

# Outlook

2022 EDITION



Long-term  
perspective on  
markets and  
economies





# Rob Lovelace on “all-weather” investing



**Rob Lovelace**  
Vice Chair  
and President,  
Capital Group

The world has changed.

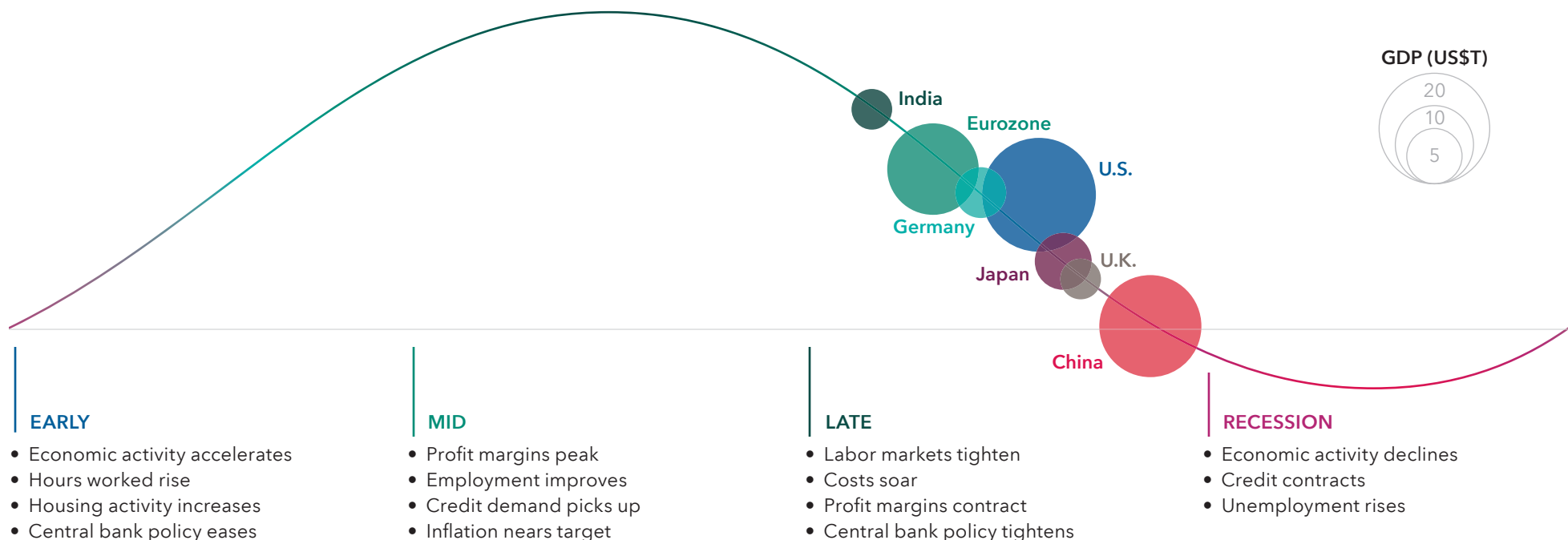
We are living through a pivotal time in history, marked by geopolitical realignment, high inflation, volatile financial markets and the end of a 40-year period of declining interest rates. The title of this new era could be *Brave New World* or *Back to the Future*. But the title I would select is *Revenge of the Boomers*, because a lot of these events rhyme with the past, particularly the early 1960s. That’s when we saw interest rates bottom out after decades of decline, as well as the rise of the Cold War era, which is unfortunately rearing its head again in some respects.

Despite these challenges, I remain optimistic about the investing environment for several reasons. First, there are still signs of growth as the global economy recovers from the pandemic. Second, I believe corporate earnings will be the driving force of equity markets going forward, as opposed to multiple expansion – a welcome return to fundamentals. And third, I think we will experience a healthy recession in the next year or two. For all the concerns about it, I see a moderate recession as necessary to clean out the excesses of the past decade. You can’t have such a sustained period of growth without an occasional downturn to balance things out. It’s normal. It’s expected. It’s healthy.

What does this mean for investors? Maintaining a balanced, all-weather portfolio makes sense in any environment, but particularly this one. Earlier this year, I reminded investors to keep an eye on valuations and prepare for a market correction. I remarked that I was buying a raincoat, but not putting it on yet. Turns out, it’s nice to have that raincoat nearby. Market volatility has returned, but that’s no reason to be discouraged. At Capital Group, we remain confident that we have the right people in place making decisions based on deep, company-specific fundamental research, which has always formed the basis of our long-term investment approach.

Indeed, the world has changed, but change creates opportunity.

# Late cycle is a time for all-weather investing



Powerful trends have transported the world's major economies back to where they stood just before the pandemic: firmly in late-cycle territory.

In Europe, a strengthening recovery has been derailed by the war in Ukraine. Even as the war reduces growth, it is fueling inflation. And in China, a resurgence of COVID and lockdown policies are eroding growth in that economy.

In the U.S., tight labor markets are magnifying mounting wage pressures, inflation is soaring and the Federal Reserve is tightening policy. And with supply chain disruptions lingering and costs rising, corporate profit growth has been slowing. Indeed, the U.S. economy contracted 1.5% in the first quarter.

Are we headed for recession? The risk is clearly rising, says U.S. economist Jared Franz, but much will depend on labor markets and the Fed's resolve to aggressively reduce inflationary pressures.

"Late cycles are not predictive of recessions, but they do tell you that the economy's ability to bounce back from shocks is reduced," Franz says. "The environment is changing rapidly and significant headwinds have emerged. I view this as a time to pursue all-weather portfolios built to withstand a variety of risks."

Sources: Capital Group, FactSet. GDP data are in USD and are the latest available through 3/31/22. Country position within the business cycle are forward-looking estimates by Capital Group economists as of June 2022.

# Night Watch sheds daylight on market disruptions

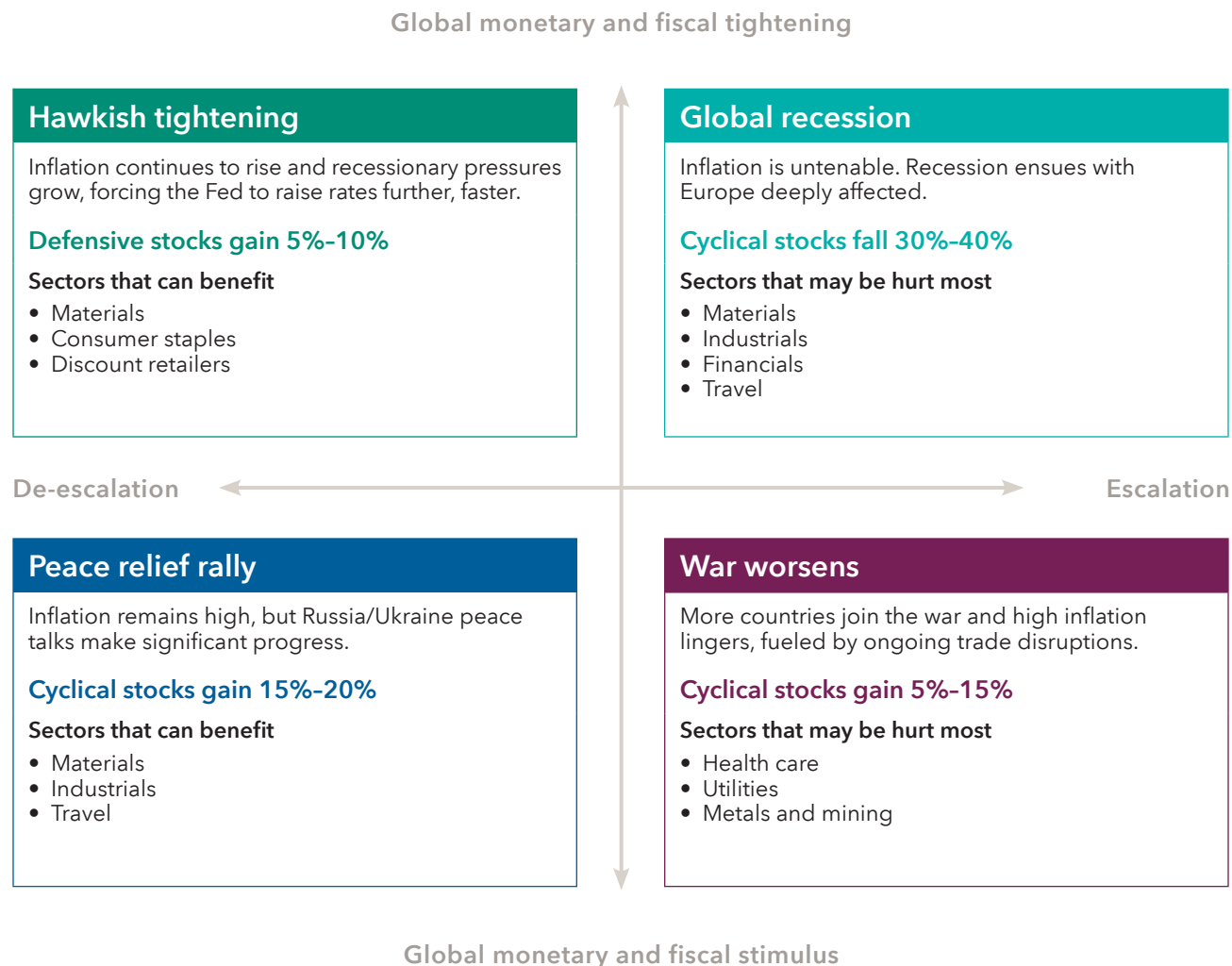
Scenario planning is always an important part of investing, but it becomes even more so during times of extreme uncertainty. Will the war in Ukraine escalate or end? Will inflation rise or wane? Will a global recession ensue or will growth resume?

