RATHBONES

RATHBONE GREENBANK GLOBAL SUSTAINABILITY FUND

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. We added to 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 for the AI gold rush are where we have much of our AI exposure (alongside Nvidia and office tools business Microsoft).

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. We added on weakness to chip-making equipment manufacturer **Applied Materials**.

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.

Swapping a car electrification story for a company making cleaner trains

We bought US business **Wabtec**, an interesting business where heavy-duty engineering meets software and digital tools. A maker and maintainer of trains, freight cars and other heavy transit vehicles, it also supplies electronic train controls and signals, and similar sorts of plant and electronic systems for miners and other industries. About half its sales come from the US, with the other half spread around the world. The US is accounting for the lion's share of its growth, and is the more profitable division.

The company's servicing arm is a crucial part of the business, in our view. These long-term maintenance and modernisation contracts smooth out its cashflow, making it better able to invest and grow. Often, producers of heavy and expensive kit become very reliant on feast-or-famine ordering cycles. Wabtec is bolstering that ongoing business with software licences for its tools, digital services and the sale of consumable parts. Right now, these recurring businesses account for roughly 45% of Wabtec's revenue and 55% of its profit.

The business is sitting on a hefty backlog, which means its one-off sales are likely to increase as a share, which would make it more sensitive to an economic downturn. However, its total backlog has expanded 40% in the past year – it has orders for six years' production of train carriages. In itself, that gives much better visibility of earnings, as long as it delivers without any bloopers that make those contracts unprofitable.

We are confident in this management team's ability to do the job, and happy to support a company that's helping deliver better public transport all around the world. It's also improving the propulsion of its locomotives, swapping in cleaner technologies to reduce emissions, and developing next-generation engines that can make heavy-haul machines emission-free. Its first battery-electric heavy-hauling locomotive was shipped to Australian customers last year.

Meanwhile, we added to our holdings in industrial vacuums and compressed air systems supplier **Atlas Copco** and industrial gases business **Linde**.

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.

Sustainability investment labels help investors find products that have a specific sustainability theme. This product has a 'Sustainability Focus' label: it invests mainly in assets that focus on sustainability for people or the planet.

After a tough period in the shadow of AI threats, German business data specialist **SAP** reported decent quarterly earnings that were better than many had feared. Its share price recovered a chunk of its recent falls, so we took profits to manage our risk.

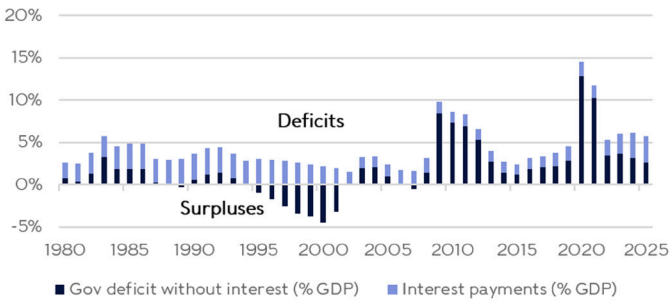
Bond markets are asking awkward questions

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

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.



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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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