Reactionary Investing Can Be Costly

"Be fearful when others are greedy and greedy only when others are fearful." — Warren Buffett

The Greek physician Hippocrates is eternally associated with the directive that physicians must seek to heal or at least do no harm. In a very different context, as wealth managers, we strive to help clients achieve their long-term financial goals, the pursuit of which is facilitated by avoiding self-harm.

The temptation to deviate from asset allocation parameters by becoming overly defensive when stock values inevitably retrench, or to chase "winners" when narrow segments of the market surge, is powerful. Whether such responses are characterized as market timing, herd following, or excessive tactical trading, allowing prevailing sentiment and headlines to overly influence long-term, risk-based investment strategies can be destructive.

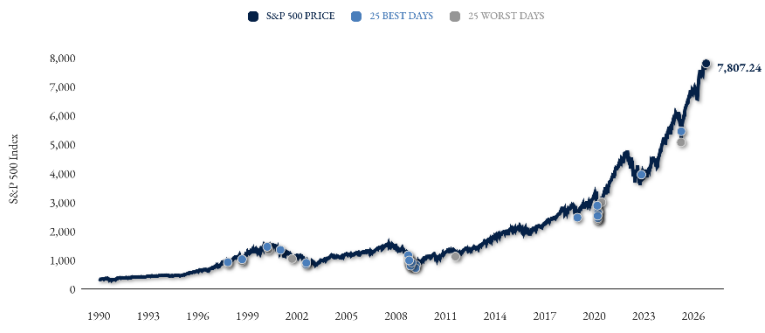
Calculating the costs of overly emotional decisions in either direction is very difficult given all the variables at work, although advisors often cite the impact of missing select highly positive days, many of which have historically occurred during bear markets. For example, missing the S&P 500's 10 best days during 2006–2025 reduced annualized total returns by over 4%, compared with remaining invested throughout.

One may wonder how an investor could possibly miss just those "bounce back" days if perfect market timing is impossible. That's a legitimate skepticism although it leads to a broader truth. As we often emphasize, volatility is a stock market feature, not a bug, and being in the market is far more beneficial than trying to time the market.

As the accompanying chart reveals, big up days tend to occur during the same time periods as sizeable declines. Reacting to short-term developments by panic selling, or "chasing the hot-dot," can be counterproductive.

Historically, the Best and Worst Days Have Clustered

S&P 500 Price With Dots for 25 Best and Worst Daily Performances
Since 1990



Source: © Exhibit A, FactSet Research Systems Inc., Standard & Poor's | Latest: 2026-10-12

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Tune Out the Noise

In statistical analysis, noise is defined as the random, unpredictable variability in data. While sudden market downturns may not be random in the sense that analysts usually attribute a specific cause, they are prone to unpredictability and rapid reversal. Investors who impulsively react to volatility are effectively making two decisions every time they trade: when to sell and when to re-buy (or vice versa). The odds of consistently making those calls correctly are very low for professionals and personal investors alike, but the costs can be high.

Compounding: The 8th Wonder of the World

Albert Einstein has been credited with the making the statement referenced above, and math suggests he had a very good point. Consider a very simple example. If one starts with $100,000, invests for 20 years, and achieves an 8% annual return (compounded monthly), their balance will grow to $492,680. However, if market timing or other factors reduce returns to 6%, the investor's balance after 20 years would be reduced to $331,020. This example illustrates how even modest differences in annual returns can compound over time, underscoring the value of maintaining a disciplined, long-term investment approach.

Overcoming Emotional Biases

Perhaps the greatest value of a trusted advisor lies in their ability to help investors pursue disciplined, sustainable investment strategies. At Appleton Wealth Management, we take pride in our investment research, security selection, and long-term risk-adjusted performance. However, we feel our greatest value lies in understanding individual needs. Through durable, risk-conscious asset allocation, we believe our clients are better able to make short-term volatility work for them rather than allowing it to harm long-term results.

Sometimes doing the simple things well matters more than trying to accomplish difficult tasks. Periodic portfolio rebalancing offers an example. Reallocating back to target asset allocation ranges may be unexciting, but it results in trimming more highly appreciated portfolio exposures and adding to underperforming ones. Doing so at the asset class level also enables security specific research within these broad exposures to add value.

Asset allocation is not static though. Circumstances change whether due to life stages, evolving income needs, inheritance, career developments, or other factors. Adjusting asset allocation may be warranted, although we feel it should be based on personal insight, not market sentiment.

