Quarterly Asset Class Report
Taxable Fixed Income

canterburyconsulting.com

September 30, 2024

Role in the Portfolio

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

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

- 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).

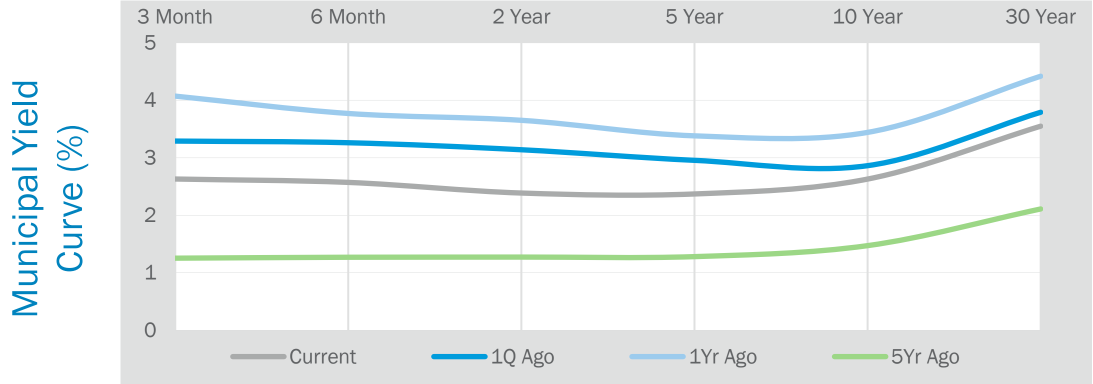
Index Returns as of September 30, 2024

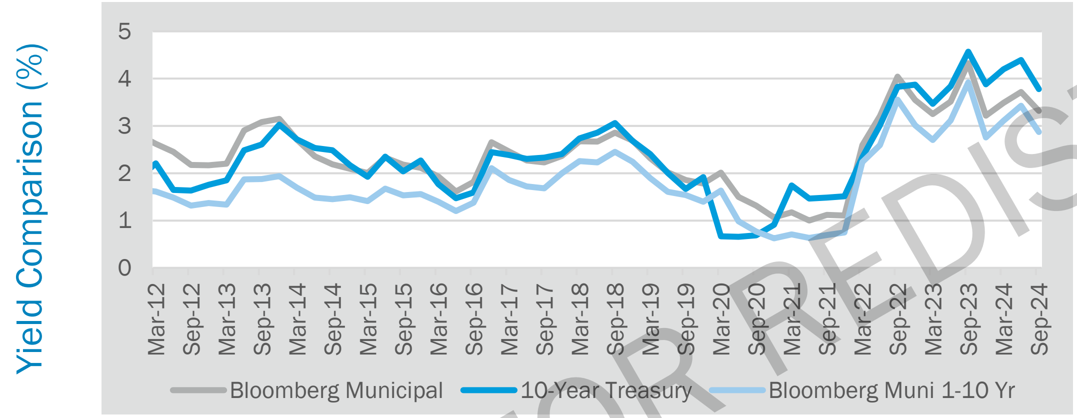
Fixed Income

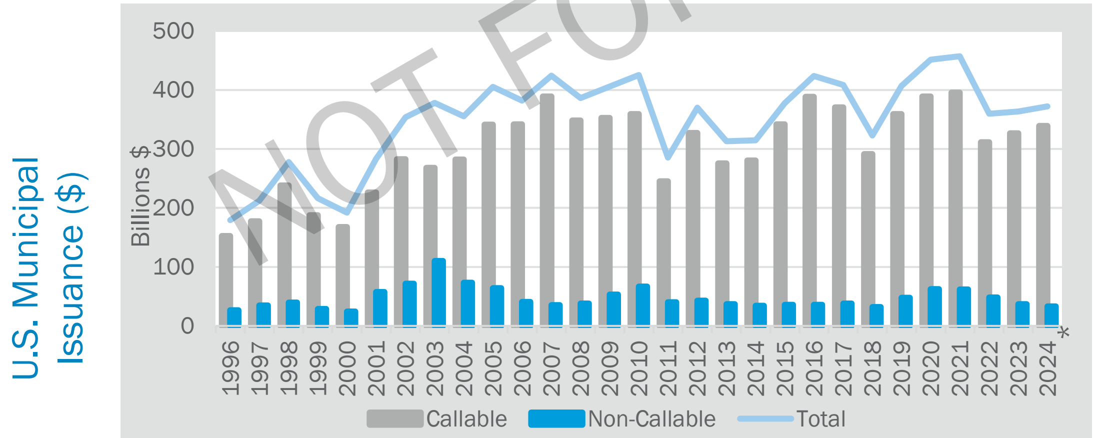
	QTD (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	7 Years (%)	10 Years (%)
Bloomberg Global Aggregate	**6.98**	**3.60**	**11.99**	**-3.06**	**-0.83**	**0.26**	**0.57**
Bloomberg US Agg Bond	**5.20**	**4.45**	**11.57**	**-1.39**	**0.33**	**1.47**	**1.84**
U.S. Treasurys							
BofAML 3M US Treasury Note	1.31	3.96	5.39	3.49	2.34	2.25	1.67
Bloomberg Short Treasury	1.50	4.08	5.60	3.36	2.31	2.23	1.68
Bloomberg Intermediate Treasury	3.97	4.19	8.35	-0.12	0.82	1.46	1.50
Bloomberg Long Term US Treasury	7.82	2.42	15.43	-8.36	-4.28	-0.48	1.09
Bloomberg U.S. Treasury TIPS 1-5Y	2.79	4.90	7.93	2.11	3.49	3.12	2.38
Bloomberg US Treasury US TIPS	4.12	4.85	9.79	-0.57	2.62	2.93	2.54
U.S. Corporate Credit							
