McCarthy Asset Management, Inc.
Personalized Wealth Management

October 2023 Monthly Commentary

Nov. 1, 2023

Stock Market & Portfolio Performance

Inside this issue:

October, 2023: U.S. and international stocks fell for the quarter due to rising interest rates. Bond prices also fell as the yield on the 10-year Treasury bond reached its highest level in nearly twenty years.

	Oct 2023	YTD 2023	Description:
Without Dividends:			
S&P 500	-2.2%	9.2%	500 Largest Public U.S. Companies
Russell 2000	-6.9%	-5.6%	2000 of the smallest U.S. stocks
MSCI EAFE	-4.1%	0.2%	international stock index
U.S. Aggr Bond	-1.6%	-2.6%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-2.2%	3.1%	non-very conservative MAM portfolios
MAM Consrv	-1.5%	1.8%	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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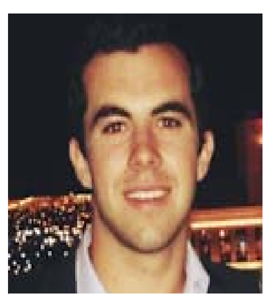

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Long-Term Interest Rates Continue to Climb

Third Quarter Performance for Bonds: The third quarter was very tough for bond investors as yields surged and prices—which move inversely to yields—dropped. The selloff was led by intermediate and long-term Treasury bonds, whose yields rose to their highest levels in more than a decade. Only very short-duration fixed income investments managed to produce gains. For the quarter, the Bloomberg U.S. Aggregate Bond Index fell 3.2%.

The decline in bond prices was somewhat surprising, as it came against a backdrop of the Federal Reserve's decision to skip a rate hike at its September policymaking meeting, easing inflation pressures, and concerns about slowing global growth—especially in China and Germany, two of the world's largest economies. Generally, these are favorable factors for bond prices.

September Federal Meeting: At their September meeting, Federal Reserve officials were divided over whether they should raise short-term rates once more this year. More disappointing for stock and bond investors, the Fed indicated they expect to keep short-term rates higher for longer through 2024 than they thought before. The Fed is unlikely to formally announce any halt in rate rises. They have been repeatedly surprised by the resilience of the economy and would prefer to keep the door open to additional rate rises.

More recently, on October 19th, Fed Chairman Powell stated in a speech that inflation was still too high and warned that more interest rate increases are still possible if the economy stays hot or a tight labor market stops easing.

Recent Rise in the Rate on the 10-Year Treasury Bonds: In October, the yield on the U.S. Treasury 10-year note, which serves as an important benchmark for home mortgages, continued its rapid 3-month rise, reaching its highest level since late 2007. We last wrote about this in our August Monthly Commentary in the article "Interest Rates Higher for Longer?" At the time we penned the article, the 10-year note had reached 4.3% on August 18, up from 3.8% on July 18. Rates since then have climbed further, reaching 5.0% on October 24. As a result, the average rate on 30-year fixed mortgages climbed above 8% for the first time since 2000.

Yield Curve Less Inverted: One side effect of the rise in long-term yields is the lessening of the yield curve's inversion. Normally, yields from longer maturities are higher than those of shorter-dated bonds, reflecting the greater inflation risk of holding bonds for longer periods. But under certain circumstances, like this year, the shape of the curve is inverted with short-term yields rising above long-term yields. In July, the yield on the 2-year note stood more than 1.0% above the 10-year note. This was the greatest inversion since 1981. However, with the jump in long-term yields since the beginning of August, that gap has rapidly narrowed to 0.2% by late October.

MAM Comments: Bond investments benefit from high rates. After their recent rise, starting yield levels, which are historically strongly correlated with returns, are very attractive, with high quality bond funds today yielding 6% to 8%. This looks attractive versus expected equity returns and offers downside protection in the event of recession.

