CAPITAL GROUP℠

July 2022
Monthly Update

Capital Group Global Corporate Bond Fund Hedged (AU)

Market Review

- Global government bonds rose as interest rate expectations were dialled back given growing recessionary fears. All the major segments of the global bond market generated positive returns. In credit markets, investment-grade and high-yield bonds outpaced sovereign debt as credit spreads narrowed.
- US interest rates rose again. The US Federal Reserve hiked interest rates by a further 75 basis points (bps) in July following an increase of the same magnitude in the prior month, taking the federal funds rate to a new range of 2.25-2.50%. US GDP shrank by an annualised 0.9% between April and June following the 1.6% fall in output in the prior three-month period, indicating that recent increases in borrowing costs were taking a toll. Headline US inflation for June was ahead of market estimates, rising to 9.1% from 8.6% in the prior month.
- The European Central Bank (ECB) raised interest rates for the first time since 2011. The 50-bps increase left the ECB deposit rate at zero and ended eight years of negative eurozone rates. The ECB also unveiled a new policy tool, the Transmission Protection Instrument, a selective bond-buying programme designed to curb the divergence in borrowing costs across eurozone member states. The eurozone economy grew 0.7% in the second quarter, helped by a resurgence in tourism in France, Italy and Spain, though growth in Germany was flat.
- Japan's economy slowed. The flash estimate of the au Jibun Bank Japan Composite Purchasing Manager's Index eased to 50.6 in July from 53.0 in June as raw materials shortages, higher costs and a weaker yen weighed. A resurgence in COVID-19 infections also appeared to hinder service sector activity. Data showed Japanese retail sales missed estimates, growing 1.5% year-on-year in June versus 3.7% in May.
- Global investment-grade bonds outpaced sovereign debt as credit spreads narrowed. Spreads tightened 15 bps over the month to end at a level of 161 bps (as measured by the option-adjusted spread).

Portfolio review

- Over the month, Capital Group Global Corporate Bond Fund Hedged (AU) returned 3.3%[1] before fees, in line with the index[2]. Net of fees the fund returned 3.3%[3]. For the 12-month period, the fund returned -11.4%[1] before fees, and -12.0% after fees[3], compared to the index's return of -11.7%[2].
- Security selection had the largest positive impact on relative results, with curve positioning providing a more modest uplift on a relative basis. Meanwhile, sector/industry allocation was the largest relative detractor. The portfolio's short duration positioning was also a drag on relative returns given the rally in global bonds over July.
- The choice of issuers in the communications sector had a positive impact on relative results. In particular, a non-index holding in **Netflix** was among the largest contributors at an issuer level.
- The choice of securities in the capital goods sector lifted relative returns. At an issuer level, above-index positions in **Boeing, General Electric** and **Raytheon Technologies** helped to boost returns on a relative basis.

- Conversely, security selection in the banking sector weighed on relative results, although a below-index exposure was slightly helpful on a relative basis. The portfolio's above-index positions in **Credit Suisse** and **BNP Paribas** were among the largest detractors on a relative basis.
- A below-index holding and security selection in the consumer non-cyclical sector had a negative impact on relative returns. At an issuer level, having no exposure to **AbbVie** and **HCA** detracted on a relative basis.

Index returns are shown in US dollar 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 Global Aggregate Corporate Total Return Index. Hedged to AUD. Sources: Bloomberg
[3] Returns are net of fees at maximum management fee, in Australian dollar terms. Source: Capital Group