McCarthy Asset Management, Inc.
Personalized Wealth Management

May 2023 Monthly Commentary

June 1, 2023

Stock Market & Portfolio Performance

Inside this issue:

May 2023: With the exception of a handful of mega-cap technology companies, U.S. stocks were generally down for the month. International stocks fell somewhat sharply, and bonds also fell as the rate on the 10-year Treasury rose.

	May 2023	YTD 2023	Description:
Without Dividends:			
S&P 500	0.3%	8.9%	500 Largest Public U.S. Companies
Russell 2000	-1.1%	-0.6%	2000 of the smallest U.S. stocks
MSCI EAFE	-4.8%	5.0%	international stock index
U.S. Aggr Bond	-1.1%	2.6%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-1.1%	3.9%	non-very conservative MAM portfolios
MAM Consrv	-0.7%	2.8%	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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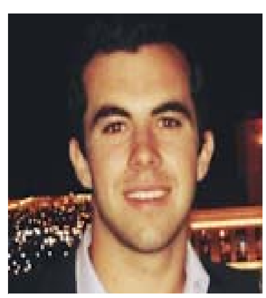

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Economic and Stock Market Update

Stock Market Update: After a strong start to the year, most stock prices have drifted lower since. The exception has been a strong rally in the price of a handful of large-cap technology companies. The most recent volatility is due in part to the uncertainty over the debt ceiling debate. Last weekend, politicians reached an agreement to resolve the crisis. That doesn't mean it will now be clear sailing for investors. There will still be the risk of the U.S. economy slipping into a recession. Additionally, further progress will be needed to bring down the rate of inflation. If we enter a recession and inflation has fallen enough, the Federal Reserve will likely start cutting interest rates. This would be positive for stocks. However, if a recession occurs while inflation is still well above the Fed's 2% target, the Fed may be hesitant to cut rates. This would be a negative for stocks.

Federal Reserve: On May 3rd, the Federal Reserve announced its 10th consecutive increase in the federal funds rate. The new rate is 5.00 – 5.25%. This move caps off the most aggressive tightening cycle in four decades and puts the fed funds rate back to the level it was before the 2008 global financial crisis.

For at least now, there's agreement in the markets that the Fed is done raising rates in its effort to stamp out inflation. This doesn't mean the Fed will be reversing course and lowering rates anytime soon. Unless the U.S. economy were to weaken significantly, or the regional banking crisis spirals out of control, short-term interest rates may remain elevated through at least the end of this year.

Somewhat surprisingly, the bond market appears to be pricing in the expectation the Fed will start reducing rates soon. According to the CME FedWatch Tool, which tracks bets placed in the futures market on the direction of interest rates, the odds of the Fed cutting rates at its July meeting are roughly 36%, and more than 75% for September. In fact, the chances of the Fed cutting rates by year-end are currently almost 100%, according to the CME data. This data also shows the market is actually priced for three rate cuts by year-end.

To many observers (including us), these expectations seem out of line with both the Fed messaging—its forecasts don't include rate cuts this year—and the current state of the U.S. economy. Much will depend on how the economy performs through the rest of this year, and how quickly the still high rate of inflation falls.

Consumer Spending: Americans boosted their retail spending in April by 0.4%, after declines for February and March, a sign of consumers' continued resilience despite high inflation and rising interest rates. Consumer spending is the primary driver of U.S. economic growth. Helping consumer spending has been a solid labor market with low unemployment and relatively strong job growth.

Payroll Growth: U.S. employers added 253,000 jobs in April, the best gain since January. The unemployment rate fell to 3.4%, matching the lowest reading since 1969. This was the 13th-straight month reported job gains came in higher than had been forecast by Wall Street economists. The strong report could complicate the Federal Reserve's deliberations and helps explain why some Fed officials think that, if they adjust interest rates again, the next move is more likely to be up than down.

A slowdown in payroll growth could still be coming. According to a recent report from T. Rowe Price, "the current strength in the U.S. labor market could deteriorate over the next 12 months. Tighter bank lending standards typically hurt small businesses—which account for a very large share of the U.S. employment market."

Inflation: Inflation eased slightly in April, the 10th straight month of cooling, but price gains still remain historically high. The consumer-price index rose 4.9% in April from a year, the Labor Department said. This is down from a recent peak of 9.1% in June 2022. It will be important for upcoming reports to continue showing progress in reducing the rate of inflation towards the Fed's 2% target.

Economic and Stock Market Update– Con't

Start of Next U.S. Recession: For more than a year, CEOs and economists have been warning of an imminent economic downturn. The economy, meanwhile, has remained relatively resilient through it all. Things were not good in 2022. Inflation hit a 40-year peak, gas prices were elevated, consumer sentiment plunged and the S&P 500 fell by nearly 20%. Still, the United States managed to avoid a recession.

