LIONTRUST

GLOBAL EQUITY

Liontrust Emerging Markets Fund

Q2 2022 review

Fund manager: Ewan Thompson

The Liontrust Emerging markets Fund returned -7.5% over the quarter, versus the IA Global Emerging Markets sector average and MSCI Emerging Markets Index's respective performances of -5.2% and -4.0%*^.

The second quarter of 2022 continued to see considerable market volatility and saw losses from the first quarter extended. The economic backdrop remains challenging, as central banks continue to attempt to rein in resurgent rates of inflation. As price indices continue to climb worldwide, so too have expectations of higher interest rates. The ongoing conflict in Ukraine has, moreover, led to sustained high prices in oil prices and agricultural commodities, with crude oil averaging above $110 per barrel over the quarter (and above $100 for the year). Having initiated a tightening cycle in March with a 25-basis point rate increase, the US Federal Reserve followed up with further significant increases of 50 basis points in May and 75 basis points in June, taking the benchmark rate back to pre-Covid levels.

Given the significant macro headwinds, global markets declined in unison, making this, on many measures, the worst first half for equities in 50 years. With such a toxic backdrop of higher yields, a substantially higher US dollar and sharply negative markets, one would have expected emerging markets to underperform developed market peers, however the reverse was true, with MSCI Emerging Markets falling 12.4% (US dollar terms) against MSCI World at -16.6%.

One of the primary reasons for the outperformance was the considerable resilience demonstrated by the Chinese market, which represents roughly a third of the index and managed to record a small positive return over the period. In China, the quarter saw a relative easing in painful Covid restrictions, alongside a notable positive shirt in rhetoric towards the technology and e-commerce platforms that have been under regulatory pressure for the last year.

Moreover, emerging markets have arguably fared less poorly than developed markets given the relative string points going into the year. Developed markets have ridden high for a decade on cheap money and negative real interest rates, with valuations reaching extreme levels. Meanwhile the MSCI Emerging Markets Index sits at similar levels to where it was in 2007. In addition, Emerging Market central banks proved willing to get ahead of the curve and hike interest rates aggressively well before the Federal Reserve started to move. Therefore, whilst developed markets suffer the shock of moving from negative real (and even nominal) rates to sharply positive, many emerging markets are already close to the end of their tightening cycles, and now have plenty of room to cut rates when inflationary pressures ease.

The vast majority of the Fund's relative underperformance came from China, by far the best performing market of the quarter and one where the Fund has been underweight. In particular performance was negatively impacted by a significant sell-off in Hong Kong-listed power tools manufacturer Techtronic – the company's earnings outlook has been adversely impacted by the deteriorating economic outlook for the US and Europe, where the company records the majority of its sales. In addition, the violent rebound in heavily sold down e-commerce stocks such as Meituan, where the Fund did not hold a position, saw further China-specific underperformance.

In terms of trading activity, the Fund exited the position held in Chilean copper producer Antofagasta as the outlook for copper prices soured in-line with global economic slowdown, and initiated a position in Meituan, a Chinese online retail platform. A position in Realtek Semiconductor in Taiwan was also sold as the industry fundamentals deteriorated on increasing inventory levels in the chip sector as end demand continues to moderate.

All told, 2022 has presented an extremely challenging backdrop for emerging markets thus far, one that on paper would have been expected to have seen significant underperformance for the asset class. However, the impressive resilience so far seen in key emerging markets in these conditions has been notable.

Whilst the outlook at this juncture remains highly uncertain, the two key emerging market engines – China and India – continue to be driven by idiosyncratic factors, and we believe that once global growth expectations settle then a key headwind for Emerging markets as a whole will have been removed, while valuations remain at attractive levels relative to developed markets.

Discrete years' performance (%), to previous quarter-end:**

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust Emerging markets C Acc GBP	-19.1%	24.8%	-6.5%	4.8%	12.2%
MSCI Emerging markets	-15.0%	26.0%	-0.5%	5.0%	6.5%
IA Global Emerging markets	-17.2%	27.8%	-2.9%	6.1%	3.7%
Quartile	3	3	4	3	1

***Source: FE Analytics as at 30.06.22**

****Source: FE Analytics as at 30.06.22. Quartile generated on 06.07.22**

For a comprehensive list of common financial words and terms, see our glossary at:
https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

Key Risks

Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

Investment in the Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The Fund may invest in emerging markets/soft currencies or in financial derivative instruments, both of which may have the effect of increasing volatility.

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