



Canterbury Consulting

Quarterly Asset Class Report Taxable Fixed Income

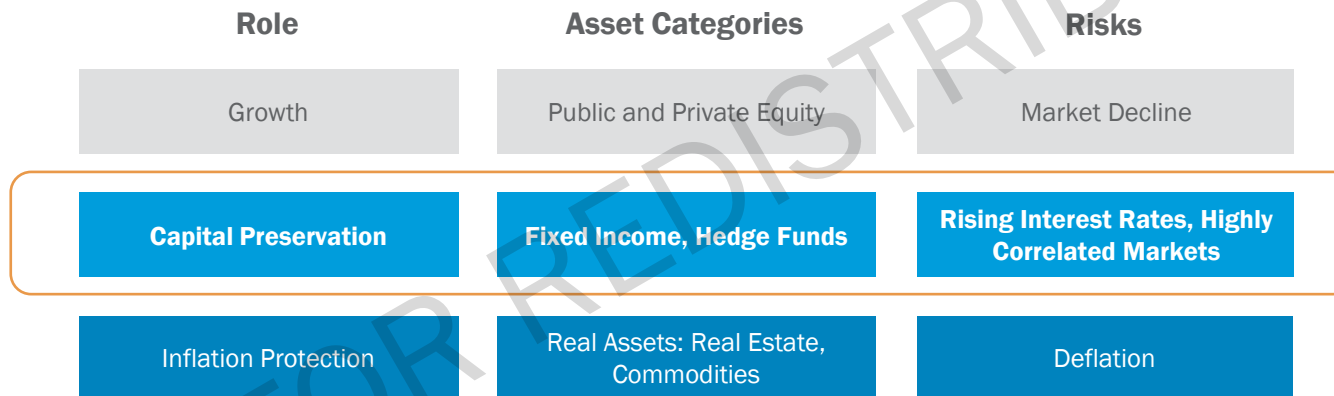
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canterburyconsulting.com

June 30, 2023

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 after-tax wealth and mitigate volatility
- Maintain comparable exposure to the broad municipal market
- Focus exposure based on state domicile and after-tax returns
- Exhibit returns uncorrelated to equity markets



- Canterbury global fixed income portfolios are set up with a goal to deliver consistent after-tax and net-of-fees excess returns and moderate tracking error versus the Bloomberg Municipal Bond Index. The goal for taxable fixed income portfolios are to have a high-quality bias with sensitivity toward taxes.
- Canterbury’s fixed income portfolios seek to exhibit benchmark-like, after-tax yields and credit quality through more portfolio diversification and lower duration. Portfolio diversification will depend on the client’s state of domicile and individual goals (i.e. income vs. capital preservation).

