Current Focus

May 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

- Since lockdown started equity markets have reversed much of the first quarter losses
- The recovery, after lockdown will be slower than current consensus indicates
- The Rivers Portfolios reverted to underweight 'Risk Level 3' position at the end of April
- We expect volatility to continue with opportunities to add risk in the coming months
- The risk of inflation during the recovery period is higher than current market expectations

Contacts

Richard Bonnor-Moris
rbm@riverscm.com

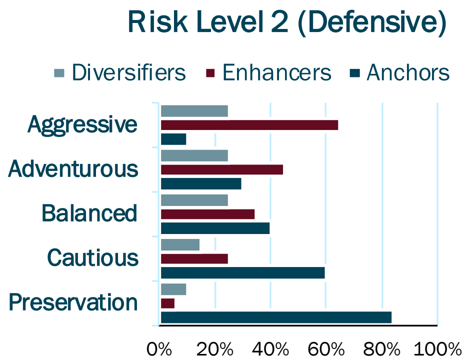
Eduardo Tomacelli
etomacelli@riverscm.com

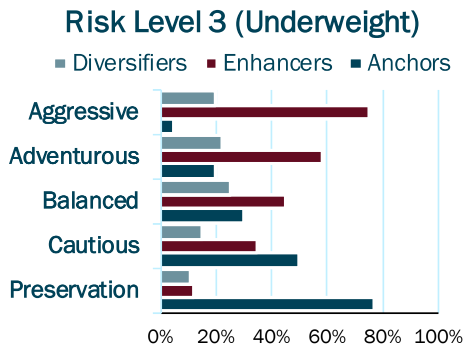
Najib El-Rayyes
ner@riverscm.com

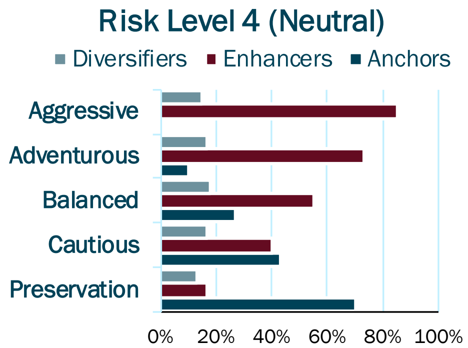
Market Comment

It is now over six weeks since the formal social distancing rules were imposed in the UK. Six weeks since most of us were confined to our homes and six weeks of daily reports on the global pandemic, its statistics and its tragedy. Interestingly, from an investors point of view, it has also been six weeks since the lows in many equity indices. The FTSE, S&P500 and Global MSCI remain materially below the surprising index highs of February but have seen strong gains. Judging by index levels the outlook from investors at the end of April appeared quite upbeat. Our view, at least for the short term, has also changed. Having turned positive in March, as of the end of April we are slightly more circumspect. With the portfolios we manage, having added risk, twice, during March, ahead of the lockdown, we have returned them to a moderately underweight tactical position (Risk Level reduced from 4 to 3) in the last days of April. We maintain our view that the unprecedented government intervention will successfully prevent an extended recession but believe market volatility is set to continue and that more favourable opportunities to add risk are likely to occur in the coming months. In this month's Focus we look beyond the lockdown, why we think the recovery will come, but will not be immediate and why we think inflation is now more likely than deflation.

The economic impact resulting from the global lockdown has already proved to be significant. Estimates vary, but it is now widely expected that the impact to GDP growth in the second quarter will be around 8%, or about an annualised 25% decrease. This is far worse than any single quarter during the 2008/9 financial crisis. Purchasing manager and consumer surveys already show this may even be underestimated. To offset this slowdown, governments here and across the world have, rightly, implemented unprecedented fiscal stimulus measures. The business and individual support policies, coupled with the substantial decline in equity prices, were the reasons we advocated adding risk in March. We continue to believe they will be effective in preventing a sustained depression, but the risks do remain high. Looking at consensus expectations and market valuations it is now widely predicted that once the lockdown is lifted, GDP growth will bounce back and be positive







again in the 3rd quarter. This is unrealistic in our view. The rally in equity markets is more likely a direct result of intervention, by central banks, of excessive liquidity than either the likely path of future corporate earnings or an expectation of a rapid return to pre Coronavirus normality.

Even in the most optimistic case of effective vaccine development, its successful provision, and the rapid ending of lockdown, global economic growth is unlikely to normalise this year. Surveys already show that most people would remain reluctant to re-engage in their usual social interaction even if the lockdown rules were reversed immediately. And there is no sign of that.

In addition, at current levels, equities remain vulnerable to any re-emergence of the virus or failure in the development of a vaccine. Certain sectors, especially technology, have benefited from this crisis but even their costs have risen, and their gains will not compensate for the general lost trade. The total costs of this lockdown are yet to be realistically measured.

