Rathbone Multi-Asset Portfolios Will McIntosh-Whyte – Fund Manager

Autogenerated captions (may contain errors)

0:27
We had a reasonable year so far with decent positive returns across the range.

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As ever, that's come with some volatility.

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So in the US, we had an 8% pull back in equities over the summer and most of that recovered by the end of August.

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In Japan, we actually saw equities fall 12% in one day.

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So it's been pretty volatile and that's not just been in equities, it's also been in bonds.

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In the US, the 10 year bond fell below 4% at the end of last year and this year came back all the way to 4.6 before falling back to below where they started the year.

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So whilst that doesn't sound a lot in yield terms, that's the sell off of nearly 20% in capital terms.

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Vans had reasonable equity exposure this year going into 2024 and so they have been helped by better equity markets.

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We also built up pretty significant government bonds positions.

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Those were initially a headwind this year, but latterly have been a nice tailwind for the funds.

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And they've also helped to balance some of the recent equity volatility we've seen as that negative correlation between bonds and equities has started to return.

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Tech's been strong throughout the year, which I feel like I say every time, especially chip related names such as NVIDIA and TSMC, a Taiwanese chip manufacturing business.

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A handful of names have been a bit more disappointing, including names with exposure to China such as Carl Zeiss and Estee Lauder, and a couple of medtech names which disappointed markets with their growth outlooks.

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Elsewhere, other better performers have been across a range of sectors including medtech business Boston Scientific wholesaler Costco, as well as defence company Lockheed Martin.

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2024 has been a big year for elections across Europe, in the UK, India and of course the US still to come.

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In the UK, the Labour government felt very much like a foregone conclusion.

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There was little material market reaction when Starmer was announced as a new Prime Minister.

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We'd expected sterling might strengthen after the election, particularly if we saw the new government look to cosy up to Europe, and we've very much seen that with those warm overtures being reciprocated across the Channel.

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We've put in place currency hedges to help protect the portfolios from stronger sterling and so they've been quite a useful hedge away from this.

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The new Government have painted a gloomy picture of UK finances.

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They've ended the strikes but by accedeing to union demands, they've teed the UK up for tax hikes and they're also looking to push through significant labour rights reforms.

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None of this is particularly positive for the UK and I think going forward it might really just keep a little bit of a lid on growth in the US.

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The election very much up in the air.

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It's a bit of a coin toss not only who will be in the White House, but whether any one party will control both the House and the Senate, allowing them to actually enact their policies.

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The polls are really close, with Harris polling a touch better after the debate, but I wouldn't really read too much into that.

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So because of this we've not made significant changes to the portfolios.

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Trump is likely to be pro growth, lower taxes, deregulation, all of which should be positive for equities, arguably minus the risks of potential tariffs.

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Paris is more left-leaning with higher taxes and likely less business friendly administration and so arguably less good for equities.

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Either way we think it's quite likely Congress will be split limiting the power of either new president.

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1 change we have made is reducing our U.S.

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Treasuries into the recent strength.

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the US is running a big budget deficit and neither party seems to be looking to address this.

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This means we're likely to see a high supply of U.S.

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Treasuries coming onto the market to fund that continued high spending and potentially tax cuts which could both weigh on bond returns.

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We haven't particularly changed our strategy after the big rotation we saw in July and to be honest since then it's sort of unwound, rallied and then faded again and we try not to get too caught up in those short term moves.

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We have added to our US small cap exposure over the last year.

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US small caps of course very different to UK small caps which tend to be much smaller in size and those small caps tend to form better in a rate cutting environment, which we do think is likely to come.

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The valuations of these smaller companies also look reasonably attractive, particularly relative to large caps where that valuation differential has materially widened.

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However, their performance with rate cuts is kind of predicated on a reasonably benign economic environment and should we see this deteriorate they might still struggle.

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It's worth adding that the vast majority of the funds exposure is to large cap, high quality, growth orientated names.

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The short answer is yes.

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We continue to believe our long term targets are suitable.

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They're designed to be relevant, looking at longer time periods based on equity returns over history.

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It's important to remember we've been through a big spike in inflation the last few years, driven by COVID related supply issues and significant fiscal stimulus.

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That inflation spike is now unwinding as though supply issues ease and some of the fiscal support is withdrawn.

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So inflation now returned to a much more normalised range.

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But either way, we believe our long term objectives for the funds remain appropriate.

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Well, we're very wary of making specific rate calls, but the short answer is down.

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We've been consistent that we felt the US would start to cut interest rates in the second-half of 2024.

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And this is based on the belief we are through peak inflation, which should trend down before settling at a more normalised level.

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And we're pretty much there already.

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And that range might be a little bit higher than pre COVID but much more normalised levels.

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Whilst economic data is slowing, we think the Fed will look to cut in a consistent and controlled manner with clear communication to the market and this should generally be a positive for risk assets.

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The risk is clearly if economic growth deteriorates and the Fed are forced into more significant action.

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In the lasting conversations I mentioned, infrastructure and the names we own have done OK, but they're still on large discounts, which we think still provides an interesting opportunity elsewhere.

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We are going into a slower growth environment and we think this likely favours quality businesses with structural tailwinds.

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Those businesses that can grow even in a slower economic environment, valuations of many of those businesses not particularly cheap, but we expect investors to be willing to pay up for growing and resilient businesses.

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So areas like technology and healthcare on the growth side or areas like auto parts, a new position for us and towers businesses on the more resilient side.