New market regime? Core, flexible global equity portfolios could thrive regardless

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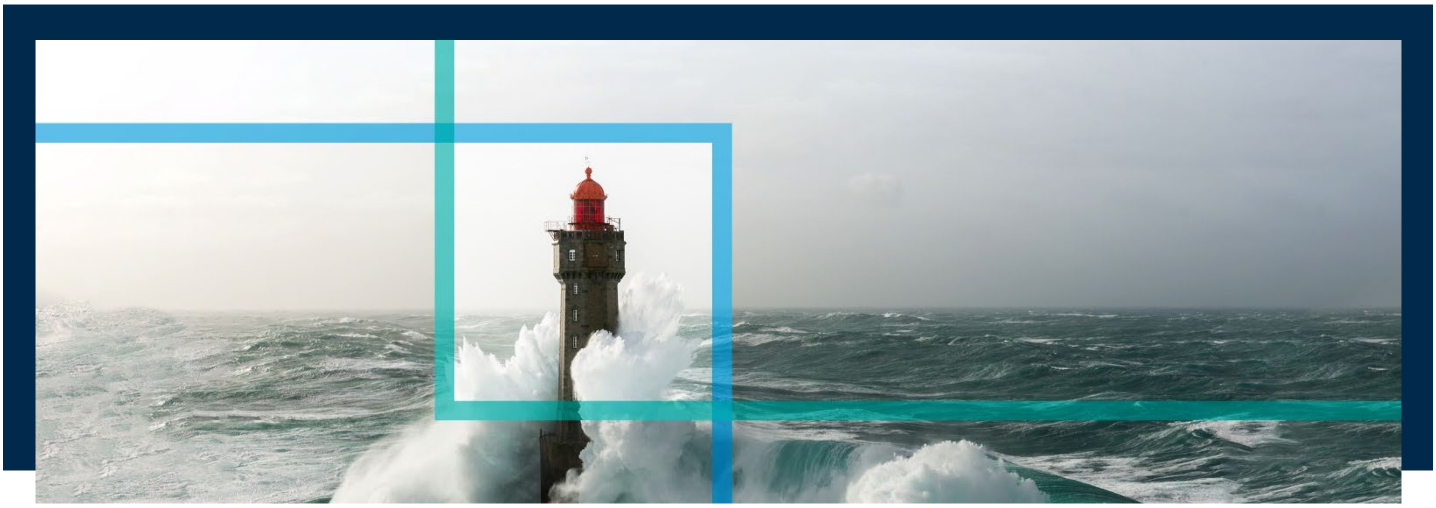

New market regime? Core, flexible global equity portfolios could thrive regardless

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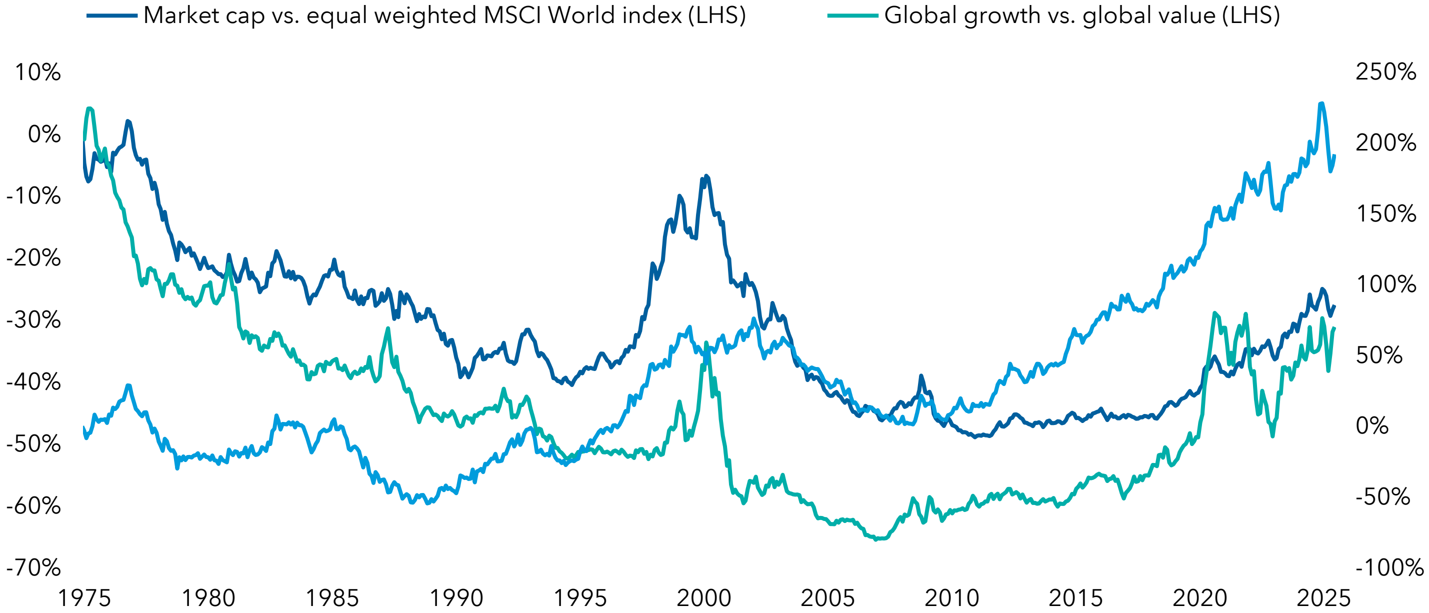
Key takeaways

