

Investment Insights

Issue 23 – First quarter 2020

Is the winter of austerity ending?

As central banks run out of options to stimulate their economies, governments are considering new spending programmes



In brief

Budget bias

Unlearning what you think you know about government budgets

Winner takes all

Don't be too quick to jump on board the value train

Macron's résistance

France's public protests are not a sign that the President is failing

Corporate responsibility

Are companies serving stakeholders or just paying lip service?

Foreword



The UK's first December general election in nearly 100 years punctuated an eventful year for politics and the economy. Financial markets experienced a series of mood swings throughout 2019, but ended on a high as investors regained their appetite for risk. Despite ongoing uncertainty, including Brexit and trade tensions between the US and China, we remain positive about the outlook for 2020.

In our first article, we explore how central banks are running out of firepower to stimulate their economies now that interest rates are so low – and even sub-zero in some regions. They may need to put in place expansive fiscal policies, but it's far from clear how they will make this happen. Could Green New Deals come to the rescue?

Many people seem to misunderstand the nature of government budgets and deficits. Unlike businesses or households, governments can create money, and their budgets don't need to balance. In fact, there can be good reasons for them not to, as we explain on page 5.

While overall earnings are flat, some companies have been able to grow by taking market share from weaker competitors. On page 6, we explore how labels like value and growth can be deceptive, and why investors need to look beyond them to sift the winners from the losers.

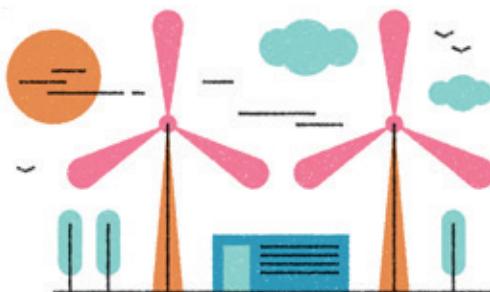
Since coming to power, President Macron has faced high-profile protests about his reform agenda. However, on page 8, we discuss how the President's reforms deserve credit for creating resilient growth, particularly in the areas of job creation and business investment.

At Rathbones, we want to be responsible investors, and as voting shareholders we can be an influence for good at the companies we invest in. But there are signs the voting process is being undermined in some quarters. Our final article explores how companies can find sustainable solutions while serving all their stakeholders, not just shareholders.

I hope you enjoy this edition of *InvestmentInsights*. Please visit rathbones.com to explore our latest views on the issues shaping financial markets this year and beyond.

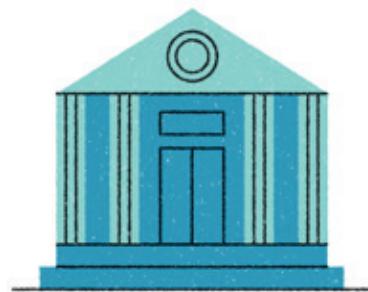
A handwritten signature in black ink that reads "Julian". Below the signature is a thin, curved horizontal line.

Julian Chillingworth
Chief Investment Officer



Is the winter of austerity ending?

Global markets have been focusing on US rate cuts over the past few months. But investors are increasingly looking to governments to stimulate growth, with a record 57% of fund managers saying fiscal policy is too restrictive, according to a recent survey of fund managers by Bank of America Merrill Lynch.



As rates descend below zero in Europe and Japan, the impact of cutting interest rates is fading. Central banks need help – and will to a much greater extent when the next recession comes. Fiscal policy could provide that boost, but it might not be forthcoming barring a recession. Although cross-party support is growing for Green New Deals, they're more of a future hope than a present reality, so low growth and ultra-low rates look set to remain for 2020 at least.

Danger ahead

Of the 23 central banks we monitor, 16 have cut rates over the past six months, and 12 of those have set rates below inflation (negative real rates). More extraordinarily, five of them have set rates below zero, including the European Central Bank (ECB), which presides over the world's third-largest economy (figure 1).

The evidence collected so far suggests that cutting rates when the starting point is already near or below 0% can still stimulate the economy, but to a lesser degree than when rates are significantly above zero. Moreover, monetary policy may become even less effective as rates go further into negative territory.

The conventional wisdom is that lower rates eat into bank profitability by squeezing the gap between what they pay to borrow funds and what they charge to lend them out (what's known as net interest margin). It's reasonable to expect bank lending to become more muted the more negative rates become, as declining profitability limits banks' ability to make profitable loans, and/or causes them to pass on less than 100% of central bank rate cuts to their customers.

