

Capital Group Global Equity Fund (AU)

Market review

Global stocks declined amid the war in Ukraine, mounting inflation and a resurgence of COVID-19 infections in Europe and Asia. As Russian tanks rolled across the Ukrainian border, commodity prices moved sharply higher, contributing to worldwide inflationary pressures. International sanctions sent Russian stocks and bonds and the ruble plummeting.

U.S. equities declined modestly, with major stock indexes posting their worst quarterly returns in two years. Volatility returned to markets as investors weighed the impacts of higher inflation, rising rates and the war in Ukraine. The U.S. Federal Reserve hiked rates for the first time since 2018, raising its benchmark rate 25 basis points (bps) at its March meeting. Central bank officials have signaled an aggressive pace of further hikes in an attempt to combat rising inflation. Following the March meeting, the Fed's median projection was 1.9% for year-end and 2.8% by the end of 2023, which would be the highest level since 2008.

European stocks tumbled as the war in Ukraine and sharply higher inflation threatened to derail Europe's pandemic recovery efforts. Along with the U.S., the European Union (EU) condemned Russia's February 24 invasion of Ukraine, responding with unprecedented sanctions that essentially erased Russia's presence in the global financial system. The conflict sent energy prices soaring amid calls for allied nations to shun Russian oil and gas.

Japanese equities fell as companies struggled with higher import costs from surging energy prices, while investors were also concerned over the tightening of monetary policy by the U.S. Federal Reserve. The economy was further weighed down by an increase in domestic COVID-19 cases. Bucking a global trend, the Bank of Japan (BOJ) maintained loose monetary policy, contributing to the yen's decline.

Portfolio review

Over the quarter, Capital Group Global Equity Fund (AU) returned -9.4%¹ before fees, while the index returned -8.4%². Net of fees, the fund returned -9.6%³. Over a one-year period, the portfolio returned 5.3%¹ before fees, and 4.3%³ after fees, compared with the index's return of 11.6%².

Sector attribution for Q1 2022

- Stock selection and a below-index exposure to the energy sector weighed on relative returns, while investments in the consumer discretionary sector also detracted.
- In contrast, the choice of investments in the materials and industrials sectors lifted relative results.

Contributors and detractors for Q1 2022

- Materials: Shares of **Vale** surged on the back of higher iron ore and nickel prices. Nickel prices jumped particularly sharply given Russia's status as the world's third-largest producer.
- Industrials: Defence and automotive manufacturer **Rheinmetall** saw its shares jump on hopes that it would benefit from increased spending on defence by the German government. Germany pledged to spend an

additional €100 billion on its armed forces as European countries viewed higher risk of Russian aggression.

- Energy: The portfolio's only direct Russian exposure was in energy company **Gazprom** and the position was fair valued at close to zero following Russia's invasion of Ukraine.
- Consumer discretionary: Despite reporting robust quarterly results, shares of **Evolution AB**, the B2B provider of live casino systems, were hindered by the deteriorating economic outlook given increasing inflation and interest rates.

Market volatility*

The Russia-Ukraine situation remains extremely uncertain, with each day bringing new developments that can have reverberating impacts around the world. From a financial market perspective, Russian and Ukrainian securities have borne the brunt of the initial fallout. However, past crises show us that it is often the second and third order effects that have the biggest and most lasting impact.

The economic and financial market implications may be far-reaching. Over the medium to long-term, some key considerations for investors will include the extent and duration of sanctions imposed on Russia, the impact on energy prices (particularly oil and gas) and soft commodities (e.g. wheat), supply chain disruptions (and related de-globalisation trends), potential for entrenched higher inflation, and of course the response of fiscal and monetary authorities to all of these. On the monetary policy front we may see a shift as central banks consider the impact of the conflict, especially on growth, however, so far normalisation seems to remain on track. The Fed announced its first interest rate hike this year, with officials indicating an aggressive path ahead as further rate hikes are expected at each of the remaining six Federal Open Market Committee meetings. The Fed is also preparing to reduce its US\$9 trillion balance sheet by US\$95 billion a month, likely beginning in May. The ECB looks to be taking a more hawkish stance than expected with a skew towards "inflationary pressure" rather than downside growth. In addition, many major global index providers have started to remove Russian securities from their indices. All of these factors will have impacts on equity and fixed income markets globally.

The Capital SystemSM is designed to help us navigate periods of sudden uncertainty and volatility. We have suspended purchases of Russian securities across all our investment strategies and implemented controls in compliance with the sanctions against Russia. Our portfolio managers are closely monitoring the situation and analysing ongoing developments alongside our longer-term focus on fundamentals, and will adjust holdings as needed. As we have done throughout our 90-year history, we will focus on the long-term fundamentals and work closely with our clients as events unfold.

* Click [here](#) for Capital Group's response to the war in Ukraine and visit [Market Volatility | Capital Group](#) for our latest data on portfolio holdings in Russia, Ukraine and Belarus.

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

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