Levy County

Fiscal Year End Report

September 30, 2024

pfm asset management

A Division of U.S. Bancorp Asset Management, Inc.

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Economic Update

December 31, 2024

Current Market Themes

- U.S. economic soft landing remains on track
  - Inflation and labor markets are in line with Fed expectations despite slower recent progress
  - Strong economic growth prospects remain intact, aided by a resilient consumer
  - Changes to fiscal policy may impact growth and inflation trajectory

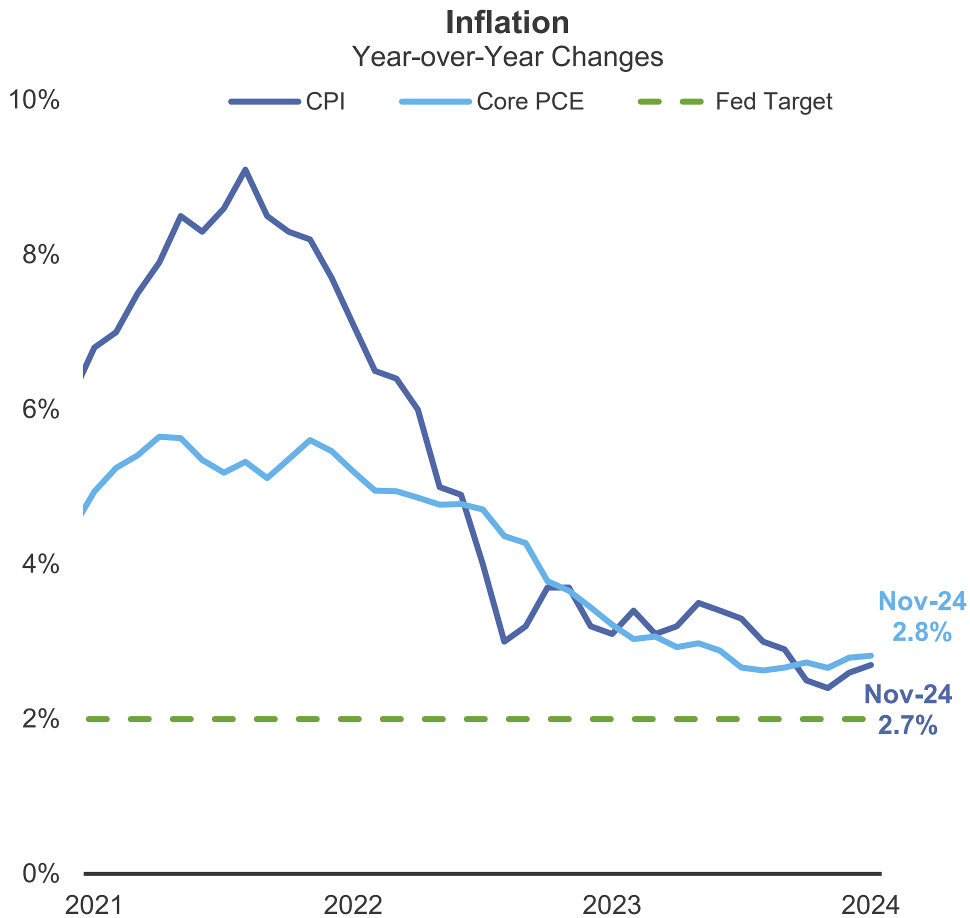
- Fed easing cycle moves forward as expected, but looks to slow in 2025
  - The Fed cut the federal funds target rate by an additional 50 basis points (bps) during the fourth quarter to 4.25% - 4.50%
  - The Fed's December "dot plot" implies another 50 bps of cuts in 2025, less than the 100 bps of cuts previously projected in September
  - Fed Chair Powell noted the slower pace of cuts reflect "stickier" inflation heading into 2025

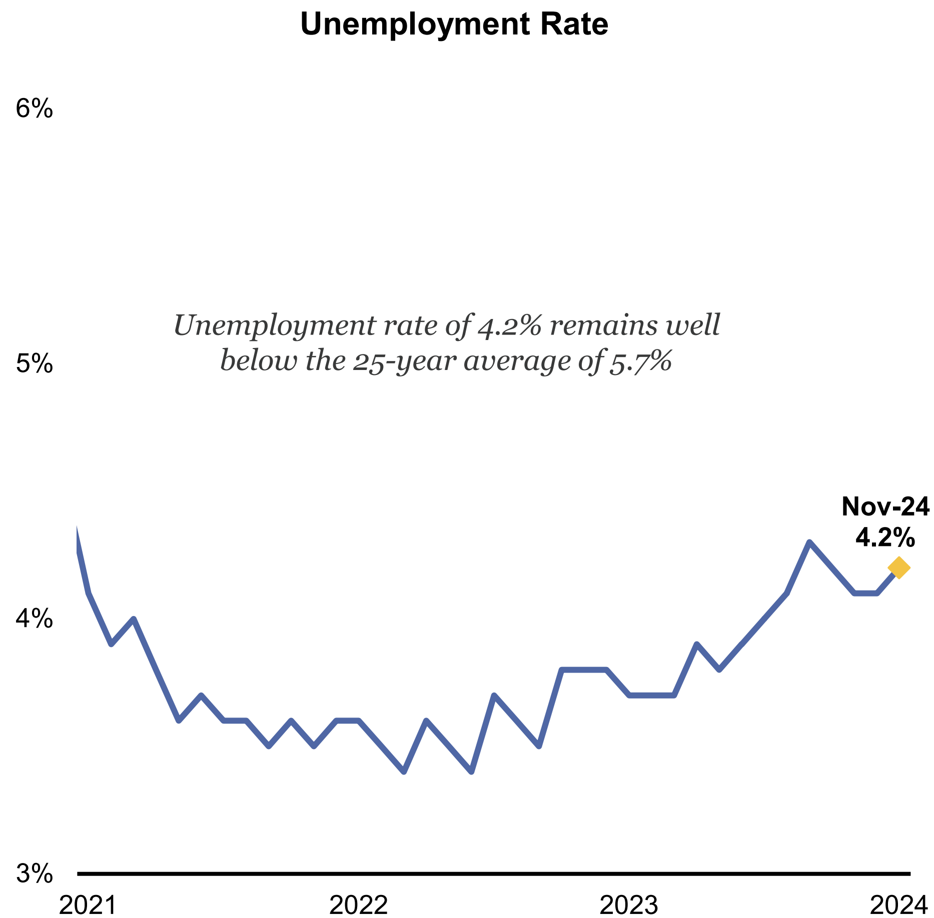
- Treasury yields responded to expected monetary and fiscal policy
  - Yields on maturities between 2 years and 10 years rose 60-83 bps during the 4th quarter
  - The yield curve disinversion continued and was flatter at the front end and positively sloped beyond 1-year
  - Yield spreads remained near historically tight levels across most sectors aided by robust demand and strength in the economy

Source: Details on market themes and economic indicators provided throughout the body of the presentation. Bloomberg Finance L.P., as of December 31, 2024.

