CURBSTONE FINANCIAL
MANAGEMENT CORPORATION

From the Curb

Letter to Clients

Quarter Ending June 30, 2023

The S&P 500 ended the second quarter and first half of 2023 at a 14-month high and most major stock indices logged solid gains in the second quarter following a pause in the Fed's rate hike campaign, stronger-than-expected corporate earnings (especially in the tech sector) and the relatively drama-free resolution of the debt ceiling.

The second quarter began with markets still in the throes of the regional bank crisis following the March failures of Silicon Valley Bank and Signature Bank, and investors started the month of April wary of contagion risks. Those concerns proved mostly overdone, however, as throughout most of the month regional banks were stable. That stability allowed investors to re-focus on corporate earnings, and the results were much better than feared as 78% of S&P 500 companies reported better-than-expected Q1 earnings, a number solidly above the 66% long-term average. Additionally, 75% of reporting companies beat revenue estimates for the first quarter, also well above the long-term average. That solid corporate performance was a welcome sight for investors and coupled with general macroeconomic calm, allowed stocks to drift steadily higher throughout most of April. However, following an underwhelming earnings report, concerns about the solvency of First Republic Bank weighed on markets late in the month and the S&P 500 declined into the end of April to finish with a modest gain.

Fears of a First Republic Bank failure were realized on May 1st, as the bank was seized by regulators and the FDIC was appointed its receiver. However, that same day, JPMorgan announced it was acquiring the bank from the FDIC, and that move helped to calm investor anxiety about financial contagion risks. The Federal Reserve also helped to distract investors from the First Republic failure, as the Fed hiked rates at the May 2nd FOMC meeting, but importantly altered language in the statement to imply it would pause rate hikes at the next meeting. In April, the end of the month saw an increase in volatility. This time it was thanks to the lack of progress on a U.S. debt ceiling extension and rising fears of a debt ceiling breach and possible U.S. debt default. However, a two-year debt ceiling extension was agreed to by Speaker McCarthy and President Biden on May 28th and was signed into law a few days later, avoiding a financial calamity. The S&P 500 finished May with a slight gain.

With the debt ceiling resolved, a Fed pause in rate hikes expected and continued stability in regional banks, the rally in stocks resumed in early June and was aided by several potentially positive developments. First, inflation declined as the Consumer Price Index (CPI) hit the lowest level in two years. Second, economic data remained impressively resilient, reducing fears of a near-term recession. Finally, in mid-June, the Federal Reserve confirmed market expectations by pausing rate hikes and that helped fuel a broad rally in stocks that saw the S&P 500 move through 4,400 and hit the highest levels since April 2022. The S&P 500 finished June with strong gains.

In summation, markets were impressively resilient in the second quarter and throughout the first half of 2023, as better-than-feared earnings, expectations for less-aggressive central bank rate hikes, more evidence of a "soft" economic landing and relative stability in the regional banks pushed the S&P 500 to a 14-month high. It should be noted, however, that the rally in equities was quite narrow, with the top ten companies in the S&P 500 accounting for 13.8 percentage points of the 14.9% price return year-to-date, giving equity analysts cause for concern.

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

Surely there have been positive macro developments so far in 2023 that have helped the stock market rebound. While we are grateful for this past six months, we are dedicated to remaining vigilant toward ongoing economic and market risks, as related to managing both risk and return potential. We advocate that a well-planned, long-term focused, and disciplined investment plan can withstand market surprises and related bouts of volatility, including bank failures, decade-long highs in inflation, higher interest rates, geopolitical tensions, and rising recession risks.

We appreciate your ongoing confidence and trust. Be assured that our entire team remains dedicated to helping you successfully navigate this market environment.

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