

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

*Russia's military aggression against Ukraine, which has become Europe's largest ground war in generations, has impacted millions of people and triggered a large-scale humanitarian crisis as vulnerable Ukrainians take shelter or flee their homes. The intensification and spread of the conflict is deeply troubling and is having a devastating impact on those people caught in the crisis.*

*This commentary includes the market and economic implications arising from the conflict.*

### Market Review

- Corporate bonds retreated and government bond yields rose over February. Worries over rising inflation pressured sentiment for much of the month, with the sell-off accelerating toward month-end on news that Russia had invaded Ukraine. Commodity prices surged amid fears of further supply disruptions: Russia is a key exporter of oil and gas, while Russia and Ukraine together account for a third of the world's wheat exports.
- In the US, there was growing support for Federal Reserve (Fed) rate hikes. Speculation grew that the Fed would need to be more aggressive in raising rates. Fed governor Lael Brainard and Fed Bank of New York president John Williams voiced support for a cycle of US rate tightening beginning in March to counter inflation. Alongside elevated inflation, both officials pointed to strong US economic growth.
- The European Central Bank (ECB) acknowledged inflation risks. ECB President Christine Lagarde stated that inflation risks were "tilted to the upside" and declined to rule out a rise in rates later this year. ECB officials suggested the central bank would take a measured approach to monetary policy tightening as it sets about tackling inflation.
- Global investment grade corporate bonds posted a negative total return in US dollar hedged terms in February. Spreads widened over the month by 25 bps to end at a level of 133 bps (as measured by the option-adjusted spread).

### Portfolio review

- Over the month, Capital Group Global Corporate Bond Fund Hedged (AU) returned -2.0%<sup>1</sup> before fees, while the index returned -2.1%<sup>2</sup>. Net of fees, the fund returned -2.0%<sup>3</sup>. For the 12-month period, the fund returned -3.2%<sup>1</sup> before fees, and -3.8% after fees<sup>3</sup>, compared to the index's return of -3.5%<sup>2</sup>.
- Security selection and sector/industry positioning made a positive contribution to relative results during the month. Meanwhile, duration positioning added value on a relative basis, as did curve positioning, albeit to a lesser degree. In a period of heightened volatility the valuations impact detracted from relative returns.
- Security selection in emerging markets helped relative returns, though its contribution was moderated to an extent by the portfolio's overweight position in the sector. At the issuer level, not holding **LUKOIL** was beneficial.
- Security selection in the consumer non-cyclical sector also contributed positively to relative returns. At an issuer level, an underweight position in **AbbVie** added value in relative terms.

- 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 technology sector also weighed on relative results. Most notably, an overweight exposure to **Equinix**.
- The portfolio's non-index holding in US Treasuries added value as credit spreads widened; the cash position also helped relative results amid the market weakness.

## Market volatility

- The Russia- Ukraine situation remains extremely uncertain, with constant new developments capable of having a global impact. From a financial market perspective, Russian and Ukrainian securities have borne the brunt of the initial fallout. However, past crises show us that it is often the second and third order effects that have the biggest and most lasting impact.
- The economic and financial market implications may be far-reaching. Over the medium to long-term, some key considerations for investors will include the extent and duration of sanctions imposed on Russia, the impact on energy prices (particularly oil and gas) and soft commodities (e.g. wheat), supply chain disruptions (and related de-globalisation trends), potential for entrenched higher inflation, and of course the response of fiscal and monetary authorities to all of these. On the monetary policy front we may see a shift as central banks consider the impact of the conflict, especially on growth, however, so far early indications seem to be that normalisation remains on track. The ECB meeting on 10 March was more hawkish than expected with a skew towards "inflationary pressure" rather than downside growth. The Fed has also indicated an intention to continue with rate rises, but markets will keenly watch the next meeting to assess the path this will take. In addition, global index providers have indicated that Russian securities are to be excluded from their indices. All of these factors will have impacts on equity and fixed income markets globally.
- The portfolio does not hold any positions based in Russia, Ukraine or Belarus. The situation remains extremely fluid, but The Capital System<sup>SM</sup> is designed to help us navigate periods of sudden uncertainty and volatility. Our investment professionals are closely monitoring the situation and analysing ongoing developments alongside our longer-term focus on fundamentals, and will adjust holdings as needed. As we have done throughout our 90-year history, we will focus on the long-term fundamentals and work closely with our clients as events unfold.

Index returns are shown in US dollar 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 Global Aggregate Corporate Total Return Index. Hedged to AUD. Sources: Bloomberg

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

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