

Rathbone Global Opportunities Fund

Monthly update April 2022

In April, your fund returned -5.8% versus a 3.2% average drop in the IA Global sector. Year-to-date, the fund is down 15.9%.

The short-lived rally in March gave way to a soul-destroying drop and retest of YTD lows in April. The rapid rise of the US 10-year yield is driving this market. The US Federal Reserve (Fed) is driving the 10-year yield; inflation is driving the Fed. The Fed's message is clear: they've abandoned the 'Fed put' and now believe the most progressive way to tighten financial conditions is for stocks to be lower. The economic impact of inflation on the American people is the priority here, not the stock market.

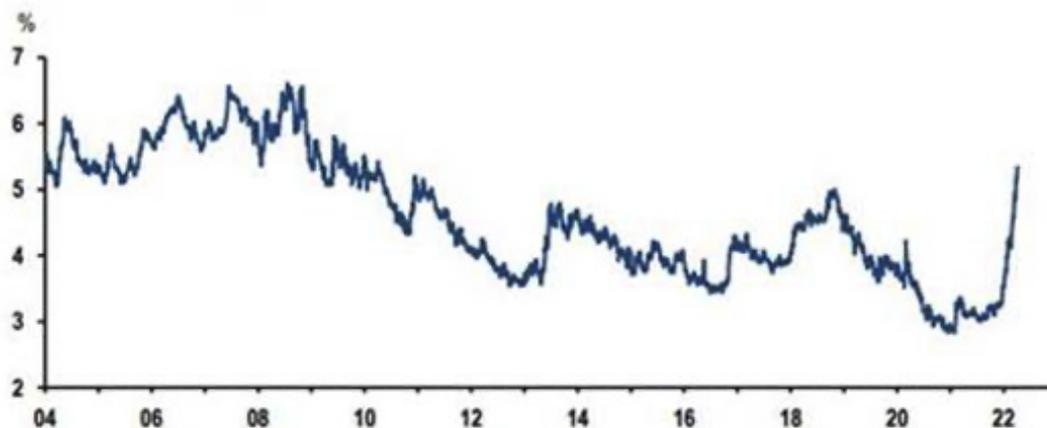
The economic slowdown inspired by the central bank and the stock market has been joined by renewed COVID-19 lockdowns

in China and the Ukraine war. Typically, downturns are disinflationary as less economic activity eases inflationary pressures. But in this instance the economic shocks are doing the opposite: Chinese lockdowns are intensifying global supply chain problems and the Ukraine conflict has sent oil, gas and food prices through the roof. China's zero-COVID policy is quickly becoming one of the greatest global risks to growth. Investors have reacted swiftly and stock markets are now priced for a recession as the sledgehammer of policy tightening joins the other geopolitical threats to global growth.

According to one strategist at JPMorgan, "a recurring hallmark of the post-pandemic era is the sheer speed at which assets reprice as things inflect. Having spent the best part of a decade compressing from c.5% to c.3%, the US 30Y mortgage rate has spiked >2% in the last few months alone. At >5.3% it now stands at levels last seen in 2010."

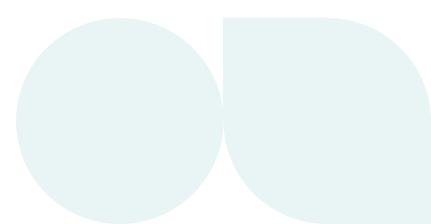
US housing costs surge

30-year fixed mortgage rate



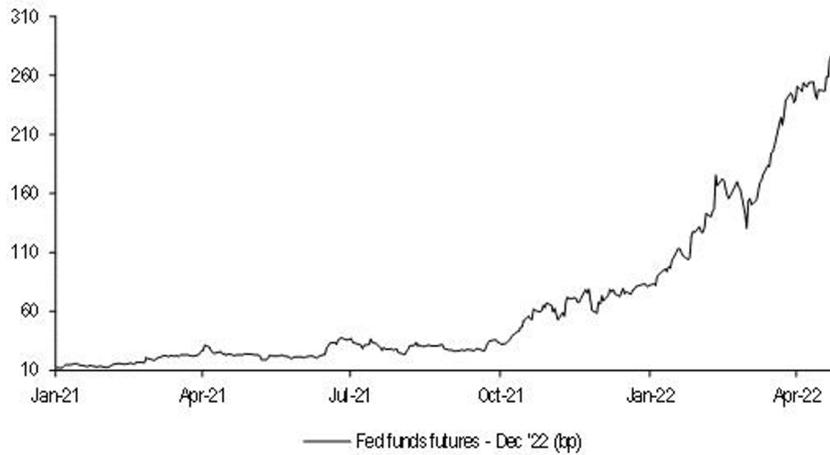
Source: JPMorgan

To many, the speed of the inflection suggests it was long overdue and reinforces a feeling that we can't be near the end, it must only get worse. It does feel bleak as many companies are confirming market whispers and issuing profit warnings. But I come back to the critical question... where are we going from here? Many of the building blocks are in place to start rebuilding confidence if you have any sort of sensible investment horizon.



- 1) Fed Funds rate futures have moved sharply over the past six months. From pricing in one 25-basis-point increase for 2022 last September, they now forecast 10 hikes of 25bps – or more likely several of 50bps and one or two at 75bps for good measure. The surprise factor from the constant repricing of the near-term Fed rate path over the last few months is coming to an end.

