

Outlook

MIDYEAR ISSUE JUNE 2024



Long-term
perspective on
markets and
economies



The new reality of investing



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Over the past 40 years, essentially the entire length of my career, investors have become accustomed to an environment characterized by generally declining interest rates, low inflation and the rapid advance of globalization. Since the end of the Cold War, we've also enjoyed long periods of relative geopolitical stability.

All of that is changing. Interest rates in the U.S. stand at a 23-year high. Inflation is falling but stalling, and it remains uncomfortably elevated. We are seeing signs of deglobalization amid rising tariffs and growing trade wars. The relationship between the world's two largest economies, the U.S. and China, has taken a step backward. And, tragically, we have ongoing conflicts in Ukraine and the Middle East, in addition to other flash points around the world.

Borrowing a phrase from the Harvard Business Review, publicly traded companies operating in this environment need a foreign policy. They must think more strategically about global supply chains and the sensitivities of doing business in a more challenging geopolitical landscape. As investors in these companies, we must consider scenarios we haven't had to think much about over the past four decades.

What does this mean for the market outlook? Over the next few years, I think we are less likely to see a narrow group of highly valued companies dominating returns. I believe U.S. markets will continue to do well, but they won't be the only source of superior returns. Bonds, too, have become more attractive as income returns to the fixed income markets. And despite what sounds like a more pessimistic environment, I think it presents an opportunity for individual stock selection to make a profound difference in portfolios.

Along with this monumental change comes uncertainty. We are moving from a period of relatively low volatility to what could be much higher volatility in the years ahead. And that's OK. That's what Capital Group is built for. We are here to help tune out the short-term noise and invest for the long term. There are still so many exciting industries, companies and investment themes to explore. It's prime time for active investing.

With that in mind, I invite you to read and share our 2024 Midyear Outlook report.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

U.S. economy continues to power global growth

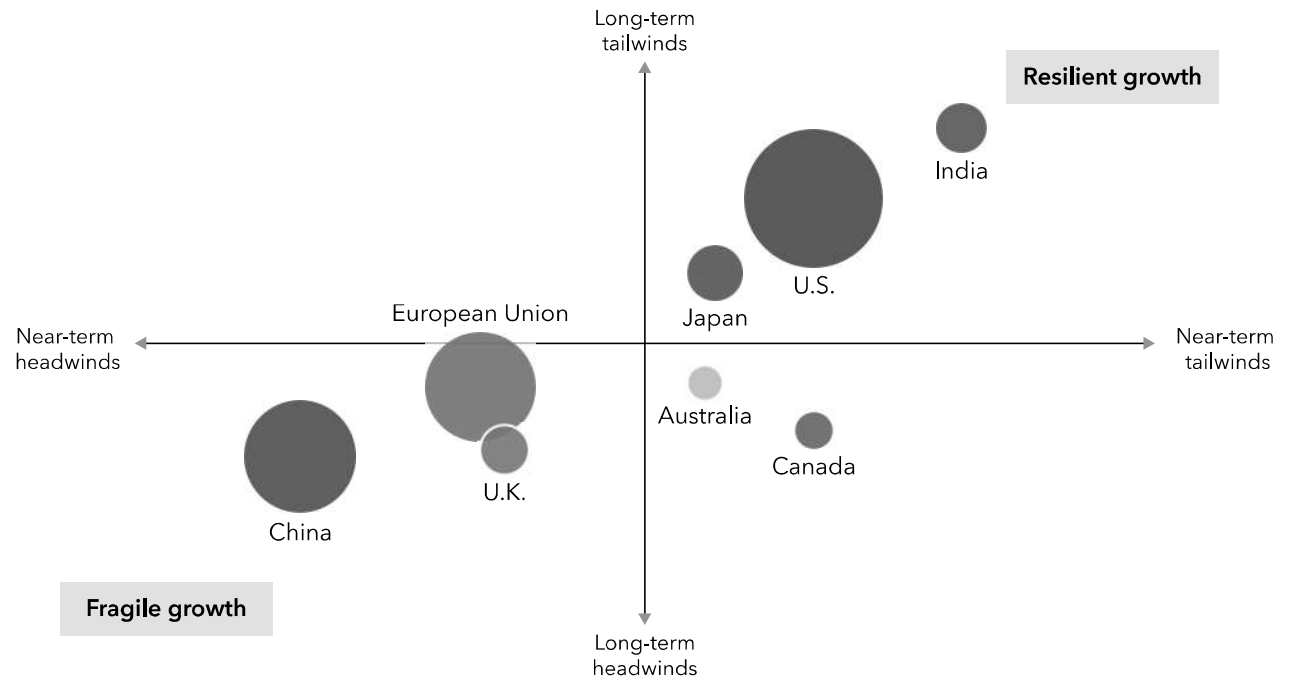
The United States, flexing its muscles as the world's largest economy, is once again serving the critical role of global growth engine. As Europe and China struggle with weak economic activity, the U.S., India and Japan are showing signs of resilience.

Despite higher interest rates and elevated inflation, the International Monetary Fund is predicting the U.S. economy will expand this year at more than twice the rate of other major developed countries. The IMF in April raised its forecast for U.S. growth to 2.7%, compared to 0.8% for Europe. Moreover, the power of America's consumer-driven economy is helping to support growth in the rest of the world.