The Fed's Dual Mandate

Fed Chair Powell: "Downside risks to the labor market do appear to have diminished … Inflation, we see that story as still broadly on track."





Source: FOMC Chair Jerome Powell Press Conference, December 18, 2024. Bureau of Labor Statistics, Bureau of Economic Analysis, and Bloomberg Finance L.P., as of November 2024. Data is seasonally adjusted. Historical average unemployment rate calculated from January 1990-November 2024.

Election & Potential Policy Implications on the Fed

Taxes

Lower taxes viewed as positive for growth but negative for the deficit

Tariffs

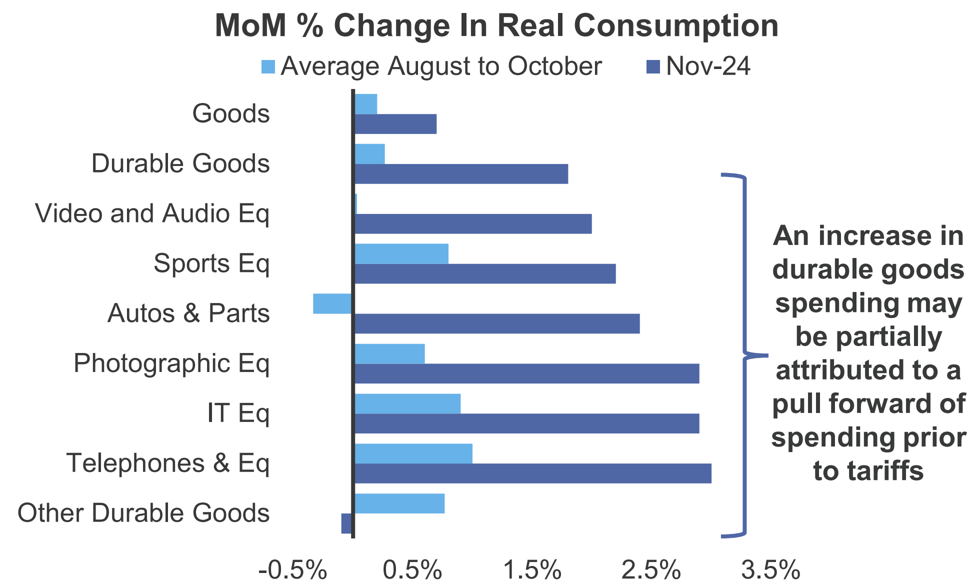
Uncertainty surrounding the scope and scale of tariff policy and viewed as inflationary

