



Canterbury Consulting

## Quarterly Asset Class Report Tax-Exempt Fixed Income

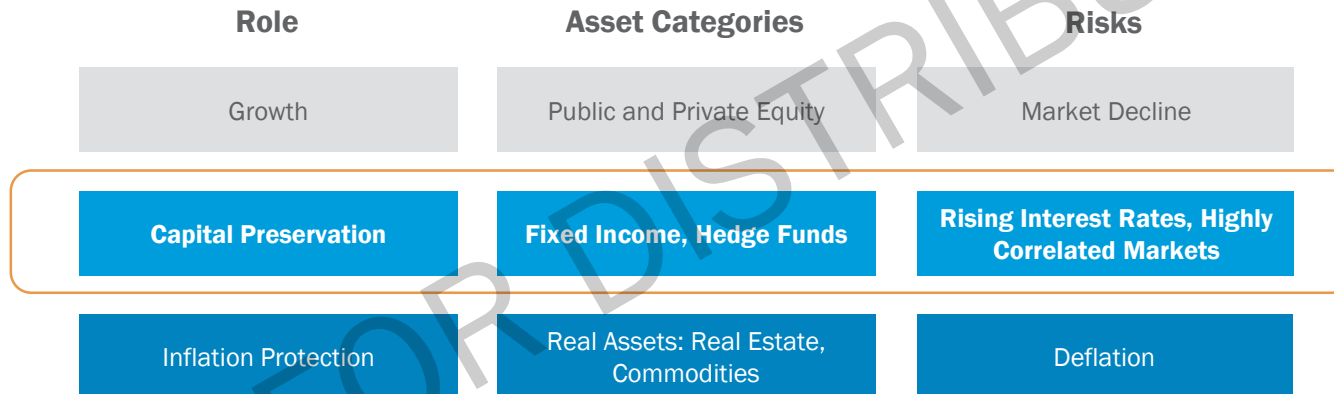
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canterburyconsulting.com

June 30, 2022

Canterbury Consulting recommends and communicates asset-class strategy with the objective of constructing a diversified portfolio of fixed income strategies designed to (in aggregate):

- Preserve capital and mitigate volatility
- Provide measured exposure to the diverse universe of fixed income securities
- Exhibit returns uncorrelated to equity markets



- Canterbury fixed income portfolios are set up with a goal to deliver consistent net-of-fees excess returns and moderate tracking error versus the Barclays Global Aggregate.
- Relative to the index, Canterbury’s current fixed income portfolios will exhibit lower duration, similar credit quality, and higher yields.

