McCarthy Asset Management, Inc.
Personalized Wealth Management

June 2023 Monthly Commentary/Q2 Quarterly Letter

July 3, 2023

Inside this issue:

Stock Market & Portfolio Performance

Second Quarter 2023: Driven by a handful of mega-cap technology companies, U.S. stocks posted strong returns for the quarter. International stocks also rose, while bonds fell modestly as the rate on the 10-year Treasury rose.

	2nd Qtr 2023	YTD 2023	Description:
Without Dividends:			
S&P 500	8.3%	15.9%	500 Largest Public U.S. Companies
Russell 2000	4.8%	7.2%	2000 of the smallest U.S. stocks
MSCI EAFE	1.9%	9.7%	international stock index
U.S. Aggr Bond	-0.9%	2.3%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	3.8%	7.9%	non-very conservative MAM portfolios
MAM Consrv	3.0%	5.8%	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.

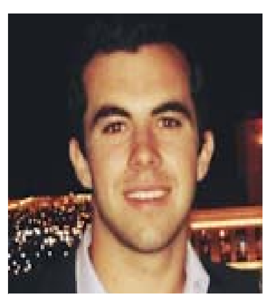
Returns for the indices are provided solely as a general indication of current market conditions. MAM Portfolios are not invested in a style substantially similar to any index. Indices do not reflect the deduction of management fees or transaction costs or the reinvestment of dividends. Performance for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

Advisor Team

McCarthy Asset Management, Inc.

Three Lagoon Drive Suite # 155
Redwood Shores, CA 94065
USA

STEVE McCARTHY
CPA®, CFP®
Owner and Principal
650 610-9540 x 303
steve@mamportfolios.com



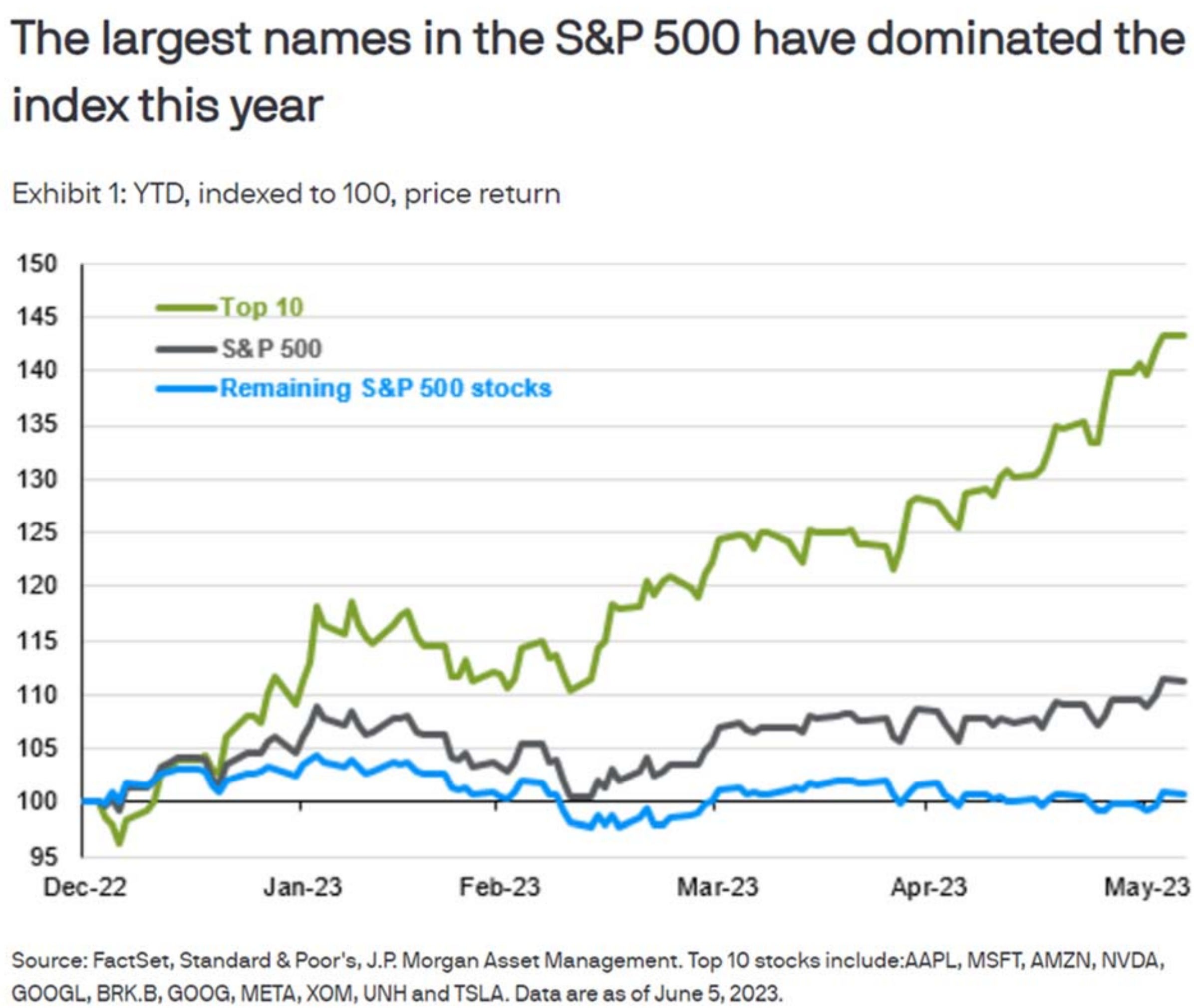
RYAN McCARTHY,
CPA®, CFP®
Financial Planner
650 610-9540
ryan@mamportfolios.com

