



Canterbury Consulting

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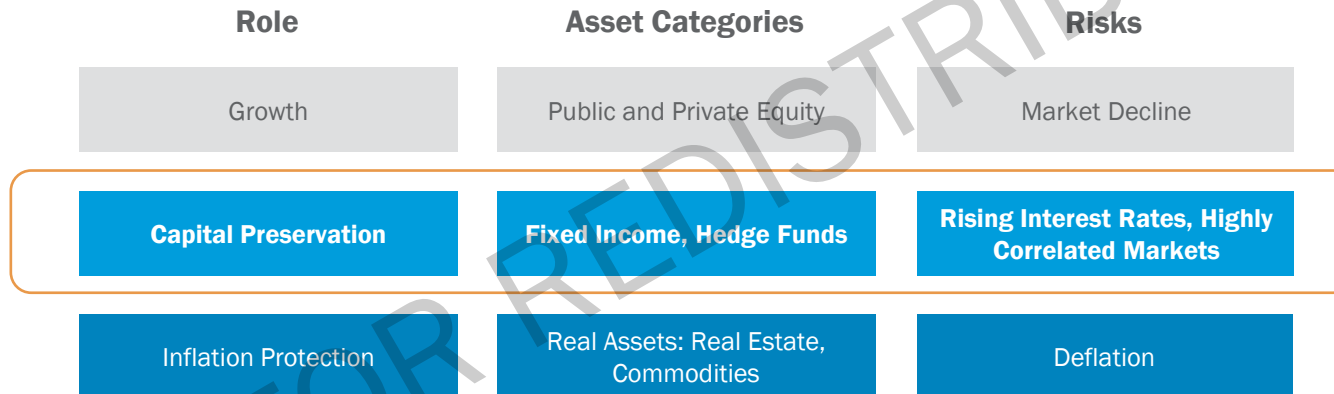
## Quarterly Asset Class Report Tax-Exempt Fixed Income