# Index Returns as of June 30, 2022

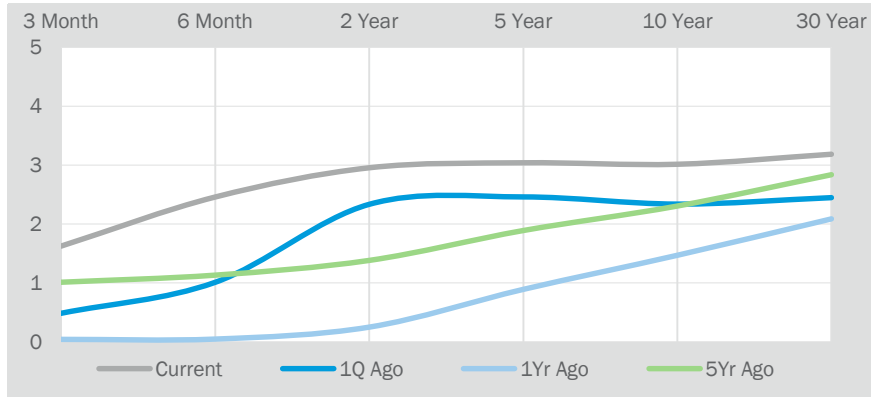
Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Barclays Global Aggregate	-8.26	-13.91	-15.25	-3.22	-0.55	0.50	0.11
Barclays US Agg Bond	-4.69	-10.35	-10.29	-0.93	0.88	1.42	1.54
<b>U.S. Treasuries</b>							
BofAML 3M US Treasury Note	0.12	0.17	0.18	0.68	1.15	0.92	0.66
Barclays Short Treasury	-0.02	-0.15	-0.15	0.63	1.13	0.93	0.69
Barclays Intermediate Treasury	-1.67	-5.80	-6.35	-0.31	0.87	1.00	0.96
Barclays Long Term US Treasury	-11.93	-21.25	-18.45	-2.94	0.51	1.83	1.63
BBgBarc U.S. Treasury TIPS 1-5Y	-1.50	-2.14	0.38	3.45	2.99	2.43	1.64
Barclays US Treasury US TIPS	-6.08	-8.92	-5.14	3.04	3.21	2.82	1.73
<b>U.S. Corporate Credit</b>							
Barclays US Corp IG	-7.26	-14.39	-14.19	-0.99	1.28	2.35	2.62
S&P/LSTA Leveraged Loan	-4.45	-4.55	-2.78	2.09	2.91	3.26	3.74
BofAML US HY Master II	-9.97	-14.04	-12.66	-0.04	1.96	3.40	4.41
BofAML US HY BB-B Constrained	-9.50	-13.64	-12.20	0.04	2.07	3.33	4.34
BofAML US Corporate AAA	-7.35	-15.22	-14.76	-1.18	1.45	2.44	2.17
BofAML US Corporate AA	-6.36	-13.38	-13.10	-1.21	0.96	1.82	2.07
BofAML US Corporate A	-6.01	-12.75	-12.80	-0.81	1.29	2.19	2.48
BofAML US Corps BBB	-7.32	-14.92	-14.76	-0.75	1.53	2.61	3.07
BofAML US High Yield BB	-8.62	-13.53	-11.97	0.85	2.56	3.83	4.70
BofAML US High Yield B	-10.70	-13.79	-12.48	-0.82	1.52	2.80	3.95
BofAML US High Yield CCC	-13.91	-17.12	-16.43	-1.84	0.36	3.19	4.25
<b>Securitized</b>							
Barclays ABS	-0.91	-3.77	-4.27	0.51	1.38	1.46	1.43
Barclays MBS	-4.01	-8.78	-9.03	-1.44	0.36	0.86	1.18
Barclays CMBS	-2.85	-8.28	-8.89	-0.16	1.58	1.84	2.12
<b>Municipals</b>							
Barclays Municipal	-2.94	-8.98	-8.57	-0.18	1.51	2.08	2.38
Barclays Muni 1-10	-0.57	-5.03	-4.91	0.24	1.25	1.52	1.63
<b>Global</b>							
Bloomberg Global Aggregate TR Hdg USD	-4.30	-9.06	-8.94	-1.13	1.16	1.79	2.23
Barclays Gbl Agg Ex USD	-11.01	-16.49	-18.78	-5.07	-1.75	-0.29	-1.06
Citi WGBI	-8.91	-14.79	-16.77	-4.27	-1.17	0.08	-0.69
JPM EMBI Plus	-12.46	-26.65	-27.71	-8.66	-4.02	-0.63	0.38

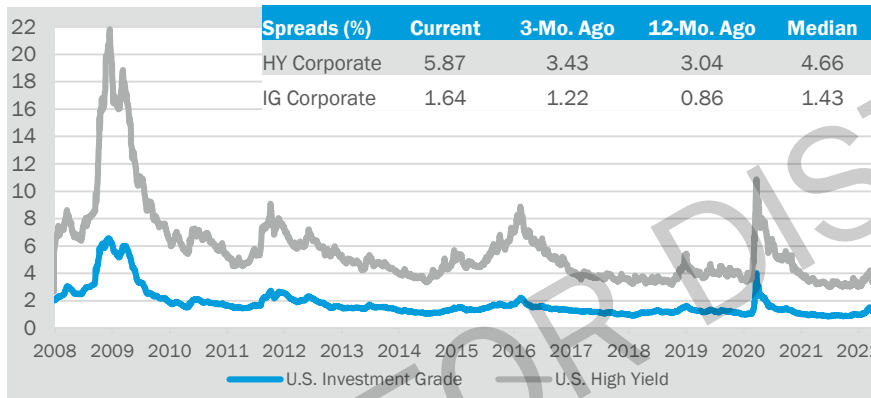
# Market Environment as of June 30, 2022