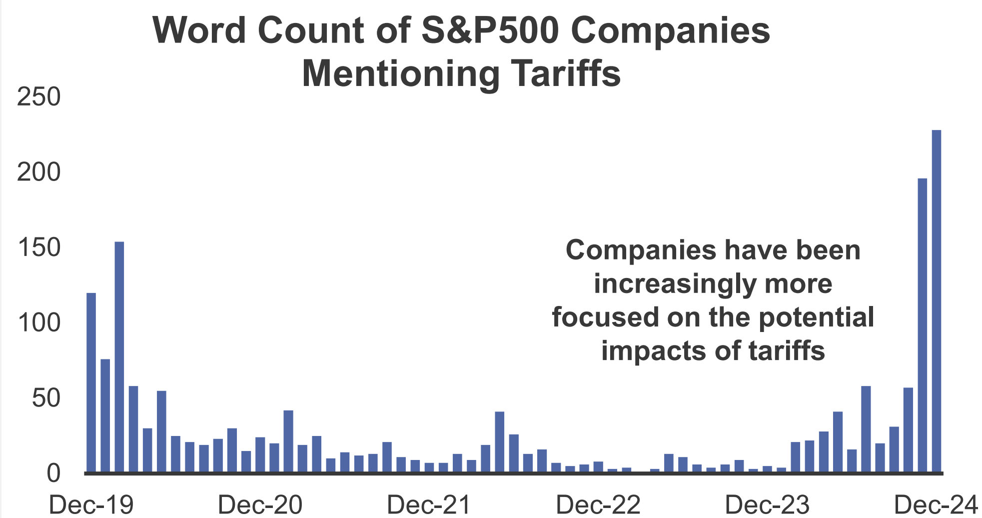
Immigration

Tighter border policy may have adverse impacts on the labor market

Regulation

Easing regulation is generally viewed as positive for growth

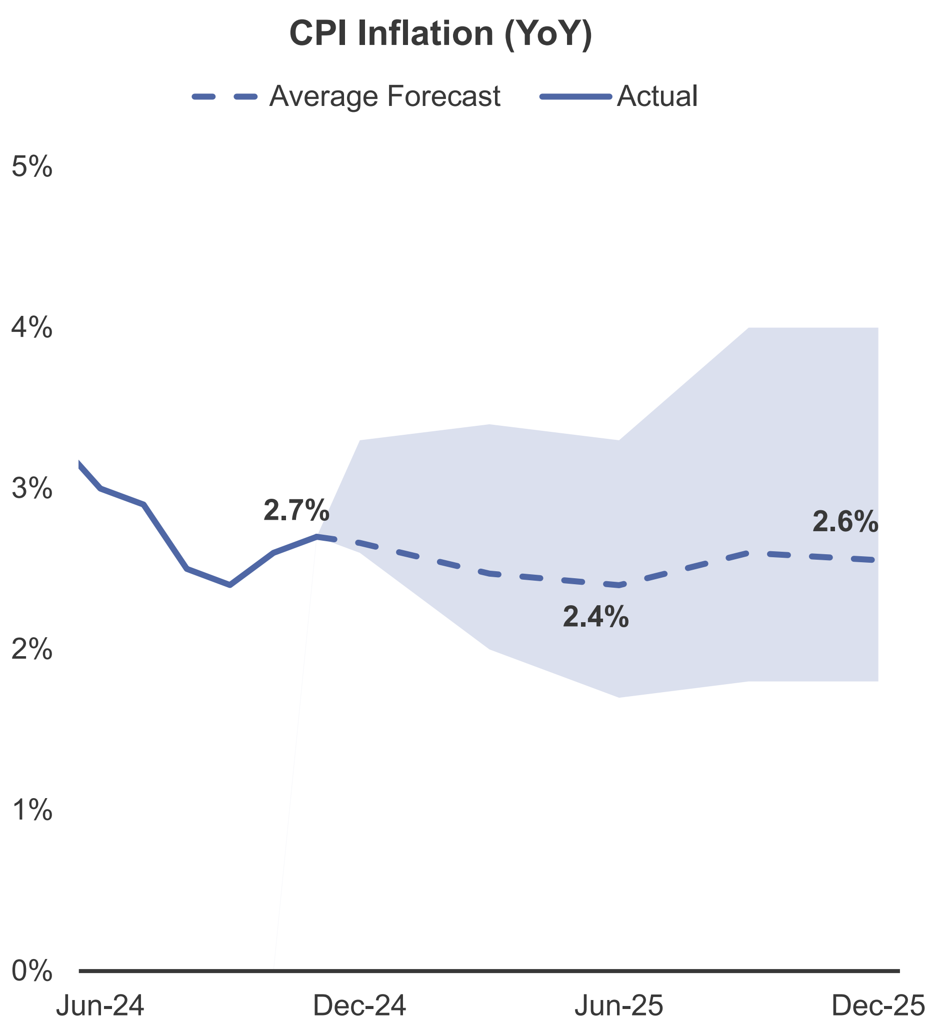


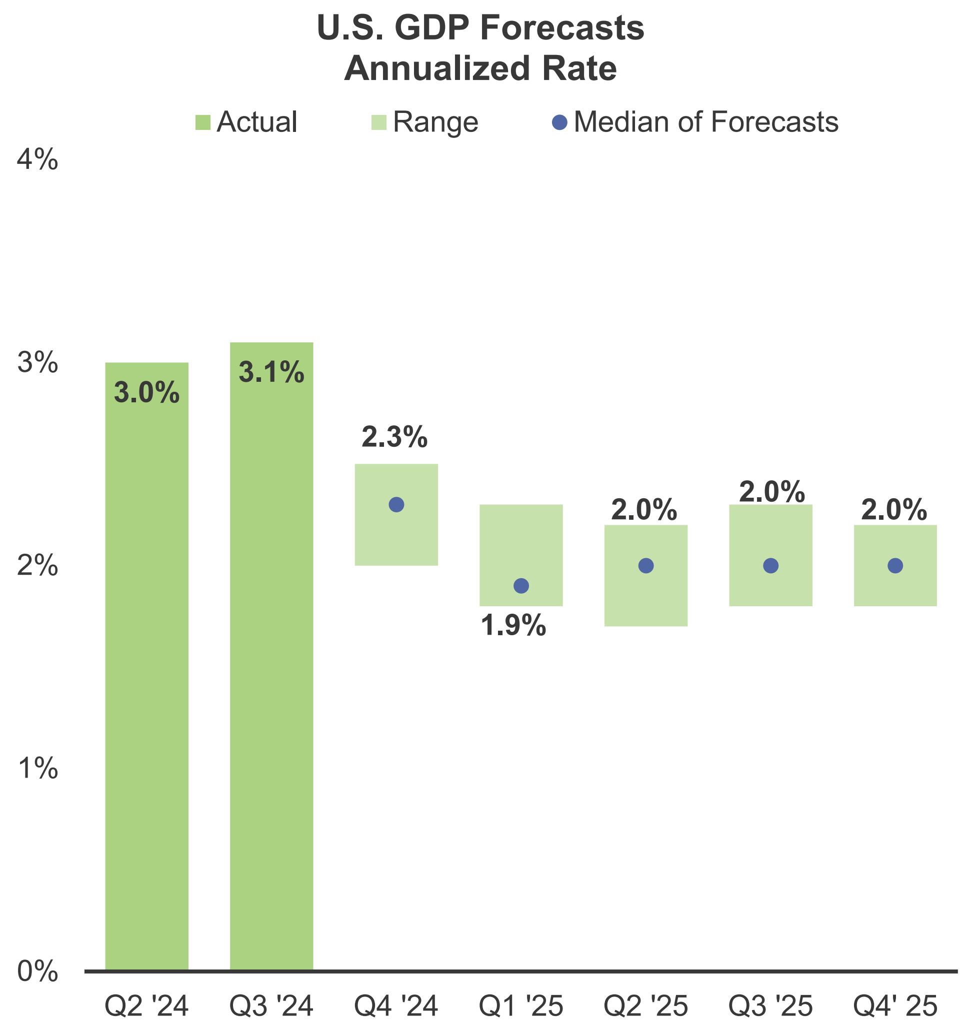


Sources: U.S. Bank: Stock Market Under The Trump Administration | U.S. Bank (usbank.com); Bloomberg Finance L.P. and Bureau of Economic Analysis as of November 2024 (top right). Bloomberg Finance L.P. as of December 2024 (bottom right).

Inflation and Growth Forecasted To Remain Stable

Fed Chair Powell: "I think it's pretty clear we've avoided a recession. I think growth this year has been solid, it really has...Again the U.S. economy has just been remarkable."

