Current Focus

March 2020

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

- The Coronavirus virus will dominate news headlines and investment throughout 2020
- The defensive allocation has protected value allowing the opportunity to add risk
- The Rivers portfolios reduced underweight risk position following recent market falls
- We expect volatility to remain high and further tactical adjustments to be necessary

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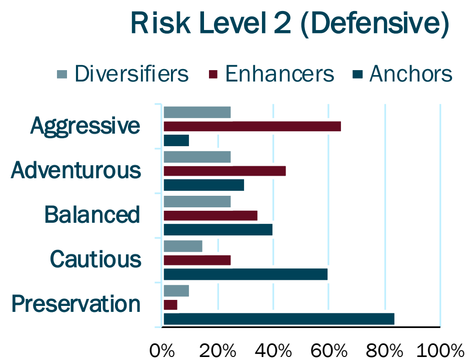
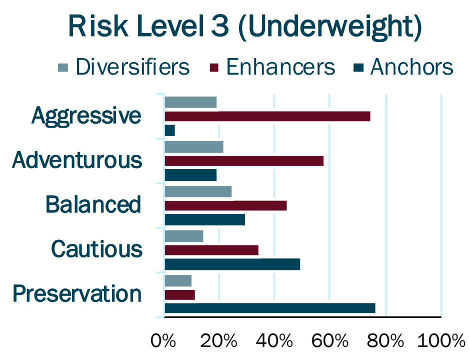
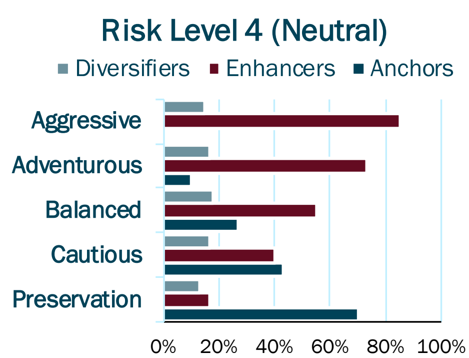
Market Comment

In the Current Focus for January, we discussed the CoViD19 virus and our concerns about its impact on the global economy, particularly with disruptions to supply chains in the auto and tech sectors. We were surprised at the complacency of stock markets which are normally swift at discounting events such as this. The S&P500 reached a new all-time high on February 19th, well after the CoViD19 outbreak, but then dropped over 15% in the next 7 trading days as the economic impact began to sink in along with the spread of the disease outside China. The virus looks set to become the dominate theme of 2020. Having adopted a defensive position, initially due to over extended valuations, and maintained this in light of the initial reports of the virus, this month we look at how events such as this, and the market volatility that result, enable us to adjust the portfolios we managed effectively. It is very difficult to predict exactly how this virus, and the consequences for investment markets, will develop. That said the volatility it creates demonstrates why the risk management process we have in place can improve overall investment returns. Whatever the overall impact on global growth of this crisis, the effect on corporate earnings will already have been material. Whether this is temporary or permanent will be the primary question for investors and, as we said last month, this will need to be considered against the likely central bank and governmental measures introduced to lessen the impact and maintain economic growth.

At Rivers the tactical asset allocation for each portfolio is determined by both the strategic risk of that portfolio and the ongoing 'Risk Level' we believe is justified at any time. To simplify that Risk Level in our investment process we adopt a range from 1 to 7 with 1 being the lowest level of risk, 7 being the highest and 4 being equivalent to the strategic or neutral allocation. The Risk Level allocations are predetermined for each portfolio alongside the strategic asset allocation. This ensures consistency and that the correct relative position, between portfolios is always maintained. The respective Risk Levels are designed to maintain a portfolio's risk within the bounds of the investment objectives of each portfolio (for more detailed information visit www.riverscm.com).







Specifically, as the CoViD19 outbreak started, the portfolios were at a Risk Level 2, the same Risk Level held in the final quarter of 2018 and lower than the Risk Level held for most of 2019. This Risk Level was maintained at the start of February as the virus developed and its impact was not being appreciated by investors. This defensive allocation offered some protection during the sharp decline of more than 11% in global equities and a peak to trough fall of more than 18% for the FTSE 100. As a consequence of this fall, and the improvement in valuations, at the end of February we raised the Risk

Level to 3. Our indicators, particularly sentiment and breadth, pointed to a possibility of a sharp rebound and the valuations justified an allocation closer to neutral. Aggregate breadth which is a measure of the degree of panic selling reached a level only surpassed twice before in the last 30 years and indicates indiscriminate selling of all assets other than risk free US Treasuries. This is normally a good sign of a low at least in the short term.