## Fixed Income

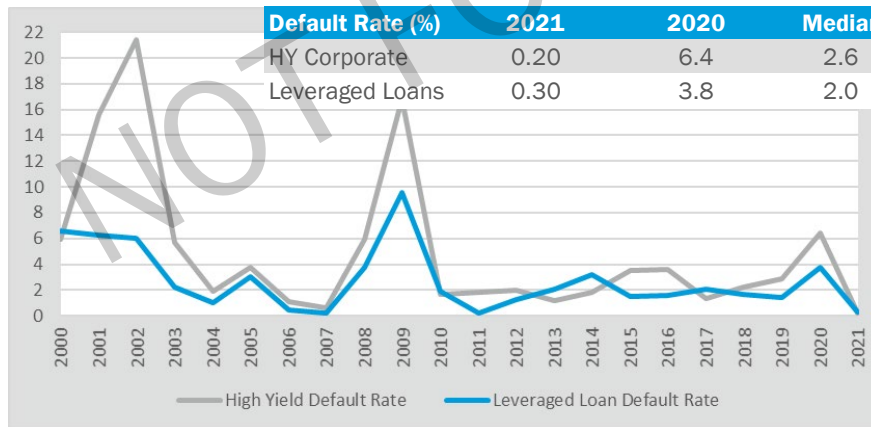
U.S. Treasury Rates



Corporate Spreads



Default Rates

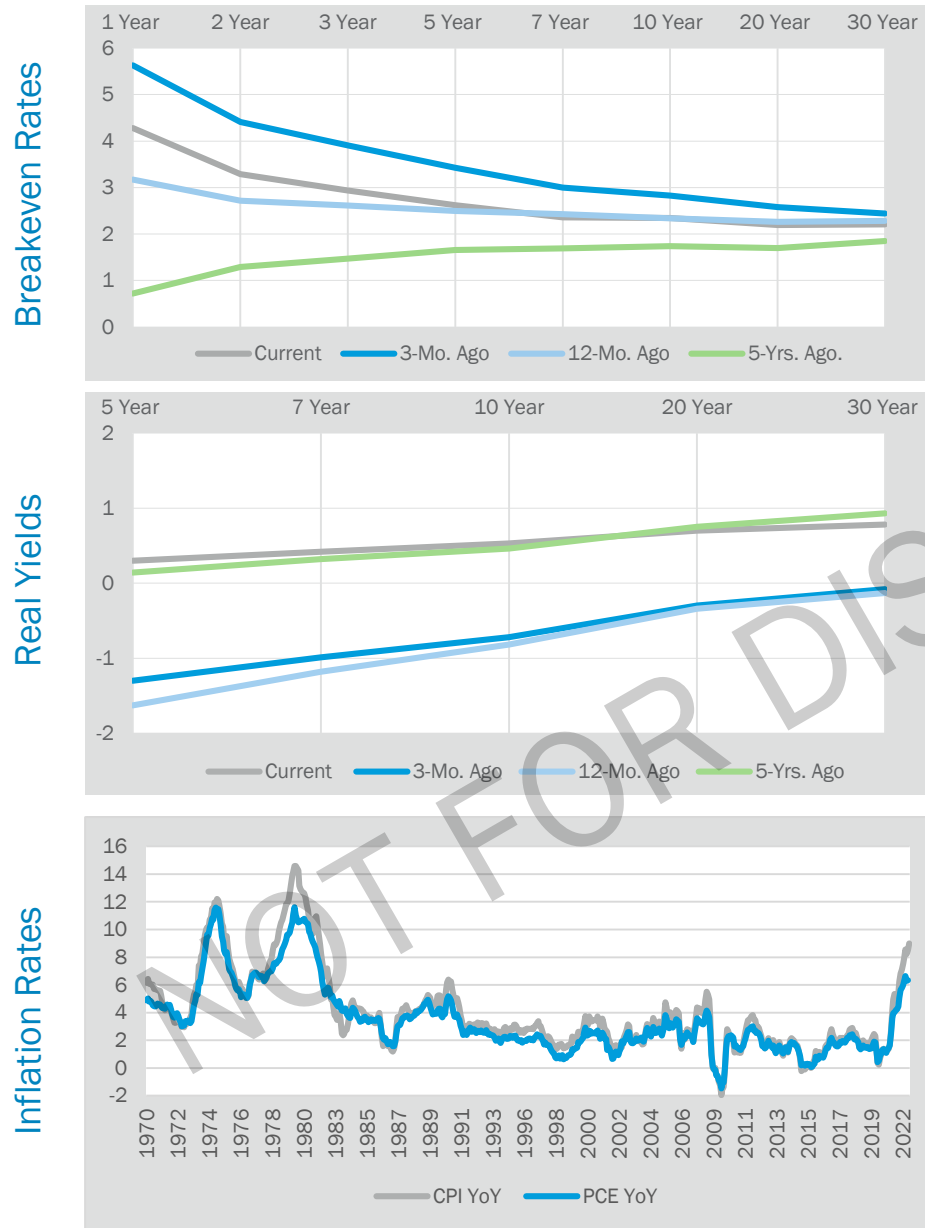


- Amid growing inflation, the Federal Reserve raised the key interest rate twice, 50 basis points in May and 75 basis points in June.
- Chairman Powell communicated that he is prepared to move more quickly to reduce policy support if supply/demand imbalances and externalities from the Russia/Ukraine war continue to weigh on inflation. The FOMC is prepared to raise interest rates up to 3.25% - 3.5% by year-end.
- The Fed officially began reducing its balance sheet on June 1<sup>st</sup> by \$47.5 billion a month and will increase the reduction by \$95 billion per month starting in September.
- The treasury yield curve increased across all maturities, particularly on the short-end, resulting in a relatively flat yield curve. Bonds are on track for their worst performance in recent history, surpassing the lows of the 1970's and 1980's.
