CAPITAL GROUP™

FOR PROFESSIONAL INVESTORS ONLY

Q3 2022
Quarterly update

Capital Group New World Fund (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.
- Emerging markets stocks tumbled, undercut by China's slowing economy, rising US interest rates and sharp gains for the US dollar. Growing worries over a global recession and geopolitical tensions concerning Taiwan also rattled investor sentiment.
- Chinese equities posted steep losses. COVID-19-induced lockdowns in key manufacturing and technology hubs and a growing liquidity crunch in the property sector stunted economic activity. Beijing unveiled more incremental stimulus measures to stabilize the economy ahead of the 20th National Party Congress in October, including loosening lending rates, cutting taxes and supplying funds to the distressed property sector.
- Indonesia and India bucked the broader selloff in Asia's equity markets. Strong exports helped Indonesia's commodity-rich economy grow 5.4% for the April to June period. Meanwhile, India's economy continued to recover from the impacts of COVID-19.
- Brazilian equities rose sharply ahead of October's presidential election. Brazil's economy grew 3.2% on an annualized basis, with inflation moderating and the labour market improving. Brazil's central bank held its benchmark interest rate steady after 12 straight increases since March 2021. Elsewhere, central banks in a number of developing countries continued to hike rates to blunt inflationary pressures.

Three-month portfolio review

- For the three months ended 30 September 2022, Capital Group New World Fund (AU) returned 0.6%[1] before fees and 0.4%[2] net of fees, while the index returned -5.4%.[3] For the 12-month period, the fund returned -19.8%[1] before fees and -20.7%[2] net of fees, while the index returned -19.2%.[3]

Areas that helped over Q3 2022

- Consumer discretionary: The selection of stocks and, to a lesser extent, a low relative position in the sector proved positive relative to the index. Low relative exposure to China-based **Alibaba** helped, as shares fell 30% over the quarter. Although the e-commerce giant reported better-than-expected earnings, revenues remained flat due to slow growth, particularly in the company's cloud computing segment.
- Information technology: Stock selection in the sector helped. In particular, shares of **Wolfspeed** – which develops and manufactures semiconductors -surged on the back of strong financial results and as the stock returned to favour after a disappointing first half. Wolfspeed's fiscal fourth-quarter earnings beat estimates, driven by strong sales momentum and improved manufacturing execution for power devices.

- Communication services: Select exposure to companies in the sector helped relative returns. A low relative position in China-based provider of internet and mobile value-added services **Tencent** was positive. Shares sold off after Tencent was sanctioned by China's State Administration for Market Regulation for the way it had previously reported acquisitions.

Areas that hurt over Q3 2022

- Financials: A low relative position in the sector detracted from relative returns. Holding a larger relative positive in insurance group **AIA** – which has a presence in 18 markets across Asia-Pacific - proved negative. Sentiment on the insurer suffered from the negative outlook for China given the country's zero-COVID policy and ongoing weakness in the property market.
- Utilities: Stock selection and a low relative position in the sector proved negative. Not owning **Adani Total Gas** was a drag as the stock soared 40%, with sentiment on the piped natural gas distributor benefiting from robust growth for the Indian economy and the removal of local subsidies for liquified natural gas.
- Energy: Low relative exposure to the sector detracted from relative returns. A low relative position in Brazil-based oil giant **Petrobras** hurt. Brazilian equities rose sharply ahead of October's presidential election, with shares of Petrobras gaining 29% over the quarter.

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)** compared with history and compared with developed markets. 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 low and very selective exposure to Chinese companies.
- 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.
  - **Health care:** Growing health awareness and ageing demographics in EM is driving health care spending.
  - **Long term energy transition:** The portfolio has exposure to a range of EM and DM companies benefitting from regulatory support for clean energy.
  - **Digitisation:** Some of the portfolio's largest holdings include companies with dominant positions in building out the technology necessary for an increasingly digitised world.

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