



Canterbury Consulting

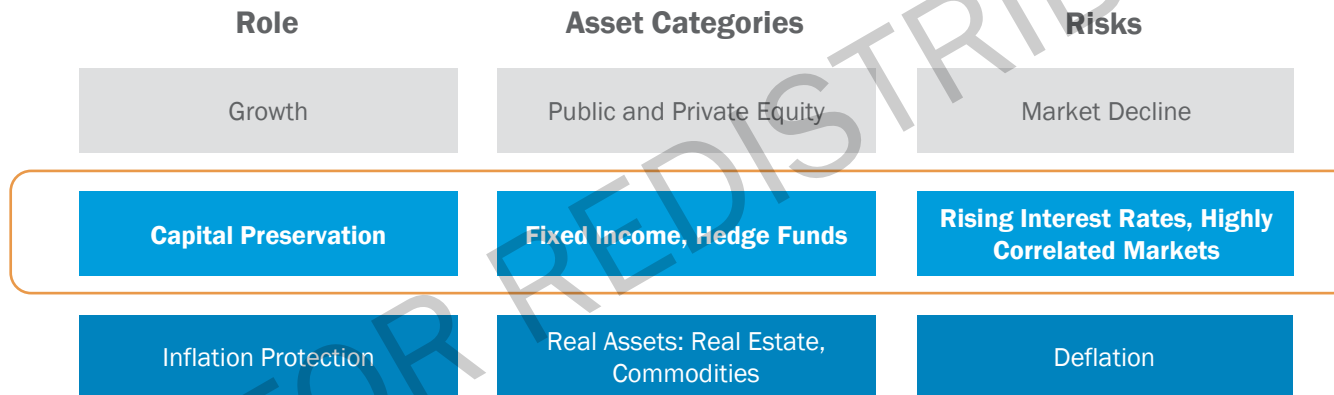
## Quarterly Asset Class Report Taxable Fixed Income

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December 31, 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. Portfolio diversification will depend on the client’s state of domicile and individual goals (i.e. income vs. capital preservation).

# Index Returns as of December 31, 2024

Fixed Income

	QTD (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	7 Years (%)	10 Years (%)
Bloomberg Global Aggregate	-5.10	-1.69	-1.69	-4.52	-1.96	-0.64	0.15
Bloomberg US Agg Bond	-3.06	1.25	1.25	-2.41	-0.33	0.97	1.35

## U.S. Treasuries

BofAML 3M US Treasury Note	1.17	5.18	5.18	3.89	2.48	2.38	1.79
Bloomberg Short Treasury	1.13	5.26	5.26	3.76	2.44	2.36	1.80
Bloomberg Intermediate Treasury	-1.70	2.42	2.42	-0.50	0.48	1.27	1.23
Bloomberg Long Term US Treasury	-8.62	-6.41	-6.41	-11.96	-5.20	-2.08	-0.64
Bloomberg U.S. Treasury TIPS 1-5Y	-0.49	4.38	4.38	1.55	3.15	3.03	2.49
Bloomberg US Treasury US TIPS	-2.88	1.84	1.84	-2.30	1.87	2.32	2.24

## U.S. Corporate Credit

Bloomberg US Corp IG	-3.04	2.13	2.13	-2.27	0.30	1.81	2.43
Morningstar LSTA US LL TR USD	2.27	8.95	8.95	7.00	5.86	5.46	5.15
BofAML US HY Master II	0.16	8.20	8.20	2.91	4.04	4.53	5.08
BofAML US HY BB-B Constrained	-0.17	6.84	6.84	2.46	3.64	4.36	4.87
BofAML US Corporate AAA	-4.86	-0.77	-0.77	-5.03	-1.26	0.74	1.62
BofAML US Corporate AA	-3.45	1.13	1.13	-3.22	-0.44	1.07	1.69
BofAML US Corporate A	-3.03	2.30	2.30	-2.08	0.25	1.65	2.23
BofAML US Corps BBB	-2.50	3.55	3.55	-1.57	0.88	2.35	2.94
BofAML US High Yield BB	-0.50	6.28	6.28	1.94	3.76	4.46	5.01
BofAML US High Yield B	0.34	7.55	7.55	3.10	3.57	4.29	4.75
BofAML US High Yield CCC	2.45	18.18	18.18	5.98	6.21	5.07	6.13

