

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

### Market review

- After one of the worst periods for fixed income markets in recent history, the final quarter of the 2022 saw bond markets rally and pare some their year-to-date losses. The change in sentiment was driven by rising market expectations that inflation might have peaked and that with global economy slowing central banks might not need to be as aggressive tightening policy.
- Within emerging market (EM) debt, US dollar-denominated bonds, as measured by the JPMorgan EMBI Global Index<sup>1</sup>, returned 7.4%. The JPMorgan GBI-EM Global Diversified Index<sup>2</sup> returned 3.8% in local currency and 8.5% in US dollar terms. High-yield corporate debt returned 4.2%<sup>3</sup>.

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

- For the three months ended 31 December 2022, Capital Group Global High Income Opportunities Hedged (AU) returned 6.3%<sup>4</sup> before fees, while the index returned 5.3%.<sup>5</sup> Net of fees, the fund returned 6.1%.<sup>6</sup> Over a one-year period, the fund returned -12.7%<sup>4</sup> before fees and -13.4%<sup>6</sup> after fees, compared to the index's return of -13.8%<sup>5</sup>.
- All four sectors that GHIO invests in - EM hard currency sovereign bonds, EM local currency sovereign bonds, EM corporate bonds and corporate high-yield (HY) bonds - rebounded to deliver positive total returns in the fourth quarter. This was mostly the result of a fall in bond yields driven by market expectations that inflation might have peaked enabling central banks to ease policy during 2023.
- Within EM local currency sovereign bonds, positions in South Africa and Ukraine were both notable contributors to results. After contracting during Q2, South Africa's GDP rebounded strongly during Q3.
- The markets positioning for a slowing global economy and less aggressive interest rate hikes fed through to a weakening of the US dollar over the quarter. This in turn helped support hard currency EM. The largest contribution to results was the fund's holdings in an Argentinian bond. The strong return helping to pare losses from previous quarters. News around the 2023 elections has created volatility in the Argentine bond market and this is likely to remain the case at least until the second quarter of the year when there should be some insight into candidates and coalitions.
- Within corporate HY, all sectors made a positive contribution to fund results. The highest contribution came from the consumer sectors, both cyclical and non-cyclical. Other notable contributions to the portfolios total returns included energy, capital goods and technology.

## Portfolio positioning and outlook

- As we begin 2023 there remains significant uncertainty both in terms of inflation, which remains elevated and central banks reaction. Credit spreads could widen further as concerns rise over slowing economic growth and heightened geopolitical risk.
- The sharp sell-off across fixed income sectors year-to-date however means that 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.
- 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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