CAPITAL GROUP[SM]

**Q4 2021**
Quarterly update

# Capital Group New Perspective Fund Hedged (AU)

## Market review

- Global stocks ended the year with solid quarterly gains. Strong corporate earnings growth and ongoing government stimulus measures pushed markets to record highs despite the threat of rising inflation, higher interest rates and the rapid spread of the omicron coronavirus variant.

- U.S. equities soared, hitting new record highs and outpacing nearly all other developed markets. Investors largely shrugged off concerns over spiking COVID-19 cases arising from omicron variant. Supported by strong returns from growth stocks, the Standard & Poor's 500 Composite Index advanced 11% in the fourth quarter.

- European stocks advanced despite concerns about record-high inflation and a shift toward slightly tighter monetary policy. Defensive sectors rallied as investors sought out companies that may benefit from rising consumer prices.

- Japanese equities fell in the fourth quarter. Prime Minister Fumio Kishida's Liberal Democratic Party retained power with a better-than-expected majority. Meanwhile, the Bank of Japan announced plans to taper its corporate debt purchases but left its ultra-loose monetary policy unchanged.

- Emerging markets stocks edged lower, hurt by a sharp slowdown in China's economy, inflationary pressures, tightening U.S. monetary policy and a stronger U.S. dollar. Chinese stocks slid further. Weakness in the property market, an uncertain

## Three-month portfolio review

- For the quarter ended 31 December 2021, Capital Group New Perspective Fund Hedged (AU) returned 6.6%[1] before fees and 6.4%[2] net of fees, while the index returned 6.6%.[3] For the 12-month period, the fund returned 20.2%[1] before fees and 19.1%[2] net of fees, compared with the index return of 20.2%.[3]
- Investments in the information technology and health care sectors weighed on relative returns. However, the consumer discretionary and consumer staples sectors helped on a relative basis.

**Relative Detractors**

- Information technology: Stock selection in the information technology sector weighed on relative returns. A below-index exposure to Apple detracted on a relative basis as its shares rose 26%. A position in PayPal also hurt after reports that the company was considering a bid for image sharing and social media platform Pinterest. The stock was further impacted after third-quarter revenue missed estimates and the company's guidance was poorly received by the market. PayPal was down 28% over the quarter.
- Health care: Stock selection in health care also detracted on a relative basis. Along with US-listed biotech stocks in general, shares in BeiGene came under pressure from concerns over US-China relations. Third-quarter earnings and revenue surpassed forecasts, nevertheless the stock closed down for the quarter.
- Cash: The portfolio's cash exposure (approx. 3%) detracted on a relative basis in the market rally.

**Relative Contributors**

- Consumer discretionary: Stock selection in the sector proved positive. Tesla was the largest positive contributor. Shares rallied after the company beat third-quarter revenue forecasts as it made record electric vehicle deliveries. Tesla also said it would continue to ramp up production at its Shanghai factory and forge ahead with plans to build new capacity in Texas and Berlin.
- Consumer staples: Stock selection in consumer staples added value on a relative basis, helped by a position in big-box retailer Costco which rose 27% over the quarter. A favourable consumer environment supported the share price. Furthermore, the company has continued to take market shares from competitors through the pandemic.
- Financials: Below-index exposure to financials, particularly banks, helped on a relative basis. CME Group was the largest positive contributor in the sector. Shares in the financial derivatives exchange were supported by its exposure to fixed income trading, which the market expects could benefit from an environment where the US Federal Reserve raises rates and tapers bond purchases.

## 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 markets, we continue to believe company fundamentals remain the primary driver of long-term share price returns.

Inflation has surfaced across many global economies and there are signs that it is likely to be persistently higher in 2022. Taking an active bottom-up approach to stock picking can help identify companies that can better navigate different inflationary environments. Capital Group New Perspective portfolio managers don't view current investment opportunities as binary; cyclical and secular growth opportunities co-exist in the portfolio, underpinned by a broad base of core investments. These include:

**Companies that benefit from strong pricing power to combat inflation:**

Investing in companies with clear, sustainable pricing power have the potential to protect their profit margins by passing costs along to customers, such as:

- Companies offering utility-like services, like video streaming services
- Companies with superior products or valuable brands, e.g. luxury goods
- Companies enabling other businesses to lower their cost base, such as cloud infrastructure and software-as-as-service providers
- Companies in strong competitive positions in concentrated industries like semiconductors

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

Markets experienced a strong recovery in 2021 as economies reopened. Economic growth in 2022, while still positive, is likely to be slower than 2021. 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. These companies could benefit as businesses increase investment as 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.

**Long-term secular growth trends:**

- Companies with long potential growth runways: including those fuelling the acceleration of digital disruption and adoption. This includes companies operating in sectors such as cloud computing, e-commerce, digital payments, media and entertainment, data centres, semiconductors and semiconductor equipment manufacturers.

**Core, broad foundations:**

- Companies with a track record of persistently growing their cashflows, which has allowed them to steadily compound share price returns.
- 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 steady growth over the next decade.
- Companies supporting the persistent trend towards sustainability, for example in the environment, and human and animal wellness.

Developed market returns are in US dollars and include net dividends. Emerging markets returns are in US dollars. 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