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September 30, 2023

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 September 30, 2023

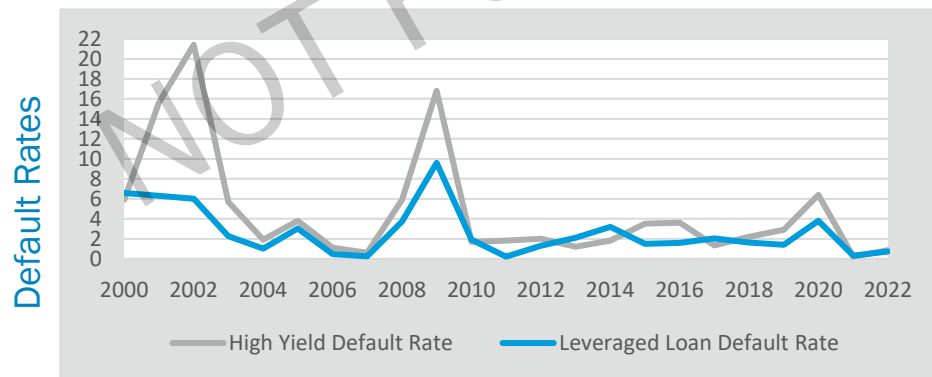
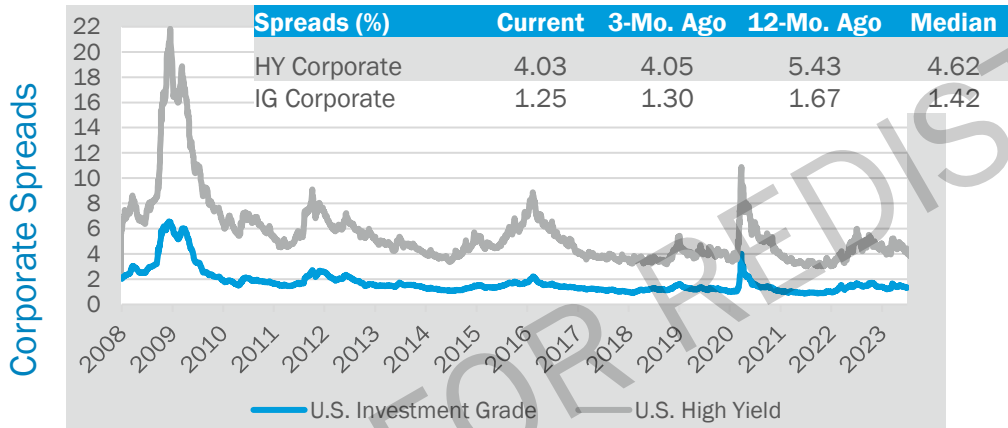
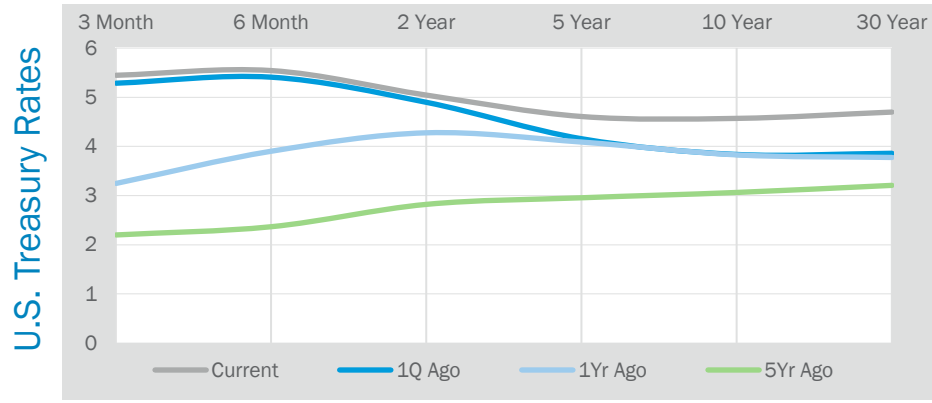
Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Bloomberg Global Aggregate	-3.59	-2.21	2.24	-6.93	-1.62	-1.53	-0.44
Bloomberg US Agg Bond	-3.23	-1.21	0.64	-5.21	0.10	-0.09	1.13
<b>U.S. Treasurys</b>							
BofAML 3M US Treasury Note	1.25	3.62	4.55	1.73	1.76	1.57	1.14
Bloomberg Short Treasury	1.33	3.57	4.45	1.53	1.71	1.53	1.14
Bloomberg Intermediate Treasury	-0.81	0.28	1.30	-3.21	0.68	0.20	0.80
Bloomberg Long Term US Treasury	-11.83	-8.55	-9.09	-15.73	-2.78	-3.41	0.75
Bloomberg U.S. Treasury TIPS 1-5Y	0.24	1.52	2.84	1.45	2.67	2.06	1.63
Bloomberg US Treasury US TIPS	-2.60	-0.78	1.25	-1.98	2.12	1.46	1.74
<b>U.S. Corporate Credit</b>							
Bloomberg US Corp IG	-3.09	0.02	3.65	-4.93	0.93	0.81	2.23
Morningstar LSTA Leveraged Loan	3.46	10.16	13.05	6.08	4.46	4.69	4.30
BofAML US HY Master II	0.53	5.97	10.19	1.82	2.80	3.69	4.16
BofAML US HY BB-B Constrained	0.23	5.10	9.65	1.28	2.94	3.54	4.16
BofAML US Corporate AAA	-5.18	-1.78	0.63	-7.59	0.20	0.04	1.78
BofAML US Corporate AA	-3.40	-0.58	2.08	-5.73	0.20	0.13	1.60
BofAML US Corporate A	-2.86	-0.06	3.05	-5.09	0.86	0.62	2.04
BofAML US Corps BBB	-2.37	1.12	5.22	-4.07	1.40	1.35	2.68
BofAML US High Yield BB	-0.34	3.82	8.32	0.86	3.43	3.63	4.50
BofAML US High Yield B	0.95	6.73	11.35	1.90	2.45	3.51	3.81
BofAML US High Yield CCC	2.83	12.91	14.18	5.39	0.97	3.99	3.87
<b>Securitized</b>							
Bloomberg ABS	0.25	1.99	2.81	-0.80	1.48	1.25	1.49
Bloomberg MBS	-4.05	-2.26	-0.17	-5.09	-0.77	-0.64	0.61
Bloomberg CMBS	-1.02	0.16	1.19	-3.77	0.99	0.57	1.43
<b>Municipals</b>							
Bloomberg Municipal	-3.95	-1.38	2.66	-2.30	1.05	0.92	2.29
Bloomberg Muni 1-10	-1.95	-0.69	2.16	-1.34	1.13	0.92	1.51
<b>Global</b>							
Bloomberg Global Aggregate TR Hdg USD	0.06	2.96	0.52	-2.88	0.93	0.84	2.11
Bloomberg Gbl Agg Ex USD	-4.00	-3.20	3.39	-8.39	-3.10	-2.77	-1.73
FTSE WGBI	-4.27	-2.68	1.04	-8.72	-2.57	-2.44	-1.19

