FLORIDA TRUST

Economic and Market Commentary – August 2024

In the U.S., the yield on the US 2-year Treasury note fell 34 basis points (bps) over the month to end at 3.92%. The yield on the benchmark 10-year Treasury fell 13 bps to 3.90%, down from 4.40% at the end of June. The yield on the 30-year Treasury fell 10 bps to 4.20%.

During August, core inflation resumed its progress toward the Fed's 2% target while the labor market softened further. The core personal consumption expenditures (PCE) price index registered a 0.2% increase month-over-month, keeping the year-over-year reading stable at 2.6% in July. If August's monthly trend continues, core inflation will reach 2% as early as the spring of 2025.

In August, Federal Reserve (Fed) Chair Jerome Powell celebrated the moderation of inflation without significant economic consequences during his opening remarks at the Jackson Hole Symposium. However, Powell noted that the recent "cooling in labor market conditions is unmistakable." Indeed, with the unemployment rate rising from its cycle-low of 3.4% to 4.3% in July, the labor market is no longer a source of inflationary pressures. As a result, policymakers think "the time has come for policy to adjust" and "the direction of travel is clear," but the "timing and pace of rate cuts will depend on incoming data, evolving outlook, and the balance of [upside inflation and downside employment] risks." In our view, the economy is doing better than most market participants believe, as nonfarm payroll employment continues to grow at a healthy pace of 170,000 per month as of July. Consequently, we expect the Fed to reduce rates at the three remaining policy meetings this year, with a 25-basis point cut at each. However, as Chair Powell has emphasized, policymakers will no longer "seek or welcome further weakening in the labor market," so any weaker economic data will warrant a faster return to a neutral policy rate of around 3% in the next 12 months.

Short-Term Bond Fund ("STBF")

The STBF posted a +0.93% total return[1] for August compared to the benchmark ICE BofA 1-3 Year US Treasury index of +0.90% as Treasury rates continue to fall on the assumption Fed rate cuts are drawing near. Fixed income returns were again positive across all sectors in August, as yields generally decreased and spreads slightly tightened. Corporates and asset-backed securities corporates remain the best performers year-to-date. The fiscal year-to-date total return for the STBF is +6.39% compared to +5.89% for the benchmark. The net 30-Day SEC Yield for the Short-Term Bond Fund was 4.35% on 8/31, 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 1.56 years, versus the index duration of 1.81. The fund holds a 9% allocation to floating rate securities. These bonds enhance the overall yield of the fund – these positions have an average yield of 6.5%, 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 32% of funds invested in Treasuries and government related securities. There was a previously planned $50 million in withdrawal in August.

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

Day to Day Fund ("DtD Fund")

The Florida Trust Day to Day Fund posted a total return[2] of +0.46% in August, compared to the benchmark ICE BofA Three-Month Treasury Index return of +0.48%. Fiscal year-to-date, the fund has returned +5.13% compared to +5.00% for the benchmark. The net 7-day SEC yield of the Day to Day Fund was 5.44%, compared to 5.50% at 2023-year end. Comparable prime institutional government funds had an average yield of 5.00% on 8/31. 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 42% allocation to floating rate notes, averaging a 5.4% yield collectively.

The fund remains highly liquid with approximately 34% 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 15 days, as we await the key Fed Reserve meeting on September 17 and 18th. The fund processed about $48 million in net outflows in August. 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.*