



RATHBONES

RATHBONE SICAV MULTI-ASSET ENHANCED GROWTH PORTFOLIO

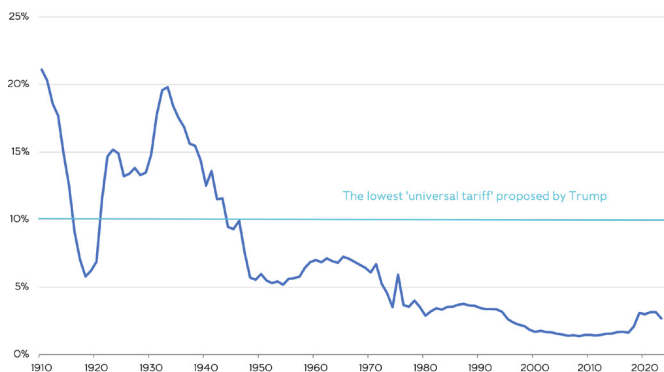
MONTHLY UPDATE OCTOBER 2024

Markets have adjusted quickly since Donald Trump's landslide win in the US presidential election. The US stock market roared ahead as most other major stock markets fell or trod water. Meanwhile, government bonds wobbled.

The moves make sense. Right up to the vote, it seemed 50/50 which way it would go. And while the two candidates' policies were more similar than you would think, there were some important differences in quantum that would noticeably affect investments.

First up, while both the Republican and Democrat platforms have hardened on trade and immigration, Trump's plans go much further. Plans to deport as many undocumented workers as possible and severely curtail all immigration (legal and illegal) will reduce the pool of labour and put upward pressure on wages. Plans to implement a universal tariff of 10%-20% on all imports and a 60%-100% tariff on Chinese goods will reduce consumer choice and increase prices for all sorts of things. To put those tariffs in context, the current average US tariff is 3%, up from an all-time low of 1% 12 years ago. Yet what's bad for customers and businesses exporting to the US will be a boon to US companies selling at home: less competition should boost profits. So, generally, US stocks up and overseas ones down to flat.

AVERAGE US IMPORT TARIFF



Source: St. Louis Fed

If implemented, these trade and immigration policies should send US inflation higher. If is the operative word, however. It's difficult to tell the difference between Trump's rhetoric and policy ahead of time. It's possible that at least some of these proposals will be watered down after other concessions have been secured.

Paying the toll

Then there's tax. Much of Trump's big tax-cuts from his first term end early next year. The Tax Cuts and Jobs Act of 2017 was sprawling and included all sorts of changes to deductions, rates, tax credits and depreciation rules across both the corporate and individual codes. Most of the corporate changes – including the reduction in the corporate tax rate from 35% to 21% – were permanent, while much of those for individuals were temporary, expiring in 2025 with some particularly steep tax hikes pencilled in for when they roll off. Harris had planned to extend the tax changes for individuals earning under \$400,000 (£316,500) and allow taxes to rise for the wealthier. As for businesses, she wanted to hike the tax rate to 28%. Meanwhile, Trump wants to keep it all – and go further. He plans to cut the corporate tax rate to 15% (but only for those who make their products in America); it's unclear whether that would extend to services businesses, which don't make products.

These differences are stark for the share prices of many companies and yet couldn't be factored in when the result was uncertain. Now that Trump is headed for the White House, this scenario can be factored in – with caveats for the uncertainty of whether he can actually implement all of it, of course!

The economy should also perform better under Trump, all else equal. Trump is adamant about cutting regulation, which would benefit businesses. And his large deficits should boost economic activity as well: the nonpartisan Committee for a Responsible Federal Budget (CRFB) estimates his plans would increase the already yawning gap between the nation's spending and tax receipts by \$7.8 trillion over the coming decade. Currently, the annual US federal deficit is \$1.8trn. That increase in spending would flow into the pockets of people and businesses, stimulating spending and investment.

Yet that \$780bn-odd extra government spending each year doesn't come from the magic money tree! Even before the spenny changes that Trump wants to make, the US is splurging at levels that are unprecedented outside an emergency. In 2023, it spent more than it received in taxes to the tune of 6.3% of GDP. The Congressional Budget Office thinks the deficit will deepen this year and won't improve appreciably afterwards unless something substantial is done to change the status quo. To put this in context, the US deficit has only been greater than 6% of GDP three times: during World War II; in the aftermath of the Great Financial Crisis; and during the pandemic.

The cash for that extra spending will need to be borrowed by selling many more US Treasury bonds than had been planned. The CRFB thinktank expects debt to GDP to rise from roughly 100% today to near 145% over the coming decade. There's huge uncertainty on these numbers, of course, but the trend is debt increasing – at a clip.

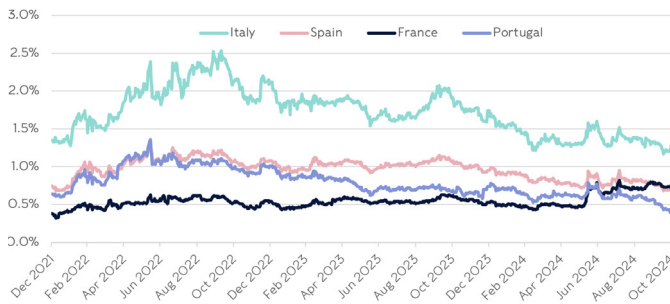
So, in the round, there's a lot of moving parts: some good, some bad, some unknown.

