

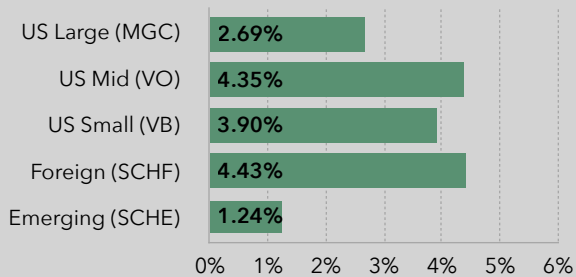
January 2025

Economic Data

- 143,000 jobs were added in January; the unemployment rate fell to 4.0%
- Retail sales were up 0.4% in December, with miscellaneous store retailers up 4.3%
- Y/y inflation (CPI) accelerated to a 2.9% pace in December, but held back by energy; the core rate (less food and energy) was at 3.2%
- Existing home were up 2.2% in December and are up 9.3% y/y; the median home price fell to \$404,400

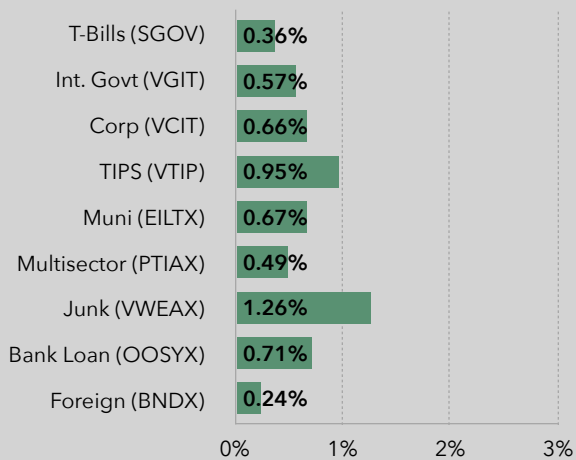
Stocks

January Returns



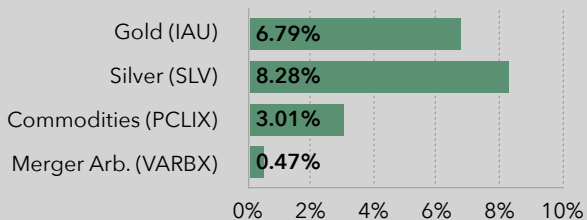
Bonds

January Returns



Alternatives

January 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.

DeepSneak

The AI trade hit a bit of a stumbling block this past month as the launch of Chinese large language model (LLM) DeepSeek revealed US dominance in the space wasn't so assured after all. DeepSeek excels at technical tasks like mathematics and coding, but still lags ChatGPT and other LLMs in other things like conversational tasks, creativity, and a polished user experience. It also struggles with politically sensitive topics the Chinese government wouldn't approve of, like remembering the protests at Tiananmen Square in 1989. "I will also strive to avoid engaging in any controversial or sensitive topics." Well where's the fun in that?

U.S. export controls on advanced semiconductors were designed to hinder China's AI development, but as the saying goes, necessity is the mother of invention. The embargo might have inadvertently spurred innovation, as DeepSeek's limited access to compute power forced it to develop a very resource-efficient architecture.

A lot of news outlets are reporting that the DeepSeek R1 model only cost \$5.6 million to develop, which is why it caused such a major reaction on the stock market. However, this jaw-droppingly low figure is misleading for many reasons, first of which is it is most likely not true. There are allegations that a lot of the model was built on distillation, meaning it learned from reading the outputs of other models. So it stands on the shoulders of giants.

Furthermore, that figure does not include the cost of compute. 50,000 NVIDIA chips, mostly H100s, were amassed prior to the embargo at a cost of \$25k to \$40k. I would estimate \$30k per chip at a total cost of \$1.5 billion. And that doesn't include the cost to run them. Beyond this, there is likely a large amount of black market chips and data center power coming from Singapore, where as much as 22% of NVIDIA revenue comes from. All this is to say I think the market over-reacted to the news.

De Minimis Non Curat Lex

That's latin for "the law does not concern itself with trifles." Look, there's been way to much going on since January 20 for me to cover here, but I want to focus on one aspect in particular. On February 1, an executive order was issued to close the "de minimus loophole" for goods from China. This loophole allows companies to export packages of less than \$800 to individuals in the US and avoid import duties. It was originally intended to avoid having to deal with trifling things, like the bottle of single malt you brought back from Scotland or the elephant pants you picked up backpacking in Thailand. However, with the advent of e-commerce, it also allowed you to order a knock-off Slap Chop (as seen on TV) from Temu (not how billionaires actually shop), or a thin material dress poorly stitched together by exploited labor from Shein, and not have to pay tariffs on them. In 2024, Americans received 1.4 billion (with a 'B') packages from China through this loophole.

Last year, Amazon even created their own subsidiary called Haul to do the same. While they have also been taking advantage of the loophole to some degree since 2016, this move was a clear competitive response to reduce the unfair advantage held by their Chinese e-commerce competitors. The closing



of it 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. It makes trade less free, but more fair.

The order was temporarily amended a few days later to give the Secretary of Commerce time to put adequate systems in place to process these packages and collect tariffs. So there might still be time for one more cheap shopping spree on Shein or Temu, but don't be surprised if your packages don't make it.

Ryan P. Layton, CFA
 p: 612-810-2230
 e: ryan@emeraldspark.com

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

Landman (Paramount+)

Taylor Sheridan strikes black gold with *Landman*. The show dives into the gritty world of West Texas oil rigs, blending the high-stakes drama and storytelling of "Yellowstone" with the corporate intrigue of "Sicario." Billy Bob Thornton is magnetic as Tommy Norris, a crisis executive navigating the treacherous landscape of oil, family, and cartel politics. It has some of the most intelligent dialogue I have heard in a show in some time, and Thornton delivers each line perfectly. Binge season 1 on Paramount+.

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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