

Rathbone Global Opportunities Fund

Monthly update October 2022

In October, your fund returned 3.8% versus a 2% average increase in the IA Global sector. Year-to-date, the fund is down 20%.

The US Federal Reserve (Fed) telegraphed a “higher for longer” message on interest rates, in the face of stubborn inflation, which does not sit well with investors. The Fed believes the cost of doing too little still dwarfs the cost of doing too much. But at least it has made some acknowledgement of the lagged effect of this year’s interest rate hikes, which may not yet be showing up in the central bank’s preferred inflation measures.

This matters because the market has put a direct link between bond yields and the performance of growth equities. Stock specifics and bottom-up analysis have really become subordinate to the macro this year. Any evidence of a peaking in bond yields would likely allow the ‘growth’ style to trade better.

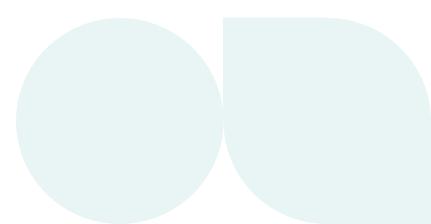
Despite several false dawns this year, evidence is mounting for a turn in inflation which would finally put a floor under equities. Strategists talk about the four phases of inflation: commodities, goods, services and wages. Many commodity prices and freight rates have dropped significantly in recent months. This is bringing down the costs of key raw materials whose prices became inflated as a result of the Ukraine war and zero-COVID supply-chain disruptions.

Commodity prices: the drop from their peak

	Current	YTD Peak	Change from peak
Natural Gas	€102	€311	-67%
Nickel	\$22216	\$48211	-54%
Aluminium	\$2213	\$3876	-43%
Wheat	\$839	\$1425	-41%
Iron Ore	\$88	\$148	-41%
Palladium	\$1939	\$2980	-35%
Copper	\$346	\$493	-30%
Brent Crude Oil	\$94	\$128	-27%

Source: Bloomberg Finance L.P.

Consumer goods and apparel prices have been discounted sharply in recent months as a tidal wave of excess inventory forces retailers to clear stock. This too should be disinflationary.



Floor to Ceiling

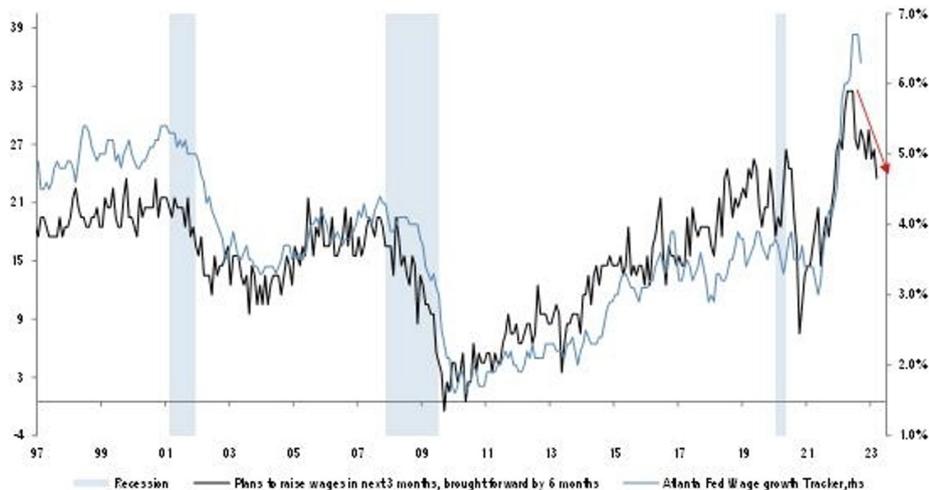
General-merchandise stores' seasonally adjusted monthly inventories



Source: U.S. Census Bureau

And the stickier drivers of inflation look to roll over in the coming months as slowing consumer demand starts to pull back against high prices. Surveys of corporate “plans to raise prices in the next three months” have collapsed in recent weeks. Services inflation (such as rent) may not yet be dropping according to the Fed’s lagging data (the concisely named CPI Index for All Urban Consumers: Owners’ Equivalent Rent of Residences) but real-time Zillow data shows a sharp drop in its proprietary rent index. Corporate intentions to raise wages, which leads actual wage growth, has also rolled over.

Corporate plans to raise wages in next 3 months



Source: JPMorgan

Fund performance has been disappointing this year as the tide is against growth stock investing. Sometimes this has proved justifiably harsh when an individual company disappoints and we have to reassess our investment case. One example this month was our long-standing holding in **Adobe** which shocked investors with one of the most expensive acquisitions in history: its purchase of privately held design software rival Figma for ~50x annual recurring revenues. This seems like a Hail Mary to plug a competitive gap that it had previously downplayed. It was all particularly embarrassing since Adobe's R&D budget amount to \$2.5 billion versus Figma's \$20 million and still Adobe was outmanoeuvred. Perhaps the resilient competitive moat around Adobe has dried up? Bulls will say that the Figma deal has now eliminated a competitive threat and Adobe stock looks cheap. But 'cheap' tech stocks rarely work and execution and expectation risks around a potential shift of the whole business on to a web-based collaborative platform are starting to mount. We have sold the position.

More positively, some of our med tech stocks have rebounded after getting unfairly punished earlier in the year as they got caught up in broad selloffs. **Dexcom** produces market leading continuous glucose monitoring (CGM) devices for diabetics to keep their glucose within an ideal band for as long as possible. There are currently 460m diabetics globally and the total is set to increase to one in 12 people by 2045. Diabetes is one of the world's most costly chronic diseases. It can bring lots of other comorbidities, such as high blood pressure, kidney failure, blindness and cardiac disease, as well as dialysis costs. Dexcom recently confounded expectations by announcing an acceleration in its growth rate just as it is launching a new product that represents a significant improvement versus its previous generation CGM device. Its shares are up 45% in the past month.

Intuitive Surgical, which offers patients minimally invasive robotic surgery for an ever-increasing number of procedures, also had a good month. There were 1.6m robotic surgical procedures last year offering patients faster recovery times, less scarring, better patient outcomes and more productive operating rooms and surgeons. COVID-driven patient backlogs and a looming recession may delay some elective procedures (60% of total surgeries are elective). But we see clear tailwinds for businesses involved in next-generation robotic surgery. Intuitive Surgical's shares are up 30% in the past month.



James Thomson
Lead Fund Manager



Sammy Dow
Fund Manager



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