Bloomberg US Corp IG	5.84	5.32	14.28	-1.18	1.16	2.43	2.93
Morningstar LSTA US LL TR USD	2.04	6.54	9.59	6.47	5.74	5.28	4.86
BofAML US HY Master II	5.28	8.03	15.66	3.08	4.55	4.56	4.95
BofAML US HY BB-B Constrained	4.39	7.03	14.64	2.77	4.20	4.44	4.85
BofAML US Corporate AAA	6.37	4.30	13.07	-3.13	-0.31	1.70	2.43
BofAML US Corporate AA	5.69	4.75	12.42	-1.94	0.29	1.70	2.27
BofAML US Corporate A	5.72	5.49	13.56	-1.03	1.02	2.26	2.74
BofAML US Corps BBB	5.71	6.21	14.96	-0.69	1.73	2.89	3.27
BofAML US High Yield BB	4.28	6.82	14.66	2.35	4.35	4.59	5.14
BofAML US High Yield B	4.54	7.19	14.45	3.27	4.08	4.29	4.54
BofAML US High Yield CCC	11.55	15.35	22.96	5.06	6.29	4.82	5.36
Securitized							
Bloomberg ABS	3.35	5.07	8.73	1.81	2.10	2.34	2.18
Bloomberg MBS	5.53	4.50	12.32	-1.20	0.04	0.98	1.41
Bloomberg CMBS	4.65	6.25	11.83	-0.28	1.22	2.24	2.34
Municipals							
Bloomberg Municipal	2.71	2.30	10.37	0.09	1.39	2.23	2.52
Bloomberg Muni 1-10	2.72	2.03	7.18	0.58	1.37	1.78	1.83
Global							
Bloomberg Global Aggregate TR Hdg USD	4.24	4.38	10.63	-0.22	0.57	1.99	2.33
Bloomberg Gbl Agg Ex USD	8.52	2.81	12.28	-4.42	-1.86	-0.80	-0.50
FTSE WGBI	6.95	2.72	11.02	-4.41	-2.05	-0.59	-0.15

