Florida LGIP Strategy Update

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Economic Update

Q4 2024 Real US Gross Domestic Product (GDP), which subtracts out the effects of inflation, registered at 2.4% for its final revision, slightly above expectations of 2.3%, and down from 3.4% in the 4th quarter of 2023. Consumer spending, which accounts for ~70% of US GDP, grew at a 4% annual rate in the fourth quarter of 2024, up from 3.3% in the fourth quarter of 2023. Catalysts for personal consumption continue to be strong with healthy household balance sheets and increasing household wealth.

The trend in monthly US jobs reports has been generally sideways since March of 2023: Total nonfarm payrolls increased 151k in February, below expectations of 160k. The unemployment rate in February came in at 4.1%, slightly above expectations. Average hourly earnings increased 0.3% month-over-month, right in line with expectations. Finally, the JOLTS Job Openings came in at 7,740k for January, above expectations of 7,600k. The long-term trend in job openings remains down.

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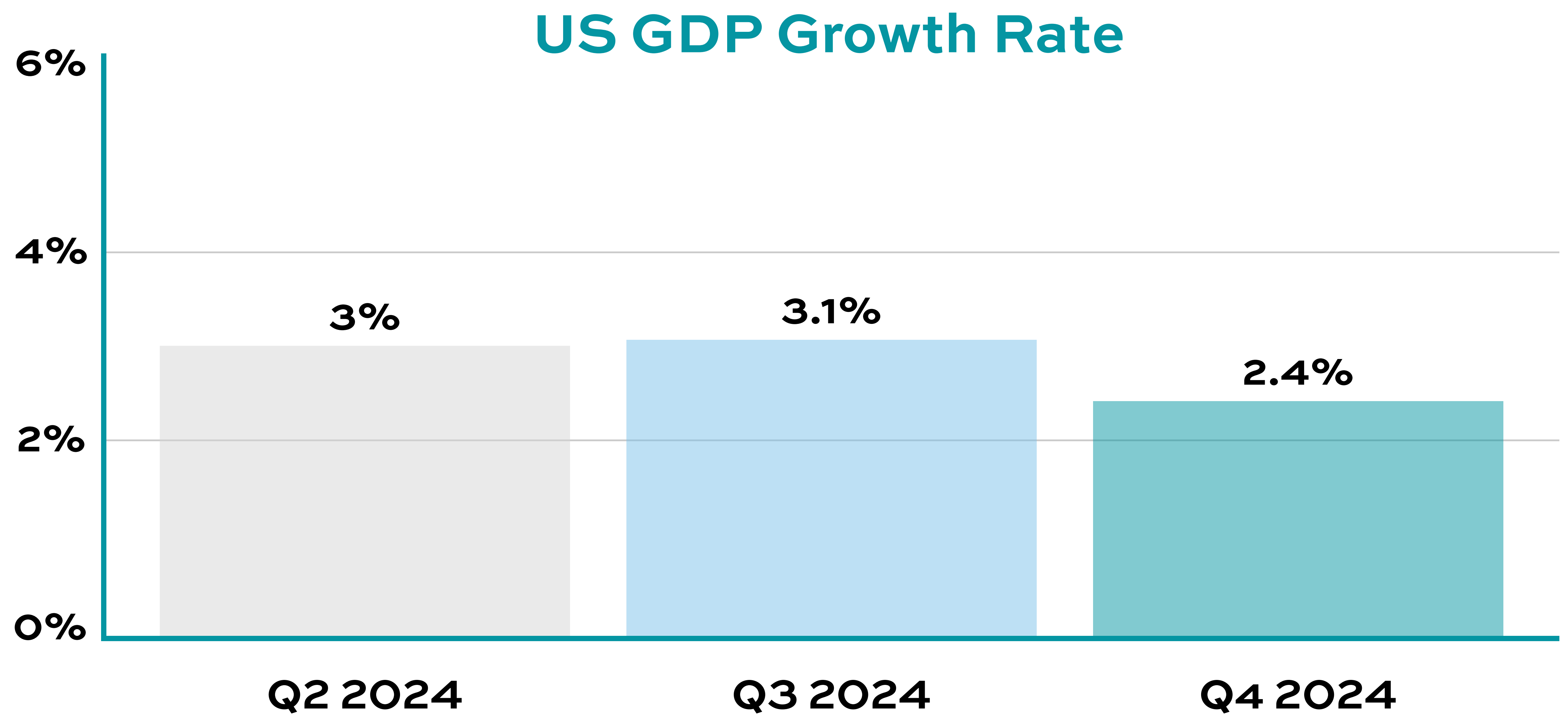

KEY TAKEAWAY

Consumer spending, which accounts for ~70% of US GDP, grew at a 4% annual rate in the fourth quarter of 2024, up from 3.3% in the fourth quarter of 2023.

*Bureau of Economic Analysis | https://www.bea.gov/data/gdp/gross-domestic-product

Economic Update (cont.)

The Federal Reserve Board met on March 19th – 20th, agreeing to continue its “pause” on cutting interest rates. This was in line with the expectations of market participants. However, market participants expect 3 total rate cuts by year-end (75 basis points), while the Federal Reserve itself only anticipates cutting rates twice (50 basis points) by year-end. Chairman Jerome Powell acknowledged the potential for inflation to accelerate and growth to slow down in the face of uncertain tariff policies.

The February headline CPI report showed a 2.8% year-over-year increase, down slightly from 3% the previous month, but down decently from 3.2% in February 2024. Core CPI (excluding food and energy) came in at 3.1% year-over-year, slightly below 3.3% from the prior month, but significantly below 3.8% reported in February 2024. Progress on reducing inflation has slowed as of late, but overall the trend remains down.

