

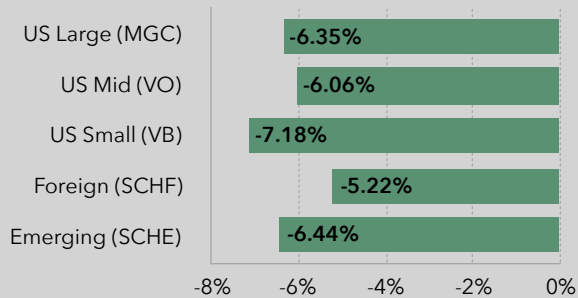
May 2019

Economic Data

- US payroll growth slowed dramatically in May as only 75,000 jobs were added; the unemployment rate remained at 3.6%, but the labor force participation rate fell
- Retail sales showed weakness in April, particularly in motor vehicle sales, edging down 0.2% following an upwardly revised increase of 1.7% in March
- Y/y inflation (CPI) rose to 2.0% in April
- Existing home sales continued to slide in April, with a minor decline of 0.4%

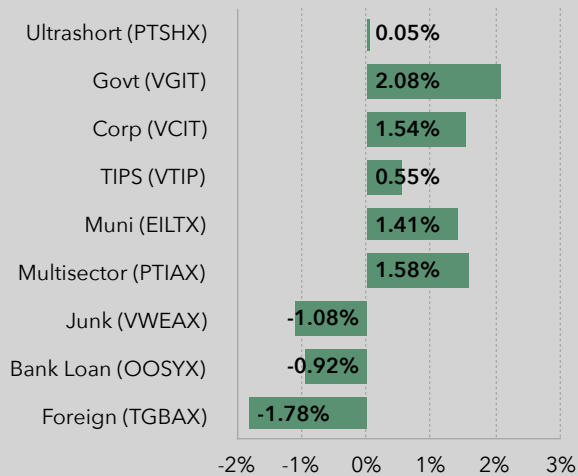
Stocks

May Returns



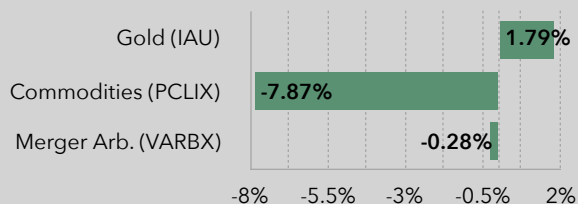
Bonds

May Returns



Alternatives

May 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.

Thucydides's Trap

"It was the rise of Athens, and the fear that this instilled in Sparta, that made war inevitable."

This is the quote from ancient Greek historian Thucydides displayed at the top of the website for Harvard's Thucydides's Trap Project. The term Thucydides's Trap was coined by political scientist Graham T. Allison, and refers to a situation where the rise of a new power causes fear in an established power, often escalating to war. The project has looked at 16 such case studies over the past 500 years of history, and in 75% of those cases the outcome was war.

Such a situation is unfolding today, as China's GDP and global influence continues to gain on that of the US, and the US is responding with a potential trade war. However, despite what history shows us, I think the chances of this escalating into a hot war in the modern era are very unlikely.

The two most recent cases, for example, ended peacefully. This includes Germany's latest rise in Europe, challenging the influence of the United Kingdom and France for economic and political hegemony over the continent. In stark contrast to the two other examples of this happening in the 20th century, this time Germany has succeeded in its efforts to gain control over Europe, and has done so without war.

The second is the cold war with the Soviet Union, which probably has more similarities to our current predicament. However, the US is more economically intertwined with China than it was with the Soviet Union, and the contrast in political ideologies is less stark. Without even having to consider mutually assured destruction, I think there are simply more interests that align our two nations than divide them.

Not So Rare-Earth Metals

China has threatened to strike back at Americans over tariffs by going after their precious little iPhones. More specifically, by threatening to stop exporting rare-earth metals that are used to make smartphones to the United States.

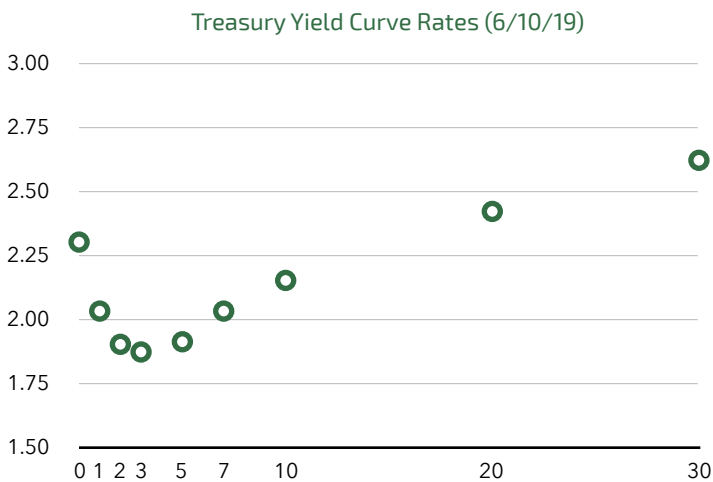
One little problem, though. With the exception of radioactive promethium (${}_{61}\text{Pm}$), which is really only used for research purposes, none of the rest of the 17 rare-earth metals are actually rare. They aren't named that because of their scarcity, but rather because they are spread out somewhat evenly over the Earth instead of being found in concentrations. And while China does mine and refine the majority of rare-earths, accounting for about 80% of the world's production, most of that ends up in downstream products like magnets, electric motors, and consumer electronics made in China and other countries before it ever hits US shores. According to Reuters, the US only spent \$160 million—a very modest amount—in 2018 to import rare earths for manufacturing. If they follow through on the threat, it won't be the secret weapon some think it is. They'd be shooting a grizzly with a Nerf gun.

This isn't to say the trade war isn't serious; the damage it could cause to the US economy could be quite significant. Just that rare-earths really aren't worth panicking over, in my opinion.

Tactical Nuclear Tariffs

Mexico is the latest country to find itself in the administration's crosshairs, as President Trump threatened a 5% increase in import tariffs if they didn't do more to stem the flow of illegal immigration into the US. Mexico agreed to do more and the tariffs have so far been averted, but the bigger issue here is that President Trump is wielding the tariff weapon in new ways. With China it's to get a better trade deal that protects intellectual property. With the EU the threat of auto tariffs was in an effort to make progress towards a trade deal with the bloc. And the removal of India's preferential zero-tariff treatment was to try to negotiate better access to their markets. But now he's using it on an issue that has nothing to do with trade. How else might he try to unilaterally use this shiny new toy?

We Were Inverted



The Fed can't ignore the yield curve much longer. St. Louis Fed President James Bullard says a rate cut "may be warranted soon" to counter trade-war risks. I would be mildly surprised if that happens at the next Fed meeting here in June, but I think they will adjust language to telegraph the move for the following meeting at the end of July. As it stands now, at least two quarter-point rate cuts are needed to normalize the yield curve.

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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

Barry (HBO)

The *Game of Thrones* series has reached its somewhat disappointing conclusion, but before you cancel that HBO subscription you might want to check out some of their other offerings. *Chernobyl* has been heavily promoted, and *Gentleman Jack* is new, as well, but I'm going to recommend *Barry*, which just wrapped up its second season. This Bill Hader project is about Barry, a hitman who stumbles into an acting class in pursuit of a mark only to find he really likes it and the sense of community the class gives him. Now Barry is determined to turn over a new leaf as an actor, but his past invariably keeps getting in the way. It's an enjoyable comedy that can be binged all too quickly.

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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