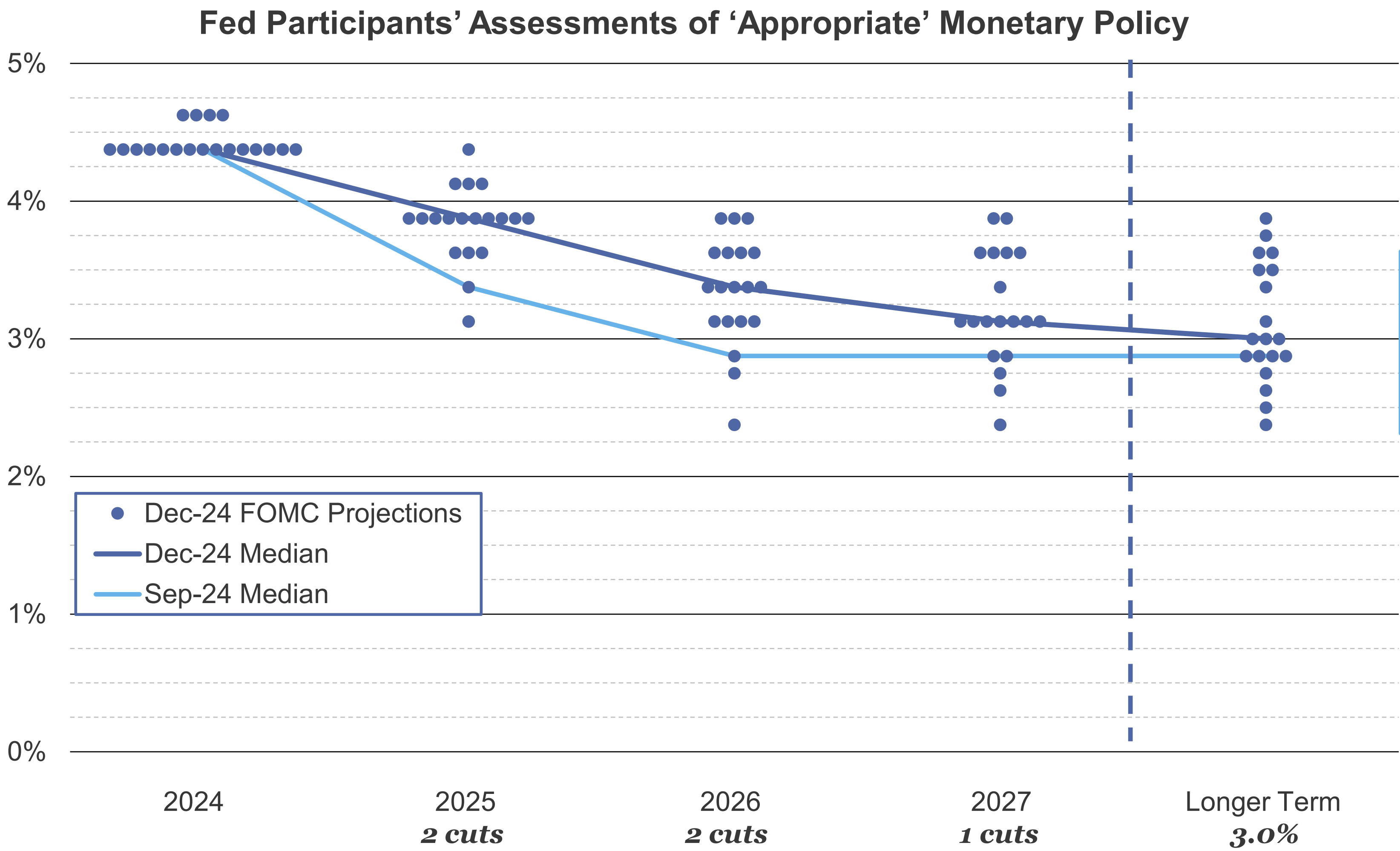




Source: Federal Reserve Chair Jerome Powell Press Conference as of December 18, 2024; Bureau of Labor Statistics and Bloomberg Finance L.P. as of December 2024 (left). Bureau of Economic Analysis and Bloomberg Finance L.P., as of December 2024 (right).

The Fed's Latest "Dot Plot

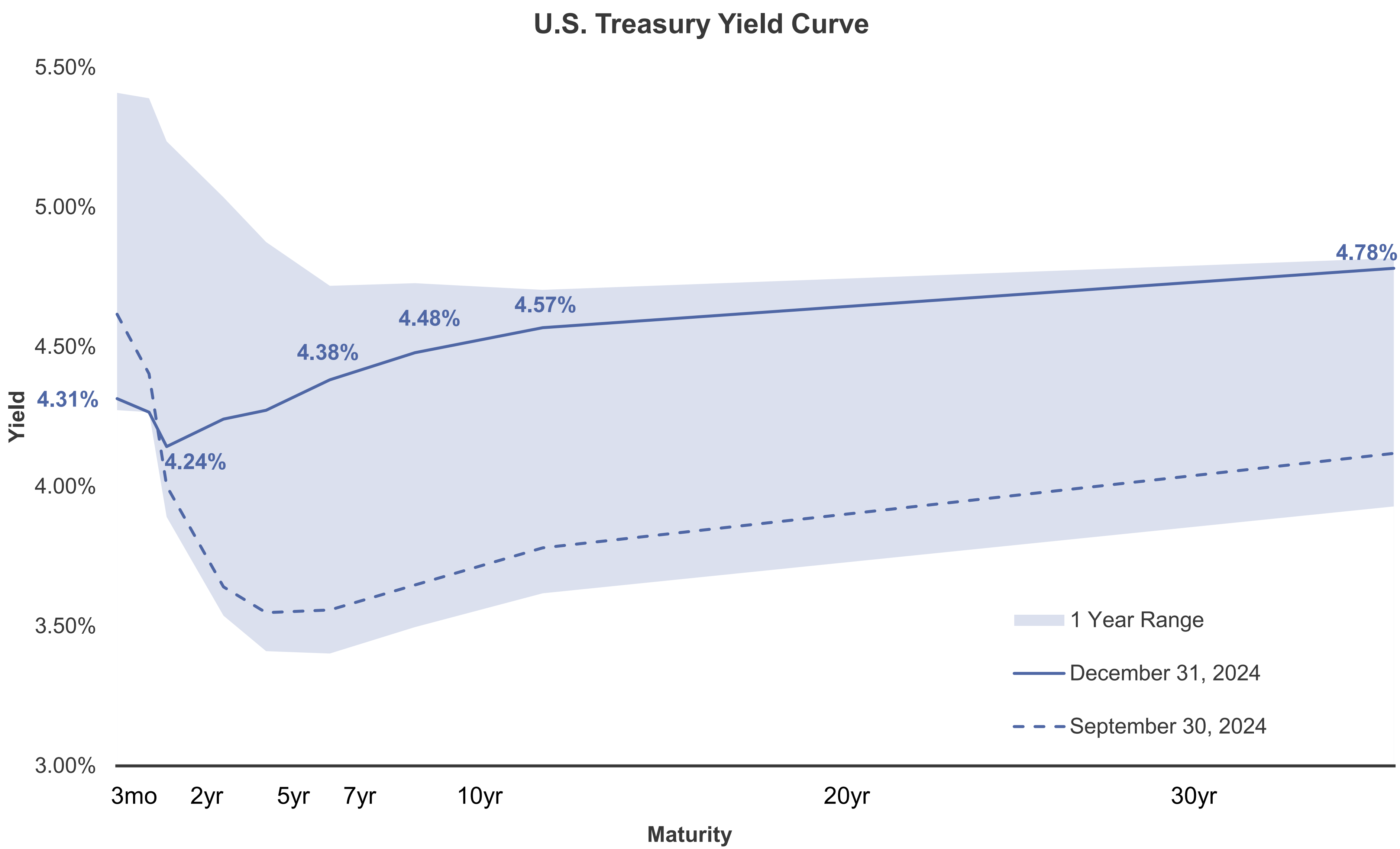
Fed Chair Powell: "You see a slower path … meaningful progress to get inflation down to [2.5%] … we have the labor market forecast as being in good shape, we are also mindful that it is … very gradually cooling"



The longer-term neutral rate has drifted up from 2.5% in Dec '23 to 3% currently

Source: Federal Reserve Chair Jerome Powell Press Conference as of December 18, 2024; Federal Reserve; Bloomberg Finance L.P.. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. As of December 2024.

U.S. Treasury Yield Curve Steepens



Source: Bloomberg Finance L.P., as of December 31, 2024.

Factors to Consider for 6-12 Months

Monetary Policy (Global):

- The Fed continued its easing cycle with a total of 100 basis points (bps) of rate cuts in 2024. The FOMC's December median "dot plot" projection suggests another 50 bps in cuts by the end of 2025, which is significantly less than previously implied, in large part due to uncertainty surrounding implications of potential fiscal policy changes.
- While the Fed and other major central banks (excluding the Bank of Japan) continue to ease, expectations are for policy rates to settle higher in the longer term given the higher inflation outlook.

