Practical Wealth Management Guidance

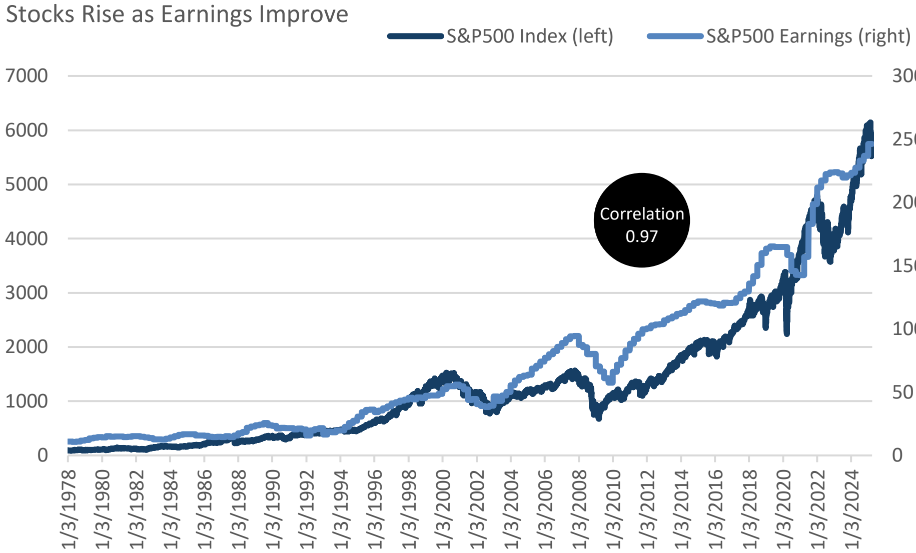
. . . along with Some Fun Facts

Making sense of the economy and markets can be challenging in any era, although today's environment is proving to be particularly perplexing to many. Context and perspective are critical, as it is all too easy to get lost in the day's headlines and varying predictions. With apologies to the long running staple of David Letterman's former "Late Night" show, here is an **Appleton "Top 10 List."**

1. **Stock market losses have typically been relatively short-lived.** Since 1945, there have been 42 DJIA drawdowns of -5 to -10% and 15 declines of -10 to -20%. The average recovery time has been 3 months and 8 months, respectively. (FactSet, Dow Jones)
2. **No risk-it, no biscuit!** Since the March 2009 market bottom, the S&P 500 has seen 4 declines of 20% or greater (commonly known as bear markets). Nonetheless, the index still returned +16.6% on an annualized basis from 3/9/09 to 3/9/25.
3. **Keep an eye on earnings.** The S&P 500's value has demonstrated an exceptionally high 0.97 correlation with S&P 500 earnings growth since 1957. (Invesco, Bloomberg)
4. **Profitability growth has stood the test of time.** US corporate profits totaled $3.1 trillion in Q3 '24, nearly double the $1.6 trillion recorded during the same period of 2010. (St. Louis Federal Reserve)
5. **Heed the words of Albert Einstein.** "Compound interest (e.g. returns) is the eighth wonder of the world. He who understands it, earns it . . . he who doesn't, pays it." In other words, time and consistency of savings and investments grows wealth.
6. **Income matters and it's currently healthy.** The yield-to-worst on the Bloomberg Managed Money Short/Intermediate 1-10 Year Index of 3.02% comfortably outpaces its 10-year average of 1.80%. Furthermore, a 4.26% yield-to-worst on the Bloomberg Intermediate US Govt/Credit Index far exceeds the 10-year average of 2.60% (as of 3/31/25).
7. **The private markets boom is facing challenges.** Liquidity for private equity limited partners is at its lowest level since the 2008 global financial crisis, with 2024 distributions to investors accounting for only 11% of the market value of investments. (Bain & Co., 3/17/25)
8. **Encourage family members to start saving as early as possible.** Investor 1 begins making $50 biweekly investments at age 25. Over 40 years, they invest $52,000 of their own money and at age 65 have a balance of $128,276. Investor 2 begins investing $100 biweekly at age 40, putting in $65,000 of their own money and at age 65 has a balance of $110, 514. By simply beginning investments earlier, you can take advantage of compound interest helping your money earn more. (RBC Global Asset Management)*
9. **Financial advice is likely to become an increasingly acute need.** Cerulli Associates recently projected that $124 trillion of US wealth will be transferred by 2048, $105 trillion to heirs. (Cerulli Associates, "The Great Wealth Transfer," 12/4/24)
10. **Help wanted. Referrals are welcome!** The wealth management industry could face a shortage of 90,000 to 110,000 financial advisors by 2034. (McKinsey & Co., February 2025)

*This example is for illustrative purposes only and not indicative of any investment. Account value in this example assumes a 4% annual return.

Stocks Rise as Earnings Improve



Source: Bloomberg L.P.

Correlation as of 12/31/23. Correlation expresses the strength of relationship between distribution of returns of two sets of data. The correlation coefficient is always between +1 (perfect positive correlation) and -1 (perfect negative correlation). A perfect correlation occurs when the two series being compared behave in the exact same manner. Past Performance does not guarantee future results.

