McCarthy Asset Management, Inc.
Personalized Wealth Management

# September Monthly Commentary

Oct. 1, 2020

## Stock Market & Portfolio Performance

Inside this issue:



***Third Quarter 2020:*** Stocks rose for the quarter as they continued to recover from their sharp first quarter drop. Growth stocks led the way, while value , small cap and international stocks rose more moderately. Bonds posted another positive quarter as the Federal Reserve kept short-term rates close to 0%.

| | 3rd Qtr | YTD 2020 | Description: |
|---|---|---|---|
| Without Dividends: | | | |
| S&P 500 | 8.5% | 4.1% | 500 Largest Public U.S. Companies |
| Russell 2000 | 4.6% | -9.6% | 2000 of the smallest U.S. stocks |
| MSCI EAFE | 4.2% | -8.9% | international stock index |
| U.S. Aggr Bond | 0.6% | 6.8% | index of U.S. bonds |
| With Dividends, after all fees: | | | |
| MAM portfolios | 5.7% | 0.8% | non-very conservative MAM portfolios |
| MAM Conserv | 4.6% | 1.0% | portfolios with 50%+ 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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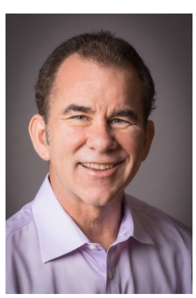

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# Long-Term Economic Impact of COVID-19


**2020 So Far**: At the start of 2020, the economic outlook for the U.S. was positive. The U.S. economy was growing, the unemployment rate was near record lows and interest rates were close to historical lows. Furthermore, for the first time in a number of years, it appeared there would be synchronized economic growth around the world.

Conditions deteriorated rapidly in March with the outbreak of COVID-19. Efforts to contain the coronavirus included a near shutdown of the U.S. economy as citizens were instructed to shelter in place at home. This was a drastic supply-shock to the U.S. economy, triggering a recession with massive layoffs. By mid-March, the stock market experienced the quickest bear market in history with the S&P 500 falling more than 20% in just 14 trading days. The stock market continued to tumble with the S&P 500 reaching a year-to-date decline of 30.8% on March 23rd.

When conditions appeared to be at their worst, stocks started to stage a sharp rebound in late March. Initially, it was propelled by quick and dramatic actions Congress and the Federal Reserve took to stimulate the economy. The recovery continued with the S&P 500 rising for five consecutive months from April through August. By August, the S&P 500 had fully recovered its losses for the year. While COVID-19 has certainly impacted the economy and stock market in 2020, an important question is what will be the longer-term impact?

**Historical Impact of Global Recessions:** The history of global recessions shows that many recessions don't have a long-run negative impact on the economy. The two worst recessions in terms of long-run impact, the Great Depression and Great Recession, were generally triggered by persistent economic government policy error. In contrast, the economic policy response has been very impressive so far in 2020, especially the United States' historically-large fiscal stimulus.

The economy hit bottom in April, and has been improving each month since. The recovery has shown surprising resilience in the face of resurgent coronavirus infections and expiring fiscal stimulus. To be sure, economic challenges still remain. This includes the inability of Congress to reach a consensus on additional benefits to those unemployed.

How the economy continues to recover depends in large part on the development and distribution of one or more effective vaccines. Morningstar believes broad availability of a vaccine in the first half of 2021 will clear the way for a full normalization of economic activity in the U.S. and abroad. They project for the U.S. GDP to recover to fourth-quarter 2019 levels by the third quarter of 2021. Others are not quite as optimistic. For instance, the Federal Reserve Bank of Atlanta estimates the U.S. economy will not recover to pre-pandemic output levels until early 2022.

**Permanent Damage to Labor Markets Is Likely to Be Small:** In April, the unemployment rate surged to 14.7%, the highest level since the Great Depression. Back in May, economists projected U.S. unemployment would still be 11% by December. It now appears that was overly pessimistic. August was the fourth straight month the job market outperformed economist's projections, with unemployment falling to 8.4% by the end of the month. While a further recovery in the labor market will likely slow from the recent pace, the long-term impact of the coronavirus is not likely to be significant.