MARILYN BLANCARTE, PACE
Executive Assistant
650 610-9540 x 305
marilyn@mamportfolios.com

Mega Tech Stocks Lead this Rally

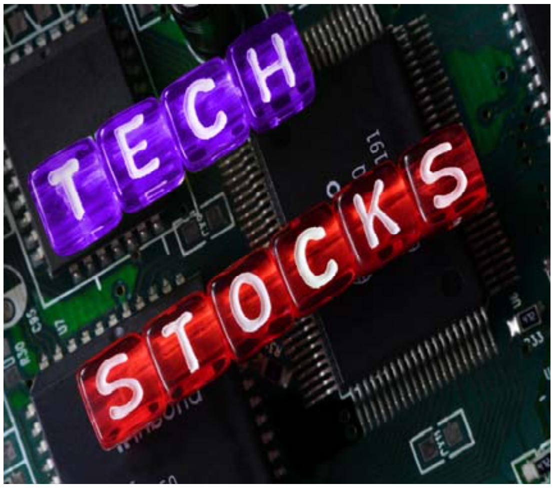
On the surface, it appears the stock market is having a great year. But take a closer look, and you will see that its gains are more highly concentrated than ever before. This has some stock market analysts worried. In particular, just a handful of stocks are responsive for a significant portion of the gains so far in 2023. Highly concentrated markets aren't unheard of. In 2020, the 10 largest stocks were responsible for more than a third of the U.S. market's gains. This year, however, the impact of the 10 largest stocks is more than twice that, breaking recent records by a long shot.

For the first five months of 2023, the Morningstar U.S. Large-Mid Index—a collection of the 716 largest U.S. stocks—gained 9.6%. While that looks like a solid return, 9.3% (or 97% of the total gain) came from the 10 largest stocks. As can be seen in the chart below from J.P. Morgan, without the supersized returns on the largest stocks, for the first five months of 2023, the overall market would have been flat.



