

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

### Market Review

- Global government bonds sold off as investors positioned themselves for more rate hikes from the Federal Reserve (Fed) and European Central Bank (ECB). The 10-year US Treasury yield rose 42 basis points (bps) to 3.93% while the 10-year German government bond yield moved 37 bps higher to close February at 2.65%.
- The Fed hiked interest rates by 25 bps, taking the federal funds rate to a range of 4.50% to 4.75%. Fed Chairman Powell warned the Fed could raise US interest rates beyond market forecasts in response to stronger-than-expected economic data. US headline inflation fell less than anticipated in January, edging down to 6.4% from 6.5% in December. The Fed's preferred inflation gauge, the core personal consumption expenditure price index, rose to 4.7% in January from 4.6% in the prior month.
- The ECB raised interest rates by 50 bps to 3.0% in February, following December's 50-bps hike. The ECB also pledged to increase policy rates by a further 50 bps in March. Headline eurozone inflation slid to 8.5% for February (the lowest since last May) from 8.6% in January.
- Japanese headline inflation rose to 4.3% in January from 4.0% in the prior month owing to higher prices for imported commodities and yen weakness. The Bank of Japan (BoJ) maintained its ultra-low interest rate and left the yield curve policy unchanged. Incoming BoJ Governor Kazuo Ueda suggested tighter Japanese monetary policy remained some way off as Japanese inflation was being driven by temporary factors.

### Portfolio review

- Over the month, Capital Group Global Corporate Bond Fund Hedged (AU) returned -2.8%<sup>1</sup> before fees, while the index returned -2.7%<sup>2</sup>. Net of fees the fund returned -2.8%<sup>3</sup>. For the 12-month period, the fund returned -10.2%<sup>1</sup> before fees, and -10.7% after fees<sup>3</sup>, compared to the index's return of -10.8%<sup>2</sup>.
- Curve positioning had the largest negative impact on relative results. In contrast, duration positioning and sector/industry allocation made small positive contributions, while security selection had a neutral impact on a relative basis.
- The choice of issuers in the banking sector weighed on relative returns. Above-index holdings in **Credit Suisse**, **Morgan Stanley**, **HSBC**, **SVB Financial** and **Royal Bank of Canada** were among the largest detractors, as was a below-index exposure to **Wells Fargo**. However, above-index positions in **Australia and New Zealand Banking Group** and **BPCE** and a below-index holding in **JPMorgan Chase** were helpful.
- Security selection in the basic industry sector also detracted on a relative basis. An above-index holding in **International Flavors and Fragrances** was a key detractor here.
- Conversely, the choice of issuers and a below-index position in the consumer non-cyclical sector added relative value. In particular, a below-index exposure to **AbbVie** helped lift returns on a relative basis.
- The selection of issuers in the communications sector also buoyed relative results. A below-index holding in **AT&T** was among the largest contributors at an issuer level.

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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