

Rathbone SICAV Multi-Asset Enhanced Growth Portfolio

Monthly update May 2021

What's that Michael Phelps quote? "It's not how you start, it's how you finish."

Boris Johnson doesn't strike us as a swimmer, despite the chlorinated tinge to his hair, but his government has most definitely adhered to that principle during the pandemic. Let's not forget that the UK's early response really was a botch-job – Dominic Cummings certainly made a concerted effort to remind everybody last month. It was so bad that it turned us off the UK. At the beginning of 2020 we had been starting to move more of our equity portfolio into the country, as we felt it was out of fashion and ripe for beating very low expectations. However, once the government's initial disorganisation became apparent, we immediately reversed our move.

But now, the UK has outdone itself with its vaccine rollout. The take-up among citizens has been really high too, especially compared with some other nations. This is just as important as the efficacy of the vaccines themselves, because they're no good if not in the arm of most people. Even as the UK has opened up wide for summer, the numbers of deaths and hospitalisations have stayed remarkably low. The magic of modern medicine. It feels like the endgame for the pandemic in the UK now (even if COVID itself may linger as a common but managed flu). If that's correct, we feel like we've returned to the situation of early 2020: an unloved market with the flexibility to shake things up, with the potential to beat the crowds of naysayers.

Hotting up

We aren't the only investors who have started warming to the UK either. So far this year private equity firms have bought out 131 publicly traded companies in the UK, totaling £25.7 billion, greater than in the whole of 2020. That's according to investment data company PitchBook. And the crazy part is that last year's £17.5 billion of deals was a record for Britain. This avalanche of buyouts has got a few MPs worried about foreigners picking off our nation's economic crown jewels at an unjustified discount. However, the point remains: UK companies have been trading at large discounts to overseas rivals for a long time now.

There are still risks, of course. COVID-19 has thrown us all plenty of curveballs, so we can't rule out another. And if the virus really is under control, then there's a lot of unravelling of supply chain snarl-ups and labour dislocation to come. This could take a few months to shake out – perhaps a little longer for the labour market. But we're confident that the market will do its thing, no doubt with a bit of lobbying from labour-strapped businesses. We're seeing that already, ironically from arch-Brexiter and Wetherspoons boss Tim Martin. Bluntly, though, the UK does now have the ability to set rules to suit its needs, so this shouldn't be an issue. Particularly if the punters suffer a summer with 40-minute wait times for a pint...

Overall, we're feeling pretty good about the prospects for the UK and the US. Retail sales have really shot back in both nations. As an example, specialty beauty and fragrance chain **Ulta Beauty** absolutely smashed its first-quarter results. Sales rocketed 65% compared with Q1 2020 and easily eclipsed the same time in 2019 as well. As another proxy for getting back to normal, you can look at petrol demand and air travel. These have bounced back in the US. According to Atlantic Equities, daily American air passengers surpassed 1.9 million in May, the first time since March 2020. And US drivers were using roughly 97% of the fuel they were back in 2019.

Many people seem to be worried that the US is going to overheat, but we think we're just seeing the whiplash you should expect from such a massive dislocation to people's lives and businesses. After a summer of very spicy economic numbers, things should die down as things resettle. We're expecting a reasonably modest level of economic growth (and therefore inflation) over the coming years.

So we added to existing stocks over the month, including the chip giant **Taiwan Semiconductor Manufacturing Company**, wholesaler **Costco** and diabetes management specialist **Dexcom**.

We also swapped European ticketing company **CTS Eventim** for American events and ticketing giant **Live Nation** during the month. We did this because Europe's pandemic recovery has faltered, while the US has been reopening at lightning pace thanks to its successful vaccine rollout. Live Nation carries more risk than CTS Eventim, in that it owns a considerable number of arenas and venues whereas CTS is solely a ticketing agent. We are comfortable taking that extra risk with Live Nation, because its vertical integration gives it a larger share of the potential profits from concerts and festivals. Considering the different responses to COVID-19, we are happy swapping German folk festivals for Taylor Swift gigs in the Midwest.



The risk pendulum

As economies roar back to life, investors' appetite to take risks – while a bit flighty depending on the daily news flow – has increased noticeably. Most markets are up, including those 'cyclical' ones that are more sensitive to improving (or deteriorating) economic growth. Stocks in the UK, Europe and Japan, which have cyclical biases, have done well recently.

Another sign of this change in appetite is a sustained fall in the value of the dollar. When things go pear-shaped – like during the pandemic – investors flock to safety, which tends to mean government bonds issued by the US, Japan, Germany and Switzerland. To buy those 'safe-haven' assets, investors need to buy the currency first, which is why a scramble for safe harbour tends to push up the value of those aforementioned nations' currencies. This works in reverse as well: when investors want to sell their safe assets and buy riskier stuff in search of better returns, they have to sell their dollars (or yen or Swiss francs) and buy other, riskier currencies. So the exchange rate pendulum swings back, as we have been seeing in recent months.



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