

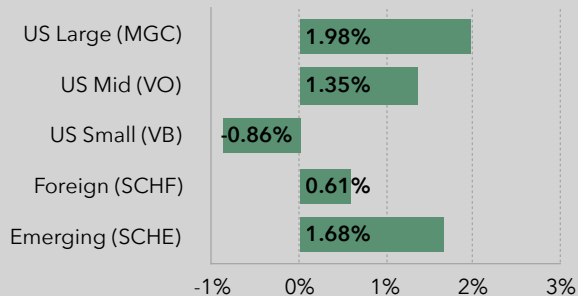
March 2019

Economic Data

- The job market bounced back in March, adding 196,000 workers to the payrolls; however, wage growth slowed slightly to 3.2%; the unemployment rate held at 3.8%
- Retail sales were up 0.2% in January but down 0.2% in February
- Consumer prices rose for the first time in four months in February but the y/y inflation (CPI) rate fell to 1.5%
- Lower mortgage rates helped jolt the housing market back to life, with existing home sales up 11.8% in February

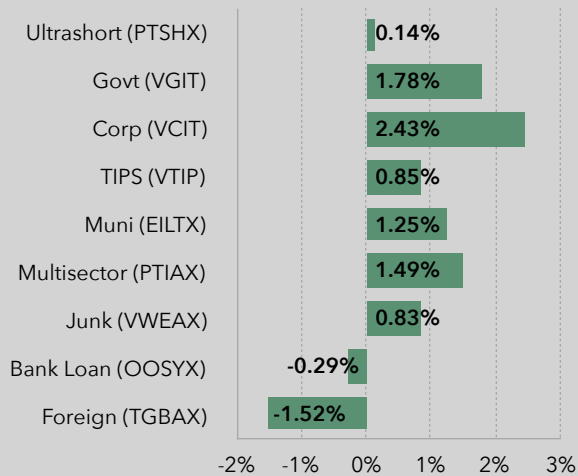
Stocks

March Returns



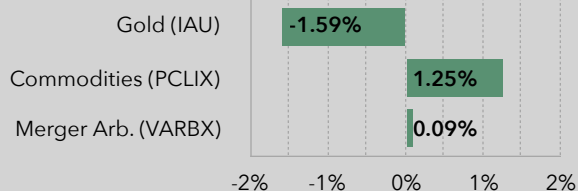
Bonds

March Returns



Alternatives

March Returns



Performance data provided by Morningstar.

The brain uses two systems to process information. The first type is intuitive but lazy, rapidly forming judgements with no conscious input. The second system is slow, reflective, and is not guided by emotions. It is that second system – type 2 – that we want in control of our investment portfolios.

Brexit Through the Giftshop

March 29 is now behind us, so we can finally shut up about Brexit. Well that's a relief. I was quite knackered¹ from seeing Brexit in the headlines, day in, day out. Now we can finally get on to more exciting news.

Wait, what's that you say? It didn't happen? They got a two-week extension? Why would they do that? They had two-and-a-half years to sort this dog's dinner² out, and somehow I fail to see how two extra weeks is going to miraculously be all Theresa May needed to pull off a blinder³. Theresa May's cack-handed⁴ approach to pushing her thrice-rejected Brexit plan on parliament has been an embarrassing display of weak leadership. Another chinwag⁵ with that arrogant tosspot⁶ Jean-Claude Juncker isn't going to get her a better deal, either.

Brexit without a deal, otherwise referred to as a hard Brexit, will happen at 22:00 GMT on Friday. It is the law. Unless, of course, a deal is struck in the eleventh hour, or all 27 EU countries agree to grant Theresa May another extension. She's asking to push it back to June 30 this time. A top-level summit between May and other EU leaders is scheduled for Wednesday. I'm not holding my breath.

This whole series of events has me more than a bit miffed⁷. Just get on with it already. There are a number of internet memes that sum it up, more-or-less, like this: Brexit is like a cat that meows incessantly at the door to be let out, then obnoxiously refuses to leave when you open it. If this cat doesn't leave on Friday, I'm just going to stop paying attention to it.