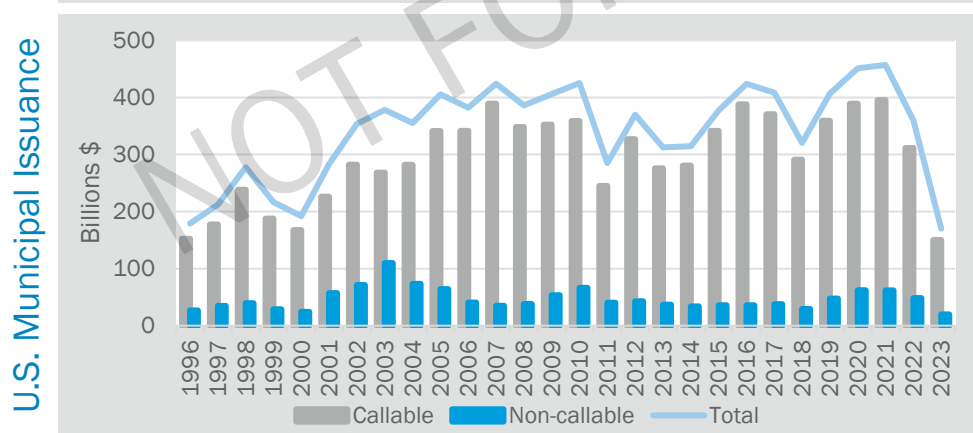
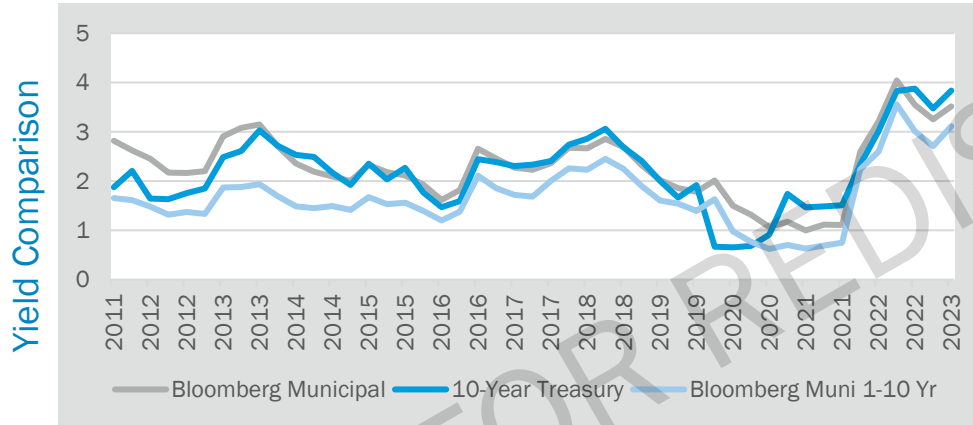
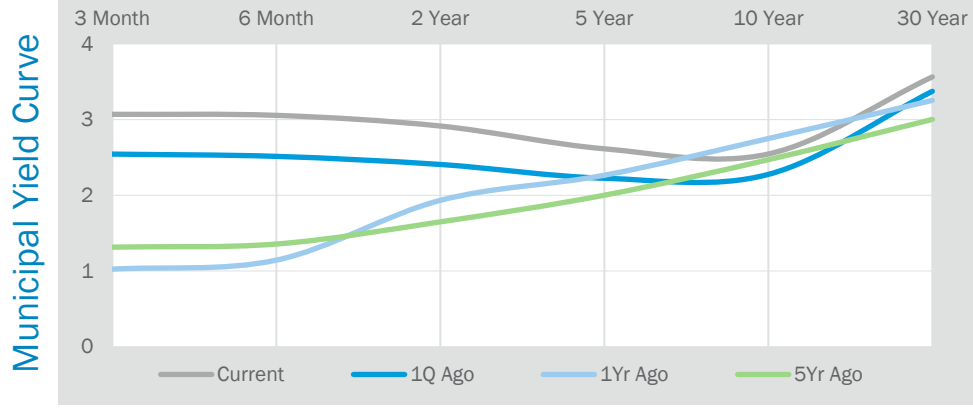
Index Returns as of June 30, 2023

Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Bloomberg Global Aggregate	-1.53	1.43	-1.32	-4.96	-1.09	-0.90	0.20
Bloomberg U.S. Agg Bond	-0.84	2.09	-0.94	-3.96	0.77	0.44	1.52
U.S. Treasurys							
BofAML 3M U.S. Treasury Note	1.18	2.33	3.69	1.32	1.61	1.41	1.02
Bloomberg Short Treasury	1.05	2.21	3.37	1.10	1.55	1.36	1.01
Bloomberg Intermediate Treasury	-1.15	1.10	-1.02	-2.88	0.82	0.28	0.93
Bloomberg Long Term U.S. Treasury	-2.30	3.72	-6.82	-12.09	-0.88	-1.70	1.80
Bloomberg U.S. Treasury TIPS 1-5Y	-0.97	1.28	-0.60	2.01	2.62	2.07	1.67
Bloomberg U.S. Treasury U.S. TIPS	-1.42	1.87	-1.40	-0.12	2.49	1.99	2.08
U.S. Corporate Credit							
Bloomberg U.S. Corp IG	-0.29	3.21	1.55	-3.44	1.76	1.46	2.63
Morningstar LSTA Leveraged Loan	3.15	6.48	10.71	6.31	4.13	4.63	4.07
BofAML U.S. HY Master II	1.63	5.41	8.87	3.21	3.19	4.41	4.34
BofAML U.S. HY BB-B Constrained	1.26	4.86	8.57	2.64	3.38	4.23	4.35
BofAML U.S. Corporate AAA	-0.91	3.58	-0.97	-5.62	1.29	0.86	2.29
BofAML U.S. Corporate AA	-0.65	2.91	-0.20	-4.35	1.01	0.71	2.03
BofAML U.S. Corporate A	-0.37	2.88	0.60	-3.75	1.59	1.18	2.43
BofAML U.S. Corps BBB	0.02	3.58	2.44	-2.61	2.14	2.00	3.03
BofAML U.S. High Yield BB	0.78	4.17	7.73	2.36	3.98	4.30	4.73
BofAML U.S. High Yield B	1.84	5.72	9.65	3.11	2.75	4.25	3.94
BofAML U.S. High Yield CCC	4.72	9.80	10.85	7.02	0.98	4.80	3.89
Securitized							
Bloomberg ABS	-0.12	1.74	1.18	-0.62	1.53	1.24	1.48
Bloomberg MBS	-0.64	1.87	-1.52	-3.73	0.03	0.03	1.13
Bloomberg CMBS	-0.60	1.20	-1.71	-2.89	1.29	0.78	1.63
Municipals							
Bloomberg Municipal	-0.10	2.67	3.19	-0.58	1.84	1.46	2.68
Bloomberg Muni 1-10	-0.54	1.29	1.84	-0.35	1.52	1.19	1.78
Global							
Bloomberg Global Aggregate TR Hdg USD	0.06	2.96	0.52	-2.88	0.93	0.84	2.11
Bloomberg Gbl Agg Ex USD	-2.16	0.83	-1.83	-5.87	-2.65	-2.06	-0.90
FTSE WGBI	-1.79	1.66	-2.49	-6.49	-2.04	-1.79	-0.48
JPM EMBI Plus	1.43	3.33	6.11	-7.21	-2.02	-1.55	0.96

