

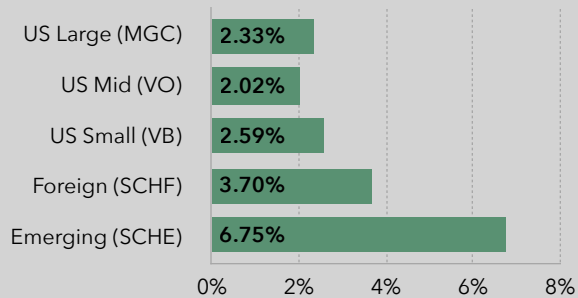
June 2020

Economic Data

- US payrolls rose 4.8 million in June and the unemployment rate fell to 11.1%, but major data-quality issues remain
- Retail sales rebounded a sharp 17.7% in May, but were still 7.7% below last year on an unadjusted basis
- Y/y inflation (CPI) fell to just 0.1% in May; food at home is up 4.8% and meat is up 11.7%, though
- Existing home sales fell 9.7% in May and are down 26.6% from a year ago
- The Conference Board LEI rose 2.8% in May

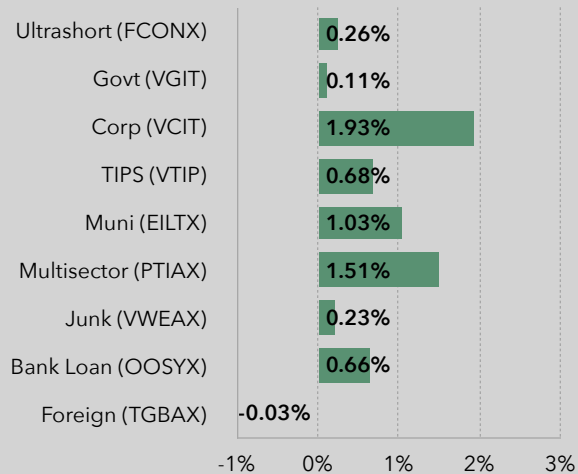
Stocks

June Returns



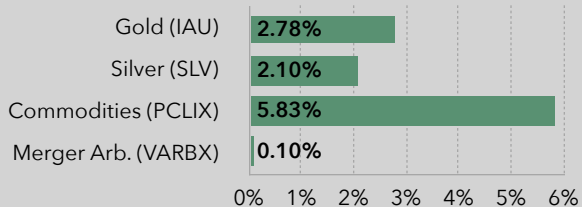
Bonds

June Returns



Alternatives

June 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.

R.I.P. Charles Entertainment Cheese (1977-2020)

Chuck-E-Cheese passed away last month, succumbing to Chapter 11 bankruptcy due to the financial pressure brought on by the pandemic. Born as a cigar-smoking rat in 1977, a 2012 marketing team re-brand gave him a fresh and hip 90's look, a species change, and a rather depressing backstory. As the updated story goes, Chuck-E was born an orphan mouse, so he never knew his own birthdate and never got a birthday party of his own. But he loved celebrating other children's birthdays because he got to sing and eat pizza at the parties. He parlayed a \$50 win from a (presumably legal) pong tournament into a trip to New York, where he met Pasqually, a pizza restaurant owner. Pasqually put him to work (paid, I hope) singing Happy Birthday to other kids, and that's what he did multiple times per day, every day, until the pandemic. Chuck-E is survived by Helen Henny, Jasper T. Jowls, and Mr. Munch.

It's not a great obituary. But then again, Chuck-E-Cheese probably isn't really dead; its parent company, CEC Entertainment, is just bankrupt. This isn't even the first time Chuck-E-Cheese has gone bankrupt, and their doors are technically still open. Well, for take-out or delivery, but where's the fun in that? One does have to wonder, though, what will the demand be for ball pits in the post-COVID-19 world? Sterile they are not.

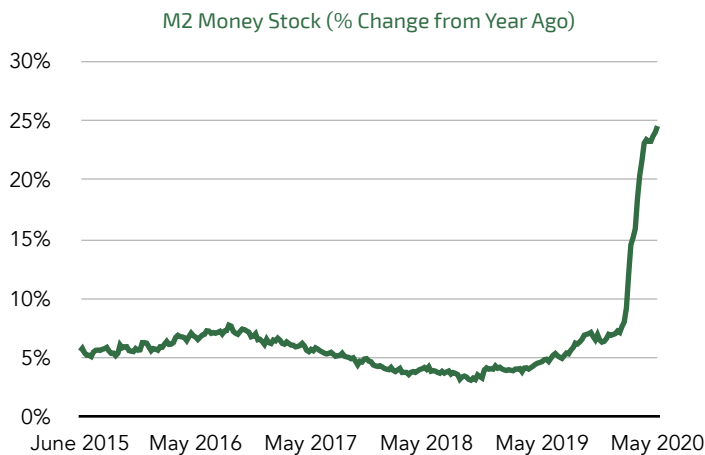


CEC has joined a growing pile of bankrupt companies hurt by lockdowns and social distancing, and presumably a few that were just poorly run and would have gone bankrupt with or without the pandemic. According to Bloomberg, 126 companies with liabilities of at least \$50 million filed for bankruptcy in the first half of 2020, the fastest pace since 2009. The list includes other restaurants such as Bar Louie, Cosí, and HopCat; retailers like Art Van Furniture, JC Penney, J. Crew, Neiman Marcus, Pier 1, and GNC; rental car companies Hertz and Dollar Thrifty; 24 Hour Fitness and Gold's Gym; and Cirque du Soleil Entertainment Group, among others. Chesapeake Energy filed, too, but it was poorly managed going into the pandemic. Still, cratering energy demand during the lockdown didn't help. Frontier Communications, on the other hand, well that was probably completely on them. I mean, how does an internet service provider's business get hurt when everyone is stuck at home watching Netflix?

Portfolio Positioning

No tactical changes were made to portfolios over the past month. I believe the aforementioned list of bankruptcies will continue to grow, perhaps even at an accelerated pace in the 3rd quarter. Therefore, we will continue to avoid risky credits in the fixed income portfolio, despite the Fed propping up the market by purchasing investment-grade corporate and junk bond ETFs. Instead, we'll keep a good chunk allocated to cash-like ultrashort bonds with the expectation of better opportunities ahead.

With enhanced unemployment benefits set to expire at the end of the month, temporary job losses quickly becoming permanent ones, and a rising rate of infection causing consumers' comfort level with certain activities like eating out and travel to trend downward again, I continue to see little reason to expect a swift economic recovery. We are patiently waiting for this to finally sink in for the rest of market participants.



Source: Board of Governors of the Federal Reserve System

We maintain an overweighted allocation to precious metals—both gold and silver—as a hedge against the money printer going “brrr”. The US money supply (M2) is 25% higher than it was a year ago. That’s a lot of monetary inflation.

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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

Letterkenny (Hulu)

Letterkenny is a comedy that chronicles the problems of different groups of people in the eponymous fictional Canadian town. There are the main protagonists, the hicks, as well as the hockey players, the skids, the natives, and the church-goers. I find the parts about the skids to be particularly annoying, but suffer through it for the hicks and the hockey players. The dynamics between the groups and the accents remind me much of life back in the U.P. of Michigan, which is probably why I enjoyed this show so much. Is it funny? Can confirm. Should you watch it? That’s a Texas-sized 10-4. You can stream all eight seasons on Hulu. So pitter patter, let’s get at ‘er.

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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