RATHBONES

GREENBANK SELECT PORTFOLIO UPDATE FOR CLIENTS OF RATHBONES FINANCIAL PLANNING

Q2 2024 REPORT

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KEY PERFORMANCE DRIVERS

THE LATEST QUARTERLY UPDATE FOR EACH OF THE SELECT PORTFOLIO FUNDS IS NOW AVAILABLE IN THE DEDICATED MULTI ASSET PORTFOLIO SECTION OF OUR WEBSITE: RATHBONE GREENBANK 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.

Bond yields

Yields seesawed over the second quarter of the year. In the UK, the fulcrum for the l O-year government bond yield was roughly 4.2%, reaching as high as 4.4% and as low as 4.1%. Because yields rose slightly over the quarter, the bond holdings delivered slightly negative performance. We still believe that with UK inflation back at the 2% target and signs of a weakening economy, we are creeping closer to Bank of England interest rate cuts. When we reach this point, the greater 'duration' or exposure to changes in interest rates that we have built up over the past couple of years should provide some meaningful positive returns. Added to this, the bond holdings should act as ballast if a weakening economy triggers weakness in stock markets.

US government bonds bounced around as well, which meant the structured products that make money on this volatility did very well. (Structured products are contracts with investment banks that deliver set returns on certain scenarios.) The funds have held these structured products for a while now, seeking protection from exactly this environment.

Nvidia

US high-end computer chip designer Nvidia was the funds' greatest single-stock contributor to performance. The stock continues to rally strongly after another strong earnings report, as demand for chips to power AI surges. Other chip-related stocks the funds hold, such as chip-maker Taiwan Semiconductor Manufacturing Company and ASML which builds machines for the manufacture of chips, were also strong contributors to performance.

Quarterly earnings

Investors had little patience for companies that did not hit expectations last quarter. Slight misses on earnings or favoured metrics led to some disproportionate sell-offs. The worst hit of the holdings were Sartorius, the European laboratory equipment supplier, and Eurofins Scientific, the lab testing business, the latter having been hit by accusations of accounting irregularities from a 'short-seller' (an investor who makes money by betting that share prices will fall). Eurofins' management swiftly challenged the allegations, and the fund managers accept their explanations.

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 information only and do not represent recommendations.

MARKET HOT TOPICS (MACROECONOMIC)

Labour landslide. The UK got a new government soon after the end of the quarter. While the opinion polls correctly forecast a Labour landslide, they hadn't counted on the winners' vote-share being just 34% – the lowest for a winning party since the Great War. Keir Starmer's Labour took 3 million fewer votes than his predecessor, Jeremy Corbyn, did back in 2019. A government toting such a huge majority, won with a small proportion of the popular vote, and on very low turnout does create a strange paradox. A few months back we discussed the likelihood of a Labour government and the risks and opportunities that it might bring.

It will be a tough road for the new government, given taxes are high relative to the UK's history (yet low relative to other major advanced nations), the nation's debt is as large as the economy and interest rates are higher than they've been since the Global Financial Crisis. With economic growth scarce and finances tight, Labour will have to step carefully to avoid spooking the bond market or harming public services.

New ideas are welcome though. The government appears focused on spurring economic growth, with aims to boost investment and reform the country's byzantine planning laws. If successful, improvements here should mean more efficient public services, more profitable businesses, higher living standards and the ability to reduce both debt and the tax burden. But it remains an 'if' at this stage.

Looking out to the rest of the year, with inflation falling back to target and broadening indications that private sector wage growth will start to ease, the opportunity is there for the Bank of England to cut interest rates. If so, that would release some of the financial strain on heavily indebted households, businesses and the government. It should also boost the value of bonds as prevailing yields drop.

Les Misérables. France wasn't so lucky: its election ended with a hung parliament. After a first-round landslide for the right-wing Rassemblement National (RN), opinion polls had forecast another strong showing in the final round of parliamentary elections. Instead, the strong chance of an RN majority came to naught, with the party winning the third-largest number of seats behind the left-wing alliance Nouveau Front Populaire (NFP) and French President Emmanuel Macron's Ensemble centrist coalition.

With no party close to the 289 required for a majority (the first-placed NFP are still about 100 votes short), a coalition would be needed. Yet the parties are far apart from the centre, let alone each other, so a workable combination seem far-fetched. The parliament may have to pass laws on a case-by-case basis, with the current Prime Minister presiding as a sort of caretaker. Under France's constitution, another election can't be called for another year. Macron could also propose a compromise figurehead, acceptable to all sides, who would appoint a government of technocrats.

Investors in French assets seem relatively happy with gridlock as an outcome, however. Parties of both the right and the left are heavy on expensive promises that have scared bondholders and hurt the share prices of French companies, especially banks. That may be a temporary reprieve, however, as tectonic political moves are becoming more frequent. More extreme politics – both to the right and the left – around the Continent could make it harder for fiscally responsible centrist policies to be enacted. That may create more risks around the Eurozone as populations keep getting older and government spending remains high.

We've recently bought government bonds issued by countries that are unambiguously improving their financial situation, such as Portugal and Germany. We were careful in buying these bonds – we fixed the currency exchange rate from euros to pounds ahead of time ('hedged') because we actually get a yield boost to do so. We thought that was prudent given the political and fiscal issues among some members that could cause a wobble in the euro, which would hurt returns for the unhedged investor.

