



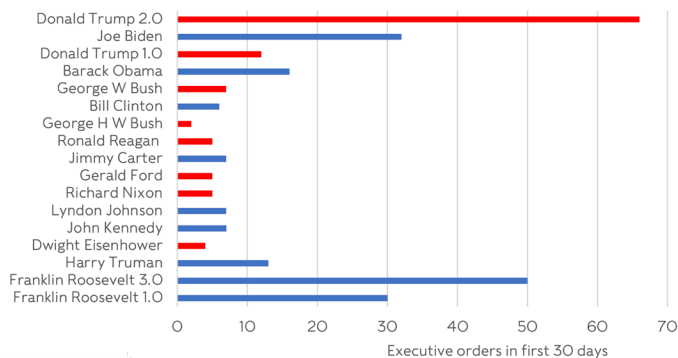
RATHBONE MULTI-ASSET ENHANCED GROWTH PORTFOLIO

MONTHLY UPDATE JANUARY 2025

Fittingly for the first US President to watch a Super Bowl, Donald Trump has launched a blitz on the establishment since moving into the White House. Like sending an overwhelming wave of bodies at the quarterback, Trump has created shock, awe and confusion among his opposition, the courts and the media. We would add investors in there, except the market response has actually been pretty muted.

At the time of writing in mid-February, Trump had issued 66 executive orders ranging from dismantling US foreign aid, fighting obesity, laying off government staff, pausing domestic federal grants and support, developing a plan for a sovereign wealth fund, quitting the Paris accord on limiting climate change and World Health Organisation, removing the Biden-era cap on liquified natural gas exports, and hitting allies and rivals alike with tariffs. Executive orders are nothing new, but the sheer number of them in a short space of time is beyond anything seen before. Democrat Franklin Roosevelt, of the 1930s and 1940s, had held the record by a country mile: 30 in the first 30 days of his first term and a whopping 50 at the beginning of his third in 1941. Trump's predecessor Joe Biden notched up 32 in his first month in office, by far the highest in almost 80 years. Yet Trump has well and truly taken the cake.

BY EXECUTIVE ORDER, SHOCK AND AWE



Source: US National Archives

Where do you start trying to untangle the effects of all this? And it's nowhere near an exhaustive list. We missed out a proposal for an 'Iron Dome' missile defence system akin to Israel's, as an example. The Democrats seem powerless. Many of the orders have been challenged in the courts, but the sense is that the sheer momentum of Trump's agenda is bending America's institutions to his will.

We think it's important not to lose sight of the wood for the trees here. Following each policy and pronouncement through to its potential consequences will send you mad before it does you any good. There are simply too many moving parts. And it will be an exercise in futility as well, given that many have been rescinded or paused following concessions or court rulings.

Instead, we are taking a step back and starting with what Trump appears to be trying to achieve. Broadly, he wants to reduce government spending to reduce deficits, cut taxes and regulation to drive economic growth, increase oil and gas production to lower energy bills at home and earn more exports abroad, and generally export more products to the world and import less. Everything else is the means to those ends.

Investing in the time of tariffs

Trump's second presidency will likely feature tariff threats as a tool to secure political and geopolitical concessions as well to encourage a reordering of global trade in the US's favour. Individual nations and industries have been targeted so far, including neighbours, allies and geopolitical rivals, steel, aluminium, cars and pharmaceuticals. More are expected in spring. These tariff threats are unpredictable: it seems more than a few will melt away once they have secured concessions.

Still, we may end up seeing many different tariffs imposed for substantial periods of time, so we need to be prepared for how these could affect industries and the stocks that we hold. Supply chains are complex and it's hard precisely to gauge how tariffs might impact a particular company without clear guidance from its managers. Tariffs will directly affect some companies, especially retailers of imported goods, yet many more will be impacted in more diffuse ways as trade and consumption patterns change.

It's difficult to be too granular about the potential effects on equities because much will depend on where in the supply and demand chain the hit is taken. How much will exporters to the US be willing to cut their prices to maintain sales volumes? How much will companies importing to the US be willing to shave off their own profit margins and how much of the price increase will they pass on to consumers? Will consumers pay up, switch to domestically produced goods or just tighten their belts and buy fewer goods? It would seem logical to suggest that it's going to be a bit of everything. But the mix will prove important.

