

Capital Group Global Corporate Bond Fund Hedged (AU)

Market Review

- Global investment-grade bonds outpaced sovereign debt over the month. The 10-year US Treasury yield rose 22 basis points (bps) to 4.05%, having topped 4.3% for the first time since 2008 mid-month, while the 10-year German government bond yield firmed 3 bps to 2.14%. Conversely, UK government bonds rallied strongly after the UK government changed tack and Rishi Sunak was installed as prime minister. Global credit markets were mixed, with high-yield bonds rising while investment-grade (BBB/Baa and above) bonds fell slightly.
- US core inflation accelerated to 6.6% in September versus 6.3% in the prior month, suggesting that underlying inflationary pressures were still on the rise. The higher-than-forecast reading fuelled expectations for the Federal Reserve (Fed) to hike interest rates by 75 bps following its November policy meeting.
- The European Central Bank (ECB) hiked its key interest rate by 75 bps to 2%, the highest level since 2009. However, investors deciphered a more dovish tone in the ECB's guidance as it did not repeat its earlier prediction that rates would need to rise at the "next several meetings," merely saying it expected to "raise rates further". This came after eurozone leaders increasingly voiced fears about the risk of recession.
- The Bank of Japan (BOJ) stepped up yen intervention, spending around US\$40 billion on propping up the Japanese currency in October versus US\$20 billion in September. The yen traded at 32-year lows against the US dollar as the market priced in a 75 bps November rate hike from the Fed and the BOJ left its short-term policy rate at -0.1% while continuing its quantitative easing programme. BOJ governor Haruhiko Kuroda signalled Japanese monetary policy would remain highly accommodative until the country sees meaningful wage growth.

Portfolio review

- Over the month, Capital Group Global Corporate Bond Fund Hedged (AU) returned -0.5%¹ before fees, while the index returned -0.6%². Net of fees the fund returned -0.6%³. For the 12-month period, the fund returned -17.9%¹ before fees, and -18.4% after fees³, compared to the index's return of -18.1%².
- Security selection was the biggest contributor to relative returns over October. Duration and curve positioning were slightly negative, as was sector/industry allocation on a relative basis.
- An underweight position in the other investment-grade corporate sector was helpful for relative results, with security selection adding value to a lesser extent.
- The choice of issuers in the electric sector boosted returns on a relative basis. Overweight positions in Pacific Gas and Electric and Edison International were among the largest contributors at an issuer level.
- Conversely, both an underweight position and security selection in the consumer non-cyclical sector weighed on relative results.
- The banking sector was an area of relative weakness, with overweight holdings in NatWest Group and SVB Financial Group among the largest detractors. However, an underweight exposure to the sector did mitigate some of the negative impacts.

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

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