

OVERVIEW

Fixed income markets in the 4th quarter 2023 continued their volatility theme. Near the beginning of the quarter, the 2-year Treasury reached 5.22% and the 10-year Treasury yield surged to 5%, a 16 year high. At the time, Treasury auctions were experiencing supply indigestion due to increased issuance and indicating a “buyers strike”. The Fed’s two 4th quarter meetings both resulted in the Fed Funds Target Rate upper bound unchanged at 5.50%, which were considered ‘pauses’ following the last hike at July’s meeting. However, the Fed’s December 13th Federal Open Market Committee meeting was significant, in that the quarterly Summary of Economic Projections (SEP) Fed Funds dot plot indicated 75 basis points (bps) of cuts in 2024, a more significant move than had been projected previously. At Chair Powell’s press conference meeting, he implied the committee was moving away from a hiking bias and ‘higher for longer’ tilt, to discussing moderating policy. This unexpected pivot caused an immediate and substantial market reaction, with rates beginning a sustained decline across the yield curve through year-end.

The benchmark 2-year Treasury yield fell 80bps for the quarter from 5.05% to 4.25%, while the benchmark 10-year Treasury yield fell 69bps from 4.57% to 3.88%, but not before reaching a 16 year high of 5% October 19th. These declines in yields resulted in the largest quarterly performance gain for broad fixed income in more than 20 years. The yield range for 2’s was 98bps and 10’s was 120bps, also a significant move in yields for one quarter. The oft cited 2’s/10’s curve remained inverted throughout the quarter, steepening slightly by 9bps and ending the year at -37bps.

Investment grade corporate spreads started the quarter somewhat tighter than historical averages at +121 bps, and ended the year significantly tighter at +99 bps. High yield corporate spreads also fell during the quarter from +394 bps to +323 bps, which was the lowest level reached all year. These tighter spreads indicate the market is pricing in a soft economic landing and/or no recession, but we remain cautious on such an outcome.

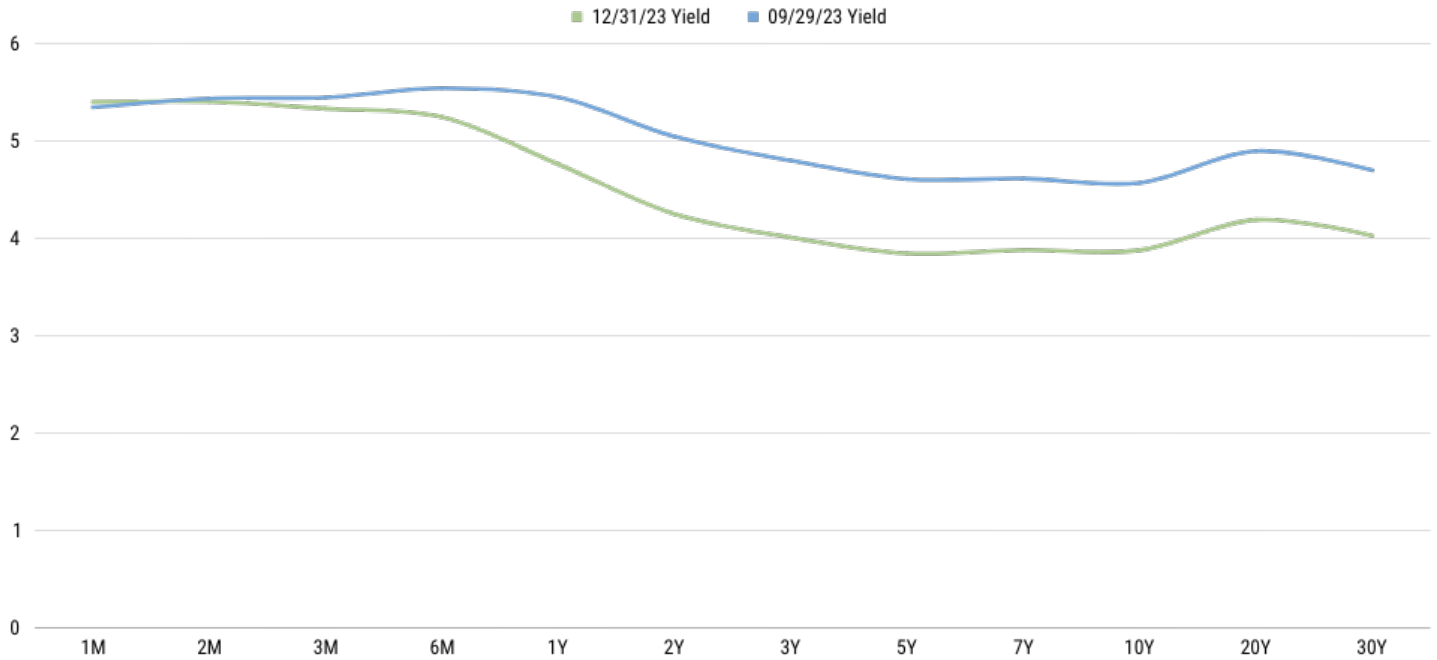
We were surprised in 2023 (along with others) that even with the Fed aggressively raising rates 525bps cumulatively since 2022, growth remained resilient, inflation moderated but at a slower pace than expected, and unemployment remained near multi-decade lows (3.7% as of November). Looking forward into 2024, the Fed is positioning itself to begin cutting rates in the 1st half of the year, but will remain data dependent and loosening financial conditions could make it challenging for the Fed to fight the last mile of inflation from 3% to its stated 2% goal.

