Current Focus

August 2018

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

RIVERS CAPITAL MANAGEMENT

INTELLIGENT INTUITIVE INVESTING

Rivers Capital Management
27 Gloucester Place
London
W1U 8HU
+44 (0)20 3383 0180
www.riverscm.com

Summary

- Investment markets gained value throughout July
- Trade war between US and China remains biggest threat to global growth
- Trump likely to be appeased by a Chinese concession before the mid-terms
- The impact on global growth has increased but is likely to esculate

Market Comment

During July, after enjoying a surprisingly brilliant football World Cup the UK media has been focused on the rising temperature both from a Brexit and a meteorological perspective (during a fantastic summer). Quite how the former develops after MPs return from their summer break will be interesting, but with only 7 months left before the official leave date, politics is becoming almost laughable – if it wasn't so serious. What is probably equally serious and has received far less coverage in the UK is the escalating trade tension is between the US and China, the two biggest economies on earth. From a global perspective this could have significant implications for all investors and, despite our wish to simply enjoy the good weather, is our Focus for this month.

President Trump's aggressive stance on trade seems to have succeeded in starting a Trade War - or at least, the escalation of this is seen as the greatest risk to global growth and stock markets. Global Fund Managers, when surveyed, have become more negative about prospects for the global economy over the coming twelve months. This 'war' with the US did look set to involve Europe and even the UK but after some successful diplomacy from the EU, essentially Trump Ego boosting diplomacy, Trump's aim is now clearly targeting China.

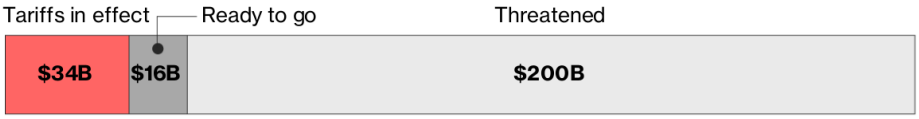
Everybody knows that historically there have been no winners with trade wars. When Mr Trump's second round of tariffs takes effect on August 23, only 10 per cent of China's exports to the US — or 2.2 per cent of its total exports — will have been affected. As the official China Daily newspaper said in a commentary, "the two countries' trade conflict is merely push and shove at the moment". But if the Trump administration follows through on its most recent threat against an additional $200bn worth of Chinese exports, bringing the total value of affected goods to $250bn, about half of China's exports to its largest trading partner — and 11 per cent of its total exports — will be taxed at 25 per cent. Last year China exported goods worth $505bn to the US. In contrast China, which imported US goods worth $130bn last year, has already taxed — or threatened to tax — US exports worth $110bn. In its response to Mr Trump's latest 25 per cent tariff threat, China's commerce ministry said it would respond with duties ranging between five and 25 per cent on targeted goods, specifically affecting farmers and it has allowed the Yuan to drop dramatically to protect its exports. Chinese officials have, for now, exempted US oil exports from retaliatory tariffs.

The reality is that the farmers and those more likely to buy imported Chinese goods are more characteristically Trump supporters than not. The Chinese have more to lose overall (as a net exporter) but the U.S. is having to subsidise its farmers as if they were in a depression, and U.S. consumers are likely to bear the brunt of the damage in the form of higher inflation. Over the last month, those countries that rely on trade have suffered whilst those vulnerable to rising inflation, rising interest rates and a strong US dollar have

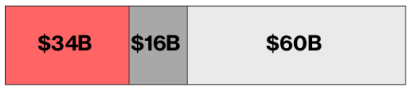
The Shots Fired So Far In the U.S. - China Trade War

The scale of the conflict is growing, based on imposed and threatened tariffs

Total **U.S. imports** of Chinese goods: **$506 billion**



Total **Chinese imports** of U.S. goods: **$130 billion**



Source: U.S. Census Bureau, U.S. and Chinese announcements

Bloomberg

Contacts

Richard Bonnor-Moris
rbm@riverscm.com

Eduardo Tomacelli
etomacelli@riverscm.com

Najib El-Rayyes
ner@riverscm.com

Mark Hill-Reid
mhr@riverscm.com

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particularly been hit particularly hard. How the Chinese fully respond to the latest escalation is unclear, but this tit-for-tat battle could go on, and could get a lot worse. The Chinese can dig their heels in as they are less affected by short term politics after all, but there is some hope they could be pragmatic. There is some evidence that the current position is an aggressive negotiating stance and in due course Trump will move towards a more centred stance, which will lead to a deal. Coming up to the mid-term elections, the President will be keen to announce some sort of "victory" and the Chinese are sensible enough to facilitate this. Expect, or at least hope, for some more Trumpian diplomacy.

