

RATHBONE MULTI-ASSET TOTAL RETURN PORTFOLIO

MONTHLY UPDATE NOVEMBER 2024

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.

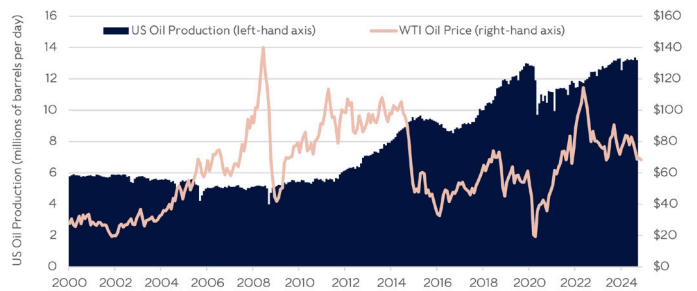
There are some eyebrow-raising choices, like WWE Wrestling co-founder Linda McMahon as Education Secretary and vaccine sceptic Robert F Kennedy Jr as Health Secretary. Keeping an open mind, some good may come from departments getting an infusion of completely different views. But there's also the chance 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 absolutely 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. Hitting these targets could be a tough ask, although 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. 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 juice growth further without refiring inflation is up for debate. Cheaper energy could be at least part of the answer but, once again, the US is actually already not the laggard it's made out to be. Since 2009 when US oil production started rising again, it has added an average of 530,000 barrels a day each year.

HOW SENSITIVE WILL US DRILLING BE TO THE OIL PRICE?



Source: US Energy Information Administration, FactSet; monthly data, January 2000 to November 2024

The oil price has drifted lower in recent months, helped no doubt by this Trump team rhetoric about boosting production. There's also the potential for calm in the Middle East and lower estimates of future demand given economic weakness in China and Europe. Interestingly, the difference between the price of US WTI oil and Brent, the international standard, has started to diverge noticeably. Since 2000 Brent has traded \$3 a barrel higher than WTI on average; at the time of writing it was almost \$6. The higher premium tends to arrive when US oil production is surging. With the price of WTI back under \$70, that's nearing the breakeven level reported by the Dallas Fed's latest survey of US drillers, which ranges from \$60 to \$70.

In short, Bessent's 3-3-3 strategy may be more spin than real economic targets. But the direction of travel seems positive for the US economy: a focus on growth, tighter finances, less bureaucracy, more private enterprise and cheaper energy.

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?

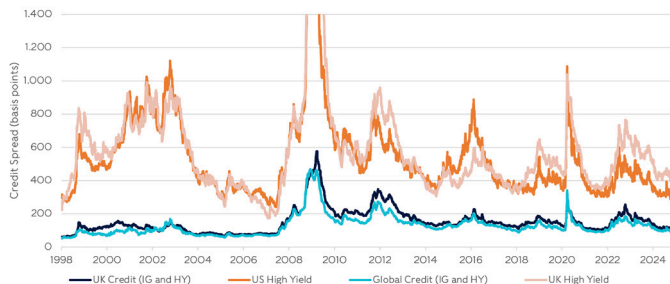
The prospect of deregulation and less restraint on company mergers and takeovers sent share prices of American financial services companies sharply higher. We decided to take profits from investment bank **Morgan Stanley**, which would benefit from a greater pool of deals to make money from. We also took profits from small business e-commerce platform **Shopify** and customer relationship management tool **Salesforce**.

Spreading our risk

We used the cash to continue building a position in UK pharmaceutical giant **AstraZeneca** and infrastructure investment companies on big discounts, such as **HICL** and **International Public Partnerships**. We also added back slightly to our US and UK government bonds on much higher yields following the US election and the UK Budget. These included the **US Treasury 1.875% 2032** and **UK Treasury 1.5% 2053**.

Optimism about the future and little concern that defaults may rise has left global corporate credit spreads at multi-decade lows. You can see from the chart that these spreads, or extra return above government bonds to compensate for the risk of default, are extremely low. Unlike stock prices, which theoretically can go as high as shareholders are willing to pay, bond prices have a ceiling. That's because there comes a point where you will be getting the same yield from a company as you do from a safe-haven nation. We're not at the ceiling yet, but we're very close, so we took the opportunity to sell our sterling denominated investment grade American investment bank **Goldman Sachs 1.875% 2030** and unrated UK builders' merchant **Travis Perkins 3.75% 2026** bonds.

CORPORATE BOND SPREADS ARE EXTREMELY LOW



Source: FactSet; data 1 January 1998 to 29 November; US High Yield peaks at 2,147bps on 15 December 2008, UK HY peaks at 2,585 on 1 April 2009

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.

Finally, with the gold price flying high, we've sold a large amount of our investment in the **iShares Physical Gold ETF**. The yellow stuff hit a record high of \$2,787 a troy ounce in October and has remained elevated. In context, that's 35% higher than where it started the year and 84% higher than the eve of the pandemic. Gold is a black box. It has no yield, so is completely at the whim of supply and demand. This demand spans everything from bolstered middle classes in populous nations like India that culturally like gold, to industrial demand for the best noncorrosive conductor on earth and central banks buying up bullion to show bondholders that they're good for the money. And there are of course also investors like us who buy it as a diversifier, helping to provide protection against sudden economic shocks.

Gold has long been a safe haven for people when financial markets get rocked, so it's useful to have a small allocation in a portfolio. However, when weighed against its current price, we think it's best to take the cash now. Especially as holding it means you go without the going interest rate, which is currently between 4% and 5%. We think it makes sense to hold safe government bonds and take the income, in this case the **New Zealand Government 3% 2029**. And best to lock in the returns now before the US Federal Reserve reduces rates again, which tends to lower yields globally. Markets that price future interest rates give a 75% chance that the Fed will cut by 25 basis points again when it meets on 17-18 December.



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