Capital International[SM]

# World markets overview

## Fourth quarter

Stocks rose on the hope that Europe was dealing with the region's sovereign debt crisis, although fears remained about some countries. Investors were buoyed by US economic data though Japan and many European economies remained weak, while growth decelerated in China, India and Brazil. Big integrated oil companies were large contributors to market returns but financials lagged due to their potential exposure to the euro zone debt crisis, tighter regulation, and less interbank funding for European banks. Bond yields rose for many European nations despite them continuing to trend lower for US Treasuries. The euro weakened against the dollar and the yen was flat, while the Canadian dollar and other commodity-related currencies rose.

| Return (%) | Q4 2011 | | YTD 2011 | |
|---|---|---|---|---|
| | A$ | Local currency | A$ | Local currency |
| MSCI World | 2.0 | 7.8 | -5.6 | -5.5 |
| MSCI EAFE | -2.0 | 4.1 | -12.2 | -12.2 |
| MSCI EM IMI | -1.6 | 4.3 | -19.5 | -13.9 |
| MSCI Europe | -0.1 | 7.5 | -11.1 | -9.3 |
| MSCI Pacific ex. Japan | 0.5 | 2.2 | -12.8 | -12.9 |
| S&P 500 | 6.0 | 11.8 | 2.1 | 2.1 |
| MSCI Japan | -8.9 | -4.0 | -14.3 | -18.7 |
| MSCI UK | 3.4 | 9.4 | -2.6 | -1.8 |
| Barclays Capital Global Aggregate | -5.0 | – | 5.6 | – |
| Barclays Capital US Aggregate | -4.1 | 1.1 | 7.8 | 7.8 |
| JPMorgan EMBI Global | -0.3 | 5.1 | 8.4 | 8.5 |
| JPMorgan GBI-EM | -5.4 | 1.4 | -6.4 | 6.4 |

MSCI index returns reflect net dividends reinvested. Sources: Rimes, Barclays Capital, Standard & Poor's, JPMorgan

### North America

US stocks grew by 12% for the quarter after all sectors rose. Energy, industrials and materials led the gains as telecommunication services and utilities lagged. While REITs and regional banks helped financials to a double-digit advance, larger institutions struggled, particularly Goldman Sachs, whose shares tumbled following its third-quarter loss. Consumer discretionary also rose despite tough periods for Amazon and Sears Holdings. Static consumer spending, a revision of GDP down to 1.8% and the contentious political environment were countered by falling unemployment and the housing market showing signs of life. This good news sent corporate bonds up 1.9%, while mortgage-backed securities also rose. Ratings agencies Fitch and Moody's warned that the US remains at risk of a downgrade if it backtracks on its deficit reduction plans. Canadian stocks rose 3.6%.

### Europe

European stocks rose as euro zone leaders outlined a plan for greater fiscal, economic and political integration and agreed a bailout fund of more than €1 trillion. Despite political power shifts in Italy, Greece and Spain, yields on Italian and Spanish bonds remained uncomfortably high and the euro fell to a 15-month low against the dollar. Standard & Poor's also placed 15 euro zone countries on negative credit watch. Financials were flat as a result, and European banks were forced to turn to the European Central Bank, whose overnight lending facility rose to an all-time high of €452 billion. In turn, European banks agreed to raise their capital reserves. Euro zone recession fears loomed as GDP rose just 0.2%, manufacturing declined, unemployment hit a new high and inflation remained above the ECB's target. In response, the central bank lowered interest rates to 1%.

### Pacific

Pacific equities missed out on the rally seen elsewhere in the world, losing nearly 2%. Japan led the retreat, offsetting gains in Australia and Hong Kong. Regional currencies appreciated against the US dollar, but as the yen strengthened against most currencies the government was forced to aggressively curb it's appreciation. While Japanese financial and consumer discretionary were particularly weak, government bonds were a small boon with the yield on the benchmark 10-year bond falling four basis points to 0.99%. Despite Australian equities rising just 2% and its interest rates being cut for the first time in nearly three years, rating agency Fitch raised its long-term foreign currency rating to triple-A. Hong Kong led the region with a 6% equity gain as it topped the World Economic Forum's index of financial market development – a first for any Asian market.

