

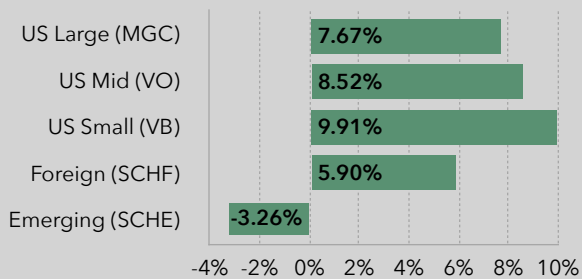
October 2022

Economic Data

- Only 263,000 jobs were added in September, but the unemployment rate still fell two-tenths to 3.5%
- Retail sales were flat for the second month in a row in August
- Y/y inflation (CPI) cooled in September, but was still up 8.2% —the 16th month in a row at or above 5%
- Existing home sales fell for the seventh straight month in August and are now down 23.8% y/y; median prices crashed \$19k for the month to \$384,800
- GDP rose at a 2.6% annualized pace in Q3

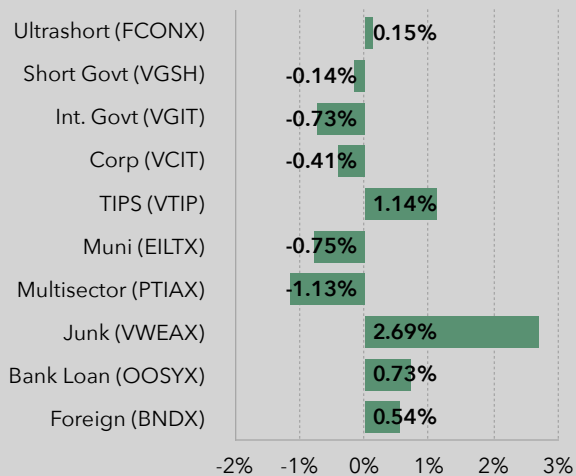
Stocks

October Returns



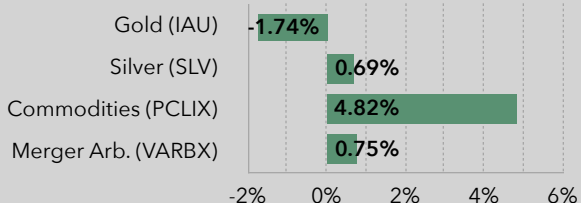
Bonds

October Returns



Alternatives

October 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 not guided by emotions. It is that second system — type 2 — that we want in control of our investment portfolios.

The Real Estate Market Freeze

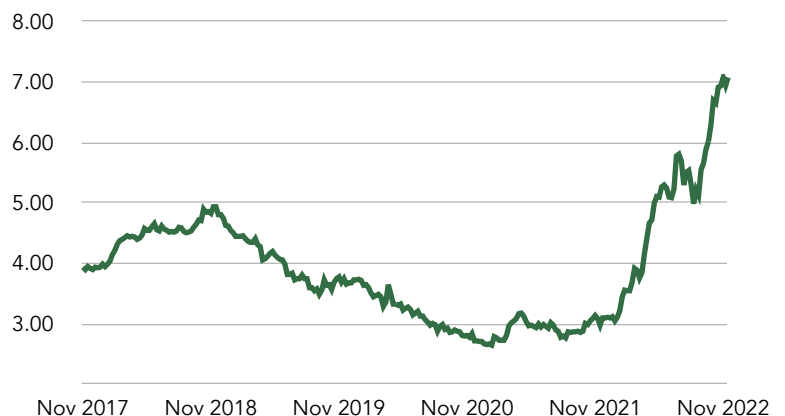
Let's say you wanted to buy a house last year. You saved diligently and had \$100,000 tucked away for a down payment. Wanting to put 20% down, you set your budget at \$500,000. With only 3% interest rates on 30-year fixed-rate mortgages at the time, this would put your mortgage payment at \$1,686 per month, and that worked with your budget. You never quite found the right mid-century modern house of your dreams, though, so you decided to sit tight until the right one came along. Fast forward to today, and you've still got that \$100k ready to go for a down payment, only now you are staring down the barrel of 7% interest rates. You can still only afford \$1,686 per month for a mortgage payment, so how much house can you buy now? Unfortunately, to keep that monthly payment you can now only borrow \$253,481, so with that \$100k down payment the top end of your budget is now only \$353,481—that's almost 30% less than what you could have afforded last year.

So what does this mean for the real estate market? It's a little more nuanced than to just say that prices need to come down 30%, but the Great Financial Crisis taught us that is indeed possible. The Case-Shiller 20-City Home Price Composite index tumbled 1.32% in August, far below the 0.20% expected increase. This was a sharp decline from the downwardly revised 0.67% decrease in July. More importantly, this marked the first sequential drop in home prices tracked by Case-Shiller since March 2012.

Those holding onto enviable mortgages around 3% would be foolish to sell now. They are much more likely to hold onto that mortgage and the house that came with it knowing that the alternative is to face a market of buyers that demand and require price cuts, and the steep costs of financing a different home that would come with a dramatically higher interest rate. They just aren't going to move. Or if they do, they will become landlords with their old house and renters with their new one.

The median monthly mortgage payment was almost one-and-a-half times as much as the median monthly asking rent in the second quarter, the largest differential in records going back to 2009, according to data tracked by the Mortgage Bankers Association, an industry trade group. So renting makes a lot of sense in the environment. The real estate market is entering an ice age.

30-Year Fixed Rate Mortgage Average in the US



Contribution Limits

The IRS has published contribution limits for 2023, and because of high inflation they are getting a significant bump. The annual contribution limit for 401(k)s, 403(b)s, most 457 plans, and Thrift Savings Plan is \$22,500, up from \$20,500 in 2022. They also increased the catch-up contribution value for those above the age of 50 to \$7,500, up from \$6,500 in 2022.

Limits for both traditional IRAs and Roth IRAs for eligible individuals will be \$6,500, up from \$6,000 this year. In 2023, the income phase-out range for single filers is \$138,000 to \$153,000. For married couples filing jointly, it's \$218,000 and \$228,000.

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Tactical Asset Allocation					
Asset Class	Heavy Under-weight	Under-weight	Neutral	Over-weight	Heavy Over-weight
Fixed Income			●		
Duration	●				
Inflation				●	
Credit	●				
Foreign			●		
Equities		●			
Large Cap	●				
Mid Cap		●			
Small Cap			●		
Developed Intl.	●				
Emerging		●			
Alternatives					●
Commodities					●
Hedging					●

Binge Box

The Bear (Hulu)

The Bear centers around Carmen "Carmy" Berzatto (Jeremy Allen White, who is my favorite actor from *Shameless*), a star chef who left The French Laundry to run his family's Italian beef restaurant in Chicago that he inherited from his recently deceased brother. It's full of industry lingo and it's very fast-paced, and that's why *The Bear* is so stressful to watch. Episode seven, for example, is tingly anxiety-inducing as it covers the most heated moment for the restaurant in just one, uninterrupted, 18-minute, episode-long take that might leave you shaking. So why put yourself through that? Because it's really good. Besides, you can always chill with an episode of *The Great British Baking Show* afterwards.

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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