

October 2025 Monthly Commentary

Nov. 3, 2025

Stock Market & Portfolio Performance

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October 2025: U.S. stocks posted positive returns for the month, led once again by strong earnings from large-cap technology companies. International stocks rose less than U.S. stocks due in part to a modest recovery in the U.S. dollar. Bond prices were up modestly for the month.

	<u>Oct '25</u>	<u>YTD '25</u>	<u>Description:</u>
Without Dividends:			
S&P 500	2.3%	16.3%	500 Largest Public U.S. Companies
Russell 2000	1.9%	11.2%	2000 of the smallest U.S. stocks
MSCI EAFE	1.1%	23.7%	international stock index
U.S. Aggr Bond	0.6%	6.8%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	1.0%	10.7%	non-very conservative MAM portfolios
MAM Consvr	0.9%	9.3%	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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Over the past few years, a handful of large-cap technology companies (“The Magnificent Seven”) have powered the stock market’s returns. This trend shows no sign of abating anytime soon, as demand for artificial intelligence continues to send the tech sector higher. Is there anything to be concerned about? Perhaps.

Why it matters: A highly concentrated market can—and has—turbocharged returns, but it also comes with some risks. As the prices of tech stocks soar, investors may find themselves with portfolios that are significantly less diverse than they realize.

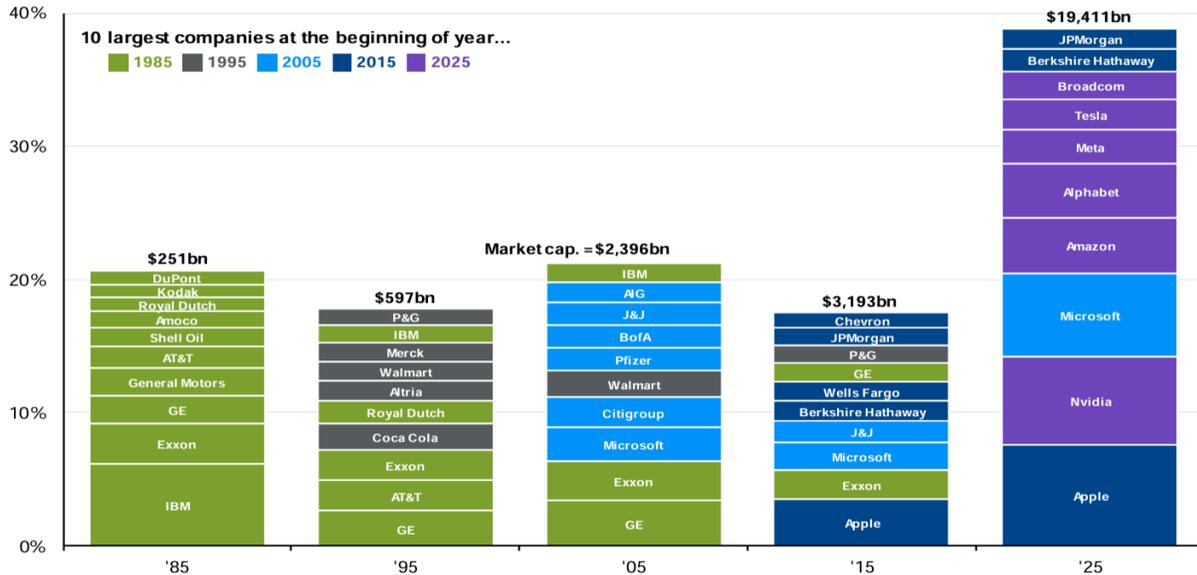
How concentrated is the stock market? The chart below from J.P. Morgan depicts the concentration of the ten largest companies in the S&P 500 during various periods over the last forty years. Included are the names of the companies that make up the top 10 for each period:

Top 10 companies by decade

GTM | U.S. | 10

Top 10 S&P 500 companies by market capitalization

Percent of S&P 500 market capitalization as of the first day of the indicated year



Source: Bloomberg, Standard & Poor's, J.P. Morgan Asset Management. Companies are organized from highest weight at the bottom to lowest weight at the top. Past performance is no guarantee of future results. Guide to the Markets – U.S. Data are as of September 30, 2025.

J.P.Morgan
ASSET MANAGEMENT

The following observations can be made of the chart:

- The S&P 500 concentration in the top 10 companies has grown significantly. It averaged around 20% for 1985, 1995, 2005 and 2015. Recently, the concentration has climbed to nearly 40%.
- It's rare for a top 10 company to stay in the top 10 in subsequent decades. For instance, of the top 10 companies from 2005, only 1 remained in the top ten for 2025 (i.e., Microsoft).

The S&P 500 is Very Concentrated— Con't

- Over the decades, there has been a shift from industrial and energy companies to technology and consumer-focused companies dominating the S&P 500.
- Of the current top ten firms, six of them are new to the top ten this decade (Broadcom, Tesla, Meta, Alphabet, Amazon and Nvidia).
- Who will be the top 10 companies in 2035? Impossible to say at this point, but it likely will include some newer companies.