Market Environment as of September 30, 2024

Fixed Income

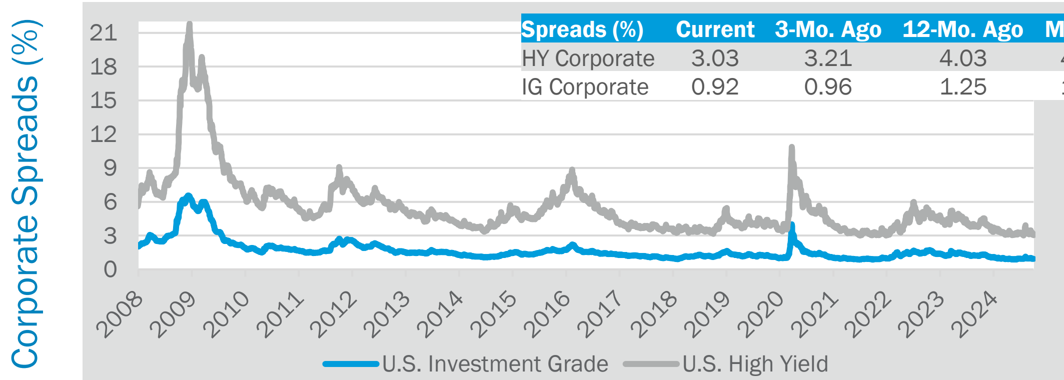




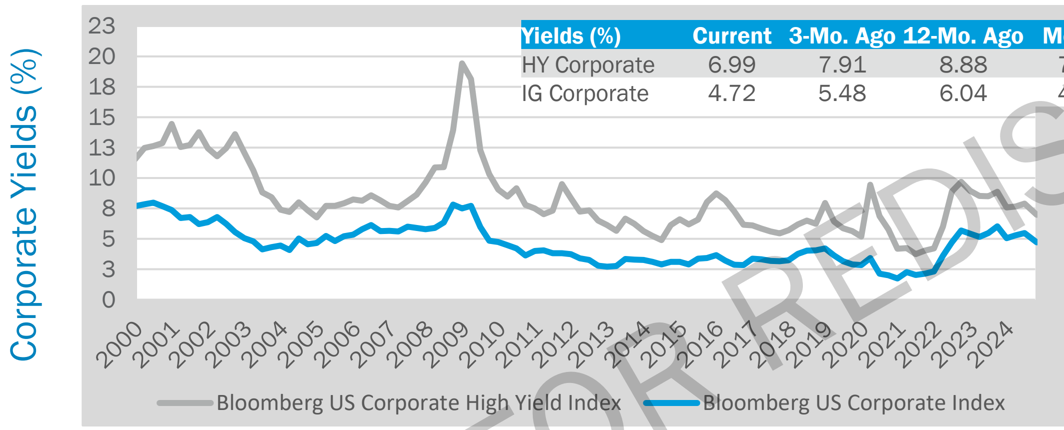


- In the third quarter, the Federal Reserve lowered interest rates to a range between 4.75% to 5.00% as inflation showed signs of cooling and concerns around the labor market weakening.
- During the September FOMC meeting, Powell stated that the risks of achieving employment and inflation goals were more balanced than before, prompting the FOMC to cut interest rates by 50 basis points (bps) instead of the usual 25 bps.
- Powell communicated that inflation had made further progress toward the Fed's 2% inflation target but acknowledged that inflation remained elevated.
- Rates across the yield curve fell during the quarter as the Fed lowered interest rates and signaled that further rate cuts could be on the table for the remainder of the year.
- Municipal bond issuance in the third quarter was approximately $135 billion compared to $95 billion in 2023.
- Year-to-date issuance reached $372 billion compared to $268 billion during the same time frame in 2023.

