

Rathbone SICAV Multi-Asset Total Return Portfolio

Update, January 2020

Overview

China's New Year arrived with a bit of a fright, rather than the wealth and abundance traditionally associated with the Year of the Rat. The relief investors were feeling from the de-escalation of trade tensions between the world's two economic superpowers fled in the face of a new and deadly strain of coronavirus emanating from Wuhan.

The virus sweeping China is of great concern, first and foremost for the suffering it is heaping on people now. But also for the hardships it would cause people round the world if the outbreak pushes the world into recession. As ever, the epidemic is surrounded by misinformation, misunderstanding and conspiracy. But this time round, the effects of 24-hour news and peak social media have led the World Health Organisation (WHO) to note that it was fighting "an infodemic" along with an epidemic.

President Xi has declared a "people's war" on the virus – quarantining entire cities, building hospitals virtually overnight and sending military doctors and party officials to the front lines. The Wuhan lockdown appears to be working. The growth rate of new cases has slowed and the absolute number of new cases reported each day also peaked on 4 February.

US politics were also a major feature in January, with President Trump facing an impeachment trial in the Senate and the Democratic presidential hopefuls gearing up for the Iowa caucuses, which launched their party's state-by-state process of choosing a candidate. As it turns out, Mr Trump emerged stronger than ever. He escaped potentially embarrassing witness testimony on the way to the trial's foregone conclusion of innocence, then watched with glee from the side lines as his opponents, bitter and defeated from their failed impeachment attempt, went on to suffer an organisational fiasco in Iowa. We still didn't know who won in Iowa a week after the event, but the markets don't seem to be too bothered.

This month's trades

During the month we added a new position in **Cadence**, a provider of software used in the designing, testing, verifying and implementing of semiconductors. We see the semiconductor industry as a whole benefitting from the structural trend of technological advance and proliferation of new applications, and we believe Cadence has a strong competitive moat built up over years of high spending on research and development. We also used the proceeds from the expiry of a UK auto-call to add to our passive exposure in the FTSE 100 Index and FTSE 250 Index.

We trimmed positions in **Ferguson**, a UK-based leading distributor of specialist plumbing and heating products in the US, **Amphenol**, a US manufacturer of military and industrial connectors, and UK insurer **Legal & General**, taking profit after recent strong performances.

Outlook

Markets seemed to have regained some poise on signs that the Wuhan virus may be peaking. We're no epidemiologists, but for investors, the 2003 SARS outbreak provides a relevant case study: a few days after the peak in new daily cases, financial markets never looked back. If we have seen the peak, we believe the drag on global growth is likely to be small this quarter, and quickly recouped in the next. Supply chain disruption could also be limited as producers run down their inventories during the disruption and then

ramp up production once they're back online. Of course if the coronavirus takes longer to disappear, then the impact on the global economy will be more severe, largely because the supply chain disruption will be very difficult to manage.

The reaction in global markets has been fairly muted so far. The initial pullback in developed markets has been reversed by stronger data from the US, a reasonable earnings season so far, and Chinese stimulus. Liquidity is being pumped into China's financial system to help offset financial stress and Beijing has already offered \$1.6 billion of healthcare and equipment subsidies in response to the epidemic.

Here in the UK, business sentiment is improving, consumer confidence has spiked, and the housing market appears to be coming back to life. The Chancellor is likely to loosen the purse strings in his March Budget to help support the rebound, and the Bank of England maintains some monetary fire power in the event of a hard Brexit at year end. We started increasing our weighting to domestic UK stocks ahead of the UK election, and are happy to maintain our position.



David Coombs
Head of Multi-Asset Investments



Will McIntosh-Whyte
Fund Manager

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