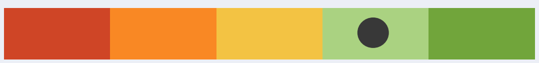
Economic Growth (Global):

- U.S. economic growth remains strong on consumer spending which remains quite resilient.
- Fiscal policies discussed on the campaign trial are expected to boost growth, however actual policy implementation and timing are uncertain and subject to change.
- Economic growth outside the U.S. remains modest. Tariffs pose some risks with trading partners.
- Declines in foreign direct investment and weak domestic demand continue to impact China.

Inflation (U.S.):

- While inflation has fallen since its peak in 2022, progress has stalled in the past few months.
- The Fed has acknowledged higher inflation expectations going into 2025. Further rate cuts will depend on inflation moving closer to its 2% target.
- Proposed fiscal policies may put pressure on wages and goods costs. Some policymakers have already incorporated these impacts into their outlooks.

Financial Conditions (U.S.):



- Market metrics such as narrow corporate yield spreads and strong equity returns continue to point to the stability of financial conditions. The potential for decreased regulation under the incoming administration has buoyed economic confidence.
- We remain attentive to further cooling in the labor markets and fiscal policy considerations as these will play a large role in the evolution of future conditions. While our base case is not for a dramatic shift in conditions, the potential impact of future policies warrants attention.

Consumer Spending (U.S.):

- Broad consumer metrics show spending fueled by the stability of the labor market continuing to support economic strength. A growing divergence among consumers exists as lower-income cohorts continue to feel more strain due to the higher overall level of prices.
- An unexpected material deterioration of labor market conditions is the biggest risk factor to consumer spending. Other headwinds may include slower real wage growth, which could reduce purchasing power, and higher interest rates persisting.

Labor Markets:

- The labor market remains well-positioned and in balance despite intra-quarter data volatility caused by weather events and strikes which have now been resolved.
- Layoffs remain near historically low levels; however, the pace of hiring has slowed considerably. The Fed has acknowledged labor market conditions have loosened, and a further cooling of labor conditions is not necessary to achieve its dual mandate of maximum employment and stable prices.

● **Current outlook** ○ **Outlook one quarter ago**

Negative	Slightly Negative	Neutral	Slightly Positive	Positive

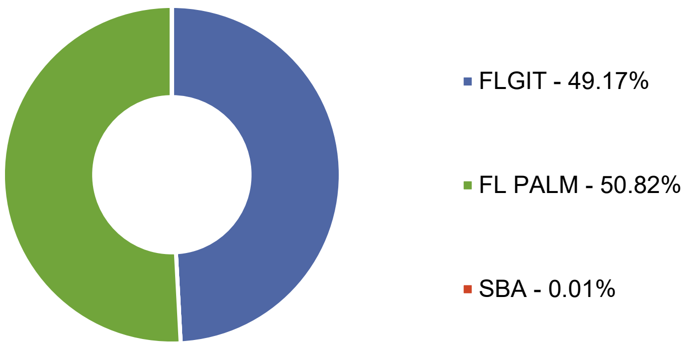
Statements and opinions expressed about the next 6-12 months were developed based on our independent research with information obtained from Bloomberg and FactSet. The views expressed within this material constitute the perspective and judgment of PFM Asset Management at the time of distribution (12/31/2024) and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management cannot guarantee its accuracy, completeness, or suitability.

Investments Review

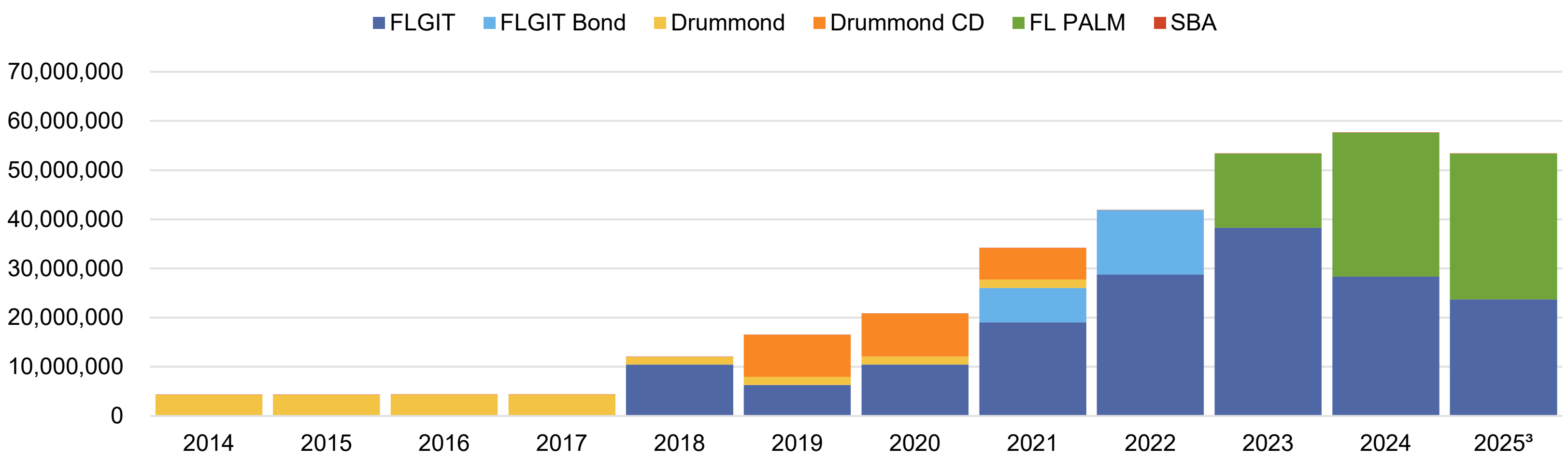
Fiscal Year End 2024 Investment Snapshot

Balances[1]	
FLGIT	$28,340,763
FL PALM	$29,294,424
SBA	$3,619
Total	**57,638,806**

Asset Allocation[1]

