CAPITAL GROUP

April 2022
Monthly Update

Capital Group Global Corporate Bond Fund Hedged (AU)

Market Review

- Bonds declined as inflation accelerated and markets priced in more action from central banks to tame inflation. US Treasury yields increased significantly as did yields on European government bonds.
- Markets are now braced for bigger US interest rate hikes. Minutes from the Federal Open Market Committee's March policy meeting indicated that several US Federal Reserve (Fed) officials could potentially support a rate increase of half a percentage point following March's 25-basis-point hike. There was also broad support for a rapid reduction in the size of the Fed's balance sheet to help curb inflation.
- European Central Bank (ECB) rate hikes appeared imminent. Minutes from the ECB's March policy meeting revealed significant support among participants to raise eurozone interest rates this summer. Meanwhile, the ECB pointed to continued challenges in predicting inflation, stemming from the conflict in Ukraine and the loosening of COVID-19 restrictions.
- The Bank of Japan (BoJ) kept monetary policy on hold. Japan's monetary policy is increasingly diverging from the Fed and other major central banks as the BoJ affirmed that it would maintain bond buying operations to keep the 10-year Japanese government bond yield near 0%. While the yen came under pressure, trading at 20-year lows versus the US dollar, the 10-year Japanese government bond yield was virtually unchanged, ending the month at 0.22%.
- Global investment grade corporate bonds posted a negative total return in US dollar hedged terms in April. Spreads widened over the month by 19 bps to end at a level of 143 bps (as measured by the option-adjusted spread).

Portfolio review

- Over the month, Capital Group Global Corporate Bond Fund Hedged (AU) returned -4.6%[1] before fees, while the index returned -4.5%[2]. Net of fees, the fund returned -4.7%[3]. For the 12-month period, the fund returned -9.2%[1] before fees, and -9.7% after fees[3], compared to the index's return of -9.5%[2].
- Security selection made the largest negative contribution to relative results during the month, with duration positioning having a more modest negative impact on a relative basis. Sector/industry positioning added value to relative results, while curve positioning had a small positive impact.
- The choice of issuers 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 communications sector also weighed on relative results. A non-index position in **Netflix** was the largest detractor from relative returns at the issuer level.
- Conversely, an overweight position in emerging markets added value on a relative basis. At an issuer level, a position in **Bangkok Bank** added value on a relative basis.
- An underweight position in the consumer non-cyclical sector also helped relative returns. At an issuer level, not holding **AbbVie** was beneficial. The portfolio's cash holdings also supported relative returns.

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