Rathbone Unit Trust Management

Contact us 020 7399 0399 rutm@rathbones.com

Rathbones
Look forward

Rathbone UK Opportunities Fund

Monthly update January 2022

Volatility is back with a bang to kick off the new year. Increasingly hawkish central banks (notably the US Federal Reserve and Bank of England), tensions around Ukraine and the impending inflationary squeeze on consumer incomes have combined to deliver a very bumpy start to the year.

Investors have moved swiftly away from 'growth' stocks, from unprofitable stocks and from technology. The tech-heavy US Nasdaq market, for example, had its worst yearly start since 2008. The UK market, particularly the FTSE 100 Index, appears to have developed 'safe haven' status given its relatively few unprofitable, growth and/or tech stocks. Instead, it's home to large swathes of 'value', like banks and energy companies, that have roared ahead. So while your fund benefits from owning only UK names, our 'quality growth' bias has been a big disadvantage, leading to marked underperformance during January.

It stands to reason that the colossal outperformance enjoyed by growth investors over the last decade or so would falter at some point. Having said that, most investors (including us) have probably been taken aback by the ferocity of the rotation. But that seems to be the new way that markets move: trade fast, think later. We don't view the rotation as indicative of a wholesale change in investor mindsets, but more as a reflection of the need to rebalance some extreme positioning.

Markets are now pricing in more hikes than central banks are likely to be able to achieve, or, indeed, to need. Growth will naturally slow from here, especially in the UK, thanks to tax hikes and energy price increases. Supply chain kinks will be ironed out over the year as the world reopens. So, by the second half, inflation will likely be on a sharp downward trend, and the economy could look a bit soggy. In this environment, it should be resilient, reliable growth names that outperform, rather than the more economically sensitive sectors.

Adding to travel stocks and insurers

The early part of last year was also dominated by a rotation towards value. After some of the initial dust had settled, we used it as an opportunity to add to our 'growth legends,' which proved rewarding. We know our stocks and management teams well so bouts of indiscriminate selling like these often prove superb times to buy selectively.

But balance will be needed this year too. As we open up, people will likely spend more on travel and less on 'things' so we will avoid consumer spending-focused areas where the pandemic pulled forward many years of demand. We've been adding to our travel-exposed stocks. We've also added to our financials exposure through the insurance sector, which is almost as positively geared into interest rates as banks, but less sensitive to the vagaries of the economic cycle.

The upcoming reporting season should bring investor focus back to fundamentals again and it's often a positive period for your fund. Short-term cyclical trades are working for now, but we retain our longer-term preference for stocks offering growth that is driven by more than simply accelerating GDP. Some now look over-sold as their growth potential is being underestimated, their balance sheets are sound and they're underpinned by still positive demand trends. In our view, they should bounce back if they continue to deliver the strong profit growth that investors have come to expect from them.

Alexandra Jackson
Fund Manager

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

7695.02.22