FIXED INCOME STRATEGY

as of 9/30/2024

Exencial Wealth Advisors™

OVERVIEW

Third quarter investment grade fixed income returns were among the strongest quarterly returns in recent years, as most rates along the Treasury curve hit year-to-date lows in anticipation for the Federal Reserve to begin the cutting phase of the interest rate cycle. The 2-year benchmark yield fell from 4.75% to 3.64%, and the 10-year benchmark yield fell from 4.40% to 3.78%. The 2s/10s Treasury curve steepened to a positive sloping curve in September after being inverted for over 2 full years.
This flip from inverted to a positively sloped curve is the market's interpretation that the Federal Open Market Committee (FOMC) will be aggressively cutting short term rates in the coming quarters.

The third quarter narrative was all about the FOMC's potential actions at their July and September meetings. At July's meeting, the Fed Funds rate was held steady at 5.50% as Chair Powell was looking for additional confidence inflation would continue to fall towards their 2% inflation target. However, at September's FOMC meeting, an unusually large 50 basis points (bps) cut initiated the next phase of the Federal Reserve's rate cycle. The Fed gained confidence inflation would continue to fall towards their 2% target, while shifting their focus to maintain labor market strength. To quote Chair Powell, "We will do everything we can to support a strong labor market as we make further progress toward price stability." The quarterly Summary of Economic Projections (SEP) gave additional forward guidance suggesting additional cuts were to be expected by year-end, which the market viewed as a green light to aggressively price-in a faster pace of cuts than Fed guidance.

At the end of the third quarter, divergent views of how the economy will evolve were concentrated on the labor market. Unemployment is low at 4.2% but has moved higher throughout the year. The main concern is - will companies maintain profitability, or will cost cutting (a.k.a. layoffs) be necessary to defend profit margins? Historically, once layoffs begin, they happen en masse, which is an obvious risk.

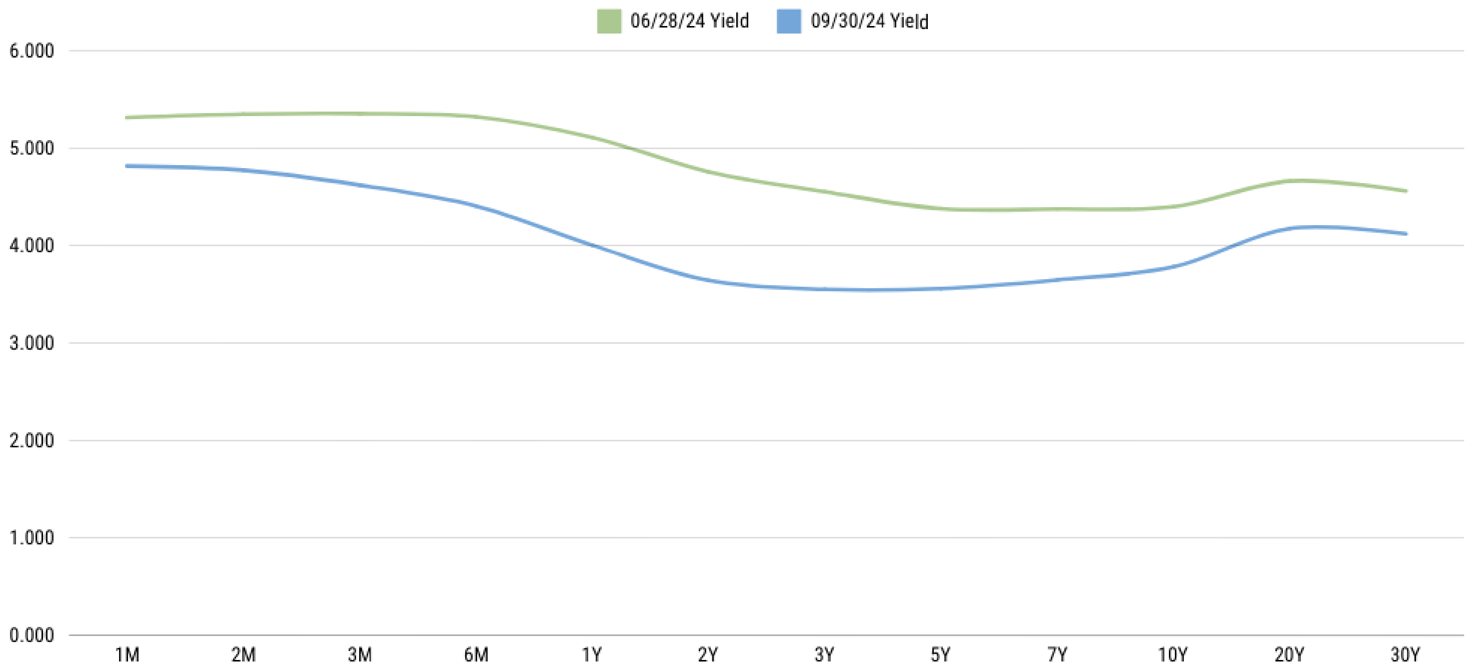
Recent revisions to job creation and Gross Domestic Income (GDI) figures have not added clarity to the mosaic. Jobs created had a sizable negative revision, implying a weaker labor market. However, GDI was revised significantly higher, implying the economy is stronger and more resilient than earlier thought. In our view, the economy has remained surprisingly resilient YTD as legacy liquidity and continued fiscal stimulus continue to work through the system. Clarity on how the economy evolves from here is very low given offsetting economic data.

