McCarthy Asset Management, Inc.
Personalized Wealth Management

April 2025 Monthly Commentary

May 1, 2025

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Stock Market & Portfolio Performance

April 2025: U.S. stocks experienced a very volatile month with the net result being modest losses. International stocks continued their strong run in April, while bonds posted additional gains for the month.

	Apr '25	YTD 2025	Description:
Without Dividends:			
S&P 500	-0.8%	-5.3%	500 Largest Public U.S. Companies
Russell 2000	-2.4%	-11.9%	2000 of the smallest U.S. stocks
MSCI EAFE	4.2%	10.6%	international stock index
U.S. Aggr Bond	0.6%	3.2%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-0.8%	-1.1%	non-very conservative MAM portfolios
MAM Consrv	-0.6%	0.2%	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: Volatility and Possible Recession

Volatility returned to the stock market last month. In fact, according to Dow Jones Market Data, April was the most volatile month since the Covid crash in 2020. For the twenty-one trading days in the month, the S&P 500 gained or lost at least 1% in eleven of the trading sessions. The sharpest downturn was on April 3rd and 4th, when the S&P 500 fell 10.5% over two days. This was in response to President's Trump's "Liberation Day" announcement of his reciprocal tariff plans on imports to America. Stocks staged a 9.5% recovery on April 9th when President Trump announced a 90-day pause in most of the reciprocal tariffs.

Fortunately, MAM portfolios were somewhat cushioned during April's stock market volatility thanks to a significant bond allocation in most portfolios. Nonetheless, we have become increasingly concerned that the historically high level of proposed tariffs could trigger a recession. If the U.S. economy does enter a recession, it is likely stock prices will fall further. In response, in the later part of April, we repositioned MAM portfolios by shifting 3% of the equity allocation to short-term bonds.

Rising Risk of Recession: Recessions often begin when an economy becomes vulnerable to a downturn and is then hit by a major shock. A global trade war triggered by an unprecedented high level of tariffs could represent such a shock. A trade war will negatively impact the U.S. economy in at least five ways:

1) Higher tariffs will increase consumer prices, reducing the purchasing power of consumers. Consumer spending makes up nearly two-thirds of Gross Domestic Product (GDP). In a recent survey, about half of Americans were "extremely" or "very" concerned about the possibility of the U.S. economy going into a recession. Such concern itself could cause an economic slowdown if consumers respond by curtailing their spending.

2) While normally the Federal Reserve aggressively cuts interest rates during a recession, higher inflation from tariffs could curb the willingness of the Fed to respond to slower growth by cutting rates. Federal Reserve Chairman Jerome Powell expressed this recently. In response, President Trump threatened to fire Powell. This in turn triggered another market selloff, until Trump reversed his position by saying he would not try to fire Powell.

3) Higher tariffs will raise costs for companies. To the extent the companies don't pass on the increased costs to consumers, corporate profits will be reduced. Lower corporate profits would lead to lower stock prices.

4) Currently, there is tremendous uncertainty as to what tariffs will be imposed. When companies cannot plan, they tend to tighten their spending, abstaining from new hiring and investment. The International Monetary Fund (IMF) estimates that the damage to growth from uncertainty over tariffs can be as large as the tariffs themselves.

5) Foreign countries are likely to retaliate against U.S. tariffs by imposing tariffs on U.S. exports. This will hurt U.S. companies that export their products and services.

MAM Comments: We view this modest increase in the bond allocation as temporary. If the U.S. manages to avoid a recession, we will shift this extra bond allocation back into equities. On the other hand, if a recession does occur, stock prices tend to hit bottom before the recession has ended. Once there are clear signs the recession is ending, we plan to shift this extra bond allocation back into equities.

Please call or email if you would like to discuss your specific portfolio(s).

Update on T. Rowe Price Capital Appreciation Fund

T. Rowe Price Capital Appreciation Fund (symbol "TRAIX") continues to be our favorite fund. It is also the largest position in most MAM portfolios. We last profiled it in our July 2023 Monthly Commentary. The Fund continues to be rated "5 stars" and "Gold" by Morningstar.

Given the stock market turbulence we have been experiencing this year, we thought it would be interesting to hear about the current thinking from portfolio manager David Giroux.

The basic goal of the Fund is to deliver over a full market cycle S&P 500-like returns, while taking substantially less risk than the S&P 500. The fund, which holds a mix of stocks and bonds, has outperformed 99% of funds in the moderate allocation Morningstar Category over the past 5-year, 10-year, and 15-year periods. Giroux, a six-time nominee and two-time winner of the Morningstar Outstanding Portfolio Manager Award, has run the fund since 2006. Over the past decade, the fund's 10.6% annualized return beat the 6.6% category average. Importantly, the fund generated this outperformance without taking extra risk; over the past decade, its standard deviation (i.e., a measure of volatility), was about the same as the category average.

