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Rathbone Unit Trust Management

Contact us 020 7399 0399 rutm@rathbones.com

Rathbones
Look forward

Rathbone Global Opportunities Fund

Monthly update January 2021

In January your fund fell by 1.1% versus an IA Global sector average drop of 0.1%.

"Somehow we weathered and witnessed
A nation that isn't broken
But simply unfinished.
There is always light
If only we're brave enough to see it
If only we're brave enough to be it."

Extract from inauguration poem for US President Joe Biden by Amanda Gorman (age 22, National Youth Poet Laureate)

In the first year of this new President's term in office, we are going to emerge from this "hibernation" type recession – lockdowns have put many parts of the economy into temporary hibernation, but we believe we are about to awaken. And the snapback could be fast and furious. Even for people who have lost their jobs, the transition to new employment will be less difficult than historic recessions where whole industries disappeared and coal miners and steel workers couldn't quickly or simply retrain to be massage therapists or personal trainers. The transition to new jobs should be easier this time as many hibernating industries will simply awaken in a slightly different, more digitally enabled and modernised form.

Many of us are just feeling frustrated and nervous that the continued rise in cases of COVID-19 and its mutations threaten to reset the clock. But we have turned the corner and we believe that the stock market and our political leaders will stop obsessing over the bare number of cases and feel encouraged to re-open as the number of severe cases plummets. The goal of the vaccines is to turn COVID into a mild illness for virtually anyone who catches it. Once our immune systems are trained against COVID, we'll have a strong (but not impenetrable) line of defence against it.

The end of our house arrest is coming and with it probably the sequel to the Roaring Twenties. History tells us that demand can be very strong following sombre periods – recessions, wars, terrorism, and pandemics. The Roaring Twenties followed the Spanish flu and World War I, huge crowds gathered to celebrate the end of social isolation and we saw the birth of modern consumerism. When you combine these trends with huge stimulus, low interest rates and reflation-driven policies, you could have a multi-year expansion. But it probably won't be the exact same outperformers to date that prove future portfolio winners. As a result, we have tilted the fund in recent months towards re-opening reflation beneficiaries.

About 15% of the portfolio has changed in the past few months. We've bought high-quality companies with excellent growth potential that were temporarily hit by the pandemic in 2020. We think the reflation trade and pent-up demand could drive significant growth against weak comparisons a year ago. These stocks include some apparel and retail companies for instance – there was $62 billion of lost clothing and accessory sales in the first half of last year alone. We've been buying stocks like **Next**, **TK Maxx** and **Nike**.

Industrial companies also look attractive as we're in the midst of a rare confluence of events — inventories are at historic lows and longer-cycle capital spending plans have troughed at the same time. Many European industrial companies have already taken extreme action to tackle their cost bases, so they are emerging leaner. Industrial companies have been at this rodeo before: they know how to navigate wild cycles. But this time they are even more geared into a potential multi-year earnings boom. We own companies like gases giant **Linde**, engineering and tools company **Sandvik** and heeding the immortal words of Chevy Chase in the 1980s movie Fletch ("It's all ball bearings nowadays."), we own **SKF**, which makes ball bearings.

Finally, and at the risk of potentially eating our own words, we have been buying some banks for the first time in five years. We still refuse to buy the big, undifferentiated universal banks that we believe are purely at the mercy of the rate cycle and circumstances totally outside their control. We think big banks are too reliant on their brands — and they're not scared enough to make the changes they need to succeed — so their profitable backwaters quietly get diverted. But we have found some regional banks that are outmanoeuvring and outgrowing their competitors. These are the nimble and established gatekeepers to technology and innovation companies — the financial plumbing for the fastest growing part of the economy. As a result, they're growing their client bases, deposits and loan origination at multiples of the competition. If fiscal stimulus and the reflation trade come through, we expect them to benefit further. We own **Silicon Valley Bank** and **First Republic Bank**. If conditions alter, and we can find companies that fit our recipe, we're happy to make changes to our menu and eat our own words.

While some of the industries examined above are populated with deep value plays which could rebound very sharply in a re-opening reflationary scenario, we're not going there. This is not a value fund. We're not interested in controversial, disputed valuation, turnaround stories, sunset industries or special situations that can only succeed in a booming economy. We want to own companies that we believe offer gold standard growth potential that were temporarily put into hibernation… and, in our view, are now ready to awaken.

James Thomson
Lead Fund Manager

Sammy Dow
Fund Manager

Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. Past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and you may not get back your original investment.

Rathbone Unit Trust Management Limited
8 Finsbury Circus, London EC2M 7AZ
Tel 020 7399 0000
Fax 020 7399 0057

Information line
020 7399 0399
rutm@rathbones.com
rathbonefunds.com

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