Balancing budgets is hard

The US government isn't the only one living beyond its means. Most major developed countries have struggled to rein in their deficits, especially since the pandemic. For a long while, investors have remained unconcerned. That might be changing.

France's deficit hit 5.5% of GDP last year, according to the IMF, and is forecast to widen to 6% this year. Combined with a disintegrating government, bondholders took fright. For years the yield of France's 10-year bonds has traded around 0.5% above that of its German counterpart. Known as the 'spread', this extra return accounts for the greater risk of holding French debt as opposed to German. When France became mired in a political crisis in June this year, this spread spiked to 0.75%. It now has roughly the same yield as Spain, which has long been considered riskier as a 'peripheral' part of the Eurozone.

FRANCE HITS TROUBLE: 10-YEAR BONDS' EXTRA YIELD ABOVE GERMAN BENCHMARK



Source: FactSet, Rathbones, data to 4 November, government bond yield minus German 10-year yield

As for the UK, while its situation is nowhere near as egregious, investors have become twitchy here as well. The UK 10-year government bond yield is back at 4.5%, where it was when the Bank of England was wrapping up its rate-hiking cycle in summer 2023. You'd have to go back to before the Global Financial Crisis to see that level breached again. The catalyst was the Labour government's first Budget which raised taxes by an average of £27.8 billion a year over the coming five, mostly from businesses and the wealthy. It also increased borrowing by an average £32bn a year. Most of the extra spending will flow to the NHS and education. Two-thirds is going to day-to-day expenditure with the remainder boosting public investment. To us, it's not a pro-growth Budget. It raises taxes and regulation for businesses, the drivers of economic vitality. It's also inflationary. And we're sceptical that the taxes expected by the government will materialise. If that happens, the government will be back for another round of hikes in taxes and/or debt. This might be why yields have popped sharply higher since the Budget.

Cashing out of high yield

Back in the aftermath of the pandemic when interest rates and fears of a retailing Armageddon were sky high, we bought the deeply discounted bonds of retailers **Iceland Bondco 4.375% 2028** and **Ocado Group 3.875% 2026**. Last month we sold them for within 10% of their face value (the amount that's returned at maturity), making a substantial profit. Global high yield spreads (the extra return above US Treasuries to compensate for the risk of loss) are now lower than at any time since 2007. We felt it was a prudent time to take profits and reinvest elsewhere.

As for equities, they had a reasonable earnings season, particularly in the US, where economic growth shows little sign of faltering. Average S&P 500 company third-quarter profits were 5.4% higher than a year earlier, with a similar increase in sales over that time. Our UK and European companies were relatively solid as well. Some were conservative in their guidance for future earnings, but generally they fared well.

Any disappointments are still being punished severely though. But we tend to find these moves disproportionate and a reasonable chance to add to our holdings. An example of this was Dutch manufacturer of high-end computer chip printers **ASML**, which reported weakness in upcoming orders. We believe this is a short-term blip. Everything points to the greater use of computer chips in virtually everything and ASML makes the very best fabrication machines. We added to our holding.

We added several new stocks over the month. The first was UK house listing business **Rightmove**. We had some cash to deploy after making some sales and felt that it was a good time to bring the company in off the bench. Gradually falling UK interest rates, steadily rising rents and the government wanting to unclog housebuilding should deliver more opportunities for the company that commands about 90% of the nation's listings. Rightmove makes money by charging a fee to list a property for sale or rent, as well as through subscriptions to digital tools that it sells to agents. That means an increase in the housing stock and turnover in properties (whether for sale or rent) should be good for the company's bottom line. As an example, new home developments accounted for about a fifth of sales and grew by 26% between 2022 and 2023. That at a time when the number of homes being completed *fell*.

Another addition to the portfolio was UK pharmaceutical **AstraZeneca**. The share price was beaten down by fears that Chinese economic growth will continue to slow, crimping Astra's business there. 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. Astra is a truly global operator, with 28 manufacturing sites in 16 countries, so it should be sheltered from Trump's tariffs. We think the drop in the business's value is overdone.

We also bought **American Tower**. This company owns mobile network transmitters and leases them to telcos. The business is a little like a bond: it has relatively fixed returns (that are growing steadily) stretching far into the future, so lower interest rates make those returns more attractive. It also has quite a bit of debt to finance big upfront investments in land and equipment, so a reduction in financing costs can make a significant difference to its bottom line. Meanwhile, an increase in prevailing bond yields have the opposite effect: increasing financing costs and pushing down the value of future earnings, sending the share price lower. As yields rose in October, we took the chance to buy into the company. We expect yields to fall steadily from here, meanwhile the company offers some defensive profits that should help us if the US economy begins to fade.

We got into private equity as well, although we decided it was carrier to buy the PE operator itself, rather than invest in one of their funds. Private equity funds are expensive! So where the opportunity exists to take a cut of those fees, along with investing alongside the fundholders, we thought it made sense. The company we chose was **KKR & Co**, which has a strong pedigree and is one of the largest listed PE firms. Private equity is another area that should benefit from falling interest rates: it makes it easier for high-cashflow businesses to pull off lucrative leveraged buyouts and it increases the value of exits from successful start-ups.

We also took profits from Chinese internet giant **Tencent** and US medical equipment company **Boston Scientific**.



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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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