Current Focus

January 2021

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

- Biden becomes President as US Equities extend gains
- Democrats likely to increase fiscal stimulus but also raise future corporate taxation
- Equities, especially US Equities have become expensive
- Gains could continue but offer lower opportunities at higher risks
- Portfolios now hold similar tactical positioning as held before Covid pandemic

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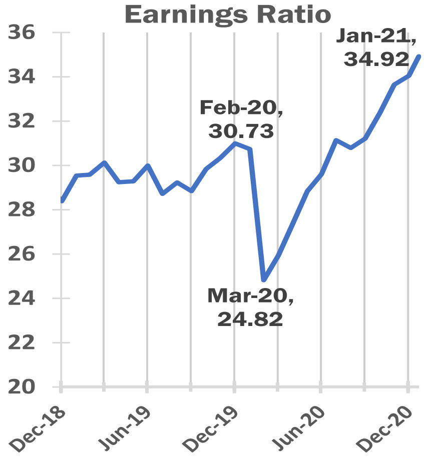
Market Comment

Joe Biden is now the 46th President of the United States. His inauguration passed without any incident and none of the chaos seen on January 6th. This was unsurprising after the raising of 20,000 troops from the National Guard to keep order. What was perhaps more surprising was how favourably the Biden Presidency seems to be viewed by investors. The presidency has started with all of the major US equity indices at record highs. Our focus this month is on how the consensus view has changed from concerns about higher tax rates and more regulation, to a view now that President Biden will be bullish for stocks. This view is centred around increasing fiscal stimulus and a growing optimism that the Biden administration will accelerate the rollout of vaccines, slow the infection rate, and bring an end to the pandemic. We are not convinced this justification adds up while also relying on current expectations that the easiest financial conditions on record will be sustained indefinitely. We also have difficulty in accepting that the US economy is simultaneously going to recover very quickly, yet remain weak enough to justify historically low interest rates.

It is true that the situation for equity investors is near perfect in terms of financial conditions; plentiful liquidity, rock bottom interest rates and bonds often offering guaranteed negative returns. It is also true that there is plenty of room for things to get better in the real economy. We can end the pandemic, reopen schools and businesses, and restore the millions of jobs that were lost. The problem for us is that valuations have priced in the maintenance of the current financial conditions and the possibility that the economy improves very quickly while ignoring the likelihood of higher taxes and increased regulation.

It is true that now the Democrats control both houses of Congress and the Presidency, fiscal stimulus is likely to be relatively easily increased. It is likely that another round of checks for consumers and additional help for small businesses will be coming in the next few months. Janet Yellen, named as incoming Treasury Secretary, has confirmed this already by saying that Biden must 'act big' to revive the flagging economy. If this stimulus works it will be a boost to the

US Equity Cyclically Adjusted Price to Earnings Ratio



Source: Rivers Capital Management

economy, it will be good for profits, and it may reduce the high unemployment level. By the same logic however, if one assumes the real economic recovery is strong, it follows that fears of Democrat corporate tax increases and anti-trust legislation will follow. Current US equity valuations are now higher than they were at the start of 2020, with the multiples on earnings at levels not seen since 2000. There appears to be little regard for the possibility of fiscal stimulus, or the recovery, going wrong, or even what the likely consequences, from a fiscal and monetary point of view, of it working well.

Investor confidence, particularly in the US, is high. Jeremy Grantham, the legendary value investor and co-founder of asset management firm GMO, recently stated that the US market is in a "real humdinger" of a bubble. Given he accurately predicted over-valued markets in 2000 and 2008 we do take note. Grantham also said that "a bubble peaks when you reach almost unbearable levels of ecstasy," and that a bull market will not end "with some terrible burst of bad news. It ends when things are pretty darn good, but not quite as good as yesterday." That explains why it is so difficult to time a market top but fits well with the tactical approach we have adopted across our models.

Grantham is not alone although the consensus view from most US fund managers is generally positive. The NAAIM survey of active managers on January

15th showed that the average equity manager is leveraged long. Add to this the avalanche of retail investors on US equity platforms such as Robinhood (offering cost-free share investment) and this level ofexuberance has not been seen since the dot-com boom of the late 1990s. On the other hand while this exuberance is still shown most clearly in the technology sector it has broadened significantly in the last month.