## Securitized

Bloomberg ABS	-0.05	5.02	5.02	1.98	2.01	2.34	2.12
Bloomberg MBS	-3.16	1.20	1.20	-2.13	-0.74	0.49	0.91
Bloomberg CMBS	-1.48	4.68	4.68	-0.57	0.99	1.97	2.07

## Municipals

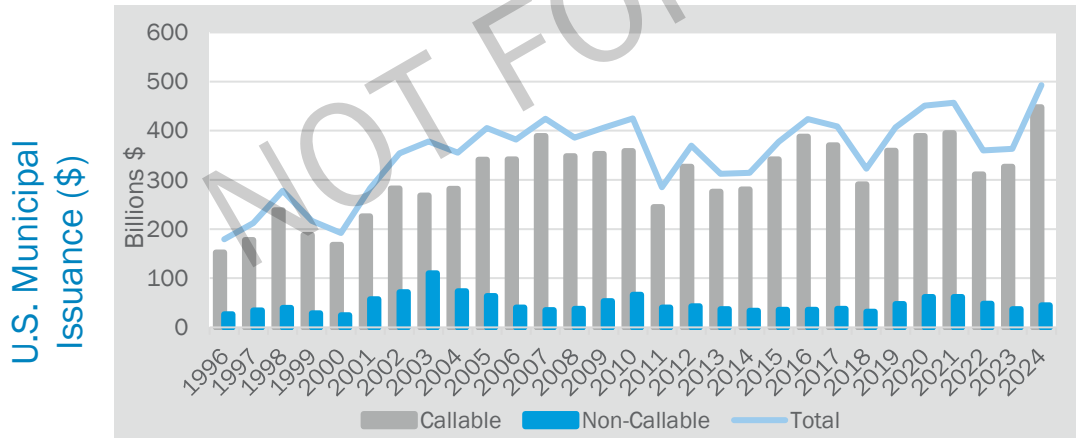
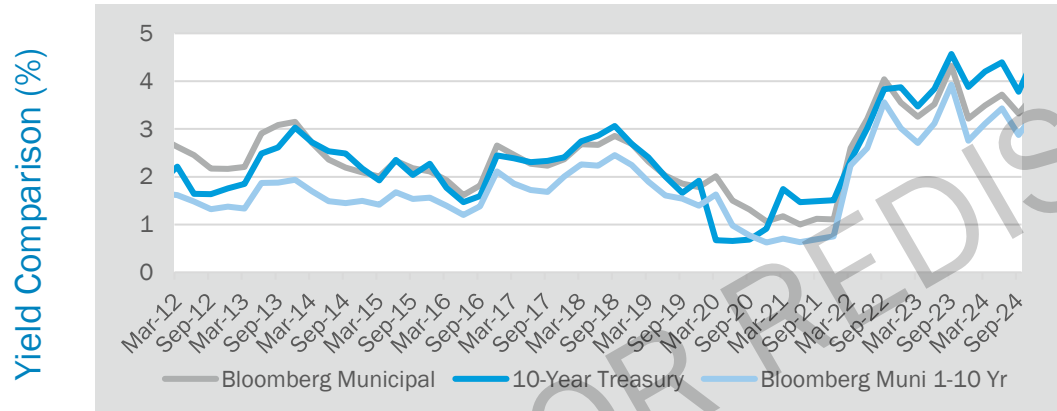
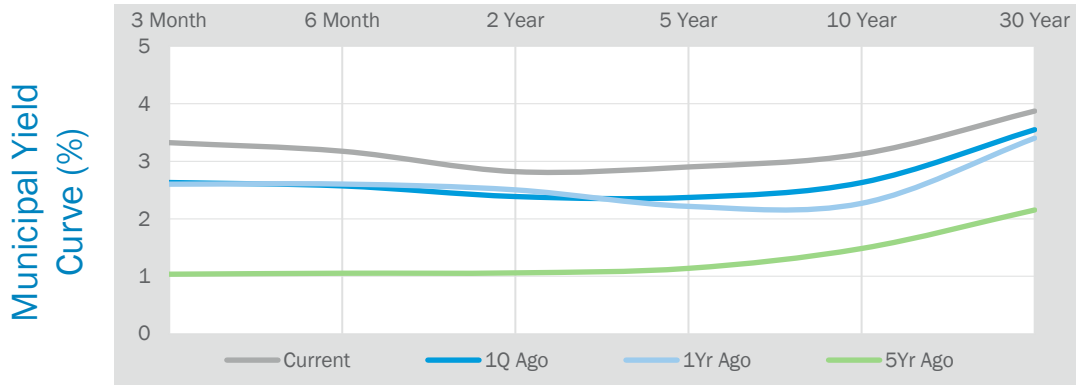
Bloomberg Municipal	-1.22	1.05	1.05	-0.55	0.99	1.94	2.25
Bloomberg Muni 1-10	-0.88	1.14	1.14	0.25	1.02	1.71	1.70

