Current Focus

July 2024

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

INTELLIGENT INTUITIVE INVESTING

Rivers Capital Management

+44 (0)20 3383 0180
www.riverscm.com

Summary

- Labour's historic political victory was expected and has not concerned investors
- Pledges to not raise taxation materially and to maintain fiscal rules are welcomed
- Without economic growth in the medium term spending cuts will be unavoidable
- Lower inflation and interest rate cuts will provide tailwinds but the focus on growth is key
- Housing reform involving public/private initiatives are positive but will take time
- UK's new political stability is positive compared to political uncertainty in other regions

Contacts

Richard Bonnor-Moris
rbm@riverscm.com

Eduardo Tomacelli
etomacelli@riverscm.com

Najib El-Rayyes
ner@riverscm.com

Market Comment

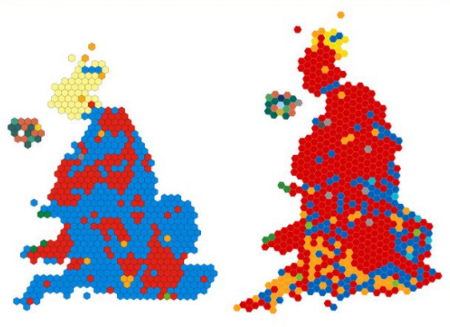
On 4th July the UK voted for a fundamental change in government. A huge swing in political fortunes saw what was a large Conservative majority reversed and the Labour Party winning the biggest majority since 1997. Given in 2019 Labour experienced their worst result for 70 years and now the Conservatives their worst ever the political story is massive. Politics though, and the various debates about vote share, is not our focus here. As investors we want to consider the likely economic impacts of such a political change.

With a massive parliamentary majority comes massive political power. The political change has been remarkable yet, from an investor's perspective, the market reaction has been little more than a whimper. That may change after Rachel Reeves' first Budget, probably in September or October, but we are not expecting any major surprises. The fact that the Labour manifesto pledged the new government to existing fiscal rules, which constrain further borrowing as a proportion of GDP, investors are giving the new government the benefit of the doubt. The aftermath of the Liz Truss 'mini' budget of 2022 reminded the UK how important fiscal prudence is and Rachel Reeves, who previously worked for the Bank of England, has been keen to emphasize how disciplined they plan to be with regard to that.

To maintain fiscal discipline and to transform the 'benefit of the doubt', into 'fiscal credibility' is going to be a challenge for a left leaning government, even with a big majority, given current spending plans. This challenge is especially difficult given the contradiction of current expectations for real terms cuts in government spending, in all departments except the NHS and Education, and the stated pledge of 'no return to austerity". With the manifesto also committed to no increases in income, corporate, national insurance or VAT tax rates there are few levers the government can pull to increase revenue without a return to growth. Some commentators point to Capital Gains, Council Tax or even wealth taxes but these have been denied verbally, if not in the manifesto. Some changes here seem possible, if not likely, but the elephant in the room in growth. Growth has been the stated solution, and we look at the potential for it below, but it takes time.

Our expectation is that for the next year or so, and notwithstanding a number of 'First 100 day' positive, but fiscally neutral

GE2019 (LEFT) VS GE2024 (RIGHT)



Source: uk.political.news

announcements, there will be no change in spending or taxation plans apart from the £5billion or so included in the manifesto. Capital Gains may be an exception but that is unlikely to be significant. The Office for Budget Responsibility (OBR) could help by increasing fiscal 'headroom' in September which may allow some extra spending (the next NI cut in the Conservative manifesto was dependent on that) but overall without that there is little room to manoeuvre unless growth picks up. Labour does at least have the majority to withstand an unpopular start.

In terms of growth there are a couple of tailwinds that may support this, and the stated focus on housing reform is likely to be positive. The other tailwinds are expected to come from falling inflation and the Bank of England cutting rates in the coming months. This will help in the short term. Housing is currently an impediment to growth in the UK and Labour plans to reform planning laws. Its more positive attitude towards new towns and social housing, as well as its pledge to reform compulsory purchase laws, are positive. Increasing house building has been promised by successive governments, but by openly tackling planning reform, many commentators are more positive on Labour's ability to achieve it. If completed in partnership with the private sector, the further benefit is how this can be achieved without impacting the fiscal constraints. An example of this will have to be "GB Energy", which is now likely to be a public/private partnership, despite originally being conceived as a government led endeavour. Improving energy provision, through lifting the ban on onshore windfarms or other measures, should help boost investment and add to growth.

