RATHBONES

RATHBONE GREENBANK STRATEGIC GROWTH PORTFOLIO

MONTHLY UPDATE OCTOBER 2025

Stock markets kept marching higher in October, capped off by a productive trade policy meeting between Chinese President Xi Jinping and US President Donald Trump. The tit-for-tat dispute that has rumbled on since April de-escalated somewhat, cheering stock investors no end.

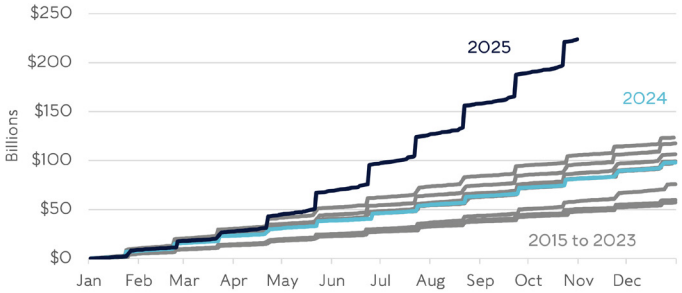
This was great news – it's in everyone's interests for the world's two economic poles to come to terms (which is why we expected it to happen). Yet it should be kept in perspective. There is little chance of the trading relationship returning to any semblance of the pre-Trump 2.0 era. The US has agreed to reduce its tariff on Chinese imports from 57% to 47% in return for China cracking down on precursor chemicals for making the highly addictive painkiller fentanyl. China has also relaxed its embargo on rare-earth metal exports to America that has squeezed US tech businesses this year and agreed to start buying American soybeans again.

All of this will be reviewed in a year. And while it's been touted as a deal it's really just an understanding – a handshake agreement. Like all the other trade 'deals' agreed by the US this year, it's not binding in law. They can be upended at any point, so this will continue to smoulder on as a potential source of market volatility. Still, we think pragmaticism and self-interest will keep the de-escalation train on the track.

One wildcard remains on the table though: are the tariffs legal under US law? There's a strong argument, embedded in the Constitution, that tariffs are the remit of Congress alone, being as they are taxes. The Supreme Court is currently hearing arguments on the matter and is expected to give its ruling by January (although it could be as late as June). According to prediction markets and pundits, up until recently it looked like a 50/50 call whether the court would rule the tariffs illegal. After the first day of arguments that soared to more than 70%.

If the Supreme Court does knock back Trump's tariffs, it would significantly reduce the level and breadth of tariffs that Trump can impose. There are other avenues for Trump to impose tariffs, but they are not as arbitrary, and the main one has a ceiling of 15% (well below the level he has set for many nations) and a limit of 150 days (it's been more than 210 days since 'Liberation Day' when the tariffs were imposed).

TARIFFS PLUG THE US FISCAL GAP BUT COURT RULING LOOMS



Source: Penn Wharton Budget Model based on US Treasury data; cumulative customs duties and related tax receipts for years 2015 to 2025, adjusted for inflation; 2025 to 31 October

Tariffs have been an extremely lucrative money spinner for a government that has really struggled to raise revenue. This extra cash has kept the US government's fiscal deficit (the difference between the taxes it receives and the money it pays out) from completely blowing out. If that goes away, it would undermine one of the supports keeping US government bond prices propped up (and therefore yields relatively low).

Meanwhile, if the government has been found to have illegally taxed Americans for the better part of a year... will the government have to pay it back? You would think that refunding the importers should be easy enough (they presumably had to pay the tariffs through a central system), but in terms of legal process and administration it will no doubt be a nightmare. And how would the US bond market react to a cheque-drop worth $100 billion or so? Last year's average monthly net issuance of US government bonds was $155bn. And the reduced income would push ongoing US borrowing needs higher still. It would also reignite tariff uncertainty just at a point when it was starting to settle down.

So, how are bond markets?

Pretty good! US government 10-year bond yields sank over the month, falling beneath 4% for the first time since Trump's Liberation Day briefly sent investors scurrying to safe-haven bonds (which pushed their price higher).

