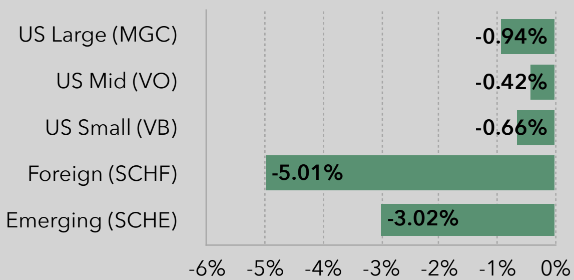
October 2024

Economic Data

- A pitiful 12,000 jobs were added in October; the unemployment rate remained at 4.1%
- Retail sales were only up 0.4% in September, with electronics & appliance stores down 3.3%
- Y/y inflation (CPI) tempered to a 2.4% pace in September, dragged down by energy; the core rate (less food and energy) edged higher to 3.3%
- Existing home sales were down 1.0% in September and are down 3.5% y/y; the median home price fell to $404,500

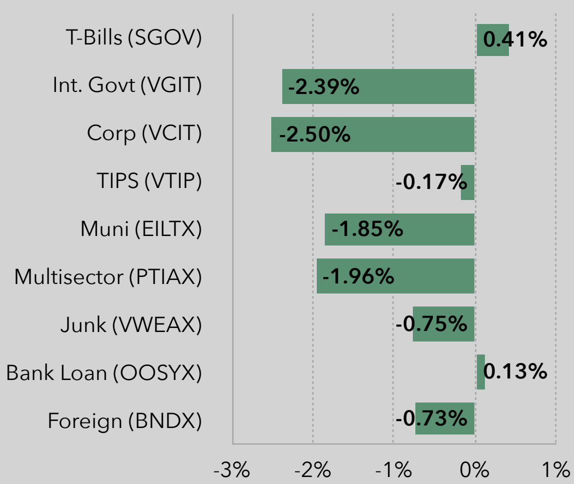
Stocks

October Returns



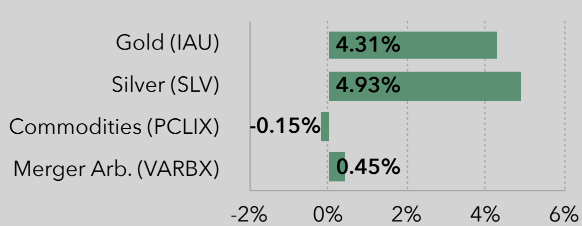
Bonds

October Returns



Alternatives

October 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 Post-Election Portfolio

We are a week removed from the election now. As a result, a little more than half the voting public are dancing poorly to "Y.M.C.A.", while a little less than half are shaving their heads and packing their bags for Canada. Regular readers should not be surprised by the results. Back in July, I called a Trump victory based on prediction markets and polling from the small handful of sources that have a fairly accurate track record (Rasmussen, AtlasIntel, and Trafalgar). I started thinking about what that would mean and began positioning portfolios accordingly. Here are the main themes.

America First: Expect tariffs to be wielded as a bargaining chip in an effort to level the playing field and reduce the trade deficit. For example, the US currently levies only a 2.5% tariff on cars from the EU, but the EU levies a 10% tariff on cars from the US. If the US were to quadruple the tariff to match, US-made cars would capture a larger market share here without losing any of the small ground they hold in Europe. In general, this favors US stocks over international stocks. As such, we have been shifting money away from foreign markets towards US stocks, particularly small and mid cap stocks which tend to have more of a domestic sales footprint.

Inflation: Tariffs will make foreign goods more expensive, thereby increasing the consumer price index—not by the degree that some fear, but to some degree nonetheless. By sweeping the House and Senate, too, pushing through Trump's agenda should be pretty easy. This, to the chagrin of fiscal conservatives, probably means more government spending rather than less. Defense, infrastructure, and wall spending can be passed unchecked. This will put increased pressure on budget deficits, which could lead to higher interest rates and higher inflation. We have therefore kept our inflation risk-factor positions in place (TIPS, gold, silver, commodities) and kept our bond duration short.

Taxes: Despite the pandemic, stocks did really well under Trump's first term. This was in part thanks to lower taxes. Trump has communicated a similar approach for his second term, and extending the 2017 tax cuts should be a breeze. He may even lower the corporate tax rate to 15%, which is further supportive of US stocks.

Regulations: A decrease in regulations could be good for the energy sector, even though energy stocks were actually the worst performing sector under Trump and, oddly enough, the best performing sector under Biden. Lower regulations mean more drilling, more oil, and lower oil prices. We may need to revise our view on commodities in light of this, as they are dominated by energy prices. Financial stocks and crypto should also benefit from softer regulations.

Make America Healthy Again: Robert F. Kennedy Jr. tried to challenge Biden in the primaries, but was never a real threat and dropped out. After being shunned by democrats, her eventually found a home on Trump's team. He ran as somewhat of a single-issue candidate, focusing on what goes into our bodies and accusing companies and the government of poisoning us. Big pharmaceutical and processed food stocks might struggle with RFK Jr. involved in the new administration, especially if he is given control over the FDA.

M&A: The FTC and DOJ brought a record number of enforcement actions against proposed mergers during the Biden administration. It seemed almost as if they indiscriminately went after every deal they could. Trump is a dealmaker and I think his administration would, in general, be more friendly towards merger and acquisition activity, which should provide a less risky and more target-rich environment for our merger arbitrage strategy.

Antitrust: Paradoxically, perhaps, I actually expect the new administration to continue the previous administration's aggressive stance on antitrust issues. I think they will specifically target big tech, which Trump believes has been a bit unkind and unfair to him. J.D. Vance has also been quite vocal about the need to rein in big tech, specifically targeting a breakup of Google. Just like I will never call the Sears Tower anything else, I refuse to call Google "Alphabet" or Facebook "Meta". If Vance gets his way, none of us will have to anymore.

Portfolio Positioning

The initial wave of enthusiasm towards a lot of these trades will likely wane in the short-term, but the long-term tailwinds will remain. Despite this, expensive valuations make going overweight on stocks difficult to palate. We maintain an underweight to stocks overall, with international and big-tech-heavy US large caps below our long-term strategic weights, but an overweight to domestically-focused US small and mid cap stocks.

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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

Bad Monkey (AppleTV+)

Disgraced former detective Andrew Yancy (Vince Vaughn) tries to get back on the force by solving a mystery involving a severed human arm that was caught by a fishermen down in the Florida Keys. Pretty typical premise for a detective story, but the show throws in enough comedy, cat-and-mouse-misadventure, and eccentric characters to make it interesting and entertaining. Vaughn is actually the weak link of the show, in my opinion. He delivers a bunch of forced one-liners in that flat Vince Vaughn way, but more tired and disinterested than usual. It's not endearing to me, but others might like it. Luckily, he is surrounded by a cast of much better actors that make the show worthy of binging.

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.