

The Age of AI Is Upon Us: Implications For You and Appleton

“Artificial intelligence is not a substitute for human intelligence; it is a tool to amplify human creativity and ingenuity.”
Dr. Fei Fei Li, Stanford University



Noteworthy years in the stock market tend to be associated with specific events or themes. For veteran investors, 1987 invokes memories of “Black Monday,” while 1999 to 2001 will be forever linked with the “dot com” boom and bust. While not quite as dramatic as those periods, this has been the year of artificial intelligence (“AI”), a technology that has surged into the public consciousness and rippled through the economy. You may wonder, what does this have to do with me? Perhaps more than you think.

Let’s start with some positives. A surge of investor enthusiasm for stocks associated with AI has bolstered market performance, as the ten largest S&P 500 technology names have produced an average YTD return of +25.5% vs. +9.6% for the Equal-weighted S&P 500 Index.¹ In such a “top heavy” market, one may be tempted to follow [herd momentum](#), a phenomenon we have previously discussed. To be clear, high growth rates are appealing, yet value still comes back to fundamentals. Our research process requires not just growth, but also conviction in a company’s business model, sustainability of earnings, and management, among other factors.

Many other aspects of our daily lives are also being impacted by AI technology. A few examples include GPS navigation systems, wearable healthcare devices, medical diagnostic systems, and virtual assistants such as Siri and Alexa. These and other applications offer instant access to information, encourage healthier lifestyles, streamline healthcare delivery, and enhance consumer convenience. Turning to the younger generations, AI is transforming education by dramatically accelerating innovation in teaching and learning. The days of searching the library aisles for source material are long over, yet technological change does not come without its complications.

The age of AI, like so many other innovation cycles, has introduced a host of concerns. Misinformation, algorithmic or systematic bias, an erosion of critical thinking, and the loss of human connection are all very real risks. At Appleton, we try to focus on what we can control, and relative to AI, understanding where information comes from is as important as the content itself. Our research teams do not currently use AI tools. However, if and when we do incorporate the use of AI in the research process, we will not deploy those tools or other research technology to gather information from sources that we cannot identify and/or do not consider to be highly credible. In

other words, we largely constrain our research environment to content drawn from companies and bond issuers themselves, as well as other reliable sources, and then draw our own conclusions. But gathering and synthesizing data and analysis of this nature is time-consuming, and AI and related search applications can be extremely useful in the research process.

It is often said that portfolio management is an art and a science. One must gather a wealth of insight concerning the economy, public policy, the capital markets, listed stocks and bond issuers, and then determine how best to utilize this information. To us, AI is a tool – a valuable analytical input – but will never be a determining factor in how we make investment decisions. Our research process, security selection, and portfolio construction remain squarely in the domain of our Equity and Fixed Income Investment Committees and our Wealth Managers.

Furthermore, we view risk in personal terms. Risk is not just a quantitative metric such as standard deviation or benchmark tracking error; it’s a critical element of personal financial planning. A portfolio strategy designed around your circumstances and objectives may not be appropriate for someone else. While AI tools are highly sophisticated, our risk judgment is not going to be outsourced to any algorithm. Understanding each client’s investment personality, needs, and goals is required to determine risk tolerance and, ultimately, asset allocation strategy. So, don’t expect a bot to replace your Appleton Wealth Manager any time soon.

In a highly competitive industry, delivering compelling value demands efficiency and productivity in all areas of our business. AI is a technology we are actively exploring, and you can rest assured that any usage we may undertake will be thoughtfully considered. We will employ AI tools where they can help us gain productivity, but we will never compromise the personalized nature of our wealth management services and the judgment of our professionals.



1. NVDA, MSFT, AAPL, AMZN, META, AVGO, GOOG, TSLA, BRK.B, ORCL; performance measured 1/1/25 – 9/30/25.

MARKET OBSERVATIONS & IMPLICATIONS

- Q3 was marked by tariff uncertainty, coupled with labor market weakness. Despite Q3 GDP revisions to +3.8%, Q4 expectations remain at +1.00%, an environment that prompted the Fed to cut rates by 25bps in September.
- Municipals posted strong Q3 performance as the Fed easing began. A curve steepener developed through mid-to-late August, leading the front-end to become overbought. Strength in the 10-year portion of the curve added to duration-led Q3 performance.
- The 2 to 10-year AAA spread peaked at 104 bps in late August, before front-end weakness flattened the curve.