- Many investors are pondering whether the broadening of equity markets this year could be the start of a new long-term regime.
- However, investors should think carefully about positioning for binary outcomes given the vast array of market uncertainties.
- Instead, they may be better off seeking a diversified and flexible strategy that has a proven track record across varying market conditions, such as Capital Group New Perspective.

Policy changes from the Trump administration and their global implications had a significant impact on worldwide equity markets in the first half of 2025. Areas that previously led, mainly US, technology-related, and growth-oriented stocks, have lagged (albeit they did rebound somewhat towards the end of the period). For investors, the change has prompted an important question: can this 'broadening' continue?

This is important because equity market cycles can last for long periods of time and can be significant drivers of returns. In the 15 years since the global financial crisis (GFC), equity markets have been in a prolonged and pronounced cycle in which US, technology-related and growth-oriented stocks have outperformed significantly. Such developments, in turn, have been driving a substantial increase in equity market concentration.

Equity markets have been increasingly concentrated since 2010



Past results are not a guarantee of future results.
Data from 31 December 1974 to 30 June 2025. Global growth: MSCI World Growth Index. Global value: MSCI World Value Index. USL MSCI USA Index. Rest of the world (RoW): MSCI World ex US Index. Source: LSEG

In the context of this elongated cycle, the broadening that we've witnessed so far in 2025 appears relatively insignificant and has the potential to expand further. To help investors gain a better understanding of the market landscape, below we set out some of the potential drivers of a scenario in which a broadening of equity markets continues, versus one in which they remain concentrated.

What could cause broadening to endure	What could cause markets to remain concentrated
• The US maintains its current policy trajectory, prioritising long-term economic rebalancing over nearer-term stock market returns. • Europe shifts its fiscal policy, resulting in higher growth, more economic independence and less reliance on the US. • The world economy continues to reindustrialise, spurred by nearshoring of supply chains, electrification and decarbonisation; supporting growth in 'old economy' sectors. • Rotations persist – which is more likely when markets start from such an overextended valuation position.	• The US repivots to pro-growth policies, sending the US stock market back to where it was immediately after Donald Trump's election as US President. • Many of the fundamental elements that made the US economy so exceptional over the past few decades remain intact. • Economic headwinds and structural challenges in Europe and China persist, fundamentally limiting growth. • US mega-cap technology companies remain highly profitable versus peers in other sectors and regions. The capex (capital expenditure) intensity associated with artificial intelligence (AI) could favour these incumbents.

The purpose of this paper is not to make a case for one scenario or the other. Instead, we believe investors should think carefully about positioning their portfolios for a binary outcome given the many unknowns across the global economy. We believe a better alternative would be to consider a diversified and flexible strategy that has a track record of generating excess returns regardless of the prevailing market environment or cycle, such as the Capital Group New Perspective strategy (New Perspective).

