Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone SICAV Global Opportunities Fund

Quarterly update December 2022

In the fourth quarter, your fund returned 1.9% versus a 2.2% average increase in the IA Global sector. In 2022 the fund fell by 22.0%.

	3 months	6 months	1 year	Since launch 11 Mar 21
Rathbone SICAV Global Opportunities Fund	1.9%	4.6%	-22.0%	-6.0%
IA Global Sector	2.2%	4.0%	-11.1%	2.8%

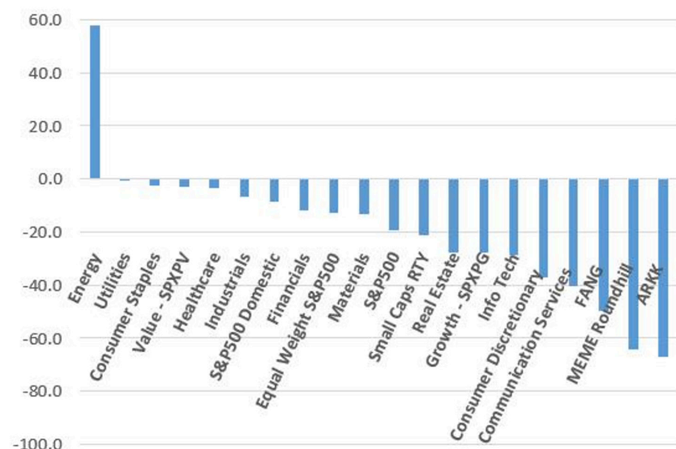
Source: FE Analytics; data to 31 Dec, L-class, mid price to mid price.

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.

Triggered by the hawkish shift in interest rate policy to tackle inflation, the great rotation from 'growth' to 'value' was one of the key drivers of our fund's disappointing performance last year. High quality, resilient and long-duration growth assets sold off sharply and investors rotated into the only sector that posted significant positive returns due to the Ukraine war and a snapback after years of underperformance — oil & gas — a sector we've avoided because commodity prices are so unpredictable. Our holdings in consumer discretionary and tech sectors were the biggest underperformers, though we don't hold the kind of unprofitable and speculative growth stocks that make up much of the ARKK basket run by bleeding-edge tech investor Cathie Wood.

2022 % change — S&P 500 Sectors and Major Factors



Source: Atlantic Equities

Our top performers in 2022 included most of our holdings in the 'weatherproof' bucket of the portfolio — less economically sensitive stocks that we incorporated into our investment process after the last major recession in 2008. New lessons will be learned from this bear market and likely recession, but these weatherproof stocks have so far provided a useful foil to the rest of the portfolio, which was marked down due to the compression of valuation multiples ahead of probable earnings downgrades. Staple services like pest control, garbage collection and uniform rental dominated the list of our top performers. Farming equipment manufacturer **Deere** is exposed to agricultural crop cycles, rather than economic or business cycles, and should play a key role in bringing down the crop price inflation that's fed into wider food price inflation. Finally, our holding in consumer discretionary and off-price apparel retailer **TK Maxx** (TJX) was another outperformer despite its exposure to consumer spending. Excess clothing inventory bought at cents on the dollar from distressed brands will probably be one of the few bright spots in this retail sector as consumers look for bargains.

Many of the growth stocks among our weakest performers are unlikely to regain their pre-inflation-era price-earnings multiples. Rather than burying our heads in the sand and hoping that falling inflation would bring back the old status quo, we changed about 20% of our portfolio in 2022. We replaced stocks like **Uber**, **Shopify, Align**, **Fevertree**, **Adobe**, **Match**, **Signature Bank** and **Silicon Valley Bank** (SVB Financial) with higher quality, more predictable and resilient growth companies that have weathered several business and economic cycles. That's because we believe the strong are only going to get stronger in coming years. Examples here include **Apple**, luxury brands conglomerate **LVMH**, DIY chain **Home Depot**, medical device manufacturer **Boston Scientific**, candy maker **Mondelez**, drinks giant **Coca-Cola** and fast-food chain **McDonald's**.

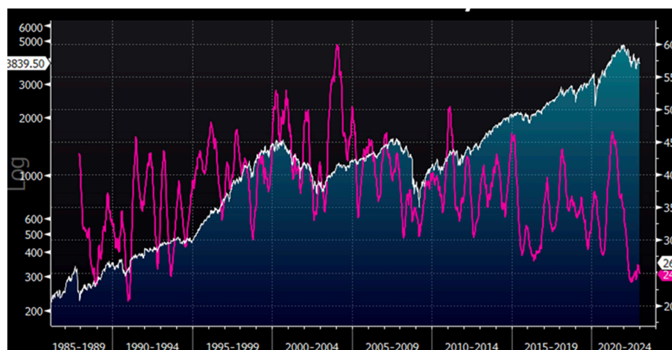
We would never claim these are under the radar or unheard-of companies. But when we evaluate their underestimated growth potential for revenue and earnings, the resilience of their fundamentals even in the face of a recession, their growing market share and market penetration, and new addressable market potential, we feel confident that they qualify as high quality, under the radar or out-of-favour growth opportunities. 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 used the market sell-off 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.