Currently, we are positioning portfolios with a relatively short duration. Shorter-term bonds are less impacted by rising interest rates. Once rates peak, the timing would be right to extend the bond duration in portfolios. We don't expect to do that any earlier than next year.

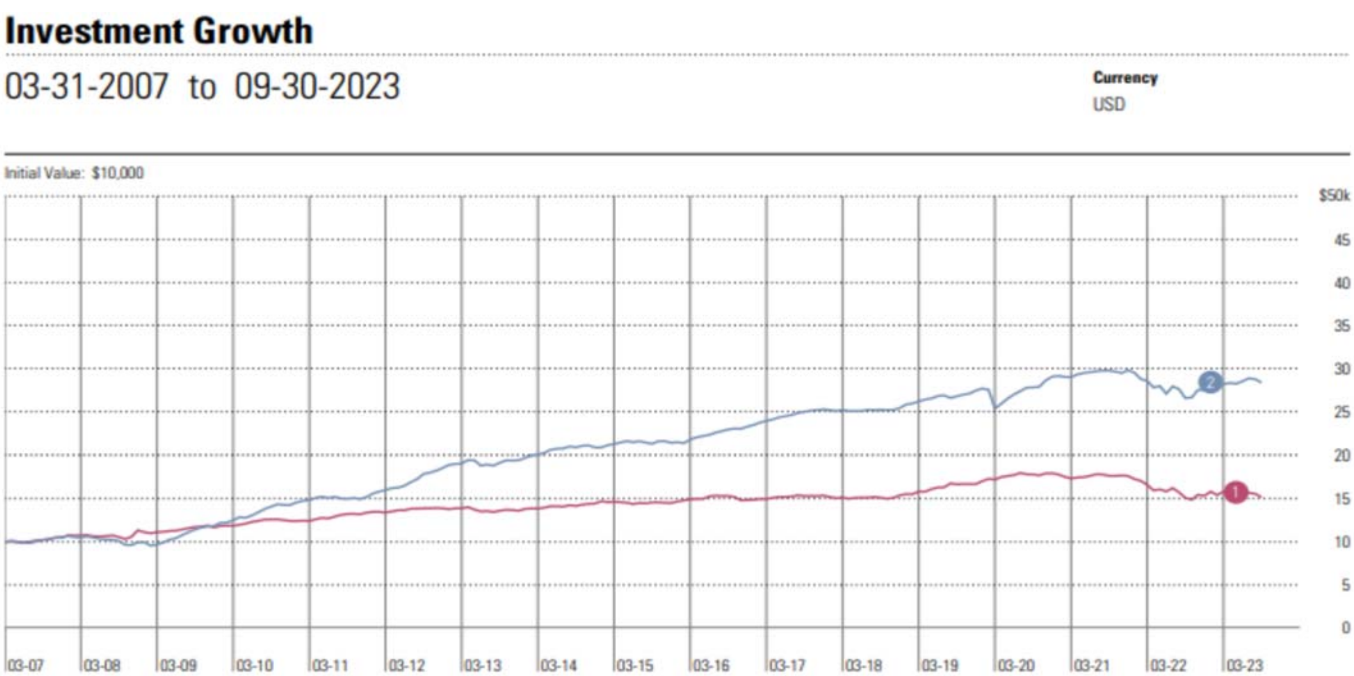
Fund Profile: PIMCO Income Institutional

Most of the bond allocation in MAM portfolios is held in two bond funds: J.P. Morgan Ultra Short-Income ETF (JPST) and PIMCO Income Institutional (PIMIX). JPST is a very short duration bond fund with an average maturity of less than 6 months. As such, it has held up well as the Federal Reserve significantly raised interest rates over the last 18 months. Once the Fed is done raising rates, bond funds with longer average maturities should start to perform well. At that time, it would make sense to shift part of the JPST bond allocation into longer-duration bond funds.

