McCarthy Asset Management, Inc.

Personalized Wealth Management

March 2025 Monthly Commentary

April 1, 2025

Inside this issue:

Stock Market & Portfolio Performance

<u>1st Qtr 2025:</u> U.S. stocks fell for the quarter, particularly large-cap technology and small cap-stocks. International stocks posted strong returns, while bonds cushioned stock losses by providing positive returns.

	Mar '25	1st Qtr 2025	Description:
Without Dividends:			
S&P 500	-5.8%	-4.6%	500 Largest Public U.S. Companies
Russell 2000	-7.0%	-9.8%	2000 of the smallest U.S. stocks
MSCI EAFE	0.9%	6.2%	international stock index
U.S. Aggr Bond	0.0%	2.8%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-2.5%	-0.3%	non-very conservative MAM portfolios
MAM Consrv	-1.3%	0.8%	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.

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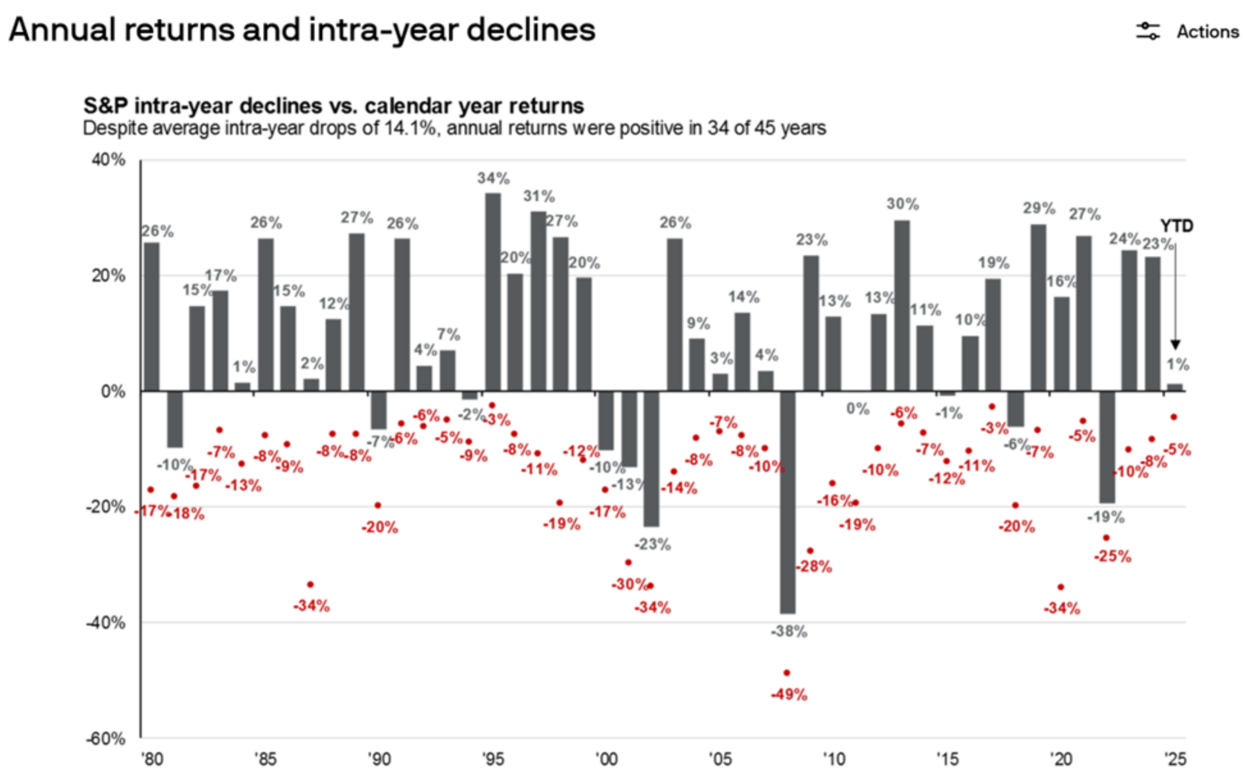
The Stock Market Correction

After reaching a high of 6144 on February 19th, the S&P 500 fell 10.1% to 5522 on March 13th. A drop of 10% or more qualifies as a "stock market correction." While market corrections can be unnerving for investors, they are rather common. For instance, since 1980, the S&P 500 has experienced a drop of 10% or more in 47% of calendar years.

