Economic and Market Commentary – May 2024

In the U.S., the yield on the US 2-year Treasury note fell 17 basis points (bps) over the month to end at 4.87%. The yield on the benchmark 10-year Treasury fell bps to 4.50%, up from 4.20% at the end of March. The yield on the 30-year Treasury fell 13 bps to 4.65%.

In May, the U.S. labor market remained tight while inflation progress stagnated. Although the U.S. unemployment rate ticked up to 3.9%, the three-month average of net nonfarm payroll employment growth remained at a solid pace of 242,000. Meanwhile, after three months of uncomfortable month-over-month increases, the core Personal Consumption Expenditures (PCE) Price Index, which excludes volatile food and energy prices, increased a more welcomed 0.25% month-over-month in April. However, the year-over-year core PCE rate has stagnated around 2.8% for three months, as services prices continue to increase at a rate well above their historical average.

In May, Federal Reserve Governor Christopher Waller clarified that the Fed needs to see three to five months of "good" monthly inflation readings that round to 0.2% to be comfortable with rate cuts. Moreover, Waller reflected that while the April inflation data suggested progress in cooling inflation after a quarter of strong readings, the progress remains small. On the other hand, markets priced in close to two rate cuts by December 2024 after the softer April inflation reports. However, if the current monthly trend persists, core inflation could rise to 3.3%year-over-year by December due to worsening base effects. Consequently, as Waller has reiterated in his speech, "A cut doesn't have to happen in this calendar year."

Short-Term Bond Fund ("STBF")

The STBF posted a +0.68% total return[1] for May compared to the benchmark ICE BofA 1-3 Year US Treasury index of +0.69%. Short-fixed income returns were positive across all sectors in May as yields generally decreased and spreads narrowed; total returns and excess returns year-to-date remain strong. The fiscal year-to-date total return for the STBF is +3.83% compared to +3.17% for the benchmark. The net 30-Day SEC Yield for the Short-Term Bond Fund was 4.69% on 5/31, 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, funding

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

with Treasuries. Within corporates, we continue to actively participate in finance-related new issue, with May setting another overall monthly issuance record. Within securitized, tight spreads require a search for pockets of opportunity in select subsectors and deals such as equipment loans .

The fund has a headline duration of 1.56 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 6.7%, 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 may 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 28% of funds invested in Treasuries and government related securities. There were no participant flows in or out of the fund in May.

Day to Day Fund ("DtD Fund")

The Florida Trust Day to Day Fund posted a total return[2] of +0.46% in May, in line with the benchmark ICE BofA Three-Month Treasury Index return of +0.48%. Fiscal year-to-date, the fund has returned +3.71% compared to +3.61% for the benchmark. The net 7-day SEC yield of the Day to Day Fund was 5.45%, compared to 5.50% at 2023-year end. Comparable prime institutional government funds had an average yield of 5.04% on 5/31. The Fund continues to provide safety, income, and liquidity of investments in a stable, $1 NAV Fund.

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

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 has been robust. 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 32% 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.

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