



## Liontrust Latin America Fund

### Q1 2022 review

Fund manager: Thomas Smith, assisted by Ewan Thompson

**The Liontrust Latin America Fund returned 28.6% during the first quarter of 2022, compared with a return of 30.9% for the MSCI EM Latin America Index and the Investment Association Latin America sector return of 25.6% (comparator benchmarks)\*.**

Latin America was one of the best performing markets globally in the first quarter of 2022. It was already benefitting from high commodity prices and this trend was reinforced by the Russia – Ukraine conflict. Countries in the region have seen a sharp improvement in their terms of trade (the price of exports relative to imports) and with limited economic ties to Russia, they should see minimal disruption. The region's commodity exposure is broad, ranging from oil exporters (Brazil and Colombia) to exporters of industrial and precious metals (Brazil, Chile, Mexico, Peru) and soft commodities and agricultural products (Argentina, Brazil, Chile, Mexico).

Several Latin American countries' equity markets underperformed significantly last year and their currencies have weakened since the outbreak of the pandemic. In real terms, the region's currencies were not far from the lows seen in previous crises despite the significant improvement in the terms of trade. In late 2021, the MSCI Latin America Index had fallen to a 30% discount to emerging markets on forward price to earnings, having historically traded at a small premium. At less than nine times forward earnings, the discount to emerging markets is still elevated at 20% and currencies remain weak. Already this year, earnings estimates have been revised 29% and 22% higher for 2022 and 2023 respectively. This comes on top of 2022 earnings estimates being revised 21% higher over the course of last year and stands in stark contrast to the negative earnings momentum seen in the broader emerging markets.

The main risks from the conflict in Ukraine are a more severe impact on global growth and higher and more sustained inflation, which could lead to both a steeper and more prolonged hiking cycle in the US. Unlike in most Fed tightening cycles, Latin American central banks have been more proactive in raising interest rates and have been tightening for some time (Brazil has hiked rates by 9.75% over the past 12 months). This should leave them less vulnerable and better positioned for higher rates than at the outset of any previous Fed cycle.

As often seems to be the case in Latin America, domestic events amplify global trends. As the macro backdrop has improved with sharply higher commodity prices, so too has the political landscape in Brazil become more constructive. Former President Lula is leading the polls for October's presidential election and is already looking to be more business friendly than previous Workers' Party administrations. He has already distanced himself from the far left of his party and has left little doubt

that he will adopt pragmatic, centrist policies if re-elected. The most important confirmation of this is his decision to select former Sao Paulo Governor Geraldo Alckmin as his running mate and prospective vice-president. Alckmin and his centre-right PSDB party have opposed Lula's Workers' Party for decades, but this reflects Lula's understanding that to get elected and be able to govern the country efficiently he needs to look beyond his leftist base. This increases the likelihood of at least a modest reform agenda, which Brazil needs to shore up government finances and to raise its economic growth potential.

Global and domestic trends support Latin American economies and markets, and valuations and currencies remain cheap. As the war in Ukraine drags on, Latin America is almost uniquely positioned by being geographically and economically insulated from the conflict while benefitting from the high commodity prices that are likely to persist.

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

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Liontrust Latin America C Acc GBP	18.7%	33.7%	-35.3%	4.7%	8.3%
MSCI EM Latin America	29.5%	34.9%	-37.8%	0.4%	6.3%
IA Latin America	19.4%	33.0%	-34.0%	0.2%	3.8%
Quartile	3	3	3	1	1

**\*Source: FE Analytics as at 31.03.22.**

**\*\*Source: FE Analytics as at 31.03.22. Quartile rankings generated on 05.04.22**

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.

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