Florida LGIP Strategy Update

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PREPARED BY

Dan Marro, CFA
Portfolio Manager

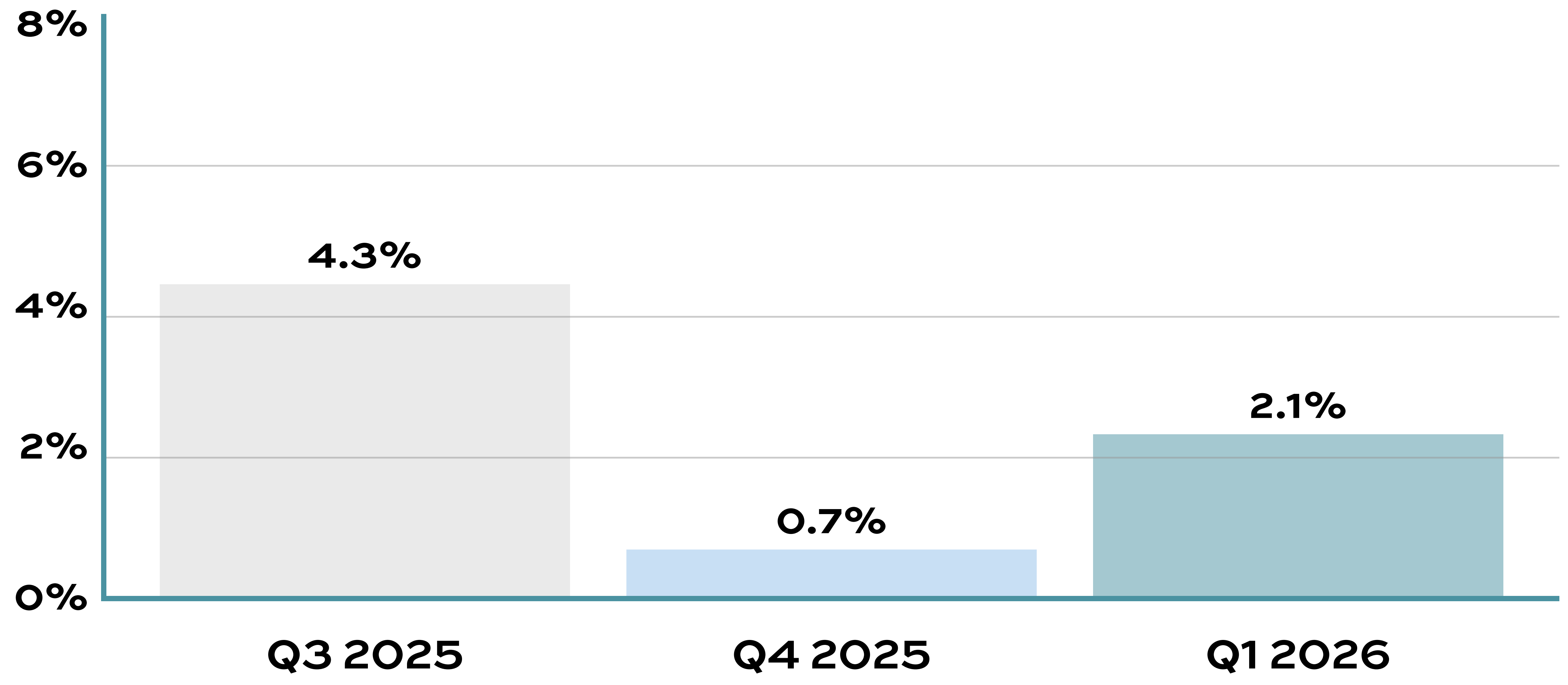
Vito Resciniti
Investment Strategist

Economic Update

The economy grew in the 1st quarter, with the third and final estimate of GDP coming in at 2.1% annualized, revised higher from the prior estimate of 1.6%. GDP growth was driven by sectors such as information, durable goods manufacturing, and related investment activity. A big part of the growth in the information / technology sector continues to be powered by investment in Artificial Intelligence, which has helped drive spending in software, research and development, and related infrastructure.

Nonfarm payrolls had come off a string of a few decent reports in a row, but for June, payrolls came in at just 57k, versus expectations of 113k, down from the May report. Nonfarm payrolls have been mixed overall this year, but the three-month average remains above 100k jobs per month. The unemployment rate, already near historic lows, actually dropped from 4.3% to 4.2% in June.

US GDP Growth Rate



> **Consumer and business spending continues to power the economy,** supported by a resilient labor market and sustained investment from the ongoing AI buildout.

KEY TAKEAWAY

Growth remains positive. Q1's 2.1% marks a rebound from a Q4's 0.7% that was held down by the six-week government shutdown - a sign the underlying expansion remains intact.

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

Economic Update (cont.)