## Global

Bloomberg Global Aggregate TR Hdg USD	-0.95	3.40	3.40	-0.55	0.48	1.73	2.01
Bloomberg Gbl Agg Ex USD	-6.84	-4.22	-4.22	-6.28	-3.37	-2.03	-0.90
FTSE WGBI	-5.44	-2.87	-2.87	-5.83	-3.08	-1.52	-0.55

# Market Environment as of December 31, 2024

## Fixed Income

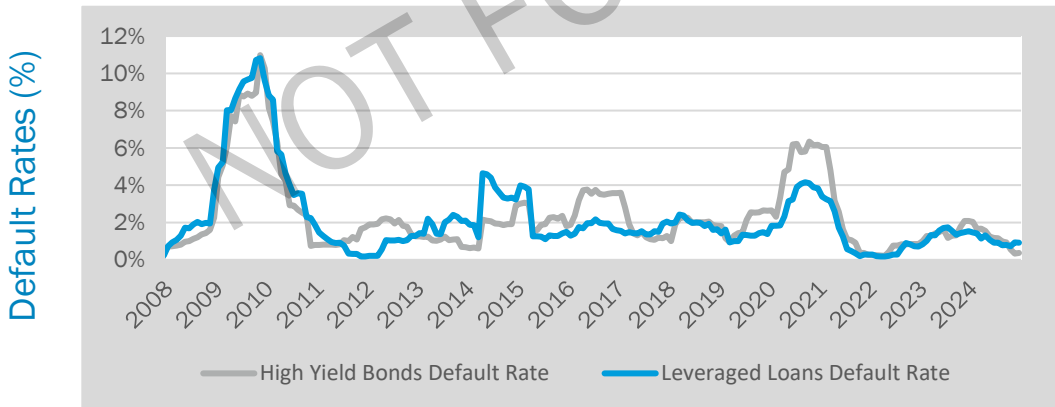
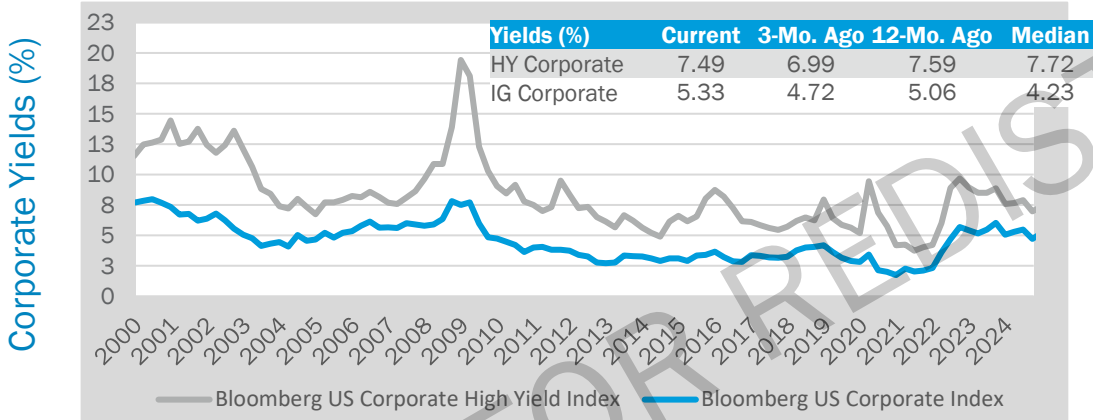
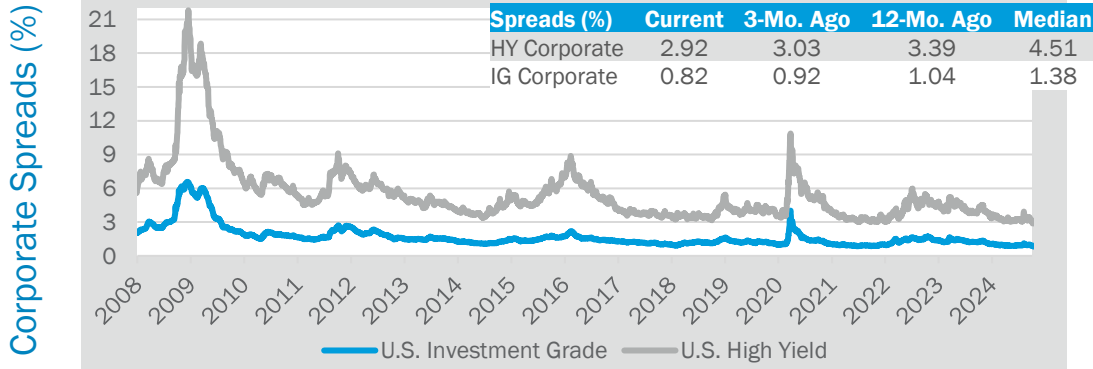


