FOR PROFESSIONAL INVESTORS ONLY

Q4 2020
Quarterly update

Capital Group Global Equity Fund (AU)

Market review

Global stocks advanced as the rollout of coronavirus vaccines and additional government stimulus measures boosted investor sentiment across the board. All major sectors in the MSCI World Index generated positive returns, reflecting a brighter outlook for the global economy. However, gains were tempered by rising COVID-19 outbreaks, prompting new lockdowns in the U.S., Europe and elsewhere. Overall, the MSCI World Index rose 14%.

Energy and financial stocks led the rally as investors moved into sectors that had suffered the biggest losses earlier in the year. Industrials and materials stocks also rose sharply amid expectations of a robust economic rebound in 2021. Consumer staples and health care stocks lagged the overall market as cyclical sectors took center stage.

Governments around the world continued to combat the virus with massive monetary and fiscal stimulus measures. U.S. lawmakers approved a $900 billion stimulus bill to help offset some of the pandemic's economic impact. The relief package included $600 direct payments and $300 weekly unemployment subsidies for individuals. The European Central Bank, meanwhile, increased the amount of its pandemic emergency purchase program to €1.85 trillion from €1.35 trillion.

Among developed markets, European stocks rose 16% amid increasing optimism that widespread vaccinations will result in better-than-expected economic growth by mid- to late-2021. Investors also cheered Brexit negotiators as they hammered out a broad agreement governing the United Kingdom's new trading relationship with the European Union. Japanese stocks rose 15% and U.S. stocks wrapped up the quarter with a 12% gain.

In foreign exchange markets, the U.S. dollar declined against the euro, the yen and most other currencies. Signalling a potential end to a decade of dollar strength, the euro rose 4% against the greenback. A number of factors contributed to broad-based dollar weakness, including concerns about rising U.S. fiscal deficits, a prolonged period of ultra-low interest rates, and a perceived overvaluation of the dollar in recent years.

Portfolio review

Over the quarter, Capital Group Global Equity Fund (AU) returned 8.1%[1] before fees, while the index returned 5.7%[2]. Net of fees, the fund returned 7.8%.[3] Over a one-year period, the portfolio returned 7.9%[1] before fees, and 6.9%[3] after fees, compared with the index's return of 5.7%[2].

Sector attribution for Q4 2020

- Stock selection in the information technology and industrials sectors drove returns on a relative basis.
- However, the selection of stocks in the consumer discretionary and real estate sectors weighed on relative results.

Contributors and detractors for Q4 2020

- A large position in semiconductor equipment manufacturer **ASML** proved beneficial as the stock ended the period up 27% on better-than-expected business margins. While the company lowered its sales guidance for extreme ultraviolet (EUV) lithography machines for financial year 2021, increasing evidence of a recovery in the dynamic random access memory (DRAM) space has improved investor sentiment towards the stock.

- Shares of aerospace giant **Airbus** jumped 45% over the quarter due to strong order and delivery numbers in October. The launch of several COVID-19 vaccines has also brought life back to the severely impacted aviation industry due to the increased possibility of lockdown restrictions being lifted sooner rather than later.
- In contrast, **Ocado Group**, a British online grocer, was a leading detractor on a relative basis. Its shares fell 17% even though Ocado raised its full-year profit forecast on the back of strong retail sales growth. A key reason for the negative response from investors was due to weak growth in order numbers, which suggests that shopping behaviour could be about to normalise.
- Shares of data center real estate investment trust (REIT) **Equinix** dropped 6% during the quarter on profit taking but still ended the year 24% higher. Lockdown restrictions globally have prompted a surge in demand for storing and distributing data, benefitting the business of data center REITS.

Outlook and strategy

The global economy is turning the corner towards recovery, fuelled by China's economic rebound and fresh stimulus measures around the world, which should help support equity prices in a low interest rate environment. Countries are beginning to roll out vaccines to contain COVID-19, however, growth is likely to be challenged in the first half of 2021 by another wave of virus outbreaks. As more vaccines are administered, global growth could accelerate and help unleash pent up demand for a number of goods and services.

Our portfolio managers continue to favour growth-oriented companies with strong management teams, solid balance sheets 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, mobile devices and electronic payment networks. The consumer discretionary sector is the second-largest weight in the portfolio, with managers favouring select e-commerce companies and luxury goods companies. Global producers of alcoholic beverages and large pharmaceutical companies are also core holdings. The portfolio has little exposure to real estate and energy companies.

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