RATHBONES

MANAGED PORTFOLIO UPDATE FOR CLIENTS OF SAUNDERSON HOUSE

Q1 2024 REPORT

CONTENTS

KEY PERFORMANCE DRIVERS

THE LATEST QUARTERLY UPDATES FOR EACH OF THE MANAGED PORTFOLIO FUNDS IS NOW AVAILABLE IN THE DEDICATED MULTI ASSET PORTFOLIO SECTION OF OUR WEBSITE: RATHBONE MULTI-ASSET PORTFOLIOS.

Please also find some notes below covering the key aspects of the portfolio that have been driving returns over the last quarter.

Government Bonds

Government bond yields rose in the first quarter, driving down their prices. Government bonds had rallied into year-end after the US Federal Reserve (Fed) seemed to imply that it could cut interest rates sooner than investors had been expecting. However, the strength of US economic data, combined with stickier inflation numbers, subsequently led the US central bank to adopt a more conservative tone and yields rose again. Higher bond yields proved a headwind to performance, reversing some of our gains from bonds (particularly US, Australian and longer-dated UK bonds) over the previous three months.

We used first quarter weakness to add to our US and UK government bonds. We continue to believe they offer attractive return potential after accounting for inflation and should also offset any equity market weakness in the event of a material economic downturn.

AI and Technology

AI chip designer Nvidia was the most significant contributor to performance as the stock continued its meteoric rise into 2024. In late February, it again reported very strong earnings as data centre demand for its chips continued to soar off the back of burgeoning artificial intelligence demand. Nvidia's revenues jumped 265% from the previous quarter and the stock has rallied by 80% over the first three months.

Other chip-related stocks, such as ASML (which makes the machines that make chips) and Cadence Design Systems (whose software helps design and test chips) were also strong contributors to the portfolios.

Elsewhere in technology, cloud names such as Amazon, Alphabet and Microsoft had another good quarter and broadly backed this up with strong earnings and healthy outlooks. These businesses are perceived as the leaders in the development of AI, helping to drive their share prices to at, or near, all-time highs.

Stock market strength

Stock markets have continued to move higher as investors have grown more confident about the chances of a soft, or at least softer, economic landing. That's helped support industrials such as Kion (automated warehouse solutions) which rallied sharply. US consumer-related stocks, such as home improvement retailer Home Depot and discount retailer CostCo were also stronger off the back of a sunnier outlook for the US economy.

AIA

A key detractor from performance for the quarter in equities was Hong Kong insurer AIA whose share price fell by around 20%, dragged lower after its management warned about weaker profit margins on its China business.

Past performance is not a reliable indicator of future performance.

The value of your investments and the income from them may go down as well as up, and you could get back less than you invested.

The specific securities identified and described are for informational purposes only and do not represent recommendations.

MARKET HOT TOPICS (MACROECONOMIC)

So near, yet so far

At the back end of last year, investors were confidently forecasting six or seven interest rate cuts from the US Federal Reserve (Fed) in 2024. They've since reined those bets in big time and currently think the Fed will deliver about three 0.25% cuts – if that – perhaps starting in the early summer.

That about-turn has driven big moves in government bond markets. Government bonds are the asset class most sensitive to rate expectations, so it's hardly surprising that their yields have risen, driving their prices down.

We think American rates will fall in time, but inflation and economic growth will need to moderate further first, and exactly when that will happen is anyone's guess. Ours, for what it's worth, is sometime in the second half of this year.

On this side of the Atlantic, however, we think there's a greater chance of rates falling faster and further. Given dire economic growth in the UK and a lot of Europe, the rates situation seems more favourable than in the US, where there's greater evidence that inflation mightn't yet be vanquished. The UK and EU seem more likely to cut sometime around the middle of the year.

Who needs rate cuts anyway?

For much of 2023, investor confidence tracked central bank-speak slavishly. Stocks sold off in early autumn when investors expected the Fed to keep rates higher for longer in in its ongoing fight against inflation and then surged towards year-end when the central bank seemed more confident about getting inflation down to its 2% target.

So why have stock markets hardly blinked this year as rate cut bets have been pared back so aggressively? It seems that as 2023's higher-rate-driven US bank failures fade from their collective memories, investors have got a lot more comfortable about higher-for-longer rates. Who needs cuts when America's economy keeps defying recession forecasts and is booming instead?

Providing company profits prove sustainable, stocks can probably keep rallying for a while longer. Stronger profitability would tend to imply a better economy and, therefore, less pressing need for those ever-elusive rate cuts. Stock market bulls also argue that gains are getting broader, and less alarmingly concentrated. In contrast to the first 10 months of 2023, when an unusually small number of stocks contributed to the gains of the entire US index and most underperformed, more global companies are participating in this year's rising markets.

Can hope triumph over experience?

Since its stock market popped in 1990, Japan has had a long history of reliably disappointing investors. Every few years they're lured back by the promise of a new dawn, only to find little's changed, and so repeating the trauma. And yet, once again, the lure of Japan is calling.

The world's third-largest economy and fifth-largest stock market are once again back on the menu. The stock market has rallied handsomely, adding almost 50% since the start of 2023, and approaching levels not seen since the last Japanese market high in 1989 when Japan was all the rage, before the market burst spectacularly.

