



Canterbury Consulting

## Quarterly Asset Class Report Taxable Fixed Income

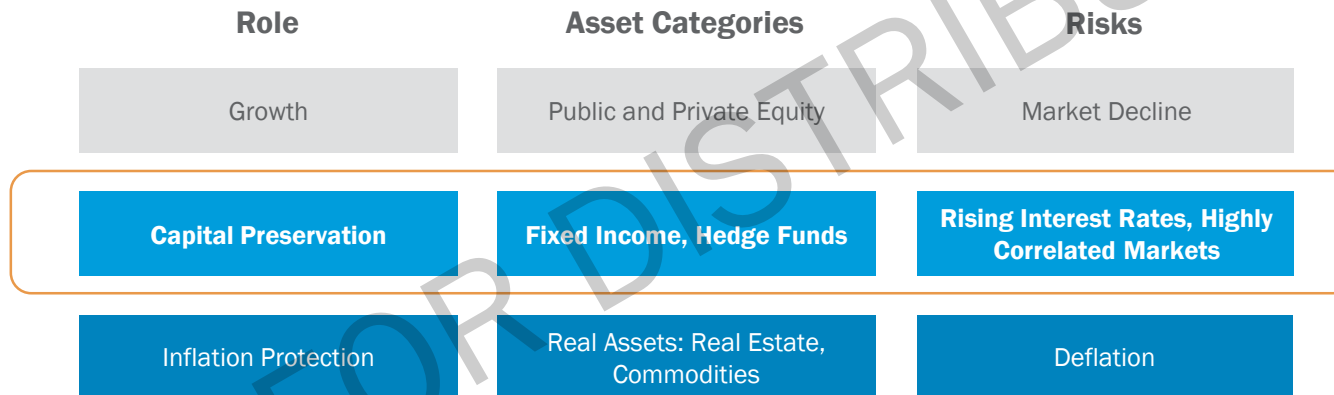
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December 31, 2019

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 expected to deliver consistent after-tax and net-of-fees excess returns and moderate tracking error versus the Barclays Municipal Bond Index. Taxable fixed income portfolios are expected to have a high quality bias with sensitivity toward taxes.
- Canterbury’s fixed income portfolios will exhibit benchmark-like, after-tax yields and credit quality. However, they will do so with more portfolio diversification and lower duration. 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, 2019

Fixed Income

	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
<b>Barclays Global Aggregate</b>	<b>0.49</b>	<b>6.84</b>	<b>6.84</b>	<b>4.27</b>	<b>2.31</b>	<b>1.35</b>	<b>2.48</b>
<b>Barclays US Agg Bond</b>	<b>0.18</b>	<b>8.72</b>	<b>8.72</b>	<b>4.03</b>	<b>3.05</b>	<b>2.72</b>	<b>3.75</b>

## U.S. Treasuries

BofAML 3M US Treasury Note	0.46	2.31	2.31	1.68	1.09	0.80	0.60
Barclays Short Treasury	0.50	2.46	2.46	1.72	1.16	0.86	0.67
Barclays Intermediate Treasury	0.01	5.22	5.22	2.58	1.99	1.59	2.46
Barclays Long Term US Treasury	-4.12	14.83	14.83	6.95	4.13	4.24	7.01
Barclays US Treasury TIPS 1-5Y	1.15	5.08	5.08	2.08	1.84	0.86	1.73
Barclays US Treasury US TIPS	0.79	8.43	8.43	3.32	2.62	1.08	3.36

## U.S. Corporate Credit

Barclays US Corp IG	1.18	14.54	14.54	5.92	4.60	4.10	5.55
S&P/LSTA Leveraged Loan	1.73	8.64	8.64	4.35	4.45	4.15	5.01
BofAML US HY Master II	2.61	14.41	14.41	6.33	6.13	5.79	7.50
BofAML US HY BB-B Constrained	2.58	15.10	15.10	6.45	6.11	5.76	7.40
BofAML US Corporate AAA	-0.17	14.34	14.34	6.46	4.60	3.95	4.85
BofAML US Corporate AA	0.16	10.78	10.78	4.93	3.88	3.47	4.55
BofAML US Corporate A	0.75	12.93	12.93	5.43	4.24	3.79	5.26
BofAML US Corps BBB	1.67	15.91	15.91	6.54	5.05	4.54	6.24
BofAML US High Yield BB	2.37	15.73	15.73	6.55	6.27	5.98	7.67
BofAML US High Yield B	2.83	14.36	14.36	6.33	5.96	5.50	7.15
BofAML US High Yield CCC	2.80	9.11	9.11	4.97	6.05	5.72	7.56

