

July 2025 Monthly Commentary

August 1, 2025

Stock Market & Portfolio Performance

July 2025: U.S. stocks, led by large-cap growth stocks, posted strong returns for the month. International stocks fell as the U.S. dollar rose sharply (up 3.1% relative to the Euro). Bond prices slipped modestly, reducing their year-to-date gains.

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| | July '25 | YTD '25 | Description: |
|--------------------|----------|---------|-----------------------------------|
| Without Dividends: | | | |
| S&P 500 | 2.2% | 7.8% | 500 Largest Public U.S. Companies |
| Russell 2000 | 1.7% | -0.8% | 2000 of the smallest U.S. stocks |
| MSCI EAFE | -1.5% | 15.7% | international stock index |
| U.S. Aggr Bond | -0.3% | 3.8% | index of U.S. bonds |

With Dividends, after all fees:

| | | | |
|----------------|------|------|--------------------------------------|
| MAM portfolios | 0.7% | 5.7% | non-very conservative MAM portfolios |
| MAM Consrv | 0.5% | 5.1% | 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.

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After a challenging first quarter, investors faced even more uncertainty early in the second quarter when President Trump slapped tariffs on nations across the globe. As tariffs dominated the headlines, preliminary trade policy announcements sparked a sharp sell-off in U.S. equities. Since then, solid corporate earnings growth and progress on trade deals helped the market fully recover from April lows.

Despite financial market volatility, the U.S. economy has held steady, although recent data has started to look weaker. While tariffs have impacted inflation data only modestly, it may only be a matter of when, not if, price pressures occur. Meanwhile, fiscal stimulus from the recently passed “One Big Beautiful Bill Act” may offset any negative economic impact of the tariffs.

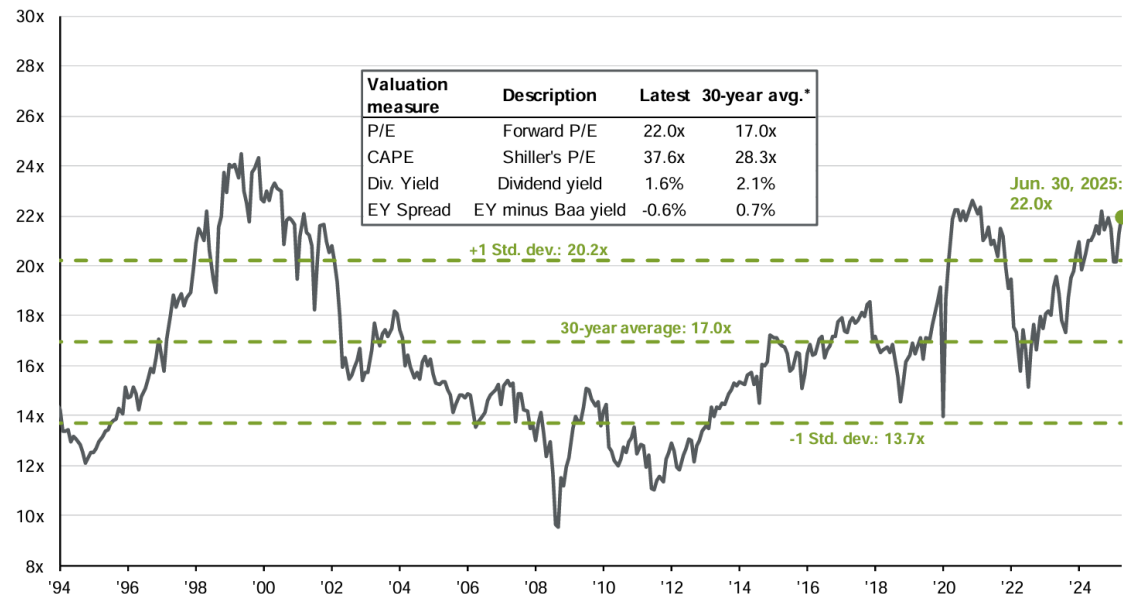
As for interest rates, the Federal Reserve is waiting for more clarity on the inflationary impact of tariffs. At this point, it appears the Fed may deliver just one rate cut this year.

With the worst fears in April about the tariff policy likely behind us, the stock market is now trading close to all-time highs. Furthermore, as shown in the J.P. Morgan chart below, the stock market is expensive. As of June 30, the S&P 500 was trading at a forward price-earnings ratio of 22.0, compared to a 30-year average of 17.0.

S&P 500 valuation measures

GTM U.S. 5

S&P 500 Index: Forward P/E ratio



Source: Bloomberg, FactSet, Moody's, Refinitiv Datastream, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management. Forward P/E ratio is the most recent S&P 500 index price divided by consensus analyst estimates for earnings in the next 12 months, provided by IBES since March 1994 and FactSet since January 2022. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as consensus estimates of dividends in the next 12 months, provided by FactSet, divided by the most recent S&P 500 index price. EY minus Baa yield is the forward earnings yield (the inverse of the forward P/E ratio) minus the Bloomberg U.S. corporate Baa yield since December 2008 and interpolated using the Moody's Baa seasoned corporate bond yield for values beforehand. *Average for dividend yield is since August 1995 due to data availability. Guide to the Markets – U.S. Data are as of June 30, 2025.