New Perspective: staying relevant for over five decades

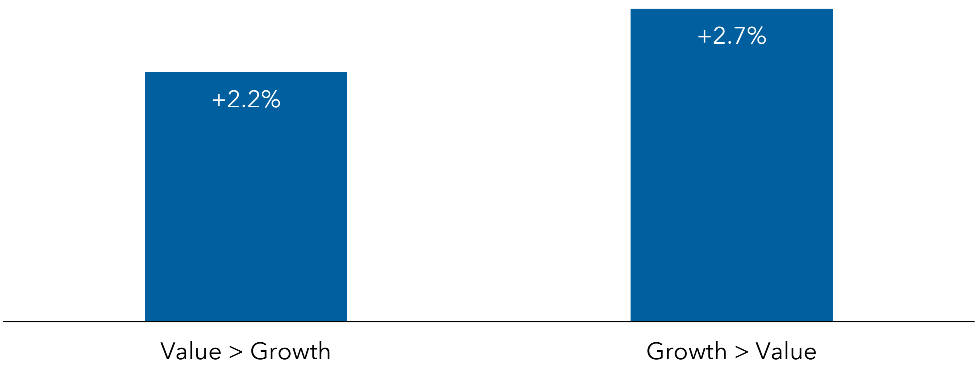
New Perspective is a core, structurally flexible, well-diversified global equity strategy that has stayed relevant for 52 years. This longevity stems from focusing on companies that are driving and benefiting from transformational changes in global trade patterns.[1]

One of New Perspective's most differentiating features – and, we believe, a reason for its enduring appeal with long-term investors – has been its ability to generate excess returns across different market environments over its lifetime, which we explore in detail below.

1. Value vs. growth markets

The chart below shows New Perspective's average rolling three-year excess returns during periods where either value was outperforming growth, or growth was outperforming value. As can be seen, the excess returns are largely similar in both environments, demonstrating that the strategy has not relied on one style environment over the other to generate attractive excess returns.

Average rolling three-year excess returns p.a. in different style environments*



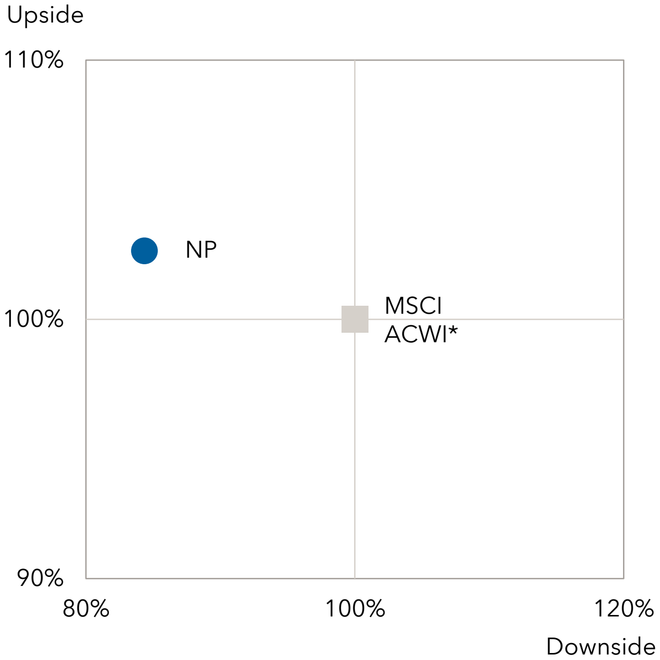
Past results are not a guarantee of future results.
As at 30 June 2025. Relative returns calculated geometrically for the Capital Group New Perspective Strategy (Australia), compared with MSCI All Country World Index (ACWI) (with net dividends reinvested) from 30 September 2011; previously MSCI World (with net dividends reinvested). Results prior to Capital Group New Perspective Fund (AU) (CGNPAU)'s launch on 20 November 2015 are derived from the American Funds New Perspective Fund (AF NPF) in A$ from 31 March 1973. American Funds are not registered for sale outside of the United States. CGNPAU and AF NPF are managed by the same team of managers and have the same investment strategy and risk profile. From 1 December 2023, CGNPAU's underlying portfolio, Capital Group New Perspective Fund (LUX), applies ESG and norms-based screens and a carbon target, which do not apply to AF NPF. The returns are after fees and expenses. *Relative return of MSCI ACWI World Growth and MSCI ACWI World Value (with net dividends reinvested) used to determine when "value outperforms growth" and "growth outperforms value" from 30 September 2011; previously MSCI World (Growth and Value).

