



CanterburyConsulting

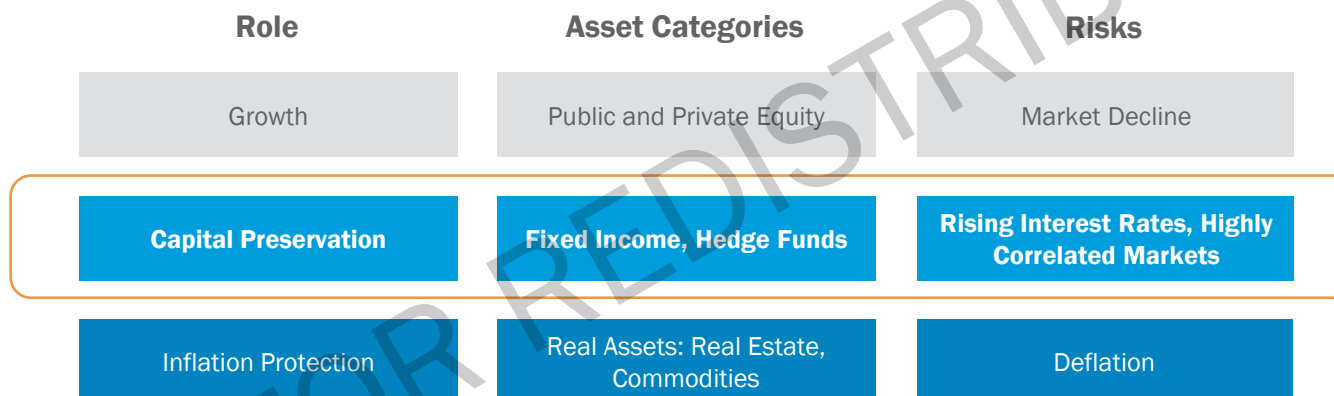
Quarterly Asset Class Report Tax-Exempt Fixed Income

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March 31, 2025

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 Bloomberg U.S. Aggregate and Bloomberg Global Aggregate.
- Relative to the index, Canterbury's current fixed income portfolios may exhibit neutral-to-slightly lower duration, similar credit quality, and higher yields.

Index Returns as of March 31, 2025

Fixed Income

	QTD (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	7 Years (%)	10 Years (%)
Bloomberg Global Aggregate	2.64	2.64	3.05	-1.63	-1.38	-0.46	0.61
Bloomberg US Agg Bond	2.78	2.78	4.88	0.52	-0.40	1.58	1.46

U.S. Treasurys

BofAML 3M US Treasury Note	1.06	1.06	4.93	4.24	2.56	2.48	1.89
Bloomberg Short Treasury	1.05	1.05	5.07	4.16	2.48	2.47	1.90
Bloomberg Intermediate Treasury	2.49	2.49	5.35	1.76	-0.06	1.74	1.35
Bloomberg Long Term US Treasury	4.67	4.67	1.26	-7.21	-7.89	-0.97	-0.57
Bloomberg U.S. Treasury TIPS 1-5Y	3.40	3.40	7.26	2.91	4.00	3.51	2.79
Bloomberg US Treasury US TIPS	4.17	4.17	6.17	0.06	2.36	3.04	2.51

U.S. Corporate Credit

Bloomberg US Corp IG	2.31	2.31	4.90	1.14	1.51	2.48	2.43
Morningstar LSTA US LL TR USD	0.48	0.48	6.86	7.21	8.96	5.31	4.98
BofAML US HY Master II	0.94	0.94	7.60	4.84	7.21	4.80	4.92
BofAML US HY BB-B Constrained	1.16	1.16	6.69	4.47	6.55	4.70	4.71
BofAML US Corporate AAA	2.60	2.60	2.97	-1.34	-1.62	1.52	1.68
BofAML US Corporate AA	2.42	2.42	4.23	0.12	-0.10	1.70	1.73
BofAML US Corporate A	2.42	2.42	5.03	1.18	0.97	2.35	2.25
BofAML US Corps BBB	2.29	2.29	5.72	2.05	2.91	2.99	2.93
BofAML US High Yield BB	1.45	1.45	6.66	4.33	6.33	4.93	4.88
BofAML US High Yield B	0.70	0.70	6.73	4.56	6.91	4.46	4.55
BofAML US High Yield CCC	-0.67	-0.67	13.73	7.08	11.60	4.92	5.87

