CAPITAL GROUP℠

Q3 2021
Quarterly update

Capital Group New World Fund (AU)

Market review

- Global stocks advanced in the first two months of the quarter before an inflation scare sent markets tumbling in September. Rising consumer prices sparked fears of higher interest rates as major central banks considered taking steps to fight inflationary pressures. Concerns about growing infection rates from the COVID-19 Delta variant also weighed on markets.
- US equities eked out a small gain despite elevated volatility late in the quarter. Investors weighed the prospects of the recovering consumer against concerns over rising inflation and interest rates. Gross domestic product grew at an annualised 6.7% rate in the second quarter, supported by ongoing stimulus measures and the continued reopening of businesses. In August, the unemployment rate declined to 5.2%, a pandemic-era low, while consumer spending ticked up.
- European stocks declined amid investor worries about sharply higher inflation in the 19-member eurozone. Concerns about China's slowing economy also weighed on European exporters, which depend heavily on Chinese demand for industrial machinery, chemicals and luxury goods. Eurozone inflation climbed to 3.4% on an annual basis in September, the highest level in more than a decade. Consumer prices rose primarily due to higher costs for energy and durable goods, as well as widespread supply chain disruptions.
- Emerging market stocks fell, hurt by China's slowing economy and uncertainty around tightening regulatory policies. Inflation fears, rising COVID-19 infection rates in developing countries and signs of less accommodative US monetary policy also contributed to weaker sentiment. Chinese stocks posted their worst quarterly decline since 2015. Government intervention in the technology, education and online gaming sectors spooked investors and led to a sweeping sell-off.

Three-month portfolio review

- For the three months ended 30 September 2021, Capital Group New World Fund (AU) returned -0.7%[1] before fees and -1.0%[2] net of fees, while the index returned -4.5%.[3] For the 12-month period, the fund returned 25.8%[1] before fees and 24.3%[2] net of fees, while the index returned 17.3%.[3]
- **Consumer discretionary**

  The selection of stocks and a low relative position in the sector proved positive. Lighter exposure to **Alibaba** contributed to relative results. The e-commerce giant, which was ordered to pay a record fine for antitrust violations, continues to face regulatory headwinds in China.
- **Materials**

  The selection of stocks in the sector hurt relative returns. Brazilian mining company **Vale**'s stock price dropped sharply. Its shares fell over the quarter as iron-ore prices dropped markedly amid signs of slowing demand from China, given faltering Chinese economic growth. The Chinese authorities made moves to lower steel production as part of a drive to reduce pollution.

Market outlook and portfolio positioning

- After a strong rebound from COVID-19, the global economy appears to be slowing and inflation is rising. Growth is being challenged by supply-chain imbalances, rising energy prices and disruptions in industrial activity that is causing shortages for finished goods.
- Uncertainty about the direction of China's economy, in part due to tightening regulatory measures and deleveraging in the country's property sector, could further weigh on growth. Meanwhile, fiscal and monetary policies from governments and central banks in the developed world might diverge as countries seek to recover from the pandemic.
- The fund takes a domicile-agnostic, revenue-focused approach to capture the full breadth of growth potential in emerging markets. We are focused on identifying individual companies that have the potential to deliver long-term growth in the years to come. A number of our key investment themes have been accelerated by the COVID-19 pandemic, including:
  - Digital disruption. Global and EM companies are positioned to benefit from the growth of mobile and online services, and automation and disruption of traditional financial services companies, particularly in electronic payments.
  - EM consumers. Our analysts expect to see increasing demand for insurance, and health care, as well as travel and luxury goods.

Index returns are shown in US dollar terms while 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 Emerging Markets Index, with net dividends reinvested, in Australian dollar terms. Source: MSCI