as of 9/30/2023

# Market Environment as of September 30, 2023

## Fixed Income

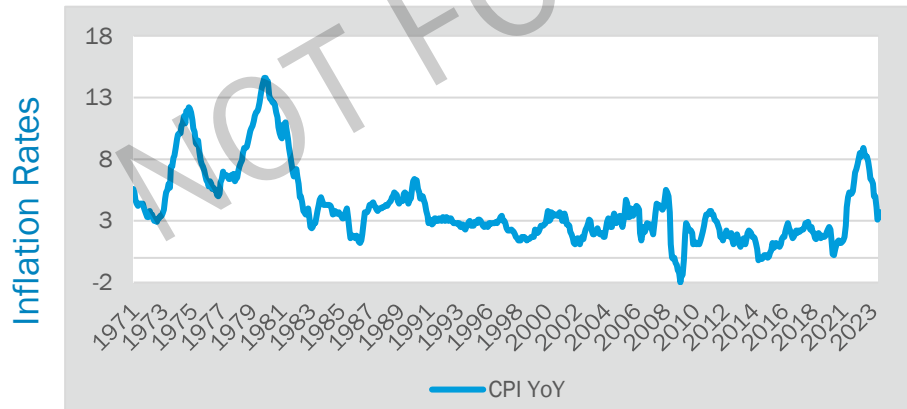
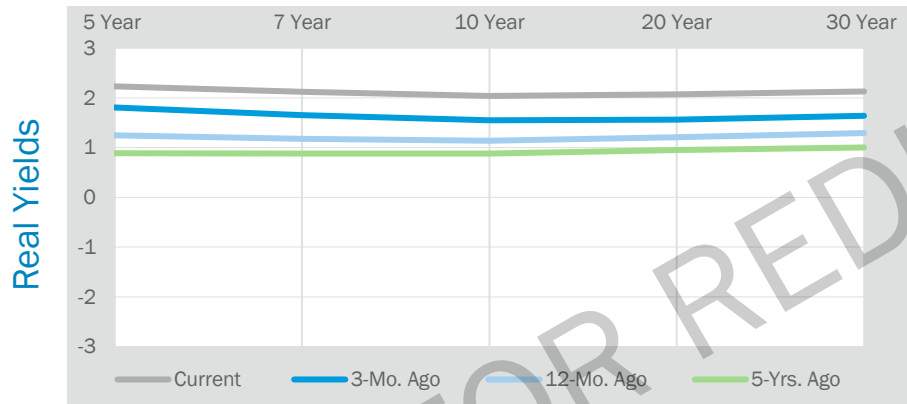
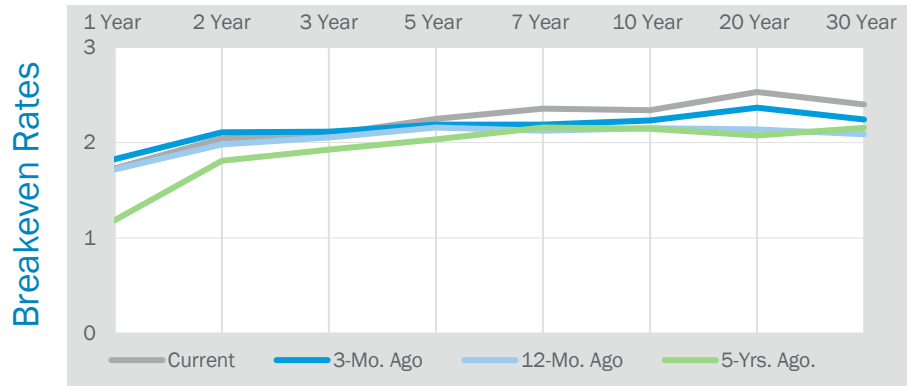


- Amid elevated inflation, the Federal Reserve raised the key interest rate by 25 basis points in July to a range of 5.25% - 5.50%.
- In September, the FOMC agreed to keep rates unchanged but kept an additional rate hike of 25 basis points (bps) on the table by the end of the year. The Fed revised their economic forecast higher given a stronger than anticipated growth outlook.
- The Fed announced that interest rates would likely stay higher for longer and revised their interest rate forecast to show less rate cuts in 2024. Two rate cuts of 25 bps are currently on the table compared to 4 rate cuts announced at the July FOMC meeting.
- The treasury yield curve increased across all maturities, primarily in the long-end of the curve. The Fed's announcement of higher for longer rates caused longer dated yields to rise.
- Investment grade (IG) spreads narrowed from 130 basis points (bps) to 125 bps, and high yield (HY) spreads narrowed from 405 bps to 403 bps over the quarter.

