

Capital Group New Perspective Fund Hedged (AU)

Market review

- Global stocks declined for a third consecutive quarter, pressured by high inflation, rising interest rates and recession fears in many countries. The compounding negativity weighed on markets, triggering a broad selloff across all sectors.
- US inflation continued to pressure the market with the Consumer Price Index climbing 8.3% in August from the previous year. That prompted the US Federal Reserve (Fed) to announce its third consecutive 75-basis-point rate hike in September, which renewed fears of an impending recession.
- European stocks also retreated in the face of high inflation, slowing economic growth and Russia's escalation of the war in Ukraine. The European Central Bank (ECB) raised interest rates for the first time since 2011, ending eight years of negative policy rates, while volatile currency markets sent the euro and the pound plummeting to multidecade lows against the US dollar.
- In Japan, the government intervened in the foreign exchange market for the first time since 1998 in a bid to prop up the yen. The move followed a slump in the Japanese currency after the Bank of Japan (BOJ) announced it would maintain its ultra-loose monetary policy in the face of soaring inflation. Japanese equities retreated amid the volatility.
- Emerging markets (EM) stocks tumbled, undercut by China's slowing economy, rising US interest rates and sharp gains for the US dollar. COVID-19-induced lockdowns in key manufacturing and technology hubs and a growing liquidity crunch in the property sector stunted Chinese economic activity, triggering a sharp selloff in Chinese equities. At the other end of the spectrum, Brazil and Indonesia were two of the standout performers during the year-to-date period, bucking the broader selloff across the region. The latter, in particular, has seen its commodity-rich economy supported by strong exports data and the ongoing recovery from the impacts of COVID-19.

Three-month portfolio review

- For the quarter ended 30 September 2022, Capital Group New Perspective Fund Hedged (AU) returned -4.4%¹ before fees and -4.5%² net of fees, while the index returned -5.5%.³ For the 12-month period, the fund returned -24.4%¹ before fees and -25.1%² net of fees, compared with the index return of -18.1%.³

Relative contributors

- Consumer discretionary: Stock selection and, to a lesser extent, an above-index exposure in the consumer discretionary sector benefited relative results. A large above-index position in electric vehicle maker **Tesla** was a positive as the stock surged 18%. The company reported a smaller-than expected drop in quarterly profit, with earnings surpassing forecasts and helped by a number of price increases for its cars. Output from Tesla's Shanghai factory also saw rapid improvement following the end of coronavirus-related disruption

- **Communication services:** The choice of stocks and a below-index exposure in the communication services sector also added to relative returns. A holding in streaming company **Netflix** was a positive as the shares surged 35%. Shares recouped some of the sharp losses of the prior quarter, rallying after Netflix lost less subscribers than anticipated during the second quarter and projected a rapid return to growth.
- **Real estate:** A below-index exposure towards the sector supported relative returns as recession fears and declining demand for property weighed on the share prices of real estate companies. There were no significant individual sector contributors to relative returns over the quarter.

Relative detractors

- **Financials:** Stock selection weighed on relative returns in the financials sector. A position in pan-Asian insurer **AIA Group** hurt results as the stock lost 23% on growing concerns surrounding the Chinese economy amid the country's ongoing zero-COVID policy and fragile property market conditions. AIA reported a first-half loss with revenue and the value of new business declining in the face of COVID-19 lockdowns in China.
- **Information technology:** The portfolio's positioning in the information technology sector detracted from relative results. A below-index exposure to **Apple** was a negative as the stock rose 1%. The technology giant beat earnings estimates for the April-June quarter, with record revenue driven by the iPhone and Services business. Apple's active installed base of devices hit an all-time high for all of its major product segments.
- **Energy:** Stock selection in the energy sector was also a negative on a relative basis. Not holding **ExxonMobil** was detrimental as the stock rose 3%. Shares were boosted by well-received second-quarter results, with both earnings and revenue ahead of estimates. Exxon benefited from strong demand and higher prices for oil and natural gas alongside bumper margins from its refining business.

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 AIA Global Select Equity Fund continues to offer a well-balanced portfolio providing exposure to both long-term secular growth and (modest and carefully selected) 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 aim 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.

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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