



RATHBONE INCOME FUND

QUARTERLY UPDATE SEPTEMBER 2024

We made steady, if not outstanding, gains in the third quarter of 2024. Although markets have continued to trend higher, progress has been haphazard, with ‘growth’ and ‘quality’ companies in one corner and ‘cyclicals’ in the other, slugging it out for dominance.

The prevailing mood of investors has whipsawed between optimism and pessimism. Economic data have often been less relevant in their own right, instead they’ve been seen as guiding lights for what central bankers may do. Interest rates finally started to drop this quarter, spurring global stock markets higher. Yet the paths they take over the coming months and years will be extremely important for many investors.

Further cuts to rates could fuel animal spirits. But don’t let all the excitement toward the end of the quarter expunge the memory of early summer. Back then, investors were worried that the US was about to shed jobs and roll into recession, taking the world with it. Only a couple of months later, people’s opinions have completely changed. While this leaves us scratching our heads as to what it all means, we do think it reinforces the need to focus on the longer-term reasons for investing. And to take advantage of wild market swings to buy and sell at better prices.

Results season, which for companies reporting half-year numbers through to the end of June occurs in a mad fortnight around the cusp of July and August, was broadly positive for us, despite one or two bumps in the road. Our fund benefited from our tilt back towards ‘quality defensives’ (those companies whose growth should be less influenced by changes in wider economic growth), especially during the chaotic first few of days of August which saw a big sell-off of technology stocks in the US.

We’re also content with our complementary exposure to UK domestic earners. While the new Labour administration has seemed excessively insistent on emphasising the difficult financial hand they’ve been dealt, in reality the UK economy looks in ruder health than many other economies. Let’s hope we don’t talk ourselves out of the recovery that the data seem to be suggesting.

Investment review

By delving into our stock-specific contribution data, we can argue that our positioning is beginning to bear fruit. The biggest contributors to fund performance during the third quarter were a mix of defensive quality plays and domestic earners. UK power network operator **National Grid**’s share price has made up the ground it lost during its fundraising early this year. The business had to issue new equity at a discount, but our faith in its investment case has been repaid as the shares have rebounded strongly. Both National Grid and power generator **SSE** give us access to one of the most dynamic growth stories in the UK at the moment: the Accelerated Strategic Transmission Investment framework, which is intended to incentivise and facilitate investment in the infrastructure required to connect up to 50GW of offshore wind generation to the national network by 2030.

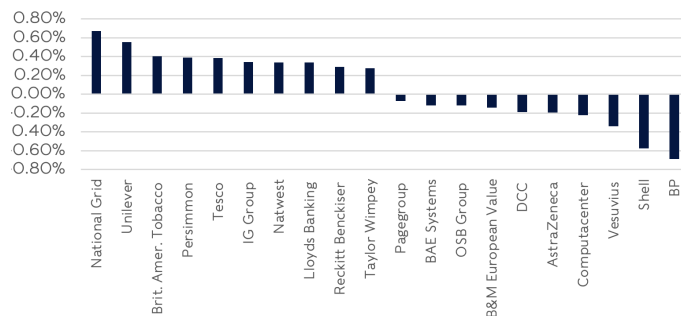
The key here is to recognise that this is a rare initiative that allows the streamlining of the planning process to develop the national power infrastructure. Although utility companies are not renowned for setting investor hearts racing, this does establish a multi-year investment runway that represents real growth, the current holy grail in the UK.

We love it when a plan comes together. Hein Schumacher, CEO at household brands giant **Unilever**, has certainly been good to his word. His plan to get Unilever focussing on doing fewer things, just better, has rewarded shareholders handsomely this year. Importantly, excellent interim results announced at the start of August (just as the US stock market was having a serious wobble) manifest the initial benefits of the operational efficiencies he demanded. This is a long-term restructuring story; however, we do wonder how much is already anticipated in the share price. We have reduced our position, but remain enthusiastic.

British American Tobacco and supermarket retailer **Tesco** (more on the latter in a moment) conclude the cohort of defensive stocks that have driven performance over the last three months.

Otherwise, the outperformers have a distinctly domestic feel. Housebuilders **Persimmon** and **Taylor Wimpey**, high street banks **NatWest** and **Lloyds**, and Tesco have all been major contributors. We compare and contrast the dismal mood promoted by politicians and the media with the broadly positive economic data and – more importantly – better corporate news from so many domestic-facing sectors. Of course, we are all cautious ahead of the Autumn Budget, but the share prices reflect the reality on the ground for these businesses. With interest rates coming down and wage growth steady without being too hot, we can be a little more optimistic about the future.

Q3 CONTRIBUTIONS



Source: StatPro; Rathbones

Performance review

	3 months	6 months	1 year	3 years	5 years
Rathbone Income Fund	2.6%	6.3%	12.1%	21.0%	29.2%
IA UK Equity Income Sector	2.8%	7.6%	15.0%	19.6%	31.4%
FTSE All Share Index	2.3%	6.1%	13.4%	23.9%	32.2%

	30 Sep 23- 30 Sep 24	30 Sep 22- 30 Sep 23	30 Sep 21- 30 Sep 22	30 Sep 20- 30 Sep 21	30 Sep 19- 30 Sep 20
Rathbone Income Fund	12.1%	14.0%	-5.3%	29.4%	-17.5%
IA UK Equity Income Sector	15.0%	13.6%	-8.5%	32.7%	-17.2%
FTSE All Share Index	13.4%	13.8%	-4.0%	27.9%	-16.6%

Source: FE Analytics; data to 30 September, I-class, mid price to mid price.

These figures refer to past performance, which isn't a reliable indicator of future returns.