"People used to say if the U.S. sneezes, the rest of the world catches a cold. The opposite can also be true," says Capital Group economist Darrell Spence. "When it's firing on all cylinders, the U.S. can help other export-oriented economies."

Spence believes the U.S. will grow at a rate closer to 3.0% this year as consumers continue to spend, the labor market remains tight, and manufacturers invest in newly diversified supply chains. Among emerging markets, India is a major beneficiary of these changing dynamics. In a post-pandemic world, many companies are looking to India as an additional source of manufacturing capacity as China's economy matures.

A resilient U.S. is counterbalancing weakness in Europe and China

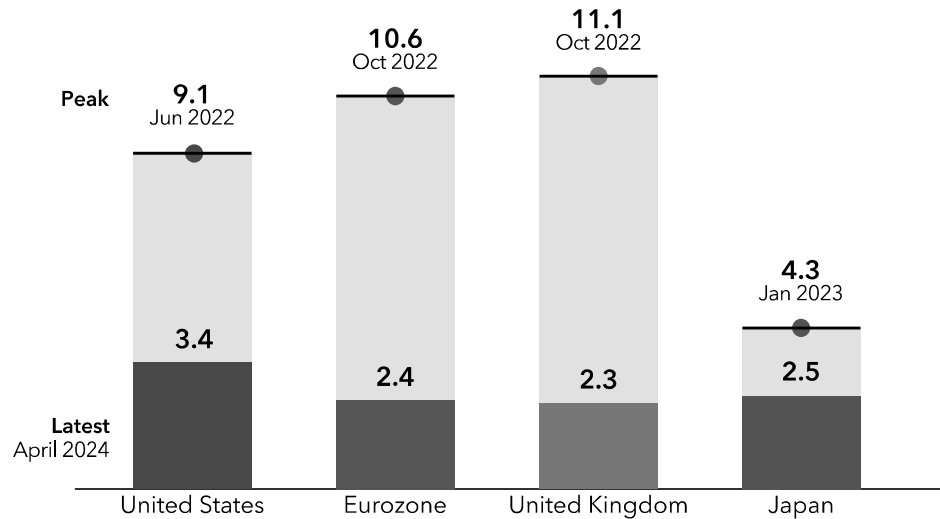


Source: Capital Group. Country positions are forward-looking estimates by Capital Group economists as of May 2024 and include a mix of quantitative and qualitative characteristics (in USD). Long-term tailwinds and headwinds are based on structural factors such as debt, demographics and innovation. Near-term tailwinds and headwinds are based on cyclical factors such as labor, housing, spending, investment and financial stability. Circles represent individual economies. Circle sizes approximate the relative value of each economy and are used for illustrative purposes only.

Fed rate path to mirror inflation's slow descent

Inflation: Falling but stalling

Inflation (annual % change)



Despite the highest Federal Reserve policy rate in 23 years, the U.S. economy has shown remarkable resilience. Labor markets have been robust, consumer spending strong and corporate fundamentals healthy.

“While growth continues to slow, the U.S. economy has largely adapted to this new rate environment, and I expect growth to remain above a healthy 2% in 2024,” says portfolio manager Pramod Atluri. This broader resilience has forced investors to shift expectations for

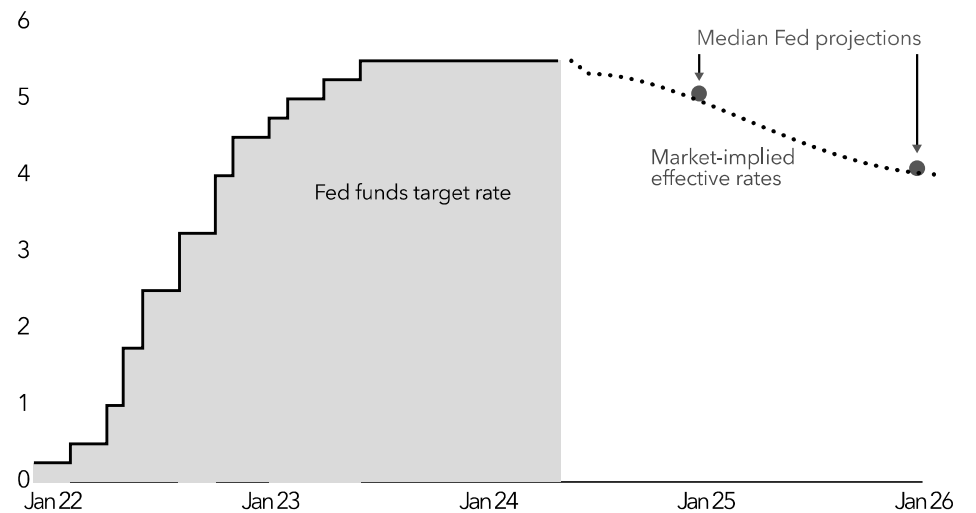
Fed policy rate changes. Even though Atluri believes the case for rate cuts is less clear, the central bank appears biased toward cutting.

