For professional advisers only

Rathbone Unit Trust Management

Rathbone Luxembourg Funds SICAV

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Rathbones
Look forward

Rathbone SICAV Global Opportunities Fund

Monthly update January 2023

In January, your fund posted a 3.4% return versus the IA Global sector average of 4.4%.

We're in a race between falling inflation and faltering economic growth. Two-thirds of economists believe we will have a recession in the next year – I'm reminded of the quip that economists have predicted nine of the last five recessions. But at least the recession – if it comes – isn't going to shock investors as they've had time to adjust.

The debate is less about whether there will be a recession or not, and more about the depth of that recession and how long it takes for the US Federal Reserve (Fed) to lose its nerve and pivot. The risk is that the Fed has already overtightened and that it will keep interest rates too high for too long, belatedly pivoting only when there's a jump in that most-lagging of indicators… unemployment.

Higher rates will sort winners from losers

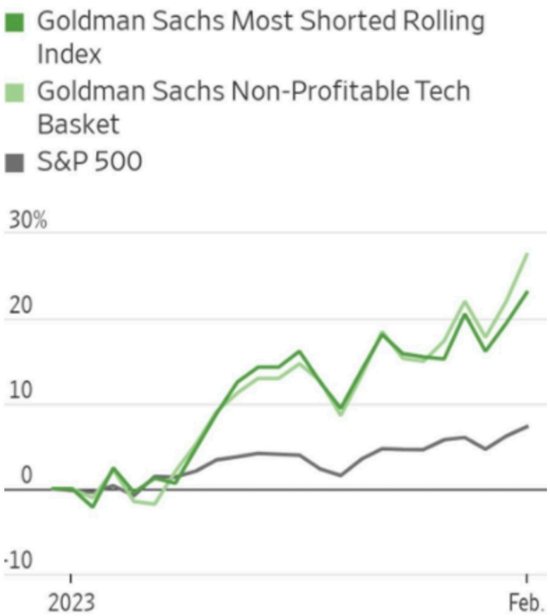
Consumer savings are being exhausted just at the time that corporate pricing power is also out of puff and earnings are getting cut. However, I don't think we should sell great businesses just because they're going to have one bad year. In fact, tightening financial conditions will probably snuff out nascent competition and unprofitable start-ups, clearing the field for the strong to get stronger. Usually following an exogenous shock (war, commodity and energy price spikes, and China's zero-COVID stance) you get a sharp V-shaped rebound. The long-term prize is still attractive, but we must be willing to withstand some short-term pain to get there.

I expect returns will be more inconsistent going forward – low inflation and low rates facilitated excess growth. When the 'hurdle' rate of return to cover financing costs is extremely low it makes more business projects viable, turbo-charging sales growth. In a world that's more inflationary (where investors are expecting future inflation of, say, 3% instead of 1%), you introduce a period of two-sided risk as central banks slam on the brakes and then put their foot on the gas to try and recalibrate… but that doesn't mean that investing can't be profitable. If we fixate on precise timings, we'll be constantly whipsawed. We've taken out the riskiest 'growth' stocks in this fund, but our balanced approach can still deliver outstanding returns, as we've seen during recent market rallies.

As we have seen in the market rally from late December to early February, it's usually the lower-quality, most-beaten-up and most-shorted stocks that outperform initially.

Those that drop farthest, bounce highest

Performance, year to date



Note: Most-shorted index tracks 50 stocks, with a market capitalization greater than $1 billion, having the highest short interest in the Russell 3000.

Source: Refinitiv

But as markets consolidate, higher-quality growth stocks should drive more repeatable leadership. Some of the areas that we're most excited about include our consumer discretionary stocks, which did poorly last year but I think have a bright future. Underperformance from consumer-facing stocks is a typical feature in a cost-of-living squeeze and ahead of a recession. For instance, our holding in luxury goods company Hermes declined 37% in the first half of 2022 but has since recovered all of those losses. In fact, it's just recorded a new all-time high. I think this proves that knee-jerk reactions can often be wrong. Particularly for businesses where exclusivity and scarcity drive more demand than customer sensitivity to the macroeconomy.

We're focusing on quality businesses

Despite our headline exposure to the consumer, we used the sell-off in the first half of last year to buy a business we've long wanted to own, perhaps the highest-quality and most diversified luxury conglomerate there is: **LVMH**. Its key Fashion & Leather division, which makes up half of its sales, includes two of the most desirable soft luxury brands – Louis Vuitton and Dior. This division has proven highly resilient in past recessions. During the Great Financial Crisis, LVMH's Fashion & Leather organic sales growth only went negative for one quarter... down just 2% in the second quarter of 2009. Interestingly the stock bottomed six months before that and was up 130% by the end of 2009.

At the other end of the retail spectrum, our holding in **TK Maxx** (TJX Companies) has similar scarcity appeal. If you find an item on the racks in your local TK Maxx, it probably won't be there the next time you visit so you'd better buy it now. This stock was down 26% in the first half, but recouped all of those losses and then some as we held on. Excess inventory plagues the retail industry at the moment, so TK Maxx can buy apparel for pennies on the dollar, giving punters the bargains they're looking for.

Similarly, we've held our medtech stocks through some wild swings. They include **Intuitive Surgical**, a pioneer in minimally invasive surgery using robotics, and **Dexcom**, a digitally driven glucose monitoring business for diabetics (sadly this disease is set to afflict one in 12 people by 2045).

And despite some permanent sales that we've made in our technology weighting – selling some of the more bleeding-edge growth stocks, such as e-commerce platform **Shopify** and dating app developer **Match.com** – our remaining holdings in software and semiconductors should roar back. Semis, including our holding in graphics processor designer **Nvidia**, which was badly hit last year, have already had a very good start to the year, leading us to take some profits.

Finally, we think our picks-and-shovels industrial investments should benefit as neglected investment on machinery, system upgrades and building spare capacity in our critical infrastructure ramps up as it's recognised that this will be part of the solution to our supply side bottlenecks. Some of these stocks include tractor manufacturer **Deere**, US concrete and heavy construction materials supplier **Martin Marietta**, and **Schneider Electric**, which fits out offices, factories and infrastructure installations with lighting, monitoring systems and much-needed automation.

We believe our stocks represent a broad and balanced example of some of the highest-quality growth stocks in the world.

James Thomson
Lead Fund Manager

Sammy Dow
Fund Manager

Rathbone SICAV Global Opportunities Fund

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.

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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