

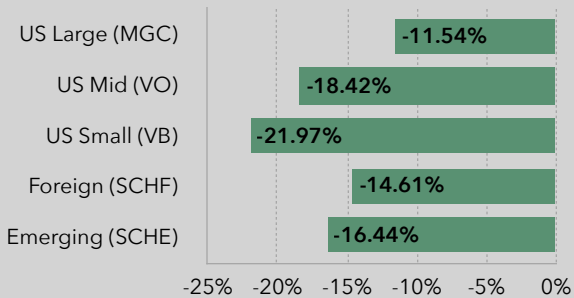
March 2020

Economic Data

- US payrolls fell 701,000 in March and unemployment rose to 4.4%, but with nearly 10 million initial jobless claims in the past two weeks the April number will be drastically worse
- Retail sales fell 0.5% in February. Dollars to Donuts March numbers will be apocalyptic by comparison
- Y/y inflation (CPI) fell two-tenths to 2.3% in February
- Existing home sales jumped 6.5% in February. Oh, what a care-free time that was
- The Conference Board LEI increased 0.1% in February

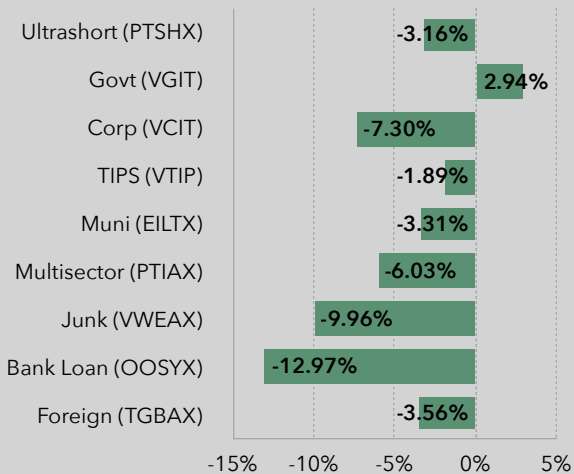
Stocks

March Returns



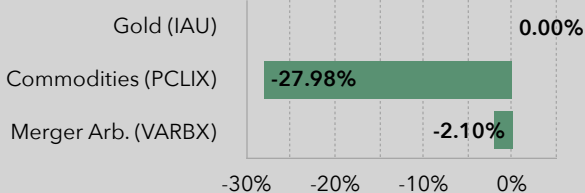
Bonds

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.

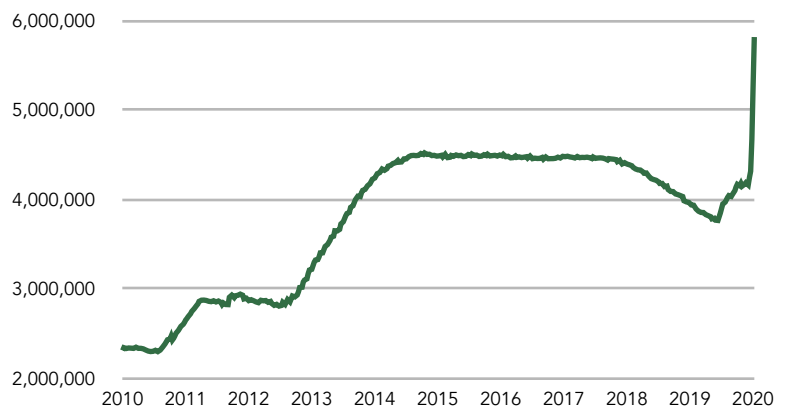
Weeks Where Decades Happen

“There are decades where nothing happens; and there are weeks where decades happen.” -Vladimir Ilyich Lenin

That was a quote Jeff Gundlach of DoubleLine borrowed for his most recent webcast, and it was so on point I had to borrow it myself. We are only three months removed from the first decade in American history that came and went without a single economic recession. A decade that saw the S&P 500 triple in value with only the slightest of hiccups along the way: the Flash Crash of 2010, the debt ceiling crisis and US Treasury downgrade of 2011, the European sovereign debt crisis, the oil price collapse of 2016, Brexit, and the ongoing trade war with China. The combined troubles of a decade all seem fairly insignificant compared to how much the world has changed in the matter of a few short weeks.

The S&P 500 fell into bear market territory in record time of only 16 days. The Fed made another emergency cut, and it was the biggest one-time cut in modern Fed history. They also announced unlimited quantitative easing and support for commercial mortgage backed securities, corporate debt, and municipals debt; the scope of these new policy measures goes well beyond what we saw in 2008.

Federal Reserve Balance Sheet: Total Assets (Millions \$)



Source: Board of Governors of the Federal Reserve System (US)

A massive \$2.2 trillion “Phase 3” fiscal package was passed in quick order and with relative political ease. The attention grabber was the \$1,200 checks that will be going out to individuals who made less than \$75,000 in their last tax filing (phasing out by \$99,000). And more direct payments might be coming, which could sow the seeds for a universal basic income.

