Current Focus

January 2020

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

- Expectations for 2020 are materially lower than 2019
- Consensus expert view is moderately cautious and concerned over valuations
- Bonds less favoured than stocks and Emerging preferred to Developed countries
- Higher market voliatility is expected
- The Chinese trade deal and interest rates likely to determine market direction

Contacts

Richard Bonnor-Moris
rbm@riverscm.com

Eduardo Tomacelli
etomacelli@riverscm.com

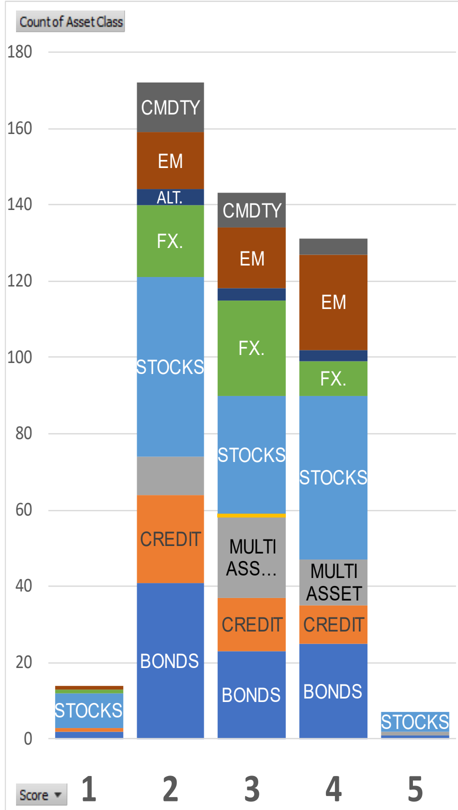
Najib El-Rayyes
ner@riverscm.com

Market Comment

We start 2020 with a much more cautious stance than we started 2019. After significant increases in bond and equity prices throughout 2019, primarily driven by monetary policy and not corporate earnings or growth, we do not expect a repeat in 2020. Given the global economic outlook is neutral, thereby similar to our expectations a year ago, it is the materially higher equity valuations that concern us and lead us to believe that we may get a better opportunity to add risk later in the year.

At the start of this month Bloomberg published over 500 comments regarding the economic outlook for the year ahead as a broad synopsis of institutional investment thinking. It made interesting reading and while it was dominated by the usual fence sitting that plagues the industry, the comment we make above, essentially "The double-digit returns of 2019 will be hard to repeat" is the general theme. For this month's Focus we want to look at some of the themes mentioned in the Bloomberg summary and in particular highlight some of the more interesting comments made, whether we agree with them or not. In an attempt to rank the comments we scored each one out of 5 for Bullishness or Bearishness. 1 for the most Bearish, 5 for the most Bullish and 3 for a neutral or balanced comment. This was not done scientifically; trying to quantify qualitative comments never is, but it did provide some grading to the views currently held.

The overall results showed that from the total of 507 unique comments, the average score was 2.82 which is consistent with the lower, but positive, return consensus expectation. Breaking the results down into each institution, by this arbitrary measure, the most 'bearish' investment funds are UBS, Vanguard and Société General and the most 'Bullish' are Oppenheimer, Evercore ISI and RBC Wealth Management. That these results seem to correlate vaguely to a focus on more passive against more active management style could lead to separate conclusions but that is not the purpose of this analysis. It is noted that the two 'economist' contributors, Oxford Economics (average 1.6) and Capital Economics (2.3), score much lower than average with Oxford Economics appearing as the most bearish of all contributors. The biggest contribution in terms of comments came from Barclays (2.88) and Fidelity (2.82) who both seemed to mimic the entire market and provided a wide spread of opinions.



Source: Rivers Capital Management

Looking at the asset class level, the spread of views remained broad although it is clear which assets are currently preferred. Equities (2.9) score slightly more than Bonds (2.8) but it is interesting that both outscored Credit (2.6). The biggest differentiation lay between concerns regarding commodities (2.5) and confidence that Emerging Market Equities (3.2) will perform well. Emerging Markets performance for both Equity and Bonds will be determined by any change in value of the US Dollar and whether the China-US trade negotiation finds a resolution. On this second point, views seems to vary considerably. Our view is that in an election year Trump will be keen to lower this tension but China may be less willing to compromise, especially if their domestic stimulus is effective. With Brexit negotiations set to continue, trade will certainly be a significant determinant for investors this year.

