



Canterbury Consulting

Quarterly Asset Class Report Taxable Fixed Income

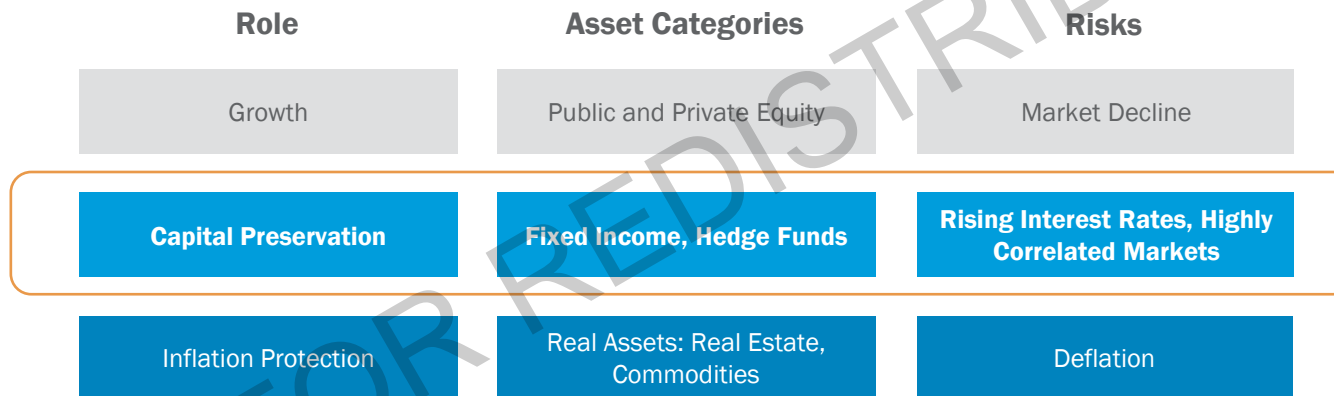
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canterburyconsulting.com

June 30, 2024

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, 2024

Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Bloomberg Global Aggregate	-1.10	-3.16	0.93	-5.49	-2.02	-0.45	-0.42
Bloomberg US Agg Bond	0.07	-0.71	2.63	-3.02	-0.23	0.86	1.35

U.S. Treasurys

BofAML 3M US Treasury Note	1.30	2.62	5.33	3.04	2.19	2.10	1.54
Bloomberg Short Treasury	1.30	2.54	5.42	2.86	2.12	2.05	1.53
Bloomberg Intermediate Treasury	0.58	0.21	3.37	-1.41	0.28	0.95	1.11
Bloomberg Long Term US Treasury	-1.81	-5.01	-5.61	-10.49	-4.26	-1.46	0.60
Bloomberg U.S. Treasury TIPS 1-5Y	1.42	2.05	5.24	1.64	2.98	2.79	1.94
Bloomberg US Treasury US TIPS	0.79	0.70	2.71	-1.33	2.07	2.47	1.91

U.S. Corporate Credit

Bloomberg US Corp IG	-0.09	-0.49	4.63	-3.03	0.62	1.79	2.34
Morningstar LSTA US LL TR USD	1.90	4.40	11.11	6.14	5.53	5.14	4.60
BofAML US HY Master II	1.09	2.62	10.45	1.65	3.73	4.10	4.21
BofAML US HY BB-B Constrained	1.21	2.52	10.08	1.62	3.66	4.09	4.23
BofAML US Corporate AAA	-0.83	-1.94	0.80	-5.24	-0.75	1.01	1.87
BofAML US Corporate AA	-0.28	-0.89	2.76	-3.77	-0.23	1.05	1.74
BofAML US Corporate A	0.03	-0.22	4.35	-2.91	0.48	1.62	2.19
BofAML US Corps BBB	0.28	0.47	6.17	-2.49	1.23	2.31	2.69
BofAML US High Yield BB	1.32	2.43	9.58	1.29	3.90	4.27	4.55
BofAML US High Yield B	1.03	2.53	10.52	1.98	3.41	3.90	3.88
BofAML US High Yield CCC	0.18	3.40	13.35	1.64	3.51	3.58	3.84

