McCarthy Asset Management, Inc.
Personalized Wealth Management

June 2026 Monthly Commentary

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Stock Market & Portfolio Performance

2nd Qtr 2026: After posting losses for the first quarter, U.S. and international stock prices rebounded sharply for the second quarter. Bonds produced moderate returns due to concerns of rising inflation.

	2nd Qtr '26	YTD '26	Description:
Without Dividends:			
S&P 500	14.9%	9.6%	500 Largest Public U.S. Companies
Russell 2000	20.6%	21.9%	2000 of the smallest U.S. stocks
MSCI EAFE	9.8%	7.7%	international stock index
U.S. Aggr Bond	0.7%	0.7%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	8.0%	6.8%	non-very conservative MAM portfolios
MAM Consrv	6.2%	5.3%	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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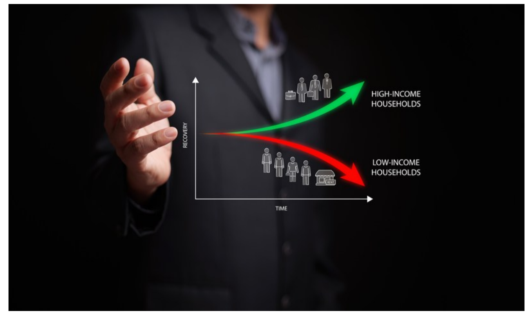
How is the Economy Doing Well When Consumers Are So Pessimistic?

Near Record Low Consumer Confidence



Each month, the University of Michigan releases its Consumer Sentiment Index. May's reading of 44.8 was near a record low. Historically, readings have generally ranged from the mid-40's to around 100. Levels below 60 indicate severe pessimism and are often associated with recessions or major economic shocks.

Why Is Confidence So Low?

Several factors continue to weigh on consumers:

- Persistent concerns about inflation and cost of living
- High housing costs and elevated mortgage rates
- Higher energy prices and geopolitical uncertainty
- A perception among many households that wages are not keeping pace with expenses

What is interesting is that consumer confidence remains extremely low while consumer spending and employment have stayed resilient. We believe one explanation for this is that we are experiencing a K-shaped economy, where affluent households continue to move financially upward while many middle- and lower-income consumers are falling behind.

What is a K-Shaped Economy?

A K-shaped economy occurs when different groups experience sharply different economic outcomes:

- One group moves upward (the upper arm of the "K") due to rising incomes, appreciating assets and growing wealth.

- Another group moves downward (the lower arm of the "K") as higher living costs and financial pressure erode economic security. This group includes lower- and middle-income households who have been squeezed by rising housing, healthcare, insurance and food costs.

Affluent Consumers Are Driving Economic Growth

The economy has remained stronger than many expected largely because higher income households continue to spend. In 1995, the highest-earning 20% of households accounted for approximately 50% of all consumer spending. Today, that figure is closer to 60%. In fact, the top 10% of earners now account for roughly half of all consumer spending.

This divergence explains why consumers can feel pessimistic while spending remains strong. Aggregate spending is being supported by affluent households whose incomes, investments, and home values have generally increased. However, consumer sentiment surveys reflect the views of a much broader population, many of whom continue to struggle with affordability challenges.

How is the Economy Doing Well When Consumers Are So Pessimistic?– Con't

MAM Comments: We believe building financial security is not simply a matter of earning a high salary. Long-term wealth is determined by how much you save and how effectively you invest those savings. This is why we place so much emphasis on helping clients grow their invested assets over time.

A risk to the economy today is that consumer spending is increasingly dependent on a relatively small group of affluent households. As long as these consumer continue to feel financially secure, spending can remain strong. However, if a significant stock market correction or other financial shock occurs, these same households may pull back spending, potentially contributing to a broader economic slowdown.

Beyond ETF's: How Direct Indexing Can Enhance After-Tax Returns By Ryan McCarthy

Over the last several years, direct indexing has emerged as one of the fastest-growing innovations in wealth management. While index mutual funds and ETFs remain excellent investment vehicles, direct indexing offers investors a more personalized approach to achieving broad market exposure while potentially improving after-tax returns.

