McCarthy Asset Management, Inc.
Personalized Wealth Management

June 2025 Monthly Commentary

July 1, 2025

Stock Market & Portfolio Performance

2nd Qtr. 2025: After a tough first quarter, stocks bounced back sharply in the second quarter. Bond prices posted modest gains for the quarter, adding to their gains from the first quarter.

	2nd Qtr'25	YTD '25	Description:
Without Dividends:			
S&P 500	10.6%	5.5%	500 Largest Public U.S. Companies
Russell 2000	8.1%	-2.5%	2000 of the smallest U.S. stocks
MSCI EAFE	10.6%	17.4%	international stock index
U.S. Aggr Bond	1.3%	4.1%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	5.3%	5.0%	non-very conservative MAM portfolios
MAM Consrv	3.7%	4.6%	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.

Inside this issue:

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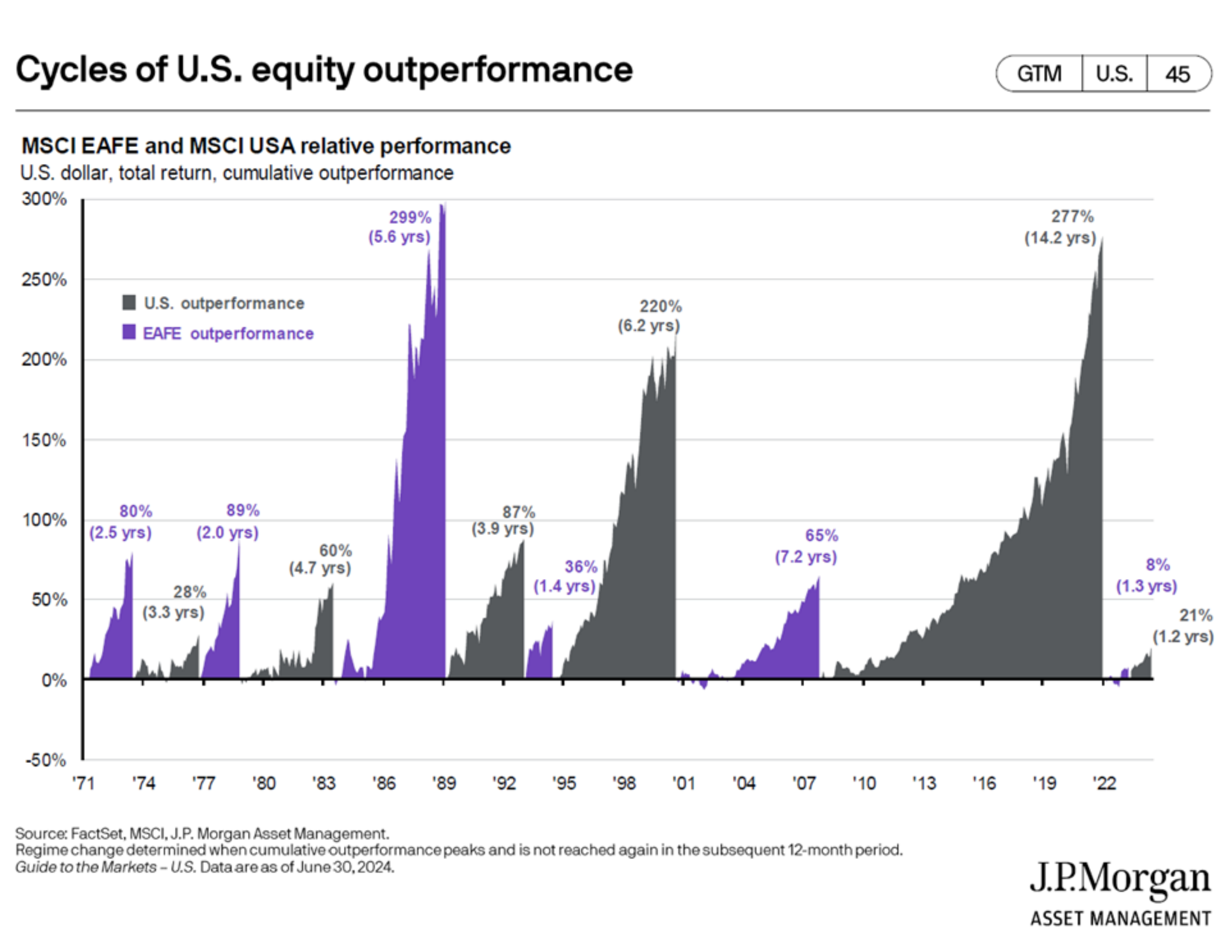
International Equities– Outperforming Once Again?

