

Capital Group Global Corporate Bond Fund Hedged (AU)

Market Review

- Investors' concerns during July included the spread of the highly transmissible Delta coronavirus variant, Chinese regulatory intervention against several sectors and concerns about higher inflation. However, the global economy continued to recover, helped by ongoing COVID-19 vaccination programs, huge US fiscal stimulus, major central banks' loose monetary policy and robust corporate earnings growth.
- In the US, the Federal Reserve (Fed) maintained monetary policy, keeping the target range for the fed funds rate at 0-0.25% and monthly asset purchases at US\$120 billion as it moved closer to a decision on when it might start tapering the latter. The economy has made "progress" toward the Fed's twin goals of 2% average inflation and full employment, but the Delta variant remains a concern. While there is "upside risk" to the inflation outlook, price pressures are likely to be transitory, while the Fed would like to see further employment gains before tightening its policy.
- The European Central Bank (ECB) announced its new monetary policy strategy. Instead of targeting inflation "below, but close to, 2%," the ECB will now aim for inflation of 2% and may temporarily tolerate it rising above that level. As a result, the central bank is likely to keep short-term interest rates lower for longer, supporting the eurozone's economic recovery. It will also consider lowering interest rates further into negative territory if inflation stays consistently below 2%. At its July meeting, the ECB held interest rates at record-low levels and said it expected accelerated purchases under its €1.85 trillion Pandemic Emergency Purchase Programme to continue.
- Japan's monetary policy remained unchanged. The Bank of Japan (BoJ) kept its key short-term interest rate at -0.1% and the target for the 10-year Japanese government bond yield at around 0%. Due to the impact of COVID-19, the BoJ expects GDP to grow 3.8% rather than 4.0% this fiscal year but, with vaccinations accelerating, it revised its forecast for the next fiscal year from 2.4% to 2.7%. With higher energy prices, consumer price inflation is forecast to be 0.6% this fiscal year, up from a prior estimate of 0.1%. The 10-year government bond yield fell 3 basis points (bps) to 0.02%.
- Global investment grade corporate bonds posted positive returns in July.

Portfolio review

- Over the month, Capital Group Global Corporate Bond Fund Hedged (AU) returned 1.3%¹ before fees, while the index returned 1.3%². Net of fees, the fund returned 1.2%³. For the 12-month period, the portfolio returned 2.0%¹ before fees, and 1.4% after fees³, compared to the index's return of 2.1%².
- Security selection and an underweight position in the energy sector detracted on a relative basis. At an issuer level, an overweight position in **Energy Transfer Operating** weighed on relative results.
- Security selection among government-related issuers also hurt relative results, though this was moderated to an extent by the fund's overweight position in the sector. At an issuer level, both **Deutsche Bahn** and **Huarong Finance** detracted from relative results.

- Security selection in the consumer non-cyclical sector added value on a relative basis. At an issuer level, an overweight position in **International Flavors & Fragrances** was among the top individual contributors to relative returns.
- At an individual issuer level, an overweight position in **Edison International** was the most significant individual contributor to relative results.

Index returns are shown in US dollar terms while stock returns are total returns as shown in local currency 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 Barclays Global Aggregate Corporate Total Return Index. Hedged to AUD. Sources: Bloomberg Barclays

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

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