Securitized

Bloomberg ABS	1.53	1.53	5.90	3.51	2.37	2.61	2.18
Bloomberg MBS	3.06	3.06	5.39	0.55	-0.69	1.10	1.11
Bloomberg CMBS	2.57	2.57	6.46	2.22	1.26	2.53	2.17

Municipals

Bloomberg Municipal	-0.22	-0.22	1.22	1.53	1.07	2.07	2.13
Bloomberg Muni 1-10	0.81	0.81	2.32	2.07	1.30	1.90	1.70

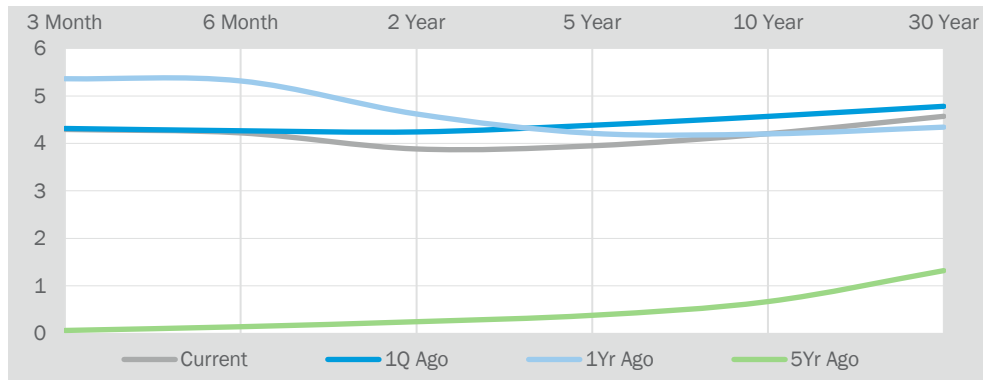
Global

Bloomberg Global Aggregate TR Hdg USD	1.17	1.17	4.59	1.55	0.42	1.92	1.94
Bloomberg Gbl Agg Ex USD	2.53	2.53	1.46	-3.47	-2.35	-2.18	-0.18
FTSE WGBI	2.57	2.57	2.10	-2.89	-2.97	-1.51	-0.05

