

# Global Equities

Q2 2024 review



## Liontrust Emerging Markets Fund



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The Liontrust Emerging Markets Fund returned 3.8% over the quarter, compared with the 4.9% return from the MSCI Emerging Markets Index comparator benchmark and the 4.2% average return from the IA Global Emerging Markets sector, also a comparator benchmark\*.

The second quarter of 2024 saw a robust performance from emerging markets, returning 4.9% and enjoying a quarter of outperformance against the MSCI All-Country World Index return of 2.8%. Global equity markets pressed higher, led by ongoing interest in the AI thematic. The overriding dynamic for markets remained the policy outlook from the US Federal Reserve, where expectations at the beginning of the year for an imminent easing cycle had given way to pessimism and a revival of expectations for higher-for-longer monetary policy. However, the upwards pressure in yields eased towards the end of the quarter, as did US dollar strength, supporting emerging markets' recovery.

Returns across markets and regions were highly divergent, with outsized positive returns coming from the technology-heavy Taiwanese market as well as India, which saw markets rally ahead of and after its general election and the return of incumbent prime minister Narendra Modi for an historic third term. A positive election outcome also drove South Africa higher, while the hitherto-troubled China managed something of a recovery thanks to incremental policy response to address the faltering property market. At the other end of the scale, Latin American markets suffered losses, especially Brazil and Mexico, where local market weakness was exacerbated by currency weakness, with both the Brazilian real and Mexican peso falling by 10% against the dollar. In Brazil, a promising new fiscal framework showed signs of faltering, while in Mexico the landslide of victory of Claudia Sheinbaum and a two-third majority in Congress for her Morena party worried investors over potential market-hostile policies.

While underperforming in Q2, the Fund has outperformed the market year to date, returning 12.7% against the Index return of 8.4% (and average peer return of 7.7%). The Fund sits in the first quartile of its peer group both year to date and over the past 12 months. During the quarter, the most significant positive contributions to performance came from South Korea and India, while the largest drags were stocks listed in Brazil, Indonesia and Mexico.

In South Korea, the ongoing recovery in semiconductor pricing – thanks to capacity reductions at key producers and resurgent demand due to the AI revolution – has boosted earnings at **Hynix**, while in the auto sector **Hyundai Motor** has benefited from higher demand in its hybrid vehicles as demand for conventional combustion engine and battery electric vehicles has waned. In India, holdings in the materials sector led the charge, with PVC pipes manufacturer **Finolex Industries** recording strong returns supported by improved construction demand. A position in cement producer **Ultratech** was also added in the quarter, which proceeded to perform well thanks to improved pricing as well as being an active player in the ongoing consolidation of the industry. The key drag to the portfolio in Brazil and Indonesia was largely due to the delayed interest rate cutting cycle from the Federal Reserve. Central Banks in both countries had acted forcefully and early in tightening monetary policy ahead of the US and markets were looking forward to a cutting cycle to stimulate growth, which has now been delayed and both countries have seen foreign investor outflows as a result.

With economic data in the US now looking more amenable to interest rate cuts, we expect bond yields to begin reversing lower, providing an ongoing support to emerging market equities, which remain undervalued and under owned relative to developed markets, despite showing an extremely compelling earning per share growth premium, with analyst forecasts having improved significantly over the past nine months. Once the Federal Reserve cuts rates, emerging market central banks are ready and able to cut rates, offering a welcome boost to domestic growth rates. Given this backdrop we believe the case for emerging markets' ongoing outperformance looks strong.

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

	Jun-24	Jun-23	Jun-22	Jun-21	Jun-20
Liontrust Emerging Markets C Acc GBP	16.3%	-2.6%	-19.1%	24.8%	-6.5%
MSCI Emerging Markets	13.2%	-2.8%	-15.0%	26.0%	-0.5%
IA Global Emerging Markets	11.7%	-0.3%	-17.2%	27.8%	-2.9%
Quartile	1	3	3	3	4

\*Source: FE Analytics, as at 30.06.24, 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>

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## 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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