RATHBONES

RATHBONE GREENBANK STRATEGIC GROWTH PORTFOLIO

MONTHLY UPDATE AUGUST 2026

Markets spent much of August wrestling with a familiar problem: plenty of interesting stories, but they're often contradictory and offer very little certainty about how they might end. Every month seems to raise the same question: surely the AI winners have run far enough? Every month the answer appears to be "not yet".

Global stocks eked out a slight gain over the month, led by 'growth' over 'value'. High-end chip designer **Nvidia** once again stole the show, with total sales of $96.2 billion in one quarter, double a year earlier, and at a 75% gross profit margin no less. Market volatility throughout August was striking. Shares surged, slumped, then surged again as investors questioned everything from data-centre economics to the pace of AI adoption. Yet the underlying theme remains intact, so we used the transitory weakness to add to our holding in internet search and AI developer **Alphabet**. We also continued to build a position in electricity infrastructure contractor **Quanta Services**, which is gathering lots of business from massive investment in America's ageing grid.

AI build-out drives stocks yet higher, despite a volatile month

Nvidia's latest results reinforced the extraordinary demand for AI infrastructure. The company remains the clearest beneficiary of one of the largest investment cycles in modern corporate history. More importantly, the spending is not confined to Nvidia itself. Chip manufacturers, networking providers, semiconductor equipment suppliers, data-centre operators and power infrastructure businesses continue to see enormous demand. These picks-and-shovels providers to the AI gold rush are where we have much of our AI exposure (alongside Nvidia, internet search titan **Alphabet** and office tools business **Microsoft** as well).

There's incredible demand for chip makers right now, where bottlenecks are significant and very difficult to fix in the short term. With limited capacity coming on line, these shortages are likely to last until the end of the decade, helping to turbocharge earnings for the sector. To balance our limited exposure, we continued to add on weakness to our holdings of DRAM manufacturers **Micron** and **SK Hynix**, CPU developer **AMD**, chip-making equipment manufacturer **Applied Materials**, as their prices fell back.

We also added transatlantic chip designer and software licenser **ARM Holdings** to our portfolio. This company has a great business designing ever-more efficient chips for both mobiles, other devices and AI data centres. It then licences these designs to chip makers, allowing for a very capital-light business with hefty gross profit margins of more than 90%. This allows it to plough roughly 55% of its total sales into research and development, a pivotal moat for staying ahead of its competitors.

Semiconductor manufacturing is an infamously cyclical industry. In the past it tended to go through bouts of constrained capacity followed by overeager expansion. This remains a risk, however; we think today's market dynamics create strong tailwinds that should continue for some time yet. The biggest technology companies are still spending extraordinary amounts building AI capability. Until that changes, suppliers are likely to remain in a strong position. This doesn't mean valuations don't matter. They always do. But history shows that transformative technologies often look expensive throughout much of their adoption cycle.

Volatility can be your friend

To fund these purchases, we sold **Aptiv**, which supplies electric cars with the software programs, hardware and sensors needed for their digital safety systems, and electrified tools. While the auto sector has been challenged for many years, Aptiv has been able to grow regardless because it sells tools that increase safety and electrical content within cars - a growth area. However, now even this part of the market is facing increasing competition from Chinese rivals. We question whether its revenue can sustainably outgrow vehicle production, and so have sold the stock.

We reduced our position in Danish enzymes manufacturer **Novonesis** as well. After a solid set of results, its valuation shot up and looked a bit expensive. Similarly, we also trimmed US insulation and roofing business **Owens Corning** as it strengthened, bucking a US housing market that has struggled for a while now.

After a tough period in the shadow of AI threats, e-commerce platform developer **Shopify** delivered strong profits, helping its share price recover somewhat from recent falls. We had added as it fell and are now taking profits on the way back up to manage our risk. We also trimmed our holdings in payment giants **Visa** and **Mastercard**.

We continued to build our holding in Dutch lender **ING Groep**, which is performing well. It's one of the cheaper globally operating banks, yet we think that unfairly represents the quality of its business. As a bank, it's generally pretty closely tied to underlying economic growth and interest rate dynamics. While it has a presence all around the world, about 85% of its business is based in Europe. The Continent isn't renowned for being an economic powerhouse, but its GDP expansion has been generally ok overall, and some individual nations are growing very well indeed. And with rates higher than they've been in years, we think ING should be able to keep earning a decent spread between what it pays to finance itself and how much it lends to customers. It also offers us diversification from the overwhelming American and AI theme that is currently driving all before.

