

## RATHBONE MULTI-ASSET DYNAMIC GROWTH PORTFOLIO

MONTHLY UPDATE FEBRUARY 2026

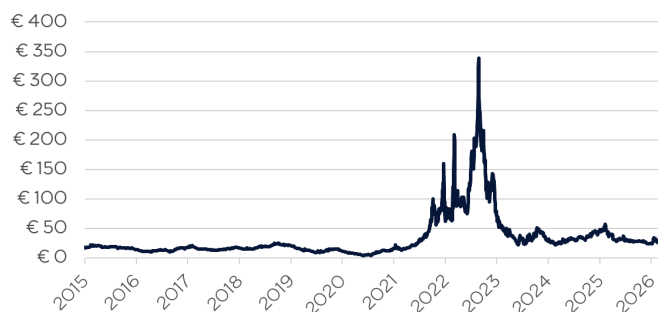
**The ascendant AI supremacy trade began to eat its own tail in 2026, sending software companies sharply lower in favour of ‘tangible’ businesses. And then, right at the end of February, turbulence erupted in the real world too as the US and Israel attacked Iran without warning, sparking a region-wide conflict.**

The last thing the world needs is another war, and our thoughts are with those whose loved ones are affected by the violence. We hope that peace will be agreed soon, but for now the war has created four clear dynamics:

1. The price of energy has jumped, particularly for gas in Europe
2. The dollar has bounced substantially, albeit from four-year lows
3. Global stocks have dropped (although sterling weakness has blunted the fall for UK investors)
4. Energy suppliers have surged, while consumer discretionary (which depend on households deciding to spend) have dropped back

While European gas prices have soared by roughly 70%, it's important to keep the levels in context, as you can see from the chart. The sharp rise in energy costs for Europe and the UK will be a significant hit to households and businesses. They could get worse. But they shouldn't be completely debilitating if they remain where they are.

### EUROPEAN GAS PRICES +70% STILL BELOW A YEAR AGO, UKRAINE SPIKE



Source: FactSet; data Dutch TTF Gas Monthly Future for short-term delivery

Yet because energy is used to produce virtually everything, costs are expected to rise worldwide. This is especially acute in the UK and Europe, where gas prices have been hit the hardest. They are also where investors had pencilled in a couple of interest rate cuts for the coming months. Those cuts have been rubbed out, which is probably a good reason why stock markets have tumbled further and faster in the UK and the Continent than on the other side of the Atlantic. That and because when markets are shocked, investors have a habit of selling what they consider to be riskier assets and buying ‘safer’ ones. This goes beyond simply selling stocks and buying bonds. It often works geographically as well: selling everything outside the US and buying in the US.

Western government bond yields initially dropped (i.e., their prices rose), but have since reversed. They had dropped a lot just before the conflict started, however, so they are still low relative to recent months. The biggest rises were in shorter-dated UK bonds, especially the two-year, which is highly sensitive to central bank rate forecasts (in this case, fewer cuts are now expected this year).

### Further diversification of bonds, tapping out of the UK long-end

Last month, before the fighting began in the Middle East, we had sold our longer-dated **UK Government 1.5% 2053 bonds**. The yield had fallen, and we thought the government's political future looked grim. The U-turn on delaying a chunk of council elections in May, to us, seems likely to increase the chance of a big loss for Labour. If that happens, Prime Minister Keir Starmer's position will be shaken further. If he's rolled, the likely suspects are to the left of the party, whose generally spendthrift ideas could upset already sensitive bondholders.

We have long been diversifying our government bonds by purchasing a spread of overseas debt.

Interestingly, President Trump's tariff defeat in the Supreme Court hasn't had much effect on US government bond yields. We expected markets to assume that more bonds would be needed to plug the ever-larger gap between public spending and taxes (currently 6% of GDP), and therefore prices would have slid and yields would have risen. Yet the Yale Budget Lab estimates that the average effective US tariff rate will now be 13.7%, down from 16% before the ruling. Maybe it really won't move the needle on the US public purse – we will have to wait and see how it develops.

**AI: the great snake that eats its own tail**

AI polarises us all. Generally, you fall into one of two camps: either you think the technology will usher in a golden age, or you think that it will essentially eat the world. The battle between these two camps has been raging in forums and through stock prices for several years now. Generally, the positive camp has won out, which is why stock prices for those companies at the forefront of AI have done very well. Yet so far in 2026, the 'doomer' camp has made a comeback.