1. Investment objective: To achieve long-term growth of capital by investing in common stocks of companies located around the world, which may include Emerging Markets.

2. Up vs. down markets

The below data shows how New Perspective has fared during up and down markets. It has demonstrated an 'asymmetric' return profile since inception; achieving higher upside capture and lower downside capture than global equity markets. The strategy has also outperformed the market in every rolling three-year period when the market was down, while outperforming in 82% of all three-year periods when the market was up throughout its lifetime.

Upside and downside capture ratios



Rolling monthly three-year returns from inception to 30 June 2025

Market return*	Number of periods	How often New Perspective outpaced the market**
>0% 'Up market'	509	82%
<0% 'Down market'	83	100%

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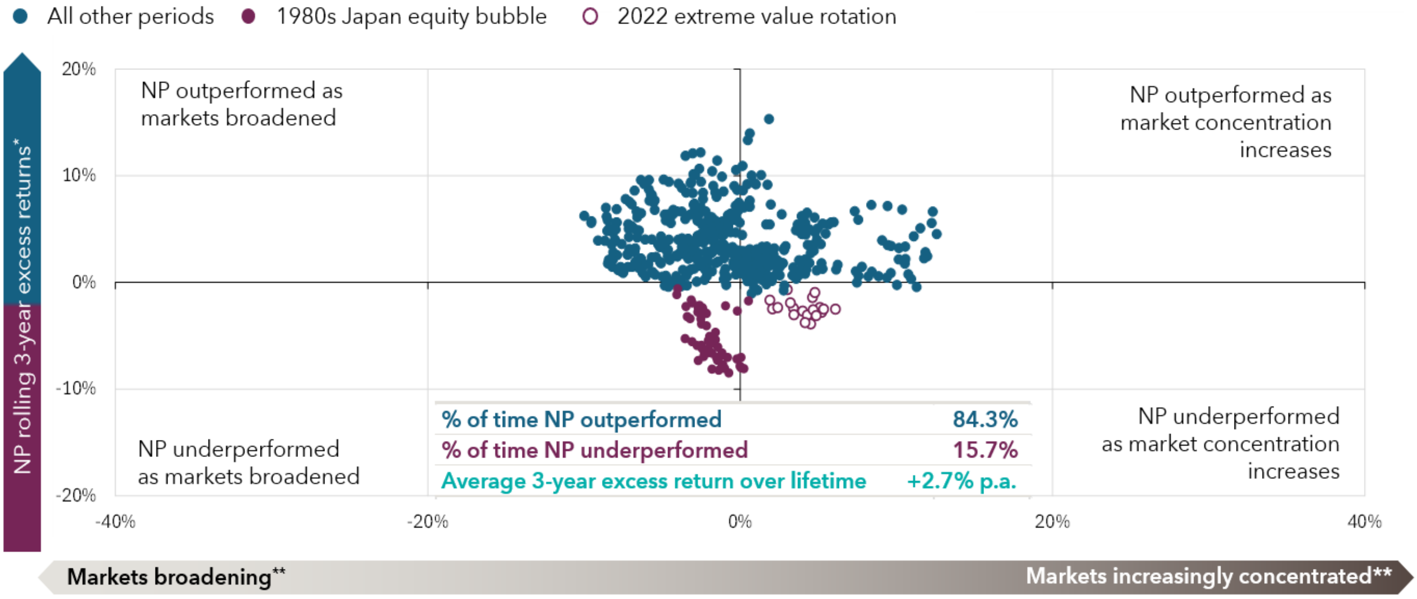
3. Markets broadening or concentrating

Each dot in the chart below shows every rolling three-year period over New Perspective's 52-year lifetime. The x-axis value shows whether markets are becoming more concentrated (right-hand side) or less concentrated (left-hand side).[2] The corresponding y-axis value shows New Perspective's excess returns. The chart shows that the strategy has generally delivered positive excess returns regardless of whether markets are becoming more concentrated or broadening.