Fed Chair Jerome Powell cited two paths to rate cuts: unexpected weakness in the labor market or inflation sustainably down to 2%. Inflation declined in 2023 but stalled above 3% in early 2024. Atluri is optimistic that price increases will fall closer to the Fed’s target by year-end. That’s largely because rent increases – a

Sources: Capital Group, Bureau of Labor Statistics, Eurostat, FactSet, Japanese Statistics Bureau & Statistics Center, UK Office for National Statistics. Inflation data as of April 30, 2024. Peak values reflect the highest inflation rate between January 2018 and April 2024.

Rate cuts are on the horizon

Federal funds rate – Actual vs. projections (%)



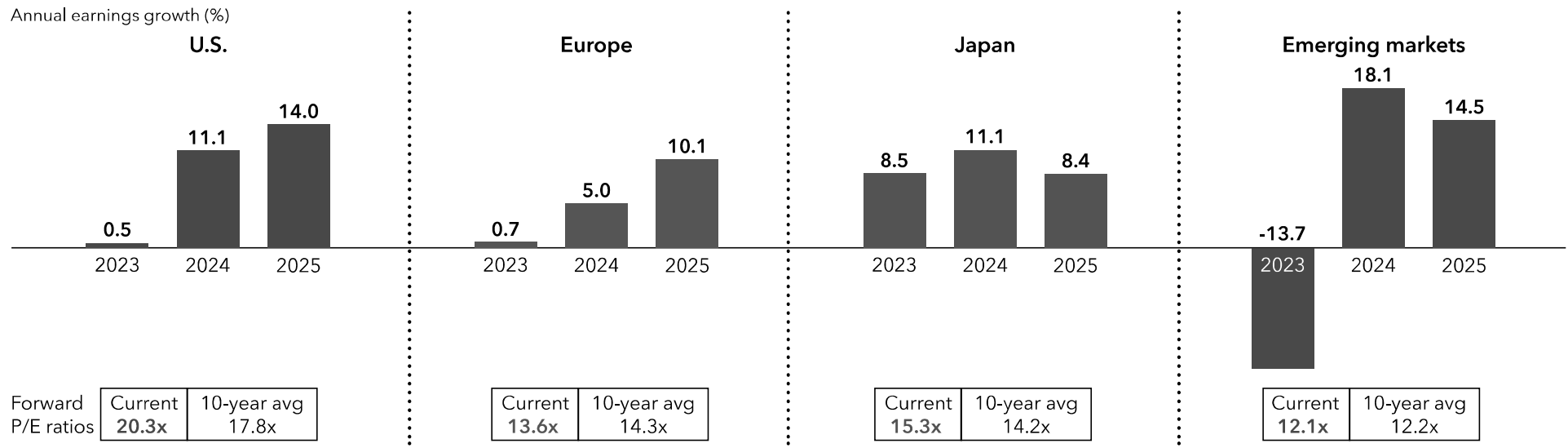
major reason the Core Consumer Price Index remains elevated – continue to modestly improve. Additionally, the higher inflation we saw for certain goods and services earlier this year may be reflecting some seasonal adjustment distortions.

Elsewhere in the world, growth and inflation expectations are weaker than the U.S., and central banks are generally expected to cut interest rates more rapidly.

Sources: Capital Group, Bloomberg, Federal Reserve. Fed funds target rate reflects the upper bound of the Federal Open Markets Committee’s (FOMC) target range for overnight lending among U.S. banks. Median Fed projections are as of June 12, 2024. Latest data available as of June 12, 2024.

Earnings expected to strengthen further in 2024 and beyond

Accelerating earnings growth can provide support for equity valuations



The sunny picture for corporate earnings appears to be brightening further. This bodes well for equity investors, as profit growth is a primary driver of returns.

In the U.S., Wall Street analysts expect earnings for companies in the S&P 500 Index to grow more than 10% in 2024, with further acceleration in 2025. “Underlying conditions appear supportive of solid revenue growth and steady margins,” says U.S.

economist Jared Franz. “I think we’ll see U.S. earnings growth in a range of 10% to 15% this year.”

What’s more, equity market valuations don’t appear to be particularly stretched, even after market rallies. Price-to-earnings ratios for most markets were near or modestly above their 10-year averages as of May 31, 2024. Profit growth is anticipated to be more muted in Europe, albeit still positive.

In emerging markets, economists are calling for a strong rebound in profits after the decline of the prior year. Even in China, where a slow economy has cast a long shadow, there are early signs of a turnaround in some industries.

Of course, the risks to these rosy estimates are that inflation stalls, oil prices skyrocket, geopolitical tensions trigger escalated trade wars, or other unforeseen events.

Sources: Capital Group, FactSet, MSCI, Standard & Poor’s. Estimated annual earnings growth is represented by the mean consensus earnings per share estimates for the years ending December 2024 and December 2025, respectively, across the S&P 500 Index (U.S.), MSCI Europe Index (Europe), MSCI Japan Index (Japan) and MSCI Emerging Markets Index (emerging markets). Estimates are as of May 31, 2024. The forward price-to-earnings ratio (P/E) is computed by dividing the price of a company’s stock by the company’s estimated earnings per share over the next 12 months.

U.S. elections: How they could impact markets









The rematch is on. With incumbent President Joe Biden and former President Donald Trump set to square off in November, the 2024 U.S. election could produce a significant shift in political leadership, potentially leading to policy changes that are likely to affect the investment environment.

