Current Focus

November 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

- Democrats take Presidency but fail to gain control of Senate
- Biden likely to be contained in raising corporation tax and antitrust legislation
- Early vaccine results have boosted confidence pushing valuations to record highs
- Current Enhancer valuations remain unattractive and do not justify risk increase
- Maintaining current portfolio diversification while waiting for better future opportunity

Contacts

Richard Bonnor-Moris
rbm@riverscm.com

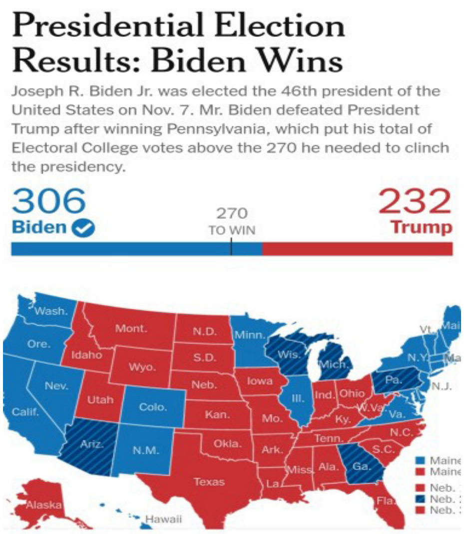
Eduardo Tomacelli
etomacelli@riverscm.com

Najib El-Rayyes
ner@riverscm.com

Market Comment

The US election proved to be much closer than the polls suggested. The predicted 'Blue Wave' of Democrat victories across the country did not transpire. The Democrats have not taken control of the Senate and overall, have lost seats in the House of Representatives. They did win the Presidency though, however much the incumbent continues to protest. By the time the results are finalised, Donald Trump will be defeated by exactly the same number of Electoral College votes as he defeated Hillary Clinton by in 2016, 306 against 232. Given the high turnout, Trump did manage to get over 72 million votes, more than any other Presidential candidate ever, apart from Biden who received over 78 million. It continues to be a soap-opera and quite how long President Trump continues to feign outrage is unknown but the checks and balances in the US now make the result certain. The polls have been widely criticised for getting it so wrong but as it has turned out, it looks like in terms of states won, they were not far off the mark. This month's Focus will look at the market reaction to the result and the subsequent positive news regarding a Covid-19 vaccine. Despite the clear result and the news of a vaccine we explain why we remain cautious regarding Enhancer asset valuations. We explain why we would rather remain underweight risk in the portfolios we manage given the valuations and uncertainty that remains for 2021.

Given that Biden was so far ahead in the polls, the market reaction to his Presidential victory has been modest. The failure of the Democrats to secure both houses of Congress however has been received well. An indecisive Presidential result had been feared by many but, despite Trump's continued protests, this has not materialised. In its place, we have the preferred political gridlock scenario of Joe Biden in the presidency, with the Republicans maintaining control of the US Senate. The potential of this divided government lifted tech stocks to their strongest weekly gain since mid-April in the days following the election. A Republican-controlled Senate would limit regulatory changes and pause Mr Biden's plan to increase corporate taxes as well as reducing the likelihood of sweeping changes to business regulation. The



Source: The New York Times Company

ultimate control of the Senate now rests on the two representatives from Georgia who are set for a 'run-off' re-vote in January. In this run-off the Democrats would need to win both seats as they now trail the Republicans 48-50. A 50-50 balanced Senate would theoretically give them control with Vice President Kamala Harris holding the deciding vote. That may happen, as Georgia did flip towards Biden in the Presidential vote, but it is unlikely this will be repeated for both Senate seats in such a traditionally Republican stronghold.

In the days following the election there was a broad rally in US equities. This rally included but was less concentrated in the technology sector. Investor confidence was high and was further boosted 6 days after the election when Pfizer announced a successful results from its trial of its Covid-19 vaccine. This very welcome news boosted all sectors that had been particularly affected by the virus including travel, consumer discretionary and energy. The election result had not yet had much global impact but news of an effective vaccine certainly did. The UK, Europe and Asian equity indices all gained significantly. By mid-November, Asian and Emerging Market indices had joined the US at all-time highs (or 30 year highs in the case of Japan). Even European and UK indices are back to levels seen only in early March. Technology, for once, did not rally much, as some beneficiaries of the pandemic were discounted, but overall all indices, including the US were higher than they had been before the spring lockdown.

