

Capital Group Global Corporate Bond Fund Hedged (AU)

Market Review

- Global bonds were mixed. US bonds initially sold off as the market positioned for aggressive rate tightening in the face of soaring inflation. Nevertheless, US bonds delivered positive returns in May as yields subsequently fell when investors focused on signs of an economic slowdown. In contrast, European bonds declined as the European Central Bank (ECB) became more hawkish. Emerging market bonds ended the month higher.
- The US Federal Reserve (Fed) hiked interest rates by 50 basis points (bps) in May, its largest increase since 2000, taking the federal funds rate to a range of 0.75% to 1%. Fed chair Jerome Powell signalled further 50 bps increases were likely in June and July and indicated the Fed may also consider a 50 bps hike in September should inflation remain elevated.
- The ECB signalled rate hikes. With the eurozone continuing to face inflationary pressures, ECB President Christine Lagarde suggested eurozone interest rates were likely to rise at least 50 basis points by the end of September, taking the eurozone's deposit rate to 0% from the current -0.5%. Eurozone inflation accelerated to 8.1% in May from 7.4% in April, according to preliminary official estimates.
- In Japan, the Bank of Japan (BoJ) maintained its dovish stance. Data showed Japanese headline inflation had breached the BoJ's 2% target rate for the first time since 2015, jumping to 2.5% in April versus 1.2% in March.
- Global investment-grade corporate bonds rose modestly in US dollar hedged terms in May. Spreads widened over the month by 2 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 0.0%¹ before fees, while the index returned 0.1%². Net of fees, returns were also flat³. For the 12-month period, the fund returned -9.4%¹ before fees, and -9.9% after fees³, compared to the index's return of -9.8%².
- In a period of heightened volatility, the valuations impact was the largest detractor from relative returns. Curve positioning also weighed on relative results, while security selection and duration positioning had the largest positive effects on a relative basis. Sector/industry positioning was also a slight positive.
- The choice of issuers and, to a lesser extent, a below-index holding in the consumer non-cyclical sector detracted from relative results. In particular, overweight positions in **Philip Morris International** and **Altria** hurt returns on a relative basis, as did having no exposure to **AbbVie**.
- The choice of securities in the technology sector also weighed on relative results, although the portfolio's overweight holding in the sector was a slight positive. An overweight holding in **Apple** detracted from relative returns at the issuer level.
- Conversely, security selection in the energy added value on a relative basis. At an issuer level, positions in **MPLX** and **Energy Transfer Operating** added value on a relative basis.
- The choice of securities in the insurance sector also helped relative returns. A holding in **Muenchener Rueck Versicherungs-Gesellschaft** was the largest contributor to the portfolio's relative results at an 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

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