Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone Multi-Asset Total Return Portfolio

Update, August 2019

Overview

After a turbulent summer, the protests in Hong Kong appear to have come off the boil. There is still unrest in the island nation, but it feels like it's tapering off after the government capitulated and killed a hated extradition bill.

This is good news for China, which is having to juggle slowing economic growth, real estate bubbles and an interminable trade war with the US. For investors, it was that rare thing of late: a risk that has lessened rather than gotten worse. Hold onto your anorak, though. Because before you could even get your autumn coat out of the wardrobe another issue burst onto the scene. Civil war has been steadily burning up Yemen for years and years, but in mid-September the flames suddenly surged across the border into Saudi Arabia. About 5% of the world's oil production was taken offline by – depending who you believe – an enfilade of cruise missiles from Iran or a drone squadron from Yemen. Either way, it appears that wading into the Yemeni war has come back to bite the Saudis.

This was a good reminder that the things that really rock your portfolios tend to be the things no-one saw coming. We benefited from the rapid uplift in oil prices because of steady increases to our commodities ETFs over the past year or so. But we cannot claim it as a prescient call on geopolitics! We've been increasing our commodities for completely different reasons: as protection in case inflation shot higher and as a way of spreading our risks beyond stocks and an extremely overvalued bond market. Sometimes you're right for the wrong reasons.

As it happens, we also own several oil majors, including **Shell** and **Total**, which we bought as a way of hedging higher oil prices and taking advantage of a pullback in their share prices this year.

Over August, we took a more defensive stance in our portfolio. As the possibility of recession increases, we sold our more economically sensitive holdings and increased our investments in the US. Our research tells us that it's best to consolidate into defensive stocks at this time and the American market tends to be the most defensive stock market in the world. We are still sticking with equities – we don't believe a recession is right around the corner, but it's definitely closer than it was at the beginning of the year.

This month's trades

Because of the steep fall in bond yields and the pound's weakness during the month, we sold some of our longer-dated foreign debt to take profits. These included the **US Treasury 2.25% 2027**, the Swiss-denominated **Vodafone Group 0.5% 2031** and **Credit Suisse Group Funding 1% 2023**, the latter two benefiting from the pound reaching a record low against the franc (CHF1.17). We moved some of this cash into the shorter-dated **Singapore Government 2.25% Senior 2023**, but overall increased the amount we hold in cash.

We added to many of our existing stock holdings because of strong investor inflows to our portfolio as well.

Outlook

UK Prime Minister Boris Johnson spent his first full month in power promising to sock it to Europe and splurge cash on emergency services, the NHS and infrastructure. Both messages have been taken well by

Middle England. He also used arcane rules to try to circumvent Parliament, but that's really neither here nor there in the grand scheme of things. All Middle England saw was a man trying to do their bidding, regardless of the constitutional gravity of the situation he created. For most of us, the ends justify the means – especially when the means are complicated.

So while half the country is afraid Mr Johnson will drive the nation off a cliff on 31 October, the other has absolutely nothing to be angry with Mr Johnson about. Everything he says is what they want to hear and he hasn't flip-flopped in the past. Whether what he says is true or will actually come to pass is beside the point. Opinion polls show he is getting more popular by the day.

We have zero knowledge of how this will all play out, but one thing we are sure of is that politicians are good at reading the wind and changing course to take advantage. And the wind is blowing toward fiscal spending and investment in infrastructure. So regardless who ends up on the Iron Throne, ahem, or should we say in No.10 Downing Street, and their party affiliation, we believe fiscal stimulus is coming. That helps us guide our assumptions of economic growth, bond yields and the pound.

A fiscal bonanza would increase inflationary pressures and could mean that the Bank of England stops thinking about cutting interest rates. That injection of cash into infrastructure and public services could be just the boost that stabilises the UK, its people and its economy. UK businesses and households have sort of convinced themselves they are already in recession, even though employment is still at record levels and wages are rising by 4%, the strongest gain since the global financial crisis. We're actually getting gradually more optimistic about the UK – just as long as we can get Brexit out of the way …

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