

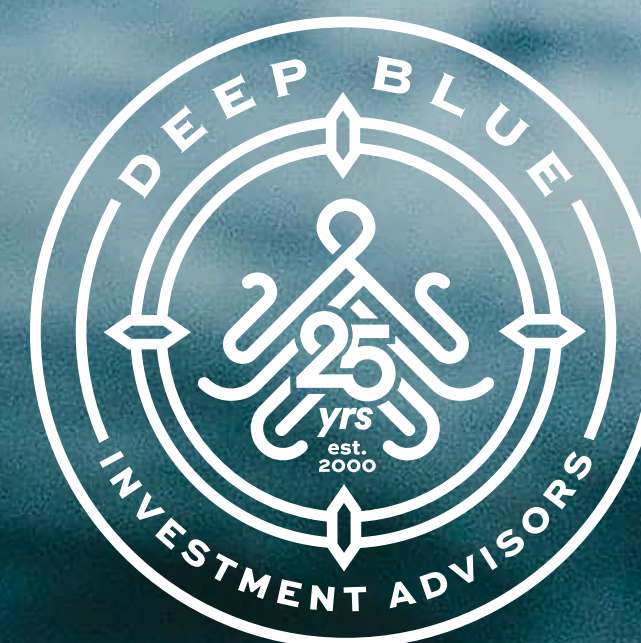
Florida LGIP Strategy Update

Q3 2026

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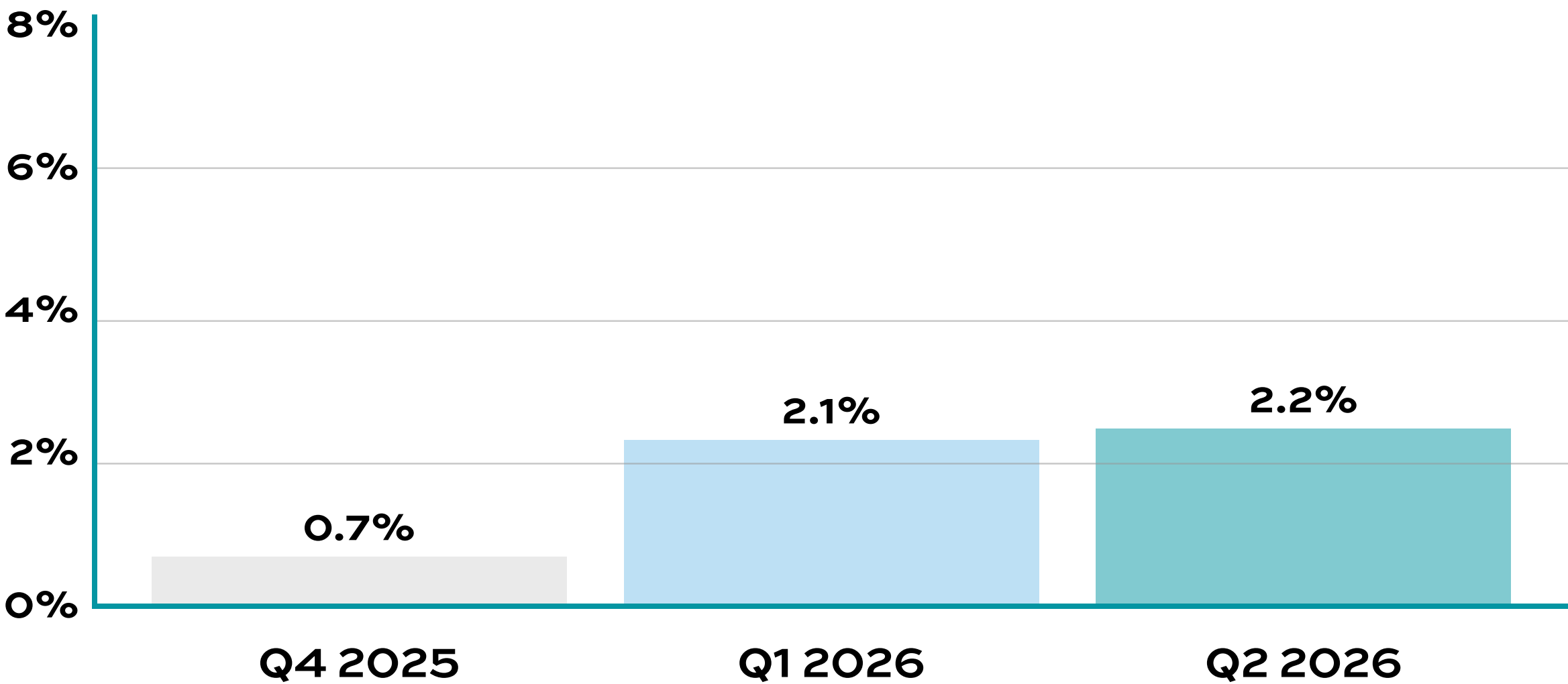
Economic Update