## Securitized

Barclays ABS	0.39	4.53	4.53	2.61	2.22	1.81	2.72
Barclays MBS	0.71	6.35	6.35	3.25	2.58	2.49	3.15
Barclays CMBS	-0.33	8.29	8.29	4.06	3.15	2.67	5.25

## Municipals

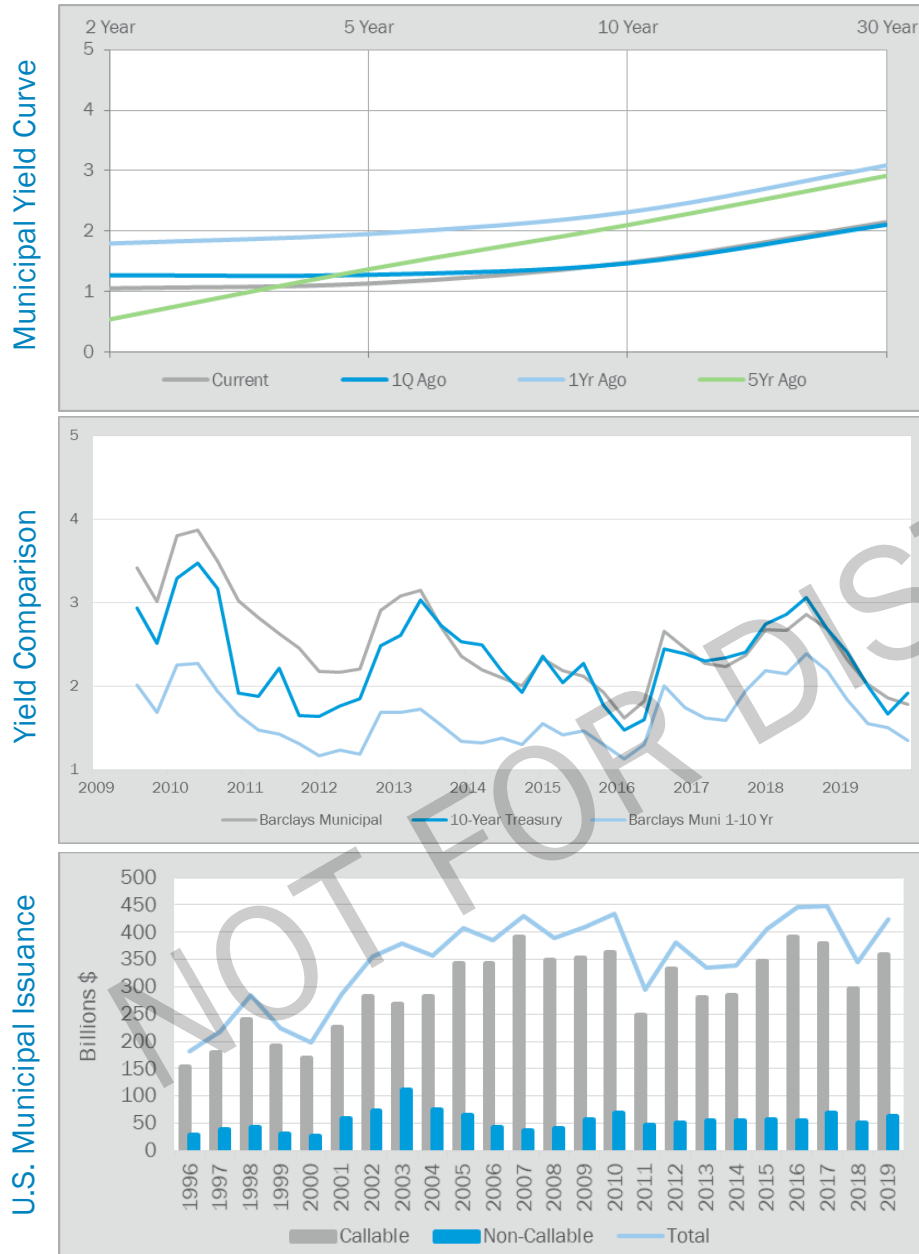
Barclays Municipal	0.74	7.54	7.54	4.73	3.53	3.40	4.34
Barclays Muni 1-10	0.88	5.23	5.23	3.31	2.39	2.25	2.86

