

CURBSTONE FINANCIAL MANAGEMENT CORPORATION

From the Curb

Letter to Clients

Quarter Ending September 30, 2026

Markets continued to be volatile in the third quarter, but stocks still managed to advance. Strong corporate earnings growth and a resilient economy pushed the major indices to new all-time highs despite a rebound in oil prices and a higher U.S. Treasury yield curve.

Despite strong second quarter earnings reports, doubts began to emerge about valuations of AI infrastructure companies which had powered markets higher throughout the second quarter. Aggressive spending plans and related concerns about the sustainability of demand for AI components pressured market leaders such as Micron and Nvidia along with tech companies linked to AI investment. Investors worried that many stocks had come too far too fast and trimmed their positions pushing prices down. It took strong late quarter reports from Amazon and Microsoft to allay investors' fears which allowed tech names to recoup their earlier losses.

Continued geopolitical issues and more fighting added to the uncertainty markets were reflecting. The Houthis, an Iran-backed militia group, advanced to the Yemeni coast and threatened to harass ships exiting the Bab el-Mandeb Strait, further complicating global oil logistics. Oil prices rose as a result and the fear of prolonged inflation pulled Treasury yields higher. The Fed, meanwhile, raised interest rates 25 basis points in September and signaled more rate hikes were likely. That news pressured stocks and boosted bond yields, as the 10-year Treasury yield surged to a 19-year high in late September on a combination of strong economic data, higher oil prices, and Fed rate hike expectations.

In sum, the third quarter contained its share of disconcerting geopolitical headlines and market volatility, but strong earnings growth and resilient economic growth offset the headwinds of higher oil prices, Fed rate hikes, and rising Treasury yields.

As we begin the final quarter of the year, we recognize there are headwinds that bear watching. The stalemates in the US/Iran and Russia/Ukraine wars continue to keep oil prices high while creating uncertainty on the geopolitical front. The longer these conflicts remain unresolved the greater the headwind they become on economic growth. Any positive resolution will likely result in lower energy prices which could eliminate the need for additional rate increases by the Fed and provide a positive catalyst for markets.

Concerns around the AI buildout remain. A bust would hurt economic growth and for many investors who remember the dot.com era, these worries are real and understandable. We believe there are differences between these two periods as we are beginning to see signs that AI investments are starting to generate revenue. A confirmation will certainly provide the evidence investors are looking for.

Corporate results have been very strong and are providing a foundation for investor optimism. Recently, S&P500 earnings estimates were revised higher for 2027 supporting a trend for above average historical growth. Beyond reflecting increased corporate profits, which are always good for stock prices, stronger earnings expectations have helped to keep valuations at reasonable levels.

As we move to close out 2026 and open the new year, we think that the positives of a resilient economy, a solid economic and historically strong earnings growth can stem the effects of geopolitical risks, higher bond yields and the uncertainty of the AI build out. Based on these fundamentals we believe that markets remain on a solid footing.

We remain focused on both opportunities and risks in the markets. We acknowledge that market volatility can be unnerving so we urge you to stay committed to your plan and long-term investment goals. Remember, it is important for you to stay invested and remain patient knowing that we have worked with you to establish an asset allocation aligned with your unique needs based on your financial position, risk tolerance, and time horizon.

We encourage you to call us with any questions or to share a thought. We thank you for your ongoing confidence and trust.