We last wrote about international equities in our January 2023 Monthly Commentary. In the article we listed the reasons why we felt international stocks will once again start outperforming U.S. equites. The timing of that article was early, as international stocks underperformed U.S. equities for both 2023 and 2024. This year is a different story. For the first half of 2025, the MSCI EAFE international index returned 17.4%, compared to a 5.5% return for the S&P 500. Does this represent a multi-year shift back to international stocks outperforming? This article lays out the reasons why this may be the case.

Historically, there have always been cycles of foreign stocks underperforming (black portion of graph below) followed by a period of outperforming (purple portion of the graph below). As shown on the J.P. Morgan chart below, during the 14 years from 2009 through 2022, U.S. stocks outperformed international stocks (i.e., the EAFE index) by 277%. This was the longest stretch of outperformance in over 50 years. That outperformance of U.S. stocks continued for 2023 and 2024.



Why have U.S. stocks so dramatically outperformed international equities since 2009? One reason is the impressive growth from the "Magnificent Seven" stocks, a group of U.S. mega-cap technology companies, drove the U.S. market's stellar returns. In addition, robust economic growth, favorable tax policies, and a stronger U.S. dollar also boosted performance. The U.S. dollar increased 39% over the 15 years ending at the end of 2024, which was a major headwind for the U.S. dollar-based international investors.

By the end of 2024, international equities were the cheapest they have ever been relative to their U.S. counterparts. While the U.S. economy started 2025 on solid footing, the Trump administration's announcements of new tariffs rattled markets and increased concern about economic growth, higher inflation, and the strength of the U.S. dollar. Given the deteriorating outlook and the large valuation disparity, market sentiment reversed, and international equities dramatically outperformed U.S. equities for the first half of 2025.

International Equities– Outperforming Once Again?– Con't

Here are some reasons why we may have entered a new multi-year period of international stocks outperforming:

1) **Relative Valuations:** Foreign stocks are significantly cheaper than their U.S. counterparts, both in relative and historical terms. The S&P 500 is currently trading at about 21.6 times forward earnings. By contrast, the MSCI World ex-U.S. is trading at 14.3 times forward earnings.

2) **Higher Dividend Yield:** Currently, the EAFE index of international equities trades with a 3.0% dividend yield, compared to the S&P 500's 1.3% dividend yield.

3) **Performance of the U.S. Dollar:** One reason why non-US stocks have lagged for the last decade has been a sharp rise in the U.S. dollar relative to the euro and other international currencies. As mentioned on the previous page, for the fifteen years ending 2024, the U.S. dollar advanced by 39% against a broad range of currencies. This trend reversed the first half of this year with U.S. dollar falling 13.7% relative to the euro.

4) **Diversification:** Historically, a portfolio that includes an international stock allocation experiences lower volatility, but comparable performance, to a U.S.-only stock portfolio. This is because adding international equities to a portfolio increases diversification.

5) **Emerging Markets:** Emerging market equities are likely to outperform developed market equities (including U.S. equities) over the next ten to twenty years. This is because the emergence of a global middle class will drive economic growth in many of these emerging market countries, as income levels steadily increase and the number of people living in poverty continues to fall.

MAM View: MAM portfolios currently hold a relatively modest foreign and emerging market equity allocation of between 10% and 15%. We are likely to increase this non-US stock allocation if we become confident that the outperformance of international stocks will continue for an extended period.

2025 Discussion of "Per Stirpes"

Verifying Beneficiaries: During the summer of 2024, Marilyn emailed all clients who have a tax-deferred Schwab account to ask that they check their beneficiaries and make any necessary changes. If you did not respond to her email or have questions about your beneficiaries, please contact Marilyn at marilyn@mamportfolios.com.

Significance of "Per Stirpes": Since we are not a law firm, nor do we have attorneys on staff, I first recommend that you discuss this with your estate planning attorney. Many of our clients have more than one primary or contingent beneficiary listed for their tax deferred accounts (e.g. they have more than one child). *Our understanding is that if multiple primary or contingent beneficiaries are listed and "per stirpes" is not indicated, if one of the beneficiaries is not alive when the account holder dies, the account will be split among the surviving beneficiaries that are listed on the account.*

Example: Mary is a widow with three grown children ("A", "B" & "C"). She has a large IRA with her three children listed as the primary beneficiaries. At the time that Mary dies, "A" had predeceased her. Unless Mary had listed "per stirpes" for the three beneficiaries, the account will pass 50% each to "B" and "C". If child "A" had kids, they will not be entitled to any portion of the account. On the other hand, if Mary had listed "per stirpes" for her three children, then "A's" kids will receive 1/3 of the IRA account.

