

MARKET COMMENTARY – MAY 1, 2018

*War, Debt, Invasion*

*Victory, Defeat, Withdrawal*

*Execution, Beer*

Americans, no matter our ancestry, love to make things bigger and better. We even make our holidays bigger, better – and commercial. A day to venerate Saint Valentine on the anniversary of his execution by the Romans has turned into a marvelous day of sweet and romantic love. And gift sales. Originally meant to honor the man who peaceably turned pagan Ireland Christian, St. Patrick's Day is now famous for setting aside Lenten restrictions to consume voluminous amounts of emerald-colored beverages. And if March 17 has become a day when we all become Irish and drinkers of tinted alcohol (truth be told we remain teetotalers), then May 5 has made us all Mexican and, strangely enough, drinkers of specific brands of brew.

We shall return to our tale of Mexican-themed beer sales in a moment. We'll now diverge to another topic of great importance – the first quarter earnings season. Despite what market price volatility may suggest, it has been exceptionally positive and robust. Numbers are bigger and better than ever. Record 1Q sales. Record 1Q EPS. A new record was set for operating margin, blowing the previous record out of the water. Times are good. Stock prices have moderated, allowing earnings to catch up. Rates are a risk, but remain supportive of prices. We accept the reappearance of volatility as natural, yet remain optimistic for future returns.

Back to beer.

There have been several civil wars in Mexico's history. Today, we focus on the close of the civil war that ended in 1860. The victorious government stood atop a devastated country. Among the challenges was an astounding amount of foreign debt. President Juarez decided to suspend interest payments on his government's debt. Events quickly tumbled out of control.

The governments of Spain, France, and Great Britain responded by forming the Tripartite Alliance and occupied the major port of Veracruz. The stated goal of the Alliance was not expressly war, but to force Mexico into debt repayment. France had hidden designs. Its leader, Napoleon III, wished to provoke an outright war and to install a monarchy in Mexico to counter a growing power in the United States. When their ally's intentions became clear, Spain and Great Britain wisely withdrew just three months later.

The French military won several skirmishes against Mexico in April and early May of 1862. However, after withdrawing to Puebla, the Mexican army managed to soundly defeat the French on May 5 (Cinco de Mayo for those of you who could use a refresher in remedial Spanish). But here is where things get strange. The war's tide did not turn. The victory only

delayed the inevitable. A better-equipped and trained French army eventually took control of Mexico City and the country. Napoleon III placed an Austrian archduke on the throne as Emperor of Mexico. He brought with him a something that was received better than his reign. His beloved Vienna lager.

Fast forward three years. The emperor is too liberal for conservatives and too conservative for liberals. And he has been harsh on political opponents, fomenting resistance. North of the border, the American Civil War has ended. The U.S. now has time to worry about international issues. It pressures France to get its nose out of the Western Hemisphere. France withdraws its troops from Mexico in 1866.

The emperor honorably refuses to abandon all of his Mexican supporters. He paid with his life. After he and his loyal Mexican troops are overtaken, the emperor is executed via firing squad. The beer stayed.

Since the Battle of Puebla, the Mexican victory has been celebrated in the state of Puebla with parades, speeches, and reenactments. In the rest of the country, the event is barely noticed.

In 1989 a certain beer manufacturer launched an advertising campaign to encourage the consumption of Mexican beer on May 5. It was highly effective. Others began copying their success. Over time, Cinco de Mayo became the de facto way to market Mexican brands to U.S. consumers from diverse backgrounds.

And in the spirit of Americans making everything bigger and better. Not only are companies across the nation producing huge profits these days, but May 5 has also begun setting records of its own. It has recently surpassed the Super Bowl and St. Patty as one of the booziest holidays, with revelers drinking more Corona than ever.

So now you know how debts from a Mexican civil war led to just one more instance of America's brilliant capacity to assimilate tiny aspects of other societies into our own, mercantile culture.

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Sincerely

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