CAPITAL GROUP℠

Q1 2022
Quarterly Update

Capital Group World Dividend Growers (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.

Japanese equities fell in the first quarter as companies struggled with higher import costs from surging energy prices, while investors were also concerned over the tightening of monetary policy by the U.S. Federal Reserve. However, Japan's economy showed signs of stabilisation as the government eased coronavirus restrictions.

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.

Portfolio review

The portfolio returned -7.0%[1] before fees over the quarter, while the index returned -8.4%.[2] Net of fees, the portfolio returned -7.2%[3] over the quarter.

Contributors and detractors

Industrials: Stock selection contributed positively to relative returns. **Raytheon Technologies** rallied on Russia's invasion of Ukraine amid signs that the US and various European countries would be increasing military spending in response.

Information technology: Below-index exposure to the sector and the selection of stocks proved beneficial in Q1. Not holding **Shopify** helped, as shares fell 51%. Shares sold off amid worries that Shopify's growth would slow significantly in 2022, and following disappointing fourth-quarter 2021 results.

Financials: Stock selection in the sector weighed on relative returns. A position in Kazakhstan-based **Kaspi.kz JSC** hurt, as shares declined 57%. The company has been negatively impacted by unrest in the country which led to an internet outage and the closure of banks.

Real estate: The selection of stocks detracted from relative returns. A large relative position in **Digital Realty Trust, Inc.** proved negative. Shares lost ground following strong performance in the prior quarter and against a difficult capital market environment in the first quarter of 2022, given increasing borrowing costs and heightened risk aversion.

Market volatility[1]

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℠ 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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1 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.
[1] Returns are before management fees and expenses, in Australian dollar terms. Source: Capital Group
[2] MSCI ACWI with net dividends reinvested, in Australian dollar terms. Source: MSCI
[3] Returns are net of fees at maximum management fee, in Australian dollar terms. Source: Capital Group

Capital Group World Dividend Growers (AU) became a feeder fund of Capital Group World Dividend Growers (LUX), a Luxembourg based open-ended collective investment scheme (SICAV), on 15 December 2017.
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