April 2021
Monthly update

Capital Group New Perspective Fund Hedged (AU)

Monthly market review

- Global stocks finished higher in April, helped by lower U.S. Treasury yields after the Federal Reserve (Fed) reiterated its accommodative stance and investor concerns about rising inflation slightly receded. Markets were supported by hopes of a global economic recovery following the rollout of COVID-19 vaccination programs, sizeable fiscal stimulus in the U.S., and major central banks' ultra-loose monetary policy. The CBOE Volatility Index (VIX) ended at 18.6, a fall from 19.4 in March. (A VIX reading below 20 is widely viewed as an indicator of market stability.)
- All sectors in the MSCI All Country World Index rose. Communication services, real estate and information technology were among the sectors that generated the highest positive returns; in contrast, energy, industrials and consumer staples lagged the index.

Portfolio review

- For the month ended 30 April 2021, Capital Group New Perspective Fund Hedged (AU) returned 4.5%[1] before fees and 4.4%[2] on a net of fees basis, while the index returned 3.7%[3]. For the 12-month period, the fund returned 51.6%[1] before fees and 50.2%[2] net of fees, compared to the index's return of 40.3%[3].

Relative Contributors

- Health care: Stock selection in the health care sector was a key contributor to positive relative returns. A position in NovoCure was the largest contributor as its share price rose 54%. In early April the company announced it received the go-ahead to accelerate a pivotal phase 3 study regarding its medical device Optune, which is designed to treat advanced-stage non-small-cell lung cancer.
- Consumer discretionary: Stock selection in the consumer discretionary sector added value. A position in Tesla was a key contributor as its shares rose 6%. Tesla's share price dipped in March as rising long-term bond yields led to a broad selloff in highly favoured growth stocks, but recovered some strength in April as investor concerns around inflation eased.
- Communication services: Investments in communication services companies were also among the largest contributors over the month. A position in Facebook was particularly helpful as its shares rose 10%. The social media giant announced strong results for the first quarter of the year, reporting revenue growth of 44% year-on-year (on a constant currency basis).

Relative Detractors

- Utilities: Stock selection in the utilities sector detracted on a relative basis. A position in Orsted detracted. The offshore wind specialist had previously guided towards lower earnings in the first quarter of 2021 compared with last year. This was a due to higher-than-usual wind speeds across its European offshore portfolio in Q1 2020.

- Materials: Investments in the materials sector also detracted from relative returns. The most significant detractor in the sector was a position in Japan-based Asahi Kasei. The chemical company delivered strong returns over the year to March as its battery separator business benefited from positive sentiment around the proliferation in electric vehicles. Shares gave back some gains in April, falling 10%.
- Real Estate: Low exposure to the real estate sector detracted as the sector rallied 5% over the month.

Positioning and outlook

Despite risks to the outlook for global growth given impacts from the coronavirus and uncertainty surrounding the global trade environment, in terms of equity market returns, we continue to believe company fundamentals remain the primary driver of long-term share price returns.

While the New Perspective strategy is a diversified global equity portfolio constructed on a stock-by-stock basis using deep, fundamental research, taking a top-down view highlights some commonalities.

Viewing investments around different market drivers can help provide a useful framework to understand how the overall portfolio is positioned to navigate current conditions. Capital Group New Perspective portfolio managers don't view current investment opportunities as binary; cyclical and secular growth opportunities co-exist in the portfolio and it is underpinned by a broad base of core investments.

Long-term secular growth trends:

- Long-duration growth companies that are fuelling the acceleration of digital disruption and adoption. This includes those in sectors such as cloud computing e-commerce, digital payments, media and entertainment, data centres, semiconductors and semiconductor equipment manufacturers.

Core, broad foundations:

- Steady compounders with a track record of persistently growing their cashflows.
- Companies with subscription-based business models that are likely to generate annuity-like revenue streams;
- Businesses positioned to benefit from strong and stable, long-term trends in manufacturing and logistics
- Med-tech and commercial stage biotech and pharmaceuticals that could provide steadily persistent growth over the next decade;
- Companies supporting the persistent trend towards sustainability, for example in the environment and human and animal wellness

High quality, economically sensitive companies positioned for a post-COVID recovery:

As vaccine take-up increases and economies begin to reopen, we could see signs of a global economic recovery. This recovery may not necessarily be smooth, but the coordinated effort to stimulate the global economy could support a sustained recovery. Certain sectors tend to do better in economic expansions due to the nature of the underlying demand, but other factors could also support select companies in the following industries:

- Select banks could benefit from longer-term structural changes. These could include leading banks with the scale and scope to act as 'financial supermarkets'. Some wealth management services could be positioned to capture gains, as could select diversified insurers.
- Industrial, construction and materials companies with strong competitive positions that operate across a diverse range of markets from automation to construction to transport refrigeration could benefit as businesses increase investment as an economic recovery rebuilds confidence.
- Travel and leisure related stocks could see a change in investor sentiment as vaccine roll-out programmes ramp up across the globe and the market begins to realise a path to recovery for the industry, fuelled by strong pent-up demand.

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 100% hedged into Australian dollars with net dividends reinvested. Source: MSCI

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