Current Focus

June 2026

A 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

+44 (0)20 3383 0180
www.riverscm.com

Summary

- Warsh chaired first FOMC; rates held but guided to the end of guidance
- Inflation stickier than hoped increasing chance of Warsh raising not cutting rates
- US equity valuations are stretched, the equity risk premium close to zero
- In the UK, the Bank of England held rates as expected with similar inflation concerns
- Rivers portfolios defensively positioned at tactical Risk Level 2 (out of 7)

Contacts

Richard Bonnor-Moris
rbm@riverscm.com

Eduardo Tomacelli
etomacelli@riverscm.com

Najib El-Rayyes
ner@riverscm.com

Eleanor Perry
eperry@riverscm.com

Market Comment

Last August, we argued that it did not matter whom President Trump chose to lead the Federal Reserve, the institution's structure would stop interest rates collapsing to the 1% he wanted. Ten months on, the succession is settled. Kevin Warsh took the chair in May, and this week he presided over his first meeting of the Federal Open Market Committee (FOMC). The decision itself held little surprise as rates were unchanged. The interest, as so often, lay in everything around the number, and above all in the tone the new chair chose to use. This month we Focus on what a Warsh-led Fed means for a market that has spent the year assuming rate cuts were only a matter of time, and why in Warsh, Trump will not get the collapsing rates he has demanded.

The dots and the ending of guidance

The genuine market event was the updated Summary of Economic Projections, and within it the dot plot. In March, the median participant still pencilled in a single 25 basis point cut for 2026. Since then, the picture has shifted against easing: inflation has proved stickier than the consensus hoped, while the labour market has stayed resilient. The question was never how many cuts the dots showed, but whether any members had begun to pencil in hikes - and what the new chair would say about it. The projections for rates were more hawkish than the market had expected but the clearest message was the ending of forward guidance. Warsh's own 'dots' were missing and his scepticism of the 'Forward Guidance', which has become so closely watched since being introduced by Chairman Bernanke in 2008, was eminently clear. Despite President Trump's vocal call for rate cuts and his appointment of Warsh it is not clear, from Warsh's first press conference, that he will blindly be doing the President's bidding. Warsh arrives with a reputation as a hawk and an institutional reformer and has signalled fewer meetings and fewer automatic press conferences. A Fed that speaks less often, and leans hawkish when it does, removes a comfort blanket the market has leaned on for years.

Why valuations make this matter

The reason this is more than a technical debate is because of what it does to valuations. The S&P 500 trades near

ERP = US S&P Earning Yield minus 10 Year Treasury Yield

Source: S&P and US Treasury

30 times trailing earnings and around 23 times forward estimates - both well above their ten-year averages. The equity risk premium, the extra return investors demand for holding shares over Treasuries, has compressed to near zero, as the chart above shows. Concentration compounds the fragility: the ten largest companies now account for roughly 40% of the index, and their valuations rest heavily on sustained enthusiasm for artificial intelligence. As discussed in our latest investment update, it is precisely the most highly valued, rate-sensitive parts of the market that are most vulnerable if rates rise. None of this is a forecast of an imminent decline; expensive markets can stay expensive. But the cushion is thin, and good news is largely in the price while bad news is not.

Better Equity Values outside US

The contrast with the UK and Europe is interesting. From a Central Bank perspective, the issues are similar. The European Central Bank raised rates earlier this month and while the Bank of England did not, the message of inflationary concern was similar. The contrast remains in the equity valuations. This may be due to the lower domination of technology and AI providers within the region but with higher allocation to the sectors likely to benefit from AI, and the scarcity it will create, we see a better balance between risk and opportunity. This balance is arguably even truer in the resource rich Emerging Markets. The overall point is simply that investors are paid more, and asked to assume less, for risk taken outside the US mega-caps.

Tactical Positioning

For the Rivers portfolios, none of this is an argument for chasing the US rally. We remain defensively positioned at a tactical Risk Level 2 of 7 (with 4 being neutral against Strategic Asset Allocation), a stance held since last year that has served the portfolios well. We continue to favour Anchors and Diversifiers over Enhancers on a risk-adjusted basis, with gold and the precious metals retaining their role as portfolio insurance, alongside selective value in under-owned sectors such as healthcare, energy and uranium. These offer asymmetric returns with limited downside, even if they consolidate for a while rather than re-rate overnight. The case for caution is not that markets must fall - it is that, at these valuations and with the Fed in new and less predictable hands, the reward for taking broad equity risk has rarely looked thinner. We will be watching the new chair's tone, the path of inflation and oil, and whether US earnings can keep justifying the premium the market pays for them. Should valuations correct or the Fed signal a clear easing path, we would look to add risk. Until then, patience remains the preferred position.

