

## 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.

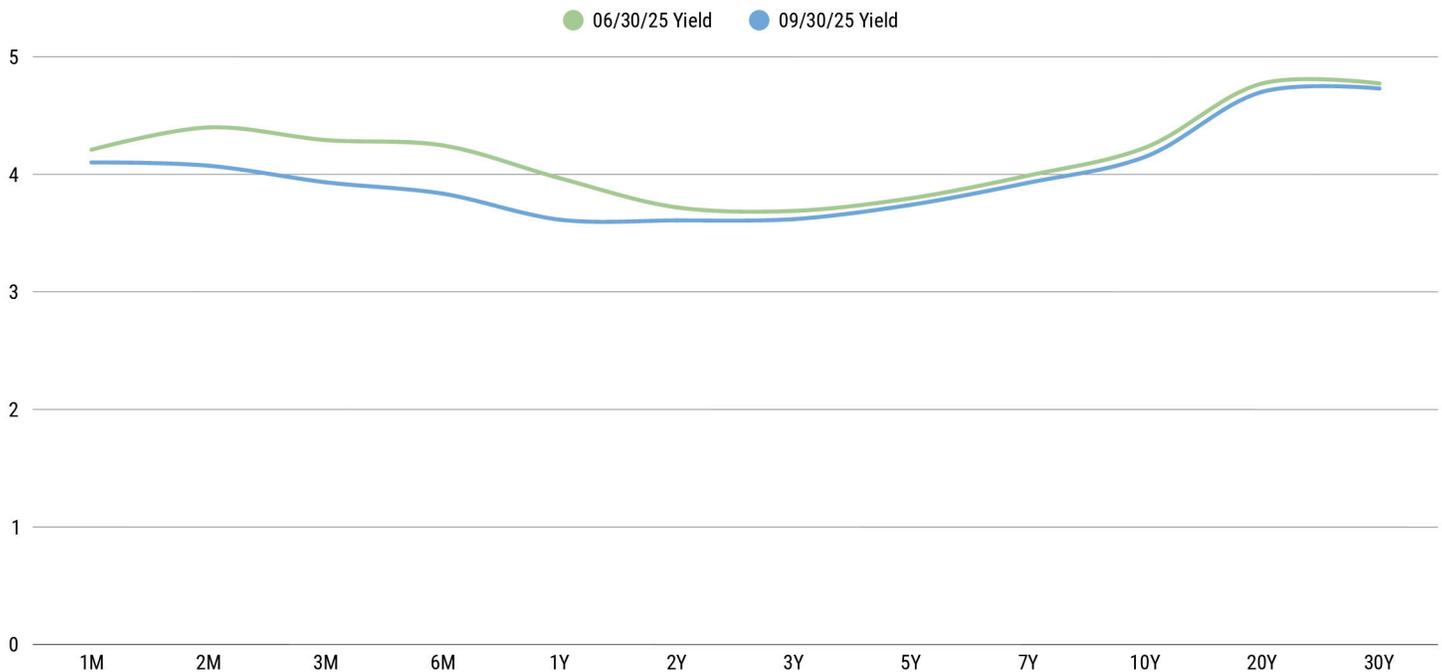
Investment-grade spreads continued their path to lower and historically tight spreads, which narrowed by 9bps and ended the quarter at 74bps. A similar theme occurred in High Yield as spreads narrowed by 23bps to 267bps at quarter end. Investment grade corporate issuance remained robust during the quarter 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

<b>Communications:</b>	Verizon
<b>Consumer Discretionary</b>	Lowe's Co
<b>Consumer Staples:</b>	Anheuser-Busch Inbev, Church & Dwight
<b>Energy:</b>	Enbridge
<b>Financials:</b>	Bank of America Corp., JPMorgan Chase & Co, MetLife Inc
<b>Healthcare:</b>	AbbVie, Elevance Health
<b>Industrials:</b>	Northrop Grumman, Union Pacific
<b>REIT:</b>	Prologis
<b>Technology:</b>	Equinix Inc
<b>Utilities:</b>	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.

# DISCLOSURE

## For Internal Fidelity Use Only - Not for Client Distribution

Exencial Wealth Advisors ("Exencial") is an SEC registered investment adviser with its principal place of business in the State of Oklahoma. Any references to the terms "registered investment adviser" or "registered," do not imply that Exencial or any person associated with Exencial has achieved a certain level of skill or training. Exencial and its representatives are in compliance with the current registration and notice filing requirements imposed upon registered investment advisers by those states in which Exencial maintains clients. Exencial may only transact business in those states in which it is notice filed, or qualifies for an exemption or exclusion from notice filing requirements. This report is limited to the dissemination of general information pertaining to its investment advisory services. Any subsequent, direct communication by Exencial with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of Exencial, please contact Exencial or refer to the Investment Adviser Public Disclosure website ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)).

Past performance is no guarantee of future results. The information contained herein is for illustrative purposes only and nothing within is, or is intended to constitute financial, tax or legal advice and should not be construed as personalized investment advice. Performance results prior to July 2020 occurred under the management of another investment advisor, Willingdon Wealth Management ("WWM"). That portfolio manager was solely responsible for selecting the securities to be bought and sold and was affiliated with an investment advisor other than Exencial. WWM and its strategies were acquired in July 2020 and at that time became part of Exencial and its investment strategies. The performance results prior to July 2020 are based on the performance of the Fixed Income Strategy in WWM accounts. Exencial now has access to and maintains the records supporting the performance of these accounts from inception to July 2020 and thereafter. From 02/01/2005 through the current month performance is based on the composite return net of fees of accounts invested in the Fixed Income Strategy. Accounts where the portfolio managers do not have full discretion to manage the updates from either the client or advisor are excluded from the composite.

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 which is available upon request. Clients may also incur other transactions costs such as brokerage commissions, custodial costs, and other expenses which are not reflected in the performance returns herein. The information contained herein has been compiled by the firm utilizing data and information from sources we deem reliable. However, the information has not been audited or independently verified and is not guaranteed. The charts and graphs represented herein are provided for informational purposes only and cannot in and of themselves be used to determine which investments to purchase or sell, or when to purchase or sell. 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. The information presented herein is subject to change without notice and should not be considered as a recommendation to buy or sell any types of securities, or which securities to buy or sell. Comparison of the Fixed Income Strategy to the various indices 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's performance with well-known and widely recognized benchmark indices. 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 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.