

## Capital Group New Perspective Fund (AU)

### Market review - one month

- Global equities rallied as interest rate expectations declined and better-than-forecast eurozone and US economic data raised hopes the global economy would avoid recession in 2023. Further signs inflation had peaked in key countries led markets to price in a generally slower pace of rate tightening. The recent reopening of the Chinese economy also supported sentiment on the outlook for global economic growth, with Chinese business survey data showing early signs of improvement. The CBOE Volatility Index (VIX) ended at 19.4, falling 10.5% 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 advanced, with cyclical sectors sharply outpacing defensive areas. Consumer discretionary, communication services and information technology led while health care, utilities and consumer staples were the principal laggards.

### Portfolio review - one month

- For the month ended 31 January 2023, Capital Group New Perspective Fund (AU) returned 4.6%<sup>1</sup> before fees, while the index returned 3.1%<sup>3</sup>; net of fees, the fund returned 4.5%<sup>2</sup>. For the 12-month period, the fund returned -12.0%<sup>1</sup> before fees and -12.7%<sup>2</sup> net of fees, compared to the index's return of -8.0%<sup>3</sup>.

### Relative contributors

- Consumer discretionary: Stock selection in the consumer discretionary sector buoyed relative returns. An above-index position in **Tesla** was beneficial as the shares jumped 41%, rallying after fourth-quarter earnings beat estimates and orders surged in January as price cuts boosted demand for its cars. The electric vehicle maker announced a further round of price cuts in January, raising the prospect it could grab more market share from rivals.
- Industrials: The choice of stocks in the industrials sector added to relative results. Holding **Safran** was helpful. Shares gained 13% over January as the aircraft equipment and defence systems company was anticipated to benefit from rising military spending and the continued recovery in civil air traffic.
- Information technology: Stock selection more than offset the detrimental impact of a below-index exposure to the sector. **ASML** was a bright spot as shares rose 20% after it beat fourth-quarter earnings and revenue forecasts. ASML also guided to significant year-on-year sales growth and improvement in gross margin for 2023 and is anticipating a pickup in demand for semiconductors in the second half of the year.

### Relative detractors

- Financials: Stock selection in the financials sector held back relative returns. An above-index position in **AIA Group** detracted on a relative basis as the shares rose by just 2% over the month, held back by profit taking. This followed a substantial rebound for the stock at the end of 2022 on hopes China's economic reopening would boost the Asia-focused insurer's earnings.

- **Energy:** The choice of stocks in the energy sector also weighed modestly. Holding **Reliance Industries** hurt as the shares lost 8% after it reported a fall in earnings for its fiscal third quarter on weak downstream chemical margins. The Indian conglomerate also warned that slowing global economic growth could weigh on demand for oil in 2023, pressuring its oil production business.
- At a company level, a below-index position in **Amazon** proved costly. Shares rallied 23% as growth-focused stocks returned to favour amid growing speculation the Federal Reserve was nearing the end of its rate-hiking cycle. Meanwhile, Amazon revealed it would lay off more staff as part of ongoing efforts to improve business efficiency and cut costs.

## 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 offer a well-balanced portfolio providing exposure to both long-term secular growth and 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

<sup>1</sup> Returns are before management fees and expenses, in Australian dollar terms. Source: Capital Group

<sup>2</sup> Returns are net of fees at maximum management fee, in Australian dollar terms. Source: Capital Group

<sup>3</sup> MSCI ACWI with net dividends reinvested, in Australian dollar terms. Source: MSCI

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