RATHBONES

RATHBONE MULTI-ASSET TOTAL RETURN PORTFOLIO

MONTHLY UPDATE MAY 2025

The details change, but the song remains the same. It's still unclear whether US tariffs will remain in force for a sustained length of time and at what rates. It's still unclear what Budget will be cooked up in Capitol Hill and how it will affect the already yawning chasm between what the government receives in taxes and how much it spends. And it's still unclear how this will impact the path of US interest rates, unemployment and the economy itself.

The UK was the first major economy off the rank to secure a (preliminary) trade deal with the US. While it was mostly light on details, it was a helpful move to keep the UK out of the Sauron's Eye of Trump's trade threats and bolster trade. Europe was less fortunate on that front. In May US President Donald Trump threatened a 50% tariff on Europe because of a lack of progress in talks. He then pushed back its implementation to 9 July after a call from the EU Commission President.

Meanwhile, the UK and the EU had agreed a loosening of trade barriers, particularly in cross-border transport of food and livestock. While nowhere near back to pre-Brexit levels of unfettered trade, it's definitely a warming of relations. Anything that makes it easier for us to trade with our largest and nearest partner should reduce costs and boost both economies. While the public mood has been dim for the new government, sterling has done very well indeed — it is now at levels not seen since Brexit.

STERLING BACK TO PRE-BREXIT LEVEL AGAINST MAJOR CURRENCIES

Source: Bloomberg; real trade-weighted index level, GBP vs basket of largest trading currencies to 31 May

Trump fought the law – has the law won?

A couple of weeks later, a US trade court ruled that Trump had overstepped his legal bounds in imposing most of his tariffs, causing yet more confusion. In short, the US Constitution says the exclusive power of taxation (which includes tariffs) lies with Congress. In the 1970s, Congress passed laws that delegate that power to the President. The court's opinion is that this power does not confer the unbounded ability for the President to impose unlimited tariffs on goods from nearly every country in the world. Essentially that trade, in and of itself, doesn't constitute an economic emergency for the US.

If the court's interpretation is correct, the President's power to rectify trade imbalances through tariffs is capped at 15% and they can run for a maximum of 150 days unless extended by Congress. Rectifying unfair practices with tariffs has a freer hand, with no limit to rates or timeframe. However, an investigation by the Trade Representative (a member of Trump's Cabinet) must be completed first. One has already been carried out on China (it took a year) and was focused on logistics and shipping.

The White House immediately appealed the trade court's ruling, so this is likely to go all the way to the Supreme Court. In the meantime, the tariffs will remain in force. Interestingly, in recent years the Supreme Court has often ruled that the executive branch (in the guise of regulators) has overstepped its bounds with unilateral rulemaking and regulations without explicit congressional authority. Republicans have generally cheered these decisions. Yet could the Supreme Court rule in a similar fashion when the person potentially overstepping their bounds is the man at the very top of the executive? We imagine some Republicans would howl upset if so. Quite a few would no doubt be extremely relieved!

Of course, the law gets more and more byzantine by the day. There are no doubt myriad other legal avenues for Trump to attempt. Even if this case goes against him, you have to bet on him trying something else.

Company profits have shrugged off the policy roller coaster

Despite the conveyor belt of policy changes, companies tend to be holding up ok so far. That said, since the pandemic shock, businesses generally tend to hold more stock than they used to — especially importers. That is likely to buffer the effects of increased tariffs in the short term, so we should start to see companies start to raise prices or take the hit in profit margins later in the year (if tariffs remain in place, which we believe they will, to one degree or another).

In the first quarter, US company earnings were an average 13% higher than a year earlier. That's the second double-digit increase in as many quarters. Quarterly profits have increased on the previous year for seven quarters in a row now. Valuations are pretty high in response. The S&P 500 Index's price is just more than 21 times next year's expected profits, much higher than the 10-year average of 19.9x.

We think the effects of tariffs will be incredibly nuanced: they will differ greatly by industry and by the idiosyncrasies of individual businesses. Some will have more flexibility to switch supply chains or raise prices. Others will be virtually unscathed because what they sell isn't subject to tariffs (services firms, for example). We have spent a lot of time reviewing our investments to see which could be vulnerable and the tools at their disposal.

Stock market volatility dropped considerably in May so we took the opportunity to buy a three-month **Put Option**. This gives us the right to sell the S&P 500 at a set price 10% below where the market was when we bought it. In effect, this is an insurance contract on part of our American stock portfolio. We pay a small fee (the premium) and we are protected should the market fall more than 10% (which is sort of like your home insurance excess). Options get cheaper when volatility falls, so we felt it was worthwhile to add protection, given policy and market uncertainty definitely hasn't dropped.

We used rallies in the prices of US diabetes monitoring company **Dexcom** and Japanese media and electronics business **Sony** to reduce our holdings to smaller positions after strong months that led to higher valuations. Similarly, we took profits in American discount membership retailer **Costco**. The share price has gained inexorably in the past couple of years. This is a high-quality business with a record of strong delivery — it's averaged 15% compounded growth in profit over the past five years — but we think it's prudent to trim at these levels.

We used share price weakness to add to a few of our companies, including laboratory supplier **Thermo Fisher Scientific**, gadget maker **Apple** and customer relationship management software developer **Salesforce**.

We continued to build a position in US radio maker **Motorola Solutions** this month. Motorola is much more than the handsets and car radios that you may have seen in cop shows or ambulances. They have evolved into a supplier of everything you may need to create, manage and analyse your very own communications network. And in the 21st Century that typically means it's digital, rather than simple radio. That's video as well as audio, helpful automated safety features like sensing that an officer may be incapacitated, and encryption to keep crooks and the nosey at bay. The potential market for video security is roughly double that for its traditional audio-only market.