## Global

Citi WGBI	-0.35	5.90	5.90	4.12	2.03	0.79	1.85
Barclays Gbl Agg Ex USD	0.67	5.09	5.09	4.36	1.63	0.26	1.50
JPM EMBI Plus	3.38	12.60	12.60	4.90	5.20	3.29	6.10

# Market Environment as of December 31, 2019

## Fixed Income

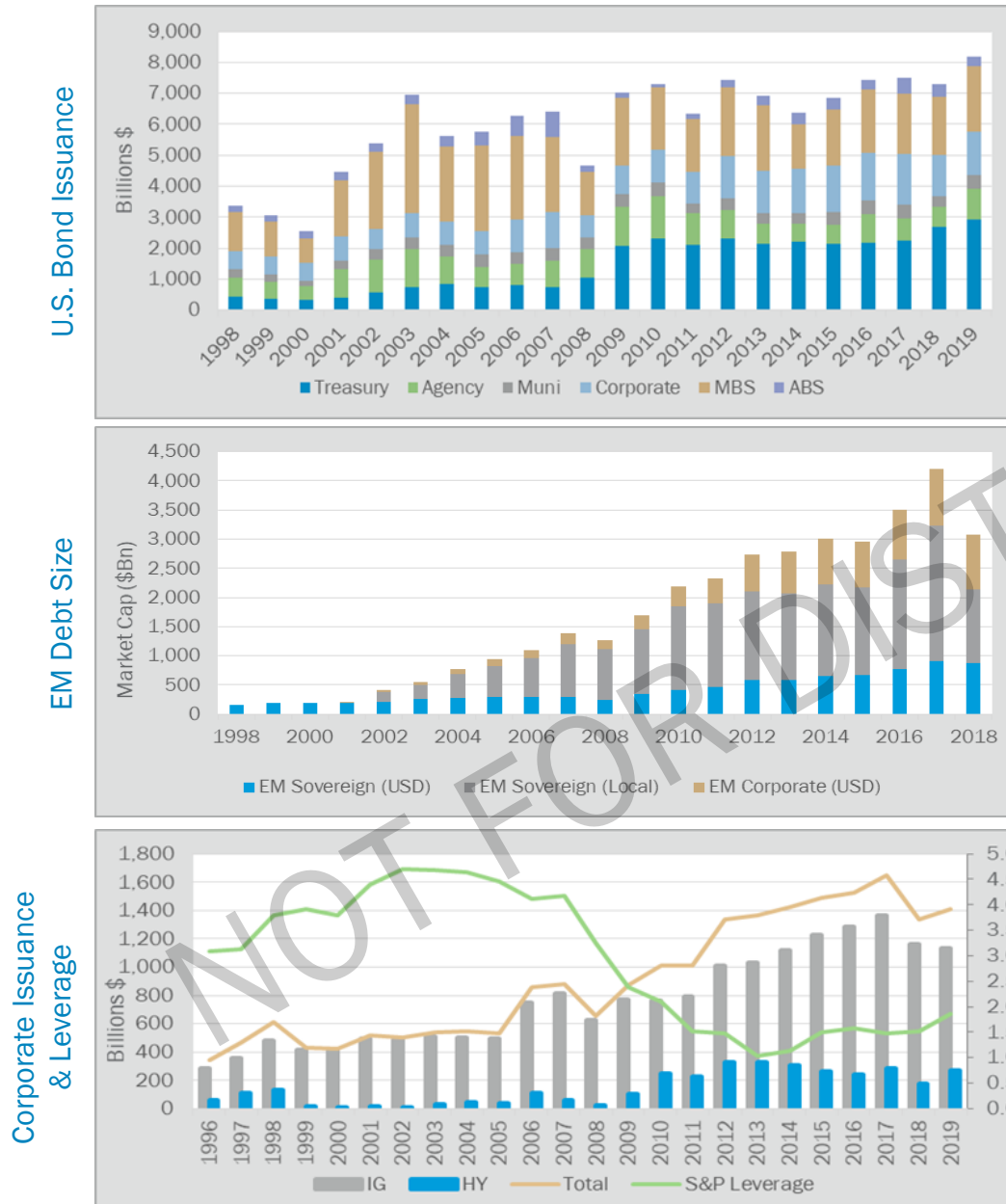


- U.S. interest rates moved gradually higher as the Fed communicated a “wait-and-see” approach to implementing further rate cuts. U.S.-China and Brexit resolutions also resulted in developed country rates moving higher as investors rotated into riskier assets.
- Corporate debt performed well as risk-on sentiment led to tighter spreads. High yield outperformed investment-grade bonds as investors allocated to lower quality credit.
- EM bonds benefited from strong currency returns and constructive economic growth.
- Municipal bond demand remained heightened as investors continued to search for tax-efficient yield. Issuance in 2019 outpaced that of 2018 by \$80 billion. However, net inflows into municipal bond mutual funds exceeded \$93 billion, an all-time record.

