

MARKET COMMENTARY – DECEMBER 1, 2018

A Christmas Truce?

Perhaps one of the most famous ceasefires in history was a widespread, spontaneous, and wholly unauthorized so-called Christmas truce between opposing sides in the Great War. The world had stumbled into the War to End all Wars in the summer of 1914. Both sides of combatants were confident that it would be a brief encounter. But after a series of escalating confrontations like Marne and Ypres proved otherwise, shovels began digging networks of trenches in earnest, creating a deadly No Man's Land between them.

So it was during an uncharacteristic lull in the brutality that warriors from the Allies and Central Powers crossed the lethal zone of craters, barbed wire, and bodies to exchange souvenirs, well-wishes, and even play soccer or sing Christmas carols in December of 1914. It has become an indelible image of the hope in the midst of strife. For those readers who crave a truly wonderful telling of the strange events, we recommend the 2005 film, *Joyeux Noel*. It is marvelous.

The recent announcement that came out of the G-20 Summit reminded us of those heart-warming truces from over a century ago. While nothing formal has been declared by either China or the U.S., the trade dispute will be on hold, with no further escalation, for 90 days. In that time, representatives from both countries will meet to discuss trade, intellectual property, technology transfers, and much more. Could it be that we've witnessed an early and on-going Christmas present?

At the time of this writing, at least, the market thinks so. Stocks in most sectors, especially those with links to global growth, are rallying substantially. Tariffs will freeze, shipping may increase as companies can again rely on a steady playing field. But for all the good news to remain in place, the negotiations must occur and must result in lasting accords.

We have no way of knowing the outcome.

But if progress is steadily made on this particular front, the outlook for investments will remain solid. Corporate fundamentals are strong. Jerome Powell at the Federal Reserve indicated in a speech in late November that rates were just below neutral,

implying a pause to their steady increases is in the making. Were this to occur, bonds would at last stabilize after a particularly rough year.

But while today's investors will hopefully never experience the widespread horrors of those bleak WWI days, they do operate in an ever-shifting marketplace filled with risks. As such, we cannot pin all our hopes on the outcome of a single set of negotiations between to rival powers. Robust, diversified portfolios are still the order of the day. And to confirm the validity of exercising caution, we need go no further than another quick look into the trenches of the Great War.

It is estimated that tens of thousands of French, British, and German troops took part in the Christmas truces of 1914. Note however, that in 1915 the high commands of both sides issued strict orders prohibiting such fraternizing. And by 1916, as the carnage piled high, even the tired soldiers themselves were in no mood to exhibit Christmas charity to the men across the way who had become nothing more than bitter enemies.

So, our leaders have perhaps a golden opportunity to seize upon our own little Christmas truce. We pray that somehow the spirit of the season finds its way into their hearts and allows a monumental agreement to take hold. Perhaps we should even go a step further and hope that in our own lives we allow the miracle of the holiday to thaw our own passions and declare long-standing ceasefires with those family and friends with whom we've been less than cordial.

Merry Christmas!

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Sincerely

Jason Born, CFA
President