The fund is coming off an unusual year. In 2024, its performance placed it in the 31st percentile of its category—its worst relative performance in the past decade. "Last year was not a contrarian market," Giroux says. "It was very much a momentum market in which GARP (growth at reasonable price) stocks, which typically outperform the market by 4% a year, underperformed the markets by 16%. He sees the stock market as expensive, with investors willing to pay a premium for stocks in 2024, so he currently has a higher-than-average allocation to Treasuries bonds.

However, as the market drops, he thinks more stocks will become attractive. The fund holds about 6% of its assets in cash, so it's poised to take advantage of opportunities. "The easiest way to make money in the marketplace is to find a great company that's out of favor for nonfundamental reasons," Giroux explains. "During periods of market uncertainty, we add risk assets when everybody is selling. We systematically add risk assets when they're cheap and pull back when they're expensive."

The fund's current allocation to fixed income sits at 33%, while it's typically closer to 25%-30%. A higher-than-average 37% of the fixed income portfolio is in Treasuries. Giroux cites two reasons for this. First, yields are still relatively high. Second, with the potential for an economic downturn and declining stock prices, he says Treasuries are almost like an insurance policy. "In almost every downturn over the last 25 years, with the exception of one, Treasuries tend to rally."

Use of the Fund in MAM Portfolios: In 2008, we started using the Fund in portfolios. In 2014, the Fund closed to new investors to keep assets at a manageable level. Fortunately, in 2015, T. Rowe Price granted an exception to MAM to allow us to add it to all portfolios. Since then, it has been our largest holding.

Performance: The Fund has been remarkably successful since David Giroux became the manager in June of 2006. The Morningstar chart below shows the performance of the Fund (shown in blue) compared to three other excellent moderate allocation funds (Dodge & Cox Balanced, Vanguard Wellington and Vanguard Wellesley) during Giroux's tenure:

Update on T. Rowe Price Capital Appreciation Fund– Con't

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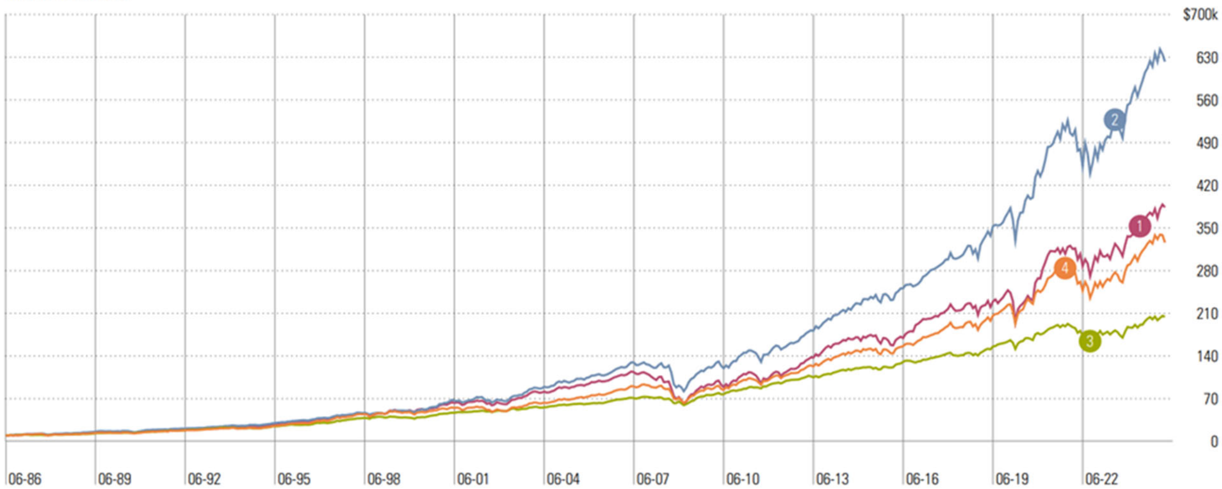
Investment Growth

06-30-1986 to 03-31-2025

Currency
USD

Initial Value: $10,000



Investment	Cumulative Return % (Net of Fees)	Annualized Return % (Net of Fees)	Amount at End of Period $ (Net of Fees)
1 Dodge & Cox Balanced I (USD, DODBX)	3,737.94	9.87	383,793.84
2 T. Rowe Price Capital Appreciation I (USD, TRAIX)	*6,126.00*	*11.25*	622,600.06
3 Vanguard Wellesley® Income Inv (USD, VWINX)	1,944.18	8.10	204,417.78
4 Vanguard Wellington™ Inv (USD, VWELX)	3,160.08	9.41	326,007.78

MAM Thoughts: We continue to be very pleased with the performance of the Fund and feel fortunate that we can use this closed fund in portfolios. For the first four months of 2025, the fund was up 0.3%, compared to a drop of 5.3% in the S&P 500. We like the flexibility Giroux has to adjust the equity allocation, which is a major advantage over index and balanced funds such as those with Vanguard, which maintain a rigid equity allocation. With this flexibility, he will likely be putting excess cash to work in equities whose prices have become attractive during this year's market correction.

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

Please let us know if there are any topics you would like to have us cover or any questions answered in a future Monthly Commentary.