

CURBSTONE FINANCIAL MANAGEMENT CORPORATION

From the Curb

Letter to Clients

Quarter Ending September 30, 2025

Major stock indices continued to rally to all-time highs during the third quarter, driven by prospects for both monetary and fiscal stimulus in the months ahead. The passage of the Big Beautiful Bill Act in July provided several pieces of economic stimulus which include making the 2017 tax cuts permanent, reintroducing accelerated depreciation and giving a significant commitment to the development of domestic industries. On the monetary front, the Federal Reserve lowered the Fed Funds borrowing rate by one quarter point at their September meeting which provided confidence that their focus was shifting to address softening labor markets, while acknowledging that inflation has stabilized. The ADP Employment report for September was lackluster, showing a loss of 32,000 private sector jobs, and the Consumer Confidence Index weakened, as would be expected, with the decline in job openings. Investors have been willing to look beyond some sluggishness in economic reports, as the combination of monetary and fiscal stimulus has increased the probability that growth will be sufficient to push corporate profits higher.

Second quarter earnings results in July were stronger than expected with 81% of S&P 500 companies reporting profits that exceeded consensus estimates. On a year over year basis, we continued to see earnings leadership in the technology and communications sectors driven by the AI build out. Oracle was the best example of this as the stock rose more than +35% after the earnings release driven by a significant increase in AI-related bookings. Positive earnings results, posted by Microsoft, Alphabet, Nvidia and Broadcom, kept investor enthusiasm at elevated levels. More importantly, there were no significant indications that tariffs were weighing on results as the administration announced trade agreements with some of our largest trading partners including the European Union, Japan, and South Korea. These agreements, coupled with the U.S. and China agreeing to a trade “truce” until a larger agreement can be worked out, gave investors more confidence.

Equity markets were broadly higher during the quarter as the advance widened to include small caps, as economically sensitive, smaller companies are expected to benefit more from lower borrowing costs. Ten out of eleven market sectors posted positive returns as investors showed a clear preference for economically sensitive stocks. The consumer staples sector was the only exception, as tariff uncertainty raised concerns about profit margins going forward. Investors continued to hedge against the uncertainty of U.S. trade policy by increasing exposure to international stocks. Credit markets also gained as a tepid labor market diminished concerns about inflation, for the time being, bringing some buyers into the market to lock in yield at current levels. The normalization of bond markets, with the return of higher yields, has created the first meaningful opportunity to increase the income generated in portfolios for some time. All in all, a very solid quarter from an investor standpoint.

Dollar weakness has been a persistent theme across markets this year primarily driven by fears about the delayed impact of tariffs on growth and employment. A weaker dollar makes imported goods more expensive for the consumer and creates headwinds for the economy as it is less attractive for foreign companies to make capital investments in the U.S. As well, foreign investors, in general, may find US equities less attractive which could result in selling pressures forcing stock prices lower.

Fed easing and fiscal stimulus are arriving at a point that seems to coincide with signs of an economy that is slowing down. This leaves us optimistic that growth can continue at a slower rate, but the margin

of error for policymakers is small because there are risks to both the growth and inflation sides of the equation. While inflation has stabilized at 2.9% year over year for the CPI, an increase driven by trade policy in the months ahead could be problematic as it would make it difficult for the Fed to lower rates quickly enough to maintain the pace of growth. Equity valuations have been driven to historically rich levels by enthusiasm for AI related technology stocks with the S&P 500 trading at 28.3x earnings. More expensive valuations can become problematic because they raise the stakes for earnings reports to meet expectations. When a good deal of profit growth has been discounted into a stock, investor reaction may be magnified as earnings disappointments eventually surface. Examples of this are often associated with emerging technologies, like the internet in the late 1990s when initial investor enthusiasm drove stock prices well beyond reasonable earnings expectations.

At Curbstone, we understand these risks and are committed to helping you navigate the investment environment. Successful investing is a long-term proposition that requires a disciplined approach to risk management. Some important elements in our process include periodic rebalancing of asset allocation to ensure it is consistent with your objectives; maintaining position sizes at appropriate levels so that a negative earnings surprise will not have an outsized effect on your portfolio; and proactively trimming positions based on valuation to minimize the level of company specific risk. Applying a disciplined approach, consistently over time, gives clients the highest probability of reaching their objectives.

We thank you for your ongoing trust and rest assured that our team will remain dedicated to helping you reach your goals. Please do not hesitate to contact us with any questions, comments or to schedule a portfolio review as we welcome hearing from you.