

# Rathbone Multi-Asset Enhanced Growth Portfolio

## Update, May 2019

### Overview

The global rally that had been going in equity markets since the start of the year was interrupted in May, with an escalating global trade war and political crisis at home coming back into focus to send the FTSE All-Share Index -3.0% lower over the month.

Safe-haven government bond yields also fell sharply over the month (prices rose), led by US Treasuries as they continue to respond to the Federal Reserve's (Fed's) pivot from a tightening to a rate-cutting bias. Big moves in yields are also typical of the latter stages of a business cycle. Gilts had risen to 1.18% in April, but since then they've sharply reversed course, eventually dropping below 1.00% after the end of the review period. High-yield credit spreads tightened from 258bps to 248bps during April, before blowing out to more than 300bps in late May.

Concerns about a slowdown in growth and the trade war rumbling on between the US and China haven't helped investors' nerves. They were further jangled when the war was escalated to include Mexico, on the premise of getting an agreement to staunch the flow of illegal immigration through America's neighbour to the south. American economic data has wobbled a bit lately too. Where the numbers go from here will likely have a significant impact on how soon the Federal Reserve might pull the trigger on a rate cut as well as on how investors see the world.

Since the month end, Jerome Powell and Mario Draghi, the respective chiefs of the Fed and European Central Bank, have provided some balm for market nerves, with talk of possible rate cuts and new rounds of money printing in Europe.

As for Britain, the UK has kicked the Brexit can so much that the prime minister has finally tripped over it. Theresa May has stepped aside, and after a frenzied race to succeed her, the number has been whittled down to two hopefuls, with Boris Johnson the clear favourite. Could Mr Johnson be more pragmatic than many think? Playing to the Brexiteer crowd to get into the driving seat? In any case, by the time Mrs May's successor moves into No.10, the Brexit deadline of 31 October will probably seem uncomfortably close. More fluctuations in sterling markets are probably coming down the pipe too ...

### This month's trades

We added to **Fever-Tree** and **Accenture**, two positions that we started in April. Fever-Tree is a drink mixer company with a fantastic brand stealing market share from sleepy and complacent large incumbents. **Accenture** is a consulting giant that specialises in helping companies digitise.

We have also been increasing our holding of the **JPMorgan 1255 FTSE OTM Accelerator** structured product. This bespoke contract should work as a hedge against any unexpected upturn in Brexit news. We suspect overseas asset allocators would disregard a soaring pound and buy the FTSE 100, leading the inverse FTSE/sterling correlation to break down, for a short while at least. This product should pay us handsomely if it does so.

We sold Bunzl, the global distribution outsourcing company we've held for a number of years. Whilst we continue to respect the business model, we are wary of its growth prospects in the current environment,

particularly given the pressures many of its underlying customers are facing, as well as having concerns over margin pressure from increasing wages and cost inflation.

## Outlook

Like we said last month, we don't see market ups and downs smoothing out for the foreseeable future. As May passed into June, we may have moved closer to knowing who'll be the next leader of the governing Conservative Party, but none the wiser about when or how the Brexit stalemate might end. Further afield, hopes for a truce in the global trade war were lifted by news Presidents Trump and Xi would meet at the G20 summit of world leaders in Osaka, but even if an amicable meeting transpires, that's a long way off from a detailed agreement.

The stakes are high in the US-China trade war, which threatens to develop into a new cold war if the leaders of the world's two largest economies fail to find some common ground. 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. If talks break down, chilly economic winds could spread across the globe. Already the IMF has downgraded its outlook for global economic growth from a previous forecast of 2.9% to 2.6% in early June.

But to be sure, we're not predicting doom and gloom, just some slowing in generally healthy global economic growth that continues to be driven by the US and China. Wages are growing in America and surveys continue to suggest consumers are confident about the future. Growth forecasts for China have actually held up well (stable at 6.2% in the latest estimates for 2019 GDP). Some slowing was expected as the country makes the transition from an export-led to a domestic-consumer driven economy, but 6.2% is not shabby.

Even with all its warts we still see the global economy, and its markets, as an attractive place to invest. As markets lurch between over-confidence and panic, we'll stay on the lookout for assets that we're happy to hold for many years.



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