A Sub-Fund of Morgan Stanley Investment Funds

Global Credit Fund

BROAD MARKETS FIXED INCOME TEAM

Performance Review

In the one month period ending 31 July 2025, the Fund's Z shares returned -0.47% (net of fees)[1], while the benchmark returned -0.63%.

The performance can be attributed to the following factors.

The portfolio's overall investment grade credit positioning had a positive impact on performance.

The portfolio is positioned to be overweight financials and underweight industrials when measured in duration times spread terms.

Positions within investment grade financials were drivers of positive performance, driven by the overweights to banking and insurance.

However, positions within investment grade industrials were detractors from performance, driven by the underweights to consumer cyclical and basic industry.

The Fund's exposure within the investment grade utility space had a positive impact on performance, driven by its overweight to natural gas.

The overweight in high yield positions contributed positively to performance.

The overweight in government-related positions had a positive impact on performance.

The slight overweight in duration positioning had a negative impact on performance, as U.S. Treasury yields rose during the period.

Market Review

Rates Reprice Higher Amid Resilient Growth and Sticky Inflation

Global government bond yields rose across most developed markets in July, led by the 10-year U.S. Treasury yield, which climbed approximately 15 basis points (bps) to 4.37%, reflecting stronger-than-expected economic data and persistent inflation pressures.[2] Long-term yields in Canada (+18 bps) and Japan (+12.5 bps) also saw notable moves, while Germany (+9 bps) and the U.K. (+8 bps) followed suit.[2] The upward pressure on yields was broad-based, driven by hawkish central bank rhetoric and a reassessment of terminal rate expectations.

Credit Markets Rally on Technicals and Risk Appetite

Credit spreads tightened across the board, supported by strong fundamentals and demand. U.S. investment grade spreads narrowed by 7 bps to 76 bps, while U.S. high yield spreads tightened by 12 bps to 278 bps, with similar moves in euro investment grade (-13 bps) and euro high yield (-30 bps).[2] Emerging markets (EM) corporate and sovereign debt saw meaningful spread compression, with EM external spreads 24 bps tighter and EM corporate spreads 26 bps tighter, reflecting improved sentiment and demand.[2]

Securitized Credit Outperforms

Agency mortgage-backed spreads (MBS) yields rose approximately 14 bps, but spreads tightened modestly, suggesting stable demand.[2] CMBS and asset-backed securities (ABS) spreads narrowed across ratings buckets, with AAA CMBS down approximately 5 bps and BBB CMBS down approximately 20 bps, supported by improving fundamentals and technicals.[2]

Breakevens Rise as Inflation Expectations Rebuild

Inflation breakevens widened in the U.S. (+11 bps), Germany (+6 bps), and the U.K. (+6 bps), indicating a rebound in inflation expectations across the globe.[2] The move was more muted in Japan and southern Europe.

Currency Volatility Returns as USD Strengthens

The U.S. dollar (USD) appreciated broadly, with notable moves against the yen (-4.5%), euro (-3.2%), and British pound (-3.8%).[2] The DXY index, measuring the U.S. dollar versus a basket of major currencies, rose 3.2%, driven by higher U.S. yields and relative safe-haven flows.[2] EM currencies were broadly lower, with Brazilian real and South African rand weakening -3.0% and -2.7%, respectively.[2]

Portfolio Activity

No significant changes to note.

[1] Source: Morgan Stanley Investment Management Limited. Data as of 31 July 2025.
[2] Source: Bloomberg L.P. Data as of 31 July 2025.

Strategy and Outlook

Strategy

In the portfolio, we maintain our overweight position to credit risk, as we remain constructive on credit from a fundamentals and technicals perspective. However, we remain selective in our exposures, cognisant of the current tightness in credit spreads, favouring issuers which exhibit strong fundamentals and less cyclicality and are well positioned to benefit from a moderate growth environment.

We remain biased towards financials over non-financials. Financials continue to present strong fundamentals and attractive valuations relative to non-financial credits. We remain underweight industrials on concerns over continued downward ratings migration into BBBs, increased merger and acquisition risk, shareholder-interest focused activity (dividends and buybacks), technological disruption and increasing idiosyncratic news. We thematically prefer regulated business models over unregulated (i.e., utilities) to hedge these risks. We also remain selective in off-benchmark holdings of high yield and government-related bonds.

In terms of interest rate risk, we are broadly neutral in duration terms versus the benchmark. We also continue to look for new issues to take advantage of new opportunities in the primary market.

Outlook

Fixed income markets in July reflected investor sentiment that the U.S. economy had largely moved past the tariff-related uncertainty of the prior three months and was progressing at a steady—if unspectacular—pace. However, core inflation data releases for June (consumer price index and personal consumption expenditures) remained stubbornly sticky, showing a slight uptick from May.

