



Canterbury Consulting

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## Quarterly Asset Class Report Tax-Exempt Fixed Income

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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 capital and mitigate volatility
- Provide measured exposure to the diverse universe of fixed income securities
- Exhibit returns uncorrelated to equity markets

Role	Asset Categories	Risks
Growth	Public and Private Equity	Market Decline
<b>Capital Preservation</b>	<b>Fixed Income, Hedge Funds</b>	<b>Rising Interest Rates, Highly Correlated Markets</b>
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

- 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 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

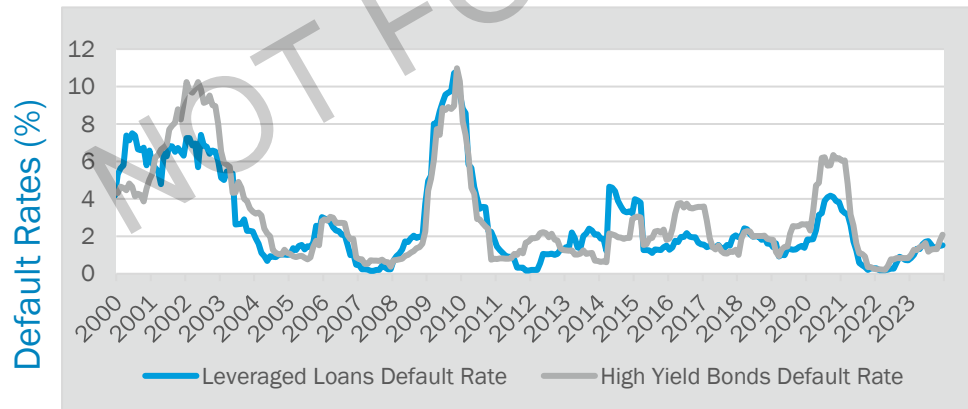
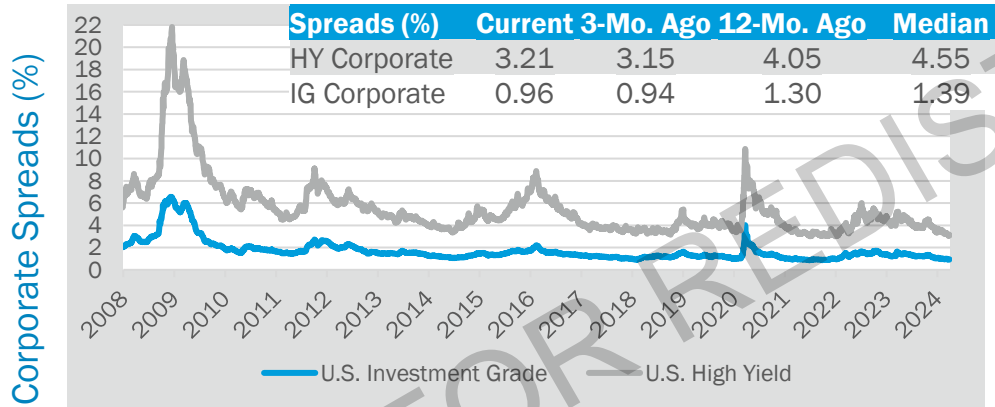
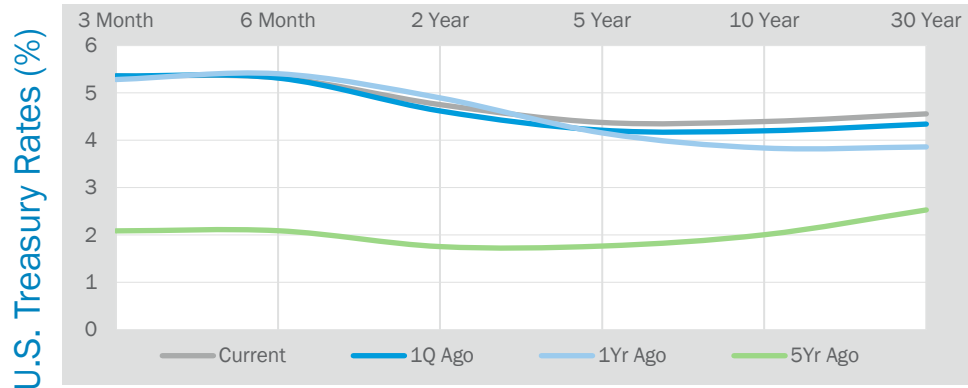
Bloomberg Municipal	-0.02	-0.40	3.21	-0.88	1.16	1.99	2.39
Bloomberg Muni 1-10	-0.31	-0.67	2.31	-0.31	0.97	1.48	1.63

