Current Focus

March 2024

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

- Focus on UK equities following recent Budget announcement promoting UK assets.
- Investor sentiment is high, with tech-heavy regions leading A.I. enthusiasm
- UK's low tech exposure has resulted in underperformed since the Financial Crisis
- Compared to other regions, UK stocks are cheaper and offer diversification benefits.
- Continued underweight risk allocation combines with value and reginal bias

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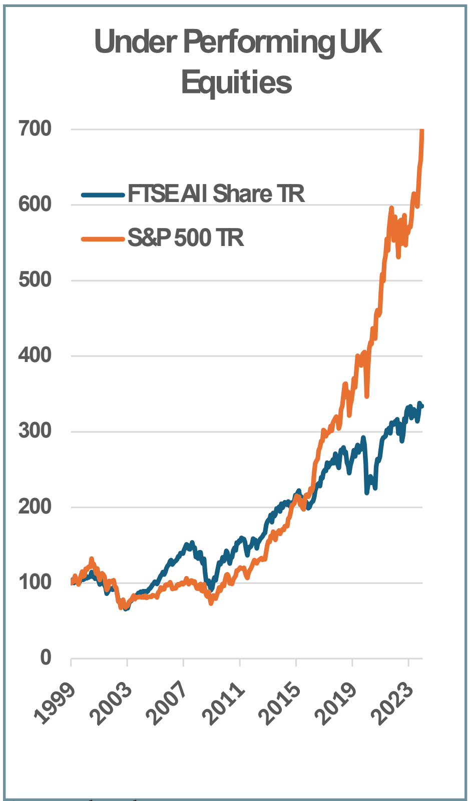
Market Comment

February was another positive month for equities and Enhancer Assets in general, with resilient economic data and strong earnings reports further boosting year-to-date gains. Since short-term market lows in October last year, the rise in equities has been remarkable. It has also been very concentrated - NVIDIA gained over $275 billion in market capitalisation and is now valued at over $2 trillion - and has led to some fears of bubble-like valuations, but the advance continues despite changing interest rate expectations and recessions in China, Germany, the UK and Japan. In fact, the equity markets in both Germany and Japan reached all-time highs in February just after recessions were confirmed for both economies – the Nikkei finally surpassed its 1989 high. It seems investor enthusiasm, led by liquidity, is high and undeterred in most regions. Even China, despite a major economic slowdown, managed a market reversal. The exception, as too often has been the case, has been the UK equity market. UK indices have gained since October but are down year-to-date and remain some way off recent highs. UK Equity relative performance lags most other regional indices over almost all time periods. Given that in the recent Budget, a new dedicated 'UK Asset' ISA allowance was announced, we thought we would Focus this month on UK equities. We look at some reasons why there has been such a difference in performance and why, with investor optimism so concentrated elsewhere, we think the UK offers a relatively attractive opportunity for investors seeking diversification.

Since the end of October, global equities, as measured by the MSCI World index, have gained over 20%. This has been led by the US (S&P500 up 22%), which now accounts for 70% of the global index, but other regions have also done well. Japanese and European indices are up 29% and 15% respectively. The FTSE All-Share Index (up 7%) has not done badly, slightly better than the FTSE 100 (up 6%) but on a relative basis this is modest. The reality is that compares better to the price gains in UK Government Bonds (up 6.3%) than almost any other regional equity index. Four months is not very long but this is a pattern seen for quite a long time now. Looking further back, both the UK All Share, and FTSE100, total return indices have materially underperformed US, Global and even European equivalent indices over 3, 5 and 10 year periods. The return has been



Source: Bloomberg.com

poor overall since the Covid pandemic but the relatively lacklustre performance of UK indices predates that. To find multiple years of relative outperformance, you have to go back to before the Financial Crisis of 2008/9. Since then, the overall under- performance of UK equities has been fairly consistent. The reason for this is essentially explained by the sectors weightings that make up the UK market.

While the UK equity market does have exposure to all sectors, some are much more heavily weighted in the index than others. By investing in the UK, you're getting almost no technology exposure – technology companies only make up around 1% of the index compared to around 17% of the MSCI World and nearly 30% of the US S&P 500. In contrast, energy companies make up a relatively large 15% of the UK Market versus around 5% for the MSCI World. These two sectors alone account for much of the differentiation of performance and illustrate the costs, and potential benefits of, diversification. On a discrete calendar year basis, the FTSE All-Share has underperformed at least half of the 10 major equity indices we follow in all but two years, a pretty poor track record. On the other hand, in one year UK equites managed a low but positive return while most regions lost significant value, and the S&P 500 lost nearly 20%. The year was 2022.

