

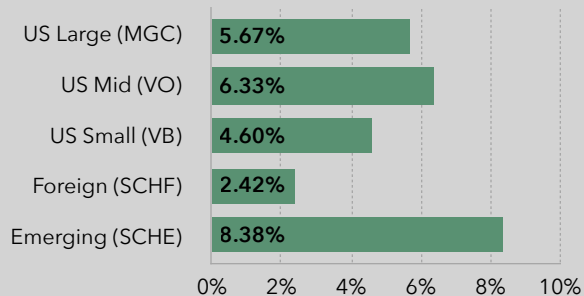
## July 2020

### Economic Data

- US payrolls rose 1.8 million in July and the unemployment rate fell to 10.2%
- 2Q US GDP crashed 32.9%
- Retail sales were up 7.5% in June; clothing was up 105.1%
- Y/y inflation (CPI) rose to 0.6% in June; food at home is up 5.6% and beef is up 25.1%
- New home sales jumped to a 13-year high; existing home sales rose by a record 20.7% in June
- The Conference Board LEI rose 2.0% in June

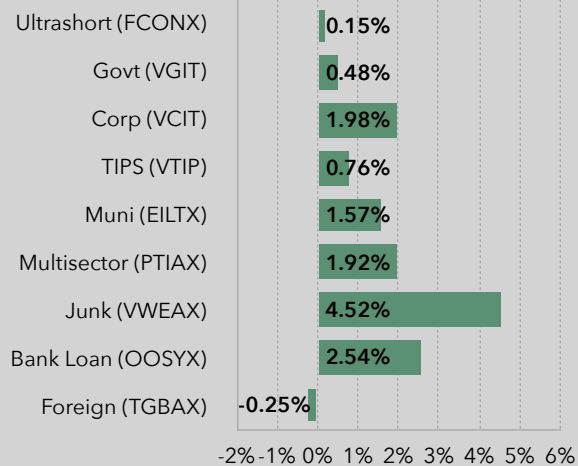
### Stocks

#### July Returns



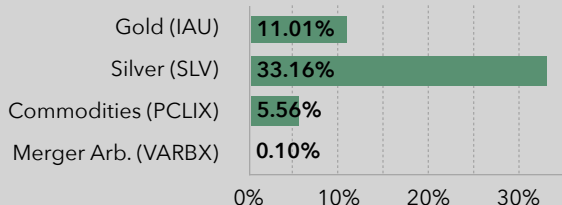
### Bonds

#### July Returns



### Alternatives

#### July 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.

### Executive Orders

The moratorium on evictions lapsed, as well as the extra \$600 per week unemployed people were getting. This fiscal policy cliff was going to have a huge negative impact on the economy and markets if congress failed to act. Which, of course, it did. So President Trump stepped in and, in a deft exercise in political brinkmanship, issued four executive orders effectively:

- Delaying payroll tax collections on those making under \$104,000
- Extending extra unemployment payments, but at a reduced rate of \$400 per week instead of \$600
- Ordering top officials to “consider” halting rental evictions
- Waiving student loan interest through the end of the year

These executive orders are, for the most part, very much illegal and outside of the scope of executive power, and they should be challenged as unconstitutional. But really, though, who is going to stop him? I mean, landlords will definitely sue over the evictions one, and they should. But who wants to be the Democrat to try and take away a tax break to low and middle-income earners, expanded unemployment benefits, and waived student loan interest? Good luck with that.

### Thucydides's Trap

Last year I wrote about Thucydides's Trap, which refers to a situation where the rise of a new power causes fear in an established power, often escalating to war. In the last 500 years, it has done so 75% of the time when this situation arises. However, as it related to Sino-American tensions, I said at the time war was very unlikely on account of how intertwined our economies were. You simply don't go to war with countries deeply imbedded into your supply chain. It's bad for business.

Fast forward to today, and I may have to upgrade that viewpoint from very unlikely to “ruh-roh, Raggy”. The pandemic has forced many companies and governments to review the vulnerability of their supply chains. The US government even used the Defense Production Act to grant pre-digital-camera-relic Kodak a \$765 million loan to manufacture film precursors for pharmaceutical drugs, a significant portion of which are currently made in China. That deal is now on hold due to what are some pretty blatant insider trading issues, but the point is there is an obvious push to reduce economic ties to China. And the less intertwined two nations are economically, the easier it is for them to go to war with each other.

Then there is the US ban on Huawei networking equipment on the grounds that it is a threat to national security. Okay, I get that, but what about TikTok? I'm having a little more trouble linking stupid dance videos to national security. But either way, it shows how much the administration wants to grow the wedge between the US and China.

China is not doing itself any favors, though, particularly with their insatiable drive to convert every island, cay, reef, and atoll in the South China Sea that doesn't belong to them into a military base. Secretary of State Mike Pompeo called China's territorial claims and expansionary policy in the South China Sea “completely unlawful”. This is a dramatic change in position from that of the Obama administration, which was to not take sides in the maritime disputes,

despite a 2016 international court ruling against China on the matter.

There is also the rapid erosion of Hong Kong's autonomy from mainland China. Hong Kong's special trading status with the US has been revoked, and banks are under pressure to cut ties there.

There are also human rights violations and increased media attention on the Uyghur re-education camps, where the minority muslims in northwest China are being detained. And there are increased tensions with Taiwan. And deadly border skirmishes with India. It just seems like the pieces are being put into place to make war somehow possible. And that's a very scary thought.

### That's Gold, Jerry! Gold!

Gold (IAU), a.k.a. grandpa's bitcoin, has been on a spectacular run hitting all-time highs above \$2,000 per ounce as a result of the fiscal and monetary policies that have been put in place during the pandemic and the resulting monetary inflation that came with. The US dollar has fallen almost 10% since late March. Meanwhile, gold was up 11.01% in July, and is up 29.09% for the year through month end. That's pretty impressive.



Wait, what's that you say, Silver? You want me to hold your beer? Silver (SLV) tripled the performance of gold in July, up 33.16% during the month—its best month since the Hunt brothers tried to corner the market four decades ago. It's been a volatile ride—silver is down 12.96% on the day as I type this, yet still up so far in August—but I don't think it has topped out yet. While gold has hit new all-time highs over the past few weeks, silver is still almost 50% below its all-time high of \$49.45 per ounce hit in January of 1980 during the aforementioned Hunt rally, and also its more recent high of \$48.58 in 2011 during the

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					●

sovereign debt crisis. 2011, not coincidentally, was the last time gold hit a record high. So what I'm suggesting is silver could still have some catching up to do.

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### Binge Box

#### The Outer Limits (Amazon)

What do Ryan Reynolds, Josh Brolin, Alyssa Milano, Nathan Fillion, Martin Sheen, Heather Graham, Joshua Jackson, Kirsten Dunst, Mr. Miyagi, Ralph Macchio, Alan Thicke, Ron Perlman, Lou Diamond Phillips, NPH, half the cast from every Star Trek series, the bad terminator in T2: Judgement Day, and both parents from Home Alone have in common? They have all starred in episodes of *The Outer Limits* (1995 edition). By now you probably know I love sci-fi anthologies like *The Twilight Zone* and *Black Mirror*, and *The Outer Limits* ranks right up there with them. It covers many topics, including artificial intelligence, genetic manipulation, time travel, and death and the beyond. But mostly, to Giorgio Tsoukalos's delight, ALIENS.

## 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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