A market is considered healthier when more stocks are rising together, and history shows that broader rallies are typically more sustainable. When participation in the advance is limited—as is the case for 2023 thus far—vulnerabilities can emerge as the weight of the market's advance falls on the shoulders of a limited number of stocks. That happened in September 2020, when a sudden reversal in tech shares pushed the S&P 500 down nearly 10% in three weeks.

Mega Tech Stocks Lead this Rally– Con't



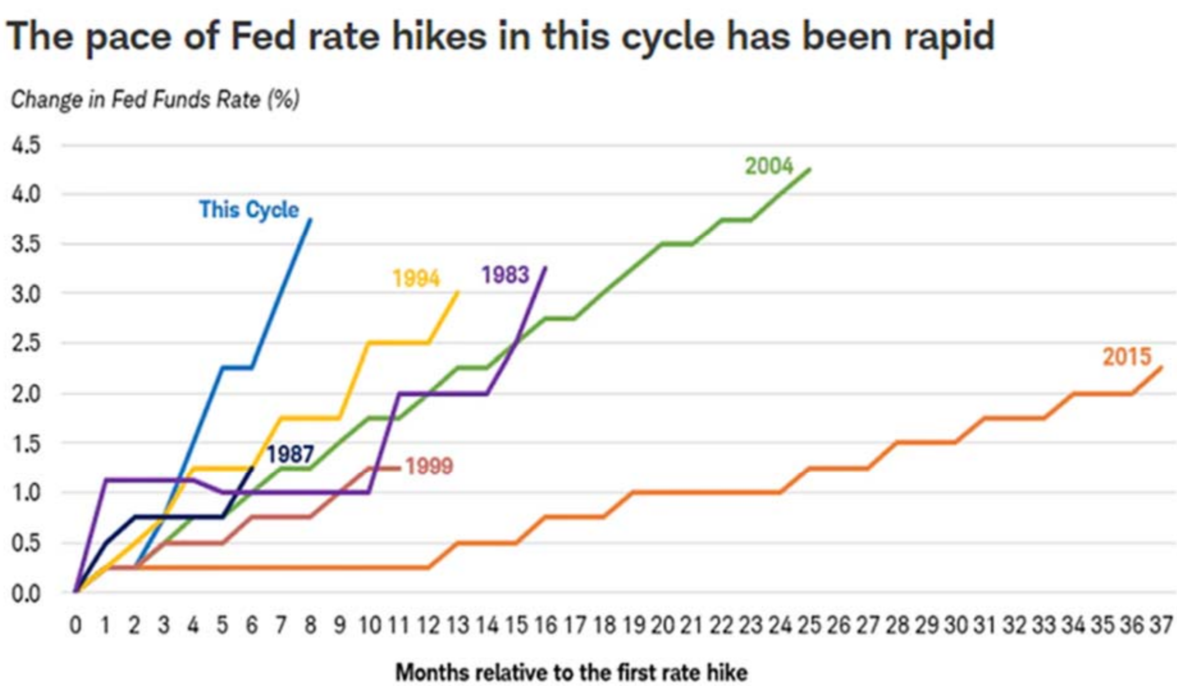
The stocks responsible for most of this year's gains are seven mega-technology stocks. They are Amazon, Apple, Google, Meta, Microsoft, NVIDIA and Tesla. As of June 13th, the average YTD return for these mega-stocks was 84%. The average YTD return for the rest of the S&P 500 was just 3.7%. As a "capitalization-weighted" index, stocks like these mega stocks have an outsized impact on the S&P 500 index. Recently, they made up 30% of the index, up from 20% at the start of 2022.

MAM Comments: On its own, a highly concentrated stock market doesn't necessarily mean that a rally will end. Furthermore, there were signs in the month of June that the stock market rally expanded to more stocks than just the mega-tech stocks. For us to have confidence that this bull market is sustainable, though, we would like to see continued broadening of the rally to more stocks in the months ahead.

