McCarthy Asset Management, Inc.
Personalized Wealth Management

July 2022 Monthly Commentary

August 1, 2022

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Stock Market & Portfolio Performance

July 2022: U.S. and international stocks rose sharply, posting their best monthly performance since 2020. Bonds also rose for the month.

	July 2022	YTD 2022	Description:
Without Dividends:			
S&P 500	9.1%	-13.3%	500 Largest Public U.S. Companies
Russell 2000	10.5%	-16.0%	2000 of the smallest U.S. stocks
MSCI EAFE	4.9%	-17.1%	international stock index
U.S. Aggr Bond	2.5%	-7.9%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	5.7%	-11.5%	non-very conservative MAM portfolios
MAM Consrv	3.7%	-9.5%	portfolios with 45%+ bond allocation

The returns showed above are unaudited. Past performance is not indicative of future results. Returns for McCarthy Asset Management Portfolios ("MAM Portfolios") are net of management fees and transaction costs, and reflect the reinvestment of dividends. Results represent a composite of clients using a similar investment strategy, individual results will vary.

Returns for the indices are provided solely as a general indication of current market conditions. MAM Portfolios are not invested in a style substantially similar to any index. Indices do not reflect the deduction of management fees or transaction costs or the reinvestment of dividends. Performance for the indices would be lower if these costs were reflected.

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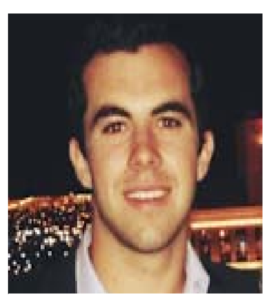

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Stock Market & Economic Update

With the stock market, the economy, and inflation so much in the news this year, we are providing another update regarding our thoughts.

The Federal Reserve: On July 27th, as expected, the Federal Reserve announced another 0.75% increase in the federal funds rate. The new level is now 2.25% to 2.50%. Current expectations are for the Fed to announce an additional 0.50% hike at its next meeting in September and then 0.25% increases at its November and December meetings. This would result in a year-end federal funds rate of 3.25% to 3.50%, up from 0.0% to 0.25% at the beginning of 2022. The large increases in rates by the Fed this year are why the bond market has performed so poorly for the first half of this year.

Recession Watch: On July 28th, the U.S. Dept of Commerce announced that 2nd quarter 2022 Gross Domestic Product (GDP) adjusted for inflation, dropped 0.9%. This was the second consecutive quarter of negative real GDP growth, with the first quarter's 1.6% decline.

A common definition of a recession is two consecutive quarters negative real GDP growth. However, the National Bureau of Economic Research is the official authority on when U.S. recessions begin and end, and it looks unlikely to declare a recession for now. This is because most other economic indicators, such as employment, industrial production, and consumer spending, all continued to trend up in the first half of 2022 despite the decline in GDP. In fact, in Fed Chairman Powell's comments on July 27th, he cited brisk job growth in dismissing concerns that the economy is now in a recession. "I do not think the U.S. is currently in a recession," he said. "There are just too many areas of the economy that are performing too well."

This is not to say that recession risks are nothing to worry about. Rather, the risk is higher in 2023, as that's when the economy will feel the brunt of the Fed interest rate increases. In particular, rising interest rates are starting to trigger a downturn in the housing market.

Inflation Watch: In June, the Labor Department reported that the Consumer Price Index rose to a new four-decade high at an annual rate of 9.1%. This was an increase from May's annual 8.6% that led Federal Reserve officials to shift to a faster pace of interest rate increases to bring down inflation. The Labor Department also reported that core prices, which exclude volatile food and energy components, increased 5.9% in June from a year earlier, slightly less than May's 6.0% gain.

June 9.1% increase in consumer prices may be the peak, as there have been some encouraging signs lately on the inflation front:

- Gasoline prices have fallen around 10% from their mid-June high point of $5.02 a gallon, according to AAA.
- Wheat futures prices have fallen by 37% since mid-May and corn futures prices are down 27% from mid-June.
- The cost of shipping goods from East Asia to the U.S. West Coast is 11.4% lower than a month ago, according to Xeneta, a Norway-based transportation-data and procurement firm.
- Easing price pressures and improvements in backlogs and supplier delivery times in business surveys suggest that supply-chain snarls are unraveling.
- Meanwhile, excess inventories are leading retailers such as Walmart and Target to put more items on sale.

