



RATHBONES

RATHBONE INCOME FUND

MONTHLY UPDATE JANUARY 2025

Commerce is a confidence game. Not that it's a way to fleece people or to trick them. But that to put your money where your mouth is, to risk what you have for something more, takes confidence that it will pay off. And confidence – or the lack of it – is infectious.

You must believe that your idea is good enough to succeed, but equally you must believe that your environment will allow you to thrive. It may not be a start-up, either. It might be a businessowner pondering an expansion to their site, or a family eyeing a bigger home, or someone with extra cash weighing investing in the stock market or stashing it in the bank. All these decisions combine into the great amorphous national mood that we can all feel. And that is reflected back at us through the conversations we have, the papers we read, the podcasts we listen to and the stock market we watch.

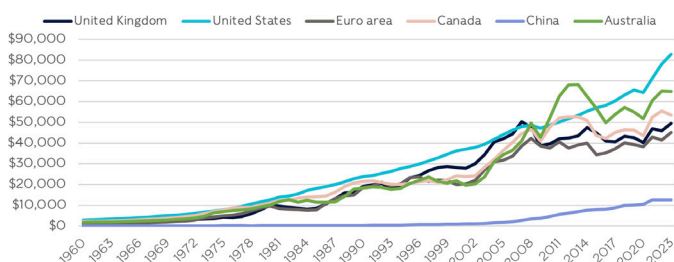
The feedback goes both ways. The national mood can talk us out of taking the plunge, just as it can encourage us to give our dreams a go. We're keenly interested in the state of our nation and its mood. And not just because we live here! But because we invest here. Our nation's confidence level influences our economy and the value of the companies based and operating here. Bluntly, the UK and the US are poles apart on confidence. Our cousins across the Atlantic are bordering on hubris and their economy is fizzing, while Britain is almost catatonic with despair and our economy and commerce is flat. It doesn't have to be this way and it can be changed. We've all just got to want that change.

Change isn't for the worst

Since the end of the Second World War – some say even longer – politicians, historians, economists, business leaders and a host of other commentators have been debating Britain's perceived decline. Fearing global irrelevance, the UK has found it increasingly difficult to accept a loss of influence, whether that's measured in diplomatic, military or economic terms.

That angst has increased as the decades have passed, even as the UK's GDP per capita has risen dramatically for most of that time.

CONTRARY TO POPULAR OPINION, THE PAST 60 YEARS HAVEN'T BEEN DISASTROUS FOR BRITAIN GDP PER CAPITA (USD)



Source: World Bank

This sense of decline can seem acute, manifested in absolute measures of stagnant economic growth, declining real wages, falling workforce participation, and rising living costs. So it is with frustration that we may look back on 2024 as a year of missed opportunity: the post-election sense of nascent possibility, scuppered by a summer of gloomy messages around fiscal inheritance, and an Autumn Budget that further suppressed the mood. In 2025, it's been incumbent on the government to come out fighting.

And they have. In *The Times*, Prime Minister Keir Starmer wrote of the need to cure the "sickness of stagnation and decline." Chancellor Rachel Reeves reinforced the message in a 29 January speech 'How the UK will kickstart GROWTH' at medical technology business Siemens' Oxfordshire site'. (The Trump-like capitalisation is her emphasis.) We should applaud any effort to shift the narrative. Yet her attempt to make the argument for growth exposes some of the contradictions that have blighted Britain for so long. The speech's obvious headline grabber is her commitment to a third runway at Heathrow, but it is immediately evident that there will be a tsunami of objections to overcome. Likewise, her heroic ambitions to create a British Silicon Valley stretching between Oxford and Cambridge entails massive investment in housing and water infrastructure in an area not renowned for planning leniency. And by broaching a potential 'Brexit reset' in her speech, she presses the most highly charged button of all.

We all must say 'yes' to growth

It may be a crass generalisation, but we Brits can bemoan decline while simultaneously resisting change. There needs to be a fundamental shift in our priorities if we want to compete on the global stage, making us wealthier and bringing us a better quality of life. At some point, we need to put up or shut up.

Reeves correctly links investment, with its very long-term aims and aspirations, to more parochial and day-to-day concerns like NHS waiting lists, increased crime on our streets, and the pounds in people's pockets. While large statement infrastructure projects may secure prosperity for future generations and a broader swathe of the populace, it's going to be gnarly arguments over our relationships with Europe and the US that will (or will not) provide more immediate impetus.

To return to longer-term growth ambitions, the best gauge of the government's chances of success will be if the lowering of the huge hurdles in planning, regulation, nimbyism, environmentalism and special interests – however well-intentioned – to more reasonable levels.

As FT columnist Janan Ganesh wrote recently, "Britain doesn't have a Reeves problem. It has a Britain problem." If we want change, we must accept it comes with change. Reeves wants a fight, and she will have one; but it's one worth having, on whatever side of the political fence you sit.

The UK is still an important global market

We welcome the Chancellor's aggressive pro-growth tack. From a market perspective, a more constructive analysis of the UK economy benefits investors in UK equities in two ways. First, it draws attention to the value in the UK market itself and, secondly, it opens up some more idiosyncratic company-specific opportunities.