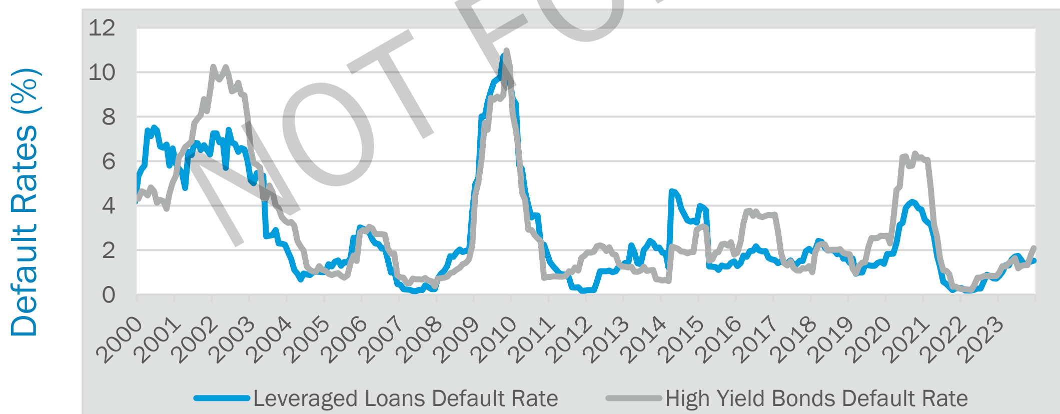
*Sources: *Securities Industry and Financial Markets Association (SIFMA). U.S. Treasury Department, Bloomberg Indices. Data as of 9/30/2024*



Spreads (%)	Current	3-Mo. Ago	12-Mo. Ago	Median
HY Corporate	3.03	3.21	4.03	4.53
IG Corporate	0.92	0.96	1.25	1.39



Yields (%)	Current	3-Mo. Ago	12-Mo. Ago	Median
HY Corporate	6.99	7.91	8.88	7.72
IG Corporate	4.72	5.48	6.04	4.23



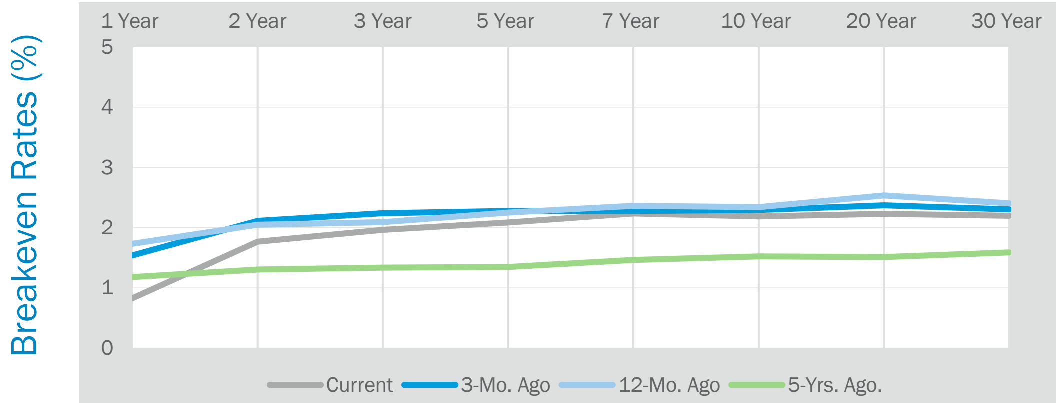
- Investment-grade (IG) and high-yield (HY) spreads tightened over the quarter and continued to remain well below long-term median levels. [1]
- The yield for investment-grade and high-yield corporate bonds decreased by 76 bps and 92 bps to 4.72% and 6.99%, respectively.
- Although corporate credit spreads remained below long-term medians, IG corporate credit yields continued to be modestly above historicals, whereas high yield was marginally below [2].