Sources: Federal Reserve Economic Data, U.S. Treasury Department. Data as of 09/30/2023. S&P LCD Lev Loan Defaults, JP Morgan HY Bond Defaults, Data as of 12/31/2022

# Market Environment as of September 30, 2023

## Fixed Income



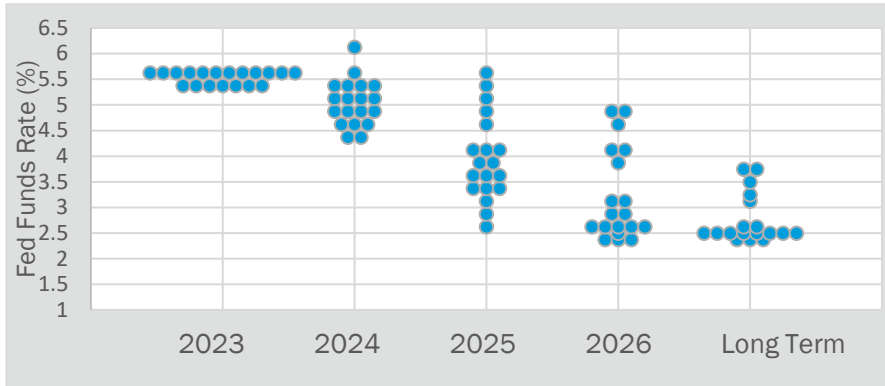
- Front-end breakeven inflation rates remained relatively unchanged while intermediate-to-long-term breakevens rose. The breakeven rate is the implied inflation rate for a given maturity and is calculated by subtracting the real yield of a treasury bond from the nominal yield.
- Breakeven rates currently imply that inflation should trend in line with the Fed's original inflation target of 2% in the near-term. Conversely, intermediate-to-long-term breakevens imply that inflation could trend higher than the Fed's inflation target.
- Real yields from the 5-year maturity and beyond increased, showing that nominal yields outpaced implied inflation.
- Inflation continues to be driven by supply/demand imbalances, economic growth, tight labor markets, and high wage growth.

Source: Bloomberg, FRED, CPI & PCE Data, U.S. Breakeven Rates, U.S. Treasury Inflation-Indexed Rates. Data as of 09/30/2023.

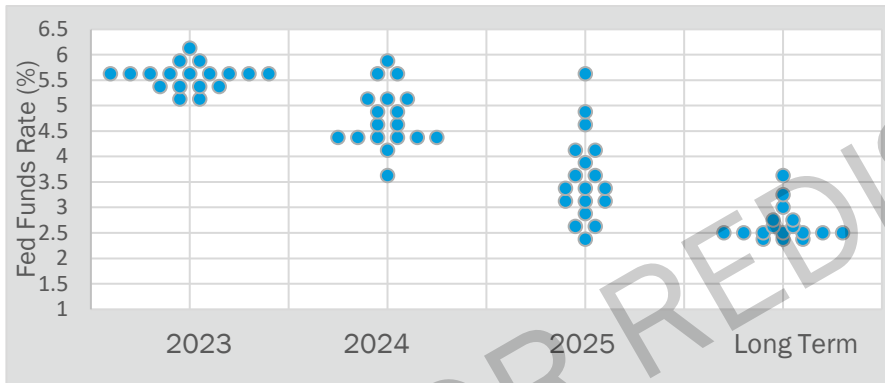
# Market Environment as of September 30, 2023