Much depends on whether the winning presidential candidate can muster enough support to propel other candidates in his party to victory, taking control of the U.S. Senate and the House of Representatives in a red wave or blue wave scenario. Otherwise, a gridlock scenario could prevail, with little change expected. However it plays out, investors should expect occasional bouts of market volatility in the months leading up to Election Day.

A Republican sweep, or red wave, could benefit banks, health care providers, and oil and gas companies, primarily through deregulation, according to Capital Group's Night Watch team, a group of economists, analysts and portfolio managers who track such issues. A Democratic sweep, or blue wave, could provide a boost to renewable energy initiatives, industrial stimulus spending and telecommunications projects through additional funding for nationwide broadband access.

As for the presidential election, it remains too close to call. "We're still a few months away," says Capital Group political economist Matt Miller. "And that's a lifetime in politics."

Potential beneficiaries of red or blue wave outcomes

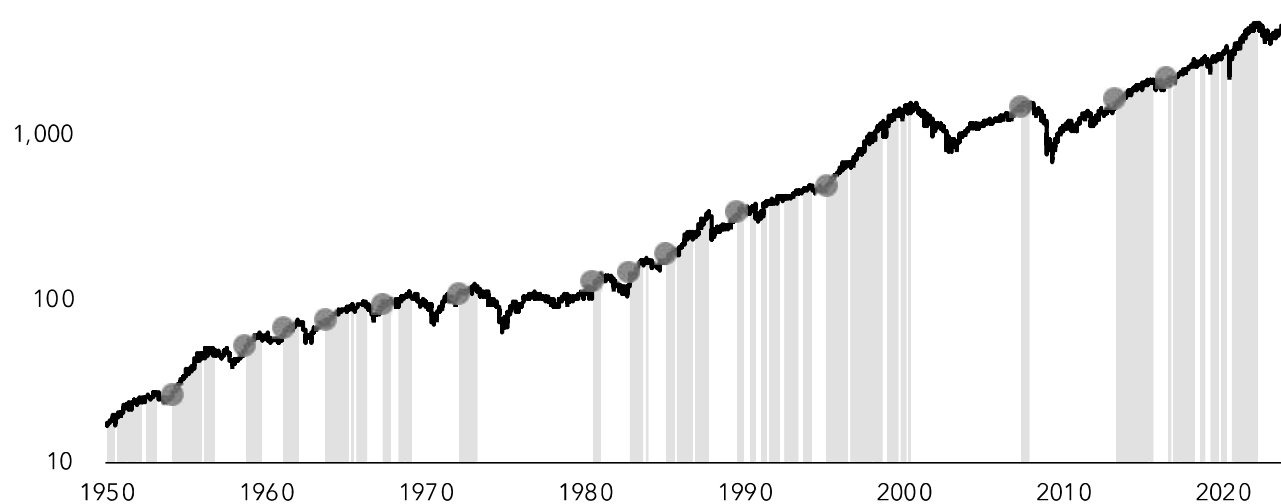
Potential beneficiaries of a red wave		Potential beneficiaries of a blue wave	
	Banks/Financials Weaker regulation, lower capital requirements for banks		Renewable energy, electric vehicles Increased protection of Inflation Reduction Act (IRA), stronger environmental regulations
	Aerospace/Defense Proposed increase in spending		Telecommunications Expansion of broadband funding
	Health care Proposed deregulation promotes competition and efficiency, but this could lower prices/profits		Homebuilders, industrials Increased immigration should keep wage inflation low
	Oil and gas Domestic drilling and mining will be encouraged and deregulated, but could result in a lower price per barrel		Tech, manufacturing Continued stimulus support from IRA and CHIPS Act

Source: Capital Group. CHIPS Act refers to the Creating Helpful Incentives to Produce Semiconductors Act, passed by U.S. lawmakers in 2022 to encourage domestic manufacturing of computer chips.

All-time highs can be bullish for stock markets

Stock markets have advanced more often than they've retreated

10,000 S&P 500 Index



Since 1950, the S&P 500 Index has reached **1,434 new all-time highs**

When the S&P 500 Index reached its first new high in more than a year:

Positive returns in **13 out of 14 periods**

Average return over the following year **17.1%**

Stock market highs can feel like a mixed blessing.

When stocks reach record highs, investors may conclude the market has peaked and they've missed the boat. A look at history shows that has not typically been the case. Over long periods, markets have trended higher and peaked multiple times in prior cycles.

Of course, market declines are also inevitable, and stocks can fall at any time. But history has shown that

fresh highs have often been a good entry point for long-term investors.

Since 1950, each time the S&P 500 Index hit its first all-time high in at least a year, stocks then delivered a 17.1% average return for the subsequent 12 months. An investor would have had gains in each of these periods except the start of the global financial crisis in 2007.

"That's why I focus on themes like globalization, productivity and innovation that are just incredibly

powerful forces for growth," says equity portfolio manager Martin Jacobs. "We're going to have downturns, but that doesn't change the long-term trajectory. That's why I generally am positively positioned for market appreciation."

So what's the bottom line? Historically, bull markets have been much longer than bear markets, leading to new highs within each cycle.