Currently all the Rivers portfolios continue to be underweight risk when compared to their respective long-term strategic objective, but less so given the recent decline in equity prices. Should markets rally strongly from here and approach the previous highs we will likely reassess the risk exposure. Depending on where our general economic indicators lie, as well as the degree of virus containment, we will consider reverting to a risk level 2. There would have to be improvement in broader economic conditions, as well as the virus, to justify a higher level of risk at those levels. Should prices decline significantly further the current Risk Level 3 will offer some protection and enable the opportunity to move to a Risk Level 4, which would be neutral. Further falls should see, for the first time in some time, valuations become attractive and justify a move to a Risk Level 5. This would most likely coincide with further escalation of the virus but more importantly a noticible and extreme overreaction by investors. Having stayed underweight during much of the fall we hope to be in a position to be overweight during the recovery. Overall the process is designed to reduce losses during market falls which in itself increases the ability to add risk at levels that are more attractive. Over the long term this should smooth returns and increase the overall risk adjusted performance of all portfolios.

Market Returns (£) - 29th Feb 2020	1 Month	3 Month	YTD	1 Year	3 Year	S/I*
Anchors						30/06/2016*
Cash + 1%	0.1%	0.4%	0.3%	1.8%	5.1%	6.0%
Inflation Linked UK Bonds	3.0%	4.0%	5.8%	12.7%	10.5%	17.3%
Gilts	1.4%	3.7%	5.3%	12.7%	14.2%	14.2%
Global Government Bonds (hedged)	1.4%	2.7%	3.4%	8.5%	11.5%	8.1%
Enhancers						
Global Corporate Bonds (hedged)	0.8%	2.9%	2.8%	11.4%	14.3%	14.9%
Global High Yield (hedged)	-1.8%	0.6%	-1.5%	3.8%	8.9%	18.8%
Emerging Market Bonds (hedged)	-0.5%	0.5%	-1.3%	8.1%	8.8%	19.4%
FTSE 350 TR Index	-8.9%	-9.1%	-12.0%	-1.6%	4.4%	19.9%
FTSE UK All-Small Cap	-8.6%	-3.9%	-9.2%	1.7%	11.2%	34.3%
Global Equity (MSCI)	-5.5%	-5.1%	-5.6%	9.9%	21.2%	45.1%
European Equity (MSCI)	-3.9%	-4.4%	-5.9%	6.5%	13.6%	32.6%
US Equity (S&P)	-5.4%	-4.4%	-5.0%	12.0%	26.9%	55.1%
Japan Equity (Topix)	-7.0%	-8.4%	-8.3%	3.6%	6.4%	30.6%
Pacific Ex Japan Equity (MSCI)	2.1%	2.2%	-2.4%	5.5%	20.4%	47.3%
Emerging Market Equity (MSCI)	-0.6%	-0.1%	-4.8%	3.9%	14.3%	39.5%
Chinese Equity (Hang Sang)	2.4%	1.2%	-3.6%	-0.7%	19.0%	48.0%
Indian Equity (Nifty)	-4.3%	-5.4%	-4.6%	9.5%	16.9%	29.8%
Diversifiers						
Commodity Index	-2.0%	-6.4%	-8.8%	-7.4%	-17.0%	-11.7%
Gold	2.0%	7.7%	6.5%	23.0%	19.1%	20.5%
Silver	-6.0%	-2.6%	-5.0%	8.3%	-16.1%	-11.8%
Brent Oil	-2.0%	-6.4%	-8.8%	-7.4%	-17.0%	-11.7%
UK Property	-0.1%	0.2%	0.0%	1.3%	11.9%	14.1%
Global Property Shares	-8.7%	-7.1%	-11.2%	4.4%	11.7%	20.0%
Rivers Model Portfolios						
Rivers Preservation Portfolio	*-0.3%*	*1.1%*	*1.0%*	*4.4%*	*6.3%*	13.5%
Rivers Cautious Portfolio	*-1.7%*	*-0.2%*	*-0.5%*	*5.7%*	*10.2%*	22.0%
Rivers Balanced Portfolio	*-2.9%*	*-1.3%*	*-2.0%*	*5.7%*	*12.2%*	27.1%
Rivers Adventurous Portfolio	*-3.5%*	*-1.9%*	*-2.7%*	*5.4%*	*11.9%*	28.9%
Rivers Aggressive Portfolio	*-5.5%*	*-3.6%*	*-4.9%*	*5.1%*	*12.6%*	33.1%
Rivers Cautious Income Portfolio	*-2.0%*	*-1.2%*	*-2.1%*	*4.2%*	*6.0%*	12.7%
Rivers Balanced Income Portfolio	*-2.6%*	*-2.1%*	*-3.2%*	*4.2%*	*7.7%*	18.7%

Source: Financial Express in GBP (unhedged unless stated) as at 29th February 2020. *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.