Please note: The Liontrust Global Equity team became part of the Liontrust Global Fundamental team on 8 February 2023. It was announced at the same time that Robin Geffen, Head of the Global Equity team, will be leaving Liontrust in due course and that Tom Record had replaced him as manager of this Fund from 8 February 2023.

Liontrust Balanced Fund

Q1 2023 review

The Liontrust Balanced Fund returned 9.2% over the quarter, versus its average peer in the IA Mixed Investment 40-85% Sector, which returned 2.1%*^.

Global financial markets were generally higher in Q1, marking a second quarter of modest recovery. Investor sentiment improved throughout January and February but was disturbed in March when some regional US banks experienced deposit flight and were forced to realise losses on their long duration held-to-maturity bond portfolios. Problems at Credit Suisse added to the jitters, but policymakers on both sides of the Atlantic were quick to provide support and worries of a systemic issue subsided. The Fed has continued to raise rates albeit less aggressively and it does seem we are close to a cycle peak after a year of tightening. US growth stocks outperformed in March on expectations that interest rate rises would be less than feared. Leading indicators of US inflation continue to decline, helped by lower oil and gas prices, but it still persists, especially in the services sector. Central banks in Europe also continued to raise rates.

On balance, the banking crisis has made it a little more difficult for the US economy to avoid a recession by tightening conditions in the sector. Consumers are realising that bank deposits are not risk free and they must compete with the higher rates paid by money market funds. This will likely raise the cost of funds for banks and so ultimately increase the cost of loans. Second, the regional banks are likely to be more cautious in lending, and commercial real estate is probably the area where any slowdown in lending by these regional banks will show first. We are monitoring this area for indications of stress. Our global and international equity funds are underweight the financial sector, particularly traditional banks where we view the risk-reward skew of potential returns against us.

Economic prospects in China are brightening. The post-Covid reopening continues apace, although geopolitical tensions are rising versus the US and its allies. Generally, politics continues to be an important determinant of what the world will likely look like in five years. But since President Xi was elected for a fourth term, pragmatism has taken priority over dogmatism, which will likely boost China’s economy and have global ramifications.

Monetary policies remain a key focus for investors. Conversely, our attention is increasingly drawn to more analysis of companies’ fundamentals. Indeed, changes in our portfolios over the last quarter have been more stock- than macro-driven. Drawing themes from the companies that we are investing in – early-stage cyclicals are showing great promise, helped by falling energy prices and receding supply chain issues, and structural growth companies are looking more attractive against a more dovish array of central banks.

There are still uncertainties, and it does feel like risks have increased in recent weeks with the US banking crisis perhaps pressing the brakes a little too hard on the economy at a time of tightening. But investors with a long-term view can capitalise on this uncertainty, selecting those stocks for which the risk-rewards are favourable.

Among the notable performers for Q1 was US semiconductor firm Nvidia. At the recent GTC developer's conference and keynote, Nvidia showcased significant advancements in chips, services, and software. Nvidia demonstrated the vast scope of opportunities, not only in terms of expanding its presence in existing markets (such as extending Hopper into the inference market and introducing Grace CPU to complement its GPUs), but more importantly, in branching out from chips and cards to systems, software, and cloud services. In our opinion, the company is strategically positioning itself to capitalise on the transformative potential of AI investment

The Fund’s allocation to the mega-cap part of the US market was another notable driver of performance over the quarter as growth stocks posted strong gains in March on expectations that interest rate rises would be less than feared. Our positions in Apple, Alphabet, Amazon and Microsoft were among the top 10 contributors for the period.

Palo Alto Networks was also a strong performer in Q1 and remains a formidable contender in the cloud security sector, consistently excelling in this rapidly expanding market. As one of the fastest-growing segments within enterprise software, cloud security accounts for only 1% of the annual public cloud spending exceeding $200 billion (IaaS+PaaS), indicating its vast untapped potential.

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

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Liontrust Balanced C Acc	-10.6%	13.1%	23.3%	4.2%	5.8%
IA Mixed Investment 40-85% Shares	-4.5%	5.2%	26.4%	-8.0%	4.3%
Quartile	4	1	3	1	2

***Source: FE Analytics as at 31.03.23**
****Source: FE Analytics as at 31.03.23. Quartiles were generated on 06.04.23**

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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