

FLORIDA TRUST

Economic and Market Commentary – September 2026

The third quarter of 2026 was a volatile period for U.S. Treasury rates, with yields moving sharply higher as the Federal Reserve (Fed) pivoted to tightening. Consistently strong economic data prints, including a much larger than expected August payrolls report, increased expectations for a rate hike which arrived mid- September, where the FOMC raised the policy rate by 25 basis points to lift the target range to 3.75%–4.0%. This decision, preceded by five consecutive decisions to hold rates steady, was unanimous. During September the yield on the 2-year Treasury rose 55 basis points (“bps”) to 4.89%. The yield on the benchmark 10-year Treasury rose 53 bps to 5.28% and the yield on the 30-year Treasury rose 21 bps to 5.63%.

Data released in September showed solid U.S. economic growth, a healthy labor market, and elevated inflation. Over the last four quarters, technology spending accounted for 50% of U.S. private demand growth on average, the highest share since 2010. Meanwhile, the labor market is near full employment, with 80% of major private-sector industries reporting positive job growth over the last 12 months and average monthly job growth of 80,000 in 2026 as of August. On the inflation front, the core personal consumption expenditures price index remained unchanged at 3.0% year over year in August.

The Federal Open Market Committee (FOMC) voted unanimously for the first rate hike in over three years, as core inflation has remained stubbornly above the Fed’s 2% target for more than five years. Further, the updated Summary of Economic Projections shows that policymakers expect healthy growth, a stable labor market, and core inflation to stay above 2% until 2028. In the post-meeting press conference, Fed Chair Kevin Warsh noted that he would be “hard pressed to describe broad financial conditions as restrictive,” and the rate increase “removed a dose of accommodation.” Accordingly, we expect the Fed to hike rates three more times in the next 12 months to bring monetary policy into restrictive territory and, in the words of Fed policymakers, “support a timelier return [of inflation] to the Committee’s 2 percent goal.”

Short-Term Bond Fund (“STBF”)

Short fixed income returns were negative across all sectors in September and the third quarter, but positive across all sectors YTD. Short-term yields continued the march upward amid rate volatility and inflation concerns. Corporate spreads in the 1-3 sector widened seven bps over the month. Given the

large move in Treasury yields, the STBF posted a -0.67% total return¹ for September, versus the benchmark ICE BofA 1-3 Year US Treasury index, which returned -0.53%. Calendar year-to-date, the STBF returned +0.59% and the benchmark +0.55%; fiscal year-to-date, the STBF has returned +1.74% versus 1.67% for the benchmark. Relative and long-term returns are strong, with STBF investment returns outperforming the 1-3 Year US Treasury benchmark during recent time periods and over the long-term.

We believe the STBF remains well positioned, supported by a high-quality bias, diversified credit exposure, ample liquidity, and a neutral to modestly long duration profile. Higher front-end yields have improved reinvestment opportunities and should enhance future income generation. The portfolio's 4.40% SEC yield as of September 30 provides a strong income cushion to help offset periods of market volatility.

We continue to invest broadly across high-quality credit sectors, including corporate bonds, asset-backed securities, and mortgage-backed securities, while selectively reducing exposure to areas of the residential mortgage market with greater extension risk. We remain active in evaluating inflation expectations, positioning along the yield curve, participating in attractive new issues, and rotating holdings as relative value opportunities emerge.

Key risks include persistent inflation, a potentially more restrictive Fed policy path, continued heavy debt issuance from both the U.S. government and AI-related financing needs, geopolitical tensions in the Middle East, and potential election-related volatility. With two-year Treasury yields up approximately 150 basis points since February lows, our strategy remains focused on limiting interest rate risk through a conservative duration profile and a meaningful allocation to floating-rate securities (18% of the portfolio). High-quality credit holdings continue to provide attractive income, helping to offset potential bond price weakness.

The STBF is assigned Fitch rating agency's highest Fund Credit Quality Rating of AAAf indicating the highest underlying credit quality, and Fund Market Risk Sensitivity Rating of S2, indicating a low sensitivity to market risk. The net 30-Day SEC Yield for the fund was 4.40% as of 9/30, versus 3.87% 2025-year end. The liquidity of the fund is strong, with 28% of funds invested in Treasuries and government related securities.

Day to Day Fund (“DtD Fund”)

¹ Net Asset Value calculated by custodian UMB. Net of fees. Past performance does not predict future returns.

The Florida Trust Day to Day Fund posted a total return of +0.32%² in September, compared to the benchmark ICE BofA Three-Month Treasury Index return of +0.27%. Calendar year-to-date, the DtD returned +2.84% and the benchmark +2.65%; fiscal-year-to-date, the fund returned +3.90% versus 3.65% for the benchmark. The net 7-day SEC yield of the Day to Day Fund was 3.92%, compared to 3.83% at 2025-year end. Comparable prime institutional government funds had an average yield of 3.66%³ on 9/30. The Fund continues to provide safety, income, and liquidity of investments in a stable, \$1 NAV Fund.

The DtD Fund maintains diversified exposure across high-quality, liquid credit sectors including corporate securities, commercial paper ("CP"), Yankee CDs ("YCDs"), money market tranches of ABS, and municipal variable rate demand notes ("VRDNs"). Our objective is to maximize yield while preserving liquidity and minimizing volatility. We actively manage sector allocations and individual holdings within the fund, regularly evaluating opportunities based on relative value, risk-adjusted return potential, and liquidity considerations. This disciplined approach allows us to optimize exposure across short-duration credit sectors while maintaining the fund's conservative risk profile.

We continue to favor credit exposure where valuations remain attractive. Corporate and securitized markets have demonstrated resilience, supported by strong underlying fundamentals and sustained demand for high-quality income-producing assets. In addition, the fund holds a 24% allocation to floating rate notes. By nature, these securities do not count against day count restraints within the fund, allowing us additional flexibility in utilizing fixed instruments when considering maximum maturity level. The floating rate securities in the portfolio have an average yield of 4.0% and continue to be additive to performance, though we are focused on fixed-rate instruments as we see increased relative value.

The fund remains highly liquid. The weighted-average maturity of the portfolio at month end was 44 days and 19% of the portfolio is invested in government or government guaranteed securities. The fund is assigned Fitch rating agency's highest Money Market Fund Rating of AAA mmf.

² Net of fees returns provided custodian UMB. Past performance does not predict future returns.

³ Crane Money Fund Average Yield: Institutional (government) 7-day yield

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