CanterburyConsulting

Quarterly Asset Class Report
Taxable Fixed Income

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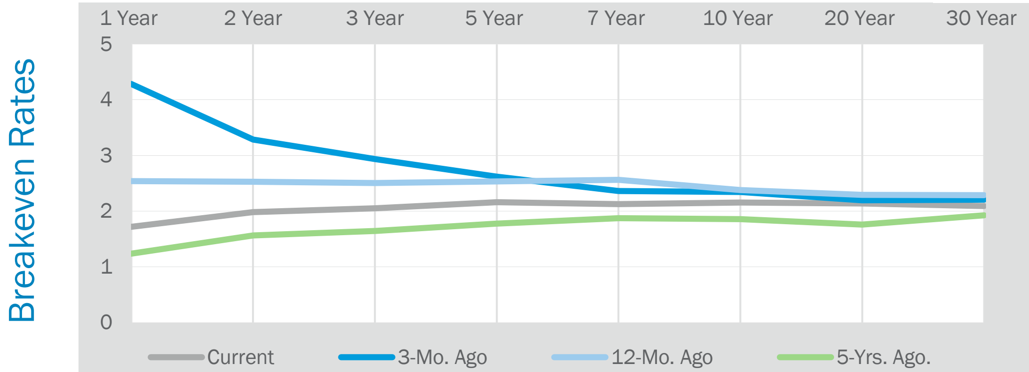
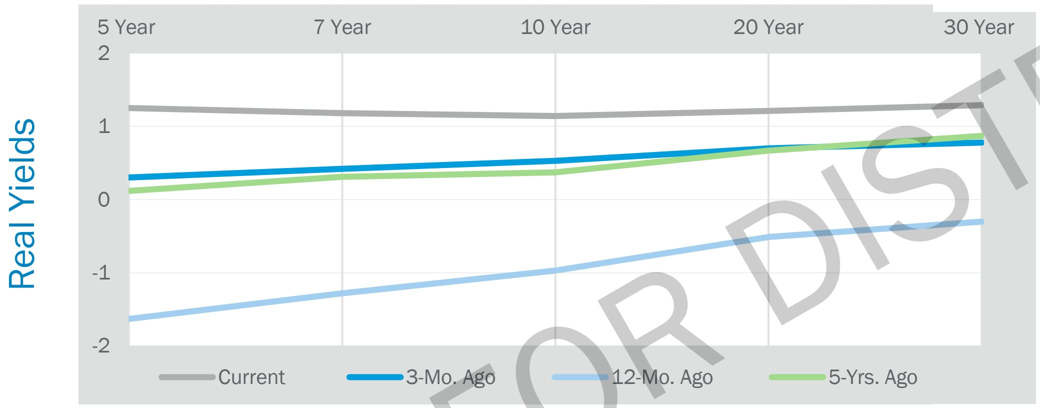
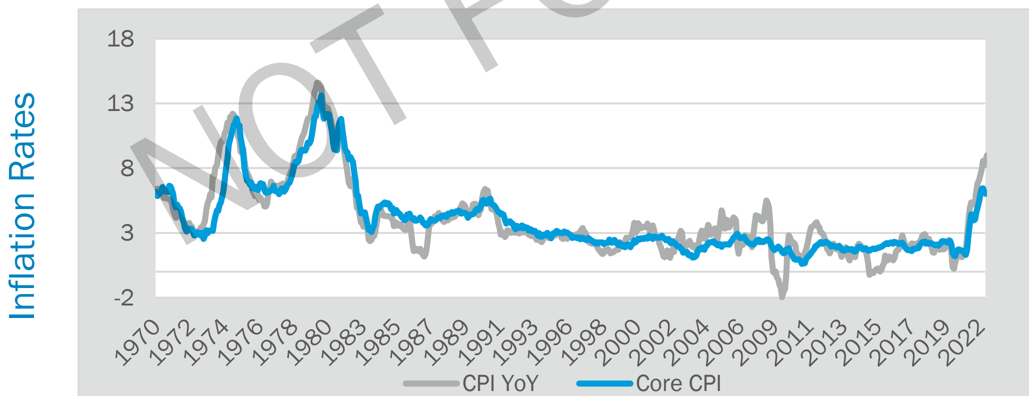
September 30, 2022







