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Rathbones
Look forward

Rathbone Global Opportunities Fund

Quarterly update June 2022

In June, your fund returned -6.4% versus a 5.4% average fall for the IA Global sector. In the second quarter, your fund dropped 16.2% versus a -10.1% average decrease in the IA Global sector.

There is little for us to be proud of this quarter. The grinding bear market and disappointing performance from 'growth' stocks, particularly more highly rated and economically sensitive technology and consumer discretionary companies, combined with our zero exposure to the bounce-back in oil and gas stocks have proven a perfect storm for short-term underperformance.

	3 months	6 months	1 year	3 years	5 years
Rathbone Global Opportunities Fund	-16.2%	-25.2%	-17.7%	21.5%	59.0%
IA Global Sector	-10.1%	-14.5%	-8.8%	21.0%	42.0%

	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 Global Opportunities Fund	-17.7%	24.1%	19.0%	9.4%	19.7%
IA Global Sector	-8.8%	25.9%	5.4%	7.5%	9.1%

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

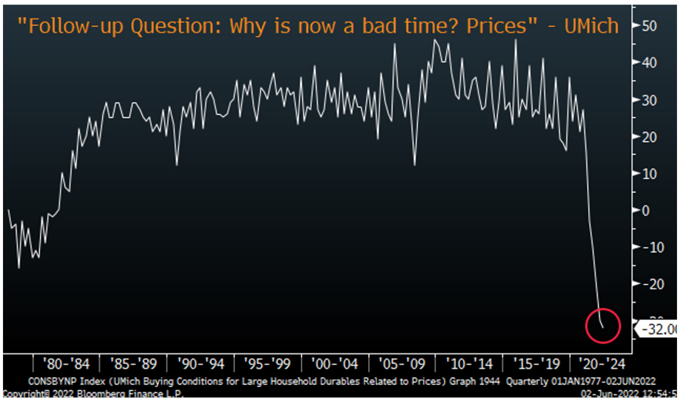
These figures refer to past performance, which isn't a reliable indicator of future performance.

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.

The rapid rise of the US 10-year treasury yield is driving this market. And the US Federal Reserve (Fed) is driving the 10-year yield, while inflation is driving the Fed. The Fed's message is clear: it's abandoned the 'Fed put' and now believes the most progressive way to tighten financial conditions is for stocks to be lower. The economic impact of persistent inflation on the American people is the priority here, not the stock market. Most investors now believe that Fed attempts to slow the economy and destroy demand-driven inflation will work. But the likelihood of a policy mistake (tightening too much) and the impotence of its efforts to curb supply-side pressures will also drive most economies into a global recession, or at least a profit recession. It feels like the economic virus is spreading to new areas, given the volatility in currencies and crypto and the growing risk of an energy-inspired crisis in Europe, with very little clear evidence on how we're going to break the fever.

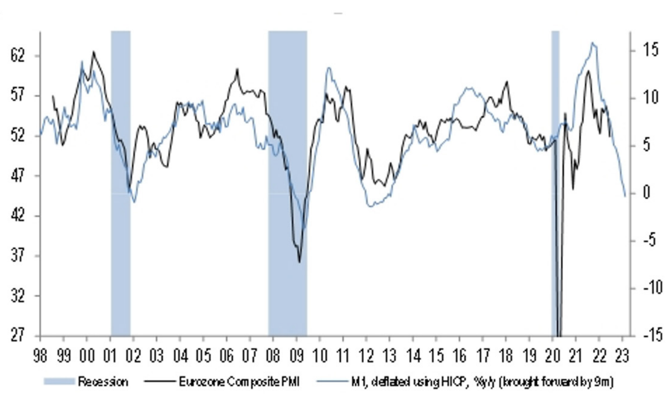
As the charts below show, sentiment is very heavily bearish (with a downturn the most likely case for most). This suggests that once investors' fears are realised, the market could find a better footing, start looking through the depths and move forward. Investor sentiment is already at 30-year lows.

Consumer sentiment has collapsed due to high prices...



Source: Bloomberg

... And leading economic indicators point to weakness in activity, but investors already expect this



Source: JPMorgan

The desire to neutralise downside risk is powerful, but it could have come at just the wrong time: our stocks' growth style and sector choices have front-end loaded so much pain. We will get through this and the best returns will come when we least expect them.

Some strategists believe that we need to start seeing some "confession" as a key stage in the bottoming process. Many of our worst performers have not pointed to any weakness in trading, but clearly the market is front-running future challenges. And history shows us that there are some benchmark sectors where long-delayed confessions and profit warnings actually mark the bottom in stocks' downward trajectories as the last weak holdouts are shaken out. This is a temporary phase in the cycle: it doesn't represent permanent loss of capital. If we see any pick-up in Chinese economic activity, a softening of Beijing's zero-COVID policy which is amplifying supply chain disruptions, or a de-escalation in Ukraine (as unlikely as that feels), markets would pivot quickly to a pro-risk stance. In such a scenario, our worst performers in Q2 would then become our best performers.

Q2 2022 top contributors	
Coca-Cola	+1.6%
Rollins	-1.0%
Estée Lauder	-7.8%

Q2 2022 bottom contributors	
Nvidia	-43.9%
Dexcom	-41.9%
Signature Bank	-39.9%

Source: StatPro, Rathbones; total share price returns, data in local currency

Other strategists say that during inflationary recessions you often don't get significant and tell-tale earnings cuts. If this market environment is similar to the 1970s, nominal earnings growth was 52% between the beginning and the end of the bear market of the early 1970s. But price-earnings multiples contracted from 25x in January 1973 to 8x at the lows of October 1974. The key to the market moving higher wasn't earnings cuts, but getting inflation to burn itself out and thereby allow the Fed to cut rates.

Each of the scenarios outlined above are possible, but we shouldn't wait for the jury to give its ruling...we must use current market weakness to buy some great businesses that are on sale. Over the last quarter, we bought racing championship holding company **Liberty Media Formula One**, DIY mecca **Home Depot**, Dutch e-commerce and payments business **Adyen**, and confectionary and food conglomerate **Mondelez** – crown jewel businesses. With our five-year investment horizon, we believe the returns they deliver could be outstanding.

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.

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