

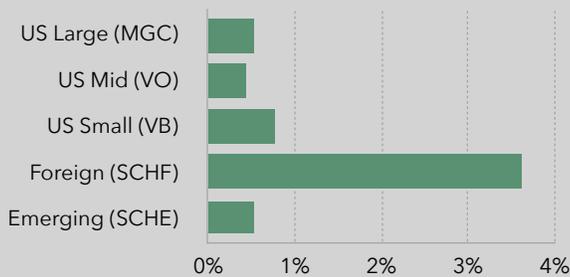
December 2025

Economic Data

- A meager 50,000 jobs were added in December and the unemployment rate held at 4.4%
- Retail sales were flat in October
- Y/y inflation (CPI) cooled to a 2.7% pace in November; the core rate (less food and energy) dropped to 2.6%
- Existing homes were up 0.5% in November but are down 1.0% y/y; the median home price fell to \$409,200
- GDP grew at a robust 4.3% annualized pace in Q3

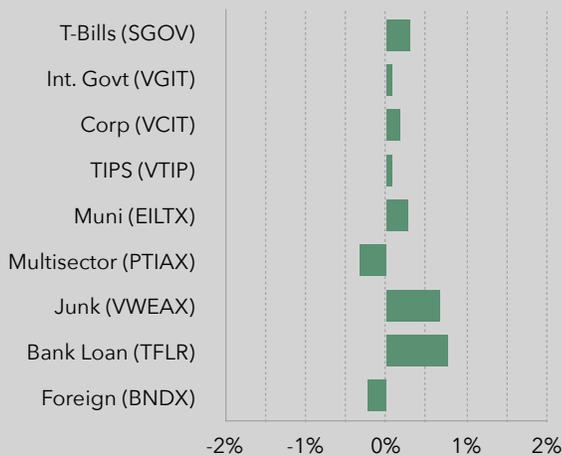
Stocks

December Returns



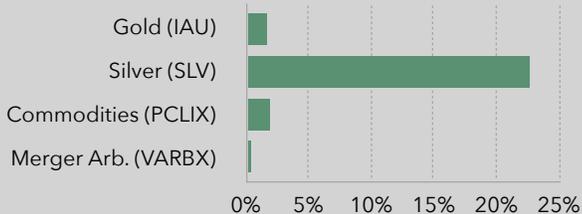
Bonds

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.

2025 in Review

US large-cap stocks failed to three-peat as the top performing asset class this year, but still served us well with the S&P 500 returning a very respectable 17.88%. Small and mid cap stocks clocked in decent returns in absolute terms. Mid cap outpaced large cap stocks in the first half of the year, but petered out in the second half. International developed markets were the best performing equity class, posting a 34.53% (SCHF) gain that restored my faith in international diversification. Emerging markets were next with SCHE up 26.55% as the Chinese dragon has now firmly arisen from its decade-long slumber.

Nothing terribly exciting happened in bond land, but performance was better than average as the Fed started cutting and bond yields moved lower. Riskier credits performed well, which is to be expected given their higher correlation with the stock market.

Gold and silver did ridiculously well for portfolios, trouncing every other asset classes for the year. Broader commodities performed okay, but didn't shine nearly as bright as precious metals. Merger arbitrage (VARBX)—old faithful—is now 10-0 for positive performance years since inception.

