RATHBONE UK OPPORTUNITIES FUND

MONTHLY UPDATE APRIL 2024

Last summer, the Bank of England's Chief Economist Huw Pill described the interest rate outlook as seeming like South Africa's Table Mountain. Now, the time has come to peer gingerly over the edge of the rates plateau and consider how much the landscape below has changed over the last six months or so.

US equities pulled back during April while, in a dynamic not often seen of late, UK equities moved ahead. Indeed, the FTSE 100 finally breached an all-time high. It's all down to the various economic data prints: hotter-than-expected inflation in the US without stronger GDP growth led investors to worry about the spectre of stagflation and to rein in hopes that the US Federal Reserve (Fed) will cut rates significantly this year. Combined with their rich valuations and an earnings season that was only just the right side of OK, it's no surprise that US equities saw outflows leading to negative returns. Conversely, the FTSE 100 – thanks to its heavy weightings in commodity-driven sectors – is actually seen as a decent hedge against stagflation.

There's more going on though. Everywhere we look there are signs the UK is turning a corner, both in terms of the macroeconomic backdrop and investor sentiment. Inflation continues to trend down, GDP has fallen, but softer economic measures (like PMI business surveys) are perking up, giving the Bank of England room to cut rates next month. All this provides the long-awaited catalysts that might allow UK equities to catch up. Indeed, year-to-date, the FTSE All-Share Index *has* largely caught up with other global indices. Rate cuts would be yet another big positive for our preferred hunting ground of UK mid-caps.

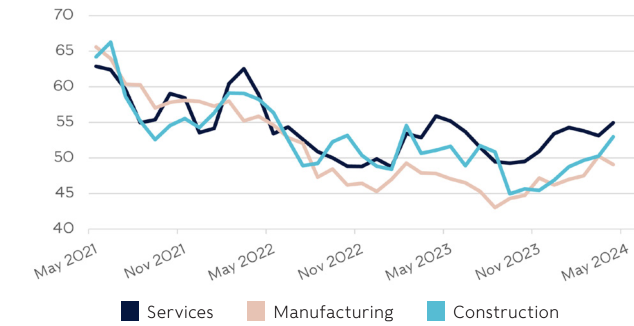
A brighter outlook from Table Mountain

Take a quick glance at the charts on this page. Together, they summarise why we're optimistic about the current view from Table Mountain. British consumer confidence is picking up, PMI data is solid, inflation is below that in the US, and UK mid-caps tend to outperform when rates come down.

UK CONSUMER CONFIDENCE CLIMBS FROM HISTORIC DOLDRUMS

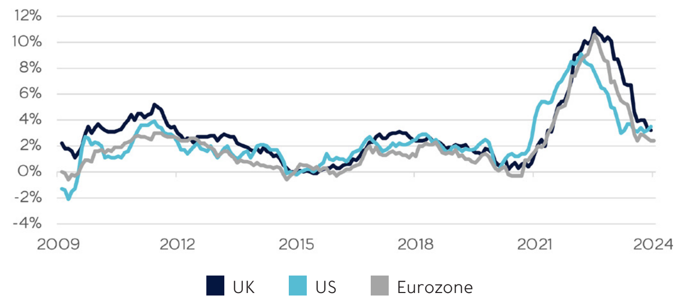
Source: GfK, FactSet, Rathbones

UK PMIS ARE BOUNCING BACK



Source: S&P Global, FactSet, Rathbones

UK INFLATION IS NO LONGER AN OUTLIER



Source: FactSet, Rathbones

UK MID-CAPS OUTPERFORM LARGE-CAPS WHEN GLOBAL BORROWING COSTS FALL

Source: HSBC, FactSet

Portfolio activity

Our fund's cash level is very low (below 1%). In line with our desire to maintain a balanced portfolio, we've trimmed our holding in industrial seals, gaskets and wiring distributor **Diploma**. The shares have been very strong (+35% in the last 12 months), and their price has re-rated to a multiple of earnings where we are happy to take a little profit.

Our small-cap positions have been strong this month too — listed venture capital name **Molten Ventures** is finally moving as signs of life return to the venture capital market. Natural flavouring company **Treatt** had a great bounce, reporting accelerating sales after a period of destocking. The smallest company in the fund, legal services firm **Keystone Law**, also had a positive month after reporting good levels of recruitment. The shares are up 55% in the last 12 months. Given its tiny market cap (around £200m) and shareholder base, the stock is one of our most illiquid, so we monitor our position size closely.

But names like Keystone are why we retain our multi-cap mandate. Liquid large caps allow us to manage illiquidity in our smaller names, so we never have to be a forced seller of fabulous assets at the wrong price. Some of our largest holdings, such as safety equipment manufacturer **Halma** and construction supplier **CRH**, have been treading water recently, after performing well. This has been a slight short-term drag, in addition to broad-based outperformance from value type names.

The momentum is building for a tangible change in attitude towards UK equities, with mid-caps likely to be in the vanguard. Our fund is positioned to benefit strongly from this shift, with three times more FTSE 250 stocks than our FTSE All-Share Index benchmark (43% of our portfolio is invested in mid-caps; the FTSE All-Share has only 14%). The stocks we tend to own within this universe are what we regard as the structural winners: quality growth 'trophy asset'-type names that global investors might consider as best in class.

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For more info on our fund, including factsheets, performance and fund manager views, please click here.

If you require further clarification on this commentary, then please contact your adviser or Rathbones at the contact details below.

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