

Capital Group Global Corporate Bond Fund Hedged (AU)

Market Review

- Risk markets were volatile during the month, given investors' concerns about tightening US monetary policy as inflation rises and becomes more persistent, as well as heightened geopolitical tensions between the US and Russia over Ukraine. Other worries included the spread of the Omicron variant of COVID-19 in certain parts of the world and a mixed US corporate earnings season, with some companies falling short of expectations.
- The US Federal Reserve (Fed) struck a more hawkish tone. With inflation rising and becoming more embedded but the economy near full employment, Fed Chair Jerome Powell signalled that the central bank could start raising interest rates in March, and that there may well be several further (and possibly larger) hikes after that over 2022 and beyond. The Fed is also set to stop asset purchases by March of this year and is then expected to begin reducing its US\$9 trillion balance sheet.
- The European Central Bank (ECB) remained relatively dovish. ECB President Christine Lagarde said that the central bank did not need to increase interest rates faster than flagged, despite rising inflation, given that price pressures should recede this year and the region's economic recovery was still some way behind that of the US
- In Japan, the government expanded a quasi-state of emergency to 34 of the country's 47 prefectures to combat a resurgence in COVID-19. Meanwhile, the Bank of Japan (BoJ) vowed to maintain its current ultra-loose monetary policy, in contrast to other major central banks that have begun removing pandemic-related stimulus measures.
- Global investment grade corporate bonds posted a negative total return in US dollar hedged terms in January. Spreads widened over the month by 11 bps to end at a level of 108 bps (as measured by the option-adjusted spread).

Portfolio review

- Over the month, Capital Group Global Corporate Bond Fund Hedged (AU) returned -2.6%¹ before fees, while the index returned -2.7%². Net of fees, the fund returned -2.6%³. For the 12-month period, the fund returned -2.7%¹ before fees, and -3.2% after fees³, compared to the index's return of -2.9%².
- Security selection made a negative contribution to relative results during the month, while sector/industry positioning made a small positive contribution. Meanwhile, duration positioning added value on a relative basis, while curve positioning had a neutral impact.
- Security selection in emerging markets contributed positively to relative returns, as did an overweight position in the sector, albeit it a lesser degree. At an issuer level, not holding **Country Garden Holdings** added value on a relative basis.
- An underweight position and stock selection in the consumer non-cyclical sector also helped relative returns. At an issuer level, not holding **AbbVie** was beneficial.
- Conversely, the choice of issuers in - and to a lesser extent an underweight position in - the banking sector detracted from relative results. In particular, an overweight position in **Goldman Sachs** hurt returns on a relative basis.

- The choice of securities in the energy sector also weighed on relative results. An overweight position in **MPLX** was among the most significant detractors from relative returns at the issuer level.

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

All information current as at the last business day of month of report unless otherwise noted. This communication contains sensitive and confidential information. Any use for any other purpose, and disclosure, dissemination, copying, reproduction or distribution of the information is prohibited. This communication is intended for professional investors only and should not be relied upon by retail investors. Past results are not predictive of future results. This information is neither an offer nor a solicitation to buy or sell any securities or to provide any investment service. While Capital Group uses reasonable efforts to obtain information from sources which it believes to be reliable, Capital Group makes no representation or warranty as to the accuracy, reliability or completeness of the information. This communication is of a general nature, it is not intended to be comprehensive or to provide investment, tax or other advice. It has been prepared for multiple distributions and does not take account of the specific investment objectives of individual recipients and it may not be appropriate in all circumstances. This communication has been prepared by Capital International, Inc., a member of Capital Group, a company incorporated in California, United States of America. The liability of members is limited. In Australia, this communication and Capital Group Global Corporate Bond Fund Hedged (AU) (ARSN 628 276 577) are issued by Capital Group Investment Management Limited (ACN 164 174 501 AFSL No. 443 118), a member of Capital Group, located at Level 18, 56 Pitt Street, Sydney NSW 2000 Australia. The said fund is offered only by Product Disclosure Statement (PDS), please read the PDS which is available upon request or at www.thecapitalgroup.com.au in its entirety before making an investment decision. All Capital Group trademarks are owned by The Capital Group Companies, Inc. or an affiliated company in the U.S., Australia and other countries. All other company and product names mentioned are the trademarks or registered trademarks of their respective companies. © 2022 Capital Group. All rights reserved.