



RATHBONE INCOME FUND

MONTHLY UPDATE FEBRUARY 2026

We do not pretend to know how the Iran conflict will evolve and we're wary of narratives offering high conviction and too much certainty. Instead, we're focused on maintaining a portfolio that's resilient across a range of possible scenarios. We're sticking with our firm valuation discipline in markets that have already priced in some, but probably not all, potential macro risks. Since geopolitical shocks can move markets rapidly, we believe that humility and diversification remain our most valuable risk management tools.

Some readers will remember the Iranian Revolution of 1978-79, the overthrow of Shah Mohammad Reza Pahlavi in January 1979, and the subsequent storming of the US Embassy in Tehran which led to 52 Americans being held hostage for 444 days in a crisis defined by mutual mistrust and grievance. Many historians now see these events as part of a longer arc that began with the US/UK backed coup in 1953 against Prime Minister Mohammad Mossadegh after he'd nationalised Iran's oil industry. That coup crushed Iran's experiment with democracy and restored the Shah to absolute power.

The result has been durable antagonism between Iran and the West, in which ideological confrontation and control of energy resources have remained tightly intertwined.

It would be tempting to respond quickly and emotionally to the latest shock. Yet history suggests that markets often look through even severe conflicts more rapidly than the wider public, however uncomfortable that may feel against a backdrop of genuine human suffering. This is not to deny that the current Gulf conflict could have material financial and macroeconomic consequences. But we must also recognise that markets tend to process risk probabilistically and dispassionately. Our task, therefore, is to frame what's unfolding in terms of scenarios and portfolio implications, rather than reacting to headlines.

What might trigger a shift in market mood?

In the first days of the conflict, market moves have been directionally intuitive but contained. Energy and defence related equities, alongside higher quality defensive names, have been comparatively resilient. More cyclically exposed sectors, such as financials, have underperformed. This pattern is consistent with past episodes where investors initially buy perceived hedges against geopolitical turbulence (oil, defence, quality) and sell proxies for global growth and the transmission of credit (banks, industrials). However, we should be cautious about extrapolating early sector rotations too far. As investors get more information and, crucially, a clearer steer on the likely duration and intensity of the conflict, market leadership could change significantly.

America has strong incentives to limit both the geographic scope and duration of the conflict. Public support for large scale military engagements in the Middle East remains fragile in the wake of long-drawn-out campaigns in Iraq and Afghanistan. A protracted war would collide with domestic political priorities and fiscal constraints. In addition, support for Ukraine has depleted the West's defence

inventories, raising questions about how long it could sustain a high-intensity military campaign if the conflict were to escalate or broaden. At the same time, steeper and more volatile energy prices would likely complicate monetary policy settings and could undermine Western economic growth at a delicate point in the cycle.

The decapitation of key elements of the Iranian leadership has energised talk of regime change. But recent history offers a sobering record of how fiendishly difficult it is to engineer stable political outcomes from the outside. That suggests it might be more plausible to expect an unstable equilibrium in which elements of Iran's existing power structure regroup and seek to turn a bilateral confrontation into a wider regional contest. Indeed, this broadening out of the conflict began with almost immediate effect. Iran has few state-level allies, but it has ample scope to escalate the conflict through its network of non state proxies across Lebanon, Syria, Iraq and Yemen. For markets, that argues less for a single 'event risk' and more for a rolling series of flare ups that periodically reprice risk premia in energy, credit and certain emerging-market assets.

Why we're staying diversified and avoiding knee-jerk moves

Given all this uncertainty, forecasts about exactly how the conflict may unfold must remain purely speculative. The facts on the ground are shifting fast. And intricate adaptive systems such as economies and financial markets are hard enough to model in normal times; wars introduce far greater complexity. Our response, therefore, is deliberately to avoid knee jerk portfolio decisions and instead to lean on our robust risk framework that's designed to encourage us to consider multiple possible futures rather than one dominant central case.

In practical terms, this means continuing to diversify exposure. We're underweight commodity linked equities at the aggregate level. But we maintain meaningful positions in selected energy plays and miners. This reflects their role as partial hedges against inflation and geopolitical shocks, as well as the portfolio management discipline that's kept us from eliminating our commodity exposure entirely. At the same time, we've been rotating gradually towards higher quality growth franchises whose recent price weakness has improved their prospective risk adjusted returns. We believe that this emphasis on balance sheet strength, pricing power and structural growth will help to cushion the portfolio against more adverse macro or geopolitical scenarios.

