



## Liontrust Latin America Fund

### Q3 2022 review

Fund manager: Thomas Smith, assisted by Ewan Thompson

**The Liontrust Latin America Fund returned 12.3% during the quarter, compared with a return of 12.7% for the MSCI EM Latin America Index and the IA Latin America sector return of 13.7% (both comparator benchmarks)\*.**

The third quarter continued – and even amplified – the well-established negative trends predominant in 2022 so far. Equity markets suffered ongoing losses across the board, taking year-to-date dollar returns to -27% and -29% for developed and emerging markets respectively. 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 seen currency weakness across both emerging and developing markets, exacerbating the inflation and interest rate cycle.

Latin American markets resumed their outperformance during the third quarter, the 12.7% return of the MSCI EM Latin America Index being well ahead of the -3.8% and +2.1% of MSCI Emerging Markets and MSCI World, respectively. Returns were strongest in Brazil (+14%) and Chile (+13%), while Mexico and Peru also managed positive returns. However, sterling returns were flattered by the sharp depreciation of the pound. In US dollar terms, global developed and emerging equity markets suffered losses across the board as the well-established negative trends of the year so far continued.

In Brazil, attention was focused on the final campaigning ahead of the first round of the presidential election on October 3. Polls had suggested that Lula might win in the first round by achieving over 50% of valid votes, but ultimately he and current president Jair Bolsonaro will go to a second round on October 30.

Markets reacted positively to the first-round results for a number of reasons. Firstly, Bolsonaro did better than expected. This has modestly increased his chances of being re-elected but, more importantly, is also likely to force Lula to shift further towards the centre in the coming weeks as the candidates continue to campaign ahead of the second-round run-off. Secondly, the elected congress was more heavily weighted to the centre and centre-right than had been forecast. This will make it harder for the next president to implement any unorthodox or disruptive policies. Lula is still the firm favourite to be elected in the second round and so attention will now turn to additional details on his fiscal policies and planned reforms, as well as the potential naming of some ministers.

Despite the weakness in global markets and the increased economic anxiety, earnings expectations for Latin American companies remain strong. During the first three quarters of the year, earnings estimates were revised 32% and 13% higher for 2022 and 2023 respectively, led by the materials, energy and financials sectors. It seems that the recent weakness in commodity prices reflects investors de-risking on fears of a hard landing rather than a sharp deterioration in fundamentals. A recession will clearly negatively impact demand for many commodities, but limited new supply and thin inventories is likely to keep fundamental balances tight over the medium term.

With share prices lagging the upwards revisions to earnings, the MSCI Latin America Index is now trading at just 6.5x 2022 earnings, a 38% discount to the broader emerging markets. Recession fears could continue to weigh on regional and global equities through the months ahead, but relative and absolute valuations are already at extreme levels suggesting significant risks are already priced in.

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

	Sep-22	Sep-21	Sep-20	Sep-19	Sep-18
Liontrust Latin America C Acc GBP	8.2%	19.6%	-31.5%	18.2%	-3.9%
MSCI EM Latin America	21.1%	22.1%	-32.7%	12.9%	-6.5%
IA Latin America	12.7%	16.5%	-28.4%	14.8%	-9.6%
Quartile	4	3	3	2	1

\*Source: FE Analytics as at 30.09.22.

\*\*Source: FE Analytics as at 30.09.22. Quartile rankings 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>

**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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