

## Capital Group Global High Income Opportunities Hedged (AU)

### Market review

- It was another difficult quarter across fixed income sectors, including emerging market (EM) and high-yield debt, amid high inflation and rising interest rates. Major developed market central banks remained committed to their rate hiking paths. EM currency weakness weighed on EM local currency debt, against a backdrop of broad US dollar strength over the period.
- Within emerging market debt, US dollar-denominated bonds, as measured by the JPMorgan EMBI Global Index<sup>1</sup>, returned -4.2%. The JPMorgan GBI-EM Global Diversified Index<sup>2</sup> returned 0.6% in local currency and -4.7% in US dollar terms. High-yield corporate debt, held up better than most other fixed income asset classes due to its lower duration, returning -0.6%<sup>3</sup>.

### Portfolio review <sup>7</sup>

- For the three months ended 30 September 2022, Capital Group Global High Income Opportunities Hedged (AU) returned -2.5%<sup>4</sup> before fees, while the index returned -2.9%.<sup>5</sup> Net of fees, the fund returned -2.7%.<sup>6</sup> Over a one-year period, the fund returned -17.9%<sup>4</sup> before fees and -18.6%<sup>6</sup> after fees, compared to the index's return of -18.5%<sup>5</sup>.
- All four sectors that GHIO primarily invests in – EM hard currency sovereign bonds, EM local currency sovereign bonds, EM corporate bonds and corporate high-yield bonds – delivered negative total returns in the third quarter, driving down GHIO's results. This was mostly driven by the increase in government bond yields as major developed market central banks continued to tighten monetary policy. EM currency weakness weighed on EM local currency debt, against a backdrop of broad US dollar strength over the period.
- Within EM local currency sovereign bonds, positions in South Africa and Colombia detracted. The South African rand weakened over the quarter. The South African Reserve Bank has been proactively raising interest rates, despite relatively contained core inflation, partly to help stem the weakness in the rand.
- Within EM hard currency sovereign and agency bonds, a position in Argentine bonds weighed on the portfolio's absolute returns. The main sources of volatility remain the election in Argentina next year and the current government's compliance with the International Monetary Fund programme. Holdings in Mexico also detracted amid high inflation, declining business confidence and softer non-manufacturing PMI. The central bank continued to tighten monetary policy over the quarter and revised its growth projections downwards.
- Both hard and local currency Russian bond holdings were marked higher over the quarter, which had a beneficial impact.
- Within corporate high yield, transportation and communications holdings delivered larger than average negative total returns, which weighed on the portfolio's total returns. Meanwhile the energy sector had a positive impact.

## Portfolio positioning and outlook

- Financial markets are pricing in higher interest rates and government bond yields, as developed market central banks continue to tighten monetary policy in the face of still elevated inflation. Expectations are for a further widening of credit spreads as concerns rise over slowing economic growth and heightened geopolitical risk.
- However, the sharp sell-off across fixed income sectors year-to-date mean valuations are now at attractive levels. Yields at current levels offer attractive income and total return potential that were non-existent at the beginning of the year. Nonetheless, market volatility is likely to remain elevated.
- The portfolio is defensively positioned in terms of duration and credit exposure overall, with a cash balance that is on the higher end of its historical range. A short duration positioning in developed market government bond futures overall was increased slightly over the quarter.
- The portfolio remains tilted towards emerging markets over high-yield corporate bonds on valuation grounds. Within EM, there is a modest preference for local currency bonds, where valuations have been attractive following a period of steep interest rate hikes.
- At the sector level for corporate high yield, we are conservatively positioned across a broad range of sectors; but constructively positioned to financial institutions, basic industry and consumer non-cyclicals, driven by bottom-up issuer analysis and selection.

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, Barclays Capital, JPMorgan

<sup>1</sup> JPM EMBI Global Total Return. Source: JPMorgan

<sup>2</sup> JPM GBI-EM Global Diversified Total Return. Source: JPMorgan

<sup>3</sup> Bloomberg US Corporate High Yield 2% Issuer Capped Index. In US dollar terms. Source: Bloomberg

<sup>4</sup> Returns are before management fees and expenses, in Australian dollar terms. Source: Capital Group

<sup>5</sup> 50% Barclays Capital US Corporate High Yield 2% Issuer Capped Index hedged to AUD, 20% JPMorgan Emerging Markets Bond Index Global hedged to AUD, 20% JPMorgan Global Bond Index - Emerging Markets Global Diversified in USD hedged to AUD, 10% JPMorgan Corporate Emerging Markets Bond Index Broad Diversified hedged to AUD. Sources: Barclays Capital, JPMorgan

<sup>6</sup> Returns are net of fees at maximum management fee, in Australian dollar terms. Source: Capital Group

<sup>7</sup> Data reflects absolute contributions to GHIO returns, in US dollar terms

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