YoY in November, slightly above consensus expectations of...
1.5%, however the University of Michigan 5-10 year inflation expectations fell to a new low of 2.2%. The latter is likely to raise eyebrows at the Fed and all else being equal would argue for easier policy. Eurozone November core CPI was in line with expectations at 1.3% YoY

Commodities were up 7.0% in December (S&P GSCI Index), led by Brent crude oil (+8.3% spot). OPEC agreed to deeper cuts and an extension, and Saudi Arabia announced an additional voluntary 400k of cuts. Gold and copper also rose +3.6% and +5.9%, respectively.

**Portfolio Activity**

We initiated an overweight in the Mexican peso vs. the U.S. dollar (USD). Mexico has seen no real GDP growth in the last 6 quarters due to trade deal uncertainty and very tight fiscal policy. But USMCA passage should support business investment and we expect the Bank of Mexico to cut rates (albeit more slowly than the market expects, helping to keep rate differentials relatively high). The peso is 10-15% undervalued based on its long-run historical real exchange rate vs. USD.

We initiated an overweight in a basket of defensive currencies (the Swiss franc, the euro, the British pound, and the Japanese yen) relative to the USD, in line with our view that U.S. relative outperformance is ending. Valuation is cheap, with long-term REER 1.6 standard deviations below the historical average. We increased an overweight in gold, as lower U.S. TIPS yields drive incremental investor demand (as gold becomes a more attractive store of value on a relative basis) and a weaker dollar drives up production costs. We expect 20% appreciation in gold over the next 12-24 months.

We closed our overweight in U.S. housing stocks vs. U.S. equities. Although we still believe that fundamentals are supportive (lower mortgage rates are likely to further stimulate home sales over the next 3-6 months), we are concerned about the recent tightening of lending standards. In addition, a U.S.-China trade deal should be positive for U.S. and global growth, likely pushing U.S. Treasury yields (and indirectly mortgage rates) higher, and negatively impacting housing demand.

**Investment Outlook**

Well-anchored inflation has been at the heart of the ‘great moderation’ regime over the past roughly 30 years. Moreover, cyclically, subdued inflation this late in the economic expansion is incredibly important for the longevity of the expansion as it reduces the risk of monetary policy error and ensures fiscal and monetary policy leeway to cushion the economy if needed. But as the expansion grinds on and resource utilization tightens, at least theoretically, higher inflation should follow. Such a turn, when it happens, will be of monumental importance, and in this note we explore the possibility of U.S. inflation accelerating materially over the next twelve to eighteen months. We conclude that, on this time horizon, it is premature to worry about an upturn in inflation.

During the ‘great moderation,’ inflation has arguably been the easiest of the macro variables to forecast in the near term. This is because inflation has remained well anchored, and any deviations from the long-term trend have tended to be lagged responses to fluctuations in real activity indicators and resource utilization measures. The lags have tended to be long enough so that, assuming historical relationships among variables held, inflation during the following year or so appeared largely predetermined. Perhaps for this reason our modelling of core PCE deflator (we focus on this, as it is the Fed’s preferred inflation measure) yields a forecast that is virtually identical with that of the consensus: a gradual acceleration from 1.6% in November of last year to 1.8% by the end of 2020.

The overarching theme behind our (and likely the consensus’s) forecasts for a very subdued core PCE deflator tends to follow global growth with a lag of 18
months. It is likely that the drag will mainly come from core goods, housing and 'other services,' which together account for over 60% of the core PCE deflator index.¹

- Core goods (excluding pharmaceuticals) prices tend to be sensitive to global, and especially to China's, growth fluctuations and to the U.S. dollar, likely due to the import parity pricing in many goods categories. We expect the core goods component (excluding pharmaceuticals) to decelerate from a negative -0.7% pace at the end of 2019 to -1.25% by the end of 2020.

- Following the slowdown in housing activity in 2018 and its delayed effect on housing prices, which decelerated from +6.8% in early 2018 to +4.6% in Q3 of 2019, we expect housing inflation to moderate very marginally.

- 'Other services' within core PCE also appear likely to decelerate, driven by a global growth slowdown, leading to a moderation in the U.S. labor market. Some slowing is already apparent in hours worked and payrolls growth and we expect that this will continue to cause wages to moderate somewhat over the coming year.

