Florida LGIP Strategy Update

Q2 2025

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Economic Update

Q1 2025 Real Gross Domestic Product (GDP), which subtracts out the effects of inflation, registered at -0.5% for its final revision, below expectations of -0.2% and down from 1.4% in the first quarter of 2024. The negative GDP print was largely due to an increased trade deficit, spurred by companies front-running inventory in anticipation of a large hike in tariff rates. The negative GDP print could ultimately be due to temporary forces. However, consumer spending, which makes up ~2/3 of the economy, fell to -0.1% in the second quarter.

Nonfarm payrolls reported continue to be rangebound since the Spring of 2023, with volatility in between. Viewing longer-term trends helps eliminate the noise that can occur from month-to-month prints. Nonfarm payrolls increased to 147k in June, above expectations of 106k. The unemployment rate for June came in at 4.1%, surprisingly below expectations of 4.3%. Finally, the JOLTS Job Openings came in at 7,769k for May, above expectations of 7,300k.

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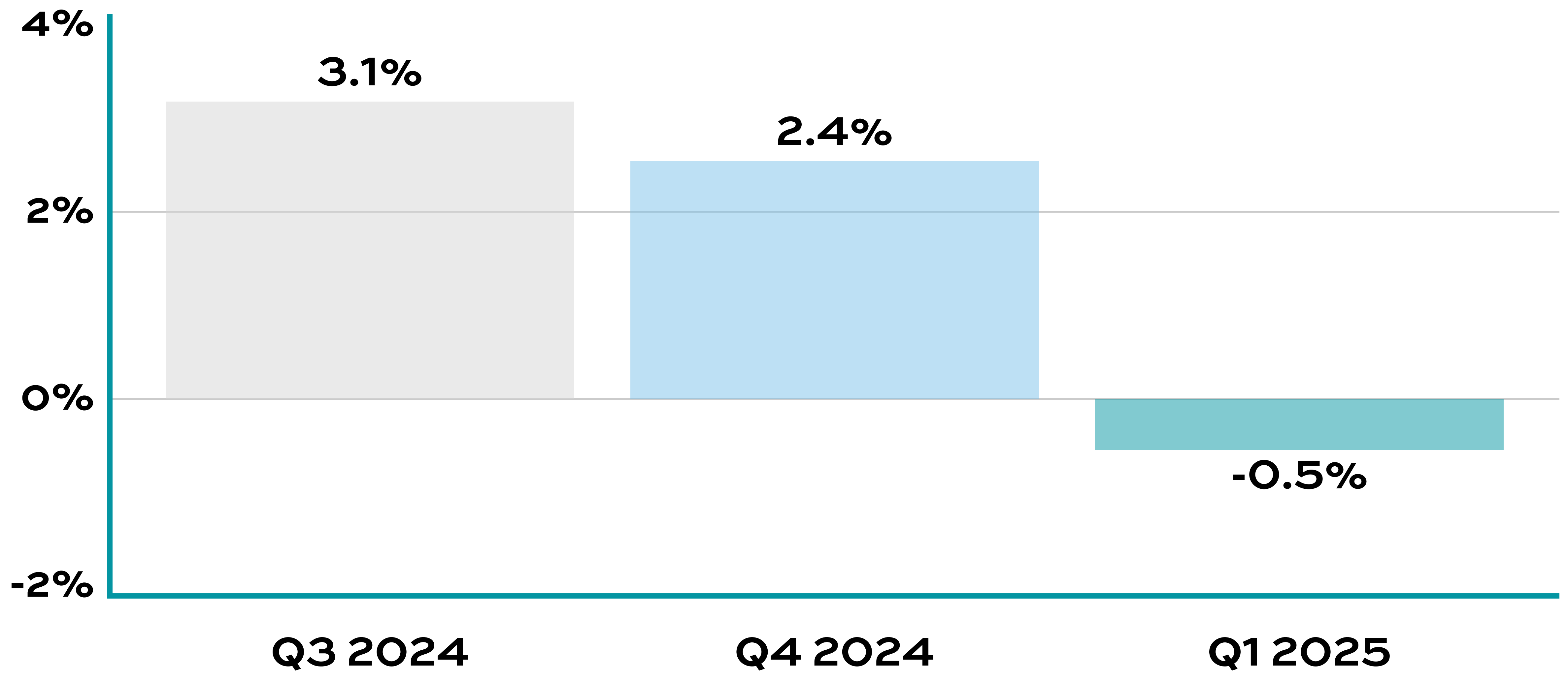
US GDP Growth Rate



KEY TAKEAWAY

The negative GDP print could ultimately be due to temporary forces. However, consumer spending, which makes up ~2/3 of the economy, fell to -0.1% in the second quarter.

