CAPITAL GROUP℠

FOR PROFESSIONAL INVESTORS ONLY

Q3 2021
Quarterly update

Capital Group Global Equity Fund (AU)

Market review

Global stocks advanced in the first two months of the quarter before an inflation scare sent markets tumbling in September. Rising consumer prices sparked fears of higher interest rates as major central banks considered taking steps to fight inflationary pressures. Concerns about growing infection rates from the COVID-19 Delta variant also weighed on markets.

U.S. equities eked out a small gain despite elevated volatility late in the quarter. Investors weighed the prospects of the recovering consumer against concerns over rising inflation and interest rates. A fraught political environment also contributed to September's 5% decline, the worst monthly return since March 2020. Gross domestic product grew at an annualised 6.7% rate in the second quarter, supported by ongoing stimulus measures and the continued reopening of businesses. In August, the unemployment rate declined to 5.2%, a pandemic-era low, while consumer spending ticked up.

European stocks declined amid investor worries about sharply higher inflation in the 19-member eurozone. Concerns about China's slowing economy also weighed on European exporters, which depend heavily on Chinese demand for industrial machinery, chemicals and luxury goods. Eurozone inflation climbed to 3.4% on an annual basis in September, the highest level in more than a decade.

Japanese stocks rallied late in the quarter amid a change in the country's leadership and solid progress in the battle against COVID-19. COVID-19 cases reached a pandemic peak of around 25,000 per day in August before receding sharply as Japan's initially sluggish vaccine campaign picked up pace. At the end of the quarter, Japan lifted a state of emergency that had limited travel, dining out and other activities.

Portfolio review

Over the quarter, Capital Group Global Equity Fund (AU) returned 1.4%[1] before fees, while the index returned 4.0%[2]. Net of fees, the fund returned 1.1%.[3] Over a one-year period, the portfolio returned 26.5%[1] before fees, and 25.3%[3] after fees, compared with the index's return of 27.8%[2].

Sector attribution for Q3 2021

- Stock selection in the materials and consumer staples sectors weighed on relative returns.
- In contrast, the choice of investments in the energy and industrials sectors boosted relative results.

Contributors and detractors for Q3 2021

- Materials: Shares of Brazilian miner **Vale** fell over the quarter as iron-ore prices dropped sharply amid signs of slowing demand from China given faltering Chinese economic growth. There were also moves to lower steel production as part of a drive by the Chinese authorities to reduce pollution.
- Consumer staples: Shares of online grocer **Ocado Group** gave up some of the strong gains made in 2020 as the U.K.'s COVID-19 vaccine rollout and removal of coronavirus restrictions meant many U.K. shoppers returned to physical stores. Nevertheless, Ocado continued to gain online market share, helped by its

partnership with upmarket U.K. grocer Marks and Spencer. Revenue for the first half of 2021 increased significantly year over year, with a narrower pre-tax loss.

- Energy: State-owned Russian energy company **Gazprom** saw its shares climb on the back of a significant rise in natural gas prices over the quarter, continuing the year-to-date trend, with the natural gas market characterized by a lack of spare capacity. Gazprom reported a year-over-year surge in revenue and earnings for the first half of 2021 as it directly benefited from higher natural gas prices as well as increased export volumes.
- Industrials: Shares of aircraft manufacturer **Airbus** rose after it reported a surge in jet deliveries in June. The company also registered a strong first-half performance at the end of July and raised its guidance for the full year. However, Airbus warned that it continued to face an "unpredictable environment" as air travel remained affected by restrictions owing to the spread of the Delta variant of COVID-19.

Outlook and strategy

After a strong rebound from COVID-19, the global economy appears to be slowing and inflation is rising. Growth is being challenged by supply-chain imbalances, rising energy prices and disruptions in industrial activity that is causing shortages for finished goods. Meanwhile, fiscal and monetary policies from governments and central banks in the developed world might diverge as countries seek to recover from the pandemic.

Portfolio managers continue to favour growth-oriented companies with strong management teams and the ability to generate free cash flow in various macroeconomic environments. Investments in the information technology sector make up a large portion of the portfolio, particularly companies with dominant market positions in semiconductors, software and mobile devices. The consumer discretionary sector is the second-largest weight in the portfolio, with managers favouring certain companies specializing in e-commerce, luxury goods and online services. A cross section of companies in the health care and financials sectors are also well-represented in the portfolio.

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