

FLORIDA TRUST

Economic and Market Commentary – October 2025

The Federal Open Market Committee (FOMC) concluded its October meeting by cutting the federal funds rate by 25 basis points (“bps”), which was largely priced into markets. The yield on the 2-year Treasury note fell four bps to 3.57%. The yield on the benchmark 10-year Treasury fell seven bps to 4.08%. The yield on the 30-year Treasury fell eight bps to 4.65%.

October’s economic data provided mixed signals. While economic activity appears to be accelerating, the labor market slowed, and inflation cooled. U.S. economic growth is tracking at a 3.9% quarterly annualized rate for the third quarter, following a 1.6% annualized pace in the first half of 2025. Meanwhile, the U.S. labor market presents a different picture. According to private data provider ADP, over the three months ending in September, the U.S. economy added an average of only 23,000 private jobs, well below the pace at the beginning of the year. On the inflation front, the core consumer price index (CPI) edged down to 3.0% year-over-year in September. Disinflation in housing and non-housing services continues at a moderating pace, offsetting tariff-driven price increases in goods.

The FOMC vote was 10-2 in favor of the rate cut, with Governor Miran advocating for a 50 bp reduction, and Kansas City Fed President Schmid preferring to hold steady. This rare two-sided dissent led Chair Powell to push back on market expectations of a guaranteed 25 bp rate cut in December. In Chair Powell's words, as policymakers drive through the mixed-signal data and “fog” caused by the government shutdown, it makes sense to “drive slower.” However, in our view, the risks of a weaker labor market still outweigh the potential upside risk to inflation. Therefore, we expect the Fed to continue to move toward a neutral rate of 3% by year-end 2026. Finally, the Fed will end its Treasury securities balance sheet runoff in December 2025 and reinvest agency securities proceeds into Treasury bills, aiming for a portfolio primarily of U.S. Treasuries.

Short-Term Bond Fund (“STBF”)

Short fixed income returns – both total returns and excess returns - were positive across nearly all sectors in October, continuing a strong year as short-term yields decreased, and spreads widened slightly. The Treasury yield curve flattened in an asymmetrical manor in October, as the market digested a second rate

cut and solidified expectations for additional easing into 2026. The STBF posted a +0.31% total return¹ for October, in line with the benchmark ICE BofA 1-3 Year US Treasury index, which returned 0.34%. Calendar year-to-date, the STBF has returned +4.68% versus 4.28% 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 to modestly long duration position. The STBF is poised to potentially outperform shorter, money market-like options as the Fed looks to continue to ease policy and cut interest rates, and we can take advantage of yield curve opportunities as the curve is expected to return to a positive slope. As the yield curve normalizes there will be opportunity for positive bond price performance in addition to the attractive income return offered by the STBF.

With narrow risk premiums in both the corporate and securitized markets, continue to target higher quality issuers without reaching for yield. However, with expectations of solid economic growth as the backdrop, we are comfortable with overall risk exposure to the corporate and securitized markets. We continue to position the STBF with a neutral to modestly overweight duration posture versus the benchmark as current policy rates remain above our estimate of neutral - providing room for rates to fall further. The timing, pace and magnitude of cuts continues to be important for investors to gauge over the rest of the year.

The STBF is assigned Fitch rating agency's highest Fund Credit Quality Rating and Fund Market Risk Sensitivity Rating of AAf/S1. The net 30-Day SEC Yield for the fund was 3.87% 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. Net cash flows in October were -\$5.3 million.

Day to Day Fund ("DtD Fund")

The Florida Trust Day to Day Fund posted a total return of +0.36% in October, compared to the benchmark ICE BofA Three-Month Treasury Index return of +0.35%. Calendar year-to-date, the DtD Fund has returned +3.72% versus 3.53 for the benchmark. The net 7-day SEC yield of the Day to Day Fund was 4.23%, compared to 4.52% at 2024-year end. Comparable prime institutional government funds had an average

¹ Net Asset Value calculated by custodian UMB. Net of fees.

yield of 3.83% on 10/31. The Fund continues to provide safety, income, and liquidity of investments in a stable, \$1 NAV Fund.

The DtD Fund holds diversified credit exposure by investing in high-quality and liquid 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. We work to balance maximizing credit sector investments in the fund, with a short maturity; as a regular exercise we rotate positions considering risk and income. The fund holds a 38% allocation to floating rate notes. Despite the outlook for a lower Fed Funds rates this year investors in short portfolios such as the DtD remain well compensated by additional yield to offset potentially lower rates in many highly rated sectors, especially as coupons are backward-looking and will continue to reset at higher rates for longer periods of time. The floating rate securities in the portfolio have an average yield of 4.1% and continue to be additive to performance, as well as by nature do not count against day count restraints, allowing us additional flexibility in fixed instruments.

The fund remains highly liquid; the weighted-average maturity of the portfolio is currently 31 days and 28% of the portfolio is invested in government or government guaranteed securities. The fund processed nearly -\$69 million in net cash flows in October. The fund is assigned Fitch rating agency's highest Money Market Fund Rating of AAA mmf.

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