McCarthy Asset Management, Inc.
Personalized Wealth Management

February 2023 Monthly Commentary

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Inside this issue:

Timing of the Next Recession– Mixed Economic Signals	2-3
Good Reasons to Review Your Estate Plan	3-4
Our Services	5

Stock Market & Portfolio Performance

February 2023: For the month, U.S. and international stocks gave back part of their January gains as recent strong economic reports raised concerns that the Fed may need to continue to raise short-term rates to subdue inflation. Bonds had a poor month due to these interest rate concerns.

	Feb 2023	YTD 2023	Description:
Without Dividends:			
S&P 500	-2.6%	3.4%	500 Largest Public U.S. Companies
Russell 2000	-1.8%	7.7%	2000 of the smallest U.S. stocks
MSCI EAFE	-2.2%	5.7%	international stock index
U.S. Aggr Bond	-2.7%	0.6%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-2.3%	2.0%	non-very conservative MAM portfolios
MAM Consrv	-1.9%	1.1%	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.

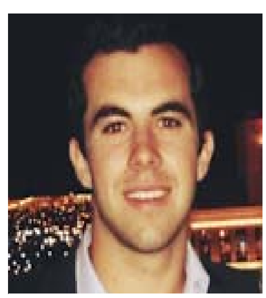
Returns for the indices are provided solely as a general indication of current market conditions. MAM Portfolios are not invested in a style substantially similar to any index. Indices do not reflect the deduction of management fees or transaction costs or the reinvestment of dividends. Performance for the indices would be lower if these costs were reflected.

Advisor Team

McCarthy Asset Management, Inc.

Three Lagoon Drive Suite # 155
Redwood Shores, CA 94065
USA

STEVE McCARTHY
CPA®, CFP®
Owner and Principal
650 610-9540 x 303
steve@mamportfolios.com



RYAN McCARTHY,
CPA®, CFP®
Financial Planner
650 610-9540
ryan@mamportfolios.com

MARILYN BLANCARTE, PACE
Executive Assistant
650 610-9540 x 305
marilyn@mamportfolios.com

Timing of the Next Recession– Mixed Economic Signals

There is considerable debate among economists and investment professionals about when the U.S. economy will enter into its next recession. Classic indicators predicting an approaching recession include consistent declines in the Conference Board's Leading Economic Index (LEI) and inverted yield curves with short-term interest rates higher than longer-term rates. On the other hand, January's very strong monthly employment and consumer spending reports point toward a growing U.S. economy.

Consumer Spending: The consumer roared back in January with a 3% increase in retail spending. This was the largest monthly gain in nearly two years, and added evidence that U.S. economic growth picked up at the start of 2023. Consumer spending is an important indicator of the strength of the economy, as it makes up nearly 70% of Gross Domestic Product.

Payroll Growth: Job growth accelerated at the start of 2023, as U.S. employers added a robust 517,000 jobs and pushed the unemployment rate to a 53-year low. January's seasonally adjusted payroll gains were the largest since July 2022, and snapped a string of five straight months of slowing employment growth. The unemployment rate fell to 3.4%, its lowest level since May 1969. Wage growth, an important indicator for the Fed's interest rate policies, continued to soften, despite the strong job gains. Average hourly earnings grew 4.4% in January from a year earlier, down from a revised 4.8% in December. For the fourth quarter of 2022, wages grew at a 4.2% annualized rate, sharply below a 6.5% increase in the second quarter.

Somewhat surprising, when the Fed started raising short-term interest rates in March 2022, the unemployment rate was 3.6%. Since then, nearly four million net new jobs have been created, and the unemployment rate today stands at 3.4%. Yet inflation has cooled and wage increases are moderating. Perhaps the U.S. economy can avoid a recession and experience a "soft landing."

Leading Economic Index: The Conference Board LEI is comprised of 10 indicators that cover a wide range of economic activity, including job growth, housing construction, and stock prices. The index is designed to provide a broad-based look at the health of the economy and can be used to predict turning points in the business cycle. The LEI acts as a predictor of turning points because as a composite index, it summarizes the consensus of forward-looking indicators from different areas of economic activity.

On average, the LEI level peaks 11-12 months ahead of a peak in the business cycle. This means that by tracking the LEI, we can get an early indication of when a recession might occur. The LEI peaked in February 2022, and has been trending downward since then. For January, it declined 0.3%, the eleventh straight monthly decline. The Conference Board noted that "overall economic weakness is likely to turn negative in the coming quarters, before picking up again in the final quarter of 2023."

Inflation: If we do experience a recession within the next year, it is likely due to the dramatic series of interest rate increases instituted over the last 12 months by the Fed to subdue a large spike in inflation. Fortunately, for the last six months, the monthly inflation reports have been pointing toward slowing inflation. In particular, the Consumer Price Index (CPI) rose at an 11.1% annual rate in the first half of 2022 and a 1.9% annual rate in the second half. Although the year-over-year inflation rate at the end of 2022 remained elevated at 6.5%, the figures since July have clearly shown sharply slowing inflation.

