Liontrust US Opportunities Fund

Q2 2022 review

Fund manager: George Boyd-Bowman

The Liontrust US Opportunities Fund returned -11.9% over the quarter, versus the S&P 500 Index return of -9.2% and the IA North America sector average return of -10.2% (both comparator benchmarks)*^.

US equity markets continued their downward trajectory in the second quarter marking a historically poor start the year albeit negative returns for sterling-based investors have been softened by a strong US dollar. Markets have rapidly recalibrated their expectations for significantly tighter monetary policy. This follows on from the "Fed pivot" at the end of last year where the Federal Reserve made it clear they recognise that inflation is less transitory than initially hoped and that they would accelerate plans to taper quantitative easing and hike interest rates. This has seen the Fed raise interest rates by 1.5% so far this year with a 75bps hike in June alone and the Fed has signalled that interest rates could be close to 3.5% by the year end. Inflation has bene more persistent than expected with rising wages, the impact of the Russian invasion of Ukraine on energy and food prices and the rolling Covid lockdowns in China.

Bond yields, both nominal and real, have risen rapidly which has hit equity market valuations and particularly those of highly valued, high growth companies. Unprofitable, high growth software companies have seen some of the largest impacts on their valuations.

There are growing concerns that the Fed, during its bid to curb surging inflation, will cause a recession. While time will tell it is important to remember US households and US corporates are in much better health than they have been for many years. Wages are rising, household debt is near record lows and excess saving balances are high thanks to generous furlough payments during the pandemic. This will help the US consumer to withstand an economy that will inevitably slow over the rest of 2022 and higher costs thanks to the inflationary backdrop.

The earnings backdrop has also changed over the last 6 months. After a period where US corporates beat earnings expectations by some margin, the first two sets of quarterly earnings in 2022 were much more in-line with historical averages. The reception to earnings has also been muted with the main issue being company guidance. As at the end of June, earnings estimates for the S&P 500 have actually risen slightly for the year as a whole meaning all the damage so far has been as a result of contracting multiples.

The Liontrust US Opportunities Fund underperformed both the S&P 500 and the wider peer group during the quarter. There was considerable divergence between sector returns during the quarter with technology and consumer discretionary underperforming significantly while the more classically defensive sectors of consumer staples, utilities and healthcare outperformed. This reflected the growing recessionary concerns during the period. The biggest detractors in the portfolio on a relative basis during the period were our holdings in the healthcare sector in part due to disappointing updates when reporting earnings, alongside our lack of exposure to energy which continued to benefit from a higher oil price. On the other hand, stronger performers this quarter included two of our companies that have been subject to takeover bids which is somewhat reassuring that corporates and other strategic investors are starting to see value after a period of multiple compression.

In terms of portfolio activity, we have made relatively minor changes to the portfolio and have been focusing our attention on companies and industries which we think we will structural beneficiaries of the post-Covid world. We continue to believe that disruption, and particularly digital disruption, will remain the most important determinant of corporate success. We continue to search for companies that we believe will be drivers of this disruption (disruptors), help fuel it (enablers) or indeed benefit from it (embracers).

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

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust US Opportunities C Acc GBP	-8.2%	33.6%	10.9%	12.8%	19.3%
S&P 500	1.2%	25.3%	10.1%	13.9%	11.9%
IA North America	-3.3%	27.2%	8.4%	11.3%	12.0%
Quartile	3	1	2	3	1

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

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