

Capital Group Global Equity Fund (AU)

Market review

Global stocks declined for a third consecutive quarter, pressured by high inflation, rising interest rates and recession fears in many countries. Following a robust summer rally, stocks resumed a sharp selloff in mid-August as inflation soared and central banks around the world reconfirmed their commitment to tighten monetary policy.

US equities declined as high inflation and slowing economic growth increased expectations of an impending recession. The Consumer Price Index climbed 8.3% in August from the previous year, but retreated from its June peak of 9.1%. The deceleration was driven almost exclusively by falling gasoline prices, which declined 10.6% from the previous month, offsetting higher prices in other major categories such as food, shelter and medical care services. In September, the Fed announced its third consecutive 75-basis-point rate hike – the largest rate increases since 1994.

European stocks retreated in the face of high inflation, slowing economic growth and Russia's escalation of the war in Ukraine. Political turmoil also weighed on markets amid leadership changes in Italy and the United Kingdom. Volatile currency markets sent the euro and the pound plummeting to multidecade lows against the US dollar. The ECB raised interest rates for the first time since 2011, ending eight years of negative policy rates.

Japanese equities retreated amid slowing global growth and rising inflation. The government intervened in the foreign exchange market for the first time since 1998 in a bid to prop up the yen. The move followed a slump in the Japanese currency after the Bank of Japan (BOJ) announced it would maintain its ultra-loose monetary policy in the face of soaring inflation. The government ended COVID-19 travel restrictions in early October in a bid to revive its struggling tourism industry.

Portfolio review

Over the quarter, Capital Group Global Equity Fund (AU) returned -2.4%¹ before fees, while the index returned 0.3%². Net of fees, the fund returned -2.5%³. Over a one-year period, the portfolio returned -14.6%¹ before fees, and -15.4%³ after fees, compared with the index's return of -9.8%².

Sector attribution

- Investment choices in the health care and consumer staples sectors detracted from relative results.
- In contrast, stock selection in the materials and utilities sectors added to relative returns.

Contributors and detractors

- Health care: Shares of **Seagen** slid after the drugmaker lost an arbitration dispute with Daiichi Sankyo over the use of its antibody-drug conjugate technology.
- Consumer staples: Shares of **Ocado** fell after the online supermarket slashed its sales and earnings guidance for the 2022 fiscal year.
- Materials: Chile-based miner **Sociedad Quimica Y Minera** saw its shares climb on strong demand and ongoing pricing strength in lithium.

- Utilities: Shares of electricity generator and distributor **AES** rose on the back of strong second-quarter results, with the company beating earnings and revenue estimates.

Outlook and strategy

Inflation will take time to come down as the Fed and other central banks continue to raise interest rates and reduce their balance sheets. This painful experience, however, could have a long-term impact on the markets by affecting the willingness of governments and central banks to intervene during future times of crisis.

In Europe, a recession may already be underway due to the impact of higher energy prices, which have been exacerbated by the war. A harsh winter could send energy prices even higher. Our European economist expects the European Central Bank and the Bank of England to continue raising interest rates through the fall and winter months since they face the same elevated inflation levels as the US.

Meanwhile, post-pandemic opportunities are emerging in a number of areas, including the transition from traditional energy sources to more sustainable sources; years of underinvestment in commodities, which could lead to a new commodities super cycle; and big industrial shifts, such as the increasing adoption of automation, resulting in greater demand for semiconductors.

Against this backdrop, portfolio managers remain committed to finding companies with high growth potential, strong barriers to entry and sustainable pricing power. They are further interested in companies that are better positioned to benefit from the next wave of digital disruption and believe current market conditions are well suited to bottom-up security selection grounded in deep, fundamental research.

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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