CURBSTONE FINANCIAL
MANAGEMENT CORPORATION

From the Curb

Letter to Clients
Quarter Ending June 30, 2021

The S&P 500 rose to another record high in the final days of June on the prospects of a full re-opening in the United States. A significant drop in U.S. COVID-19 cases combined with a robust business recovery, led to a surge in economic growth that helped stocks rally to new highs in the quarter.

Meanwhile, the Federal Reserve reiterated its support for the economy and promised not to remove any accommodation in the near term. That continued "safety net" gave investors confidence in the future economic outlook and the sustainability of the economic recovery. Finally, first-quarter corporate earnings were very strong, as the vast majority of U.S. companies beat earnings estimates.

The rally was not without some fits and starts. There was a pause in upward momentum in early May due to uncertainty regarding inflation, the labor market and the Feds commitment to holding pat. But after some volatility early in the month, it became apparent that both the economy and the consumer were still on a path to return to a pre-pandemic "normal."

In sum, the strong gains of the second quarter and the first half of 2021 reflected continued government support for the economy combined with a material improvement in the pandemic in the U.S. As we start the second half of 2021, we are happy to say the world looks a lot more like it did pre-pandemic and that sentiment is supportive of risk assets going forward.

As we enter the third quarter, we believe markets will continue to reflect a legitimate improvement in the macroeconomic outlook in the US and many other countries across the globe. But that strong performance should not be taken as a signal that risks no longer remain. In fact, the next three months will bring important clarity on several unknowns including inflation, future Federal Reserve policy, and the pandemic.

Regarding inflation, some metrics in June implied that the spike in inflation during the second quarter is starting to reverse, but that debate is far from settled. To that point, no one knows what the trillions in pandemic stimulus combined with 0% interest rates and the Fed's ongoing QE program will do to inflation over the longer term. If this sudden surge in inflation is indeed just temporary, we should see more conclusive evidence of that during the third quarter. Meanwhile, the Federal Reserve has started the process of "talking about" how it will begin to reduce support for the economy via "tapering" or reducing its quantitative easing program. Finally, despite significant progress against COVID-19 here in the U.S., the pandemic is not under control in many other countries and the Delta variant may result in the administration of boosters in the late fall.

In sum, while there has been material progress made in the United States against the pandemic, and life as we know it has thankfully returned mostly to normal, now is not a time to become complacent as numerous economic and pandemic-related risks remain. As such, while the macroeconomic outlook is still decidedly positive, we should all remain prepared for bouts of market volatility.

We understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this still-challenging investment environment. Therefore, it's critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

Your quarterly reports are enclosed. Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

We wish you a very enjoyable summer season

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