

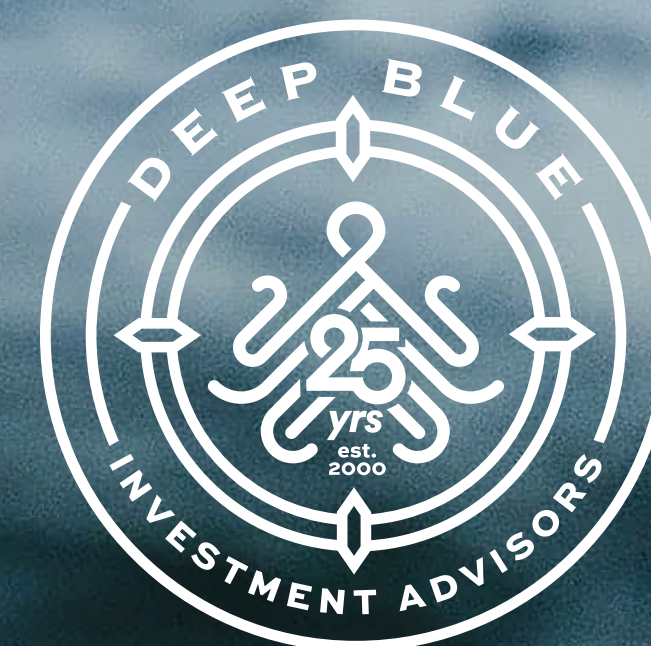
# Florida LGIP Strategy Update

## Q1 2026

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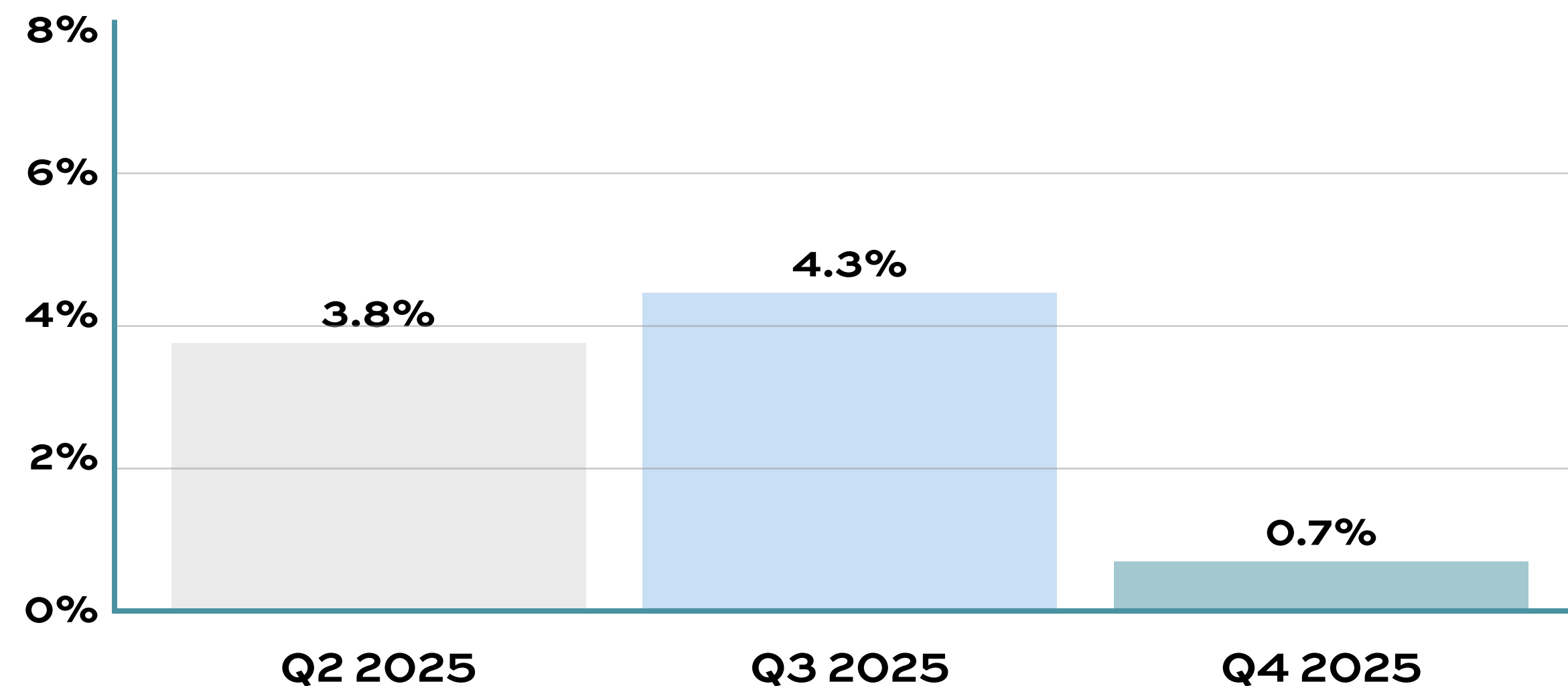
# Economic Update

**The economy slowed significantly in the 4th quarter**, with the second revision of 4th quarter GDP coming in at just 0.7% annualized, which was a sharp drop from the 4.4% GDP reported in the 3rd quarter of 2025. A notable driver in the slowdown of GDP growth was the 43-day government shutdown, which was estimated to have shaved 1% off of GDP growth. It is worth noting that this slowdown came before the energy price shock due to the war in Iran, which is expected to further weigh on growth.

**February nonfarm payrolls surprised to the downside**, coming in at -92k vs. estimates of 50k. Two things are notable here: first, the number came in well below already low estimates by economists, and second, this is the third month out of the last five months that nonfarm payrolls have printed negatively. The unemployment rate came in at 4.4%, up from 4.3% in January, but still hovered near historically low levels.

