

## Capital Group New World Fund (AU)

### Market review

- Global stocks declined amid the war in Ukraine, mounting inflation and a resurgence of COVID-19 infections in Europe and Asia. As Russian tanks rolled across the Ukrainian border, commodity prices moved sharply higher, contributing to worldwide inflationary pressures. International sanctions sent Russian stocks and bonds and the ruble plummeting.
- U.S equities declined modestly, with major stock indexes posting their worst quarterly returns in two years. The Fed hiked rates for the first time since 2018, raising its benchmark rate 25 basis points at its March meeting. Central bank officials have signaled an aggressive pace of further hikes in an attempt to combat rising inflation.
- European stocks tumbled as the war in Ukraine and sharply higher inflation threatened to derail Europe's pandemic recovery efforts. The conflict sent energy prices soaring amid calls for allied nations to shun Russian oil and gas.
- Emerging markets stocks lost ground as the war in Ukraine further exacerbated fears about the impacts of a slowing global economy, higher U.S. interest rates and rising inflation on developing countries. Brazil and other commodity-producing countries bucked the broad decline. Prices for oil and industrial metals soared on worries about global supplies.

### Three-month portfolio review

- For the three months ended 31 March 2022, Capital Group New World Fund (AU) returned -12.5%<sup>1</sup> before fees and -12.7%<sup>2</sup> net of fees, while the index returned -9.9%.<sup>3</sup> For the 12-month period, the fund returned -4.3%<sup>1</sup> before fees and -5.4%<sup>2</sup> net of fees, while the index returned -10.1%.<sup>3</sup>

- **Financials**

The selection of stocks and a low relative position in the sector hurt relative returns. Investments in European banks such as **Société Générale and Unicredit** weighed on results due to concerns of recession in Europe as a consequence of Russia's invasion of Ukraine. These banks also had some loan exposure to Russia.

- **Energy**

The selection of stocks in the sector proved positive relative to the index. In particular, a low relative position in **Gazprom** helped. Shares slid sharply after Russia invaded Ukraine causing many countries to impose severe sanctions against Russia. The portfolio's position in Gazprom was fair valued at close to zero at the end of the quarter.

## Market outlook and portfolio positioning

- Expectations for global economic growth continue to diminish amid rising inflation and tightening monetary policy at many central banks. Still-elevated COVID-19 cases, persistent pressures on global supply chains and uncertainty surrounding the Russian invasion of Ukraine and its impact on supplies of key commodities are also weighing on growth. The Chinese economy, a key driver of global growth, is facing further weakness as the country grapples with stress in the property sector and a spike in coronavirus cases that has prompted renewed lockdowns.
- The fund takes a domicile-agnostic, revenue-focused approach to capture the full breadth of growth potential in emerging markets (EM), while providing lower volatility than the EM index. This approach remains evident at end Q1. The fund is invested in a mix of EM and DM domiciled companies that are either driving structural EM themes or are beneficiaries of these themes. For example:
  - Energy transition. Investments include companies which develop semiconductors to power EVs, select commodities supplying metals needed for clean energy components, and companies focused on reducing the energy intensity of buildings.
  - EM consumers. Our analysts expect to see increasing demand for insurance, and health care, as well as travel and luxury goods.

## Market volatility\*

- 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 normalisation seems to remain on track. The Fed announced its first interest rate hike this year, with officials indicating an aggressive path ahead as further rate hikes are expected at each of the remaining six Federal Open Market Committee meetings. The Fed is also preparing to reduce its US\$9 trillion balance sheet by US\$95 billion a month, likely beginning in May. The ECB looks to be taking a more hawkish stance than expected with a skew towards “inflationary pressure” rather than downside growth. In addition, many major global index providers have started to remove Russian securities from their indices. All of these factors will have impacts on equity and fixed income markets globally.
- The Capital System<sup>SM</sup> is designed to help us navigate periods of sudden uncertainty and volatility. We have suspended purchases of Russian securities across all our investment strategies and implemented controls in compliance with the sanctions against Russia. 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.

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\* 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.

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

<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 Emerging Markets Index, with net dividends reinvested, in Australian dollar terms. Source: MSCI

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