One striking feature of the current episode has been the gap between political and media rhetoric and the initial reaction of financial markets. In the US, broad equity indices have, so far, priced the conflict more as a question of duration and contained regional risk rather than as a systemic shock. UK and European markets have experienced greater immediate volatility given their higher sensitivity to energy prices and closer geographic and trade links with the Middle East. US markets appear to be leaning, probabilistically, towards a shorter and more managed conflict path. However, signs of waning support from America's allies and rising domestic political costs could shift that assessment quickly, with implications for risk tolerance and cross asset class correlations.

Conflict overshadows Spring Statement

For UK based investors, the domestic market can provide a degree of diversification. After their strong relative performance in 2025, UK equities are no longer as deeply discounted as they once were, though they still trade at meaningful discounts to the US on valuation metrics such as forward price to earnings ratios. The UK's higher weight in 'old economy' sectors – energy, materials, and consumer staples – has historically made it a relatively defensive port in a storm during periods of global stress, particularly when investors rotate towards value and income. That said, long standing structural headwinds, including weak productivity growth, political uncertainty and a modest trend growth outlook, remain an overhang.

Against this backdrop, Chancellor Rachel Reeves' recent Spring Statement was designed to be uneventful. She essentially restated the Office for Budget Responsibility's updated forecasts, including a downgrade to GDP growth to around 1.1% in 2026, with a modest improvement pencilled in for 2027-28. Reeves sought to emphasise the improvement in deficit projections and a narrative of fiscal responsibility, aimed at portraying the UK as a relatively predictable, rules based economy in a more volatile world.

The conflict has complicated that narrative. Rising energy prices risk reigniting inflation pressures just as markets had started to price in a more benign path for policy rates. Unsurprisingly, UK gilt yields have now moved higher, reflecting both expectations of a rise in inflation and uncertainty over the path of future monetary policy. Energy is a broad based input cost; higher prices feed through not only into households' real incomes but also into corporate margins. We need to consider supply chain costs and, ultimately, discount rates. For equity investors, that combination can compress valuation multiples even if nominal earnings hold up.

As brutal as war is, it is often the more prosaic transmission channels – energy costs, supply chain disruption, inflation and the cost of capital – that matter most for asset prices over a one to three year horizon. This time, we must also layer in an unusually intense investment cycle in artificial intelligence and digital infrastructure. This is driving substantial capital expenditure in semiconductors, data centres and related ecosystems, which may have profound disruptive effects on the sector's potential winners and losers. Our portfolio construction needs to reflect both the cyclical risks emanating from geopolitics and the secular shifts being driven by technology.

Our sum-up

As we've explained, we do not pretend to know how the current conflict will evolve and we're wary of narratives offering high conviction and too much certainty. As we focus on maintaining a portfolio that's resilient across a range of possible scenarios, we're retaining some exposure to commodities and energy as 'insurance' against further escalation, while leaning into quality businesses with strong balance sheets and durable cash flows. And we're sticking with our firm valuation discipline in markets that have already priced in some, but probably not all, potential macro risks. In a world where both geopolitical shocks and technological change can move markets rapidly, we continue to believe that humility and diversification remain our most valuable risk management tools.

Recent trading: We argue that the devaluation of some perceived "AI losers" has gone too far, leading to share price moves that disregard what we believe to be the core intrinsic value of certain businesses. After periods of extreme share price weakness, we believe that sufficient margins of safety have been created for us to add to information services firm **RELX** and global credit agency **Experian**. These trades were funded by profit-taking from trans-Atlantic utility **National Grid** and pharmaceutical company **GSK**. We also trimmed UK construction business **Morgan Sindall** after a very strong run-up ahead of their results. Finally, we have taken a more substantial cut to our position in consumer staples giant **Unilever**.

Companies seen in February: Experian, Relx, **Dunelm**, and Morgan Sindall.



CARL STICK
Fund Manager



ALAN DOBBIE
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

Rathbones Asset Management Limited is authorised and regulated by the Financial Conduct Authority and a member of The Investment Association. A member of the Rathbones Group Plc. Registered office: 30 Gresham Street, London EC2V 7QN. Registered in England No. 02376568.