Contrastingly, it is the more globally cyclical enterprises that have dragged us back. Concerns during the quarter about the slowing of the global economy have weighed heavily on energy stocks, for example. The twin burdens of slowing economic demand and increasing supply of oil, as producers seem to be losing their discipline in the midst of falling prices, have pressed on energy company financials. We are underweight the sector (always likely to be the case considering Shell's huge weighting in the FTSE All-Share Index), but our large absolute positions in oil majors **Shell** and **BP** have had a negative impact. Indeed, the general trend has been for global, economically sensitive names like steel and foundry technology business **Vesuvius**, and energy, technology and healthcare distributor **DCC**, to weaken through the period under review.

Outlook and current positioning

This is only one quarter. Our year-to-date numbers remain disappointing, as they include problematic, idiosyncratic first-quarter hits from **Close Brothers** and **Reckitt Benckiser**, [two issues that we have covered extensively this year](#). The third drag on 2024 performance, our tilt back towards quality defensive growth, looks to be coming good. As we said in our previous letter, it's up for you to decide whether being early is any different from being [wrong](#).

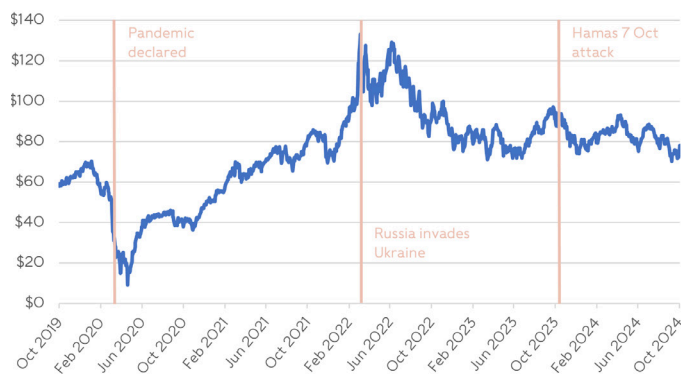
However, we really do want to stress that right now, as we look forward to the final quarter of the year, there is a lot of uncertainty in the world. And irrespective of what has gone before, we must maintain vigilance and a sense of flexibility as we consider the many challenges ahead.

Markets move quickly. In the final week of September massive monetary and fiscal stimulus from the Chinese authorities sent local stock markets on a record-breaking surge: the biggest six-day gain ever for the CSI 300 and probably the biggest rebound in recent history for any major stock market, east or west. The timing and quantum of the stimulus reflected a 'whatever it takes' approach intended to create a solid floor under asset prices – especially the property market that's so fundamental to local prosperity.

The reaction to it in our market was interesting. Mining stocks jumped dramatically, as investors looked desperately for ways to play this news; consumer discretionary businesses, especially purveyors of luxury goods selling into China, also bounced, in a remarkable volte-face. The sector had been weak on concerns that Asian demand was in substantial decline.

It is troubling to note, however, that markets have seemed, initially, to ignore the terrible events in Lebanon. While mining stocks were rising, the reaction of the energy market was odd. Crude prices remained under pressure, as did the shares of energy companies, and it was only in early October that a recovery arrived that reflects the risks to oil markets implied by a conflagration in the Middle East.

OIL PRICE SO FAR UNFAZED BY MIDDLE EAST CONFLICT



Source: FactSet, Rathbones; Brent Crude spot price to 4 October

After the early August slump in US markets, animal spirits were revived by the US Federal Reserve's 50-basis-point cut in rates. But the roadmap to further easing and a yearned for economic soft landing is likely to be more rocky than currently priced in. And of course, the election in November, the impact it may have on policy response, especially towards the Middle East, and the importance of economic recovery to the result, demand the avoidance of complacency.

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.

It would be too comfortable to be writing smugly about the prospects for the UK. As we mentioned earlier in this piece, the new Labour Government has made a good fist at squandering the strong hand it's been dealt. Nevertheless, we can hope that Chancellor Rachel Reeves is pragmatic enough to row back a little on the austerity-laden precis of the UK's finances and refocus on the uplifting growth agenda promised at the election. As we keep repeating, the economic data of the last few years are pretty strong all things considered, and with Bank of England Governor Andrew Bailey expressing a willingness to be a little more aggressive on rate cuts, there's a reason to tend towards a glass half full view of our prospects.

But the challenges are clear. Domestically, there's the Autumn Budget and the potential for political missteps. By the time of our next investment letter, it will be in the rear-view mirror. But the fog obscuring the future is global in nature; again, we cannot begin to deal adequately with the events in the Middle East in this letter, but they are not disregarded by this management team. We can only hope and pray that the situation is resolved peacefully.

Recent trading: During September, we continued to lean into the UK domestic theme by bolstering our holdings in two UK retailers, **Dunelm** and **Sainsburys**. We trimmed another, **B&M European Value Retail**, and also took profit from Unilever, National Grid, and Swiss pharmaceutical giant **Novartis**.

Companies seen in September: **Paragon Banking Group**, **Breedon Group**, **Spirax Group**, **Computacenter**, **WPP**, **Relx**, and Close Brothers.



CARL STICK
Fund Manager



ALAN DOBBIE
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.

Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. 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.

Rathbones Asset Management

30 Gresham Street
London EC2V 7QN
+44 (0)20 7399 0000
Information line:
+44 (0)20 7399 0399
ram@rathbones.com
rathbonesam.com

Rathbones Asset Management Limited is authorised and regulated by the Financial Conduct Authority and a member of The Investment Association. A member of the Rathbones Group Plc. Registered office: 30 Gresham Street, London EC2V 7QN. Registered in England No. 02376568.