Rathbone Unit Trust Management

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Rathbone Global Opportunities Fund

Monthly update November 2022

In November, your fund returned 1.3% versus a 3.1% average increase in the IA Global sector. Year-to-date, the fund is down 19%.

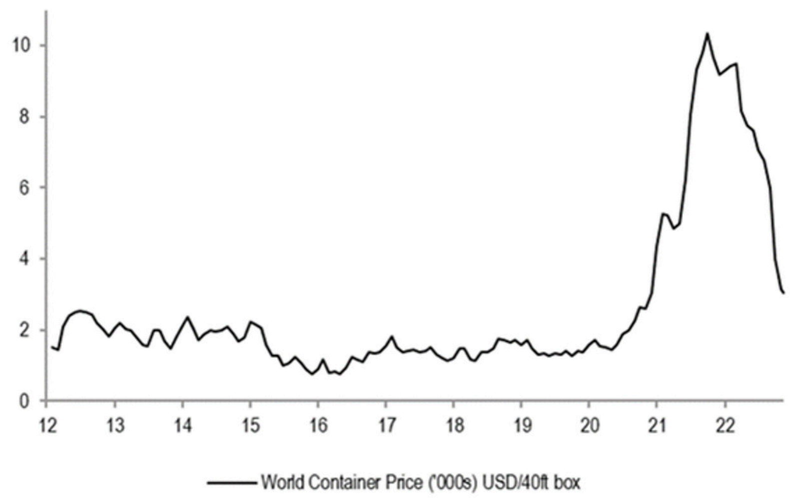
There is a high dispersion in stock market returns from one month to the next as investors weigh the threat of 'further for longer' rate rises leading to a much-anticipated recession and the disinflationary forces that are appearing from falling commodity, freight and consumer goods prices.

Commodity prices have dropped sharply 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%

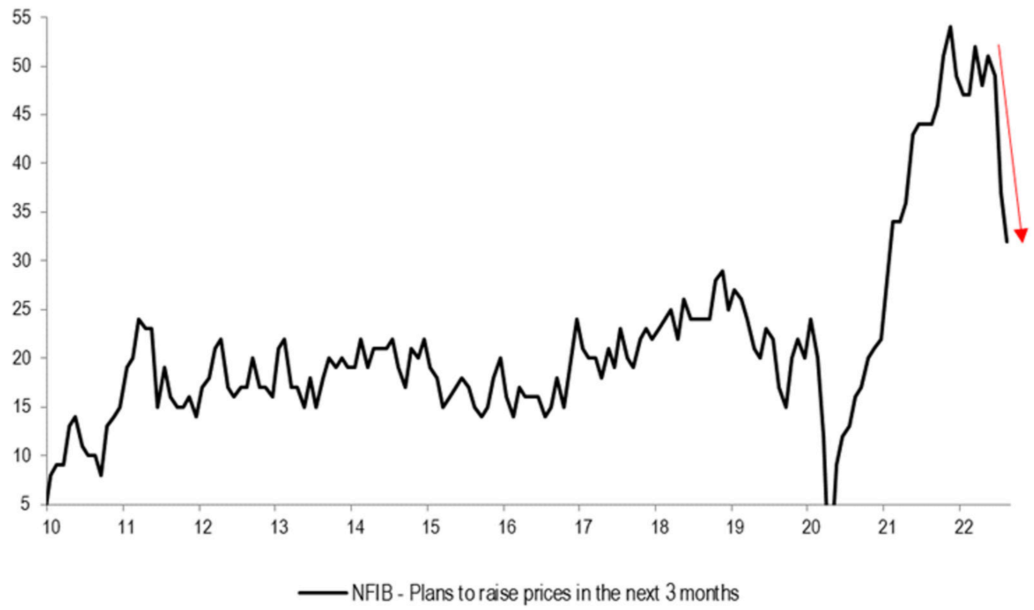
Source: Bloomberg Finance L.P.

