CAPITAL GROUP℠

May 2022
Monthly update

Capital Group New Perspective Fund (AU)

Market review – one month

- Global equities were broadly flat over May. Risk aversion increased early in the month, with markets selling off on worries over higher borrowing costs and the outlook for global growth. While the US Federal Reserve hiked interest rates by 50 basis points, its largest increase since 2000, volatility subsided and stocks recovered their losses late-month as China indicated it would likely ease the two-month lockdown in Shanghai. The CBOE Volatility Index (VIX) ended at 26.2, down 21.6% over the month. (A VIX reading below 20 is widely viewed as an indicator of market stability.)
- Sector returns in the MSCI All Country World Index were mixed. Energy significantly outpaced average market returns as oil and gas prices rallied at least 10%. Elsewhere, utilities and financials were firmly in positive territory, with higher dividend payers generally being favoured in the environment of rising inflation and higher interest rates. In contrast, the real estate and consumer-related sectors struggled.

Portfolio review – one month

- For the month ended 31 May 2022, Capital Group New Perspective Fund (AU) returned -2.7%[1] before fees, while the index returned -0.8%[3]; net of fees, the fund returned -2.8%[2]. For the 12-month period, the fund returned -6.3%[1] before fees and -7.1%[2] net of fees, compared to the index's return of 0.6%[3].

Relative detractors

- <u>Consumer discretionary</u>: The choice of stocks and, to a lesser extent, an above-index holding in the consumer discretionary sector hurt relative returns. Electric vehicle maker **Tesla** weighed on relative results as shares slid 13%. Production at the company's Shanghai factory has been disrupted due to COVID-19 restrictions, which have also dampened vehicle sales. Uncertainty over CEO Elon Musk's bid for Twitter also weighed on Tesla's shares.
- <u>Energy</u>: A below-index exposure to the energy sector detracted from relative returns during May as oil and gas majors were buoyed by surging commodity prices. Not holding oil giant **ExxonMobil** hurt relative results as its shares gained 14% on the back of higher oil prices.
- <u>Financials</u>: Investments in the financials sector were slightly negative on a relative basis. Financial exchange operator **CME Group** was the key relative detractor as the stock lost 9% on the back of growing recession concerns, despite heightened market volatility and interest rate hikes providing a boost to trading volumes.

Relative contributors

- <u>Information technology</u>: Stock selection in the information technology sector was modestly positive for relative returns. Having below-benchmark exposure to iPhone maker **Apple** was beneficial as its shares slid 5% on concerns over the pace of US rate hikes, rising inflation and weakening consumer confidence. Apple recently revealed that COVID-related supply constraints and industry-wide chips shortages were impacting its ability to meet customer demand, although revenue still rose 9% year on year in the latest quarter.

- Consumer staples: The choice of stocks in the consumer staples sector provided a slightly beneficial overall impact. Not holding superstore chain **Walmart** was helpful. Shares fell 16% as inflation hit first-quarter profits and the company lowered its earnings per share guidance for the full year, citing the unexpected costs that emerged in the first quarter.
- Materials: Stock selection in the materials sectors also provided a modestly positive overall contribution. A position in miner **Vale** was supportive as the shares advanced 4%, helped by hopes that easing COVID-19 restrictions in China and a reduction in Chinese borrowing costs could lead to some improvement in demand for key commodities.

Positioning and Outlook

- Although financial markets continue to look beyond the global pandemic they now face a more uncertain outlook due to inflationary pressures and slower economic growth. Monetary policy across major global central banks is changing. The interest rate outlook is more hawkish than previously expected as central banks attempt to address both rising actual inflation as well as elevated longer term inflation expectations. Against this backdrop, equity market leadership could broaden in 2022 and beyond compared with the narrow growth-driven markets of the past few years.
- By design, the portfolio is not positioned for a single outcome or 'type' of short-term market environment. Instead, it continues to offer exposure to both long term secular growth and cyclical growth opportunities. The portfolio is underpinned by a broad set resilient businesses that could provide stable foundations in the event of an economic slowdown. The portfolio also invests in companies across a variety of industries where we believe there is potential for strong pricing power in the context of underlying labour/input cost inflation.
- Keeping perspective and looking beyond short-term market volatility is critical in current markets. Combining our long-term investment horizon with the structural flexibility to reorientate the portfolio over the long-term has allowed the fund to achieve consistent and resilient excess returns over the medium to long-term.

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] Returns are net of fees at maximum management fee, in Australian dollar terms. Source: Capital Group

[3] MSCI ACWI with net dividends reinvested, in Australian dollar terms. Source: MSCI