

July 2026 Monthly Commentary

August 3, 2026

Stock Market & Portfolio Performance

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July 2026: Stocks prices experienced a volatile month, due in part to a flare-up in hostilities involving Iran. As a result, oil prices climbed from \$68 per barrel to nearly \$90 per barrel at month-end. Bond prices declined as higher energy prices fueled concerns that inflation could reaccelerate.

		July '26	YTD '26	Description:
Without Dividends:				
	S&P 500	-0.1%	9.4%	500 Largest Public U.S. Companies
	Russell 2000	-2.6%	18.1%	2000 of the smallest U.S. stocks
	MSCI EAFE	1.9%	9.8%	international stock index
	U.S. Aggr Bond	-1.3%	-0.6%	index of U.S. bonds
With Dividends, after all fees:				
	MAM portfolios	0.2%	7.0%	non-very conservative MAM portfolios
	MAM Consv	0.2%	5.5%	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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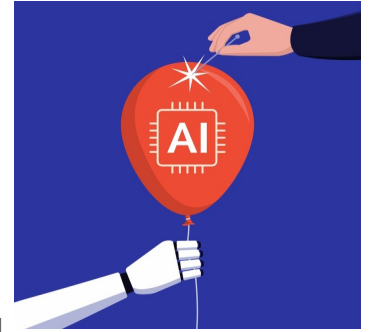
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Will AI Create a Bubble?

There is growing concern that the boom in Artificial Intelligence (AI) could eventually create a bubble that leads to a stock market correction. Many investors remember the 2000-2002 bear market when the S&P 500 declined approximately 50% following the collapse of technology stocks. That painful correction occurred after many technology companies reached wildly excessive valuations.

AI Would Be a Different Type of Bubble

Traditional market bubbles are typically characterized by unsustainable high price-to-earnings ratios (P/E) ratios. During the dot-com boom, for example, the Nasdaq 100 traded at a P/E ratio exceeding 100. Today, by comparison, the S&P 500 trades at a forward P/E ratio of approximately 20.4.



Unlike the dot-com bubble, today's AI leaders—Nvidia, Microsoft, Alphabet, Oracle, and Meta—collectively generate hundreds of billions of dollars in annual earnings. In contrast, during the dotcom era, many of the highest-valued technology companies had little or no profits.

Even so, there are a few areas that warrant caution:

Record-High Corporate Profit Margins

Corporate America continues to generate near-record profit margins, supported by AI-driven productivity gains, disciplined cost management, and the growing weight of highly profitable technology companies. These elevated margins have fueled strong earnings growth and rising stock prices. However, profit margins have historically been cyclical and could eventually come under pressure from rising costs, increased competition, or slower economic growth.

Since 2019, the S&P 500 profit margins have risen by 3.8 percentage points to approximately 13.4%, while technology sector profit margins have risen by 11.3 percentage points to roughly 29%. Both are at the highest levels since FactSet began tracking the data in 2009.

If S&P 500 profit margins were at their 2019 level, the index would currently be trading at approximately 26.5 times forward earnings instead of 20.4. In other words, today's market valuation appears more reasonable largely because corporate profit margins are unusually high.

Massive Spending by the Hyperscalers

Hyperscalers are the world's largest cloud computing companies that operate enormous data centers that power AI applications. The major players include Amazon, Microsoft, Google, Oracle and Meta.

As shown in the JP Morgan chart below, the AI infrastructure spending is projected to surge from \$241 billion in 2024 to \$758 billion in 2026. This represents approximately 1.9% to 2.3% of U.S. gross domestic product (GDP). By 2028, projected spending of \$986 billion would equal roughly 2.5% to 2.8% of GDP.

This extraordinary level of investment is providing a meaningful boost to economic growth, corporate revenues, and employment. The key question is whether these investments will ultimately generate returns that justify their enormous cost.