In response, an already strong dollar has appreciated significantly against its major trading partners. A more belligerent US trade policy, coupled with so much faster economic growth compared with its peers, means this could well continue in the near term.

DOLLAR HAS GOT EVEN MORE EXPENSIVE UNDER TRUMP



Source: FactSet and NBER; DXY Dollar index, shaded areas are recessions

Yield, watch for growing risks

Despite the disorienting blizzard of news, tariffs and presidential decrees, one of the larger concerns of the past few months – sky-high borrowing costs – tiptoed lower after spiking in mid-January. US 10-year government bonds yield roughly 4.6% – still high by the standards of recent years, but significantly lower than January's 4.8% high.

With the US economy still bounding along and inflation lingering, the January jobs report added more weight to the general expectation of a more gradual fall in the US central bank's overnight interest rate. Investors believe the Fed's benchmark interest rate will be around 4.15% by the end of the year. If that's correct, it would mean just shy of two more quarter-percentage-point cuts. If rates can continue dropping and longer-term bond yields follow, that would be helpful for bonds and should help buoy stock prices because future profits are worth more if the rate of return on cash in the bank falls. At least supposing that those earnings remain resilient.

While the latest US GDP numbers showed a deceleration from 3.1% to 2.3% in the fourth quarter, that belied very strong household spending. Whether that's equally spread between the rich and the poor is another matter and one that's hard to determine without a long wait for in-depth statistics.

Weight-loss drugs bite into McDonald's

We sold our investment in fast-food giant **McDonald's** because we started to worry about the effect that the new GLP-1 drugs for weight-loss and diabetes could have on its business. The company's sales dropped by the most in years during the middle of last year and it was unclear to us how well it's holding up in what is a tough and increasingly crowded market.

Another exit was from Chinese internet titan **Tencent**. This company straddles virtually everything digital and has a great business. However, the attentions of the US are upon China – especially its digital champions – and we feel that rising trade and geopolitical tensions will be a big headwind for the company.

The cash went into a few other ideas that we have been working on in the background for some time. The first is private equity, specialty insurance, infrastructure funding and capital markets mash-up **KKR & Co**, which we started buying in the fourth quarter. Private equity should benefit from a pro-business US administration and lower interest rates, should they arrive: they make it easier for high-cashflow businesses to pull off lucrative leveraged buyouts and increases the value of exits from successful start-ups.

Another is American insurance broker **Brown & Brown (B&B)**. While it does have offices around the world, including here in the UK, about 90% of its sales are made in the US. Insurance, especially home and general insurance, is ubiquitous and often mandatory, but that doesn't necessarily mean it's a great business to be in. It's plagued by uncertain forecasts of claims and at the mercy of higher-than-expected costs for repairs or replacement. Another unfortunate truth is that insurers are often massive bond portfolios with a business strapped on the side: they keep all the premiums customers pay them in bonds, typically corporate ones. That can make them quite sensitive to sharp changes in interest rates, with upward shocks particularly nasty. But *selling* the insurance – brokering – is another story. With insurance becoming more complex and businesses (who make up the majority of B&B's customer base) often requiring multiple lines of insurance, brokers are becoming even more useful. Paid commissions upfront, they are highly cash generative, but don't take the risk of the underwriting themselves. They perhaps don't offer as much upside, but we think Brown is a quality operator that can grow steadily over the coming years.

We bought European producer of next-generation weight-loss drugs **Novo Nordisk** after its valuation reduced significantly. Use of GLP-1 (glucagon-like peptide) weight loss and diabetes treatments is increasing rapidly. While there's a risk of increasing competition in this market, Novo (and its American rival Eli Lilly) have clear first-mover advantages.

We added Dutch business **ASM International** to our portfolio as its price slumped on the DeepSeek news. ASM makes the specialised equipment that create the silicon wafers that are the base of computer chips. ASM sits alongside our long-term position in ASML, which designs next-generation computer chip printers that allow manufacturers to make chips ever smaller and more powerful. It aims to help its customers make more efficient chips quicker, saving raw materials, time and money. That gives customers a strong incentive to buy its technology, even in straitening times. We are especially excited about its expertise in atomic layer deposition, where ASM appears to us as the clear leader. Atomic layer deposition is where extremely thin and perfectly smooth layers to conduct or insulate electric currents can be added to computer chips, literally one atom at a time. This also helps with the manufacture of three-dimensional chips, (imagine a city grid with tall buildings growing up from the wafer base), which allow faster and more powerful computing from much less surface area.