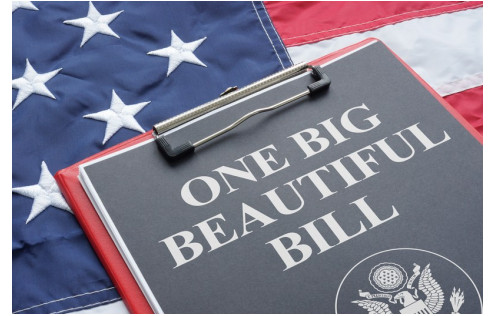
J.P.Morgan
ASSET MANAGEMENT

Recession Risk: According to the Wall Street Journal's quarterly survey of professional forecasters, economists expect stronger growth and job creation, lower risk of recession and cooler inflation than they did in April. Although economists' outlook improved from the prior survey, they are still relatively downbeat. On average, they put the probability of recession in the next 12 months at 33%, down from 45% in April, but higher than the 22% estimated in January.

MAM Comments: While we have been encouraged by the strong stock market rally since early April, with elevated valuations and trade policy uncertainty, we are a little more cautious than normal in our market outlook and asset allocation of portfolios.

On July 4th, President Trump signed the One Big Beautiful Bill Act ("the Act") into law. The Act includes many changes, including permanent and limited modification of soon-to-expire tax provisions, new provisions promised by President Trump during his 2024 campaign, elimination or modification of most of the green energy provisions, and dozens of other changes impacting individuals and businesses.

The Act comes at a high price tag (some estimates have it at \$5 trillion over ten years). Much of this cost is balanced by reduced outlays in many government programs not related to taxation, and by the elimination of many of the "green" tax provisions from the Inflation Reduction Act.



The purpose of this article is to cover many of the provisions of the Act related to individual taxpayers. We are not addressing any of the business provisions.

Extended Individual Provisions:

- Permanently preserves the lowered federal income tax brackets introduced by the 2017 Tax Act.
- The expanded standard deduction from the 2017 Tax Act is made permanent. Furthermore, for tax years 2025 through 2028, taxpayers aged 65 and older receive an additional \$6,000 deduction. This additional "senior" deduction will start to phase out for individuals with modified adjusted gross income (MAGI) exceeding \$75,000 (individuals) and \$150,000 (joint filers).
- The \$750,000 mortgage interest limitation is maintained, with a renewed deduction for mortgage insurance premiums.
- Sets an increased Child Tax Credit of \$2,200 per child beginning in 2025. Also locks in higher income phaseout thresholds of \$200,000 (individuals) and \$400,000 (joint filers).
- Extends the elimination of miscellaneous itemized deductions.
- Extends the elimination of personal exemptions.
- Allows for unreimbursed educator expenses as an itemized deduction.

State and Local Tax (SALT) Deductions: The itemized deduction for state and local taxes is temporarily increased from \$10,000 to \$40,000 for five years. This new cap is effective for the years 2025 through 2029, before returning to the \$10,000 limit in 2030. The cap is reduced by 30% of the amount by which the taxpayer's modified adjusted gross income exceeds \$250,000 (single) or \$500,000 (joint filers).

Energy Credits Going Away: The Act repeals many energy credits, including all three clean vehicle credits for vehicles acquired after September 30, 2025. Additionally, the energy credits available to homeowners who make certain energy efficient improvements or install solar property, home batteries, and heat pumps will no longer be available after December 31, 2025.

Estate Taxes: Under the Act, the basic exclusion amount is increased to \$15 million for decedents dying in 2026, adjusted for inflation thereafter.

No Tax on Overtime Pay: Under the Act, taxpayers will be able to claim a deduction for overtime pay received as required under section 7 of the Fair Labor Standards Act of 1938. Taxpayers do not need to itemize their deductions to claim this deduction. The deduction is capped at \$12,500 (\$25,000 for joint filers), and the deduction begins to phase out when the taxpayer's MAGI exceed \$150,000 (\$300,000 for joint filers). The deduction is allowed for the years 2025 through 2028.

No Tax on Tips: The Act provides a deduction from income of up to \$25,000 for tip income for the years 2025 through 2028. Qualifying individuals will typically work in occupations that rely on tips, including waiters, bartenders, and more. Taxpayers are not required to itemize their deductions to claim this tip deduction. The deduction begins to phase out when the taxpayer's MAGI exceed \$150,000 (\$300,000 for joint filers).

Charitable Contribution Deductions: Non-itemizers will be eligible to claim a \$1,000 charitable deduction (\$2,000 for joint filers). For those that itemize, though, charitable deductions will now be subject to a one half of one percent of AGI floor, providing a reduction in the deduction.

Automobile Loan Interest: For new vehicles purchased after 2024, provides an above-the-line deduction of up to \$10,000 in 2025 through 2028 for interest on qualified car loans for vehicles assembled in America. The deduction starts to phase out at MAGI above \$100,000 (individuals) and \$200,000 (joint filers).

Itemized Deduction Limitation: The Act includes a limitation on itemized deductions for taxpayers in the 37 percent tax bracket, effective after 2025.

Trump Accounts: Starting in 2026, the Act includes a provision for the creation of tax-favored accounts for newborn children called "Trump Accounts." The accounts will be seeded with \$1,000 by the U.S. government for newborn children. From a tax standpoint, they will operate under rules similar to those applicable to individual retirement accounts but are available to children.

Qualified Small Business Stock (QSBS): Enhances QSBS benefits with a tiered capital gain exclusion (50% after 3 years, 75% after 4 years, 100% after 5 years), raised the per-issuer gain cap to \$15 million, and increases the gross Company asset limit to \$75 million. These changes apply to stock acquired after the bill's enactment.

MAM Comments: The tax changes from this Act are very significant. **One action item is if you are planning to purchase an electronic vehicle that currently qualifies for the EV tax credit, to qualify for the credit, you will need to purchase and receive the vehicle by September 30, 2025. Similarly, any solar or energy efficient home improvements will need to be purchased and installed by December 31, 2025, to qualify for the current tax credit.**

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.



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