- Investment grade (IG) spreads widened by 42 basis points (bps) over the quarter, while high yield (HY) spreads widened by 244 basis points.

Sources: Federal Reserve Economic Data, U.S. Treasury Department, Moody's, S&P LCD. Data as of 6/30/2022. Default rate data as of 12/31/2021.

# Market Environment as of June 30, 2022

## Fixed Income



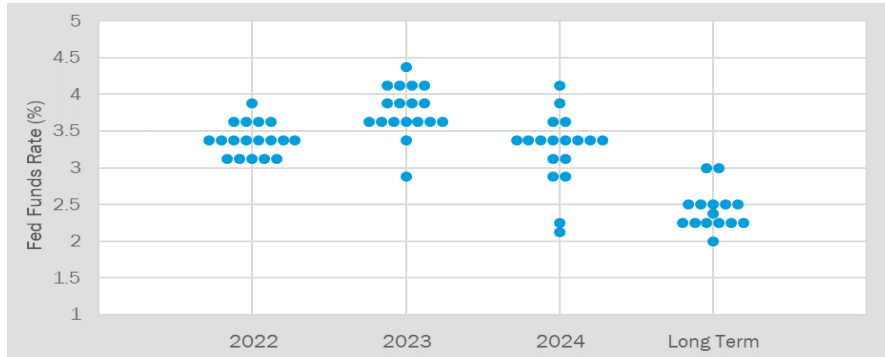
- Breakeven inflation rates on the short end of the curve decreased while long-term breakeven rates remained relatively stable around 2.5%. The breakeven rate is the implied inflation rate for a given maturity and is calculated by subtracting the real yield of a treasury bond from the nominal yield.
- Current long-term breakeven rates imply that inflation should trend above the Fed's original inflation target of 2% in the long run.
- Intermediate and long-term real yields increased into positive territory and reached levels not seen since 5 years ago.
- Inflation is being driven by supply/demand imbalances, the Ukraine/Russia war, a tight labor market, high wage growth, and various supply chain disruptions across the globe.

