

Capital Group Global Corporate Bond Fund Hedged (AU)

Market Review

- During the month, investors were focused on slowing growth and rising inflation (given higher energy prices and supply-chain bottlenecks). The latter has caused more central banks to start tightening monetary policy, particularly in several emerging markets.
- The Fed's latest meeting minutes confirmed that it could start tapering its US \$120 billion of monthly asset purchases as soon as November, with a view to completing the process by the middle of 2022. While the Fed has made "substantial further progress" toward its 2% average inflation target and is moving closer to meeting its other goal of full employment, it re-iterated its view that the current rise in inflation is "transitory." Half of Fed officials are now expecting interest rates to rise in 2022, followed by at least three rate hikes in 2023.
- The European Central Bank (ECB) maintained its monetary policy. Despite higher energy prices and supply-chain issues leading to higher inflation, ECB President Christine Lagarde re-iterated that such inflationary pressures are transitory and inflation should fall back below the 2% target next year. However, the ECB's Pandemic Emergency Purchase Programme will be reviewed in December. Also, hawkish Bundesbank President Jens Weidmann resigned, implying the ECB is more likely to keep a relatively dovish policy stance.
- Japan suffered amid ongoing political and policy uncertainty. However, at the end of October, Prime Minister Fumio Kishida's ruling Liberal Democratic Party unexpectedly won single-party control of the lower house in the general election. As a result, Kishida now plans to announce fresh fiscal stimulus by the end of the year. Moreover, the country recently lifted its COVID-19-related state of emergency across all regions.
- Global investment grade corporate bonds posted slight negative returns in October given rising government yields and marginally wider credit spreads. Spreads marginally widened over the month, edging up from 88 basis points (bps) to 91 bps (as measured by the option-adjusted spread).

Portfolio review

- Over the month, Capital Group Global Corporate Bond Fund Hedged (AU) returned 0.1%¹ before fees, while the index returned -0.1%². Net of fees, the fund returned 0.1%³. For the 12-month period, the portfolio returned 2.1%¹ before fees, and 1.5% after fees³, compared to the index's return of 1.4%².
- Security selection in the electric sector added value on a relative basis. At an issuer level, an overweight position in **Edison International** was the top individual contributor to relative returns at the portfolio level.
- A non-index position in government-related securities also helped relative returns. At an issuer level, a non-index position in **Huarong Finance** added value on a relative basis.
- The choice of issuers in the consumer non-cyclical sector weighed on relative results. At an issuer level, the portfolio's overweight position in **BAT Capital** detracted on a relative basis.
- The choice of securities in the energy sector was also detrimental, though this negative return was moderated, to an extent, by the portfolio's overweight position in the sector. At an issuer level, an overweight position in **TransCanada Pipelines** hurt relative results.

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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