

# Rathbone SICAV Ethical Bond Fund

## Update, November 2019

### Overview

Gilt yields continued to rise last month, albeit at a slower pace than October, with the 10-year rising seven basis points to 0.70%.

The rise in yields was driven by investors getting much more comfortable with riskier assets again after a bumpy autumn. The October US nonfarm payrolls figure (released early in November) showed many more jobs were added than expected, helping coax a few more investors out of their shells. But many PMIs remain depressed, and US durable goods orders have been soft lately despite bouncing back in November, so it seems a bit early to argue that a resurgence in global GDP growth is in full swing.

US inflation – the Personal Consumption Expenditures (PCE) measure favoured by the US central bank – remains firmly below target at 1.3%. The US Federal Reserve (Fed) has all but ruled out any interest rate hikes in 2020, helping boost asset prices and keeping a lid on bond yields.

In the UK, Brexit stasis has been the norm for so long that progress seems odd, strangely foreign and yet, oh so welcome. Since month-end, the Conservatives won a significant majority and a mandate to take the nation down Prime Minister Boris Johnson's Brexit path. The clarity will no doubt help UK markets, making the country a little more investable. However, we're not out of the woods yet. Mr Johnson's plan is accelerated and ambitious. Whether his government can ink a free trade agreement with the EU and other important trading partners in less than a year will have dramatic effects on the path of interest rates, inflation and GDP growth.

As for European credit, well ... both high-yield and investment grade spreads continued to head lower in November. The iTraxx Crossover High Yield Five-Year Credit Spread Index fell 19bps to 221bps and the iTraxx Investment Grade Five-Year Credit Spread Index dropped 4bps to 48bps. High yield debt is really roaring: in mid-December, the Crossover spread hit 209bps, its lowest level since at least 2011 and probably the lowest spread for European debt in history.

### Trades

Ahead of the December election, we kept our duration low, as we believed there was scope for a reversal in gilts. We added a little duration in mid-November as the yield spiked to near 0.80% and then sold soon after as yields fell back. We did this by trading the **European Investment Bank 5.625% Senior 2032**. Following the election result in December, the 10-year gilt yield hit its highest level since June (0.86%).

UK bank debt did well, as investors waved goodbye to the risks of a radical left-wing government. Additionally, we hedged our currency exposure ahead of the election as we thought one of the main risk was a big move in the pound.

We added some new issues to the portfolio, including **Yorkshire Water Finance 1.75% 2026**, **Legal & General Group 3.98% 2049** and **Linton Hydro 5.25% 2033**. We also sold the last of our retail exposure, **Marks & Spencer 7.125% 2037**.

### Outlook

As Christmas and 2020 steam toward us, we find ourselves wondering where 2019 went. Never has there been such an action-packed 12 months when everything seems to have happened and yet, we all remain in the same place.

Once again, the US and China are planning to sign a trade deal in the first couple of months of the coming year. A UK government is setting out to get parliamentary approval for a Brexit deal and drag the country out of the EU. The US central bank is promising that interest rates won't be rising in the year ahead. And economists are still predicting recession will doom us all sometime in the next 12 months. Hopefully this time the green shoots of progress won't be a let down and we can move on from the strange purgatory of endless trade threats and Brexit breakdowns ...

It's been a pretty good year for asset prices, however. Both stocks and bonds delivered strong returns in 2019. Very much obscured in what will be remembered as a stressful year for investors. Perhaps it's time for us all to take some time out, enjoy some food and fun with our families and forget about the world and its troubles for a while. No doubt they will all be there waiting for us when we get back!

Thank you all so much for your support this year (and all the other years). We hope you have a wonderful holiday break!



**Bryn Jones**  
Fund Manager



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Fund Manager

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**Source performance data, Financial Express, mid to mid, net income re-invested.**