Together, we expect core goods, housing and 'other services' to detract -0.25% from core PCE by the end of 2020.

We expect the healthcare and financial services categories to escape the malaise in 2020 and to contribute positively, thanks to labor market tightness in the healthcare sector and a rebound in financial markets lifting financial services. However, their combined contribution will likely barely be sufficient to offset the drag from core goods, housing, and 'other services' described above. We also expect that the recently implemented tariffs on Chinese imports will add just over 0.12% on average through 2020 to the core PCE deflator, though this assumes 100% of tariffs are borne by the U.S. consumer, a potentially overly-pessimistic assumption.

Our relatively straightforward modelling outlined above yields a forecast of core PCE accelerating to 1.8% by the end of 2020, from 1.6% in November of 2019, basically in line with the 1.9% consensus forecast. Where could we (and consensus) be wrong?

An obvious risk to these forecasts is that historical relationships between the variables turn out to be unstable or to become non-linear beyond certain thresholds.

First, the impact of the tight labor market may turn out to be greater than we predict as the unemployment rate falls further. Wages have tended to accelerate disproportionately when the unemployment rate approached NAIRU.² However, the degree of acceleration has varied from cycle to cycle and has progressively weakened over time; furthermore, NAIRU itself is an uncertain forecast. Even if the labor market were to turn out to be tighter—and if 'other services' inflation accelerated from +2.3% in November to an expansion high of +3% instead of decelerating to 2% as we expect—the core PCE deflator would still not exceed 2%, given the modest weight of 'other services' (23% of total). Given the recent low sensitivity of overall services inflation to unit labor costs, we estimate that it would take over 6% wage growth (assuming trend productivity growth of 0.75%) for 3% overall services inflation to materialize.

Second, with regard to healthcare services, a tighter labor market in the healthcare sector is expected to lead to an acceleration in the healthcare services component of core PCE. But this relationship is also subject to numerous uncertainties. Cost containment measures dictated by the Affordable Care Act have depressed prices in the sector in recent years, and our expectation is that their impact has played out.

¹ We define 'other services' as services ex-energy, health care, housing, and financials.

² NAIRU is the non-accelerating inflation rate of unemployment, and refers to the level of unemployment below which inflation is theoretically expected to rise. The MSIM GMA team measures the NAIRU gap using the U-3 unemployment rate as implied by the U-6 unemployment rate.
However, further policies aiming at cost containment in healthcare are highly likely, and this could prevent healthcare inflation from accelerating from 1.6% to 2% as we expect.

Third, could de-globalization prevent the disinflation in core goods that we expect and help spur higher inflation? Although we take into account the direct effect of tariffs, there is a risk that their impact will be wider and affect prices of goods in related industries, as well as tighten labor markets in affected industries beyond what we are forecasting. While we suspect that such developments may have been one of the goals of the trade war, it seems that the measures implemented so far are unlikely to have been large and broad enough for such a wide impact. After all, tariffs imposed so far amount to a relatively moderate $72 billion. Net of farm subsidies, this is just $44 billion, or 0.2% of U.S. GDP.

Another potential source of higher inflation could be an external inflationary shock. Our models do not take into account inflation trends outside the U.S. In the past, significant inflation outbreaks occurred synchronously across major economies. Although there are signs of core inflation picking up in the Eurozone and stabilizing in Japan, our global composite of core inflation is in a downward trend. Our advanced economy inflation diffusion indicator, which has historically had leading properties, suggests disinflation ahead.

Rising U.S. labor force participation is another force that our models do not explicitly incorporate, but that could continue to dampen inflation over the next several years. The labor force participation rate among prime-age males has been on a steady decline for many decades, from around 94% in 1990 to 88% at its nadir in 2015. Since then it has risen to 89% today, helped possibly by the tight labor market and the rebound in manufacturing employment since 2010, a first such episode since the late 1990s. If the prime age male participation rate were to increase to 92% in 2020, the unemployment rate would rise by 0.9%, likely forestalling any labor market overheating for the time being.