The June 16–17 FOMC meeting was the first for new Fed Chairman Kevin Warsh. As expected, the Fed held rates steady at a 3.50%–3.75% range. However, the 2-year Treasury, a leading indicator for future Fed Funds rate movements, moved sharply higher following the meeting. What moved the market was not the rate decision itself, but the Fed's more hawkish messaging, as more officials indicated that rate hikes may be possible in the future. While the decision to hold rates was broadly expected, the shift in future rate projections and less clear forward guidance may lead to more market volatility.

In June, the May CPI report came in at 4.2%, in line with expectations but above the prior print of 3.8% and trending higher. What may be more notable is the move in PPI, or business input prices, which came in at 6.5%, above expectations of 6.4% and well above the prior print of 5.7%. PPI can be a useful signal of pipeline inflation pressure, indicating that higher CPI prints may be possible going forward. Time will tell how much of those higher input costs companies will pass on to consumers.

> **Inflation remains well above the Fed's 2% target - and with officials signaling higher-for-longer,** even possible hikes, the market has repriced yields higher.

US Treasury Yields

Date & Yield

Tenor	6/30/25	4/30/26	5/31/26	6/30/26
1M	4.28	3.72	3.72	3.70
3M	4.41	3.68	3.69	3.87
6M	4.29	3.71	3.78	4.01
1Y	3.96	3.72	3.79	3.98
2Y	3.72	3.88	3.98	4.14
3Y	3.68	3.91	4.06	4.15
5Y	3.79	4.02	4.13	4.19

Source: Treasury.gov, DBIA

LGIP Investment Strategy

The Federal Reserve swore in a new chairman, Kevin Warsh, who conducted his first FOMC meeting in June. Immediately, Fed officials shifted to a more hawkish tone as the market began pricing in the possibility of future rate hikes.

Due to the hawkish Fed pivot, the rate-cutting cycle appears to be over for now. This is reflected in the rapid advance of the 2-year Treasury, which moved from roughly 3.40% to 4.10% since March. With inflation still elevated and the labor market remaining resilient, the 2-year yield, which tends to lead expectations for the Federal Funds rate, has widened by approximately 34 basis points relative to the 3-month Treasury bill.

The widening spread between the Federal Funds rate / 3-month Treasury bill and the 2-year Treasury has created more attractive yields in the part of the curve where the duration of our pools generally falls. Our core strategy of anchoring portfolios with liquidity gives us the flexibility to add strategically in environments like this. Once safety and liquidity priorities are met, we can incrementally take advantage of current market dynamics.

Securities we continue to tactically add include Ginnie Mae floating-rate securities, fixed-to-floating corporate bonds with short expected final maturities, and callable agencies. By adding incrementally, or layering in transactions, we avoid the pitfalls of trying to forecast exactly where interest rates will move next.

KEY TAKEAWAY

The 2-year Treasury has surged past the Fed Funds rate — roughly 3.40% to 4.10% since March - signaling the market is now pricing in the possibility of future rate hikes rather than cuts.

STRATEGY

Our barbell approach anchors portfolios in high-quality, liquid securities while opportunistically adding relative value in cheaper sectors - layering in incrementally rather than forecasting the Fed's next move.

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 3.63%.

YTD net return: 1.76% | End of quarter net yield: 3.53%

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: 1.99% | End of quarter net yield: 4.04%

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

In the 2nd quarter of 2026, interest rates continued to trend higher for a period, before consolidating due to positive news on Iran/US peace negotiations. The pool has withstood current gyrations in the NAV from the interest rate volatility, but the high coupon securities that had been purchased in the backdrop of a steep yield curve have continued to provide strong interest income to participants. The pool will continue to keep a solid liquidity base, giving it the flexibility to add securities incrementally as opportunity presents itself.

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

Like the Enhanced Cash Pool, the Select Cash Pool has held up well despite the increase in interest rate volatility that has persisted since late February. With a long-term plan implemented, the pool has continued to provide a strong interest income return, benefitting from higher rates that were locked in to take advantage of the recent steepness in the yield curve. Also, in keeping a liquid core base, the pool remains in position to incrementally take advantage of relative value securities as they present themselves. The municipal, mortgage-backed, and fixed-to-float corporate security types remain attractive.

Florida Floating NAV Pool Details

(as of 6/30/2026, 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.

- June YTD return %: (1.40%).
- Benchmark YTD return %: (1.68%).

STRATEGY

Focus on maintaining high credit quality and high liquidity while tactically adding some relatively longer-maturity securities to take advantage of the recent steepness in the yield curve.

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

- Yield at end of the quarter: 4.25%.
- Reminder: Focus on total return for floating-nav pools, not just daily yield.

Targeted duration band of 0.75 to 1.25 years (currently 1.16 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 YTD return %: (0.98%).
- Benchmark YTD return %: (0.68%).

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 (1.88 years).

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

Contact Us

RENE O'DAY
rene.oday@deepblue-inv.com
(813) 440-5087

DOMINICK CRISTOFARO
dominick.cristofaro@deepblue-inv.com
(813) 556-9778

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