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Multi-Asset

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Market review: June 2024

- All the MA portfolios and Explorer, Blended and Dynamic Passive fund ranges deliver positive returns in June
- European election news unnerves markets; more uncertainty over trajectory of interest rates
- Asia ex-Japan holdings changed in Blended and Dynamic Passive funds

All the Liontrust Multi-Asset portfolios and funds, except for MA UK Equity, delivered positive returns in June as global financial markets delivered mixed performances. The MA UK Equity fund still outperformed its Investment Association sector peer median in June. Seven of the eight Multi-Asset funds that target returns versus an IA sector have beaten the respective medians over the last year.[1]

Emerging markets (EMs) and Asia ex-Japan were leading equity performers while UK and European equities slipped into negative territory in sterling terms. Fixed income markets were mostly positive, led by long-term gilts and US treasuries, while high yield and index-linked global government bonds were marginally negative.[2]

Fund allocations changed to Asia ex-Japan

In our second quarter rebalance, we raised target allocations for EM and Asia ex-Japan. Both regions have been underperforming for some years, not least because of issues related to China, and they have some catching up to do. They are cheap compared with developed markets: for example, on a 12-month forward price to earnings basis, EM equities' discount to the US is now below its global financial crisis low.[3] China has deployed a pro-growth stimulus, both regions would benefit from a weakening dollar and the reorganisation of strategic supply chains following US-China tensions could benefit non-Chinese nations. In our MPS portfolios, Fidelity Index Emerging Markets was a leading contributor to overall performance in June, while good performance by Schroder Asian Income in our MPS Income portfolios reflected the outperformance of value in the region.

Latest data showed that China's exports grew faster than expected in May.[4] Tensions were still growing with the West, however, and the European Union added to these by announcing an increase in import tariffs on Chinese electric vehicle imports, to which China was expected to retaliate with curbs on EU agricultural imports, pharmaceuticals, aircraft, brandy and cosmetics.[5]

Past performance does not predict future returns

In June we changed some of our Asia ex-Pacific allocations in our Blended and Dynamic Passive funds. We purchased Abrdn Asia Pacific ex-Japan Tracker, using it to replace L&G Pacific Index Trust in our Blended range, and both L&G Pacific Index Trust and HSBC Pacific Index in our Dynamic Passive range. We regard The Abrdn Asia Pacific ex-Japan fund as the most appropriate vehicle to replicate the MSCI AC Asia ex-Japan Index given its substantial weights in China, India, Taiwan and South Korea.

Federal Reserve signals one cut this year

There was more recalibration in June around the trajectory of interest rates. Earlier this year, the market had expected six or seven cuts in 2024, but this has reduced to just one or two. Indeed, US Federal Reserve officials signalled in June that they expected to cut interest rates just once this year. The hawkish signals followed close on the release of lower-than-expected consumer price index data for May that showed headline US inflation still fell to 3.3% in May.[6]

US equities were strong performers in sterling terms in June, led once again by the largest stocks. The overall top contributing fund across our MPS portfolios was Fidelity Index US. On the fixed income side, iShares Corporate Bond Index and iShare UK Gilts All Stocks Index were notable contributors.

Elections weigh in Europe

Impending general elections caused uncertainty that weighed on both the UK and France, with some knock-on effects in the rest of Europe.[7] Markets were worried ahead of the first round of parliamentary elections in France – later justified – that they would result in victory for the right-wing Rassemblement National. Germany's finance minister Christian Lindner said that intervention by the European Central Bank (ECB) if the election caused a selloff in French debt would raise some economic and constitutional questions.[7] Investors could take some comfort however from the ECB cutting rates by a quarter-point in June and data showing that Eurozone inflation slowed to 2.5% in June from 2.6% the previous month.[8]

We have been neutral on European ex-UK equities since raising the ranking from negative at the beginning of 2023. Europe must determine its place in the world economy going forward and it is questionable to what extent it can return to being an exporting powerhouse. But it is home to many multi-national businesses linked to the global growth story. In our MPS portfolios, JOHCM Continental European, Fidelity Index Europe ex UK, BlackRock Continental Europe Income and Barings Europe Select weighed slightly in June.

On the UK we are more positive: we believe it could turn versus the other majors with only a marginal shift in sentiment, which could be greater certainty after the general election. UK GDP grew at 0.7% in the first quarter of this year, which ended the shallow recession seen in the second half of 2023 and was also the highest of any G7 country.[9] UK stocks drifted down in June in the countdown to the snap general election in July, however, with Schroder Income Maximiser, JOHCM UK Dynamic and Fidelity Index UK weighing, although WS Lindsell Train UK Equity Income was a marginal positive.

Political surprises

This year is notable for the number of national elections being held around the globe. June demonstrated how politics can unnerve markets. However, investors should remember that the impacts of politics tend to be short term: they are unlikely to materially change the long-term path of markets. Recent examples of political surprises, such as the Trump presidency and the Brexit vote, showed how markets could be choppy in the aftermath, but only for a short period. The performance of markets has more to do with valuations at any given entry point, and our view is that current valuations on world markets, especially equities, look attractive from a long-term perspective.

[1]Source: Financial Express, 1 July 2024

[2]Source: Bloomberg, 2 July 2024

[3]Source: LSEG Datastream, MSCI, IBES, Schroders Strategic Research Unit, 31 December 2023

[4]Source: FT.com, 7 June 2024

[5]Source: FT.com, 19 June 2024

[6]Source: FT.com, 12 June 2024

[7]Source: FT.com, 29 June 2024

[8]Source: FT.com, 2 July 2024

[9]Source: FT.com, 28 June 2024

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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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