## 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



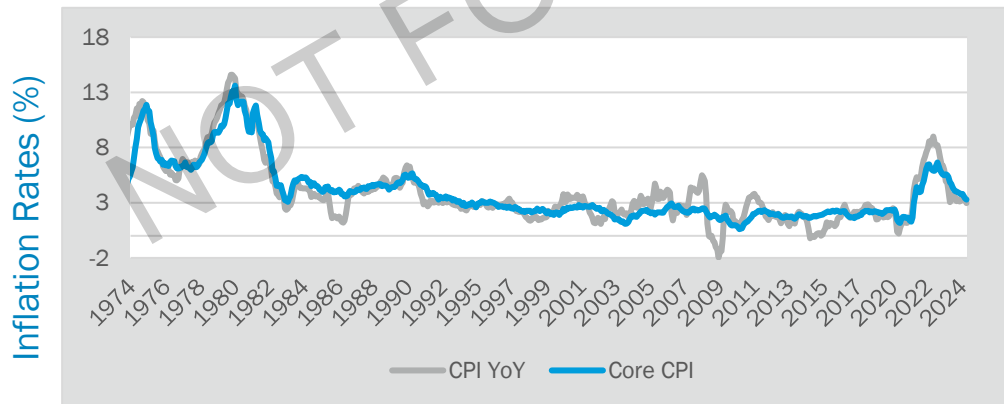
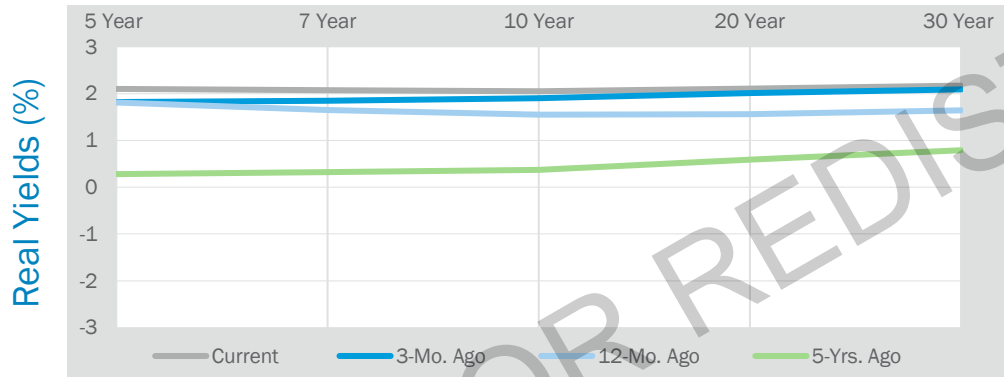
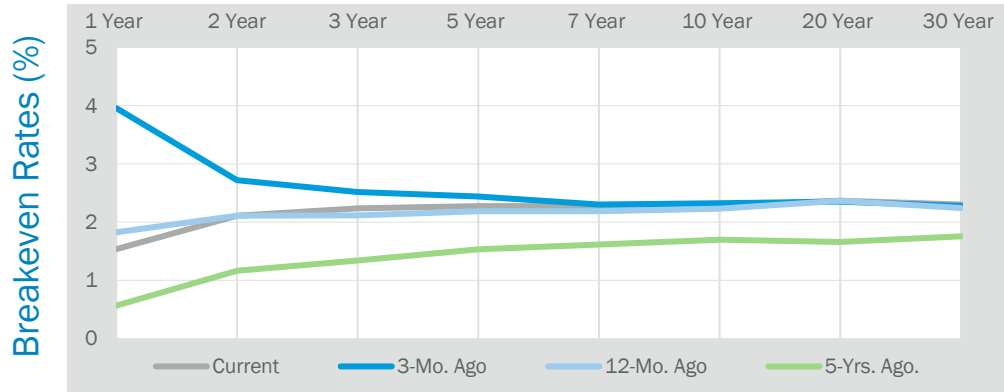
- In the second quarter, the Federal Reserve kept rates unchanged at a range between 5.25% - 5.50% as inflation continued to remain elevated.
- During the June FOMC meeting, Powell commented that inflation is making progress in the right direction but needs to see more good data come in before cutting 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.
- Intermediate-to-long-term treasury yields marginally increased over the quarter on the back of positive U.S. economic growth sentiment.
- Investment-grade (IG) and high-yield (HY) spreads marginally increased over the quarter and continued to remain well below long-term median levels [1].

