RATHBONES

RATHBONE GLOBAL OPPORTUNITIES FUND

QUARTERLY UPDATE DECEMBER 2023

In the fourth quarter, your fund returned 9.3% versus a 6.8% average increase in the IA Global sector. In 2023 the fund appreciated by 18%, delivering first-quartile performance.

The bears were frustrated last year. Growth was higher, inflation was lower and the imminent-recession call was delayed if not entirely dispelled. But not many investors shared the feelgood vibes or, indeed, felt like turning less bearish. Market volatility just reinforced entrenched views. Every move higher in markets convinced investors that valuations were now definitely too rich. And every move lower triggered "I told you so, recession is coming" warnings.

It wasn't an easy year. Only 28% of stocks in the S&P 500 outperformed – the lowest percentage on record. But the waves of negative headlines forecasting never-ending gloom were wrong too. We've never wanted to be a market timing tool (it's too difficult), so we continued to own growth stocks which actually benefit from a world where growth is hard to find.

Our holdings in the US and Europe, in companies with high earnings growth, lots of free cash flow after cash expenses, attractive returns on equity and strong earnings upgrades were the key factors driving our fund's outperformance last year.

Our 'Magnificent Seven' stocks outperformed significantly – **Nvidia**, **Apple**, **Amazon**, **Microsoft**, and **Google**… we don't own Tesla or Meta. Leading the pack, of course, was high-performance computer chip designer Nvidia, which continues to be a large holding although we've taken some profits. But I'm pleased that other stocks outside this sometimes-maligned group of stellar performers also made a significant contribution.

These included stocks such as tax prep and Quickbooks business **Intuit**, the membership warehouse business Costco and private markets specialist **Partners Group**. Leading semiconductor equipment company **ASML** also outperformed despite export restrictions on sending its products to China. I hope a Birkin bag was under your Christmas tree because **Hermes** was another big winner. Turning from the most expensive luxury items to the cheapest commodity in the world (crushed rocks and gravel), our sole commodity-type stock **Martin Marietta**, one of the largest aggregates suppliers in the United States, continues to benefit from its unique competitive and pricing dynamics.

As a result, a pleasing spread of different industries, demand drivers and business models drove outperformance outside the expected names in our top five.

Our worst performers over the year included asset manager **Charles Schwab** which got caught up in the US regional banking crisis as a lot of its revenues come from the cash accounts that rapidly evaporated as clients redeployed this cash into money market funds to take advantage of better rates. We sold this position early in the year. We also sold cosmetics and fragrance giant **Estée Lauder** and high-end spirits maker **Remy Cointreau** remains on our watchlist as both were damaged by a disappointing economic recovery in China. Many retailers were forced to slash inventories as post-COVID demand failed to rebound as much as expected.

A post-boom normalisation has also hit the order book for agricultural equipment maker **Deere**. Reassurances over the resilience of large agricultural equipment sales were misplaced, as the link between farmers' income and their appetite for investment in gear remains tight and financing has become more expensive. The fleet age and replacement cycle thesis isn't playing out and the potential for a medium-term air pocket in the agribusiness cycle triggered our sale. Finally, we sold out of digital payments processor **Adyen** in the third quarter following a shocking profit warning as it was outmanoeuvred by an inferior competitor (probably PayPal), which successfully recognised that the only way it could win market share was to start a price war and undercut Adyen to grab volumes. Adyen failed to recognise that cost has now become the priority and it remains too stubborn to adapt, which suggests commercial success could be much more volatile going forward. The yo-yo reaction from shareholders reflects their concern about the company's commercial, investment and communication strategy.

Markets are starting to buy into a type of soft landing (bringing inflation back to target without inducing recession) after the US Federal Reserve (Fed) verbally pivoted in December. But the soft-landing thesis depends on taming the key threat… inflation. One of the few equity market strategists to predict most of last year's events believes that US inflation will approach the 2% target in the first quarter of this year – and we agree with him. If he's on the money again, that would give central banks the flexibility to pivot and then eliminate the 'recession is coming' narrative. Investors will look through any mild earnings and GDP growth cuts and price in the start of a new cycle.