Source: Bloomberg, FRED, CPI & PCE Data, U.S. Breakeven Rates, U.S. Treasury Inflation-Indexed Rates. Data as of 6/30/2022.

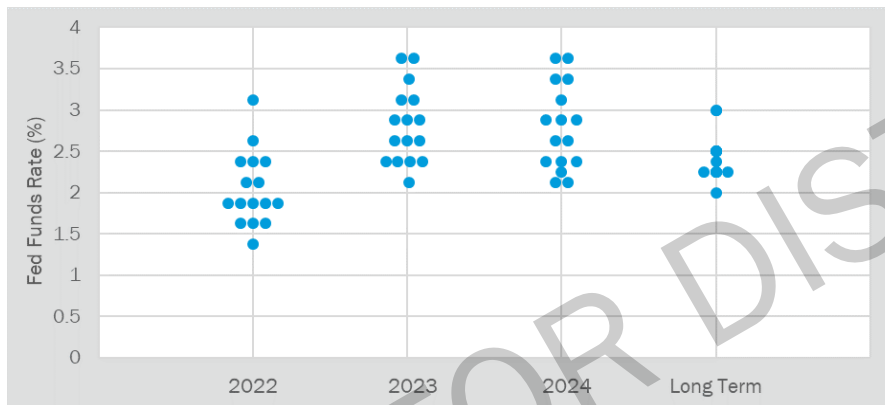
# Market Environment as of June 30, 2022