Where do the terms bull and bear come from?

"Among the stock market facts every investor should know are what bear and bull markets refer to. These terms are believed to come from how the animals fight. A bear swipes down with its claws, so a bear market refers to when the market is losing value. A bull lifts with its horns, so a bull market is when the market is on the rise."

"30 interesting facts about the stock market every investor should know"
- Moneywise

Source: https://moneywise.com/research/stock-market-facts

Market Observations & Implications

Tax-Exempt Investment Grade Municipals

- Yields trended lower through February as the 10Yr UST closed at 4.21%, down from 4.57% at year-end. The municipal curve moved higher in March due to fund outflows, strong issuance, and seasonal tax selling, while a flight to quality pushed UST yields lower.
- A series of tariff announcements have produced a surge in market volatility, indiscriminate selling, and widely fluctuating yields. Recession risk has increased, and markets are now pricing in 3-4 Fed cuts in 2025.
- A steepening trend has returned the AAA curve to a uniform positive slope.

	12/31/2024	3/31/2025	QTD Change
2-yr AAA Muni	2.82%	2.68%	-14 bps
10-yr AAA Muni	3.06%	3.26%	+20 bps
30-yr AAA Muni	3.90%	4.24%	+34 bps

Source: MMD

- Record 2024 municipal issuance has continued as Q1 was up 15% over 2024 levels. B of A also recently increased their 2025 expectations from $520B to $580B.
- Municipal demand sustained 10-year AAA Muni/USTs ratios in the mid-60s through much of Q1, although municipals lagged in March. The 10-year ratio ended Q1 at 77.4% and moved even higher to the low 80s in early April “risk-off” markets.
- Municipal fund flows were positive over the first two months of QI before losing $1B later in March. YTD net inflows total +$9.8B, led by long duration and high yield.
- Credit spreads remained tight and were unchanged in Q1 with AA, A and BBB at +11, +35 and +83 over AAA-rated credits.
- Given a steepening curve, Q1 performance was driven by duration. The Long Bond (22+ years) lagged (-1.46%), while 1–year index returns were +1.05%.
- Strong carry led BBB-rated credits to outperform AAA-rated credits (+0.13% for BBBs vs. -0.34% for AAAs).
- With the Fed likely to begin cutting rates this summer, a back-up in yields, ratio highs, and curve steepness all make municipals attractive in our view. Yield volatility should persist for the time being, and we are maintaining Intermediate duration at 4.65 years and targeting bell-shaped curve exposure of 2 to 12 years.

Investment Grade Corporates & Treasuries

- IG credit spreads had been largely stable through much of Q1, although that quickly changed as OAS on the Bloomberg US Corp. Bond Index hit a high of 94bps by quarter-end. Spreads climbed another 25bps early in Q2 to levels not seen since Nov. 2023.
- Market turbulence has also affected IG new issuance, which had set a new Q1 record at $531B, with offerings slowed as issuers look for a degree of economic policy clarity.
- IG demand had been robust for an extended period with buy-side order books typically far surpassing the availability of new bonds. Absent tariff-related global turbulence - a big caveat - the fundamental backdrop for IG issuance and demand remains intact.
- UST yields moved lower for most of Q1 with the 10Yr dropping 36bps to 4.21% by the end of February. Longer bonds followed in a flattening trend. March saw a reversal, as shorter end yields fell while yields on maturities of 15+ years rose.
- Rate volatility has been high and dramatic intraday moves frequent. Early April has seen accelerated volatility and curve steepening. After dipping below 4%, 10Yr UST yields spiked more than 35bps in a few short days as tariff headlines rattled investors.
- UST yields remain lower than where 2025 began, most notably in the 2 to 10-year part of the curve. A bull steepening trend is evident as recession risks increase along with the potential for Fed easing.
- Our HGIGC strategy continues to be up in quality and defensive in nature given the likelihood of further volatility.

Equities

- Stocks have been on sale of late as the S&P 500 (-4.6%) and NASDAQ (-10.4%) posted their worst quarterly performance since Q2 ’02. The DJIA declined by a more modest -1.3%. An emerging trade war with China, coupled with the ramping up of other tariffs, fed growth and inflation worries, leading to the S&P 500’s 7th fastest decline of -10% since 1929.
- Prior to the onset of tariff turmoil, Q1 was characterized by a rotation out of mega cap tech companies. The “Mag 7” fell -16% in Q1 as focus moved towards value (+2.1%). The All-Country World Index ex-US gained >6% to outpace the US by the most in 2 decades.
- Along with the latest DC developments, we’ll be closely following Q1 earnings. Growth estimates have been cut from +11.7% (as of 12/31) to +7.2%. Forward guidance, if provided at all, will be telling, and corporate sentiment is likely to be subdued.
- Past corrections and bear markets have different causes, yet they tend to have similar characteristics – VIX spikes, technical flushes, sentiment and confidence declines, and sharp downside price swings.
- However, these situations have typically led to above average 12-month returns. We are not predicting a “V-shaped” recovery, but patient investors who remain calm are often rewarded.

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