All these questions, and more, fall under the purview of Capital Group's "Night Watch" – a team of economists, portfolio managers and analysts that seek to gain a deeper understanding of market disruptions. The team takes its name from Rembrandt's *The Night Watch*, a 17th century painting in which each person depicted is looking in a different direction.

These days the Night Watch is focusing on inflation, monetary policy and the war in Ukraine. The goal is not to make predictions, but to understand what each development could mean for asset prices.

Four potential scenarios have emerged, including a global recession, a slowdown caused by monetary tightening, an escalation of the war involving multiple countries or a peace-induced market rally.

"The Night Watch studies events from every possible angle," explains economist Jared Franz. "It's a complicated world with many variables. As an investor, you can't get hung up on any single outcome."



Source: Capital Group. Scenarios reflect analysis of Capital Group's Night Watch team as of May 2022 and are not predictive of future outcomes.

# Expect more volatility as the Fed fights inflation

Sharply higher inflation has prompted the U.S. Federal Reserve and other central banks to raise interest rates. But how high will they go? Will soaring consumer prices force central bankers to tighten monetary policy beyond current expectations? Or will they back off as higher rates start to take a toll on the economy?

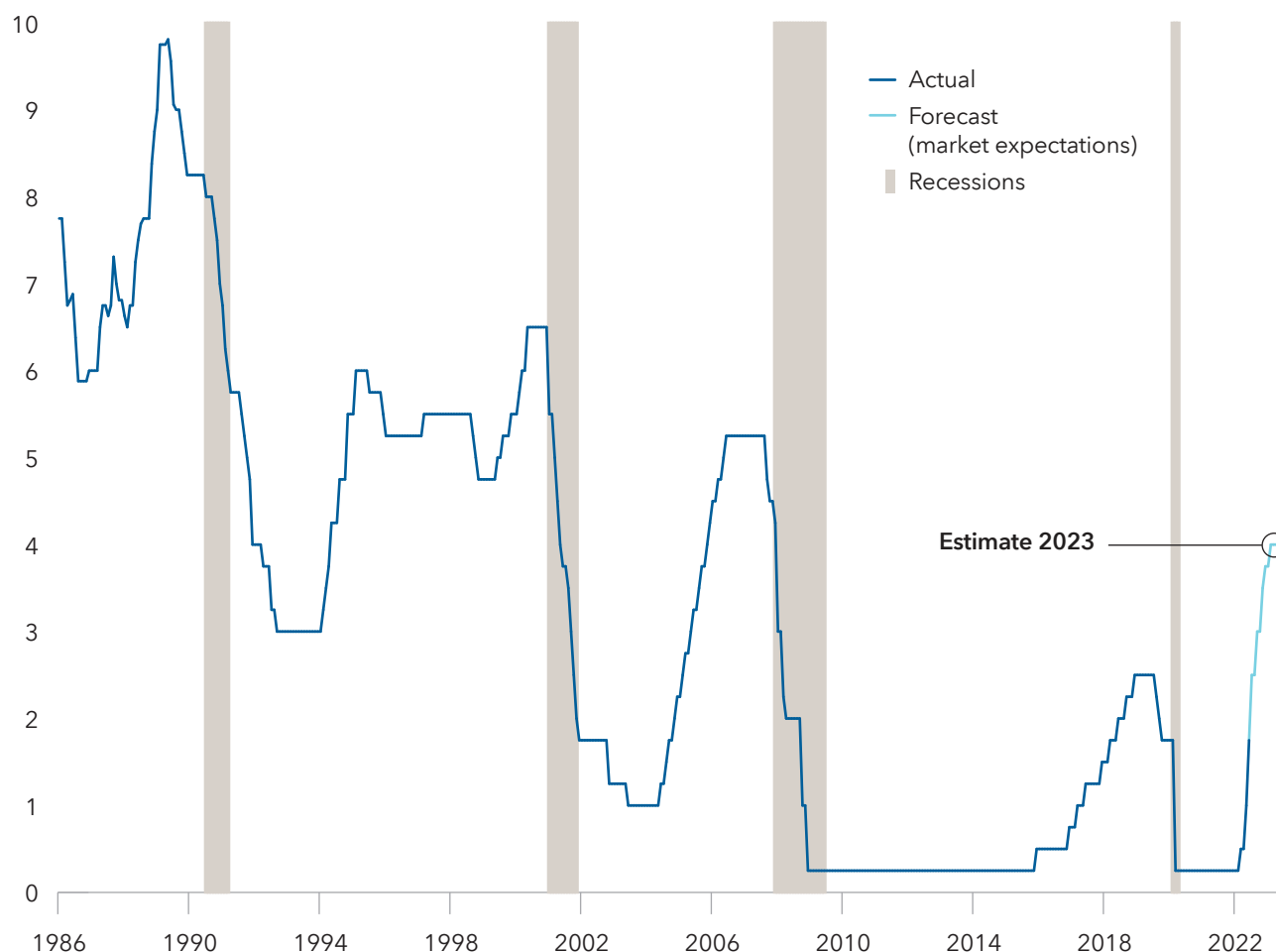
In the past, the Fed has reversed course in the face of painful market gyrations, daunting geopolitical events or, most recently, a pandemic. But Fed officials may not have that kind of flexibility anymore, with inflation running at a 40-year high.

"We are seeing a significant deviation from the standard Fed playbook we've become accustomed to over the past few cycles," says Tim Ng, a fixed income portfolio manager at Capital Group. "And the reason is clear: Inflation is far too high."

Investors should brace for a bumpy ride, Ng explains, as the Fed and other central banks grapple with how to bring down inflation without pushing the global economy into recession. It may not be possible to do both.

Over the Fed's last three rate-hiking periods, the average time between the first rate increase and the start of a recession was 38 months.

U.S. federal funds target rate (%)



Sources: Capital Group, Chicago Mercantile Exchange, Federal Reserve Bank of St. Louis, National Bureau of Economic Research. Upper bound of target range is used since 2008. Actual data and market expectations are as of 6/15/22.

# After big bond declines, history suggests better days ahead

There's no sugar coating it – early 2022 was not a great time for bonds. The core benchmark, the Bloomberg U.S. Aggregate Index, was down more than 10% through mid-June, the worst period in roughly 40 years. The highest inflation in decades thrust the Federal Reserve into rate-hiking mode. But current bond prices now reflect that pain.

