

## Capital Group New Perspective Fund Hedged (AU)

### Market review

- Global stocks fell sharply as rising inflation, higher interest rates and the war in Ukraine combined to push the U.S., Europe and Japan into bear market territory. Slowing global economic growth and fears of a potential recession further weighed on markets, accelerating a broad selloff that commenced shortly after the start of the year.
- European stocks declined amid the ongoing war in Ukraine, record-high inflation and firm indications from the European Central Bank that it will begin raising interest rates in July. Despite fears of a war-induced recession, ECB officials said rates must move higher as consumer prices soared across the eurozone.
- ECB president Christine Lagarde, emphasizing that inflation is “broadening and intensifying,” left little doubt that the central bank will increase its key policy rate at the governing council’s July 21 meeting. It would be the first time the ECB has done so since 2011. Eurozone inflation rose to 8.6% in June, the highest level since the euro currency was launched 23 years ago.
- Emerging markets stocks fell but declined less than those in major developed markets. China’s coronavirus-induced lockdowns, fears of the impacts of rising U.S. interest rates and higher inflation in developed countries all weighed on equity prices.
- Chinese equities, however, edged higher, halting three straight quarters of losses. While economic data remained weak due to rolling lockdowns in Shanghai and other key business hubs, hopeful signs emerged that top officials would take steps to boost stimulus measures, ease monetary policy and wind down their regulatory tightening of the technology sector.

### Three-month portfolio review

- For the quarter ended 30 June 2022, Capital Group New Perspective Fund Hedged (AU) returned -18.1%<sup>1</sup> before fees and -18.3%<sup>2</sup> net of fees, while the index returned -14.3%.<sup>3</sup> For the 12-month period, the fund returned -20.2%<sup>1</sup> before fees and -21.0%<sup>2</sup> net of fees, compared with the index return of -13.6%.<sup>3</sup>

### Relative detractors

- Consumer discretionary: Stock selection and an above-index sector exposure hurt relative returns over the quarter. Electric vehicle maker Tesla was the overall portfolio’s top relative detractor as shares slide against a deteriorating economic outlook, higher input costs and supply chain constraints.
- Communication services: The selection of communications services stocks 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.
- Information technology: The choice of stocks in the information technology sector weighed on relative results. Semiconductor equipment maker ASML detracted as shares declined suffered from worries over a potential slowdown in demand for the semiconductor industry alongside continuing supply chain constraints and cost pressures.

### Relative contributors

- **Financials:** Stock selection in the sector proved positive as financials was the only sector to have contributed to relative returns during the quarter. Shares of pan-Asian insurer AIA held up better than the wider market, supported by hopes for an improvement in revenue over the second quarter after coronavirus disruption in China weighed on sales in the first three months of the year.
- **Stock level:**
  - At a stock level, a lower-than-index holding in Apple was the portfolio's largest positive contributor. Shares of the iPhone maker fell amid worries over signs of weakening consumer demand amid rising inflation and interest rates, with fears that the second half of 2022 would bring a deterioration in order levels as a result.
  - Likewise, a below-index position in NVIDIA ended the quarter as the second largest positive contributor. Shares in the technology company were hit by fears of a slowdown in the demand for its graphics processing units over the second half of 2022.

## Positioning and Outlook

- We are living through a pivotal time in history marked by geopolitical realignment, potential structural change for financial markets and the end of a 40-year period of declining interest rates. The global economy appears to be going through a period of structural change, as well as long-term change upon which the portfolio was designed to thrive. Looking ahead, we expect a fundamentally different marketplace that is less one-dimensional and no longer driven by a small set of stocks, growth vs value, or US vs non-US.
- Against this outlook, the portfolio continues to provide exposure to long-term secular growth and near-term growth, both of which are underpinned by a broad set of resilient or defensive businesses that could provide stability in the event of an economic slowdown. 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 allows for a durable outcome as portfolio managers are able to reorientate the portfolio on a multi-year basis based on long-term investment convictions.

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

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

<sup>4</sup> 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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