

Capital Group World Dividend Growers (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.
- US inflation continued to pressure the market with the Consumer Price Index climbing 8.3% in August from the previous year. That prompted the US Federal Reserve (Fed) to announce its third consecutive 75-basis-point rate hike in September, which renewed fears of an impending recession.
- European stocks also retreated in the face of high inflation, slowing economic growth and Russia's escalation of the war in Ukraine. The European Central Bank (ECB) raised interest rates for the first time since 2011, ending eight years of negative policy rates, while volatile currency markets sent the euro and the pound plummeting to multidecade lows against the US dollar.
- In Japan, the government intervened in the foreign exchange market for the first time since 1998 in a bid to prop up the yen. The move followed a slump in the Japanese currency after the Bank of Japan (BOJ) announced it would maintain its ultra-loose monetary policy in the face of soaring inflation. Japanese equities retreated amid the volatility.
- Emerging markets (EM) stocks tumbled, undercut by China's slowing economy, rising US interest rates and sharp gains for the US dollar. COVID-19-induced lockdowns in key manufacturing and technology hubs and a growing liquidity crunch in the property sector stunted Chinese economic activity, triggering a sharp selloff in Chinese equities. At the other end of the spectrum, Brazil and Indonesia were two of the standout performers during the year-to-date period, bucking the broader selloff across the region. The latter, in particular, has seen its commodity-rich economy supported by strong exports data and the ongoing recovery from the impacts of COVID-19.

Portfolio review

- The portfolio returned -2.0%¹ before fees over the quarter, while the index returned -0.3%.² Net of fees, the portfolio returned -2.1%³ over the quarter. Over a one-year period, the portfolio returned -5.4%¹ before fees, and -6.3%³ after fees, compared with the index's return of -10.9%².

Relative contributors

- Communication services: Not owning Google parent **Alphabet** was beneficial as its shares lost 12%, suffering from worries over the outlook for advertising spending amid signs of slowing economic growth and increasing fears over the risk of a global recession in 2023.

- Energy: A holding in oil and natural gas producer **EOG Resources** was a positive as shares rose 3%, buoyed by good second-quarter results, together with soaring natural gas prices. EOG announced a special dividend after quarterly revenue surged past forecasts, boosted by firmer production and higher realised prices for oil and natural gas.
- Materials: An above-index position in commodities producer **Sociedad Química y Minera de Chile SA** proved beneficial as shares ended the quarter 18% higher. The company showed robust growth across its business line with demand for lithium being particularly strong as a result of strong electric vehicle sales.

Relative detractors

- Information technology: A below-index exposure to **Apple** was a negative as the stock rose 1%. The technology giant beat earnings estimates for the April-June quarter, with record revenue driven by its iPhone and Services business. Apple's active installed base of devices hit an all-time high for all of its major product segments.
- Real estate: A position in Chinese real estate developer **Longfor Properties** hurt relative returns as shares slid 37%. Chinese property stocks sold off in general amid threats from homebuyers to stop mortgage payments, as worries grew over stalled property projects. Confidence in the sector also weakened due to certain property developers defaulting on their debt repayments.
- Financials: Pan-European stock exchange operator **Euronext** was the key sector detractor. Shares slid on worries over Euronext's earnings outlook as trading volumes and capital-raising activity dipped. Euronext reported a year-over-year fall in cash market transactions in August, and a sharper decline in funds raised through primary and secondary listings as well as in the number of new listings.

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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