### Emerging markets

Emerging markets stocks recovered from their steep third-quarter losses with a sharp rise in October only to slide gently for the rest of the period. Emerging markets debt advanced while most currencies depreciated against the US dollar. China's economy lost some momentum as economic data revealed its GDP had dropped slightly, property prices continued to weaken and manufacturing had fallen to its lowest level since February 2009. Political gridlock caused Indian shares to fall 16%, while the Indian rupee was one of the world's weakest currencies. Turkish and Egyptian equities were the other big fallers, declining 15% and 12% respectively. Brazilian stocks fared better even as its flagging economy forced the central bank to cut interest rates. Russia's stock market rose 6%, but fell sharply in December as protests erupted after allegations of fraud marred recent parliamentary elections.

Returns are in local currency and include net dividends unless otherwise stated

# What makes Capital International different

Capital International is part of The Capital Group Companies, a global investment management organisation with more than 80 years of experience managing portfolios for individuals and institutions.

Many of our clients choose Capital International to manage a portion of their assets due to our unique combination of strengths:

## A stable organisation

- **Private:** Our organisation has always been privately owned by senior employees, which enables us to manage our business with a long-term view
- **Focused:** Investment management is our only business
- **Experienced investment professionals:** Perspective comes from investing in previous market cycles

## Fundamental, globally integrated research

- **Independent and rigorous:** Proprietary research is the basis for identifying multi-year investment opportunities
- **Globally integrated:** Equity and fixed income analysts collaborate to share insights from different perspectives
- **Long-term convictions:** Our analysts get to know companies over many years and often choose to become career analysts

## The Multiple Portfolio Manager System

- **Conviction:** Portfolios are divided between individuals, each of whom has full responsibility for managing their portion
- **Diversity:** Balance is achieved through combining individuals with complementary approaches
- **Continuity:** This system, in place for decades, creates a naturally diverse portfolio of high-conviction investments not dependent on one person

## All of this is aimed at providing our clients with consistent, superior long-term investment results

All information as at 31 December 2011 unless otherwise stated. The funds mentioned in this document (excluding Capital International Emerging Markets Fund) are sub-funds of Capital International Fund (CIF) or Capital International Portfolios (CIP). CIF and CIP are umbrella SICAVs and Capital International Emerging Markets Fund (CIEMF) is a SICAV. All are constituted under Part I of the Luxembourg law of 20 December 2002 on collective investment vehicles. Capital International Global Equities Fund (CAGEF), Capital International Global Equities Fund (Hedged) (CAGEFH), Capital International World Equity (CAWE), Capital International World Equity (Hedged) (CAWEH) and Capital International Emerging Economies (CAEE) are Australian unit trusts. If past results are shown, the figures are after deduction of all management expenses or costs but assuming no initial sales charge (where relevant), and are not predictive of future results. Any returns shown make no allowance for personal taxation and investors should seek their own tax advice. Returns will vary, and investors may get back less than they originally invested. Exchange-rate changes may cause the value of any foreign currency investments to rise or fall and returns for investors may increase or decrease as a result. Investing for short periods may make losses more likely. These funds are offered only by Prospectus (together, where applicable, with the Simplified Prospectus) or by Product Disclosure Statement, and therefore this information is neither an offer nor a solicitation to buy or sell any securities or to provide any investment service. These documents, together with the latest Annual Report and any documents relevant to local legislation, contain more complete information about the funds, including charges and expenses, and should be read carefully before investing. However, these documents and other information relating to any of the funds will not be distributed to persons in any country where such distribution would be contrary to law or regulation. While Capital International uses reasonable efforts to obtain information from sources which it believes to be reliable, Capital International makes no representation or warranty as to the accuracy, reliability or completeness of the information. This communication is intended for professional investors only and should not be relied upon by retail investors. This communication is not intended to be comprehensive or to provide investment, tax or other advice. It has been prepared for multiple distributions and does not take account of the specific investment objectives of individual recipients and it may not be appropriate in all circumstances. For CIF, CIP and CIEMF, all literature is available from their registered office or by calling 00800 243 38637 (option 2), and most is available on the website: www.capitalinternationalfunds.com. For CAGEF, CAGEFH, CAWE, CAWEH and CAEE, please read the Product Disclosure Statement available at www.capitalinternational.com.au in its entirety before making an investment decision. Interests in CAGEF,CAGEFH, CAWE, CAWEH and CAEE are issued by WHTM Capital Management Limited, ABN 29 082 494 362, AFSL 238371.



QEssentials_11_Q4_120117