Rathbone Unit Trust Management

Contact us 020 7399 0399 rutm@rathbones.com

Rathbones
Look forward

Rathbone UK Opportunities Fund

Quarterly update June 2022

The first half of 2022 has been grim for investors across most asset classes. Equities and bonds are down by the most since the 1970s.

Rallies appear short-lived and fizzle out before stocks break their previous highs, indicating that markets haven't yet hit bottom. Price action in very selective areas (like retailing, for example, where some share prices aren't falling aggressively anymore on poor numbers) suggest we might be quite close though, so our eyes are peeled. In another striking dynamic, 'value' stocks (which ride high when the economy is thrumming) have in the last month stopped outperforming their 'growth' peers (the ones less dependent on external factors). Markets have rapidly moved from worrying about a hot economy pushing up inflation to worrying about recession.

It's notable that UK assets have been outperforming this year, with the FTSE All-Share down by 4.6% compared with the FTSE World's 10.9% fall. But almost all this relative outperformance has come from the FTSE 100's energy component. Narrow leadership like this is rarely sustainable, particularly when it's driven by such an economically sensitive sector. Meanwhile, midcaps have suffered a broad-based decline, thanks to the somewhat simplistic view that they're a cyclical, domestic market. In fact, half the revenues generated by FTSE 250 stocks come from outside the UK. Nonetheless, this represents a very difficult backdrop for your midcap fund.

	3 months	6 months	1 year	3 years	5 years
Rathbone UK Opportunities Fund	-17.0%	-30.2%	-23.4%	-0.2%	1.4%
IA UK All Companies Sector	-8.3%	-12.8%	-8.5%	3.9%	10.9%

	30 Jun 21-30 Jun 22	30 Jun 20-30 Jun 21	30 Jun 19-30 Jun 20	30 Jun 18-30 Jun 19	30 Jun 17-30 Jun 18
Rathbone UK Opportunities Fund	-23.4%	36.9%	-4.8%	-9.0%	11.6%
IA UK All Companies Sector	-8.5%	27.7%	-11.0%	-2.2%	9.1%

Source: FE Analytics; data to 30 June, I-class, mid price to mid price.

These figures refer to past performance, which isn't a reliable indicator of future returns.

Little certainty about what lies ahead...

Thus far, the moves in equity prices have been driven by valuations falling sharply in response to rising bond yields. This is the mechanism whereby markets try to price in the impact of higher inflation and higher interest rates on the expectation that earnings will be lower than anticipated. Interestingly, we are yet to see companies and analysts confirming that view in any meaningful way. But the mood in the market is that a slowdown is looming, we just don't know what it will look like. Lead indicators are giving us conflicting signals too. Employment is very strong, consumer spending is OK but not hot, wages likewise. Anecdotally, we hear that restaurants are full and it's a busy travel season. But consumer confidence surveys are at record lows, while business confidence is stalling. It's not easy to divine the future from these contradictory clues, but a combination of spiking commodity prices and rapidly rising rates rarely ends without a slowdown.

Staying focused on the metrics we think matter most

Markets like these make even seasoned investors question their process and decision-making. We have not changed our process or approach as we believe that our focus on quality, cash and liquidity is appropriate for the long term, despite the powerful short-term headwinds. That doesn't mean we're happy with our current performance or that we're burying our heads in the sand.

We continue our work assessing the degree of safety and defensiveness of our positions. Metrics we've long regarded as key, like revenue volatility, gross margins, leverage and capital expenditure, give us important insights into the durability and strength of our holdings. Management ownership of stock becomes a better pointer too – we like to see 'skin in the game'. Accounting conservatism is the first thing that flies out of the window when times get tough so we're on the lookout for any evidence of this early warning sign. We're selling names that don't fit our particular bill and raising a bit of cash ready to deploy into opportunities we regard as more watertight. We're not rocking the boat too much though – we're confident that the fund is well placed for the long term. From here, the storm clouds don't even need to clear: it will be enough if they simply stop getting darker.

Alexandra Jackson
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.

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

Authorised and regulated by the Financial Conduct Authority

A member of the Investment Association

A member of the Rathbones Group. Registered No. 02376568

7971.07.22