Securitized

Bloomberg ABS	0.98	1.66	5.46	0.71	1.62	1.92	1.84
Bloomberg MBS	0.07	-0.98	2.12	-2.92	-0.76	0.34	0.89
Bloomberg CMBS	0.68	1.53	5.76	-1.79	0.69	1.69	1.85

Municipals

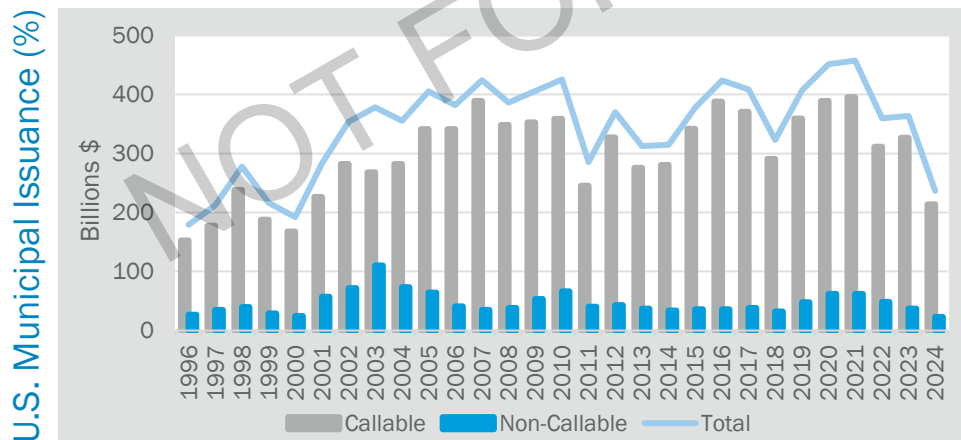
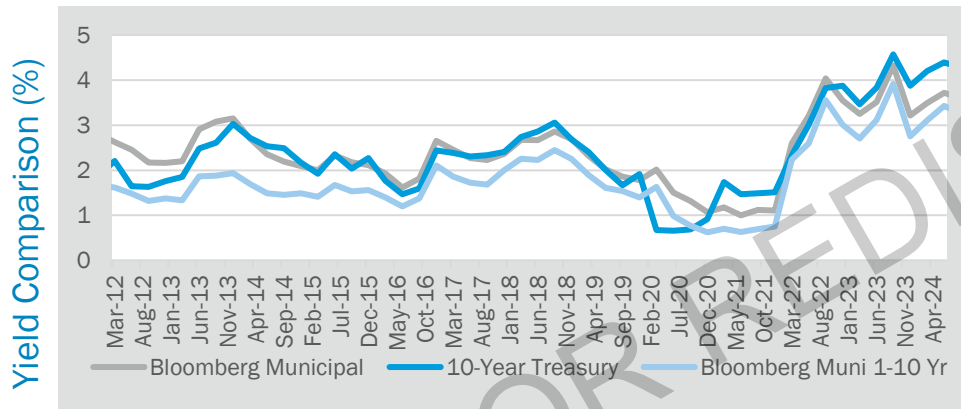
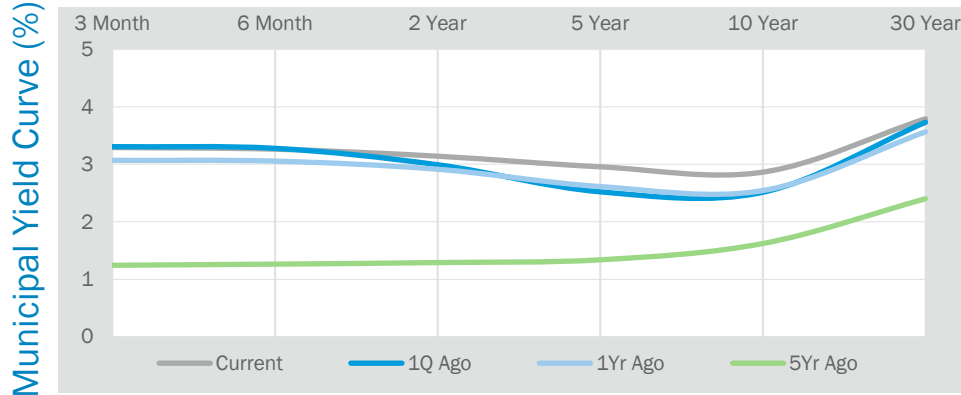
Bloomberg Municipal	-0.02	-0.40	3.21	-0.88	1.16	1.99	2.39
Bloomberg Muni 1-10	-0.31	-0.67	2.31	-0.31	0.97	1.48	1.63

