Current Focus

October 2020

A monthly market comment from Rivers Capital Management. Views expressed here are subject to change and for professional advisors only

RIVERS CAPITAL MANAGEMENT

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Summary

- Volatility remained high in September as Covid-19 risk remains high
- The US Presidential Election looks likely to see Biden win and Trump removed
- Risks to high valuations in US equity remain high whatever the election result
- Democrat victory in Congress and White House likely to affect corporate earnings
- Portfolio rebalance likely to lower US exposure while retaining risk level 2

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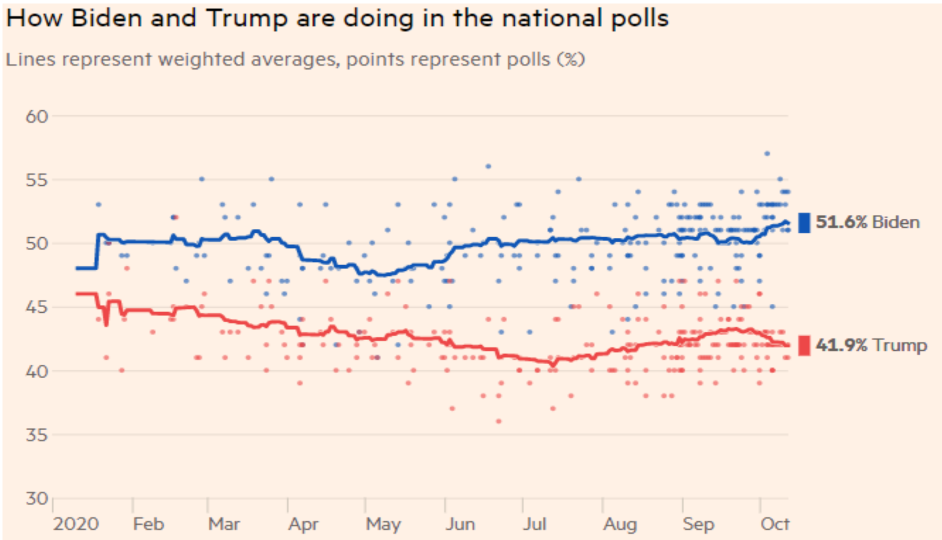
Market Comment

Seasonally, September is an important month for investment markets. After the customary summer quiet period, trading volumes and volatility usually increase markedly. The change in volumes this year was not as significant as usual but there was certainly increased market volatility. The high valuations seen in the technology sector were tested but, with a few exceptions, held up well. Outside of the technology dominated US market, equities continued to be buffeted by fears of a second coronavirus wave. So far governments have resisted calls for a return to the economically devastating lockdowns seen in March but with cases rising in many countries, including the UK, the next few weeks will be crucial. While Covid-19 remains the primary driver to all markets, attention has been increasingly drawn to the otherwise gargantuan event of the year, the US Presidential Election. This year Trump takes on Biden. They are similar only in age. Their views and priorities are diametrically apart in almost every way. The contest is nearly concluded but the result will have lasting implications globally and for investors

With three weeks until the vote on November 3rd, the incumbent Republican President Trump, has returned from hospital and has announced that he has beaten Covid. Despite this having killed over two hundred thousand US citizens he has strangely suggested it isn't much to worry about. Before that, the first Presidential Debate was unwatchable as both candidates appeared only to trade insults. Having kept a low profile, allowing Trump to tweet his way out of the lead he had before the pandemic, Biden now appears to have an unassailable lead. Almost all polls show that the Democrat challenger is ahead by around 8% nationally and crucially polling further ahead in many of the swing states. While it is true that Trump appeared to trail Hillary Clinton in the run up to the election in 2016, the specific polling in swing states such as Michigan and Pennsylvania makes a Trump victory appear more unlikely now. Add to that his continued recovery from hospitalisation and a big increase in early postal voting, the bookies would paying out on a Biden victory already. The only reason they aren't is because it is Donald Trump. He's proven so many pollsters and political commentators wrong so often that he can't be written off but it really would be a surprise now. The only question left is whether it's a convincing result, and whether he goes quietly. The checks and balances in the US make the idea that he would refuse to go ridiculous, if ultimately defeated, but the risk of an extended period before the result is confirmed remains a possibility.

That risk of an uncertain result appears to have diminished in recent days as the Biden lead grows. Fears, earlier in the year, that a 'Blue Wave' – victory by the Democrats in the White House and both houses of Congress – would lead to a sharp equity correction, appear to have been forgotten. These fears, that a Democrat victory would result in higher corporate taxes, have been 'Trumped' (forgive me) by



Source: FT.com

the certainty of the result and indications of additional fiscal support. The additional fiscal support, or second Coronavirus fiscal stimulus, is now likely whatever the election result but whether it is sufficient to offset the economic impact of the pandemic remains very questionable to us. Almost all equity markets outside the US remain below pre-pandemic highs but in the US, where the virus has had the highest apparent death toll, the broad S&P is materially higher. As by far the leading global equity market this has created an unusual dilemma for our tactical risk committee.

