

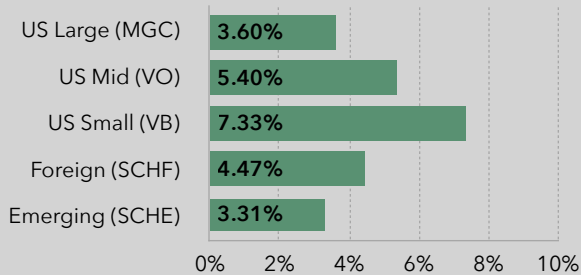
December 2023

Economic Data

- 216,000 jobs were added in December; the unemployment held at 3.7%
- Retail sales were up 0.3% in November with food service and drinking places up the most increasing 1.6%
- Y/y inflation (CPI) increased to a 3.4% pace in December while the core rate (less food and energy) edged lower to 3.9%
- Existing home sales were up 0.8% in November but are down 7.3% y/y; the median home price fell to \$387,600

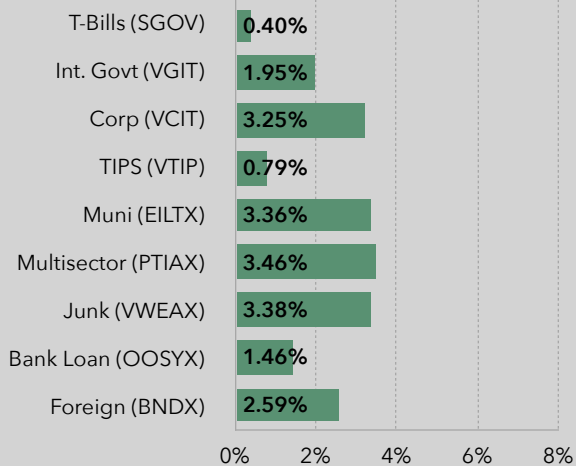
Stocks

December Returns



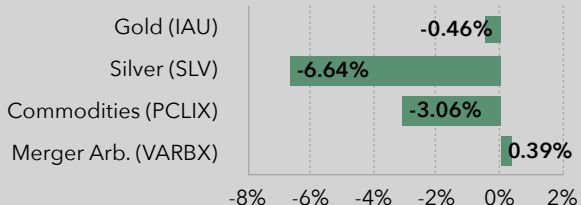
Bonds

December Returns



Alternatives

December Returns



Performance data provided by Morningstar

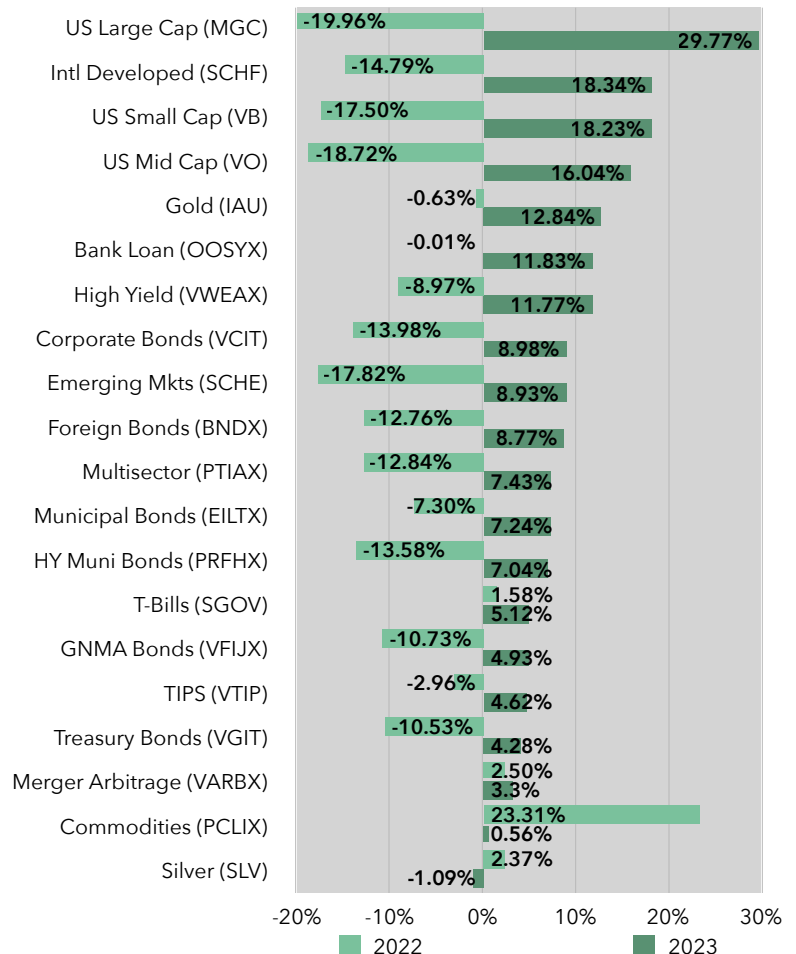
The brain uses two systems to process information. The first type is intuitive but lazy, rapidly forming judgements with no conscious input. The second system is slow, reflective, and not guided by emotions. It is that second system — type 2 — that we want in control of our investment portfolios.