Investment grade corporate spreads were little changed during the quarter, ending the quarter slightly narrower at +89bps. The story was similar in high yield credit, with those spreads narrowing 14bps to +295bps. Strong demand from investors, in addition to a solid fundamental backdrop, have supported the corporate market even as issuance is on its strongest pace since 2020.

SAMPLE FIXED INCOME PORTFOLIO - TOP CORPORATE BOND HOLDINGS BY SECTOR

Communications:	Verizon
Consumer Discretionary	Lowe's
Consumer Staples:	Church & Dwight, Keurig Dr Pepper
Energy:	Enbridge
Financials:	Bank of America Corp., Bank of New York Mellon Co., JPMorgan Chase & Co
Healthcare:	CVS Health Corp, Elevance
Industrials:	Eaton, Parker-Hannifin Co, Waste Connections
REIT:	Healthpeak Properties, Prologis
Technology:	Hewlett Packard Enterprise
Utilities:	American Water Works, Duke Energy

YIELD CURVE



MEET THE TEAM

Jeff Hibbeler, CFA Sr. Portfolio Manager

Jeff joined Exencial Wealth Advisors in 2018 as a Senior Portfolio Manager for Fixed Income. He brings an extensive fixed income background and over 20 years of experience in the investment management industry. Previous to joining Exencial, Jeff was a Portfolio Manager for 11 years on the Core Fixed Income Team for Columbia Threadneedle Investments, managing portfolios for high-net-worth and institutional clients. Prior to his fixed income role, Jeff was the Institutional Performance Measurement Manager for a predecessor organization of Columbia Threadneedle, where he was responsible for managing performance reporting and attribution analysis across all investment platforms. Jeff began his career as a Performance Measurement Service Manager at Infovisa, Inc.

Jeff received a B.S. in Business Administration from Nebraska Wesleyan University, where he graduated with high distinction. Jeff holds the Chartered Financial Analyst designation and is a member of the CFA North Carolina Society.

Jeff and his wife, April, have two daughters and are active in their community primarily through their church and support of the Ada Jenkins Center, a not-for-profit organization helping those in poverty gain economic independence. Jeff has also coached for several seasons in the Cornelius-Davidson girls basketball league.

MEET THE TEAM

Michael Conerly, CFA **Sr. Portfolio Manager**

Michael joined Excencial Wealth Advisors in 2021 as a Senior Portfolio Manager for Fixed Income and brings over 20 years of experience in the investment management industry. Previous to joining Exencial, Michael was the Southeast Tax -Exempt Fixed Income Team Lead for Columbia Threadneedle Investments. Michael was also a Portfolio Manager for 14 years on the Tax-Exempt Fixed Income Team, managing individually tailored portfolios for high-net-worth clients. Prior to his Portfolio Manager role, Michael was a tax-exempt credit analyst covering various sectors. Michael began his professional career as a Mutual Fund Accountant at BISYS.

Michael received a B.S. in Business Administration with a concentration in Finance from The Ohio State University. Michael holds the Chartered Financial Analyst designation and is a member of the CFA North Carolina Society.

Michael and his wife, Peggy, have two sons and daughter. The family is active in Scouts BSA (formerly Boy Scouts of America) and supports the Paula Takacs Foundation, a non-for-profit organization that raises awareness and funds for sarcoma cancer research and clinical trials.