Global

Bloomberg Global Aggregate TR Hdg USD	0.12	0.13	4.20	-1.57	0.25	1.49	2.02
Bloomberg Gbl Agg Ex USD	-2.11	-5.26	-0.66	-7.48	-3.56	-1.61	-1.86
FTSE WGBI	-1.58	-3.96	-0.63	-6.92	-3.20	-1.28	-1.20

Market Environment as of June 30, 2024

Fixed Income

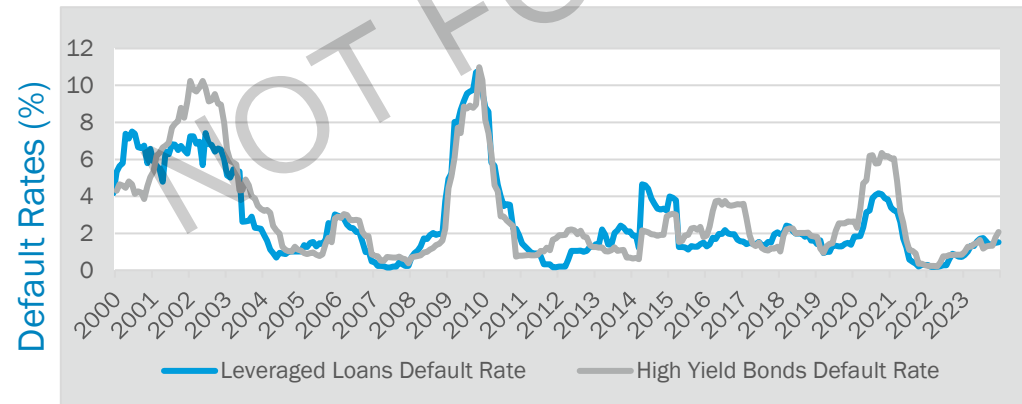
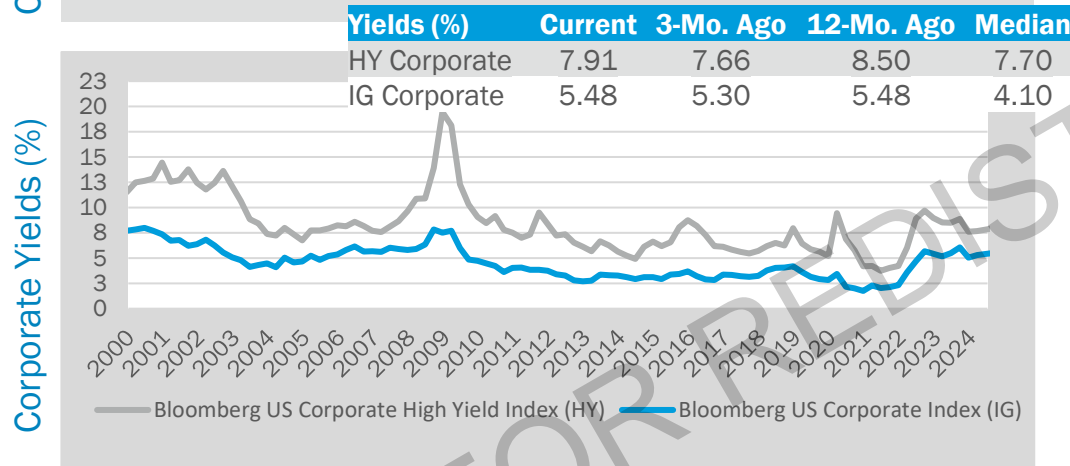
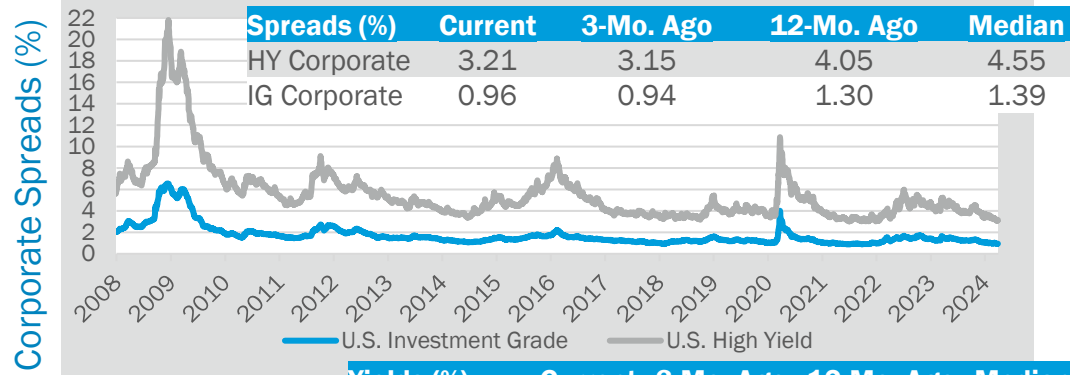


