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Global Fundamental

Q4 2023 Review

Liontrust Emerging Markets Fund

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The Liontrust Emerging Markets Fund returned 3.2% over the quarter, compared with the 3.3% return from the MSCI Emerging Markets Index comparator benchmark and the 3.5% average return from the IA Global Emerging Markets sector, also a comparator benchmark.*

The final quarter of 2024 saw solid gains for emerging markets, returning 3.3% in Sterling terms. Although in aggregate emerging markets underperformed developed markets (+6.7%), this was in large part due to the continued underperformance of China (-8.3%) and many key markets significantly outperformed developed markets, for example Korea, Taiwan, India, Brazil and Mexico. Initially the continued climb in October of US bond yields and the US dollar kept emerging markets under pressure through external factors, though encouragingly even during these headwinds emerging market currencies remained relatively firm. However, this general macro-economic backdrop changed significantly at the beginning of November, with the US 10-year Treasury yield falling from a high of 5% in late October to below 4% by the end of the year. The US dollar has similarly declined, offering considerable respite to the asset class as a whole. As the market has increasingly priced in a soft landing for the US economy, expectations for interest rate cuts were brought forward notably. Asian markets (outside of China) performed especially well due to their high weightings towards the technology sector, where continued enthusiasm for the AI thematic, expectations of firmer US demand and lower bond yields combined to support earnings expectations. Moreover, clear signs of improvement in the semi-conductor cycle saw key Korean players Samsung Electronics and Hynix stage a strong recovery.

In China, the news remained disappointing, with a combination of negative inflation data, ongoing concerns over property and local government financing vehicles continuing to weigh on the market. Although several government policy responses were enacted – for example, a boost to the fiscal deficit and a 1 trillion RMB special bond – the CEWC (Central Economic Work Conference) came and went without any major policy changes. In addition, company results and outlook statements continued to be disappointing, especially from the internet and consumer sectors. On a more positive note, India's strong bull market remained on track, supported by robust underlying economic growth, but with the added catalyst of an unexpectedly strong showing from the ruling BJP party in state elections in November. The BJP won 3 out of the states in contention and then gained significant vote share in Madhya Pradesh, setting the stage for a potential strong showing in the critical General Election this spring – the BJP is looking for an historic third consecutive term, which would offer policy continuity and be welcomed by markets. In Latin America, markets responded the most emphatically to the pivot in macro backdrop with Brazil and Mexico among the best performing markets in the year. In Brazil inflation continued to soften allowing a further cut in interest rates, supporting the domestic growth outlook.

The Liontrust Emerging Markets Fund enjoyed a solid quarter of performance, in-line with both market and peer group and in the second quartile of the sector. The most significant positive contributor to performance came from South Korea, where holdings in the technology and consumer discretionary sectors performed strongly. Samsung and Hynix have been buoyed by a recovery in the semiconductor sector, where inventory levels have dropped to healthy levels and demand is picking up, in turn leading to a much-improved pricing outlook for 2024. In the consumer sector, Kia Motors rallied from very cheap valuation levels as concerns over potential demand weakness from the US eased. The Fund also benefitted from a general underweight position in Chinese equities, though also the holding in Lenovo was a strongly performing outlier in the Hong Kong market, driven by a recovering outlook for global PC demand. Finally, the Fund benefitted from overweight allocations to both Brazil and Mexico. In Brazil positions in banks Itau and Banco do Brasil and industrials recovered well on the back of improving economic conditions. In Mexico, strong performance came from copper miner Grupo Mexico as well as financial services provider Gentera.

In the Fund several changes were made. Among them, the position in Indonesian auto manufacturer Astra was switched into Jasa Marga, a toll-road operator set to benefit from a faster-than-expected traffic recovery in Indonesia as well as beneficial tariff adjustments across its portfolio. In the Philippines, profits were taken in bank BDO and recycled into port operator ICT, which also stands to see tariff repricing at its Manila ports. ICT has beneficial exposure to both the global energy transition and US-China decoupling thanks to assets in resource-rich Africa and a strong presence in Latin America. In India, positions were initiated in real estate developer DLF, which is seeing rapid earnings growth thanks to a robust underlying residential property market, where inventories sit at decade lows amid a strong demand recovery, despite a sequence of strong launces demand remains buoyant and prices continue to rise. A position was also taken in Eicher Motors, manufacturer of Royal Enfield motorcycles, which is benefitting from the pick-up in 2-wheeler volumes but has also lagged due to concerns over competition from Harley Davidson and Triumph, though this has not proved to be material and provides an opportunity for the stock to re-rate. Funds were raised through the sale of Ping An and Hong Kong Exchange in China, where the prospects for economic recovery remain highly uncertain.

With the US Federal Reserve leaning with an easing bias, emerging market central banks have already been able to pivot ahead of the US. Emerging markets enjoy superior EPS and GDP growth outlooks; lead indicators are more robust in emerging markets than developed and of course valuations are extremely appealing. Indeed, the relative emerging market lead indicators are at their strongest for 14 years and EPS growth is superior by as much as 9 percentage points. Therefore, we believe the cyclical outlook for emerging markets looks extremely attractive. Key news flow to be watched will be the results of numerous elections in 2024, namely Taiwan, Indonesia, India, Mexico and South Africa.

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

	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust Emerging Markets C Acc GBP	2.9%	-16.1%	-7.8%	16.7%	15.5%
MSCI Emerging Markets	3.6%	-10.0%	-1.6%	14.7%	13.9%
IA Global Emerging Markets	4.3%	-12.2%	-0.5%	13.6%	16.0%
Quartile	3	3	4	2	3

*Source: FE Analytics, as at 31.12.23, primary share class, total return, net of fees and income reinvested.

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 does not predict future returns. You may get back less than you originally invested. We recommend any fund is held long term (minimum period of 5 years). We recommend that you hold funds as part of a diversified portfolio of investments.

Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.

This Fund may have a concentrated portfolio, i.e. hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the Fund's value than if it held a larger number of investments.

The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.

Investments in emerging markets may involve a higher element of risk due to less well-regulated markets and political and economic instability. This may result in higher volatility and larger drops in the value of the fund over the short term.

Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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.

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