2023 in Review

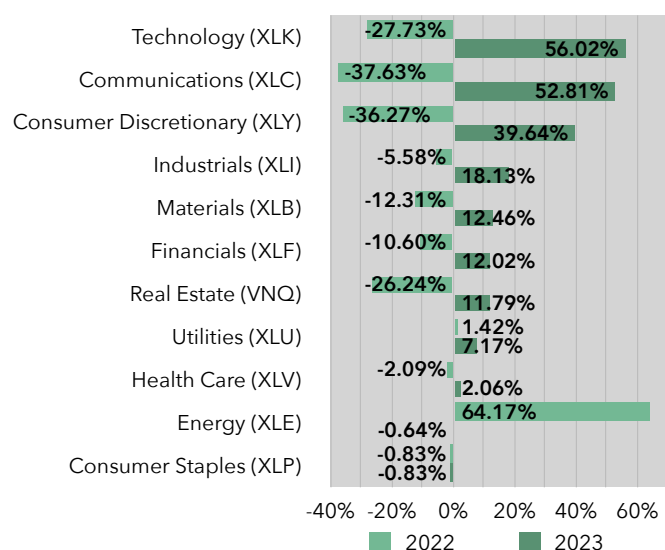
If you want to know what happened in markets in 2023, just take 2022 and flip it on its head. The best performing asset class of 2022 was commodities (PCLIX), which were up 23.31% while both stocks and bonds were getting crushed. In 2023, however, commodities were at the bottom, returning only 0.56%. US large-cap stocks (MGC) were up 29.77% for the year making them the best performing asset class as cyclical stock sectors like tech (XLK: +56.02%), communications (XLC: +52.81%) and consumer discretionary (XLY: +39.64%) rallied. The year before, however, MGC was down 19.96% making it the worst performing asset class, dragged down by—you guessed it—cyclical stock sectors like tech (-27.73%), communications (-37.63%) and consumer discretionary (-36.27%). Stocks are essentially flat over the past two years and are still just below their high-water mark set at the end of 2021.

My point is that asset classes rotate, and last year's darling can easily become this year's dud. This is why we diversify. It softens the gut punches of 2022 by reducing the overall volatility of the portfolio.

Investment Vehicle Performance



Sector Performance



The New Year is when I like to go back and review all my predictions from the previous year. I do this because despite knowing how terrible humans are at predicting the future, I keep doing it anyway. It really is a rather fun part of the job, but it's important to acknowledge what we get wrong because it helps to keep the heuristic-driven bias of overconfidence in check.

This means I get to go back and read all the newsletters I wrote in 2023 (some of them are actually funny, but most have grammatical errors) and pluck out all of the relevant predictions. Without further ado, here they are, starting with a slew from January:

- *"The Fed raises us into a recession, then doesn't cut right away but rather holds them above 5%. Why? Because, when asked how long he thought rates should remain above 5%, Fed Governor Raphael Bostic responded: 'Three words: a long time.' Take them at their word and stop trying to front-run them."* So far, so good on this one, although we are not yet in a recession thanks to Taylor Swift
- *"The S&P 500 falls to 3,200 during the year, but rebounds. Probably not, but people like S&P 500 price predictions."* Did I say 3,200? I meant 3,808. The S&P 500 did rebound quite nicely after that and is within a whisper of the all-time high set in 2021
- *"Commodities make it three years in a row as the best performing asset class, thanks in part to precious metals."* No, not as such. Gold did pretty well, but broader commodities barely eked out a gain for

