McCarthy Asset Management, Inc.
Personalized Wealth Management

July 2024 Monthly Commentary

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Stock Market & Portfolio Performance

July,2024: In a reversal, large-cap growth stocks fell while value and small cap stocks rose. Time will tell if this is the start of underperformance for large-cap growth stocks. Foreign stocks and bonds rose modestly for the month.

	July 2024	YTD 2024	Description:
Without Dividends:			
S&P 500	1.1%	15.8%	500 Largest Public U.S. Companies
Russell 2000	10.1%	11.2%	2000 of the smallest U.S. stocks
MSCI EAFE	2.9%	6.5%	international stock index
U.S. Aggr Bond	2.4%	1.7%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	2.0%	9.8%	non-very conservative MAM portfolios
MAM Consrv	1.9%	7.4%	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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Mid-Year 2024 Economic and Stock Market Outlook

U.S. Economy: The U.S. economy lost steam early this year as elevated interest rates suppressed domestic demand. Real GDP growth slowed dramatically to 1.4% in Q1 2024 (down from 3.4% in Q4 2023). Preliminary estimates are that GDP growth increased to 2.8% in Q2 2024, compared to a 2.0% consensus estimate. While economists do not forecast a recession in 2024, the consensus is for consumer spending to cool further in Q3 2024 and Q4 2024. U.S. consumer spending was robust in 2023 but has slowed in this year as pandemic savings ran dry, and high prices and interest rates crimped spending.

Slowing Job Growth: The June Employment report showed that the U.S. added a solid 206,000 jobs in June. This slightly beat expectations and continued a remarkably strong run of good monthly employment reports. But the unemployment rate ticked up 0.1% to 4.1%, a sign of slack in the labor market. There were other indications that the job market is cooling. Average hourly earnings were up 3.9% in June from a year earlier, marking their smallest gain since 2021. In addition, the net job additions for both April and May were revised lower by a combined 111,000 jobs. The net result of the June employment report is the Federal Reserve may decide to start cutting interest rates as early as at its September meeting.

One concern with the job market is history has shown that the labor market can go from strong to weak very quickly. While the unemployment rate of 4.1% is still historically low, it is up from 3.4% early last year. The “Sahm rule,” a rule of thumb popularized by economist Claudia Sahm, says that if the average unemployment rate over three months rises a half-percentage point or more above the lowest three-month average from the previous year, the economy is in a recession. Over the past three months, the unemployment rate has averaged 4%. This is 0.4% above the three-month average low of 3.6% over the past year.

Milder Inflation Report: A second economic report released last month, which may convince the Fed to start lowering interest rates in September, was the release of the June Consumer Price Index. This Index is a measure of the prices of goods and services across the economy. For June, prices fell slightly from May, dropping the year-over-year inflation rate to 3%, which was the lowest since June 2023. Core prices, which exclude volatile food and energy items and are seen as a better gauge of underlying inflation, rose just 0.1% since May. This was the mildest increase since January 2021, when parts of the U.S. economy were still frozen by the pandemic. Core inflation was 3.3% over the previous year, also the lowest since 2021.

First Fed Rate Cut in September? At a mid-July Congressional meeting, Fed Chair Jerome Powell hinted that it could start cutting short-term interest rates as soon as September. In his testimony, Powell pointed to how a cooling labor market means a potential source of on-going, high inflation has diminished. And he suggested that any further softening in the job market might be unnecessary and unwelcome. Powell hinted further for a September interest rate cut in recent speeches. On July 15th, he said the Federal Reserve is becoming more convinced that inflation is heading back to its 2% target and said the Fed would cut rates before the pace of price increases reaches that point. Currently, the futures markets also expect additional rate cuts in November and December.

U.S. Equities: On the surface, the stock market is having a great year. For the first seven months of 2024, the S&P 500 was up 13.0%. But look closer and we can see just a handful of stocks are responsible for much of the gains. **In particular, the S&P 500 posted a 15.3% return for the first half of 2024, excluding the impact of NVDIA, the index was up 10.7%.** Excluding the performance of the other 6 of the “Magnificent 7” (Apple, Amazon, Google, Meta, Microsoft, and Tesla), the return for the other 493 S&P 500 companies was just 6.3% for the first half of 2024.

While on its own, a highly concentrated stock market doesn’t necessarily mean the current rally will end, generally a healthy stock market is one where most stocks are participating in the rise. Fortunately, the stock market rally extended to many more stocks in July. For the month, after rising only 1% for the first half of 2024, the small-cap Russell 2000 index surged 9.0% in July, compared to a rise of 0.5% in the S&P 500 for the month.