Sources: Capital Group, RIMES, Standard & Poor's. Includes all daily periods between January 1, 1950, and May 31, 2024. Chart shown on a logarithmic scale. Markers include periods in which the S&P 500 Index reached its first all-time high in at least a year. The S&P 500 Index also reached its first all-time high in at least a year on January 19, 2024. This period has been excluded from the chart because a full year since that date has not been completed. Past results are not predictive of results in future periods.

AI opportunity is stacking up across tech, energy

The artificial intelligence arms race has kicked into high gear.

With its open-ended potential to transform industries and how people do their work, generative AI represents compelling investment opportunities.

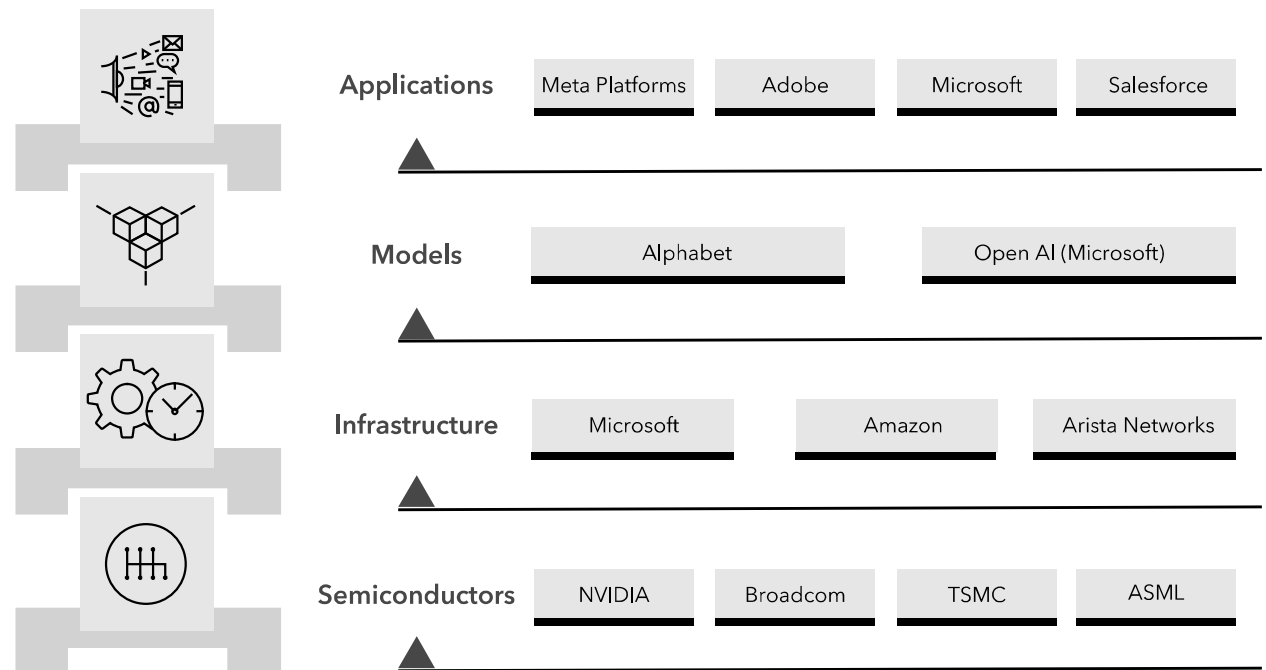
For investors, key to success will be understanding the AI “stack” – four layers of technology that enable AI to operate. Companies are jockeying for position at each layer: semiconductors, infrastructure, applications and the AI models themselves.

Alphabet, Meta and Microsoft are investing tens of billions of dollars to dominate multiple layers of the stack. While the big three are spending money on their own processors, leading chipmakers like NVIDIA, Broadcom and Micron should continue to maintain their market share dominance for years.

“We are studying each layer of the stack to determine which companies have the best chance of being winners,” says equity portfolio manager Mark Casey. “At certain layers, like semiconductors, this is relatively straightforward because it appears few companies have the technical and financial wherewithal to compete successfully.”

Because AI data centers require vast amounts of electricity, the build-out will drive demand for a range of energy sources, including nuclear. In June 2023, for example, Microsoft struck a deal with Constellation Energy to supply one of its data centers with nuclear power.

The AI stack consists of four essential layers



Source: Capital Group interpretation of technology stack that enables AI to operate. Companies listed are examples of businesses that are among leaders of market share in each segment.

Myth: Tech companies do not pay dividends

This is not your father's dividend market.

Long regarded as the domain of mature industries with slowing growth prospects, dividends are gaining favor among information technology giants. Meta, Alphabet and Salesforce all introduced dividends in the first half of 2024, and those announcements appear to be shifting the narrative.