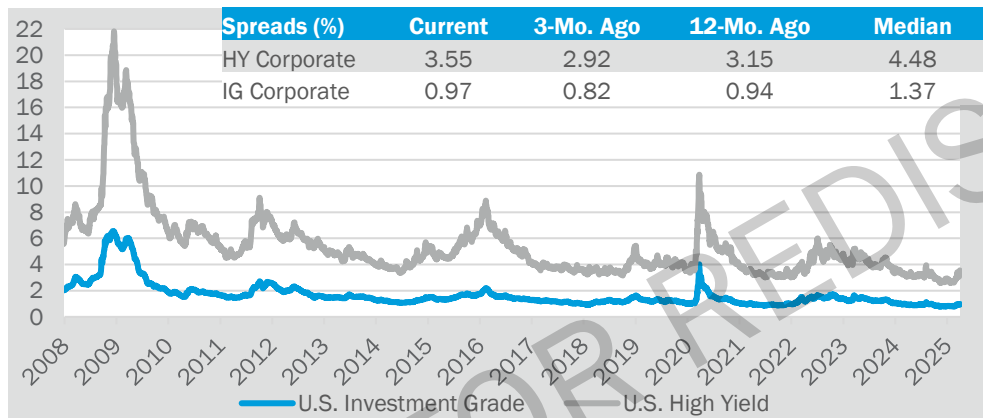
Market Environment as of March 31, 2025

Fixed Income

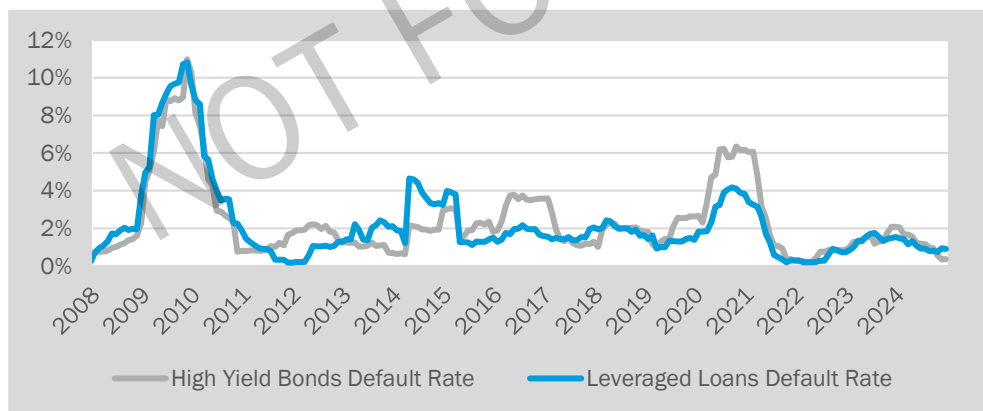
U.S. Treasury Rates (%)



Corporate Spreads (%)



Default Rates (%)



