Economic and Market Commentary – March 2024

In the U.S., the yield on the US 2-year Treasury note remained stable at 4.62%. The yield on the benchmark 10-year Treasury fell to 4.20%, down from 4.25% at the end of February. The yield on the 30-year Treasury fell four basis points to 4.34%.

In March, the US economy demonstrated its resilience, as inflation levels remained above those consistent with the central bank's target and labor market demand continued to exceed supply. The core Consumer Price Index (CPI) and the core Personal Consumption Expenditures (PCE) Price Index registered monthly changes of 0.4% and 0.3%, respectively, whereas a 0.2% reading would be more consistent with the Fed's 2% target. Despite the unemployment rate ticking up to 3.9% in February, total nonfarm payroll employment gained another solid 275,000, indicating that the unemployment rate will likely remain below 4% despite some volatility.

At the March FOMC meeting, policymakers refreshed their Summary of Economic Projections (SEP), including their "dot plot," or expected path for the federal funds rate. The SEP showed the median FOMC member expecting much higher GDP growth of 2.1%, a stable unemployment rate of 4%, and a 2.6% rise in core inflation. Despite expectations for stronger growth, the median policymaker still sees three 25-basis points equivalent cuts in 2024, though fewer in later years, and a higher neutral interest rate. Consequently, markets celebrated the "dovish" outcome. However, as Fed Chair Powell has advised, "projections are not a committee decision or plan." Moreover, the March projections of rate cuts were a close call, as the number of policymakers expecting two or fewer cuts increased significantly compared to the December projections. If inflation data continues to hover above the Fed's target rate-consistent trend, policymakers might reduce rates later and less in magnitude. In Chair Powell's words, given the solid economic backdrop and tight labor market, policymakers "can afford to wait a little longer before cutting rates."

Short-Term Bond Fund ("STBF")

As a result of yield curve repricing during the month, the STBF had a 0.49% total return[1] for March compared to the benchmark ICE BofA 1-3 Year US Treasury index of 0.33%. The fiscal year-to-date total return for the STBF is +3.34% compared to +2.80% for the benchmark. The net 30-Day SEC Yield for the Short-Term Bond Fund was 4.51% on 3/31, compared to 4.61% as of 2023-year end.

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

The STBF remains well-positioned with ample liquidity and an up-in-quality diversified mix of credit sectors for income generation. We continue to emphasize quality and diversification in our credit positioning. We currently favor AAA-rated asset-backed securities (ABS) over corporates, as spread potential over similar maturity Treasuries is more attractive in the former. The sector has benefited from significant issuance early in the year and fundamentals remain strong in the current economic environment. The fund has a headline duration of 1.61 years, versus the index duration of 1.84. The fund holds a 12% allocation to floating rate securities. These bonds enhance the overall yield of the fund – these positions have an average yield of 6.5%, but do not contribute to duration / interest rate risk. With credit spreads trading toward the lower band of their historical spread levels, we are not reaching for yield nor are we rushing to sell. We continue to opportunistically rotate positions based on specific security valuations.

Messaging from the Federal Reserve indicates we should expect rate cuts in 2024, helps determine positioning for the fund. Current duration (interest rate risk) positioning should help the fund outperform the Treasury benchmark as the Fed starts cutting rates likely later this year. In addition, the still-inverted yield curve means shorter Treasury securities are currently more attractive, yield-wise, versus longer options. Still, as we consider reinvestment risk – rates may stay higher for some time, but lower rates are on the horizon - investing in non-Treasury sectors can offer comparable or higher yields.

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 28% of funds invested in Treasuries and government related securities. There was a $2.5 million deposit in the fund during March.

Day to Day Fund ("DtD Fund")

The Florida Trust Day to Day Fund posted a total return[2] of +0.46% in March, in line with the benchmark ICE BofA Three-Month Treasury Index return of +0.45%. Fiscal year-to-date, the fund has returned +2.77% compared to +2.68% for the benchmark. The net 7-day SEC yield of the Day to Day Fund was 5.48%, compared to 5.50% at 2023-year end. Comparable prime institutional government funds had an

[2] *Net of fee return calculated by custodian UMB.*

average yield of 5.03% on 3/31. 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 as we search to maximize yield without adding volatility or sacrificing liquidity. As Treasury bill issuance has been met with strong demand due to reduced usage of the Federal Research Repurchase Program facility, we rotate into bills from repo and agency discount notes, and position Treasury holdings to take advantage of the yield curve inversion. While short floating rate securities are difficult to source, the fund holds a 29% allocation to floating rate notes, averaging a 5.6% yield collectively.

The fund remains highly liquid with approximately 43% of the portfolio invested in overnight and short-term securities. Additionally, 29% of the portfolio is invested in government or government guaranteed securities, also enhancing liquidity. The weighted-average maturity of the portfolio is currently 19 days. The fund processed about $70 million in net outflows in March. The fund is assigned Fitch rating agency's highest Money Market Fund Rating of AAA mmf.