

Texas LGIP Strategy Update

Q3 2025

PREPARED BY

Dan Marro, CFA
Portfolio Manager

Vito Resciniti
Investment Strategist



Economic Update

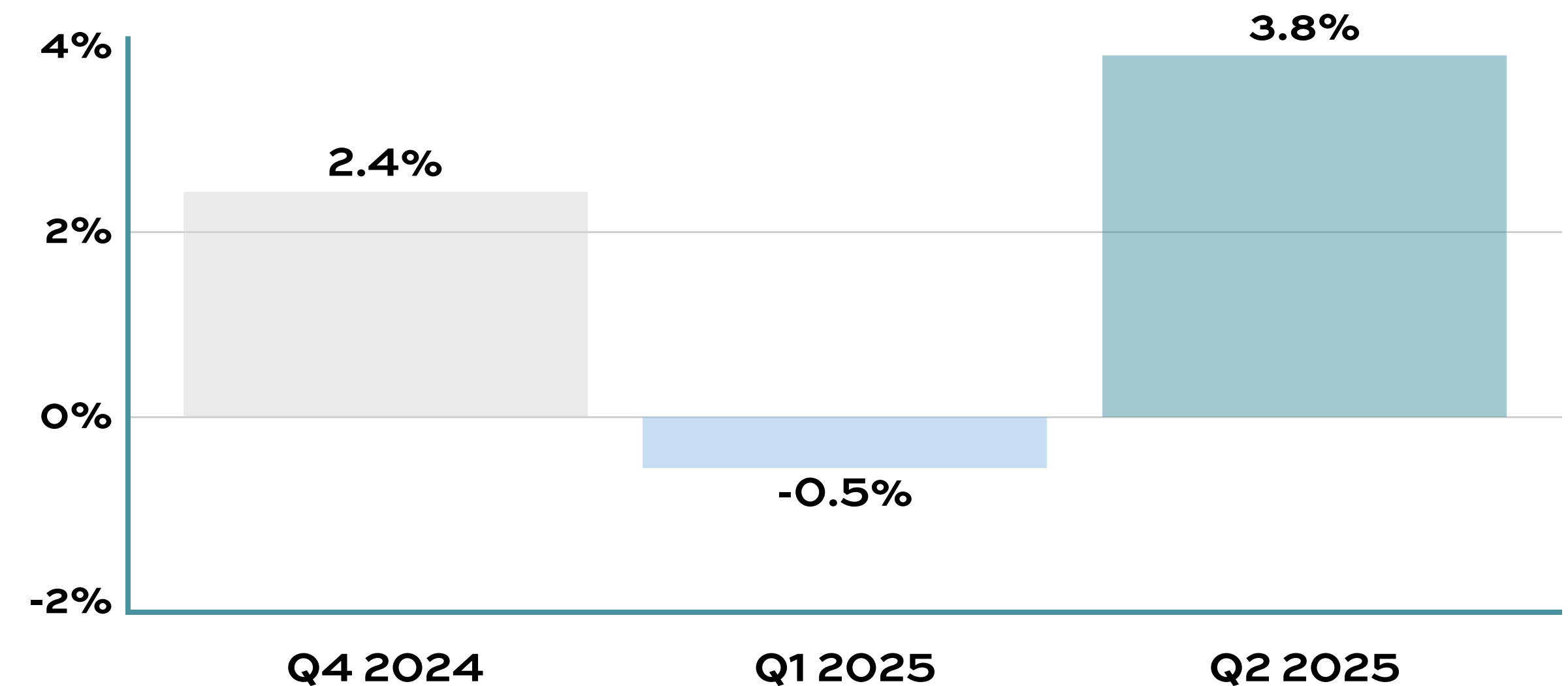


Q2 2025 Real Gross Domestic Product (GDP), which subtracts out the effects of inflation, registered at 3.8% for its final revision, above expectations of 3.3% and up from -0.5% in the first quarter of 2025. A big reason for the strong number - its fastest rate in nearly two years - was a 2.5% increase in personal consumption expenditures, which were up sharply from the 1.6% rate reported in the first quarter. Another contributor was a decline in the overall value of imports, because businesses had already stocked up inventory levels in the first quarter to front-run tariffs.

