Current Focus

August 2026

A 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

- Markets are pricing a benign Hormuz outcome; we are less sure
- Energy has stalled disinflation but raising rates may not be the solution
- Soaring long bond yields are a worry but not the primary market risk
- The risk premium from equities is unattractive espesially given tech concentration.
- Portfolios were rebalanced 21 August: focus remains on diversification and value

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Market Comment

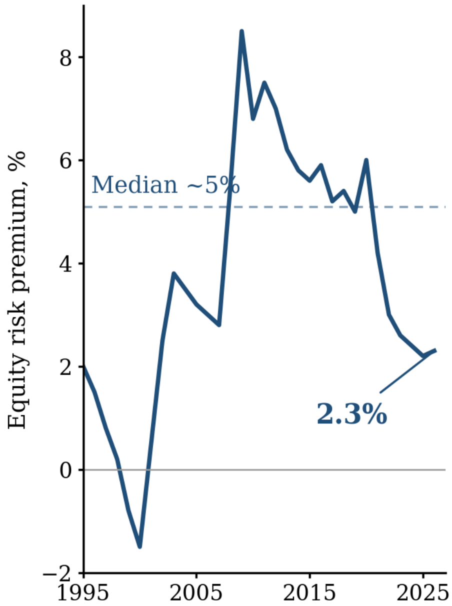
On the surface, this has been a pleasant enough summer for investors. Corporate earnings, particularly across the US technology complex, have again come in ahead of expectations, and the major indices sit within touching distance of their highs. Beneath the surface, the picture is rather less serene. The energy shock that followed this summer's escalation in the Middle East has interrupted the disinflation that central banks spent two years nurturing. US headline inflation stood at 3.4% in July, the core rate sticky despite June's fall in energy prices. At home, the Bank of England held Bank Rate at 3.75% at the end of July, but two members of the Committee voted for a rise, a detail that would have seemed fanciful a year ago, and the Federal Reserve meets in mid-September with markets attaching real odds to the next move being up rather than down. The question we keep returning to in our investment committee is not whether the economy is holding up (so far, it is), but whether investors are being adequately paid for the risks they carry. This month's Focus asks precisely that.

Concern over oil prices

The proximate risk is oil. Disruption to shipping through the Strait of Hormuz – through which roughly a fifth of the world's oil passes – has restored a supply premium to crude, with Brent trading at over $90 in mid-August. Energy equities have been among the year's best performers, the global energy sector up about 40% year to date. Energy shares have outrun the commodity itself: markets are happy to own the hedge, yet reluctant to price the risk. What strikes us is not the spike but the lack of concern around it. Equity volatility remains subdued and consensus assumes the disruption resolves quickly. It may. But spare capacity and inventories have been materially diminished, and further disruption could quickly produce significant price spikes. Energy is already why headline inflation has stopped falling and why September's central-bank meetings are live in both directions. This obvious risk is acknowledged yet seemingly ignored.

Enhancers priced for perfection

Which brings us to valuations. The equity risk premium on the S&P 500 – the additional return shares offer over bonds



Source: Rivers Capital market data. S&P expected earnings yield minus 10Y US Treasury yield.

– has fallen to roughly 2.3%, against a long-run median above 5%. Investors are accepting historically thin compensation just as the ten largest stocks account for over 40% of the index, the Magnificent Seven alone about a third. A narrow market priced for perfection is not a prediction of a crash; strong earnings are a real support, and expensive markets can stay expensive for years, as the late 1990s demonstrated. The bond market has noticed too: the yield curve has steepened notably, which sits oddly with equities' blind faith in growth. Our point is that better opportunities are available: when the reward for general equity risk is this thin and the risk of correction so visible, our preference is always to diversify. Anchor returns, low-risk and predictable, are positive in real terms; Anchors, Diversifiers and even value equities offer positive returns with far smaller potential downsides.

Long term interest rates

In recent days long-dated government bond yields have pushed to multi-decade highs on both sides of the Atlantic – the 30-year US Treasury above 5.2%, its highest since 2007, and the 30-year gilt around 5.7%, territory last seen in 1998 – and the US Treasury has felt obliged to respond, doubling its long-dated debt buybacks to steady the market. The relief lasted about

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a day. We understand the anxiety: deficits are wide, supply is heavy, and buybacks treat the symptom rather than the cause. Even so, we do not regard ever-rising yields as the primary risk, least of all in gilts. Expensive oil is inflationary this year but recessionary thereafter: it taxes the consumer, squeezes margins and slows the very economy that borrowing costs are priced against. Relentlessly rising long yields and a weakening economy rarely keep company for long. The sharper danger, to our eyes, remains an equity market priced for perfection, not a bond market priced for worry.