Market Returns (£) - 31st May 2026	1 Month	YTD	6 Months	1 Year	3 Year	5 Year	Volatility
Anchors							
Cash	0.3%	1.5%	1.9%	4.1%	15.0%	18.3%	0.6%
Inflation Linked UK Bonds	1.1%	1.6%	0.5%	5.2%	3.0%	-6.5%	6.4%
Gilts	2.0%	-0.7%	-0.4%	3.4%	7.4%	-21.3%	9.6%
Global Government Bonds (hedged)	0.5%	0.4%	0.0%	2.3%	9.8%	0.2%	4.5%
Enhancers							
Global Corporate Bonds (hedged)	0.9%	1.1%	0.9%	5.5%	17.7%	3.6%	6.4%
Global High Yield (hedged)	0.8%	2.1%	2.9%	9.1%	36.4%	22.9%	7.0%
Emerging Market Bonds (hedged)	0.9%	1.3%	1.8%	11.0%	29.4%	5.7%	9.1%
FTSE 100 TR Index	0.7%	6.6%	9.0%	22.5%	55.9%	78.2%	10.1%
FTSE UK All-Small Cap	3.8%	6.6%	9.1%	18.3%	44.3%	29.8%	12.2%
Global Equity (MSCI)	5.4%	10.2%	9.5%	27.5%	66.5%	85.6%	11.7%
European Equity (MSCI)	3.5%	6.8%	9.3%	20.4%	50.6%	59.4%	11.2%
US Equity (S&P)	6.1%	10.9%	9.2%	29.4%	71.5%	99.5%	13.0%
Japan Equity (Topix)	5.4%	15.0%	14.0%	30.6%	59.1%	65.3%	12.2%
Pacific Ex Japan Equity (MSCI)	14.0%	35.8%	38.3%	75.1%	103.3%	58.8%	20.6%
Emerging Market Equity (MSCI)	10.6%	25.3%	27.2%	54.4%	80.2%	51.7%	15.9%
Chinese Equity (Hang Sang)	-1.0%	-1.7%	-3.7%	11.5%	42.8%	7.8%	22.6%
Indian Equity (MSCI)	0.2%	-11.4%	-13.1%	-11.3%	12.2%	32.6%	15.9%
Diversifiers	5.1%	9.2%	9.0%	23.3%	48.1%	51.6%	11.6%
Commodity Index	-2.8%	24.8%	22.5%	40.5%	45.7%	83.3%	15.1%
Gold	-1.6%	5.2%	7.2%	37.9%	112.9%	153.0%	14.8%
Silver	3.6%	7.2%	30.9%	127.4%	188.2%	176.0%	27.9%
Macro/CTA Funds	2.9%	6.4%	6.2%	17.7%	6.1%	22.2%	10.4%
UK Property	0.4%	1.9%	2.3%	4.7%	10.6%	10.9%	4.0%
Global Property Shares	2.8%	0.3%	1.2%	0.9%	10.3%	-14.1%	21.0%
Rivers MPS Portfolios							
Rivers Cautious	1.6%	3.5%	4.3%	13.2%	31.2%	30.1%	5.5%
UK RTMA Risk 3 - Moderate	3.1%	5.5%	6.0%	14.6%	30.9%	24.7%	6.9%
Rivers Balanced	2.2%	6.6%	7.5%	19.5%	42.8%	41.3%	6.6%
UK RTMA Risk 4 - Balanced	3.8%	7.2%	7.8%	18.5%	38.3%	35.0%	8.0%
Rivers Adventurous	2.5%	7.3%	8.2%	22.6%	44.5%	41.0%	8.4%
UK RTMA Risk 5 - Growth	4.4%	8.4%	9.0%	21.5%	44.6%	43.5%	9.1%
Rivers Aggressive	2.7%	8.8%	9.8%	26.5%	46.1%	43.3%	9.4%
UK RTMA Risk 6 - Adventurous	5.2%	10.3%	11.0%	25.6%	50.4%	50.5%	10.2%

Source: Financial Express in GBP (unhedged unless stated) as at 31st May 2026. Rivers Portfolios since launch June 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.