

RATHBONES CHARITY GROWTH & INCOME FUND

QUARTERLY UPDATE DECEMBER 2025

As 2025 dawned, most economists thought there was a 50/50 chance of recession hitting America. Instead, the world's largest economy and stock market shrugged off a chaotic first year of President Donald Trump's second term and forged ahead. Now, whether this is because of Trump, in spite of Trump, or a bit of both is hard to unpick.

When Trump is in the White House, we've learned to expect uncertainty and a whirlwind of shock decisions, left-field suggestions and deals to keep nations, businesses and the press off balance. In the meantime, Trump and his administration chip away on their goals. For all the noise and attention-grabbing headlines, we believe Trump's team is ultimately looking to achieve these aims:

- greater energy independence
- lower bond yields
- deregulation
- tax cuts
- onshoring of key strategic industries
- reducing overseas tax competition that keeps US profits offshore and untaxed
- increased access to overseas markets for US companies
- boosting tariff revenue, thereby lowering government deficits

For now, they seem to be succeeding. They have the cheapest homegrown energy of the G10; a 10-year bond yield that's closer to 4% than 5%; a much-slimmed regulatory environment; tax cuts in the bag; big business investment, especially in AI and chip manufacturing; a powerful mercantile position; and much greater tariff revenue, albeit without significantly lower deficits.

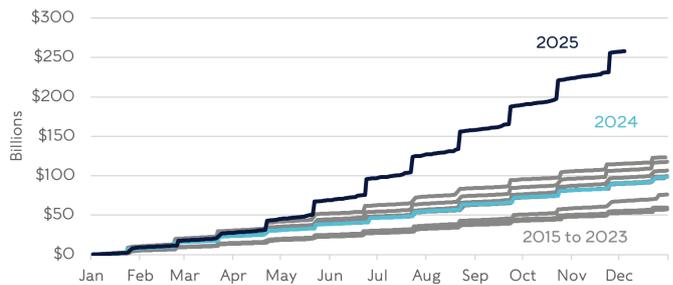
Volatile, but up

There were several periods of jerking falls in the S&P 500 index, yet over the whole year it shot up roughly 18% in dollars – in sterling it was closer to 10% because of the stark weakness in the dollar. That's the third consecutive year of double-digit returns. US government bonds had a similarly bumpy ride (taking other nations' bonds with them), but their yields have dropped significantly from almost 4.6% at the beginning of the year to roughly 4.2% by its end.

A chink in the armour, though, is that the US isn't making much headway on reducing its government deficit. America spent more than it received in taxes to the tune of 5.9% of GDP in its last fiscal year, which ran to October. That's down from 6.1% in the previous year, but still unsustainably high.

This small improvement was driven by a huge increase in the amount of money received since April's stiff rise in tariffs. As long as they remain in place, this broadening river of money should help reduce the US deficit in coming years. However, the Supreme Court is weighing the legality of President Trump's tariffs, with a judgment possible in January (although it may be as late as June). If they rule against the President, it could spark fiscal concerns and inject more uncertainty into the mix. It wouldn't necessarily be the end of Trump's tariff policies, but it would make them harder to implement and more constrained.

TARIFFS PLUG THE US FISCAL GAP BUT COURT RULING LOOMS



Source: Penn Wharton Budget Model based on US Treasury data; cumulative customs duties and related tax receipts for years 2015 to 2025, adjusted for inflation; 2025 to 4 Dec

The US Federal Reserve (Fed) has cut three times since autumn, taking its benchmark overnight interest rate to the 3.50-3.75% range. The central bank is expected to continue cutting into 2026, albeit with lessened momentum, as slower GDP growth vies against a nascent resurgence in inflation for the Fed's attention. Since the government's reopening, the US has shed jobs rather than adding them and posted the highest unemployment rate in four years (at 4.6%). Interest rate markets forecast a bit more than two 25-basis-point cuts in the coming year. As long as the Fed remains sensitive to the economy and stands ready to cut rates to support it, this should assuage concerns among investors.

Portfolio update

We made money across all parts of our portfolio – direct equities, bonds and collective funds and ETFs – in what was a difficult quarter. The lion's share of our returns came from our gold ETF and our government bonds and high-quality corporate bonds, which illustrates the importance of a well-diversified portfolio.

While our equity portfolio was still positive over the period, there was a big disparity between winners and losers as concerns about AI companies over-investing in the infrastructure for the new tools roiled markets. One of our AI-focused holdings bucked the trend, however: internet search giant **Alphabet** was one of our best performers. The company was spurred on by very strong profit growth and a new version of its Gemini chatbot that outperforms its peers.

Over the quarter we made a series of purchases from cash (following inflows into our fund following its launch in late September). Global stock markets wobbled a bit halfway through the quarter, led by concerns that the very largest AI companies were overdoing their investment in new chips, data centres and power generators. The November upheaval created a Black Friday sale for stocks that we've been watching for some time.