During and after Fed hiking periods, more yield helps boost returns. This is part of the reason hiking periods realized an average return of 2.3%. Then there's the recovery: The first and second year after those periods saw average returns of 13.2% and 12.6%, respectively.

"I do not expect yields to continue to rise like they have since mid-2021," says Ritchie Tuazon, a portfolio manager for American Funds Strategic Bond Fund. Futures markets indicate that investors expect U.S. Treasury yields across the spectrum from two- to 10-year maturities to rise between 11 and 40 basis points over the next year. Consider a hypothetical example based on the interest rate exposure of the core benchmark. Even if rates rise a full 40 basis points across the Treasury curve during that period, the increased yield would overshadow the loss in price return to produce a modest positive total return, Tuazon explains.

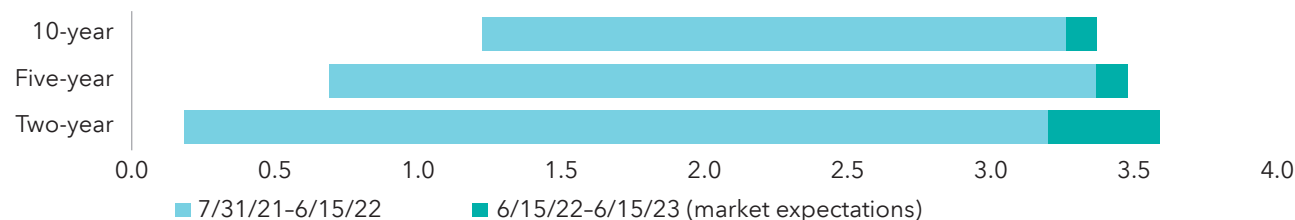
"We're in a late-cycle economy when persistent inflation and other factors could translate to more fierce equity volatility," Tuazon says. "Now isn't a time to shy away from maintaining a strong core bond allocation for diversification."

## The bond market has historically weathered rate hikes

Fed rate hike dates and magnitude	Bloomberg U.S. Aggregate annualized return (%)	Bloomberg U.S. Aggregate annualized return (%)		
		Rising rate period	First year after hikes	Second year after hikes
January 1977-June 1981	14.49	2.0	13.3	30.2
April 1983-July 1984	3.00	5.8	23.9	21.5
January 1987-September 1987	1.44	-2.9	13.3	11.3
April 1988-May 1989	3.31	8.7	9.4	12.5
February 1994-February 1995	3.00	-1.6	17.1	3.3
June 1999-May 2000	1.75	1.4	13.7	7.7
June 2004-June 2006	4.25	2.8	6.5	7.0
December 2015-December 2018	2.25	2.0	8.8	7.2
<b>Average</b>		<b>2.3</b>	<b>13.2</b>	<b>12.6</b>

## Much of the Fed's rate moves are already priced in

### Change in Treasury yields (%)



Sources: Capital Group, Bloomberg, Bloomberg Index Services Ltd., RIMES, U.S. Federal Reserve. Data as of 6/15/22. In the bond math example above, we consider the duration and yield-to-worst of the Bloomberg U.S. Aggregate Index on 6/15/22 of 6.44 years and 3.96%, respectively. Duration is a measurement of interest rate sensitivity where for each year of duration a 1% increase in interest rates leads to a 1% price loss. In this example 40 basis points, or 0.4%, higher rates across the Treasury yield curve would lead to a 2.58% price loss (6.44 x 0.4%). In this hypothetical example, that loss would result in a net gain of 1.38% over the course of the year due to earning yield income (-2.58% + 3.96%).

# Stock markets have weathered previous rising-rate periods

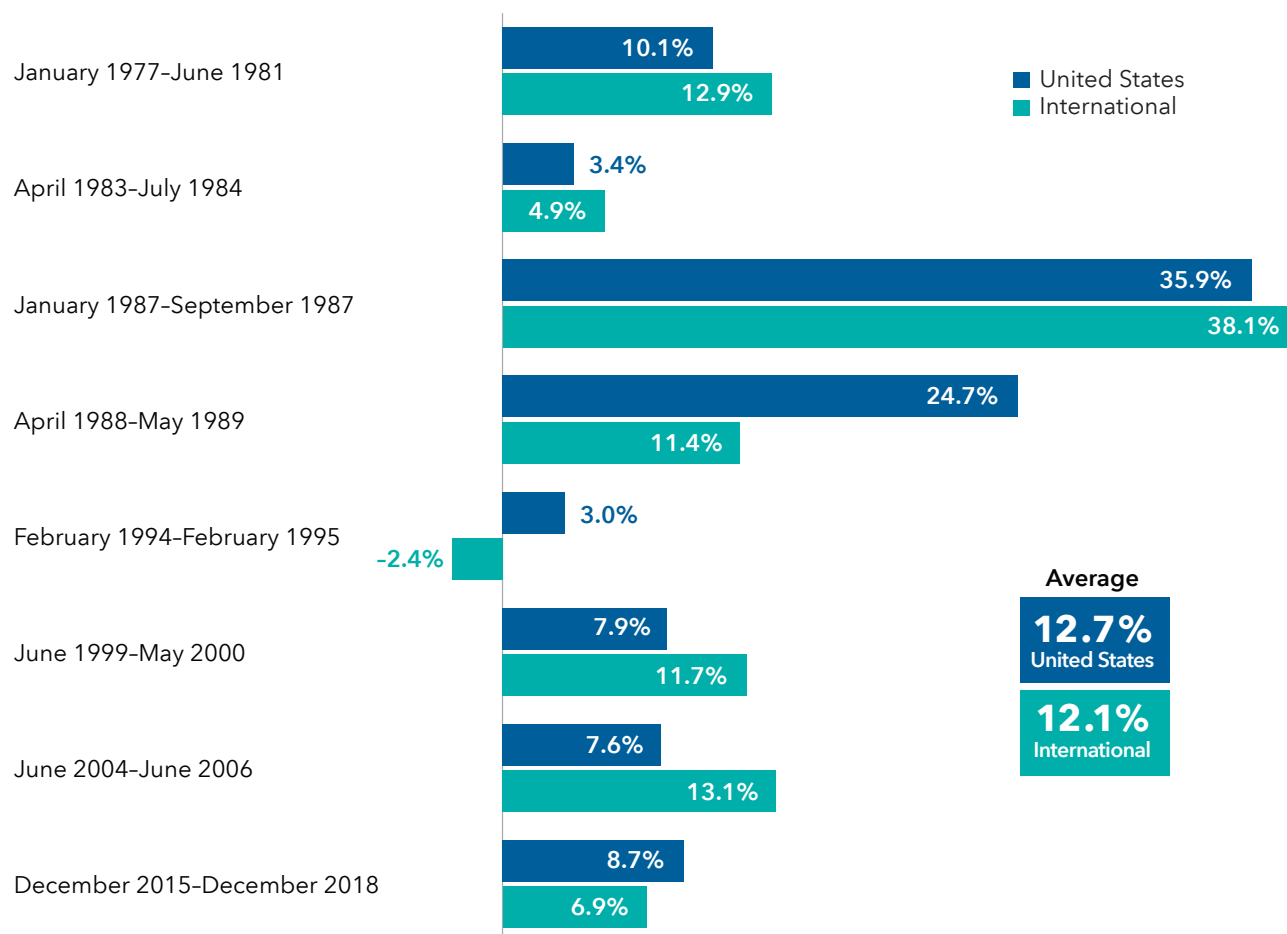
Rates may be on the rise, but history shows returns could be looking up as well. In the eight rate-hiking periods since 1977, the S&P 500 has posted an average annualized return of 12.7%. Stocks outside the U.S. have also been strong during these times.

But with volatility elevated and the implications of the rate cycle unknown, investors may want to own an all-weather portfolio. Attractively valued companies that have demonstrated the ability to thrive regardless of the economic environment can be especially important right now.

"I generally don't pay too much attention to macro, unless we're at inflection points where I think it really matters. Now feels like one of those points," says equity portfolio manager Diana Wagner. "In a world where growth may be scarce, I prefer companies that have a demonstrated track record of making their own growth happen – companies with a high return on equity, low commodity input costs and strong pricing power."