## Fixed Income

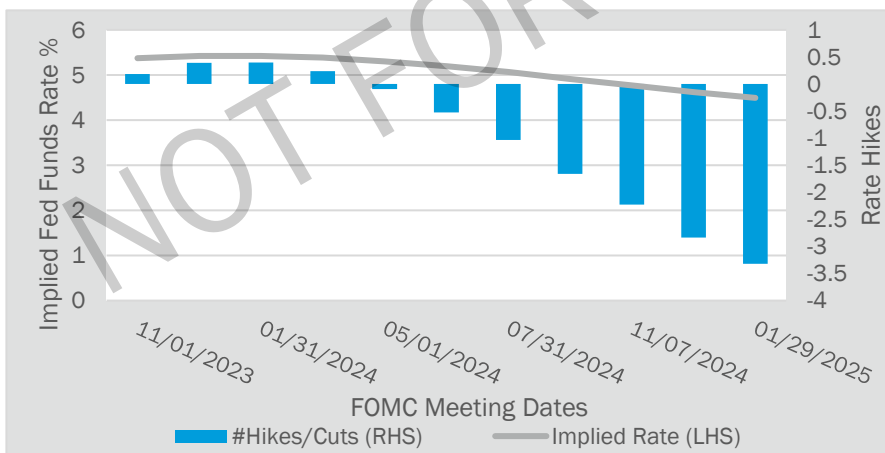
Fed Dot Plot  
September 2023



Fed Dot Plot  
June 2023



Implied Fed Funds Rate  
& Rate Hike Probabilities

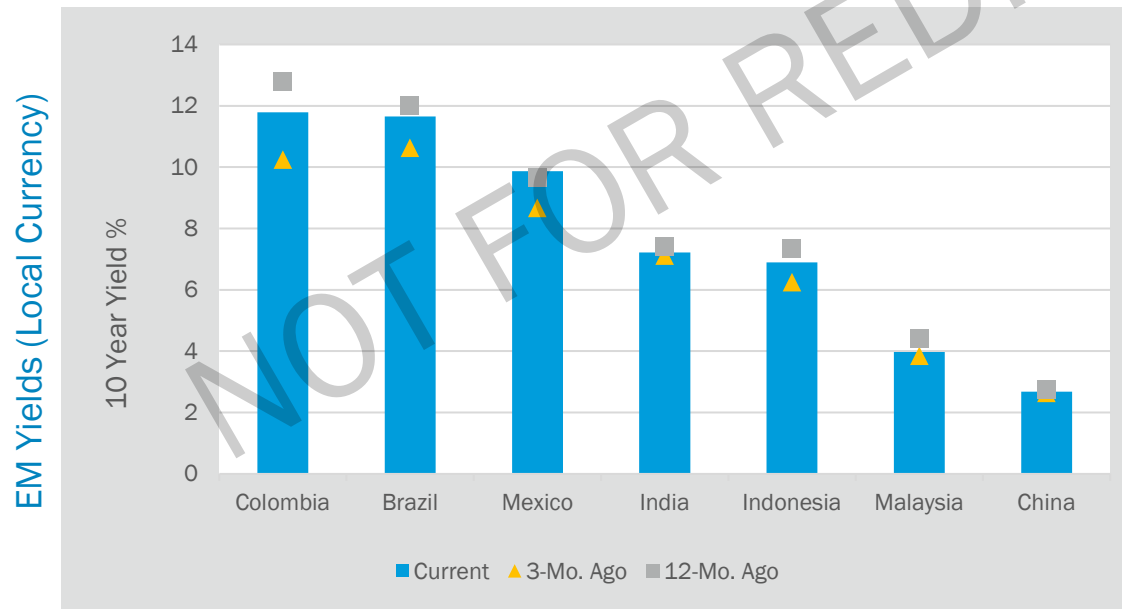
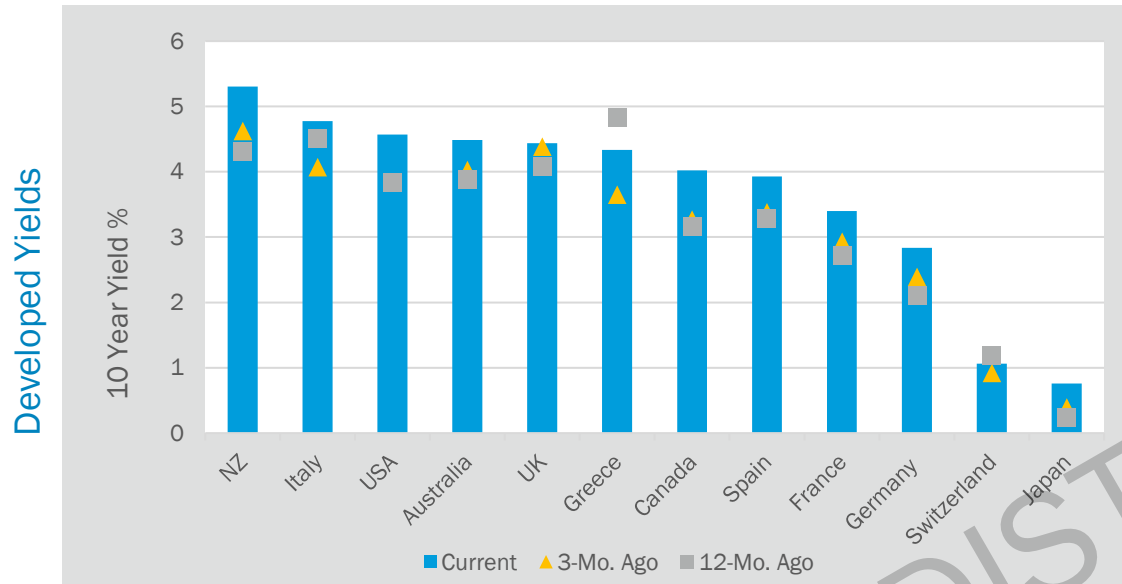