(So far this has only been a problem in Switzerland.)

There are other reasons to think that the response to monetary policy just ain't what it used to be. First, bank lending has become less responsive to policy rates since the regulatory changes made after the financial crisis to strengthen bank balance sheets. Second, there is widespread evidence of a lower propensity to invest and a higher propensity to save, despite extremely low rates. That may be due to structural issues like changing demographics and rising wealth inequality, but whatever the reason, a lower propensity to invest also constrains the response to rate cuts.

Fiscal policy to the rescue?

Low or negative interest rates mean lower borrowing costs for governments. Almost a third of advanced economy public debt has a negative yield, and government net

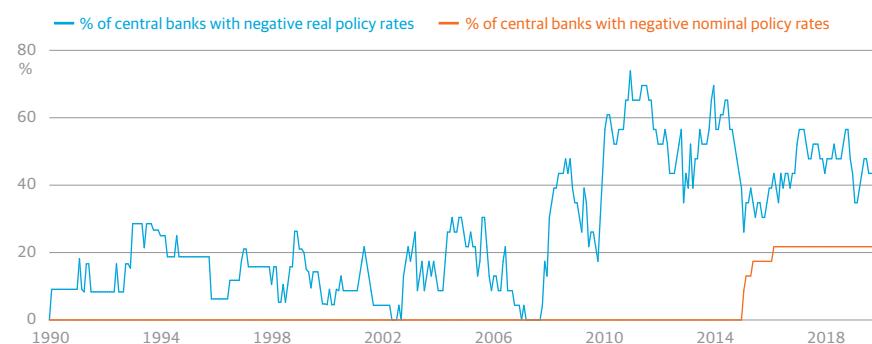
interest payments as a percentage of GDP have fallen to multi-decade lows. Most major economies have plenty of fiscal space before investors traditionally worry about debt sustainability (see more in 'Budget bias' on page 5) – in other words, before debt servicing costs rise beyond the sum of GDP growth and the primary deficit, which excludes interest payments (figure 2, overleaf).

Yet most governments haven't taken advantage of this fiscal leeway, which is a shame because it could make up for what's lacking from monetary stimulus. In fact, several studies suggest that 'fiscal multipliers' (how many dollars of GDP growth arise from every dollar of fiscal expansion) may be much larger than usual when policy rates are at 0%. But there are potential issues.

Critics of fiscal policy highlight three risks: it threatens fiscal sustainability, the public sector is a poor allocator of capital,

Figure 1: Central bank interest rate environment

Out of the 23 central banks we monitor, 16 have cut rates over the past six months, and 12 of those have set them below inflation (a negative 'real' rate).



Source: Refinitiv and Rathbones.

and government borrowing crowds out private investment. We've dealt with debt sustainability above. Regarding the second rebuke, we agree that wasteful spending is a risk, particularly due to the vested interests of politicians. But any pretension about the superiority of private sector capital allocation can be dismissed with three words – global financial crisis. Not to mention the serious problems of declining productivity and rising inequality.

The evidence on 'crowding out' is very mixed. Broadly speaking, there's evidence that government borrowing to fund day-to-day expenditure can crowd out private borrowing, and borrowing to run state-owned companies is usually found to crowd out private enterprises in the same industry sector. But there's also plenty of evidence of the opposite – 'crowding in'. For example, government borrowing to invest in productivity-enhancing projects, such as infrastructure, can encourage more private investment because a more productive economy means higher potential returns. Crowding in can also occur if the banking or corporate sector is dislocated in some way – the hangover from a banking crisis perhaps?

The bottom line is that timing matters. Fiscal multipliers tend to work best when demand is deficient and there are no bottlenecks in the supply chain and other inflationary pressures.

Is now the time?

The German government knows it. When we asked about the possibility of imminent fiscal policy in October, the Head of the Public Finance Division at the Bundesbank said now is not the time: crowding out will occur and fiscal multipliers might be zero, and the government risks wasting its fiscal space.

This explains why the climate package Berlin unveiled in September – widely touted to be Germany's version of a Green New Deal – turned out to be budget neutral: €54 billion of measures between now and 2023 funded by a carbon levy on domestic transport and heating.

An EU-wide Green Deal proposed by newly elected European Commission President Ursula von der Leyen would

also be funded by taxes on the likes of fossil fuel and transport companies and other 'polluters'. So far there is no indication that the EU would be willing to relax its tight budget rules to allow governments to help fund its ambitious plans with some fiscal largesse.