Market Environment as of June 30, 2023

Fixed Income

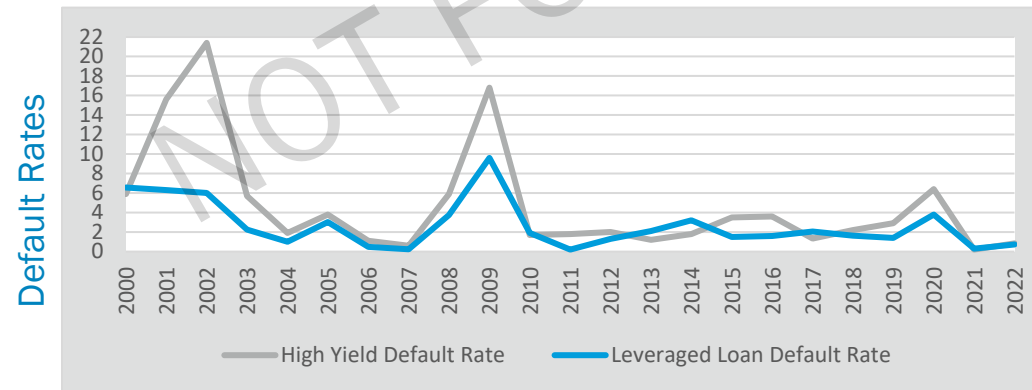
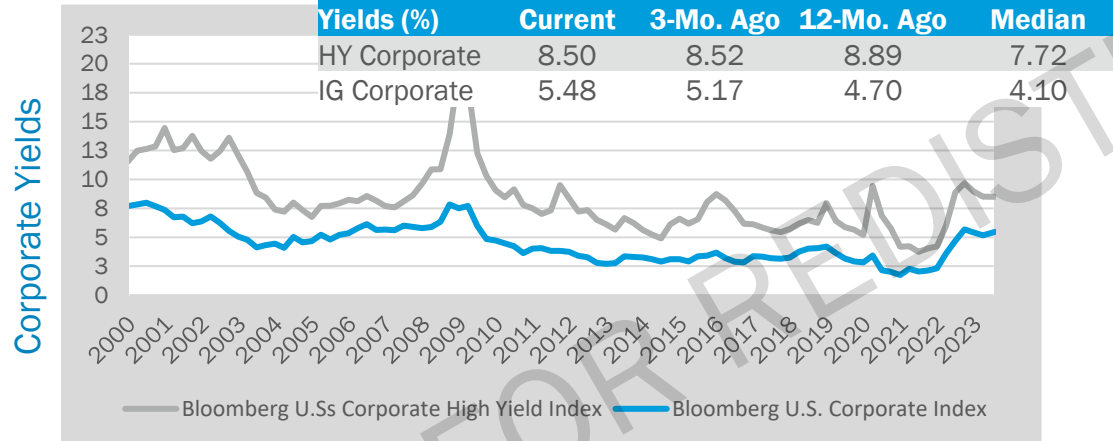
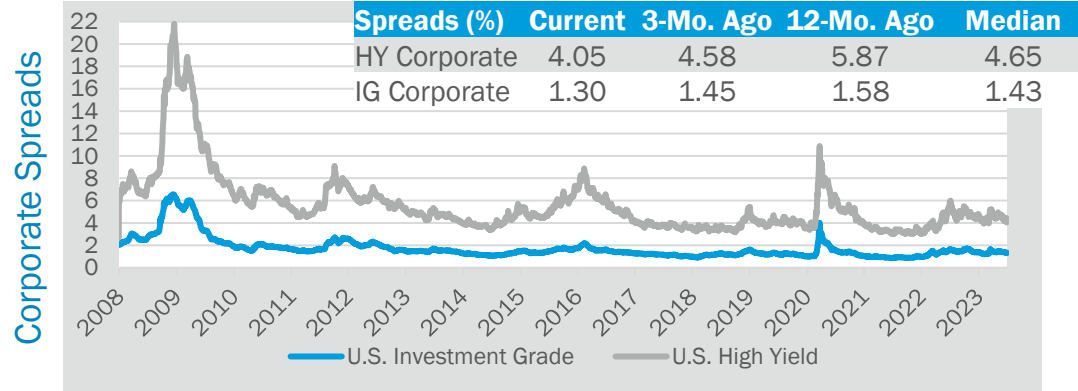


- Amid elevated inflation, the Federal Reserve raised the key interest rate by 25 basis points in May to a range of 5.00% - 5.25%.
- In June, the FOMC agreed to keep rates unchanged but projected two more 25 bps rate increases later this year. The Fed is uncertain if the three bank failures this year would lead to tighter lending standards, which could help their goal of slowing economic activity to tame inflation.
- At the most recent June meeting, Jerome Powell communicated that keeping rates unchanged is part of the rate hike process. Slowing down the pace of rate hikes makes sense as inflation trends lower.
- Yields across the municipal bond yield curve increased over the quarter on the back of positive economic/labor market data.
- Municipal bond issuance at the end of the second quarter was approximately 15% lower than the same period in 2022, which was already lower than the previous year.

Sources: Securities Industry and Financial Markets Association (SIFMA), U.S. Treasury Department, Barclays, Bloomberg. Data as of 06/30/2023