- In the fourth quarter, the Federal Reserve cut interest rates twice by 25 basis points (bps), bringing the target Fed funds range to 4.25%–4.50%.
- At the December FOMC meeting, Chair Powell noted that economic activity continued to expand at a solid pace, inflation remained elevated, labor market conditions had generally eased, and unemployment remained relatively low.
- In the Fed’s latest economic outlook, inflation expectations were revised upward, while the unemployment rate forecast was adjusted lower compared to the September FOMC meeting. Due to higher inflation expectations, the Federal Reserve indicated fewer rate cuts are anticipated in 2025.
- Rates across the municipal yield curve rose during the quarter reflecting higher inflation expectations.
- 2024 municipal bond issuance reached \$492 billion compared to \$363 billion in 2023, representing a 36% increase year over year.

Sources: Securities Industry and Financial Markets Association (SIFMA). U.S. Treasury Department, Bloomberg Indices. Data as of 12/31/2024

# Market Environment as of December 31, 2024

## Fixed Income



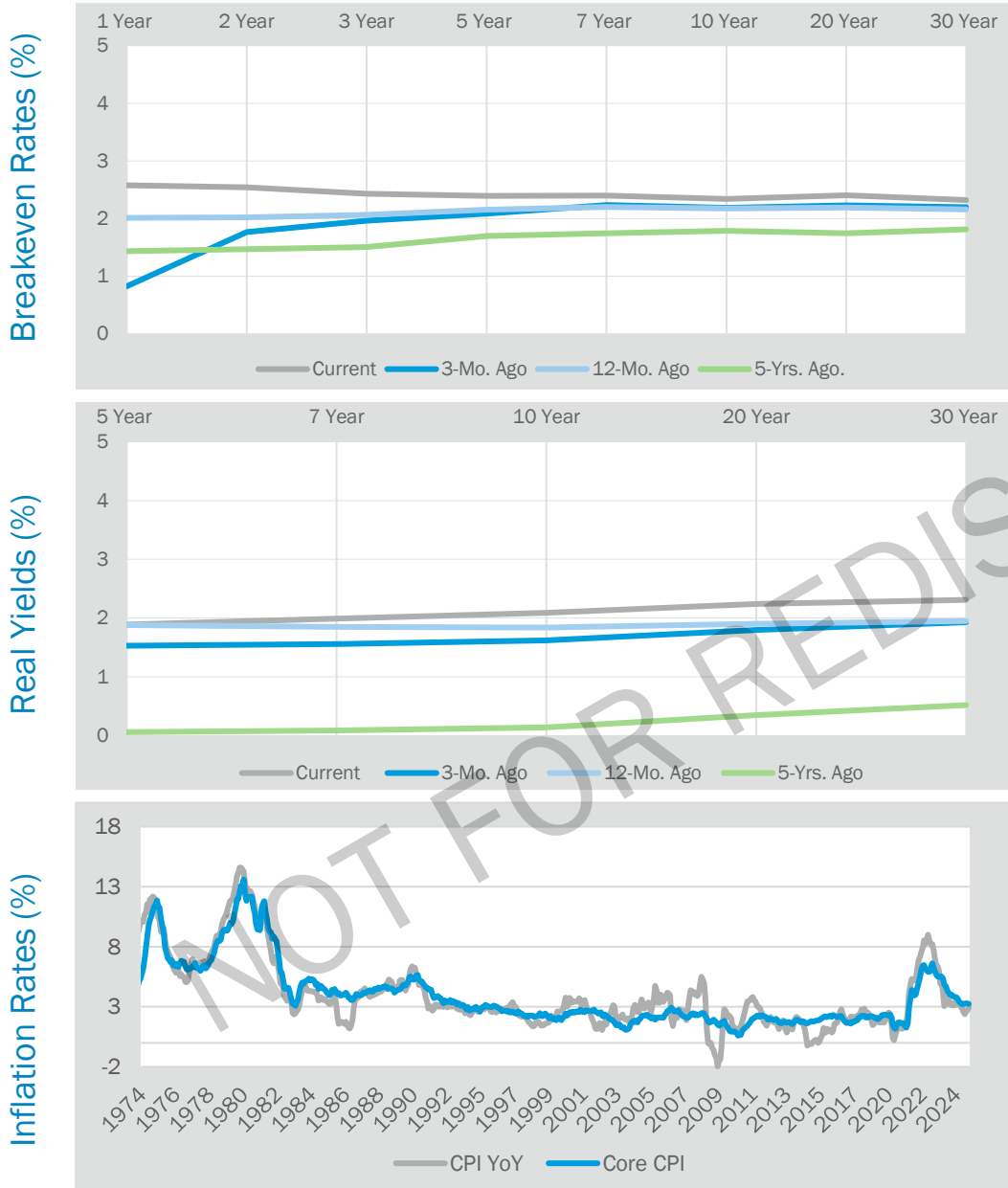
- Investment-grade (IG) and high-yield (HY) credit spreads tightened over the quarter, remaining well below their long-term median levels. [1]
- The yield for investment-grade and high-yield corporate bonds increased by 61 bps and 50 bps to 5.33% and 7.49%, respectively.
- Although corporate credit spreads remained below long-term medians, IG corporate credit yields continued to be modestly above historicals, whereas high yield was marginally below [2].

Sources: Federal Reserve Bank of St. Louis, U.S. Treasury Department. Data as of 12/31/2024. S&P LCD Lev Loan Defaults, JP Morgan HY Bond Defaults, Data as of 12/31/2024

