

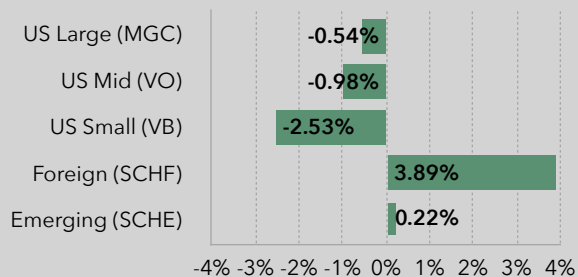
April 2025

Economic Data

- US GDP declined by 0.3% for the 1st quarter
- 177,000 jobs were added in April even as government jobs declines; the unemployment rate remained at 4.2%;
- Retail sales were up 1.4% in March, with a huge 5.3% increase in motor vehicles and parts ahead of tariffs
- Y/y inflation (CPI) decelerated to a 2.4% pace in March; the core rate (less food and energy) was down to 2.8%
- Existing homes fell 5.9% in March and are down 2.4% y/y; the median home price rose to \$403,700

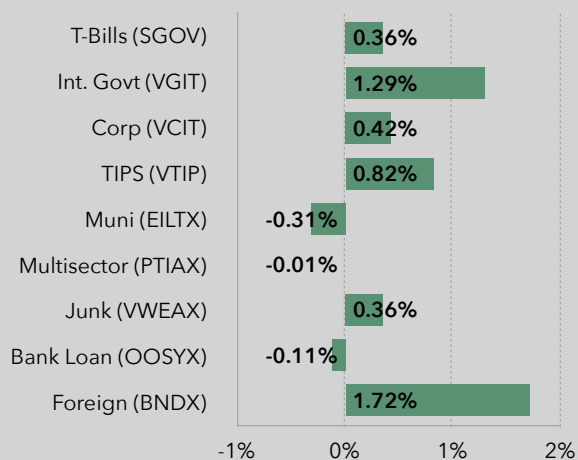
Stocks

April Returns



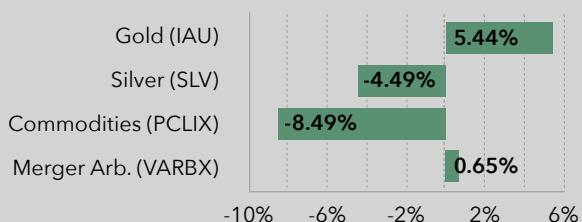
Bonds

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.

Are Tariff Troubles Over Already?

Looking at the performance numbers to the left there, you'd be forgiven for thinking it was a relatively blah month in the stock market, save for decent performance from international developed countries, particularly European countries. The announcement of a US-UK trade deal on Thursday—hopefully the first of many new trade deals to be announced in the coming weeks and months—also helped to remove uncertainty and alleviate concerns about the tariff war. The S&P 500 is actually...*double checks chart*...up since all this chaos began on April 2.

This morning a joint statement said that—for at least the next 90 days— the US will reduce levies on most Chinese imports from 145% to 30% and China will turn the dial down to 10% on the U.S. There are some asterisks and fine print, but that's the gist of it, anyway.

In the zenith of the turmoil and thus the nadir of the stock market, a flurry of portfolio rebalancing was executed. This meant we were net buying equities when the market was down, positioning portfolios to better enjoy the market recovery that has since followed. We are still about 6% off the all-time high, though, so there may be more room to run if things go smoothly. That's a big 'IF', though, and recession risk looms high after a negative GDP print for Q1.

Price Fixing Your Drug Fix

Another announcement out just this morning was an executive order establishing "most favored nation status" for the US with regards to drug pricing. This essentially means that pharmaceutical companies can only charge US consumers whatever the lowest price for their drug is in any other country.

As someone who travels the world, I can confirm that drug prices vary substantially from country to country. My physician in Cape Town almost fell out of his chair when I told him Ozempic costs ten times as much in the US as it does in South Africa. I wasn't there for Ozempic, by the way (not that there is anything wrong with that); my vanity drug is Propecia.

What essentially happens is that US consumers subsidize all the research and development costs for drug development, and the rest of the world reaps the benefits. Which, you know, doesn't feel very fair.

I'm just not sure how legal this order is, though. I mean, when Nixon pushed price controls in 1971, at least it was enacted by congress and not executive order. It was a dumb idea, as price controls always are, and caused all sorts of market distortions and shortages.

This isn't a direct price control, though. They are not ordering that prices be frozen or establishing explicit price caps. So it will be interesting to see how this plays out, both in the courts (obviously this will end up there) but in the market, as well. My guess is it will mean lower prices in the US, higher prices in Europe and the rest of the developed world, and a bunch of special exemptions for developing nations. So far drug stocks are mostly up on the news, as the China deal seems to be overshadowing this. Pharmacy benefit management companies (aka "the middlemen") are getting hit, though.

Real Estate Crash Coming

Housing affordability isn't all that great right now. According to an April 23 article from Bankrate, "Nationally, an average mortgage payment costs 38 percent more per month compared to average rent." In 2021, thanks to low mortgage rates, it was cheaper to buy than rent.

I estimate that the ratio of median home prices to median household income is about 20% higher than the historical average. At the current 30-year mortgage rates, payments as a percentage of income are about 12% higher than average. There are signs, however, that the market could see a bit of a correction. Markets like Texas and Florida, which have seen a lot of home construction due to increased migration and lower regulatory barriers, are seeing inventories increase and prices fall.

The housing market can revert to the mean affordability level in a few different ways. A 20% increase in median household income would get the job done, but that is not going to happen quickly. Wage gains of that magnitude typically take about five years. If mortgage rates fell to 5.70%—more than a full point lower than their current levels—monthly payments relative to income would be more inline with historical averages. This is still a lot higher than people were paying four years ago, but affordability was incredibly high then. Lastly, a 17% drop in median home prices would get the job done.

Likely, it will be a combination of a couple or all of those things and it will take a few years to get there. If you have a home with a low mortgage rate, hold onto it and don't worry yourself if home values fall. If you need to move, consider becoming a landlord with your old home and a renter for your new one. If you want to sell, consider renting your next place for a couple years.

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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					●
Merger Arbitrage					●

Binge Box

Running Point (Netflix)

Running Point is Netflix's fun sports comedy from Mindy Kaling. Kate Hudson stars as Isla Gordon, a former party girl turned president of the fictional NBA team, the Los Angeles Waves. Hudson's charisma drives Isla's arc, navigating business and family drama with wit. The punchy 30-minute episodes and sharp humor make it bingeable, but it does have some forced jokes and clichés holding it back. But that's okay; sometimes all we're looking for is comfort comedy before tucking in for bed.

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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