We are now at the monetary cycle’s inflection point. As the Fed attempts to stick the soft landing, the FOMC has pivoted and has begun discussing future cuts. This presumes the FOMC believes that inflation and employment risks have become more balanced. In view of the Fed’s change, we are maintaining both our longer maturity/duration stance and an increased government allocation in the form of Treasuries, in anticipation of wider credit spreads due to weaker economic growth.

SAMPLE FIXED INCOME PORTFOLIO - TOP CORPORATE BOND HOLDINGS BY SECTOR

Communications:	Comcast
Consumer Discretionary	McDonald's
Energy:	Enbridge Inc
Financials:	Bank of America Corp., Berkshire Hathaway Financial, CNA Financial, JPMorgan Chase & Co
Healthcare:	AbbVie, Amgen
Industrials:	Northrop Grumman
Materials	Nucor
REIT:	Healthpeak Properties, Prologis
Technology:	Hewlett Packard Enterprise
Utilities:	American Waater 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 Exencial 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.

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All performance returns reflect the reinvestment of dividends and other earnings and the deduction of Exencial's investment advisory fee. Exencial's investment advisory fees are described in Part 2A of its Form ADV. Clients may also incur other transactions costs such as brokerage commissions, custodial costs, and other expenses which are not reflected in the performance returns. Actual client accounts utilizing the Fixed Income Strategy may experience different weightings and allocation and as such, the performance of a specific individual client account may vary substantially from the Fixed Income Strategy results. Exencial may depart from its strategic asset class allocations for particular strategies and allocate more or less to any asset class, or to other asset classes, in an attempt to add to the portfolio's overall returns. Exencial makes no representations that the results presented herein reflect the typical experience of an Exencial client nor that current or prospective clients will experience similar results in comparable situations. The Fixed Income Strategy holdings listed herein do not represent all of the securities purchased, sold, or recommended for clients during the reflected time period. Information on the methodology used to calculate the performance and a list reflecting the contribution of each holding in the Fixed Income Strategy Composite's overall performance during the time period, is available upon request. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment or investment strategy will be profitable or equal the results portrayed herein. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security. Comparison of the Fixed Income Strategy to the various indexes set forth above is for illustrative purposes only and the benchmarks have not been selected to represent the most appropriate or comparable benchmark with which to compare the Fixed Income Strategy performance, but rather to allow for comparison of the Fixed Income Strategy performance with well known and widely recognized benchmark indexes. It is not possible to directly invest in an index, as indices are unmanaged, hypothetical vehicles that serve as market indicators and do not account for the deduction of investment management fees or transaction costs generally associated with investable products, which otherwise have the effect of reducing the performance of an actual investment portfolio. The securities held in clients' accounts following a particular strategy and the Fixed Income Strategy may differ significantly from the securities included in a benchmark index, and the volatility of the securities may differ significantly from that of the benchmark index. A description of each index is available from us upon request. References to specific securities are presented principally to illustrate the firm's investment methodology or approach and are not being referenced to demonstrate Exencial's performance or investment results. Exencial is under no obligation to hold any equity position for any time period and Exencial's current recommendations are subject to change at any time without notice. A complete list of portfolio holdings and specific securities transactions for the preceding 12 months is available upon request. The information contained herein, while not guaranteed as to the accuracy or completeness, has been obtained from sources we believe to be reliable.

Treasury yields are yields on debt obligations issued by the U.S. government. U.S. treasuries can be purchased individually.

The Fed Funds Target Rate is the interest rate charged by one bank for an overnight loan of money stored at the Federal Reserve to another bank. A target range is sometimes designated by the FOMC