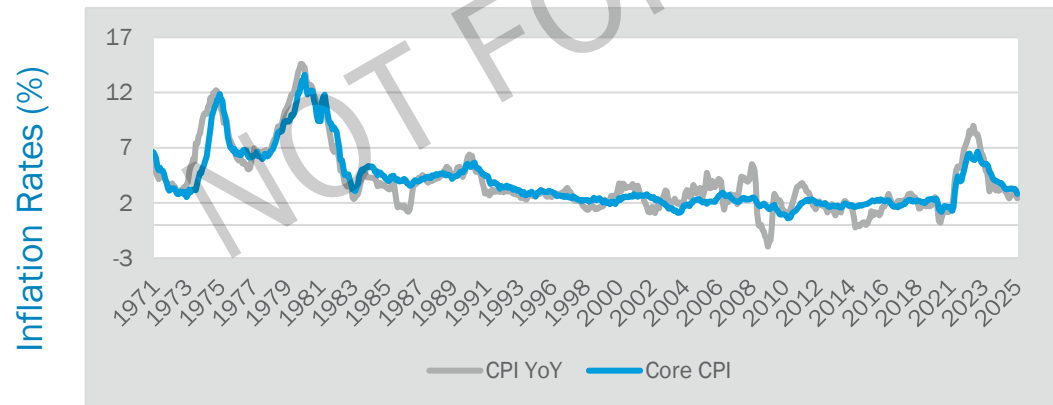
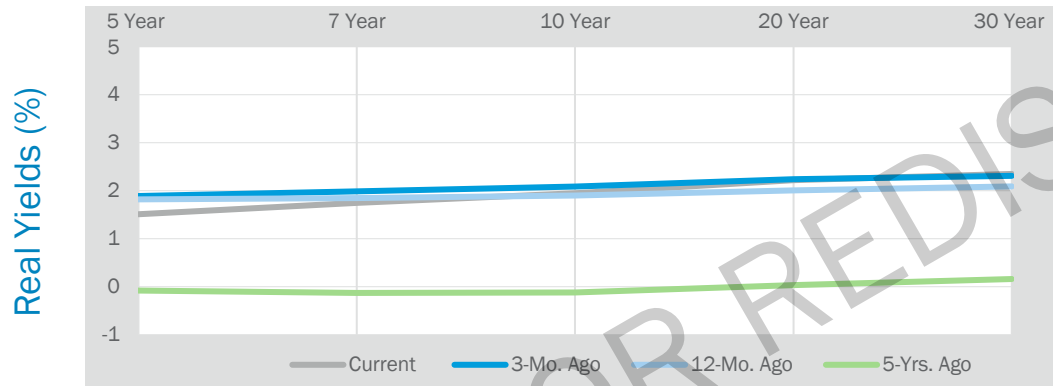
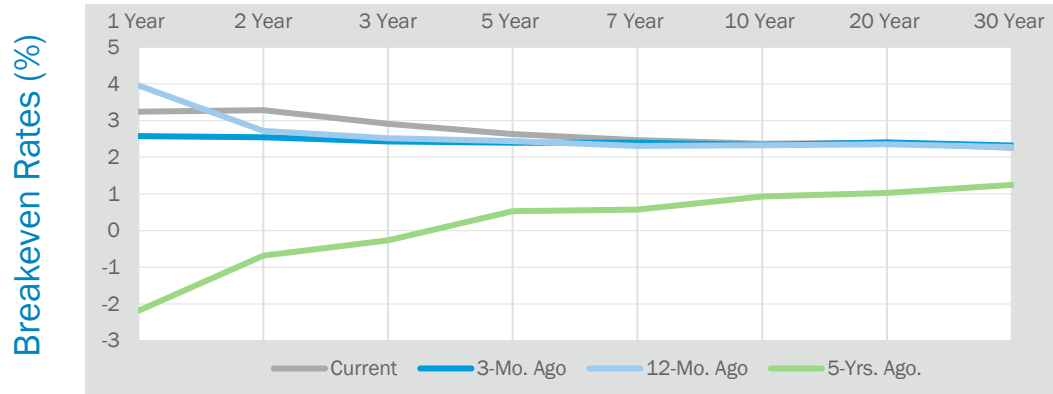
- In the first quarter, the Federal Reserve maintained the target Fed funds rate in the 4.25% – 4.50% range.
- At the March FOMC meeting, Chair Powell highlighted solid economic growth, a stable labor market with low unemployment, and moderating inflation as signs of progress, even though inflation remains above the 2% target.
- In its latest economic outlook, the Fed revised inflation and unemployment expectations upward, while growth projections were revised downward. Given the persistence of inflation and increased uncertainty across the economic landscape and capital markets, the Federal Reserve signaled that fewer rate cuts are expected in 2025.
- During the quarter, the yield curve flattened relative to the prior quarter, as long-term rates declined more significantly than short-term rates, reflecting lower growth expectations.
- Investment-grade (IG) and high-yield (HY) credit spreads widened over the quarter but remained well below their long-term median levels. [1]

Sources: Federal Reserve Bank of St. Louis, U.S. Treasury Department. Data as of 3/31/2025. S&P LCD Lev Loan Defaults, JP Morgan HY Bond Defaults, Data as of 3/31/2025.

