McCarthy Asset Management, Inc.
Personalized Wealth Management

September 2023 Monthly Commentary

Oct. 2, 2023

Inside this issue:

Stock Market & Portfolio Performance

Third Quarter, 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 over fifteen years.

	3rd Qtr 2023	YTD 2023	Description:
Without Dividends:			
S&P 500	-3.6%	11.7%	500 Largest Public U.S. Companies
Russell 2000	-5.5%	1.4%	2000 of the smallest U.S. stocks
MSCI EAFE	-4.7%	4.5%	international stock index
U.S. Aggr Bond	-3.2%	-1.0%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-2.1%	5.3%	non-very conservative MAM portfolios
MAM Consrv	-1.3%	3.3%	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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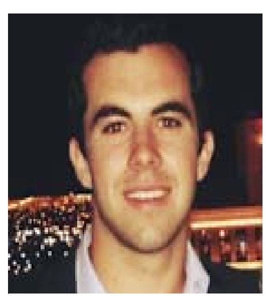

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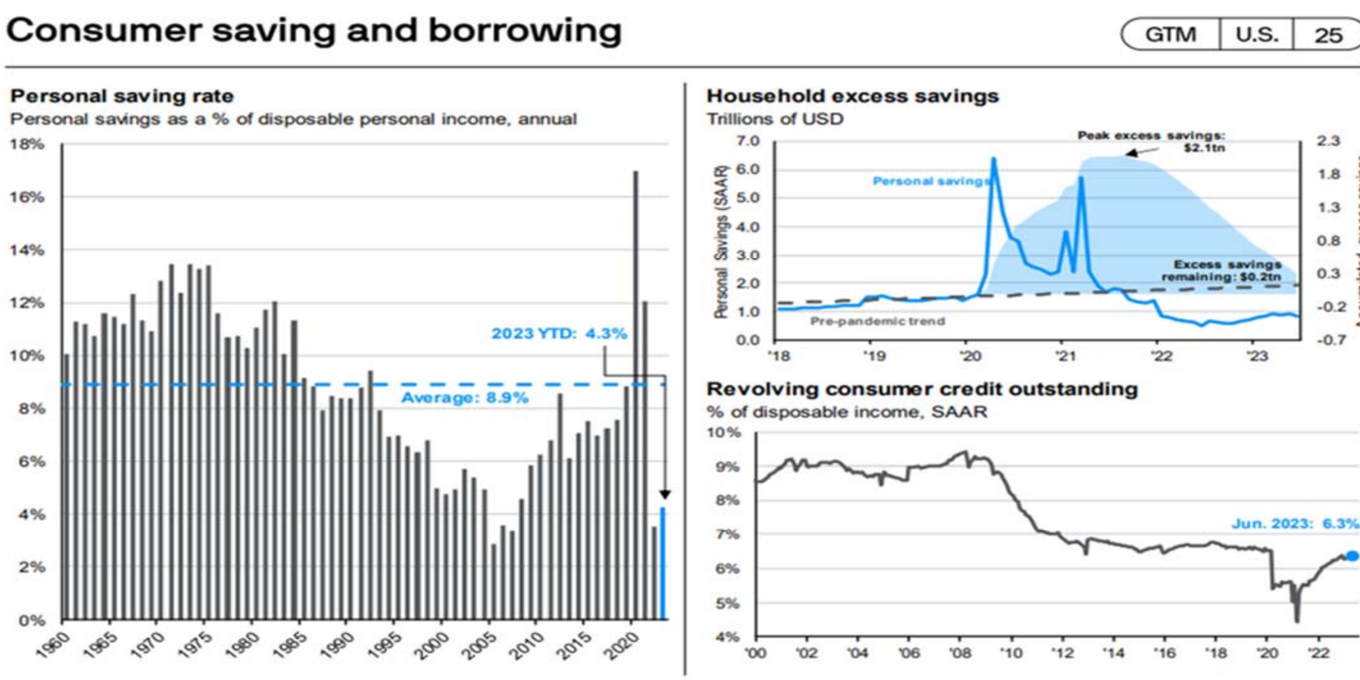
Will Consumer Spending Stay Strong?