Wagner notes that beverage companies could provide both defensive and offensive attributes in today's market. Keurig Dr Pepper, for example, has a razor and blade business model with its single-serve coffee pod distribution, in addition to a growing soft drinks segment. Other companies that have exhibited all-weather attributes in the past include Microsoft, UnitedHealth and insurer Marsh & McLennan.

## Equity returns during rising interest rate environments

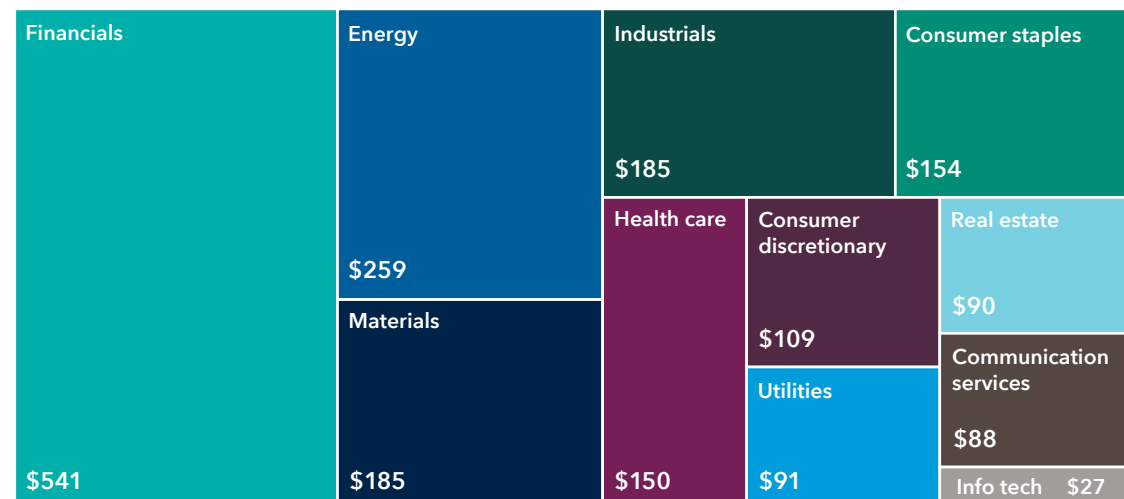


Sources: Capital Group, MSCI, Refinitiv Datastream, Standard & Poor's, U.S. Federal Reserve. S&P 500 and MSCI World returns represent annualized total returns for U.S. and international stocks, respectively. S&P 500 is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks. MSCI World Index is a free float-adjusted market capitalization-weighted index designed to measure equity market results of developed markets.

# Rising dividends can counter inflation

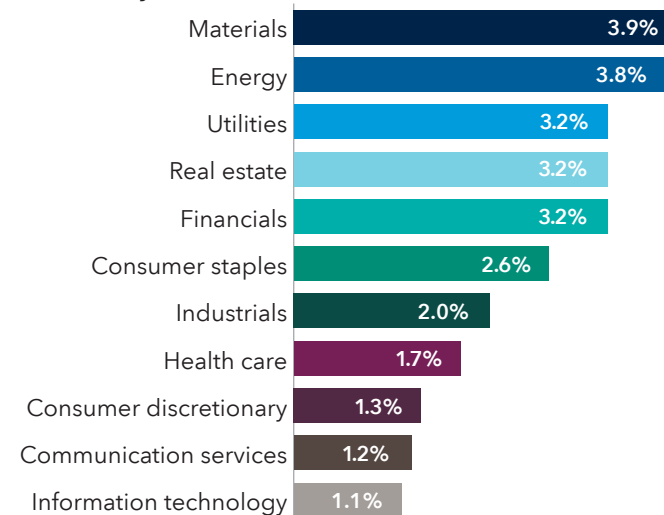
Global dividend payments rose 20% to \$1.9 trillion in the last year ...

Dividends paid by MSCI ACWI last 12 months (USD billions)



... and attractive yields can be found across sectors.

Dividend yield (MSCI ACWI)



When market volatility is rising, boring is beautiful. That's why many dividend paying stocks today are compelling, if dull and dependable, investment opportunities.

Global companies paid out a remarkable \$1.9 trillion for the 12 months ended May 31, 2022, as measured by the MSCI ACWI (All Country World Index). That represents a 20% jump from the prior 12 months.

"In this low-growth, inflationary environment, I am focusing on companies with manageable debt and

sustainable dividends," says Caroline Randall, an equity portfolio manager. "We are finding many across a range of sectors that are increasing dividends 10% a year."

Proven dividend growers can help bolster investment returns when inflation is rising. "I look closely at what companies actually do with their dividend, rather than just what they say they will do," says Randall. "Dividend growth commitments are a critical signal by management about their confidence in the future earnings growth potential of their company."

Companies paying growing dividends can be found across the financials, energy, materials and health care sectors, among others. Examples include U.S. oil giant Chevron, which recently increased its dividend for a 35th year, exploration and production company EOG Resources, Brazilian mining company Vale, defense contractor Raytheon Technologies and British American Tobacco.

Sources: Capital Group, MSCI, Refinitiv Datastream, Refinitiv Eikon, RIMES. Dividends paid represent total cash dividends in the trailing 12-months through 5/31/22. Dividend yield is for MSCI ACWI as of 5/31/22. MSCI All Country World Index (ACWI) is a free float-adjusted market capitalization-weighted index designed to measure equity market results in the global developed and emerging markets, consisting of more than 40 developed and emerging market country indexes.



# Technology stocks are down, but cloud growth remains sky high

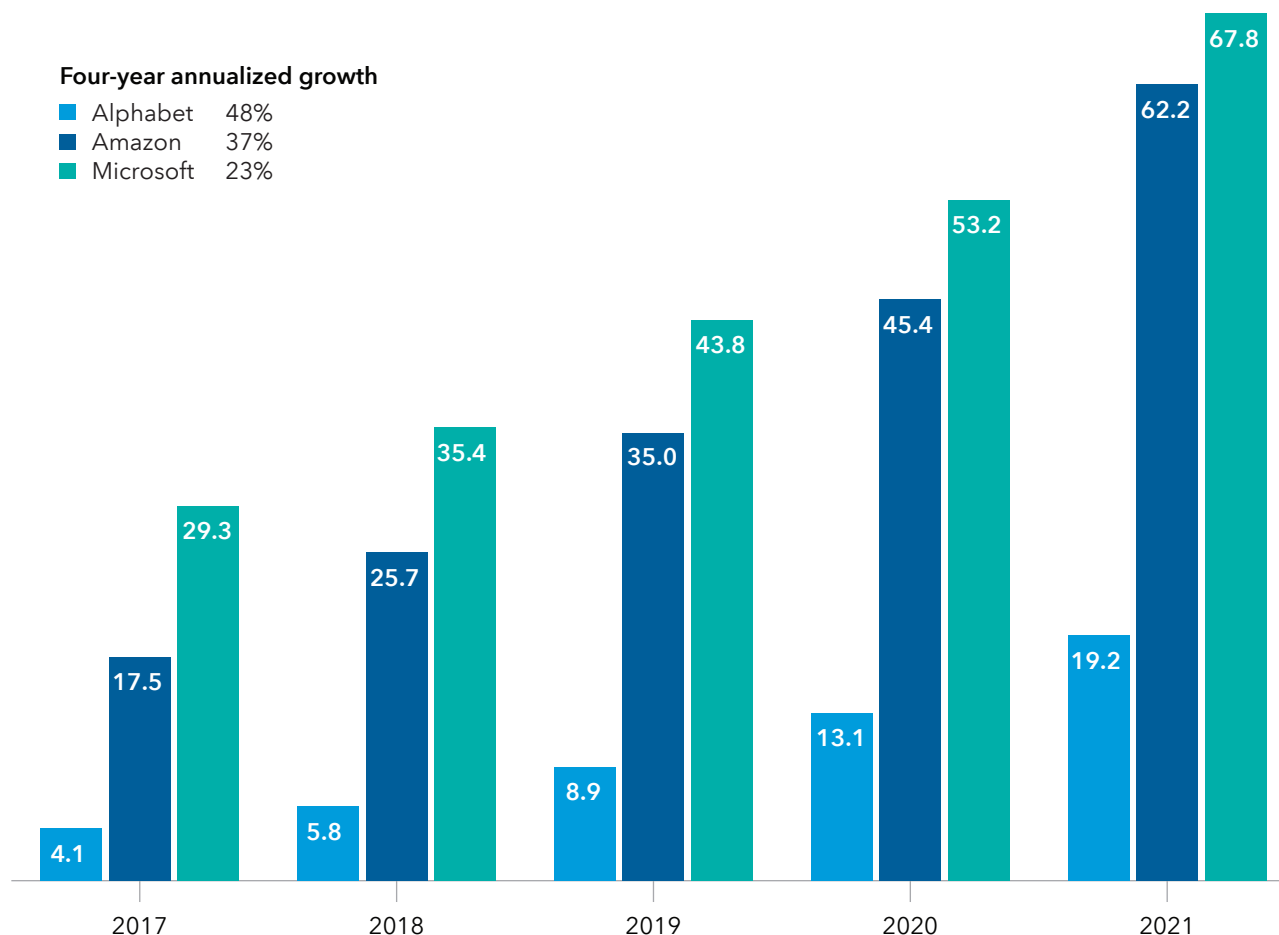
Technology stocks hit a brick wall during the first half of 2022, leading some investors to wonder if the digital revolution has run its course.

