

Capital Group Global Equity Fund (AU)

Market review

Global stocks rose as investors welcomed signs that inflation may have peaked in key markets around the world. Consumer price increases – while still high on a historical basis – moderated in the US, Europe and many other economies, fuelling speculation that central banks might not raise interest rates as fast or as far as previously thought.

US equities rebounded in the fourth quarter, but still finished with their worst year since 2008. Investors cheered signs that persistently high inflation may have peaked, as well as the Fed's decision to slow its pace of interest rate hikes. The economy grew at an annualised 3.2% rate in the third quarter after declining the previous two quarters. Strong consumer spending boosted economic growth, which beat economist expectations. A strong labour market continued to support economic activity, despite the Federal Reserve's attempts to slow activity to curb inflation.

European stocks rallied, generating the largest gains among the world's major developed economies. Markets bounced back from steep losses earlier in the year as inflationary pressures eased and central bank officials started reducing the magnitude of interest rate increases. With investors speculating that inflation may have peaked, the European Central Bank hiked rates by 50 basis points in December, down from 75 basis points at its two previous monetary policy meetings.

Japanese equities rallied, breaking a four-quarter streak of declines. The MSCI Japan Index rose 13%. Financial stocks rose the most, bolstered by a Bank of Japan (BoJ) move that some investors viewed as a pivot away from its ultra-loose monetary policy. The Japanese currency rebounded from 32-year lows it hit against the US dollar in October. The BoJ remains under pressure from inflation, which reached a 41-year high in November.

Portfolio review

Over the quarter, Capital Group Global Equity Fund (AU) returned 8.4%¹ before fees, while the index returned 3.9%². Net of fees, the fund returned 8.2%³. Over a one-year period, the portfolio returned -12.1%¹ before fees, and -12.8%³ after fees, compared with the index's return of -12.5%².

Sector attribution

- Stock selection in the consumer discretionary and information technology sectors contributed to relative gains.
- All sectors boosted relative returns except energy. A below-index exposure to the sector detracted on a relative basis.

Contributors and detractors

- Consumer discretionary: Not holding electric vehicle (EV) maker **Tesla** was helpful as shares plunged 54% over the quarter, suffering from negative sentiment on CEO Elon Musk's acquisition of Twitter and his related sales of Tesla stock.

- Information technology: Shares of **ASML**, a supplier of lithography tools, rallied 16% after third-quarter sales and earnings surpassed analysts' estimates, with robust demand for the company's lithography systems.
- Energy: The lack of exposure to **Exxon Mobil** hurt on a relative basis. Shares of the oil and gas major jumped 27% on strong financial results as it benefitted from strong demand and higher prices for oil and natural gas.
- At the company level, a position in **Seagen** detracted as its shares slid 6%. The biotech company's third quarter earnings missed forecasts although revenue topped expectations, reflecting robust sales of cancer drugs such as Adcetris and Padcev.

Outlook and strategy

Most of the world's economies are in or near recession, due to slowing growth, war in Ukraine, a lingering pandemic, high inflation and rising interest rates. Investors may be hoping for a return to normal after interest rates stop rising and inflation subsides. But markets are experiencing several seismic shifts and that investors will need to reset their expectations about how a typical investing environment will look.

In a high-inflation, higher-cost-of-capital world, our investment team is particularly cautious of highly levered companies, or those raising new debt, as this means using a larger slice of earnings to service debt. Companies with the ability to fund their own growth as well as those with strong pricing power and dependable cash flows will remain attractive.

New market leadership often emerges at the end of a bear market. With the cost of capital soaring, companies with strong, reliable cash flows are favourably positioned to lead the next recovery. Such companies can be found in the health care sector, which features innovative pharmaceutical firms that are well capitalised and hold pricing power. In addition, recent investments in drug discovery are resulting in new ways to tackle major problems like obesity.

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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