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Rathbones
Look forward

Rathbone Multi-Asset Defensive Growth Portfolio

Monthly update August 2020

Stock markets climbed steadily in August, led by the American technology giants. Wobbles appeared after month-end as exceptionally large option purchases over the quiet trading period were revealed.

Markets have calmed down as investors returned from holidays and trading volumes have returned to normal. Although there is still a sense of unease pervading the market. A substantial retrenchment in tech shares certainly grabs headlines, but we believe it's a bit of a storm in a teacup. Large tech companies, several of which we own, have had a tremendous year so far. A short-term setback is not surprising.

Democratic presidential nominee Joe Biden added Kamala Harris to his ticket. Passing over more radical candidates, such as Bernie Sanders or Elizabeth Warren helped cement his centrist message. Meanwhile, President Donald Trump clawed back some ground in the polls after several months of declines during the depths of the American COVID-19 crisis. He is still trailing Mr Biden by a significant margin in electoral college vote forecasts, yet we believe the election will actually be very closely fought. We've all put way too much trust in polling in the past, only for reality to reveal it as a complete misrepresentation. As things stand, now that the spectre of the radical left has faded from the Democratic platform we're more comfortable with the future of the US whichever party takes the presidency.

Japanese Prime Minister Shinzo Abe announced he was ending his term one year earlier than expected. This hasn't changed our feelings on Japanese assets. Improvements to corporate governance and a keener focus on shareholder value had actually started before Mr Abe took power in 2012. The new philosophy has certainly taken strong root during his incumbency, and his successor has strong support from the ruling Liberal Democratic Party for a business-as-usual approach.

We continued to add to our yen exposure through the **Japan Government Bond 0.1% 2023**, because we believe this is a safe-haven currency that should offer some protection in periods of market stress. We also added to the **Singapore Government 2.25% 2021** to further diversify our currency exposure.

We bought bargain bulk store **Costco**, a quality stock with a cyclical bent. Its membership-based shopping model creates an interesting dynamic among its customers: because they have paid for the privilege, they tend to want to use it by buying from Costco. The company's keen prices and membership perks help encourage that as well, obviously. We think its focus on supplying typical American households and small businesses should deliver decent returns if the recovery continues to roll on.

We are still seeing value in the bond markets of developing economies, particularly if the dollar continues its recent downward trend. This led us to add further to the **Barings Emerging Markets Debt Blended Total Return Fund**.

Despite terrible headlines, American new case numbers are actually decreasing from a July peak. By late September they were still pretty elevated in absolute terms, however, with about 40,000 new cases reported each day. The most populous states are hurting most, even when adjusted for size, with California, Texas, Florida and New York topping the grim league tables. The virus is lingering in Europe and the UK too. The UK government has started a sort of rolling lockdown across much of the country, attempting to ward off another onslaught for the NHS. Deaths and hospitalisations in most nations remain much lower than in the past. It appears this is due to the progress doctors and nurses have made in treating the virus, although it will be a few more weeks before we know for sure.

As the northern hemisphere slips into winter, still battling to get a grip on the virus, people are going to get grumpy. The prospect of being locked up at home and isolated from friends and family for months on end with nothing to look forward to apart from a soggy walk in the rain will start to rattle many. You can already see symptoms of the discontent in larger protests against restrictions. Even the Conservative backbencher lobby, the 1922 Committee, has raised its ire with the Cabinet over dictatorial restrictions. We've been expecting this sort of unrest to pop up as the government plays the glummest version of Whack-A-Mole you could think up. This tension between trying to restrict the virus's spread and trying to keep the economy from suffocating means that we're likely to see both new cases and the economy bump along in a volatile yet middling range. And it's probably best to expect that to continue.

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