Early in the month, the initial non-farm payrolls report for June exceeded expectations (147,000 vs. 106,000 forecast), reinforcing market confidence in the economy's resilience. Yet subsequent revisions—amounting to a two-month downward adjustment of 258,000—revealed that labour market strength in May and June had been significantly overstated.[3] At the time, though, traders interpreted the preliminary data as indicative of benign growth.

The Federal Reserve (Fed) held rates steady as expected, but dissent from Fed Governors Bowman and Waller—who cited labour market concerns and advocated for a rate cut—marked a notable shift. By month-end, 10-year Treasury yields had risen 15 bps. Fed funds futures, which had priced in a 65% chance of up to three cuts by year-end at the end of June, revised expectations to just over a 30% chance of only two cuts by 31 July.[2]

As is typical for mid-summer, market activity was subdued and liquidity thin. Credit spreads in both investment grade and high yield touched year-to-date lows. Securitized asset spreads tightened, and the MOVE Index[4]—a measure of Treasury bond volatility—closed at its lowest level since January 2022, just before the Fed began its hiking cycle. With reduced expectations for Fed easing, the yield curve flattened, narrowing the 5-year vs. 30-year Treasury spread by 5 bps.[2]

Other G10 rates markets largely mirrored U.S. moves. The European Central Bank (ECB), Bank of Japan, Bank of Canada and Reserve Bank of Australia all held rates steady, while the Bank of England did not meet. Ten-year yields rose across developed markets in sympathy with the U.S. Treasury move.

As the Trump administration's self-imposed 1 August deadline for trade negotiations approached, the tariff structure became clearer. Deals struck after the initial post-Liberation Day pause suggest a 15% tariff baseline for trade agreements with the U.S.—except for the U.K., which agreed to 10%. The European Union, Japan and South Korea accepted 15% tariffs with no reciprocal duties on U.S. goods, alongside commitments for hundreds of billions of dollars in U.S. investment. India (25%), Switzerland (39%) and Brazil (50%) face higher rates. Canada remains in negotiations and currently faces a 35% tariff on non-USMCA-compliant goods,[5] while Mexico received a 90-day extension to finalise its deal.

Additional tariffs on steel, aluminium and copper, and the removal of the World Trade Organization (WTO) exemption on pharmaceuticals have pushed the average effective tariff rate on U.S. goods imports to 18.3%, up from 2.4% in January, according to the Budget Lab at Yale University. These tariffs are estimated to have raised U.S. consumer prices by 1.5%, accounting for substitution effects. As these deals were announced, Treasury inflation-protected securities (TIPS) breakevens—a key market gauge of inflation expectations—rose, with 5-year breakevens moving from 2.31% at the start of July to 2.48% by month-end.[2]

We also gained clarity on another major Trump administration initiative: the One Big Beautiful Bill Act, signed into law on 4 July. From a fixed income perspective, the primary concern is the likely expansion of the federal deficit from already elevated levels, despite a growing and fully employed economy. As previously noted, we expect these persistent deficits to exert upward pressure on real interest rates across the curve.

We've titled this monthly outlook "If We Knew Then What We Know Now" because July's muted market movements were based on assumptions of steady economic growth. However, the 1 August U.S. employment report and significant downward revisions to prior payroll data suggest the picture may have been more fragile than it appeared. The months ahead promise to be revealing.

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

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2 Source: Bloomberg L.P. Data as of 31 July 2025.
3 Source for all non-farm payrolls data: U.S. Bureau of Labor Statistics, June 2025 and July 2025.
4 The Merrill Lynch Option Volatility Estimate (MOVE) Index measures the implied yield volatility of U.S. Treasury bonds.
5 U.S.-Mexico-Canada Agreement

Fund Facts

Launch date	14 November 2012
Base currency	U.S. dollars
Benchmark	Bloomberg Global Aggregate Corporate Index

Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class Z Shares	6.38	1.74	9.39	-17.14	-2.93	11.08	13.93	-5.15	10.05	3.70	-3.64
Bloomberg Global Aggregate Corporate Index	6.72	1.10	9.61	-16.72	-2.89	10.37	11.51	-3.57	9.09	4.27	-3.56

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 shares. The sources for all performance and index data is Morgan Stanley Investment Management ('MSIM Ltd'). **Please visit our website www.morganstanley.com/im to see the latest performance returns for the fund's other share classes.**

Effective 17th November 2022 the Morgan Stanley Investment Funds Sustainable Global Credit Fund was renamed to Global Credit Fund.

Share Class Z Risk and Reward Profile

- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.
- 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.
- Investment in Fixed Income Securities via the China Interbank Bond Market may also entail additional risks, such as counterparty and liquidity risk.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.
- 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, available at www.morganstanleyinvestmentfunds.com. All data as of 31.07.2025 and subject to change daily.

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 in English online at: Sustainable Finance Disclosure Regulation.

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 UCITS rules.

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INDEX INFORMATION

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The **Merrill Lynch Option Volatility Estimate (MOVE)** Index measures the implied yield volatility of U.S. Treasury bonds.

The **US Dollar Index (DXY)** is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of US trade partners' currencies.

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