- In the second quarter, the Federal Reserve kept rates unchanged at a range between 5.25% - 5.50% as inflation continued to remain elevated.
- During the June FOMC meeting, Powell commented that inflation is making progress in the right direction but needs to see more good data come in before cutting rates.
- Fed officials believe a rate cut as soon as the September FOMC meeting is on the table if inflation continues to trend in the right direction.
- The intermediate-to-long end of the municipal yield curve increased over the quarter as the timing of a potential rate cut was drawn out.
- Municipal bond issuance in the second quarter was approximately \$137 billion compared to \$98 billion in 2023.
- Year-to-date issuance topped \$236 billion compared to \$173 billion during the same time frame in 2023.

Sources: Securities Industry and Financial Markets Association (SIFMA), U.S. Treasury Department, Barclays, Bloomberg. Data as of 6/30/2024

Market Environment as of June 30, 2024

Fixed Income



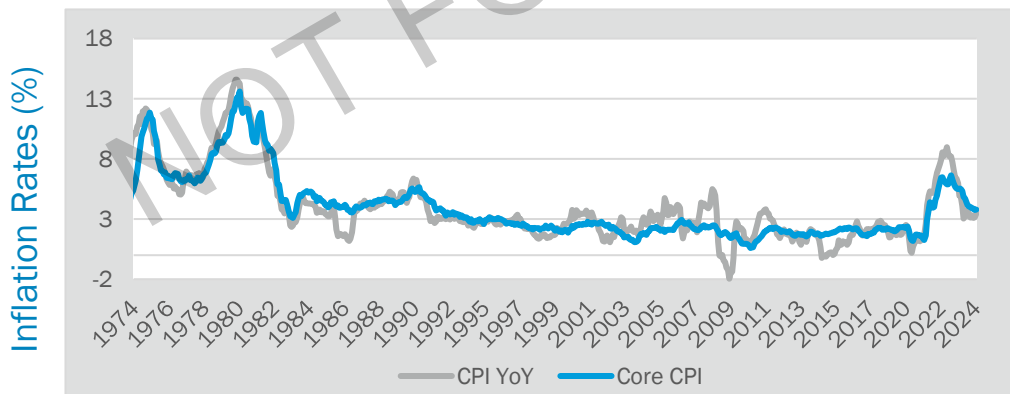
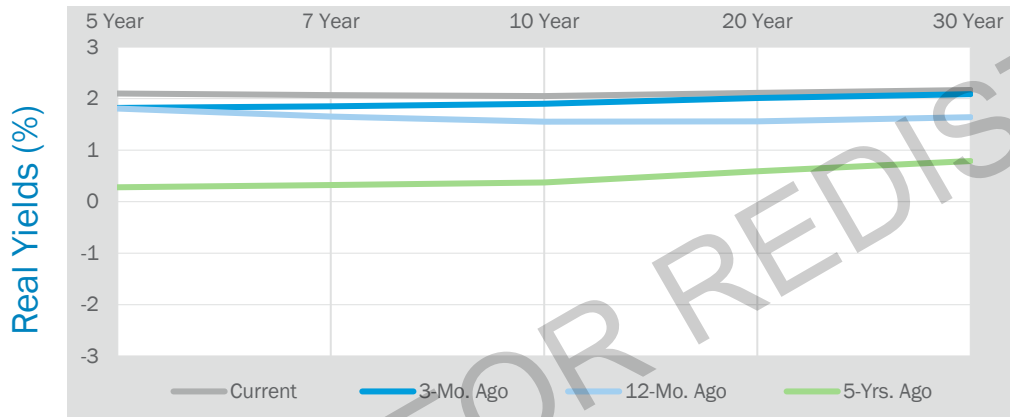
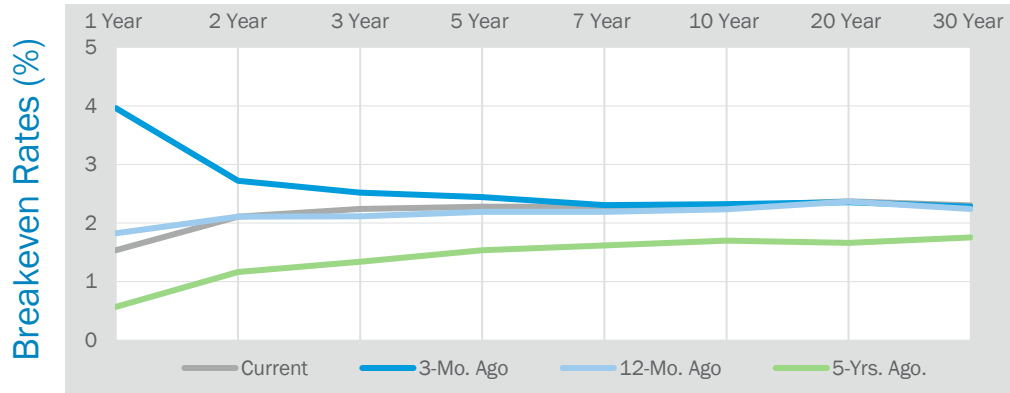
- Investment-grade (IG) and high-yield (HY) spreads marginally increased over the quarter and continued to remain well below long-term median levels [1].
- The yield for investment-grade and high-yield corporate bonds increased by 18 bps and 24 bps to 5.48% and 7.91%, respectively.
- Although corporate credit spreads remained below long-term medians, IG corporate credit yields continued to be modestly above historicals, whereas high yield was roughly in line [2].

Sources: Federal Reserve Economic Data, U.S. Treasury Department. Data as of 6/30/2024. S&P LCD Lev Loan Defaults, JP Morgan HY Bond Defaults, Data as of 12/31/2023

[1] Long-term median is defined as median data starting in 2006.
 [2] Defined as data starting in 2000.

