



# RATHBONES

## RATHBONE MULTI-ASSET DEFENSIVE GROWTH PORTFOLIO

MONTHLY UPDATE FEBRUARY 2024

**It was confirmed last month that the UK fell into recession in the second half of 2023. This wasn't too much of a surprise, and indeed stocks and bonds didn't flinch a bit.**

The contraction in economic growth was very small (0.4% in six months) and the UK still grew 0.1% over the whole year. Some people – Bank of England Governor Andrew Bailey among them – argue that the recession may already be over. Everyone is still laser focused on the likely path of interest rates, both here, in Europe and across the Atlantic.

We noted last month that the years-long wait for American rate cuts that remain always just over the horizon remind us of asymptotes: constantly approaching and never arriving. Last month and the early part of March 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 suspected that the last mile of getting inflation back to 2% would be the hardest. And so it has been so far.

We would 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. Especially now that the effects of global factors like energy price spikes, trade embargoes and supply chain snarl-ups have faded. When the economy is booming, money is flowing and people are spending with abandon, inflation is going to be cooking. When that starts to roll over: that's when upward pressure on inflation will decrease. That's not to say that inflation *cannot* fall alongside a strong economy – modern capitalism is good at delivering more with less – we're just noting that it's something else to overcome.

### **Hope springs eternal**

We think American rates will fall in time, but inflation and economic growth will need to moderate first, and when exactly 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, 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 likely to cut sometime around the middle of the year.

Speaking of the UK, the government announced what seems likely to be its last Spring Budget. While tax receipts have risen by more than expected, there was still little room for manoeuvre for Chancellor Jeremy Hunt. Debt has risen considerably in past years, as has the interest rate payable on it. This financing will squeeze the UK for the foreseeable future. As will further, unrealistic inflation-adjusted cuts to many public services and government departments.

Hunt spent much of his spare cash on reducing National Insurance Contributions by another two percentage points, taking the main employee rate to 8%. A year ago it was 12%. He also tabled plans to reform the 'non-dom' tax status, which encourages wealthy foreign professionals and investors to move to the UK for work and commerce by allowing them to keep their foreign assets and income out of Britain's tax system.

There were myriad other measures, but in sum the Budget reinforced just how tough a job the winner of the next election will have. This corroborates why we typically find better investments overseas. Although, we do hold a few UK stocks and corporate bonds that look good value to us. And then there are UK government bonds...

### **Buy low, sell high**

We added to our government bonds in February because we felt 10-year yields of north of 4% in the UK and 4.2% in the US were a prudent long-term investment that should also protect our portfolios if stock markets drop markedly. Specifically, we bought the **UK Treasury 0.875% 2033** and **3.75% 2052**, and the **US Treasury 2.25% 2041**.

We also added to our **Put Options** on the US stock market as the S&P 500 kept ripping higher. These work like portfolio insurance in that you pay a premium up front and receive protection if markets drop. They become cheaper to buy when volatility is low and more expensive when it's high. The reason for this is that if volatility is high – if prices are yo-yoing all over the place – there's more chance that the option will be used, so it's more attractive. However, volatility isn't stagnant, so it's often best to buy insurance when the sun is shining, which is why we added to our put option exposure – stock market volatility has been low for several months.

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 think they have the opportunity to grow well and become more valuable. Yet we try to minimise the short-term draughts that happen.

We bought more shares in tractor maker **Deere**, Japanese electronics manufacturer and media giant **Sony** and creative industries software developer **Adobe** on weakness.

We sold UK telco **Vodafone** in February because we felt we had better opportunities elsewhere. Despite announcing an €8 billion deal to sell its Italian division to Swisscom to narrow its geographic spread and focus on growth markets, more needs to be done to eke out that growth.

As global stock markets continued to rise in 2024, we trimmed some of our better-performing shares, including AI computer chip designer **Nvidia** ([check out our colleague David Harrison's explainer on what all the fuss is about](#)) and e-commerce platform **Shopify**.



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