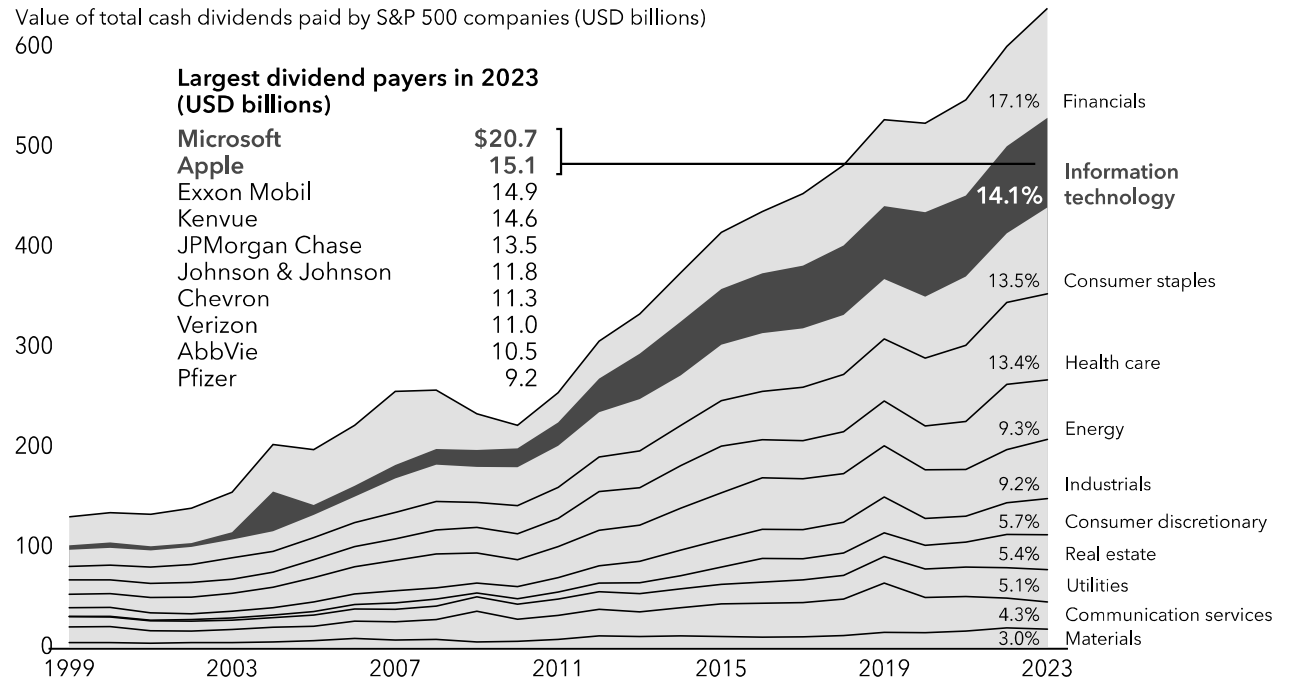
"Meta and Alphabet's dividend can be viewed as a signal of capital discipline among tech innovators and a commitment to shareholder returns," says equity portfolio manager Chris Buchbinder. Tech companies accounted for 14.1% of total cash dividends paid by S&P 500 companies in 2023, making them the second largest contributor by sector in dollar terms.

"While dividend yields for many tech firms are modest, the dollar amounts are massive, and I expect continued strong earnings growth both this year and in 2025," adds Buchbinder. "Going forward, a broadening market should create an opportunity for dividend-oriented strategies to generate income and to participate more fully in market appreciation."

For investors seeking current income, technology, aerospace and energy companies have been introducing or increasing dividends. For example, semiconductor makers Broadcom and Texas Instruments, and conglomerate General Electric, which makes and services jet engines, all boosted their dividends since the end of 2023, as has energy company Canadian Natural Resources, despite volatile oil prices.

The tech sector ranks second in cash dividend payments

Value of total cash dividends paid by S&P 500 companies (USD billions)



Largest dividend payers in 2023 (USD billions)

Microsoft	\$20.7
Apple	15.1
Exxon Mobil	14.9
Kenvue	14.6
JPMorgan Chase	13.5
Johnson & Johnson	11.8
Chevron	11.3
Verizon	11.0
AbbVie	10.5
Pfizer	9.2

Sources: Capital Group, FactSet, Standard & Poor's. As of December 31, 2023. Past results are not predictive of results in future periods.

Magnificent world: Ample opportunity beyond U.S. tech giants

The Magnificent Seven stocks – Microsoft, Apple, Alphabet, Amazon, NVIDIA, Meta and Tesla – aren't the only place to seek solid investment opportunities. Outside the U.S., there's a growing list of rivals.

For example, Europe's less concentrated equity market offers a wider breadth of companies that are top contributors in the MSCI EAFE Index. They include health care company Novo Nordisk, computer chip equipment maker ASML, software titan SAP and banking giant HSBC, among others. Meanwhile, Japanese equities have staged an impressive rally this year, hitting highs not seen since the late 1980s.

