Economic and Market Commentary – September 2023

The 2-year U.S. Treasury rose 18 basis points ("bps") to 5.04% in September. The 10-year Treasury rose 46 bps to 4.57%, and the 30-year rose 49 bps to 4.70%. In September, the U.S. labor market exhibited resilience while inflation moderated. Although the unemployment rate climbed to 3.8%, nonfarm payrolls grew steadily. Inflation continued a cooling trend, but month-over-month growth in the core consumer price index (CPI) accelerated to 0.3%. Prices in the services sector continued to rise rapidly, an unsurprising trend given the combination of robust consumer spending on services and high wages for service sector workers.

The Fed held rates steady at 5.25-5.50% at the September FOMC meeting, but updated forecasts indicate that FOMC members see much more robust GDP growth and lower unemployment prevailing this year and in 2024 compared to projections made in June. As a result, policymakers think stronger-than-expected economic growth warrants higher-for-longer interest rates, too. The majority of FOMC participants maintained expectations of another hike by the end of the year, and the median forecast now shows only 50-basis points of rate cuts in 2024 compared to the 100-basis point reduction forecasted at the June meeting.

Short-Term Bond Fund ("STBF")

The STBF had a 0.09% total return[1] for September compared to the benchmark ICE BofA 1-3 Year US Treasury index of -0.01%. The fiscal year-to-date total return for the STBF was +3.56% compared to +2.47% for the benchmark. The net 30-Day SEC Yield for the Short-Term Bond Fund was 4.72% on 8/31, up from 3.93% as of the 2022-year end.

The STBF remains well-positioned with ample liquidity and an up-in-quality diversified mix of credit sectors for income generation. We continue to favor a healthy allocation to liquidity as well as corporates and securitized bonds, and floating rate securities where available. The fund has a headline duration of 1.5 years, versus the index duration of 1.8. The fund holds a 14% allocation to floating rate securities. These bonds enhance the overall yield of the fund – these positions average a near 8% yield - but do not contribute to duration.

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

The Fed has reduced the pace of expected rate cuts in 2024. The Treasury curve has re-steepened with longer rates moving higher – flatter curves and higher rates remain attractive in the long term. We will look to move closer to a neutral headline duration at opportunity, focusing on corporate credit purchases in the 2-3-year space. In addition, the still-inverted yield curve means shorter Treasury securities are currently more attractive, yield-wise, versus longer options.

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 30% of funds invested in Treasuries and government related securities. There were ~$10 million in withdrawals in September.

Day to Day Fund ("DtD Fund")

The Florida Trust Day to Day Fund posted a total return[2] of +0.44% in September, versus the benchmark ICE BofA Three-Month Treasury Index return of +0.46%. Fiscal 2023 year-to-date, the fund returned +4.65% compared to +4.47% for the benchmark. The net 7-day SEC yield of the Day to Day Fund was 5.45%, compared to 4.16% at 2022-year end. Comparable prime institutional government funds had an average yield of 5.07%[3] 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"), and money market tranches of ABS, to build yield over Treasury bills in the Day to Day Fund, to maximize yield without adding volatility or sacrificing liquidity. Since the debt ceiling resolution, an equilibrium between higher Treasury bill issuance and strong investor demand has led short-term bills to trade in line with yields on similar maturity cash equivalents. We have rotated positioning accordingly between Treasury bills, repo, and agency discount notes, and have extended commercial paper maturities. In addition, the fund holds a 15% allocation to floating rate notes, averaging near a 6% yield collectively.

The fund remains highly liquid with approximately 37% of the portfolio invested in overnight and short-term securities. Additionally, 37% of the portfolio is invested in government or government guaranteed securities, also enhancing liquidity. The weighted-average maturity of the portfolio is

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[2] *Net of fee return calculated by custodian UMB.*
3 Crane Institutional Government 7-Day Yield

currently 38 days. The fund experienced over $18 million in net contributions in September. The fund is assigned Fitch rating agency's highest Money Market Fund Rating of AAA mmf.