October 2020
Monthly Update

Capital Group Global Equity Fund (AU)

Market review

- Global stocks ended lower in October. A resurgence in the number of coronavirus cases in the U.S. and, particularly, Europe - which led to new lockdown measures being imposed - raised fears about the implications for the world economy. U.S. election uncertainty also contributed to market volatility, which remained high with the CBOE Volatility Index (VIX) ending the month at 38.

- U.S. equities declined after a record increase in the number of daily coronavirus cases. Fading hopes of bipartisan agreement on fresh fiscal stimulus and worries about the outcome of the U.S. presidential election also dampened investor sentiment. The U.S. dollar strengthened against a basket of other currencies.

- European stocks sold off as a spike in coronavirus infections in numerous countries led to the reimposition of restrictions, with national lockdowns in France, Germany and England. All sectors fell. Communication services, utilities and consumer discretionary were the most resilient; information technology, health care and energy lagged.

- Japanese equities declined in October. Japan’s new prime minister Yoshihide Suga, in his first major policy speech, vowed that Japan would become carbon neutral by 2050 (matching the EU’s target but ahead of China’s goal of 2060); this policy will require Japan to break its heavy reliance on fossil fuels. The Bank of Japan (BOJ) now forecasts the economy will contract by 5.5% this fiscal year, and then rebound by 3.6% the following year. The BOJ left its key short-term interest rate at -0.1% and kept the scale of its asset purchases unchanged. The yen strengthened by 0.9% against the U.S. dollar.

Portfolio review

- For the month ended 31 October 2020, Capital Group Global Equity Fund (AU) returned -1.4%\(^1\) before fees while the index returned -1.1%\(^2\). Net of fees, the fund returned -1.4%\(^3\). For the 12-month period, the portfolio returned 2.3%\(^1\) before fees, and 1.4%\(^3\) after fees, compared to the index’s return of 2.7%\(^2\).

- Stock selection within the consumer discretionary sector detracted from relative returns. A relatively heavy position in UK-based online grocery firm Ocado Group proved detrimental as the stock ended the month down 17% after it was sued by Norwegian technology and robotics manufacturing company AutoStore for alleged patent infringement.

- The choice of utilities stocks also had a negative impact on relative returns with Italy-based renewable energy company Enel the key sector detractor. The company is facing a number of short-term headwinds, including a heightening in foreign exchange (FX) volatility of Latin America currencies and COVID-19, which affected prices, volumes and renewable capital expenditure (Capex) deployment.

- At the other end of the spectrum, stock selection in the health care sector helped drive results on a relative basis. An above-index position in US-based medical company Danaher proved favourable after it topped earnings expectations in its latest third quarter results. The stock ended the month 7% higher.
• Contributing positively to relative returns was stock selection in the industrials sector. A position in France-based aerospace component manufacturer Safran was particularly beneficial. Companies serving travel-related sectors have been heavily impacted by restrictions on global travel due to COVID-19, but shares in Safran rose 7% in October as investors looked towards the longer-term growth prospects of the company.

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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