The breadth of the market is one of the reasons why the current trend does look like it could last for a while yet and why the Rivers investment committee has maintained a Risk Level 2 (out of 7) and not lowered 'Enhancer' exposure further to Risk Level 1. Another factor for this is that on a relative basis, US Equities are now much more 'expensive' then the UK, Europe and Emerging Markets so the opportunity in Enhancers does still justify some of the risk. The breadth of the market is the most significant difference to 2000 though this is what would usually be expected near the beginnings of long-term recoveries, not at periods of historically high valuations.

In conclusion we do not think investors have changed their expectations of a Biden Presidency. Confidence from investors is high and being driven by liquidity and confidence in the success of the vaccines, this confidence is showing signs of exuberance and over confidence. We believe this would have occurred whoever was in the White House. There are many reasons to welcome a Biden Presidency but he is less likely than his predecessor to be watching the S&P500 as a gauge of success of his Presidency. We do expect a strong economic recovery later in 2021 but on current valuations, Enhancers and especially US Equities offer little opportunity.

Market Returns (£) - 31st Dec 2020	1 Month	3 Month	YTD	1 Year	3 Year	S/I*
Anchors						30/06/2016*
Cash + 1%	0.1%	0.3%	0.5%	1.3%	4.9%	7.1%
Inflation Linked UK Bonds	0.4%	1.2%	-1.7%	10.6%	17.2%	29.7%
Gilts	1.7%	0.6%	-1.1%	8.5%	16.8%	18.2%
Global Government Bonds (hedged)	0.2%	0.2%	0.6%	4.6%	11.6%	9.4%
Enhancers						
Global Corporate Bonds (hedged)	0.4%	2.6%	4.2%	7.1%	15.3%	19.9%
Global High Yield (hedged)	1.9%	6.6%	9.9%	4.2%	10.6%	25.6%
Emerging Market Bonds (hedged)	0.8%	3.3%	0.1%	-1.3%	7.9%	18.7%
FTSE 350 TR Index	3.8%	12.2%	8.8%	-10.4%	-3.3%	22.1%
FTSE UK All-Small Cap	6.5%	24.1%	26.0%	7.4%	14.7%	58.8%
Global Equity (FSTI)	1.8%	7.8%	11.2%	12.3%	33.7%	72.7%
European Equity (FSTI)	2.5%	9.6%	9.1%	1.5%	9.6%	42.9%
US Equity (S&P)	1.4%	5.9%	10.2%	14.1%	44.8%	86.2%
Japan Equity (Topix)	1.6%	7.5%	10.3%	9.1%	13.8%	53.5%
Pacific Ex Japan Equity (FSTI)	3.9%	11.9%	17.9%	22.2%	26.4%	84.4%
Emerging Market Equity (FSTI)	4.9%	13.2%	18.5%	14.7%	18.5%	67.9%
Chinese Equity (Hang Sang)	1.0%	8.5%	2.3%	-2.9%	0.6%	49.0%
Indian Equity (Nifty)	7.6%	14.5%	25.8%	12.0%	14.0%	52.4%
Diversifiers						
Commodity Index	2.5%	4.2%	8.5%	-6.3%	-8.5%	-9.1%
Gold	3.9%	-5.8%	-6.7%	17.2%	37.3%	32.6%
Silver	14.2%	5.7%	26.4%	38.1%	44.2%	28.1%
Brent Oil	2.5%	4.2%	8.5%	-6.3%	-8.5%	-9.1%
UK Property	0.7%	1.3%	1.4%	-2.5%	2.5%	11.3%
Global Property Shares	3.8%	13.8%	13.0%	-14.3%	-2.6%	13.6%
Rivers Model Portfolios						
Rivers Preservation Portfolio	*0.7%*	*1.8%*	*2.4%*	*4.8%*	*7.8%*	17.8%
Rivers Cautious Portfolio	*1.3%*	*3.4%*	*4.7%*	*8.0%*	*15.1%*	32.4%
Rivers Balanced Portfolio	*1.7%*	*4.9%*	*6.9%*	*10.0%*	*20.0%*	42.5%
Rivers Adventurous Portfolio	*2.2%*	*6.1%*	*8.7%*	*13.0%*	*23.8%*	49.7%
Rivers Aggressive Portfolio	*2.8%*	*7.4%*	*10.7%*	*12.0%*	*23.8%*	56.9%
Rivers Cautious Income Portfolio	*1.3%*	*5.0%*	*5.8%*	*1.4%*	*7.8%*	16.6%
Rivers Balanced Income Portfolio	*1.7%*	*6.5%*	*7.5%*	*2.2%*	*9.9%*	25.2%

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