The economy grew in the 2nd quarter, with the third and final estimate of GDP coming in at 2.2% annualized, revised sharply higher from the prior estimate of 1.5%. Underlying demand appears to be strong, with consumer spending up 3.8% and business investment up 9.0%. Business investment again reflected the buildout in Artificial Intelligence, though that spending has broadened from software and research into physical capacity, with intellectual property investment up 9.2% and equipment spending up 13.4%. First quarter growth was also revised higher, to 2.5%, as part of the Bureau of Economic Analysis annual update.

Nonfarm payrolls weakened through the quarter. September payrolls came in at just 29k, versus expectations of 90k, and revisions took July to a loss of 10k and August down to 133k, reducing the previously reported employment count by 60k across those two months. The three-month average has slowed to roughly 50k per month, though the level needed to hold the unemployment rate steady has fallen as well. The St. Louis Fed puts that breakeven pace between 15k and 87k for 2026, well below the rule of thumb of recent years. The unemployment rate ticked up to 4.2% in September but has remained within a narrow 4.1% to 4.3% range since March, per the Bureau of Labor Statistics.

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US GDP Growth Rate



KEY TAKEAWAY

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

Economic Update (cont.)

The September 15-16 FOMC meeting marked the end of the honeymoon phase for new Fed Chairman Kevin Warsh. His board of 12 voting members proceeded to unanimously vote to hike interest rates by 25 basis points, with further hikes expected. The key word here is “unanimous”, as previously we saw disagreement amongst Fed voting members on whether to hike interest rates. Chair Warsh remains firm in his priority to slow inflation back to its long-term target of 2%, a point at which it has not been since early 2021. Further, the 2-year treasury, a leading indicator for future Federal Reserve policy, has surged 100-basis points above the Federal Funds rate, implying future rate hikes.

In September, the August CPI report came in at 3.4%, unchanged from July and down from 4.2% in May, but still well above the Fed's 2% target. Core CPI, which strips out food and energy, has eased steadily to 2.4%. PPI, or business input prices, came in at 5.4% in August, sharply higher than where it stood at the end of last year. Last quarter's concern was that elevated input costs would pass through to consumers. To date that pass-through has been limited, though producer price growth remains well above consumer price growth, and the gap bears watching, particularly with energy costs moving higher again.

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US Treasury Yields

Date & Yield

Tenor	9/30/25	7/31/26	8/31/26	9/30/26
1M	4.20	3.78	3.85	4.02
3M	4.02	3.83	3.91	4.20
6M	3.83	3.98	3.99	4.33
1Y	3.68	4.08	4.16	4.54
2Y	3.60	4.28	4.34	4.88
3Y	3.61	4.34	4.40	5.00
5Y	3.74	4.45	4.49	5.09

Source: Treasury.gov, DBIA

LGIP Investment Strategy



Federal Reserve Chairman Kevin Warsh, expectedly, began raising interest rates in just his second meeting as the Fed Chair. This is the first time that the Fed has hiked interest rates since July 2023, and more rate hikes are expected.