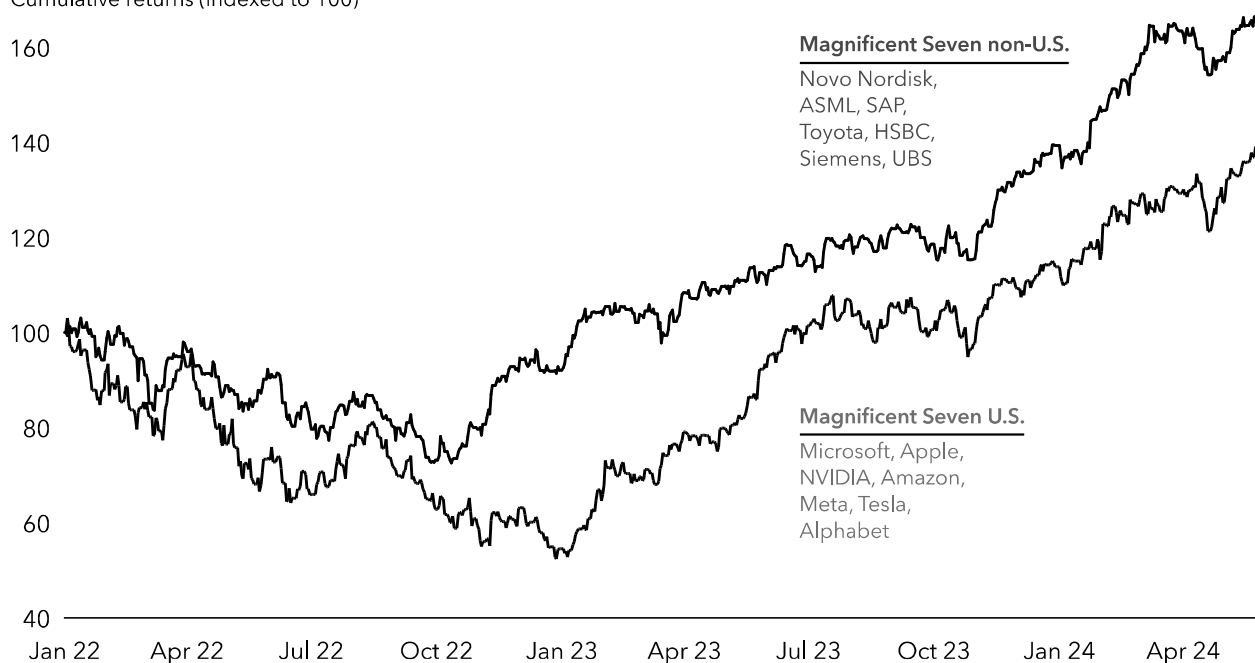
"We really do have a market that has expanded beyond the Magnificent Seven," says Gerald Du Manoir, a portfolio manager who focuses on international strategies. "The re-rating of industries is broadening and rolling through the global equity markets."

Rather than focusing on one admittedly dynamic region such as the United States, it makes sense to think internationally in the hunt for great companies. In fact, the seven leading contributors to the MSCI EAFE Index have outpaced their U.S.-based cohort since the beginning of 2022, rising more than 60%.

How's that for magnificent?

Seven top non-U.S. companies have outpaced the Magnificent Seven since 2022

Cumulative returns (indexed to 100)

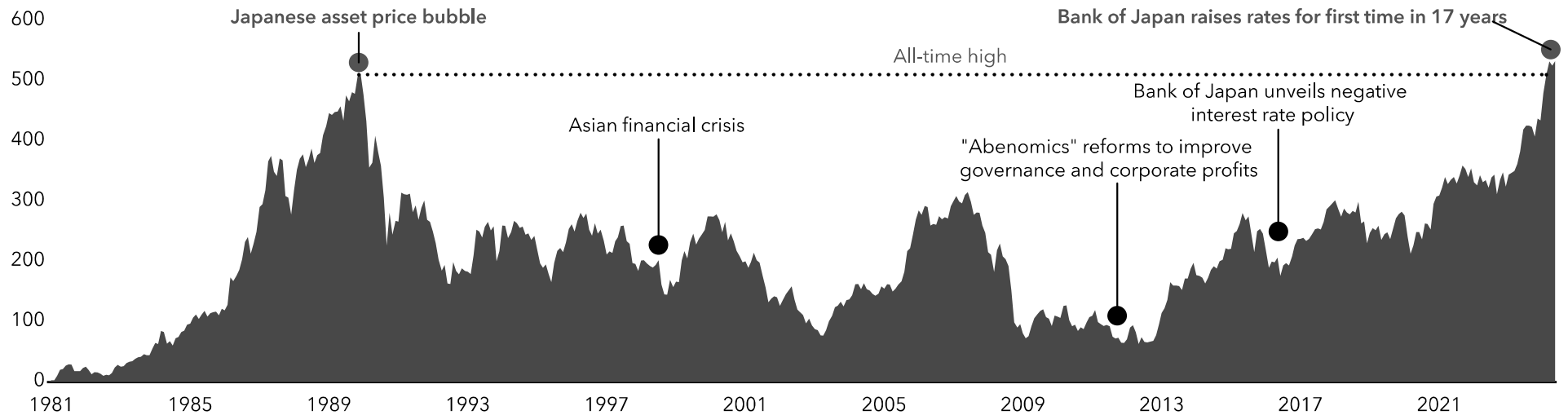


Sources: Capital Group, FactSet, Morningstar. Magnificent Seven U.S. stocks were the top seven contributors to returns for 2023 in the S&P 500 Index. The Magnificent Seven non-U.S. are the top seven contributors to returns for 2023 in the MSCI EAFE Index. Cumulative returns are indexed to 100 on January 1, 2022, and shown through May 31, 2024, and are calculated on an equal-weighted basis for the seven stocks within each group. Past results are not predictive of results in future periods.

Japan is on the rise again

The Japanese market has reached levels not seen since 1989

MSCI Japan Index cumulative price return (%)



Winds of change are blowing through Japan, with corporate reform, wage growth and a digital revolution helping end decades of deflation. The MSCI Japan Index has surged more than 80% the past six months, driving the market to test new highs not seen since 1989.