With Covid-19 infection rates appearing to accelerate in many parts of the world, the vaccine news is extremely positive but it is unlikely to boost corporate earnings any time soon. Even the most optimistic forecasts do not expect any vaccine to enable a complete re-opening of economies within the next 6 months. Unemployment has already risen sharply in many countries and is set to continue to rise for some time, while third quarter GDP growth is unlikely to continue without sustained and significant fiscal support. That fiscal support has seen spiralling government deficits, which have been ignored recently, for obvious and justified reasons, but at some point these will need to be tackled. Taxes, especially corporate taxes, are likely to rise sooner rather than later. This will happen globally and for the US, Biden has made this one of his clear objectives as President. The extremely low, and even negative, interest rates on most government debt do justify higher multiples on equity risk, but unless economic growth can be maintained, these low rates will be difficult to sustain indefinitely. Despite holding a defensive tactical allocation across portfolios we remain optimistic that these economic hurdles can be overcome. That said, given current valuations, we prefer to wait for a better opportunity to rebalance portfolios to a more strategic risk allocation. In the meantime certain sectors and many asset classes with low correlation to equity risk remain undervalued. These Diversifiers should add return to the portfolios we manage without exposing clients to so much volatility.

Market Returns (£) - 31st Oct 2020	1 Month	3 Month	YTD	1 Year	3 Year	S/I*
Anchors						30/06/2016*
Cash + 1%	0.1%	0.3%	1.1%	1.4%	5.0%	6.9%
Inflation Linked UK Bonds	0.7%	-2.2%	10.8%	6.7%	20.7%	29.1%
Gilts	-0.6%	-2.3%	7.6%	5.1%	18.1%	16.8%
Global Government Bonds (hedged)	-0.1%	-0.4%	4.3%	3.3%	11.6%	9.1%
Enhancers						
Global Corporate Bonds (hedged)	0.1%	-0.7%	4.6%	4.8%	13.0%	17.0%
Global High Yield (hedged)	0.2%	0.0%	-2.0%	0.2%	3.8%	18.1%
Emerging Market Bonds (hedged)	0.8%	0.4%	-4.2%	-4.4%	6.0%	15.9%
FTSE 350 TR Index	-4.0%	-3.4%	-23.3%	-19.1%	-14.7%	4.5%
FTSE UK All-Small Cap	1.3%	3.9%	-12.4%	-4.2%	-4.7%	29.7%
Global Equity (FSTI)	-3.1%	1.4%	1.0%	4.5%	22.2%	55.3%
European Equity (FSTI)	-5.8%	-4.0%	-12.7%	-10.1%	-5.8%	22.9%
US Equity (S&P)	-2.7%	1.8%	4.8%	9.2%	35.9%	71.0%
Japan Equity (Topix)	-1.9%	9.2%	-0.4%	0.1%	6.0%	40.1%
Pacific Ex Japan Equity (FSTI)	3.0%	6.4%	12.4%	18.2%	17.9%	69.7%
Emerging Market Equity (FSTI)	2.0%	4.2%	3.4%	8.3%	8.8%	51.4%
Chinese Equity (Hang Sang)	1.4%	0.0%	-9.2%	-6.4%	-2.3%	39.3%
Indian Equity (Nifty)	1.1%	6.9%	-1.1%	-2.5%	3.0%	34.6%
Diversifiers						
Commodity Index	1.4%	6.2%	-8.7%	-8.7%	-10.3%	-11.6%
Gold	-0.8%	-3.9%	23.3%	20.9%	46.0%	39.5%
Silver	0.6%	-1.6%	31.4%	26.6%	37.9%	21.9%
Brent Oil	1.4%	6.2%	-8.7%	-8.7%	-10.3%	-11.6%
UK Property	0.1%	0.2%	-3.6%	-3.1%	2.3%	10.0%
Global Property Shares	-0.9%	-5.6%	-26.8%	-21.6%	-9.8%	-1.0%
Rivers Model Portfolios						
Rivers Preservation Portfolio	*-0.3%*	*-0.3%*	*2.7%*	*2.7%*	*6.0%*	15.4%
Rivers Cautious Portfolio	*-0.7%*	*0.2%*	*3.8%*	*4.5%*	*11.1%*	27.2%
Rivers Balanced Portfolio	*-0.7%*	*0.5%*	*4.1%*	*5.6%*	*14.5%*	34.9%
Rivers Adventurous Portfolio	*-0.8%*	*1.0%*	*5.7%*	*7.3%*	*16.9%*	40.0%
Rivers Aggressive Portfolio	*-1.1%*	*1.3%*	*3.1%*	*6.3%*	*15.2%*	44.4%
Rivers Cautious Income Portfolio	*-0.6%*	*-0.3%*	*-4.0%*	*-2.8%*	*2.4%*	10.4%
Rivers Balanced Income Portfolio	*-0.7%*	*-0.2%*	*-4.8%*	*-3.0%*	*3.1%*	16.8%

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