Binge Box

Mr. Selfridge (PBS)

I spent Christmas in the UK, which is a wonderful spot to do it. Before flying out of Heathrow, I decided to spend the day in London. One stop on my list was Selfridges, a large, upscale department store that is truly a monument to the retail industry. I first learned about this place watching the PBS period drama about its founder, titled *Mr. Selfridge*, and it reminded me just how much I loved that show.

The drama is very much a character-driven story, and Jeremy Piven is at his best as the title character. It's one of those shows you can sit back, enjoy, and put your worries aside. You can stream it on PBS or buy it on Apple or Amazon.

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					●

the year due to weak oil prices despite a new war in the middle east and Houthi terrorist activity in the Red Sea

- *"ChatGPT makes most of us obsolete."* Not yet, thankfully, but it can draw some pretty wild images and has really been helping me out in the kitchen. I have also been using it to proofread this newsletter, so hopefully my grammatical errors are fewer going forward
- *"The Detroit Lions are picked for HBO's Hard Knocks again, win the NFC North, and make a deep playoff run. They replace the Dallas Cowboys as 'America's Team.'" HBO really wanted them back, but Detroit took a pass. I am going to claim victory to that last bit, though, as Dallas got crushed by Green Bay while the Lions prevailed over our old friend Matt Stafford and the St. Louis LA Rams. The Lions are America's Team so hop on the bandwagon*
- *February 2023: When discussing if it seemed almost as if the markets were playing chicken with the Fed, Fed Governor Neel Kashkari laughed. "They are going to lose the game of chicken, I can tell you that," he said. I said believed him and the Fed in general at the time, and I was right to do so. The Fed kept raising rates, and the market kept misjudging the situation. "If it plays out exactly how the Fed says it will, as I believe it will, bond markets will have to come to terms with this. In that scenario, I suspect bond yields on the intermediate and long-end of the curve will climb, giving up some of the price gains bonds have enjoyed the past few month. This has already begun to some degree, as the ten-year has risen 24 bps in the last three trading days to 3.63%. I suspect it will come close to retesting its October high of 4.25%. That will be the time to extend duration, not now". Rates actually got as high as 4.98% before crashing to 3.79% in less than two months. Once again, the market went too far too quickly*
- *May 2023: in reference to the debt ceiling: "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.” Yeah, you probably already forgot about that little pickle. “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.” A shrewd move

- June 2023: “With workers demanding to work-from-home for both ease and safety, I expect the carnage in the commercial real estate space in just beginning.” Give this one a little more time to marinate, as I expect 2024 to be a rough year when many of these commercial loans come due
- June 2023: “I don’t think the resumption of student loan payments will be as ‘catastrophic’ as some senior Biden Administration officials predict, but it will have some negative impact on the economy as discretionary income for borrowers takes a hit. It will also obviously mean default rates for these student loans will go from zero to something non-zero.” According to data released by the Biden administration, 40% of student loan borrowers skipped that first payment in October. Yikes
- July 2023: “US [inflation] came in at only 3.0%. Hooray, it looks like the Fed has finally got inflation under control and they can stop raising rates and start cutting, right? No, bond market, I’m afraid we’re not quite there yet... I expect headline inflation to heat back up over the next couple of months because we will be comparing energy prices against much lower numbers; again, base effect... I anticipate at least one and more likely two additional rate hikes this year.” Inflation accelerated to 3.4%, and we did, in fact, receive that one additional rate hike

- October 2023: “Rates have fallen somewhat this week due to a flight to quality in response to the outbreak of war between Israel and Palestine. It is difficult to gauge whether this event will mark the end of this period of rising rates. My guess would be no, and we will soon see rates on the 10-year exceeding 5%. That may change, however, if war seeps much further beyond the borders of Israel and Palestine.” I’m not looking too prescient on this one so far, as the 10-year is sitting at 4.07% as I type this

Thanks for reading and have a happy New Year.

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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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