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

# Market Environment as of December 31, 2024

## Fixed Income



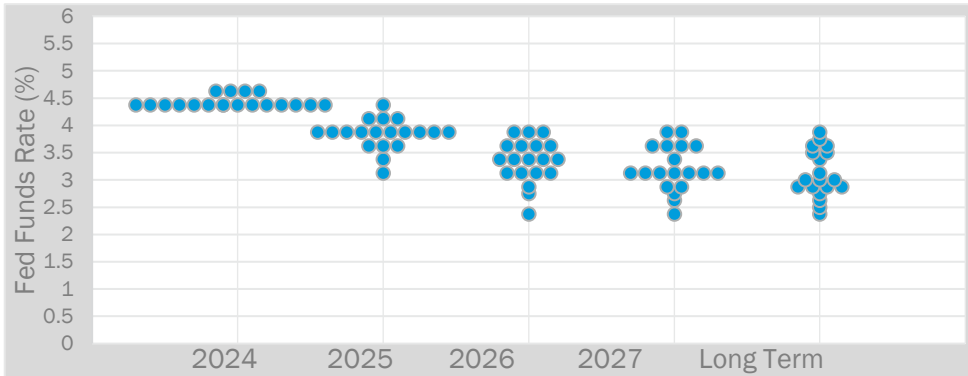
- Front-end breakeven inflation rates rose during the quarter, while long-term breakeven rates remained relatively range-bound around 2%. The breakeven rate is the implied inflation rate for a given maturity and is calculated by subtracting the real yield of a Treasury bond from the nominal yield.
- Breakeven rates currently imply that short-term inflation should trend above the Fed's inflation target of 2%, while intermediate-to-long-term breakevens imply that inflation should run marginally above 2%.
- Real yields from 5-year to 10-year maturities rose above 2%, likely due to rising inflation and economic growth expectations.
- Inflation continued to be driven by resilient economic growth, tight labor markets, elevated spending within services, and supply/demand imbalances in specific sectors.

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 12/31/2024.

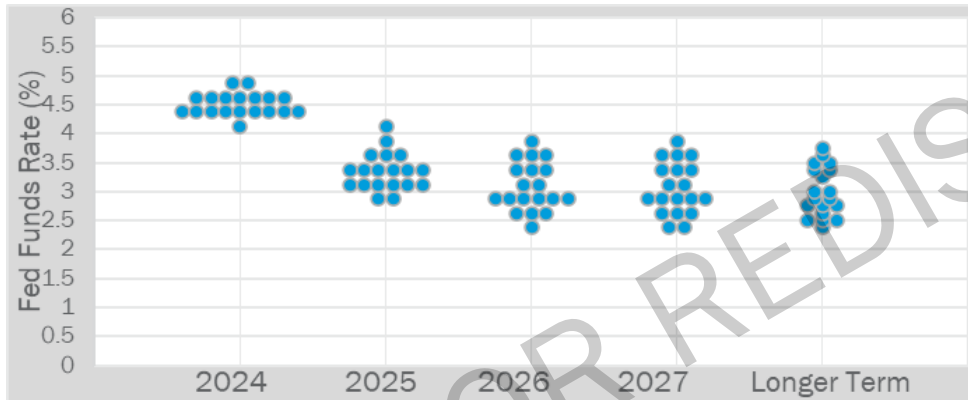
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## Fixed Income