2025 Discussion of "Per Stirpes"– Con't

Additional information in regard to "Per Stirpes" Option: Studies have shown that much of the public think that per stirpes has always been the norm, when, in fact, it is not. Please note that "per stirpes" can only be elected for your direct descendants. Stepchildren do not qualify for the "per stirpes" designation.

MAM Comments: Please reach out to Marilyn at marilyn@mamportfolios.com if you would like to know if your retirement accounts we manage for you have the "per stirpes" designation, or if you would like to add the "per stirpes" wording to either your beneficiaries or contingent beneficiaries for your retirement accounts.

Potential Social Security Planning Opportunities
By Ryan McCarthy

When evaluating strategies surrounding collecting Social Security benefits, age differences, career earnings, level of savings, health status, and the date of your Social Security full retirement age (FRA) are a few factors that should be considered. Depending on these variables, there could be a planning opportunity to have the lower earning spouse start collecting their own Social Security benefit and then switching to their spousal benefits once the higher-earning spouse starts to collect Social Security.

Spousal benefits entitle the lower-earning spouse to 50% of their spouse's Social Security benefits at the higher-earning spouse's FRA. Below is a chart showing the relationship between year of birth and full retirement age.

FIGURE 1

Social Security Full-Retirement Age

If you were born in:	Your full-retirement age is:
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Source: SSA.gov

The rules and calculations regarding spousal benefits can be very detailed. Here are a few of the most important ones that clients should be aware of.

- Even if one spouse has earned little or no income, they can still claim spousal benefits.
- A spouse can only claim spousal benefits when (or after) the higher-earning spouse claims their own Social Security benefit.
- Individual and spousal benefits can be claimed as early as age 62, but you will earn more by waiting until your own FRA. Claiming your own or spousal benefit at 62 reduces the spousal benefit to only 32.5% of the higher-earning spouse's full benefit amount. Below is a chart that shows the relationship between the age of starting your own or spousal benefit in comparison to the percentage of your spouse's full retirement age benefit that you are entitled to.

Potential Social Security Planning Opportunities By Ryan McCarthy– Con't

FIGURE 2

Spousal Benefits for Lower-Earning Spouses Are Reduced if Claimed Before Full Retirement Age (FRA)

Your Spouse's Full Retirement Age Benefit Amount	Your Age	% of Your Spouse's FRA Benefit You Can Receive	Your Benefit Amount
$2,000	62	32.50%	$650
$2,000	63	35.00%	$700
$2,000	64	37.50%	$750
$2,000	65	41.66%	$833
$2,000	66	45.83%	$917
$2,000	67	50.00%	$1,000

For illustrative purposes only. Actual benefits will vary. Source: SSA.gov

- You can't collect a spousal benefit if you're eligible for a retirement benefit of your own that's larger than your potential spousal benefit entitlement. You can claim your own larger benefit or the spousal benefit, but not both.
- If you claim your regular Social Security benefit before your higher-earning spouse does, you have the option of switching to spousal benefits at a later date when (or after) your spouse decides to file. **For some couples, this could be a great planning opportunity and strategy to implement.**
- Either spouse can maximize their regular Social Security benefit amount by waiting past their FRA to start collecting, up to age 70. Benefits generally increase 8% each year filing is delayed.
- Spousal benefits don't increase beyond the maximum 50% of the higher-earning spouse's FRA benefits, so there's no financial advantage for the lower-earning spouse to delay a spousal benefit application past one's own FRA.

The best Social Security strategy is not a one size fits all. Depending on your personal situation, it may make sense for the lower-earning spouse to collect their own benefit initially and then switch to spousal benefits once the higher-earning spouse starts collecting. This strategy won't apply to many of our clients, but to the ones it does, it offers a great opportunity to enhance and maximize your Social Security benefits. We recommend having us create a personalized plan using our Social Security tool to analyze potential options. To do this, we would just need a current Social Security statement for you and your spouse.

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

*Are you on course for a financially-comfortable retirement? A **Retirement Analysis** can be very helpful in answering that. Please let us know if you would like to have us prepare one for you.*