Market Environment as of June 30, 2023

Fixed Income



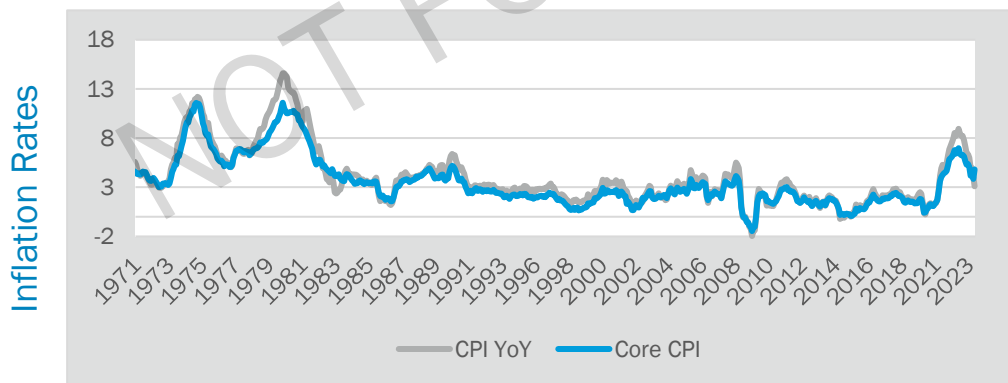
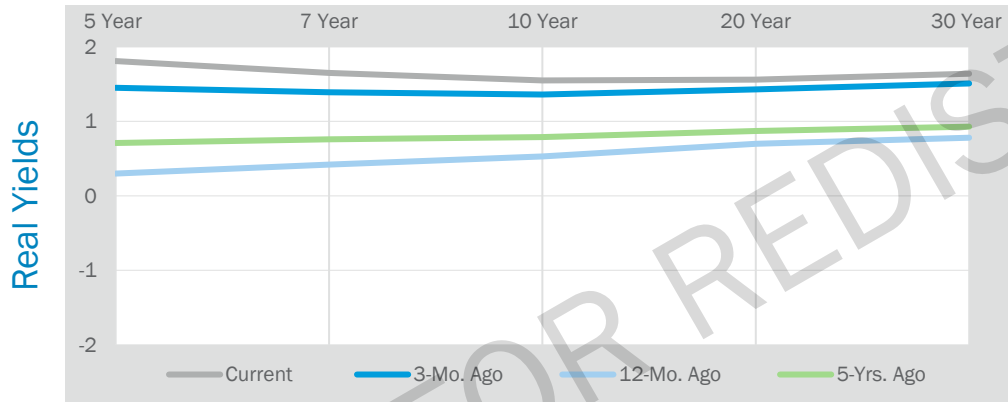
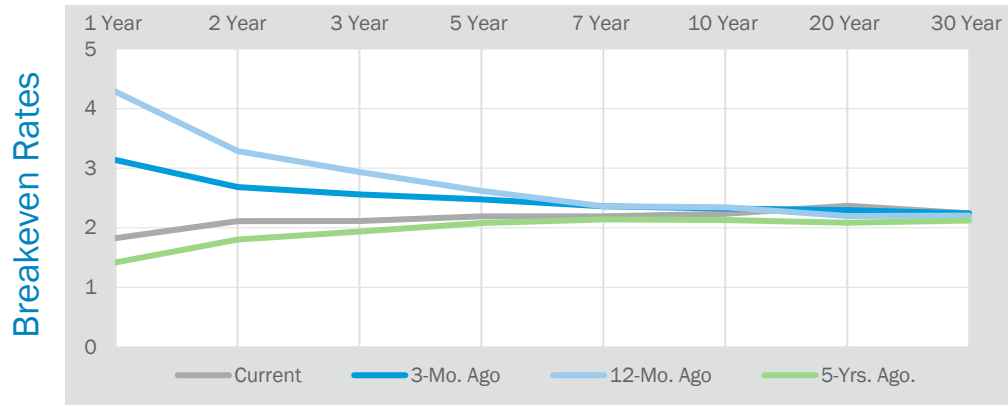
- Investment grade (IG) spreads narrowed from 145 basis points (bps) to 130 bps, and high yield (HY) spreads narrowed from 458 bps to 405 bps over the quarter.
- The yield for investment grade and high yield corporate bonds increased by 31 bps and decreased by 2 bps to 5.48% and 8.50%, respectively.
- Although corporate credit spreads remained in line with long term medians, corporate credit yields continued to be modestly above historical*.

Sources: Federal Reserve Economic Data, S&P LCD, JP Morgan, Bloomberg Indices. Data as of 06/30/2023. S&P LCD Lev Loan Defaults, JP Morgan HY Bond Defaults, Data as of 12/31/2022

*Long term median is defined as median data since 2000.