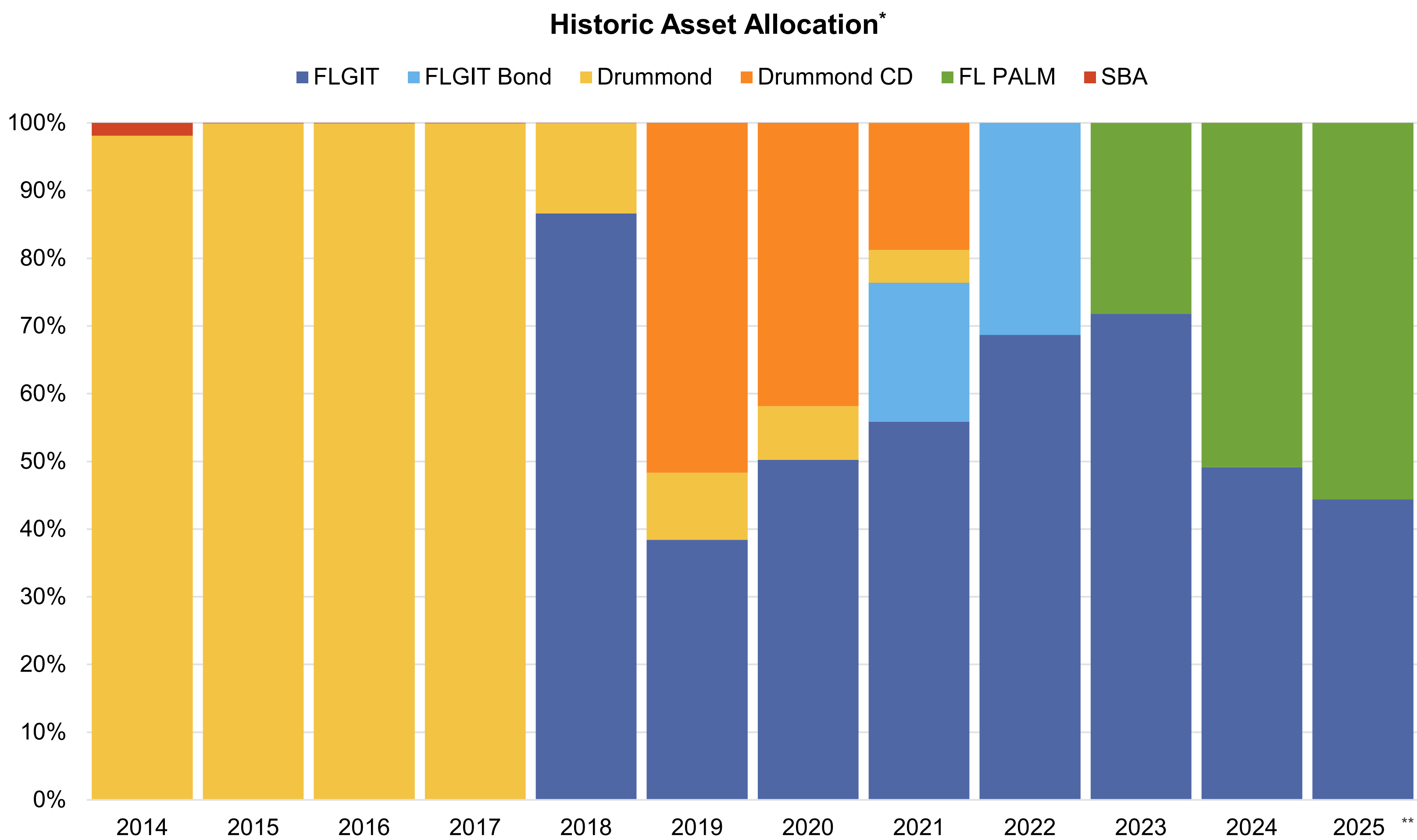


Historic Asset Allocation[2]



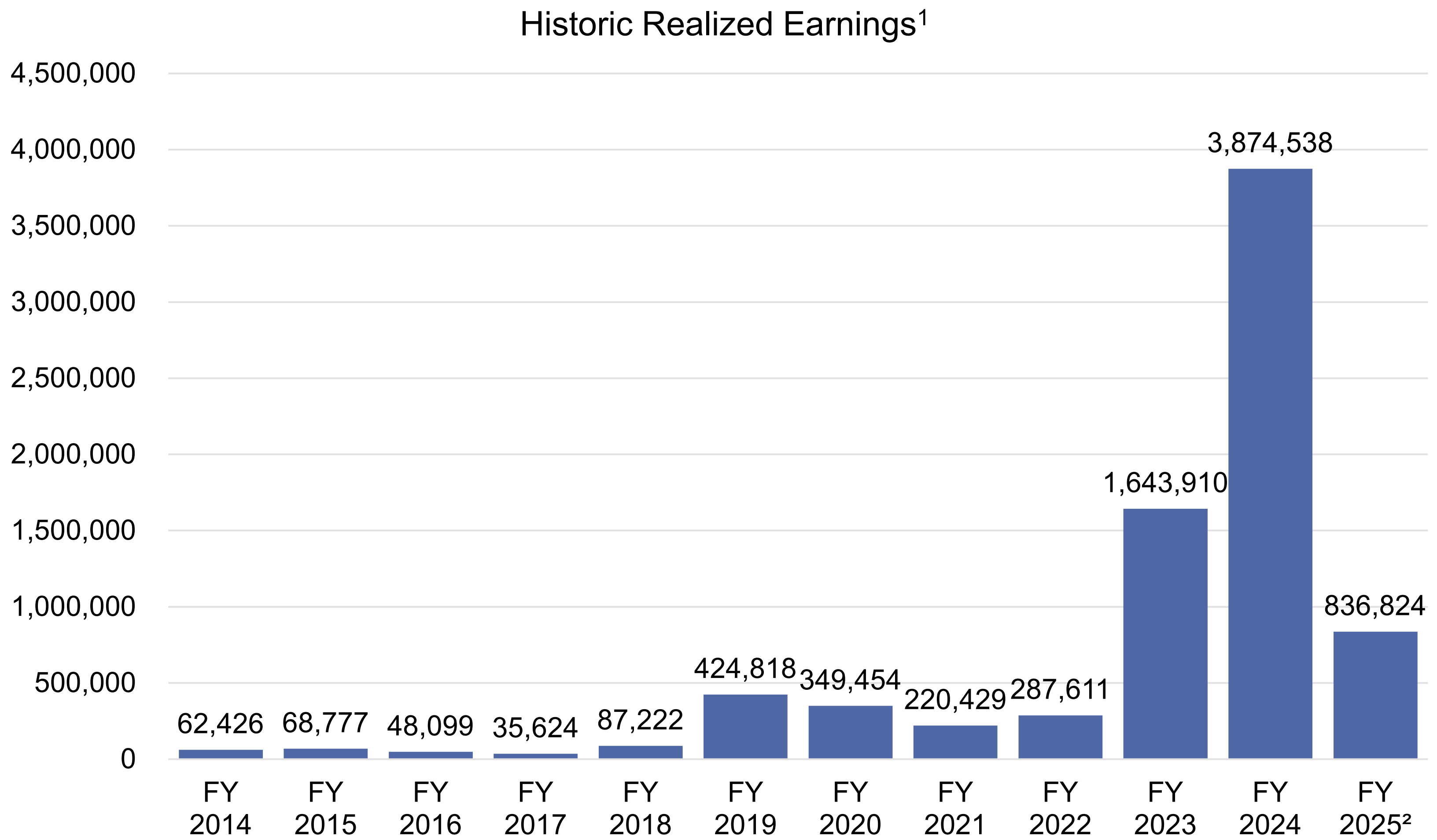
1. *Data as of September 30, 2024, as provided by the County. As per the County, the operating fund may have had some "extra" funds that could have been invested, but that may not have been for various reasons.*
2. *Data as of September 30 for noted year, as provided by the County.*
3. *2025 is as of January 31, 2025, as provided by the County.*

Historical Asset Allocation



** Data as of September 30 for noted year, as provided by the County.*
*** 2025 is as of January 31, 2025, as provided by the County.*

Fiscal Year Earnings



1. *Historic Realized Earnings provided by the County for Fiscal Years ending September 30.*
2. *FY 2025 is through January 31, 2025, as provided by the County.*

Market Summary

December 31, 2024

Summary

▶ The fourth quarter of 2024 was characterized by an increase in yields and volatility as investors digested the potential impact of the new administration's policy proposals. Areas of focus include taxes, tariffs, immigration, and deregulation, which the market generally expects could result in more growth, larger budget deficits and higher inflation.

