Economic and Market Commentary – April 2024

In the U.S., the yield on the US 2-year Treasury note rose 42 basis points (bps) over the month to end at 5.04%. The yield on the benchmark 10-year Treasury rose 48 bps to 4.68%, up from 4.20% at the end of March. The yield on the 30-year Treasury rose 44 bps to 4.78%.

In April, the U.S. economy expanded at a solid pace, while inflation settled on a trend above the central bank's target. In the first quarter of 2024, U.S. real GDP increased at a 1.6% annualized rate, below consensus expectations. However, real Final Sales to Private Domestic Purchasers, a better gauge of underlying demand that excludes volatile inventory investments, government spending, and trade, grew at a strong annualized clip of 3.1% over the quarter. Similarly, the economy added 303,000 nonfarm payroll jobs in March, decreasing the unemployment rate to 3.8%. As a result of solid economic growth and a strong labor market, the core Personal Consumption Expenditures (PCE) Price Index, which excludes volatile food and energy prices, registered another 0.4% monthly change in March, suggesting that inflation might be more resilient than policymakers expected. As a result, at the May monetary policy meeting, the Federal Reserve (Fed) communicated that it "will take longer than previously expected" for policymakers to gain more confidence that inflation is abating toward the 2% target.

At the May FOMC meeting, the Federal Reserve held policy rates constant at 5.25%-5.50%. Fed Chair Powell advised that the recent inflation data shows a lack of progress toward the Fed's 2% target, adding that it "will take longer than previously expected" for policymakers to gain more confidence that inflation is abating. During April, market participants repriced rate cut expectations from three cuts by year-end to one rate cut in December, which is more in-line with our view. If inflation hovers near 3% by Q4, as we expect, there's a good chance the Fed will remain on hold all year. In addition, Chair Powell also announced that the Fed plans to slow the pace of quantitative tightening ("QT") starting in June, reducing the monthly run-off cap on U.S. Treasuries from $60 billion to $25 billion while keeping MBS roll-off constant. In Chair Powell's words, tapering QT "is to ensure that the process of shrinking the balance sheet down to where [the Fed] wants is a smooth one."

Short-Term Bond Fund ("STBF")

As a result of yield curve repricing during the month, the STBF posted a -0.22% total return[1] for April compared to the benchmark ICE BofA 1-3 Year US Treasury index of -0.32%. During April, the market again repriced expectations for the timing of the first Fed rate cut in 2024, pushing that date out to

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

December, due to higher-than-expected inflation data. As a result, there was a modest rise in short-end yields causing a decline in the FL Trust STBF NAV during April. Short-fixed income returns were negative across almost all sectors in April, as short-term yields increased, though both total returns and excess returns year-to-date remain strong. The fiscal year-to-date total return for the STBF is +3.31% compared to +2.46% for the benchmark. The net 30-Day SEC Yield for the Short-Term Bond Fund was 4.59% on 4/30, compared to 4.61% as of 2023-year end.

The STBF remains well-positioned with ample liquidity and an up-in-quality diversified mix of credit sectors for income generation, and we continue to utilize new issuance to optimize allocations. Within corporates, we continue to actively participate in favored large US banks as supply within financials is expected to pick up in Q2. Within securitized, tight spreads mean a search for pockets of opportunity in select subsectors and deals.

The fund has a headline duration of 1.58 years, versus the index duration of 1.82. The fund holds a 11% allocation to floating rate securities. These bonds enhance the overall yield of the fund – these positions have an average yield of 6.8%, but do not contribute to duration / interest rate risk. With credit spreads trading toward the lower band of their historical spread levels, we remain patient. We continue to opportunistically rotate positions based on specific security valuations.

Messaging from the Federal Reserve indicates we should expect rate cuts in late 2024. 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 29% of funds invested in Treasuries and government related securities. There were no cash flows in the fund during April.

Day to Day Fund ("DtD Fund")

The Florida Trust Day to Day Fund posted a total return[2] of +0.45% in April, in line with the benchmark ICE BofA Three-Month Treasury Index return of +0.43%. Fiscal year-to-date, the fund has returned +3.23% compared to +3.12% for the benchmark. The net 7-day SEC yield of the Day to Day Fund was 5.44%, compared to 5.50% at 2023-year end. Comparable prime institutional government funds had an average yield of 5.04% on 4/30. 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 as we search to maximize yield without adding volatility or sacrificing liquidity. Within corporates, we continue to actively participate in favored large US and Yankee banks as financials supply is expected to pick up in Q2. 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 position Treasury holdings to take advantage of the yield curve inversion. While short floating rate securities are difficult to source, the fund holds a 30% allocation to floating rate notes, averaging a 5.6% yield collectively.

The fund remains highly liquid with approximately 38% of the portfolio invested in overnight and short-term securities. Additionally, 27% of the portfolio is invested in government or government guaranteed securities, also enhancing liquidity. The weighted-average maturity of the portfolio is currently 20 days. The fund processed about $85 million in net outflows in April. The fund is assigned Fitch rating agency's highest Money Market Fund Rating of AAA mmf.

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