Current Focus

November 2024

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

INTELLIGENT INTUITIVE INVESTING

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Summary

- Donald Trump and Republican win Presidency and Congress
- Initial market reaction is positive as growth benefits deemed to *Trump* risks
- Inflationary risks of high tariffs and mass deportations expected to be moderated
- High equity valuations remain less attractive with political uncertainty high
- Benchmark interest rates higher due to high supply as US deficit will remain high
- Underweight risk allocation remains appropriate with Diversifiers preferred

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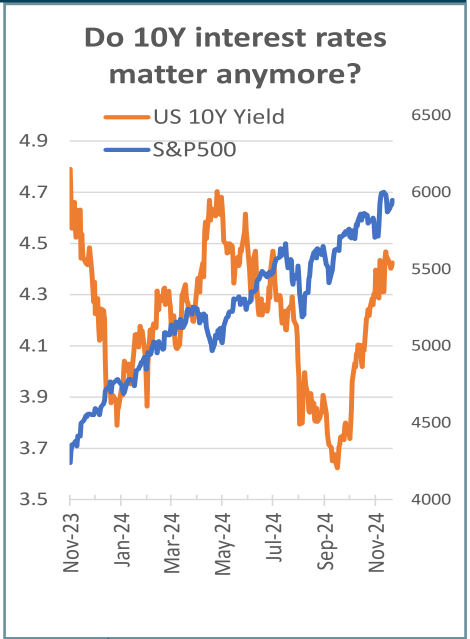
Market Comment

Donald Trump will be the 47th President of the United States. Despite predictions of a tight race the US Election outcome was decisive. Trump and the Republican Party have taken definitive control over the Presidency and both houses of Congress. The initial market reaction was extremely positive. Equity indices in the US and across the world, at least initially, were sharply higher. In the week following the result, the predictable 'Trump-trades' such as Bitcoin, US small-companies (and any companies associated with Elon Musk) did best of all, but investor sentiment seemed to improve across the board. The one exception to the 'risk-on' consensus was the level of medium-term US Treasury yields. The trend that started at the beginning of September, and continued after the election result, saw those yields continue to rise. Despite the Federal Reserve having cut interest rates by 0.75% over their last two meetings, the yield on 10 Year Treasuries has increased by a similar amount (i.e. the curve has steepened). Most of this increase occurred before the election but the 10-year yield jumped up further following the result. The Focus this month is on what is driving this increase and what effect Trump's expected policies will have on inflation. We also look at whether the equity market, at or near all-time highs, continue to appear unaffected by rising borrowing costs.

The headlines of Trumps MAGA policies could not really be more inflationary. The suggestion was for tariffs across the board and the forced deportation of 15 million 'illegal' migrants. If this suggestion was implemented it would likely lead to a jump in prices, falling demand, increased government deficit and a probable depression, not only in the US, but globally. Most market participants, including Trump himself probably, know that to be true. The reason that view has not impacted markets is simply because these policies are not expected be implemented in full. If they happen at all, the tariffs will be highly targeted and deportations probably only symbolic, and at a fraction of the number suggested. This is our expectation and clearly that of the market. The consensus view appears to be that whatever tariffs are imposed, the inflationary impact of them will be more than offset by the benefits other planned and more easily implemented, deregulation will bring. It will not be that simple, but on balance that does appear reasonable, if somewhat optimistic. However negative the long-term consequences may be the short term benefits for deregulation, 'drill-baby-drill' and (if possible) tax cuts will likely boost short term economic growth. Overall, if tariffs are limited, we agree that the impact on inflation will be small. This was certainly the initial market reaction and explains why global equities benefited as fears of tariffs were, at least momentarily, forgotten. As Trump consolidated his position, and with some of his more controversial nominations as political appointees, this global optimism has waned a little but the dollar remains strong and investor sentiment, particularly for US equities, is solid.



Source: Trading Economics

From our perspective not much has changed. With US equities at or near all-time highs and the dollar now stronger against the pound, there remains more risk to the downside than there is to the upside. This was true before the election and appears more so now. Global geo-political risk was already high. Trump may claim he is able to resolve those issues quickly, but the upside from that seems as unlikely to us as the downside of his tariff and deportation rhetoric. Our economic outlook remains close to where it was but with equities now at higher valuations. The elephant in the room, and one not discussed by either side during the election, is the US government deficit. The US has been the fastest growing G7 economy since Covid but it has also been the one borrowing the most. To achieve 3%

GDP growth is easier if a government can borrow 6% of GDP each year to achieve it, but it is questionable how long that can be sustained. Trump's policy of tax cutting will be unaffordable unless Elon Musk and his new Department of Governmental Efficiency (DOGE) implements unprecedented cost cutting without any consequences. He may attempt to instigate an unaffordable policy but again it is unlikely and some moderate middle ground will be found. Deficits will continue, but for how long? The idea of a Liz Truss like scenario of inflating US yields due to unfunded deficit borrowing remains far-fetched for the US Dollar (60% of world trade) but it does explain the recent highs for both Gold and Bitcoin. The eye wateringly high issuance of US Treasuries in the coming years will continue to test demand but this would have happened regardless of who had won the election.