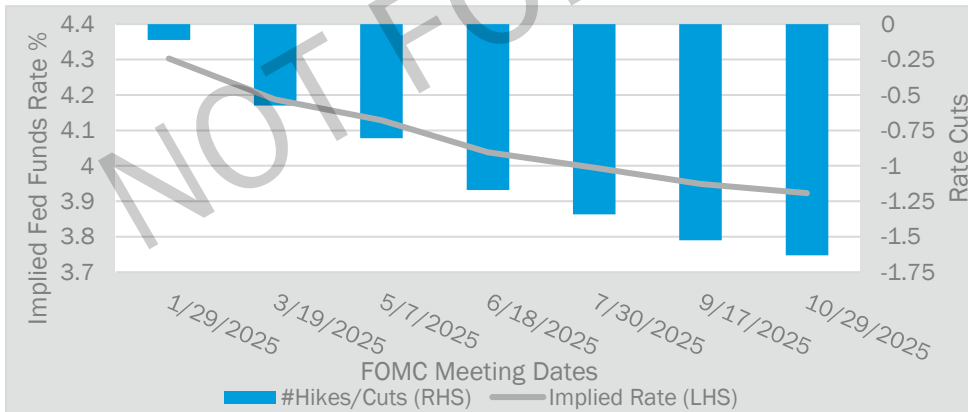
Fed Dot Plot  
December 2024



Fed Dot Plot  
September 2024



Implied Fed Funds  
Rate & Rate Hike



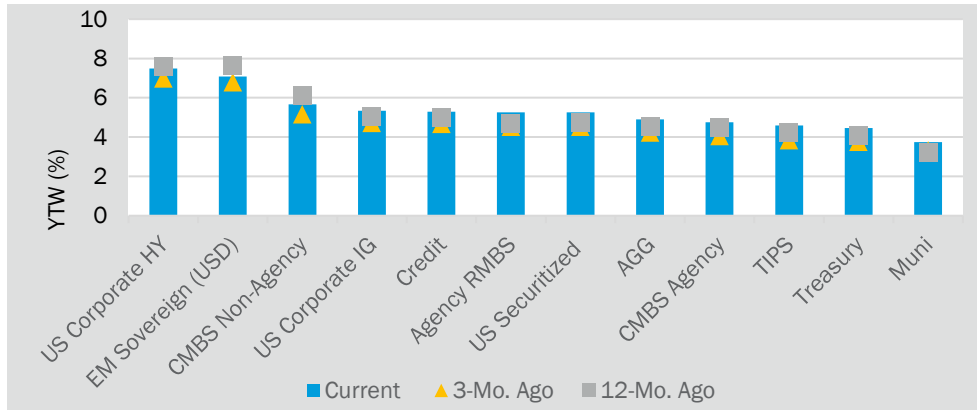
- The September Fed funds rate forecast indicated that we would be 4 cuts of 25 basis points by the end of 2025. The revised December forecast showed only 2 rate cuts by the end of 2025.
- Market participants, as represented by Fed funds futures market, showed an expectation of at least one rate cut of 25 bps 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 12/31/2024.

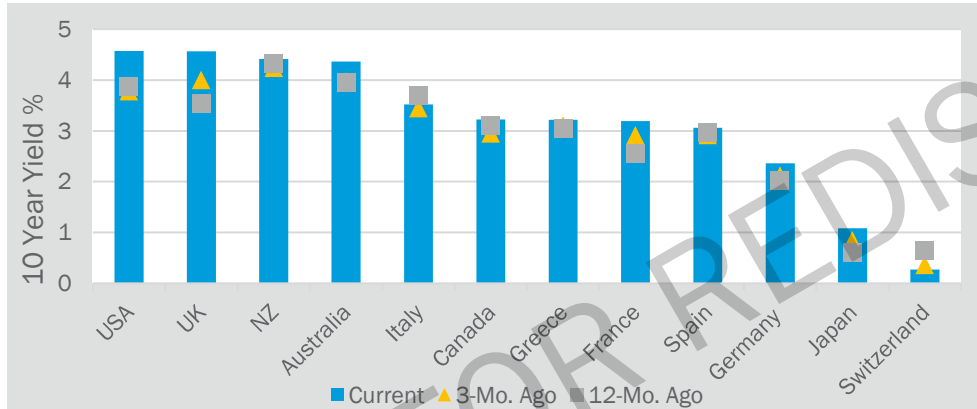
# Market Environment as of December 31, 2024