Volatility is expected to persist as investors balance the expectations for rate cuts with continued mixed economic data.

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US Treasury Yields

Date & Yield

Tenor	3/31/24	1/31/25	2/28/25	3/31/25
1M	5.49	4.37	4.38	4.38
3M	5.44	4.31	4.32	4.32
6M	5.36	4.28	4.25	4.23
1Y	5.06	4.17	4.08	4.03
2Y	4.72	4.22	3.99	3.89
3Y	4.51	4.27	3.99	3.89
5Y	4.34	4.36	4.03	3.96

US Department of the Treasury
https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2024

LGIP Investment Strategy

We expect the Fed to continue lowering interest rates in 2025. Market participants are currently pricing in 75 basis points in rate cuts this year. Progress on lowering inflation remains a challenge, yet economic growth forecasts have deteriorated recently.

Bond spreads in both fixed and floating-rate notes remain tight so far in 2025 (off their lows but still below historical averages), despite recent market volatility over the uncertainty of Trump administration's tariff policies. We believe that generally, there is more potential in downside risks (wider spreads) if the economy deteriorates, as opposed to upside rewards (tighter spreads) if the economy remains robust.

Emphasis on quality: With credit spreads persistently tight, investors are not well compensated to take on additional credit risk. An up-in-quality approach with minimal credit risk still makes sense. Hence, treasuries, callable agencies, asset-backed commercial paper, agency mortgage backed securities, and highly rated fix-to-float corporates continue to make sense.

Generally speaking, persistently tight credit spreads in bullet (non-callable) coporates and other spread products continue to raise the issue of opportunity cost. While technically spread products offer more yield than products like treasuries, hence spread, their yield pickup over treasuries is near historically tight levels.

While it can test one's patience, it is prudent to avoid overly tight credit spreads now so that these spread products can be taken advantage of in the future if/when spreads do eventually widen. The risk versus reward phenomenon is always something we take into consideration.

KEY TAKEAWAY

With credit spreads persistently tight, investors are not well compensated to take on additional credit risk. An up-in-quality approach with minimal credit risk still makes sense.

STRATEGY

We expect the Fed to continue lowering interest rates in 2025. Market participants are currently pricing in 75 basis points in rate cuts this year.

Florida LGIP Comments

FL FIT Preferred Deposit Pool:

Qualified Public Deposits (QPD) and FDIC Insured deposit yields continue to track the Federal Funds rate and will closely track future changes in the rate. The FL-FIT PDP pool remains a competitive alternative for Florida municipalities seeking yield away from any credit exposure. We expect this pool to closely track the effective Federal Funds rate, which finished the quarter at 4.33%.

YTD net return: 1.06% | End of quarter net yield: 4.38%

FL FIT Cash Pool:

We maintain our geographic focus on the United States, as it shows a relatively resilient economy. The portfolio remains anchored by allocations to Qualified Public Deposits, prime money market funds, and ultra-short bond funds. Tactically, we continue to identify opportunities in fixed-to-float corporates, short-dated agency MBS, callable Agencies, and asset-backed commercial paper. We anticipate the portfolio will continue to align closely with the S&P 30-day LGIP index.

YTD net return: 1.12% | End of quarter net yield: 4.51%

FL FIT Enhanced Cash Pool (floating NAV, total return focus):

As mentioned earlier, given persistently tight credit spreads, we continue to focus on keeping a solid liquidity profile, balanced with selective opportunities to add relative value. At the moment, municipal bonds and agency mortgage-backed securities are preferable to comparable corporate bonds as spread compensation is better and the credit quality is stronger. The pool has closely tracked its benchmark over the last twelve months, and we expect the performance of this pool to be in-line with its 0-1 year benchmark over time. See below for additional details.

FL FIT Select Cash Pool (floating NAV, total return focus):

Consistent with the Enhanced Cash Pool, the Select Pool maintains a strong liquidity profile, utilizing money market funds, and short-term mutual funds. We've strategically positioned the portfolio to capture value, focusing on high-quality municipal bonds and agency mortgage-backed securities for their attractive spread compensation and strong credit profiles. Amid shifting yield curves and tariff-driven uncertainties, we remain selective in adding relative value. The pool continues to closely track its 1-3 year benchmark return. See below for additional details.

Florida Floating NAV Pool Details†

(as of 3/31/2025, all return figures are %, net of fees)

FL Enhanced Cash:

PERFORMANCE

Benchmark: 75/25 split of ICE 0-1y US Treasury and 0-1y AAA-A Corporate Index.

- March 2025 YTD return %: (1.65%).
- Benchmark return %: (1.08%).

STRATEGY

Focus on maintaining high credit quality while reducing corporate bond exposure over time in favor of liquidity, high-quality municipal bonds and agency mortgage backed securities.

Pool yield remains resilient as we've previously implemented non-callable securities with favorable/high credit spreads.

- Yield at end of the quarter: 4.67%.
- Reminder: Focus on total return for floating-nav pools, not just daily yield.

Targeted duration band of 0.75 to 1.25 years (currently 1.17).

FL Select Cash:

PERFORMANCE

Benchmark: 75/25 split of ICE 1-3y US Treasury and 1-3y AAA-A Corporate & Gov't Index.

- March 2025 YTD return %: (1.80%).
- Benchmark return %: (1.60%).

STRATEGY

Continue to focus on high-quality instruments with call protection to provide consistency in yield for years to come.

- Yield at end of the quarter: 4.43%.
- Reminder: Focus on total return for floating-nav pools, not just daily yield.

Targeted duration band of 1.00 to 2.00 years, currently (2.04 years).

Maintain a high allocation to fixed-rate securities (~70% of portfolio).

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Disclaimer

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