APPLETON PARTNERS, INC.

Adapting to Future Uncertainties:

Life Transitions and Financial Health

Life is inherently uncertain despite our best efforts to mitigate risk and plan for tomorrow's eventualities. For many of us, control offers a sense of security, yet the reality is that unexpected events inevitably occur, and personal transitions, however challenging, are sometimes necessary. That's why Appleton places great emphasis on the human element, as understanding our clients and gaining their trust is critical to helping them adapt to changing circumstances.

According to "The Social Readjustment Rating Scale," a landmark study of personal stress factors, the loss of a spouse and divorce are the two life events that introduce the greatest personal anxiety.[1]

The graying of America has long been chronicled and the implications of this demographic trend far exceeds our capacity to comment in a short letter. Furthermore, a long evident gender life expectancy gap has grown larger as our population ages. Life expectancy for American women reached 80.2 years at the end of 2022, while men live an average of 74.8 years.[2] Losing a spouse is not only emotionally difficult, but it also introduces financial planning needs that can be overwhelming to a widow or widower. Life insurance policy claims, retirement planning, budget adjustments, investment decisions, and housing transitions are among the challenges individuals may face.

Divorce introduces a different dynamic, but one that can be equally unsettling. As the population ages, the instances of later-in-life divorces have increased. In fact, a recent study from the American Psychological Association found that 36% of U.S. divorces now involve individuals over the age of 50, double the rate of 20 years ago.[3] Dealing with change of this nature often requires decisions concerning tax planning, investment strategy, insurance, beneficiary designations, and other financial matters, a potentially problematic undertaking without the support of an empathetic, knowledgeable advisor.

During the early stages of the pandemic and the relatively brief but very unsettling stock market decline, we published a quarterly letter on the effects of stress on decision-making. Revisiting the subject in terms of major life transitions is also applicable, and we concur with McKinsey & Co.'s advice to "take a deep breath and allow the brain to focus on what's most relevant" when under extreme stress.[4] Paralysis and panic are not atypical reactions, yet what is really needed is a sober assessment of the situation and one's options, followed by a well thought out response. This is where leaning on an advisor can be valuable.

Helping individuals and their families navigate the many joys of life along with its occasional sorrows requires more than portfolio management acumen, it demands building personal relationships. While no wealth manager can prevent or solve every difficulty clients may face, we can serve as a trusted resource and planning partner. To this end, the importance of personnel continuity should not be overlooked, and the tenure of our Portfolio Managers is one of the attributes we value most.

In good times and more challenging ones, having access to resources who can help you step back and make pragmatic financial decisions is highly recommended. As always, please reach out to your Portfolio Manager as your circumstances change. We also invite you to introduce us to family members or friends for whom we might be able to provide similar planning support.

Life Transitions By the Numbers

80.2 Life expectancy for American women

74.8 Life expectancy for American men

58% of women 75 and older are widowed

28% of men 75 and older are widowed

36% of U.S. divorces now involve individuals over the age of 50

3x divorce rates among people 65 and older tripled from 1990 to 2021

Sources: Center for Disease Control, Mortality in the United States, 2022; American Psychological Association, November 2023, AARP, The Financial Penalty of Losing Your Spouse, 2022; AARP, Divorce Skyrocketing Among Aging Boomers, 2023.

1. Journal of Psychosomatic Research, 1967; 2. Center for Disease Control, "Mortality in the United States," 2022; 3. American Psychological Association, November 2023; 4. "McKinsey & Company: "Decision-Making in Uncertain Times", 3/25/20

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MARKET OBSERVATIONS & IMPLICATIONS

Tax-Exempt Investment Grade Municipals

- The economy maintained its strength in Q3 while inflation pressures weakened, causing yields to decline. The 10Yr UST rallied 62bps, while municipal yields fell at more modest pace.
- The AAA municipal curve began to normalize in Q3 as 2Yr issues dropped by 81bps to 2.30%, while 10Yr yields were lower by 24bps, finishing at 2.60%. The low point of inversion moved to 3Yr AAA maturities, in from 10Yr maturities as of 6/30.
- With more rate cuts expected in 2024 and into 2025, we anticipate the curve will fully normalize by the end of Q4 or early 2025.