	6/30/2025	9/30/2025	QTD Change
2-yr AAA Muni	2.58%	2.30%	-28 bps
10-yr AAA Muni	3.26%	2.92%	-34 bps
30-yr AAA Muni	4.54%	4.24%	-30 bps

Source: MMD

- The market is now pricing 25bps cuts at each of the two remaining 2025 meetings, and 2-3 more cuts in 2026, which would leave the terminal Fed Funds rate at 2.75% - 3.00%. We see potential for fewer 2026 cuts than consensus.
- August and September new offerings dropped YoY after a strong initial 7 months, although YTD issuance of \$433.4B is running 12% ahead of 2024.
- New supply slowed after the OBBBA passed in July and has since only outpaced the prior year 25% of the time (JPM).
- Robust ETF-led fund flows are fueling demand, as Q3 net flows exceeded +\$18B and YTD levels totaled +\$31.6B.
- A strong bid for municipals led to outperformance vs. USTs with 10-year AAA Muni/UST ratios falling to 70.1% from 77.4%.
- Credit spreads remain tight at +11bps, +35bps, and +83bps for AA, A, and BBB credits (MMD).
- Duration was the primary performance driver in Q3, as yields were lower across the curve. The Long Bond (22+ years) was the best performing index component at +3.84%.
- Record curve steepness and the potential for lower rates provide a strong environment for municipal bonds. We have been increasing duration on the Intermediate Strategy to 4.80 years and are targeting traditional bell-shaped curve exposure of 2-12 years.

- US Investment-grade credit spreads continued to trickle lower from the YTD highs of "Liberation Day" chaos. The resiliency amid constant headline risk volatility has been solid, as the OAS on the Bloomberg US IG index was tighter by 9bps over the quarter.
- Investor demand remains high and, as rates fall, demand for yield is also driving investors to reach for lower credit in the market. In the HY space, we have seen spreads track very close to YTD lows. The quarter close of 266bps OAS on the Bloomberg US HY index is just 31bps off lows sent back in the fall of 1997.
- IG spreads hit a YTD low of 72bps OAS in mid-September, the lowest level since the spring of 1998, and we continue to feel that IG credit spreads will be range-bound in the near term. Given the spread dynamic in both the IG and HY markets, the spreads between high quality credit and HY have collapsed to just 194bps and just shy of the 177bps 10 year low.
- Thanks to a record setting \$207B issued in September, supply for the quarter reached \$390.5B. This brought the YTD issuance to 1.286T, 2% higher than this time last year, and strong technicals have set the stage for continued favorability for issuance. Investor demand remains high, concessions are low, and all-in yields are still attractive, which should continue to fuel the primary markets.

- The S&P 500 advanced for the second quarter in a row, gaining +7.8% while reaching 23 new all-time highs, tying the most for any quarter since 1998. The Nasdaq outperformed, gaining +11.2%, while the DJIA lagged with a respectable +5.2% gain.
- Outsized gains were concentrated in the Technology (+13.0%), Communication Services (+11.8%), and Consumer Discretionary (+9.4%) sectors, with the remaining eight sectors trailing the benchmark. Only Consumer Staples (-2.9%) finished the quarter in the red as more defensive pockets of the market were left behind given the risk-on nature of the rally.
- A rally in risk assets was accompanied by a collapse in volatility, as the VIX traded to its YTD low of 14.2 in late August. The S&P 500 barely gave dip buyers a chance to jump in with only one trading day posting a loss greater than -1% and the deepest drawdown being only -2.4%.
- Small-cap stocks outperformed as the Russell 2000 gained +12.0%, its best return since 2023, and hit its first all-time high since Nov. 2021. Despite the move in smaller stocks, breadth narrowed with the equal-weight S&P 500 trailing by 3.4%, as mega-cap tech companies outperformed.
- A positive theme for the market was found in growing expectations of a Fed Funds rate cut, which was delivered at September's FOMC meeting. The first rate cut since Dec. 2024 was welcome, but more importantly, the committee signaled the possibility of two more cuts by year-end.
- Going forward, valuations remain top of mind, particularly in distinct pockets of the market (quantum computing, cryptocurrencies, AI, unprofitable tech, etc.). Though government shutdowns have not historically impacted markets materially, we are watching to see how a lack of jobs and inflation data impact the pricing of Fed rate cut expectations.



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