Chair Kevin Warsh has reiterated his firm objective of slowing the growth in inflation back to its long-term target of 2%. Because that objective has not been achieved since early 2021, it is likely that market participants still believe he will balk before achieving his goal. However, the 2-year Treasury currently sits ~100 basis points above the Effective Federal Funds rate, implying future rate hikes.

Because market participants expect more rate hikes from the Fed, the entire short end of the yield curve has steepened. We referenced the 2-year yield surging, anticipating future rate hikes, but the 1-year Treasury has surged as well, and it currently sits at 4.55%, up 100 basis points since March and ~70 basis points above the Effective Federal Funds rate. The spread on the front end, or the difference between short-term rates and the overnight (Fed) rate, has created opportunities for short-term investors such as us.

Core to our strategy are allocations to floating rate securities, such as commercial paper, mortgage-backed securities, time deposits, and mutual funds. The income on our allocations to floating rate securities will continue to reset higher during each Federal Reserve rate hike.

KEY TAKEAWAY

The Fed has begun raising interest rates, the first hike since July 2023, and more rate hikes are expected. The 2-year Treasury currently sits ~100 basis points above the Effective Federal Funds rate, implying future rate hikes.

STRATEGY

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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 3.88%.

YTD net return: 2.68% | End of quarter net yield: 3.64%

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. Short-term commercial paper turns over, or matures often, allowing us to reinvest funds at higher rates as long as the rate-hiking cycle proceeds. Also, allocations to floating-rate securities such as floating-rate mortgage-backed securities will also benefit from rate hikes, as their coupons float with short-term market rates such as the Effective Federal Funds rate.

YTD net return: 3.02% | End of quarter net yield: 4.05%

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

In the 3rd quarter of 2026, short-term interest rates trended higher, moving up ~50-basis points in total. Interest rate selloffs will have at least a temporary adverse impact on the NAV of the Enhanced Cash pool, given it has a duration of greater than 1 year. However, at the moment the pool is producing a current income of 4.38%. Given the steepness in rates at the short end of the yield curve, this current income provides an attractive alternative or complement to overnight cash pools.

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

The Select Cash Pool, with a duration longer than the Enhanced Cash Pool at ~ 1.75 years, will also see at least a temporary adverse impact on its NAV during periods of interest rate selloffs. However, as a long-term strategy, it offers a compelling alternative to cash pool options, and it currently offers a 4.36% current yield. With 2-year yields more than 100 basis points higher than overnight rates, it can be beneficial to invest excess or long-term funds in longer-duration strategies while the yield curve is steep.

Florida Floating NAV Pool Details

(as of 9/30/2026, 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.

- September YTD return %: 1.24%
- Benchmark YTD return %: 2.54%

STRATEGY

The strategy of this pool continues to be to incrementally add high credit quality securities such as municipal bonds and government securities as rates move higher and yield steepness conditions remain in place.

With a current yield of 4.38%, sitting roughly 25 basis points above the cash pool yield, the pool offers a complementary strategy for investors with excess funds that they don't anticipate needing to access for some time.

- Yield at end of the quarter: 4.33%.
- Reminder: Focus on the longer-term total return of floating-NAV pools, rather than daily yield fluctuations.

Targeted duration band of 0.75 to 1.25 years (currently 1.22 years).

FL Select Cash:

PERFORMANCE

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

- September YTD return %: 0.44%
- Benchmark YTD return %: 0.56%

STRATEGY

Like the Enhanced Cash Pool, but with an even longer-term focus, the Select Cash Pool also offers high current income that is locked in above overnight rates.

- Yield at end of the quarter: 4.30%.
- Reminder: Focus on the longer-term total return of floating-NAV pools, rather than daily yield fluctuations.

Targeted duration band of 1.00 to 2.00 years (currently 1.76 years).

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

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