

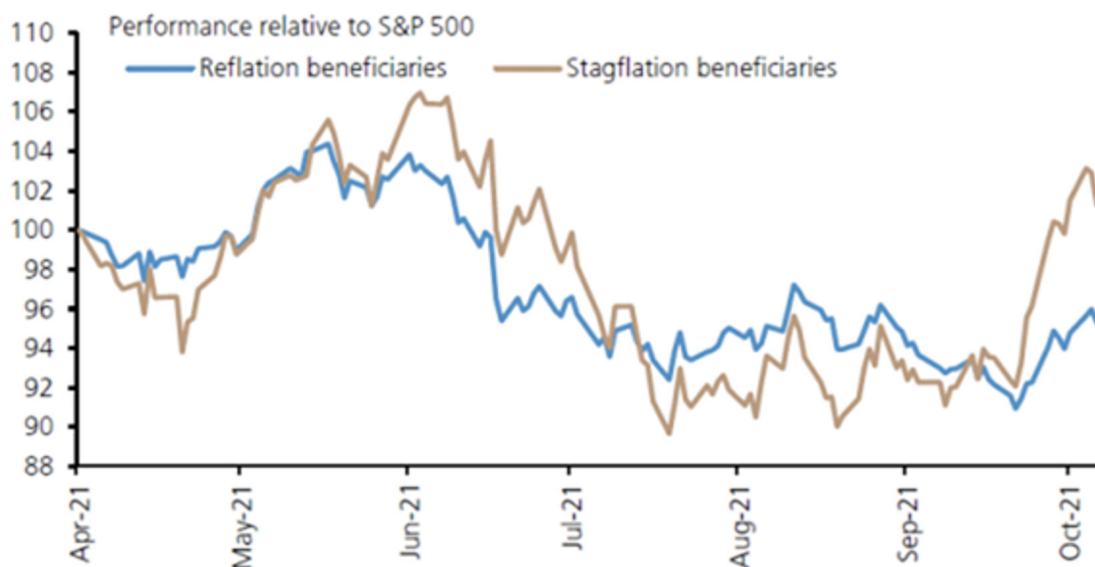
Rathbone SICAV Global Opportunities Fund

Monthly update October 2021

In October, your fund returned 2.3% versus a 2.4% average increase in the IA Global sector.

Investors predicted catastrophe at the start of October and ended the month without a care in the world. The panic was triggered by fears of stagflation. According to Exane BNP Paribas' strategist: "With supply chain pressures compounding and energy costs surging, hopes for reflationary nirvana have given way to fears of a stagflationary disaster." This caused a major spike in stagflation beneficiaries, which included many energy companies and banks – two areas of the market we are heavily underweight.

Stagflation beneficiaries outperform reflation stocks



Source: FactSet, Bloomberg, UBS

But stagflation fears quickly lost steam. Stagflation is defined as a period of prolonged price increases, weakening demand, slowing job growth and rising unemployment. Much of this seems unlikely as job openings (the leading employment indicator) are at a record high.



Recessions don't coincide with strong demand for labour

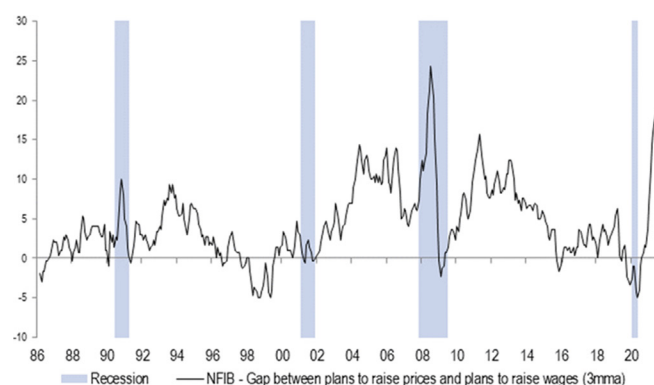


Source: JPMorgan

Nevertheless, the frequent U-turns have made investors and policy makers nervous given the reversal of so many trends that had become deeply embedded (for example, long tech versus short energy). Economic growth has stalled recently, probably due to the surge in COVID-19 during the summer, but sustained weakness in consumer spending seems unlikely when the employment picture is so healthy, inventories are so low, consumer savings so high and with capex yet to catch up with demand. According to JP Morgan's strategist: "Given multi-decade lows in capex and near pristine consumer balance sheets, the cyclical recovery stands on durable pillars."

But the market must contend with inflation that feels persistent, particularly wage inflation that's unlikely to be solved by any supply-side response. Many companies have suffered recently as rising operating costs, product shortages and delays have crimped demand. Yet, as we go into 2022, we believe that the worst will be behind us: expectations will have been reset and the bar lowered. Recent surveys of main street American businesses indicate plans to increase prices by significantly more than they plan to further raise wages (see opposite). If these price rises stick and sales volumes remain robust, this could deliver some explosive earnings upside.

Wide gap between price rise and wage rise intentions



Source: JPMorgan and National Federation of Independent Business; data 3-month moving average of difference between net percentage raising prices vs net percentage raising wages, as of 12 October 2021



James Thomson
Lead Fund Manager



Sammy Dow
Fund Manager



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