CAPITAL GROUP

April 2021
Monthly Update

Capital Group Global Equity Fund (AU)

Market review

- Global stocks finished higher in April, helped by lower U.S. Treasury yields after the Federal Reserve (Fed) reiterated its accommodative stance and investor concerns about rising inflation receded slightly. Markets were supported by hopes of a global economic recovery following the rollout of COVID-19 vaccination programmes, sizeable fiscal stimulus in the U.S., and major central banks' ultra-loose monetary policy. The CBOE Volatility Index (VIX) ended at 18.6, a fall from 19.4 in March. (A VIX reading below 20 is widely viewed as an indicator of market stability.)
- U.S. equities rallied on increasing economic optimism given a successful COVID-19 vaccination programme and recent fiscal stimulus. Strong corporate earnings results and lower U.S. Treasury yields were also supportive. However, President Biden's tax plans to fund higher spending concerned investors. The American Families Plan, funded by income and capital gains tax hikes on wealthier individuals, follows the US$1.9 trillion pandemic relief bill signed in March and a proposed US$2.3 trillion infrastructure bill (with the latter financed by corporate tax rises).
- European stocks rose. After a slow start, the pace of COVID-19 inoculations accelerated in Europe. However, many countries, including Germany and France, have been affected by a third wave of virus infections, triggering stricter lockdown restrictions. Meanwhile, the European Central Bank (ECB) kept key interest rates at record-low levels at its April meeting. The ECB's president, Christine Lagarde, said that despite a recent uptick in prices, underlying inflationary pressures remain subdued. She also noted that economic activity is expected to accelerate over 2021, though the near-term outlook is uncertain
- Japanese equities fell as Prime Minister Yoshihide Suga declared another state of emergency in Tokyo and the three western prefectures of Osaka, Kyoto and Hyogo against a backdrop of rising COVID-19 cases (just three months before the Olympics) and a slow roll-out of the country's vaccination program. The Bank of Japan (BOJ) maintained monetary policy. At its April meeting, the BOJ left its key short-term interest rate at -0.1% and kept the target for the 10-year Japanese government bond yield at around 0%. Given an uncertain economic outlook because of the pandemic, the BOJ is prepared to take further easing measures if required.

Portfolio review

- For the month ended 30 April 2021, Capital Group Global Equity Fund (AU) returned 3.8%[1] before fees while the index returned 3.2%[2]. Net of fees, the fund returned 3.7%[3]. For the 12-month period, the portfolio returned 28.3%[1] before fees, and 27.0%[3] after fees, compared to the index's return of 23.0%[2].
- Stock selection in the consumer discretionary sector contributed positively to relative returns. A position in online casino solutions provider **Evolution Gaming Group** was the portfolio's top relative contributor after it released an impressive set of first quarter 2021 results, which boosted its shares to end the month 30% higher. The Sweden-based company's overall revenues were up 105% year-on-year while organic growth in its core live business accelerated from 50% to 60% as regulatory momentum remains positive in the US while areas of growth are appearing in the Philippines, Japan and Latin America.

- The choice of health care stocks also added value on a relative basis. The largest positive contributor in the sector was a position in US-based oncology firm **NovoCure** as the company's shares jumped 54% after receiving the go-ahead to accelerate a phase 3 study of its treatment for advanced-stage-non-small-cell lung cancer during the month.
- In contrast, the selection of financials stocks detracted from relative returns. A non-index position in China-based **Ping An Insurance** weighed on relative results as the stock declined on muted earnings growth in the first quarter of 2021 and potential losses from its exposure to debt-ridden property developer China Fortune Land.
- Stock selection in the utilities sector was also detrimental to relative returns. An above-index position in Italy-based utilities firm **Enel** was the sector's top relative detractor as the stock lagged the broader market and closed the month down 3%. The stock was negatively affected by growing concerns of rising rates and the ongoing rotation into cyclical stocks.

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] MSCI World ex Australia Index with net dividends reinvested, in Australian dollar terms. Source: MSCI

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