RATHBONES

RATHBONE UK OPPORTUNITIES FUND

MONTHLY UPDATE APRIL 2026

Markets spent much of the month focused on the risk of a stagflationary shock stemming from ongoing disruption around the Strait of Hormuz. The longer global energy flows through the waterway remain constrained, the greater the upward pressure on inflation and the downside risk to global growth. These concerns are evident in elevated and volatile oil prices and bond yields, with UK 10-year gilt yields reaching their highest levels since the Global Financial Crisis. Gilt markets are being further rattled by domestic political uncertainty as investors contemplate the implications of a possible shift to a less market friendly, higher-spending government.

Against this backdrop, the strength of equity markets – and of your fund – might appear counterintuitive. But equities appear to have decoupled from bond markets that seem to be pricing in a long war. What's the explanation for this 'risk-on' mood? We think it's largely driven by the so-called 'one variable market' hypothesis.

In this case, market sentiment seems to be dictated by one dominant factor: the threat of a long, drawn-out war and any resulting energy shock. That variable improved decisively on 7 April when President Donald Trump announced a two-week ceasefire, driving a big relief rally. But FOMO was also in play: while big geopolitical tensions remain unresolved and the Strait hasn't reopened, investors have pivoted back towards the near term reality of strong capital expenditure, particularly by the US hyperscalers. This spending is cascading through technology, industrial and infrastructure supply chains, providing tangible earnings momentum despite macro uncertainty.

The coiled spring effect

Conditioned by recent experience to avoid missing inflection points, markets delivered punchy returns during the month. The fund participated very strongly in this rebound, exhibiting a striking catch up over a short period. This reinforces a point we often make with clients: UK equities – and 'quality' mid-caps in particular – remain a coiled spring, capable of rerating sharply when sentiment improves only modestly. Encouragingly, recent industry flow data has shown small net inflows into UK equity funds, coinciding with a period of clear relative outperformance by UK assets, albeit led primarily by larger capitalisation stocks.

In April, our portfolio benefited from renewed takeover interest, most notably in AIM listed **Advanced Medical Solutions** (AMS), a business we've long regarded as strategically attractive, given its focus on innovative surgical adhesive products, high margins and structural growth profile. However, the prolonged malaise in the AIM market, and concerns about how long it might take for AMS to fully benefit from its 2024 acquisition of a European rival, have dampened investor enthusiasm, leaving the shares vulnerable to a takeover bid. In the absence of a firm offer to date, we have trimmed the position to lock in gains, while retaining exposure if a deal goes ahead.

Smart niches in the AI gold rush

Notwithstanding AMS' outperformance, our fund's hefty April return was driven primarily by strong rallies across a broad range of 'AI picks and shovels' holdings (the companies that provide the essential infrastructure, hardware and services to build, train and operate AI technologies). These stocks are the dominant investment theme powering equity markets right now. And we maintain meaningful exposure to that theme through a range of fund stalwarts, each of which has cleverly carved out a valuable niche in the critical groundwork required to run AI applications.

Examples include **Hill & Smith**, which benefits from its role in the US buildout of the physical infrastructure required to support AI deployment. A growing share of **Halma's** revenues now comes from the high specification, mission critical photonics components that are designed into hyperscale data centre architecture. Finally, **Diploma** profits from the increasing use of its connectors, seals, controls and diagnostic products in data centre and automation environments.

While valuation discipline remains important, we believe each of these companies sits in a structurally advantaged niche within the AI supply chain, rather than at the more crowded user-facing front end of AI development.

Ahead of England, Scotland and Wales going to the polls for local council elections, we've been deliberately cautious about adding broad exposure to UK domestic cyclicality. Less than half our fund's revenues are generated in the UK, which compares favourably with benchmarks such as the FTSE 250. Our fund's objective remains unchanged: to provide exposure to the highest quality 'growth' businesses listed in the UK, many of which are global in nature and less dependent on domestic economic conditions. Domestic mid-caps will rebound fully only when there's a decisive shift downwards in UK bond yields. And that, in turn, may depend on a less-tense domestic political backdrop, as well as some easing in the potential inflationary pressures from the Iran war.

Finally, we mentioned last month that we're increasingly reaping AI enabled efficiencies within our investment process. That work continues at pace. We are already seeing tangible benefits in terms of time reallocation and the depth of our company engagements. We expect our AI tools to support better informed decision making alongside productivity gains. If you'd like to learn more, or want to arrange a catch up more broadly, please contact your sales representative.

Companies seen this month: **AB Dynamics**, Johnson Service Group, Rentokil, **Pollen Street**, Volex, Raspberry Pi, **Alfa Financial Software**, **Cerillion**, **AJ Bell**, Serco, **Avon Technologies**.

ALEXANDRA JACKSON
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

9850.05.26