

Rathbone SICAV Multi-Asset Strategic Growth Portfolio

Monthly update July 2020

The pandemic continues to linger in the UK and Europe, showing a persistence that should temper any unbridled optimism about the future. Flare-ups are commonplace around the world, regardless of how well the first initial fight went or how long the virus has been kept at bay.

European nations, including the UK, have extended their support packages at least into the autumn, as people slowly begin to venture out and businesses reopen. The US economy has been doing relatively better, most likely because many states were able to continue as normal even as New York and California were being hit hard. It must be said that those states remained open a little too long. Public and local government disdain for social and commercial restrictions helped the virus spread like wildfire through the southern and southwestern states. The US has a long road ahead to get control of COVID-19, although thankfully the danger now seems to be (almost) universally accepted and restrictions accepted as prudent measures for national health.

We have long suspected that the full impact of this pandemic on households and businesses will reveal itself slowly and fitfully over the coming years. The sheer amount of public cash that has been poured over economies has helped tide over many companies. In the UK, most of the UK high street was given up to £25,000 by the government, no questions asked under the Retail, Hospitality and Leisure Grant. Added to that, their business rates have been waived for these companies for the whole 2020/21 year. These are just two parts of an extraordinary amount of government help for businesses, to give you a flavour. Yet aside from the furlough scheme and a moratorium on rental evictions (which expired in August), the help for British unemployed is, by comparison, miserly. Universal Credit is breathtakingly low and the means-testing incredibly sharp. With unemployment set to rise in coming months, political pressure could build to reform the UK's safety net.

The US has been much more generous to its unemployed along with extending plenty of help to businesses. This created the bizarre situation where Americans' income actually soared during a time of skyrocketing unemployment and widespread shutdowns. Yet that scheme ran into congressional acrimony and had to be bailed out in a lesser form by presidential executive order. In Europe, nations are still grappling with the need for tourism cash to pay the bills, even though success in attracting visitors just increases the chances of another outbreak. Many of these businesses are surviving on grants of cash and interest-free loans from governments.

All over the world, businesses are adapting and reopening. Retail spending has bounced back, albeit it remains below pre-pandemic levels in most places. Exactly how companies are faring depends greatly on the regions they are operating in, the demand for their services and the flexibility of their operations.

We increased our dollar hedge by 10 percentage points to 70% of our American investments by selling forward currency contracts. This means that we have locked in a set exchange rate for almost three-quarters of our dollar-denominated assets, so subsequent moves in the sterling/dollar rate won't affect their value.

We added to our yen exposure through the **Japan Government Bond 0.1% 2023**, because we believe this is a safe-haven currency that should offer some protection in periods of market stress.

We also bought more **UBS S&P 500 Put Contracts**, which give us the option to 'sell' a portion of our US stocks at any time for the rest of 2020 at a level 10% below the index price in early July. This protects the value of our portfolio against market sell-offs.

We sold **Hargreaves Lansdown** because we had lost faith in its future strategy. While low-cost American stockbroking rival Robin Hood gave up on its sortie into the UK, we feel like there will always be more Robin Hoods. In our opinion, Hargreaves is focusing on high-cost solutions when the market appears to be looking for low cost.

We added Swiss carton-maker **SIG Combibloc** to our portfolio. SIG's cartons are aseptic, which means they don't have to be refrigerated to avoid spoiling their contents. This also means they are a higher-end product than you would first expect. The company sells its packaging lines to foodmakers and then supplies them with materials, a particularly sticky business model that means its average customer has been a partner for more than 20 years. The company is growing steadily, led mostly by the emerging markets of South America and Asia.



We sold Italian drinks company **Campari** because we felt its valuation had risen too high to account for the risk of its American foray coming a cropper, particularly in a world recovering from COVID. It is putting a lot of its eggs in an Aperol glass, and we're worried that the popularity of this drink won't fade in time. We decided to take the opportunity to cash out of the investment.

Finally, we trimmed some of our **iShares Physical Gold ETF** to take advantage of a tremendous run for the gold price. With the yellow metal approaching a record high of \$2,000, we felt it was prudent to reduce our holdings slightly and invest that cash elsewhere.

At some point, governments' cash spigots will be turned off. At that point, some businesses will find they simply cannot go on. That moment could arrive when interest becomes payable on government loans. Or when tax bills return. Another crunch point will be the Christmas shopping season: Traditionally harvest time for retailers and restaurants everywhere – work parties, family outings, gift-giving – a depressed season could break the spirit of some business owners, large and small. Bondholders of larger, vulnerable companies could get nervous too, especially with corporate bonds getting steadily more expensive in recent months.

We've said it once, we'll say it 100 times, we will not be home by Christmas. This virus is set to linger, flaring up and dying away for months and months if not years. A vaccine could help the world shut down the risk of overrun health systems, yet eradication is another matter. Even MERS, SARS, AIDS and are still at large in the world, albeit they are thankfully much less prevalent. What could be harder to eradicate is the fear of COVID among many. It has made some people pause before accepting lunch invitations. Others weigh "how sensible" their friends have been against the need to soon visit older family members. All of us hardly bat an eyelid at shuttered stores, elongated queues and menus delivered to you by QR codes. Sudden border closures, tight seating and odd rules now make overseas holidays a game of roulette.

Investing in this environment is hard. Central banks have slashed the cost of money by dropping benchmark interest rates to virtually zero (or below in some cases) and by purchasing astounding amounts of government and corporate debt. This, along with a drop in GDP growth expectations, has pushed bond yields to extreme lows. The effect on stocks is like shining a million-candle spotlight on a market already stark with winners and losers. Companies that have continued been less affected by COVID-19 and those that have actively benefited from lockdowns, remain highly rated. The losers of the pandemic, those businesses with too much debt or which operate in industries with nowhere to hide have been hammered.

To be frank, earnings estimates for most companies right now are a joke. The range of guesses coming out of the investment banks and brokers is so wide that it's like looking at the statistical equivalent of a dartboard. In some ways, though, we think this is to our advantage. When we invest in businesses, we do so because we want to own them for years, not quarters. So if this year or so of uncertainty discourages some shorter-term investors, that should improve the price that we can pay today. Yet we are under no illusions: in doing so we will be buying volatility. Recovering from the pandemic is going to be a long, unsealed road for all of us and stock markets won't benefit from shock absorbers. There will be some jarring periods ahead, but we are taking these risks because we truly believe that there is a bright future out there, it just may take a few years before it arrives.



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