Market Environment as of June 30, 2024

Fixed Income



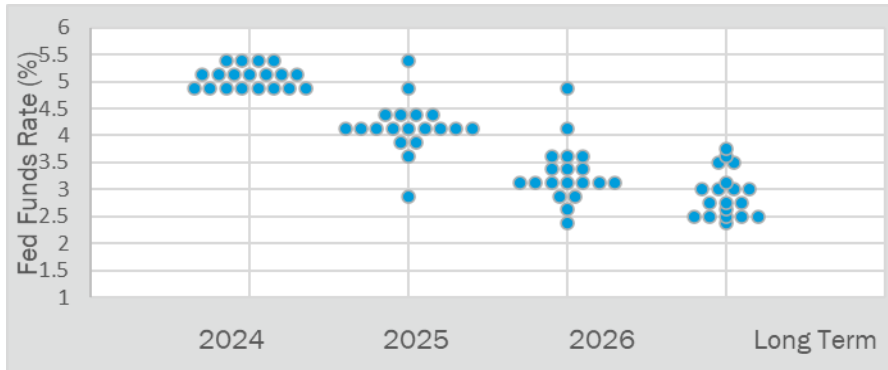
- Front-end breakeven inflation rates fell during the quarter while long-term breakeven rates remained steady at approximately 2%. The breakeven rate is the implied inflation rate for a given maturity and is calculated by subtracting the real yield of a treasury bond from the nominal yield.
- Breakeven rates currently imply that inflation should remain elevated in the near term while intermediate-to-long-term breakevens imply that inflation should run slightly higher than the Fed's 2% inflation target.
- Real yields from the 5-year to the 10-year maturities marginally increased to keep up with inflation, while long-term real yields remained relatively unchanged.
- Inflation continues to be driven by resilient economic growth, tight labor markets, elevated wage growth, high spending within services, and supply/demand imbalances in specific sectors.

Source: Bloomberg, FRED, CPI & PCE Data, U.S. Breakeven Rates, U.S. Treasury Inflation-Indexed Rates. Data as of 6/30/2024.