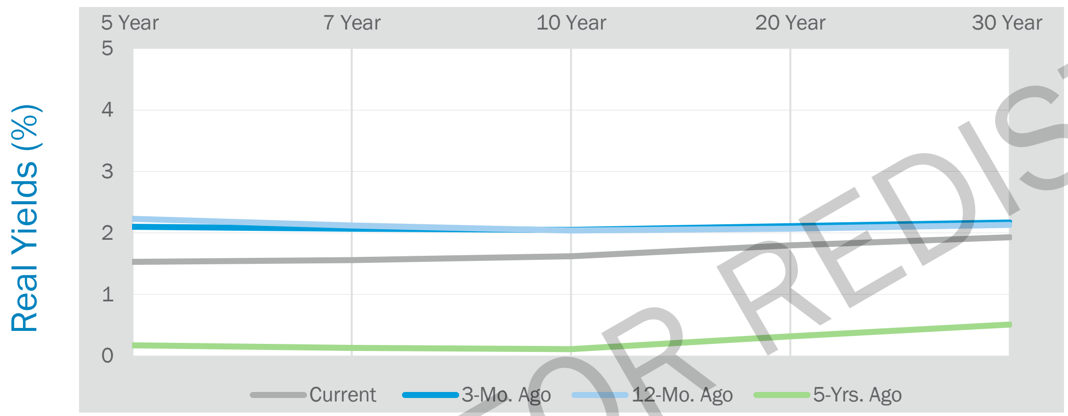
Sources: Federal Reserve Bank of St. Louis, U.S. Treasury Department. Data as of 9/30/2024. S&P LCD Lev Loan Defaults, JP Morgan HY Bond Defaults, Data as of 12/31/2023

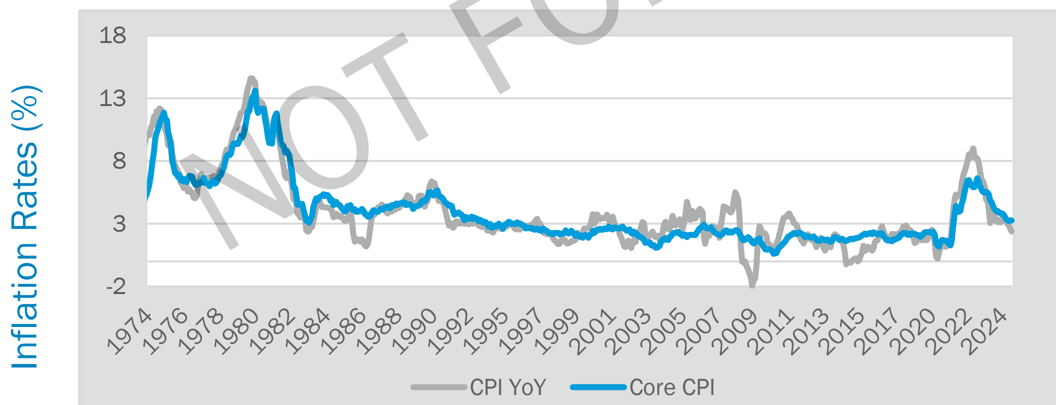
[1] Long-term median is defined as median data starting in 2006.
[2] Defined as data starting in 2000.