▶ The labor market continues to move into balance as layoffs remain contained and the pace of job creation remains steady. This trend continues to support the consumer and fuel economic growth. Inflation moved sideways during the quarter, and as a result the Federal Reserve (Fed) views the risks to its dual mandate – stable prices and full employment – as being "roughly in balance."

▶ The Fed cut the overnight rate by 25 basis points (bps) (0.25%) at both its November and December meetings to bring the new target range to 4.25% - 4.50%. The Fed's updated "dot plot" implied only 50 bps of rate cuts in 2025, down from previous projections indicating a full percentage point of rate cuts in 2025. This revision, plus some pointed commentary from Fed officials, has resulted in the market generally expecting the Fed to pause rate cuts for some time.

▶ While sentiment remained positive in Q4 and continued to support risk asset valuations, the Fed's "higher for longer" narrative towards the end of the quarter caused Treasury yields beyond one year to rise while equity markets sold off from all-time highs. The NASDAQ still ended the quarter up 6.4% and the S&P 500 Index ended 2.4% higher, while the Dow Jones Industrial Average eked out a small 0.9% gain. For calendar year 2024, the S&P 500 returned 25%, driven in large part by the "Magnificent Seven," which returned 67%.

Economic Snapshot

▶ U.S. inflation readings remained 'sticky' during the quarter and did not show progress in moving towards the Fed's 2% target. Shelter and housing components of inflation, which had been running higher than most other segments of the underlying data, began to move lower during the quarter. Core CPI remained at 3.3% annualized year-over-year during the quarter while headline CPI increased to 2.7% after ending Q3 at 2.4%.

▶ U.S. real gross domestic product (GDP) growth continued its upward trajectory in Q3, with final estimates showing growth of 3.1%. Personal consumption remained exceptionally strong and grew at the fastest pace in 18 months.

▶ The U.S. labor market continued to show strength with 511,000 jobs added in Q4 compared to 477,000 in Q3. Additionally, the unemployment rate ended the quarter at 4.1%, which is 0.4% higher than the calendar year low of 3.7%, but still near historic lows. Layoff rates continue to remain near multi-year lows and jobless claims also remain below their long-term averages while the pace of wage growth has stabilized.

Interest Rates

▶ U.S. Treasury yields moved higher in response to policy proposals that are generally expected to be inflationary. Additionally, the Fed continued with rate cuts cutting a total of 100 bps in 2024. While the Fed cut rates at both November and December meetings, guidance pointed towards fewer cuts occurring at a slower pace than previously anticipated.

▶ Both fiscal and monetary expectations steepened the Treasury curve, with the yield on the 2-, 5-, and 10-year Treasuries ending the quarter at 4.24%, 4.38%, and 4.57%. This represents increases of 60, 82, and 79 bps, respectively. The 3-month Treasury, heavily influenced by the Fed, moved 30 bps lower, ending the quarter at 4.31%.

▶ As a result of higher yields, U.S. Treasury indexes generated negative total returns for the quarter. The ICE BofA 2-, 5-, and 10-year U.S. Treasury indices returned -0.20%, -2.72%, and -5.22% for the quarter, while the shorter-duration ICE BofA 3-month U.S. Treasury index returned 1.16%.

Sector Performance

▶ Strong investor demand pushed spreads tighter across most investment grade sectors throughout Q4, resulting in firmly positive excess returns on corporates and asset-backed securities.

▶ Federal agency & supranational spreads remained low and range bound throughout Q4. These sectors produced muted excess returns as issuance was light and incremental income is minimal.

▶ Investment-grade (IG) corporates posted another strong relative quarter as robust investor demand continued while issuance slowed into year-end. Yield spreads tightened further toward multi-year tights. Lower-quality and longer-duration issuers generated stronger excess returns in Q4. Financial issuers led most other industries across much of the yield curve.

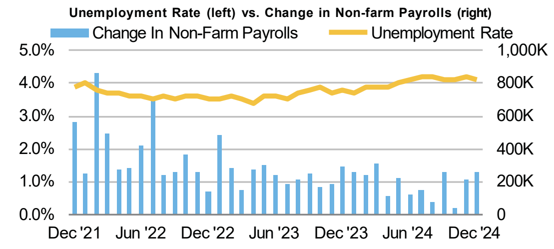
▶ Asset-backed securities (ABS) spreads are tighter than their historical average while underlying technicals remain strong. Cross-sector spreads have shifted notably, as ABS spreads tightened substantially through year-end and now trade through corporates. As a result, ABS was a top performer in Q4.

▶ Mortgage-backed securities (MBS) were hurt by rising rates and heightened volatility. After an exceptionally strong Q3, agency MBS underperformed Treasuries in Q4. On the other hand, well-structured Agency commercial MBS (CMBS) performed better and saw positive excess returns.

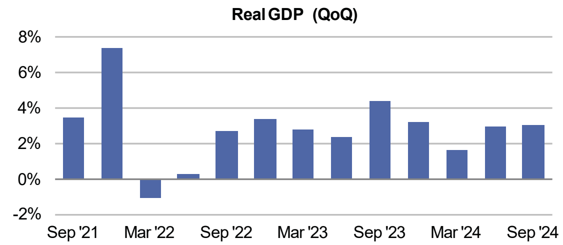
▶ Short-term credit (commercial paper and negotiable bank CDs) yields fell in response to the Fed rate cuts, but the money market yield curve steepened on prospects for "higher for longer." Yield spreads also widened over the quarter by 10-15 bps across most of the money market curve.

Economic Snapshot

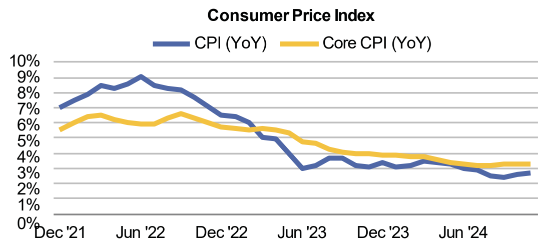
Labor Market		Latest	Sep '24	Dec '23
Unemployment Rate	Dec'24	4.1%	4.1%	3.8%
Change In Non-Farm Payrolls	Dec'24	256,000	255,000	290,000
Average Hourly Earnings (YoY)	Dec'24	3.9%	3.9%	4.3%
Personal Income (YoY)	Nov'24	5.3%	5.1%	5.2%
Initial Jobless Claims (week)	1/4/25	201,000	225,000	198,000



Growth				
Real GDP (QoQ SAAR)	2024Q3	3.1%	3.0% [1]	4.4% [2]
GDP Personal Consumption (QoQ SAAR)	2024Q3	3.7%	2.8% [1]	2.5% [2]
Retail Sales (YoY)	Nov'24	3.8%	2.0%	5.5%
ISM Manufacturing Survey (month)	Dec'24	49.3	47.2	47.1
Existing Home Sales SAAR (month)	Nov'24	4.15 mil.	3.83 mil.	3.88 mil.



