Market review – one month

- Global equities sank in August on rising interest expectations and fresh signs of faltering global growth. The market braced itself for more big rises in US interest rates as Federal Reserve officials adopted a hawkish tone. Meanwhile, both US and European data suggested consumer spending was being pressured by inflation and higher borrowing costs. The CBOE Volatility Index (VIX) ended at 25.9, up 21.3% over the month. (A VIX reading below 20 is widely viewed as an indicator of market stability.)

- US equities slid, with the S&P 500 Index and the Nasdaq Composite Index losing 4.1% and 4.5%, respectively. Stocks sold off towards month end after Federal Reserve (Fed) Chair Jerome Powell struck a hawkish tone at the Jackson Hole symposium, warning of more difficult economic times ahead as the Fed continues to battle elevated inflation with higher interest rates. The market priced in a greater probability of a further 75 basis point (bps) rate hike following the Fed’s September policy meeting.

- European stocks lost ground. There were growing worries on the outlook for the eurozone economy given rising inflation and an ongoing squeeze on natural gas supplies from Russia. Real estate was the weakest sector as expectations around further monetary tightening from the European Central Bank increased. In contrast, energy was the only sector to advance over August, buoyed by rising natural gas prices. The euro fell 1.4% versus the US dollar.

- Japanese stocks softened in US dollar terms due to yen weakness. Given the Bank of Japan’s continued accommodative monetary stance, the Japanese currency continued to suffer from widening differentials in interest rate expectations versus major developed countries. In local terms, most sectors of the Japanese equity market advanced over August, led by energy, industrials, and health care. Conversely, communication services and real estate were the principal laggards. The Japanese yen lost 3.6% against the US dollar.

Portfolio review – one month

- For the month ended 31 August 2022, Capital Group Global Equity Fund (AU) returned -3.1% before fees while the index returned -2.5%. Net of fees, the fund returned -3.2%. For the 12-month period, the portfolio returned -14.8% before fees, and -15.6% after fees, compared to the index’s return of -9.6%.

- Stock selection in the health care sector detracted from relative returns. Shares of Seagen fell 14%. The drugmaker lost an arbitration dispute with Daiichi Sankyo over the use of its antibody-drug conjugate technology. Seagen’s takeover by Merck also hit a hurdle, with the two sides reportedly struggling to agree a final purchase price.

- The choice of investments in the consumer staples sector also detracted from relative returns. Shares of UK online grocer Ocado Group fell 14% amid UK recession fears as inflation hit 10.1% in July, a 40-year high. Meanwhile, the online grocer’s delivery network partnership with American grocery retailer Kroger continued to grow with the latter announcing the expansion of its facilities and services in the South and Midwest regions in the US.
• In contrast, stock selection in the utilities sector lifted relative returns. A position in AES helped as the stock jumped 15% over August, rallying after second-quarter earnings and revenue beat forecasts. The electricity generator confirmed it was on course with plans to ramp up its renewable capacity.

• At the company level, a position in ConocoPhillips was the top relative contributor as its shares rose 13%. The oil major beat second-quarter earnings estimates and increased its forecast for capital to be returned to shareholders through buybacks and dividends during 2022.

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 MSCI World ex Australia Index 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

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