Rivers Portfolios Rebalance

At the rebalance we implemented on 21 August; we again held the tactical Risk Level at 2 out of 7. Fund changes were made but the value bias and maximum diversification we adopted earlier this year were maintained. This stance does not reflect a forecast of recession but that we are not being paid enough to carry full weight of equity in many sectors. The Anchor allocation is doing the quiet work, with short-dated gilts and cash-like instruments earning yields that would have seemed a luxury three years ago. Our Diversifiers – gold, healthcare, real assets and energy – offer uncorrelated returns; despite some volatility this year, energy and healthcare remain relatively unloved and under owned. Within Enhancers we continue to prefer sectors where valuation metrics are better, especially in how we allocate within the US, away from the mega-caps. In time we would like to return to a higher risk level, but with seasonal factors negative and valuations this high we are in no hurry. What would change our stance: durable de-escalation in the Gulf; a broadening of equity leadership beyond the mega-caps; or clear evidence that core inflation has resumed its descent. Until one of those arrives, we are content to be paid to wait.

Market Returns (£) - 31st July 2026	1 Month	YTD	1 Year	3 Year	5 Year	10 Year	Volatility
Anchors							
Cash	0.3%	2.2%	4.0%	14.9%	19.1%	21.3%	0.6%
Inflation Linked UK Bonds	-1.8%	-0.1%	0.7%	2.7%	-12.2%	6.2%	6.2%
Gilts	-1.7%	-1.7%	1.1%	5.9%	-24.9%	-15.8%	9.5%
Global Government Bonds (hedged)	-0.9%	-0.1%	1.2%	9.7%	-2.1%	6.0%	4.5%
Enhancers							
Global Corporate Bonds (hedged)	-1.3%	0.1%	2.8%	15.9%	0.2%	18.5%	6.4%
Global High Yield (hedged)	-0.4%	2.3%	6.5%	31.8%	22.0%	53.6%	7.0%
Emerging Market Bonds (hedged)	-1.7%	0.3%	6.4%	23.8%	3.3%	19.4%	9.2%
FTSE 100 TR Index	3.6%	11.5%	22.8%	57.1%	85.5%	135.7%	10.1%
FTSE UK All-Small Cap	1.6%	8.7%	15.2%	43.2%	30.2%	132.3%	12.2%
Global Equity (MSCI)	-0.9%	10.2%	18.4%	57.6%	75.6%	226.9%	11.6%
European Equity (MSCI)	0.3%	9.7%	20.9%	48.6%	59.4%	143.4%	11.3%
US Equity (S&P)	-1.5%	9.9%	17.2%	60.5%	85.1%	282.3%	12.9%
Japan Equity (Topix)	0.9%	16.6%	28.9%	56.1%	66.2%	134.4%	12.1%
Pacific Ex Japan Equity (MSCI)	-5.3%	28.5%	45.5%	82.8%	60.8%	167.2%	20.2%
Emerging Market Equity (MSCI)	-4.4%	20.0%	34.2%	62.4%	52.0%	137.7%	15.6%
Chinese Equity (Hang Sang)	11.9%	2.2%	6.1%	37.1%	22.1%	63.5%	22.9%
Indian Equity (MSCI)	0.3%	-8.4%	-8.0%	11.6%	33.8%	113.6%	15.9%
Diversifiers	-1.2%	8.8%	14.8%	41.4%	44.9%	163.2%	11.5%
Commodity Index	6.1%	22.9%	33.3%	34.8%	70.7%	97.0%	15.6%
Gold	-0.8%	-6.1%	20.6%	98.0%	130.3%	197.6%	15.4%
Silver	-4.6%	-18.3%	53.3%	115.4%	126.5%	149.8%	29.5%
Macro/CTA Funds	-2.9%	4.0%	11.2%	8.3%	18.4%	20.1%	10.5%
UK Property	0.7%	3.0%	5.1%	11.8%	9.1%	32.9%	3.9%
Global Property Shares	6.0%	14.0%	18.9%	25.6%	-8.8%	17.4%	21.1%
Rivers MPS Portfolios							
Rivers Cautious	0.2%	4.2%	11.3%	28.8%	28.8%	72.9%	5.5%
UK RTMA Risk 3 - Moderate	-0.8%	5.4%	10.6%	28.7%	22.2%	56.9%	6.9%
Rivers Balanced	0.3%	6.9%	16.4%	39.6%	39.0%	100.8%	6.6%
UK RTMA Risk 4 - Balanced	-0.6%	7.2%	13.5%	35.4%	32.3%	79.9%	8.0%
Rivers Adventurous	-0.3%	6.6%	16.7%	39.3%	37.0%	107.4%	8.4%
UK RTMA Risk 5 - Growth	-0.8%	8.4%	15.2%	40.4%	40.6%	102.0%	9.1%
Rivers Aggressive	-0.3%	8.0%	19.4%	40.2%	39.1%	121.4%	9.4%
UK RTMA Risk 6 - Adventurous	-0.9%	10.3%	18.2%	45.7%	47.5%	124.8%	10.1%

Source: Financial Express in GBP (unhedged unless stated) as at 31st May 2026. Rivers Portfolios since launch June 30th 2016

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