Source: JP Morgan Asset Management

MARKET OBSERVATIONS & IMPLICATIONS

Tax-Exempt Investment Grade Municipals

- Q3 was difficult for investors as economic growth, elevated inflation expectations, and heavy supply drove municipal yields significantly higher across the curve.
- Along with USTs, longer-term municipal yields reached levels not seen in almost two decades. The Fed reinforced its inflation-fighting commitment with a Fed Funds rate increase to a target range of 3.75%-4.00%.
- Market pricing suggests another December hike and perhaps two more in 2027. We are cautious on that front and feel the trajectory of economic growth and inflation will dictate the pace of tightening.
- Q3 brought a slight flattening of the curve. The 2 to 10-year AAA spread had been as wide as 88bps in mid-September before closing at 56bps. The UST curve steepened modestly although it is still flatter than the municipal curve.

	6/30/2026	9/30/2026	QTD Change
2-yr AAA Muni	2.35%	3.54%	+119bps
10-yr AAA Muni	2.95%	4.10%	+115bps
30-yr AAA Muni	4.19%	5.13%	+94bps

Source: MMD

- September issuance of $55.3B brought the YTD total to $458.5B (+6.3% vs. 2025). Although another record year is likely, the recent back up in yields has tempered refunding volume.
- Fund flows slowed in Q3 to a net of +$21.6B. ETFs captured the overwhelming share, a dynamic supported by active tax-loss harvesting and reinvestment. Strong demand has dampened the impact of high issuance with long duration (50%) and intermediate (21%) strategies leading Q3 inflows.
- Municipal's underperformance vs. USTs pushed the 10-year AAA Muni/UST ratio up to 79.4% from 66.0% at the end of Q2. We see considerable absolute and tax-equivalent value at these levels.
- 10-year credit spreads were unchanged at 11bps (AAA-AA) and 29bps (AAA-A), while AAA-BBBs tightened by 7bps to 68bps.
- Given rising yields, longer duration underperformed in Q3. Strong credit carry allowed lower IG sectors such as Pre-Paid Gas bonds, Industrial Development Bonds, and Tobacco bonds to outperform.
- TEYs are now in a 6.75 – 7.00% range, which is attractive relative to taxables. The municipal curve remains relatively steep and offers opportunity for total return and roll. Our Intermediate duration target remains at 4.80+ years and we are focusing on bell-shaped curve exposure.

Investment Grade Corporates & Treasuries

- UST yields rose sharply across all maturities and the curve steepened with the move heavily concentrated in September. The 10Yr yield surged +81 bps to 5.29%, and the 30Yr rose +66 bps to 5.63%. The 2Yr climbed +71 bps to 4.89%, and the 5-year added 85 bps to 5.09%. Persistent inflation driven by oil price spikes was a primary catalyst for the sell off.
- The Bloomberg US Corporate Index OAS widened 6bps over Q3, closing at 80bps. IG spreads ended Q3 modestly wider but remained well within historically tight territory. Rate-driven total return pressure was evident, not fundamental credit deterioration. Spreads could be pushed slightly wider in Q4 due to inflation concerns and the Fed's rate hike dilemma.
- While US IG credit spreads displayed resiliency, September's rate shock hit the High Yield market a bit harder. The Bloomberg High Yield Index OAS rose 51bps in September vs. IG's +6bps move. High Yield bonds surged to a 17-month high and faced their worst monthly loss since September 2022. The rate backdrop was the dominant driver of performance in Q3, consistent with the range-bound spread environment. Excess returns vs. UST were only modestly negative.
- Total US IG Corporate bond issuance in Q3 reached $449.9B across 1,218 deals, with August the heaviest month. The quarter was marked by a surge in M&A-driven mega-deals, robust investor demand, and a sharp September yield spike. The YTD pace is now about 33% above 2025 levels.

Equities

- Stocks were mixed in Q3 as the S&P 500 (+2.0%) and Nasdaq (+2.5%) posted modest gains, though returns became increasingly concentrated in large-cap technology stocks. Market breadth deteriorated with the equal-weight S&P 500 trailing the cap-weighted index by >4% and only about a quarter of index constituents finishing above their 50-day moving averages.
- AI remained a dominant theme, though enthusiasm moderated after an extraordinary multi-year run. Semiconductor stocks pulled back after gaining more than 230% over the prior six quarters, while software rebounded sharply as investors grew more comfortable with AI adoption, spending trends, and monetization opportunities.
- Energy was the quarter's standout sector as escalating Middle East tensions pushed oil prices higher. WTI crude gained more than 30% during Q3, helping Energy outperform while adding to concerns that elevated fuel costs could aggravate inflation.
- UST yields moved sharply higher as investors grappled with persistent inflation, resilient economic growth, and rising government borrowing. The Fed raised rates by 25bps in September, while the 10Yr UST yield climbed to its highest level since 2002.
- Despite a more challenging backdrop, corporate fundamentals remain strong. S&P 500 earnings growth continues to exceed expectations, supported by healthy consumer spending, a solid labor market, and enormous AI related investment.

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