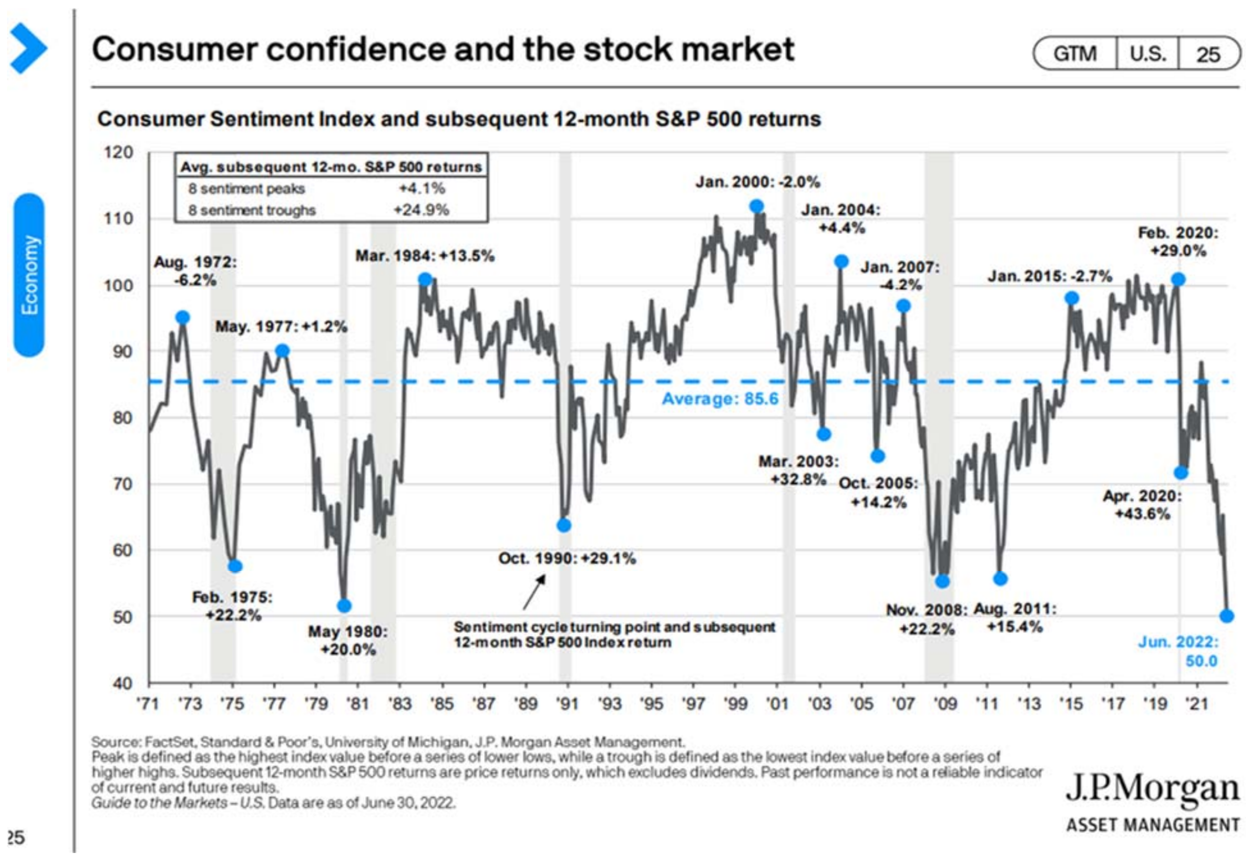
Stock Market & Economic Update– Con't

- Importantly, longer-term inflation expectations also recently fell. This is a key indicator to the Fed because high inflation expectations can become self-fulfilling. Most recently, the University of Michigan consumer-sentiment survey showed that longer-term inflation expectations slipped from June's 3.1% reading to 2.8% in late June and early July. The 2.8% rate matches the average rate during the 20 years before the pandemic.

When Will Inflation Drop and How Quickly? The degree to which inflation cools, and how the Fed might respond, are the big questions. Fed Chairman Jerome Powell has said the central bank wants to see clear and convincing evidence that price pressures are subsiding before slowing or suspending rate increases.

Consumer Sentiment Index and Subsequent Historic Stock Market Returns: The U.S. Index of Consumer Sentiment (ICS), as provided by the University of Michigan, tracks consumer sentiment in the U.S. based on surveys of random samples of US households. The index is a monthly survey of how consumers feel about the economy, personal finance, business conditions and buying conditions. The index is at a current level of 51.10, up from 50.00 in June and down from 81.20 one year ago.

The June reading of 50.00 was one of the lowest levels since 1971. What is interesting is that historically, when the Index hit a low, the subsequent 12-month returns for the stock market have been very good. Specifically, as indicated in the chart below from J.P. Morgan, since 1971 there have been 8 sentiment peaks and 8 troughs. The average subsequent 12-month S&P 500 return when the sentiment peaked was only 4.1%. In contrast, the average subsequent 12-month S&P 500 return when it troughed was 24.9%.