Sources: Securities Industry and Financial Markets Association (SIFMA), U.S. Treasury Department, Barclays, Gurtin

## Market Environment (cont.)

## Asset Class Report Updates

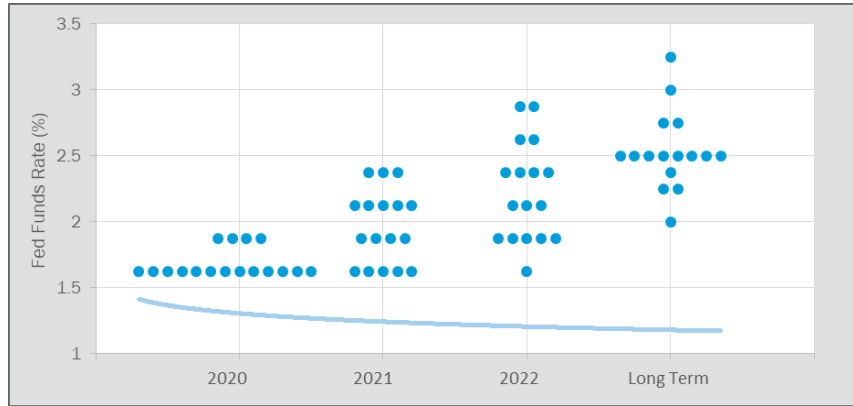


- U.S. Treasury issuance significantly increased after the financial crisis. Since the Fed began tapering, Treasury issuance plateaued while corporate and mortgage-backed security issuance continued to grow.
- The EM debt market has grown significantly since 1996. While investors have worried about EM liabilities denominated in U.S. dollars, debt denominated in local currency has grown exponentially since 2004.
- Corporate leverage significantly decreased after 2008. Leverage in the U.S. and emerging markets has since grown while leverage in Europe and Japan has moderated.

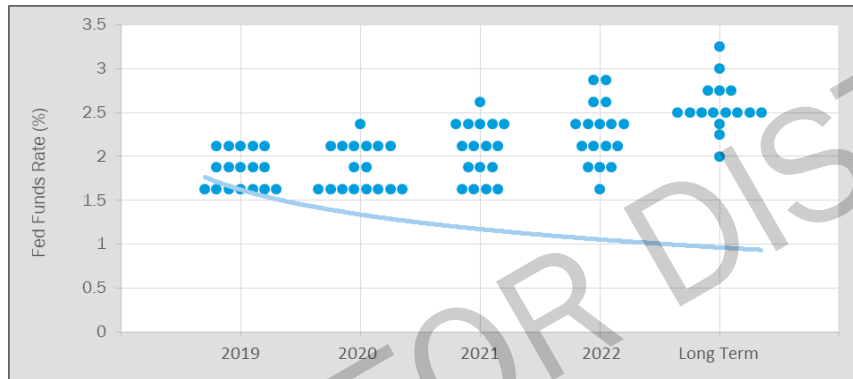
Sources: SIFMA, Bloomberg, JPM EM Indices (EMBI Global, JPM GBI-EM Broad, JPM CEMBI Broad)