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

Economic Update (cont.)

Federal Reserve Chairman Jerome Powell recently stated that he would have resumed the rate-cutting cycle had it not been for tariff policy implemented by the Trump administration. Despite pressure from the White House, The Federal Reserve is more-than-likely to hold rates steady at its next meeting at the end of July. This should be no surprise given continued below average levels of unemployment and inflation still above the Fed's 2% target.

The June headline CPI report came in at 2.7% year-over-year, slightly above expectations of 2.6%. Core CPI (excluding food and energy) came in at 2.9% year-over-year, in line with expectations. Inflation continues to move sideways with a slight downward tilt. That being said, inflation is still above the Federal Reserve's 2% target, and with uncertainty over tariff and fiscal policy, The Fed is in no rush to resume its rate-cutting cycle.

Expect volatility from changes in interest rates to changes in market expectations for rate cuts to continue to persist.

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US Treasury Yields

Date & Yield

Tenor	6/30/24	4/30/25	5/31/25	6/30/25
1M	5.48	4.35	4.33	4.28
3M	5.47	4.31	4.36	4.41
6M	5.37	4.19	4.36	4.29
1Y	5.10	3.85	4.11	3.96
2Y	4.77	3.60	3.89	3.72
3Y	4.58	3.58	3.87	3.68
5Y	4.44	3.72	3.96	3.79

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

The Fed remains paused in its rate-cutting cycle, but we expect them to resume their rate cuts in the 2nd half of the year. Inflation is still above the Fed's 2% target and tariff uncertainty has thrown a wrench in the Fed's plans, but GDP printed negative in Q1.

Bond spreads recently widened out a decent amount during the tariff tantrum in April, but have since snapped back quickly to cycle lows, highlighting investors continued demand for risk, regardless of the price. Spreads can remain tight for long periods of time, but we believe there is more downside potential if the economy deteriorates than upside potential if the economy holds up.

High Quality – Domestic: With continued economic uncertainty globally, the focus continues to be on US-based investments, as compensation is generally not large enough to be positioned in high quality names from other developed nations. Select opportunities are available in callable agencies, asset-backed commercial paper, agency mortgage-backed securities (fixed & floating), and fix-to-float corporates.

Generally speaking, risk spreads (corporates, municipals, bullet agencies, etc). continue to trade near historically tight levels. It is important to continue to express patience despite the fact that risk spreads can remain overly compressed for long periods of time.

Additionally, with a negative GDP print in Q1, negative retail sales in May, and forecasts of deteriorating payrolls numbers and rising unemployment numbers, it is important to be selective where appropoiate and let risk spreads come back to more attractive levels before committing capital.

KEY TAKEAWAY

With continued economic uncertainty globally, the focus continues to be on US-based investments, as compensation is generally not large enough to be positioned in high quality names from other developed nations.

STRATEGY

The Fed remains paused in its rate-cutting cycle, but we expect them to resume their rate cuts in the 2nd half of the 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: 2.14% | End of quarter net yield: 4.28%

FL FIT Cash Pool:

The FL FIT Cash Pool will continue to remain anchored by Qualified Public Deposits, prime money market funds, and ultra-short bond funds. Keeping the liquidity, or foundation of the pool high gives us the ability to strategically add unique opportunities such as fix-to-float corporates, short-dated agency MBS, floating rate 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: 2.25% | End of quarter net yield: 4.47%

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

Consistent with our 1st quarter approach, given persistently tight risk spreads, we continue to view select opportunities in municipal bonds and agency mortgage-backed securities as preferable to corporate notes, as it is both up-in-quality and offers better spread compensation. 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 Cash Pool maintains a strong liquidity profile, utilizing money market funds and short-term mutual funds at its core. Strategically, although risk spreads are generally near historically tight levels, we continue to find opportunities in high-quality municipal bonds and agency mortgage-backed securities for their attractive spread compensation and strong credit profiles. The pool continues to closely track its 1-3-year benchmark return. See below for additional details.

Florida Floating NAV Pool Details†

(as of 6/30/2025, 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.

- June 2025 YTD return %: (3.03%).
- Benchmark return %: (2.14%).

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: 4.62%.
- Reminder: Focus on total return for floating-nav pools, not just daily yield.

Targeted duration band of 0.75 to 1.25 years (currently 0.98 years).

FL Select Cash:

PERFORMANCE

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

- June 2025 YTD return %: (3.43%).
- Benchmark return %: (2.80%).

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: 4.29%.
- Reminder: Focus on total return for floating-nav pools, not just daily yield.

Targeted duration band of 1.00 to 2.00 years, currently (1.70 years).

Maintain a high allocation to fixed-rate securities (~71% of portfolio).

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Disclaimer

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