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Global Equities

Q2 2024 review

Liontrust Latin America Fund

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The Liontrust Latin America Fund returned -11.5% during the quarter, compared with a return of -12.3% for the MSCI EM Latin America Index and -13.0% for the IA Latin America sector (both comparator benchmarks)*.

Global equities continued to press higher during the second quarter with the AI theme again leading the way. Despite the continued hawkish repricing of US interest rate expectations (modest relief came only at the very end of the quarter) and a strong US dollar, emerging markets managed to outperform developed markets with elections providing support in India and South Africa, and Taiwan's technology sector a standout performer. However, this resilience wasn't seen in Latin America with equity markets falling by 12.3%, dragged down by heavyweights Brazil (-12.3%) and Mexico (-16.1%). Local market weakness was exacerbated by currency depreciation with both the Brazilian real and Mexican peso falling by 10% against the US dollar.

Many central banks across emerging markets have become more hesitant to cut interest rates aggressively in the face of a more hawkish Fed, mainly due to concerns it may have weaken currencies and lead to the re-emergence of inflationary pressures. By the second half of 2023, inflation had already fallen back into the Brazilian central bank's target range, allowing it to begin lowering interest rates with many more cuts expected through 2024. Instead, the cycle has been paused and only one further cut is expected this year – it should be able to resume more regular cuts next year when a more synchronised interest rate cycle emerges.

Domestic events have exacerbated the challenges. The new fiscal framework was well received when passed last year and attention turned to the tax reform which aimed to simplify Brazil's byzantine tax system without increasing the burden. Initial progress was good with the VAT reform consolidating five taxes into just two, resembling India's highly successful Goods and Services Tax in many ways. However, since then the Lula government has been reluctant to cut spending to meet the targets set out in the fiscal framework, instead looking to raise some taxes to fund shortfalls. This has resulted in the market questioning the fiscal discipline of the government, leading to a weaker currency and slightly higher inflation expectations.

The two issues noted above will continue to be important to monitor. Should the Fed proceed with its first cut in September and then deliver regular cuts through next year, a lot of pressure will be alleviated from central banks across emerging markets who will then be able to resume their own interest rate cutting cycles. Similarly, Lula has a history of being pragmatic and this time is likely to be no different. With a clear message from the market that the government needs to reaffirm its commitment to fiscal responsibility, discussions are already underway about where spending cuts can be found in order to respect the targets laid out in the fiscal framework. Uncertainty remains but there is a clear path to an easing of the challenges faced both externally and domestically in the months ahead.

In June, Mexicans elected Claudia Sheinbaum to be the country's first female president, as expected, but the margin of victory (the largest in history) and her coalition having a two thirds majority in Congress were both surprises compared with pre-election polls, causing weakness in equities and the peso. Throughout the campaign she talked of policy continuity and recent speeches have reiterated her commitment to fiscal responsibility and the need for more private and foreign investment – including reforms required to take advantage of the immense nearshoring opportunity. A Sheinbaum presidency is likely to be far more constructive than her predecessor both by addressing specific issues relating to nearshoring and expanding Mexico's manufacturing base, and in her relationship with the private sector more broadly.

Positive performance contributions for the Fund came from Brazilian protein companies JBS and BRF, digital bank Nubank and e-commerce giant Mercadolibre, although overall performance was dragged down by most countries and sectors seeing negative returns.

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

	Jun-24	Jun-23	Jun-22	Jun-21	Jun-20
Liontrust Latin America C Acc GBP	-3.9%	16.4%	-16.3%	24.5%	-27.4%
MSCI EM Latin America	-5.0%	24.0%	-4.5%	29.6%	-30.4%
IA Latin America	-6.8%	24.3%	-12.6%	24.6%	-26.0%
Quartile	1	4	3	3	3

*Source: FE Analytics, as at 30.06.24, primary share class, total return, net of fees and income reinvested.

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. We recommend any fund is held long term (minimum period of 5 years). We recommend that you hold funds as part of a diversified portfolio of investments.

Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.

This Fund may have a concentrated portfolio, i.e. hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the Fund's value than if it held a larger number of investments.

The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.

Investments in emerging markets may involve a higher element of risk due to less well-regulated markets and political and economic instability. This may result in higher volatility and larger drops in the value of the fund over the short term.

Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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.

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