

RATHBONE GREENBANK GLOBAL SUSTAINABILITY FUND

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The shock of a comprehensive Donald Trump electoral win has worn off and attention has turned to his Cabinet picks. A new cottage industry has been founded to divine Trump's likely policy paths through the medium of personnel.

The President-Elect is much more organised than last time. In early December all the main Cabinet positions had been announced and only three relatively minor posts of the executive branch were unannounced. Most require Senate approval, which takes longer than it should and is getting longer with every election. It could be deep into 2025 before the Cabinet is fully confirmed.

There are some eyebrow-raising choices, like WWE Wrestling co-founder Linda McMahon as Education Secretary and vaccine sceptic and general conspiracist Robert F Kennedy Jr as Health Secretary. Keeping an open mind, some good may come from departments getting an infusion of completely different views. But there's also the chance of mutual lack of respect leading to gridlock or bad outcomes. We will have to wait and see. It's Trump, so it's prudent to expect some good, some bad and some wild.

The 3-3-3 plan

Perhaps the most important pick for investors is billionaire hedge fund CEO Scott Bessent as Treasury Secretary (the job currently held by former US Federal Reserve Chair Janet Yellen). While at iconic hedge fund Soros Fund Management, Bessent was on the trading team that "broke the Bank of England" in the early 1990s, by betting the pound would sink. It led to the unravelling of sterling's peg to the German mark. We won't hold that against him though. He's an eminently qualified choice for the top finance job and – coincidence or not – US bond yields calmed down soon after the news. Many investors see Bessent as a restraining force for the administration, one that could smooth the sharp edges of other members.

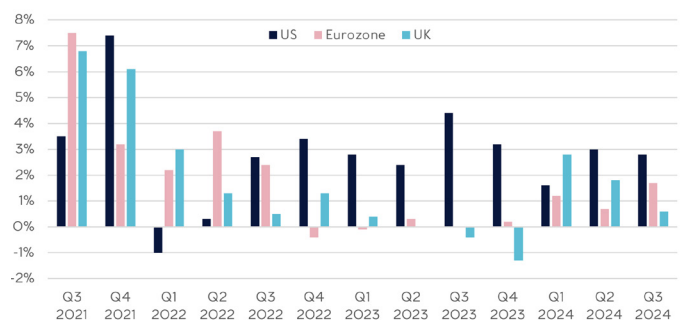
He has discussed a "3-3-3" strategy: halving the federal budget deficit to 3% of GDP by 2028, growing the economy by 3% a year through deregulation and privatisation, and increasing US oil production by 3 million barrels a day. That will no doubt come at an environmental cost, especially for the climate. America ramping up oil production further and leaving the 2015 Paris Agreement (which pledges almost 200 governments to keeping carbon emissions in check to prevent temperatures from rising by more than 2 degrees Celsius) bodes ill for international co-operation on the issue.

While the UK Met Service says most studies show no link between UK storminess and climate change over the past 40 years, it's a different story in some areas where storms are very gnarly indeed. The Intergovernmental Panel on Climate Change thinks there's a more than two-thirds likelihood that the power, frequency and duration of big tropical storms in the Mexican Gulf and Atlantic Seaboard are being increased by a warming climate. Wildfire seasons are lengthening and the area burned growing.

With many communities in the US and elsewhere getting hit harder and more often, it's causing more mayhem, upending lives and causing immense amounts of damage. Some communities are finding themselves essentially uninsurable. A report by property climate risk modellers First Street Foundation found 5% of all US households have been slapped with significantly higher insurance premiums or have had private insurance completely pulled. It estimates an additional 25% of homes are at risk of similar effects in coming years.

Hitting Bessent's 3-3-3 targets could be a tough ask though, albeit Trump came close in 2018 when GDP was 3%, the deficit was 3.8% and 1.6 million extra barrels a day of oil were produced. US oil production has recovered after the pandemic slump to a record high under President Joe Biden. Also, while the mood on economic growth has been muted, we really should point out that GDP has been rising at an average of 2.4% a year, including the pandemic years, since 2016 (it's 2.55% excluding 2020 and 2021). That's not bad, considering the lower-rate, lower-growth world we've been living in. The ability to grow faster without refiring inflation is up for debate. In short, Bessent's 3-3-3 strategy may be more spin than real economic targets.

US GDP GROWTH ALREADY OUSTRIPS THE REST



Source: FactSet; GDP growth annualised

Meme discipline

Outside the Cabinet, serial entrepreneur Elon Musk and biotech venture capitalist Vivek Ramaswamy have been tapped to run a newly created Department of Government Efficiency (DOGE). It's not an actual department, only an advisory role. And one that allows for an acronym that plugs Musk's favourite cryptocurrency: the world's most valuable joke, Doge Coin. Yes, all the world is a meme now... Some have suggested that a non-Cabinet post is a snub for Musk, who has styled himself "First Buddy". However, the demands of a Cabinet post have meant businesspeople quitting the day job to take roles in the past. We think news that Musk was stepping away from his companies for up to four years would rattle investors in his web of listed and privately held businesses.