We snapped up orthopaedic surgery and emergency room equipment supplier **Stryker**, as its price-earnings ratio dropped back to 24 times. The US-listed business buys quality medtech businesses and then uses its scale, expertise and networks to boost revenues and reduce costs. It has invested heavily in robotic arms for precise surgeries, as well as smart devices and AI-driven analytics. We think that healthcare demands will only increase as the Western world ages and developing nations become wealthier. To keep this care manageable, better technology that improves results and cuts costs will be a necessity.

Another bargain was **O'Reilly Automotive**, one of the largest suppliers of auto parts in the US. The age of the petrol-powered fleet seems to be growing year-by-year – not least because today's better-built vehicles last a long time (today's cars can last more than twice as long as they did in the 1970s.) This is proving a boon for auto parts retailers, particularly the larger outfits with the scale to hold big inventories of parts for replacement and service, and the distribution networks to get parts out quickly to DIY consumers and 'do-it-for-me' customers (garages and repair shops). As one of the country's four biggest auto parts retailers, O'Reilly has a huge footprint in the US. But we believe it has bags of room to grow and take market share from smaller retailers that are still clinging on to around two-thirds of the thriving auto parts market. We bought in early November, after O'Reilly had de-rated on concerns that customers were deferring larger maintenance spending due to rising prices. We think this is a temporary phenomenon and expect the company to navigate the current cycle adeptly, given its quality management team and proven record of disciplined focus on capital returns.

We bought Swiss pharmaceutical giant **Roche** as well. Roche is a specialist in targeted cancer therapies and human sample testing. Driven by its research and development subsidiary Genentech, it has grown from its historical 'big three' cancer antibodies Rituxan, Herceptin and Avastin into areas other than cancer, like neurology. Success stories are in haemophilia (Hemlibra), multiple sclerosis (Ocrevus), immunology and eye disease (Vabysmo). Investors' mood soured on Roche between 2022 and mid-2024 because of pipeline drug failures, erosion of its old brands' market position, and the headwind of a stronger Swiss franc. We believe earnings and pipeline expectations have been reset to low levels, with the potential for a series of positive catalysts from its R&D pipeline. We see decent, and rising, earnings per share growth, with upside to Roche's market valuation coming from its emerging mid-stage drug pipeline. Roche's leading diagnostics business should be better valued for accelerating growth, in our opinion. Trading on a trough valuation of roughly 12.5x earnings, we bought in early November.

We sold all of our shares in UK property platform **Rightmove**. This business had done extremely well over the past few years, but had dropped back significantly since its high point in the summer. Concerns about rivals competing away its near-monopoly and 50% profit margins, a deterioration in the volume and value of home sales, and a potentially longer wait for more UK interest rate cuts weighed heavily. It then slumped again in November after announcing a big (by UK standards) investment project in developing AI tools. To us, there's more than a whiff of chasing a bolting horse. The need to think about AI isn't new, so why is there a wall of money being released, rather than a careful increase of cash to something that's been in the works for some time? Rightmove is going to pour £60 million into a three-year project, while halving guidance for future profit growth to just 3-5%. The revenues from these new AI enhancements seemed, shall we say, less than secure.

Market outlook

Looking ahead to another year, it strikes us that virtually no one could have predicted what was served up nor how markets and economies reacted.

In a nutshell, the future is not for us to know. Instead, we believe it's our job to think about what could happen, how that would affect economies and markets, and make a plan. We try to create a portfolio that will mitigate the most likely risks, take advantage of opportunities that appear well-priced and ensure that we are diversified enough to protect ourselves from any left-field events.

There are a few risks lurking round as the calendar flips over – there always are. The AI hype continues to build, albeit with a healthy amount of trepidation and second-guessing. Inflation in the US and UK is still very much a live issue (less so in Europe and definitely not in deflationary China). The global economy is slowing, driven mostly by a slowdown in the US and China. Whether that is orderly or snowballs into recession, we will have to see. With both nations' governments and central bankers keenly focused on supporting growth, we have faith that they will do what's needed to avoid catastrophe.

There is some chance of boons as well. The ceasefire in Gaza, fragile as it is, was welcome last year. If the war between Russia and Ukraine can be ended this year, it would alleviate the suffering of millions, and divert billions of dollars from financing destruction to rebuilding and more productive, peaceful endeavours. When the war escalated in 2022, it unleashed a wave of inflation around the world as two of the world's largest suppliers of food, metals and energy were cut off from global markets. Peace could mirror that: delivering a glut of commodities to the global marketplace that tamps inflation down.

Meanwhile, for the first time in many years, government bond markets offer high yields well in excess of inflation. That means there's more room for their yields to fall (prices to rise) if prevailing interest rates fall from here. Yet even if they don't, investors are paid a reasonable amount to hold them. This makes building a mixed portfolio easier than it has been in years past.

But it's the things nobody expects that really upend markets. That's why we continually reassess our holdings to understand how they are likely to react to different shocks. We look at how our holdings react relative to the market and relative to each other. And – crucially – how that could change when markets are slumping, investors are frightened, and usual behaviour goes out the window. True diversification doesn't melt away when you need it most.



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For more info on our fund, including factsheets, performance and fund manager views, please click [here](#).

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