

Capital Group Global Corporate Bond Fund Hedged (AU)

Market Review

- Sharply rising COVID-19 cases in Europe led to the reimposition of lockdown measures in several European countries, and the emergence of a new “variant of concern”, Omicron, in South Africa spurred renewed international travel restrictions. However, a strong third-quarter earnings season, robust economic data and further progress on U.S. fiscal stimulus measures were all positives.
- The U.S. Federal Reserve (Fed) announced the start of tapering. The central bank will start reducing the pace of its US\$120 billion monthly asset purchases by US\$10 billion for U.S. Treasuries and US\$5 billion for agency mortgage-backed securities, aiming to complete the process by mid-2022. However, with inflation rising across a broad range of sectors, Fed Chair Jerome Powell said that asset purchases could end sooner. Given its full employment goal, the Fed will remain patient in terms of rate hikes but may act if inflation becomes entrenched. The Omicron variant has clouded the outlook for both growth and inflation. In addition, President Biden nominated Powell for a second four-year term as Fed chair.
- The European Central Bank said that inflation was proving more entrenched than expected but inflationary pressures would be transitory.
- In Japan, many were concerned about rising virus cases in Europe and the global spread of the new Omicron strain (which led to a ban on all foreign visitors entering Japan). On the stimulus front, the government announced a ¥56 trillion (US\$490 billion) stimulus package (equal to 10% of gross domestic product) to support the Japanese economy.
- Global investment grade corporate bonds posted negative total returns in US dollar unhedged terms, but small positive total returns in US dollar hedged terms in November. Excess returns were negative with spreads widening over the month by 14 basis points (bps) to end at a level of 105 bps (as measured by the option-adjusted spread).

Portfolio review

- Over the month, Capital Group Global Corporate Bond Fund Hedged (AU) returned flat¹ before fees, while the index returned 0.2%². Net of fees, the fund was flat³ for the month. For the 12-month period, the portfolio returned -0.3%¹ before fees, and -0.9% after fees³, compared to the index's return of -0.4%².
- Security selection detracted from relative results during the month, while sector/industry positioning made a modest positive contribution. Meanwhile, both duration and curve positioning had a neutral effect on relative results.
- Security selection in the energy sector detracted on a relative basis, as did an overweight position in the sector, albeit to a lesser extent. At an issuer level, an overweight position in **MPLX** was the most significant detractor from relative returns at the portfolio level.
- The choice of securities and an underweight position in the banking sector also hurt relative returns. At an issuer level, an overweight position in **Goldman Sachs** weighed on relative results.

- Conversely, the choice of issuers in emerging markets helped relative results. At an issuer level, not holding **Shimao Group Holdings** contributed positively to relative returns.
- The choice of securities and an underweight exposure to the consumer non-cyclical sector also added value on a relative basis. At an issuer level, not owning **AbbVie** helped 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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