Bonds Are Back

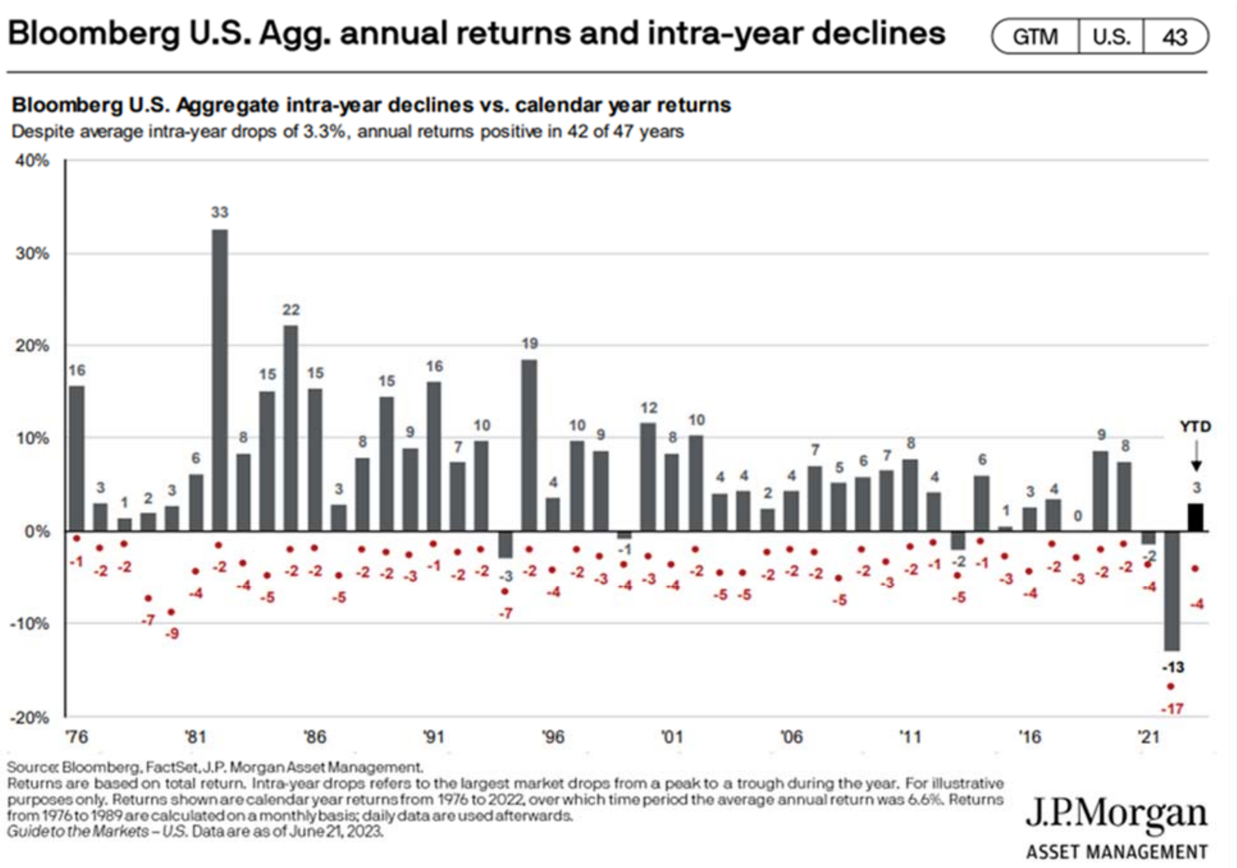
The outlook for fixed-income investors is probably the best it has been for a number of years. This is after a disastrous 2022, which was a perfect storm for bond investors. Coming into 2022, short-term interest rates were still near the pandemic-era low of close to zero. The Federal Reserve began a gradual shift to tighter monetary policy with a 25-basis-point rate hike in March 2022 as economic growth recovered. Gradualism soon gave way to rapid tightening by summer, as inflation surged on the back of supply/demand imbalances, a resilient economy, and the spike in oil prices due to the war in Ukraine.