Importantly, the nature of the job losses has been quite different from recent recessions. Construction and manufacturing are typically the largest drivers of the net losses during recessions. In the last two, they accounted for the majority of job losses. This time around, however, nearly all of the losses have been in private services industries. The most affected have been restaurants, hospitality, and personal services, which accounted for 41% of the job losses. Meanwhile, new-home sales hit a 13-year high in July, and home construction is back to pre-pandemic levels. As a result, employment growth in the construction industry has been very strong.

**MAM Comments:** How quickly the economy continues to recover will depend on the progress of medical efforts to fight coronavirus. The recovery in stock prices since March indicates that investors are optimistic in this regard. As discussed in our August Monthly Commentary, through Operation Warp Speed, the U.S. government is spending billions of dollars to accelerate the vaccine development efforts. With at least four candidates now in Phase 3 trials, it looks promising that at least one will receive FDA approval by early 2021. However, it will likely take many months for it to be widely distributed throughout the population. Furthermore, many people may be hesitant to take a vaccine. Therefore, while the long-term economic and stock market impact of COVID-19 are not likely to be significant, economic growth could be choppy and stock prices volatile until we start moving past this pandemic.

# Narrow Stock Market Leadership from Large Technology Companies

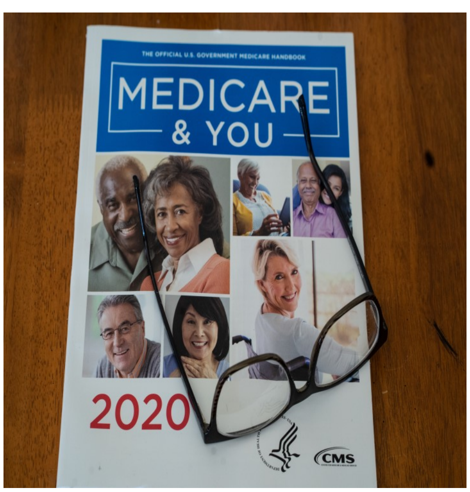

Since the end of the Financial Crisis, growth stocks have dramatically outperformed value stocks. Growth stocks include technology companies, while value stocks are made up of sectors that include financial and energy firms. There have always been cycles of growth stocks outperforming value, followed by value stocks outperforming. This most recent period of growth outperformance has been quite protracted. For the 10 years ending August of 2020, the S&P 500 Growth index has returned 18.2% per year, compared to 11.5% for the S&P 500 Value index. The outperformance of growth stocks really accelerated this year because technology companies are able to better weather the economic fallout from COVID-19. For the eight months ending August 31st, the S&P 500 Growth index is up 26.5%, compared to a drop of 9.3% in the S&P 500 Value index.

This has resulted in very narrow market leadership. All of the gains so far this year in the S&P 500 have come from the top five contributors (Apple, Amazon, Microsoft, Facebook and Nvidia). These five stocks now make up approximately 24% of the index. Per Russell Investments, “It is far and away the most concentrated market in the data spanning the last 40 years.” The performance differential has been stark. For instance, Strategas Research Partners noted that the gap between the top five performers in the S&P 500 and the other 495 stocks was more than 40% over a recent six-month period. This spread is even greater than the one during the dot-com bubble.

Another way to look at it, through the end of August, we have had the widest spread since 1932 between the best (technology) and worst (energy) performing sector—76%--according to Sentiment Trader. In fact, the only years since 1932 when the YTD-August difference neared or exceeded 50% were 1987 and 2000. Historically, the ratios between the best and worst sectors tended to narrow after such a wide spread.

**MAM Comments:** As hard as it is to try to time the stock market, it is also difficult to predict which sectors will perform best. While technology stocks may continue to lead the market for the foreseeable future, the development of one or more effective vaccines could shift the tide where value stocks will once again start to outperform. Perhaps this has started as the growth stocks fell the most during September’s down month while value stocks performed relatively well. In managing portfolios, we invest in both growth funds (Schwab U.S. Growth, T. Rowe Price Global Growth and AMCAP) along with value funds (Schwab U.S. Dividend and Yacktman), as we feel diversifying between both is the best approach.

# Medicare Open Enrollment




The annual enrollment period (“Open Enrollment”) for 2021 Medicare coverage will run from October 15, 2020 to December 7, 2020. 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. For additional information about what changes can be made, check out this link to Medicare Open Enrollment.

As most of you know, MAM has retained the services of Eileen Hamm and her firm 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 you. 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.

# Medicare Open Enrollment– con't

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.

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. For those who are tax clients, included is a copy of your tax returns.***

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