Nonfarm payrolls have seen significant downward revisions in the second quarter. It is unclear if hiring slowed down temporarily due to tariff uncertainty, but economists have labeled the environment as a “no fire, no hire” labor market. The most recent three-month average of payrolls registered at just 28k, well below the 141k seen in the second quarter. JOLTS Job Openings came in at 7,227k, slightly beating expectations of 7,200k. JOLTS have stabilized in recent months and are currently hovering around pre-Covid levels.

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US GDP Growth Rate



KEY TAKEAWAY

A big reason for the strong number - its fastest rate in nearly two years - was a 2.5% increase in personal consumption expenditures, which were up sharply from the 1.6% rate reported in the first quarter.

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

Economic Update (cont.)



Federal Reserve Chairman Jerome Powell resumed his rate cutting cycle after a 9-month pause, lowering rates in mid-September by 25 basis points. Despite headline CPI sitting at 2.9% and the Unemployment Rate sitting at 4.3%, Jerome Powell has shifted his main priority to the softening labor market as nonfarm payroll numbers have consistently come in below 100k/month of late. It is widely expected that the Fed will cut the rate another 25 basis points again in October.

The August headline CPI report came in at 2.9% year-over-year, in line with expectations. Core CPI (excluding food and energy) came in at 3.1% year-over-year, also in line with expectations. Inflation has reaccelerated in the last few months, potentially due to the Trump Administration tariff policies. The perception of the Federal Reserve may be that the reacceleration in inflation will not persist, as the institution has resumed 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	9/30/24	7/31/25	8/31/25	9/30/25
1M	4.93	4.49	4.41	4.20
3M	4.73	4.41	4.23	4.02
6M	4.38	4.31	4.01	3.83
1Y	3.98	4.10	3.83	3.68
2Y	3.66	3.94	3.59	3.60
3Y	3.58	3.89	3.58	3.61
5Y	3.58	3.96	3.68	3.74

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 has resumed its rate-cutting cycle, cutting rates by 25 basis points in September, which is in line with what they have been projecting for the last few months. The Fed is expected to continue cutting interest rates into 2026.

Bond spreads widened out in April during what market watchers called the tariff tantrum, providing a very short window of opportunity for investors to take advantage. Spreads snapped back quickly and have grinded lower since then, and they are currently near historically low levels. Investors continue to have strong demand for fixed income securities despite the Federal Reserve's cautionary stance on the labor market.

High Quality – Domestic: We continue to keep our geographic concentrations largely domestic, as the US continues to show a resilient

economy on the heels of recent GDP and consumer spending data. Additionally, there is strong demand for fixed income globally, and we do not see much relative value abroad.

The market continues to be selective, and we remain focused on products such as callable agencies, asset-backed commercial paper, agency mortgage-backed securities (fixed & floating), and fix-to-float corporates.

We define opportunities as “selective” due to the general richness, or tightening, in risk spreads that has persisted for some time. We continue to exercise patience and wait for compelling opportunities in the face of a weakened labor market.

KEY TAKEAWAY

We continue to keep our geographic concentrations largely domestic, as the US continues to show a resilient economy on the heels of recent GDP and consumer spending data.

STRATEGY

The market remains selective, and we're focused on callable agencies, asset-backed CP, agency MBS (fixed & floating), and fix-to-float corporates.

TX LGIP Comments



TX FIT Government Pool:

The performance remains anchored by FDIC Insured overnight deposits, alongside laddered securities in US Treasuries and Agencies, both fixed and floating rate. We continue to allocate to agency MBS with final maturities within one year, capitalizing on their yield pickup relative to comparable treasuries and non-callable agencies. We expect this pool to continue to track the S&P LGIPG 30-day index.

