

Capital Group New World Fund Hedged (AU)

Monthly market review

- Global stocks rose as investors welcomed signs that inflation may have peaked in key markets around the world. Consumer price increases – while still high on a historical basis – moderated in the US, Europe and many other economies, fuelling speculation that central banks might not raise interest rates as fast or as far as previously thought.
- Emerging markets stocks rebounded, lifted by China exiting its zero-COVID policy, declining expectations for the magnitude of US interest rate hikes and gains for developing world currencies against the dollar. Overall, the MSCI Emerging Markets Index gained 10%.
- Chinese equities notched their best quarterly return in more than two years. Government officials abruptly relaxed stringent COVID measures after nearly three years. The pivot raised hopes of increased economic activity and consumer spending even as China dealt with a wave of new infections. The government unveiled additional measures to help boost liquidity for struggling property developers. In another positive sign for market sentiment, US audit regulators were granted deeper access to inspect Chinese companies traded on US stock exchanges, helping ease concerns that the companies could get delisted.
- Gains for Brazilian equities slowed after rising for most of the year. Sentiment cooled amid uncertainty about President-elect Luiz Inácio Lula da Silva's plans for the economy and government spending. Brazil's central bank held its benchmark interest rate steady at 13.75% following a series of rate hikes since March 2021 to combat inflation.

Three-month portfolio review

- Capital Group New World Fund Hedged (AU) returned 9.3%¹ before fees and 9.1%² net of fees over the quarter, while the index returned 5.9%³. For the 12-month period, the fund returned -23.9%¹ before fees and -24.7%² net of fees, compared to the index's return of -18.1%³.

Areas that helped

- **Industrials:** Company selection in the sector helped. Holding aircraft manufacturer **Airbus** helped as shares jumped on signs of recovery in the global travel industry and growing order intake. Third-quarter earnings and revenue beat forecasts, with results buoyed by rising aircraft deliveries and US dollar strength versus the euro.
- **Financials:** The selection of companies and a low relative position in the sector proved positive relative to the index. In particular, Hong Kong-based insurer **AIA** was a top contributor to relative returns. Shares rallied on hopes Chinese economic reopening would boost sales as China ended its zero-COVID policy.
- **Healthcare:** Company selection and a large relative position in the sector helped relative returns. Shares of **Novo Nordisk** rose after third-quarter earnings topped estimates and the company raised full-year sales growth guidance, pointing to accelerating demand for its diabetes drugs. The biopharmaceutical company also reported strong sales growth for its obesity care segment.

Areas that hurt

- **Information technology:** The selection of companies detracted from relative returns. In particular, holding **Wolfspeed** hurt. Shares fell on disappointing guidance for the fiscal second quarter, with Wolfspeed highlighting ongoing supply constraints. The semiconductor company signalled it would be loss making until it had created sufficient new production capacity. Nevertheless, Wolfspeed forecast strong full-year revenue growth as demand for its products continued to outstrip supply.
- **Communication services:** Company selection in the sector proved negative. A low relative position in **Tencent** was the largest overall detractor to relative returns. During the reporting period, Tencent said it planned to sell most of its stake in Chinese food-delivery company Meituan and distribute roughly US\$20 billion from the stock sale in a special dividend to shareholders.
- **Cash:** Amid a rising market, the portfolio's cash position detracted from relative returns.

Market outlook and portfolio positioning

- The fund's flexible approach looks beyond traditional boundaries to access long-term growth opportunities in developing economies.
- We have seen early signs of positive sentiment in emerging markets (EM). China's government has relaxed its "zero-COVID" policies, the strength of the US dollar may subside with smaller rate increases from the US Federal Reserve and inflation in developing countries has shown signs of peaking.
- However, risks remain: Macro risks - Fed over-tightens, leading to a severe global recession and significant earnings downgrades; China reopening is rocky - as the CCP continues to restrain sectors such as technology and property and economic stimulus remains minimal; Brazil: Uncertainty around policy as Luiz Inácio Lula da Silva's presidency begins; Geopolitical risks - continued conflict in Ukraine; Continued stand-off between China and the US- impacting 'strategically important' sectors such as semi-conductors and healthcare.
- The fund is designed to be flexible, taking a domicile-agnostic, revenue-focused approach to capture the full breadth of growth potential in EM. The outcome has been emerging market like equity returns with developed market like volatility. Today, NWF's exposure to developed market (DM)-domiciled companies with EM exposure is at near 10-year highs; the largest exposure is to the financials and information technology sectors. Reflecting multiple uncertainties across the world and the EM opportunity set, the fund's positioning reflects three key themes:
 1. Exposure to long term growth areas in EM (e.g. rising demand for healthcare and travel, digitisation across EMs and rising purchasing power of the EM consumer)
 2. Resilience - companies with recurring revenues, strong balance sheets, strong order books, visibility into earnings and ability to fund their own growth.
 3. Balance - sector and geographic diversification across the top 20 holdings, reflecting a more diverse opportunity set following rising rates and multiple geopolitical and country specific challenges.

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

* 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, net dividend reinvested (in Australian dollars terms), hedged into Australian dollars. Source: MSCI

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