

OVERVIEW

Fixed income markets posted another solid positive return in the third quarter, although more muted than Q1 and Q2 returns. It was a tale of two curves during the quarter as yields on Treasury bonds with maturities of three years or longer fell modestly by about 7 to 11 basis points (bps), while in contrast, very short-term yields (up to one year) declined more significantly, by 20 to 40bps. Short maturity yields declined more as the Federal Reserve's FOMC initiated its first rate cut of the year in September by 25bps, bringing the Fed Funds rate down to 4.25%. The market anticipates additional FOMC rate cuts, which is reflected in a two-year Treasury yield that is lower than the current Fed Funds rate. The two-year Treasury yield moved lower by 11bps in the quarter, ending at 3.61%, while the ten-year benchmark Treasury moved lower by 8bps, closing the quarter at 4.15%.

Reading the economic tea leaves in the third quarter was quite a challenging exercise for the market and the Federal Reserve. GDP printed higher than expected growth, trade policy and tariff impacts remained an ongoing focal point and consternation, labor market weakness was confirmed by a significant negative Bureau of Labor Statistics (BLS) adjustment to prior job growth as immigration policy is anecdotally reducing labor supply, while inflation remained elevated and meaningfully above the Fed's 2% target. Firms are processing the administration's trade policy and are in a 'not hiring, not firing' stasis. AI's impact to the labor market is unknown but is likely not additive to hiring. The Federal Reserve's dual mandate of maximum employment and stable prices are in tension with a weakening labor market and elevated inflation. The FOMC's cut in September prioritized weakening labor market dynamics over inflation. Chair Powell acknowledged the challenging economic environment and reiterated there is no predetermined path forward. He characterized the cut as a 'risk management' move, which can be interpreted as an insurance cut.

Adding to the uncertainty, at the end of the quarter, Congress was unable to pass a budget and therefore nearing another government shutdown. A shutdown does not allow for government economic data to be calculated and distributed, which increases the challenge for a data dependent Fed. Additionally, Fed independence was directly challenged as the President attempted to fire Fed Governor Cook for cause, regarding alleged personal mortgage fraud. The Supreme Court recently blocked the administration from immediately firing Governor Cook and will hear oral arguments in January 2026.

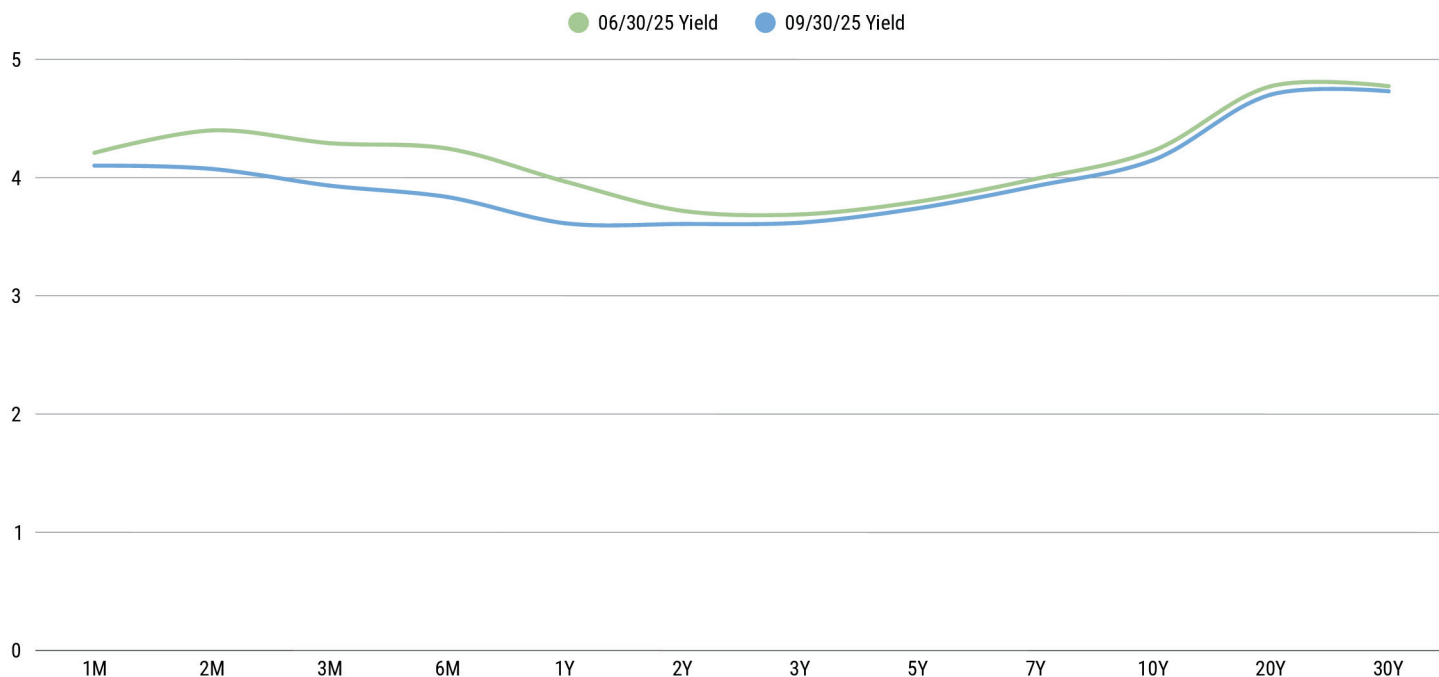
Investment-grade spreads continued their path to lower and historically tight spreads, which narrowed by 9bps and ended the quarter at 74bps. A similar theme occurred in High Yield as spreads narrowed by 23bps to 267bps at quarter end. Investment grade corporate issuance remained robust during the quarter as solid credit fundamentals and demand supported the corporate markets. Even as spreads are historically tight, the attractiveness to corporate bonds has been their all-in yield: corporate spread + Treasury yield.

Due to what we feel are a wide range of policy and economic outcomes, along with tighter corporate spreads, we are maintaining balance in our core strategy. There was one incremental change we made during the quarter to help defend against the potential for longer rates to rise in a setting where inflation remains elevated: We added an overweight in the 5 year maturity, while the remaining maturities remained somewhat evenly distributed. Overall, we are targeting a roughly 70% corporate bond / 30% Treasury allocation, which includes exposure to TIPS as a hedge against higher inflation.

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
Financials:	Bank of America Corp., JPMorgan Chase & Co, MetLife Inc
Healthcare:	AbbVie, Elevance Health
Industrials:	Northrop Grumman, Union Pacific
REIT:	Prologis
Technology:	Equinix Inc
Utilities:	American Electric Power, Duke Energy

YIELD CURVE



MEET THE TEAM



JEFF HIBBELER, CFA Director of Portfolio Management | 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.



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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Treasury Inflation-Protected Securities (TIPS) are U.S. Treasury bonds indexed to inflation to protect investors from decline in the purchasing power of their money. The principal value of TIPS increases with inflation and decreases with deflation.

Treasury yields are yields on debt obligations issued by the US Government. US Treasuries can be purchased individually.