RATHBONES

RATHBONE UK OPPORTUNITIES FUND

MONTHLY UPDATE JANUARY 2025

January always feels like a long month, but this one has really crammed in a lot. Donald Trump moved into the White House, UK government bonds sold off savagely, the Labour Government pivoted to go for growth, Davos, the release of China's new AI-powered chatbot DeepSeek and much tariff talk.

Indeed, so much has happened since the sell-off in gilts in the second week of the year that it feels like a distant memory. Gilt yields have already retraced all the spike and subsequent inflation figures have behaved themselves. One Bank of England policymaker has suggested that the central bank may need to cut interest rates materially more than markets have currently priced in. And Chancellor Rachel Reeves made some sensible comments to calm gilt market jitters. She'll now be breathing a sigh of relief — UK mid-cap stocks too, thanks to their interest rate sensitivity (their prices tend to rise when prevailing rates fall and drop back when rates rise).

Your team has been busy seeing companies in the City, while also gaining some even more valuable insights by visiting companies out at their sites. We include some highlights below.

Slide to the right…

The world is moving decisively more right-wing. New President Trump's views on taxes, regulation, climate and diversity and inclusion (DEI) are increasingly being adopted and normalised, even among centrists. We note a totally different response to Trump 2.0 than to the first incarnation. Everyone from tech titans to the British Prime Minister seems to be cosying up to the new administration as they accept that, for the next four years at least, making money and the MAGA mindset will take primacy over all other considerations in the US. In the UK, the Labour government has also signalled that growth is more important than, for example, some environmental considerations. Planning laws are being relaxed so that projects such as Heathrow's third runway can finally go ahead. A committed focus on growth would be hugely welcomed by capital markets. Perhaps there's some excitement brewing here and perhaps returns are broadening out from just US tech (DeepSeek challenges the idea that Nvidia and friends are the only game in town), but the FTSE All-Share outperformed the S&P 500 and the Nasdaq this month. Indeed, inflows into US equities seem to have slowed after November (was that as good as it gets?), while those into European equities picked up.

Performance and trading

Mid-caps underperformed their large-cap counterparts by some margin this month. That was largely due to the gilt yield spike discussed above, as well as the strengthening in the dollar (which benefits the FTSE 100's international earners) driven by Trump's 'America first' policies. Dynamics like these hold back performance in this mid cap-focused fund.

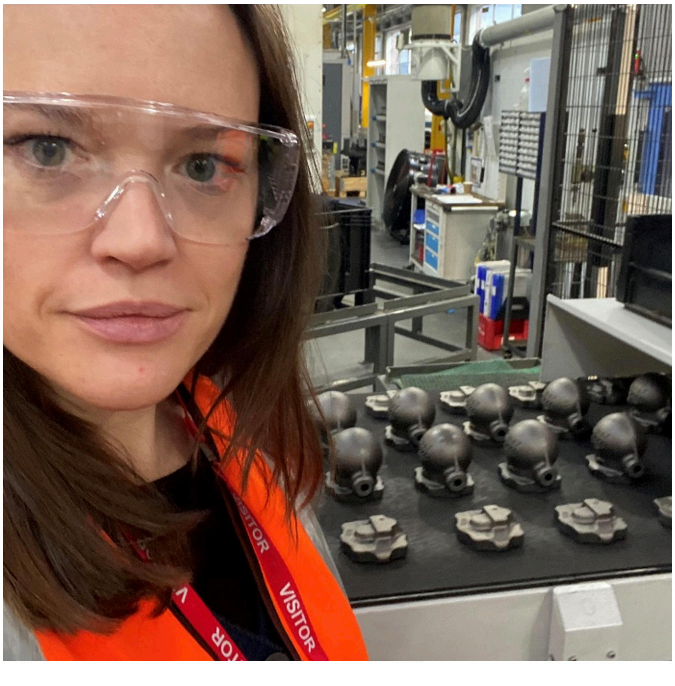
Trading updates from our companies have largely been very pleasing, with the exception of UK bakery chain **Greggs** which revealed that fewer customers came into its high street stores in the final quarter of 2024 than expected. The implication was that consumer confidence had taken a hit from the Labour Government's first Budget. Greggs also faces a big hike in its costs as from the increase in Employer National Insurance Contributions from April. We've trimmed our holding.

We've exited our holding in **Ashtead Technology**, having made a good return on the shares. This oil and gas/renewables equipment rental business has been a market darling since its IPO in 2021, with real momentum in profits thanks to punchy price increases. The business has scope to keep upping prices when the market is tight and demand strong, but its customers will usually rent its kit only when they're contending with extra demand themselves. That makes its pricing highly sensitive to any changes in customer demand dynamics. If these weaken, the profit unwind can be very aggressive so we're happy sitting on the sidelines for now.

Our latest road trips

Getting out to see our companies is always critical. We get to kick the tyres on site and to talk to deeper layers of management. Our latest trip was to the West Country, which is home to many of the UK's engineering businesses. We took the opportunity to drop in on thermal energy engineer Spirax at its Cheltenham base (we don't currently own its shares), while also visiting cutting-edge scientific equipment and technology supplier **Oxford Instruments**, and meeting specialist engineer **Rotork** in Bath.

ONSITE AT SPIRAX…



… AND AT OXFORD INSTRUMENTS' NEW PLASMA FACTORY*

*Full disclosure – not all outfits are my own!

Touring the Rotork factory that produces its market-leading actuators (devices that make something move) revealed how much progress the business has made in reducing lead times and improving efficiency since we were last there. For example, it's running a project that reduces its production footprint by 40%, meaning with minimal investment Rotork should almost double capacity from its existing site. The incremental returns from this would be enormous. It's one thing to hear about the potential for massive productivity gains, it's quite another to see real-life evidence of these gains.

Companies seen this month: **Intermediate Capital Group**, Cerillion, **Hill & Smith**, **Rotork**, **Future**, Trainline, AG Barr, XPS Pensions, **Cranswick**, Renew, Genuit, Spire, Kier, Gym Group.

Site visits to: **Oxford Instruments**, Spirax, Renishaw, **Rotork**.

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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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