Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone SICAV Multi-Asset Total Return Portfolio

Monthly update October 2020

By mid-November, the markets had priced in a Biden presidency and contested Congress. And that meant a big surge in stock and corporate bond markets.

The Associated Press declared Joe Biden the winner of a very close race. So close that it took the largest US voter turnout since the '60s and days of laboured counting. Yet it is not close enough to warrant Donald Trump's dogged refusal to concede the election: the margin of victory in most swing states was in the thousands; recounts tend to move results by less than 500 votes. The only way Mr Trump is getting a second term is if the Republican Party goes along with some extremely mendacious technical wrangling to essentially disregard the result in swing states and cast electoral college votes for their man instead. That's a can of worms we think the Republicans are unlikely to rip into.

As for the contested Congress, the Democrats are set to retain the House of Representatives with a greatly reduced majority while the Senate is balanced on the knife-edge of Georgia. Both of the state's Senators will be decided by a run-off in early January; the Democrats need two wins to wrest control from the Republicans. More pressing than that, there is another debt ceiling deadline looming in the coming weeks. In early December, the federal government will essentially run out of money unless Congress agrees on a Budget or on another delay bill. We have been here several times over the past few years, and more than once the US government has had to shut down because Congress and the President have been unable to agree to come to terms. If this happens once again – during the pandemic – the consequences could be more severe.

We business-minded people have, over the past few years, lamented the greater intrusion of politics into our world, and all the uncertainties, extra costs and distractions it has brought with it. Yet, you can't help feeling that politicians could well be upset by the intrusion of the business-mindset into their world. Politics has long been governed by conventions and gentlemen's agreements. Take the presidency: for career politicians, what Mr Trump is doing by refusing to concede the election is unthinkable and could irreparably damage American politics. Yet, Mr Trump is a businessman. And in business, making use of every legal avenue to achieve victory in a dispute is par for the course. In business, relying on a handshake and good faith is naïve at best and a breach of fiduciary duties at worst. This decade has perhaps shown the challenges that come with mixing politics and business.

So, with a centrist career politician back in the Oval Office from 20 January, for good or ill, it seems that we're heading into a couple of years of smoother governance. We'd be happy with that. We want to see less politics. We want to see four years' steady steering of the American juggernaut. We want to focus on companies themselves rather than having to continually worry about whether they will run foul of the White House or Capitol Hill. If Mr Biden steps down in four years with us all scratching our heads, thinking in vain for the big events of his administration, we'll be pleased.

During the campaign, Mr Trump, AKA the Apprentice President, dubbed Mr Biden "Sleepy Joe". We hope he lives up to the name – we could all do with some rest!

During October we bought a **JPMorgan Emerging Markets FX Momentum** structured product. This contract gives us exposure to a 'momentum' index of emerging market currencies. It uses price trend data to try to anticipate whether the basket of currencies will rise or fall against the dollar. This should enable us to generate positive returns in benign markets, and historically it has provided some protection in times of crisis as emerging market currencies typically sell off against the dollar, and the index model has picked up on this trend and moved to a long dollar position.

We bought Californian medical devices company **Dexcom**. This business makes high-end, minute-by-minute glucose monitoring systems for people with diabetes. The number of people living with this disease continues to grow, and this system is an unobtrusive way of dealing with it. Dexcom is growing well and we believe its technology is far superior to its rivals.

Another addition was **Jack Henry**, which helps American finance companies with technology and payment systems. Focusing exclusively on the US market, it has burrowed out a niche supplying high-quality-tech to smaller, regional banks, rather than the multi-national first tier banks. Its strategy is to help these companies grow by improving the service they offer customers through whizzier apps and service. Many of these smaller banks are still in the process of digitising, which means there's a lot to keep Jack Henry busy.

We bought German warehouse and logistics design company **Kion**. An automation expert, it supplies robotic arms, mobile robots and state-of-the art conveyors to businesses in a range of industries. As the growth in ecommerce accelerates in the wake of the pandemic, many warehouses are accelerating automation plans to increase their efficiency and get more orders out the door. A particularly strong area of expansion is online grocery. Kion helps supermarkets develop click and collect services for this difficult segment that have grocery orders ready for pick up in as little as 15 minutes.

We also bought a small amount of **US Treasury 1.5% 2030** bonds toward the end of the month after government bond yields had risen due to an anticipation of the 'blue wave' and sterling had strengthened against the dollar. If yields continue to rise, we will continue to add here.

Finally, we took profits in Danish probiotics manufacturer **Christian Hansen** and electric vehicle drive train and electrification parts supplier **Aptiv**.

Following the election, pharma giant Pfizer's big reveal of truly exciting results from its final trials – a 90% efficacy rate is extraordinary – sparked an almighty shift in markets. In stock markets around the world, long-bombed-out 'value' companies and 'cyclicals' – broadly those businesses that rely more on improving economic growth to boost their profits – soared as hope returned that they may soon get back to making a semblance of their normal earnings. To buy up these companies, many investors aggressively sold all those businesses that benefited from the pandemic – lots of digital enablers, online retailers and internet media companies.

We expected this 'style rotation' to happen at some point, once a glimmer of light was spotted at the end of the pandemic's tunnel. This was why we have been buying companies that, while still to our mind 'quality' businesses, are more sensitive to an economic recovery. These businesses, which we have been adding over past months, haven't rocketed as high as some of the truly bedrock 'value' have done. Yet most have still gained considerably, ensuring that we have benefited from this rotation.

Investors' full-throated embrace of 'value' may turn out to be a little overexuberant; although it may yet have further to run. Vaccines could soon start falling among us like snow – literally for Pfizer's which requires deepfreeze transport and storage. There are about 10 vaccines in final stages so more results could appear in the coming weeks and months. More success stories could lend more credibility to the idea that inoculation against this virus will soon be widespread and the world will be able to get back to normal.

We hope the vaccines can help put the pandemic behind us, yet there are many distributional challenges that should be kept in mind. Getting so many hundreds of millions of doses dispatched to all the regions of the world and then jabbed in people's arms will take time and a lot of money. Also, it's important to keep perspective and remember that growth wasn't so tickety-boo before we came to know COVID-19. The world is getting older, more indebted and more digital. Those trends will only accelerate because of the pandemic: hard-up people will put off having children; governments, companies and households are borrowing more to get through the dislocation; and everyone is embracing online and remote options.

All these trends are the reason why we believe it's best to be biased toward 'growth' companies – those businesses whose profits are growing because of more than simply a recovery in the economy. They tend to be driven by the themes we outlined above. When there's not much growth around, those businesses that can expand should be in high demand.

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