Is a recession more likely now? For two reasons, that answer may be "yes". First, the Federal Reserve has raised rates higher and more quickly than in decades. Additionally, the ongoing U.S. regional banking crisis is likely to result in tighter lending standards.

Sebastien Page, T. Rowe Price's chief investment officer, noted in T. Rowe Price's Global Market Outlook three reasons, based on history, pointing to an oncoming recession:

- 10 of the last 13 Fed hiking cycles ended in a U.S. recession.
- The Fed has never lowered inflation by 4% or more without triggering a recession.
- There has never been a spike in inflation above 5% that didn't result in a recession.

MAM Comments: For two reasons, we are currently cautious in our short-term outlook for the stock market. First, despite strong job growth reports, it is very possible the U.S. economy will enter into a shallow recession by late this year or early 2024. Secondly, if inflation remains well above the Fed's 2% inflation target, additional interest rate hikes could occur.

Given our cautious outlook, we moderately reduced the allocation to U.S. equities in portfolios this past month. We used the proceeds to invest in short-term bonds/money markets and international equities. The letter we emailed when we did the trades in your portfolio(s) further explained our rational for these moves. Please let Steve know if you would like to discuss the positioning of your portfolios.

Be on High Alert for Financial Elder Abuse!
By Robert J. Silverman, Esq.

Working with many elderly clients and hearing about the parents of my "baby boomer" clients, I am often privy to signs of possible elder financial abuse. Some of the stories are heartbreaking.

The confluence of an aging population, longer life expectancies, and a plethora of con-artists has resulted in what might be viewed as a financial elder abuse epidemic. The perpetrator may be a caregiver, financial service provider, neighbor or "friend". Sadly, family members of the victim are the most common perpetrators.

Fortunately, California has enacted aggressive civil legislation to help protect against financial elder abuse. Unfortunately, it is still difficult to combat. Sometimes it isn't recognized, or at least not until it's too late – after the abuser and the money have disappeared. Tragically, financial elder abuse is hugely under-reported, usually because the elder victim is embarrassed and/or the victim and close family members don't know what to do or just want to move on.

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Even when a civil lawsuit is filed, the accused perpetrator often argues that the elderly victim voluntarily gifted him the absconded funds. Evidence to the contrary may not be sufficient to satisfy the required standard of proof to hold the perpetrator liable.

"Secret marriage" (a version of which is called "deathbed marriage") - when a financial abuser secretly marries an elderly person - is an ugly twist on elder financial abuse that can be difficult to defend against, particularly after the elder victim dies. Frequently, the marriage stays secret because the elder victim is incapacitated or has significant enough mental deficits that he or she doesn't recall that the marriage ever took place. Due to the sanctity and profoundly personal nature of marriage, courts are typically very reticent to second-guess an elderly person's decision to marry.

Once married, the abuser then manipulates the vulnerable elder into making gifts to the abuser and/or turning over access to the elder's assets. Often, the perpetrator persuades the victim to change his or her Will or Trust so that the abuser-spouse becomes the sole or major beneficiary. Even if the elder dies without a Will or Trust, the abuser-spouse is entitled to a meaningful share of the victim's assets under applicable "intestacy" law.

Tangentially related to the topic of financial elder abuse, I previously represented a 43-year-old caregiver who was caring 24/7 for a wealthy 96-year-old man, who had two sons – one 68 and one 71. The elderly gentleman asked my client to marry him and offered to "give her everything" because he so appreciated her service and his sons and grandchildren were already very well off financially. Honorably, my client rejected his marriage offer, but he nevertheless independently changed his Trust to give her about 10% of his assets. His estate planning attorney opined that his elderly client was perfectly lucid and clearly understood what he was doing in changing his Trust. After protracted litigation that had been initiated by the elder's sons, I helped my client settle this matter favorably.

Of course, many times the facts are dissimilar to the above case. Often, the elder's cognitive functions are compromised, leaving him or her vulnerable to dishonorable third parties. The most effective means of fighting elder financial abuse is to prevent it from happening in the first place. Elder abuse clinics and outreach programs sponsored by professional, judicial and other non-profit organizations help build awareness and offer useful tools. An elder's close relatives or friends sometimes keep an eye out for signs of potential abuse and intervene constructively, by seeking advice from an experienced trusts and estates attorney (or by helping the elder do so).

Estate Planning * Trust Administration & Probate * Real Estate * Business

Please contact the author to request a complimentary: i) "Estate Planning Primer"; ii) Real Estate titling brochure; iii) introductory meeting.

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This article is intended to provide information of a general nature, and should not be relied upon as legal, tax and/ or business advice. Readers should obtain specific advice from their own, qualified professional

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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 have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. 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

- Estimated Tax Payments: Except for many CA taxpayers, second quarter of 2023 estimated payments are due on June 15th.
- MAM Portal: Please let us know if you have any questions regarding your MAM portal, such as accessing Schwab documents.