FLORIDA LOCAL GOVERNMENT INVESTMENT TRUST

The Day to Day Fund
Portfolio Report
February 2019

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Economic and Market Commentary February 2019

In the month of February two-year U.S. Treasury yield rose five basis points to 2.51% and 10-year Treasury yields rose eight basis points to 2.71%, compared to levels at the end of January.

Minutes of the January Federal Reserve meeting and comments by Fed Chair Powell on Capitol Hill this month emphasized that with muted inflation pressures, the Fed has the luxury of being “patient”. We expect an extended “pause” for most of 2019 but we do not think it is permanent. With inflation likely to pick up later this year, we still anticipate a hike in September, if the data warrants such a move. Without the need to move quickly it’s difficult to see another move after that until early 2020. Ultimately, we think the Fed still gets to ~3% on fed funds, with one hike in 2019 and one in 2020.

As the U.S. marches towards its longest expansion in post-war history (now clocking in at 116 months), few would have guessed that 2018 would feature the best year of gross domestic product (GDP) growth of the economic cycle. We now know that GDP rose at an annual rate of 2.6% in Q4 and 3.1% in 2018 on a Q4/Q4 basis – the fastest growth year of the cycle and the fastest pace since 2015. While we expect growth to slow in 2019, we do not expect a recession. In fact, in the last three expansions, GDP growth “peaked” almost three years before each recession began. Hence, recession in 2019 remains unlikely.

Optimism surrounding a U.S.-China trade deal has been the main catalyst behind the risk-on tone in the markets. Concerns about “trade wars” remain overdone, especially with the recent pause in tensions between China and the U.S. Global average tariff rates are near two-decade lows. Global growth should slow to 3.6% in 2019 from 3.7% in 2018. We focus on the big four (U.S., Eurozone, China, and India), which provided almost two-thirds of global growth last year. While China and the Eurozone slow, U.S. and India. continue to grow at a healthy rate.

Florida Trust Day to Day Fund

The Florida Trust Day to Day Fund posted a total return of +0.21% in February, versus the benchmark ICE BofAML Three Month Treasury Index return of +0.18%. The net 7-day SEC yield of the Day to Day Fund rose to 2.62% as of the end of February, up from 2.60% at Jan. month end. We continue efforts to maximize portfolio yield, while still adhering to the strict investment guidelines required by Fitch to maintain the AAA rating. We evaluate high-quality corporate securities for the portfolio, and search for value in commercial paper and corporate notes that enhance yield and adhere to the guidelines of the fund, with a focus on liquidity. Short repurchase agreements are also used. The coupon available on repurchase agreements, backed by US Treasury collateral, averaged 238 bps during February. Only highest quality counterparties are used, with repo agreements ranging from overnight to 1 week in term.

As yields on commercial paper and Yankee CDs remain attractive, we have allocated 30% of the portfolio to these securities. With a flatter yield curve environment, we will focus more on fixed rate securities, as the attractiveness of shorter-dated floating-rate securities may have peaked. In February exposure to floating rate securities was approximately 24% of the portfolio, across corporate, agency, mortgage-backed, and Treasury sectors. We will look to gradually decrease this allocation.

The weighted-average maturity of the portfolio ended the month at 28 days. The fund remains highly liquid with approximately 52% of the portfolio invested in overnight and short-term securities. Additionally, 39% of the portfolio is invested in government or government guaranteed securities, also enhancing liquidity.

The fund is assigned Fitch rating agency’s highest Money Market Fund Rating of AAA mmf.