Not likely, according to Chris Buchbinder, a principal investment officer for The Growth Fund of America. "Rising interest rates and inflation have certainly clouded the longer term earnings picture for many of these companies. For those with limited earnings today relative to their market values, the pullback was warranted," Buchbinder explains. "But I believe there are also well-run software companies in fast-growing segments with favorable prospects."

The cloud services business, as an example, has rapidly expanded as businesses move their traditional enterprise IT functions to the cloud. "A few years ago, when Amazon Web Services was introduced, it was really a new business segment," says Buchbinder. "It's no longer new, but we are still in the early days of this transition."

Microsoft was not the first mover in this market, but it is growing faster than AWS and Google Cloud thanks to its strong legacy enterprise relationships. As of April 2022, the cloud services division of Microsoft achieved 32% quarterly growth from a year earlier, putting it on a path to reach nearly \$100 billion in annual revenue. "It is not a certainty that all cloud businesses will realize the profit growth to justify high valuations," Buchbinder says. "That is why selective investing through fundamental research is essential."

Cloud revenue across major cloud computing service providers (USD billions)



Sources: Capital Group, company filings, Refinitiv Eikon. Years above refer to calendar years. Cloud revenue is represented by segment revenue for Intelligent Cloud Services (Microsoft), Amazon Web Services (Amazon) and Google Cloud (Alphabet). Data as of 12/31/21.

# Mining companies look undervalued amid soaring commodity demand

You can't build the new economy without old companies.

Case in point: The mining industry, a long-neglected corner of the equity markets, suddenly looks a lot more attractive. With commodity prices skyrocketing, companies that produce basic materials such as iron ore, copper and nickel have gained renewed attention given the crucial role they play in the global economy.

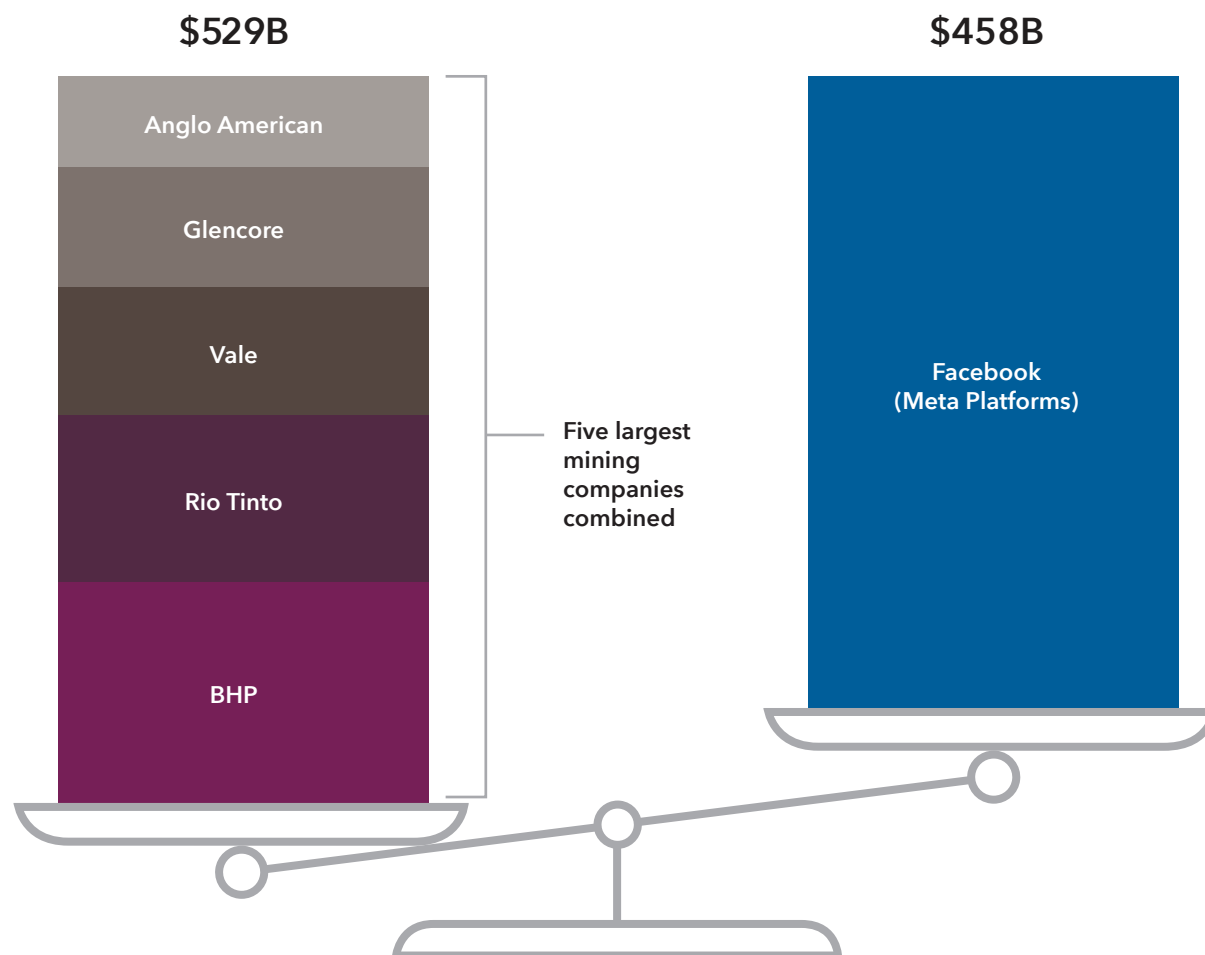
"Investors are starting to embrace companies that produce tangible assets," says Carl Kawaja, a portfolio manager for EuroPacific Growth Fund. "For instance, nickel and copper are key components in the production of electric vehicles. We all know how rapidly EVs are growing, but I think people underappreciate the extent to which you still need a lot of nickel and copper to build them."

Some commodity prices could remain high for years due to chronic underinvestment in new mining projects and the extended length of time it takes to launch them. That dynamic remains largely unrecognized by the market.

Look at the market capitalization of the world's five largest mining companies. Combined they barely exceed the value of Facebook parent Meta Platforms.

Iron ore, a key ingredient in steel, is another good example. "I'm not really worried about Silicon Valley disrupting the iron ore industry," Kawaja says. "It's been around since the Iron Age. That's an enduring business."

Market value of five largest mining companies vs. Facebook (USD)



Source: RIMES. As of 5/31/22. Facebook data is the market value for the entire company, which was renamed Meta Platforms in 2021.