One of the forces driving the stock market's rebound this year has been the unexpected resilience of the American consumer, even amid rising interest rates, stubborn inflation, and recently, rising gasoline prices. Consumer spending is important, as it makes up approximately 70% of the U.S. economy. In fact, robust spending is causing economists to raise projections for third-quarter economic growth well above the second quarter's 2.1% rate of growth.

However, there are risks that the strength in consumer spending will fade in the coming months as factors that have supported growth in income and spending are waning. In particular:

Job Growth: Job gains are slowing, and wage growth is decelerating. Hiring slowed this summer and unemployment rose in August, which signals that the labor market is starting to cool in the face of high interest rates. Over the three-month period of June through August, 150,000 jobs were added monthly on average, down from an average gain of 238,000 in March through May. The unemployment rate was 3.8% in August, up from 3.5% in July—reflecting more Americans seeking work.

Consumer Savings: As can be seen in the graph below from J.P. Morgan, the personal savings rate and excess savings soared during the pandemic (i.e., 2020 and 2021). Excess savings are now nearly depleted. Furthermore, the amount that consumers have outstanding on credit has been climbing since 2021.



Source: BEA, Federal Reserve, J.P. Morgan Asset Management. From March 2020 to August 2021, consumers amassed a peak $2.1 trillion in excess savings relative to the pre-pandemic trend. Since August 2021, consumers have drawn down on those excess savings, with the remaining reflected in the chart annotation.
Guide to the Markets – U.S. Data are as of September 7, 2023.

J.P.Morgan ASSET MANAGEMENT

Impact of Rising Interest Rates: It's been 18 months since the Fed started to aggressively raise interest rates. It is likely that consumers are now feeling the pressure from these rate hikes, as it typically takes one to two years for rate hikes to suppress consumer spending.

Next Recession? If there is anything we have learned this year, don't underestimate the willingness of American consumers to spend. Nonetheless, over the next six to twelve months, we would not be surprised to see a slowdown in consumer spending. If so, the U.S. economy could enter a recession sometime in 2024. The Conference Board's Leading Economic Index can provide an early indication of significant turning points in the business cycle and where the economy is headed. The Index has fallen sharply over the last 12 months. Meanwhile, the Treasury market yield curve remains sharply invested, another indicator of tougher economic conditions ahead.

MAM Comments: If signs emerge that the U.S. may be entering a recession, we will likely increase the downside protection in portfolios by shifting a portion of the equity allocation into fixed income.

Another Potential Federal Government Shutdown

The first half of 2023 was dominated by the debt ceiling debate. After a month-long standoff amid uncertainty about when the Treasury would run out of cash to pay the nation's debts, Congress finally passed legislation to suspend the debt ceiling in early June—just two days before the country would have defaulted. The deal took this contentious issue off the table until mid-2025, well after the 2024 presidential and congressional elections.

But the agreement set up the next fiscal showdown this fall: Avoiding a government shutdown when current funding ran out on September 30. This scramble happens every September, but the task looks more daunting this time. There has been little progress in Congress on any of the 12 bills that fund the federal government's normal operations. And the two parties are far apart in terms of spending levels. Some House Republicans want spending cuts for fiscal year 2024, which started October 1.

There's a good chance Congress will miss the year-end target for spending bills established by this spring's debt ceiling deal. If so, automatic 1% spending cuts kick in for domestic spending, including defense spending (but not Social Security and Medicare).

House and Senate leaders of both parties say they have a clear road map to avoid a government shutdown: Pass a short-term patch, then take some time to negotiate on full-year spending. But some House Republicans have said they won't agree to an extension without extracting concessions. While a spending deal could potentially pass without their support, it has put political pressure on House Speaker McCarthy, who has regularly run into roadblocks set up by dissidents in his own party.

MAM Comments: While shutdowns have not historically been big stock market movers, a shutdown this fall could have some negative short-term repercussions for the markets. It is likely, though, this will only be a temporary issue, as we expect Congress will eventually pass the needed spending bills.

