Current Focus

August 2025

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

- Fed's independence and long governor terms block Trump's push for 1% rates.
- Adriana Kugler's resignation opens a nomination, but FOMC balance limits impact.
- Trump's appointees, Bowman and Waller will resist rapid cuts, as will Powell
- Trump's pick of new Chair is interesting but not a major concern
- High valuations, tariffs, geo-political risk and government deficits are more concerning
- Portfolios were rebalanced to reflect this and secure profits enjoyed since April

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Market Comment

Despite public spats with Fed Chair Jerome Powell, talk of President Trump firing him and installing a compliant Chair has subsided. However, the early resignation of Fed Governor Adriana Kugler, effective August 8, 2025, has accelerated speculation about Trump's replacement nominee. Kugler's term, set to end January 31, 2026, provides Trump an early opportunity to nominate a governor who could replace Powell as Chair in May 2026, per the Banking Act of 1935. This month's Focus explores why, regardless of Trump's choice, the Fed's institutional constraints and diverse voting bloc will prevent rates from plummeting to the 1% he has requested. Markets remain calm, regarding this at least, for good reason.

The Federal Reserve operates independently to shield monetary policy from political pressures. Its seven-member Board of Governors sets interest rates and oversees financial stability. Governors serve 14-year terms, staggered to expire every two years, limiting any president's ability to reshape the Board. The Fed Chair, chosen from sitting governors, requires Senate confirmation for a four-year term. Governors can only be removed "for cause" (e.g., misconduct), a legal bar upheld by courts. This structure curbs Trump's influence.

The FOMC, which sets the federal funds rate, includes the governors, the New York Fed president, and four rotating regional bank presidents. Consensus drives decisions, with dissent rare (e.g., one in 2024). This dilutes any single member's influence, ensuring extreme policy shifts need broad agreement.

As of August 5, 2025, the Board has six governors, with Kugler's vacancy. Their terms extend beyond Powell's Chair term (May 2026) and governor term (January 2028). The Board includes two hawks - Michelle Bowman and Christopher Waller, ironically Trump's first-term appointees - who prioritize inflation control, resisting rapid cuts. Three neutrals (Jerome Powell, Philip Jefferson, Michael Barr) emphasize data-driven balance, while Lisa Cook, the sole dovish member, favours easing but remains independent. A Trump appointee would need three other governors' support for major changes, a challenge given the hawkish-neutral balance.

The FOMC's 12 voting members include the Governors, the New York Fed president, and four rotating regional bank presidents.

The Board of Governors

Jerome H. Powell (Chair)
Governor Term: Expires January 2028
Chair Term: Expires May 2026
Voting Stance: Neutral, pragmatic.

Philip N. Jefferson (Vice Chair)
Governor Term: Expires January 2036
Voting Stance: Neutral to slightly dovish.

Michelle W. Bowman
Governor Term: Expires January 2034
Voting Stance: Hawkish. Trump appointee

Michael S. Barr
Governor Term: Expires January 2032
Voting Stance: Neutral to dovish.

Lisa D.Cook
Governor Term: Expires January 2038
Voting Stance: Dovish.

Christopher J. Waller
Governor Term: Expires January 2030
Voting Stance: Hawkish. Trump appointee

Adriana D. Kugler
Resigned. Vacant August 8th

In 2025, rotating voters include Dallas's Meredith Black (hawkish), Chicago's Austan Goolsbee (dovish), Minneapolis's Neel Kashkari (neutral to dovish), and Philadelphia's Patrick Harker (neutral). In 2026, the rotation shifts to Cleveland's Loretta Mester (likely hawkish), Atlanta's Raphael Bostic (neutral), St. Louis's Alberto Musalem (hawkish), and San Francisco's Mary Daly (dovish). Appointed by local boards, these presidents maintain the balanced dynamic.

Historical data shows dissent is rare, but hawkish governors or regional presidents could publicly oppose a push for low rates, signalling division and risking market instability. Current economic indicators support cautious easing (say 25–50 basis point cuts over 12 months), as indicated by Powell recently. Trump's proposed tariffs, if anything, add to inflationary caution.

Trump's influence is limited by governors' long terms and Senate confirmation. With one vacancy, he can nominate a loyalist, but controversial figures like Judy Shelton, rejected in 2020 (47–50 vote) for her gold-standard views, face resistance. Trump has just ruled out Scott Bessent, his Treasury Secretary, but mentioned Kevin Hassett and Kevin Warsh as Fed Chair contenders. Hassett, dovish and aligned with Trump's growth agenda, favours moderate cuts but prioritises Fed credibility. Warsh, more hawkish, aligns with Bowman and Waller, resisting aggressive easing. Neither matches Shelton's radicalism, which risks market turmoil.

