

CURBSTONE FINANCIAL MANAGEMENT CORPORATION

From the Curb

Letter to Clients

Quarter Ending March 31, 2023

Stocks and bonds, in general, ended the first quarter of 2023 with gains. While not enough to erase the losses realized in 2022, it was a step forward. The positive returns were realized despite the Fed's pledge to continue to fight inflation, two bank failures and the unwinding of a crypto-centric bank.

Inflation appears to be ebbing but remains high by historical measures. The Fed is focused on how much more needs to be done while acknowledging that there is a lag to their work. Monetary policy can take up to a year to fully impact the US economy and we just crossed the one-year mark from the first interest rate increase of 2022. Borrowers are just starting to assess the impact of higher rates and are only now beginning to adjust their appetite for credit. On the other hand, investors are benefitting from higher interest rates as yields on money market funds, CDs and bond have all improved.

While much is understood relative to the Fed's commitment to slowing the economy, there is still some uncertainty surrounding the banking industry. The Federal Reserve in combination with the FDIC and the US Treasury moved quickly to address the concerns and avoid a full-blown banking crisis. A new program was created to help banks meet their liquidity needs without having to sell assets at losses. These actions, along with other steps, have shored up confidence and eased concerns that there is a larger problem underlying the financial system.

Looking past the regional bank predicament, inflation remains a major longer-term influence on the economy and markets and therefore, a focus for investors. More specifically, the decline in inflation stalled in February and March and all eyes are watching for a continuation of the downtrend. If inflation resumes its decline, we could see a tailwind develop for both stocks and bonds.

Regarding economic growth, the market rally in the first quarter, was driven by the hope of an economic soft landing. While the regional banking crisis complicates this optimistic outlook, it is still possible that a hard landing can be avoided. To that point, employment, consumer spending and the broader economy have remained surprisingly resilient. So, while we should all expect some slowing in the economy, a recession is by no means guaranteed.

To be sure, this remains a tumultuous time in the markets. Investors are facing the highest interest rates in decades, the worst geopolitical tensions in years, and a very uncertain economic outlook that deteriorated in the wake of recent bank troubles. While these concerns are valid, it is important to realize that underlying U.S. economic fundamentals and U.S. corporate performance are strong. These two factors, a strong economy and earnings growth, are the true long-term drivers of market performance.

We are prepared for continued volatility and are focused on managing both risks and return potential. We understand that a long-term-focused plan and a diversified asset base can withstand virtually any market surprise and related bout of volatility. We encourage you to keep us informed of any changes in your financial circumstances and cash needs.

As an SEC-registered investment adviser, we are held to rules and regulations that strive for transparency and clarity on behalf of the client. We also, as fiduciaries, always keep your best interests central to our work. Recently, the SEC moved to require that client account performance be shared net

of fees. We have updated the enclosed reports to reflect the new requirement. While the indices, like the S&P500, do not have fees assessed against them, you do pay a fee for management and your gross return has been reduced by the fee paid and is now reflected on the report.

We are happy to answer any questions as they relate to this change in reporting or anything else on your mind. If you would like a copy of our Privacy Notice, please let us know and we will send you a copy. We thank you for your ongoing confidence and trust. Please rest assured that our entire team remains dedicated to helping you successfully achieve your financial goals.