While the election result has removed one major political uncertainty, the transition period has already uncovered many more. Trump's policies did appear to be clear but how, and the extent to which, they are implemented appears uncertain. The US electorate voted for change, and they will certainly get change, although to what extent is impossible to say. With asset valuations, and interest rates higher, the underweight risk position held for some time across the portfolios continues to be appropriate. With some deregulation likely to favour a number of the Diversifier allocations held across the portfolios, we expect the positive performance to continue. Diversifiers will continue to add value while remaining less affected by the risk that extended valuations within certain sectors get tested.

Market Returns (£) - 31st October 2024	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
Anchors						
Cash	0.4%	1.3%	4.4%	5.4%	10.8%	11.3%
Inflation Linked UK Bonds	-2.1%	-2.6%	-4.8%	5.7%	-37.2%	-30.0%
Gilts	-2.8%	-2.2%	-3.3%	5.5%	-24.8%	-24.4%
Global Government Bonds (hedged)	-1.3%	0.7%	2.2%	8.2%	-4.1%	-3.0%
Enhancers						
Global Corporate Bonds (hedged)	-1.7%	0.9%	3.2%	11.9%	-5.5%	0.5%
Global High Yield (hedged)	-0.1%	3.4%	9.2%	18.4%	7.8%	17.4%
Emerging Market Bonds (hedged)	1.6%	1.9%	1.6%	2.9%	7.4%	1.0%
FTSE 100 TR Index	-1.5%	-2.1%	8.3%	15.0%	25.4%	34.1%
FTSE UK All-Small Cap	-1.6%	-2.5%	8.1%	16.3%	19.7%	31.9%
Global Equity (FSTI)	2.3%	2.4%	15.5%	26.2%	28.4%	77.6%
European Equity (FSTI)	-1.9%	-2.1%	5.2%	15.4%	13.4%	36.5%
US Equity (S&P)	3.4%	3.5%	19.6%	29.7%	36.5%	100.0%
Japan Equity (Topix)	-1.6%	-5.4%	5.0%	12.9%	12.9%	26.1%
Pacific Ex Japan Equity (FSTI)	0.6%	8.7%	15.0%	20.0%	-3.2%	17.2%
Emerging Market Equity (FSTI)	-0.3%	3.5%	10.7%	18.3%	2.1%	22.0%
Chinese Equity (Hang Sang)	0.2%	18.7%	23.8%	18.1%	-4.2%	-8.9%
Indian Equity (Nifty)	-4.3%	-5.4%	14.1%	25.2%	37.2%	89.6%
Diversifiers						
Commodity Index	2.4%	2.9%	3.0%	-6.7%	13.6%	40.9%
Gold	8.3%	12.4%	30.9%	29.3%	61.4%	72.9%
Silver	9.2%	13.0%	34.9%	34.0%	44.5%	72.7%
Brent Oil	2.4%	2.9%	3.0%	-6.7%	13.6%	40.9%
UK Property	0.3%	1.1%	2.6%	2.2%	-3.5%	3.4%
Global Property Shares	-7.7%	-5.4%	-4.4%	18.2%	-22.7%	-16.3%
BMi Portfolios						
BMi Low Risk Portfolio	-0.3%	0.6%	3.0%	5.5%	3.3%	9.3%
BMi Low to Medium Risk Portfolio	-0.4%	-0.4%	5.1%	8.9%	6.9%	20.3%
BMi Medium Risk Portfolio	0.0%	0.3%	7.0%	11.4%	9.3%	27.6%
BMi Medium to High Risk Portfolio	-0.3%	0.0%	6.8%	13.5%	8.3%	32.1%
BMi High Risk Portfolio	-0.5%	-0.8%	5.9%	12.9%	6.1%	32.6%
BMi Low to Medium Income Portfolio	-0.6%	1.0%	5.5%	10.7%	0.2%	6.4%
BMi Medium Income Portfolio	-0.8%	0.9%	5.8%	11.0%	2.3%	11.4%

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