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

Investors waiting impatiently for the Fed. Turbulence in global bond markets, especially in April and May, dented our performance over the quarter. Bond markets are hyper-touchy as economic information and central bankers' chat flows through investors' minds and into prices. Sharp rises in bond yields mean sharp falls in their prices, albeit these are only short-term effects and we've tended to use the opportunity to add to our holdings. Yields have been just as likely to drop back (sending prices higher) as they have to rise in recent months. While bond markets have been unsettled, we believe that interest rates in the UK and US will soon be falling – as they already are in Europe.

Our equities have also delivered a disappointing performance because of a mixture of changes in market favour and a few stock-specific disappointments. Computer hardware businesses – like those involved in manufacturing chips or chip-making machines – have been doing well, yet software developers have generally struggled.

Across many different regions and industries, companies are starting to warn of slowing household demand as higher borrowing costs and a marked increase in the cost-of-living crimp many. It's tough to judge how much of this is due to a weakening economy and how much is simply an excuse from company managers to paper over their own mistakes. Time will tell. It certainly does seem to us that consumer strength is dwindling around the world. Voters are unhappy and getting restive, while economic data seems to be softening.

Part of the difficulty in determining what's happening is that the population is split more dramatically than ever between the 'haves' and the 'have nots'. One poll sums up the times: it found that 56% of Americans believe the US is in recession (it's not) and 49% think the S&P 500 US stock market index is down year to date (it's up 15%). House prices and rents are sky-high, benefiting homeowners and landlords. The stock market has shrugged off rate hikes and continued rising, helping the wealthiest. The lower-paid have received wage increases above inflation, yet it obviously doesn't feel like it for most. Meanwhile, US households have something like $20 trillion in cash savings that should be earning somewhere between 3% and 5% either at the bank or in money market funds. Again, that will be flowing to the wealthiest sections of society.

If a cooler economy helps bring down inflation (CPI fell back to 3% in June) and allows the US Federal Reserve to cut interest rates, that may go some way toward easing the strain both on the heavily indebted US government debt and indebted Americans.

INVESTMENT OUTLOOK

Despite a tough quarter, we're cautiously optimistic about the second half of the year. In keeping with our belief that global interest rates had peaked, we have steadily increased our bonds and interest-rate-sensitive stocks to benefit from the eventual fall in rates. We've waited patiently for the tide to change and at times it's felt a bit like the water was lapping against our throats.

Over the second quarter, an unexpected resurgence in US inflation, a string of contradictory labour market data and growing government deficits and borrowing caused a lot of nervousness in the US Treasury market. The benchmark US 10-year government bond yield leapt from about 4.2% to 4.7% in April. At the time of writing, the yield had fallen back to broadly where it started, but the path was punctuated with lurching spikes upward.

Yet European central banks have already started reducing borrowing costs and recent inflation data makes it look like the UK and US won't be far behind. At the time of writing, the US announced inflation of 3% for June. That slight beat set off one of the biggest one-day jumps in US mid-caps since 1979. At the same time, the mega-cap tech giants slumped, suggesting a huge 'rotation' whereby investors sold the large-cap darlings and bought the long unloved stocks beneath them. In a mad stat, the S&P 500 stock market index was down 0.9% on Thursday 11 June, yet 75% of all the companies in the index went up. That shows what we already know: that the US market has become extremely top heavy and is liable to a shake-out. That's healthy.

Now, while rates should be coming down, we're not headed back to the crazy days of zero-percent-interest-rate policy. Rates will likely stay higher than we've all become used to in the past decade. Yet we see that as a good thing that should inject more discipline and correct strange incentives. It will no longer be a no brainer to pile on debt. A dollar in 10 years' time will no longer be just as valuable as a dollar today. That should help money flow to the most profitable and useful areas of the economy, encourage people to be more resourceful and inventive, and reward those who save for a rainy day.

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 LATER LIFE

Thursday 12 September, 12.00pm – 1.00pm

As you go through retirement and into later life, you often move from having more free time to enjoy yourself doing what you love, to things slowing down, downsizing or relocating. Seeking help in the form of care is an important area to plan for financially, and this session will provide an overview of issues to be aware of. The webinar will be led by Paul Sayers, senior financial planner, who is an accredited member of the Society of Later Life Advisers.

REGISTER HERE

INVESTMENT INSIGHTS WEBINAR

Rathbones' co-chief investment officer, Edward Smith and head of asset allocation, Oliver Jones discuss the key themes shaping the investment outlook and some of the principles of long-term investing through the lens of UK equities. **Watch here**

GENERAL FINANCIAL AWARENESS COURSE

Understanding investments can be like learning a different language. At Rathbones, we believe in education to enhance your understanding of the wealth management environment. Once you understand your money, you are better equipped to make informed decisions. **Register here**

16-25 FINANCIAL AWARENESS COURSESS

Our financial awareness courses, delivered by Rathbones' investment managers, are designed to help young people take control of their finances, providing them with the knowledge and skills to build a secure financial future. **Register here**

RATHBONES INSPIRED MINDS

What does inspiration mean to you? Do you need it? Where does it come from?

To find out, we invited some truly inspired minds to join broadcaster, cricket commentator and classics buff Daniel Norcross, on the Rathbones Inspired Minds podcast. Daniel talks to acclaimed writers, scientists, thinkers and entrepreneurs and asks what inspired them to pursue their fields of expertise. Listen to historians Tom and James Holland, Peter Frankopan, former England cricketer Ebony Rainford-Brent, comedian Andy Zaltzman and many more inspired minds in our fascinating new podcast series. **Listen here**

ADDITIONAL INFORMATION

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