How the UAW Strike May Affect the U.S. Economy

Starting at midnight on Friday, September 15, the United Auto Workers went on strike against the Big Three automakers. What's unusual about this walkout is that the union is targeting all Big Three carmakers: Ford, General Motors and Stellantis (Chrysler's parent company). Initially, the strike is limited to just three assembly plans—one for each company—with a total of about 13,000 workers.

The ultimate economic impact of the strike depends on how long it lasts, how many workers walk off their jobs, and if companies lay off workers at other plants. Here are some of the potential effects of the strike on workers, companies, car buyers and the broader economy:

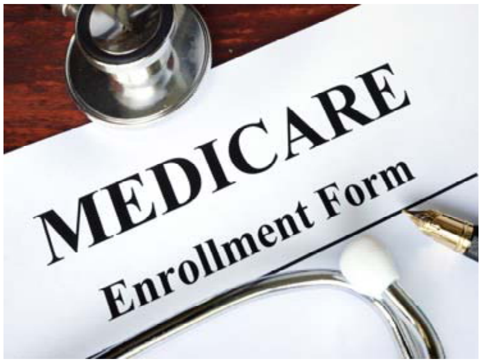
1) **Impact on Striking Workers:** While striking workers won't be getting paychecks while they are out of work, they will receive $500 a week in strike pay from the union. On average, that will replace only about 40% of their lost wages. This will likely mean reduced spending in communities where the striking workers live.

2) **Impact on Supply Chains:** Companies that supply parts to Ford, GM and Stellantis could also feel the effects of the strike, but probably not right away. Automakers have lived through several years of parts shortages, so they may be slow to cancel orders with suppliers. Even if orders do slow down, parts-makers might be wary about laying off their own workers, given the tight labor market.

3) **Impact on Car Buyers:** There are more cars on dealers' lots now than there were a year ago, when supplies were still severely limited by the pandemic and a shortage of computer chips. It is estimated that Ford has enough vehicles on hand to last about two months, GM a little less than that, and Stellantis a little longer. So, there's a cushion, but that will only last for so long.

4) **Impact on the U.S. Economy:** The Big Three automakers aren't as dominant as they once were, and neither is the UAW. Even if all 150,000 members were to strike for six weeks, the fallout for the broader economy would be limited, shaving an estimated 0.2% off fourth-quarter gross domestic product, says Mark Zandi, chief economist at Moody's Analytics. Such an impact shouldn't be enough to push the U.S. into a recession.

Medicare Open Enrollment



The annual enrollment period ("Open Enrollment") for 2024 Medicare coverage will run from October 15, 2023, to December 7, 2023. During this time, you can make changes to various aspects of your coverage, such as switching from Original Medicare to Medicare Advantage, or vice versa.

As most of you know, we have retained the services of Eileen Hamm to help our clients with issues related to Medicare. Because we pay Eileen's firm a fee, this service is available at no charge to MAM clients. Quite a few clients have already utilized Eileen's services, either when they first became eligible for Medicare, or for those already enrolled, during the annual Open Enrollment. For those of you who have worked with Eileen in the past, she will be in contact to see if you would like to have her review your coverage.

Here is what Eileen can help you with during Open Enrollment:

- Reviewing your Medicare supplemental coverage to see if it has met your needs during the past year and evaluating other options as appropriate.

- Reviewing and making recommendations for any changes to your Part D prescription drug plan.

Per Eileen, "If you are on a Medigap-type supplemental plan and are happy with it, no change should be needed. However, the Part D prescription plans can change from one year to the next. Your insurer should mail you a notice about any changes, so pay close attention to the letter. Your premium may be going up next year, or the cost of your medications could increase, or some medications may no longer be covered under your plan. Even if you are currently happy with your Part D plan, it makes sense to evaluate your coverage every fall."

If you would like to have Eileen help you for the first time, let us know and we will send an introductory email. Alternatively, you can email her directly at eileen@superiorltc.com. Because Open Enrollment is Eileen's busy season, if you would like her to advise you, please reach out to her as soon as possible.

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 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 you would like us to show you how to access the information that is available on your MAM portal.