Economic and Market Commentary – September 2024

In the U.S., the yield on the 2-year Treasury note fell 28 basis points ("bps") over the month to end at 3.64%. The yield on the benchmark 10-year Treasury fell 12 bps to 3.78%, down from 3.90% at the end of August. The yield on the 30-year Treasury fell 8 bps to 4.12%.

Core inflation continued to moderate during September while the labor market softened materially. The core personal consumption expenditures (PCE) price index registered at 0.13% month-over-month. If that monthly rate of change continues, the year-over-year reading will dip below the Fed's 2% target by the spring of 2025. Meanwhile, job growth has slowed in 2024, with the three-month moving average of nonfarm payroll growth declining from 249,000 in May to 116,000 in August.

The Federal Open Market Committee (FOMC) lowered rates by 50 bps at the September meeting, reducing the target range for the federal funds rate to 4.75%-5.00%. Policymakers are more concerned about the recent slowdown in the labor market than inflation. Consequently, in Fed Chair Powell's words, it made sense to "remove restriction." Policy rates will continue to move toward a "neutral" policy setting (3.0%-3.5%). The incoming labor market data will determine how quickly the policy rate gets to neutral, as weaker job reports could prompt a faster pace of cuts. Rates moving lower by ~200 bps in the next 18 months would still be consistent with a "soft landing" scenario rather than a recession, and a faster return to a neutral policy stance bodes well for equities, credit, and economic growth.

Short-Term Bond Fund ("STBF")

The STBF posted a +0.78% total return[1] for September compared to the benchmark ICE BofA 1-3 Year US Treasury index of +0.80%. Treasury rates continue to fall as we enter a new era of Fed easing. The Fed's "dot plot" shows Fed members expect two more 25 bps rate cuts for the year however, the market is more aggressive pricing in three four cuts before the end of the year. For the third quarter, 2-year Treasury yields rallied by 120 bps, 10-year Treasury yields rallied 80 bps, and 30-year Treasury yields rallied 40 bps. The drop in rates occurred prior to the actual rate cut announcement in September due to economic data prints indicating slowing inflation and softer labor market. It is important to note that while the direction of rates is now clear, the pace of the cutting cycle will continue to be data dependent.

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

Short fixed income returns were again positive across all sectors in September, Q3, and year-to-date, as yields generally decreased and spreads continue to grind tighter. Corporates and asset-backed securities remain the best performers year-to-date for the sectors in which the STBF invests. The fiscal year-to-date total return for the STBF is +7.22% compared to +6.74% for the benchmark. The net 30-Day SEC Yield for the Short-Term Bond Fund was 4.18% on 9/30, 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, with a duration position close to neutral. The third quarter overall saw continued strong supply for both the investment grade (IG) corporate and securitized product sectors. The supply continued to be extremely well digested as risk premiums were relatively flat in both spaces for the quarter. We anticipate supply to remain elevated through October as issuers try to get ahead of the US election season and the anticipated increase in volatility. Overall risk premiums were steady all quarter except for a short- lived data-driven spike in the beginning of August. While risk premiums have come off the lows in the middle of Q2, they remain close to their lowest levels over the past two years.

The fund has a headline duration of 1.60 years, versus the index duration of 1.84. The fund holds an 8% allocation to floating rate securities. These bonds enhance the overall yield of the fund – these positions have an average yield of 6.1%, but do not contribute to duration / interest rate risk. Current yield curve positioning and planned duration extension should help the fund outperform the Treasury benchmark as the Fed continues cutting rates. In addition, the still-inverted yield curve means shorter Treasury securities are currently more attractive, yield-wise, versus longer options. The pace of rate cuts will be our primary focus for the rest of the year and into next year, and we have penciled in two additional cuts in 2024 (25 bps at each meeting).

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 31% of funds invested in Treasuries and government related securities. There were $57.5 million in withdrawals in September, nearly all previously forecast.

Day to Day Fund ("DtD Fund")

The Florida Trust Day to Day Fund posted a total return[2] of +0.44% in September, compared to the benchmark ICE BofA Three-Month Treasury Index return of +0.43%. Fiscal year-to-date, the fund has returned +5.59% compared to +5.46% for the benchmark. The net 7-day SEC yield of the Day to Day Fund was 5.15%, compared to 5.50% at 2023-year end. Comparable prime institutional government funds had an average yield of 4.67% on 9/30. 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"), money market tranches of ABS, and municipal variable rate demand notes ("VRDNs") as we search to maximize yield without adding volatility or sacrificing liquidity. Municipals offer revenue streams secured by debt issued by essential services exhibit inelastic demand and are a favorable alternative to repo and Treasury bills. While short floating rate securities can be difficult to source, the fund holds a 42% allocation to floating rate notes (including VRDNs), averaging a 5.0% yield collectively.

The fund remains highly liquid with approximately 43% 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 10 days, As U.S. elections near we expect to see an increase in volatility as a new administration will take charge regardless of the election result. The effect on a reflation trade, deficit financing and overall economic health is as uncertain as ever. As central banks begin their cutting cycles, we are keeping a close eye on how global economies and currencies respond. Global geopolitical risks are also paramount and difficult to gauge their impacts on markets. Given the uncertain nature of domestic and global policy, we are biased towards maintaining liquidity as current risk premiums do not compensate for additional risk.

The fund processed approximately $80 million in net outflows in September. 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.*