While the Federal Reserve, and whoever wins the election, appear intent on supporting the US equity market, the huge jump in unemployment and continued uncertainty are likely to impact earnings for some time to come. Add to that the likely tax implications, beyond just corporate rates, of paying for a massive fiscal deficit and it is difficult to justify current US market valuations. The Democrats are likely to increase green initiatives, have a stricter approach to antitrust measures – which will hit tech giants such as Facebook and Google – and introduce legislation to reduce healthcare costs and pricing. All of these may be popular and progressive but will likely affect corporate earnings.

Our tactical allocation has been defensive for much of the summer. In June we reduced the allocation to Enhancer Asset (mainly equity) to the levels we had held coming into the pandemic. Our current global view remains defensive but regionally we believe the US market is relatively expensive when compared to Europe, Japan or the UK. Whoever wins the Presidency this is the biggest immediate risk for investment markets right now. In the coming weeks, and before the US Election, we intend to rebalance tactically reducing US equity exposure while retaining an overall defensive risk level 2.

Market Returns (£) - 30th Sep 2020	1 Month	3 Month	YTD	1 Year	3 Year	S/I*
Anchors						30/06/2016*
Cash + 1%	0.1%	0.3%	1.0%	1.5%	5.0%	6.8%
Inflation Linked UK Bonds	1.7%	-2.2%	10.1%	1.0%	22.0%	28.2%
Gilts	1.6%	-1.3%	8.2%	4.4%	19.9%	17.4%
Global Government Bonds (hedged)	0.6%	0.4%	4.4%	3.0%	12.1%	9.2%
Enhancers						
Global Corporate Bonds (hedged)	-0.1%	1.6%	4.5%	5.1%	13.7%	16.9%
Global High Yield (hedged)	-1.6%	3.2%	-2.2%	0.0%	3.9%	17.9%
Emerging Market Bonds (hedged)	1.9%	-3.6%	-4.9%	-6.7%	3.0%	15.0%
FTSE 350 TR Index	-1.7%	-3.1%	-20.1%	-17.0%	-9.5%	8.8%
FTSE UK All-Small Cap	-1.2%	1.5%	-13.5%	-5.3%	-3.7%	28.0%
Global Equity (FSTI)	0.0%	3.2%	4.2%	5.2%	29.8%	60.2%
European Equity (FSTI)	0.0%	-0.4%	-7.4%	-6.1%	1.5%	30.5%
US Equity (S&P)	-0.4%	4.0%	7.7%	9.1%	44.3%	75.8%
Japan Equity (Topix)	5.3%	2.6%	1.6%	2.0%	14.1%	42.8%
Pacific Ex Japan Equity (FSTI)	1.8%	5.4%	9.2%	14.3%	20.9%	64.8%
Emerging Market Equity (FSTI)	1.9%	4.7%	1.3%	5.4%	11.5%	48.3%
Chinese Equity (Hang Sang)	-3.1%	-6.9%	-11.6%	-10.4%	-1.3%	35.6%
Indian Equity (Nifty)	4.2%	9.9%	-2.2%	-4.2%	10.5%	33.1%
Diversifiers						
Commodity Index	0.1%	4.3%	-9.9%	-12.5%	-8.7%	-12.8%
Gold	-0.8%	-1.0%	24.4%	19.6%	47.2%	40.7%
Silver	-14.9%	19.6%	30.6%	27.5%	38.7%	21.1%
Brent Oil	0.1%	4.3%	-9.9%	-12.5%	-8.7%	-12.8%
UK Property	-0.1%	0.0%	-3.8%	-3.2%	3.3%	9.8%
Global Property Shares	-5.5%	-2.6%	-26.1%	-16.9%	-9.1%	-0.1%
Rivers Model Portfolios						
Rivers Preservation Portfolio	*0.3%*	*0.6%*	*3.0%*	*1.9%*	*7.0%*	15.7%
Rivers Cautious Portfolio	*0.3%*	*1.3%*	*4.5%*	*3.9%*	*13.3%*	28.1%
Rivers Balanced Portfolio	*0.3%*	*1.9%*	*4.9%*	*5.0%*	*17.4%*	35.9%
Rivers Adventurous Portfolio	*0.4%*	*2.5%*	*6.6%*	*6.9%*	*19.9%*	41.2%
Rivers Aggressive Portfolio	*0.7%*	*3.1%*	*4.3%*	*5.9%*	*19.4%*	46.1%
Rivers Cautious Income Portfolio	*-0.2%*	*0.7%*	*-3.5%*	*-2.5%*	*3.6%*	11.0%
Rivers Balanced Income Portfolio	*-0.5%*	*0.8%*	*-4.2%*	*-2.8%*	*4.6%*	17.5%

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