AXA provided the most diverse set of comments with one contributor summing up the worst case scenario succinctly with "For 2020 we think actual GDP growth is unlikely to be able to exceed potential in the key economic regions. Too much damage has been done, old headwinds are still with us and new sources of uncertainty have emerged" scoring 1. At the other end of the scale another AXA contributor provided an opposing optimistic view of "Our multi-asset team's stance is to be more optimistic on equities from a cyclical point of view. Supportive policy and some hope of resolution on the trade war and Brexit should underpin positive sentiment in equity markets." Hindsight will show that both are unlikely to be correct. For the record the comment we believe best aligned with our view was from Blackrock "Risks are tilted downward for growth because any renewed escalation of trade tensions could derail the growth uptick we expect. Inflation, by contrast, could surprise to the upside, particularly in the U.S." This scored 2 which I think would sum up our current cautious outlook.

To expand on that, and to summarise, we think that the risk of a continued slowdown and disappointing earnings will see increased volatility in risk assets. The portfolios we manage are positioned to be able to take advantage of this volatility and any resulting improvement in valuations. We vaguely agree with the consensus that returns to most assets will be lower in 2020 than they were in 2019 overall, although how much lower is perhaps where we differ. That said we do think the higher volatility will provide good opportunity for tactical adjustment. Provided we maintain our disciplined risk management and can avoid significant short-term losses, this should enable all the portfolios to achieve their target objectives this year.

Market Returns (£) - 30th Nov 2019	1 Month	3 Month	YTD	1 Year	3 Year	S/I*
Anchors						
Cash + 1%	0.2%	0.5%	1.8%	1.8%	5.0%	5.7%
Inflation Linked UK Bonds	-1.7%	-7.0%	3.9%	3.9%	5.0%	10.9%
Gilts	-1.5%	-4.2%	7.2%	7.2%	9.8%	8.5%
Global Government Bonds (hedged)	-0.6%	-1.6%	5.6%	5.6%	7.9%	4.6%
Enhancers						
Global Corporate Bonds (hedged)	0.1%	0.4%	10.6%	10.6%	12.6%	11.8%
Global High Yield (hedged)	2.1%	2.6%	11.1%	11.1%	13.8%	20.6%
Emerging Market Bonds (hedged)	1.8%	-1.9%	9.4%	9.4%	15.0%	20.9%
FTSE 350 TR Index	3.2%	4.0%	19.2%	19.2%	21.8%	36.2%
FTSE UK All-Small Cap	5.9%	9.5%	17.9%	17.9%	26.6%	48.0%
Global Equity (MSCI)	0.6%	1.0%	22.7%	22.7%	33.1%	53.8%
European Equity (MSCI)	1.6%	1.4%	19.3%	19.3%	23.7%	40.9%
US Equity (S&P)	0.5%	1.3%	25.7%	25.7%	40.3%	63.2%
Japan Equity (Topix)	0.6%	1.2%	15.8%	15.8%	22.3%	43.4%
Pacific Ex Japan Equity (MSCI)	4.7%	4.7%	14.8%	14.8%	34.4%	51.0%
Emerging Market Equity (MSCI)	4.9%	4.0%	13.9%	13.9%	29.6%	46.4%
Chinese Equity (Hang Sang)	5.0%	1.4%	9.2%	9.2%	32.6%	53.5%
Indian Equity (Nifty)	-0.9%	-2.0%	3.4%	3.4%	29.1%	36.1%
Diversifiers						
Commodity Index	2.6%	-2.9%	3.5%	3.5%	-9.3%	-3.2%
Gold	1.1%	-3.9%	13.5%	13.5%	20.7%	13.1%
Silver	2.4%	-2.4%	9.5%	9.5%	0.9%	-7.2%
Brent Oil	3.4%	1.3%	19.0%	19.0%	9.1%	34.9%
UK Property	0.2%	0.7%	1.6%	1.6%	13.1%	14.1%
Global Property Shares	4.6%	12.5%	30.6%	30.6%	28.0%	35.1%
Rivers Model Portfolios						
Rivers Preservation Portfolio	*0.2%*	*-0.9%*	*4.5%*	*4.5%*	*6.7%*	12.5%
Rivers Cautious Portfolio	*0.5%*	*-0.4%*	*8.8%*	*8.8%*	*13.2%*	22.8%
Rivers Balanced Portfolio	*0.9%*	*0.4%*	*11.4%*	*11.4%*	*18.0%*	29.9%
Rivers Adventurous Portfolio	*1.0%*	*0.5%*	*12.5%*	*12.5%*	*19.4%*	32.8%
Rivers Aggressive Portfolio	*1.5%*	*1.6%*	*15.3*	*15.3*	*24.0%*	40.0%
Rivers Cautious Income Portfolio	*0.8%*	*1.0%*	*9.7%*	*9.7%*	*10.4%*	15.0%
Rivers Balanced Income Portfolio	*1.1%*	*1.4%*	*11.2%*	*11.2%*	*14.2%*	22.5%

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.