MAM Comments: To be clear, we are not predicting that with the low Consumer Sentiment readings the stock market is about to stage a 12-month rally. Afterall, the Sentiment Index could drop even lower over the next few months. Instead, as we said with last month's Commentary, while we think it is nearly impossible to predict where and when the stock market will bottom out, much will depend on when the inflation news starts to improve. Furthermore, even if the U.S. were to enter a recession, we think it would likely be a short and mild one. As such, we feel the best course of action now is to stay invested.

Fund Profile: JPMorgan Ultra-Short Income ETF (JPST)

At $18.5 billion in assets, JPST has grown into one of the largest actively-managed ultrashort bond funds since its inception five years ago. We are a big fan of the fund, as it is the first or second largest bond position in most MAM portfolios.

The fund buys investment-grade debt with the aim of beating prime money market returns over a full cycle, with a laser focus on liquidity management. We use JPST to tactically manage overall interest-rate risk in portfolios. Generally, bond prices fall when interest rates rise, and rise when interest rates fall. The duration of a bond fund is a measure of how bond prices will react to interest rate changes. Duration and interest rate risk are directly correlated. As duration increases, the volatility of the bond in reaction to changes in interest rates also increases. JPST's short duration, typically between six and 12 months, limits this interest-rate volatility.

JPST has exhibited strong performance. From its 2017 inception through May 2022, the fund's 1.7% annualized gain outpaced 85% of its rivals. Thanks to holding up relatively well during stress periods, such as the coronavirus-driven turmoil in March of 2020, its risk-adjusted results have been superior, too. For the year-to-date through June 2022, the fund has outperformed 77% of its rivals.

The fund is rated five stars by Morningstar. Its current annual SEC-yield is 2.15%. Given its short duration (currently 0.40 years), the yield will quickly adjust upwards as the Federal Reserve raises the federal funds rate. The annual expense ratio on the fund is a very modest 0.18%.

Use in MAM Portfolios: Given its very short duration, JPST should have attractive relative performance to the overall bond market in a rising interest rate environment. This has been the case for the first seven months of 2022 with the fund having declined 0.40%, compared to a decline of 7.9% in the Lehman Aggregate bond index. Keep in mind that at least so far, 2022 has been one of the most difficult periods in history for the bond market. At some point, interest rates will start to decline. Once we get back to a declining interest-rate environment, longer-duration bond funds will outperform JPST, as they will benefit from the decline in rates. At the time, we expect to shift part of our JPST allocation into other bond funds. Meanwhile, we view JPST as a conservative, attractive holding in the current difficult environment for the stock and bond markets.

California's Middle Class Tax Refunds

In early July, CA Governor Gavin Newsom and CA legislative leaders reached an agreement for a $17 billion "Inflation Relief Package." Under the plan, most Californians will receive stimulus payments, ranging from $200 to $350 per person. In particular, based on a taxpayer's 2020 CA tax return:

- Individuals with CA adjusted gross income (AGI) of less than $75k would receive $350.
- Couples filing jointly who made less than $150k would receive $700.
- Families in these categories with at least one dependent will receive an additional $350, which means the family can receive up to $1,050.
- Individuals with income between $75k and $125k would receive $250, and those between $125k and $250k would receive $200.
- Couples filing jointly with income between $150k and $250k would receive $500, and those between $250k and $500k would receive $400.
- The payments are excludable from CA taxable income and will likely be excluded from federal income as well.
- To qualify for a payment, the taxpayer must be a CA resident on the date the payment is issued and for at least six months during the 2020 calendar year. Also, the individual must not have been claimed as a dependent on another taxpayer's 2020 CA tax return.

Here's a link to the CA Franchise Tax Board calculator for determining the amount of your refund.

Payments will be made by direct deposit payment if the taxpayer filed their 2021 CA tax return electronically and indicated direct deposit on their return. Otherwise, the payment will be made by debit card. According to the FTB, payments will be sent to taxpayers starting at the end of October and will conclude by the middle of January.

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Our Services

McCarthy Asset Management, Inc. (MAM) is an independent, privately owned Registered Investment Advisor firm. We provide clients with the peace of mind that comes from knowing professionals are managing their financial affairs. The services we offer include:

Investment Management Services:

- **MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.**

Financial Planning Services:

- **The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.**
- **"Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.**
- **Social Security Planning is an analysis of the best strategy for when and how to start claiming Social Security benefits.**

Tax Services: Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:

- **Tax Return Preparation**
- **Income Tax Projections**
- **Tax Minimization Ideas**
- **Tax Authority Representation**

Other Services: MAM has retained outside experts, whose services are available at no cost to our clients:

- **Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.**
- **Medicare Advisory Program (MAP) - Eileen Hamm**

Reminders/Updates

Please let us know if there are any topics you would like to have us cover or any questions answered in a future Monthly Commentary.