The Japanese economy has been plagued by low growth and deflation (falling prices), aided and abetted by terrible demographics. Often, the attraction of Japan was around valuation. Stocks trade at a discount, with 30% of TOPIX stocks still trading below book value – this implies that investors believe almost a third of the index is likely to destroy capital in the future. However, we see several factors that should boost stock prices. One is the ratcheting up of the pressure on Japanese companies to do better for shareholder which is bringing genuine change. At the same time, Japan's economy is still relatively weak, but there have been some improvements. House prices have increased, and the country is finally experiencing positive inflation, helped by reasonable wage growth. International investors are returning to Japanese companies, reversing decades of outflows.

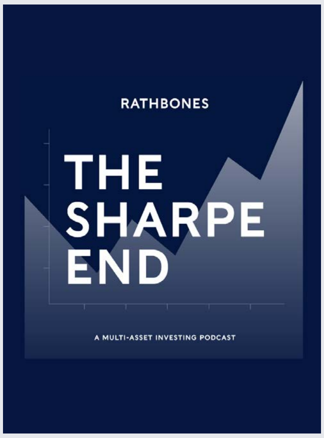
Indexes are unmanaged, and it is not possible to invest directly in an index.

INVESTMENT OUTLOOK

The years-long wait for American rate cuts that remain always just over the horizon remind us of asymptotes: constantly approaching and never arriving. The last couple of months have done little to disabuse us of this notion. Businesses, households and investors are eagerly awaiting drops in benchmark rates, yet they keep floating on the horizon.

The big piece of the puzzle is inflation: will it continue to fall (we think it will), reassuring central banks that they can reduce borrowing costs without sparking another flare-up in prices? We have always believed that the last mile of getting inflation back to 2% would be the hardest. And so it has been so far. To add another nuance to this point: all else equal, it's harder to get inflation lower when your economy is flying than when it's in the doldrums.

To avoid being burned by any shifts in expectations that arise as investors continually re-evaluate the likelihood of rate cuts and the strength of economies, we've continued trimming stocks whose valuations appear to have got a bit over-optimistic. We've used that money to add to equities and other assets that have fallen from favour. We don't want to sell outperforming businesses completely — lots of people want to buy them for a reason! — because over five years or more, we believe they have the opportunity to grow well and become more valuable. Yet we try to minimise the short-term downdraughts that happen.



THE SHARPE END

The Sharpe End podcast lets you be a fly on the wall as our multi-asset portfolios team discuss recent events and how they impact their funds.

You can listen to the podcast on our website and also subscribe on all major platforms: Apple, Spotify, Google Podcasts, Amazon Music, Anchor, Breaker, Castbox, Pocket Casts and RadioPublic.

The link to the page for the podcast on the website is as follows: **sharpe-endpodcast** and the link to the linktree where you can be taken directly to The Sharpe End on your podcasting app of choice is as follows **linktr.ee/thesharpeend.**

KEEPING YOU UPDATED

PLANNING FOR A CHANGE OF GOVERNMENT EVENT

With most polls projecting around a 20-point lead in the run-up to the general election, the Labour party is the odds-on favourite to form the next government. If these forecasts prove correct, what changes might be made to raise funds, how might these changes affect you and what can you do about it?Join us for our Planning for a change of government drinks reception on Thursday 2 May from 6.00pm at our London office at 8 Finsbury Circus, London, EC2M 7AZ. You'll hear directly from Randolph Churchill, investment director at Rathbones and great-grandson to former prime minister Winston Churchill, in addition to investment and financial planning experts from across the business.

The session will be followed by drinks and canapés and an opportunity to pose any further questions to our panel. Spaces are limited, but if you would like to attend then please click on the following link or get in touch with your financial planner to confirm availability.

INVESTMENT INSIGHTS – ON THE ROAD TO RECOVERY

In this 40th edition of **Investment Insights**, we consider how market gains have broadened out so far this year. We take a look at opportunities we're seeing outside of last year's narrow band of winners, the US tech titans known as the Magnificent Seven. We consider smaller companies and prospects for other regions outside of the US; and continuing our series of recent articles on developments in artificial intelligence, we look at the risks it poses for companies through the lens of environmental, social and governance factors. Topics in this quarter's edition include:

1. Big gains for big stocks obscure some hidden gems
2. The Magnificent Seven are not the only stock market stars
3. Can India meet optimistic growth expectations?
4. How to harness the power of artificial intelligence for good

FINANCIAL AWARENESS COURSE FOR WOMEN

Thursday 20 June 2024 – Virtual event. To confirm your registration, please email Sharon Ryan at **sharon.ryan@rathbones.com**

FINANCIAL AWARENESS COURSE FOR ALL ADULTS

Thursday 16 July 2024 – Virtual event. To confirm your registration, please email Sharon Ryan at **sharon.ryan@rathbones.com**

RATHBONES INSPIRED MINDS

We are delighted to announce our new series of podcast, **Rathbones Inspired Minds,** which launched in January 2024.

The Rathbones Inspired Minds podcast series, hosted by Daniel Norcross, features acclaimed writers, scientists, entrepreneurs and thinkers talking about what inspired them to follow their chosen careers and what continues to inspire them in their lives.

IMPORTANT INFORMATION

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