In some parts of the eurozone, the low-interest-rate environment is beginning to change the way fiscally conservative governments are thinking about debt. But only in the Netherlands, where public debt is just 50% of GDP, will it result in a major fiscal loosening for 2020. Although the French finance minister announced some giveaways in September, the headline budget is scheduled to tighten from -3.1% of GDP in 2019 to -2.2% in 2020 (see 'Macron's résistance' on page 8).

In his bid to win the leadership of the Conservative Party, newly elected UK Prime Minister Boris Johnson promised a large UK fiscal stimulus. But a much more modest version is what made it into the party's election manifesto. In fact, we would be calling it modest if this were a one-year budget, let alone a five-year plan.

Meanwhile, the chance of the much-anticipated bipartisan US infrastructure programme being enacted is lower than ever, with the Democrat-controlled House of Representatives voting to impeach President Donald Trump. As the November presidential election approaches, the Democrats won't want to hand Trump anything – nothing raises the re-election prospects of

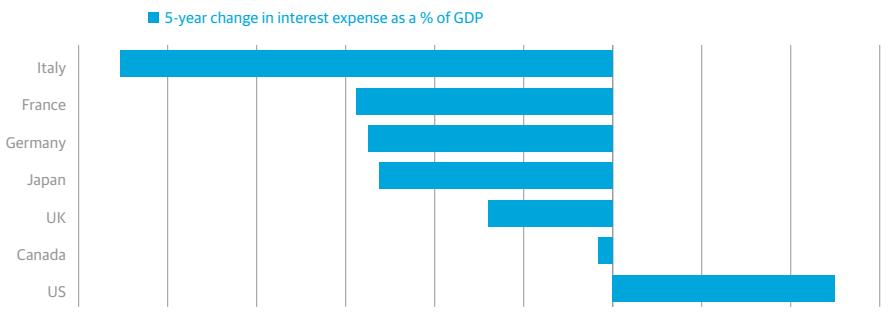
an incumbent president like rising economic growth. Senate minority leader Chuck Schumer has promised that if the Democrats gain control of the Senate following next November's elections, he "will introduce bold and far-reaching climate legislation". But at this stage that remains a big if.

So the prospects are not good for significant fiscal stimulus across major economies in 2020, barring a recession. The tide of opinion is turning: for example, Germany's version of the Confederation of British Industry is now lobbying for a loosening of fiscal restrictions, where in the past it has been a vocal advocate of balanced budgets. But the tide is turning slowly.

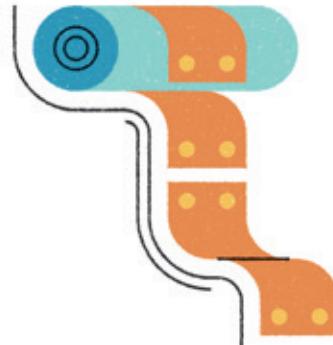
In his bid to win the leadership of the Conservative Party, newly elected UK Prime Minister Boris Johnson promised a large UK fiscal stimulus.

Figure 2: Government interest expenses have been falling, outside of the US

Almost a third of advanced economy public debt has a negative yield, and government net interest payments as a percentage of GDP have fallen to multi-decade lows.



Source: Refinitiv, IMF and Rathbones.



Unlearning what you think you know about government budgets

Government budget balances are misunderstood. By politicians – sometimes wilfully – and even by some economists. So it's no wonder then, if they're misunderstood by the public.

You will have heard a lot of criticism from politicians lately of the 'other party's' policies. The charge that they are 'unaffordable' can gain a lot of credence. Voters listen because they spend a lot of time worrying about the budgets of their own households or businesses, and make the intuitive leap that government budgets are the same – that there is a certain tolerable limit to how much debt you can take on, and there are some things you just can't afford.

That's all well and good, but the British government is not a household and it is not a business. For starters, it can create its own money. Its budget doesn't have to balance, and there are good reasons why it shouldn't.

The UK has had what economists call a current account deficit for some 35 years. That means that net trade, net investment income and a few other items add up to a negative number: the UK sends more money abroad than it receives. The 1990s aside, it has become steadily larger relative to the size of the economy, but there has never been a time when it hasn't been funded by overseas investors. The funding price (the exchange rate and the interest rate) has changed, but the desire to fund it hasn't, even when the budget deficit has been huge and the economy has been in trouble.

