

CURBSTONE FINANCIAL MANAGEMENT CORPORATION

FROM THE CURB

Market Observations: Looking Forward

March 17, 2020

We are writing this over the weekend of March 14th and 15th, following a week of historic market volatility when investors indiscriminately exited markets in favor of cash. This anxiety producing behavior left market participants looking for answers at a time when there is little visibility as it relates to the true impact of this modern-day pandemic.

On Thursday, the Dow Jones Industrial Average (DJIA) declined 9.9% making it the largest one-day pullback since 1987. On Friday, the DJIA closed up 9.4% making it the largest gain since 2008. The seesaw returns are reflecting investors reactions to headlines and worst-case scenarios.

Dow Jones Industrial Average	Monday	Tuesday	Wednesday	Thursday	Friday	The Week
Point Change	-2,014	+1,167	-1,465	-2,353	+1,985	-2,679
Percentage Change	-7.79%	+4.89%	-5.86%	-9.99%	+9.36%	-10.36%

Source: Wall Street Journal

While the Coronavirus (COVID19) is front and center on the list of concerns, there are other aggravating concerns as well. The Saudis and Russians have initiated the most intense oil war in decades after the Russians refused to agree to proposed production cuts. The news rippled through credit markets where a heavy percentage of lower quality corporate debt is now viewed at risk. The worldwide impact of these events has raised investors' concerns for a recession along with the repricing of securities based on the prospects for weaker corporate profitability.

In normal times it is difficult, at best, to make any predictions about the markets with any accuracy. That difficulty is magnified during times of crisis. At this early stage, not only is the penetration of COVID19 difficult to predict, but its future economic impact is completely unknown. What we do know is that both the Federal Reserve and U.S. Treasury are working together to ensure liquidity in the markets and that relief will be made available. The Federal Reserve had already reduced the Fed Fund rates by 50 basis points and took steps over the weekend to further reduce the cost of credit. We also anticipate a fiscal package out of Washington aimed at helping small and mid-sized businesses.

As fundamental, active investment managers, we believe we are well suited to manage through these volatile periods. We follow a fact-based discipline guided by quantitative and qualitative analysis. Such analysis allowed us to enter into this correction phase at the lower end of our equity allocation ranges. Once markets settle, we will be in an excellent position to add high quality investments to the portfolios which are managed to align with your objectives, time horizon and tolerance for risk. It has been said that panic is not an investment strategy and certainly does not reflect our approach to manage for the long-term.

Please know that we are internally well-prepared to continue performing our advisory functions regardless of the severity of this pandemic. We have established secure means of staying connected and have video conferencing available to allow us to meet virtually. Lastly, all members of our staff have the ability to work from home should that be necessary.

Beyond the management of your assets, we recognize that there are many issues that are of concern given the current environment. Please let us know how we can assist you in meeting these challenges.