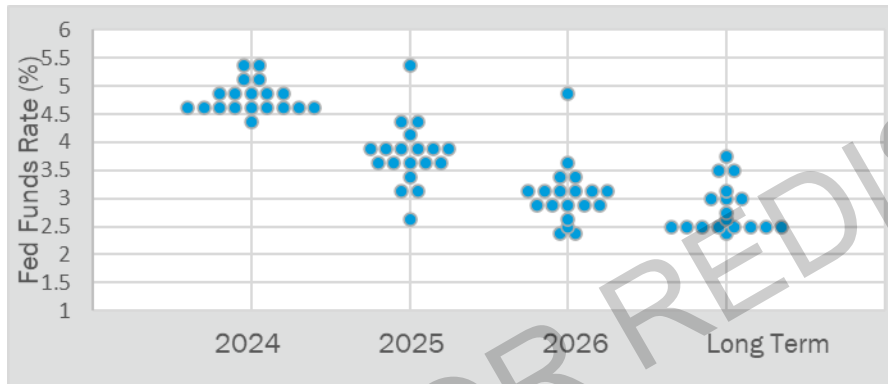
Market Environment as of June 30, 2024

Fixed Income

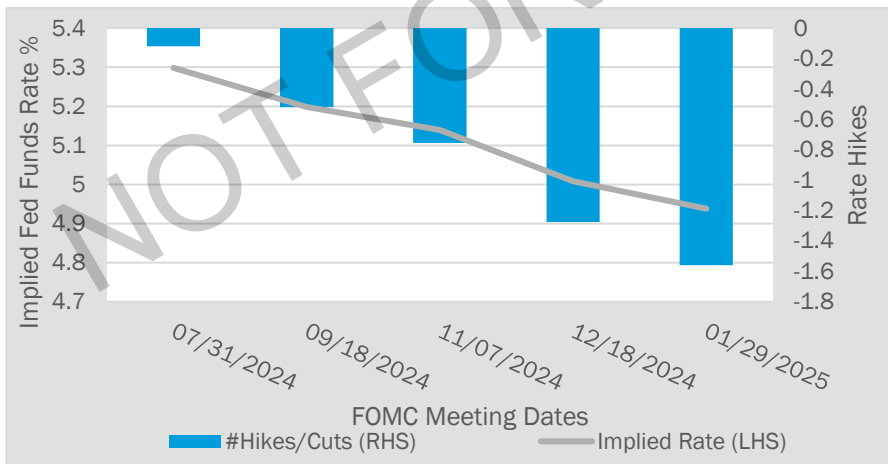
Fed Dot Plot
June 2024



Fed Dot Plot
March 2023



Implied Fed Funds Rate &
Rate Hike



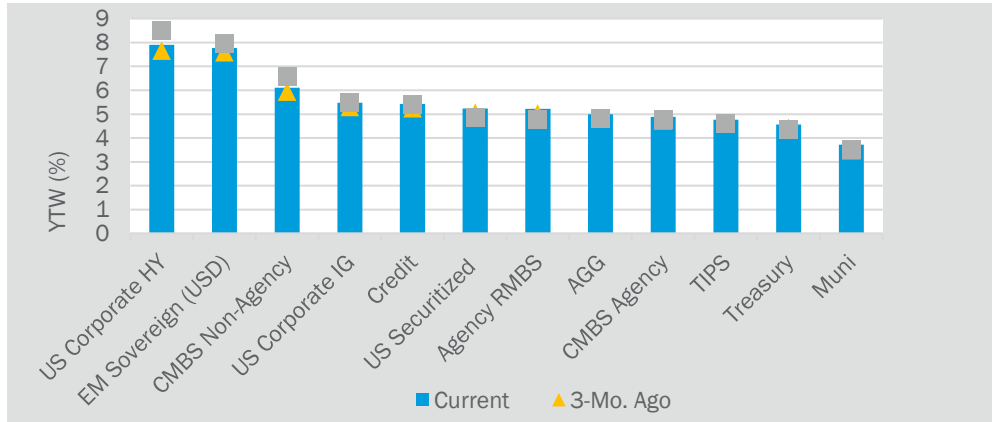
- The March Fed funds rate forecast showed that there would be approximately three to four rate cuts of 25 basis points (bps) by the end of 2024.
- As of the end of June, the Fed's updated dot plot showed an expectation of at least one rate cut of 25 basis points by the end of 2024.
- Market participants, as represented by Fed funds futures rates, showed an expectation of one rate cut of 25 bps by the end of the year.
- The Fed Dot Plot represents where each of the Federal Open Markets Committee (FOMC) members believes 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. March and June FOMC Dot Plot. Fed Funds Futures as of 6/30/2024.