Current account deficits exist largely because there is a global savings glut – an excess of savings over investment. This is a structural phenomenon that is unlikely to reverse without an extremely interventionist policy – even then it's not certain; America's deficit has continued to grow despite protectionism.

Money coming in from overseas has to be used by someone. Taking the current account deficit as a given, either the government, businesses or

households must borrow. Figure 3 shows how government austerity has altered household saving: as the government has saved more (borrowed less) households have saved less (borrowed more). A government in control of its own currency is in a much better position to run a deficit than households, and government borrowing can be used more productively. Households borrow to consume, not to invest.

Creating money

That said, a government like the UK doesn't actually need to borrow. It can fund spending by creating its own money. Although we don't tend to think of it in this way, this is what governments actually do – they don't sit around waiting for a loan to clear. The government's ability to finance itself is ultimately constrained only by inflation.

If inflation expectations remain low, a government with its own currency can run deficits ad infinitum. Just look at Japan. What matters are credible institutions. The UK has its own central bank, mint and free-floating exchange rate, allowing its economy to adjust in an orderly fashion. The central bank and government must make credible commitments to attend to inflation expectations and not resort to currency

debasement. But this doesn't need to involve balanced budgets.

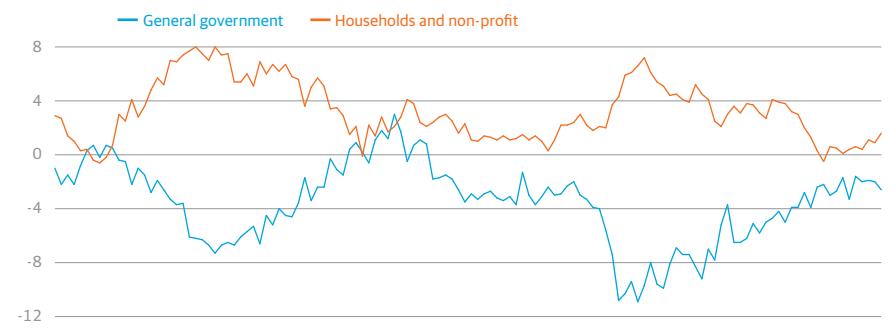
Where the government spends money does matter for inflation. Spending on infrastructure or up-skilling citizens, for example, creates productive capacity. All other things equal, producing more stuff for people to spend their money on puts downward pressure on prices. Social transfers tend to be inflationary, because they just provide more cash for people to spend on the same supply of stuff.

So governments collect taxes and issue debt (the swapping of a short-term liability – money – for a long-term one – debt) as a form of demand management in order to keep inflation expectations contained. *Who* the government taxes is sadly often as much a matter of political preference as it is one of economic optimisation.

If inflation expectations remain low, a government with its own currency can run deficits ad infinitum. Just look at Japan.

Figure 3: UK government and household financial balances (% GDP)

Government austerity has altered household saving – as the government has saved more, households have saved less.



Source: Refinitiv and Rathbones.



Don't be too quick to jump on board the value train

The value train has been touring the world over the past few months, with investors hanging off the sides in their eagerness to get on board. In this case we think it's best to resist the fear of missing out and remain contentedly on the platform.

The S&P 500 Value Index returned more than 11% over the three months to November's end – well ahead of the 6% of its 'growth' sister index. There will be periods when the share prices of these sorts of businesses, which do better when economic activity picks up, will outperform, but we feel like they will be few and fleeting. For investors who resisted the urge to chase them, this has certainly paid off in the past. In the three years to 30 November, US 'growth' companies made 65%, outstripping 'value' ones by 27 percentage points (figure 4).

In a world of limited economic growth – a situation we believe will endure – it seems misguided to rely on accelerating economies to increase the overall pool of earnings. And, therefore, it seems misguided to buy 'value' companies that need reaccelerating growth to really outperform. Instead, we believe it's prudent to stick with 'growth' companies that are doing business better than their rivals and taking in more earnings at the expense of competitors who just can't keep up.

Sealing the deal

The recent rotation into value came after investors got excited about the chances of a 'phase one' trade agreement between the US and China, combined with some extremely early signs of a potential worldwide bottoming in manufacturing surveys. Both China and America flagged the high likelihood of sealing the deal before the end of the year, but then US President Donald Trump took to Twitter and the deal's timeline dissolved. Similarly, you would need a magnifying glass to spot some of the upticks in economic data that got many investors excited.