2. As defined by the relative performance of MSCI World market capitalisation-weighted index versus the MSCI World Equal Weighted index.

New Perspective's rolling 3-year excess returns during broadening and concentrating global equity markets



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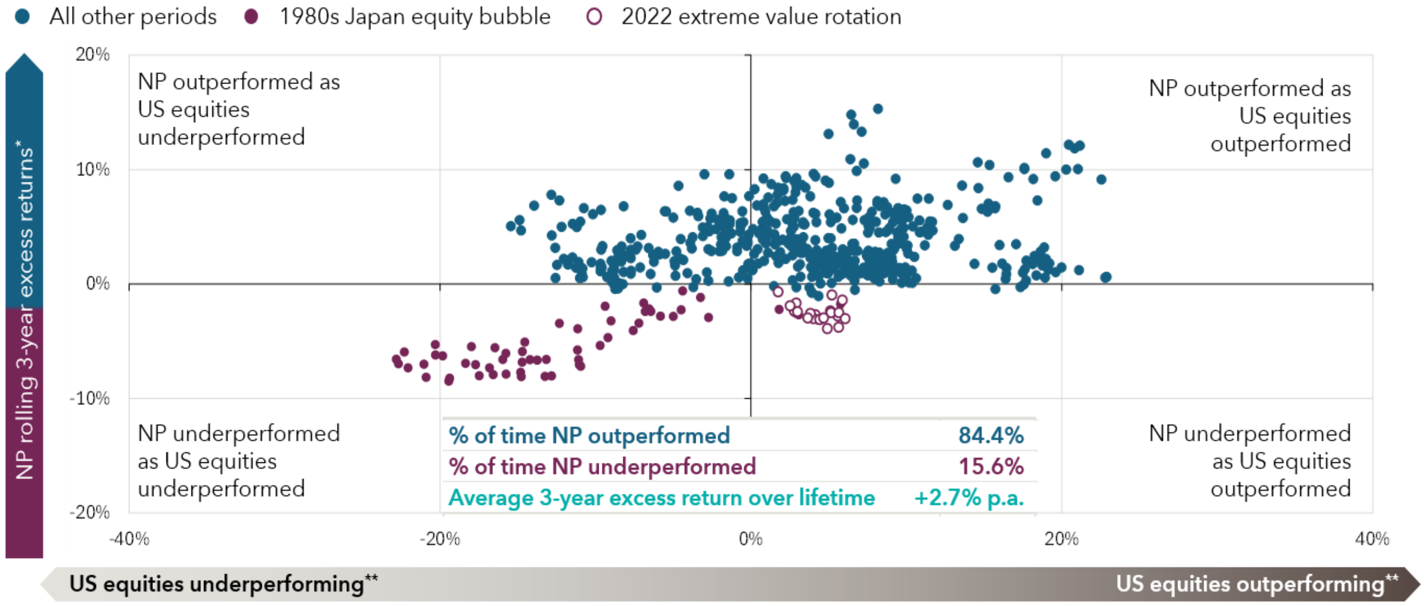
31 March 1973 – 30 June 2025. Returns are in A$ terms. NP: Capital Group New Perspective strategy. The two main periods of underperformance determined by when there are three or more consecutive months of negative rolling 3-year excess returns. *Results prior to Capital Group New Perspective Fund (AU) (CGNPAU)'s launch on 20 November 2015 are derived from the American Funds New Perspective Fund (AF NPF) in A$ from 31 March 1973, instead of the actual inception date of the fund (13 March 1973), for comparison against the MSCI indices where only month-end index levels are available prior to 31 December 2000. American Funds are not registered for sale outside of the United States. CGNPAU and AF NPF are managed by the same team of managers and have the same investment strategy and risk profile. From 1 December 2023, CGNPAU's underlying portfolio, Capital Group New Perspective Fund (LUX), applies ESG and norms-based screens and a carbon target, which do not apply to AF NPF. Excess return is calculated geometrically, after fees and expenses. **Measured by the difference in returns, calculated on a geometric basis, of the MSCI World index and the MSCI World Equal Weighted index (total returns with net dividends reinvested).