## Fixed Income

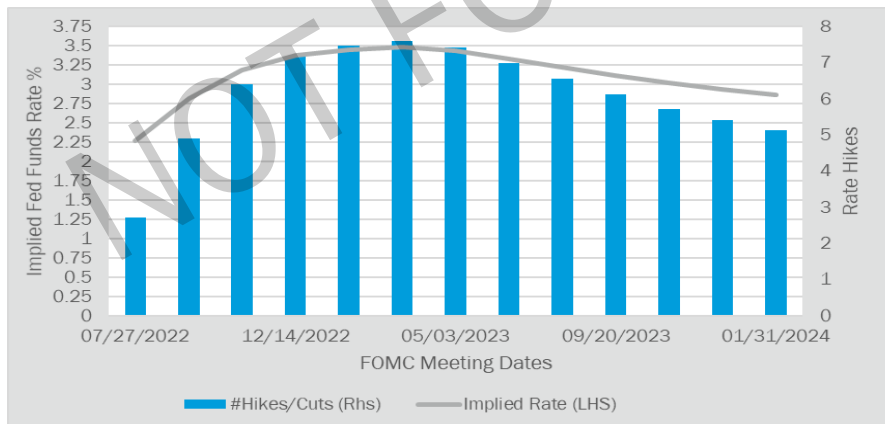
Fed Dot Plot  
June 2022



Fed Dot Plot  
March 2022



Implied Fed Funds Rate &  
Rate Hike Probabilities



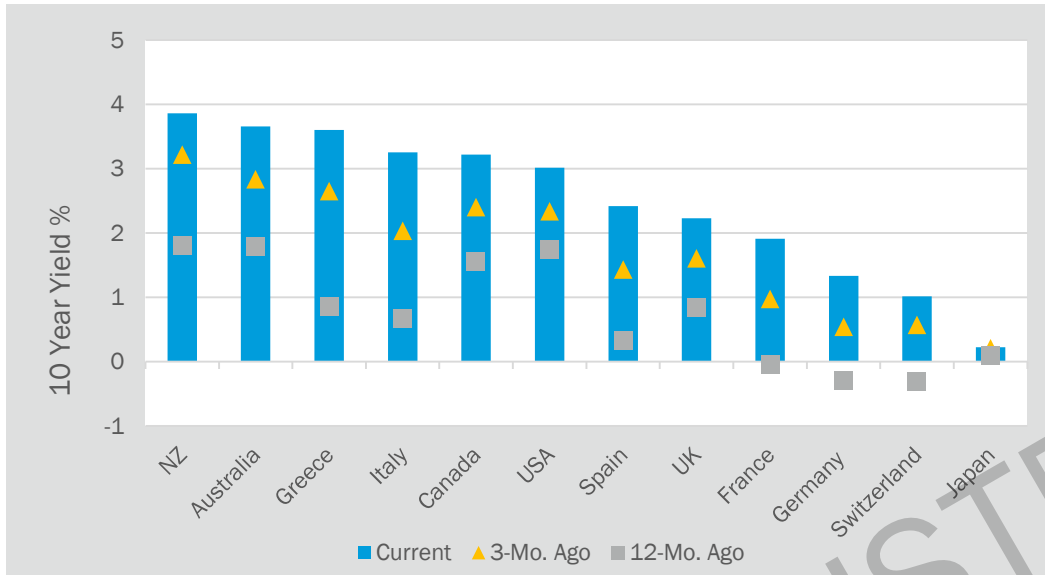
- The Federal Reserve increased its fed funds rate forecast from the prior quarter with the possibility of raising its key interest rate up to 3.5% by the end of 2022.
- As of end of June, market participants expect the Fed to reach their fed funds rate forecast of 3.25% - 3.5% by year-end.
- The Fed Dot Plot represents where each of the Federal Open Markets Committee (FOMC) members believe the fed funds rate will be in the future.
- The implied fed funds rate is where market participants believe the fed funds rate will be based on futures prices.

Source: Bloomberg. December FOMC Dot Plot. Fed Funds Futures as of time of December FOMC meeting. Implied Fed Funds Futures & Rate Hike Probabilities as of 6/30/2022.

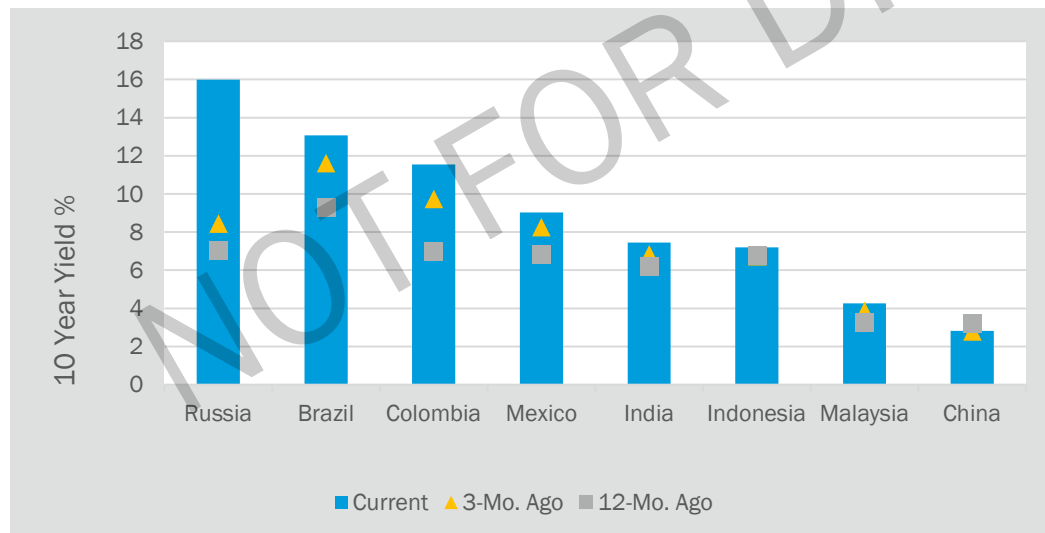
# Market Environment as of June 30, 2022

## Fixed Income

Developed Yields



EM Yields (Local Currency)



- Developed sovereign bond yields ended the quarter higher. Countries that faced elevated inflation prints and hawkish central bank signaling saw long-term yields rise higher than others.
- Emerging markets (EM) sovereign yields remained relatively unchanged on a quarter-over-quarter basis, with the exception of Russia. Russia continues to face strict sanctions from major developed economies amid the war with Ukraine.
- Emerging and developed market currency performance was generally weak as the U.S. dollar appreciated relative to most global currencies.

