Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone Multi-Asset Enhanced Growth Portfolio

Monthly update November 2021

In 2020 we all got schooled in epidemiology, in 2021 we've been brushing up on the Greek alphabet.

The main characters of note, of course, are Delta and Omicron. Delta, first discovered in India back in October 2020, has made 2021 its own. It now accounts for more than 90% of worldwide COVID-19 infections and remains the strain of most concern to scientists and doctors, despite several other mutations arising since. The newcomer Omicron makes up just 5%, albeit that share has grown rapidly from less than 1% at October's end. Facts on the new mutation are still in short supply, yet early tests show increased infectiousness relative even to Delta. It is believed to be more resistant to vaccines as well. However, several doctors and scientists say that Omicron seems to be less harmful.

Omicron, just in time for Christmas

Investors panicked because of increased infectiousness and an ability to circumvent some vaccines might force countries to rethink pandemic mitigation strategies founded on inoculation. The potential for yet more lockdowns, for shuttered shops, for closed borders was suddenly back on the table. This is disheartening at the best of times, let alone when we're all on the downward slope to Christmas. Yet the market reaction had a sort of resigned weariness about it. There's certainly not yet enough information to determine whether Omicron will definitely supplant Delta or whether that would be a good thing or a bad thing. Lest we forget, Omicron beating out Delta might actually be helpful! If it's more infectious but less harmful, that should shunt us all much further down the track toward herd immunity and COVID receding, like past plagues, into a mild form of cold and flu. In recent weeks, people sort of forgot that the Delta strain of COVID is horrendous and pervasive. It's Delta that forced many European nations back into an autumn lockdown, not Omicron.

We've been expecting to see more variants pop up over time — it's something that is typical of viruses. This has been a constant risk since day one of the pandemic and is part of the reason that we hold put options and other defensive assets — to protect against market tumbles caused by new variants of the virus overwhelming nations and sending them back into lockdown. There has always been a gilt edge to this risk, however: that one of these strains will be milder and become dominant, therefore bringing the pandemic to a close. Again, this is another typical feature of the rise and fall of viruses.

We used the stock market falls to buy a whole bunch of our companies at better prices. We continued to build our position in German electronics company **Siemens**, one of several more cyclical businesses with more attractive valuations that we have added to our portfolio this year.

We also added to payments giants **Mastercard** and **Visa**. It was a tough month for both companies because of increasing concern about upstart rivals like Klarna, which offer very easy credit terms for retail shoppers. We believe this is way overblown and think that the deals offered by these new-age retail lenders are too generous and undiscerning, storing up large risks of default during economic downturns.

We took profits from American discount wholesaler **Costco**, Silicon Valley design software developer **Adobe**, faux-wood composite decking supplier **Trex**, German warehouse automation export **Kion**, Canadian ecommerce platform **Shopify** and diabetes monitoring business **Dexcom**. We bought back shares in some of these companies during the market falls in early December.

In flux

What a time to have to make decisions though. Everything does seem to be in a state of change: economic growth, inflation, business models, even the virus that stalks our lives. To us, it feels that investors are getting more concerned about how policy will change — both governmental and monetary.

Today's non-stop news cycle does seem to pressure decisionmakers into action — any action — even when waiting makes the most sense. The 21st century is many things, but patient is not one of them. You must be talking or doing 24/7 otherwise the vacuum is filled with so many haranguing opinions, many based on little experience or data, that the compulsion to act becomes irresistible. This doesn't bode well for long-term decision-making, which in turn is suboptimal for investment.

There does seem a meaningful risk to GDP growth from central banks hiking interest rates too quickly to tame inflation or governments implementing overly cautious restrictions to contain the virus. Inflation prints continue to march higher in the Western world. Each time a CPI figure is released, it's a multi-year record and the question is asked, 'what are central banks going to do about it?' The simple answer is that there's not too much they can do about the mostly supply-driven shortages that are pushing inflation higher. The main objective must be to ensure that punters don't start believing inflation is going to rocket higher because then it will start a self-fulfilling cycle of wage and price hikes. Those household expectations of future inflation have been heading higher, however, in both in the US and UK. And each month the inflation drum will be pounded relentlessly, so we will be keeping a close eye on how everyday people are feeling about the path of inflation.

There is also the risk that another bout of lockdowns would reverse the trend of household spending normalising after the pandemic's distortions. Over the course of the pandemic, people spent much more than usual on goods and much less on services (because holidays, restaurants and concerts were out). Over the course of 2021, money has flowed away from goods and back to services, yet if spending on goods ramps up once again — due to more lockdowns, say — there is a risk that it would cause inflation to soar higher than it already is. That would put central banks in a terrible bind because they would have the conundrum of falling GDP but soaring inflation, i.e. stagflation.

Happy Christmas indeed!

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