LIONTRUST
COURAGE · POWER · PRIDE

Multi-Asset

June 2024

John Husselbee
Head of Multi-Asset

Market review: May 2024

- All fund and portfolio ranges deliver positive returns in May
- Global financial markets broadly rose; UK-listed property a notable performer
- Tactical outlook raised for global high yield bonds

All the Liontrust Multi-Asset funds and portfolios delivered positive returns in May[1] as global financial markets rose broadly. Most of the Liontrust Multi-Asset Funds have now beaten their Investment Association sector medians over one and three years.

UK-listed property was a notable performer over the month. UK equities underperformed their US and European counterparts, while emerging markets and Japan were the poorest performers, slipping into negative territory in sterling terms.[2] But sentiment ticked up generally, despite bouts of uncertainty regarding sticky inflation.

Federal Reserve chairman Jay Powell told an event in Amsterdam that progress in bringing inflation down to the 2% target had stalled in the first few months of 2024 and that policy would likely be to keep the interest rate at the current level for longer than previously thought.[3] In the eurozone, headline inflation of 2.6%, up from 2.4% in April, surprised the market, while the core rate accelerated from 2.7% to 2.9%.[4] This did not change expectations though for a rate cut by the European Central Bank (ECB) in June.

Fixed income performed positively overall, led by global convertibles. In our Q2 Tactical Asset Allocation (TAA) review, we raised our rating on global high yield bonds from a neutral three to a positive four out of five. While their spreads versus government bonds are not as cheap as they were 18 months ago, overall yields remain compelling. With clarity emerging over the shape of the global economy, the financial strength of companies' issuing them is broadly good, so we believe them to be well placed to service their debts. We expect that higher risk investments should be rewarded, and high yield bonds represent an acceptable pro-risk position.

As sentiment improves in global financial markets, overall equity targets have been increased, and fixed income targets reduced, in risk levels one to six. Targets for alternatives have been trimmed in risk levels one to six, and cash targets reduced in the lowest two risk levels.

Past performance does not predict future returns

Within equities, target allocations have been raised for the UK, Japan, Asia ex-Japan and emerging markets, and cut for the US and Europe ex-UK. Within fixed income, the targets for high yield and UK corporate bonds have been increased, while targets for UK and global bonds and short-term gilts have been reduced in several risk levels.

Positive economic outlooks

The economic outlook remained positive for the US and Europe. US markets took comfort from headline inflation falling slightly to 3.4% in April versus 3.5% in March, but first quarter US GDP was revised down to an annual rate of 1.3% from the 1.6% first reported in April.[5] This was also weaker than the 3.4% recorded for the fourth quarter of 2023. The ECB said economic growth in the eurozone was expected to grow by 0.8% this year versus 0.4% in 2023,[4] while in the UK, the government surprised markets by announcing a snap general election on 4 July after data showed that the economy was improving and April headline inflation had fallen to 2.3%.[6] The UK recorded 0.6% growth in the first quarter of 2024, while real wages had grown for 10 months in a row.

Focus on Asia

The economic picture was less rosy in Japan. Its economy shrank in the first quarter of 2024 as consumer spending continued its downward run. GDP was down an annualised -2%, surprising analysts on the downside. This created a barrier to the central bank's plan to tighten monetary policy.[7] Japanese stocks, having been leaders in recent months, lagged among developed market peers.

Asia was a focus for investors elsewhere, too. India's stocks hit a new all-time high in late May when exit polls indicated that Narendra Modi was increasingly likely to win another term. In China, authorities initiated the sale of Rm1 trillion ($140 billion) of long-dated bonds to stimulate the economy. The proceeds were to pay for projects to help modernise the economy.[8] But ongoing geopolitical issues with the US took another turn when it raised tariffs sharply on Chinese imports, impacting around $18 billion of Chinese goods, especially electric vehicles and semiconductor imports.[9]

From a TAA point of view, however, we remain positive on Japanese, emerging market and Asian ex-Japan equities.

Long-term fundamentals

More generally, financial markets seem to be well supported. Investor sentiment is reasonably positive and there was a different tone in markets in May versus that in April. It certainly appears to have improved compared with a year ago. Sentiment is powerful in the short term and difficult to predict, but at present, it seems that investors are tending to interpret news flow in a positive light. This is welcome, but the focus of our investment process is the longer term, during which fundamentals are much more important and are rewarded more meaningfully than sentiment.

[1]Source: Financial Express, 31 May 2024

[2]Source: Bloomberg, 6 June 2024

[3]Source: FT.com, 14 May 2024

[4]Source: FT.com, 14 May 2024

[5]Source: Bureau of Economic Analysis, 30 May 2024

[6]Source: FT.com, 22 May 2024

[7]Source: FT.com, 16 May 2024

[8]Source: FT.com, 13 May 2024

[9]Source: FT.com, 14 May 2024

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 does not predict future returns. You may get back less than you originally invested.

The Funds and Model Portfolios managed by the Multi-Asset Team may be exposed to the following risks:

Credit Risk: There is a risk that an investment will fail to make required payments and this may reduce the income paid to the fund, or its capital value. The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay;

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss;

Liquidity Risk: If underlying funds suspend or defer the payment of redemption proceeds, the Fund's ability to meet redemption requests may also be affected;

Interest Rate Risk: Fluctuations in interest rates may affect the value of the Fund and your investment. Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

Derivatives Risk: Some of the underlying funds may invest in derivatives, which can, in some circumstances, create wider fluctuations in their prices over time;

Emerging Markets: The Fund may invest in less economically developed markets (emerging markets) which can involve greater risks than well developed economies;

Currency Risk: The Fund invests in overseas markets and the value of the Fund may fall or rise as a result of changes in exchange rates.

Index Tracking Risk: The performance of any passive funds used may not exactly track that of their Indices.

Any performance shown in respect of the Model Portfolios are periodically restructured and/or rebalanced. Actual returns may vary from the model returns.

The risks detailed above are reflective of the full range of Funds managed by the Multi-Asset Team and not all of the risks listed are applicable to each individual Fund. For the risks associated with an individual Fund, please refer to its Key Investor Information Document (KIID)/PRIIP KID.

Disclaimer