Source: Bloomberg. Data as of 6/30/2022.



## Goals

- Are clients seeking to preserve capital, generate total return, or blend the two within a fixed income segment?
- What level of risk related to portfolio correlation is the client looking to incur?



## Interest Rate & Inflationary Environment

- How does the current interest rate regime and inflationary environment affect return and risk (i.e. stagnant, slow-rise, rapid rise)?
- What level of interest rate volatility is the client willing to take?



## Risk Tolerance

- How much risk is a client willing to take?
- Duration, yield curve positioning, sector exposure, credit exposure, the correlation to equities, and the client's distribution flows are important factors to measure.



## Tax Considerations

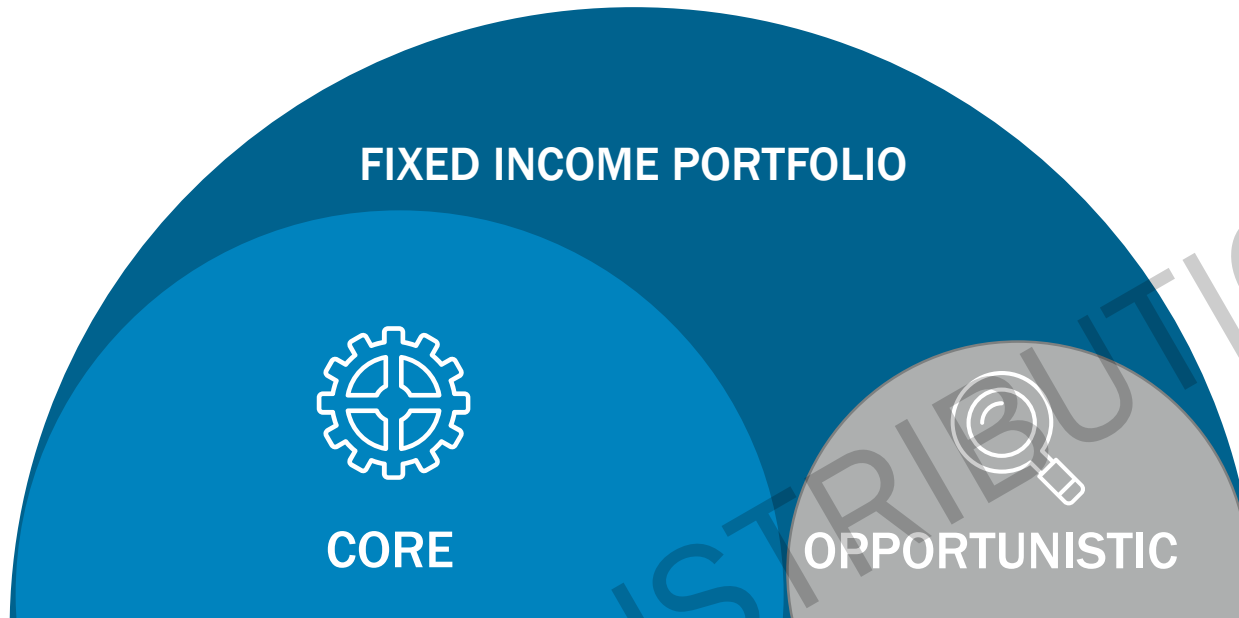
- Is the client's status taxable or tax-exempt?
- Does the client have a higher threshold given the respective tax situation?



## Time Horizon

- Does the client have short term or long term goals?
- Are spending requirements quarterly, annually, or longer?
- Is spending consistent with the return/risk profile of the portfolio?





### Characteristics

- Low volatility
- Uncorrelated to equities
- U.S. Focus



### Exposure

- Treasuries
- Agencies
- Investment grade corporate
- MBS



### Characteristics

- Income orientated
- Total return focus
- Uncorrelated to core bonds



### Exposure

- Non-U.S. developed sovereigns
- EM sovereigns
- High yield
- Bank loans
- Private debt