CAPITAL GROUP℠

Q2 2022
Quarterly update

Capital Group New World Fund (AU)

Market review

- Global stocks fell sharply as rising inflation, higher interest rates and the war in Ukraine combined to push the US, 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.
- 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 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 on the technology sector.
- Central bankers in developing countries continued to hike interest rates to combat inflation. The Bank of Mexico raised its benchmark rate to 7.75% from 7%, its ninth consecutive increase. The benchmark rate in Brazil rose to its highest level since early 2017, reaching 13.25%. In Asia, which has lagged Latin America in tightening monetary policy, key borrowing rates rose in the Philippines, India and Taiwan.

Three-month portfolio review

- For the three months ended 30 June 2022, Capital Group New World Fund (AU) returned -8.2%[1] before fees and -8.5%[2] net of fees, while the index returned -3.3%.[3] For the 12-month period, the fund returned -20.8%[1] before fees and -21.8%[2] net of fees, while the index returned -18.4%.[3]

Areas that helped over Q2 2022

- Consumer staples: The selection of stocks in the sector proved positive relative to the index. Kweichow Moutai Co., Ltd – one of the world's largest distillers and produces of Moutai, a rice-based liquor – was a large contributor to relative returns as shares gained 19%. The stock benefited from robust first-quarter results and upbeat guidance as well as its status as a defensive play, with its strong pricing power and high earnings visibility appearing particularly attractive at a time when China's economy has generally been experiencing economic weakness.
- Financials: A low relative position in the sector helped. Holding AIA supported relative returns. Shares 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.
- Korea: Select exposure in Korea-domiciled companies helped relative returns. A low relative position in Samsung was positive. It was reported that the world's leading smartphone maker is planning to reduce production by 30 million units for 2022.

Areas that hurt over Q2 2022

- Consumer discretionary: Stock selection and a low relative position in the sector detracted from relative returns. Low relative exposure to Chinese food delivery platform Meituan hurt. Shares gained as China's politburo vowed to boost economic stimulus and speculation grew about a possible easing of the ongoing crackdown on internet firms.
- Communication services: Stock selection in the sector proved negative. A low relative position in Tencent detracted from relative returns. The Chinese internet group was supported by reports that the Chinese government would desist from further regulatory tightening in the internet sector, as well as news that the authorities were beginning to approve video game licences for the first time since July 2021.
- Materials: The selection of stocks detracted from relative returns. In particular, a position in mining and metals company First Quantum hurt. Shares slid as prices of industrial metals, including copper and nickel, fell sharply amid worries on the outlook for demand as concerns mounted over the risk of a global recession.

Market outlook and portfolio positioning

- The emerging markets (EM) landscape has transformed since the 1999 inception of the strategy on which the fund is based. The strategy's flexible approach looks beyond traditional boundaries to access long-term growth opportunities in developing economies.
- Long-term considerations we are working to understand today include:
  - **Implications of sustained interest rate increases:** Innovative companies driving EM growth still have positive outlooks (e.g., health care, semiconductors, automation). Cash flows, balance sheet, business mix and pricing power have heightened importance.
  - **Relative stability of EM (ex. Russia)** due to muted fiscal and monetary responses to COVID-19; positive real rates; more floating exchange rates across developing economies. This backdrop suggests emerging markets, generally, may be in a stronger position to withstand uncertainties and shocks than in the past.
  - **China**: Exposure to China has changed significantly over time. Today, the fund has diversified exposure to a broad range of Chinese companies, but with very low exposure to Chinese technology platforms.
- The EM opportunity set evolves over time across sectors and countries. The fund is designed to be flexible, taking a domicile-agnostic, revenue-focused approach to capture the full breadth of growth potential in EM, while aiming to provide less volatility than the EM index. The fund is invested in a mix of EM and developed market-domiciled companies driving structural EM themes. For example:
  - **Growing mass affluent:** While the rising purchasing power of the mass affluent is a widespread trend, we are selective in which companies we invest. For example, resilient sectors such as food and beverages could be more sensitive to continuing macro headwinds than 'big ticket' items such as autos.
  - **Airlines and airline manufacturers:** The rise in airline travel, particularly from Asian consumers has the potential to benefit leading developed-market airline manufacturers as well as EM-domiciled airlines.
  - **Healthcare:** growing health awareness and ageing demographics in EM is driving healthcare spending

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