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] BofA IG & HY spreads data starting Jan 2006

# Market Environment as of June 30, 2024

## Fixed Income



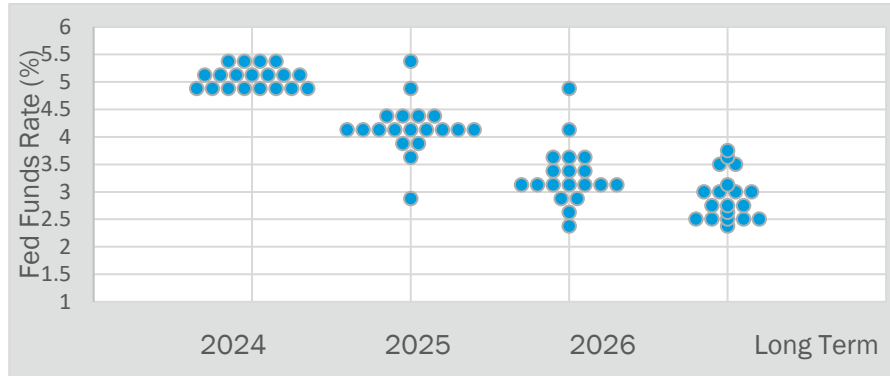
- Front-end breakeven inflation rates fell during the quarter while long-term breakeven rates remained steady at approximately 2%. The breakeven rate is the implied inflation rate for a given maturity and is calculated by subtracting the real yield of a treasury bond from the nominal yield.
- Breakeven rates currently imply that inflation should remain rangebound near the Fed's inflation target of 2% while intermediate-to-long-term breakevens imply that inflation should run slightly higher than the Fed's 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.

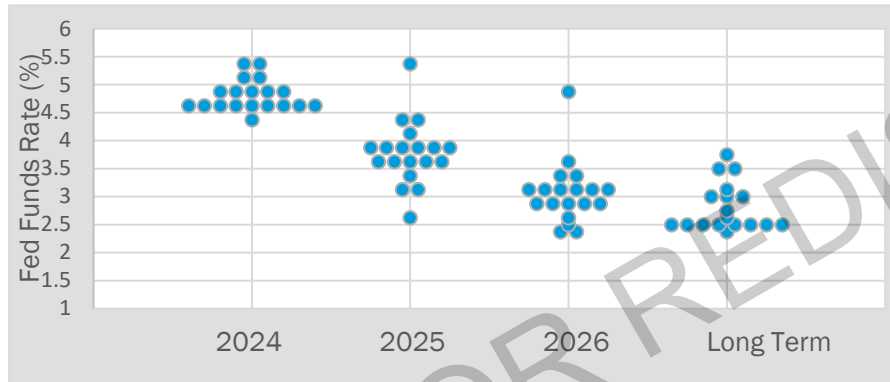
# Market Environment as of June 30, 2024