Our favorite chart to illustrate market volatility is the one below from J.P. Morgan. It shows that since 1980, the maximum intra-year decline for the S&P 500 (in red) and the full return for the year (in black). This chart is as of January 31, 2025, so it doesn't include the 2025 correction. Since 1989, the average intra-year drop has been 14.1 %. Despite this downside volatility, the annual returns were positive in 34 of the 45 years.



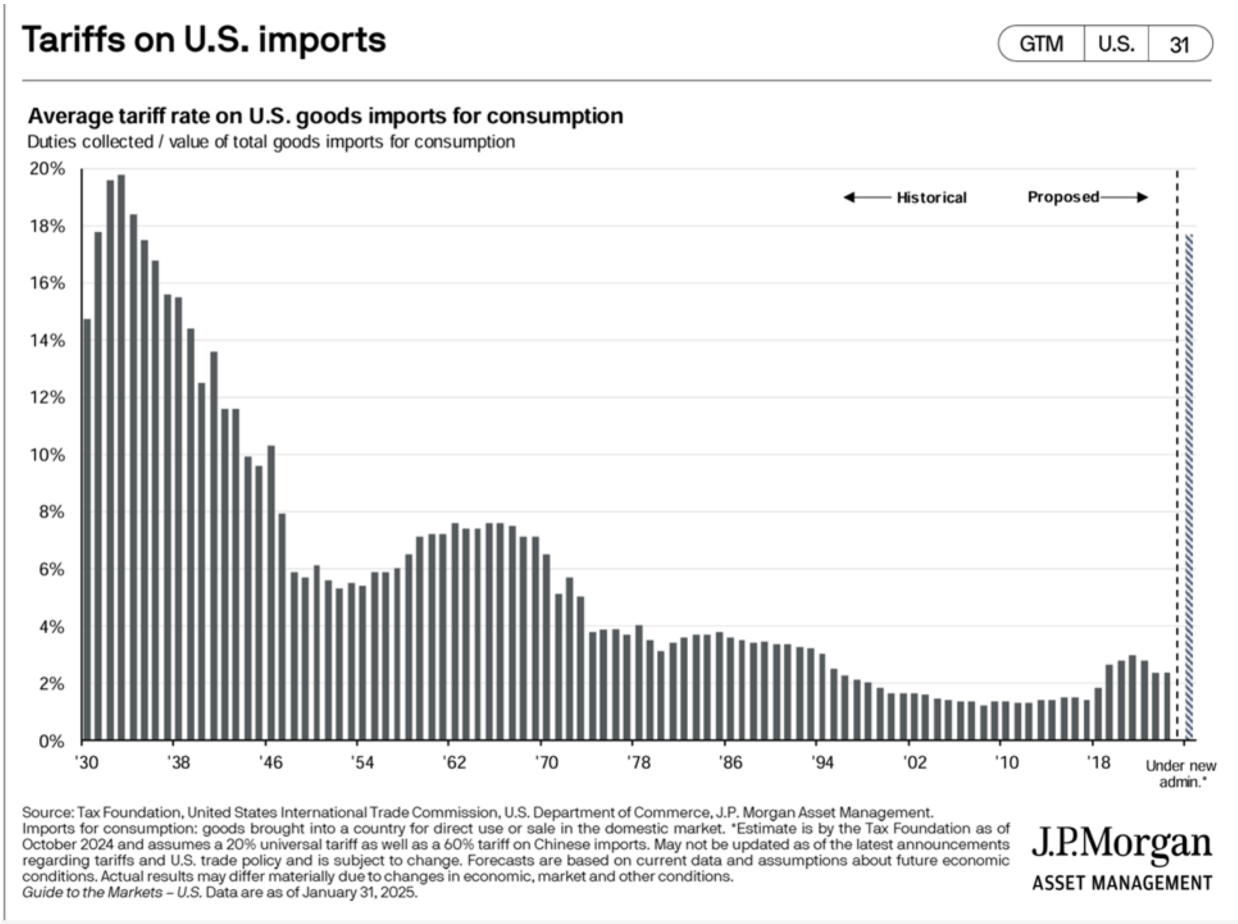
Because stock market corrections are so common, we don't try to market time them. Rather, we focus on trying to protect portfolios from bear markets, which are declines of 20% or more. Typically, bear markets occur during a recession. Therefore, an important focus of ours is to try to determine if the U.S. economy is about to enter a recession.