Unfortunately, the more reliable economic indicators are sending only the most tentative of signals. Our own global leading economic indicator (LEI) troughed three months ago, but you can barely see the uptick on the chart (figure 5). Both the six-monthly and annual trend rates are still firmly negative, and they have a more stable relationship with the performance of cyclical sectors than defensive ones. Other off-the-shelf indicators, such as the Organisation for Economic Co-operation and Development's (OECD) composite leading indicator for 23 nations, have yet to find a floor. Many of the indicators that are turning up are in some of the weakest parts of the world – Europe, notably. The Ifo index of German business confidence rose again in November, but it's still consistent with GDP contraction in the fourth quarter, which we believe is unsupportive of a rally in cyclical shares.

Of course, we hope that the economic indicators have found their bottom, and that the uptick observable in many will develop into trends that can be followed. But a market strategy based on hope over fundamentals is a gamble.

When the pace of economic growth began to slow early in 2019 and the outlook became gloomier, we felt that it made sense for investors to start shifting

their equity investments away from cyclical sectors and towards defensive ones. And that was the case even though we didn't think a recession was necessarily likely to ensue. A difficulty we noted at the time was a lot of defensive shares looked a bit expensive, so you can see why investors might be clamouring for cheaper value stocks at the first signs of a recovery. However, our analysis found that in most cases, regardless of the initial relative valuation, defensive sectors tend to outperform during a slowdown.

The risk of a global or US recession – and therefore a sustained slump in markets – is relatively low, but the cycle is just as likely to continue to slow as it is to accelerate. That means remaining invested but with a defensive bias.

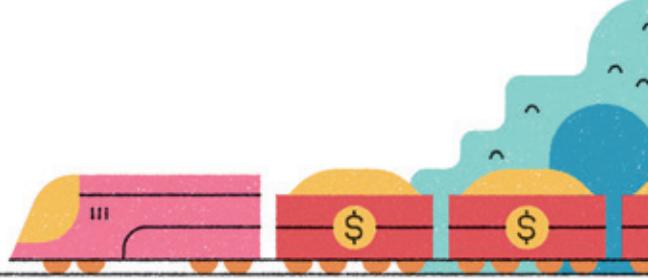
The risk of a global or US recession – and therefore a bear market – is relatively low, but the cycle is just as likely to continue to slow as it is to accelerate.

Figure 4: Performance of US value versus growth companies

Over the long run, the S&P 500 Growth index has significantly outperformed its Value counterpart.



Source: Datastream and Rathbones.



Looking for value

As long-term investors, we're always looking for companies with the cash flows to invest in themselves and stay ahead of the opposition, regardless of the economic cycle. We won't limit our search to companies that have a 'growth' label, or avoid others because they are labelled 'value'. We look for businesses that have strong, reliable earnings that make it easier for them to adapt to an ever-changing world. According to a recent study by academics from the Stern School of Business and University of Calgary, the average large North American 'growth' company (top 30% by market capitalisation) spends \$1 billion a year on research and development alone.

Many value companies simply may not have the spare cash to make the crucial investments in branding, research and development, automation, data analytics and bolt-on acquisitions that will help them tomorrow. In many cases, they have to use the cash to repay lenders or support short-term dividend policies to keep shareholders happy. The more uncertain the future for businesses, the more hefty the premium would-be investors are likely to demand for putting up their cash, so higher capital costs could make it uneconomic for 'value' companies to reinvest in themselves.

The North American study, which investigates the reason for the underperformance of value over the past few decades, made some interesting findings about the few 'value' companies that have managed to buck the value slump and turn themselves around. They had decent business models and lots of free cash flows to start with, which allowed them to borrow to invest heavily in plant and research and buy back shares, which reduces costly equity capital and frees up future cash flow even further. So for a value company to do well, it must make radical investments in itself, probably financed by lots of debt, to catch up and become a 'growth' company. There are many risks there:

over-leverage, poor execution and also the simple fact that a great escape plan could bankrupt a business if recession arrives too soon.

Over recent months, European stocks have staged a recovery as investors have looked to the region as a key value opportunity, seeing it as the final frontier of a 10-year economic cycle. But apart from a few great businesses that tend to be multinational and insulated from the most damning of Europe's structural issues, we think Europe is likely to remain mired in low growth.

