FLORIDA TRUST

Economic and Market Commentary – December 2024

In the U.S., the yield on the 2-year Treasury rose nine basis points ("bps") over the month to 4.24%. The yield on the benchmark 10-year Treasury rose 40 bps to 4.57%m and the 30-year Treasury yield rose 42 bps to 4.78%. The rise in yields were driven by the revised Federal Reserve projections for 2025 and speculation on broad policy changes (tariffs, immigration and deficit financing) from the new administration.

Economic data released in the final month of 2024 made a strong case that the "soft landing" is alive and well. The Fed's preferred inflation gauge, the core personal consumption expenditures price index (Core PCE), registered a 2.8% year-over-year increase for November. While the year-over-year rate remained unchanged from October, the index only rose 0.1% month-over-month, its softest reading since May 2024. On the labor market front, job growth was strong during November, increasing the three-month moving average to a healthy 173,000.

The Federal Reserve cut interest rates by 25 bps in December, but policymakers projected fewer rate cuts in 2025 considering more persistent inflationary pressures. Kicking off its policy cutting cycle in September, the Fed had three consecutive meetings with rate cuts and enacted a total of 100 bps of easing in the federal funds rate from 5.25-5.50%to 4.25-4.50%. However, policymakers suggested they may downshift the pace of easing in 2025. Why? In contrast to November's soft inflation report, September's and October's readings on inflation were a bit stickier than policymakers had anticipated. As a result, the Fed raised its projected federal funds rate level at the end of 2025 from 3.375% to 3.875%. In turn, financial markets priced in fewer than 50 bps of total rate cuts by the end of December 2025. However, we are more optimistic that inflation will continue to moderate in 2025, suggesting interest rates could move lower than policymakers and markets currently expect.

Short-Term Bond Fund ("STBF")

Short fixed income returns were positive across all sectors in December and in the fourth quarter, as short-term yields generally decreased while spreads were mixed. The STBF posted a +0.18%

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total return[1] for December compared to the benchmark ICE BofA 1-3 Year US Treasury index of +0.24%. In Q4, new bond issuance was very high in both short corporate and securitized product segments. Investors were more than willing to absorb the supply as risk premiums moved to their lowest level in the past two years. We expect early 2025 to be more of the same with risk premiums remaining narrow and continued high supply levels.

The STBF remains well-positioned as we continue to favor a high-quality tilt in a diversified mix of credit, with ample liquidity, and a neutral duration position, as we are anchored to projected near-term Fed policy. Current yield curve positioning should help the fund outperform the Treasury benchmark as the Fed considers cutting rates in 2025. The pace of rate cuts will be our primary focus into the new year. We do not see any imminent risks catalyzing a risk-off move however we also do not view current credit premiums as an attractive starting place to increase credit exposure.

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 4.31% at year end, compared to 4.61% as of 2023-year end. The liquidity of the fund is strong, with 31% of funds invested in Treasuries and government related securities. There were ~$4 million in net deposits during December.

Day to Day Fund ("DtD Fund")

The Florida Trust Day to Day Fund posted a total return of +0.39% in December, compared to the benchmark ICE BofA Three-Month Treasury Index return of +0.40%. The net 7-day SEC yield of the Day to Day Fund was 4.52%, compared to 5.50% at 2023-year end. Comparable prime institutional government funds had an average yield of 4.20% on 12/31. The Fund continues to provide safety, income, and liquidity of investments in a stable, $1 NAV Fund.

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

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 35% allocation to floating rate notes (including VRDNs), averaging a 5.1% yield collectively.

The fund remains highly liquid with approximately 46% of the portfolio invested in overnight and short-term securities. Another 35% of the portfolio is invested in government or government guaranteed securities, also enhancing liquidity. The weighted-average maturity of the portfolio is currently 12 days as some newer inflows are known to be short-term. The fund processed over $1.2 billion in flows in December, ~$213 million net. 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 don't foresee the need for the Fed to accelerate the path of rate reductions. The results of the US election pose potential threats with higher inflation and onerous implications for higher deficits. However, any proposed policies by the new administration are too early to call until actual policies are implemented. As most 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.