# Health care, with promising drug pipelines, looks attractively valued

All eyes were on the health care industry during the early days of COVID, and drug developers thrived under the spotlight, producing vaccines and therapies in record time.

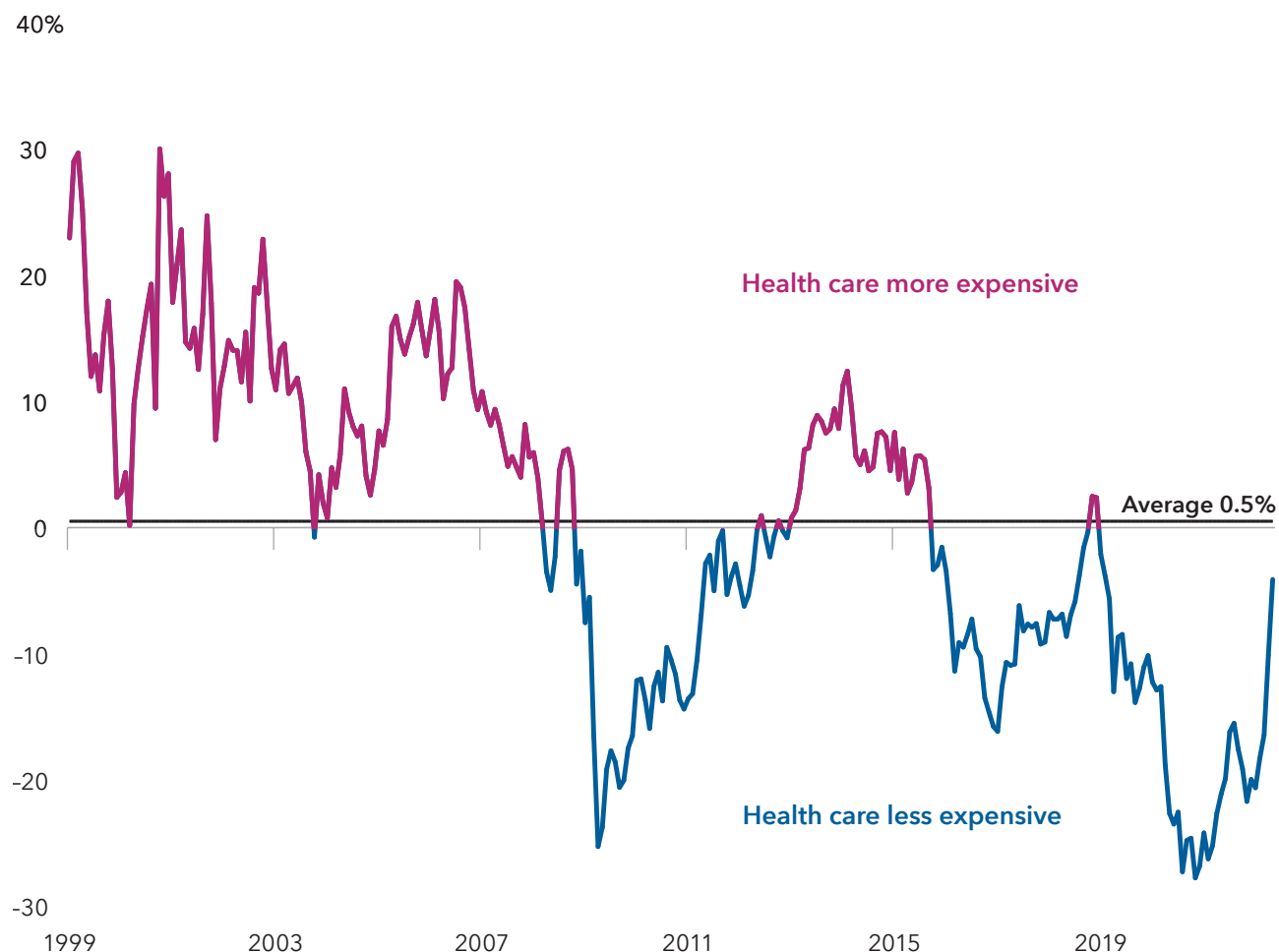
Despite the attention, many observers may have overlooked that health care companies appear attractively valued relative to the broader U.S. stock market and their own history. “Some market leaders are particularly appealing, given the prospects for growth of their pipelines,” says Alan Wilson, an equity portfolio manager for Washington Mutual Investors Fund.

Across the sector, drug developers, device makers and service providers are transforming health care and improving patient outcomes.

“We’ve had a coming out party for the power of personalized medicine,” adds Wilson. “Drug discovery is in a golden age that would not be possible without the combination of efficient genetic sequencing, computational power to analyze massive datasets and precise biochemical tools.” One recent advancement is antibody-drug conjugates (ADCs), which empower the immune system to target cancer cells while leaving healthy cells alone.” The global market for such treatments is expected to grow from \$3.18 billion in 2020 to \$20.01 billion in 2028.

For example, oncology pioneers Bristol Myers Squibb, Merck and Roche are developing ADCs that combat various tumors. Of, course not every ADC will be a success, so the key for selective investors is to understand both the science and business opportunity.

Relative valuation of health care sector to MSCI USA



Sources: MSCI, Refinitiv Datastream. Relative valuation is the ratio between the forward 12-month price-to-earnings ratio of the health care sector of the MSCI USA Index to the overall MSCI USA Index. As of 5/31/22. MSCI USA Index is a free float-adjusted, market capitalization-weighted index designed to measure the U.S. portion of the world market.

# Smart industrials are making buildings more sustainable

<b>CARRIER</b> HVAC manufacturer <b>United States</b> <b>\$34.1B</b> Market cap 1915 Founded	<b>DAIKIN</b> HVAC manufacturer <b>Japan</b> <b>\$47.1B</b> Market cap 1924 Founded	<b>SIKA</b> Building materials supplier <b>Switzerland</b> <b>\$39.3B</b> Market cap 1910 Founded
<ul style="list-style-type: none"> <li>• Aims to achieve carbon neutral operations by 2030</li> <li>• Reduced hazardous waste production by 23% from 2015-2020</li> <li>• Reduced greenhouse gas emissions by 17% from 2015-2020</li> </ul>	<ul style="list-style-type: none"> <li>• Aims to achieve carbon neutral operations by 2050</li> <li>• 98% of sales mix is categorized as "environmentally conscious," up from 83% in 2017</li> <li>• Reduced greenhouse gas emissions by 31% from 2016-2020</li> </ul>	<ul style="list-style-type: none"> <li>• Aims to achieve carbon neutral operations by 2050</li> <li>• In 2021, 52% of electricity used in operations was sourced from renewable sources</li> <li>• Proprietary concrete recycling process can reduce CO2 footprint of customers' new concrete by ~40%</li> </ul>

Environmental, social and governance investing, or ESG, is everywhere, and it's only going to get more important.

The global push to reduce carbon emissions and improve energy efficiency is often associated with electric vehicles or utilities harnessing solar and wind power. But the solution to ESG issues often comes from unexpected places, says equity portfolio manager Rob Lovelace. "At Capital Group we don't think of ESG as just an exclusion process. We think of it as identifying companies that are doing the right thing and

supporting those in transition, such as oil companies shifting toward clean energy."

This effort extends far beyond the energy sector. For example, buildings pump more carbon dioxide into the atmosphere than the entire transport industry. But companies like Carrier and Daikin are developing air conditioning and heating systems that could drastically reduce global greenhouse gas emissions. Regulations in Europe and elsewhere that require the replacement

of older systems with more energy-efficient products could drive long-term opportunity for both companies.

Tighter carbon emissions regulations and infrastructure spending across major economies could also provide tailwinds for Swiss building materials supplier Sika, says portfolio manager Jonathan Knowles. "The company makes cement additives that can reduce carbon emissions and increase durability. This may sound like a boring business, but its growth potential is pretty compelling as global emissions standards tighten."

Sources: Capital Group, company reports, Refinitiv Datastream. Company market cap is in USD as of 5/31/22.



