Economic and Market Commentary – November2024

In the U.S., the yield on the 2-year Treasury fell two basis points ("bps") over the month to 4.15%. The yield on the benchmark 10-year Treasury fell 11 bps to 4.17%. The yield on the 30-year Treasury also fell 11 bps to 4.36%.

Two significant events dominated November headlines: the 2024 U.S. presidential election and the November Federal Open Market Committee (FOMC) meeting. However, despite their media coverage, neither the election nor the November FOMC changed our view that a "soft landing" is the most likely outcome for the U.S. economy over the next six months. Why? First, details of any changes in economic policy due to the election may not arrive until mid-to-late 2025, with impacts on the economy not felt until 2026 or beyond. Second, proposals include expansionary (tax cuts) and restrictive (tariffs) policies, so the net impact of the fiscal agenda is still unclear. Third, we view tariffs as a tax on consumers, which raises the prices of certain goods, but not a driver of inflation, which is the rise in the general level of prices. As a result, investors may be overestimating the impact of tariffs on inflation, as evidenced by bond investors pricing fewer Federal Reserve (Fed) rate cuts in the year ahead.

November data from the Bureau of Economic Analysis showed that the core personal consumption expenditures (PCE) price index, the Fed's preferred inflation gauge, increased at 2.8% year-over-year in October. However, the three-month moving average of core PCE remains close to the Fed's target implied monthly rate. Consequently, we still expect core inflation to moderate toward the Fed's 2% target in 2025. In the labor market, the anomalous October jobs report was heavily impacted by weather, and the three-month moving average of job growth at 148,000 indicates that the labor market remains healthy.

As anticipated, the Federal Reserve cut interest rates by 25 bps early in the month. The path for future cuts has diminished relative to late summer with the market pricing in little over a 50% chance for a cut in December and 2.5 cuts over the course of the next year. Rates were volatile over the month, driven by the markets speculation around the new administration and the direction of policy for the next four years. The pace of cuts will slow next year (to one cut per quarter) as the Fed returns to a "neutral" policy stance

(3.0% - 3.5%) by the end of 2025. Consequently, interest rates could fall more than current market expectations in the year ahead.

Short-Term Bond Fund ("STBF")

Short fixed income returns were positive across all sectors in November, as front-end yields generally decreased, and spreads were mixed. The STBF posted a +0.44% total return[1] for November compared to the benchmark ICE BofA 1-3 Year US Treasury index of +0.29%. In November, corporates had positive net issuance, driven by a big month for the Financial sector. The supply continued to be met by strong demand driving a further contraction in risk premiums. In securitized products, supply was down on the month as most deals were priced in October to avoid potential election volatility. The lower supply in securitized products drove risk premiums narrower. Supply across all segments of fixed income has been well received. Risk premiums are close to their lowest level over the past two years.

The STBF remains well-positioned as we favor a high-quality tilt in a diversified mix of credit, with ample liquidity, and a duration position close to neutral, as we are anchored to projected near-term Fed policy. Current yield curve positioning and duration extension should help the fund outperform the Treasury benchmark as the Fed continues cutting rates into 2025. 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 one additional 25 bps cut in 2024, and more in 2025.

The STBF is assigned Fitch rating agency's highest Fund Credit Quality Rating and Fund Market Risk Sensitivity Rating of AAAf/S1. The net 30-Day SEC Yield for the fund was 4.26% on 11/30, compared to 4.61% as of 2023-year end. The liquidity of the fund is very strong, with 30% of funds invested in Treasuries and government related securities. There were ~$50 million in net withdrawals during November, which the fund easily sufficed given liquidity levels.

Day to Day Fund ("DtD Fund")

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

The Florida Trust Day to Day Fund posted a total return of +0.40% in November, compared to the benchmark ICE BofA Three-Month Treasury Index return of +0.38%. The net 7-day SEC yield of the Day to Day Fund was 4.66%, compared to 5.50% at 2023-year end. Comparable prime institutional government funds had an average yield of 4.36% on 11/30. 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"), Yankee CDs ("YCDs"), and 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. The fund holds a 42% allocation to floating rate notes (including VRDNs), averaging a 5.2% yield collectively.

The fund remains highly liquid with approximately 29% of the portfolio invested in overnight and short-term securities. Another 29% of the portfolio is invested in government or government guaranteed securities, also enhancing liquidity. The weighted-average maturity of the portfolio is currently 16 days. The fund processed approximately $70 million in net inflows in November, some flagged as temporary in nature and some to remain for longer. The fund is assigned Fitch rating agency's highest Money Market Fund Rating of AAA mmf.

While we acknowledge the lagged effects of restrictive monetary policy could cause extra stress on the economy, we currently do not foresee the need for the Fed to accelerate the path of rate reductions to stave off a recession. The results of the US election yielded a new administration and a Republican sweep. While we have already seen a Trump administration, the personnel are new and economic conditions vastly different with rates, inflation and government deficits much higher. The extent and impact of proposed policies on the economy is unclear. As central banks continue their easing cycles, we are keeping a close eye on how global economies and currencies respond. Given the uncertain nature of domestic and global policy, we are biased towards maintaining liquidity as current risk premiums do not compensate investors for additional risk.

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