Market Environment as of September 30, 2024

Fixed Income





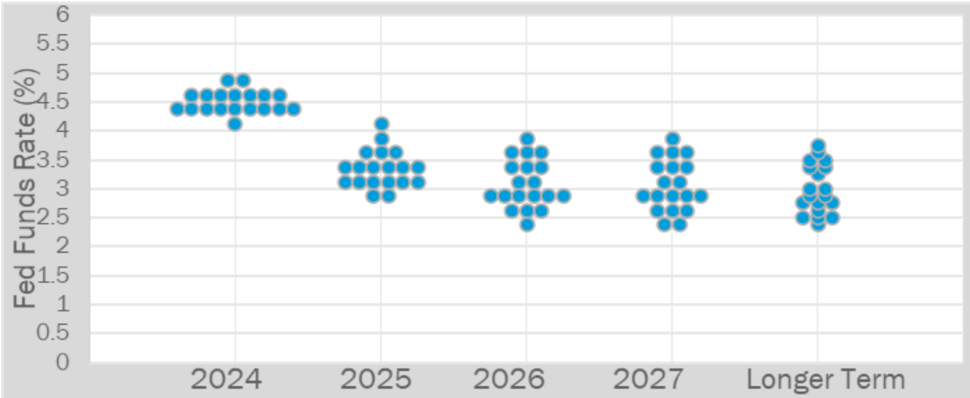


- Front-end breakeven inflation rates fell during the quarter, while long-term breakeven rates remained relatively range-bound around 2%. The breakeven rate is the implied inflation rate for a given maturity and is calculated by subtracting the real yield of a Treasury bond from the nominal yield.
-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

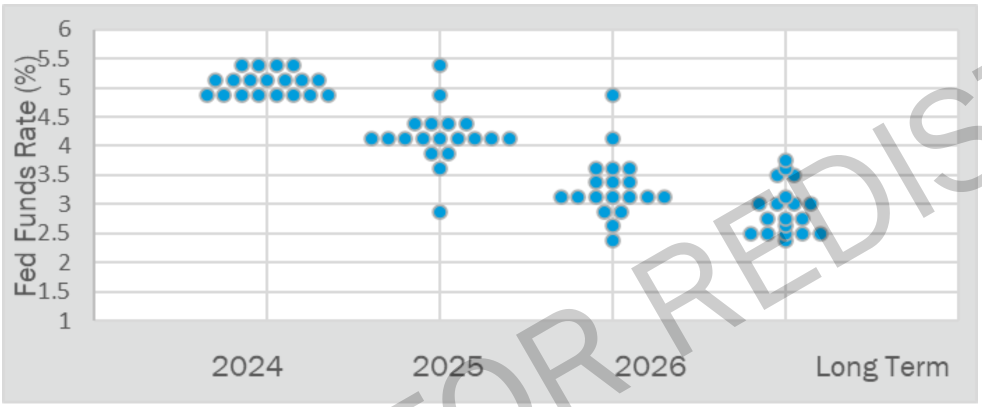
Source: Federal Reserve Bank of St. Louis, Bureau of Labor Statistics CPI & PCE Data, U.S. Treasury Department, U.S. Treasury Inflation-Indexed Rates. Data as of 9/30/2024.