We completely sold logistics tech business **Jungheinrich** as it faces increasing competition and higher materials costs. This relatively 'cyclical' company faces a tough future, which could be compounded by any coming economic slowdown.

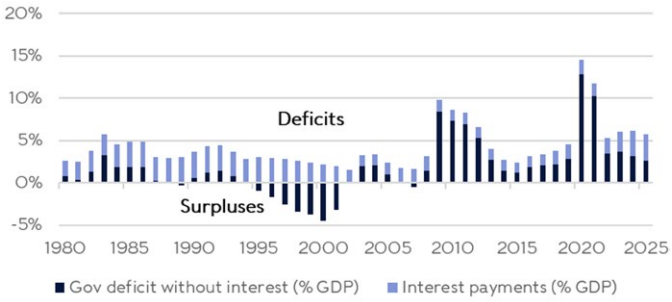
Bond markets are asking awkward questions

While optimism still reigns in stocks, concerns are building in the market for government bonds, where prices have been falling and yields have been rising.

US Treasury Secretary Scott Bessent launched several interventions aimed at improving liquidity and supporting the long end of the market. The results have so far been mixed. Some investors have asked why the Treasury is trying to hold back the tide in this way (its firepower is a drop in the ocean that is the US government bond market (total debt has just broken through $40 trillion)).

Investors are increasingly nervous about the scale of government borrowing required to finance persistent fiscal deficits. Added to that, higher oil and gas prices, courtesy of the ongoing low-intensity war in the Persian Gulf, are exacerbating already-higher-than-target inflation. Capacity to repay and inflation are two of the biggest concerns for any bondholder. This is not simply a US phenomenon. Across developed markets, investors are beginning to ask how comfortable they are funding ever-larger deficits at current yields. Yet, as big as US deficits relative to GDP are, the 'primary deficit' – without the borrowing costs – has actually been falling in recent years. So the level of yields really is having a big impact on just how big the deficit is.

RISING BORROWING COSTS ARE HURTING US MORE THAN SPENDING



Source: FRED; 1980 to 2025

We think the spat with Iran and the knock-on effect on the energy market is a big catalyst for concerns about governments' debt affordability and therefore yields (especially in the US). After yet another escalation after month end, US government bond yields rose rapidly, with the benchmark 10-year hitting 5% for the first time since 2007. That dragged all other government bond yields higher as well, including the UK, whose 10-year yield was roughly 5.3% at the time of writing.

If progress in the Middle East were to push oil back towards $60 per barrel, it would likely remove a significant source of inflationary angst. Lower fuel, transport and industrial input costs would improve the outlook for both consumers and central banks. In that scenario, bond yields could ease meaningfully from current levels as investors find something more pressing to focus on.

We think that bond yields are attractive at these levels, but we're being careful with the 'duration' (our portfolio value's sensitivity to changes in interest rates) that we're taking on.

We bought the **UK Government 4% 2031** in late August as it had an attractive yield and because of its higher starting income and roughly five-year life, yields need to rise a lot for us to lose significant amounts of capital on the investment.

What needs to happen next?

The market remains caught between two competing stories at the moment, represented by the equity market on one side and the bond market on the other.

The first is one of extraordinary technological progress. AI investment continues at a remarkable pace and the companies supplying that build-out are delivering exceptional growth. The second is less comfortable. Governments continue to spend heavily. Debt levels remain high. US inflation hasn't been below the 2% target since 2021. Bond investors are increasingly demanding compensation for financing it all.

At the annual Jackson Hole central bankers conference, new US Federal Reserve (Fed) Chair Kevin Warsh showed himself to be in favour of rate hikes if the status quo prevails. He thought the labour market was tight, and that slowing wage growth wasn't a good enough predictor of future inflation for him to hang his hat on. An unambiguously strong August jobs number – including stiff upward revisions to previous months – released soon after Warsh's speech, underlined this. After month-end, the Fed hiked its overnight interest rate to the 3.75-4.00% band, with Warsh saying, "the plain fact is that inflation is too high and has been for too long."

For now, markets continue to reward the firms building the infrastructure of the future while keeping a nervous eye on the cost of financing the present. That tension is likely to remain the defining feature of markets as we head into the autumn.

DAVID COOMBS
Head of Multi-Asset Investments

WILL MCINTOSH-WHYTE
Fund Manager

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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

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