For professional advisers only

Rathbone Unit Trust Management

Contact us 020 7399 0399 rutm@rathbones.com

Rathbones
Look forward

Rathbone Global Opportunities Fund

Monthly update February 2021

In February your fund was flat while the IA Global sector averaged a gain of 0.4%.

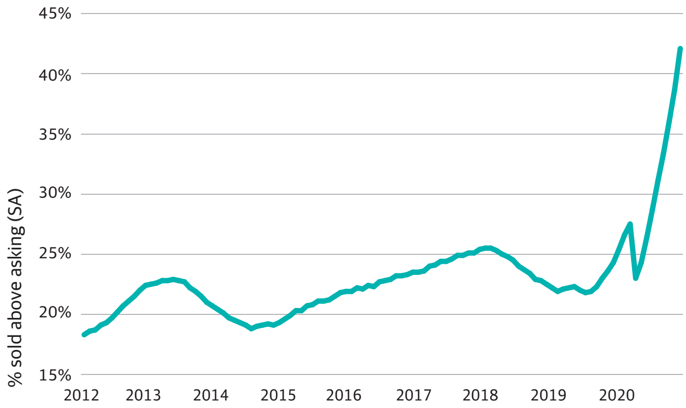
The imminent V-shaped rebound in economic activity, combined with monster stimulus this year of $3-4 trillion in the US alone, has triggered a shock repricing of risk, driven by concerns about higher inflation, economic overheating and rising borrowing costs. Investors are now digesting the reality that the total stimulus spend is going to be much bigger than the $1.9 trillion headline figure trailed by the Biden administration. There is growing anticipation about a mega-infrastructure package to follow soon thereafter. People will get sizeable amounts: the average family of four in the US will receive stimulus cheques and child tax credits worth $14,000 in 2021, according to Raymond James' strategist. And shiny roads, bridges and airports will come later.

Growing pains

The sharp pullback in stocks at the end of February is a good example of the type of 'flash mob'-type trading behaviour we are likely to experience in coming months. Big moves in stock markets grab more attention because many believe they gain extra credibility from their sheer size. But, in reality, given the herd-like behaviour of stock market participants and the estimated 80% of daily volumes attributed to trend-following machines, they may simply prove self-fulfilling.

In this case, the big moves were triggered by a repricing of the risk of overheating economies and rising borrowing costs as the 10-year US Treasury yield surged to its highest level since the COVID-19 pandemic hit the West a year ago. (US Treasuries set the world's benchmark borrowing costs.) Concerns about overheating and a consequent spike in inflation that would drive up interest rates have been mounting against a backdrop of headlines screaming about rising wages at Walmart, **Amazon** and **Costco** and a booming US housing market (where construction costs have risen materially).

US homes sold above asking price



Source: Redfin; note: The percent of homes sales with a sale price greater than their latest list price covering all homes with a sale date during a given time period. Excludes properties with a sale price 50% above the listing price or with a sale price 50% below the list price.

We believe that stock markets can digest higher rates and there are sufficient deflationary forces and slack in many parts of the economy to avoid overheating. But we may have to endure market tantrums before we can be sure that equilibrium is restored. Once the sharp move upwards in rates consolidates and becomes well anchored, we expect market volatility to start to ease and stocks to move more reliably higher.

Tilting towards select reopening beneficiaries

Your fund has delivered a 32% return over the past 12 months, but it has underperformed since the first vaccines were discovered. The market has bid up those stocks hit hardest during the pandemic, and those facing strong earnings recoveries. Commodities, banks and leisure stocks, like cruise lines, have been recent stock market darlings — areas of the market we've never liked because their unpredictable fundamentals rely on a booming economy. But we have tilted approximately 15% of the fund in recent months towards reopening and reflation beneficiaries. These aren't naked 'value' plays predicated on an economic super-cycle. Instead, they are 'growth' companies that the pandemic put into hibernation. These are retail and industrial stocks and regional US banks that we expect to participate in the V-shaped reopening demand surge as households start spending their stimulus cheques and the almost $2.5 trillion they've accumulated in excess savings.

In conclusion, the growing pains we're currently experiencing will persist until rate expectations become well anchored. Until then, investors will tend to shoot first and ask questions later, driving unsettling volatility that is particularly frustrating as it's not linked to changing company fundamentals. But we continue to believe that a multi-year expansion lies ahead of us and that equities are the 'best house in town' for those who wish to participate in it.

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