

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

### Market Review

- Ongoing COVID-19 vaccination programmes, huge US fiscal stimulus and major central banks' loose monetary policy have supported the global economy, leading to strong corporate earnings growth. However, the spread of the Delta variant of COVID-19, the prospect of US monetary tightening, rising geopolitical tensions in Afghanistan and further Chinese regulatory intervention against several sectors led to bouts of volatility during the month.
- In the US, the Federal Reserve (Fed)'s annual Jackson Hole summit highlighted that tapering is near. At the symposium, Chairman Jerome Powell said that the Fed was likely to start reducing its monthly asset purchases by the end of this year, with those of agency mortgage-backed securities and US Treasuries set to be cut at the same pace. The Fed has made "substantial further progress" toward its 2% average inflation goal (with the recent sharp rise in prices seen as transitory) but is still short of reaching its target of full employment. Hence, an interest rate increase is unlikely, for now. The main risk is that the Delta variant could jeopardise the US economic recovery.
- The Bank of England (BoE) kept monetary policy unchanged but adopted a more hawkish tone. The central bank's Monetary Policy Committee signalled "modest tightening" in the next two years. The BoE stated it would start scaling back its stock of purchased bonds once its policy rate reaches 0.5%. The BoE expects GDP to grow by 7.25% in 2021, unchanged from its May forecast, and by 6% in 2022 (compared with 5.75% in May). The central bank predicts inflation will peak at 4% in late 2021 and early 2022, up from its May forecast of 2.5%.
- Japan was hit by concerns over the Delta variant, which saw the country's state of emergency widened to cover 21 prefectures - eight more than previously. However, the government aims to increase Japan's vaccination rate by administering AstraZeneca's vaccine. Meanwhile, Toyota Motor, the world's largest carmaker, is cutting global production by 40% in September as a surge in coronavirus cases in Southeast Asia exacerbated an existing semiconductor shortage.
- Global investment grade corporate bonds posted negative returns in August given rising government yields. Spreads remained range bound over the month ending marginally wider at a level of 90 basis points (as measured by the option-adjusted spread).

### Portfolio review

- Over the month, Capital Group Global Corporate Bond Fund Hedged (AU) returned -0.2%<sup>1</sup> before fees, while the index returned -0.3%<sup>2</sup>. Net of fees, the fund returned -0.3%<sup>3</sup>. For the 12-month period, the portfolio returned 2.5%<sup>1</sup> before fees, and 1.9% after fees<sup>3</sup>, compared to the index's return of 2.6%<sup>2</sup>.
- Sector/industry allocation contributed positively to relative returns, while security selection was a marginal detractor. Both the portfolio's duration and yield-curve positioning detracted slightly from relative results.
- A non-index position in government-related securities significantly contributed to relative returns. At an issuer level, a non-index position in **Huarong Finance** was the portfolio's overall top positive contributor on a relative basis.

- Security selection in the capital goods sector also helped relative results, in particular an overweight position in **Boeing**.
- Conversely, security selection in the banking sector detracted on a relative basis. At an issuer level, an underweight position in **JP Morgan & Chase** was among the top individual detractors from relative returns.
- The choice of securities in the energy sector also weighed on relative results, including an overweight position in **ONEOK**.

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

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

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

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

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