[1] BofA IG & HY spreads data starting Jan 2006

Market Environment as of March 31, 2025

Fixed Income



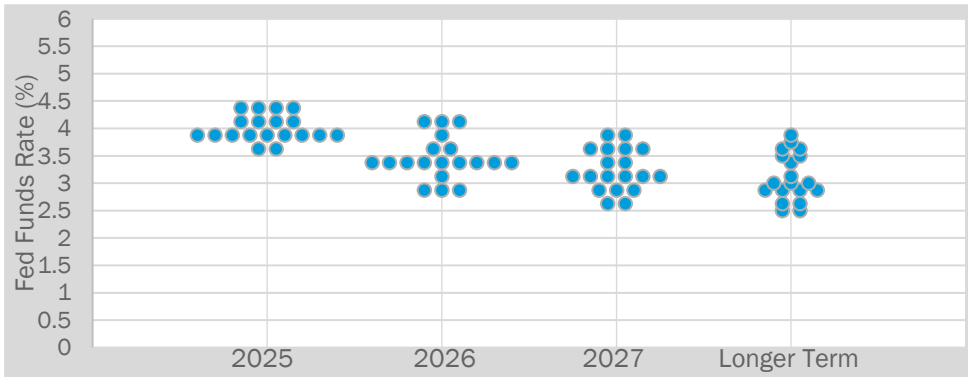
- Front-end breakeven inflation rates rose during the quarter, while long-term breakeven rates remained relatively range-bound, hovering slightly above 2%. The breakeven rate is the implied inflation rate for a given maturity and is calculated by subtracting the real yield of a Treasury bond from the nominal yield.
- Breakeven rates currently imply that short-term inflation should trend around 3%, while intermediate-to-long-term breakevens imply that inflation should run marginally above 2%.
- Real yields declined across most maturities, except for the 30-year, with real yields on 5- to 10-year maturities dipping back below 2%.
- Inflation slowed in the first quarter, with Core CPI dipping below 3% for the first time since early 2021. Lower gasoline prices contributed to the softer March reading, although grocery prices remain elevated.

Source: Federal Reserve Bank of St. Louis, Bureau of Labor Statistics CPI & PCE Data, U.S. Treasury Department, U.S. Treasury Inflation-Indexed Rates. Data as of 3/31/2025.

