Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone SICAV Multi-Asset Enhanced Growth Portfolio

Monthly update January 2021

The vaccination rollout is really starting to kick into gear in the UK and US, which is great news.

At the current rate, the UK should have offered a jab to every adult in the country and fully inoculated the vulnerable by June's end. And, as we expected, the US has really got its act together after a lacklustre start. It usually takes the Americans a bit of time to get behind something, but when they do the acceleration can be like the USS Enterprise entering warp speed.

And then there's Europe. The Continent has had a mare. In some ways, it's not its fault. Vaccine manufacturers have run low on precursor products. Yet its regulators also really dragged their feet on the approval process and its contracts with vaccine suppliers only allow "best efforts" delivery, rather than solid milestones. Clearly they haven't watched Contagion.

Europe's stumble is unfortunate for the whole world. It means a delayed recovery for one of the largest markets in the world. It goes beyond the economic as well. By failing to vaccinate as many people as quickly as possible, it offers the virus countless more opportunities to spread and mutate. Several worrisome strains have already been identified, the South African is probably the worst of them. Early research shows some resilience against at least one vaccine. These mutations add complexity to the recovery trajectories of the world. And they are just the most visible of the reservations we have about the suggestion that the global economy is strapping on a jetpack and preparing to ignite.

We were promised jetpacks

There is no doubt that many people are desperate to go out for a meal, jump on a holiday, go to a nightclub or concert – all of those things that have been off-limits for the better part of a year. Yet there is a lot of unemployment out there, much of it hidden by lingering furlough schemes and hefty government aid. And that's before you get into the psychology of all this: how has people's behaviour changed? Is that permanent? What effect will that have on foot traffic, spending patterns and business investment?

One very rough example of our thinking is hotels. Everyone expects hotels to have a stonker when economies reopen, especially in the UK if everyone has to spend their time in Blighty. But what about the following year? And the years after that? What happens if business travel, the bread and butter of much of the industry, never bounces back? And Airbnb will still be there after the pandemic, eating the hotels' lunches. Sure, you could hold your nose and buy a hotel chain today and then sell if the shares take off on a booming re-open, you could make some quick profits. But if something goes awry, or the boom never comes, you're left holding a business you didn't really want at a price that's probably lower than you paid for it.

As we've said many times in past months, we think we're on the way out of this terrible time. But we're just of the mind that ahead of us is a road, not a flightpath, and it will be bumpy, not smooth. We trimmed some of our holdings throughout the month, including automotive supplier **Aptiv** and semiconductor printing manufacturer **ASML**. We used that cash to add broadly to many of the stocks that we already hold.

We sold **Johnson Controls** during the month. This commercial fire safety, security and HVAC (heating and ventilation) supplier has been a good investment for us, but we felt that competition in its main markets could hot up in the post-pandemic world.

During the month, we bought Japanese electric motors manufacturer **Nidec**. These motors are quite sophisticated and are used in all sorts of gadgets. From ultra-thin, shock-resistant cooling fans for computer hard-disk drives, to motors for wind turbines and automobiles. The business should benefit from a number of rising trends, including electric vehicles, renewable energy and cloud technology (its motors go into the servers).

GameStop got the party started

Well, that blew up. We haven't had such mainstream attention on finance since the global financial crisis. All it took was a 'buy recommendation' on a Reddit investment tips board to get one over on hedge funds, and social media took care of the rest. GameStop's share price took off driven by lots of retail buying on apps like Robinhood (and quite a bit of institutional orders as well, mind). Virtually overnight an ailing videogame retailer with shuttered shops in malls all over America had the same market cap as Barclays, one of the largest banks in the world.

This is not the first story of its kind, there have been several other YOLO (you only live once) trades, nor will it be the last. It is easier than ever to sign up to trade stocks (and more dangerously leveraged derivatives) and we all have so much more time on our hands (for good or for ill). It makes us a little uncomfortable thinking about the countless people who must have heard the siren call late, bought at the top and lost more money than they could afford. That is not the first experience of investing that people should get.

It's worth noting that markets are like a pond: a splash made in one part ripples out and affects other areas. The monumental rise in GameStop's volatility meant many investors had to marshal a lot of cash to satisfy their lenders and brokers. Brokers had to put up huge slugs of money to satisfy clearinghouses as well. This money has to be drawn from somewhere, so you could see ripples of sales rolling throughout assets that were easy to sell quickly. These included some of the stocks we own, so we could take advantage of large investors offloading shares at attractive prices. Equally, we have taken this episode as a warning that bolts from the blue are becoming more common.

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