

Capital Group Global Corporate Bond Fund Hedged (AU)

Market review

- Risk assets finished higher in April, helped by lower US Treasury yields after the US Federal Reserve (Fed) reiterated its accommodative stance and investor concerns about rising inflation receded slightly. Markets were supported by hopes of a global economic recovery following the roll-out of COVID-19 vaccination programs, sizeable fiscal stimulus in the US, and major central banks' ultra-loose monetary policy.
- In the US, President Biden gave details of a proposed US\$1.8 trillion spending package on childcare and education. The American Families Plan, funded by income and capital gains tax hikes on wealthier individuals, follows the US\$1.9 trillion pandemic relief bill signed in March and a proposed US\$2.3 trillion infrastructure bill (with the latter financed by corporate tax rises). Meanwhile, the Fed maintained its monetary policy, keeping the fed funds rate in a 0-0.25% target range and its monthly asset purchases at US\$120 billion. Despite a stronger economy, the Fed said that it would only consider tapering once it is closer to achieving its twin goals of full employment and 2% average inflation.
- The European Central Bank (ECB) kept key interest rates at record-low levels at its April meeting. The ECB's president, Christine Lagarde, said that despite a recent uptick in prices, underlying inflationary pressures remain subdued. She also noted that economic activity is expected to accelerate over 2021, though the near-term outlook is uncertain.
- The Bank of Japan (BOJ) maintained monetary policy. At its April meeting, the BOJ left its key short-term interest rate at 0.1% and kept the target for the 10-year Japanese government bond yield at around 0%. However, it cut its forecast for consumer price inflation in the current fiscal year from 0.5% to 0.1%; gross domestic product is now expected to grow by 4% this fiscal year, slightly higher than the BOJ's previous estimate of 3.9%. Given an uncertain economic outlook because of the pandemic, the BOJ is prepared to take further easing measures if required. The 10-year government bond yield remained at 0.09% over the month.
- Global investment grade corporate bonds posted positive total returns in April, with spreads marginally tightening by 4 bps to end at a level of 91 bps (as measured by the option-adjusted spread).

Portfolio review

- Over the month, Capital Group Global Corporate Bond Fund Hedged (AU) returned 0.6%¹ before fees, while the index returned 0.7%². Net of fees, the fund returned 0.6%³. For the 12-month period, the portfolio returned 5.4%¹ before fees, and 4.8% after fees³, compared to the index's return of 4.6%².
- Security selection detracted from relative returns, as did sector/industry allocation, albeit to a lesser extent. The portfolio's yield-curve positioning was positive, but duration positioning was a relative detractor.
- Security selection among government-related securities detracted from relative results. Most notably, a non-index position in China-based asset manager **Huarong Finance** was the top individual detractor from relative returns.
- Security selection in the electric sector also detracted on a relative basis. Most notably, an overweight position in **Pacific Gas and Electric** weighed on relative results.

- Conversely, security selection in the banking sector was beneficial. At an issuer level, an overweight position in **JP Morgan Chase & Co** was the portfolio's top positive relative contributor.
- In addition, security selection in the capital goods sector added value on a relative basis. At an issuer level, an overweight exposure to **Boeing** helped relative returns.

Index returns are shown in US dollar terms while stock returns are total returns as shown in local currency terms, unless otherwise stated. Sources: Capital Group, MSCI

¹ Returns are before management fees and expenses, in Australian dollar terms. Source: Capital Group

² Bloomberg Barclays Global Aggregate Corporate Total Return Index. Hedged to AUD. Sources: Bloomberg Barclays

³ Returns are net of fees at maximum management fee, in Australian dollar terms. Source: Capital Group

All information current as at the last business day of month of report unless otherwise noted. This communication contains sensitive and confidential information. Any use for any other purpose, and disclosure, dissemination, copying, reproduction or distribution of the information is prohibited. This communication is intended for professional investors only and should not be relied upon by retail investors. Past results are not predictive of future results. This information is neither an offer nor a solicitation to buy or sell any securities or to provide any investment service. While Capital Group uses reasonable efforts to obtain information from sources which it believes to be reliable, Capital Group makes no representation or warranty as to the accuracy, reliability or completeness of the information. This communication is of a general nature, it is not intended to be comprehensive or to provide investment, tax or other advice. It has been prepared for multiple distributions and does not take account of the specific investment objectives of individual recipients and it may not be appropriate in all circumstances. This communication has been prepared by Capital International, Inc., a member of Capital Group, a company incorporated in California, United States of America. The liability of members is limited. In Australia, this communication and Capital Group Global Corporate Bond Fund Hedged (AU) (ARSN 628 276 577) are issued by Capital Group Investment Management Limited (ACN 164 174 501 AFSL No. 443 118), a member of Capital Group, located at Level 18, 56 Pitt Street, Sydney NSW 2000 Australia. The said fund is offered only by Product Disclosure Statement (PDS), please read the PDS which is available upon request or at www.thecapitalgroup.com.au in its entirety before making an investment decision. All Capital Group trademarks are owned by The Capital Group Companies, Inc. or an affiliated company in the U.S., Australia and other countries. All other company and product names mentioned are the trademarks or registered trademarks of their respective companies. © 2021 Capital Group. All rights reserved.