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## US GDP Growth Rate



### KEY TAKEAWAY

A notable driver in the slowdown of GDP growth was the 43-day government shutdown, which was estimated to have shaved 1% off of GDP growth.

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

# Economic Update (cont.)

The March 17th – 18th FOMC meeting delivered as expected, with the Fed holding overnight rates steady in a 3.50% - 3.75% range. What has changed is that the Fed is now less optimistic about its fight against inflation. While inflation had been stalling out in the 2.4% - 3.0% range for some time, the war in Iran has reignited inflation risks that have not yet shown up in CPI reports. The FOMC, per its updated DOT plot (rate movement projections), expects to cut interest rates only once in 2026. What might be more noteworthy is the behavior of the 2-year Treasury rate, which tends to foreshadow the Fed Funds rate. It has moved up to 3.80%, implying no rate cuts this year.

February headline CPI came in at 2.4% year-over-year, in line with expectations. However, this number has yet to include any consequences of higher prices from the Iran war. Also, the Producer Price Index (PPI) came in at 3.4% year-over-year, much hotter than expectations of 3%. Not only does this index tend to lead headline CPI, it also has yet to factor in any price disruptions due to the Iran war. March CPI and PPI headline numbers are expected to be higher.

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## US Treasury Yields

Date & Yield

Tenor	3/31/25	1/31/26	2/28/26	3/31/26
1M	4.38	3.72	3.74	3.74
3M	4.32	3.67	3.67	3.70
6M	4.23	3.61	3.60	3.72
1Y	4.03	3.48	3.48	3.68
2Y	3.89	3.52	3.38	3.79
3Y	3.89	3.60	3.39	3.81
5Y	3.96	3.79	3.51	3.92

Source: Treasury.gov, DBIA

# LGIP Investment Strategy



Federal Reserve activity is always heavily scrutinized as its overnight (Fed Funds rate) aligns closely with interest rate movements in the Treasury bill markets (0 – 12 month duration), of where our Cash Pool target duration lies in between.

We have been in a rate-cutting cycle for 18 months, although the cycle has been on pause since December. For a while, the 2-year Treasury was leading the Fed Funds rate lower, implying future rate cuts. Now, however, the 2-year rate sits just above the upper bound of the Fed Funds rate, implying uncertainty on where the next move will be a hike or a cut. The pools have benefited from locking in higher rates throughout the duration of rate cuts.

The starting point for any pool is a large core position in liquidity, which is composed of bank deposits and same-day/next-day money market and mutual fund positions. However the Federal Reserve moves next, a core base of liquidity allows each pool flexibility to adapt to static or changing Fed policies. Two examples of tactical positions that have benefited the pools during this cycle are Ginnie Mae floating rate securities with just 1-day duration risk and callable agencies.

In addition to tactical positions mentioned above, such as floating rate Ginnie Mae securities and callable agencies adding relative value, both security sets carry explicit and implicit guarantees, respectively, from the U.S. government. In a weakening economic environment, de-risking the portfolio from a credit perspective is important.

## KEY TAKEAWAY

In a weakening economic environment, de-risking from a credit perspective is important — Ginnie Mae floating rate securities and callable agencies both carry explicit and implicit U.S. government guarantees.

## STRATEGY

**The 2-year Treasury now sits just above the upper bound of the Fed Funds rate,** implying uncertainty on whether the next move is a hike or a cut.

# 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 are expected to closely track future changes in the rate. The FL-FIT PDP 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 currently sits at 3.64%.

YTD net return: 0.87% | End of quarter net yield: 3.54%

## 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. As noted previously, keeping a core liquidity position in the pool allows us to selectively add tactical positions when the market presents opportunities. A general interest rate selloff in March has made securities such as fixed-to-float corporates, callable agencies, and floating-rate Ginnie Mae-backed mortgages more appealing.

YTD net return: 0.98% | End of quarter net yield: 3.98%

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

In the 1st quarter of 2026, the pool was well positioned to withstand the selloff in Treasury rates due to the initiation of the war in Iran. Uncertainty sent base Treasury rates higher along with widening in credit spreads. Our continued focus on high quality securities along with a domestic bias typically pays off in uncertain times, as these securities proved to hold up well during the volatile month of March. The pool will continue to take advantage of relative value ideas such as fixed-to-float callable corporate bonds and high-quality municipal securities.

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

A common theme amongst the pools is keeping a large core position in liquid instruments, such as bank deposits and same/next day money market/mutual funds. The Select Cash Pool is no different. It is strategically purposed to take advantage of unique market opportunities without sacrificing its ultimate priorities, liquidity and safety. The pool held up relatively well during the sharp interest rate selloff in March due to the initiation of the Iran war at the end of February. The pool is positioned to continue to take advantage of securities such as municipal bonds, mortgage-backed securities, and fixed-to-float corporates. Over the longer horizon, we expect performance to align more closely with its 1-3 year benchmark.

# Florida Floating NAV Pool Details

(as of 3/31/2026, 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 YTD return %: (0.75%).
- Benchmark YTD return %: (0.79%).

### STRATEGY

Focus on maintaining high credit quality and high liquidity while tactically adding securities that have performed well in a rate-cutting cycle such as municipal securities, mortgage-backed securities, and corporate bonds.

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

- 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 0.75 to 1.25 years (currently 1.20 years).

## FL Select Cash:

### PERFORMANCE

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

- March YTD return %: (0.46%).
- Benchmark YTD return %: (0.30%).

### 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: 4.23%.
- Reminder: Focus on total return for floating-nav pools, not just daily yield.

Targeted duration band of 1.00 to 2.00 years, currently (1.84 years).

Maintain a high allocation to fixed-rate securities (~73% of portfolio).

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