Since then, and especially in the last four months, the other regions have more than made up for it through relative gains, but the diversification remains. The lack of technology has left the UK equity market indices without many of the gains from AI investor enthusiasm. While, on most valuation measures, UK Equities are, on average, less expensive than other regions - the price to earnings ratio on the FTSE All-Share is about 11 while it exceeds 20 for the US S&P500 - growth expectations are equally lower. The question for us right now is how we balance between the opportunity of potential future gain and the risk of potential future loss. On that balance, now more than any time since late 2022, on a relative regional basis UK equities are preferred.

There are many exceptions to this generalisation at an individual stock level, which is why we still favour active stock selection. In addition given the low risk return available from money markets and other Anchor Assets, and a belief that better investment opportunities will be available in the future, we maintain an overall underweight risk allocation within all portfolios. In addition to lowering the overall allocation to Enhancer assets a significant part of the calculation of risk, now more than ever, is take into account regional differences. On a risk adjusted basis, and despite assumed lower potential for economic growth, UK equities appear relatively attractive.

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Market Returns (£) - 29th Feb 2024	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
Anchors						
Cash	0.4%	1.3%	5.1%	5.1%	7.0%	8.1%
Inflation Linked UK Bonds	-1.5%	0.3%	-4.0%	-4.0%	-30.1%	-23.7%
Gilts	-1.9%	1.3%	0.0%	0.0%	-23.9%	-18.0%
Global Government Bonds (hedged)	-0.7%	1.9%	4.4%	4.4%	-7.0%	-0.3%
Enhancers						
Global Corporate Bonds (hedged)	-1.3%	2.4%	5.8%	5.8%	-8.5%	4.0%
Global High Yield (hedged)	0.8%	4.7%	11.2%	11.2%	1.7%	11.7%
Emerging Market Bonds (hedged)	0.7%	1.6%	1.4%	1.4%	6.7%	9.1%
FTSE 100 TR Index	0.5%	3.0%	0.8%	0.8%	31.7%	30.0%
FTSE UK All-Small Cap	-0.2%	4.9%	0.2%	0.2%	6.3%	33.8%
Global Equity (FSTI)	4.9%	10.8%	19.6%	19.6%	41.7%	82.5%
European Equity (FSTI)	2.3%	6.6%	8.0%	8.0%	28.8%	45.8%
US Equity (S&P)	6.0%	11.9%	24.3%	24.3%	52.7%	104.1%
Japan Equity (Topix)	2.3%	10.6%	18.4%	18.4%	19.1%	43.1%
Pacific Ex Japan Equity (FSTI)	7.1%	1.1%	-5.2%	-5.2%	-23.8%	4.0%
Emerging Market Equity (FSTI)	5.5%	3.9%	4.1%	4.1%	-9.1%	15.5%
Chinese Equity (Hang Sang)	7.2%	-3.1%	-16.8%	-16.8%	-31.2%	-28.4%
Indian Equity (Nifty)	3.4%	13.8%	31.4%	31.4%	58.8%	96.8%
Diversifiers						
Commodity Index	-0.8%	-3.7%	-8.1%	-8.1%	36.0%	38.4%
Gold	0.5%	0.3%	6.5%	6.5%	29.0%	55.4%
Silver	-1.1%	-10.4%	3.6%	3.6%	-5.8%	44.9%
Brent Oil	-0.8%	-3.7%	-8.1%	-8.1%	36.0%	38.4%
UK Property	-0.2%	-0.5%	0.0%	0.0%	1.3%	1.2%
Global Property Shares	-6.6%	-0.7%	-6.7%	-6.7%	-12.7%	-13.2%
BMi Portfolios						
BMi Low Risk Portfolio	-0.1%	0.8%	3.1%	3.1%	1.0%	9.1%
BMi Low to Medium Risk Portfolio	0.8%	2.5%	4.3%	4.3%	5.8%	23.4%
BMi Medium Risk Portfolio	1.0%	3.3%	5.0%	5.0%	8.1%	28.9%
BMi Medium to High Risk Portfolio	1.4%	4.5%	5.3%	5.3%	8.7%	35.4%
BMi High Risk Portfolio	0.9%	4.4%	4.3%	4.3%	9.9%	38.3%
BMi Low to Medium Income Portfolio	0.7%	3.7%	3.0%	3.0%	1.1%	9.5%
BMi Medium Income Portfolio	0.2%	2.7%	0.6%	0.6%	1.5%	11.7%

Source: Financial Express in GBP (unhedged unless stated) as at 29th February 2024. *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.