DeepSeek or deep fake?

AI has been the stock market darling ever since OpenAI launched ChatGPT in November 2022. It has helped the Magnificent Seven largest US technology companies deliver big returns that have left many other businesses in their dust.

This AI wave has required a lot of computing power to teach large language models about our world and to refine how they answer prompts from users. To provide that computing horsepower, a massive amount of money has been poured into building data centres that can house stacks of high-performance graphics processors, like those made famous by chip designer Nvidia. These chips don't come cheap. In the third quarter alone, almost \$31 billion was spent on data centre chips. Often, companies are spending more in a single quarter than they used to spend on capital expenditure for a whole year pre-2020.

Past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and you may not get back what you originally invested.

The sheer cost of investment for AI caused a flurry of worry at the tail end of last year, but it was swiftly brushed off and most AI companies – both the makers of computer chips and the companies creating AI tools that buy them in droves – continued to forge higher. In January, those concerns returned on news that a Chinese competitor, DeepSeek, has managed to develop a large language model for a fraction of the price. It purportedly trained a model of comparable size to the giants of Silicon Valley using ancient computer chips that have roughly 1/60th of the computing power of those currently used in the West.

The market's knee-jerk reaction took this threat at face value; however, there are reasons to be sceptical. For example, China has claimed in the past to have cracked 'extreme ultraviolet lithography' which is the method required for manufacturing top-end semiconductor chips. That turned out to be false. Is it really conceivable that China has now managed to achieve on a shoestring budget what the leading US technology companies have spent billions on? DeepSeek was almost definitely bootstrapped from OpenAI's product: when asked what model it was, the chatbot told many users that it was ChatGPT-4.

Nevertheless, if DeepSeek can create a large language model with a fraction of the investment required by its American rivals, that raises questions about whether their competitive position is as unassailable as most imagine and also brings some doubt about whether assumed trends on power consumption and investment will play out as forecast. This led to substantial drops in the share prices of chip designers and those that supply them – Nvidia lost nearly \$600 billion in a day. However, DeepSeek's launch was seen as a boon for companies that run AI services because it suggests their costs could reduce substantially.

It does feel as though a lot of investors have been looking for an excuse to take profits on, or bet against, the chip designers and makers after a very strong run. Even so, there's a sufficient threat to US AI superiority to prompt some robust answers to these capital investment concerns, which, as we mentioned earlier, are not new. We have to be honest: the repercussions are unclear for now.

One thing it has shown, though, is how far the AI investment theme has spread. Some of the companies worst hit by the DeepSeek bombshell were power generators, data centre businesses and their suppliers. Because it's not just chips that are in demand for driving AI: it has heated up the market for computing power and the energy to run them as well. US bank Morgan Stanley estimates that global data centre electricity demand jumped from roughly 15 Terawatt-hours (TWh) to closer to 46TWh in 2024 alone. Another US bank, Wells Fargo, thinks electricity supplied to US data centres could be 16% of the current US total demand.

If AI can be powered with a fraction of that energy, on the face of it, that's bad for the generators, but pretty good for the rest of us: all being equal it means lower power bills. It also means cheaper AI tools – another boon for all of us, as it makes them more accessible and useful for tasks great and small. But this is where 'Jevon's Paradox' – the buzzword of the month – comes in. Back in 1865, William Jevons believed that as steam engines became more efficient – as they needed less coal to deliver a given amount of power – it would increase the amount of coal used overall. That's because the technology became cheaper, more accessible to greater swathes of society and more likely to branch out into different applications. He was correct. And the phenomenon has played out as he expected with gas, petrol and even irrigation and water use. Is a similar boom on the horizon for AI?

As prices plunged, we added to our holdings of high-end chip designer **Nvidia**, chip maker **Taiwan Semiconductor Manufacturing Company**, electronic connectors and wiring supplier **Amphenol** and data centre operator **Equinix**. At the time of writing, they have all recovered most of their losses.



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For more info on our fund, including factsheets, performance and fund manager views, please click [here](#).

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