¹“Knackered” is a British term meaning exhausted or worn out

²“Dog's dinner” is a British idiom meaning mess or fiasco

³“Blinder” is a British idiom meaning to—usually with great luck—pull off a difficult task

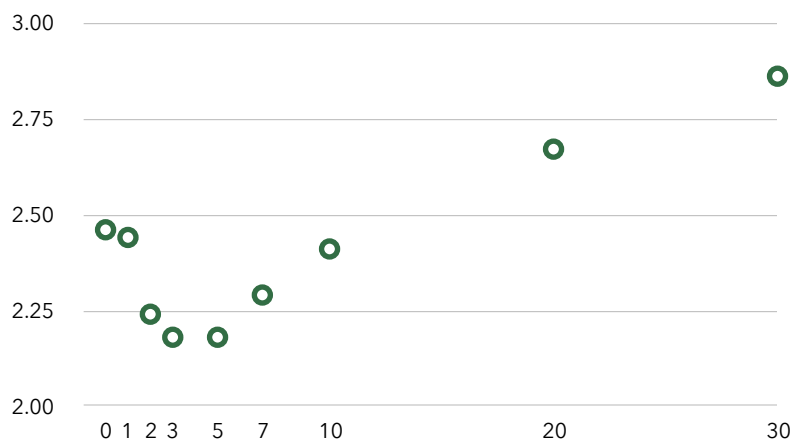
⁴“Cack-handed” is a British idiom meaning performed in an awkward or clumsy fashion

⁵“Chinwag” is a British idiom meaning chat

⁶“Tosspot” is a British word for a habitual drunkard

⁷“Miffed” is a British word meaning annoyed or irritated

Treasury Yield Curve Rates (March 26, 2019)



We Were Inverted

The yield curve inversion expanded in March, with the 10-year Treasury yield briefly falling below the 1-year yield (see chart on previous page). This is a very strong indicator of an impending recession. The popular joke—at least amongst my fellow nerds who retire to the nerdery with their financial calculators—is that an inverted yield curve has successfully predicted ten of the last nine recessions. Or something along those lines. There was a false positive during the 1965-67 inversion, but other than that it is an indicator that has been more-or-less on point. The spread between the 2-year and 10-year remained positive, however, and is currently at 16 bps (0.16%). The U.S. economy is fairly solid presently, though, so I believe it to be a reasonable expectation that any recession in the next 18 months or so would be a soft one. But we shouldn't be surprised if it does happen, and at the very least we should expect a slowdown in global growth.

Fed Shifts Gears

The Fed issued a significant change in language in its March 20 statement, taking a markedly dovish tone amid signs of slowing economic growth. They plan to halt the steady reduction in the size of their balance sheet in September, well short of the original plan, and have indicated there will be no more rate hikes this year. "It may be some time before the outlook for jobs and inflation calls clearly for a change in policy," Fed Chairman Jerome Powell said in a press conference following the release of the statement. The market is actually predicting a more than 75% chance of a rate cut by the Fed before the end of the year.

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Tactical Asset Allocation					
Asset Class	Heavy Under-weight	Under-weight	Neutral	Over-weight	Heavy Over-weight
Fixed Income					
Ultrashort					●
US Govt.		●			
TIPS				●	
Multisector			●		
Bank Loans	●				
Foreign Bonds			●		
Equities					
Large Cap	●				
Mid Cap	●				
Small Cap	●				
Developed Intl.		●			
Emerging			●		
Alternatives					
Commodities					●
Hedging					●

Binge Box

Battlestar Galactica (Hulu)

I am still working through last month's recommendation, *Friends* (Netflix). It's ten seasons and 236 episodes, so give me a break. So this month I am digging deep into my brain bank to pull something out from way back. And since it has been an inordinately long time since I've recommended a sci-fi show, I'm pulling out one of my top-ten favorite series of all time—*Battlestar Galactica*. The remake of the 1978 classic follows the last vestiges of humanity that have escaped Earth after an attack from the Cylons. It's one of the best fracking shows ever with something for everyone and great character development as well. Both the introductory miniseries and the ensuing four seasons are available on Hulu.

About EmeraldSpark

EmeraldSpark Investments, LLC is a Registered Investment Adviser based in Chicago, IL. We were founded by Ryan P. Layton, CFA in 2015 to provide personalized financial planning and fiduciary investment management services to select clients. Our investment process blends the foundations of Modern Portfolio Theory with the latest research in the field of behavioral finance. We specialize in asset allocation and investment due diligence to help provide our clients with investment strategies personalized to match their specific goals and risk comfort zone.

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