LIONTRUST

GLOBAL EQUITY

Liontrust Latin America Fund

Q2 2022 review

Fund manager: Thomas Smith, assisted by Ewan Thompson

The Liontrust Latin America Fund returned -17.7% during the quarter, compared with a return of -15.3% for the MSCI EM Latin America Index and the Investment Association Latin America sector return of -16.6% (comparator benchmarks)*.

The rally in Latin American markets reversed during the second quarter as the global outlook shifted from stagflation to outright recession. After being one of the best performing markets globally during the first quarter, the surging US dollar and recession fears weighed on commodity prices and local equity markets gave up much of the first quarter's gains. Despite falling by over 15% during the second quarter, the MSCI Latin America Index still managed a respectable 11% gain for the first half of the year, well ahead of the 8% and 11% declines in Emerging and Developed Markets, respectively.

Global recession fears have varying drivers in different parts of the world, but many of these factors have deteriorated in recent months. Europe is facing an energy crisis, persistent inflation has increased the likelihood that the Fed over tightens leading to a US recession, and covid lockdowns in China along with regulatory crackdowns will weigh on the economy and business confidence. Towards the end of the quarter, major Chinese cities emerged from lockdown although the zero covid policy is likely to remain in place for the foreseeable future. There have been indications that the intensity of the technology regulation is easing and government officials are turning towards a more balanced approach, which will help sentiment going forward, and there have also been further stimulus measures announced in order to support the economy through a period of covid disruptions and the ongoing slowdown in the property market. These recession fears have weighed on commodity prices with the Bloomberg Commodity Index down by nearly 20% from the highs in early June.

Despite the weakness in regional and global markets and the increased economic anxiety, earnings expectations for Latin American companies remain strong. During the first half of the year, earnings estimates were revised 33% and 21% higher for 2022 and 2023, respectively, led by the Materials, Energy and Financials sectors. It seems that the recent weakness in commodity prices reflects investors de-risking on fears of a hard landing rather than a sharp deterioration in fundamentals. A recession will clearly negatively impact demand for many commodities but limited new supply and thin inventories is likely to keep fundamental balances tight over the medium term.

With share prices lagging the upwards revisions to earnings, the MSCI Latin America Index is now trading at just 6.5x 2022 earnings, a 43% discount to the broader Emerging Markets. Recession fears could continue to weigh on regional and global equities through the second half of the year but relative and absolute valuations are already at extreme levels suggesting significant risks are already priced in.

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

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust Latin America C Acc GBP	-16.3%	24.5%	-27.4%	32.5%	0.7%
MSCI EM Latin America	-4.5%	29.6%	-30.4%	22.9%	-1.8%
IA Latin America	-12.6%	24.6%	-26.0%	23.3%	-4.7%
Quartile	4	3	3	1	1

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

****Source: FE Analytics as at 30.06.22. Quartile rankings 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

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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. The Fund holds a concentrated portfolio of stocks, if the price of one of these stocks should move significantly, this may have a notable effect on the value of the portfolio.