FIXED INCOME STRATEGY

as of 12/31/2024

Exencial Wealth Advisors™

OVERVIEW

2024 was a year that didn't follow normal precedent in fixed income markets. It was the first year since 1990 that the Federal Reserve cut policy rates by at least 100 basis points (bps), but 10-year Treasury yields rose. This disconnect reflects the Fed's view of a potentially weakening economy versus the market's concern over stubborn inflation amidst resilient growth. Even so, investment grade fixed income returned a second consecutive solid positive yearly return. An overwhelming majority of this year's return came from the 'clip your coupon' income component as all-in yields remained higher for longer.

Fourth quarter economic data rebounded from this summer's growth scare, reflecting a strong economy and continued healthy labor market. With this good news, 10-year Treasury yields rebounded 100 bps since the Fed's 50 bps cut mid-September, resulting in negative returns for the quarter. Most rates along the curve rose 60-80 bps in an environment reflecting a resilient economy. The 2-year benchmark yield rose 60 bps to 4.24%, and the 10-year benchmark rose 79 bps to 4.57%. The 2s/10s Treasury curve maintained a positive upward sloping bias during the quarter as the Fed continued to lower their Fed Funds target rate, while longer rates rose, resulting in additional steepening of +18 bps to end the year at +3 bps.

The Fed has been confident inflation would remain on a self-sustaining glide path to lower inflation and that their monetary stance was restrictive. Hence the Fed pivoted their focus to a potential rise in unemployment and lowered rates by 25 bps at both their November 7th and December 18th meetings. These moves brought the total cuts to 100 bps since the September 18th meeting. Despite this, the last mile of inflation remains stubbornly above the Fed's 2% target. The Federal Reserve has a cutting bias heading into 2025, but the future rate path for cuts is projected to slow and will require continued disinflation and/or a weakening labor market. Investors should expect market volatility past President Trump's inauguration as fiscal policy uncertainty is at the highest in recent memory.

Investment grade corporate spreads tightened another -9 bps during the quarter, ending the year at +80 bps. For 2024, IG corporate spreads tightened -19 bps. High yield spreads contracted -8 bps to +287 bps at quarter-end. Spreads are considered historically tight, as these levels haven't been reached in nearly a decade. Strong corporate balance sheets, and significant flows into fixed income investments during the year have contributed to these tight levels.

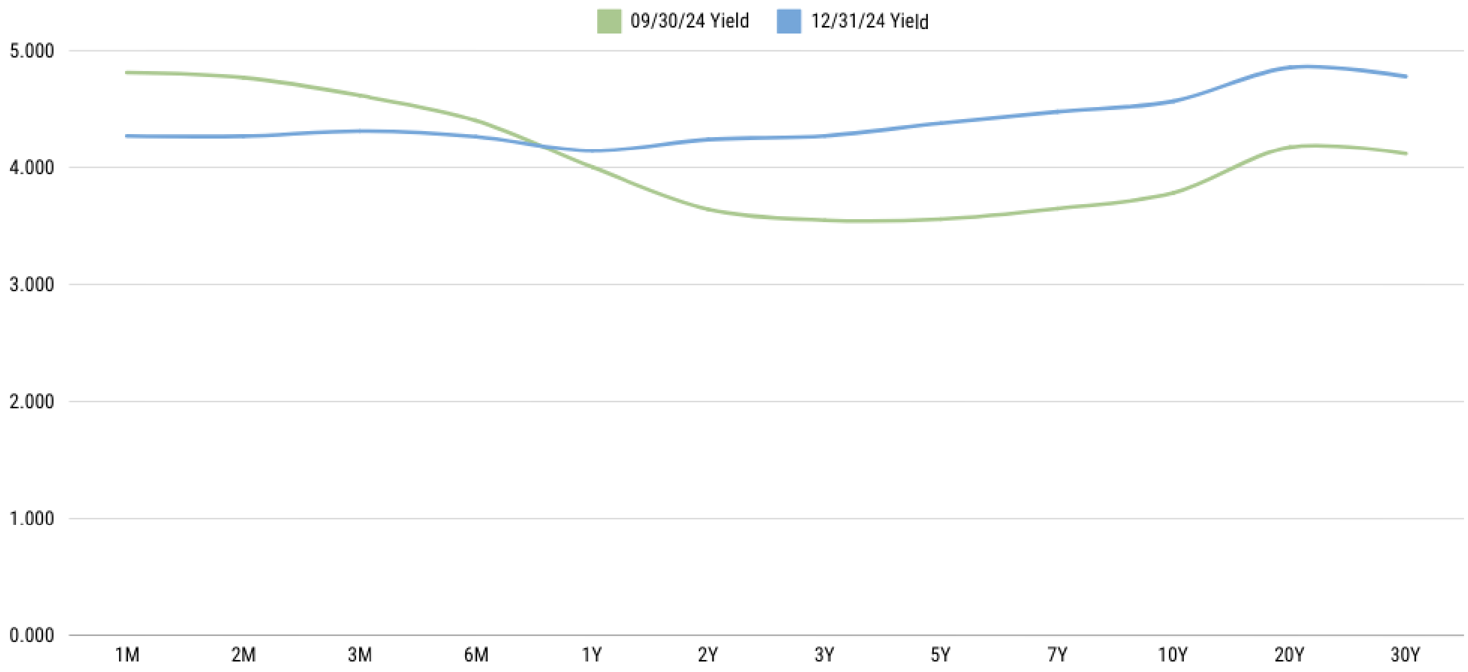
We continue to maintain our investment grade corporate bond focus in our strategies, but corporate spreads at near historical lows present a less favorable risk/reward profile. As a result, earlier this year we increased the government bond allocation. Another strategy change we implemented was adding a US Treasury Inflation Protection (TIP) allocation, which will help hedge uncertain future inflation outcomes. We are positioning portfolios with an overweight to duration, while yield curve positioning is relatively balanced across. Our goal is to capture what we feel are attractive yields over time as we believe all-in yields will remain higher for longer due to elevated inflation, loose financial conditions, and policy uncertainty surrounding the new administration.

We have maintained a corporate sector focus in our strategies, but corporate spreads at historically tight levels currently present a less favorable risk/reward profile. As a result, we are maintaining our increased weighting in government bonds. We continue to position portfolios with an overweight to duration, and relatively balanced yield curve positioning.

SAMPLE FIXED INCOME PORTFOLIO - TOP CORPORATE BOND HOLDINGS BY SECTOR

Communications:	Verizon
Consumer Discretionary	Lowe's Co
Consumer Staples:	Anheuser-Busch Inbev, Church & Dwight
Energy:	Enbridge, Enterprise Products
Financials:	Bank of America Corp., JPMorgan Chase & Co, MetLife Inc
Healthcare:	CVS Health Corp, Quest Diagnostics
Industrials:	Air Products, Nucor
REIT:	Prologis
Technology:	Hewlett Packard Enterprise
Utilities:	American Electric Power, 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.

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 along with the target rate during times of economic uncertainty. The target rate is often related to the risk-free rate of an economy.