Current Focus

August 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

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Summary

- Equity market rally slowed during July
- US Market continues to outperform led by technology and mega cap stocks
- US Dollar weakness boosts gold and other asset returns
- Central bank intervention likely to continue but unlikely to prevent correction
- Volatility will continue and offer further opportunity for tactical adjustment

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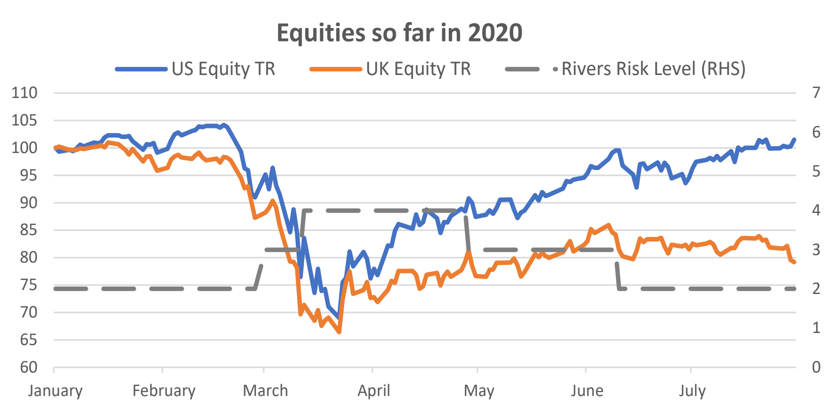
Market Comment

July finally saw the remarkable equity market rally, seen since the low in March, slow down. At least in sterling terms it slowed down. In local currency terms, during July, Developed Market equities actually gained 4.8% and Emerging Market equities gained over 11% but the weakening US Dollar and falls in the UK equity market made for a much more challenging environment for UK investors holding Enhancer assets. With Gold (Diversifier) and Inflation linked bonds (Anchor) appreciating over the month many portfolios added value but returns were low. We continue to recommend a relative Risk Level of 2 (out of 7) as we try and secure recent gains and protect value in the coming months. Despite the lacklustre performance of UK equities we think Enhancer assets appear over-valued given the ongoing risks. With equities in the US reaching all time highs, especially in Technology, in this month's Focus we look at why the UK market returns since March appear comparatively low. We also look at recent US Dollar weakness and which assets may be vulnerable if this were to reverse.

The US equity market, as a whole, is now at, or at least very close to, its all-time highs. By contrast the UK equity index remains, despite some gains since March, around 20% lower. In other developed regions, the distinction is lower but still considerable. Most European and Japanese indices remain between 10% and 15% lower than February levels, again despite a significant rally since March. While additional geo-political factors, including Brexit for the UK, may have had some influence, it has been mainly the extreme outperformance of technology, and a few individual stocks in particular, that has been the primary driver of this difference. The US index strength is not reflective of a generally strong US investment environment but a result of the extreme strength of a small number of mega cap individual companies. Five companies, specifically Apple, Amazon, Microsoft, Facebook, and Alphabet (Google), have accounted for a large proportion of the gains in the US index. They account for over 25% of the market capitalisation of the S&P500 and together have a higher value than any national index outside the US. Apple alone is now valued at more than 75% of the value of the FTSE100. The impact on investor confidence, particularly with a notable increase in small retail investor participation since March, has been material.

These are five great companies and the impact of Covid and the subsequent lockdowns have, broadly been to their benefit, but valuations are, for them, now high by almost any measure and for the US Market as a whole higher than any time since early 2000. For parts of the US market the mantra of 'Growth at any price' seems to be as dominant now as it was during the heights of the dot-com boom. Given the continued uncertainty of the economic outlook, Covid, China-US relations and the growing dependence on central bank and fiscal stimulus, this looks unsustainable. Add to this the real possibility that the 5 giants stocks may be curtailed by a change in legislator in the US, we think the chances of a correction is now high. In our opinion the UK equity market, which has also been affected by the relative weakness of the US Dollar,



Source: Rivers Capital Management

more accurately reflects the economic outlook, but should investor confidence reverse sharply the risk to all enhancers remains elevated.

Dollar weakness has been a contributing factor for a number of asset returns in recent months. Gold, the best performing Diversifier asset in many of the portfolios we manage, has been a beneficiary, as have some Emerging Market equities and bonds although this has varied by region. Indications of a long term almost zero interest rate policy by the Fed and the likelihood of further stimulus, both fiscal and monetary, have prompted this devaluation. If, as we expect, economic risks do escalate in the short term, it is likely the US Dollar will strengthen irrespective of further measures from the Fed. This may impact the price of Gold in the medium term but with intervention likely from other Central banks the primary reasons for holding gold, inflation protect and low correlation, will be maintained.

