Current Focus

December 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

- Covid-19 ruined lives and changed society forever during 2020
- Unprecedented fiscal and monetary support averted systemic economic collapse
- Equity valuations corrected materially in Q1 but finished the year more expensive
- Tactical adjustment lowered risk and added return throughout a challenging year
- Portfolios maintaining cautious allocation waiting for better future opportunity

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Market Comment

As 2020 draws to an end many will be wishing it good riddance. As a year it will be remembered infamously for Covid-19, lockdowns and drastic measures to support the economy and livelihoods. Despite all this, and somewhat surprisingly, it has been a volatile but largely positive year for investors with a global allocation. While the UK market remains lower than it was at the start of the year, global equities, led mainly by US equities, are now looking likely to finish 2020 at or near all-time highs. As is usual at this time of the year we look back at what has been a challenging year, how we are currently positioned and our expectation for 2021. Here is our review of 2020 and outlook for 2021.

While rumours of a nasty flu-like virus were coming from China in early January, few predicted the impact that the virus would have on everything during 2020, and will likely have for years to come. From an investment perspective, outside of China, and despite what appeared, to us, to be high equity valuations the Coronavirus did not impact markets significantly until late February. Investors' initial ambivalence to the virus was marked by the high in global equities on February 20th. Ambivalence was, however, quickly replaced by panic. Within one month of the high in February, equity markets in the UK, the US and Europe had lost about a third of their value as fears of the coronavirus grew. Looking objectively at valuations, our outlook, which had started the year pessimistically, began to consider the opportunity in front of us. By the end of February, valuations over the long-term had become more attractive and we began to reduce the underweight risk allocation for the portfolios we manage. With fears escalating we remained underweight risk as markets continued to fall. By mid-March equities looked oversold and were pricing in long term economic stagnation. Despite many countries enforcing economic shutdowns we considered equities, for the first time since 2018, to be fairly priced. We were not underestimating the impact of the virus, but we felt the unprecedented support being offered by governments and central banks would be sufficient to prevent systemic failure. So far, and from an investor's perspective, it has been.

Source: Rivers Capital Management

In late March, just as economic growth was frozen due to lockdown, most broad equity market indices found a floor. The fiscal and monetary support offered made the bailouts seen during the financial crisis appear trifling. Governments across the world borrowed unprecedented sums to support employees and prevent business failures. Alongside massive government deficits central banks set the lowest ever interest rates and began enacting eye watering levels of quantitative easing (QE). The Federal Reserve (FED) even expanded its QE program to buying corporate debt as well as Treasury securities as its balance sheet grew from $3.8 trillion in March to over $7 trillion a few months later. Whether it solved the spiralling economic slowdown is debatable; only time will tell. What is not debatable is the positive effect it had on asset prices.

The recovery in equity valuations turned out to be as unprecedented as the collapse. As soon as a systemic failure was averted, investors began to put the newly created liquidity to work. With some sectors less affected by lockdown, and some actually gaining, the recovery was much more selective than the collapse. In the US, the big technology stocks led the recovery. First setting new individual highs, then pushing the S&P 500 index into positive territory for the year in July and to a new index high in August. When the S&P 500 set its first 'post lockdown' high, over 60% of stocks within the index remained negative on a year-to-date basis. In Europe and the UK, the market

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recovery more accurately reflected the prevailing economic situation but they were greater beneficiaries once the success of the vaccines became apparent in the fourth quarter.

Looking at investment markets now, global equities continue to be boosted by low interest rates and liquidity flows. On a valuation basis many markets are now more expensive than they were at the start of the year, with the future still uncertain. We are optimistic, despite prospects of a second, or third wave of Covid infections now looking more likely, that the vaccines will lay the path to beating this awful disease. By mid 2021 social restrictions will be far less restrictive and economic activity will be getting back to normal. That said, neither the vaccines nor the low long-term interest rate expectation, justify the general market valuations. There are regional as well as some sectoral exceptions and, as we have seen in the past, high valuations and momentum can be sustained for some time. Overall though, the economic impact of high unemployment, lost earnings and limited investment will be long lasting and does not appear to be reflected in asset prices. Added to this are the inflationary risks of increased costs, ongoing travel restrictions and the supply constraints caused by low investment. With central banks now less focused on inflation control and governments needing to reduce deficits, the room for continued fiscal or monetary support is limited. Selectively, certain sectors remain attractive but many look vulnerable to a correction in the near term. Given these risks and the positive returns in all growth portfolios during a difficult year we prefer to take a cautious stance and await opportunities to add risk at more attractive valuations during 2021.