Market Environment as of September 30, 2024

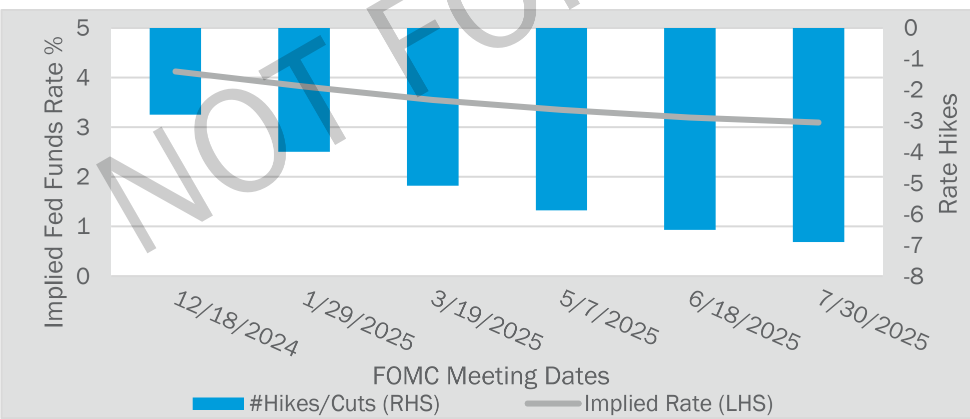
Fed Dot Plot September 2024



Fed Dot Plot June 2024



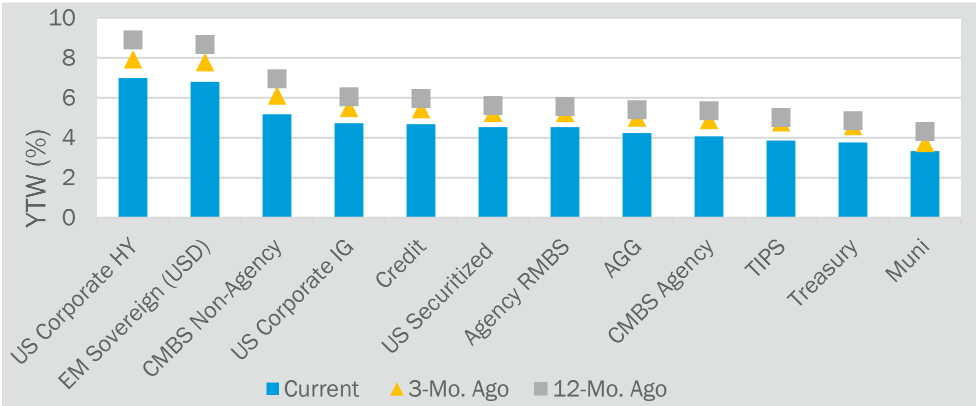
Implied Fed Funds Rate & Rate Hike



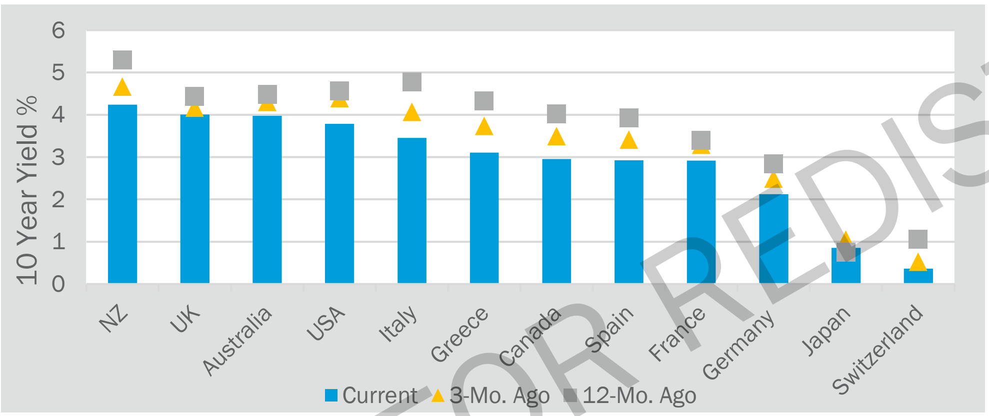
- The June Fed funds rate forecast indicated that there would be approximately one rate cut of 25 basis points by the end of 2024.
- As of the end of September, the Fed's updated dot plot showed an expectation of an additional one to two rate cuts of 25 basis points by the end of 2024.
- Market participants, as represented by Fed funds futures rates, showed an expectation of two to three rate cuts of 25 bps by the end of the year.
- 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 9/30/2024.

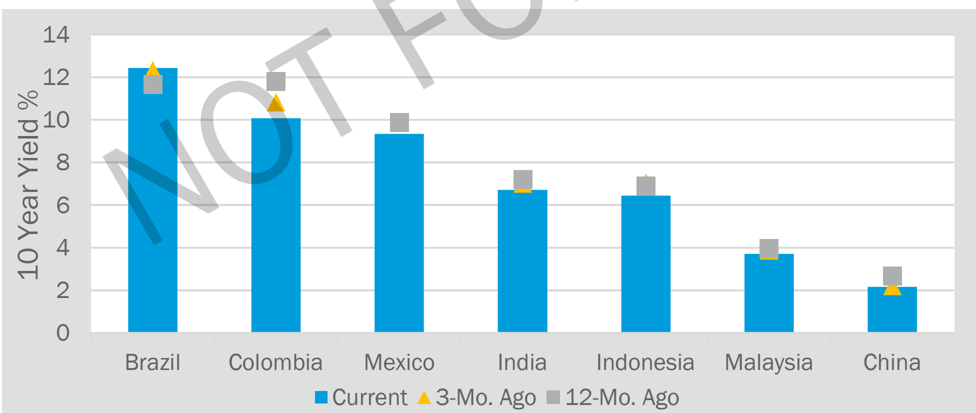
Domestic Yields



Developed Yields (Local Currency)