# Income is returning to fixed income

## Bond yields have climbed as rates jumped

Yields of key fixed income markets (%)	Recent low	6/15/22	Difference
Two-year U.S. Treasury	0.10	3.20	<b>+3.10</b>
10-year U.S. Treasury	0.51	3.29	<b>+2.79</b>
Investment-grade corporates	1.74	4.81	<b>+3.07</b>
High-yield corporates	3.53	8.32	<b>+4.79</b>
Emerging markets debt	4.36	7.71	<b>+3.35</b>
Municipal bonds	0.86	3.37	<b>+2.51</b>

The ultra-low interest rate environment of the pandemic era gave way to a jarring reality: Markets don't react well to rising rates. Painful short-term losses, however, could lay the groundwork for more income.

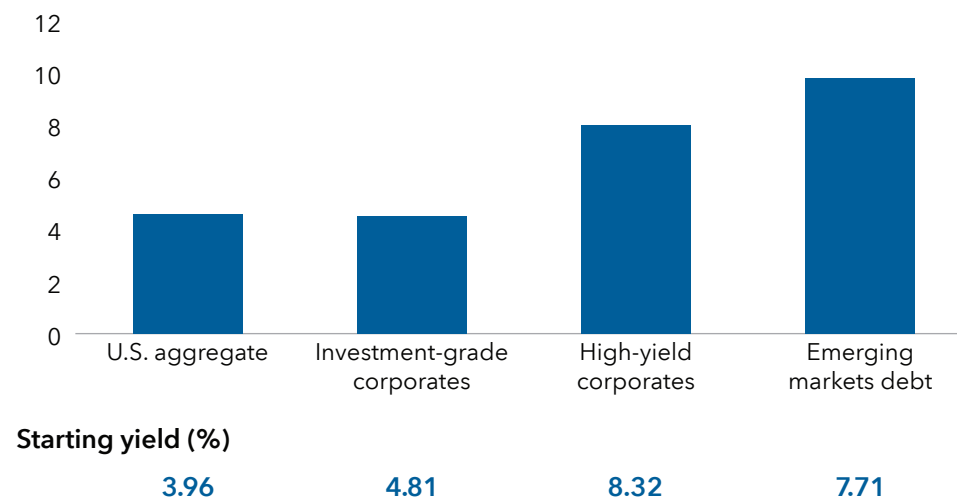
The yield on the 10-year U.S. Treasury surpassed 3% in June for the first time since 2018. Yields, which rise when bond prices fall, have jumped across bond sectors as central banks seek to quash inflation. Over time, rising yields mean more income from bonds.

At today's yields, history suggests higher total returns over the next few years. The total return on a bond is the function of price changes and interest paid – and interest is rising.

Investors could benefit from holding bonds across fixed income asset classes, including high yield. "Average annual returns for the high-yield market historically are approximately 6% to 8%. We are again at a starting yield level where these returns could be achieved, with a multi-year investment horizon, which is the first time this has been true in a while," says fixed income portfolio

## Higher yields have boosted total returns

Average five-year forward returns at recent yield levels (%)



manager Tara Torrens. "However, the path from here to there could be very bumpy."

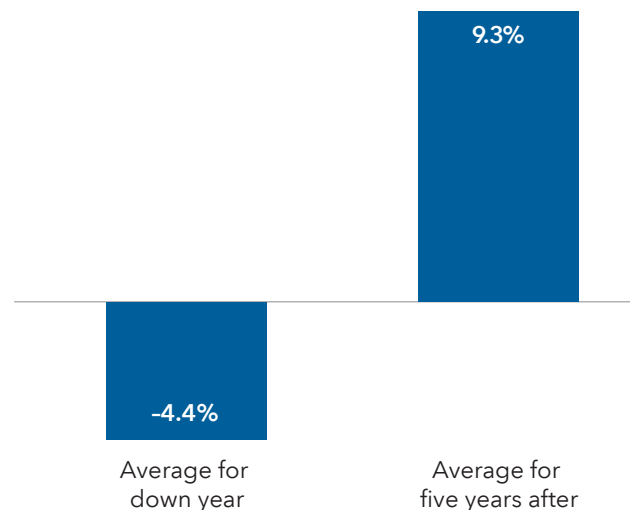
There are also opportunities in emerging markets debt – a corner of the bond market that has been especially volatile. Several countries have raised rates ahead of the Fed and are on good financial footing, according to fixed income portfolio manager Rob Neithart. Given the nuances of emerging markets investing, an active approach can help steer investors toward select investment ideas.

Sources: Capital Group, Bloomberg, Bloomberg Index Services Ltd., JPMorgan, Federal Reserve. Yields as of 6/15/22. Returns as of 5/31/22. Sector yields above include Bloomberg U.S. Aggregate Index, Bloomberg U.S. Corporate Investment Grade Index, Bloomberg U.S. Corporate High Yield Index, 50%/50% JP Morgan EMBI Global/JP Morgan GBI-EM Global Diversified blend and Bloomberg Municipal Bond Index. For chart on left: Period of time considered from 2020 to present. Dates for lows from top to bottom in chart shown are: 2/5/21, 8/4/20, 12/31/20, 7/6/21, 1/4/21 and 7/27/21. For chart on right: Return data goes back to 2000 for all sectors except for emerging markets debt, which goes back to 2003. Based on average monthly returns for each sector when in a +/- 0.30% range of yield-to-worst.

# Opportunities are looking brighter in municipal bonds

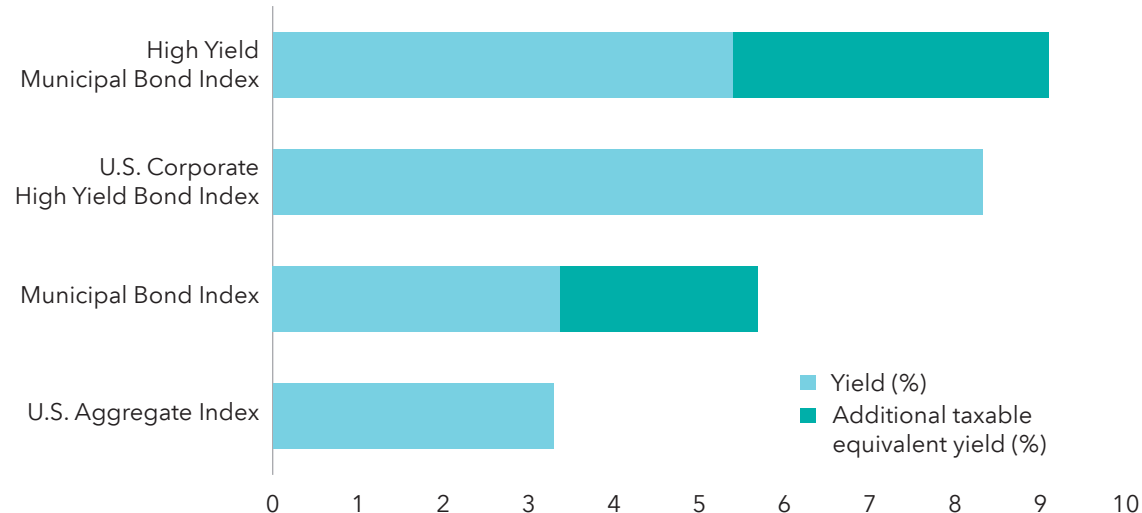
History suggest stronger muni returns ahead, and yields have become more attractive

Municipal Bond Index returns since 1980



Like taxable bonds, municipal bonds are exposed to changing interest rates. As a result, early 2022 was not kind to the sector. However, like the rest of the bond market, much of the pain of rising yields may already be priced into muni valuations. That means there may be more upside than downside over the next few years for the sector. This has played out historically. In years when municipal bonds were down, they averaged a loss of about 4.4%. However, in the five-year periods that followed, the sector saw an average annualized return of 9.3%.

Tax-exempt vs. taxable income opportunity



"After starting 2022 with very rich market conditions, yields rose sharply and credit premiums became more attractive," notes Chad Rach, a portfolio manager for American High-Income Municipal Bond Fund. "These market changes have led me to begin moving my portfolio responsibilities to take advantage of bonds that have dramatically repriced. Although we may not have reached rock bottom prices just yet, I view most munis as much more reasonably valued than just a few

months ago and want to position portfolios to reflect those favorable adjustments."

