CAPITAL GROUP™

January 2023
Monthly Update

Capital Group Global Corporate Bond Fund Hedged (AU)

Market Review

- Global government bonds made gains in US dollar terms, driven by continued declines in headline inflation rates across key economies. The 10-year US Treasury yield fell 37 basis points (bps) to 3.51% while the 10-year German government bond yield shed 29 bps to close the month at 2.28%. Within global credit markets, high-yield debt was modestly ahead of investment-grade bonds (BBB/Baa and above) in US dollar terms, benefiting from the general improvement in risk appetite.
- US headline inflation fell to 6.5% in December versus 7.1% in November and the lowest level since October 2021. Gasoline and fuel oil costs declined while energy price inflation slowed markedly. Business activity contracted for the seventh consecutive month in January though showed some improvement, with the S&P Global US Composite Purchasing Managers' Index (PMI) firming to 46.6 from 45.0 in December. Activity levels shrank at a slower pace in both the service and manufacturing sectors.
- Eurozone business activity unexpectedly rose in January, with a rebound in the service sector driving an increase in the S&P Global Eurozone Composite PMI to 50.2 from 49.3 in December. Eurozone inflation eased further in January, falling to an annual rate of 8.5% versus 9.2% in December as energy price inflation dropped sharply. Nevertheless, the European Central Bank maintained its hawkish stance.
- Japan's headline inflation hit a 41-year high, rising to 4% in December from 3.7% in November, surpassing the Bank of Japan's (BoJ) 2% inflation target for a ninth consecutive month. Defying market expectations for a tweak, the BoJ left its yield curve policy unchanged and maintained its ultra-loose monetary stance.

Portfolio review

- Over the month, Capital Group Global Corporate Bond Fund Hedged (AU) returned 3.5%[1] before fees, while the index returned 3.2%[2]. Net of fees the fund returned 3.5%[3]. For the 12-month period, the fund returned -9.5%[1] before fees, and -10.0% after fees[3], compared to the index's return of -10.2%[2].
- Security selection contributed the most to relative results, with duration and curve positioning also helping, albeit to a lesser extent. Sector/industry positioning weighed on returns on a relative basis.
- Security selection in the banking sector added value on a relative basis. At an issuer level, overweight positions in **HSBC**, **Credit Suisse**, **BNP Paribas**, **SVB Financial**, **Australia and New Zealand Banking Group**, **Intesa Sanpaolo** and **CaixaBank** contributed the most, although underweight holdings in **JPMorgan Chase**, **Goldman Sachs** and **Bank of America** detracted, as did having no exposure to **Citigroup** and **Barclays**.
- The choice of issuers in the consumer cyclical sector also helped relative returns. In particular, an overweight holding in **Stellantis Finance** was beneficial.
- Conversely, the choice of issuers in the energy sector detracted from relative results. Not holding bonds issued by **Energy Transfer** proved costly, as did an overweight holding in bonds issued by **ExxonMobil**.
- Not holding **Aroundtown** weighed on relative results in the other investment-grade corporates sector. The portfolio's holding of cash also dragged on relative returns given the rally in bond markets.

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