

Rathbone Multi-Asset Strategic Growth Portfolio

Update, April 2019

Overview

Stock markets have been getting ever more schizophrenic lately. Perhaps manic depressive is the more appropriate diagnosis: the highs are surging flashes of euphoria, the lows so crushing not even light can escape them.

We're not psychiatrists, thankfully for both ourselves and our would-be patients, but markets can act a little like patients on the doctor's sofa. There's a reason why many investors humanise investment markets – they tend to be as erratic as the people who invest in them! That's the only way you can rationalise one of the sharpest ever slumps in the S&P 500 being followed by one of its swiftest recoveries. We now stand very close to all-time highs for the benchmark US index, despite the US and China being in the midst of a trade war that only seems to escalate. Not just that, but many investors are so worried about the American economy that they believe the Fed will *cut* interest rates this year, not hike them. Yet US growth has accelerated during Donald Trump's presidency, with the economy 3.2% larger in the first quarter compared with a year earlier.

The US Federal Reserve (Fed) has driven most of the fear and greed at work here. Late last year, investors thought the central bank would keep hiking interest rates and selling the bonds it piled up during quantitative easing till it choked off US GDP growth. So they sold equities aggressively. Fed Chair Jay Powell was quick to throw every single type of monetary tightening out the window in a bid to calm investors. It worked so well that now more than a few people expect a 25-basis-point cut before the year is out.

We think that's a little over the top. We thought markets had lost the plot when they fell like a stone in the fourth quarter, and saw that as a chance to buy companies we liked at lower prices. Similarly, we think there's quite a bit of optimism in some stock prices today, so we're taking the opportunity to trim holdings and take profits.

This month's trades

In April, the **Goodhart Partners Horizon Michinori Japan Equity Fund** was wound up. We used the cash returned to us to increase our holding of the **Coupland Cardiff Japan Alpha (Unhedged) Fund**. Japan doesn't seem to get much of a mention these days, but we believe the investment case remains, as companies continue to improve shareholder returns and the government keeps pressing ahead with reforms.

We bought **Accenture**, the consulting giant that specialises in helping companies digitise. The company operates globally and should benefit from the swathes of companies that have to drag their operations and IT systems into the 21st century. Some of these companies are very big and complicated, too, which is where a business like Accenture can help. It can advise them on best practice, prepare a plan to help smooth the transition and then deliver the solution.

We continued to build a position in **Abbott Laboratories**, having first bought this healthcare company last year. It owns one of the most popular monitoring tests for diabetes, a condition that is unfortunately

becoming more prevalent around the world. The other side of its business is nutritional supplements – everything from baby formula through to vitamins – an industry which is also growing at quite a clip around the world.

We sold **Alcon**, a vision care business that was spun out from Novartis, a Swiss pharmaceutical giant that we have owned for a few years now. Alcon is a good business – we’ve been eying up vision care businesses on and off for a while – with scope for further recovery, but we felt much of that had already been priced into the valuation, in our opinion.

Another sale was the **Schroder GAIA BlueTrend** fund because we were concerned that higher volatility and sharper inflection points make it much more difficult for the strategy to profit.

Outlook

Careering markets are here to stay, we reckon.

There are a lot of unresolved issues floating round the world. Brexit is a big deal to Brits and European politicians, but the rest of the world has likely got bored and switched off. Even European citizens safely ensconced on the Continent are likely to care little for the travails of the UK. They have troubles of their own. Extreme, fractious politics abound both inside member states and across them, and the bloc struggles to grow despite having some of the loosest monetary policy on the planet.

The US-China trade war remains a concern and has the potential to snowball into a true global concern. We still believe it makes sense for the two sides to come to an agreement, but the row has gone on so long and each leader has lost enough face that it could easily degenerate into a tit-for-tat tussle that lasts for years. That wouldn’t be great for either side: consumers would pay more at the shops, businesses would sell export less, so there would be fewer jobs than otherwise and probably less investment.

But it’s not all miserable, they are just the risks that hang over what continues to be, on the whole, a resilient and growing global economy. The US and China, despite their disagreements, are still driving global GDP. American consumers are feeling buoyant, according to most surveys, they are getting paid more and there are skills shortages that are pushing up wages across the nation. China is still pulling millions of its people out of poverty each year through the benefits of spreading capitalism across its lands. Japan, often forgotten, continues to reform and deliver relatively good economic growth (albeit recently depressed because of natural disasters).

As we’ve said before, the world is never perfect. For now, we’re confident that the global economy will roll on for some time yet. We’ll be using future knee-jerk market reactions to buy assets that we’re happy to hold for many years.



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