Current Focus

9th November 2016

A monthly market comment from Rivers Capital Management. Views expressed here are subject to change and for professional advisors only

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Summary

- Trump is unlikely to affect medium term investment returns
- Assets are expensive by many measures and we are marginally underweight risk
- Brexit is dominating the headlines but is less relevant from a global perspective
- We recommend an overweight to passive investments in what we expect to be a challenging environment

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Thoughts following Trump

While there is, in my view, more to be concerned about than to celebrate regarding the stunning victory of Donald Trump in the US Presidential Election, we do not think it is cause to panic from an investment standpoint. While watching the results come in we saw the futures of most global equity indices drop sharply with the US, UK and other developed markets expecting to open for trading considerably lower. Just a few hours later most of this panic had subsided and in his victory speech The Donald sounded markedly more presidential than he ever had previously. Whether he follows through with all of the worrisome policies he mooted during his campaign only time will tell but from an investment perspective his impact will certainly not be immediate.

The portfolios we manage maintain a modest underweight to risk and we continue to be concerned about valuations and rising geo-political risk. Politically it's not been the first result of the year that saw a snap reaction in the market which proved to be reversed fairly quickly and while we need to consider the long term impact of such results any short term volatility needs to be put in context.

The reality is that despite it looking like the Republicans will carry both houses of Congress, as President, Trump's ability to implement the broad changes he was elected on will be curtailed by the legislature, , . After all very many of the Republican party are as vehemently anti Trump as the majority of the democrats.

For that reason, as has been the case for a number of years, the person most likely to influence the value of global investments will remain the Chairman of the US Federal Reserve, Janet Yellen. Whoever is the President Elect, the Federal Reserve decision, due December 14th, on whether to raise rates, appears to be more in the minds of investors than anything else. It's certainly true that a Trump win makes a December Rate rise less likely but we will be watching that more keenly than anything else

In the UK nearly all focus has remained on the Brexit debate as Sterling weakened and the price of Marmite became headline news in a spat between Unilever and Tesco. In recent days that focus has shifted again to the UK Constitution and the right, or not, of the UK Parliament to influence negotiations with Europe, whenever they start. With the value of the pound now nearly 20% lower against the dollar the medium term inflationary risk this poses is high but given the global allocation within the Rivers' portfolios the short term impact, resulting from the increased value of foreign assets in sterling terms, has been positive. The longer term risks of 'Marmite' inflation and other effects of the forthcoming Brexit negotiations need to be viewed in context with other global monetary and geo-political risks which we believe to continue to rise.

It has been our view since the Summer that valuations in both fixed income and equities have been generally extended and while pockets of reasonable value can be found in most asset classes we think it is monetary policy, more than anything fundamental that is supporting extended valuations. Despite the possible rate rise from the Federal Reserve and potential 'tapering' from the ECB we believe Central Banks will remain supportive for some time yet so we do not believe this is yet time to be overly defensive but to take a modestly cautious stance. With fundamental indicators being reasonably good and the

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Central Banks generally remaining supportive there are few catalysts for a sharp correction but valuations do appear, by many measures to be high.
Previously October saw some moderation in government bond valuations but it was otherwise a balanced month for investment returns. The consensus view appears to be that of 'cautious optimism' - a phrase we believe indicates that markets are fully valued but the catalyst for a correction is not easily identified so risk is moderate. In all risk rated portfolios we believe that there is benefit in being tactical by adjusting risk, whilst also adapting the active/passive allocation, within portfolios to reflect the ongoing market cycle. It is, we believe, important when markets appear to be behaving somewhat irrationally to underweight risk to lessen the impact of correction but to counter balance that position with an overweight allocation to index weighted strategies which will likely continue to perform if the irrationality continues. Such a time is now. In the last 12 months the general under performance of actively managed investment strategies is indicative of this scenario. We share the generally held belief that this won't last for ever but by maintaining a modest underweight to market risk we believe we can lower portfolio volatility in what may be a difficult period ahead.

Benchmark Returns as of 31st October 2016	1 Month	3 Month	YTD	12 Month
Anchors				
Cash + 1%	0.1%	0.4%	1.3%	N/A
Inflation Linked UK Bonds	2.9%	7.4%	28.2%	24.9%
Gilts	-4.1%	-3.8%	10.1%	13.2%
Global Government Bonds (hedged)	-1.4%	-1.9%	5.2%	6.8%
Enhancers				
Global Corporate Bonds (hedged)	-0.9%	-0.8%	7.4%	8.4%
Global High Yield (hedged)	0.1%	2.8%	14.3%	13.6%
Emerging Market Bonds (hedged)	6.5%	10.8%	42.2%	1.6%
FTSE 350 TR Index	0.6%	4.2%	13.1%	16.9%
FTSE UK All-Small Cap	0.2%	5.1%	10.2%	14.2%
Global Equity (MSCI)	4.3%	7.3%	25.0%	30.5%
European Equity (MSCI)	3.1%	6.7%	17.5%	37.7%
US Equity (S&P)	4.4%	6.8%	27.1%	36.8%
Japan Equity (Topix)	8.0%	12.7%	27.0%	N/A
Pacific Ex Japan Equity (MSCI)	4.7%	13.0%	34.4%	36.2%
Emerging Market Equity (MSCI)	6.7%	13.2%	40.4%	29.9%
Chinese Equity (Hang Sang)	4.9%	15.0%	31.0%	35.3%
Indian Equity (Nifty)	6.8%	9.5%	30.5%	33.7%
Diversifiers				
Commodity Index	-0.6%	0.6%	7.9%	-3.1%
Gold	2.9%	2.1%	44.1%	52.3%
Silver	-1.4%	-5.4%	54.1%	32.2%
Brent Oil	3.5%	22.1%	60.1%	20.2%
UK Property	0.5%	2.7%	-1.0%	0.4%
Global Property Shares	-4.9%	-5.1%	-13.5%	-10.5%
Rivers Model Portfolios				
Rivers Preservation Portfolio	*0.6%*	*3.3%*	*N/A*	*N/A*
Rivers Cautious Portfolio	*1.8%*	*4.7%*	*N/A*	*N/A*
Rivers Balanced Portfolio	*2.3%*	*5.5%*	*N/A*	*N/A*
Rivers Adventurous Portfolio	*2.4%*	*5.8%*	*N/A*	*N/A*
Rivers Aggressive Portfolio	*3.0%*	*6.7%*	*N/A*	*N/A*
Rivers Cautious Income Portfolio	*0.8%*	*2.0%*	*N/A*	*N/A*

Source: Financial Express in GBP (unhedged unless stated) as at 30 September 2016

Model Performance is indicative only and is net of Rivers Capital Management Charge and Underlying Fund charge but not advisor or platform costs.