Rathbones
Look forward

Rathbone UK Opportunities Fund

Monthly update November 2021

November started out in a reasonably benign way. We continued to talk to our companies about supply chain pressures, wage inflation, building inventories and Christmas plans. Then the Omicron news struck and investors rapidly reached for the lockdown playbook once again.

Reopening stocks got crushed, while 'stay home' tech-type names rallied. It didn't help that the US Federal Reserve (Fed) chose this moment to become more hawkish about inflation, signalling that the tapering of its quantitative easing (QE) bond buying programme (and, therefore, interest rate rises) could happen faster and sooner than expected. The resulting whipsaw trade was so bold that it nullified all the headway made earlier in the month. The FTSE 100 Index, for example, had its worst month in a year, losing 2.5%, while mid and small-caps fared worse. Your fund managed to fall much less, thanks to our minimal exposure to cyclical, commodity-driven stocks.

Capex plans suggest firms remain upbeat

Our companies continued to report back. While their numbers weren't as uniformly positive as earlier in the year, we are broadly reassured. Some mentioned that supply chain pressures are easing, or at least not getting worse. Wage inflation was described as "staggering" in some niche areas, but manageable overall. And, most importantly, there was a noticeable uptick in companies wanting to reinvest cash flow and surplus capital next year. It's generally a very positive sign when chief financial officers start increasing their capital expenditure plans. In today's world, capex means investing in digitisation, automation and data more than in factories and tools. This partly explains why we're confident about our big overweight position in the technology sector.

Our defensive names offered the protection we are looking for during the month. For example, our real estate names **Safestore**, **Segro** and **Rightmove** all held up. Unsurprisingly, our stocks exposed to travel — notably travel food retailer **SSP** and **WH Smith** (which is now more of an airport shop business than a high street retailer) — were hardest hit. Long-term outperformer cyber security company **GB Group** took a tumble while doing a chunky equity raise. We think the market's response was overly brutal given that the money will go towards buying a high-growth US peer. We have been buying more of the shares to take advantage of its soggy share price.

Markets are now somewhat in limbo thanks to the Omicron variant. The trade-off between the strain's transmissibility and the severity of illness it inflicts remains to be seen and so markets are vulnerable to being swung by headlines. We tend to hold off from trading too much during such periods of heightened volatility when fundamentals fade out and 'factors' dominate.

If we look beyond the immediate challenges posed by uncertainties about the impact of Omicron, we see plenty of positives on the horizon going into 2022. We expect more corporate activity next year, including mergers and acquisitions and IPOs. UK households have an unprecedented amount of savings squirrelled away, which should support consumption next year. And, as outlined above, many CFOs are unleashing a tidal wave of spending on productivity-enhancing measures. These are all key trends we can buy into and profit from.

In the meantime, we wish you a happy Christmas and a prosperous New Year, with grateful thanks for your support during another profitable year.

Alexandra Jackson
Fund Manager

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Rathbone Unit Trust Management Limited
8 Finsbury Circus, London EC2M 7AZ
Tel 020 7399 0000

Information line
020 7399 0399
rutm@rathbones.com
rathbonefunds.com

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