



Liontrust US Opportunities Fund

Q4 2022 review

Fund manager: George Boyd-Bowman

The Liontrust US Opportunities Fund returned -4.21% in Q4 2022, compared with -0.31% by the S&P 500 Index and an average performance of -0.58% by funds in the IA North America sector.

US equity markets rallied in the final quarter of the year but returns remained negative for sterling-based investors, due to a weaker US dollar and stronger pound. Markets took solace from the fact that inflation, which had been running at high levels, appeared to be cooling, particularly for goods and energy. If this continues, as we expect, then it should allow the Federal Reserve to ease its aggressive interest rate hikes. Markets were concerned in 2022 that the Fed, which now looks to have been behind the curve on monetary policy, would push the US economy into a recession in its bid to tame inflation. The good news for investors is that we have seen an improvement in many of the sub-categories of inflation. Even in areas where inflation has yet to become an issue, most notably in services and shelter, the real-time data suggests that we will see improvement here too in the coming months, with rents coming down.

Bond yields, both nominal and real, have risen rapidly during 2022, which has hit equity market valuations, especially those of highly valued, high-growth companies. Unprofitable, high-growth software companies have seen some of the largest impacts on their valuations.

The earnings backdrop has also changed over the last year. After a period in which US corporates beat earnings expectations by some margin, quarterly earnings in 2022 were much more in line with historical averages and slipped below them in the latest quarter. The reception to earnings has also been muted, with the main issue being company guidance as companies anticipate a tougher year ahead. As we enter 2023, earnings have been revised down significantly and are currently giving the most negative reading outside of the 2008 and 2020 recessions.

The US Opportunities Fund underperformed both the S&P 500 Index and the wider peer group during Q4. There was considerable divergence between sector returns, with communication services and consumer discretionary stocks underperforming significantly. The more classically cyclical sectors of energy, industrials and materials outperformed. Energy stocks held up despite a weaker oil price. The biggest detractors in the portfolio during the period were two of our holdings that had disappointing earnings updates. These included Advance Drainage Systems, the waste-water pipe manufacturer, which highlighted end-market weakness; and Silicon Valley Bank, which has been severely impacted by a deterioration in the backdrop for venture capital, its core client base. Horizon Therapeutics, the biopharma company acquired by Amgen for \$28bn, was a strong performer.

In terms of portfolio activity, we have made relatively minor changes to the portfolio and have focused on companies and industries that we think will be structural beneficiaries of the post-Covid world. We continue to believe that disruption, and particularly digital disruption, will remain the most important

determinant of corporate success. We continue to search for companies that we believe will be drivers of this disruption (disruptors), help fuel it (enablers) or indeed benefit from it (embracers).

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

	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18
Liontrust US Opportunities Acc	-16.8	27.7	23.7	28.2	1.1
S&P 500 Index	-8.2	29.3	14.1	25.7	1.0
IA North America	-9.7	25.5	16.2	24.4	-1.4
Quartile	4	2	1	1	2

***Source: FE Analytics as at 31.12.22**

****Source: FE Analytics as at 31.12.22. Quartiles generated on 07.07.23**

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 value of fixed income securities will fall if the issuer is unable to repay its debt or has its credit rating reduced. Generally, the higher the perceived credit risk of the issuer, the higher the rate of interest. Bond markets may be subject to reduced liquidity. 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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