- Breakeven inflation rates on the short-end of the curve decreased while long-term breakeven rates remained relatively stable between 2.0% – 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.
- Short-term break even rates largely decreased over the quarter given the rapid rise in the fed funds rate and expectations of slower economic growth.
- 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 and have surpassed the levels seen 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 9/30/2022

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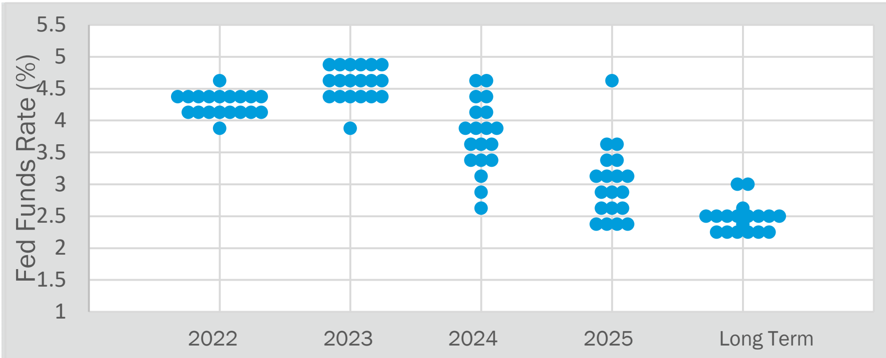
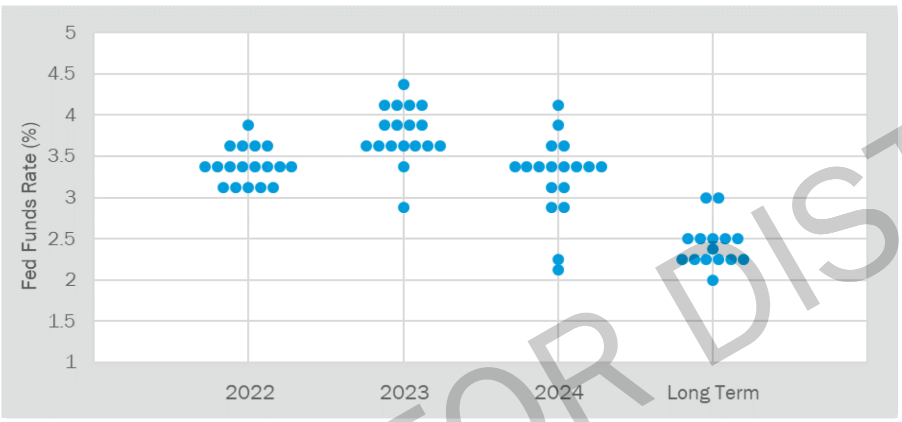
Market Environment as of September 30, 2022

