CURBSTONE FINANCIAL
MANAGEMENT CORPORATION

From the Curb

Letter to Clients
Quarter Ending March 31, 2020

First and foremost, we hope this letter finds you, your family and loved ones healthy and finding ways to stay connected while distancing.
Market volatility surged in the first quarter to levels last seen more than a decade ago during the financial crisis. The COVID-19 pandemic swept the globe and prompted the partial shutdown of most major global economies, including the US, EU and most of Asia. While the health crisis was the main cause of the historic volatility, geopolitics and domestic political developments also impacted markets over the past three months.

In sharp contrast to the relatively calm market environment of 2019, the new year started with a geopolitical shock when, on January 3rd, the United States executed a tactical strike that resulted in the death of Iranian General Qasem Soleimani, whom many considered to be the second most powerful person in Iran. Tensions between the US and Iran rose sharply as Iranian leaders promised retaliation, and stocks dropped on the news while oil prices rose as investors feared a potential regional war. Thankfully, the Iranian response, a small rocket attack on a US military base in Iraq, did not cause further escalation.

As the geopolitical scare faded, investors' focus turned back to the US-China trade war, as both China and the US signed the "Phase One" trade deal in mid-January. The agreement did not provide material tariff relief; however, it did importantly signal no further tariff increases. As such, it provided needed clarity to global industrial companies and the markets. In response, stocks moved steadily higher, powered by the favorable trade "truce," low interest rates, historically low unemployment and steadily rising corporate earnings. Fundamentals for the economy and corporations were strong, and the S&P 500 hit several new, all-time highs between mid-January and mid-February.

But, starting February 20th, market volatility rose sharply as the number of active coronavirus cases began to dramatically increase in South Korea, Iran and Italy. The spike in new cases outside of China resulted in a sharp drop in stocks in late February. Those declines were then compounded throughout March as the number of active coronavirus cases in the US began to accelerate. The S&P 500 tumbled more than 25% from the mid-February highs to the late-March lows, amid rising fears of an economic contagion and little clarity relative to the potential financial impact of the pandemic.

In swift and decisive action, the Federal Reserve cut interest rates to zero percent and, working in conjunction with the US Treasury, implemented several important measures to provide short-term liquidity to shore up money market funds and ensure well-functioning credit markets. Congress also passed multiple economic relief bills, the largest of which was a $2.2 trillion stimulus package aimed at providing support for small businesses, displaced workers and large corporations impacted by the national shut-down. Stocks reacted to these actions by rallying sharply during the last week of March, although the major averages still finished the first quarter with large declines.

As we begin the second quarter of 2020, it's fair to say investors and markets are facing a level of uncertainty that we have not seen in over a decade. It is also true that the government has acted in a historically proactive manner to support the economy and foster growth once the coronavirus pandemic has passed; and despite a volatile quarter, that is a comfort as we move forward.

We believe that the economy's recovery is directly tied to a global recovery from the virus along with medical discoveries that will allow us to normalize our lives. We expect that headline numbers over the next two quarters will get worse before they begin to stabilize and turn positive, acknowledging that economic fundamentals were mostly positive prior to this unprecedented shock. To that point, it is important to remember that while market volatility and societal disruptions are likely to continue, they are temporary.

Over the past month, we have all witnessed a degree of panic, both in regular society as well as in the financial markets. As we all know, the worst thing to do during a panic is to panic. That's because panic leads to hasty, short-term decisions that jeopardize long-term best interests. Although no one could foresee this virus or the impact it would have on the economy and markets, events such as this are why we have spent time with you designing long-term, balanced investment portfolios.

Therefore, we encourage you to stick with your plan, stay invested and remain patient. We've worked with you to establish a personal allocation target based on your financial position, risk tolerance, and investment timeline. We aim to take a diversified and disciplined approach with a clear focus on your longer-term goals.

We understand that volatile markets are both unnerving and stressful, and we thank you for your ongoing confidence and trust. Rest assured that our entire team will remain dedicated to helping you successfully navigate this difficult market environment.

Enclosed please find your quarterly reports. Additionally, we have included a "From the Curb" update which provides you with our cell phone numbers and a couple of topics that were included in the recent fiscal plans that may have a direct impact on you. Also, if you would like a copy of our Privacy Notice, please let us know and we will send you a copy. We would be happy to discuss your reports, answer questions and discuss how your circumstances may have changed due to this health crisis.

741 Chestnut Street | Manchester, NH 03104 | voice 603.624.8462 | fax 603.624.8274 | curbstonefinancial.com