

## Capital Group Global Corporate Bond Fund Hedged (AU)

### Market Review

- Global government bonds fell as interest rate expectations increased given inflation worries and hawkish comments from policymakers. The US yield curve became more inverted as recessionary fears grew. Most segments of the global bond market generated negative returns. In credit markets, global high-yield bonds held up better than global investment-grade credit.
- US Federal Reserve (Fed) Chair Jerome Powell struck a hawkish tone at the Jackson Hole symposium, warning of more difficult economic times ahead as the Fed continues to battle elevated inflation with higher interest rates. The market priced in a greater probability of a further 75 basis point (bps) rate hike following the Fed's September policy meeting. US headline inflation eased to 8.5% in July from a 40-year high of 9.1% in June, driven by a fall in gasoline, fuel oil and natural gas prices.
- In Europe, recessionary risks mounted as the S&P Global Eurozone Composite Purchasing Managers' Index (PMI) suggested business activity fell into contraction territory for the second consecutive month, with the gauge down to 49.2 in August from 49.9 in July. The flash official estimate from Eurostat put eurozone inflation at a record 9.1% in August, spurred by higher energy prices.
- Japan's economy picked up pace in the second quarter, expanding 0.5% versus the prior quarter's 0.1% growth rate as consumer spending accelerated with the easing of coronavirus restrictions. However, the au Jibun Bank Japan Composite PMI indicated overall business activity contracted in August following five consecutive months of expansion, pressured by a rise in COVID-19 cases over the summer and a drop in export orders. Headline Japanese inflation for July hit its highest level in around eight years, rising to 2.6% versus 2.4% in June, against higher fuel and food prices.
- Global investment-grade bonds outpaced sovereign debt. Spreads remained relatively unchanged, ending the month at a level of 160 bps (as measured by the option-adjusted spread).

### Portfolio review

- Over the month, Capital Group Global Corporate Bond Fund Hedged (AU) returned -3.1%<sup>1</sup> before fees, while the index returned -3.2%<sup>2</sup>. Net of fees the fund returned -3.2%<sup>3</sup>. For the 12-month period, the fund returned -14.0%<sup>1</sup> before fees, and -14.5% after fees<sup>3</sup>, compared to the index's return of -14.3%<sup>2</sup>.
- Curve positioning weighed on relative results, with security selection also detracting slightly. Sector/industry allocation added to relative value modestly, while duration positioning had a neutral impact on a relative basis.
- Security selection in the insurance sector weighed on relative results, although an above-index exposure was slightly helpful on a relative basis. At an issuer level, an above-index holding in **AXA** was among the largest relative detractors.
- The choice of issuers among communications companies had a negative impact on relative returns. An above-index position in **Magallanes** was a key relative detractor at an issuer level.

- Conversely, the choice of issuers in the consumer non-cyclical sector had a positive impact on relative results. In particular, an above-index holding in **BAT Capital** was among the largest relative contributors at an issuer level.
- An above-index allocation to emerging market corporate bonds was beneficial to relative returns. At an issuer level, a non-index position in **ENN Clean Energy** and an above-index holding in **Bangkok Bank** boosted returns on a relative basis.

Index returns are shown in US dollar terms, unless otherwise stated. Sources: Capital Group, MSCI

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

<sup>2</sup> Bloomberg Global Aggregate Corporate Total Return Index. Hedged to AUD. Sources: Bloomberg

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

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