## Fixed Income

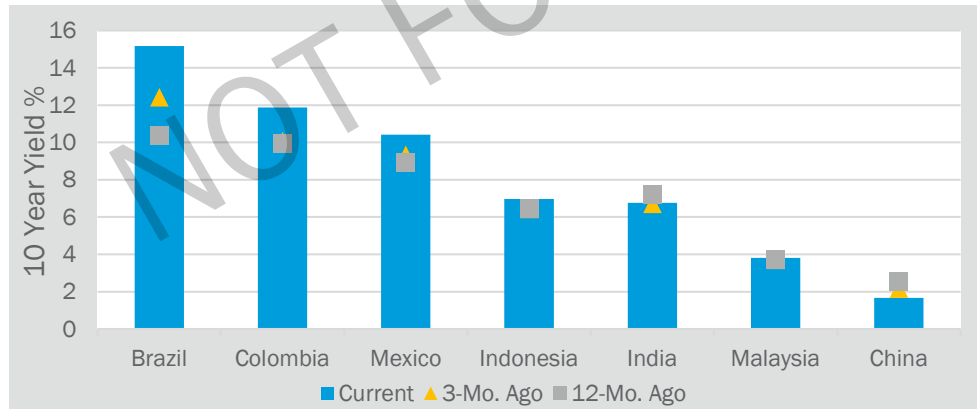
### Domestic Yields



### Developed Yields (Local Currency)



### EM Yields (Local Currency)



- Yields across various U.S. fixed income sectors rose marginally during the quarter, driven by positive economic sentiment surrounding the new administration.
- Global developed market yields remained largely flat, except in regions where inflation expectations, geopolitics, and fiscal policy pressures pushed long-term yields higher, such as the U.K., Australia, and France.
- Emerging market (EM) sovereign yields saw volatile intra-quarter movements but ultimately ended the quarter relatively flat. Brazil was an outlier, with sovereign yields rising due to higher inflation and concerns over the fiscal outlook.

Source: Bloomberg Indices. 10-year global sovereign yields. Data as of 12/31/2024.





## 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.



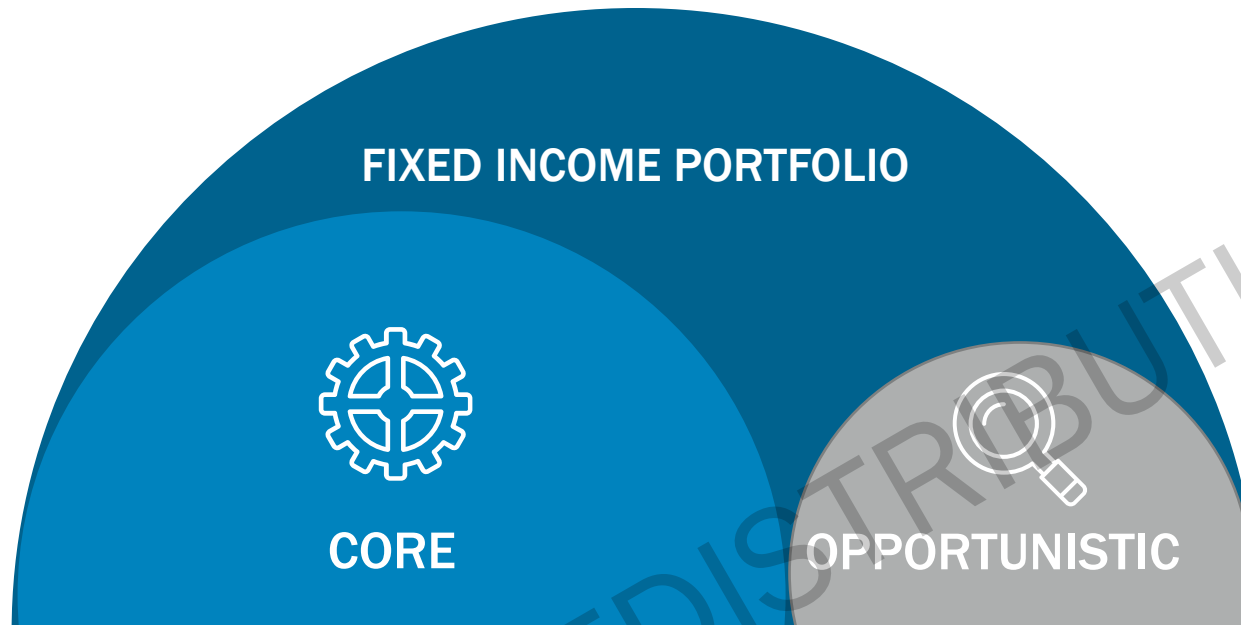
## Tax Considerations

- 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