Market review

Non-U.S. stocks closed a volatile quarter with solid gains. Hopes of resolution in the U.S./China trade dispute lifted shares early in the quarter. However, shares subsequently retreated as trade tensions swelled between the two countries. Attempts at a resolution proved elusive as the U.S. and China lobbed tariffs and threats to further restrict trade. A sharp selloff took hold in late May on the heels of the U.S. presidential administration threatening tariffs against Mexico over immigration policies. In June, equity markets recovered most of the prior weeks’ losses, boosted by supportive comments from central bankers globally.

European stocks generated strong gains, with sentiment lifted by signs that the European Central Bank stood ready to reinstate quantitative easing if the eurozone’s inflation outlook does not improve. The eurozone economy expanded by 0.4% quarter-over-quarter over the first three months of the year, double the rate of growth recorded in the final quarter of 2018, but inflation remained subdued. Political risks remained a concern with Italy’s higher spending proposals leading to confrontation with the European Union. U.K. shares delivered positive returns, although the British pound weakened. The Brexit deadline was postponed until October 31 and the country waits to see whether a new prime minister can find a way out of the parliamentary impasse.

Japanese stocks slipped over the quarter, although a stronger yen meant returns were positive for U.S. investors. Japan’s economy expanded at an annualized pace of 2.2% in the first quarter of the year. The stronger-than-forecast data means that the government will likely press ahead with a planned increase in the sales tax during October. Australia was the standout market in the Asia-Pacific region, helped by a cut in interest rates from the Reserve Bank of Australia and an unexpected victory for the ruling coalition government. In contrast, Hong Kong lagged, undermined by mass protests against an extradition bill and weak Chinese stocks.

Emerging markets stocks delivered mixed returns. Chinese shares were pressured by the re-escalation of the country’s trade dispute with the U.S. In contrast, Russian stocks surged as investors reacted positively to the absence of new sanctions and higher dividend payouts for state-owned companies. Brazilian stocks also generated strong gains, boosted by optimism over much-needed pension reform.

Portfolio review

The selection of communication services companies added to returns. Nintendo was among the top contributors as shares were boosted by reports of new Switch models and the prospect of a tie-up with Tencent that could see Nintendo sell the Switch machine in China, the world’s largest games market.

MercadoLibre lifted results among consumer discretionary companies. Shares of the online retailer surged amid ongoing robust earnings news. German sportswear company Adidas was another notable contributor.

Investment selection boosted returns in the financials sector. Strong growth in China helped Hong Kong-listed insurer AIA Group post an 18% increase in new business value in the first quarter. Meanwhile, Indian lender HDFC Bank announced a record high profit in the quarter to March.
The fund aims to provide long-term growth of capital by investing in the equity of non-U.S. issuers based chiefly in Europe and the Pacific Basin. The portfolio managers have the flexibility to invest in both developed and emerging market securities, offering the broadest potential to access the most attractive investments. They leverage Capital Group’s global research capability to gain a deep knowledge of companies worldwide.

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The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index. There have been periods when the fund has lagged the indexes.