CURBSTONE FINANCIAL
MANAGEMENT CORPORATION

From the Curb

Letter to Clients
Quarter Ending June 30, 2026

Markets staged an impressive rebound in the second quarter of 2026. Despite a series of macroeconomic surprises — including continued military conflict between the U.S. and Iran, a spike in oil prices to multi-year highs, and a rebound in inflation — strong corporate earnings and resilient economic growth carried major U.S. averages to new all-time highs. It was a quarter that tested investor resolve, and the bull market passed.

What Drove the Rally

The Q1 earnings season was the primary catalyst, coming in far stronger than analysts had anticipated. While AI-linked technology companies such as Nvidia and Micron led the way, the strength was broad-based: the vast majority of S&P 500 companies reported better-than-expected revenue and earnings, providing a durable foundation that offset the uncertainty emanating from geopolitics and rising prices.

The economy was equally reassuring. Despite fears that war-driven oil price increases would tip the economy into stagflation, growth never wavered. Labor markets remained healthy, and activity across manufacturing and service sectors stayed solid — consistent with the stable labor market and supply chain improvements we highlighted in our Q1 letter as reasons for confidence heading into this quarter.

AI enthusiasm also remained a powerful market driver. Several of the largest technology companies reaffirmed commitments to spend hundreds of billions of dollars on data center and AI infrastructure buildouts, reinforcing investor confidence in artificial intelligence as a long-term engine of economic growth and corporate profitability.

Risks Heading into the Second Half

While the first half of 2026 demonstrated the market's impressive resilience, we believe it would be a mistake to allow that resilience to breed complacency. Three risks deserve close attention as we enter the second half of the year.

Monetary Policy Shift: At the start of 2026, investors broadly expected one or two interest rate cuts this year. Today, because of persistently elevated inflation, expectations have shifted toward one or two rate hikes. While a modest tightening cycle is not automatically negative for markets, history is instructive: the last time the Federal Reserve embarked on an aggressive rate hike campaign, in 2022, equities fell sharply. We are monitoring Fed communications closely.

AI Spending Durability: Massive AI infrastructure investment has been a key pillar of both economic growth and market performance. However, if the companies funding that investment begin to question its return on capital, a pullback in spending could represent a

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meaningful economic headwind. We are watching corporate guidance on AI budgets carefully as the reporting season progresses.

Inflation and the Consumer: The rebound in inflation, if sustained, poses a threat to consumer spending and the housing market — two pillars of domestic economic growth. At current valuations, equity markets are priced for continued momentum, leaving little room for an economic disappointment. We will be watching inflation data, consumer confidence, and retail spending figures closely in the months ahead.

Our Commitment to You

We begin the second half of 2026 from a position of strength: earnings growth remains above historical averages, the economy continues to expand, and the long-term investment case for transformative technologies like AI remains intact. At the same time, the risks outlined above are real and warrant vigilance.

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 genuine pricing power — is designed precisely for environments like this one, where valuations are elevated and the margin for error is narrower. Diversified, quality-oriented portfolios have historically navigated periods of monetary tightening and economic uncertainty better than concentrated or lower-quality alternatives, and we remain committed to that discipline on your behalf.

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.

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