Rocket fuel for the 21st century

What about investment in the intangible assets that are the rocket fuel of the 21st century economy? By one estimate, Northern European countries – the powerhouse of the eurozone – invest just \$100 billion to \$200 billion each per year. That compares with about \$2 trillion of intangible investment in the US and \$700 billion in China. The US has been home to scores of world-beating companies of the kind that just don't exist anywhere else. It seems reinvestment may be the ticket.

There are relatively cheap companies out there that are not poor quality, just as there will be companies with a 'growth' label that are loss-making. But

many value companies tend to be cheap for a reason, either because they are very cyclical, their earnings are hard to forecast, or they're in sectors – like retail, old media, banks and energy companies – that are facing big structural challenges like disruptive technology, changes in consumer behaviour or climate change.

We remain content to sit on the platform and watch the value train trundle off into the sunset.

As long-term investors, we're always looking for companies with the cash flows to invest in themselves and stay ahead of the opposition, regardless of the economic cycle.

Figure 5: Global global leading economic indicator and global GDP

The more reliable macro-based indicators of global economic growth are sending only the most tentative of signals.



Source: Datastream and Rathbones.

France's public protests are not a sign that the President is failing

You'd be forgiven for thinking French President Emmanuel Macron's tenure hasn't been a roaring success. Since coming to power in May 2017, he's faced protests from vast swathes of his nation, all keen to show their dissent at his reforms. There was concern that consumers would stop spending and the economy would grind to a halt. But with his reforms starting to bear fruit, this President's resolve looks set to remain.

The grassroots *gilets jaunes* movement has raged against perceived economic injustice and strikers have repeatedly brought the country to a standstill. By standing his ground, Mr Macron has made himself unpopular and in the face of this much resistance, many before him have caved.

Increasing confidence

While Mr Macron has stuck to his pro-business reforms, in an unexpected twist of fate the protests led him to relax his fiscal discipline and embrace budget deficits, against strict EU rules, though the 2020 budget has tightened back up again. In 2018 Mr Macron started to roll out a €10 billion package of tax cuts and other stimulus measures, including increased minimum wage subsidies and exemptions from tax and social security contributions on overtime. This led to significant fiscal stimulus, designed to boost income for low- and middle-income households, which have the highest propensity to spend. In response, consumer confidence rebounded, with household spending rising 0.3% in the third quarter of 2019, up from 0.2% in the previous three months.

Businesses have also shown a vote of confidence in their President by increasing their rate of investment to 1.2% from a 1.1% pace in the previous quarter. INSEE – the state statistics agency – expects Mr Macron's stimulus to have lifted the purchasing power of households by 2.3% in 2019 and by 1.4% in 2020.

Meanwhile, French industry is also making a comeback, despite a pronounced global manufacturing slump, and is now actually creating jobs. That might not be a particularly arresting fact until you note that French industry shed jobs every single year between 2012 and 2017 (figure 6).

Vive la France

Not only that, but the French economy outstripped expectations by growing at an annualised pace of 1.4% in the third quarter, surviving the global slowdown better than Germany – its larger and more trade-dependent counterpart at the core of the eurozone economy. That's at least partly because France has relatively low exposure to the global trade cycle and manufacturing industry. Goods exports make up just 22% of France's GDP, compared with 38% of Germany's.

This gives France some insulation against demand shocks from abroad and, as a result, the country has shown resilience. It's also helped that France's export sector is less exposed to the structural slowdown in Chinese investment and growth than other European exporters. Germany sent 7.1% of exports to China in 2018, whereas France sent just 4.2%, making it France's seventh-largest export market.

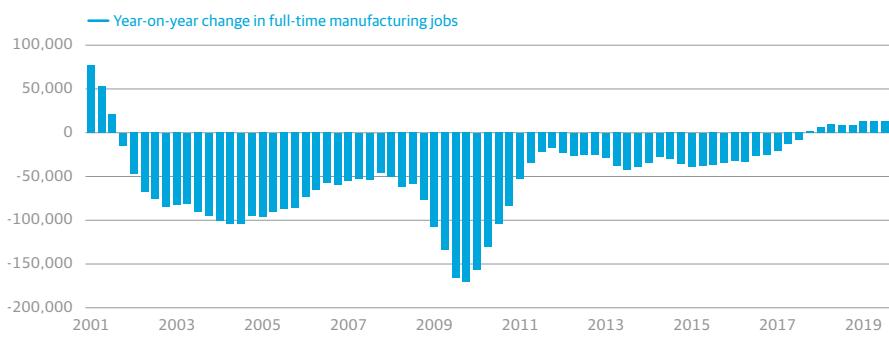
Still, much credit for creating more resilient growth should go to President Macron's reform agenda, particularly in the area of job creation that is bucking the global trend of shrinkage in the manufacturing sector. Business investment has probably also been boosted by lower wage bills and lower corporate taxes, both benefits of Mr Macron's reforms. As he presses on, the protests may stay 'high-vis' in the near term, but should brighten France's economic future over the long haul.