- The fed funds rate forecast for 2023 was left relatively unchanged at a range of 5.5% - 5.75%, as represented by the Fed Dot Plot. This implies one additional rate hike of 25 bps by the end of the year.
- As of the end of September, market participants expect the Fed to keep rates unchanged by the end of this year and start cutting interest rates by mid-2024.
- 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 09/30/2023.

## Market Environment as of September 30, 2023

## Fixed Income



- Global developed market yields generally rose as market participants expect a longer period of elevated rates than originally anticipated.
- Emerging markets (EM) sovereign yields also rose during the quarter as risk appetite fell on news that U.S. rates will likely stay higher for longer.
- The U.S. dollar generally appreciated against most developed and emerging market currencies due to positive growth momentum in the U.S.

Source: Bloomberg. Data as of 09/30/2023.



## 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

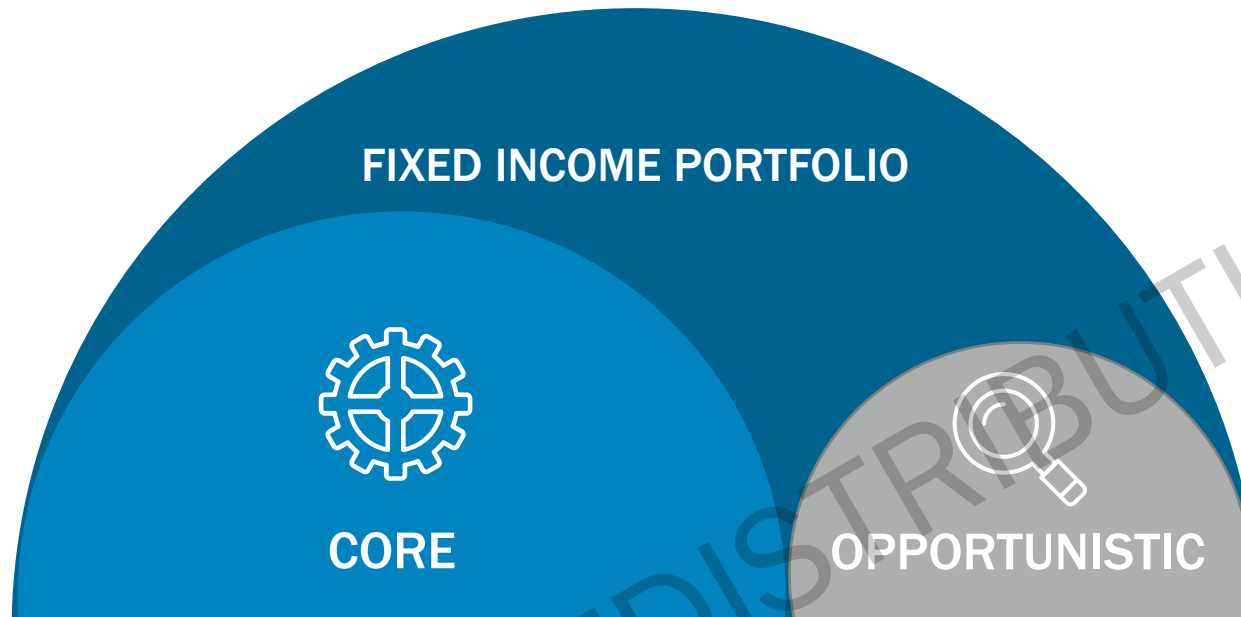
- Is the client's status taxable or tax-exempt?
- Does the client have a higher threshold given the respective tax situation?



## 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