# Fed Dot Plots

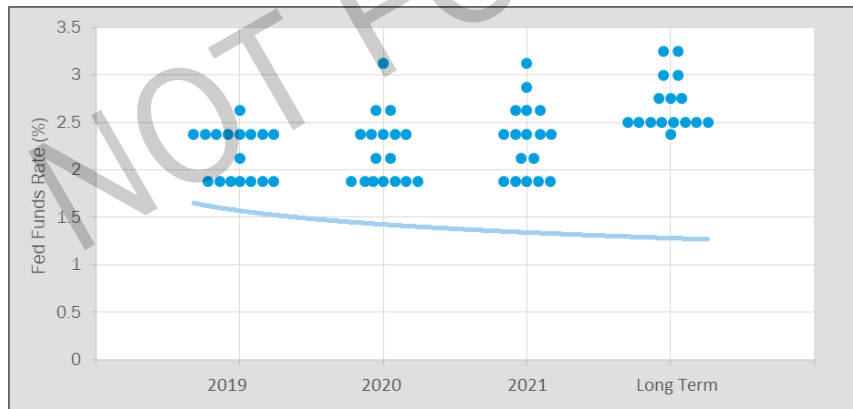
Dec. 2019 Meeting



Sept. 2019 Meeting



June 2019 Meeting



- The dot plot charts display Federal Open Market Committee (FOMC) participant projections of where the Fed Funds Rate should be over the next several years.
- The light blue line represents the Fed Funds Futures, which measures the market's projection on where the Fed Funds Rate will be.
- The graphs on the left display projections from the last three FOMC meetings.
- Fed funds projections for 2019 declined when the Fed decided to cut interest rates. While the Fed's long-term interest rate forecast adjusted downward, the market continues to price rates much lower.

Source: Bloomberg as of December 31, 2019



## 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.



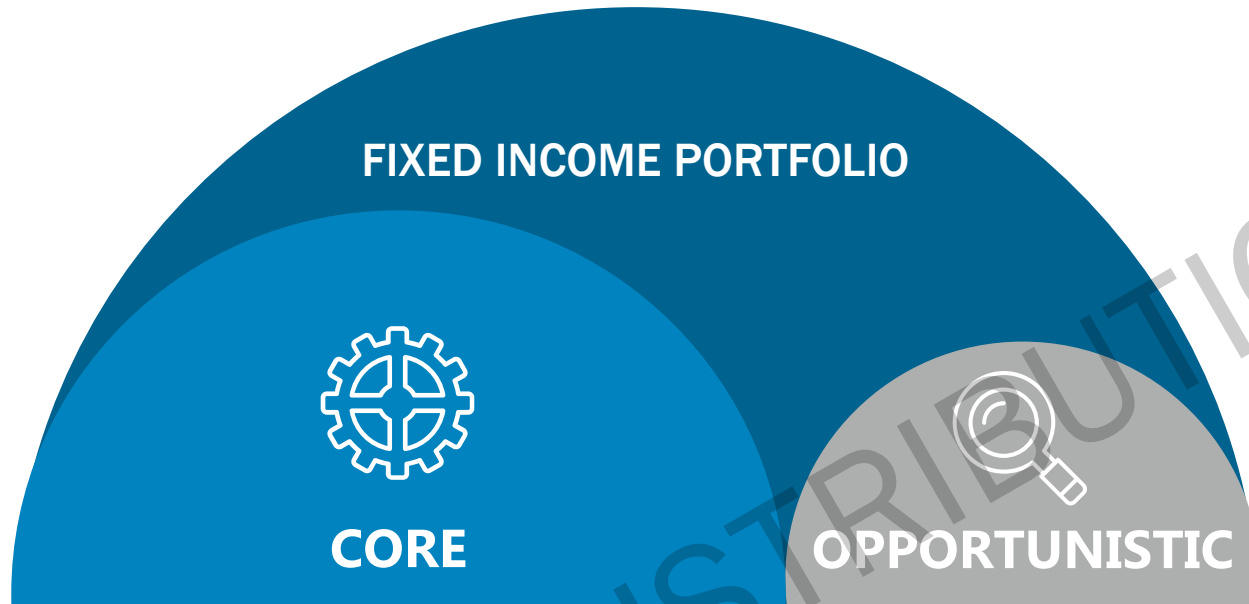
## Tax Considerations

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



## Time Horizon

- Does the client have short term or long term goals?
- Are spending requirements quarterly, annual, 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
- Municipals
- Investment-grade corporate
- MBS



## Characteristics

- Income orientated
- Total return focus
- Low correlation to core bonds



## Exposure

- Non-U.S. developed sovereigns
- EM sovereigns
- High yield
- Bank loans
- Private debt