Mid-Year 2024 Economic and Stock Market Outlook – Con't

Solid Corporate Earnings Growth but Stretched Valuations: Consensus expectations from analysts for 2Q 2024 are for a 9% increase in S&P earnings per share (EPS) compared to the prior year. Actual results will likely surpass these expectations. Therefore, for the first time since the fourth quarter of 2021, a double-digit increase in earnings is likely. But equity valuations are stretched. At a price-to-earnings ratio (P/E) of around 21, based on the consensus EPS estimate for the S&P over the next 12 months, stock prices are expensive, and a lot of good news is already priced in. The average S&P 500 over the past 25 years is 17.

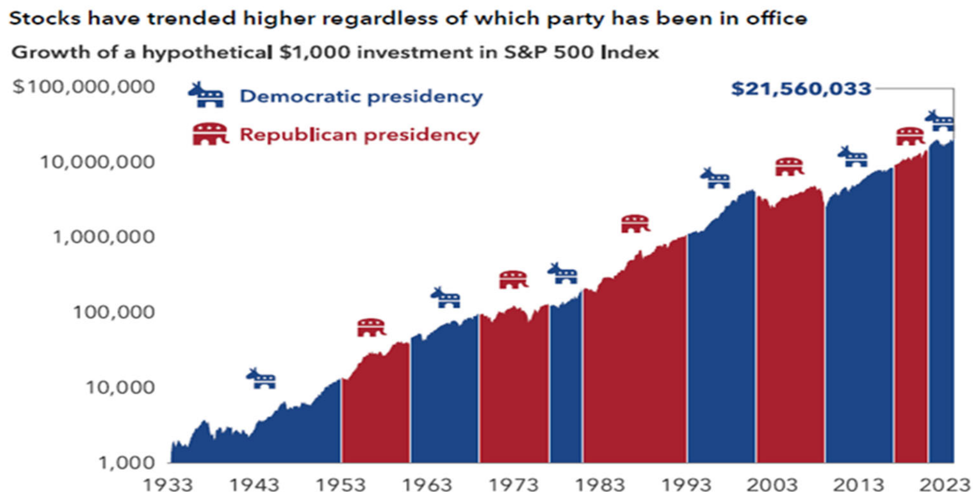
MAM Comments: We will be keeping a close eye on the upcoming monthly Employment reports to see if there are early signs of a pending recession. While the stock market may receive a boost if the Federal Reserve starts cutting interest rates in September, bonds may be the better beneficiary if the rate cuts are accompanied by a slowing economy. With stock valuations currently elevated, we would not be surprised to see a pullback in stock prices. Per LPL Financial, the average market pullback in any positive year for the stock market is 11%. So far for 2024, the maximum drawdown for the S&P 500 has been just 5.5%, suggesting more volatility may be coming. We don't try to time short-term stock market corrections, so we probably won't take defensive actions unless we feel a more substantial downturn is at hand.

Election Year– How Will the Stock Market Be Impacted? by Ryan McCarthy

The 2024 election is one that both Americans and those abroad will be monitoring closely. The discussions around who will win and what will be the implications of that victory will be abundant. Many are wondering, "What should I do with my portfolios to prepare for the upcoming election?" To best answer this question, we believe that we should zoom out and look through a historical lens of the data.

Does the stock market historically perform worse during presidential election years than nonelection years? While there is some truth to that question, the data suggests that returns are quite similar. Looking back historically to 1928, the S&P 500 has returned 7.5%, on average, in election years, and 8.0%, on average, in non-election years. History has shown that elections have little effect on the stock market in the long run. We believe that the best advice we can provide clients to prepare for the upcoming election is to avoid three common mistakes made by investors in election years.

Mistake #1: Worrying too much about which party wins the election. It is normal to want your preferred candidate to win, but investors can hurt their investment performance by placing too much importance on election results. Staying invested has shown to be more important than who wins an election. A $1,000 investment in the S&P 500 Index made when Franklin D. Roosevelt took office would have been worth almost $22 million today. There have been eight Democratic and seven Republican presidents since Roosevelt took office. By design, elections have clear winners and losers. However, the real winners were the investors who avoided the urge to base their investment decisions around election results and stayed invested for the long haul.



Sources: Capital Group, Morningstar, Standard & Poor's. As of December 31, 2023. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale. Past results are not predictive of results in future periods.

Election Year– How Will the Stock Market Be Impacted? by Ryan McCarthy– Con't

The chart on the bottom of the previous page illustrates this point. Stocks have historically trended higher regardless of which party has been in office. Getting out of the market to avoid a certain party or candidate in office could risk negatively impacting an investor's long-term returns.