Coming into 2025, the risk of a recession was rather low. Instead, the talk was how the economy was able to sharply reduce inflation while experiencing a "soft landing." For 2025, the U.S. economy was expected to continue its solid growth of the last few years, with consistent employment growth and moderating inflation. Furthermore, after strong growth for 2024, corporate earnings were expected to post another very good year in 2025.

Currently, the Federal Reserve is forecasting 1.7% GDP growth for 2025. With such a benign environment, what triggered this stock market correction? For one, at the outset of 2025, the stock market was richly priced with a forward price to earnings ratio of 22 for the S&P 500, compared to its long-term average of 17. This means stocks were priced well above their historical average. As such, any negative issues could rattle the stock market. We feel what triggered this correction is the uncertainty on the policy front with the Trump Administration, particularly with tariffs. One thing the stock market doesn't like is uncertainty.

Tariffs: Most economists believe that a high level of tariffs is detrimental for the U.S. economy. What's interesting is that in modern history, the highest level of tariffs on U.S. imports was in the 1930's, which was during the Great Depression. In fact, high tariffs were one factor that caused the Great Depression.

The Stock Market Correction– Con't



Per a Morningstar analysis, a full implementation of a 10% uniform tariff hike for countries other than China, and 60% hike for China, as Trump proposed in his presidential campaign, would reduce the long-run growth of U.S. Gross Domestic Product by 1.6%. This is significant for an economy that is projected to grow at a 1.7% rate in 2025.

President Trump's, on-again, off-again, proposed tariffs, are sowing confusion for businesses, consumers and investors, and they are stroking concerns about increasing inflation. Trump himself acknowledged in his joint address to Congress last month that tariffs will cause a "a little disturbance." In a subsequent interview with Fox News, Trump declined to rule out a recession, saying his economic plan could be painful for some at first. The following day, the S&P 500 fell 2.7%.

Likelihood of a Recession: At this point, we feel it is premature to forecast a recession. For one, it is very possible that Trump's pledge to levy aggressive tariffs on major U.S. trading partners is just a negotiating ploy that won't be implemented. Furthermore, the economy's underlying healthy fundamentals (including strong job growth), suggests that the U.S. economy has a decent cushion in the near term to absorb policy shocks. Nonetheless, a rising risk of a recession is scaring investors. Last month, economists at JP Morgan said the risk of a recession had edged up to 40% from 30%, owing to "extreme U.S. policies". Goldman Sachs, which has consistently anticipated above consensus growth in recent years, raised its 12-month recession odds from 15% to 20%.

MAM Comments: We will continue to closely monitor economic reports to gauge the likelihood of the U.S. entering a recession this year. For now, we are pleased with the current asset allocation of most MAM portfolios, as they have held up relatively well during this market correction.

Will This Stock Market Rotation Last?

In addition to the stock market experiencing a correction during the first quarter, there has also been a rotation shift from Big Tech stocks to other areas such as healthcare, basic materials, financials, international stocks, and bonds. Technology stocks, particularly "The Magnificent Seven," were far and away the largest contributor to the big bull market in 2023 and 2024. In a dramatic shift, for the first quarter of 2025, they were the biggest drag on stock returns.