Why High Concentration Can Be Risky:

- **Specific company risk:** When the 10 firms (such as Apple, Microsoft, Nvidia, Amazon, Alphabet and Tesla) make up such a significant portion of the index, the entire market's performance is heavily dependent on their fate. If even one or two stumble—for example, due to regulation, innovation risk, or an earning shock—it can drag down the whole S&P 500 index.
- **Reduced diversification:** A concentrated market undermines one of the biggest benefits of investing: diversification. In effect, investors may be making an outsized bet on mega-cap tech and communications stocks.

MAM Comments: Stock market returns, particularly the S&P 500, have benefited tremendously from the very strong performance of the current top 10 companies. MAM portfolios contain exposure to these companies through certain ETFs, particularly Capital Group Growth, U.S. Large-Cap Growth, and T. Rowe Price Capital Appreciation. MAM portfolios are diversified into other market segments to help protect against this concentration risk. This diversification includes:

- **Value and Dividend Stocks:** Schwab U.S. Dividend Equity, Vanguard Dividend Appreciation, and Capital Group Dividend Value
 - **Small and Mid-Cap U.S. Stocks:** Schwab U.S. Mid-Cap
 - **International Equities:** Goldman GQG International Opportunities and Vanguard Total International Stocks
 - **Bonds:** Because we are concerned about the long-term risk of higher inflation, for the bond allocation, we focus on funds that invest in short and intermediate-term bonds.
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We have a number of financial topics to cover this month. To fit them into this newsletter, we are keeping our comments succinct and combining them into one article.

Another Federal Reserve Interest Rate Cut: As anticipated, on October 29th the Federal Reserve announced another 25-basis point reduction in the federal funds rate to 3.75% - 4.0%. This was the second 25-basis point reduction this year and the rate is now the lowest it has been in three years. The Fed is scheduled to meet again in December and may cut the federal funds rate by an additional 0.25%. As indicated in our September 2025 Monthly Commentary, Fed rate cuts will reduce the rates savers can earn on C.D.s and money market accounts.



Social Security Benefits Will Increase 2.8% Next Year: This 2.8% increase for 2026 reflects a recent pickup in inflation. The cost-of-living adjustment, or COLA, follows 2025's 2.5% increase, which was the smallest in four years.

IRS Phases Out Paper Check Refunds Paid to Individuals: Paper refund checks for individuals were phased out beginning on September 30, 2025. This latest announcement by the IRS is the first step in implementing President Trump's Executive Order 14274, which directs the U.S. Treasury to stop issuing paper checks by September 30, 2025, as well as mandating all payments to the federal government be made electronically "as soon as possible".

According to the news release, for those unable to receive direct deposits to a bank account, other options, such as prepaid debit cards and digital wallets, will be available. To date, there are no changes being made to how payments to the U.S. Treasury can be made. It is probably just a matter of time, though, before the IRS will no longer accept paper checks. We have been recommending clients pay their estimated payments and other income tax payments online via the IRS and State websites. A benefit of this is assurance that your payment will be applied to the correct account. Personally, I switched to making online payments about five years ago after the IRS misapplied one of my estimated payments. It took numerous phone calls and nearly one year before the IRS was able to track down my payment.

401(k)s- New Rule for High Earners: Effective January 1, 2026, a new rule will require high earners over age 50 to contribute their catch-up contribution (expect to be \$8,000 for 2026) to a Roth 401(k). The rule, which was created under the Secure 2.0 retirement law, will eliminate the immediate tax break for catch-up contributions. For 2026, high earners are those whose FICA wages exceeded \$145,000 for year 2025. While the catch-up contribution will be made with after-tax funds, there are benefits. Qualified distributions from Roth 401(k)s are tax-free. Furthermore, unlike 401(k)s and IRAs, assets in 401(k) Roths and Roth IRAs do not have required minimum distributions.

David Giroux Named Outstanding Portfolio Manager: David Giroux has been selected as the 2025 U.S. Morningstar Outstanding Portfolio Manager for the Allocation category in the annual Morningstar Awards for Investing Excellence. This selection marks Giroux's third win in seven nominations during his 19 years as portfolio manager. At the end of 2024, Giroux's Capital Appreciation Fund established the longest streak for outperforming peers in its Morningstar category—17 consecutive years—among any U.S. equity or multi-asset fund under the same portfolio manager. The T. Rowe Price Capital Appreciation Fund is the largest position across all MAM portfolios. In addition, Giroux manages the relatively new T. Rowe Price Capital Appreciation Equity ETF, which is held in most MAM portfolios.

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

Year-End Tax Planning: Please let us know if you would like to have us do any tax planning, such as determining the amount of 4th quarter estimated payments or making a Roth IRA conversion.



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