RATHBONES

RATHBONE SICAV MULTI-ASSET 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.

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).

We used the market volatility to add to gadget maker **Apple** after the market reacted negatively to what were actually pretty good results. The company is facing threats to its supply chain, especially with memory chip prices soaring as AI data centre developers have hoovered up all the chips. We think this quality company will be able to manage this, so added to our holding. We also topped up Alphabet, and e-commerce and data centre giant **Amazon**.

We trimmed our exposure to the **iShares MSCI Global Semiconductors ETF** and added to our direct positions in chip-building equipment supplier **Applied Materials**, and chipmaker **Intel**.

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

We sold UK life insurer **L&G** in early August after its valuation rose markedly. We like the business, but we felt its value had risen too high for the risks that it carries. The business is making money from higher bond yields because it can expect higher returns for the premiums that it can invest. And there are plenty of opportunities for it to grow by picking up pension transfers from companies looking to offload them. However, there's plenty of competition for this business, and it seems to be growing fast. We felt it was best to sell and reinvest in other areas.

Another sale was **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 sold Danish enzymes manufacturer **Novonesis** as well. After a solid set of results, its valuation shot up and looked a bit expensive.

After a tough period in the shadow of AI threats, e-commerce platform developer **Shopify** and academic and technical journals publisher **RELX** delivered strong profits, helping their share prices recover somewhat from their recent falls. We added to these stocks as they 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 it.

We sold US plumbing supplier **Ferguson** on strength. The company has done well over the past years that we've owned it, yet the share price has dipped and dived a lot recently. Ferguson bought 10 bolt-on businesses over the past couple of years, diversifying itself from a predominantly plumbers' merchant to a one-stop shop for building systems, from water and waste, to HVAC (heating and air-con) and other plant. Seamlessly grafting all these new lines to its business is a hard task at the best of times, yet it's also quite a tough time for construction in general. With the valuation relatively high, the balance of risk pushed us to sell.

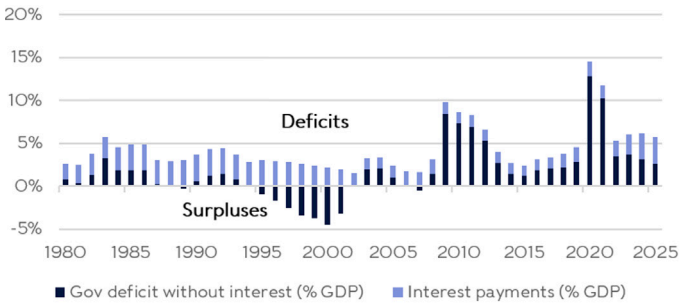
Bond markets are asking awkward questions

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). 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.

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 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. September's decision is on a knife-edge.

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.

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