The impact, even of Shelton, will be moderate because the FOMC's structure ensures moderation. Powell's presence as a governor until 2028, combined with hawks like Bowman and Waller, would counterbalance aggressive rate cuts. Attempting to remove Governors without cause would violate the Federal Reserve Act, likely triggering legal challenges and market turmoil, undermining Trump's economic narrative. We do not think Trump will risk that.

As shown in our recent rebalance to underweight risk in the Rivers portfolios, we believe there are reasons for investment caution at this time. Valuations, international trade tariffs and geo-political risk are the obvious ones. Not to mention the growing mountain of Government debt. Implicit Federal Reserve intervention is not expected. Trump, and his Treasury Secretary Bessent may wish to lower rates to ease the costs of refinancing that debt, as would Rachel Reeves, but it is worth remembering that Central Banks only directly control short term borrowing costs. The long run cost of borrowing is determined by the market. Any attempt to politically restrict central bank independence, and force down short term rates, will likely have the opposite, and more damaging effect of pushing up long term rates.

The Fed's independence, diverse Board, and balanced FOMC ensure that even a Trump-appointed chair - whether Hassett, Warsh, or another - cannot drive rates to 1%. The irony of Trump's hawkish appointees, Bowman and Waller, underscores this resilience. Markets remain calm, expecting cautious easing over radical shifts, preserving the Fed's credibility amid political pressures.

Market Returns (£) - 31 July 2025	1 Month	3 Months	6 Months	1 Year	3 Year	5 Year
Anchors						
Cash	0.4%	1.1%	2.2%	4.8%	14.3%	14.6%
Inflation Linked UK Bonds	0.4%	1.1%	2.2%	4.8%	14.3%	14.6%
Gilts	-0.4%	-0.2%	1.3%	-1.0%	-13.2%	-28.8%
Global Government Bonds (hedged)	-0.3%	0.0%	1.7%	3.2%	4.5%	-4.1%
Enhancers						
Global Corporate Bonds (hedged)	0.3%	1.9%	3.4%	5.2%	10.1%	-0.6%
Global High Yield (hedged)	0.9%	4.3%	4.2%	10.5%	30.7%	25.1%
Emerging Market Bonds (hedged)	1.0%	4.0%	4.9%	8.2%	20.4%	0.0%
FTSE 100 TR Index	4.3%	8.4%	7.6%	13.2%	37.9%	86.2%
FTSE UK All-Small Cap	0.8%	11.6%	7.8%	7.6%	24.1%	72.8%
Global Equity (MSCI)	4.9%	13.0%	0.6%	12.3%	42.9%	89.1%
European Equity (MSCI)	1.8%	6.0%	6.4%	10.7%	39.5%	64.8%
US Equity (S&P)	5.9%	15.2%	-1.0%	12.5%	45.7%	102.6%
Japan Equity (Topix)	2.5%	5.7%	3.1%	4.4%	31.9%	51.7%
Pacific Ex Japan Equity (MSCI)	8.3%	20.0%	12.5%	25.1%	25.9%	21.4%
Emerging Market Equity (MSCI)	5.6%	13.7%	8.4%	13.7%	24.1%	29.0%
Chinese Equity (Hang Sang)	8.0%	15.8%	18.1%	44.8%	28.6%	18.8%
Indian Equity (MSCI)	-1.7%	-0.2%	-2.1%	-10.7%	23.5%	96.3%
Diversifiers	4.5%	12.5%	0.4%	9.4%	30.0%	60.1%
Commodity Index	0.0%	4.6%	-1.7%	3.4%	14.4%	31.8%
Gold	4.4%	1.7%	11.2%	32.4%	72.6%	65.9%
Silver	5.5%	13.1%	6.1%	21.8%	64.9%	44.6%
Macro/CTA Funds	N/A	-1.6%	-11.3%	-6.8%	-6.7%	20.5%
UK Property	0.3%	1.2%	2.6%	5.4%	-8.3%	11.5%
Global Property Shares	N/A	-0.7%	-7.8%	-2.5%	-10.3%	16.9%
Rivers MPS Portfolios						
Rivers Preservation	0.4%	1.1%	2.5%	4.2%	N/A	N/A
Rivers Cautious	1.7%	4.5%	3.6%	5.7%	19.6%	24.4%
Rivers Balanced	2.0%	5.8%	5.0%	8.1%	24.3%	32.1%
Rivers Adventurous	2.7%	8.1%	5.4%	7.6%	24.4%	33.4%
Rivers Aggressive	3.1%	9.4%	4.6%	6.2%	22.4%	34.9%
Rivers ESG Balanced	2.4%	7.0%	4.5%	7.4%	14.8%	27.2%
Rivers Balanced Income	2.1%	5.2%	6.0%	9.1%	15.8%	26.1%

Source: Financial Express in GBP (unhedged unless stated) as at 31st May 2025. *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.