Delayed Accounting for AI Spending

Another factor supporting today's earnings is the way accounting rules treat infrastructure spending.

When Nvidia sells a GPU or Micron sells a memory chip, those companies immediately recognize the revenue and associated profits. The hyperscalers purchasing this equipment, however, generally capitalize the cost as a long-term asset rather than recording it as an immediate expense. Instead, the costs are recognized gradually through depreciation over many years.

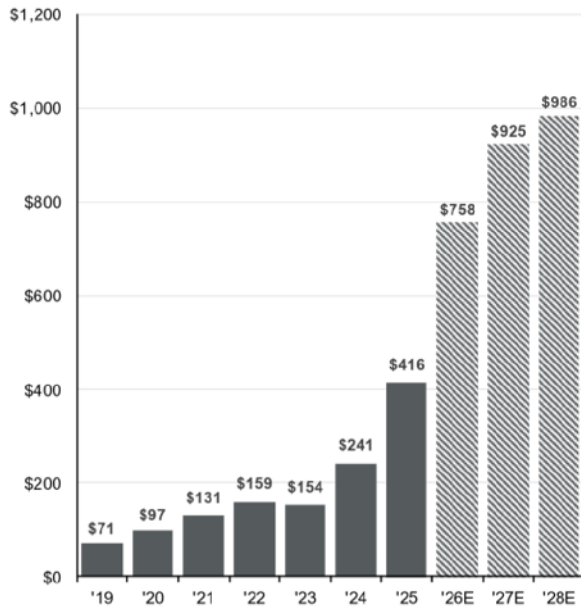
As a result, aggregate corporate earnings receive an immediate boost from the suppliers' profits, while much of the buyers' expense is deferred into future years. Although aggregate cash flows do not increase, reported earnings do increase. During periods of exceptionally heavy capital investment, this accounting treatment can temporarily make corporate profitability appear stronger than it otherwise would.

Artificial intelligence: Hyperscaler investment

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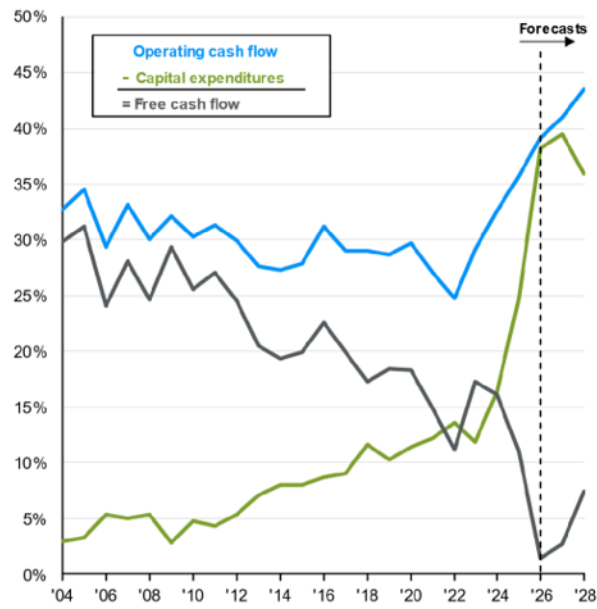
Capex from the major AI hyperscalers*

USD billions; Alphabet, Amazon, Meta, Microsoft, Oracle



Hyperscalers' cash flow and capex

% of sales



Source: Bloomberg, J.P. Morgan Asset Management.

Data for 2026, 2027 and 2028 reflect consensus estimates. Capex shown is company total. *Hyperscalers are the large cloud computing companies that own and operate data centers with horizontally linked servers that, along with cooling and data storage capabilities, enable them to house and operate AI workloads.

Guide to the Markets – U.S. Data are as of June 30, 2026.

J.P.Morgan
ASSET MANAGEMENT

MAM Comments: History shows that transformative technologies create tremendous long-term wealth, but the journey is often accompanied by periods of excessive optimism and meaningful market corrections.