Performance review

	3 months	6 months	1 year	3 years	5 years
Rathbone Global Opportunities Fund	9.3%	7.2%	18.0%	12.6%	86.4%
IA Global Sector	6.8%	5.8%	12.7%	17.9%	65.7%

	31 Dec 22-31 Dec 23	31 Dec 21-31 Dec 22	31 Sep 20-31 Dec 21	31 Dec 19-31 Dec 20	31 Dec 18-31 Dec 19
Rathbone Global Opportunities Fund	18.0%	-20.6%	20.2%	31.3%	26.1%
IA Global Sector	12.7%	-11.1%	17.7%	15.3%	21.9%

Source: FE Analytics; data to 31 December, I-class, mid price to mid price.

These figures refer to past performance, which isn't a reliable indicator of future returns.

2023 Top Five Contributors		
Stock	**Contribution (GBP)**	**Mean weighting**
Nvidia	3.34%	2.83%
Microsoft	1.13%	2.60%
Costco	1.00%	2.60%
Intuit	0.98%	2.19%
Alphabet	0.94%	2.10%

2023 Bottom Five Contributors		
Stock	**Contribution (GBP)**	**Mean weighting**
Charles Schwab (sold)	-0.94%	0.53%
Estée Lauder (sold)	-0.55%	0.88%
Deere & Co (sold)	-0.54%	1.85%
Adyen (sold)	-0.51%	0.89%
Remy Cointreau	-0.43%	1.13%

Source: Rathbones Asset Management.

Yes, a mild recession is still possible, and we acknowledge that an inverted yield curve has never, in modern times, been wrong about warning that one is on the way. But would a mild recession be a shock to markets that have been expecting it for two years? And if it does materialise, might that not motivate the Fed to pivot even more quickly? And what if the yield curve disinverts in the next few months? There are credible upside scenarios from here and they're certainly not the consensus.

For inflation to prove persistent or even reaccelerate, we would need a persistent supply shock, in my opinion – just like in the 1970s when oil prices went up tenfold over the decade with multiple step changes frustrating attempts to adapt and recover. This was during a period of higher commodity intensity, which had greater impact then than it would today when there are more alternatives. In short, we don't see signs of a looming persistent inflation problem.

I think there are two higher probability risks – both are temporary but scary. Central banks often need a headline 'drama' to give them the cover and courage to lower rates. They are haunted by their ill-fated insistence that the post-COVID inflation surge was 'transitory' and so are unwilling to pivot before they're sure it's been tamed decisively. This is the 'higher for longer' thesis. But, equally, they *really* don't want to make the same mistake twice and label any new crisis transitory only for it to get out of hand. We saw them blink after the regional banking crisis. Maybe the potential of an escalating crisis and the reassurance that inflation is close to target could deliver the cover they need in order to act? Such a crisis would cause an initial lurch lower in markets, but then a quick recovery as lower rates would prove a powerful medicine.

The other risk is that the soft-landing thesis, probably consensus now, is challenged by rising unemployment. Inflationary price rises have stimulated corporate revenue growth, but when the pricing stimulus disappears and volumes don't pick up the slack, the only way to protect profits is to cut headcounts. This would confirm that a recession was truly under way and cause a panicked sell-off. But, again, this could be stopped in its tracks by a Fed pivot and assurance that the central bank's new mission is to focus on economic growth.

The value of investments and the income from them may go down as well as up and you may not get back what you originally invested.

Counterintuitively, a mild crisis or rising unemployment might, therefore, prove the catalyst that investors are looking for. Watch out for whipsaw moves when bad news suddenly becomes good. But in almost every scenario don't expect a smooth ride in 2024!

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Fund Manager

For more info on our fund, including factsheets, performance and fund manager views, please click here.

If you require further clarification on this commentary, then please contact your adviser or Rathbones at the contact details below.

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 what you originally invested.

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