Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone Multi-Asset Strategic Growth Portfolio

Monthly update November 2020

It's vaccine season. A brace of COVID-19 inoculations tumbled out of the pharmaceutical industry in November and early December.

This is the best possible news. It's been a grim year – and we've still got a long road ahead – yet when you stop and think about it, the pharma response to the pandemic should be one of the most heartening events of our times. Drug companies, which have been universally reviled over the years for alleged price-gouging and allegations of unfair practices, have developed multiple viable vaccines in a matter of months. Two are based on mRNA, the first of their type and of an effectiveness well beyond those of the past. More could arrive at any moment, as plenty more vaccines are in final stage trials.

We did this together

Let's be clear-eyed about this, the pharma companies have had a lot of help from governments and public and university laboratories. Oodles of taxpayer money has been thrown at these projects in 2020, so it's not like big pharma did this all on their own. Even Pfizer, which refused government grants, benefited from years of public research into mRNA and is even now being badgered by nations to take money to ramp up production. Yet together, governments, public scientists and companies have manged to develop, not just one, but several cutting-edge vaccines in a matter of months.

For decades, the number one biggest risk to Western nations has been pandemics. Greater even than terrorism which, while terrible, shocking and scary, kills nowhere near the number of people that a typical flu season does. Unfortunately, because of complacency and more attention given to urgent headlines of the day, Western governments let their pandemic response armouries and plans fall into disrepair. This year was a reminder that the risk of infectious outbreak is very real. And from it our societies have created a new technology that should give us a greater ability to fight future pandemics. Maybe this is just 2020 chat – we've all learned to take the silver linings wherever you find them – but this actually gives us hope.

So, that's where we are anyhow. While most people are ecstatic about what these vaccines mean for us throwing off lockdowns and getting back to normal in 2021, we're actually more excited about what it means for our ability to fight off future pandemics – or prevent them from getting going. Because we're a bit more measured on how great the vaccines will be for the here and now – and therefore how much they will boost businesses. Despite the creation of vaccines, COVID-19 infections are soaring the world over. Due to the vaccine announcements, November was a phenomenal month for all sorts of companies that would benefit from economies reopening: airlines, oil companies, retailers, restaurant chains, hotels and cruise lines. Yet the ability to manufacture jabs and get people inoculated can't keep pace with the virus's ability to spread. As nations fall back into lockdowns, the strain on many businesses will be around for some time yet. Not only that, but many businesses affected by the upheaval weren't in a good shape before it struck.

Investing in the time of COVID

For all the pandemic is filed under 'macroeconomic event', we believe investing in the time of COVID is actually more about the micro – about assessing each company on its own merits and situation. It's vanishingly rare that you can make a correct investment call based solely on an industry. However, when others are doing that and buying (or selling) at seemingly any price, it does offer some great opportunities.

We added to our holdings of **US Treasury 1.5% 2030** bonds as prices fell amid rising inflation expectations that we believe are overplayed. With the chance of volatility looming next year – given the lingering virus, Brexit uncertainty and the potential for investor disappointment with company reporting in the first half of next year – we felt it was prudent to top up our safe-haven assets. That meant adding to gold on its weakness, too, using the **iShares Physical Gold ETF**.

We bought more of Californian medical devices company **Dexcom**, which we added to the portfolio in October. This business makes high-end, minute-by-minute glucose monitoring systems for people with diabetes. The number of people living with this disease continues to grow, and this system is an unobtrusive way of dealing with it. Dexcom is growing well and we believe its technology is far superior to its rivals.

We continued to build our position in **Jack Henry**, which helps American finance companies with technology and payment systems. Focusing exclusively on the US market, it has burrowed out a niche supplying high-quality tech to smaller, regional banks, rather than the multi-national first tier banks.

We sold the last of our shares in UK broadcaster **ITV**. The vaccine-inspired bounce back buoyed ITV as well, because a healthier environment for its advertisers bodes well for its profits. We believe there are better places to invest, however, especially as there is a mean band of deep-pocketed competitors arrayed against ITV: Netflix, Disney, Amazon, BBC and more besides.

We sold all of our holding in the **AHFM US Enhanced Equity Fund** in order to use that cash to invest directly in American companies instead.

Another sale was German warehouse automation company **Dürr Systems**. We have recently built a position in **Kion**, which we felt is a better way to invest in warehouse automation and the boom in ecommerce because it accounts for virtually all of its sales. Dürr has other divisions that dilute this exposure, including a large automotive automation arm and a hobbyist furniture-making tools business.

What about Brexit? As we write, it's unclear whether a deal will be struck or not. It's also anyone's guess what the deal will actually be. We hedged our risks on Brexit long ago, because we realised we simply didn't know what will happen. We should be fine regardless of how things pan out, given how we have positioned ourselves and the protections we've taken around currency fluctuations.

Now, with all the excitement of vaccines, we've been watching the oil price quite closely. The price of the black stuff is often erratic and heavily influenced by sentiment, yet you can't lay that claim on Brent Crude Oil over the past few months. Quietly and in the background it has steadily marched higher, rising above $50 in mid-December for the first time since April. That is no doubt driven by vaccines and the expectation of greater growth in 2021, so hopefully that's a promising sign.

Next year's GDP growth and company earnings will probably look good, but that will be in comparison to an *annus horribilis*. We're unsure how growth will fare after the rebound in the first and second quarters. We worry about getting too carried away with hopes of a swift recovery. Back when the pandemic hit, investors showed they were happy to ignore truly gruesome short-term results and focus instead on the longer-term viability and trajectory of businesses, especially as offered by the forward guidance of company management. It seems prudent to expect this to happen in reverse in coming quarters: that investors will discount the flashy short-term jumps in sales and profits, focusing instead on how confident businesses are about the coming couple of years and beyond. This could be the spark for some concerns and sell-offs.

Inflation, what inflation?

In some quarters, inflation expectations started to rise along with news of the vaccines. We are not in those quarters. We are firmly of the belief that inflation is unlikely to come roaring back in any sustained way. Yes, when economies begin to reopen, that surge will drive a rise in prices due to the 'base effect' – essentially because they are bouncing off extraordinary lows. However, beyond that, we haven't seen anything that would dislodge the disinflationary forces that have gripped the world for decades. Digitisation continues to reduce costs and improve service quality. The world is even more indebted now than before the pandemic, meaning more future income will have to go towards paying it back rather than spending on fun or productive stuff. And the world is ageing, which while likely to push prices higher in some specific areas, like healthcare, it is also likely to mean higher tax rates/insurance premiums on workers to pay for it and lower demand overall across economies.

This is why we focus our investments on those businesses that should be able to increase their profits independently of stronger GDP growth. It's also why we are most excited about companies that offer solutions to those issues raised above.

So happy holidays everyone. Congratulations! You made it through 2020. Thank you for trusting us to manage your wealth. It is an honour and we take it extremely seriously. Enjoy your Christmas break and all the best for 2021.

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