



RATHBONES

RATHBONES CHARITY GROWTH & INCOME FUND

QUARTERLY UPDATE SEPTEMBER 2026

If the second quarter was full of plot twists, the third was a reminder that some stories run longer than anyone would like. Renewed fighting in the Persian Gulf sent energy prices sharply higher once again: Brent crude hovered near \$109 a barrel in mid-September, and US diesel hit a record \$6.31 a gallon. In September the US Federal Reserve (Fed) raised rates for the first time since July 2023, to 3.75-4.00%, and its officials pencilled in one more hike this year. The European Central Bank has hiked too. The Bank of England has held so far, but its rate-setters are openly talking about hiking if inflation keeps building. A year ago everyone was asking how fast rates would fall. Now they're asking how far they'll rise.

Government bond markets haven't had a quarter like this for a long time. Borrowing costs blew out in most countries, most significantly in the US, UK and France, and long-term 30-year bonds were the worst hit (see chart). In early October, 30-year UK government bond yields rose above 6% for the first time since 1998.

Closer to home, all eyes are on the Budget and new Chancellor John Healey. In March, the Office for Budget Responsibility reckoned the government had £23.6 billion of 'fiscal headroom' – its expected surplus after day-to-day spending by 2029/30. Since then, UK 10-year government bond yields have risen a full percentage point, to 5.5%, which means the government must pay that much more to roll over maturing debt and to borrow more. In early October, accounting firm EY estimated that the headroom has shrunk to about £11.3bn, or roughly 1% of all tax receipts. And that's predicated on the Strait of Hormuz reopening essentially immediately. If it stays shut into next year, EY thinks the cushion could swing to a deficit of around £7bn. The Bank of England has eased off, at least. It is cutting its sales of the gilts it bought under quantitative easing by about 40%, and has stopped selling 30-year gilts entirely. Long-dated gilts rallied hard on the news, but have since given up the gains.

So what's on the menu at the Bistrot Déjà Vu? EY estimates that manifesto pledges ring-fence about 70% of tax revenue. That leaves wealth taxes, capital gains tax and levies on particular sectors among the realistic options. Expect plenty of fiddling at the margins and a lot of talk about 'growth'. We aren't trying to guess tax policy. What matters to us is how gilt investors take the Budget. A credible plan for the medium term should help long gilt yields settle; a plan that relies on optimistic forecasts would be punished.

30-YEAR BONDS CAUGHT THE WORST OF A BAD QUARTER FOR GOVERNMENT DEBT



Source: FactSet; 1 January 2006 to 1 October 2026

Stocks grind higher, bonds stumble

Our fund was slightly up over the quarter. Equities were once again the engine of returns, driven by the AI buildout. It was an up-and-down quarter, as a short-lived de-escalation in the Persian Gulf gave way to more tit-for-tat strikes and another spike in the oil price. Higher energy costs put more pressure on households and businesses, even as central banks are squeezing them with higher interest rates to prevent runaway inflation. Meanwhile, the risks and opportunities of extraordinarily large AI investments ('capex') by the hyperscalers and their suppliers keep investors both greedy and fearful in equal measure.

Higher oil prices and the growing acceptance that rates were likely to rise rather than fall around the world led to a shift in markets. Defensive, cash-generative businesses and large-cap software did the heavy lifting, while the companies supplying the physical infrastructure behind AI – standout winners in the second quarter – went into reverse, along with the wider industrial complex. Our bonds had a tough time as well, as yields rose across the board, although our shorter-dated bonds held up better than the wider gilt market.

We took advantage of these higher yields to add to our bond portfolio, including the **UK Government 0.875% 2033** and **4.625% 2034**. We also added to our holding of the **Rathbone Ethical Bond Fund**, which we use to invest in UK corporate bonds.

US government inflation-linked bonds became very good value as well. With inflation expectations and yields jumping higher, we managed to buy **US Treasury Inflation-Protected Securities (TIPS) 1.25% 2031** at attractive real yields (after adjusting for inflation). If inflation goes significantly higher – say if it is driven by continuing unrest in the Middle East – these bonds should help protect us.

Performance review

	3 months	6 months	1 year	Since launch (29 Sep 25)
Rathbones Charity Growth & Income Fund	0.6%	9.6%	5.6%	5.7%
UK CPI Inflation +4%	1.9%	4.6%	7.2%	7.2%

Source: Morningstar; data to 30 September, Income units, mid price to mid price; CPI quoted with 1-month lag.

These figures refer to past performance, which isn't a reliable indicator of future returns. When you invest your capital is at risk and you could lose some or all of your investment. Past performance should not be seen as an indicator of future performance.

Despite recent setbacks in their share prices, there's incredible demand for chip makers in general, 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 bought chip-making equipment manufacturer **Applied Materials** as its price fell back, and added to chip factory **TSMC**. 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.

We added to internet search giant and AI hyperscaler **Alphabet** as well. We think Alphabet's got a strong position because of its spread of businesses, from its Google search and browser to its cloud computing and storage division and enterprise software. Much like **Microsoft**, which we also own, we think this web of (already profitable) businesses gives Alphabet many more ways to make money out of AI beyond the subscription and/or per-token usage of OpenAI and Anthropic. Alphabet remains relatively unindebted and has extremely strong cashflow from its existing businesses, giving it great prospects, in our opinion. Yet its valuation has slipped lower than its rivals, so we saw an opportunity to buy at an attractive price.

We added to 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. 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 okay 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 (the 'net interest margin', in the jargon) between what it pays to finance itself and how much it lends to customers. If interest rates continue to rise, this should help boost this margin further.