The US 10-year bond yield jumped higher as the month closed out, but at 4.10% it's still almost a half-percentage-point lower than where it was in the summer. So bond investors don't seem concerned about a fiscal shock coming down the pipe. The main influence taking up attention is the path of US Federal Reserve interest rates: the expectation is that a slowing economy and receding inflation will allow several cuts to the benchmark interest rate in coming months. While short-term central bank rate cuts don't have a direct effect on longer-term bond yields, it should still push the yield down, all else equal.

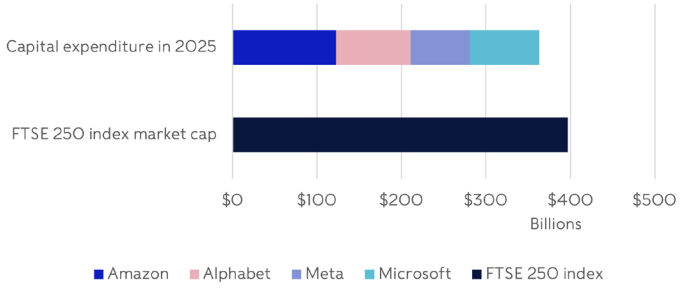
Concerns about the state of the US finances – with or without a court-enforced tariff refund – had pushed us to diversify our bond holdings earlier this year. We reduced our US government bonds as those yields fell and bought government debt in Europe and the Pacific instead. That diversification continued in October, with us selling some of our **Portuguese Government 1.65% 2032** after its price gained and buying **Norwegian Government 3% 2033**. We also added to our Australian state level bonds, the **New South Wales Treasury 2.5% 2032**. These are high-quality bonds at an attractive yield. We have 'hedged' our currency as well, which means we have locked in the sterling exchange rate ahead of time. That means we won't lose money if the Australian dollar falls, but we won't enjoy any gains from an increase in the Aussie dollar either.

Falling US government bond yields, a continued drop in the oil price and the S&P 500 on track for a fourth-straight quarter of double-digit year-on-year profit increases helped bump up valuations. The S&P 500 is now worth 23x forecast profits for the next year, the highest in five years.

Much of this rise in the average value of companies is the astonishing success of the big tech companies at the top of the US stock market that are forging ahead with AI tools and infrastructure. Most of them are expanding profits at a hefty clip and are spending big on their plans to grow even faster.

This abundance of cashflow has encouraged them to invest eye-popping amounts of money into new data centres and research and development efforts to improve their AI tools. The four US AI investors-in-chief, Amazon, Alphabet, Meta and Microsoft (we own only Microsoft), are set to invest more than $350 billion combined this year. That would be more than double what they spent in 2023. By 2030, they expect to invest $470bn – and that's without Microsoft's share, as the company doesn't offer capex guidance that far out. If you assume its 2028 spending to be roughly flat, that takes the total to $560bn.

BIG TECH'S ANNUAL AI SPEND RIVALS THE VALUE OF ALL UK MID-CAPS



Source: FactSet; data is calendar year as of 7 November

There is no doubt of the huge opportunity for AI, given how early we are in adoption and the potential for even more powerful tools in the future. Yet some of this money will end up being wasted. It's just the nature of building out bleeding edge technology. The only question is how much.

There's also a swathe of incestuous deals being made throughout the AI ecosystem, with companies funding or investing in customers who will use the cash to buy more of what they produce. The central party to many of them is ChatGPT creator OpenAI. In 2025 alone the lossmaking operation has committed to spending almost $1.5 trillion over the coming decade with its key suppliers for power, computer chips and cloud computing services. That's three times its market value, and 150 times its current revenue.

The enduring sagas of our age are of digital companies, started in garages, that benefited from adding users at virtually zero marginal cost. With little need to invest more money in the business or hire staff in anywhere near a linear relationship with the cash that flowed in like a river, these businesses became fantastically profitable over the past 20-odd years. In this new generation of AI computing, the addition of new users requires huge outlays before the cash comes in the door. This will require different calculations from investors, but it's not altogether clear that they have shrugged off the habit of valuing all tech as 'capital-light' businesses (and therefore stopped assuming they are worthy of much higher values). Although, the big drop in the price of social media conglomerate Meta after it announced larger than expected capex without a corresponding boost to earnings is a move in that direction.