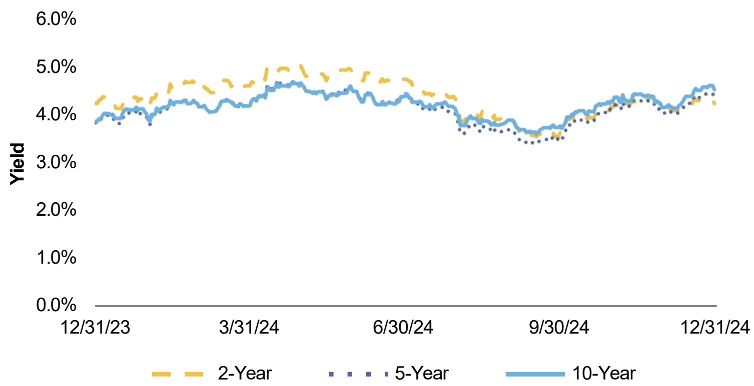
Inflation/Prices				
Personal Consumption Expenditures (YoY)	Nov'24	2.4%	2.1%	2.7%
Consumer Price Index (YoY)	Nov'24	2.7%	2.4%	3.4%
Consumer Price Index Core (YoY)	Nov'24	3.3%	3.3%	3.9%
Crude Oil Futures (WTI, per barrel)	Dec 31	$71.72	$68.17	$71.65
Gold Futures (oz.)	Dec 31	$2,641	$2,636	$2,072



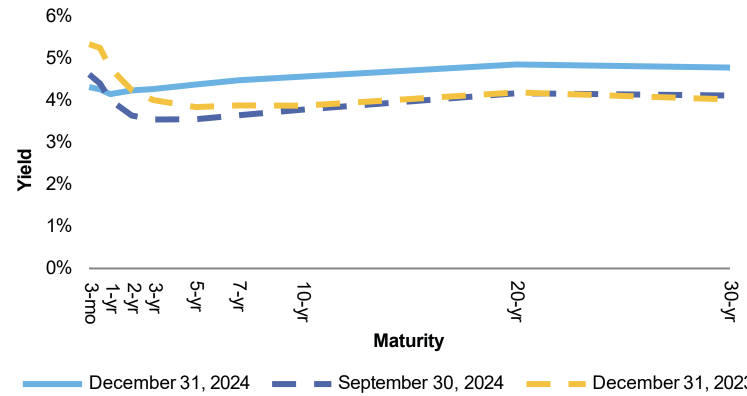
1. Data as of Second Quarter 2024.
2. Data as of Third Quarter 2023.
Note: YoY = year-over-year, QoQ = quarter-over-quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil.
Source: Bloomberg.

Interest Rate Overview

U.S. Treasury Note Yields



U.S. Treasury Yield Curve

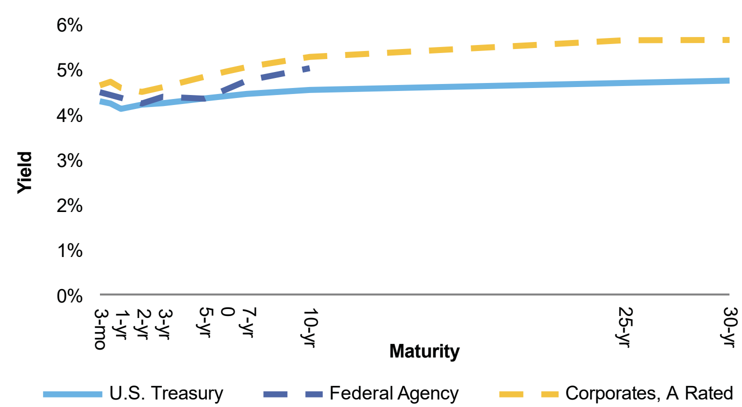


U.S. Treasury Yields

Maturity	Dec '24	Sep '24	Change over Quarter	Dec '23	Change over Year
3-Month	4.32%	4.63%	(0.31%)	5.34%	(1.02%)
1-Year	4.15%	4.01%	0.14%	4.77%	(0.62%)
2-Year	4.24%	3.64%	0.60%	4.25%	(0.01%)
5-Year	4.38%	3.56%	0.82%	3.85%	0.53%
10-Year	4.57%	3.78%	0.79%	3.88%	0.69%
30-Year	4.78%	4.12%	0.66%	4.03%	0.75%

Source: Bloomberg.

Yield Curves as of December 31, 2024



ICE BofA Index Returns

	As of 12/31/2024		Returns for Periods ended 12/31/2024		
December 31, 2024	**Duration**	**Yield**	**3 Month**	**1 Year**	**3 Years**
1-3 Year Indices					
U.S. Treasury	1.81	4.26%	(0.06%)	4.08%	1.49%
Federal Agency	1.57	4.28%	0.25%	4.31%	1.67%
U.S. Corporates, A-AAA rated	1.78	4.74%	0.11%	5.14%	2.24%
Agency MBS (0 to 3 years)	1.98	4.80%	(0.07%)	4.33%	1.25%
Taxable Municipals	1.85	4.57%	0.11%	4.80%	2.01%
1-5 Year Indices					
U.S. Treasury	2.54	4.30%	(0.77%)	3.41%	0.73%
Federal Agency	2.00	4.28%	(0.13%)	3.98%	1.05%
U.S. Corporates, A-AAA rated	2.48	4.84%	(0.47%)	4.81%	1.54%
Agency MBS (0 to 5 years)	3.47	4.97%	(0.87%)	3.84%	0.39%
Taxable Municipals	2.49	4.63%	(0.41%)	4.07%	1.26%
Master Indices (Maturities 1 Year or Greater)					
U.S. Treasury	6.04	4.47%	(3.34%)	0.51%	(3.10%)
Federal Agency	3.42	4.41%	(1.21%)	3.19%	(0.21%)
U.S. Corporates, A-AAA rated	6.59	5.18%	(3.13%)	2.06%	(2.32%)
Agency MBS (0 to 30 years)	5.67	5.28%	(3.18%)	1.33%	(2.13%)
Taxable Municipals	8.79	5.41%	(4.32%)	0.26%	(4.65%)

Returns for periods greater than one year are annualized.

Source: ICE BofA Indices.

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