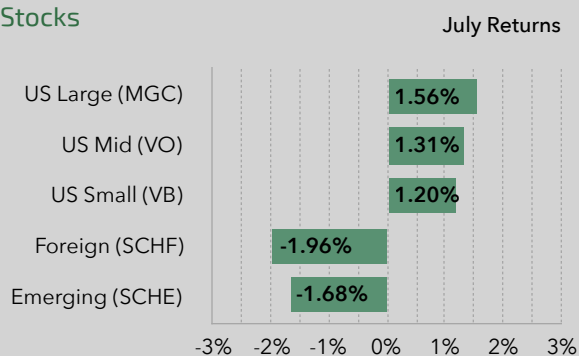


## July 2019

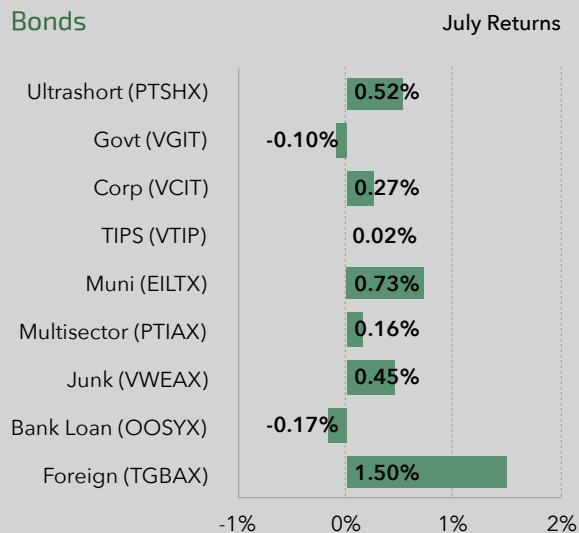
### Economic Data

- US payrolls were in line with expectations as 164,000 jobs were added; wage growth was 3.2% and the total labor force hit a record 163.4 million<sup>2</sup>
- Retail sales were up 0.4% in June, but the previous month was revised down one-tenth
- Y/y inflation (CPI) fell to 1.6% in June, with energy prices down 3.4% over the past 12 months
- May's rebound in existing home sales proved to be short-lived, as sales declined 1.7% in June

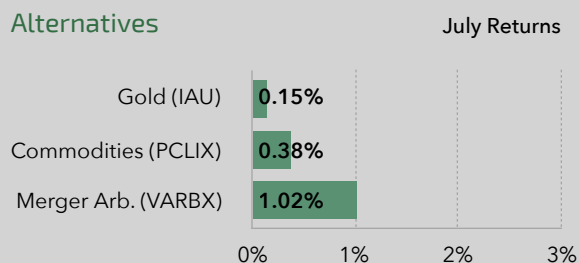
### Stocks



### Bonds



### Alternatives



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.

### First Rate Cut in 11 Years

In a widely expected move, the Fed cut its key interest rate by a quarter-point. It was the first rate cut since the tumultuous times of 2008, but Fed Chairman Jerome Powell called it a “mid-cycle adjustment” and was quick to temper expectations for more cuts to come, saying, “Let me be clear – it’s not the beginning of a long series of rate cuts.” At the same time he also clarified that this did not necessarily mean that it would be a one-and-done situation, either. The Committee also decided to curtail its balance sheet reduction plan two months earlier than previously indicated.

President Trump wasn’t too happy, saying the Fed “let us down” by not signaling that a lengthy and more aggressive easing policy was on the way. Earlier in the month, Powell gave testimony that indicated ongoing trade tensions between the US and China posed a risk to the US economy, which, if you think about it, inadvertently gave President Trump a roadmap for influencing policy decision. He quickly followed it by reversing course on a recently announced cease-fire to the trade war by imposing new tariffs on \$300 billion in Chinese goods.

China responded by letting the yuan weaken beyond the key psychological threshold of 7 per US dollar. Trump condemned the action in a grammatically incorrect tweet, accusing China of currency manipulation.

“China dropped the price of their currency to an almost a historic low. It’s called “currency manipulation.” Are you listening Federal Reserve? This is a major violation which will greatly weaken China over time!”

The US Treasury slapped China with the currency manipulator tag on Monday, saying it’s doing this to gain an unfair trade advantage. China rejected the accusations that it manipulates its currency, and responded by halting the slide of the yuan. Which is pretty ironic, if you think about it.

Anyway, the whole series of events rattled markets yesterday, with the S&P 500 dropping nearly 3%, making it the worst day of the year so far. Safe-haven assets did well, with gold hitting a six-year high of \$1,476.50 per ounce, and the 10-year Treasury yield falling to 1.74%, its lowest level in almost three years. There is now \$15 trillion worth of negative yielding debt around the globe, and even Greek debt yields fell below comparable US Treasuries.

### Bad-Luck Clover

In the northwestern Chicago suburb of Hoffman Estates, about six miles west of the Schaumburg IKEA if that helps, lies the small, single-story office building that serves as the corporate headquarters of Clover Technologies. Never heard of it? Yeah, me neither. They are in the rather humdrum business of recycling inkjet cartridges and mobile phones, but I didn’t know that until a \$693 million leveraged loan to them abruptly lost about one-third of its value, earning them a write-up on Bloomberg that caught my attention.

Last year I wrote about growing increasingly concerned about weakening covenants in the leveraged loan market that corresponded with a reduction in our weighting in this space to an extreme underweight. And the Clover paper was exactly the type of loan I was talking about, as it didn’t have any

covenants. If you recall, covenants are agreements between the borrower and the lender assuring the borrower will not exceed a specific threshold for debt-to-equity. The goal of covenants is to protect the lender from borrowers acting like irresponsible children. However, weaker credits and covenants have been increasingly dominating leveraged loan issuance as investors became less concerned with these protections in their search for more yield. At the time I noted this wouldn't be a problem right away, but it was only a matter of time.

Perhaps Clover is just an isolated incident, and not just the first sign of worse things to come in the leveraged loan market. I'm inclined to believe we'll see more of these, though, but only time will tell.

Ryan P. Layton, CFA  
 p: 612-810-2230  
 e: [ryan@emeraldspark.com](mailto:ryan@emeraldspark.com)

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

## Binge Box

### La Casa de Papel (Netflix)

This month's recommendation is *La Casa de Papel*, which is Spanish for "The Paper House" but for some reason is titled *Money Heist* in English markets. Fair enough. I mean, that is the basic gist of the show, as a criminal mastermind called The Professor (Álex Pina) puts together a crack team of specialists to pull off the biggest money heist in history. Part 3 was released on July 19, and became the all-time second highest most binged show behind only Season 3 of *Stranger Things*. So it's popular. You just have to be willing to read subtitles if you're not fluent in Spanish. Trust me, though, it's worth the effort.

## 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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