The grassroots *gilets jaunes* movement has raged against perceived economic injustice and strikers have repeatedly brought the country to a standstill.

Figure 6: French industry is adding jobs

Despite a global manufacturing slump, French industry is making a comeback and is creating jobs rather than shedding them.



Source: Datastream and Rathbones.

Are companies serving stakeholders or just paying lip service?



Since 1997, the group of leading US executives known as the Business Roundtable has stated in its Principles of Corporate Governance that 'corporations exist principally to serve their shareholders'. They grabbed headlines in August with a rejection of this narrow focus of the past and a new commitment to serving all of their stakeholders.

This transformation in the thinking of CEOs at some of the world's biggest companies shows how much demand has grown for a more responsible capitalism. One that recognises long-term profits are dependent on a thriving ecosystem of customers, suppliers, employees, communities and the environment – as well as shareholders.

Our recent report *Responsible capitalism* chimes with the Roundtable's assertion that for companies to prosper in the long run, they need to work to 'ensure more inclusive prosperity' and 'challenge [themselves] to do more'. We also fully agree with its 'commitment to a free market economy'. We don't think the two are mutually exclusive.

By some measures, it would seem that the Business Roundtable CEOs are largely walking the walk, as well as talking the talk. For example, JUST Capital, a non-profit organisation set up by hedge fund billionaire Paul Tudor Jones to evaluate how well companies are serving their stakeholders, ranks 68 of the 184 companies who signed up to the Business Roundtable statement in the top fifth of the Russell 1000 index. But investors wanting concrete evidence face a big problem – the available scoring systems are inconsistent and poorly correlated.

Whatever the Business Roundtable might say about serving all stakeholders, officials at America's main financial regulator, the Securities and Exchange Commission (SEC), aren't lending a hand. When it comes to specific actions on environmental, social and governance (ESG) issues, the SEC

recently imposed tighter regulations on proxy advisers, which could limit the ability of shareholders to exercise their stewardship responsibilities (an aspect of our investment process that Rathbones has been building over the past decade).

Ostensibly, the SEC was protecting company boards, and the shareholders they serve, from undue political influence. But any SEC claim to be acting in the interest of the public rather than the corporations they're tasked with regulating, was undermined by revelations that its decision may have been unwittingly influenced by a PR campaign using fake letters from 'ordinary shareholders'. The ghost-written letters, funded by a free-market advocacy group called the 60 Plus Association, expressed concerns about third parties "promoting their own agenda" in decisions affecting their investments.

Engaging actively

In fairness to the SEC, mass reporting on ESG factors and delegating proxy voting to governance advisers can be problematic. It's better to have active engagement and a deeper understanding of the companies you invest in than to solely rely on external scoring systems. One problem is that governance advisers

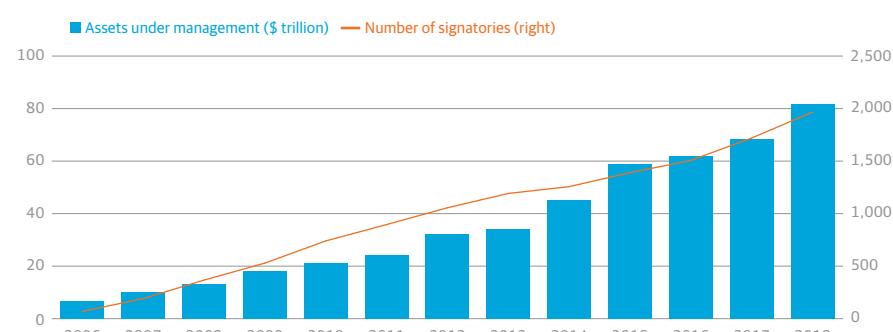
now want all companies to produce reports on all policies relating to issues like gender equality, modern slavery, climate change and so on, irrespective of the business type or the management's track record in these areas. Some management teams are saying no as they feel that these are costly and the outcomes reported are misleading or irrelevant.

