Current Focus

December 2019

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

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Summary

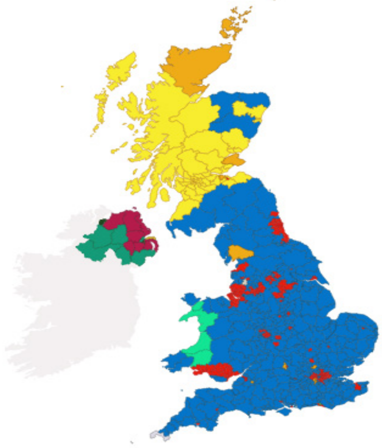
- Decisive Conservative Victory makes Brexit certain in January 2020
- Creates mandate to implement Brexit and agree trade deal with the EU
- Political divisions between England, Scotland and Northern Island remain
- Increase in UK Equity allocation is justified within defensive tactical allocation

Market Comment

In November news coverage in the UK switched from endless discussion of Brexit to endless discussion of the forthcoming General Election. With the results now in we have a decisive win for the Conservatives with an overall majority of 78 seats. This is the biggest Conservative majority since 1987 and far more conclusive than nearly all commentators, including this one, predicted. This month we Focus on what political impact this result is likely to have over the next 5 years, and its influence on our current, somewhat cautious, outlook for investors. Specifically, we look at what this means for Brexit negotiations, trade deals, the Union of the United Kingdom and what impact the result is likely to have on investments both in the UK and more globally.

The decisive victory for Boris Johnson and his party makes the implementation of his deal to leave the EU on January 31st, 2020 a virtual certainty. This deal has been agreed by all EU member states and with a now large majority in the House of Commons it will become law within the next few weeks. The House of Lords will offer no resistance and the UK's legal membership of the European Union will now end in January. This will, however, not be the end of the discussion around Brexit, but it does ensure that the UK's membership of the EU will end. What follows, however, is more uncertainty. Primarily the uncertainty of the eventual trade agreement with the EU, which is far from having been agreed. A large Conservative majority in Parliament does give some hope that this can now realistically be achieved. With such a large majority, the extreme views of some Brexit supporters, which have previously been so dominant within the Conservative Party, can be overcome and some reasonable compromise with the EU over regulation can be agreed. This diminishes the chance of 'No Deal' at the end of 2020 and explains the boost to Sterling that followed the election result. The 31st December 2020 deadline for the trade deal can now be extended, if necessary, although it does seem that this simultaneously reduces the prospect of a quick trade deal with the US, as conformity with EU regulations of the will hamper alignment with US standards. Given the larger number of businesses in the UK who rely on the more local EU market, an EU deal would seem to be the priority in the short to medium term. The

UK General Election Results 12th December 2019



Source: www.bbc.com

reason the US and the EU have failed for so long to agree a trade deal is that their regulations do not align easily. We can expect much debate around this issue over the next 12 months, and long beyond, but as most standards already adhere to EU law, a trade deal with our nearest geographical neighbours is more likely.

The initial market reaction following this result has been positive both for Sterling and for UK equities. The impact outside the UK appears positive but, beyond the value of Sterling, it is too early to see any global impact. While we expect relative gains to be good for UK assets as the worries concerning a possible Labour victory subside, this will be offset by the negative effect of a stronger Pound on earnings. With a more pro-business Conservative majority, the initial positive reaction is justified but there are reasons why this may be short-lived. With most economists still predicting a negative impact on any form of Brexit, the widely predicted sustained surge in UK equities to close the valuation gap, is optimistic. In the portfolios we manage, we expect to increase the relative allocation to UK equities, but given the broader global perspective, do not believe this justifies a wholesale reallocation of risk.

The recent suspension of M&G's Property Fund highlights one consequence of continued political uncertainty. In 2016 the UK Referendum result led to the suspension of several UK property funds and there was some danger this could be repeated post

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the election. In our view, however, the final result lowers that risk significantly. The problem of aligning daily fund liquidity with far less liquid underlying investments is not going away but given the relatively large cash component of many of the large property funds and a more certain political outlook, we don't see an imminent rush to suspend more property funds. We have never held any of the open-ended large property funds, due to these liquidity concerns, but concern over this asset class is now less likely to escalate.

After this election result one political risk which is likely to escalate is that of the Union of the United Kingdom. With the SNP winning nearly all the available seats in Scotland, the contrast to the Conservative landslide in England (and much of Wales) is stark. The push of Scottish independence, particularly relevant given most Scots preferring to remain in the EU, will be resisted by Westminster but is likely to gain momentum in the coming years. Similarly, the results in Northern Island, with some seats switching from Unionist to Nationalist parties, the issue of unification will increase in prominence.

