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Multi-Asset

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Market review: April 2024

- Fund and portfolio ranges slip slightly as markets consolidated after two quarters of gains
- Stubborn inflation and geopolitical concerns unsettle markets
- Adjustments made to US equity, fixed income and cash holdings

The Liontrust Multi-Asset funds and portfolios dipped slightly in April as equities, bonds and real estate markets weakened. UK, emerging market and Asia ex-Japan equities were notable bright spots, however. All but three of our 20 funds still outperformed their IA sectors' average performances, although only MA UK Equity delivered a positive return among our funds.

Positive sentiment has driven markets over the last two quarters, but stubborn inflation data forced policymakers and investors to tweak their expectations for interest rate cuts, while Iran's first ever military strike on Israel from its own territory caused further market concerns. Geopolitical risks spurred higher commodity prices.

Changes to US equity exposure

US equities and government bonds were among the poorest performers in April. They sold off after data showed US inflation ticked higher to 2.7% in March, largely due to a rise in petrol prices and further undermining hopes that the Federal Reserve would cut interest rates in the summer.[1] Economic growth continued to be positive in the first quarter, albeit weaker than expected.

In our first quarter 2024 Tactical Asset Allocation (TAA) review, we raised our rating for US smaller companies from a neutral three to a positive four, bringing it into line with our rankings for UK and Japanese small caps, although our ranking for US equities generally remains at neutral. We have changed the North American equity allocation to provide a balanced stylistic exposure to match our conviction for the cycles ahead while also creating a blend of managers that we believe have appropriate characteristics such as philosophy, process, team, organisational structure and risk management. In our Blended Growth MPS, we have introduced CT American Smaller Companies, BA Beutel Goodman US Value and GQG US Equity, replacing the incumbent

Artemis US Smaller Companies and **JPM US Equity Income**. CT American also replaces **iShares S&P SmallCap 600** in the MA Explorer and Blended funds.

Inflation picture is rosier in eurozone

The UK was the strongest equity region globally, driven largely by gains in the energy and basic materials sectors. We rate UK equities, including small caps, a positive four out five from a tactical perspective; the market has been unloved for some years, and if it reverts toward longer-term average valuations over time then that would suggest the potential for significant upside. In the first quarter, we added **Invesco UK opportunities** to our MA Blended and Explorer funds. It targets high-quality businesses trading at discounted valuations relative to their intrinsic value.

While UK inflation slowed less than expected in March to 3.2% from 3.4% in February, tempering expectations of rate cuts, the inflation outlook was looking better in the eurozone, falling more than expected to 2.4% in March and prompting investors to switch out of US treasuries into European government bonds in anticipation of interest rates falling faster.[2] However, European ex-UK equities still fell over April and we remain neutral on the region's equities and bonds.

Hang Seng leads the pack

Emerging market and Asia ex-Japan equities were also positive performers. China was a key factor in this, with the Hang Seng Index performing the best of any major stock market in April as it attracted foreign investors Inflows from international investors seeking lower-valued, high-dividend stocks. Investment from mainland China also increased.[3] China's gross domestic product in the first quarter of this year was 5.3% up on the year, beating market expectations and supporting sentiment towards the country.[4] We are also positive from a tactical viewpoint on both EMs and Asia ex-Japan. They offer attractive valuations, encouraging long-term demographics and healthy economies. They have gone through the inflation cycle more quickly than developed markets and are, generally, in better positions to cut interest rates sooner.

Elsewhere in Asia, Japanese stocks, having been leaders in recent months, were weak as investors assessed the risk of further interest rate hikes. The Bank of Japan was rumoured to have intervened to defend the yen after it sank to 160 to the US dollar.[5]

Changes to corporate bond and cash holdings

Fixed income markets weakened in April on higher for longer interest rate concerns. In our annual Strategic Asset Allocation (SAA) review in Q1, we diversified the fixed income allocations geographically; there was a modest reduction in the target allocations to UK gilts and UK corporate debt and a broadly commensurate increase in global ex UK fixed income hedged into sterling. There has also been a slight reduction in our global high yield target. As a result, there has been a small reduction in our fixed income target allocations, with re-allocations to cash and equities.

We remain broadly neutral on fixed income from a tactical perspective, although we are positive on corporate bonds. We have changed the holdings to some extent: **Man GLG Sterling Corporate Bond** and **Royal London Corporate Bond** have been introduced in the MA Blended Fund range, while Royal London Corporate Bond has been added to complement the existing Man GLG Sterling Corporate Bond and Liontrust SF Corporate Bond in the MA Explorer range.

A pause for long-term thought

April was a classic 'pausing for breath' month on financial markets – and one for investors to pause for thought about the longer term, too.

We believe that over the short term, markets are driven by fickle sentiments, but longer term, they tend to revert to levels justified by their fundamentals. Investors might take encouragement from the performances of the UK, emerging market and Asia ex-Japan equities in April. Over the last five years, UK stocks' return has been about half that of the US, while emerging markets have returned about half that of the UK in sterling terms. Clearly one month is too short a term to discern any sort of trend, but on a long-term basis, we are optimist about their current valuations and long-term fundamentals - and we are well positioned for a recovery in them.

[1]Source: FT.com, 26 April

[2]Source: FT.com, 10 April 2024

[3]Source: FT.com, 29 April 2024

[4]Source: FT.com, 16 April 2024

[5]Source: The Economist, 4 May 2024

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.

The Funds and Model Portfolios managed by the Multi-Asset Team may be exposed to the following risks:

Credit Risk: There is a risk that an investment will fail to make required payments and this may reduce the income paid to the fund, or its capital value. The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay;

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss;

Liquidity Risk: If underlying funds suspend or defer the payment of redemption proceeds, the Fund's ability to meet redemption requests may also be affected;

Interest Rate Risk: Fluctuations in interest rates may affect the value of the Fund and your investment. Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

Derivatives Risk: Some of the underlying funds may invest in derivatives, which can, in some circumstances, create wider fluctuations in their prices over time;

Emerging Markets: The Fund may invest in less economically developed markets (emerging markets) which can involve greater risks than well developed economies;

Currency Risk: The Fund invests in overseas markets and the value of the Fund may fall or rise as a result of changes in exchange rates.

Index Tracking Risk: The performance of any passive funds used may not exactly track that of their Indices.

Any performance shown in respect of the Model Portfolios are periodically restructured and/or rebalanced. Actual returns may vary from the model returns.

The risks detailed above are reflective of the full range of Funds managed by the Multi-Asset Team and not all of the risks listed are applicable to each individual Fund. For the risks associated with an individual Fund, please refer to its Key Investor Information Document (KIID)/PRIIP KID.

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