In short we do not expect the global recovery from the Covid pandemic to be as V shaped as currently being priced in by many investors. While a vaccine may be developed and further lockdowns avoided, evidence is already showing a slow return to economic normality as well as ongoing impacts to existing supply chains. We suspect the impact on economic data, in particular unemployment, to offset the monetary and fiscal stimulus provided and investors to adopt a more cautious outlook in the near future. This should enable the reallocation of risk at more favourable valuations.

Market Returns (£) - 31st July 2020	1 Month	3 Month	YTD	1 Year	3 Year	S/I*
Anchors						30/06/2016*
Cash + 1%	0.1%	0.3%	0.9%	1.6%	5.1%	6.6%
Inflation Linked UK Bonds	0.7%	5.9%	13.3%	7.9%	25.9%	32.0%
Gilts	0.4%	-0.2%	10.1%	10.1%	20.4%	19.5%
Global Government Bonds (hedged)	0.7%	0.7%	4.7%	5.0%	12.5%	9.5%
Enhancers						
Global Corporate Bonds (hedged)	2.5%	5.5%	5.4%	7.4%	14.8%	17.8%
Global High Yield (hedged)	3.4%	10.9%	-2.0%	-0.6%	5.4%	18.1%
Emerging Market Bonds (hedged)	-3.2%	4.3%	-4.5%	-8.3%	3.5%	15.5%
FTSE 350 TR Index	-3.7%	1.1%	-20.6%	-18.1%	-9.2%	8.1%
FTSE UK All-Small Cap	-0.9%	6.6%	-15.6%	-8.4%	-5.3%	24.8%
Global Equity (FSTI)	-1.4%	8.4%	-0.3%	0.0%	24.9%	53.2%
European Equity (FSTI)	-2.3%	8.5%	-9.1%	-8.4%	1.2%	28.0%
US Equity (S&P)	-0.6%	8.3%	3.0%	3.8%	38.7%	68.1%
Japan Equity (Topix)	-7.8%	-0.6%	-9.4%	-6.4%	3.0%	28.3%
Pacific Ex Japan Equity (FSTI)	2.0%	11.8%	5.7%	6.5%	17.1%	59.5%
Emerging Market Equity (FSTI)	2.6%	13.3%	-0.8%	-0.6%	9.3%	45.3%
Chinese Equity (Hang Sang)	-4.4%	-3.2%	-9.3%	-13.6%	1.5%	39.3%
Indian Equity (Nifty)	3.9%	10.1%	-7.5%	-9.9%	-1.9%	25.9%
Diversifiers						
Commodity Index	-0.5%	8.4%	-14.0%	-18.0%	-14.1%	-16.8%
Gold	2.2%	10.2%	28.3%	26.0%	50.8%	45.2%
Silver	22.3%	53.9%	33.6%	33.7%	38.1%	23.9%
Brent Oil	-0.5%	8.4%	-14.0%	-18.0%	-14.1%	-16.8%
UK Property	0.1%	-1.0%	-3.8%	-2.9%	4.4%	9.8%
Global Property Shares	2.2%	2.1%	-22.5%	-4.6%	-6.1%	4.8%
Rivers Model Portfolios						
Rivers Preservation Portfolio	*0.7%*	*3.9%*	*3.1%*	*2.7%*	*8.1%*	15.8%
Rivers Cautious Portfolio	*0.5%*	*5.6%*	*3.7%*	*3.3%*	*13.6%*	27.1%
Rivers Balanced Portfolio	*0.7%*	*7.3%*	*3.6%*	*3.9%*	*17.1%*	34.3%
Rivers Adventurous Portfolio	*0.6%*	*8.2%*	*4.7%*	*4.8%*	*18.6%*	38.6%
Rivers Aggressive Portfolio	*0.7%*	*8.9%*	*1.8%*	*2.4%*	*17.5%*	42.6%
Rivers Cautious Income Portfolio	*0.4%*	*4.1%*	*-3.8%*	*-2.5%*	*3.1%*	10.7%
Rivers Balanced Income Portfolio	*0.4%*	*5.1%*	*-4.6%*	*-3.2%*	*4.0%*	16.9%

Source: Financial Express in GBP (unhedged unless stated) as at 31st July 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.