Market Environment as of June 30, 2023

Fixed Income



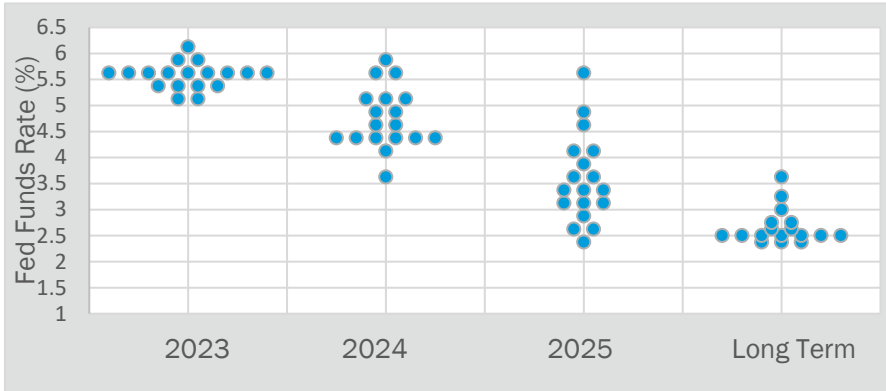
- Front-end breakeven inflation rates fell over the quarter while intermediate-to-long-term breakevens remained unchanged. The breakeven rate is the implied inflation rate for a given maturity and is calculated by subtracting the real yield of a treasury bond from the nominal yield.
- Breakeven rates imply that inflation should trend in line with the Fed's original inflation target of 2% in the near-term, a sharp reversal from last quarter's move.
- Real yields from the 5-year maturity and beyond marginally increased, showing that nominal yields outpaced implied inflation.
- Inflation continues to be driven by supply/demand imbalances, the Ukraine/Russia war, tight labor markets, and high wage growth.

Source: Bloomberg, FRED, CPI & PCE Data, U.S. Breakeven Rates, U.S. Treasury Inflation-Indexed Rates. Data as of 06/30/2023

