Capital Group Global Equity Fund (AU)

Market review
Global stocks posted a second consecutive quarter of strong gains following a pandemic-induced selloff earlier in the year. Developed and emerging markets rose, supported by massive government stimulus measures and investor optimism for a global economic recovery. However, fears of additional COVID-19 outbreaks sent markets lower in September. Overall, the MSCI World Index rose 8%.

U.S. stocks led markets higher, completing a full reversal of losses suffered during the first quarter. Between 23 March and 2 September, the Standard & Poor’s 500 Composite Index soared 61%. European and Japanese stocks also advanced amid signs of improving economic activity. Among emerging markets, Chinese stocks enjoyed the largest advance as China’s pandemic recovery efforts accelerated. Internet-platform companies and semiconductor giants boosted emerging markets indexes.

Consumer-oriented technology stocks generated the largest gains, lifted by a surge in global e-commerce activity. The tech sector rally pushed some broad-based indexes to new all-time highs, underscored by Apple’s rise to a US$2 trillion valuation. Industrials and materials stocks also rallied amid rising demand for commodities, building materials and logistics services.

Energy stocks posted the largest declines amid reduced oil demand. Meanwhile, financial stocks lagged the overall market. The banking sector, in particular, continued to come under pressure amid dividend suspensions, negative interest rates and deteriorating loan portfolios.

In foreign exchange markets, the U.S. dollar fell against the euro, the yen and most other currencies. A number of factors contributed to broad-based dollar weakness, including concerns about rising U.S. fiscal deficits, a prolonged period of ultra-low interest rates, and a perceived overvaluation of the dollar in recent years.

Portfolio review
Over the quarter, Capital Group Global Equity Fund (AU) returned 2.7% before fees, while the index returned 3.8%. Net of fees, the fund returned 2.4%. Over a one-year period, the portfolio returned 4.4% before fees, and 3.4% after fees, compared with the index’s return of 4.3%.

Sector attribution for Q3 2020
- Stock selection in the communication services and information technology sector detracted on a relative basis.
- However, stock selection in the health care sector and positioning among consumer discretionary companies helped relative results.

Contributors and detractors for Q3 2020
- The portfolio’s underweighted exposure to Apple detracted from relative results. The tech giant’s shares rose after the company reported record quarterly results, driven by strong growth in its services and wearables segments. Lack of investments in electric vehicle maker Tesla and chipmaker Nvidia also weighed on relative returns.
• Shares of **EOG Resources** declined. The energy company was negatively impacted by lower commodity prices and lower production volumes compared to a year ago.

• Shares of **ASML Holding**, a Dutch semiconductor equipment maker, edged lower. The company missed second-quarter earnings estimates due to supply issues caused by COVID-19 lockdowns. However, demand for the company’s equipment remains strong.

• In contrast, **Ocado Group**, a British online grocer, was a leading contributor on a relative basis. Its shares rose on strong demand for its online grocery service during the coronavirus pandemic.

• Shares of **Taiwan Semiconductor Manufacturing Company** rallied. The company reported a growing order book as some of its customers braced for potential supply chain disruptions. Rival Intel also revealed it may stop manufacturing its own chip components.

• Biopharmaceutical firm **BeiGene**, which has a partnership with Amgen to develop cancer drugs in China, announced quarterly revenue rose 15% from the year-earlier period. It also reported encouraging commercial developments for several of its cancer treatments.

**Outlook and strategy**
The global economic rebound is likely to roll on backed by massive stimulus measures, which should help support equity prices in a low interest environment. So far, China’s economy has led the charge forward, with both U.S. and Germany showing positive momentum. However, the pace of the global recovery is uncertain and may be uneven. Growth might be challenged by a second wave of virus outbreaks and potential containment measures. Uncertainty over the upcoming U.S. presidential election is another short-term headwind for equity prices.

Portfolio managers continue to favour growth-oriented companies with strong management teams and the ability to generate free cash flow in various macroeconomic environments. Investments in the information technology sector make up a large portion of the portfolio, particularly companies with dominant market positions in semiconductors, mobile devices and electronic payment networks. The consumer discretionary sector is the second-largest weight in the portfolio, with managers favouring certain e-commerce companies and luxury goods companies. Large pharmaceutical companies are also core holdings. The portfolio has little exposure to real estate and energy companies.
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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