CAPITAL GROUP℠

Q4 2020
Quarterly update

Capital Group New Perspective Fund Hedged (AU)

Market review

- Global stocks advanced as the rollout of coronavirus vaccines and additional government stimulus measures boosted investor sentiment across the board. All major sectors in the MSCI World Index generated positive returns, reflecting a brighter outlook for the global economy. Gains were tempered by rising COVID-19 outbreaks, prompting new lockdowns in some countries.
- US equities soared as multiple COVID-19 vaccines were approved and Congress agreed on a coronavirus relief package. The energy and financials sectors had the highest returns, pushing major indices to record levels. The shift to online shopping supported US retail sales during the key holiday season with e-commerce sales jumping 49% from last year. Energy was the top-returning sector on hopes that vaccine rollout could lead to a resumption of travel and more demand for oil.
- European stocks rallied as investors cheered COVID-19 vaccine rollouts and a long-awaited Brexit trade deal. Gains were tempered, however, by rising infection rates that prompted a new round of lockdowns. Brexit negotiators hammered out a broad agreement governing the UK's new trading relationship with the EU. The announcement sent sterling higher as the threat of a "no-deal Brexit" was narrowly avoided.
- Japanese stocks surged on expectations of economic recovery. Most sectors advanced, led by materials, information technology and consumer discretionary. The Japanese yen rose 2% against the US dollar. Japan's economy expanded, but exports remained weak. GDP rose an annualised 22.9% in the third quarter, the first expansion in a year. The Bank of Japan's fourth-quarter Tankan survey of manufacturers showed an improvement from the prior quarter, suggesting that pessimism was ebbing.

Three-month portfolio review

- For the quarter ended 31 December 2020, Capital Group New Perspective Fund Hedged (AU) returned 15.2%[1] before fees and 15.0%[2] net of fees, while the index returned 12.2%.[3] For the 12-month period, the fund returned 29.3%[1] before fees and 28.1%[2] net of fees, compared with the index's return of 11.2%.[3]
- The fund generated excess returns across regions and sectors with positive relative results achieved across seven of the 11 sectors. Investments in the consumer discretionary and information technology sectors were the largest positive contributors on a relative basis. However, the financials and health care sectors weighed on a relative returns.

  Relative Contributors

- Consumer discretionary: Following a fifth straight quarterly profit to 30 September, Tesla confirmed it is on track to deliver a record-breaking 500,000 cars in 2020. Sales were boosted by the rapid ramping up of production at its new Shanghai factory and the launch of its Model Y. Shares surged in November on news Tesla was to enter the S&P 500 in December.

- Information technology: ASML announced better-than-expected third-quarter earnings growth and forecast double-digit growth in 2021, it sounded a note of caution over sales of its newest tools and halted plans to sell its most advanced equipment to China following pressure from the US administration. Shares subsequently rallied strongly on the US presidential election result in anticipation of improved US/China relations and more relaxed restrictions on exporting technology to Chinese original equipment manufacturers.

Relative Detractors

- Financials: Relatively light exposure and stock selection in the financials sector detracted on a relative basis. A position in credit ratings agency Moody's detracted as its shares rose only 0.3% over the period, lagging the market rally.
- Health care: Stock selection in the health care sector weighed on relative returns. Vertex Pharmaceuticals shares slid 13% after safety worries prompted the company to discontinue a clinical trial for its drug to treat patients with alpha-1 antitrypsin deficiency, a genetic condition linked to higher risk of lung and liver disease. The company plans to continue to advance trials for alternative drug candidates to treat alpha-1 antitrypsin deficiency.

Outlook

- The COVID-19 pandemic is likely to hasten changes to global patterns of trade. Our portfolio managers are closely monitoring areas of opportunity, in particular disruptive change, assessing those developments that might be temporary and those that could be permanent. Areas of conviction for long-term growth potential include:
    - Cloud computing and software-as-a-service: Key portfolio holdings include Amazon (for its AWS cloud computing platform) and Microsoft.
    - Digital services (e-commerce, digital payments and media): Consumer purchasing and entertainment behaviour continue to transition online, facilitated by companies such as Amazon, Mastercard, Netflix and Facebook.
    - Semiconductors: Processing power, greater adoption of enterprise cloud, and the rollout of 5G infrastructure are accelerating the demand for semiconductor and electrical components. Key holdings include ASML and TSMC.
    - Health care: Focusing on research-led, innovative companies with strong drug pipelines. Key holdings include selected medtech/device companies and commercial-stage biotechnology companies.
- Managers also continue to add to companies they feel are undervalued and could be well positioned for a post-coronavirus economic recovery. These include:
    - Select banks that could benefit from longer-term structural dynamics. Leading banks with scale and scope as ‘financial supermarkets’ and in wealth management services are positioned to capture gains, as are select diversified insurers.
    - Industrial companies with strong competitive positions that operate across a diverse range of markets from automation to construction to transport refrigeration.
    - Travel-related stocks that could see a re-rating as vaccine roll-out programmes ramp up across the globe and the market begins to realise a path to recovery for the industry.

- In terms of equity market returns, we continue to believe company fundamentals remain the primary driver of long-term share price returns. We focus on company-specific factors, preferring companies with long growth runways, distinct competitive advantages to industry peers, and resilient characteristics to weather the more challenging times ahead. The portfolio holds 300+ stocks and remains well-balanced and well-diversified across regions, sectors, industries and investment styles. The portfolio's holdings show its broad-based exposure and indicate it does not have a disproportionate bias to high-growth stocks.
    - Around half of the portfolio is invested in high-conviction secular growth holdings, which include technology companies (internet platforms), innovators (Tesla, Intuitive Surgical), digital payments operators (PayPal, Mastercard) and dominant semiconductor-related manufacturers.
    - Much of the rest of the fund's exposure is to companies and sectors deemed more economically sensitive and cyclical that could be well-positioned to benefit from an economic recovery.

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