To fund these purchases, we sold Danish enzymes manufacturer **Novonesis** after a solid set of results, its valuation shot up and looked a bit expensive. Another exit was North American railway **Canadian Pacific Kansas City**. Rising interest rates will likely start weighing on GDP growth, which would flow through to less trade and cargo for Canadian Pacific. We felt it was best to reinvest where earnings were less sensitive to economic growth.

We exited **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, so sold the stock.

We also sold Japanese electronics and media company **Sony**. Rising prices for memory and other computer components, pushed higher by the insatiable AI build-out, mean its physical products will be going up in price. Either Sony will have to eat some of the price increases itself to stay competitive, decreasing its profitability, or it will pass on very chunky price hikes that will almost certainly weigh on sales. Added to this, Sony has some unexpected concentration risk in its business customer base: it supplies camera sensors for all iPhones. Losing that business would make a dent in its overall earnings. Given the clouds gathering over consumer hardware, we thought it was best to sell and move on.

Stocks and bonds aren't as far apart as they look

A disconnect has developed between an equity market that keeps straining to go higher, and a bond market that is faltering. Bondholders are focused on the soaring cost of energy that's sending inflation higher, and are recalculating the path of interest rates for the coming years. If rates and inflation are higher than expected over the life of a bond, they are going to lose money. Yet stocks continue to grind higher, despite all these risks.

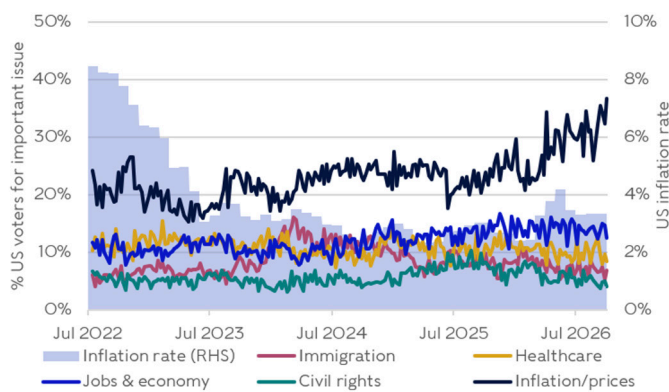
Are these two markets really in opposition to each other? Maybe not. The AI buildout is all-consuming for attention, money and economic growth. It's driving prices higher in many areas of computer hardware and construction. It's also delivering phenomenal growth in company sales and profits. In the second quarter, 78% of S&P 500 companies beat their earnings forecasts, and profits rose 53% from a year earlier. Some of that came from one-off investment gains at the big tech firms, but the underlying results were still strong. Stocks can keep rising when profits are growing this fast. Bonds don't have that luxury: their returns are fixed.

That said, we think bond markets have got ahead of themselves. The US administration has every reason to bring the conflict to an end and get oil back to a sensible price. In early October the President made a deal to buy Russian diesel, which shows the lengths he is willing to go to ease the pain of higher energy costs. Higher prices are also attracting more production from countries that can get oil to market. And expensive energy and higher borrowing costs act like a tax on households, doing part of the central banks' job for them. We expect fewer hikes than markets currently price. If we're right, today's yields are a chance to lock in income, rather than a warning to stay away. We could be wrong, of course. A long closure of Hormuz would push inflation higher and keep it there. That's why we also hold some inflation-linked bonds as insurance.

On 3 November, Americans vote on all 435 seats in the House of Representatives and 35 of the 100 Senate seats. Democrats are favourites to win the House, while control of the Senate is close to a coin toss. The likeliest result is divided government. That will mean plenty of colourful headlines, but for investors it usually means gridlock, and markets have tended to cope well with gridlock.

What's more interesting is the mood of American voters. The US economy is leaning heavily on a technology most of them don't much like. Almost 40% of Americans tell Gallup pollsters that AI does more harm than good, and only 9% say the opposite. And 'inflation' has been far and away the top problem highlighted by US voters for four years in a row (see chart), even though inflation – while noticeably higher than target – hasn't been terribly high. Public unease can turn into regulation, and this gap between sentiment and the economic data is worth watching. For now though, household spending continues, and our AI exposure sits mainly with the 'picks and shovels' suppliers: chips, networking and power infrastructure. We think they're paid for building the infrastructure, whatever voters end up thinking of it.

INFLATION CONSISTENTLY THE MOST IMPORTANT ISSUE FOR US VOTERS – EVEN AS INFLATION FELL BACK



Source: FactSet, Economist/YouGov Poll of registered US voters asking 'Which of these is the most important to you?'; latest poll consisted of 1,381 respondents between 2 and 5 October 2026; inflation is CPI annual change; data 1 July 2022 to 30 September 2026

We recognise that geopolitical risks remain high, causing stress in energy markets that are flowing through to companies, households and governments. It's pushing inflation higher once again and leading central bankers (and bondholders) to set higher interest rates for borrowing. Western governments are getting squeezed by higher borrowing costs at a time when finances were already profligate, causing political unrest.

With all these issues swirling in the air, any disappointment on AI earnings growth could lead to a sharp correction in the AI darlings after some truly extraordinary gains. Yet, at current yields, government bonds should offer significant protection if the stock market takes fright, which is why we hold them and have bolstered them in recent quarters. Meanwhile, away from AI, the rest of the stock market is delivering healthy earnings as well. This is why we are comfortable with our full investment in stocks, albeit well diversified and less exposed to the most volatile end of the AI trade.



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

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