

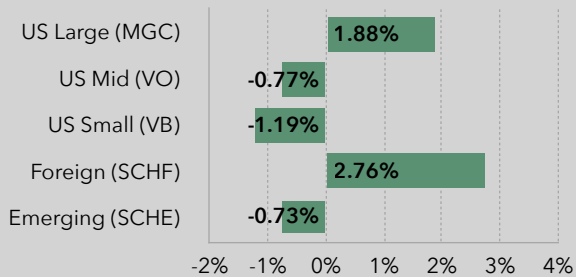
April 2023

Economic Data

- 253,000 jobs were added in April, and the unemployment rate hit a multi-decade low of 3.4%
- Retail sales were down 1.0% in March with general merchandise stores down 3.0%
- Y/y inflation (CPI) fell to 5.0% in April—the 22nd month in a row at or above 5%—while the core rate (less food and energy rose) to 5.6%
- Existing home sales fell 2.4% in March and are now down 36.9% y/y; median price fell to \$375,700, down 9.2% from its \$413,800 August peak

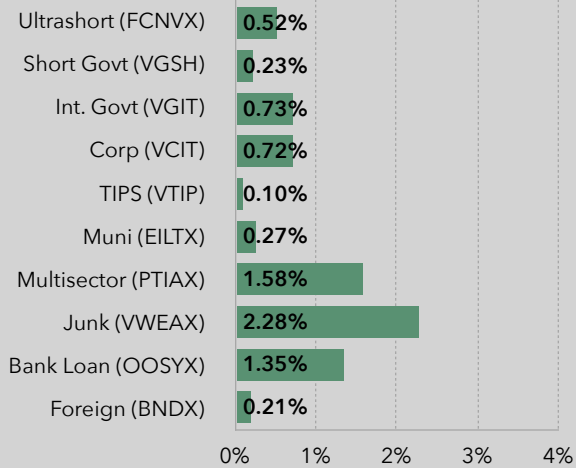
Stocks

April Returns



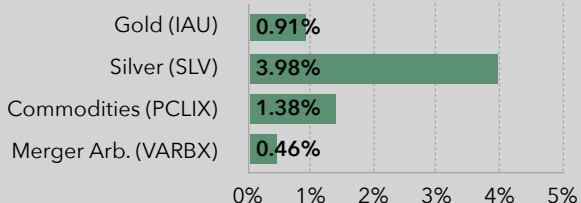
Bonds

April Returns



Alternatives

April 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 Highest Ceiling in the World

With a height of 526 feet, NASA's Vehicle Assembly Building is the tallest one-story building in the world. As far as I can tell, it has the highest ceiling in the world. Chat GPT thinks the ceiling of the International Space Station is the highest. Very funny, robot.



Anyway, the US debt ceiling, by comparison, is a figurative ceiling. It is a law that limits the amount of money the government can borrow to pay its bills. If you wanted to build a literal ceiling to house a stack of \$100 bills on top of each other to total the current \$31.4 trillion debt ceiling, the ceiling would need to be about 19,813 miles high. That's a pretty high ceiling, but not high enough it would seem.

Congress left the Capitol for the weekend with no deal in place to raise the debt ceiling. Democrats want a simple, clean raising of the debt ceiling, while Republicans are, per usual, using the opportunity to try and wrangle the Democrats towards some notion of fiscal restraint.

According to Janet Yellen, the day the Treasury would potentially run out of money to pay its bills could be as soon as June 1. That means we are less than three weeks away from a potentially catastrophic debt ceiling default.

So is the entire global financial system about to collapse? The answer is almost certainly no. Despite all the fear-mongering in the media and finger-pointing in the halls of Congress, that's very unlikely to happen. I've heard this boy cry "wolf" too many times before. The debt ceiling has been raised 52 times during my lifetime, and 25 times during my professional career. Yawn.

I must admit, though, something does feel a little different about this time, doesn't it? Three days ago the auction for 4-week t-bills, which are the most likely to be impacted by a default because they mature on June 6, resulted in an annualized yield of 5.964%. That same day the overnight fed funds rate was only 5.08% and the 3-month t-bill yielded only 5.29%. Accounting for the term premium of 21 bps over three months, that means the market is pricing

in about an 81 bps premium to compensate them for the added risk of a temporary delay in payment. The debt will ultimately get paid; that is not in question. The question is whether or not the Treasury would pay accrued interest earned during the delay. By my back-of-the-envelope math, that means the market is pricing in a roughly four-day delay in payment with no accrued interest.

I don't want to downplay the consequences of a default. It would be unprecedented and very bad for market confidence and the country. Congress may bicker, posture, and debate until the eleventh hour, but I believe they will ultimately act as they always have when called upon, and the ceiling will be raised. Raising it doesn't authorize new spending, after all, it simply allows the government to actually pay for what it has already committed to.

The market reaction seems a bit ridiculous to me. If you're looking to park extra cash for a month and want a yield close to 6%, you might want to consider buying 4-week t-bills on Treasury Direct to take advantage of this dislocation.

Ryan P. Layton, CFA
 p: 612-810-2230
 e: ryan@emeraldspark.com

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 Big Door Prize (Apple TV+)

Every week I eagerly anticipate the arrival of Wednesday and with it the new episodes of *Ted Lasso*. I'm sure I'm not alone in this. I have, however, been almost equally excited about the new episodes of *The Big Door Prize*, which are released at the same time. It has sort of become my double-feature day with the only two shows I am currently watching. Chris O'Dowd stars in this thought experiment, where a mysterious arcade machine that tells people their potential suddenly appears in the small town of Deerfield. Many of the people of the town start making dramatic changes to their lives in pursuit of their purported potentials. It's not a perfect show, but it is captivating and enjoyable.

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.

This Newsletter has been prepared by EmeraldSpark Investments. Information contained within has been obtained from sources believed to be reliable, but we do not guarantee its accuracy, completeness or fairness. Views and opinions expressed are for informational purposes only and do not constitute a recommendation by EmeraldSpark Investments to buy, sell, or hold any security. Views and opinions are current at the time of writing and may change. Before acting on this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice. Past performance is not indicative of future results.



NOT FDIC INSURED | NOT BANK GUARANTEED | MAY LOSE VALUE