Market Returns (£) - 30th Nov 2020	1 Month	3 Month	YTD	1 Year	3 Year	S/I*
Anchors						30/06/2016*
Cash + 1%	0.1%	0.3%	1.2%	1.4%	5.0%	7.0%
Inflation Linked UK Bonds	0.1%	2.4%	10.9%	8.1%	19.3%	29.2%
Gilts	-0.5%	0.5%	7.1%	5.7%	17.4%	16.2%
Global Government Bonds (hedged)	0.1%	0.7%	4.5%	3.9%	11.5%	9.2%
Enhancers						
Global Corporate Bonds (hedged)	2.1%	2.1%	6.8%	6.8%	15.4%	19.4%
Global High Yield (hedged)	4.3%	2.9%	2.2%	4.3%	8.7%	23.2%
Emerging Market Bonds (hedged)	1.9%	4.6%	-2.3%	-0.6%	8.4%	18.1%
FTSE 350 TR Index	12.7%	6.3%	-13.6%	-10.8%	-2.3%	17.7%
FTSE UK All-Small Cap	15.0%	15.2%	0.8%	6.8%	10.5%	49.1%
Global Equity (FSTI)	9.2%	5.9%	10.3%	11.0%	33.2%	69.6%
European Equity (FSTI)	13.5%	6.9%	-1.0%	0.6%	8.8%	39.5%
US Equity (S&P)	7.4%	4.1%	12.6%	13.2%	44.4%	83.7%
Japan Equity (Topix)	7.9%	11.4%	7.5%	7.3%	13.2%	51.1%
Pacific Ex Japan Equity (FSTI)	4.6%	9.6%	17.5%	23.1%	24.7%	77.5%
Emerging Market Equity (FSTI)	5.8%	10.0%	9.4%	14.7%	17.1%	60.1%
Chinese Equity (Hang Sang)	6.0%	5.5%	-3.8%	1.0%	2.2%	47.6%
Indian Equity (Nifty)	5.2%	10.9%	4.1%	3.2%	11.3%	41.6%
Diversifiers						
Commodity Index	0.3%	1.8%	-8.4%	-5.5%	-7.3%	-11.4%
Gold	-8.6%	-10.0%	12.8%	14.0%	35.7%	27.6%
Silver	-8.0%	-21.2%	20.9%	23.9%	31.7%	12.2%
Brent Oil	0.3%	1.8%	-8.4%	-5.5%	-7.3%	-11.4%
UK Property	0.5%	0.6%	-3.2%	-3.0%	2.7%	10.5%
Global Property Shares	10.6%	3.5%	-19.0%	-15.3%	-0.4%	9.4%
Rivers Model Portfolios						
Rivers Preservation Portfolio	*1.4%*	*1.4%*	*4.1%*	*4.2%*	*7.5%*	17.0%
Rivers Cautious Portfolio	*2.9%*	*2.4%*	*6.7%*	*7.0%*	*14.4%*	30.8%
Rivers Balanced Portfolio	*4.1%*	*3.5%*	*8.2%*	*8.9%*	*19.3%*	40.2%
Rivers Adventurous Portfolio	*4.9%*	*4.2%*	*10.7%*	*11.5%*	*22.8%*	46.6%
Rivers Aggressive Portfolio	*5.8%*	*5.2%*	*9.0%*	*10.6%*	*22.3%*	52.7%
Rivers Cautious Income Portfolio	*4.2%*	*3.5%*	*0.1%*	*0.9%*	*7.0%*	15.1%
Rivers Balanced Income Portfolio	*5.4%*	*4.3%*	*0.5%*	*1.6%*	*8.9%*	23.1%

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

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