Looking further forward, and in contrast to the obvious deflationary impact of the immediate demand shock, we think inflation risk in the medium term is rising. The lockdown is likely to have significant impact on supply and even following the relaxation of domestic travel restrictions any deflationary impact from globalisation will be reduced for a long time. Should inflation rise it is not unrealistic to imagine Central Banks, with their expanded balance sheets and deeply indebted governments, being slightly more liberal than we are used to in acceptance of that inflation. After the financial crisis many commentators warned of inflation resulting from Central Bank quantitative easing. They were wrong, but the difference is that (moderate compared to todays) policy coincided with a period of tightening capital regulation for commercial banks. That is not at all the case now. In the last six weeks, while we have been at home, governments, corporations and consumers have been encouraged to borrow what they can and hold on. The consequence of that borrowing is it will have to be paid back, written off or inflated away. A combination of these three is likely but in any case, this bodes well for real assets, commodities and gold. It will be ok for equities, especially the price setting corporates, but it will be difficult for fixed income and terrible for savers. This will take time, but we will be positioning portfolios tactically to take account of theses risks in the coming months.

Market Returns (£) - 30th Apr 2020	1 Month	3 Month	YTD	1 Year	3 Year	S/I*
Anchors						30/06/2016*
Cash + 1%	0.1%	0.4%	0.6%	1.8%	5.1%	6.3%
Inflation Linked UK Bonds	1.9%	3.1%	5.9%	8.7%	11.9%	17.5%
Gilts	3.2%	6.3%	10.3%	16.1%	19.0%	19.7%
Global Government Bonds (hedged)	0.8%	2.1%	4.0%	7.8%	11.7%	8.8%
Enhancers						
Global Corporate Bonds (hedged)	4.6%	-2.1%	-0.2%	5.5%	10.4%	11.6%
Global High Yield (hedged)	4.3%	-11.9%	-11.6%	-8.1%	-3.4%	6.5%
Emerging Market Bonds (hedged)	1.9%	-7.7%	-8.4%	-0.4%	1.9%	10.7%
FTSE 350 TR Index	4.8%	-18.8%	-21.5%	-16.7%	-7.5%	7.0%
FTSE UK All-Small Cap	10.3%	-20.3%	-20.9%	-15.1%	-7.7%	17.1%
Global Equity (MSCI)	9.0%	-7.9%	-8.0%	-0.8%	18.7%	41.4%
European Equity (MSCI)	4.3%	-14.5%	-16.2%	-10.8%	-2.3%	18.0%
US Equity (S&P)	10.9%	-5.3%	-4.9%	3.6%	30.6%	55.2%
Japan Equity (Topix)	3.6%	-7.0%	-8.9%	-1.0%	8.5%	29.0%
Pacific Ex Japan Equity (MSCI)	6.4%	-1.2%	-5.5%	-2.8%	15.1%	42.6%
Emerging Market Equity (MSCI)	7.3%	-8.6%	-12.4%	-9.1%	4.3%	28.3%
Chinese Equity (Hang Sang)	3.8%	-0.4%	-6.3%	-9.0%	16.1%	43.9%
Indian Equity (Nifty)	14.2%	-15.7%	-16.0%	-17.5%	-4.9%	14.3%
Diversifiers						
Commodity Index	-3.2%	-14.8%	-20.7%	-20.6%	-21.7%	-23.2%
Gold	4.3%	11.5%	16.5%	35.1%	34.1%	31.8%
Silver	3.1%	-14.1%	-13.2%	1.3%	-14.5%	-19.5%
Brent Oil	-3.2%	-14.8%	-20.7%	-20.6%	-21.7%	-23.2%
UK Property	-1.2%	-2.8%	-2.8%	-1.9%	7.2%	11.0%
Global Property Shares	4.7%	-21.9%	-24.0%	-11.6%	-8.8%	2.7%
Rivers Model Portfolios						
Rivers Preservation Portfolio	*3.6%*	*-2.5%*	*-1.2%*	*1.0%*	*3.9%*	11.0%
Rivers Cautious Portfolio	*4.8%*	*-3.4%*	*-2.2%*	*1.5%*	*7.7%*	19.9%
Rivers Balanced Portfolio	*6.2%*	*-5.0%*	*-4.2%*	*0.3%*	*9.1%*	24.2%
Rivers Adventurous Portfolio	*6.6%*	*-5.0%*	*-4.2%*	*0.5%*	*9.4%*	26.9%
Rivers Aggressive Portfolio	*7.8%*	*-7.6%*	*-7.1%*	*-1.5%*	*9.1%*	30.1%
Rivers Cautious Income Portfolio	*5.1%*	*-7.6%*	*-7.7%*	*-3.9%*	*-0.3%*	6.2%
Rivers Balanced Income Portfolio	*5.6%*	*-8.9%*	*-9.4%*	*-5.1%*	*0.2%*	11.1%

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