4. US stocks leading or lagging

The chart below follows a similar structure but looks at New Perspective's relative returns in rolling three-year periods where US stocks have been outperforming (right-hand side) or underperforming non-US stocks (left-hand side). Similarly, New Perspective has generally delivered positive excess returns regardless of whether US stocks have been leading or lagging global equity markets.

New Perspective's rolling 3-year excess returns when US equities are leading or lagging the global equity market



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Key ingredients behind New Perspective's resilient results

As discussed, over its lifetime, New Perspective has demonstrated its ability to generate excess returns over a variety of long-term market environments. But what have been the key ingredients behind this success? There is no single answer, but instead a combination of factors that reinforce each other.

1. Structural flexibility

The portfolio is built on a company-by-company basis with no systematic style or factor biases and is deliberately not based on a small number of top-down binary outcomes. Capital simply flows to the highest long-term convictions. By being unconstrained by geography, sector and style, New Perspective can flexibly reposition itself to capture opportunities arising from the next market or economic cycle. As a result of this bottom-up approach, the overall style exposure at the total portfolio level – which is simply an outcome of the process – has evolved over the strategy's history.

2. Multinational focus

The strategy seeks to achieve long-term growth of capital by investing in a spectrum of multinational companies (MNCs), from well-established global champions of today to potential future global champions of tomorrow. MNCs with flexible, multilocal business models are well-positioned to navigate uncertainties. They can adapt operations, diversify revenue streams, and localise effectively. By leveraging regional strengths and adapting to local needs, they can sustain growth amid global complexity. They also often have seasoned management teams who have experience navigating adversity. In today's environment of elevated geopolitical and trade tensions, we believe that maintaining access to a diversified range of regional end markets with globally flexible supply chains is particularly relevant.

3. Continuity of process and team

New Perspective's objectives and philosophy have never changed over its 52-year history. This longevity and continuity are underpinned by Capital Group's multiple-manager approach to portfolio construction. Each portfolio manager on the team has different but complementary investment approaches, with no individual managing a disproportional amount of the strategy's assets. This promotes smooth succession planning and long-term continuity, maintaining overlap among generations of portfolio managers without any disruption. When a portfolio manager retires, their assets are redistributed to the other managers on the team, and newer generations of managers can be added to the team over time.

4. Long-term horizon

One of Capital Group's biggest and most enduring competitive advantages is our long-term investment horizon. Portfolio managers do not try to time or capture 'inflection points' and second-guess market movements; they instead typically invest in companies with a minimum three- to five-year horizon. Around 50% of companies in the current portfolio (by weight) have been held for longer than eight years.[3] Our investors are compensated on their relative returns, not the amount of assets they manage, with the greatest weight being placed on the five- and eight-year time periods. This allows them to sift through short-term noise and focus on long-term fundamentals.

5. Diversified portfolio and sources of excess returns

New Perspective is a portfolio of around 250 stocks[4] that is well-diversified by sector, region, style and type of company, built from the bottom-up based on the highest conviction ideas of our global team of portfolio managers and investment analysts.[3] The depth and breadth of our research is reflected in the diversified sources of excess returns that the strategy has generated. Over the past 20 years, all 11 sectors (as defined by the MSCI Global Industry Classification Standard) and major regions have contributed positively to New Perspective's excess returns, with no single sector, region or stock accounting for a disproportionate amount. Not relying on a narrow area of the global equity market has supported the resiliency of the strategy's returns.

Conclusion

Events that have unfolded so far in 2025 could set the stage for a new market cycle. But ultimately it is too early to assert that we have truly entered a new long-term regime that could define the next cycle of equity market leadership.