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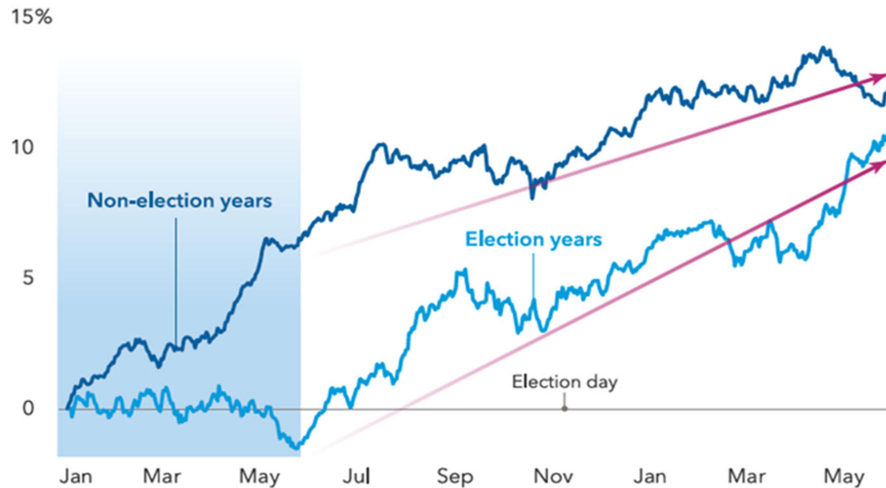
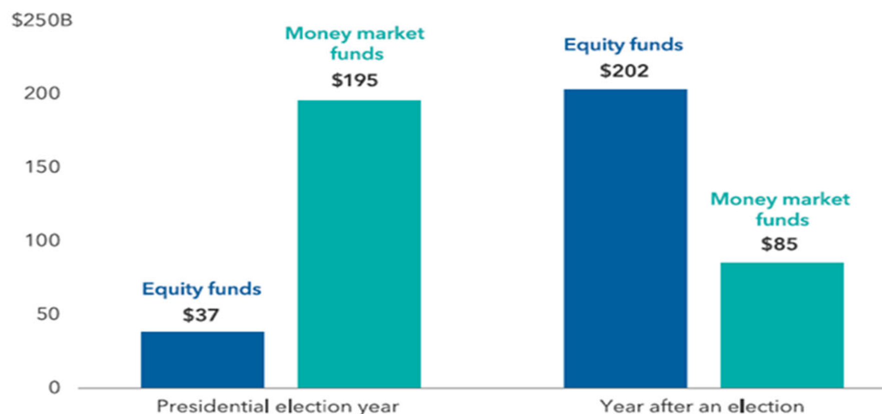
Mistake #2: Getting spooked by primary season volatility. Markets hate uncertainty. The primary season of an election year is inherently uncertain. However, history has shown that the volatility caused by this uncertainty is often short-lived. Markets have tended to return to their normal upward trajectory after the primaries are over and each party has selected its candidate.



Regardless of which party has won the election, stocks with strong long-term fundamentals have often rallied once the campaign spotlight fades. The pre-election market turbulence can create buying opportunities for investors with a contrarian point of view who can tolerate potential short-term volatility.

Mistake #3: Trying to time the markets around the election. Historically, investors have tended to be more conservative with their portfolios ahead of elections. This is seen by the graph below, which compares the difference in net fund flows during a presidential election year versus the year after an election.



Election Year– How Will the Stock Market Be Impacted? by Ryan McCarthy– Con't

Money market funds have seen an increase of net fund flows during an election year, while equity funds have experienced an influx the year after an election. History has shown that market timing is rarely a successful long-term investment strategy. We believe it is prudent to put aside short-term noise and focus on long-term goals.

We believe that the answer to the question of what you should be doing with your portfolios to prepare for the upcoming election is not just what you should do, but also what you should not do. The three most common mistakes that investors make during an election year have provided some valuable insight into the best way to prepare for a presidential election. We advise clients to not allow election predictions and outcomes to influence investment decisions. While this can be difficult, history shows that election results have very little impact on long-term returns. Volatility should be expected, especially during the primary season when the candidates are not determined. However, we believe this volatility should not be met with fear, but rather seen as a potential opportunity to invest in companies with strong long-term fundamentals. We think that it's prudent to stick to a long-term investment strategy instead of trying to time markets around elections. Studies have shown that investors who were fully invested, or made regular, monthly investments would have done better than those who stayed in cash in election years. While politics can evoke strong emotions and create the feeling that changes should be made to be best prepared for the upcoming election uncertainty, we believe maintaining a long-term investment mindset is the best approach.

Sincerely,

Steve McCarthy

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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.

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