

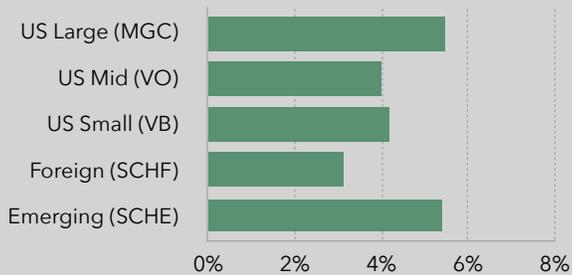
June 2025

Economic Data

- 147,000 jobs were added in June the unemployment rate edged lower to 4.1%
- Retail sales were down 0.9% in May, but motor vehicles & parts were down 3.5%
- Y/y inflation (CPI) edged higher to a 2.4% pace in May; the core rate (less food and energy) was steady at 2.8%
- Existing homes were up 0.8% in May but are down 0.7% y/y; the median home price rose to \$422,800

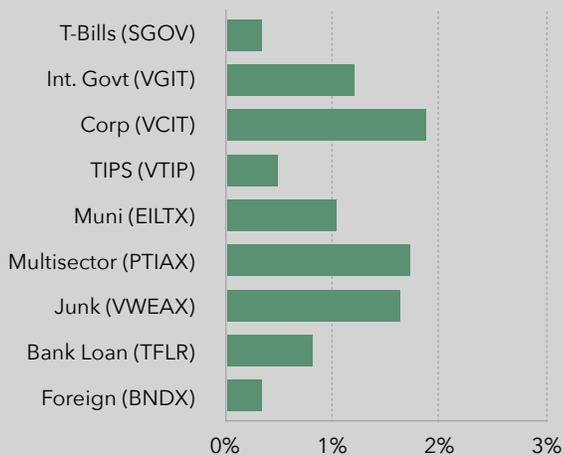
Stocks

June Returns



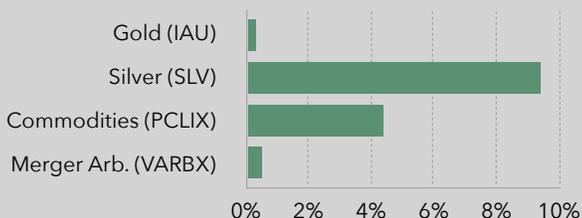
Bonds

June Returns



Alternatives

June 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 One Big Bloated Bill

The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, is a monster. I had to cut through more pork than a Smithfield butcher, but I found the relevant stuff for this newsletter. There are three main things in the bill that I would like to highlight:

- **Permanent extension of the 2017 Tax Cuts and Jobs Act (TCJA) provisions**, with an increased standard deduction (\$15,750 for individuals, \$31,500 for couples in 2025). This provides long-term tax clarity and avoids a potential \$4 trillion tax hike if the TCJA had expired.
- **Increase in state and local tax (SALT) deduction** cap from \$10,000 to \$40,000 for taxpayers earning up to \$500,000 from 2025 to 2029, reverting back to \$10,000 thereafter. This benefits households in high-tax states that itemize deductions.
- **Introduction of the so-called "Trump Accounts"** seeded with \$1,000 from the federal government for children born from 2025 to 2028. Additional contributions of up to \$5,000 annually per child are permitted until age 18. These accounts function like non-deductible traditional IRAs, with restricted investments and no distributions before age 18. After that they convert to IRA-like treatment.

The last one is going to take some time before it is actionable as the law doesn't make them available until 2026 and custodians will need to get things sorted to open these. There will be a limited list of approved funds that will include S&P 500 index funds and other broadly diversified index funds with a focus on US stocks. Nothing crazy.

I'm not sure \$1,000 is enough to convince Gen Z to hit the sheets and get the birth rate up, but—other than the self-aggrandizing name and presidential-term-specific eligibility window—I don't hate these accounts. If left alone and if it earns a real (inflation-adjusted) *geometric* average return of 6.7% (what the S&P 500 has essentially done since its inception in 1957), that \$1,000 could be worth \$93,650 in today's dollars by the time the kid is 70. It's a nice head start on retirement, especially when you consider some 48% of American households headed by someone 55 or older had no retirement savings at all, according to a 2019 report by the U.S. Government Accountability Office.

Portfolio Positioning

We develop long-term "strategic" allocations across the risk/return spectrum based on a number of inputs. The goal is to create the most efficient set of portfolios; that is to say the highest expected return for a given level of expected volatility. These numbers don't change very often, but should be reviewed annually and are typically updated every few years or so.

We follow a model that uses proportional market weightings of assets as a starting point, but allows the flexibility to incorporate long-term views on expected asset class performance relative to other assets. This market-weighted portfolio has shifted in recent years, however, and our strategic asset allocation is shifting with it.

In particular, mega-cap US stocks have become a much larger component. This was largely driven by the “Mag 7” (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) which alone now make up about 34% of the S&P 500. Meanwhile, developed international, emerging markets, and US small- and mid-cap stocks have all become smaller pieces of the overall pie.

A few changes are also being made to the tactical asset allocation strategy. Tactical adjustments are where asset classes predicted to be in favor in the near- to intermediate-term are overweighted and those forecast to be out of favor are underweighted. Mid-cap was moved down from overweight to neutral and small-cap moved down from overweight to an underweight. Emerging markets and developed international were both moved up from an underweight to neutral. The net result for emerging markets, however, is still a large reduction in portfolios.

On the bond side, the biggest change was that floating-rate notes were added back into the strategy via the T. Rowe Price Floating Rate ETF (TFLR). This Morningstar-gold-rated fund allows us to isolate credit risk exposure without any significant interest-rate risk due to the floating rate nature of the underlying assets. It currently yields about 7%.

These changes have already been implemented across most portfolios.

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| Tactical Asset Allocation | | | | | |
|---------------------------|-------------------|-------------|---------|------------|------------------|
| Asset Class | Heavy Underweight | Underweight | Neutral | Overweight | Heavy Overweight |
| Fixed Income | | | ● | | |
| Duration | | ● | | | |
| Inflation | | | | ● | |
| Credit | ● | | | | |
| Foreign | ● | | | | |
| Equities | | ● | | | |
| Mega Cap | | ● | | | |
| Mid Cap | | | ● | | |
| Small Cap | | ● | | | |
| Developed Intl. | | | ● | | |
| Emerging | | | ● | | |
| Alternatives | | | | | ● |
| Commodities | | | | | ● |
| Merger Arbitrage | | | | | ● |

Binge Box

Eureka (Amazon Prime)

I have something a little more light and fun this month (although it does have an alarming number of deaths). I started watching the old SyFy series *Eureka* on Amazon Prime. *Eureka* is a fun dramedy set in a quirky Pacific Northwest town where the government hides the world’s brightest minds. The show centers around U.S. Marshal Jack Carter as he becomes sheriff of this chaotic genius hub. Each episode delivers a mix of bizarre inventions gone awry and small-town charm, with Carter solving tech-driven mysteries alongside eccentric scientists. The science is soft, so don’t think about it too hard. Just enjoy the character stories and the well-delivered and surprisingly witty lines.

About EmeraldSpark

EmeraldSpark Investments, LLC is a Registered Investment Adviser. 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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