Freight costs have plunged too



Source: JPMorgan

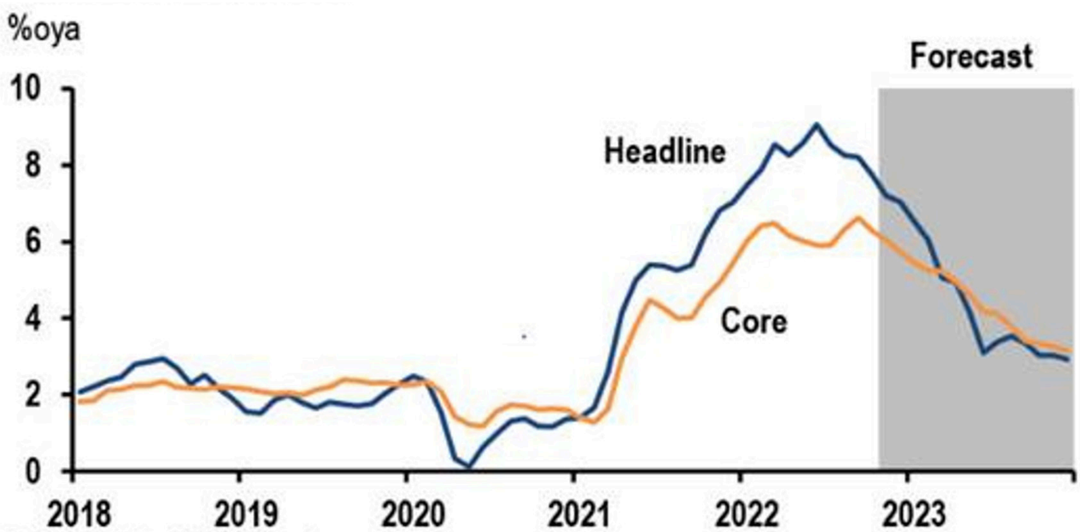
While companies are reining in plans to increase consumer goods prices



Source: JPMorgan

In addition, concerns are surfacing that the transmission mechanism from higher rates isn't having enough of an effect on demand and labour markets. Perversely, investors want to see bad news to confirm that rate rises are working in slowing consumption and inflation. Yet unemployment remains low and, despite some headline-grabbing announcements, there's still demand for labour in many parts of the economy. Many companies acknowledge expectations and fears of an upcoming recession, but are yet to see any real weakness in underlying demand. So much hinges on a sharp drop in inflation to give central banks the breathing space to pause and then pivot. Upcoming inflation prints will be watched closely as a steep drop is baked in to many economic forecasts. If it fails to materialise, the threat of higher rates and a more damaging recession will rise.

CPI inflation data and forecasts



Source: BLS, JPMorgan forecast

Despite so much macro uncertainty, it's clear that the world has changed in some profound ways. Many companies that built their business models around a low-profit 'land grab' growth strategy, financed by cheap capital and forgiving shareholders, are finding that this model no longer works. Other companies with valuations that implied resilience have revealed surprising fundamental weakness. These stocks are unlikely to regain their pre-inflation-era multiples. Rather than burying our heads in the sand and wishing for a drop in inflation to bring back the old status quo, we've made a number of changes to the portfolio over the past year.

We have sold stocks like **Uber**, **Shopify**, **Align**, **Match**, **Signature Bank** and **Silicon Valley Bank**. They have been replaced with high quality companies with underappreciated growth potential as we believe the strong will get stronger in coming years. Examples here include **Apple**, **LVMH**, **Home Depot**, **Boston Scientific**, **Mondelez**, **Coca-Cola** and **McDonald's**. We would never claim these are under the radar or unheard-of companies. But when we evaluate their underestimated potential for revenue and earnings growth, the resilience of their fundamentals even in the face of a recession, their growing market share and market penetration, and new addressable market potential, we feel confident that they qualify as 'under the radar' or 'out of favour' growth. These companies have been on our 'watch list' for many years, frankly because we missed the opportunity to invest in them years ago. We've been using this sell-off in markets to right some past wrongs, giving us the chance to buy some of the best growth stocks in the world that we missed first time round.

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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