	6/30/24	9/30/24	QTD Change
2-yr AAA Muni	3.11%	2.30%	-81 bps
10-yr AAA Muni	2.84%	2.60%	-24 bps
30-yr AAA Muni	3.72%	3.52%	-20 bps

Source: MMD

- Q3 issuance of $136.2B is up 38.7% over Q3 ’23, and the YTD figure of $380.4B is just $4B shy of all of 2023 (Bond Buyer).
- Retail continues to drive the market and there is minimal pressure on lower-than-average ratios. An abundance of issuance drove ratios higher in Q3 with the 10-year AAA Muni/UST ratio finishing at 68.78%, near the higher end of our long-term range outlook.
- The 1st week of October marked the 14th consecutive week of positive net fund flows bringing YTD flows to $28.1B (Lipper). Mutual Funds accounted for $19.8B and ETFs $8.3B. Long Duration strategies remain the asset gathering leader, with Short Duration lagging in Q3 on rate cuts.
- Credit spreads were unchanged in Q3 with AAA-AA spreads static at 10bps and AAA-A at 34bps (MMD). With tight spreads intact, our team remains quality focused.
- The 7-year portion of the curve was the best Q3 performer (+3.20%), while the 5-Year and Long components (22+ years) followed at +3.05% and +3.04%, respectively. Despite a 60bps rally, the 1-year component lagged at 1.64%.
- We see room for short rates to trade lower while 10 to 15-year AAA rates could be range bound. We expect further steepening with front end yields coming down and the longer end stable. In response, we are moving away from a barbell structure in Intermediate portfolios and adding bonds as steepness returns to the 5 to 7-year maturity range. Our duration target remains 4.65 to 4.75-years.

Investment Grade Corporates & Treasuries

- Q4 began with a robust jobs report that pushed 2Yr and 10Yr UST yields up 38bps and 23bps, respectively, flattening the curve. This partially offset a sharp decline in Q3 yields after the initiation of Fed Funds rate cuts and what had been seen as slowing growth.
- Impressive labor market resilience quickly shifted Fed rate cut expectations for November’s meeting from 54% odds of a 0.50% cut as of 9/27 to essentially 0% by 10/4.
- IG credit spreads tightened slightly on the quarter, although September brought heightened volatility with spreads hitting YTD highs on a relatively weak labor report to begin the month. As pressure abated, so did spreads, and they closed September 3bps lower then where Q3 began. Solid economic data and paltry issuance sent the Bloomberg US Corporate Bond Index OAS falling even lower to 83bps on 10/4, the lowest level since June 2021.
- IG Corporate bond issuance in Q3 was very active as issuers prepared for Fed easing and a lower Fed Funds rate. In addition, election uncertainty and a quiet earnings blackout initiated at the beginning of October pushed the rush. The $170.6 billion of new debt sold in September smashed previous highs ($164 billion during the pandemic in September 2020), a surge that increased YTD issuance to $1.26 trillion.
- Fund flows into High Yield and High-Grade funds have accelerated of late, and a rotation out of UST products has been evident given the Fed Funds rate trajectory.

Equities

- Stocks were higher in Q3 as the S&P 500 advanced for the 4th straight quarter and the 7th of the past 8. The +5.5% return brings the YTD price appreciation to +20.8%. The Nasdaq trailed (+2.6%) although the tech-heavy index remains slightly ahead YTD at +21.2%. Small caps, represented by the Russell 2000, led the way with a +8.9% gain.
- While the first half of 2024 was characterized by a lack of breadth and narrow leadership, Q3 saw a healthy broadening out of participation. Eight of the eleven sectors outperformed the overall index led by cyclicals and defensives. Tech and Communication Services were among the laggards, along with Energy (-16.4% on a drop in WTI crude). Notably, the equal-weighted S&P 500 outperformed the market-cap weighted index with a return of +9.1%.
- The market’s recent strength has largely been attributed to rising expectations for an economic soft-landing. With the Fed showing “greater confidence” that inflation was moving back towards their 2% target, focus has shifted to the economy and labor market.
- The unemployment rate hit a multi-year high of 4.3% during Q3, prompting calls for a more aggressive Fed move. September’s 50bps cut was welcomed by investors as it signaled the beginning of an easing cycle that should last into 2025.
- A breather may be in order though following stock market gains in 10 of the past 11 months. Investors will have to balance risks such as rising geopolitical tensions, an impending election, rising oil prices, and elevated valuations against favorable indicators, including a strong early October jobs report, easing global central banks, and 2025 earnings growth estimates of +15%.

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