

Capital Group New Perspective Fund (AU)

Market review - one month

- Global equities rallied sharply, recouping some of the sharp losses of the prior two months, with developed markets significantly outpacing their emerging market counterparts. Expectations firmed for a 75-basis-point (bps) rate hike from the US Federal Reserve in November. The European Central Bank raised its rates by 75 bps following its October meeting, though struck a less hawkish tone in its outlook. Oil prices jumped after the OPEC+ grouping agreed fresh production cuts. The CBOE Volatility Index (VIX) ended at 25.9, down 18.2% over the month. (A VIX reading below 20 is widely viewed as an indicator of market stability.)
- Most sectors in the MSCI All Country World Index generated positive returns, with by far the strongest contribution coming from energy given rising oil prices. Industrials and health care also recorded robust gains. In contrast, communication services, consumer discretionary and real estate trailed.

Portfolio review - one month

- For the month ended 31 October 2022, Capital Group New Perspective Fund (AU) returned 4.6%¹ before fees, while the index returned 6.6%³; net of fees, the fund returned 4.5%². For the 12-month period, the fund returned -15.8%¹ before fees and -16.6%² net of fees, compared to the index's return of -6.0%³.

Relative detractors

- Consumer discretionary: Stock selection and, to a lesser extent, an above-index exposure in the consumer discretionary sector hurt relative returns. Electric vehicle maker **Tesla** was a drag given shares dropped 14% over October as longer duration assets were hit by expectations of even higher US interest rates. The electric vehicle maker missed third-quarter revenue expectations, although earnings and profit topped forecasts.
- Information technology: The choice of stocks in the information technology sector weighed on relative results. A position in semiconductor foundry **Taiwan Semiconductor Manufacturing Company** (TSMC) was a negative as the shares fell 8% after the US imposed new controls to prevent US companies from exporting advanced semiconductors to China that could be used for Chinese military applications. The move raised concerns over the outlook for TSMC's sales to Chinese customers.
- Health care: Stock selection in the health care sector detracted from relative returns. Shares of biotech **Seagen** slid 7% reflecting market disappointment that the company's buyout by Merck remains at an impasse due to disagreements over price. Seagen's third-quarter earnings missed forecasts but revenue exceeded expectations reflecting robust sales.

Relative contributors

- Industrials: The choice of stocks in the industrials sector benefited relative results. Shares of construction machinery and equipment maker **Caterpillar** soared 33% after third-quarter earnings and revenue topped forecasts, buoyed by favourable price realisation and higher sales volume.

- **Utilities:** The choice of stocks and a below-index holding in the utilities sector also had a small positive impact on relative returns. A position in **AES** buoyed relative returns as the shares gained 16%, with sentiment continuing to strengthen on the back of the recent US congressional approval of the Inflation Reduction Act given its tax credits for solar energy investment.
- **Real estate:** A below-index exposure to the real estate sector was positive on a relative basis. Not holding communication infrastructure REIT (real estate investment trust) **Crown Castle** helped on a relative basis. Shares lost 8% as they continued to be pressured by rising interest rate expectations and the growing cost of its debt.

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, New Perspective continues to offer a well-balanced portfolio providing exposure to both long-term secular growth and (modest and carefully selected) economically sensitive growth, both of which are underpinned by a broad set of resilient or defensive businesses. 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 and 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.

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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