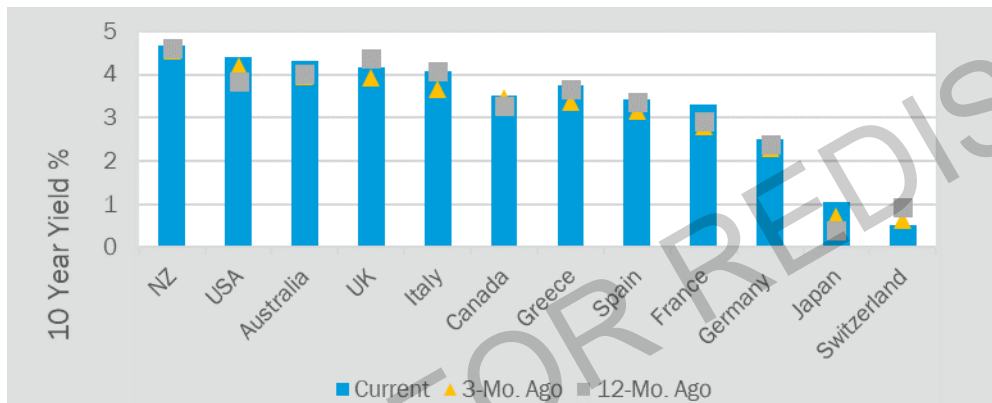
Market Environment as of June 30, 2024

Fixed Income

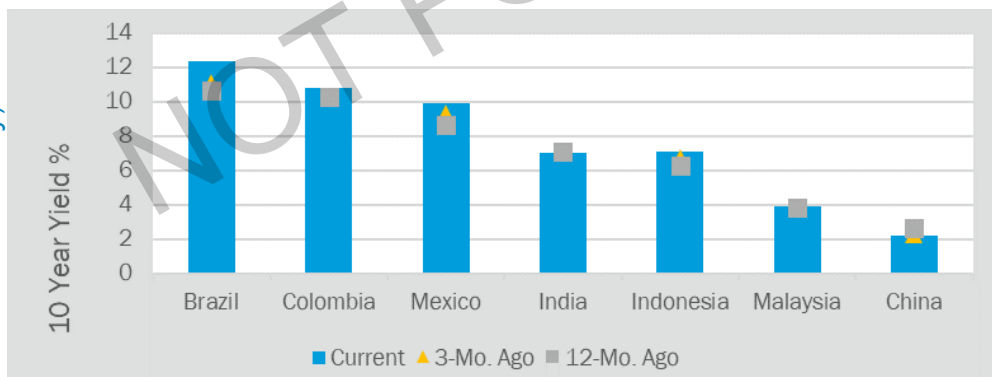
Domestic Yields



Developed Yields



EM Yields (Local Currency)



- U.S. high yield yields marginally fell, while U.S. fixed income yields across other sectors remained relatively unchanged. Junk bonds provided an attractive nominal yield relative to the broad fixed income universe.
- Global developed yields marginally increased. Regions facing political risk or stickier inflation saw local yields marginally rise.
