

# CURBSTONE FINANCIAL MANAGEMENT CORPORATION

## From the Curb

Letter to Clients

Quarter Ending March 31, 2026

Market volatility rose meaningfully in the first quarter of 2026. The confluence of geopolitical shocks, stress in private credit markets, and shifting sentiment around artificial intelligence pushed the S&P 500 modestly lower to start the year.

### A Quarter of Surprises

The quarter opened with a dramatic geopolitical event: on January 3, U.S. forces arrested Venezuelan President Maduro, briefly unsettling energy markets. A swift diplomatic resolution from Venezuela's new leadership quickly calmed investor concerns. Weeks later, grand jury subpoenas were issued to Federal Reserve Chair Powell over the renovation of the Fed building, reviving worries about central bank independence. Pushback from prominent Republican Senators helped contain the fallout. Despite these headline shocks, fourth-quarter earnings were solid, economic data remained stable, and the Fed reaffirmed its intention to cut rates in 2026. The S&P 500 finished January with a gain.

February brought more targeted turbulence. The release of a new AI productivity application sparked a steep sell-off in software stocks, challenging the prevailing view that artificial intelligence is an unambiguous market tailwind. Separately, several large alternative asset managers restricted investor redemptions from private credit funds, raising concerns about valuation and underwriting standards in that corner of the market. Then, on the final day of February, the U.S. launched military operations against Iran. The resulting closure of the Strait of Hormuz sent oil prices sharply higher — enough to push the S&P 500 slightly negative for the month, though the index remained positive year-to-date.

March saw those pressures intensify. As hopes for a quick resolution to the U.S.–Iran conflict faded, Iranian proxies targeted Gulf energy infrastructure and oil tankers, driving crude above \$100 per barrel. Late-month ceasefire signals provided some relief, but the S&P 500 still declined moderately in March, finishing the first quarter in solidly negative territory.

### Four Headwinds Heading into Q2

As we enter the second quarter, four distinct challenges face investors — alongside several reasons for measured optimism.

**Geopolitics & Oil:** Sustained oil prices above \$100 per barrel threaten to slow consumer spending, compress corporate margins, and give the Federal Reserve reason to pause rate cuts. A durable resolution will require a credible ceasefire between the U.S., Israel, and Iran, and a return of Strait of Hormuz traffic toward pre-conflict levels. We are monitoring this closely.

**Private Credit:** Restrictions on fund redemptions have made comparisons to the 2008 financial crisis. We believe those comparisons overstate the risk — private credit is far smaller than the markets that triggered the crisis, and Fed officials have found no evidence of systemic contagion. That said, lingering anxiety is weighing on the financial sector, the second-largest component of the S&P 500, and a stabilization of sentiment there would be a meaningful positive for the broader market.

Artificial Intelligence: Investor views on AI have shifted from near-universal optimism to something more nuanced. Two concerns dominate: whether massive infrastructure spending will ultimately generate adequate returns, and whether AI-driven automation will disrupt enough industries to create a meaningful drag on jobs and economic growth. Clarity on either front would support a recovery in the technology sector.

Corporate Earnings Risk: Each of the headwinds above carries a common consequence — pressure on profit margins. Higher energy costs, tighter credit conditions, and AI-related disruption are all squeezing cost structures across sectors. If margins compress further than analysts currently expect, companies may begin missing earnings forecasts, producing negative surprises that could add another layer of volatility in Q2. We are watching corporate guidance and earnings revisions closely as the reporting season unfolds.

### **Reasons for Confidence**

Despite the noise, the underlying economic picture remains constructive. GDP growth held up in Q1, corporate earnings continued to expand, and the Federal Reserve is still projecting rate reductions this year. Importantly, labor markets remained stable throughout the quarter — job growth held steady and unemployment stayed low — providing a durable foundation for consumer spending. Supply chain activity also showed meaningful improvement with lead times shortening and input costs moderating in several key industries, trends that could provide a continued tailwind for corporate margins heading into the second quarter. These are the same fundamentals that cushioned markets through the first quarter's volatility, and they remain in place as we enter the second quarter.

As always, our investment approach is built around your specific financial situation, risk tolerance, and time horizon. Our emphasis on high-quality investments — companies and securities with strong balance sheets, durable earnings, and pricing power — is designed precisely for environments like this one, where uncertainty is elevated and patience is rewarded. Diversified, quality-oriented portfolios have historically weathered volatility better than concentrated or lower-quality alternatives, and we remain committed to that discipline on your behalf.

We have successfully navigated periods like this before. Successful long-term investing is about staying the course through inevitable cycles of uncertainty — not reacting to each headline. We ask that you remain patient and trust the personalized plan we have built together.

We are grateful for your continued confidence and are here to answer any questions or review your portfolio at any time. Please do not hesitate to reach out.