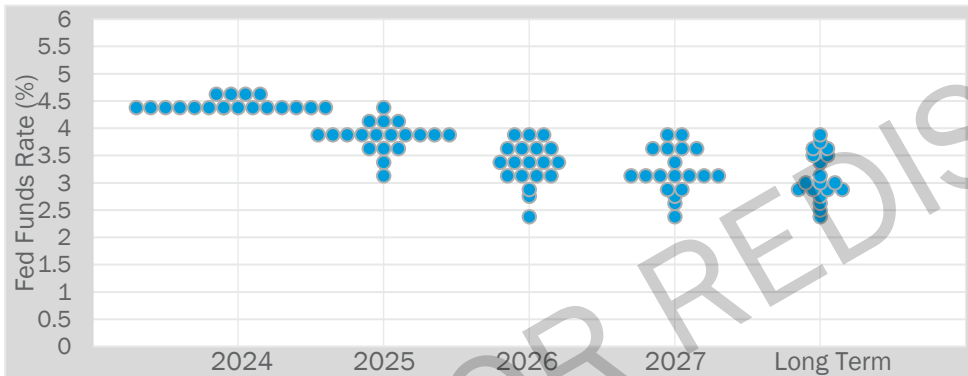
Market Environment as of March 31, 2025

Fixed Income

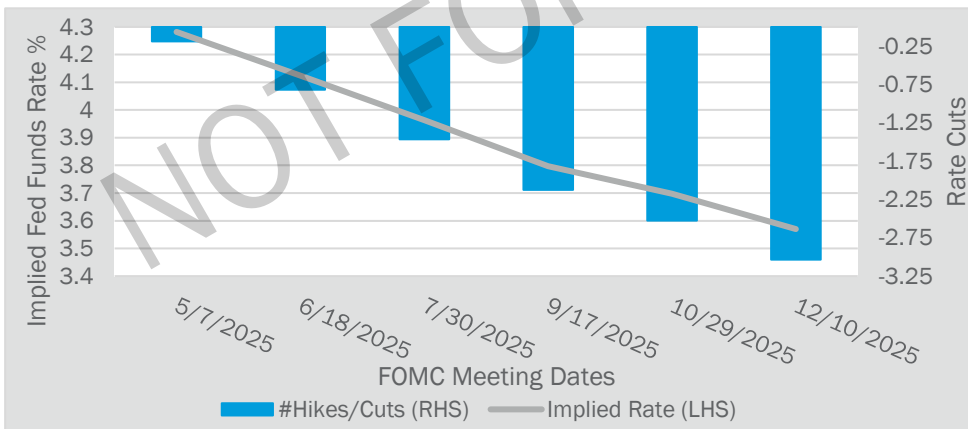
Fed Dot Plot
March 2025



Fed Dot Plot
December 2024



Implied Fed Funds Rate
& Rate Hike Probabilities



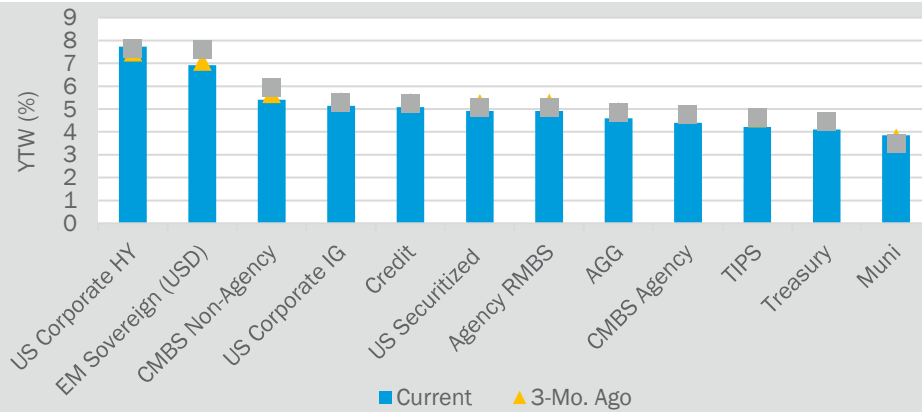
- The December Fed funds rate forecast projected only two rate cuts by the end of 2025. Projections from the March meeting remained unchanged, although there is notable disagreement among FOMC members amid heightened economic uncertainty.
- Market participants, as reflected in the Fed funds futures market, are currently pricing in approximately three 25 basis point rate cuts by the end of 2025.
- The Fed Dot Plot represents where each of the Federal Open Market 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: Board of Governors of the Federal Reserve System, Fed Funds Futures as of 3/31/2025.