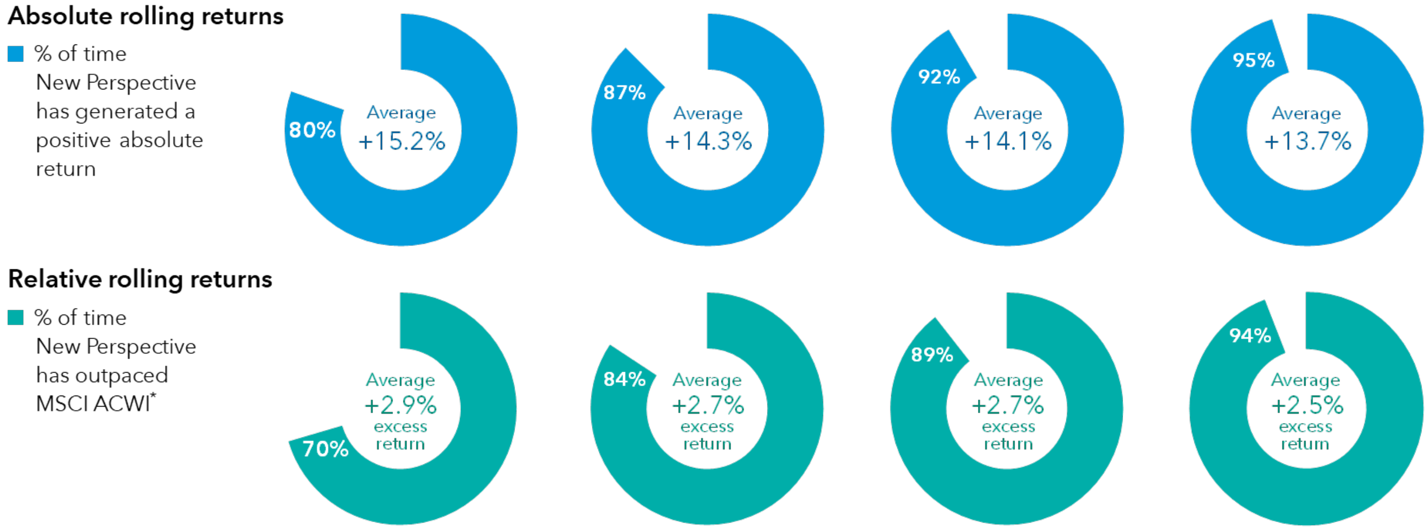
What makes Capital Group New Perspective strategy stand out is its proven ability to generate excess returns across a variety of market cycles. As the chart below shows, this has resulted in resilient outcomes for clients. For example, the strategy has delivered on average an absolute return of +14.1% p.a. over rolling five-year periods (achieving a positive return in 92% of all rolling five-year

3. Data as at 30 June 2025. Source: Capital Group
4. Based on the representative account for the Capital Group New Perspective strategy.

periods), and on average outperformed the global equity market by +2.7% (outperforming in 89% of all rolling five-year periods).

Therefore, the portfolio may be suitable for investors seeking a core, flexible and well-diversified global equity strategy that has proven it can generate attractive returns across different market conditions.

Absolute and relative rolling returns over the strategy's lifetime



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Capital Group New Perspective strategy investment results as at 30 June 2025 in AUD terms (after fees), %

	New Perspective[1]	MSCI ACWI[2]	Excess return[3]
Annualised lifetime return (52 years 3 months)	**13.6**	**10.4**	**3.2**
Standard deviation[4]	**13.9**	**13.9**	**-**
3-year p.a.	20.0	19.2	0.8
5-year p.a.	14.2	14.8	-0.6
10-year p.a.	13.1	11.8	1.4

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1. Results prior to CGNPAU's launch on 20 November 2015 are derived from the AF NPF in A$ from 31 March 1973. CGNPAU and AF NPF are managed by the same team of managers and have the same investment strategy and risk profile. From 1 December 2023, CGNPAU's underlying portfolio, Capital Group New Perspective Fund (LUX), applies ESG and norms-based screens and a carbon target, which do not apply to AF NPF. The returns are after fees and expenses.
2. The index shown is the MSCI All Country World (net dividends reinvested) from 30 September 2011. Previously MSCI World (net dividends reinvested). Source: MSCI
3. The excess return is calculated arithmetically.
4. Standard deviation is calculated using monthly geometric excess returns.

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- **The value of investments and income from them can go down as well as up and you may lose some or all of your initial investment.**
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