

Capital Group New Perspective Fund (AU)

Market review - one month

- Global equities sank in August on rising interest expectations and fresh signs of faltering global growth. The market braced itself for more big rises in US interest rates as Federal Reserve officials adopted a hawkish tone. Meanwhile, both US and European data suggested consumer spending was being pressured by inflation and higher borrowing costs. The CBOE Volatility Index (VIX) ended at 25.9, up 21.3% over the month. (A VIX reading below 20 is widely viewed as an indicator of market stability.)
- Most MSCI All Country World Index sectors lost ground, with health care, information technology and real estate the weakest. Energy was the only sector to generate positive returns over August. Overall, cyclical sectors lagged defensive sectors, while growth stocks trailed their value counterparts.

Portfolio review - one month

- For the month ended 31 August 2022, Capital Group New Perspective Fund (AU) returned -2.7%¹ before fees, while the index returned -2.0%³; net of fees, the fund returned -2.8%². For the 12-month period, the fund returned -17.8%¹ before fees and -18.6%² net of fees, compared to the index's return of -10.3%³.

Relative detractors

- Consumer discretionary: Stock selection in the consumer discretionary sector detracted from relative returns. Electric vehicle (EV) maker **Tesla**, the portfolio's largest holding, weighed on results as the stock fell 7% over US recession concerns, production disruptions in China and CEO Elon Musk's sale of more Tesla stock to avoid an emergency sale of shares if he is forced to follow through on the acquisition of Twitter.
- Health care: An above-index exposure and the choice of stocks in the health care sector weighed on relative results. A position in **Zoetis** was a key relative detractor as shares dropped 14% after the animal drugs company trimmed its full-year earnings and sales guidance due to higher FX headwinds although consumer demand for animal health products remained robust.
- Materials: Stock selection in the materials sector also hurt relative returns. A position in Netherlands-based nutrition company **DSM** proved detrimental. The stock slid 18% as both volumes and margin were pressured by higher costs and lockdowns in China although the company's pricing power was strong enough to offset the negativity.

Relative contributors

- Information technology: The portfolio's information technology investments also added to relative results. **Wolfspeed**, a provider of silicon carbide and gallium nitride solutions, was a key contributor. Shares jumped after the company's fiscal fourth-quarter earnings beat estimates on the back of strong sales momentum and improved manufacturing execution for power devices.

- At the company level, a position holding in **Anylam Pharmaceuticals** contributed positively as shares soared 46% after the US-based biopharmaceutical company reported strong late-stage clinical trial results for its Patisiran RNA drug to treat patients with ATTR Amyloidosis – a hereditary disease that affects the cardiovascular, autonomic and peripheral nervous systems.
- A below-index exposure to graphics chipmaker **NVIDIA** was also beneficial. The stock ended August 17% lower when the chipmaker warned that revenues may take a hit as a result of new US restrictions for exporting artificial-intelligence chips to China. Second-quarter revenue and earnings also missed expectations due to weaker demand for gaming graphics processing units (GPUs).

Positioning and Outlook

- We are living through a pivotal time marked by geopolitical realignment and the end of a 40-year period of declining interest rates. It is likely that new equity market leadership will form over the next cycle, but it does not mean ‘growth investing’ is dead. Looking ahead, equity markets could be less one dimensional and not driven by a small subset of stocks, different styles like growth vs. value, or geographic regions like US vs. non-US. Meanwhile, corporate earnings are likely to be a bigger driver of equity markets, representing a welcome return to fundamentals. In the near-term, some regions may experience ‘healthy recessions’ while others could suffer bigger contractions driven by negative supply shocks.
- Against this outlook, the portfolio continues to provide exposure to long-term secular growth and near-term growth, both of which are underpinned by a broad set of resilient or defensive businesses that could provide stability in the event of an economic slowdown. The portfolio also invests in companies across a variety of industries that we believe possess strong pricing power in the context of keeping up with underlying labour/input cost inflation. It is deliberately not positioned for a single outcome or ‘type’ of short-term market environment. It has the flexibility to invest in any type of company regardless of geography, sector, or ‘style’. This structural flexibility and diversification aims to provide a durable outcome as portfolio managers have the ability to reorientate the portfolio, based on long-term investment convictions, over a multi-year time horizon.
- The global economy appears to be going through a period of structural change; New Perspective is designed to invest in long term change with the aim of successfully translating these opportunities into durable investment outcomes.

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

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