

Rathbone SICAV Multi-Asset Enhanced Growth Portfolio

Update, July 2019

Overview

It wouldn't be unfair to say that the US Federal Reserve (Fed) has been cowed by markets. Earlier this year, the world's most powerful central bank went from steady monetary tightening to the most accommodating it has been in years.

Yet it's not enough for many investors. They have a taste for lower interest rates now. In July, the Fed cut rates for the first time in a decade, taking the benchmark US rate down 25 basis points to 2.00-2.25%. A good number of traders had hoped for a 0.5% cut, so the move actually drove more market ructions. More rate slashing is hoped for, perhaps more than is prudent. We believe the US domestic economy is actually running pretty well right now, although its strident trade policies have caused pain in Europe and Asia. As for the UK, it continues to prepare for the Halloween withdrawal from the EU. Boris Johnson took the nation's helm in July after a leadership election that was, for all intents and purposes, little more than a victory lap. He has alternated between carrot and stick when speaking about the EU, which to us appears like he is angling for concessions and a deal. Whether he can pull it off – and, if rebuffed, whether he has the *cojones* to drag the UK out of the trading bloc without a deal – is yet to be seen. Either way, we expect to see some waves in sterling that the Cornish coast would be proud of ...

This month's trades

We jettisoned our emerging market debt funds during the month because we felt the interest rates on offer were simply too low to justify for a higher-risk portfolio like ours. These included the **Ashmore Emerging Markets Short Duration** and the **Barings Emerging Markets Debt Blended Total Return** funds.

Overall, we're unconvinced by the emerging market equity markets as a bloc. There are good investments here and there, in specific areas and nations, but in general the developing world appears to be struggling. South American nations have been creaking for several years and now the trade war is tightening on Asia. It sounds counterintuitive, but we are actually more inclined to focus our investment on China than on its neighbours. We think any slowdown driven by China's trade war with the US will have a greater effect on its neighbours, who are in a more precarious position. With that in mind, we sold the **JPMorgan Emerging Markets Investment Trust** and added to our long-time holding in the **ChinaAMC China Opportunities Fund**.

We took profits from the **Polar Capital Technology Trust** because we had added several direct tech holdings recently and we wanted to reduce our industry concentration.

In late July, we added another put contract to our portfolio, which gives us the option to sell our S&P 500 Index exposure at a certain level. This mitigates the losses we suffer if the stock market slumps – the strategy helped us during the sell-off in August.

Outlook

All eyes are on US President Donald Trump's Twitter account. And, if you're British, on Westminster.

Both events have a bit of the unreal about them. We are so far into untested waters, so far away from convention and decorum, that it seems like anything could happen. And just as easily, anything that

happens today can be undone tomorrow. Deals on, deals off. Bargains and arguments. Fake news and embellished reports on Amazon fires. In the information age, some information becomes extremely valuable (check out the pricing power of the LSE and Bloomberg for their financial data feeds), while some information becomes less than worthless. Social media gives people the ability to share anything with hundreds, thousands – sometimes millions – of people in little more time than it takes for an impulse to reach their thumb. This has inadvertently created a pandemic of lies, a sort of global game of Chinese whispers that is distorting debate about everything from climate change to markets and government policy. We think it always helps to take a breath and have a ponder before throwing your two pence in. And it's crucial to do so before you make any decisions. There is an overwhelming amount of information flying around the globe today, so we try hard to filter out the hyperbole, the irrelevant and the downright untrue. We look to understand how the world is changing and what it will mean for markets. Then we can make informed decisions about your investments.

If we listen to every outrage, every short-sighted concern and every possible future, we would go mad.



David Coombs
Head of Multi-Asset Investments



Will McIntosh-Whyte
Fund Manager

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