Economic and Market Commentary – October 2024

In the U.S., the yield on the 2-year Treasury rose 53 basis points ("bps") over the month to 4.17%. The yield on the benchmark 10-year Treasury rose 50 bps to 4.28%. The yield on the 30-year Treasury rose 35 bps to 4.47%. Markets were subject to volatility given strong economic data reports and expectations tied to the timing and magnitude of the Fed's path of lower monetary policy, as well as election uncertainty.

During the month, consumer spending surprised to the upside, while inflation continued to moderate toward the Federal Reserve's (Fed's) 2% target. Excluding the October employment report severely impacted by weather events, nonfarm employment growth remains healthy at 148,000 as of September, enough to keep the unemployment rate stable at 4.1%. In addition, according to the Bureau of Economic Analysis, the U.S. economy expanded at an annualized rate of 2.8% over the third quarter, with robust consumer spending alone contributing to 90% of the quarterly growth. On the inflation front, the core personal consumption expenditures price index, the Fed's preferred inflation gauge, increased at 2.7% year-over-year, with the three-month average trend remaining consistent with the Fed's 2% target.

The Federal Open Market Committee (FOMC) lowered rates by 25 bps at the early November meeting, reducing the target range for the federal funds rate to 4.50%-4.75%. The macroeconomic scenario we are currently in—moderating inflation without a recession—is the definition of a "soft landing." In that scenario, the Fed will ease policy restriction gradually. Prior to the Fed meeting in November, Powell indicated that two more 25-basis-point cuts this year would be consistent with the "dots" presented at the September FOMC meeting. Further out in 2025,the "direction of travel" is clear: the Fed will get near "neutral," 3-3.5% on fed funds, and the cutting pace will depend on whether inflation continues to cool as expected. In addition, a healthy labor market and solid economic growth will not deter the Fed from returning to neutral if inflation is evolving toward target. In the meantime, Treasury yields rising in response to robust growth continues to bode well for credit and equities and presents attractive entry opportunities.

Short-Term Bond Fund ("STBF")

Short fixed income returns were negative across almost all sectors in October as interest rates backed up on stronger than expected economic data and fear the Fed would ultimately reduce rates slower than initially expected. Short fixed income spreads remained range bound. The STBF posted a -0.44% total return[1] for October compared to the benchmark ICE BofA 1-3 Year US Treasury index of -0.59%. October saw continued strong supply for both the investment grade (IG) corporate and securitized product sector. Supply in the asset-backed securities market is currently at record issuance levels. Supply across all segments of fixed income have been well received with risk premiums close to their lowest levels over the past two years.

The STBF remains well-positioned as we favor a high-quality tilt in a diversified mix of credit, with ample liquidity, and a duration position close to neutral. We modestly extended duration during October, taking advantage of the move in interest rates. Current yield curve positioning and duration extension should help the fund outperform the Treasury benchmark as the Fed continues cutting rates into 2025. In addition, the still-inverted yield curve means shorter Treasury securities are currently more attractive, yield-wise, versus longer options. The pace of rate cuts will be our primary focus for the rest of the year and into next year, and we have penciled in one additional 25 bps cut in 2024, and more in 2025.

The STBF is assigned Fitch rating agency's highest Fund Credit Quality Rating and Fund Market Risk Sensitivity Rating of AAAf/S1. The net 30-Day SEC Yield for the fund was 4.09% on 10/31, compared to 4.61% as of 2023-year end. The liquidity of the fund is very strong, with 29% of funds invested in Treasuries and government related securities. There were ~$30 million in withdrawals during October.

Day to Day Fund ("DtD Fund")

The Florida Trust Day to Day Fund posted a total return of +0.42% in October, compared to the benchmark ICE BofA Three-Month Treasury Index return of +0.38%. The net 7-day SEC yield of the Day to Day Fund was 4.91%, compared to 5.50% at 2023-year end. Comparable prime institutional government funds had an average yield of 4.56% on 10/31. The Fund continues to provide safety, income, and liquidity of investments in a stable, $1 NAV Fund.

---

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

We continue to diversify credit exposure by investing in high-quality commercial paper ("CP"), money market tranches of ABS, and municipal variable rate demand notes ("VRDNs") as we search to maximize yield without adding volatility or sacrificing liquidity. Municipals offer revenue streams secured by debt issued by essential services exhibit inelastic demand and are a favorable alternative to repo and Treasury bills. The fund holds a 42% allocation to floating rate notes (including VRDNs), averaging a 5.1% yield collectively.

The fund remains highly liquid with approximately 46% of the portfolio invested in overnight and short-term securities. Additionally, 25% of the portfolio is invested in government or government guaranteed securities, also enhancing liquidity. The weighted-average maturity of the portfolio is currently 13 days. The fund processed approximately $29 million in net outflows in October. The fund is assigned Fitch rating agency's highest Money Market Fund Rating of AAA mmf.

While we acknowledge the lagged effects of restrictive monetary policy could cause extra stress on the economy, we currently do not foresee the need for the Fed to accelerate the path of rate reductions to stave off a recession. The effect on a reflation trade, deficit financing, the looming debt ceiling and overall economic health is as uncertain as ever. Given the uncertain nature of domestic policy, we are biased towards maintaining liquidity as current risk premiums do not compensate investors for additional risk.

This material reflects our current opinion and is subject to change without notice. Sources for the material contained herein are deemed reliable but cannot be guaranteed. This material is intended solely for institutional investors and is not intended for retail investors or general distribution. This material may not be reproduced or distributed without written permission. This presentation is for illustrative purposes only and does not constitute investment advice or an offer to sell or buy any security. The statements and opinions herein are current as of the date of this document and are subject to change without notice. Past performance is no guarantee of future results.