DOGE may end up being a marketing gimmick. Yet there are definitely savings to be had. Sure, many programmes benefit the Republican base. And there are entitlements that can't be removed, like healthcare for retirees and veterans through Medicare, a federally mandated health insurance scheme for the retired. But even in these sacrosanct areas, examples of duplication and waste on an industrial scale abound. Medicare insurance plans are provided through private insurers, paid for by the Department of Veterans' Affairs (VA) to the tune of about \$10 billion a year. Yet the VA also runs "the largest integrated healthcare system in the US" – 1,380 facilities throughout the nation. Long story short, the federal government is double-paying for vets' healthcare, an industry where prices are soaring. The care is mandated, not the overpayment. There will be countless examples of this throughout the government. The only question is, will the lobbyists win?

Only a few adjustments

We trimmed our holdings in liquid food packaging specialist **SIG Combibloc** and **AMSL**, which makes top-of-the-line machines that print the very best computer chips. These businesses are still core positions in our fund, we've just reduced them slightly to increase investment elsewhere. This cash was put to work in several companies that we already hold.

The first was medical device and software supplier **GE Healthcare**, which we first bought in October. We think the imaging market is fundamentally attractive, given the barriers to entry and high proportion of fees that come from servicing the machines as opposed to simply selling kit and walking away. GE has the opportunity to gain market share as it reinvests more into research and development to stay one step ahead of competitors. We like its focus on software development, too. GE gives us more exposure to the Chinese health market, which is showing tentative signs of stabilising after a rocky post-pandemic stretch. The nation's demographics are ageing rapidly, so it will need to invest much more in technology to care for its retirees with fewer workers. We think this provides a strong long-term investment opportunity.

The second was circuitry, fuse and power control sensor manufacturer **Littelfuse**. This is another industry with attractive long-term growth dynamics showing signs of recovery. As the world's products and services become increasingly digitised, complex electrical needs are becoming mission-critical for so many more things, from airplanes and cars to bakeries and solar farms. Littelfuse makes the components and technologies that make batteries more energy-efficient, products safer and power systems more flexible. Electronics, Littelfuse's largest and typically most profitable division, could improve from here as the types of products these components go into are selling better. Power control and protection remains an attractive area of growth as well. We have liked how management has navigated a tricky couple of years. I met the CEO and CFO at a recent investor conference in the US and they remain consistent in their execution. Littelfuse's customers' inventories are close to bottoming, which has historically been a positive sign for a resurgence in orders.

The third company we added to was insulation and roofing business **Owens Corning**. Results have been resilient despite a year of uncertainty over the path of interest rates, inflation and the economy. Owens should benefit from a resurgent US housing market if rates continue falling and the economy forges ahead with higher consumer confidence. While Owens does sell overseas, the US makes up more than 70% of its revenue.

We reduced our investment in UK pharmaceutical giant **AstraZeneca**, given the recent news of a corruption investigation in China. The company remains a holding in our fund – and we think one of the best placed in its industry based on its track record on research and development and the quality of its portfolio of cancer treatments. Yet we are waiting to see the outcome of the inquiry. China is about 13% of Astra's sales base, but an important and growing market for the business.

As we write, the French government led by Michel Barnier has collapsed after a vote of no confidence that united both the left and the right to bring it down. Barnier's three-month term is the shortest since the chaotic Fourth Republic in the 1950s that ended with a bloodless military coup by supporters of Charles de Gaulle. The opposition's bone of contention with Barnier's government is also the problem: an austere Budget that would have increased state revenues by €60bn a year through a mixture of spending cuts and tax hikes on business and the wealthy. The plan aimed to reduce the yawning gap between French tax revenue and its spending. By EU law this deficit shouldn't be more than 3%; it's on track for 6% of GDP in 2024. That's forecast to worsen and drive public debt from 114% of GDP to 124% by 2029 unless something is done. President Emmanuel Macron now needs to pick another Prime Minister who will inherit the same problems and, likely, the same intransigence from Parliament.

French bond yields have risen significantly (so their prices have dropped) since June when compared with their German counterparts. They deteriorated again once Barnier's defenestration looked likely. This has weighed on the European stock market index, yet our stocks haven't been affected by the concerns. We hold no French companies and no financials on the Continent. Except for two European stocks that dropped due to their own performance issues, all our European companies have risen or trod water since French politics started unravelling in late June.



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Fund Manager

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

If you require further clarification on this commentary, then please contact your adviser or Rathbones at the contact details below.

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