We believe AI has the potential to transform the global economy over the coming decade. However, the unprecedented level of AI investment, record-high corporate profit margins, and deferred recognition of infrastructure costs, increase the risk that investor expectations could become too optimistic.

At some point during the next few years, we believe there is a reasonable probability of an AI-related market correction. Companies whose valuations depend most heavily on continued AI enthusiasm could be especially vulnerable.

To help manage this risk, MAM portfolios remain well diversified across market sectors, investment styles, and asset classes. While we continue to participate in the long-term opportunities created by AI, we believe maintaining diversification remains the best defense against uncertainty that accompanies every major technological revolution.



Vanguard Dividend Appreciation ETF (ticker: VIG) is one of the most widely used dividend-focused exchanged-traded funds (ETFs). Rather than emphasizing a high current dividend yield, it focuses on companies with a long history of growing their dividends, seeking to provide steadily increasing income and long-term capital appreciation.

We first invested in VIG in 2009, and it has since become a core holding in most MAM portfolios due to its disciplined investment strategy, low cost, and emphasis on financially strong companies.

What is VIG?

VIG is an index ETF that seeks to track the performance of the **S&P U.S. Dividend Grower Index**. The index includes U.S. companies with a consistent record of increasing dividends over time. To qualify, companies generally must have increased their dividend for at least 10 consecutive years—a key screen that emphasizes financial strength, stability, and disciplined management.

Morningstar classifies VIG as a **U.S. Large Cap Blend** fund and currently assigns it a **Gold** Medalist Rating.

Portfolio Composition

VIG is heavily tilted toward large-cap, high-quality U.S. companies. Its five largest holdings—Broadcom, Microsoft, Apple, JP Morgan Chase and Eli Lilly—represents approximately 19% of the portfolio. The fund's largest sector allocations are Technology, Financials, Healthcare and Consumer Defensive. This composition reflects the fund's emphasis on durable earnings, strong balance sheets, and resilient business models rather than more cyclical or speculative businesses.

Investment Strategy

The core philosophy behind VIG is straightforward: **companies that consistently increase their dividends are often high-quality businesses**. These companies typically:

- Generate stable cash flows.
- Maintain disciplined capital allocation.
- Possess durable competitive advantages.

Importantly, the strategy excludes the highest yielding stocks, which are often financially distressed or highly leveraged. This helps reduce the risk of investing in so-called **"dividend traps."**

Advantages of VIG

- **High-Quality Portfolio:** The dividend growth requirement filters out many weaker companies, resulting in a portfolio of financially sound businesses.
 - **Extremely Low Cost:** With an expense ratio of **0.04%**, VIG is one of the lowest-cost ETFs available, providing a meaningful long-term cost advantage.
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Fund Profile: Vanguard Dividend Appreciation ETF (VIG)- Con't

- **Consistent Dividend Growth:** Investors benefit from a steadily rising income stream over time, even though the fund's initial dividend yield is relatively modest.
- **Broad Diversification:** With hundreds of holdings, company-specific risk is significantly reduced.

Performance Profile

Historically, VIG has delivered solid long-term returns, generally in line with, or only slightly below the broader U.S. equity market while experiencing lower volatility. This smoother return profile is one of the fund's most attractive characteristics.

VIG has tended to outperform during market downturns. For example, in 2022 it declined less than 10%, outperforming the S&P 500 by more than eight percentage points.

The tradeoff is that VIG may lag during strong bull markets, particularly when lower-quality, faster-growing companies lead the market. For example, the fund returned approximately 19% in 2024 but trailed its category by roughly 7 percentage points.

MAM View: We have been very pleased with VIG over the 17 years we have owned it. We view it as an excellent core U.S. equity holding that offers the potential for market-like long-term returns with lower volatility than the broader market. Its emphasis on financially strong companies with a history of growing dividends has made it a valuable component of our long-term investment strategy.

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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