We had so many false dawns in the form of lots of failed rallies in 2022 that the market seems to be commanding us to believe that any move higher is only another bear market rally. That's why we can't fixate on precise timings or downside certainty and must instead anchor ourselves to a long-term strategy.

It may not be fashionable, but we're positioned for inflation to roll over and the potential for markets to move sharply higher. We can debate exactly when this will happen, but it'll be triggered by what'll be the defining moment of 2023: a pivot away from hawkish tightening by the US Federal Reserve (Fed).

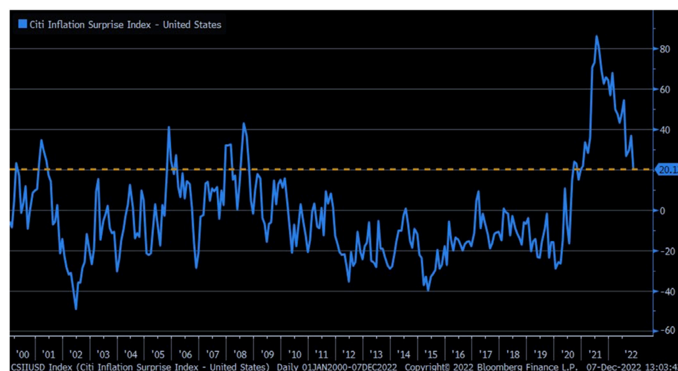
History tells us that in "inflationary bear markets", such as those in the 1960s, stocks bottom out once inflation peaks, allowing the Fed to pivot away from hawkishness. In the 1960s, when the Fed didn't engage in forward guidance, outright rate cuts were the catalyst to look for. Today, the trigger could be a forward guidance signal from the Fed – when its rhetoric starts shifting away from inflation concerns and to focus on growth trends. And we know that stocks do well after inflation peaks and the Fed changes tack.

Bullish sentiment at a 30+ year low



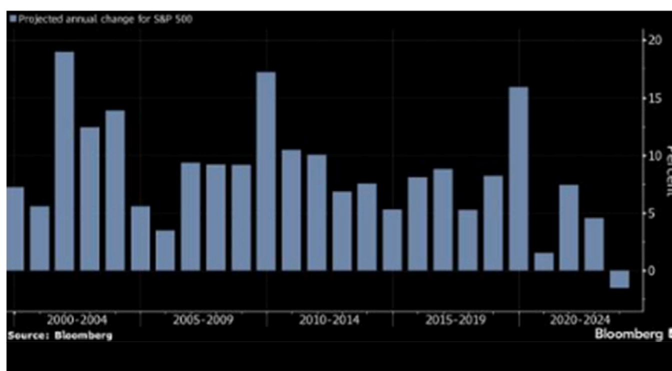
Source: Baird

Inflation stops surprising



Source: Bloomberg and Citigroup

Top strategists are forecasting the S&P 500 will fall back in 2023



Source: Bloomberg; Projected annual change for S&P 500

Unwelcome inflation surprises have slowed and some strategists believe that the lagged effect of the rate hikes implemented in 2022 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 really got subordinated to macro considerations last year. Any evidence of a peaking in bond yields would likely allow the growth style to trade better.

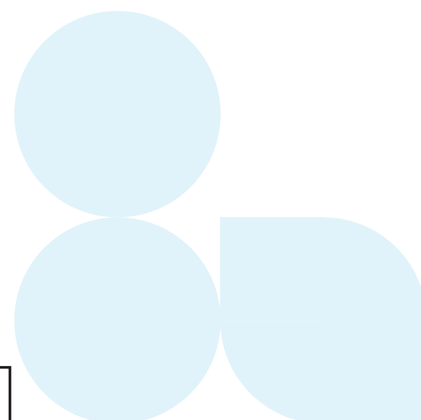
After previous pivots (i.e. like that in the 1970s), the S&P 500 has (on average) rallied by around 27% over the subsequent 12 months. This time, the rebound is unlikely to be either gradual or predictable – the best returns come just when you least expect them. Bullish sentiment is at a 30-year low and for the first time in decades top Wall Street strategists polled by Bloomberg agree that they're expecting a down year for the S&P 500... unusually bearish and potentially a contrarian signal.

This doesn't mean that we're going to dogmatically anchor ourselves to stocks when the facts change. I think the one-sided dominance of growth strategies is starting to wane. Growth has consistently outperformed, almost without challenge, for the past 15 years. Many parts of the market have been starved and so a period of catch-up has been likely for some time. This means we're getting back to an investing world that isn't as binary anymore. So how do we tackle this? How do I ensure we're still invested in the right places? By making sure that we've got balance in the fund without trying to 'value wash' it or to change our investment process.

As we navigate our way through what's likely to be a turbulent start to 2023, we must remain nimble and alert to challenges that might impair our investment thesis over the longer term, but also patient enough to see through short-term air pockets.

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 your original investment.

This fund is actively managed. This is a marketing communication. Please refer to the prospectus of the UCITS and the KIID before making any final investment decisions.

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A member of the Rathbones Group.
Registered No. 02376568

Management company:
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Authorised in Luxembourg and regulated by the Commission de Surveillance du Secteur Financier

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