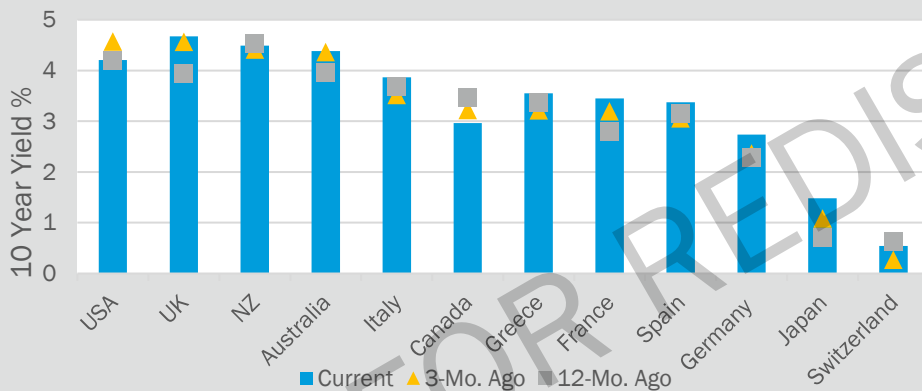
Market Environment as of March 31, 2025

Fixed Income

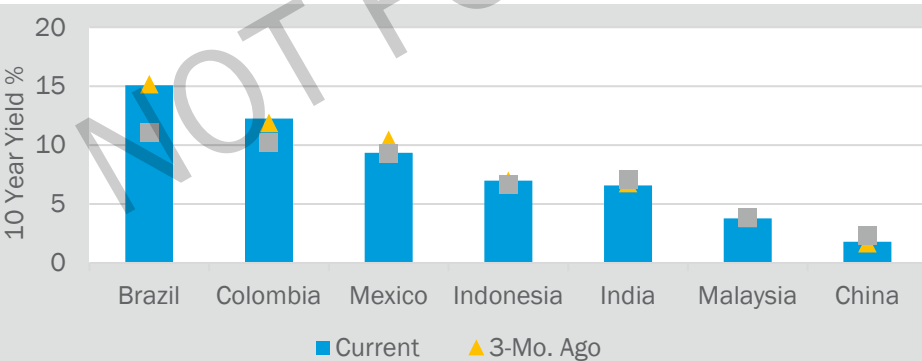
Domestic Yields



Developed Yields (Local Currency)



EM Yields (Local Currency)



- Yields moved in varying directions across U.S. fixed income sectors, driven by mixed economic sentiment and heightened uncertainty.
- Similarly, yields in global developed markets were mixed, with most countries experiencing increases due to revised growth and inflation outlooks. In contrast, sovereign yields in Canada and the United States moved lower, driven by weaker economic outlooks and uncertainties surrounding tariffs.
- Emerging market (EM) sovereign yields were volatile throughout the quarter but ultimately ended relatively flat. Yields on Mexican sovereign debt declined by approximately 107 basis points, largely due to expectations of slower growth stemming from U.S. trade policy.

Source: Bloomberg Indices. 10-year global sovereign yields. Data as of 3/31/2025.



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.



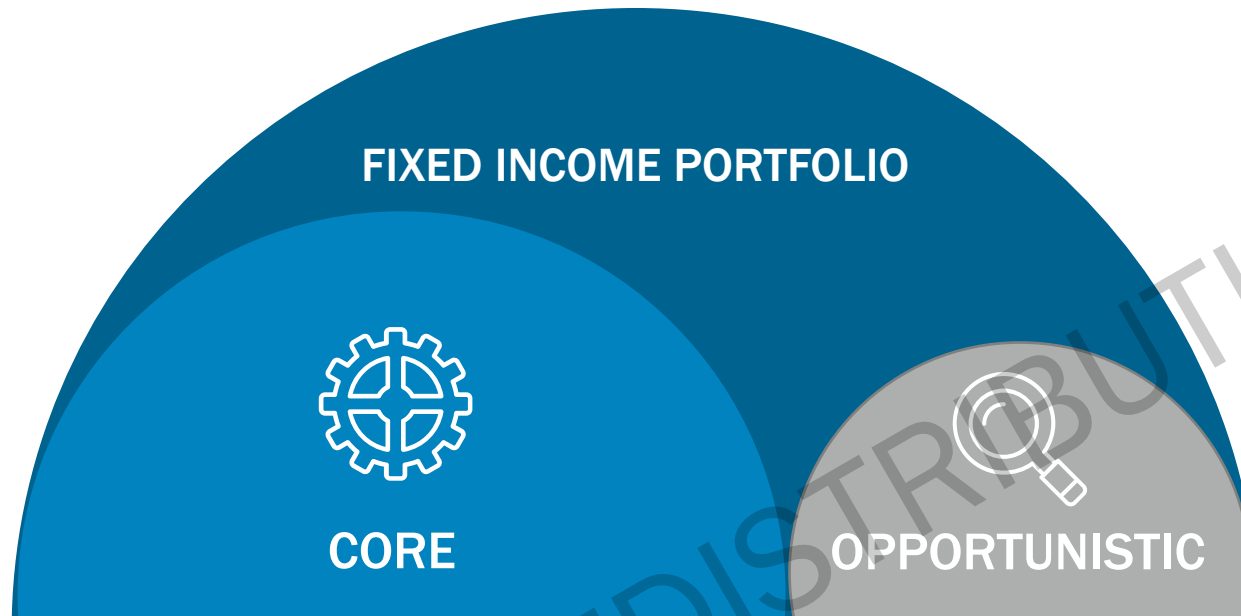
Tax Considerations

- 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