All of these issues are important of course. We want to invest in companies that take them seriously and avoid those that do not. It absolutely makes sense for companies to see customers as key stakeholders, ranking alongside their shareholders.

Public opinion is shifting towards a more sustainable approach. But as we noted in *Responsible capitalism*, the big issues facing our society won't be solved by government policy alone. Capitalism is essential, and we believe investing in firms with a solid purpose can deliver benefits to society as well as maximising returns to shareholders. This is a massive opportunity for companies that can find sustainable solutions to our environmental conundrums, address inequality and offer sustainable products to customers that vote with their wallets.

Figure 7: Investors are becoming more responsible

More than 2,000 asset managers around the world are now signatories to the UN-backed Principles for Responsible Investment (PRI).



Source: UN PRI.

Financial markets

Although the world economy continued to expand throughout 2019, unresolved trade conflicts around the world have led to greater uncertainty. Global trading volumes fell for most of the year, owing largely to the tensions between America and China. There were also signs that manufacturing activity dipped.

Still, 2019 was a good year for equity investors, with the MSCI World Index gaining 21% (in sterling terms). The FTSE All Share was not far behind with a 19% gain, despite Brexit woes.

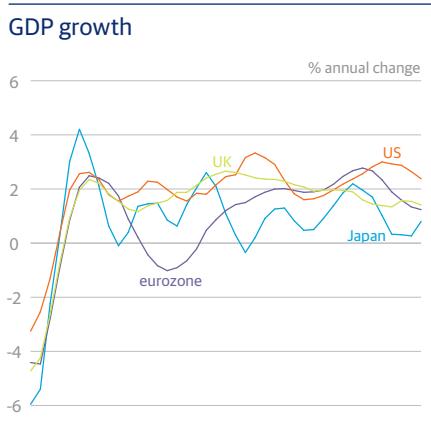
However, it was a year of mood swings. In the spring and summer, anxious investors piled into the safety of government bonds, driving yields down sharply. In August the yield curve on US government debt inverted (yields on shorter-dated bonds were higher than longer-dated bond yields), suggesting expectations of a looming recession. Investor sentiment (and yields) then recovered from the third quarter.

An election bounce

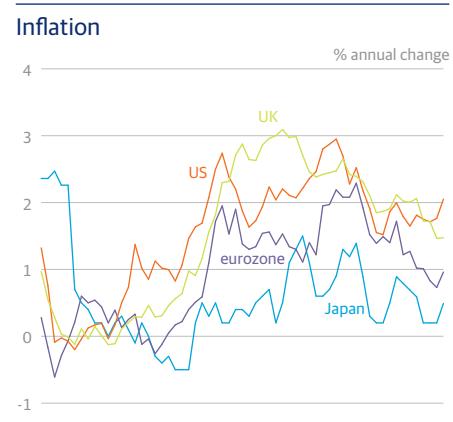
The FTSE 250 had a strong performance in the fourth quarter and has outperformed its larger UK peers in the FTSE 100 over the past two years. The pound had a brief rally and UK equities were lifted across the board on hopes that the decisive election victory for the Conservatives would remove uncertainty over Brexit.

For most of 2019 investors and central banks were steadily accumulating gold, with its appeal burnished by the huge volume of bonds trading at negative yields. But prices dipped in the fourth quarter after investors rediscovered their animal spirits.

Crude oil prices rose over the year, though within recent ranges. The market has taken almost everything in its stride, including a drone attack that knocked out more than half of all production in Saudi Arabia, the world's biggest crude exporter. Fears of oil shortages have been hard to sustain in the era of US shale.



Source: Datastream and Rathbones.



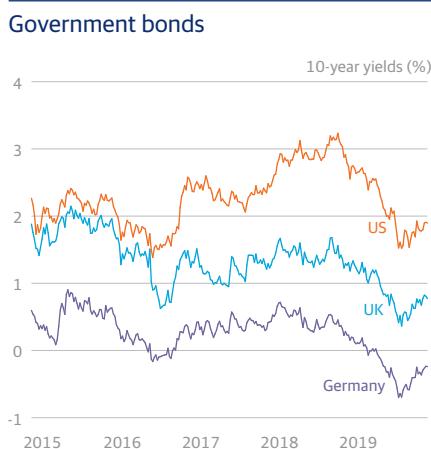
Source: Datastream and Rathbones.



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Past performance is not a reliable indicator of future performance.

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01534 740 500
rathboneimi.com

-  @Rathbones1742
-  Rathbone Brothers PLC
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