

Capital Group New Perspective Fund Hedged (AU)

Market review

- Global stocks declined amid the war in Ukraine, mounting inflation and a resurgence of COVID-19 infections in Europe and Asia. In response to Russia's invasion of Ukraine, commodity prices moved sharply higher, contributing to worldwide inflationary pressures.
- Consumer discretionary stocks experienced the biggest losses as investors feared a potential war-induced recession. Growth-oriented stocks also fell out of favour. In contrast, energy stocks soared on skyrocketing oil and gas prices.
- US inflation hit its highest levels in 40 years. The Federal Reserve raised rates by 25 bps, the first hike since 2018, and signalled an aggressive pace of further hikes to combat rising inflation
- European stocks tumbled as the war in Ukraine and sharply higher inflation threatened to derail Europe's pandemic recovery. Along with the US, the European Union condemned Russia's invasion of Ukraine, responding with unprecedented sanctions
- Emerging markets lost ground. Sweeping sanctions all but shut Russia out of the global financial system and trading in Russian equities was virtually halted. Chinese equities slid for a third consecutive quarter as regulatory uncertainty, rolling lockdowns and a slower growth continued to hurt sentiment. Brazil and other commodity-producing countries bucked the broad decline as prices for oil and industrial metals soared.

Three-month portfolio review

- For the quarter ended 31 March 2022, Capital Group New Perspective Fund Hedged (AU) returned -9.5%¹ before fees and -9.7%² net of fees, while the index returned -5.1%.³ For the 12-month period, the fund returned 5.5%¹ before fees and 4.5%² net of fees, compared with the index return of 7.9%.³
- Investments in the communication services and energy sectors weighed on relative returns. However, the consumer discretionary sector helped on a relative basis.

Relative detractors

- Communication services: Stock selection in communications services also detracted on a relative basis. Stocks trading on high-multiples suffered amid pronounced equity market rotation. Returns for Facebook owner Meta Platforms and Netflix were further pressured by results that fell short of analysts' expectations.
- Energy: Stock selection and below-index exposure to energy stocks detracted over the period. The portfolio's only direct Russian exposure was in the energy sector and positions were fair valued at close to zero following Russia's invasion of Ukraine. Gazprom and Rosneft were the largest detractors in the sector.
- Information technology: The choice of stocks in the information technology sector weighed on a relative basis. Semiconductor equipment maker ASML detracted due to supply chain headwinds and US-China trade tensions.

Relative contributors

- Consumer discretionary: Stock selection in the sector proved positive but was offset by an above-index exposure. Tesla was the portfolio's top positive contributor, supported by signs production would ramp up after it opened its Gigafactory in Berlin. Tesla was also viewed as more resilient than rival EV makers given previous deals to secure raw materials supplies.
- Stock level: The second largest positive contributor was Brazil-based miner Vale. Shares surged on the back of higher iron ore and nickel prices. Nickel prices jumped particularly sharply given Russia's status as the world's third-largest producer.
- More defensive pharmaceutical companies AstraZeneca and Vertex Pharmaceuticals also made a positive contribution to relative returns. Both companies posted strong results beating analyst expectations and also issued positive guidance for the year ahead.

Market volatility⁴

- The Russia-Ukraine situation remains extremely uncertain, with each day bringing new developments that can have reverberating impacts around the world. From a financial market perspective, Russian and Ukrainian securities have borne the brunt of the initial fallout. However, past crises show us that it is often the second and third order effects that have the biggest and most lasting impact.
- The economic and financial market implications may be far-reaching. Over the medium to long-term, some key considerations for investors will include the extent and duration of sanctions imposed on Russia, the impact on energy prices (particularly oil and gas) and soft commodities (e.g. wheat), supply chain disruptions (and related de-globalisation trends), potential for entrenched higher inflation, and of course the response of fiscal and monetary authorities to all of these. On the monetary policy front we may see a shift as central banks consider the impact of the conflict, especially on growth, however, so far early indications seem to be that normalisation remains on track. The ECB meeting on 10 March was more hawkish than expected with a skew towards "inflationary pressure" rather than downside growth. The Fed has also indicated an intention to continue with rate rises, but markets will keenly watch the next meeting to assess the path this will take. In addition, global index providers have indicated that Russian securities are to be excluded from their indices. All of these factors will have impacts on equity and fixed income markets globally.
- The Capital SystemSM is designed to help us navigate periods of sudden uncertainty and volatility. Our portfolio managers are closely monitoring the situation and analysing ongoing developments alongside our longer-term focus on fundamentals, and will adjust holdings as needed. As we have done throughout our 90-year history, we will focus on the long-term fundamentals and work closely with our clients as events unfold.

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

⁴ Click [here](#) for Capital Group's response to the war in Ukraine and visit [Market Volatility | Capital Group](#) for our latest data on portfolio holdings in Russia, Ukraine and Belarus.

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