There's also a more nuanced argument to be had about people's almost unquestionable faith in US exceptionalism on the one hand, and the frailties of the UK on the other. This imbalance throws up some remarkable oddities and contradictions. For example, despite being so maligned and dismissed as being a dinosaur, and despite trading at a dismal price point versus the US, the FTSE 100 recently broke a new all-time high! Remember, the UK is the third largest country weighting in global equity indices (smaller than only the US and Japan and larger than China, India, France, Germany and all the rest).

FTSE 100 HITS NEW RECORD DESPITE GLOOMY MOOD

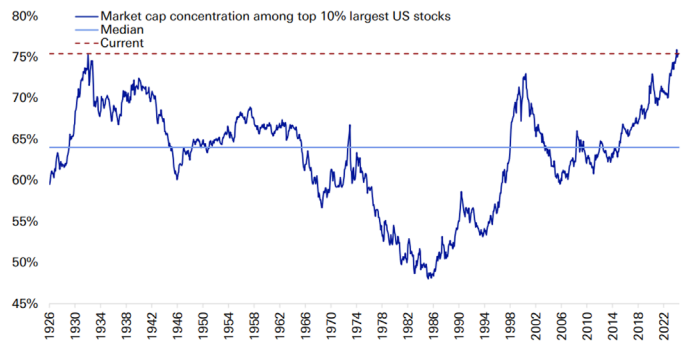


Source: Bloomberg, 31 Dec 1983 to 31 Jan 2025

Remember too that US exceptionalism is not necessarily a good thing for investors. US stocks now make up 69% of the global equity market. If everyone is betting on the same horse, might that signal too much complacency about the risk of a fall? It has proved a mistake (twice) to bet against US President Donald Trump. But should that stop us being uneasy about the unintended outcomes of some of his policy decisions? At current prices, US stocks offer little margin of safety.

It is wrong to make too close a comparison between now and 25 years ago when TMT (Technology, Media and Telecommunications) stocks ballooned into a bubble that ultimately burst. Today's market is very different: the technology giants are immensely profitable and enjoy strong market dominance. And the macroeconomic dynamics are very different too. But, as the very highly regarded strategists at Deutsche Bank pointed out in recent research entitled 'Deeply seeking comparisons to 2000', the concentration of value in the top 10% of stocks by size in the US is the greatest it has ever been:

TOP 10% LARGEST US STOCKS AS PROPORTION OF OVERALL MARKET



Source: Deutsche Bank, Kenneth R French database; data to 30 Nov 2024

They also asserted: "Of the top 10 stocks back in Q1 2000, four make lower nominal earnings today than they did in 2000. Microsoft's earnings have increased 9.8 times." Future profitability is inherently uncertain, irrespective of today's dominance.

Let's spin this differently. In the 'The Rest is Politics' podcast #361 (15 January 2025), Alastair Campbell read out a declassified memo sent by Donald Rumsfeld to President George W Bush in April 2001, five months before 9/11. The memo was intended to shake up security policy by showing that history is littered with instances of failure to identify emerging threats and opportunities. In 1900, Britain was the global power, tussling with France, the US ignored; 10 years later Germany was on the rise; by 1920 the First World War had wrought devastation. And so on and so on – the Great Depression, the Cold War, 9/11, throughout the twentieth and twenty first centuries, scarcely a decade goes by without wrenching changes to what we know as normal. Yet we continue to forget the potential for violent market gyrations.

Those of us who were investing back in the late 1990s would never have predicted the turmoil of the next five years, let alone the next 30! Nothing ever stays the same. Technology stocks have had a recent wobble because one weekend an old story broke about Chinese AI competition in the form of DeepSeek, and Nvidia promptly 'lost' \$589 billion in value, the biggest one-day wipeout in stock market history. The fact that it's since made up some ground is irrelevant; there is always something around the corner to challenge the status quo.

That goes for the UK as well. Chancellor Rachel Reeves' plans are ambitious. They are expensive and they are very long term. Their economic value to us, today, is unknown. They may trigger a decade of prosperity or they may be doomed to failure. However, the 'value' in the UK market allows us to dream, without necessarily demanding success to garner attractive returns. Valuation does matter. There's precious little optimism priced into UK markets. We think that's a big opportunity for investors.

Recent Trading: January was very much about rebalancing the portfolio. We took profits from a combination of different businesses – high street bank **NatWest**, media organisation **Relx**, financial trading platform **IG Group** and global retailer and model manufacturer **Games Workshop**, all after extended periods of very strong performance. We added to a small selection of more domestic names, the utility company **SSE**, aggregates business **Breedon Group**, self-storage property company **Big Yellow**, and the discount retailer **B&M European Retail**. We also created a new holding in direct marketing enterprise **4imprint Group**. This business supplies imprinted promotional material, predominantly to North American businesses, and gives us a way of capturing US domestic economic strength, but at a UK multiple.

Companies seen in January: we joined group conference calls with food retailer **Tesco** and **IG Group**.



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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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