The package also included \$350 billion for small businesses, sole proprietors, and independent contractors in the form of SBA backed loans that will essentially turn into grants if they are used to cover payroll in the first eight weeks. The rollout of this has been an unmitigated disaster from the perspective of those it is meant to help. The money is on a first come, first served basis, and there isn't nearly enough available to meet the anticipated demand. The overwhelming majority of banks weren't ready for the April 3



launch, and many of those who were have been locking certain clients out of the program. Bank of America, for example, was only allowing current business clients with outstanding loans to access the program, not those with just a business checking account and a clean balance sheet. Wells Fargo still hasn't started taking applications. They only managed to get a sign-up sheet of sorts going Saturday afternoon, and they had already closed that off by Sunday claiming they could not accommodate more than \$10 billion due to lending sanctions that arose from their fake account scandal. If these issues aren't addressed, many of those this was intended to help will be left out in the cold, while others who are more savvy or well-connected or just plain lucky will benefit handsomely from this free money program.

"Phase 4" is now in the works and promises to replenish depleted "Phase 3" funds. It looks like it will be smaller, but still over \$1 trillion. Unlike the monetary measures that never really resulted in inflationary pressures, these fiscal measures likely will. Not overnight, mind you. But when the engines of the economy roar back to life and demand awakens from its forced slumber, we may finally get it.

I know some of you out there have lost your jobs or your bonuses, and business owners have lost contracts and customers, making this tough time even harder. But I did find one silver lining as I was reviewing my budget at the end of the month. My bar/restaurant spending was down an astonishing 89%, and spending on entertainment, clothing, travel, and transportation all fell to zero. So even if we're not making as much, at least we are spending less, too.

Adventures in Amateur Epidemiology

March 18 was Wuhan's first day without a new case, and yesterday China as a whole reported no new cases. I mean, maybe that's true. It would be great to believe the data, but who knows? Places like Italy,

Binge Box

Star Trek: Picard (CBS All Access)

Bet you thought I was going to recommend *Tiger King*, didn't you? Sure, I watched it and I was entertained. But you've probably already seen it, and besides, everybody on that show is a terrible person (except "Saff"; she's cool). No, instead, as I often do, I'm going sci-fi. Of all the Star Trek series, *The Next Generation* was my favorite. It had a decidedly bright view of the future, and was more thought-provoking than the others. It focused more on questions of ethics and philosophy, than phaser fights and space battles. The captain, Jean-Luc Picard, is also my favorite amongst all the Star Trek captains. He's just a classy guy, and now he's back with a ten-episode season that is definitely worth bingeing.

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					●

Germany, Austria, Switzerland, South Korea, Australia, and Iran are showing consistent downtrends in new cases, which is encouraging. It's way too soon to say the same for the US, but the last two days have at least been below peak. Here on my little Caribbean island of Utila, we still have zero cases and have been completely closed off to people for over three weeks now.

Economic Data

Pretty much all of the economic data released so far is next to useless, as it is looking backward at a time before economic shutdown. But one piece of data—initial unemployment claims—is much more timely. To say 3.283 million initial jobless claims is unprecedented doesn't convey the gravity of it. The number was nearly five times the previous historical high of 695,000 set back in 1982. If that wasn't impressive, the following week ended March 28 doubled that figure with 6.648 million. That's close to 10 million Americans losing their job in two weeks—more than were lost during the entire Great Financial Crisis. The economic data released over the next few weeks will begin to reveal more of the initial extent of the economic damage, and it's going to be quite ugly.



Portfolio Positioning

The S&P 500 experienced a swift and unprecedented 34% fall between February 19 and March 23. The S&P 400 (mid caps) and S&P 600 (small caps) fared even worse falling 42% and 41% respectively. Despite the obvious concerns for the economy during this pandemic, and the stretched valuations we started from, we simply could not ignore the rebalancing opportunity this market decline presented. So two weeks ago we moved our target allocations for US stocks up one notch, bringing small and large caps from an extreme underweight to an underweight and mid caps up to neutral, and rebalanced portfolios accordingly. The money was taken mostly from ultrashort bonds.

Anyway, since March 23, the market has rallied and briefly entered bull market territory today (20% gain from the low). While I am happy we rebalanced into stocks when we did, it would be myopic to call it a victory. We want to keep thinking to ourselves, "in five years will I be glad to have bought at these prices?" I think the answer will be yes, but I don't think we've found our true market bottom yet. Rather, I think this is just a bear market rally. Stocks will have to go significantly lower and give us a much more compelling entry point to go "all-in".

Actions You Can Take Now

- Review your [emergency savings](#)
- Increase regular investment contributions to take advantage of the volatility
- Consider refinancing your home as mortgage rates are at an all-time low
- Apply for a Payroll Protection Program (PPP) loan if you are a small business owner or independent contractor

Stay Safe,

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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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