Investment levels in the UK have been low for decades so any measures to increase the saving rate would also be welcomed by investors. One area likely to see change is the compulsory amount employers are made to contribute to pensions. This is expected to have positive long-term effects on investment while improving the low level of defined contribution pension provision (and probably improving the current account deficit).

Whether growth can be achieved will be the question that defines the success or failure of this government. Without it, the options for further increasing taxation and the proportional size of the state seem limited. A period of fiscal prudence may allow for some flexibility in the moving target that are fiscal rules but this will take time. This may allow for more infrastructure investment, but this too is a longer-term project. How much time the markets allow will depend on maintaining credibility and predictability which for the time being, at least, appears relatively high. The outlook for UK Gilts has, on balance, improved since the Election was called.

Looking across the channel at France, where a period of uncertainty appears the only certainty, or across the Atlantic to the US where it seems former President Trump appears to being gifted the Presidency by an ailing President Biden, the political situation in the UK looks comparatively solid. The impact on UK markets as a result has been small. The uncertainty in France has had a greater impact on European assets although it clear that this uncertainty has been preferred, by investors, to the expected victory of the far-right. The US election has wider Global consequences which is why the unpredictability of both current candidates is a material concern for all investors.

Market Returns (£) - 30th June 2024	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
Anchors						
Cash	0.4%	1.3%	2.6%	5.4%	8.8%	9.6%
Inflation Linked UK Bonds	0.2%	-2.3%	-4.3%	-0.7%	-32.4%	-28.1%
Gilts	1.3%	-1.1%	-2.9%	4.7%	-24.3%	-20.7%
Global Government Bonds (hedged)	0.9%	-0.2%	-0.3%	2.9%	-6.7%	-3.5%
Enhancers						
Global Corporate Bonds (hedged)	0.7%	0.1%	0.2%	5.5%	-8.4%	0.0%
Global High Yield (hedged)	0.6%	1.2%	3.8%	11.9%	2.0%	11.6%
Emerging Market Bonds (hedged)	0.4%	-0.4%	-0.4%	3.5%	3.8%	-0.5%
FTSE 100 TR Index	-1.1%	3.8%	7.9%	12.8%	30.2%	32.4%
FTSE UK All-Small Cap	-1.2%	3.7%	7.4%	13.0%	23.9%	30.9%
Global Equity (FSTI)	2.8%	2.6%	12.7%	20.9%	33.3%	75.7%
European Equity (FSTI)	-1.5%	0.6%	6.9%	12.6%	19.8%	38.4%
US Equity (S&P)	4.3%	4.1%	16.0%	24.7%	43.5%	98.0%
Japan Equity (Topix)	-0.2%	-4.4%	6.0%	13.1%	16.0%	35.3%
Pacific Ex Japan Equity (FSTI)	4.3%	6.3%	8.9%	9.0%	-17.4%	9.0%
Emerging Market Equity (FSTI)	4.7%	4.9%	8.4%	13.2%	-6.5%	17.3%
Chinese Equity (Hang Sang)	-0.2%	9.2%	7.1%	-1.3%	-25.8%	-26.1%
Indian Equity (Nifty)	7.7%	10.1%	17.9%	35.1%	59.6%	90.7%
Diversifiers						
Commodity Index	-0.8%	2.8%	6.0%	5.6%	30.9%	42.9%
Gold	0.9%	4.9%	13.6%	21.3%	41.9%	57.8%
Silver	-2.8%	17.7%	23.3%	28.3%	21.4%	82.7%
Brent Oil	-0.8%	2.8%	6.0%	5.6%	30.9%	42.9%
UK Property	0.3%	1.2%	1.1%	0.7%	-0.7%	2.3%
Global Property Shares	-2.3%	0.0%	-2.4%	17.6%	-14.3%	-4.5%
BMi Portfolios						
BMi Low Risk Portfolio	0.8%	0.7%	1.4%	6.1%	2.4%	8.1%
BMi Low to Medium Risk Portfolio	-0.1%	1.0%	4.9%	10.0%	8.4%	21.1%
BMi Medium Risk Portfolio	0.0%	1.2%	6.1%	12.1%	10.2%	27.8%
BMi Medium to High Risk Portfolio	0.1%	1.4%	5.9%	12.1%	9.2%	31.9%
BMi High Risk Portfolio	0.1%	1.5%	5.8%	12.1%	8.6%	33.0%
BMi Low to Medium Income Portfolio	0.9%	0.7%	3.3%	7.4%	-0.6%	5.6%
BMi Medium Income Portfolio	0.4%	0.8%	3.2%	6.6%	1.1%	10.2%

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