CAPITAL GROUP℠

Q4 2020
Quarterly update

Capital Group New World Fund (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.
- U.S. equities soared as multiple COVID-19 vaccines were approved, and Congress agreed on a coronavirus relief package. A US$900 billion stimulus bill was passed to help offset some of the pandemic's economic impact. The U.S. economy had grown at an annualized 33.4% in the third quarter, but the subsequent spike in infections threatened to slow the recovery.
- European stocks rallied. Facing a December 31 deadline, Brexit negotiators hammered out a broad agreement governing the United Kingdom's new trading relationship with the European Union. The announcement sent the British pound soaring as the threat of a "no-deal Brexit" — which would result in a reversion to less favorable rules under the World Trade Organization — was narrowly avoided in the final days of 2020.
- Emerging markets stocks posted their strongest quarterly returns in more than a decade, boosted by China's economic rebound, stronger commodity prices and a weaker dollar. Stocks in China advanced as the country's economy rebounded. Some of the biggest gains came from providers of internet services platforms. Elsewhere, Brazil's economy bounced back in the third quarter, growing 7.7% compared with the April-to-June period. Overall, commodity-exporting Latin American countries posted strong quarterly returns after lagging most Asian countries earlier in 2020.

Three-month portfolio review

- For the three months ended 31 December 2020, Capital Group New World Fund (AU) returned 11.5%[1] before fees and 11.2%[2] net of fees, while the index returned 11.2%.[3] For the 12-month period, the fund returned 14.6%[1] before fees and 13.3%[2] net of fees, while the index returned 7.8%.[3]
- The selection of stocks and a low relative position in the consumer discretionary sector proved positive. Relatively low exposure to **Alibaba Group** helped, as shares declined 21%. Shares came under pressure from tightening regulation and the forced suspension of the planned initial public offering for Alibaba's online banking service, Ant Group. Alibaba was compelled to shelve the IPO as Beijing reconsidered the wider role of fintechs in its financial system. Alibaba's stock was additionally hampered after the Chinese authorities unveiled new rules to curb monopolistic practices in the domestic internet industry.
- Stock selection in and, to a lesser extent, a relatively low exposure to, the communication services sector also contributed to relative returns. A relatively light exposure to China-based internet-services conglomerate **Tencent Holdings** was beneficial as the company's shares lagged the broader market's strength despite reporting better-than-expected third-quarter earnings. Investors were concerned about the impact of new antitrust regulations in China.

- Stock selection in the information technology sector proved negative. Relatively low exposure to **Samsung Electronics** hurt. The maker of memory chips and electronics reported a strong quarterly profit, the result of emergency chip orders from Huawei and broader demand from China. The company's operating margin increased substantially as it benefitted from an improved product mix. Encouraging news on COVID-19 vaccines raised hopes that demand across the smartphone market could accelerate in 2021, while accelerating uptake of 5G technology could help demand for semiconductors.
- Stock selection in, and a relatively high exposure to, the health care sector detracted from relative returns. A position in **AstraZeneca** detracted as its shares fell amid worries that regulatory approval for its COVID-19 vaccine could be delayed owing to controversy over clinical trial results and concerns that it was overpaying to acquire rare diseases and immunology specialist Alexion Pharmaceuticals in a US$39 billion deal. However, at the end of December, the UK medicines regulator approved the AstraZeneca-Oxford vaccine.

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