Taking profits and looking for new, better-valued opportunities

The Biden-era Inflation Reduction and Infrastructure Investment and Jobs acts provided significant support for certain sectors, especially those involved in the water supply. The laws aim to renovate and replace great swathes of American infrastructure that's long overdue some love. Unfortunately, much of these subsidies will now roll off in 2026, which bode poorly for US water meter maker **Badger Meter**, so we sold.

We switched Badger Meter for **Veralto**, which does water testing and treatment, along with tracing and verification for ingredients in food and medicine. So more diversified, and less exposed to the water industry's capital expenditure cycle. Veralto was spun out of American life sciences conglomerate Danaher a couple of years ago. It should generate steady organic sales growth while continuing to acquire other businesses in what is still quite a fragmented market. The valuation is undemanding for a business that is still not that well known as a stand-alone entity.

We took profits from a few other stocks, including computer chip factory **Taiwan Semiconductor Manufacturing Company** and Canadian e-commerce platform **Shopify**.

We used that cash to add to some of our companies that slipped over the month, including Swiss private equity investor **Partners Group**, telco mast owner **American Tower** and US rubbish collector and recycler **Waste Management**.

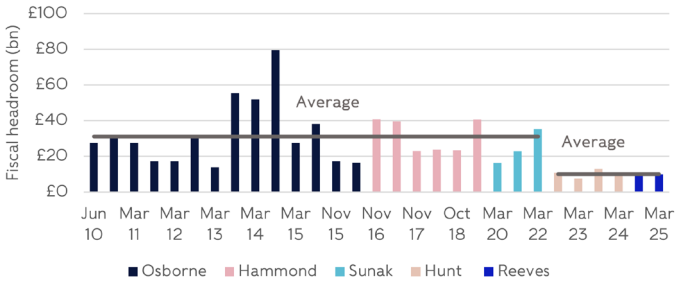
Finally, we bought a position in **APi Group**, which focuses on fire safety services and specialist infrastructure project planning and monitoring. APi does much of the fire safety inspections in a building, which are often mandated and seen as mission-critical spending each year. The company has grown through steady organic growth, but has also added a number of bolt-on deals to supplement this. It operates globally, with the core of the business in the US, where the market tends to be full of many smaller firms that operate locally, rather than big rivals. This means there's an opportunity for a large operator to take advantage of economies of scale and nationwide experience to offer better service at lower cost. APi's Management has set out a clear roadmap for thenext five years and we think the valuation is very attractive for a hidden gem compounder.

UK Budget: Enter stage right, rattling a can

As the UK Budget looms, the government is signposting that it will be breaking its manifesto pledge to avoid raising the major levies of Income Tax, National Insurance, VAT or Corporation Tax. Chancellor Rachel Reeves is having to choose between upsetting the bond market or upsetting the voters; it appears that she has chosen to side with the bond market. While tax hikes are needed, it seems equally important that the Budget will also deal with public spending, which is rising inexorably. Without that, the government will simply run from one Budget to the next taxing ever more to try to fill the gap.

To put the markets at ease it's likely to take an increase in the 'headroom' between forecast revenue and spending commitments. At £10bn for the past few years, it's just too slim. With debts where they are, it doesn't take much of a move in gilt yields for greater interest payments to gobble up that cushion and then some. That said, spare change is obviously hard to come by, so we don't expect the headroom to return to the roughly £30bn or so that it used to be in the halcyon days of yesteryear. Hopefully they can get closer to £20bn than to £15bn though. We will have to see.

REEVES MUST BOOST FISCAL HEADROOM AT NEXT BUDGET



Source: : Office for Budget Responsibility; for comparability, past headrooms calculated as % of GDP as forecast at the time and then multiplied by OBR's latest GDP estimate for 2029/30

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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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This product does not have a UK sustainable investment label because it does not have a specific sustainability objective; however, this product does apply environmental and social criteria as set out in the product's investment policy, including the non-financial objective, which can be found in the prospectus.

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