The impact of any of these issues is too complex to discuss here but there is no doubt that the UK is divided and that the challenges for Boris Johnson, over the next five years will be significant. He has the mandate now and his initial call for a one nation and centralist agenda is encouraging. This political backdrop will bring challenges to investors in UK assets but also some excellent opportunities. While the pro-business approach of the Conservatives will be supportive the impact of Brexit and its long-term effects on the economy remain uncertain.

With that, and a modicum of clarity for 2020, we would like to wish all readers a Merry Christmas and a Happy New Year.

Market Returns (£) - 30th Nov 2019	1 Month	3 Month	YTD	1 Year	3 Year	S/I*
Anchors						30/06/2016*
Cash + 1%	0.1%	0.4%	1.7%	1.8%	5.0%	5.6%
Inflation Linked UK Bonds	-0.9%	-7.2%	5.7%	7.1%	9.0%	12.8%
Gilts	-0.9%	-2.2%	8.8%	11.4%	13.7%	10.2%
Global Government Bonds (hedged)	-0.4%	-1.6%	6.2%	7.7%	8.6%	5.2%
Enhancers						
Global Corporate Bonds (hedged)	0.1%	-0.3%	10.5%	11.6%	13.2%	11.7%
Global High Yield (hedged)	0.2%	1.0%	8.8%	7.7%	13.4%	18.0%
Emerging Market Bonds (hedged)	-2.0%	-3.8%	7.5%	9.3%	17.0%	18.8%
FTSE 350 TR Index	2.2%	3.7%	15.5%	11.1%	24.0%	32.0%
FTSE UK All-Small Cap	3.2%	5.3%	11.3%	7.2%	25.1%	39.7%
Global Equity (MSCI)	2.8%	1.4%	22.1%	13.7%	37.9%	52.9%
European Equity (MSCI)	1.5%	1.4%	17.5%	12.9%	30.4%	38.7%
US Equity (S&P)	3.6%	1.4%	25.0%	13.8%	43.9%	62.3%
Japan Equity (Topix)	0.7%	3.6%	15.1%	6.9%	24.4%	42.6%
Pacific Ex Japan Equity (MSCI)	0.4%	0.3%	9.6%	8.4%	29.0%	44.2%
Emerging Market Equity (MSCI)	-0.1%	-0.1%	8.5%	7.1%	26.7%	39.6%
Chinese Equity (Hang Sang)	-1.8%	-2.8%	4.0%	1.6%	23.4%	46.2%
Indian Equity (Nifty)	-0.5%	0.7%	4.3%	5.9%	33.4%	37.3%
Diversifiers						
Commodity Index	-2.5%	-5.3%	1.0%	-5.8%	-9.0%	-5.6%
Gold	-3.1%	-9.4%	12.2%	17.7%	18.4%	11.9%
Silver	-6.0%	-12.6%	6.9%	17.3%	-3.3%	-9.4%
Brent Oil	4.0%	-2.5%	15.1%	6.7%	22.5%	30.4%
UK Property	0.4%	0.7%	1.4%	1.1%	13.8%	13.9%
Global Property Shares	2.4%	14.9%	24.9%	20.5%	30.3%	29.2%
Rivers Model Portfolios						
Rivers Preservation Portfolio	*0.0%*	*-1.3%*	*4.3%*	*3.9%*	*7.7%*	12.3%
Rivers Cautious Portfolio	*0.4%*	*-1.1%*	*8.4%*	*6.3%*	*14.4%*	22.2%
Rivers Balanced Portfolio	*0.8%*	*-0.4%*	*10.5%*	*7.6%*	*19.0%*	28.8%
Rivers Adventurous Portfolio	*0.8%*	*-0.4%*	*11.4%*	*7.8%*	*20.5%*	31.5%
Rivers Aggressive Portfolio	*1.5%*	*0.5%*	*13.7%*	*9.0%*	*25.0%*	38.0%
Rivers Cautious Income Portfolio	*0.5%*	*0.6%*	*8.9%*	*6.5%*	*10.9%*	14.1%
Rivers Balanced Income Portfolio	*0.7%*	*0.8%*	*10.0%*	*7.5%*	*14.7%*	21.2%

Source: Financial Express in GBP (unhedged unless stated) as at 30th November 2019. *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.