At its core, direct indexing seeks to replicate the performance of a broad market benchmark—such as the S&P 500—by owning many of the individual stocks within the index through a Separately Managed Account (SMA). Rather than purchasing a single ETF that holds all 500 companies, investors directly own the underlying securities themselves. This ownership structure creates opportunities that traditional index funds simply cannot offer.

How Direct Indexing Works

A direct indexing portfolio is designed to closely track a benchmark index, such as the S&P 500. Portfolio managers use sophisticated optimization software to build a portfolio that mirrors the characteristics of the target index while maintaining similar sector, style, and risk exposures.

For example, instead of purchasing shares of an S&P 500 ETF, a direct indexing SMA may own hundreds of the individual companies that make up the index. The goal is to deliver returns that closely resemble the benchmark while taking advantage of the tax-loss harvesting benefits that this strategy offers.

The Tax-Loss Harvesting Advantage

The primary benefit of direct indexing is tax-loss harvesting.

Even in years when the overall market produces strong returns, many individual stocks experience temporary declines. A traditional ETF investor cannot access these individual losses because they own shares of the fund rather than the underlying securities. Direct indexing changes that dynamic.

When individual stocks within a direct indexing portfolio decline in value, managers can sell those positions to realize losses and simultaneously purchase similar replacement securities. This helps maintain the portfolio's market exposure while generating realized tax losses that may be used to:

- Offset current or future capital gains
- Reduce taxes resulting from other investment sales
- Offset up to $3,000 in "other income" if capital losses exceed capital gains
- Carry unused losses forward to future tax years

Beyond ETF's: How Direct Indexing Can Enhance After-Tax Returns By Ryan McCarthy-Con't

What's particularly interesting is that tax-loss harvesting opportunities can exist even during strong bull markets. Research cited by several direct indexing providers shows that while the S&P 500 may generate positive returns overall, a significant percentage of individual stocks within the index can still experience meaningful declines during the year, creating opportunities to harvest losses without materially changing the portfolio's market exposure.

The result is the potential for improved after-tax returns—an outcome that can be especially valuable for high-income investors in taxable accounts.

Beyond Taxes: Personalization and Customization

Another compelling feature of direct indexing is customization.

Because investors own the individual stocks directly, portfolios can be tailored to reflect personal preferences, existing holdings, or specific investment objectives. Examples include:

- Excluding companies or industries that conflict with personal values
- Reducing exposure to concentrated stock positions
- Avoiding employer stock already held elsewhere
- Tilting toward certain investment factors or themes
- Incorporating ESG or socially responsible investing preferences

This level of personalization is difficult—or often impossible—to achieve with a traditional index fund.

For example, an executive with a large position in a technology company may not want additional exposure to that same stock through an index fund. A direct indexing SMA can exclude or reduce that position while maintaining exposure to the broader market.

Is Direct Indexing Right for Everyone?

While direct indexing offers meaningful benefits, it is not a universal solution.

The strategy generally works best for investors who:

- Have substantial taxable investment assets that can be dedicated to a direct indexing account
- Are in higher tax brackets
- Expect to realize capital gains over time
- Have sufficient liquidity to continue to fund and maintain the account
- Have a long-term investment horizon, allowing tax-loss harvesting opportunities to accumulate over multiple market cycles

For many investors, traditional ETFs remain an excellent choice. However, for those with significant taxable assets, direct indexing can provide a powerful combination of broad market exposure, tax efficiency, and personalization. Investors who can commit capital for the long term and can add to the investment over time, are often best positioned to benefit, as the value of tax-loss harvesting tends to compound over time through the accumulation and strategic use of realized losses.

MAM Comments: Direct indexing represents an evolution of traditional indexing. By directly owning the stocks that comprise an index through a separately managed account, investors can seek to capture market returns while unlocking opportunities for tax-loss harvesting. For investors with sizable taxable portfolios, particularly those with a long-term investment horizon and sufficient liquidity to fund a dedicated account, the ability to improve after-tax outcomes may ultimately be more valuable than simply focusing on pre-tax investment returns. The benefits of tax-loss harvesting are often realized over many years, making direct indexing most effective when viewed as a long-term tax-management strategy rather than a short-term performance tool.

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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.*

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Discover the difference with a Registered Investment Advisor.