



## Liontrust European Dynamic Fund

### July 2022 review

Fund managers: James Inglis-Jones and Samantha Gleave

**The Fund returned 5.2%\* in sterling terms in July. The MSCI Europe ex-UK index comparator benchmark returned 5.1% and the average return made by funds in the IA Europe ex-UK sector, also a comparator benchmark, was 5.7%.**

Although it seems increasingly likely that current supply-side shocks will see many economies flirt with recession in the near future, an equity market bounce in July suggests that much these economic fears were already priced in.

Eurozone GDP growth hit 0.7% in Q2, much stronger than the 0.1% economist consensus due to a bigger than anticipated boost from tourism. But Eurostat forecasts 2023 growth will fall to 1.2% from 2.7% in 2022, while several economists think it will enter recession at the turn of the year.

In July, the European Central Bank belatedly joined other central banks in implementing its rate tightening cycle. Ahead of the decision, there had been some speculation over whether the bank would raise rates by 25 basis points (bps) or opt for a 50 basis point hike. It chose the latter, following the US Federal Reserve and Bank of England's lead in pursuing an aggressive pace of increases.

As European markets rebounded from heavy year-to-date losses, it was cyclical sectors that lead the way. Real estate (+13.3%), IT (+12.5%), industrials (+10.7%) and consumer discretionary (+8.5%) posted the highest sterling-terms returns in the MSCI Europe-ex UK Index.

Financials (+0.8%) would typically be expected to participate in cyclical strength, but its July performance was hindered by the impact of a new Spanish windfall tax announced during the month. The Spanish prime minister declared a two-year windfall tax on financial institutions and energy firms to raise about €3.5bn a year to help combat the cost-of-living crisis. Stocks such as Banco Santander and Caixabank fell on the news. Energy (-0.9%) sector returns were also affected by Repsol's weakness. **Caixabank** (-14%) is the only Fund holding affected.

In line with European market trends, the Fund's best performing holdings came from the industrials and IT sectors. Despite commenting that it expects customer activity to moderate, Swedish industrial tools manufacturer **Atlas Copco** (+24%) still rallied strongly as it reported high growth rates in Q2. Revenues rose 20% to SKr33.1bn, while new orders increased 26% to SKr41.0bn, ahead of consensus analyst expectations of SKr38.0bn

**ASML** (+19%) also reported high sales growth in Q2 but predicted a slowdown next quarter. The semiconductor industry equipment manufacturer reported 52% quarter-on-quarter sales growth to €5.4bn following very strong demand for clients which drove net bookings to €8.5bn for the quarter. However, supply chain issues continue to represent a significant constraint. To combat this, it is increasing 'fast shipments' to customers, which skips some of the testing conducted in ASML factories in order to shorten the delivery cycle. These deliveries rely on customer acceptance before revenues can be recognised in ASML's accounts; this is expected to defer around €2.8bn in revenues from 2022 to 2023. As a result, ASML has lowered its 2022 revenue growth guidance to 10%.

**Positive contributors to performance included:**

Atlas Copco (+24%), ASML (+19%), Pandora (+17%).

**Negative contributors to performance included:**

Caixabank (-14%), K+S (-13%) and Bank of Ireland (-9.9%).

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

*Past performance does not predict future returns*

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust European Dynamic I Inc	-5.9%	43.8%	2.2%	-1.7%	5.0%
MSCI Europe ex UK	-10.6%	21.8%	0.0%	7.3%	1.8%
IA Europe Excluding UK	-12.6%	23.7%	0.9%	3.3%	3.11%
Quartile	1	1	2	4	2

\*Source: Financial Express, as at 31.07.22, total return (net of fees and income reinvested), bid-to-bid, institutional class. Non fund-related return data sourced from Bloomberg.

\*\*Source: Financial Express, as at 30.06.22, total return (net of fees and income reinvested), bid-to-bid, primary class.

For a comprehensive list of common financial words and terms, see our glossary at:

<https://www.liontrust.co.uk/glossary>

**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 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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