

MARKET COMMENTARY – JUNE 1, 2019

Tit for Tat!

We happen to be one of those poor souls who is fascinated by word and phrase origins. Such an arcane interest perhaps first sprouted in high school biology where our diligent teacher gave us long lists of Latin and Greek roots and their meanings to memorize. That old-fashioned rote method turned out to be valuable over the years in that diagnoses given to family and friends could be easily deciphered. In a related sense, to this day, anytime we are confronted with an unfamiliar expression and resort to the dictionary for guidance it is only a matter of time until we peruse down to the term's etymology in order to understand the full richness of its meaning.

Recently, the glide path to trade peace has been upended, with a new set of escalating rounds in the works. One side changed language in the trade agreement, the other side allowed tariffs to continue and expand. Back and forth. Tit for tat.

The Duke of Orleans was taken captive following the Battle of Agincourt in 1415. While spending the next 24 years as a well-tended prisoner in England, he learned the language of his captors and penned many poems. One of them, a shadowy romantic piece, contains the phrase, "As strokis grete (not tippe nor tapp, do way!)." In our English today, it might look like this, "As strokes great (not tip nor tap, do weigh!)." The tip or tap here is referring to a sword fighting duel where a gentle poke or pat is employed.

Spelling in the 15th & 16th Centuries was anything but standardized. Over the years, tippe gradually morphed into tit; tap into tat. In fact, already by 1556 in The Spider and the Fly, John Heywood used "tit for tat" referring to an altercation, a convention with which we would be familiar.

And so, it is quite apropos that when answering like for like or wrong for wrong we employ tit for tat to describe it. But there's a little more to the story.

Around 40 years ago, mathematicians and political scientists developed a tit for tat strategy as a part of Game Theory. It has become a simple and quite successful method of coming out victorious in direct competition. Essentially, someone utilizing the

strategy begins by cooperating. Then as rounds of the conflict goes on, the user replicates the direction of his opponent's actions. If the opponent is cooperative, the user is as well, and vice versa. Versions of tit for tat have been used to aid in peer-to-peer file sharing over the Internet, to describe interactions in animal communities, and to analyze human conflicts such as war.

Our readers need not be supporters nor detractors of the current President to acknowledge the strategy employed by both sides in the case of the trade war is tit for tat. What remains to be seen is which side will properly interpret the other side's actions and utilize that information to its maximum effect.

The upshot for investors is that the trade war is escalating and lasting longer than anyone had hoped. Non-partisan forecasts show that if it continues for the rest of this year and into next, about 0.5% would be shaved from economic growth. That is a real number and significant. However, most erudite commentators acknowledge that, by itself, the trade war is NOT enough to tilt the US into recession. Strangely, the very fact that the squabble exists may force the Federal Reserve's hand early and cause short term interest rates to ease, thereby mitigating a portion of the damage wrought by the war itself.

Admittedly, as long as the gathering trade cloud lies overhead, it will be difficult to justify another rapid increase in prices as in the first quarter. In the meantime, enjoy yourself by analyzing Xi's or Trump's moves in the context of a tip for tap sword duel with the sabre. Hopefully, edges and points remain blunted and the result is a mutually beneficial agreement that may foster prosperity for all constituents.

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Sincerely

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