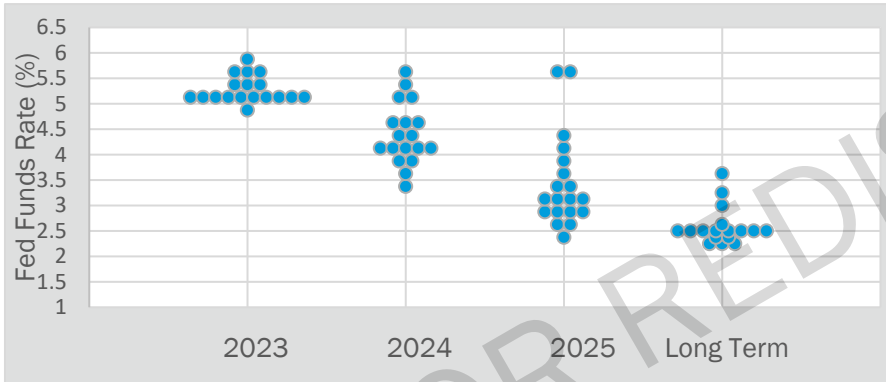
Market Environment as of June 30, 2023

Fixed Income

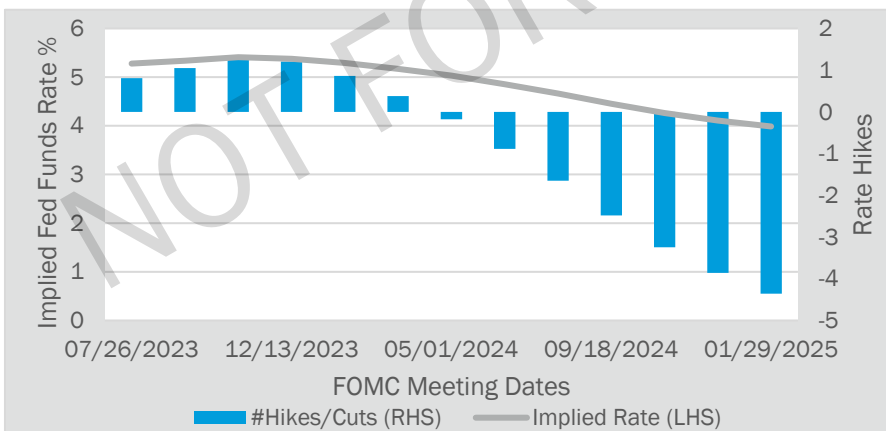
Fed Dot Plot
June 2023



Fed Dot Plot
March 2023



Implied Fed Funds Rate &
Rate Hike



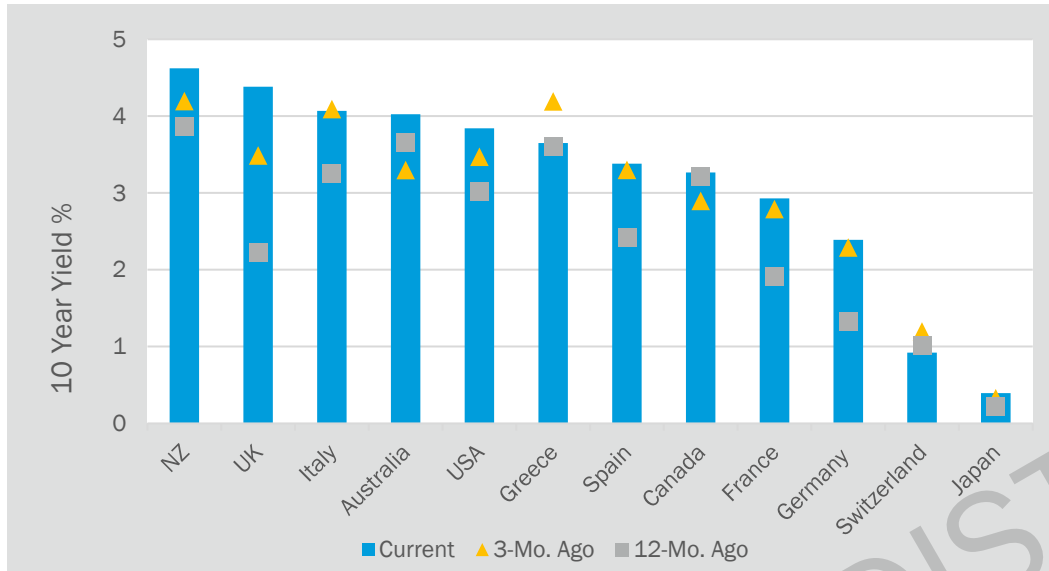
- The fed funds rate forecast increased to a range of 5.5% - 5.75% by the end of 2023, as represented by the Fed Dot Plot. This implies two additional rate hikes of 25 bps by the end of the year.
- As of the end of June, market participants expect the Fed to raise rates by 25 bps by the end of this year and start cutting interest rates by mid-2024.
- 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 06/30/2023.