## Fixed Income

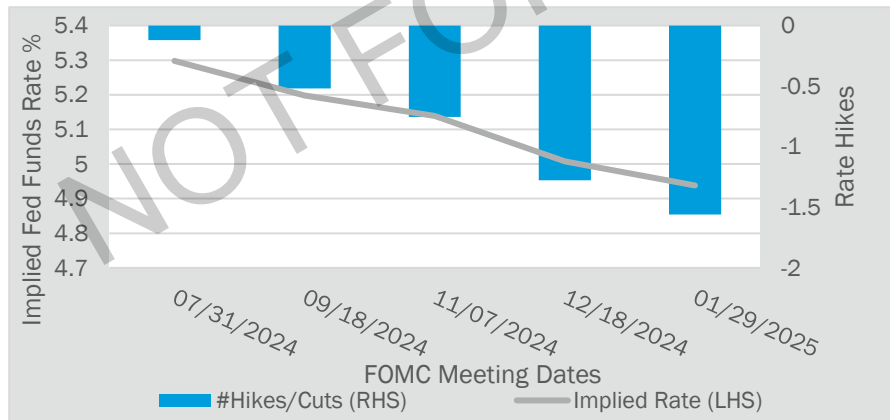
Fed Dot Plot  
June 2024



Fed Dot Plot  
March 2024



Implied Fed Funds Rate  
& Rate Hike Probabilities



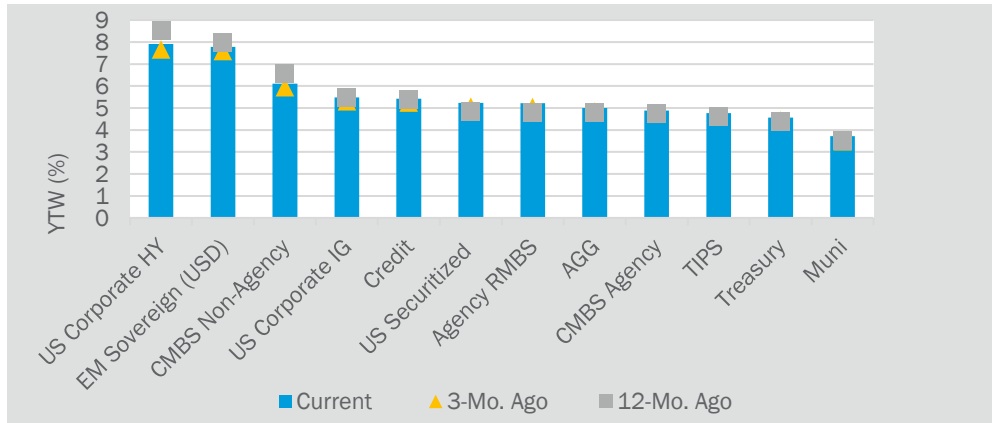
- The March Fed funds rate forecast showed that there would be approximately three to four rate cuts of 25 basis points (bps) by the end of 2024.
- As of the end of June, the Fed's updated dot plot showed an expectation of at least one rate cut of 25 basis points by the end of 2024.
- Market participants, 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.

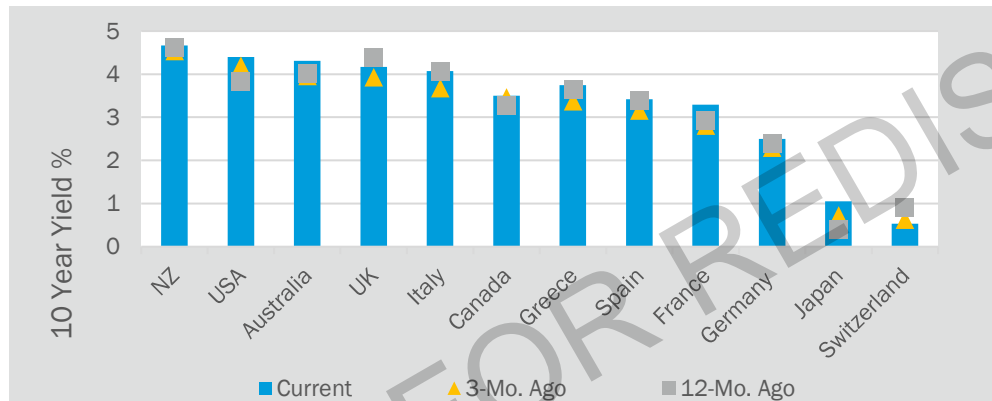
# Market Environment as of June 30, 2024

