



## Liontrust China Fund

### Q3 2022 review

Fund manager: Ruth Chambers, assisted by Ewan Thompson

**The Liontrust China Fund returned -17.1% over the third quarter, versus the IA China/Greater China sector average of -14.0% and -15.7% from the MSCI China Index (both comparator benchmarks)\*^.**

The third quarter continued - and even amplified - the well-established negative trends predominant in 2022 so far and equity markets suffered negative returns across the board. The key macro dynamics remain the relentless rise in global interest rates in order to respond to high and rising inflation across the majority of economies. The rise in US interest rates in particular, along with the prevailing cautious economic outlook, has also served to push the US dollar higher, which has in turn prompted currency weakness across both emerging and developing markets, exacerbating the inflation and interest rate cycle. With global liquidity sharply tightening, the outlook for growth has also clearly deteriorated, with recessionary threats increasing in both the US and Europe.

After stabilising through the summer, Chinese equities resumed their downward trend in the third quarter. The core reasons are familiar but we are yet to see a decisive improvement to drive a sustained recovery. Firstly, China's zero-Covid strategy remains in place, which is hampering any potential economic recovery. We expect to see steps taken during the fourth quarter which will allow for a reopening from spring 2023 onwards. These include the approval of a domestic mRNA vaccine and increasing the capacity of the healthcare system to deal with rising numbers of cases. Secondly, the property market slowdown continues even as incremental easing measures have been announced recently, showing the government's increased willingness to stabilise the sector. Following the Party Congress in October we would expect to see further support, and as confidence recovers the property sector could even contribute positively to growth next year.

The Liontrust China Fund return was slightly behind the MSCI China Index during the third quarter. The weakest returns again came from the information technology and communication services sectors, alongside real estate, while consumer staples and financials were most resilient, and energy was the only sector to generate a positive return.

The world will be watching the Party Congress in October closely, especially for signals of positive policy developments related to both the zero-Covid policy and vaccine roll outs, and also efforts to address the slowdown in the property sector. Any thawing of rhetoric around geopolitical relations and easing regulatory tension would also be welcome.

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

	Sep-22	Sep-21	Sep-20	Sep-19	Sep-18
Liontrust China C Acc GBP	-24.1%	-3.4%	22.6%	0.2%	1.2%
MSCI China	-22.0%	-11.2%	27.3%	1.7%	0.6%
IA China/Greater China	-19.7%	1.6%	26.8%	4.8%	2.7%
Quartile	4	3	3	4	3

**\*Source: FE Analytics as at 30.09.22**

**\*\*Source: FE Analytics as at 30.09.22. Quartiles generated on 07.10.22.**

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.

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