Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone Global Opportunities Fund

Quarterly update June 2020

The lifting of lockdown restrictions worldwide is having an immediate V-shaped impact, first on the stock market and then the global economy. Markets appear to have moved from crisis into choppy recovery as the world gradually starts to reopen. With so little good news about the pandemic, how can stocks be performing so well? Because markets don't need clarity to go up. They anticipate. They start to rise when policy and liquidity are at their greatest. Many people are sceptical of this rally, though, and use any minor setback as a reason to hold fire. There's already been meteoric de-risking and a huge asset-allocation shift from equities and bonds into money-market instruments.

We have put more cash to work in the last three months than at any time in our fund's history. This wasn't an attempt to decipher the screeds of science and forecast the end of the pandemic, but simply a belief that over the coming five years human ingenuity will crack the code of this virus and that many of our investments will be even stronger than before. We deployed the cash across almost the entire portfolio, topping up holdings broadly yet modestly in order to avoid single-stock risk. Mistakes will no doubt be made as the lingering effects of the virus are underestimated. Yet our portfolio approach of 60 sustainably growing companies, spread by country, sector, size, cyclicality and theme, should give us some defence in future stumbles.

This quarter's bounce-back in corporate and economic activity started in China, and while we have no direct investments there (this is a developed markets fund), the recovery template can be applied to the easing of lockdowns in the US and Europe. Recent data from our payment network investment **Visa** confirms some of the green shoots. In May, worldwide processed transactions were down 12% compared with a year earlier. Yet that was a 12-percentage-point improvement from April. Within those numbers, US ecommerce volume (excluding travel) sustained circa 30% growth for the first two-thirds of May and had risen to roughly 40% growth by the end of the month. This helped our largest holding, ecommerce and cloud computing giant **Amazon**, but it also benefited our significant exposure to the broader digital transformation theme. This stretches across many sectors, from software, to semiconductors, multi channel retail and the payment ecosystem.

While the global economy was being nursed back to health, the sociological sickness only got worse, perhaps inflamed by the polarised political climate. The killing of George Floyd in Minnesota has been roundly condemned by all, but dissatisfaction is going global. Domestic American civil injustice is dove-tailing with growing mistrust and animosity between the US and China. This will probably impact the outcome of the US election and create yet more volatility in the months ahead. The stock market impact has been mild thus far, but a widespread sense of unease and frustration that global growth seems so narrowly focused and unreliable is rising by the day. As growth becomes increasingly scarce, investors are paying up for it where they can find it. 'Growth' stocks aren't cheap, but that's down to their strong fundamentals, less-volatile profits and lower economic risk.

Lofty valuations provide more ammunition for stock market bears, but we think that most investors are willing to look beyond this temporary earnings storm. Consensus earnings estimates for 2020 have already been slashed by more than during the great financial crisis, so an expectation of negative surprises may already be baked into stock prices.

While we have enjoyed a bounce-back in global markets, not all areas have performed equally. In fact, dispersion of returns by sector, style and theme is probably greater than ever. Our fund's focus on growth stocks has been a key driver of performance. It has given us protection on the downside and also allowed us to participate in the rebound.

We continue to avoid the most economically dependent, inflexible and opaque sectors, such as airlines, autos, oil and gas, mining and banks. We're overweight growth sectors, such as technology, healthcare and resilient consumer plays — US ones in particular.

The 'stay home' holdings in our fund have done very well for us during lockdown, and we believe their investment cases will only improve as the world gets back to normal. These companies include 'Working from home' plays, like **Microsoft**, **TeamViewer** (remote access software) and **RingCentral** (cloud-based telephone systems); 'deliver to home' companies, **Ocado** and Amazon.com; and 'fun at home' stocks, like **Netflix**, video game and datacentre chipmaker **Nvidia**, and internet giant **Tencent**.

Finally, we hold a few companies that should help us eventually 'get out of home', such as healthcare equipment companies **Sartorius** and **Lonza**, both of which are front and centre in therapeutics and vaccine development for COVID-19.

There will be setbacks, in the economic recovery, the stock market and our own portfolio. But scientists are starting to crack the code of this virus. Many are worried about a second wave driving more national lockdowns, but we're optimistic that the most devastating health and economic impacts can now be avoided. More people have antibodies, and there's a greater awareness of symptoms, hygiene and new social expectations. Hospitals already have better protocols and from now on there will be a greater focus on testing, tracing and evasive action. A number of treatments will be approved by the summer, even if a vaccine is still many months away.

The recession we're currently living through will be worse than the one of 2008, but it will more than likely be brief. Usually recessions build up over many months, giving lots of time for downward earnings adjustments. This time around, the policy and liquidity support have been so great that the easing of the lockdowns may have a 'V'-shaped impact on economic activity. We're more convinced than ever that human ingenuity, science, technology and a little bit of luck will neutralise the coronavirus, and that the five-year view (which is the investment horizon for this fund) will be very rewarding.

James Thomson
Lead Fund Manager

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