- Emerging markets (EM) sovereign yields marginally increased as the Fed continued to delay a potential rate cut in the U.S. EM regions that faced elections saw yields rise on the uncertainty of the outcomes.

Source: Bloomberg and Bloomberg Indices. 10-year sovereign yields. Data as of 6/30/2024.



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.



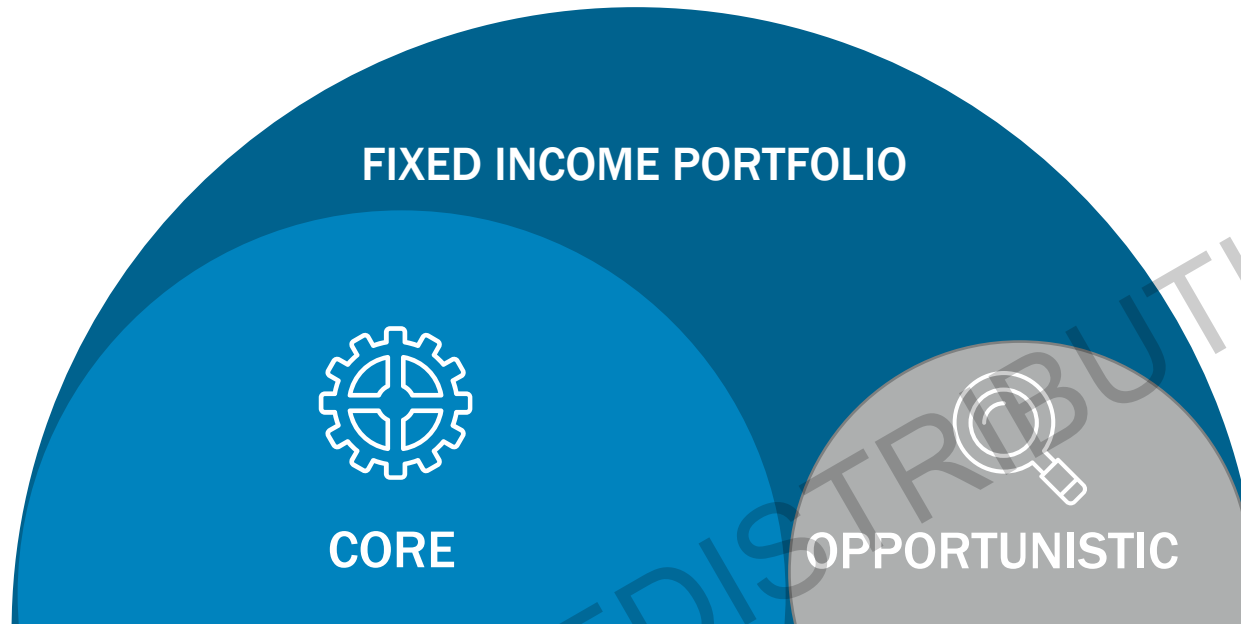
Tax Considerations

- 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