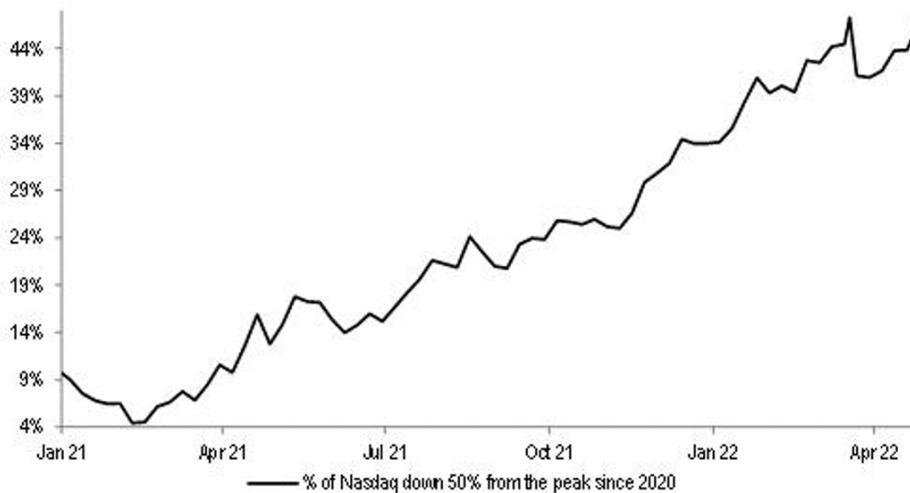
The changing future landscape



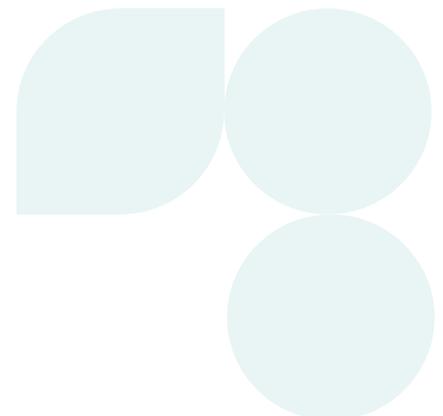
Source: JPMorgan

- 2) Almost half of the stocks in the Nasdaq Index are down by more than 50% year-to-date and the Cathie Wood, ARK Invest era of unprofitable concept stocks has come crashing down.

Nearly half of the Nasdaq have halved

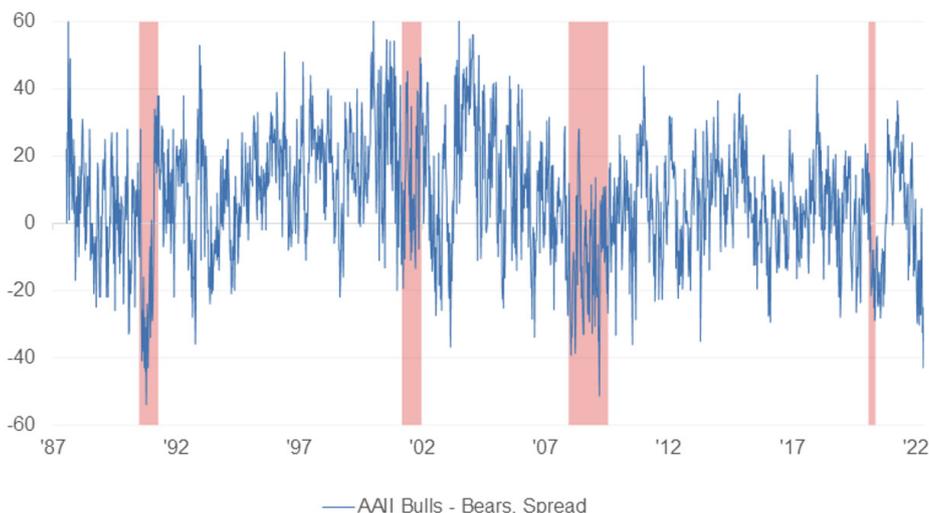


Source: JPMorgan



3) Investor sentiment has collapsed – bullish sentiment is at a 30-year low outside of deep crises and recession (shaded in pink).

Investors' confidence at rock-bottom



Source: Evercore

Our optimism about the long-term shouldn't excuse our poor short-term investment performance, which is undoubtedly stressful and frustrating to all of us. I'm sorry, the main culprits have been our technology, 'growth' and consumer discretionary stocks. These areas of significant exposure for us have been hit very hard in this bear market.

In a role reversal, our best long-term performers have been our worst performers so far this year. Our zero exposure to oil and gas stocks, due to their low long-term earnings visibility, has proven a costly choice with the sector up roughly 40% YTD. It's rare for the energy sector to be an outperformer in a market that appears to be heading for recession, but the war, years of chronic underinvestment and sustainability-inspired investor disinterest have changed the calculus. Our naivete, with hindsight, is that many of our growth stocks with credible long-term growth untethered to the vagaries of GDP have still been hammered.

The presumed resilience of their profitability due to strong business models and expanding markets has been ignored, leading their PE multiples to contract in an open-ended rising rate environment.

In this market, even short-term air pockets in earnings growth are punished with great ferocity as investors pivot to short-term profit harvesters, like oil and gas. This macro-driven market will be highly volatile and prone to periods of unbelievable overshoot at times. We will stick to our long-term beliefs, as we think many fantastic businesses are being unfairly chucked aside by short-term fears. Meanwhile, there are some helpful market and economic signals emerging. As we've highlighted above, a lot of bad news is baked in, so the potential for more negative surprises has markedly reduced. Plus, the guiding principle of a five-year investment horizon smoothes over a lot of cracks on precise timing and trajectory.



James Thomson
Lead Fund Manager



Sammy Dow
Fund Manager

Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. Past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and you may not get back what you originally invested.