

RATHBONE GREENBANK TOTAL RETURN PORTFOLIO

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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 have 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 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.

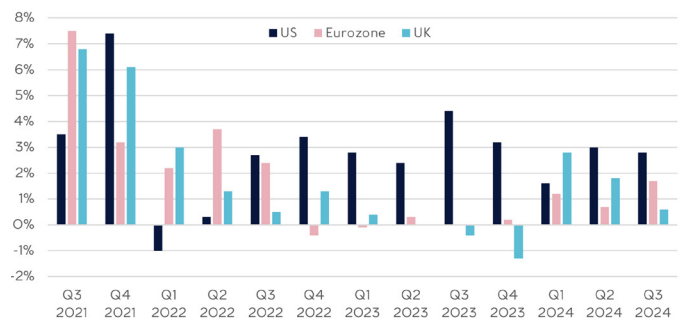
He has discussed a "3-3-3" strategy: halving the federal budget deficit to 3% of GDP by 2028, growing the economy by 3% a year through deregulation and privatisation, and increasing US oil production by 3 million barrels a day. That will no doubt come at an environmental cost, especially for the climate. 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?

Spreading our risk

Following the post-election bounce in US equities, we decided to take profits from high-end computer chip designer **Nvidia**, small business e-commerce platform **Shopify** and customer relationship management tool **Salesforce**. We used the cash to add to our existing holdings in enzymes manufacturer **Novonesis**, medical equipment maker **GE Healthcare** and pan-Asian insurer **AIA Group**. We also added back slightly to our **UK Treasury 1.5% 2053** bonds at a much higher yield following the UK Budget, and topped up our **NZ Government 3% 2029**.

We added UK pharmaceutical **AstraZeneca** to our portfolio. The share price was beaten down by allegations of corruption in its China business. We felt concerns over the impact of these allegations were likely overdone, giving us an opportunity to buy a high quality name with a strong drug pipeline. While China accounts for about 13% of Astra's sales, its biggest market is the US, where it makes and researches drugs in 17 sites across several states.

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. We recently shifted some of our government bonds from the US and UK into Europe and New Zealand, where we expect faster and deeper rate cuts. Our Continental bonds steer clear of France, however, with holdings in German and Portuguese government debt, both of which have low and under control public deficits. We also hold euro-denominated supranational European Investment Bank bonds, which tend to track German bond yields.



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