CAPITAL GROUP™

July 2023
Monthly Update

Capital Group New Perspective Fund (AU)

Market review – one month

- Global equities advanced, extending the year-to-date rally. Cyclical sectors generally outpaced defensive areas as hopes grew that the US economy would experience a soft landing. US inflation fell by more than anticipated, further supporting sentiment that the Federal Reserve's (Fed) tightening cycle was nearing an end. Both the Fed and the European Central Bank hiked interest rates in line with market forecasts. The Bank of Japan, meanwhile, surprised the market by adopting a more flexible approach to its yield curve control policy. The July CBOE Volatility Index (VIX) remained below 20, closing at 14.9, down 1% from the prior month. (A VIX reading below 20 is widely viewed as an indicator of market stability.)
- All sectors of the MSCI All Country World Index were higher, led by energy, communication services, materials and financials. Health care, utilities and consumer staples lagged.

Portfolio review – one month

- For the month ended 31 July 2023, Capital Group New Perspective Fund (AU) returned 2.1%[1] before fees and 2.0%[2] after fees, while the index returned 2.4%[3]. For the 12-month period, the fund returned 18.5%[1] before fees and 17.6%[2] net of fees, compared to the index's return of 16.9%[3].

Relative detractors

- Information technology: The choice of stocks in the information technology sector weighed on relative returns. An above-index position in **Taiwan Semiconductor Manufacturing** was detrimental as shares fell 2% after the semiconductor foundry warned of a likely 10% decline in revenue for 2023 and a significant delay to the start of production at its new facility in Arizona.
- Financials: Stock selection and a below-index position in the financials sector hindered relative results. An above-index holding in **AIA** was a negative. Shares eased 2% over July as sentiment on the Asia-focused insurer continued to be pressured by worries on its sales outlook given flagging momentum in the Chinese economy.
- Health care: An above-index exposure to the health care sector detracted on a relative basis, although this was mostly offset by positive stock selection. In particular, an above-index position in **Novo Nordisk** proved costly as shares slid 1% after the European Medicines Agency began an investigation into reports of suicidal risk linked to its obesity drugs. There were also further reports of shortages for Novo Nordisk's weight loss treatment, Wegovy.

Relative contributors

- Energy: The choice of stocks in the energy sector also contributed positively. Holding **Schlumberger** was beneficial as shares jumped 19% after OPEC and Russia agreed to cut crude oil production, thereby boosting sentiment on the outlook. The exploration and production services firm was anticipated to indirectly benefit from a higher price environment for crude.

- Communication services: Stock selection in the communication services sector added to relative returns. An above-index position in **Meta Platforms** was a bright spot as shares gained 11%. Second-quarter earnings and revenue, as well as guidance, beat analysts' forecasts, helped by strong user numbers and a recovery in advertising revenue. Meta's new social networking service Threads, a rival to Twitter, also attracted 100 million new users in its first five days although daily active users subsequently tailed off.
- Stock level: A position in heating and cooling company **Carrier Global** was helpful as shares jumped 20% to a two-year high. Second-quarter earnings and revenue came in ahead of estimates and the company also raised its full-year earnings guidance. Countries in the northern hemisphere experienced extended periods of record high temperatures, boosting demand for air conditioning.

Positioning and outlook

- The current portfolio is well-balanced by geography, sector, style, theme and characteristic of underlying companies. This is reflective of our view that a greater breadth of equity market leadership is likely to emerge over the next cycle despite the narrowness witnessed so far this year. If and when the market does broaden out, the portfolio is well-positioned to potentially benefit from the market shift.
- It is also deliberately not positioned for a single outcome or 'type' of short-term market environment. The portfolio has exposure to both long-term secular growth and select exposure to companies in more cyclical areas that are backed by durable tailwinds. These are underpinned by a broad set of set resilient or defensive businesses that could provide stable foundations. Companies with strong pricing power across a variety of industries are another focus. Even though inflation is likely to come down from recent levels, we expect it to remain persistently higher than the ultra-low and stable levels of the 2010s.

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