The PIMCO Income fund (PIMIX) is a multisector bond fund, meaning that its managers have the flexibility to invest throughout the bond market, and to increase or decrease the average maturity of bonds (i.e., "the duration") within its portfolio. With its very strong track record, clearly the PIMCO Income managers have done an excellent job of navigating this challenging bond environment.

As written in a recent Morningstar report, "Through thick and thin", the PIMCO Income "strategy has delivered in nearly every case. Pimco veterans Dan Ivascyn and Alfred Murata, who are past Morningstar Managers of the Year, and Joshua Anderson have leveraged the firm's robust mix of macro research and bottom-up analysis to focus on generating consistent payouts in addition to performance."

The graph below displays the performance of PIMIX relative to AGG, the iShares Core U.S. Aggregate Bond ETF. From PIMIX's inception on 3/31/2007 through 9/30/2023, PIMIX returned 6.52% annually, compared to 2.56% for the Core U.S. Aggregate Bond index. During this time, cumulatively, PIMIX has returned 183.6%, compared to 51.7% for AGG.



Investment	Cumulative Return % (Net of Fees)	Annualized Return % (Net of Fees)	Amount at End of Period $ (Net of Fees)
1 iShares Core US Aggregate Bond ETF (USD, AGG)	51.72	2.56	15,171.70
2 PIMCO Income Instl (USD, PIMIX)	183.62	6.52	28,362.29

Fund Profile: PIMCO Income Institutional– Con't

PIMIX held up relatively well for 2022, which was one of the worst years ever for the bond market. The Fund entered 2022 with a very short 1.2-year duration. For 2022, the Fund lost 7.8%, which compares favorably to the 13.0% drop for the U.S. Aggregate Bond Index.

Per a recent report from the managers of PIMIX, "with proper positioning, today's bond market may offer the potential for equity-like returns with less risk." What follows are some questions and answers from the PIMIX managers:

Q: What is your inflation outlook and when will the Fed stop raising interest rates?

A: "Our base case projections anticipate core inflation will trend lower but linger above central bank targets for several quarters…We think the risk of at least a mild recession before central banks get inflation back near target levels may be greater than half."

Q: Looking at interest rate risk (duration), how are you positioning the portfolio?

A: "As short-term yields rose, we have increased our interest rate exposure. The inverted yield curve, where short-term rates are higher than long-term rates, enabled us to seek attractive income without taking significant interest rate risk further out on the curve. If yields were to rise meaningfully from here, we may increase our interest rate exposure across our portfolios further. One of the many advantages we have over passive alternatives is the ability to tactically manage interest rate exposure, as we did in 2022, and that helped protect capital."

Q: After selling much of your Mortgage-Backed Securities (MBS) during the pandemic when the Fed buying drove up prices, how are you viewing this market now?

A: "Agency MBS is one of our strongest conviction areas in the Fund. The asset class is particularly liquid and benefits from an implicit government guarantee, which can provide resiliency in a range of economic environments. Valuations are enticing: The sector is trading at spread levels that we haven't seen since the global financial crisis. We have added MBS over the last several months, taking advantage of price weakness when some banks began selling agency MBS during the banking sector volatility we experienced in March."

Q: Investors today have multiple options, including sitting in cash. Why should they consider bonds and, more specifically, why should they evaluate a multi-sector fund like Income?

A: "We recognize cash currently provides attractive levels of yield, but cash may only allow you to lock in that rate overnight. Longer-maturity fixed income assets allow you to lock in an attractive yield for longer and offer the potential for price appreciation, particularly if the economy weakens and the Fed begins easing."

MAM Comments: We have been very pleased with the continued excellent performance of the PIMCO Income Fund. As mentioned above, once we are confident the Federal Reserve is done raising rates, it would make sense to shift part of the bond allocation that is in ultra-short-term bonds to a fund like PIMCO Income.

Sincerely,

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MAM

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

Year-End Tax Planning: Please let us know if you would like to have us do any tax planning, such as determining the amount of 4th quarter estimated payments or making a Roth IRA conversion.

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