Lastly, and perhaps most importantly, one has to wonder how a traditional late-cycle overheating could occur in an economy (actually in a world) where credit growth remains at or below nominal GDP growth, i.e. without a traditional credit growth cycle or major fiscal stimulus. It would seem that as the economy approaches capacity constraints, there would be not be a force that would generate excess demand and sustain growth in excess of its natural limits. As the labor market gets tight, instead of continued strong demand for workers leading to higher wage growth, labor demand would gradually slow to its potential, as dictated by trend labor force growth. This scenario would be unlikely to produce wage-driven inflation, as long as aggregate credit growth (private and government combined) remained at or below nominal GDP, as has been largely the case for most of the past 10 years (except for 2016-17) and remains the case today.

In the absence of the private sector’s appetite to lever up, overinvest and overhire, we expect policy makers to take risk-taking upon themselves. As we have discussed in other notes, we believe policy and academic consensus around more muscular monetary and fiscal activism is emerging in the majority of major economies. However, we believe that it would take a pronounced downturn for these ideas to become policy and thus we do not expect this to matter for inflation yet. With the chance of policy activism in 2020 being low, our forecast is for continued low inflation with the balance of risks to our forecasts skewed to the downside. Our expectation of below target inflation and very moderately above-trend growth this year suggests that many of the foundational characteristics and bigger trends of this expansion are likely remain unchanged.
Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the most recent month end performance figures, please visit morganstanley.com/im or call 1-800-548-7786. Investment returns and principal value will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost.

The gross expense ratio is 0.82%. The net expense ratio is 0.74%. The net expense is lower than the gross expense ratio because certain fees have been waived and/or expenses reimbursed. These waivers and/or reimbursements will continue for at least one year from the date of the applicable fund’s current prospectus (unless otherwise noted in the applicable prospectus) or until such time as the fund’s Board of Trustees acts to discontinue all or a portion of such waivers and/or reimbursements. Absent such fee waivers/reimbursements returns would have been lower. Expenses are based on the fund’s current prospectus. The minimum initial investment is $5,000,000 for Class I shares.

Returns are net of fees and assume the reinvestment of all dividends and income. Returns for less than one year are cumulative (not annualized). Performance of other share classes will vary.

1. The MSCI All Country World Index is a free float-adjusted market capitalization weighted index designed to measure developed and emerging equity market performance. The index is listed in U.S. dollars and assumes reinvestment of net dividends. The index is unmanaged and does not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

2. Global Multi-Asset Index performance is a performance linked benchmark of the old and new benchmark of the Portfolio, the old represented by 60% MSCI All-Country World Index, 30% Bloomberg Barclays Global Aggregate Bond Index, 5% S&P GSCI Light Energy Index, and 5% ICE BofAML U.S. Dollar 1-Month LIBID Average Index from inception through 5/31/2017 and the new Blended Index which consists of 60% MSCI All-Country World Index and 40% Bloomberg Barclays Global Aggregate Bond Index for periods thereafter. The composition of the Customized MSIM Global Allocation Index (Blended Index), the secondary benchmark index of the Global Strategist Portfolio, has been changed effective May 31, 2017. The investment team manages the Portfolio relative to this Blended Index. It is not possible to invest directly in an index.

3. Calculated using the custom Global Multi-Asset Index, which is a better representation of the Portfolio’s global multi-asset strategy.

4. Fixed income exposures are not duration-adjusted
The views, opinions, forecasts and estimates expressed are those of the portfolio management team at the time of writing and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. These comments are not representative of the opinions and views of the firm as a whole. Holdings and sectors/region weightings are subject to change daily.

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**RISK/RETURN DEFINITIONS**

**Alpha** is the excess return or value added (positive or negative) of the portfolio’s return relative to the return of the benchmark.

**Tracking error** is the amount by which the performance of the portfolio differs from that of the benchmark. Information ratio is the portfolio’s alpha or excess return per unit of risk, as measured by tracking error, versus the portfolio’s benchmark.

**RISK CONSIDERATIONS:** There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Accordingly, you can lose money investing in this portfolio. Please be aware that this portfolio may be subject to certain additional risks.