## Fixed Income

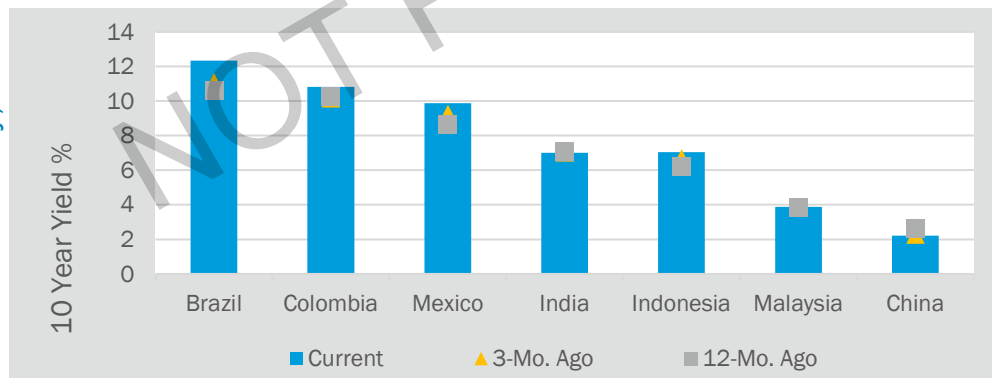
### Domestic Yields



### 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

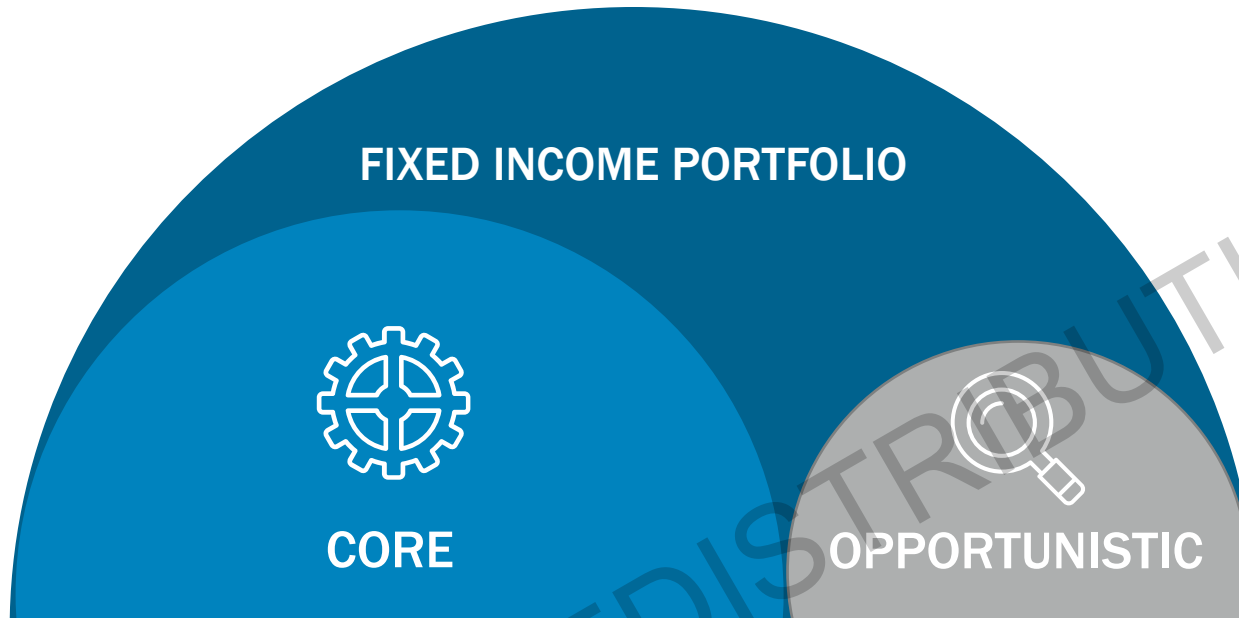
- Is the client's status taxable or tax-exempt?
- Does the client have a higher threshold given the respective tax situation?



## 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