At the start of the year, nearly all global economies were officially growing, and in real terms and all equity markets were setting new highs. In other words, we had an all-inclusive Global coordinated bull trend. Hardly anyone missed out. The current situation is, however, markedly different with only 40% of the equity market indices we follow are above their respective 200 day moving averages.

Fortunately, it is the very large markets, especially the US, that are still strong, and they dominate the Global trend. A passive holding of the Global index is still very hard to beat, and it is still in a continuing bull phase. Whilst the risks are rising, especially geopolitical ones, the bottom line is that the old-bull remains standing, so we should stay invested. In its present position, it would be amazing if the US economy went into recession at any time in the next year to eighteen months.

Given the stock market discounts ahead by approximately 6-9 months, the primary trend should continue a while longer even if, as we have said for some time, valuations are already high.

Market Returns (£) - 31st July 2018	1 Month	3 Month	6 Month	YTD	1 Year	S/I*
Anchors						
Cash + 1%	0.2%	0.4%	0.8%	1.0%	1.5%	3.1%
Inflation Linked UK Bonds	0.3%	3.2%	5.0%	1.0%	2.2%	5.9%
Gilts	-0.3%	0.9%	2.1%	-0.1%	1.3%	0.6%
Global Government Bonds (hedged)	-0.3%	0.0%	0.5%	-0.2%	0.4%	-2.2%
Enhancers						
Global Corporate Bonds (hedged)	0.5%	0.2%	-1.5%	-2.2%	-1.0%	1.6%
Global High Yield (hedged)	1.5%	-0.1%	-1.6%	-1.2%	0.2%	12.2%
Emerging Market Bonds (hedged)	3.2%	-1.2%	-1.4%	-1.7%	-3.0%	8.8%
FTSE 350 TR Index	1.3%	4.0%	5.2%	3.1%	9.3%	30.1%
FTSE UK All-Small Cap	0.2%	1.4%	1.4%	1.4%	6.6%	40.5%
Global Equity (MSCI)	3.8%	8.9%	6.7%	6.8%	12.4%	38.0%
European Equity (MSCI)	4.0%	4.2%	2.5%	2.9%	6.1%	34.2%
US Equity (S&P)	4.4%	12.1%	8.9%	9.4%	16.2%	40.8%
Japan Equity (Topix)	0.9%	1.3%	2.1%	1.3%	9.8%	37.2%
Pacific Ex Japan Equity (MSCI)	0.9%	-1.3%	-3.9%	-1.2%	5.8%	44.1%
Emerging Market Equity (MSCI)	2.9%	-0.8%	-4.5%	-1.6%	4.9%	39.5%
Chinese Equity (Hang Sang)	0.2%	-0.6%	-3.7%	0.6%	8.6%	49.0%
Indian Equity (Nifty)	6.8%	8.8%	4.6%	4.6%	7.4%	41.3%
Diversifiers						
Commodity Index	-2.3%	-4.6%	-4.8%	-3.1%	1.2%	-4.2%
Gold	-1.7%	-2.7%	-1.3%	-3.9%	-3.6%	-7.2%
Silver	-3.2%	-0.4%	-2.7%	-6.8%	-7.7%	-17.2%
Brent Oil	-4.3%	4.2%	17.4%	15.3%	43.4%	52.9%
UK Property	0.4%	1.1%	2.7%	3.2%	6.5%	12.0%
Global Property Shares	-0.6%	-0.6%	3.3%	0.3%	7.0%	19.4%
Rivers Model Portfolios						
BMi Low Risk Portfolio	*0.3%*	*0.5%*	*0.7%*	*0.3%*	*1.3%*	6.7%
BMi Low to Medium Risk Portfolio	*1.1%*	*1.9%*	*1.8%*	*1.4%*	*3.0%*	13.7%
BMi Medium Risk Portfolio	*1.3%*	*2.9%*	*2.2%*	*1.5%*	*3.3%*	16.2%
BMi Medium to High Risk Portfolio	*1.6%*	*3.3%*	*2.6%*	*1.7%*	*3.4%*	19.0%
BMi High Risk Portfolio	*2.1%*	*4.4%*	*2.9%*	*2.3%*	*4.9%*	25.1%
BMi Low to Medium Income Portfolio	*0.8%*	*1.0%*	*1.0%*	*0.3%*	*1.3%*	8.4%
BMi Medium Income Portfolio	*1.3%*	*2.1%*	*2.0%*	*1.4%*	*2.7%*	13.7%

Source: Financial Express in GBP (unhedged unless stated) as at 31st July 2018. *Rivers Portfolios since launch July 30th 2016

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