In many ways, the doomer view has been strengthened by those who think that AI will be so good that it will be destabilising, leading to sharply higher unemployment and the destruction of virtually every business model. Having already badly mauled software, marketing and publishing companies, this fear swept into new areas of the stock market in February. If AI becomes as successful at displacing white collar workers as optimists expect, then unemployment could rise fast and far. That would put strain on those with big mortgages and loans. And it would also put a big damper on middle-class spending, which makes up much of the total. That would be bad for banks, insurers, consumer discretionary companies and the big payments companies that clip the ticket on all those transactions. They all duly sold off aggressively.

It's tough to make decisions in this environment. AI is evolving so rapidly that it's impossible to know what's alarmism and what is truly an existential threat for different companies. We have reviewed the companies we hold that are in the market spotlight, culling a few and topping up the rest. We sold **Booking.com**, **Salesforce** and **Adobe**. As AI becomes more effective, companies will need fewer people to do the same work. Salesforce and Adobe make most of their money from per-seat revenue, so under their current business models, better AI would lead to less revenue. As for Booking.com, it aggregates prices and filters features, which AI can do for people without them having to scroll through endless pages of reviews. These businesses may survive and thrive, but they offer too many risks and it will take a long time for the market to be persuaded.

We used this cash to add to our holdings of Canadian e-commerce platform **Shopify**, and technical and scientific journals and data publisher **RELX**. Shopify is focused on supporting smaller vendors, offering all the tools – many AI-enabled – that a small business needs to create, monitor and refine branding, marketing, payments and a digital distribution network. Given that AI tools make it easier to set up a new company, we think that's a tailwind for exactly the customers that Shopify targets.

RELX hasn't buried its head in the sand over AI. Instead, it's been investing in AI and its data analytics division for many years before AI really blew up: it seems the sort of data company with strong assets that should *benefit* from AI tools that make its info more accessible and insightful to users. Its earnings per share and profit margins have improved steadily over the past five years with strong underlying cashflow, yet investors remain nervous. We are sticking with the business and added to our holding again.

We bought German energy networks and electrical engineering giant **E.ON**. Since 2016, the business no longer generates power, instead focusing on owning and maintaining the power and gas lines and selling the power to retail. It has roughly €50 billion of assets across Europe, with this forecast to grow by high single-digits through to 2030, at least as investment pours into electricity grids because of AI demand and the growth of renewable energy. Germany is particularly well placed, given the nation's decision to earmark €500bn for infrastructure investment over the rest of the decade.

Another addition to the fund was long-standing, solid and diversified industrial engineering business **Parker Hannifin** (best known for its aerospace division that's roughly 30% of its revenue). Parker is one of the least exposed to Trump tariffs as it's local for local, not a big importer, with less than 10% of input costs for their products imported from outside the US. A period of trade disruption could also benefit them as they might try to gain share from less locally reliant competitors who need to raise prices. We think this is a premier industrial company that can compound steady gains in sales and profits through a highly lucrative 'razor-and-blades' business model. A big portion of its revenue comes from recurring aftermarket parts and servicing (the 'blades'), which tend to make more profit from each dollar of sales than one-off kit sales (the 'razor'). We think Parker is perfectly positioned to capture long-term tailwinds from renewals of commercial aerospace fleets and the reshoring of manufacturing infrastructure.

**You can't predict a crisis, but you can prepare for one**

We had built up cash in the weeks leading up to the Iran conflict, as we considered how to react to the AI sell-off of early 2026. This means we have money to deploy over the coming days and weeks as we see opportunities arise or risks increase.

Put options – effectively an insurance policy on stocks that offset big falls in their values – cover roughly 5% of our equity portfolio. While this won't completely protect us, it should take the edge off broad market falls.

Oil majors can be erratic and volatile, yet we have kept decent holdings in three of them for years now: **Total**, **Chevron** and **Shell**. Their share prices fluctuate widely with forecasts of economic growth and recession, and with investor appetite for the best and brightest 'growth' companies as opposed to 'value' and cyclical businesses like theirs. Yet if you can tolerate these swings, they also offer companies that underpin virtually every human enterprise, that pay out cash like ATMs, and that offer invaluable protection from unexpected spikes in the cost of oil and gas specifically and energy in general.

We are watching to see how events unfold over the coming days and weeks. We will keep you up to date with any portfolio changes, although right now we feel we are positioned as well as we could be.



**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.

Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. Past performance should not be seen as an indication of future performance. When you invest, you could lose some or all of your investment.

**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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