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## Economic and Market Commentary – April 2025

A once-in-50-year trade policy shock drove financial market turbulence in April. The U.S. dollar slipped lower, the stock market dipped to year-to-date lows before recovering, and 30-year U.S. Treasury bond yields experienced their largest weekly volatility in over 50 years, all driven by the unexpected breadth of proposed tariffs. Volatility prompted the U.S. to pause implementation after one week for negotiations, though China faced even steeper tariff rates. Unlike typical risk-off episodes, longer-maturity treasuries saw limited support—likely due to concerns over deglobalization and near-term deleveraging from hedge funds. As markets stabilized, U.S. Treasury yields declined over the remainder of the month, with a notable steepening of the yield curve. Beneath the relatively modest month-over-month changes were sharp intra-month swings exceeding 50 basis points in the 5-, 10-, and 30-year maturities. The yield on the 2-year US Treasury note fell 22 basis points ("bps") to 3.60%. The yield on the benchmark 10-year Treasury fell to 4.16%, down from 4.21% at the end of March.

In April, economic data releases reflected continued job growth, cooling inflation, and growing domestic economic activity, weighed down by a spike in imports attempting to front-run projected tariffs. The U.S. economy added 228k net new jobs in March, indicating that the labor market continues to grow steadily. Inflation cooled during the month, with the core personal consumption expenditure (PCE) price index slowing to 2.6% year-over-year due to a soft 0.03% month-over-month increase in March. While the "headline" gross domestic product (GDP) contracted at an annual rate of -0.3% in Q1, private domestic final purchases—representing underlying private sector economic activity—expanded at a 3% rate, marking the ninth consecutive quarter of solid growth. The negative "headline" GDP number was due to a 51% annualized quarterly increase in goods imports, as businesses stocked up on goods ahead of the implementation of tariffs.

Fed Chair Jerome Powell indicated that the Fed would remain data dependent, waiting to see movement in the "hard" data rather than relying on "soft" survey data. Despite the uncertainty, we expect the Fed to remain on hold until the labor market cracks, or inflation cools more than

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expected, likely resulting in rate cuts in the latter half of the year. Finally, while repeated attacks from the U.S. President pressuring the Fed to cut rates have stoked concerns regarding Fed independence, we think the fear is overdone, as the U.S. President has limited powers to influence the Fed.

## Short-Term Bond Fund ("STBF")

Short fixed income returns were positive across all nearly sectors in April as short-term yields decreased and spreads widened. The STBF posted a +0.66% total return[1] for April, modestly below the benchmark ICE BofA 1-3 Year US Treasury index of +0.79%. Fiscal year-to-date, the STBF has returned +2.43% versus 2.33% for the benchmark.

The STBF remains well-positioned as we continue to invest in a high-quality tilt and a diversified mix of credit, with ample liquidity, and a neutral duration position. The STBF is poised to potentially outperform shorter, money market-like options during 2025 as the Fed considers cutting rates and the market appears too conservative in pricing in Fed rate cuts during the year ahead. This provides opportunity for positive bond price performance in addition to the attractive income return offered by the STBF.

Investment grade corporate, securitized, and funding markets all functioned reasonably well in April despite the turbulent markets, with an orderly but sharp selloff early in the month and a gradual recovery in risk premiums as the month closed. Both the corporate and securitized markets had markedly less issuance as many issuers remained on sidelines rather than issue at wider spreads in a volatile market. We continue to be selective in our recommended allocations to both sectors, and still believe that both sectors should still provide additional return over Treasuries. We favor select subsectors of credit, while maintaining a high-quality, diversified bias with an emphasis on optimizing carry for downside protection. For example, we favor financials

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

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with an emphasis on larger, domestic banks, as well as utilities with healthy credit metrics that have little to no tariff exposure.  Securitized holdings remain highly rated. We favor asset-backed securities in the  senior classes and short spread duration profiles, preferring tier 1 issuers that have higher liquidity. We favor certain areas of the residential and commercial real estate markets, avoiding office and retail space and favoring pools with low loan to value ratios.

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 4.20% at month end, compared to 4.31% as of 2024-year end. The liquidity of the fund is strong, with 30% of funds invested in Treasuries and government related securities. Fund flows were minimal in March with only one minimal withdrawal.

### Day to Day Fund ("DtD Fund")

The Florida Trust Day to Day Fund posted a total return of +0.36% in April, compared to the benchmark ICE BofA Three-Month Treasury Index return of +0.34%. Fiscal year-to-date, the DtD Fund has returned +2.70% versus 2.56% for the benchmark. The net 7-day SEC yield of the Day to Day Fund was 4.41%, compared to 4.52% at 2024-year end. Comparable prime institutional government funds had an average yield of 4.05% 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"), Yankee CDs ("YCDs"), and money market tranches of ABS, and municipal variable rate demand notes ("VRDNs") as we search to maximize yield without adding volatility or sacrificing liquidity. Heading to a potential debt ceiling expiration later this summer, we will look to avoid Treasury bills maturing around any given date.  While we look to maximize credit sector investments in the fund, we have kept the maturity profile shorter as historically tight spreads do not compensate to merit a longer maturity in a $1 NAV fund. The fund holds a 37% allocation to floating rate notes - our outlook for potentially more rate cuts has not diminished our demand for these securities. Investors remain well compensated by additional yield to offset potentially lower rates in many highly rated sectors, especially if the Fed remains on hold and investors can reap high floating rate coupons for longer periods of time. The floating rate securities in the portfolio have an average yield of 4.6% and have outperformed fixed securities thus far year-to-date.

The fund remains highly liquid; the weighted-average maturity of the portfolio is currently 18 days and 28% of the portfolio is invested in government or government guaranteed securities. The fund processed over $60 million in cash flows in April, ending with ~$20 million net outflows. The fund is assigned Fitch rating agency's highest Money Market Fund Rating of AAA mmf.

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