CURBSTONE FINANCIAL
MANAGEMENT CORPORATION

From the Curb

Letter to Clients
Quarter Ending June 30, 2024

While the S&P 500 hit new highs in the second quarter, the three-month period was filled with swings both to the upside and the downside. Investors were largely focused on the Fed and whether or not they would move to change rates. Early in the quarter, markets feared no rate cuts would be forth coming in 2024. The catalyst for these concerns was the March Consumer Price Index which rose 3.5% year over year, higher than estimates. The hotter-than-expected reading reversed several months of declines in the CPI and ignited fears that inflation could be "sticky" and, if so, would keep the Fed on hold. However, at the May FOMC meeting, Fed Chair Powell essentially shut the door on the possibility of rate hikes, stating that if the Fed was concerned about inflation, they would simply keep rates at current levels for longer. Both stocks and bonds rallied as the Chair's comments erased fears of a rate hike.

Employment data moderated mid-way through the quarter while still sustaining healthy levels. Treasury yields fluctuated during the quarter reflecting investors' vacillating sentiments toward interest rates. Economic data, meanwhile, showed continued moderation of activity and slowing growth across the economy. In sum, markets finished strong thanks to expectations for interest rate cuts, falling Treasury yields and continued robust corporate earnings growth, especially from AI-linked tech companies.

The second quarter produced a more mixed performance across various markets than the strong return of the cap-weighted S&P500 might imply. AI-driven tech stock enthusiasm powered the NASDAQ and the cap-weighted S&P500 higher while other major indices lagged. The cap-weighted S&P500 returned 4.28% for the second quarter while the equal weight S&P500 had a **negative** return of 2.63%. Most investors' portfolios, including those that we manage, avoid the high concentrations in a handful of names that are driving the cap-weighted S&P500 return.

The new quarter opened riding a wave of optimism and positive news as inflation began to decline in earnest. Most investors now believe that the Fed will deliver the first rate cut in September. Additionally, economic growth remains solid and above-average earnings growth, from AI-linked tech companies, has shown no signs of slowing down.

While the outlook for stocks is undoubtedly positive right now, market history has shown us that nothing is guaranteed. As such, we must be constantly aware of events that can change the market dynamic, as we do not want to get blindsided by sudden volatility.

To that point, the market does face risks as we move forward. Slowing economic growth, no September rate cut, underwhelming Q2 earnings results, a rebound in inflation and geopolitical surprises are all potential negatives. And, given high levels of investor optimism and current market valuations, any of those events could cause a pullback in markets.

Bottom line, the outlook for stocks remains positive but that should not be confused with a risk-free environment. There are real risks to this historic rally and we will continue to monitor them closely in the coming quarter. We remain focused on both opportunities and risks in the markets, and we thank you for your ongoing confidence and trust.

Please do not hesitate to contact us with any questions regarding the enclosed reports.