Municipal bonds have also seen a sizable lift in yields, which means they have the potential to provide even more benefit to tax-aware investors. For those in the highest tax bracket, income potential in both the investment-grade and high-yield muni sectors exceed that of their taxable counterparts.

Source: Bloomberg. Returns as of 5/31/22. Yields as of 6/15/22. Yield and returns shown for respective Bloomberg indexes. Taxable-equivalent yield assumes the top federal marginal tax rate for 2022 of 37%, plus the 3.8% Medicare tax. Yields shown are yield to worst.

**Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.**

Investing outside the United States involves risks, such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in the prospectus. These risks may be heightened in connection with investments in developing countries. Small-company stocks entail additional risks, and they can fluctuate in price more than larger company stocks.

The return of principal for bond funds and for funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds. Income from municipal bonds may be subject to state or local income taxes and/or the federal alternative minimum tax. Certain other income, as well as capital gain distributions, may be taxable. The use of derivatives involves a variety of risks, which may be different from, or greater than, the risks associated with investing in traditional cash securities, such as stocks and bonds. Bond ratings, which typically range from AAA/Aaa (highest) to D (lowest), are assigned by credit rating agencies such as Standard & Poor's, Moody's and/or Fitch, as an indication of an issuer's creditworthiness. If agency ratings differ, the security will be considered to have received the highest of those ratings, consistent with the fund's investment policies.

The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

Bloomberg U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market. Bloomberg U.S. Corporate Investment Grade Index represents the universe of investment-grade, publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specific maturity, liquidity and quality requirements. Bloomberg U.S. Corporate High Yield Index covers the universe of fixed-rate, non-investment grade debt. Bloomberg Municipal Bond Index is a market value-weighted index designed to represent the long-term investment-grade tax-exempt bond market. Bloomberg High Yield Municipal Bond Index is a market value-weighted index composed of municipal bonds rated below BBB/Baa.

The 50%/50% JP Morgan EMBI Global/JP Morgan GBI-EM Global Diversified blends the JP Morgan EMBI Global Index with the JP Morgan GBI-EM Global Diversified Index by weighting their cumulative total returns at 50% each. This assumes the blend is rebalanced monthly. JP Morgan Emerging Market Bond Index (EMBI) Global Diversified is a uniquely weighted emerging market debt benchmark that tracks total returns for U.S. dollar-denominated bonds issued by emerging market sovereign and quasi-sovereign entities. JP Morgan Government Bond Index – Emerging Markets Global Diversified covers the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg or Bloomberg's licensors own all proprietary rights in the Bloomberg Indices. Neither Bloomberg nor Bloomberg's licensors approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

This report, and any product, index or fund referred to herein, is not sponsored, endorsed or promoted in any way by J.P. Morgan or any of its affiliates who provide no warranties whatsoever, express or implied, and shall have no liability to any prospective investor, in connection with this report. J.P. Morgan disclaimer: <https://www.jpmm.com/research/disclosures>.

MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. You may not redistribute the MSCI data or use it as a basis for other indices or investment products.

S&P 500 is a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by Capital Group. Copyright © 2022 S&P Dow Jones Indices LLC, a division of S&P Global, and/or its affiliates. All rights reserved. Redistribution or reproduction in whole or in part is prohibited without written permission of S&P Dow Jones Indices LLC.

Capital Group exchange-traded funds (ETFs) are actively managed and do not seek to replicate a specific index. ETFs are bought and sold through an exchange at the then current market price, not net asset value (NAV), and are not individually redeemed from the fund. Shares may trade at a premium or discount to their NAV when traded on an exchange. Brokerage commissions will reduce returns. There can be no guarantee that an active market for ETFs will develop or be maintained, or that the ETF's listing will continue or remain unchanged.

Statements attributed to an individual represent the opinions of that individual as of the date published and do not necessarily reflect the opinions of Capital Group or its affiliates. This information is intended to highlight issues and should not be considered advice, an endorsement or a recommendation.

This content, developed by Capital Group, home of American Funds, should not be used as a primary basis for investment decisions and is not intended to serve as impartial investment or fiduciary advice.

All Capital Group trademarks mentioned are owned by The Capital Group Companies, Inc., an affiliated company or fund. All other company and product names mentioned are the property of their respective companies.

The Capital Group companies manage equity assets through three investment groups. These groups make investment and proxy voting decisions independently. Fixed income investment professionals provide fixed income research and investment management across the Capital organization; however, for securities with equity characteristics, they act solely on behalf of one of the three equity investment groups.

American Funds Distributors, Inc., member FINRA.

# 2022 Midyear Outlook

## Investment implications and strategies to consider



Themes	U.S. equity Late cycle is a time for all-weather investing	Global/International equity You can't build the new economy without old industries	Taxable fixed income Income is returning to fixed income	Tax-exempt fixed income Munis are becoming more attractive
Investment implications	Late cycle means balanced all-weather investing is more important than ever. Look for a mix of old-economy companies that make tangible things and tech leaders with proven earnings growth.	The war in Ukraine has cast a pall over much of Europe, but a renewed investor focus on value-oriented stocks could prove to be a silver lining.	Fixed income had a rough ride in early 2022, but yields are expected to rise only modestly from here. Amid elevated volatility, bonds can provide relative stability and moderate income.	Most of the pain should be behind for municipal bonds. Valuations have become more attractive, while tax-equivalent yields exceed taxable counterparts.
Select investments to consider	The Growth Fund of America® A – AGTHX; F-2 – GFFFX; F-3 – GAFFX; R-6 – RGAGX Washington Mutual Investors Fund <sup>SM</sup> A – AWSHX; F-2 – WMFFX; F-3 – FWMIX; R-6 – RWMGX	EuroPacific GrowthFund® A – AEPGX; F-2 – AEPFX F-3 – FEUPX; R-6 – RERGX New Perspective Fund® A – ANWPX; F-2 – ANWFX F-3 – FNPFX; R-6 – RNPGX International Growth and Income Fund <sup>SM</sup> A – IGAAX; F-2 – IGFFX; F-3 – IGAIX; R-6 – RIGGX	The Bond Fund of America® A – ABNDX; F-2 – ABNFX; F-3 – BFFAX; R-6 – RBFGX American Funds Strategic Bond Fund <sup>SM</sup> A – ANBAX; F-2 – ANBFX; F-3 – ANBGX; R-6 – RANGX American Funds Multi-Sector Income Fund <sup>SM</sup> A – MIAQX; F-2 – MIAYX; F-3 – MIAZX; R-6 – RMDUX	The Tax-Exempt Bond Fund of America® A – AFTEX; F-2 – TEAFX; F-3 – TFEBX American High-Income Municipal Bond Fund® A – AMHIX; F-2 – AHMFX F-3 – HIMFX
Separately managed accounts (SMAs)	Capital Group U.S. Flexible Growth <sup>SM</sup> Capital Group U.S. Income and Growth <sup>SM</sup>	Capital Group International Equity <sup>SM</sup>		Capital Group Intermediate Municipal <sup>SM</sup>
Exchange traded funds (ETFs)	Capital Group Growth ETF <sup>SM</sup> CGGR Capital Group Dividend Value ETF <sup>SM</sup> CGDV Capital Group Core Equity ETF <sup>SM</sup> CGUS	Capital Group International Focus Equity ETF <sup>SM</sup> CGXU Capital Group Global Growth Equity ETF <sup>SM</sup> CGGO	Capital Group Core Plus Income ETF <sup>SM</sup> CGCP	

### Voted #1 for thought leadership\*



\*Source: Fund Intelligence, February 20, 2020. FUSE Research survey of nearly 600 advisors identifying the “most-read thought leaders.” Marketing Support: The Advisor View, June 2020. FUSE Research survey of more than 700 advisors identifying the “most-read thought leaders.” Marketing Support: The Advisor View, July 2021. FUSE Research survey of 720 financial advisors identifying the “most-read asset manager thought leaders.”