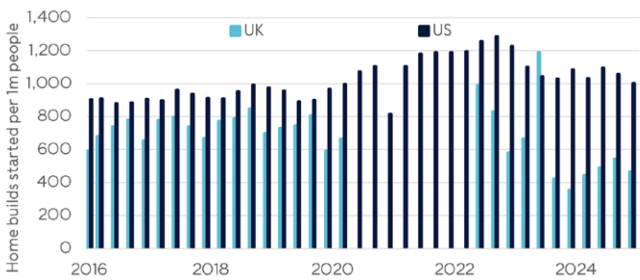
As you can imagine, many of Motorola's clients are big public or quasi-public services, like police and armed forces, firefighters, public transport networks, ambulance services and aircraft controllers. Yet there are plenty of other uses for smaller businesses that offer quicker wins that help diversify away those huge feast or famine contracts. Hotels, catering businesses, mining, utilities, big industrial businesses and shopping mall security all need this gear. Essentially, any business that requires boots on the ground on disparate sites could be a customer.

We think it should be able to keep growing sales at the mid-to-high-single-digit rate of the past 10 years while improving its profit margins through more cross-selling and getting existing clients to pay more for new and improved features and services. Added to this, Motorola has a habit of buying up smaller rivals at good prices and bolting them onto its business, increasing the amount of money it makes from each dollar that investors and borrowers have given it. Motorola has done 41 of these since spinning off from the original parent company in 2011.

We also added to new positions in US insurance broker **Brown & Brown** and transatlantic cement and aggregates supplier **CRH**, both of which we started buying in the first quarter. While Brown & Brown has offices around the world, including here in the UK, about 90% of its sales are made in the US. With the world only getting more uncertain, the demand for insurance (including new types like cyber) is increasing even as the risks to insurers rise. That's why we want to own the company guiding the customer, rather than the ones underwriting the risk.

As for CRH, we bought the US-listed shares rather than its legacy UK ones. We think the increased spending on infrastructure in the US especially, given historic underinvestment, should buoy sales growth. If companies continue to reshore factories and offices in America, that means more buildings, which boosts the market for CRH's cement. Meanwhile, as mortgage rates fall back it could revitalise new home building, which means more concrete slabs laid. We could also hope for a boost in British construction driven by loosened planning laws, albeit the UK accounts for just a tenth of CRH's business.

THE US BUILDS WAY MORE HOMES THAN THE UK



Source: Office for National Statistics, FRED, Rathbones; quarterly housing starts from Q1 2016 to Q4 2025, UK data unavailable during pandemic

US tax cuts pass first hurdle

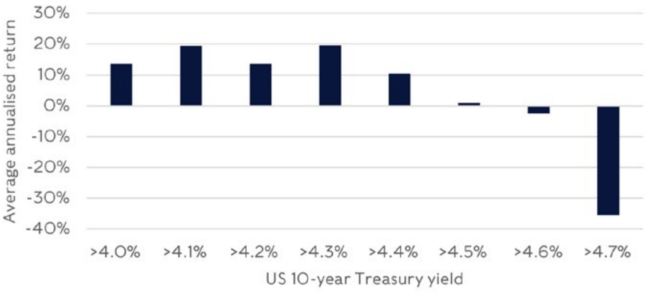
Late in May, the US House of Representatives passed Trump's One Big Beautiful Bill Act (yes, it's actually called that). The budget measure is yet to be officially costed, but non-partisan estimates assume it would increase the federal deficit by nearly $3 trillion over the coming decade.

The plan would renew the personal tax cuts due to expire at the end of the year, reduce personal taxes yet further, and increase child tax credits. It would also slightly increase border and defence spending. To offset some of that spending, it proposes repealing a tax break for those with dependants, cutting the generosity of Medicaid health insurance for the poor and tuition grants, and phases out tax incentives on clean energy projects.

The act also includes an addition to the US tax code called Section 899. It would give the government the power to levy taxes of up to 20% on US investment income made by foreign investors from countries that impose unfair or discriminatory taxes on US companies. This appears to have been written with the OECD corporate tax harmonisation plan (agreed by former President Joe Biden) and European and UK digital services taxes on American tech giants in mind. The law is complex and interweaves with many other parts of the tax code, making it uncertain exactly how it could be used. We think it will be used as a negotiating tool by the White House to hammer out its agenda abroad, so expect that it would be unlikely to come into force. However, its inclusion in the final law would be a negative development and add to the concerns of those already questioning their US investments.

The House's Act has now moved to the Senate where it will be debated and adjusted further, before returning to the House for ratification or a combined committee to reconcile the differences. The benchmark US government 10-year yield wobbled slightly on the announcement of the act's passage through the House, but has since calmed down and was trading lower at the time of writing. We are keeping an eye on this yield, however, as it has a massive impact on all markets. At 4.5% at the time of writing, we're right on the cusp of where stock market returns have suffered in the recent past (see chart).

US STOCK RETURNS SUFFER WHEN US BOND YIELDS SURPASS 4.5%



Source: Raymond James; data S&P 500 Index daily returns annualised from 1 January 2021

Despite the storm of news and arguments about American government policies, US inflation fell back again in April, from 2.4% to 2.3%. And while the University of Michigan Consumer Sentiment Index fell again to historical lows, households are spending ever more at retailers and investing more money into the stock market than ever before.

There seems to be a serious disconnect between what people say they are feeling to pollsters and in surveys and how they are actually acting. It's not just in America, either. It makes it more difficult to use soft data as a gauge for the harder stuff, like unemployment, spending, investment and economic growth.

DAVID COOMBS
Head of Multi-Asset Investments

WILL MCINTOSH-WHYTE
Fund Manager

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.

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