It's unclear whether this trend away from Big Tech will stick. Markets are struggling to find focus amid uncertainties about the future. Federal Reserve interest-rate cuts this year are uncertain, inflation remains sticky, and the impact of President Trump's economic policy are raising concern. Over the last few years, more than once, Big Tech stumbled, and then roared back to life a few months later. Nonetheless, some strategists say some of the previously "under loved" areas of the stock market could continue to shine. Here are some of those areas:

- **Value Stocks:** For the first quarter of 2025, the Vanguard Value Index ETF (VTV) was up 2.6%. In comparison, for the quarter, the Vanguard Growth Index ETF (VUG) was down 9.5%.

- **International Equites:** After dramatically underperforming U.S. equities since the 2008 financial crisis, international stocks are off to a strong start in 2025. For the first quarter, the MSCI EAFE index was up 6.2%.

- **Dividend Paying Stocks:** The two ETFs in MAM portfolios are Schwab U.S. Dividend (SCHD) and Vanguard Dividend Appreciation (VIG). For the first quarter, SCHD was up 3.3% and VIG was down 0.5%, compared to a loss of 4.6% in the S&P 500.

- **Bonds:** Bonds are performing as intended this year by providing downside protection to portfolios. For the first quarter, the U.S. Aggregate Bond Index was up 2.8%.

MAM Comments: So far this year, diversification in portfolios is working. This is particularly important given the stock market correction we are experiencing. For the first quarter, MAM portfolios fell 0.3%, compared to a 4.6% drop in the S&P 500. Given the current uncertainties investors are facing, we are pleased to have the downside protection from a significant allocation to bonds in most portfolios.

DOGE Impact on Social Security Payments?

The Social Security Administration (SSA) provides monthly benefits to more than 70 million Americans. Recently, we have heard from several clients who are concerned about whether there could be a delay in receiving their Social Security payments due to the staff cuts at the SSA. Given that so many MAM clients are receiving benefits, we thought we should address this potential issue.

Acting SSA Commissioner Lee Dudek, has announced plans to cut 7,000 staff members, about 12% of its staff. The shakeup comes as Social Security's staffing is at its lowest level in decades, even as the number of retirees has soared, as the Baby Boomers age. The agency also plans to close field offices that help with customer services.

This comes after President Trump signed directives allowing the new Department of Government Efficiency (DOGE) to modernize "federal technology and software to maximize government efficiency and productivity." The efforts, across all Federal government departments, are led by tech billionaire Elon Musk, who has been highly critical of SSA.

DOGE Impact on Social Security Payments?– Con't

What may be alarming some retirees is when Martin O'Malley, former SSA Commissioner in the Biden administration, said last month, "Ultimately, you're going to see the system collapse and an interruption of benefits…I believe you will see that within the next 30 to 90 days."

Expect Service Cuts, Not Delays in Benefit Payments: While we have no special insight into the situation at the SSA, we believe it is unlikely there would be an interruption in benefit payments. This is because a delay in paying benefits could be catastrophic. In a recent survey, 42% of Americans aged 65 and up reported they wouldn't be able to afford necessities like food and housing without their monthly Social Security retirement payments.

We feel the most likely impact of the staffing cuts will be a reduction in services. For instance, last month the SSA suddenly stopped allowing claimants to change their direct deposit arrangements by phone. According to the Washington Post, the SSA and Musk's DOGE team had considered ending phone services entirely, but abandoned the idea after the Post reported the proposal. It is likely, though, that those hoping to call the SSA can expect to be placed on hold for an extended period.

Sincerely,

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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 are able to utilize the income tax services provided through either the firm Stephen P. McCarthy, CPA or from the CPA firm of Lauren Be. 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

Tax Reminders:

- April 15th is the deadline for filing 2024 individual income tax returns and making 2024 IRA, SEP-IRA, and Roth IRA contributions.
- It is also the deadline for first quarter 2025 Federal and State estimated payments.
- April 10th is the deadline for California property tax payments for the first half of 2025.