Another Fed Interest Rate Increase: Last month, the Federal Reserve nudged up short-term interest rates by a quarter-percentage point and signaled it was on track to do so again at its meeting in March. Fed Chair Jerome Powell said, "We're talking about a couple of more rate hikes to get to that level we think is appropriately restrictive." Despite signs that wage and price growth might have peaked several months ago, "We're going to be cautious about declaring victory and sending signals that we think the game is won," he said.

Timing of the Next Recession– Mixed Economic Signals– Con't

View from Goldman Sachs: Economists at Goldman Sachs said last month that they now see a 25% probability of a recession over the next 12 months, down from an earlier estimate of 35%. The bank expects inflation to fall to 3% this year, with the unemployment rate rising modestly to 4%.

MAM Comments: Determining the direction of the economy this year is challenging. This is important for investors because how the economy performs has an impact on stock and bond prices. Some economic indicators are pointing to a recession occurring soon, others say not so. While we can't predict for sure when the next recession will start, we think the odds are leaning toward one not starting until at least 2024. Furthermore, when the U.S. economy slips into a recession, we expect it will be a mild one.

The stock market got off to a strong start this year on hopes that the Fed was close to ending its series of interest rate hikes. Recent economic reports pointing toward a strengthening economy have shed doubts on that view. With this "good" economic news, stocks gave back much of their January gains in February. For now, we expect the stock market to remain volatile until there is more clarity on the health of the U.S. economy and the progress the Fed makes on bringing down inflation.

Good Reasons to Review Your Estate Plan

We like to remind clients to periodically review their estate plan to see if any changes are warranted. This article is based on the article "Good Reasons to Review Your Estate Plan" from the Kiplinger's Personal Finance. We have attached a copy of the Kiplinger article to this month's Monthly Commentary.

The basic components of an estate plan include:

- A will and, in most cases, also a living trust.
- A power of attorney for finance.
- A living will or advanced directive, which are written, legal instructions regarding your preference for medical care if you are unable to make decisions for yourself.
- A medical power of attorney or durable power of attorney for healthcare is a directive in which you name a person to make medical decisions for you when you are unable to do so.

Updating Beneficiaries: Certain assets, such as retirement accounts and insurance policies request that you name one or more beneficiaries, and also normally, one or more contingent beneficiaries. Beneficiary designations usually supersede instructions in your will and living trust. If you don't name a beneficiary, or if they have predeceased you, the proceeds will be paid to your estate. In this case, the assets may become subject to probate, which can be a time consuming and expensive process. Therefore, it is very important that you remain current in the naming of beneficiaries for these accounts.

Non-Retirement Accounts: You should arrange for your bank and brokerage accounts to pass directly to your heirs, outside of probate. This can be done by either titling the accounts in the name of your living trust or adding a "transfer-on-death (TOD)" feature to your non-retirement financial accounts. Having accounts titled as joint accounts also bypasses probate.

Good Reasons to Review Your Estate Plan– Con't

Real Estate: If you own real estate, to avoid probate on those assets, title should be held in the name of your living trust.

Digital Assets: Digital assets include accounts for email, social media, banking and shopping. Also included are photos, videos and online storage of these documents. We recommend creating a list of your digital assets along with passwords. For our March 2018 Monthly Commentary, Lauree Murphy wrote an article regarding how to handle Digital Assets for estate purposes. Please let us know if you would like for us to send you a copy of it.

A Planning Checklist: The second page of the attached article provides a handy list of questions to determine whether your estate plan needs to be updated. One of the items is "Have there been any changes in federal or state laws affecting estates since you drew up your documents?" Unless your estate documents were created during the last few years, there may have been estate tax law changes that would impact your estate plan. We recommend you have your estate planning attorney review your estate plan documents every five or so years. Also, if you moved to another state, we recommend you have an estate planning attorney in the new state review your documents as estate planning laws vary from state to state.

Annual Gifting: If it is likely your estate will be subject to estate taxes, a great way to reduce the size of your estate is to do annual gifting to your loved ones. For 2023, the annual gift exclusion has been increased to $17,000 per recipient.

Sincerely,

Stephen P McCarthy, CPA, CFP®,

McCarthy Asset Management, Inc.

Three Lagoon Drive Suite # 155
Redwood Shores, CA 94065
USA

Phone: 650-610-9540
Fax: 610-9541
E-mail: Steve@mamportfolios.com

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

ADV Part II: You were provided a copy of our ADV Part II when you became a MAM client. As a Registered Investment Advisor, we file this document with the Securities and Exchange Commission. Along with other items, it contains information regarding our fees and our educational backgrounds. Each year, the SEC requires us to offer clients the opportunity to receive a copy of our most recent ADV Part II. **Please let us know if you would like to receive a copy.**