2025 Investment Performance



Periodic Table of Asset Class Returns

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Commodities (PCLIX) 19.25%	Emerging Mkts (SCHE) 32.67%	Merger Arbitrage (VARBX) 4.11%	US Large Cap (MGC) 31.15%	Silver (SLV) 47.30%	Commodities (PCLIX) 44.03%	Commodities (PCLIX) 23.31%	US Large Cap (MGC) 29.77%	US Large Cap (MGC) 27.16%	Silver (SLV) 144.66%
US Small Cap (VB) 18.44%	Intl Developed (SCHF) 26.00%	Foreign Bonds (BNDX) 2.81%	US Mid Cap (VO) 30.97%	Gold (IAU) 25.03%	US Large Cap (MGC) 27.55%	Merger Arbitrage (VARBX) 2.50%	Intl Developed (SCHF) 18.34%	Gold (IAU) 26.85%	Gold (IAU) 63.95%
Silver (SLV) 14.56%	US Large Cap (MGC) 22.61%	Multisector Bond (PTIAX) 2.01%	US Small Cap (VB) 27.32%	US Large Cap (MGC) 21.53%	US Mid Cap (VO) 24.52%	Silver (SLV) 2.37%	US Small Cap (VB) 18.23%	Silver (SLV) 20.89%	Intl Developed (SCHF) 34.53%
Emerging Mkts (SCHE) 13.05%	US Mid Cap (VO) 19.27%	Ultra-Short Bond (PTSHX) 1.51%	Intl Developed (SCHF) 22.24%	US Small Cap (VB) 19.16%	US Small Cap (VB) 17.72%	T-Bills (SGOV) 1.58%	US Mid Cap (VO) 16.04%	US Mid Cap (VO) 15.30%	Emerging Mkts (SCHE) 26.55%
Bank Loan (OOSYX) 13.02%	US Small Cap (VB) 16.26%	Treasury Bonds (VGIT) 1.36%	Emerging Mkts (SCHE) 20.27%	US Mid Cap (VO) 18.06%	Intl Developed (SCHF) 11.42%	Bank Loan (OOSYX) -0.21%	Gold (IAU) 12.84%	US Small Cap (VB) 14.17%	US Large Cap (MGC) 19.31%
US Large Cap (MGC) 11.90%	Gold (IAU) 12.91%	TIPS (VTIP) 0.56%	Commodities (PCLIX) 19.36%	Emerging Mkts (SCHE) 14.47%	Bank Loan (OOSYX) 9.08%	Gold (IAU) -0.63%	Bank Loan (TFLR) 12.05%	Emerging Mkts (SCHE) 10.59%	US Mid Cap (VO) 11.62%
US Mid Cap (VO) 11.26%	Commodities (PCLIX) 10.84%	Municipal Bonds (EILTX) 0.38%	Gold (IAU) 17.98%	Intl Developed (SCHF) 9.50%	Merger Arbitrage (VARBX) 5.43%	TIPS (VTIP) -2.96%	Emerging Mkts (SCHE) 8.93%	Bank Loan (TFLR) 8.76%	US Small Cap (VB) 8.87%
Gold (IAU) 8.31%	Multisector (PTIAX) 7.08%	Bank Loan (OOSYX) -0.78%	Silver (SLV) 14.88%	Treasury Bonds (VGIT) 7.71%	TIPS (VTIP) 5.36%	Municipal Bonds (EILTX) -7.32%	Foreign Bonds (BNDX) 8.77%	Commodities (PCLIX) 8.48%	Treasury Bonds (VGIT) 7.34%
Foreign Bonds (BNDX) 4.61%	Municipal Bonds (EILTX) 6.12%	Gold (IAU) -1.76%	Foreign Bonds (BNDX) 7.87%	Multisector (PTIAX) 5.73%	Multisector (PTIAX) 1.73%	Treasury Bonds (VGIT) -10.53%	Multisector (PTIAX) 7.48%	Merger Arbitrage (VARBX) 5.51%	Multisector (PTIAX) 6.92%
Multisector (PTIAX) 4.61%	Silver (SLV) 5.82%	US Large Cap (MGC) -3.43%	Multisector (PTIAX) 7.36%	Municipal Bonds (EILTX) 5.72%	Municipal Bonds (EILTX) 1.04%	Foreign Bonds (BNDX) -12.76%	Municipal Bonds (EILTX) 7.22%	T-Bills (SGOV) 5.27%	Commodities (PCLIX) 6.63%
Intl Developed (SCHF) 3.03%	Bank Loan (OOSYX) 4.16%	Silver (SLV) -9.19%	Municipal Bonds (EILTX) 6.97%	TIPS (VTIP) 4.95%	T-Bills (SGOV) 0.04%	Multisector (PTIAX) -12.84%	T-Bills (SGOV) 5.12%	TIPS (VTIP) 4.74%	Bank Loan (TFLR) 6.57%
Ultra-Short Bond (PTSHX) 2.57%	Ultra-Short Bond (PTSHX) 2.43%	US Mid Cap (VO) -9.22%	Treasury Bonds (VGIT) 6.19%	Foreign Bonds (BNDX) 4.65%	Emerging Mkts (SCHE) -0.72%	Intl Developed (SCHF) -14.79%	TIPS (VTIP) 4.62%	Foreign Bonds (BNDX) 3.56%	Merger Arbitrage (VARBX) 6.06%
TIPS (VTIP) 2.45%	Foreign Bonds (BNDX) 2.40%	US Small Cap (VB) -9.33%	TIPS (VTIP) 4.86%	Merger Arbitrage (VARBX) 4.00%	Foreign Bonds (BNDX) -2.28%	US Small Cap (VB) -17.50%	Treasury Bonds (VGIT) 4.28%	Multisector (PTIAX) 3.53%	TIPS (VTIP) 6.06%
Merger Arbitrage (VARBX) 1.73%	Merger Arbitrage (VARBX) 2.39%	Commodities (PCLIX) -12.14%	Merger Arbitrage (VARBX) 4.27%	Ultra-Short Bond (PTSHX) 2.74%	Treasury Bonds (VGIT) -2.64%	Emerging Mkts (SCHE) -17.82%	Merger Arbitrage (VARBX) 3.30%	Intl Developed (SCHF) 3.29%	Municipal Bonds (EILTX) 5.99%
Treasury Bonds (VGIT) 0.84%	Treasury Bonds (VGIT) 1.70%	Emerging Mkts (SCHE) -13.56%	Ultra-Short Bond (PTSHX) 2.73%	Bank Loan (OOSYX) -4.26%	Gold (IAU) -3.99%	US Mid Cap (VO) -18.72%	Commodities (PCLIX) -0.75%	Treasury Bonds (VGIT) 1.39%	T-Bills (SGOV) 4.24%
Municipal Bonds (EILTX) 0.17%	TIPS (VTIP) 0.82%	Intl Developed (SCHF) -14.32%	Bank Loan (OOSYX) 2.58%	Commodities (PCLIX) -9.15%	Silver (SLV) -12.45%	US Large Cap (MGC) -19.96%	Silver (SLV) -1.09%	Municipal Bonds (EILTX) 1.10%	Foreign Bonds (BNDX) 2.86%