EM Yields (Local Currency)

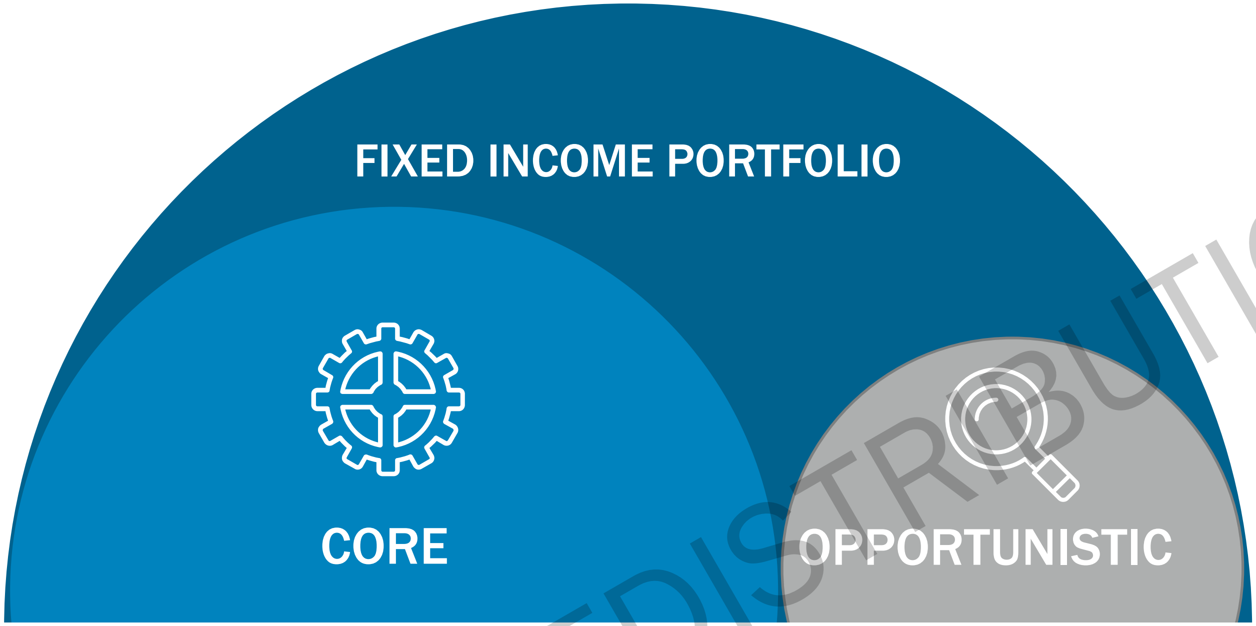


- Yields across various U.S. fixed income sectors fell during the quarter as the Fed cut interest rates and forecasted further rate cuts through the remainder of the year and into next year.
- Global developed market yields decreased as many central banks moved towards a rate-cutting cycle. Japan remains the outlier, as elevated inflation prompted its central bank to raise rates.
- Emerging markets (EM) sovereign yields experienced volatile intra-quarter movements but ultimately ended the quarter relatively flat compared to the last quarter. Brazil was an outlier as sovereign yields rose due to higher inflation, leading the central bank to raise rates. Colombia was another outlier, with sovereign yields falling amid cooling inflation trends.

Source: Bloomberg Indices. 10-year global sovereign yields. Data as of 9/30/2024.

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?*



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