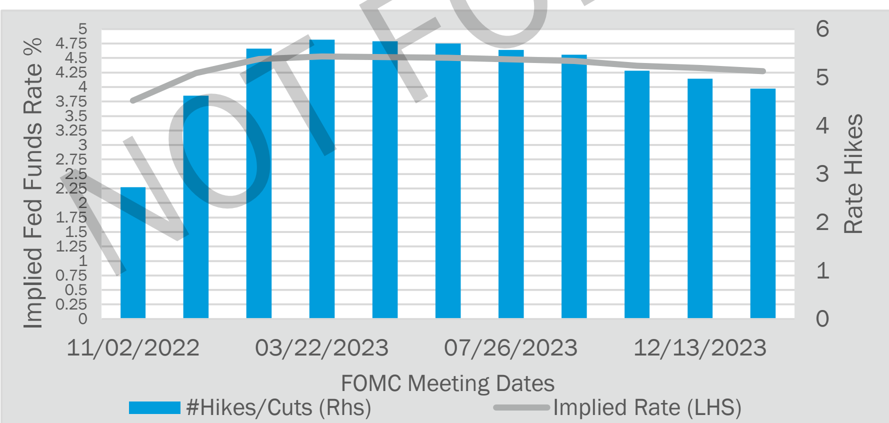
Fed Dot Plot
September 2022



Fed Dot Plot
June 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 rates up to 4.0% - 4.5% by the end of 2022 and 4.5% - 5.0% by the end of 2023.
- As of end of September, market participants expected the Fed to raise rates to a range between 4.0% - 4.25%.
- 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 9/30/2022.

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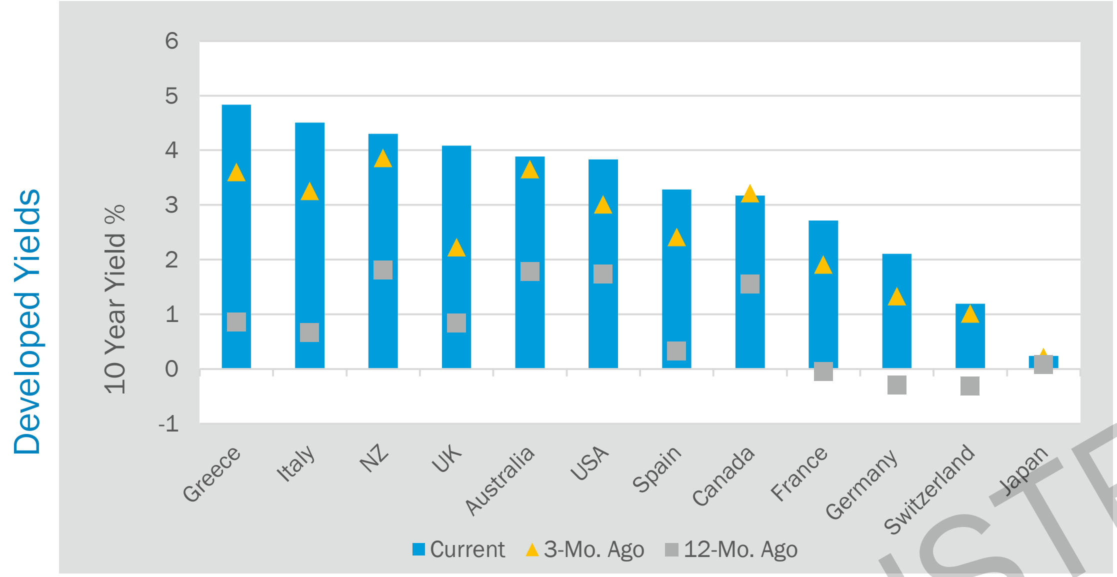
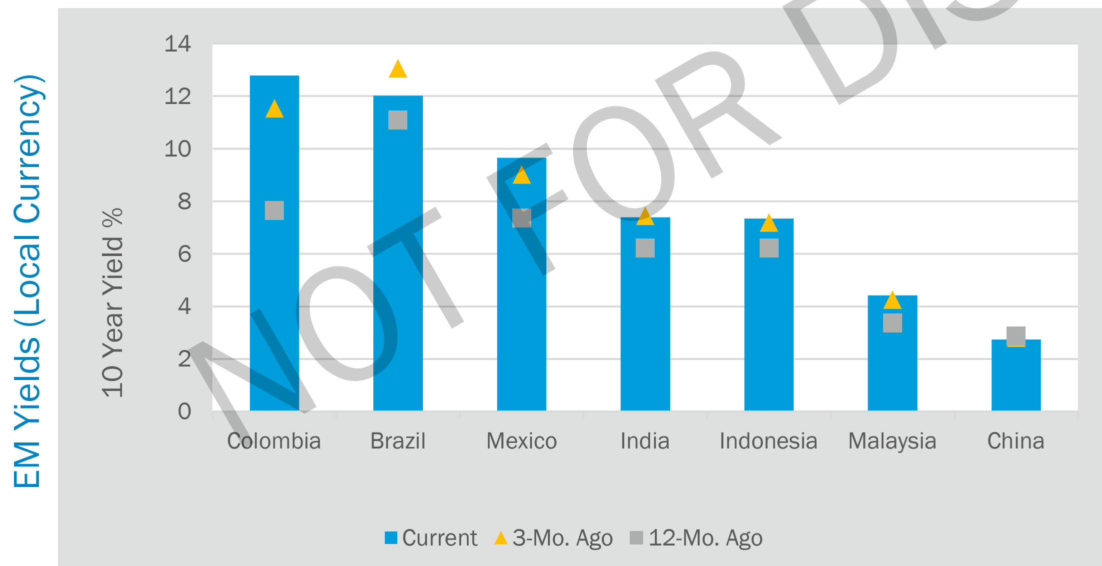
Market Environment as of September 30, 2022