By the end of 2022, the Fed had raised the federal funds rate seven times, from 0% to 0.25% at the start of 2022, to 4.25% to 4.50% by the end of 2022. As shown in the Bloomberg chart below, the pace of rate hikes since March 2022 has been the most rapid in modern times:



Bonds Are Back– Con't

As a result of these rapid rate hikes, 2022 was the worst year for bond performance since at least 1976. As can see in the J.P. Morgan chart below, the Bloomberg U.S. Aggregate bond index fell 13% for 2022. That's a huge loss for the bond market. Since 1976, the next worst year was a 3% drop in 1994. The full year performance for the bond market is indicated in the graph below by the dark grey numbers and bars.



So far in 2023, the Fed has instituted three additional rate increases. The most recent increase, announced on May 3, raised the federal funds rate to 5.0% to 5.25%. While the Fed decided to keep rates flat at their June meeting, Chairmen Powell hinted that there could be two more 0.25% increases later this year.

For the following reasons, we feel that bonds are once again an appealing investment:

1) **Yields are Up:** After rising sharply last year, bonds yields are now the highest they have been in years. This is important because, starting yields historically have a strong correlation to future returns. Currently, portfolios of high-quality bonds, such as Treasuries and investment grade corporate bonds, are yielding 4% to 5%.

2) **Potential Appreciation:** Historically, the greatest appreciation in bond prices has occurred in the months leading up to and immediately after the last Fed hike of a cycle. While Fed Chairman Powell recently said the Fed may raise the federal funds rate twice more, it is likely we are getting close to the end of the Fed raising rates for this cycle. Furthermore, if the U.S. enters into a recession, the Fed will likely start reducing interest rates, which would cause bond prices to appreciate.

Bonds Are Back– Con't

3) **Inflation Continues to Fall:** On June 13th, the Commerce Department reported the Consumer Price Index declined to 4.0% in May compared to the prior year. This is down sharply from the recent peak of 9.1% in June of 2022. While 4.0% is still well above the Fed's 2.0% target, a great deal of progress has already been made to bring down the rate of inflation. Further decreases in the rate of inflation are expected in the coming months.

4) **Good Years Normally Follow Bad Years:** As can be seen in the JP Morgan chart above, the bond market has experienced five years of losses since 1976. With the exception of 2021's loss of 2%, the other loss years were followed by strong returns in the following year. Specifically, the 3% loss in 1994 was followed by a 19% gain for 1995, the 1% loss for 1999 was followed by a 12% gain for 2000, and the 2% loss for 2013 was followed by a 6% gain for 2014.

5) **Normally, Bonds Provide Downside Protection When Stock Prices Decline:** While 2022 was an exception, in most years when the stock market declines, bonds provide good downside protection to a portfolio. With a heightened risk the U.S. economy may enter a recession within the next year, this downside protection would be welcomed.

In Summary: While we don't yet know how bonds will perform for full year 2023, for the first six months, the Bloomberg Bond Index was up 2.3%. Much of this year-to-date return is due to the attractive yields that bonds are once again paying. The icing on the cake is bonds will likely start appreciating in value once the Fed is done raising rates. If the Fed shifts to rate cuts next year due to a slowing economy, this appreciation could be very attractive.

Sincerely,

Stephen P McCarthy, CPA, CFP®,

McCarthy Asset Management, Inc.

Three Lagoon Drive Suite # 155
Redwood Shores, CA 94065
USA

Phone: 650-610-9540
Fax: 610-9541
E-mail: Steve@mamportfolios.com

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:

<u>Investment Management Services:</u>

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

<u>Financial Planning Services:</u>

- **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.**

<u>Tax Services:</u> 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**

<u>Other Services:</u> 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

*Are you on course for a financially-comfortable retirement? A **Retirement Analysis** can be very helpful in answering that. Please let us know if you would like to have us prepare one for you.*