Economic and Market Commentary – July 2024

In the U.S., the yield on the US 2-year Treasury note fell 49 basis points (bps) over the month to end at 4.26%. The yield on the benchmark 10-year Treasury fell 47 bps to 4.03%, down from 4.40% at the end of June. The yield on the 30-year Treasury fell 26 bps to 4.30%.

In July, the U.S. economy expanded at an above-trend pace while inflation moderated. The U.S. Gross Domestic Product (GDP) grew at a 2.8% annualized rate in the second quarter of 2024, a sharp acceleration from the weaker pace of 1.4% in Q1. Consumer spending remains the main driver of overall growth, with goods consumption picking up after a slowdown in the prior quarter. Although the unemployment rate increased to 4.1% in June, nonfarm payroll employment growth of +206,000 indicates that the labor market remains strong but not overheated. In the meantime, the core Personal Consumption Expenditures (PCE) Price Index, which excludes food and energy prices, registered a benign monthly reading of 0.18% in June, keeping the year-over-year core inflation rate flat at 2.6%. Globally, inflation trends continue to moderate in line with central bank targets, and growth continues to recover.

The Federal Reserve maintained the fed funds rate at 5.25% - 5.50% at the July meeting while acknowledging that policymakers are attentive to both sides of the dual mandate rather than solely focused on inflation. Chair Powell recognized the improvement in inflation and suggested that the unemployment rate has moved up but remains low. In addition, Powell suggested that "a reduction in policy rate could be on the table at the September meeting" if inflation data continues to register in line with the Fed's target and the labor market remains resilient. However, Powell was reluctant to express thoughts beyond September, suggesting that it's impossible to know what path the fed funds rate might tread. The bond market foresees a slowdown in the economy and is 100% confident in a September cut and seven more cuts to follow by the end of 2025.

Short-Term Bond Fund ("STBF")

The STBF posted a +1.08% total return[1] for July compared to the benchmark ICE BofA 1-3 Year US Treasury index of +1.14%. Fixed income returns were positive across all sectors in July, as yields generally decreased and spreads slightly tightened. Corporates led all sectors in performance over the month, with municipals, asset-backed securities (ABS), and Agencies on the lower end. ABS and corporates remain the best performers year-to-date. The fiscal year-to-date total return for the STBF is +5.41% compared to +4.95% for the benchmark. The net 30-Day SEC Yield for the Short-Term Bond Fund was 4.59% on 7/31, compared to 4.61% as of 2023-year end.

The STBF remains well-positioned as we favor a high-quality tilt in a diversified mix of credit, with ample liquidity. The trend earlier this year of heavy supply of investment grade (IG) corporates and securitized products has been met by healthy investor demand. We anticipate a potential seasonal decline in supply as the year progresses, in part due to the heavy issuance we've already experienced, as well as the potential for increased volatility as we approach the changes in Fed messaging and the Fed funds rate, as well as the presidential election cycle.

The fund has a headline duration of 1.51 years, versus the index duration of 1.82. The fund holds a 8% allocation to floating rate securities. These bonds enhance the overall yield of the fund – these positions have an average yield of 5.8%, but do not contribute to duration / interest rate risk. The timing and pace of rate cuts will be our primary focus over the coming months.

Multiple rate cuts in 2024 remain possible. Current yield curve positioning and planned duration extension should help the fund outperform the Treasury benchmark when the Fed starts cutting rates. In addition, the still-inverted yield curve means shorter Treasury securities are currently more attractive, yield-wise, versus longer options. Still, as we consider reinvestment risk – rates may stay higher for some time, but lower rates are on the horizon - investing in non-Treasury sectors can offer comparable or higher yields.

The STBF is assigned Fitch rating agency's highest Fund Credit Quality Rating and Fund Market Risk Sensitivity Rating of AAAf/S1. The liquidity of the fund is very strong, with 34% of funds

[1] *Net Asset Value calculated by custodian UMB. Net of fees.*

invested in Treasuries and government related securities. There were $36 million in withdrawals in July.

Day to Day Fund ("DtD Fund")

The Florida Trust Day to Day Fund posted a total return[2] of +0.46% in Jly, compared to the benchmark ICE BofA Three-Month Treasury Index return of +0.45%. Fiscal year-to-date, the fund has returned +4.65% compared to +4.50% for the benchmark. The net 7-day SEC yield of the Day to Day Fund was 5.41%, compared to 5.50% at 2023-year end. Comparable prime institutional government funds had an average yield of 5.04% on 7/31. The Fund continues to provide safety, income, and liquidity of investments in a stable, $1 NAV Fund.

We continue to diversify credit exposure by investing in high-quality commercial paper ("CP"), and money market tranches of ABS as we search to maximize yield without adding volatility or sacrificing liquidity. As Treasury bill issuance has been met with strong demand due to reduced usage of the Federal Research Repurchase Program facility, we rotate into bills from repo, and position Treasury holdings to take advantage of the yield curve inversion. While short floating rate securities are difficult to source, the fund holds a 34% allocation to floating rate notes, averaging a 5.5% yield collectively.

The fund remains highly liquid with approximately 38% of the portfolio invested in overnight and short-term securities. Additionally, 28% of the portfolio is invested in government or government guaranteed securities, also enhancing liquidity. The weighted-average maturity of the portfolio is currently 20 days. The fund processed about $128 million in net outflows in July. The fund is assigned Fitch rating agency's highest Money Market Fund Rating of AAA mmf.

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[2] *Net of fee return calculated by custodian UMB.*