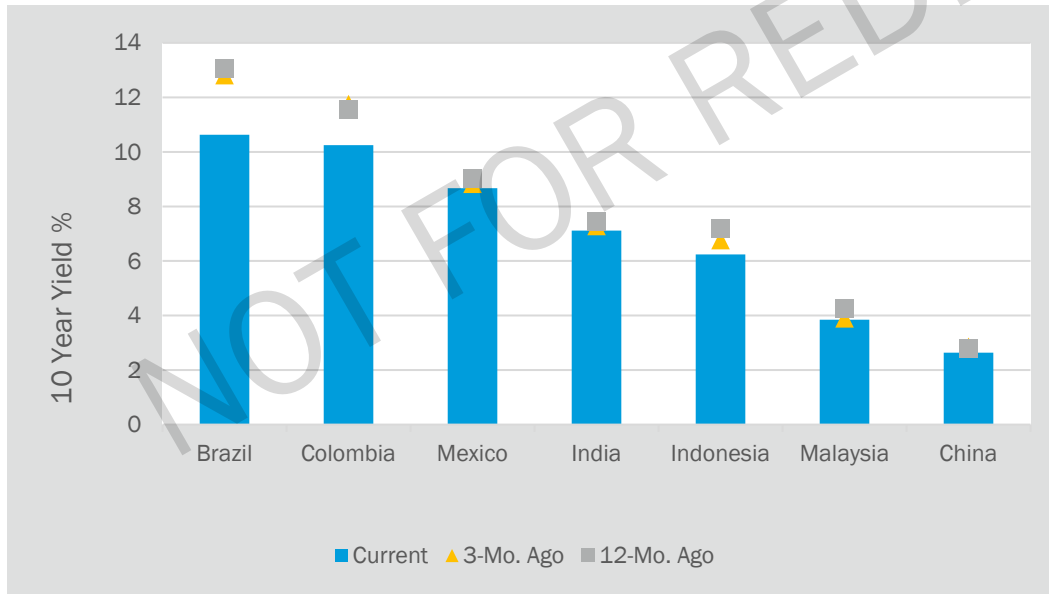
Market Environment as of June 30, 2023

Fixed Income

Developed Yields



EM Yields (Local Currency)



- Global developed market yields remained generally unchanged, except for certain countries experiencing elevated inflation.
- Emerging markets (EM) sovereign yields remained relatively stable, except for Brazil and Colombia, where inflation showed signs of moderating, leading to lower yields.
- Emerging and developed market currency performance was mixed. Currencies in regions expecting interest rate hikes appreciated against the U.S. dollar.

Source: Bloomberg. Data as of 06/30/2023



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.*



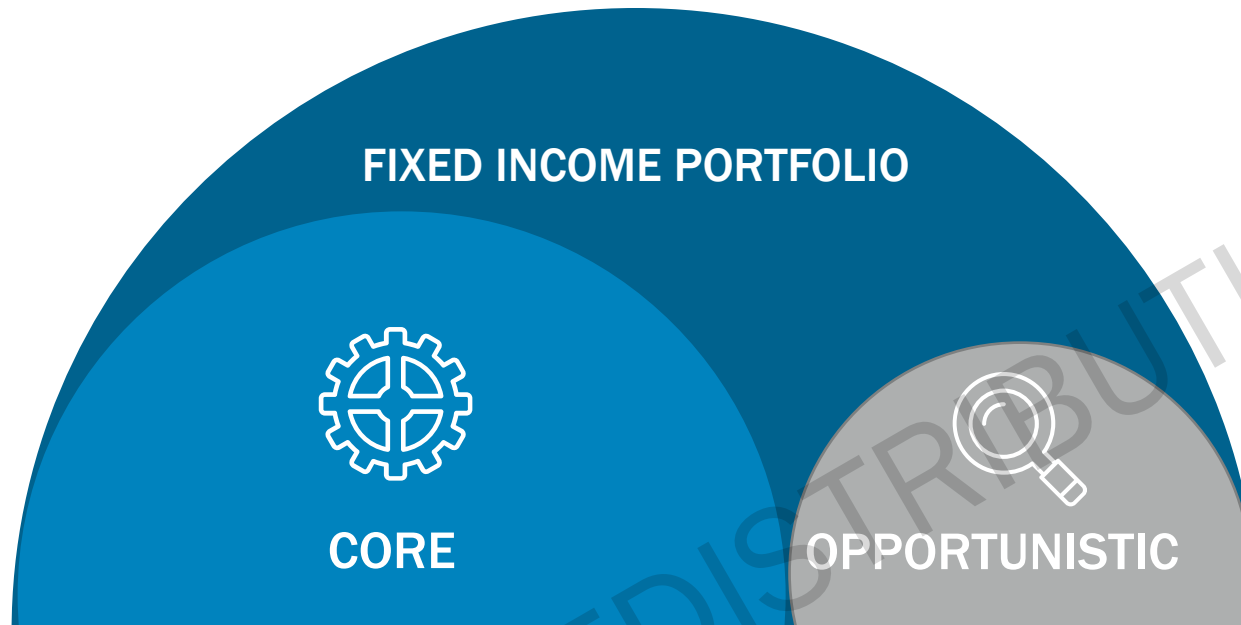
Tax Considerations

- *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