In general, **equity securities** entail special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. Longer-term securities may be more sensitive to interest rate changes. **Mortgage- and asset-backed securities (MBS and ABS)** are sensitive to early prepayment risk and a higher risk of default and may be hard to value and difficult to sell (liquidity risk). They are also subject to credit, market and interest rate risks. Certain **U.S. government securities** purchased by the Portfolio, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the United States. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **Sovereign debt securities.** The issuer or governmental authority that controls the repayment of sovereign debt may not be willing or able to repay the principal and/ or pay interest when due in accordance with the terms of such obligations. Investments in **foreign markets** entail special risks such as currency, political, economic, and market risks. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed countries. **Real estate investment trusts** are subject to risks similar to those associated with the direct ownership of real estate and they are sensitive to such factors as management skills and changes in tax laws. **Restricted and illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk).

**Derivative instruments** can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the Portfolio’s performance. Trading in, and investment exposure to, the **commodities** markets may involve substantial risks and subject the Portfolio to greater volatility. **Nondiversified portfolios** often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. By investing in **investment company securities**, the portfolio is subject to the underlying risks of that investment company’s portfolio securities. In addition to the Portfolio’s fees and expenses, the Portfolio generally would bear its share of the investment company’s fees and expenses. **Subsidiary and Tax Risk** the Portfolio may seek to gain exposure to the commodity markets through investments in the Subsidiary or commodity index-linked structured notes. The Subsidiary is not registered under the 1940 Act and is not subject to all the investor protections of the 1940 Act. Historically, the Internal Revenue Service (“IRS”) has issued private letter rulings in which the IRS specifically concluded that income and gains from investments in commodity index-linked structured notes or a wholly-owned foreign subsidiary that invests in commodity-linked instruments are “qualifying income” for purposes of compliance with Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). The Portfolio has not received such a private letter ruling, and is not able to rely on private letter rulings issued to other taxpayers. If the Portfolio failed to qualify as a regulated investment company, it
would be subject to federal and state income tax on all of its taxable income at regular corporate tax rates with no deduction for any distributions paid to shareholders, which would significantly adversely affect the returns to, and could cause substantial losses for, Portfolio shareholders.

The ICE BofAML U.S. Dollar 1-Month LIBID Average Index tracks the performance of a basket of synthetic assets paying LIBID to a stated maturity. The index purchases a new instrument each day, priced at par, having exactly its stated maturity and with a coupon equal to that day’s fixing rate. All issues are held to maturity. Therefore, each day the index is comprised of a basket of securities. The index is not marked to market. The returns of the index represent the accrued income generated by the equally weighted average of all the coupons in the basket for a given day. It is not possible to invest directly in an index.

The Bloomberg Barclays U.S. Corporate High Yield Index measures the U.S. market of non-investment grade, fixed-rate corporate bonds, excluding bonds from emerging market issuers. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+/BB+ or below.

The J.P. Morgan Global Government Bond Index is a market value weighted fixed income index comprised of government bonds in developed countries.

The J.P. Morgan Global Aggregate Bond Index (JPM GABI) Index is a U.S. dollar denominated, investment-grade index spanning asset classes from developed to emerging markets, and the JPM GABI extends the U.S. index to also include multi-currency, investment-grade instruments.

The J. P. Morgan Government Bond Index Emerging Markets (GBI EM), is local emerging markets debt benchmark that tracks local currency government bonds issued by emerging markets.

The MSCI All Country World Index (MSCI ACWI) is a free float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed and emerging markets.

The S&P 500 Index comprises 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The index is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The Euro Stoxx 50 Index is a market capitalization-weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. The universe for selection is found within the 18 Dow Jones EURO STOXX Supersector indexes, from which members are ranked by size and placed on a selection list.

The MSCI Emerging Markets Index (MSCI EM) is a free-float, market-capitalization weighted index that is designed to measure the equity market performance of emerging markets.

The S&P GSCI Total Return Index is a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

The U.S. Dollar Index (DXY) tracks the performance of a basket of leading global currencies versus the U.S. dollar. The index represents both developed and emerging market currencies that have the highest liquidity in the currency markets.

The CBOE Volatility Index® (VIX® Index®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The indices are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index.

Please consider the investment objectives, risks, charges and expenses of the fund carefully before investing. The prospectus contains this and other information about the fund. To obtain a prospectus, contact your financial advisor or download one at morganstanley.com/im. Please read the prospectus carefully before investing.

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