Performance data provided by Morningstar

Periodic Table

On the previous page you will see what is often referred to as the periodic table of investment returns. This is an easy to ready, color-coded depiction of the returns of the asset classes we have invested in over the last decade. I really like this chart because it shows that no asset class is a consistent winner, and thus exhibits the importance of diversification. Equities give us a great chance of high returns over the long-run, but have registered losses in two of the last ten years. In those down years, however, there were asset classes like t-bills, merger arbitrage and commodities that were higher, helping to soften the blow.

2025 was a great year for our portfolios and a strong endorsement for diversification. **Portfolios following our Growth investment strategy outperformed the S&P 500 by 3 to 4% with roughly 30% less volatility.**

Guess Again

This is the time of year where I review my predictions from the previous year, because despite knowing full well humans are bad at predicting the future, I keep doing it anyway. Most predictions are soon forgotten after they are made, and only remembered later if the original prognosticator obnoxiously reminds you of them if they were right. It is usually an exercise to combat overconfidence, but I did quite well with my predictions last year.

- On December 11, 2024, I warned about the dangers of adding leverage to your leveraged bitcoin exposure. “The Defiance Daily Target 2X Long MSTR ETF (MSTX) is a leveraged ETF that seeks to provide investment results of 200% the daily percentage change in the share price of MicroStrategy. The allure of big returns can be tempting, but these investments are not designed for most buy-and-hold investors. Bitcoin is very volatile; MicroStrategy even more so and it is currently the most volatile stock in the S&P 500. That’s a scary thought for the leveraged ETFs that track it.” **Since then MSTX has lost 96% of its value.**
- On February 11, I thought the market over-reacted to the launch of the Chinese LLM model DeepSeek. **NVIDIA (NVDA) is up 39.2% since then.**
- I also said that the closing of the de minimus loophole “will probably benefit Amazon and other e-commerce platforms like Etsy and Ebay. It’s also good news for apparel retailers, such as Gap and H&M that already pay tariffs because they import their product in bulk.” Well, since then Temu (the company most negatively impacted) owner Pinduoduo (PDD) is up only 2.61%, while the S&P 500 (IVV) is up 14.61% and:
 - Amazon (AMZN) is up 6.28%—so not great, but
 - Etsy (ETSY) is up 16.12%
 - eBay (EBAY) is up 32.79%
 - Gap is up 24.76%
 - H&M (HNNMY) is up 41.34%
- On March 11, I bemoaned that international and emerging stocks—particularly Chinese stocks—had lagged over the past decade, but predicted they were at an inflection point and would outperform US stocks. **They all did, with China roughly doubling the performance of the S&P 500 since then.**
- On April 7, amid the tariff tantrum, I said that “over the next three months or so I believe there will be some good buying opportunities, but I don’t think we’ve found the bottom yet.” I mean,

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					●

that was technically true—April 7th wasn’t the bottom. April 8th was, though.

- On October 9, I refused to call a top in AI. “No, I am not foolish enough to call a top here. Not even close, actually...the AI bubble is only in the build-up phase. It’s mid-1998...maybe 1999 if we assume an accelerated pace this go-around.” **The bubble has yet to pop, but we aren’t in a blow-off top phase yet, either. I’m expecting 2026 to be AI’s version of 1999.**

Happy New Year!

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Binge Box

Lord of the Rings (HBO)

This is a bit of a cheat, because I’m talking about the trilogy and not The Rings of Power series, which was meh. But I’m in New Zealand and it’s the only thing I’ve had time to watch in the past month. The Extended Edition makes this a 12-hour watch, which basically makes this a season and a half of most shows anyway, so I think it’s fair. I wanted to get into the spirit before visiting Hobbiton (which was amazing) and hiking Mordor and Mt. Doom (Tongariro alpine crossing). It’s been a long time since I’ve watched it, and it was really nice revisiting this epic fantasy.

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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