

Capital Group Global Corporate Bond Fund Hedged (AU)

Market review

- Risk assets rallied in November on positive vaccine news and fading US election uncertainty. However, rising numbers of coronavirus cases worldwide and a lack of progress on further US fiscal stimulus were offsetting factors.
- In the US, president-elect Joe Biden's selection of former Federal Reserve (Fed) chair Janet Yellen as the next Treasury secretary boosted hopes of further fiscal stimulus. The Fed kept monetary policy unchanged and announced the extension of four lending facilities to support market functioning and enhance the flow of credit to the US economy. Following the approval from the Treasury Department, the Fed said in a press release that the extension will "facilitate planning by potential facility participants and provide certainty that the facilities will continue to be available through the first quarter of 2021 to help the economy recover from the COVID-19 pandemic."
- The European Central Bank (ECB) hinted at more monetary stimulus in December. ECB President Christine Lagarde said financing costs will stay "exceptionally favourable" until the eurozone economy recovers. The ECB signalled that it could well extend its emergency bond-buying programme and ultra-cheap loans to banks.
- The Bank of Japan (BoJ) stated that it would exempt regional banks from negative interest rates if they agree to either mergers or cost-cutting measures. The three-year plan aims to support a regional banking sector that has been hit hard by negative interest rates and population decline.
- Global investment grade corporate bonds posted returns of 2.2% (US dollar hedged) in November with spreads tightening by 21 basis points (bps) to 107 bps (as measured by the option-adjusted spread).

Portfolio review

- Over the month, Capital Group Global Corporate Bond Fund Hedged (AU) returned 2.5%¹ before fees, while the index returned 2.0%². Net of fees, the fund returned 2.4%³. For the 12-month period, the portfolio returned 10.0%¹ before fees, and 9.3% after fees³, compared to the index's return of 6.7%².
- Security selection contributed positively to relative returns during the month, though this was offset to an extent by a negative effect from sector/industry allocation. The fund's duration exposure helped relative returns, while its curve positioning had a marginally negative impact.
- The choice of securities in banking contributed positively to relative results, as did the fund's underweight exposure to the sector. In particular, an overweight holding in **UniCredit** added relative value.
- Security selection in, and an overweight exposure to, the energy sector also contributed to relative results. Most notably, the fund's overweight position in **Energy Transfer Operating** was among the top positive contributors to relative results in November.
- Conversely, security selection in the consumer non-cyclical sector proved detrimental to relative results. In particular, an underweight position in **AbbVie** was the portfolio's largest relative detractor within the sector.

- In addition, security selection in technology detracted from relative returns, as did the fund's overweight position in the sector. The lack of a holding in **Microsoft** weighed on relative results.
- The fund's cash position also had a negative impact in a month where credit spreads tightened and markets advanced.

Index returns are shown in US dollar terms while stock returns are total returns as shown in local currency 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 Barclays Global Aggregate Corporate Total Return Index. Hedged to AUD. Sources: Bloomberg Barclays

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

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