Please note: The Liontrust Global Equity team became part of the Liontrust Global Fundamental team on 8 February 2023. It was announced at the same time that Robin Geffen, Head of the Global Equity team, would be leaving Liontrust in due course and that Tom Record had replaced him as manager of this Fund from 8 February 2023.

Liontrust Balanced Fund

Q2 2023 review

The Liontrust Balanced Fund returned 3.8% over the quarter, versus its average peer in the IA Mixed Investment 40-85% Sector, which returned 0.2%*^.

Global equities mostly moved higher for the third quarter in a row in Q2, with the UK and China the notable exceptions. The US drove global returns yet again, despite the ongoing fallout from its regional banking crisis. There were market jitters in May over the periodic political standoff regarding the US debt ceiling, but these subsided by the end of the month when the House of Representatives passed the required bill.

Monetary tightening in the US and Europe continued, as core inflation remained stubbornly high. The Federal Reserve hiked by a quarter-point in May, its 10th in just over a year and bringing it to its highest target range since 2007, then paused in June. The US looks to be further ahead than other developed markets in terms of tackling inflation, especially the UK, where the Bank of England hiked rates by 75bps over the quarter and still appears to be behind the curve.

The debt ceiling issues have impacted US money supply, however, and M2 growth (yoy) is now negative and at its lowest in around 60 years. The restricted liquidity is raising funding costs for the regional banks, causing knock-on effects for the real estate sector. On the positive side, there are signs that the drivers of inflation are weakening, including a slight cooling in the tight US jobs market, while new developments in Generative AI should boost the economy in the short to medium term by increasing productivity and in turn, wages.

Elsewhere, there were hopes earlier this year that a resurgent China re-opening post-lockdown would stimulate the world economy. That recovery has faltered, which has global implications, but the Chinese government has moved back into a pro-stimulus phase of managing its economy.

We are seeing opportunities in a broad range of stocks. We expect our idiosyncratic stock-specific opportunities (and risks) to be a bigger determinant of returns than any big positioning in the portfolio to growth or cyclicals, for example. We continue to move the portfolio away from late cyclicals and have been gently increasing our exposure to consumer and early cyclical stocks.

From here, the US economy has an almost equal chance of slipping into recession or working through a period of shallow weakness. Real estate is likely to be a potential weak point, as it has the potential to feed through with leverage into issues around the regional banks. The real estate sector is seeing some high vacancy and capitalisation rates, which together with mark to market losses in the fixed income portion of the held-to-maturity asset side of some of the smaller banks' balance sheets, could lead to a hiatus in lending. It feels like now is not a time to take major sectoral or positioning bets, although there are plenty of reasons to be optimistic, too. We are more balanced in our approach, having tempered the positivity that we had at the beginning of the year.

The strongest contributor to performance in Q2 was Molson Coors, the US-listed brewer with brands such as Coors and Miller Lite. The company reported strong Q1 results, which made its full-year guidance look conservative. Better than expected pricing and volumes nudged gross margins up, leading to a significant beat to consensus profits. In the short term, Molson Coors is benefitting from branding issues at its biggest rival, ABI. In the long-term, we think it is making sensible investments in brands to drive profitable growth.

The Fund's allocation to information technology was the strongest sectoral contributor to performance. Our positions in Alphabet, Adobe, Microsoft and Amazon were among the top 10 contributors for the period.

Other strong performing stocks included Delta Airlines and Unicredit, the Italian-listed bank with its main exposures in Italy, Germany and Austria. Demand has been strong, cost control effective and pricing firm for Delta. The large body of consumer wealth that has grown over the last four years is clearly allowing high-end consumers to spend on travel. Leisure travellers are booking business class seats and business travel is starting to recover, but still has a way to go, which should underpin further growth into the future. Unicredit is starting off a low valuation, with a respectable return on equity, strong capital ratios and aggressive returns of capital to shareholders. The decreased likelihood of global contagion from the US regional banks crisis allowed the shares to continue to rerate.

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

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust Balanced C Acc	8.1%	-11.8%	16.3%	15.5%	4.3%
IA Mixed Investment 40-85% Shares	3.3%	-7.2%	17.3%	-0.1%	3.6%
Quartile	1	4	3	1	2

***Source: FE Analytics as at 30.06.23**
****Source: FE Analytics as at 30.06.23. Quartiles were generated on 06.07.23.**

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 value of fixed income securities will fall if the issuer is unable to repay its debt or has its credit rating reduced. Generally, the higher the perceived credit risk of the issuer, the higher the rate of interest.

Bond markets may be subject to reduced liquidity. 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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