For professional advisers only

Rathbone Unit Trust Management

Contact us 020 7399 0399 rutm@rathbones.com

Rathbones
Look forward

Rathbone Global Opportunities Fund

Monthly update April 2023

In April, your fund posted a 1.4% return versus the IA Global sector average of -0.2%. Year-to-date the fund is up 6.2%.

The resilience of the market and the economy in the face of a banking crisis has left many investors perplexed – myself included. Anxiety levels are clearly high as single-stock reactions to bad news or poor results, however short term, are higher than normal despite index-level volatility remaining relatively depressed (as shown by the VIX).

Revealed preferences

Virtually everyone you talk to is bearish: the future is uncertain; inflation isn't falling as fast as everyone would like; costs from labour to debt interest payments are rising; central bankers are like a riddle of sphinxes. And yet…

Markets don't rise by themselves. They rise because investors bid them higher. They rise because – after all the caveats, consternation and short-term doubts – more people think stocks offer good value. It's the old principle of revealed preferences: the best way to judge what people really think is to see what they buy, not listen to what they say.

The 'pain trade' is in full force for those betting on market weakness. Some strategists say that "everyone believes everyone else is bearish" and yet many (including us) are still fully invested. It's our job to be fully invested and we believe the long-term future is bright. We say this often: we don't know what tomorrow will bring, but we are confident in the quality of the businesses we own over many years. While there may be scary market moves in the coming months, the best returns often come when you least expect them. For instance, we kept our eyes on the long term and used last year's dislocation in stock markets to buy some of the best businesses in the world at a discount, a rare opportunity. Stocks including gadget maker **Apple**, luxury giant **LVMH**, candy king **Mondelez**, fastfood posterchild **McDonald's**, and data centre expert **Equinix**, some of which are up more than 40% from the panic lows of early 2022.

It is true that leadership in this modest rebound of 2023 has been narrow, rather cynically implying it is undeserved or won't last. As we own many of these outperforming stocks (graphics processor designer **Nvidia**, digital office one-stop shop **Microsoft**, search titan **Alphabet**, e-commerce and cloud computing leader **Amazon**, etc), we politely disagree. We think that the bounce-back is in part due to the unfair hammering these companies received last year. Let's not forget that these companies are also at the leading edge of their industries with several new growth opportunities ahead of them, including AI. Our exposure to this theme is via the largest tech companies, and 'picks and shovels' – the tools of the goldrush – rather than through riskier start-ups seeking to strike gold.

It remains hard to quantify the size of the future revenue contribution of AI (perversely that's usually when you harvest the best returns), but with the likely pause in interest rate hikes, it has triggered a return of 'growth' stock outperformance.

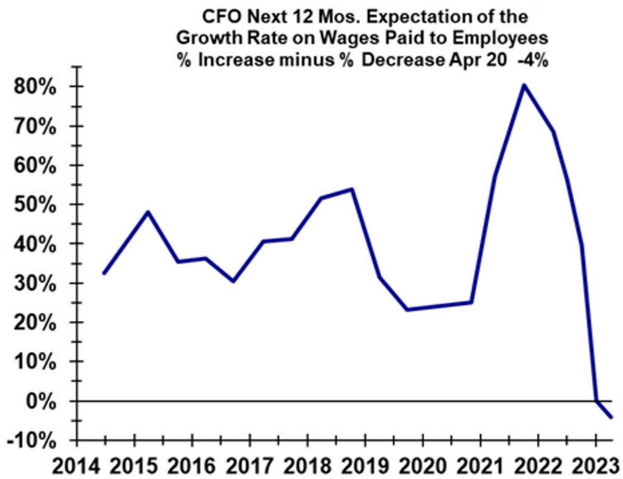
Growth is cool again

Source: JPMorgan, MSCI US Growth versus Value

While a pivot to outright falls in interest rates would probably accelerate the outperformance of growth stocks, most acknowledge that this is unlikely. For it to happen there would need to be a meaningful drop in inflation and a recession. While many economists still forecast a recession, the US Federal Reserve's monetary policy committee and many investors are still clinging to the hope of a soft landing. Recent data suggests a helpful slowing in some of the stickiest components of inflation, especially wages because of the tight labour market. If future wage growth expectations slow and unemployment starts to gently move higher, the door is open for the stock market to continue marching higher.

Source: Indeed

Evercore ISI Company Surveys



Source: Indeed

James Thomson
Lead Fund Manager

Sammy Dow
Fund Manager

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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.

Rathbone Unit Trust Management Limited
8 Finsbury Circus, London EC2M 7AZ
Tel 020 7399 0000

Information line
020 7399 0399
rutm@rathbones.com
rathbonefunds.com

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