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Economic and Market Commentary – May 2025

May was a month of recovery following the “Liberation Day” tariff announcements in April, when markets took a significant, but short-lived, tumble. With trade deals emerging, fears of the worst-case scenario for tariffs began to disappear. However, investors discovered a new fear emerging from the U.S. government: a budget bill that would further widen deficits made it through the House of Representatives. Fiscal woes, coupled with fears of higher inflation, pushed global long-term yields higher. During May 30-year U.S. Treasury yields reached their highest level since 2006. The yield on the 2-year Treasury note rose 30 basis points to 3.90%. The yield on the benchmark 10-year Treasury rose 24 basis points to 4.40%, up from 4.16% at the end of April. The yield on the 30-year Treasury rose 25 bps to 4.93%.

We continued to see solid job growth, with the economy adding 177,000 jobs in April. However, lurking beneath the surface of the labor market, we are starting to see signs of softening, as evidenced by continuing jobless claims. The tally of workers remaining on unemployment insurance for more than a week has reached its highest level since 2022. While there is a slow weakening in the labor market, we saw strong personal income, with real (inflation-adjusted) disposable income growing nearly 3% in April. On the inflation front, we received some good news with core personal consumption expenditures (PCE) rising just 0.1% in April. The Federal Reserve’s (Fed’s) preferred inflation gauge is now up just 2.5% year over year, down from 2.7% in March. If not for the uncertainty around potential tariff-related price pass-throughs, the door might be open to reducing the fed funds rate. With the fed funds rate at 4.25 to 4.50%, the Fed is still in restrictive territory, while the labor market is slowly softening. Despite the increased pressure from the executive branch to cut rates, the Fed has made it clear that they are in a good place to wait and see how the economy evolves before making any changes to their policy rate.

In May, the Federal Open Market Committee (FOMC) voted to hold the fed funds rate constant at 4.25%to 4.50%. The Committee’s decision hinged on how to navigate the influx of policies from the new administration regarding trade, immigration, fiscal policy, and regulation. As Federal

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Reserve (Fed) Chair Jerome Powell noted, depending on how policies in these areas are implemented, they could lead to both higher unemployment and higher inflation. This scenario would place the Fed's dual mandate of maximum employment and stable prices in tension, forcing the Fed to make difficult decisions between its mandates. If this were to occur, the FOMC would assess how far each section of its mandate is from the target and adjust policy to address the goal that is further away from the target. Given that inflation is currently above target and job growth remains solid, the Fed maintained its restrictive policy stance. Combining the current economic landscape with uncertain policy changes, Powell indicated that the Fed is "well positioned to wait for greater clarity before considering any adjustments to [the Fed's] policy stance."

Short-Term Bond Fund ("STBF")

Short fixed income returns were positive across most sectors in May as short-term yields increased and spreads tightened moderately. Treasuries, Agencies, and mortgage-backed securities generated slightly negative returns due to rate increases. The STBF posted a +0.03% total return[1] for May, faring better than the benchmark ICE BofA 1-3 Year US Treasury index, which returned -0.21%. Fiscal year-to-date, the STBF has returned +2.46% versus 2.11% 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. The market has scaled back its expectations for policy adjustments this year from four rate cuts a month ago to two. While much of the anxiety surrounding the opaque tariff environment has subsided, a lingering sense of fragility remains as tariff negotiations and related

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

news continue to unfold daily. As the yield curve normalizes, there is opportunity for positive bond price performance in addition to the attractive income return offered by the STBF.

Credit continues to recover from April's sharp downturn, with risk premiums across most segments of the fixed income market returning to or in some cases trading through levels seen prior to the April tariff announcement. Both corporate and securitized markets saw strong monthly issuance and strong investor demand for most deals. Our portfolio duration positioning is neutral to long compared to the 1-3 year Treasury benchmark as we see the balance of risks skewed toward lower rates and a likelihood that the market may be underestimating the number of interest rate cuts in the latter half of 2025. With risk premiums near their narrowest levels in the past three years, we continue to be selective in adding credit, carefully weighing the implications of tariff policy. 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 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 4.01% at month end, compared to 4.31% as of 2024-year end. The liquidity of the fund is strong, with 32% of funds invested in Treasuries and government related securities. Fund flows were minimal in May with one $3.25 million deposit.

Day to Day Fund ("DtD Fund")

The Florida Trust Day to Day Fund posted a total return of +0.37% in May, compared to the benchmark ICE BofA Three-Month Treasury Index return of +0.40%. Fiscal year-to-date, the DtD Fund has returned +3.08% versus 3.14% for the benchmark. The net 7-day SEC yield of the Day to Day Fund was 4.38%, compared to 4.52% at 2024-year end. Comparable prime institutional government funds had an average yield of 4.04% on 5/31. 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"), 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 40% 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 4.5% 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 30% of the portfolio is invested in government or government guaranteed securities. The fund processed over $130 million in cash flows in May, ending with ~$27 million net inflows. The fund is assigned Fitch rating agency's highest Money Market Fund Rating of AAA mmf.