Fixed Income





- 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.
- 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 9/30/2022.

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Factors that Affect Fixed Income Portfolios

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?*

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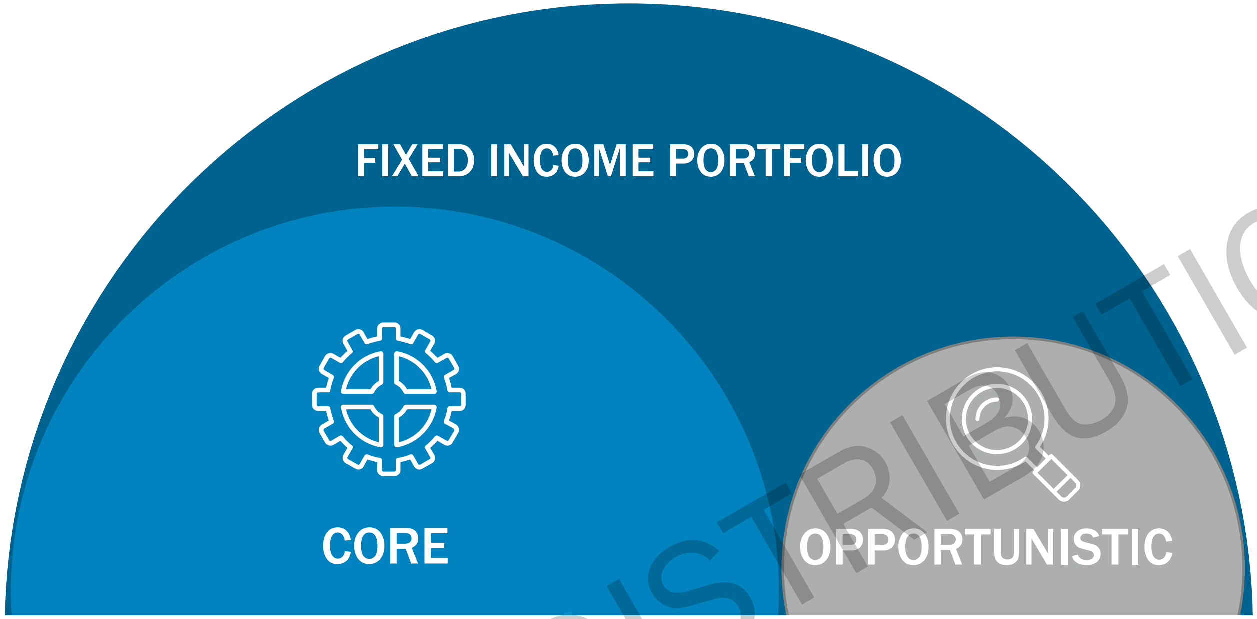

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Core

Characteristics

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

Exposure

- Treasuries
- Agencies
- Investment grade corporate
- MBS

Opportunistic

Characteristics

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

Exposure

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