September 2025 YTD net return: 3.25%.

End of quarter net yield: 4.25%.

TX FIT Cash Pool:

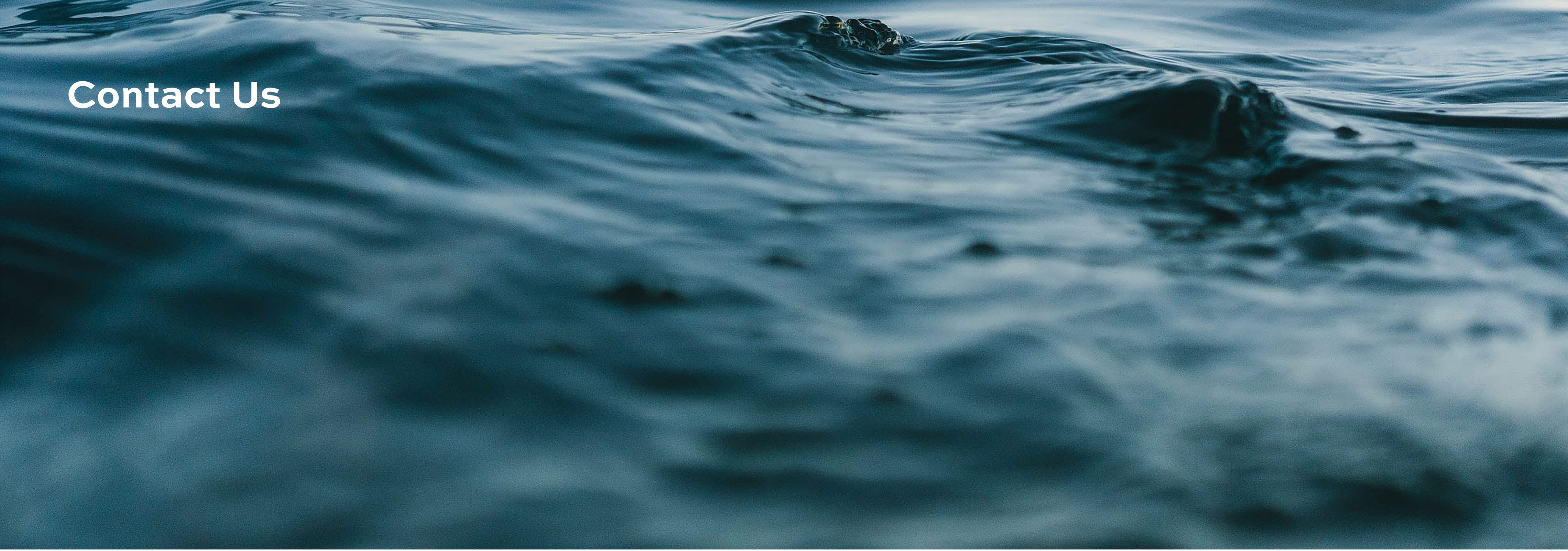
The Cash Pool is primarily composed of FDIC-insured overnight deposits, along with money market funds and mutual funds. Reflecting our current market perspective, the pool maintains a selective approach to security allocations amid persistently tight spreads. Callable agencies, asset-backed commercial paper, and short-maturity agency mortgage-backed securities (fixed & floating) remain the most attractive for relative value. We expect the pool to continue tracking the S&P 30-day LGIP Index.

September 2025 YTD net return: 3.43%.

End of quarter net yield: 4.48%.

The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. Investments in the TX-FIT Pools are not insured or guaranteed by the FDIC or any other government agency. The investment pools may invest in fixed income securities, which are subject to risks, including interest rate, credit, and inflation.

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Contact Us

KEN COUCH

ken.couch@deepblue-inv.com
(210) 240-9464

ED POLANSKY

ed.polansky@deepblue-inv.com
(813) 992-3145