The end of deflation and negative interest rate policy has given investors fresh hope. Just as policymakers are pushing companies to prioritize shareholders, the government has established a digital agency to close

the innovation gap with global competitors. With advances in digitization key to overcoming Japan's demographic challenges and boosting productivity, this is driving greater demand for products from businesses such as software solutions company OBIC and consulting firm NRI.

Meanwhile, after years of deflation and yen weakness, the cheap cost of doing business in Japan is attracting foreign direct investment (FDI). The growth of data centers is booming in Tokyo, and global companies

like TSMC (Taiwan Semiconductor Manufacturing Company) are building new manufacturing sites in Japan.

"The recent opening of TSMC's Kumamoto factory is considered successful due to the country's availability of affordable engineering resources," says equity portfolio manager Akira Horiguchi. "This indicates a bright future for FDI into Japan, which also stands to benefit from the diversification of supply chains out of China."

Sources: Capital Group, MSCI, RIMES. Cumulative price returns shown from January 1, 1981, through May 31, 2024. Returns shown in Japanese yen. Past results are not predictive of results in future periods.

Could this be India's decade to shine?

This decade is likely going to be different for emerging markets – and so are the opportunities. Once characterized by China's rapid ascent in the global economy and that country's predominance in the MSCI Emerging Markets Index, emerging markets are undergoing a shift as global supply chains are rewired. India, which is becoming a viable alternative to China as a source for mobile phones and home appliances, provides one such example.

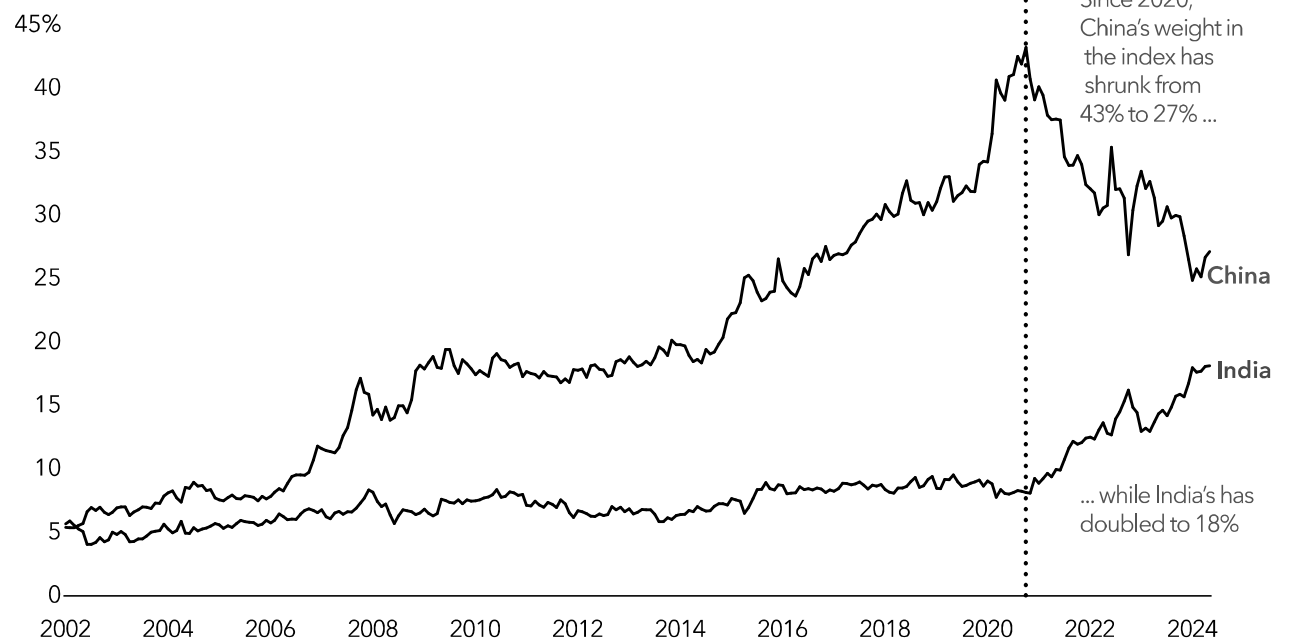
India's rise speaks to a larger trend, however. Infrastructure growth is accelerating, new manufacturing hubs are boosting regional economies, and the world's energy transition is driving foreign investment into a broader mix of developing countries for manufacturing and natural resource needs.

"The setup for emerging markets is attractive," says portfolio manager Brad Freer. "As multinationals diversify their supply chains, this is an exciting opportunity for countries such as India, Mexico and Indonesia because it broadens the investable options for manufacturers in the U.S. and Europe. Meanwhile, the deep selloff in China has created opportunities to selectively invest in companies with strong cash flows and dominant market shares, including some of the technology giants."

On top of that, most emerging markets are trading at their cheapest valuations in 10 years on a price-to-earnings basis, and central banks in many of those countries have ample room to cut interest rates.

China and India: A tale of two evolving stock markets

Country weight in MSCI Emerging Markets Index (%)



Sources: MSCI, RIMES. Data reflects January 31, 2002, to May 31, 2024.

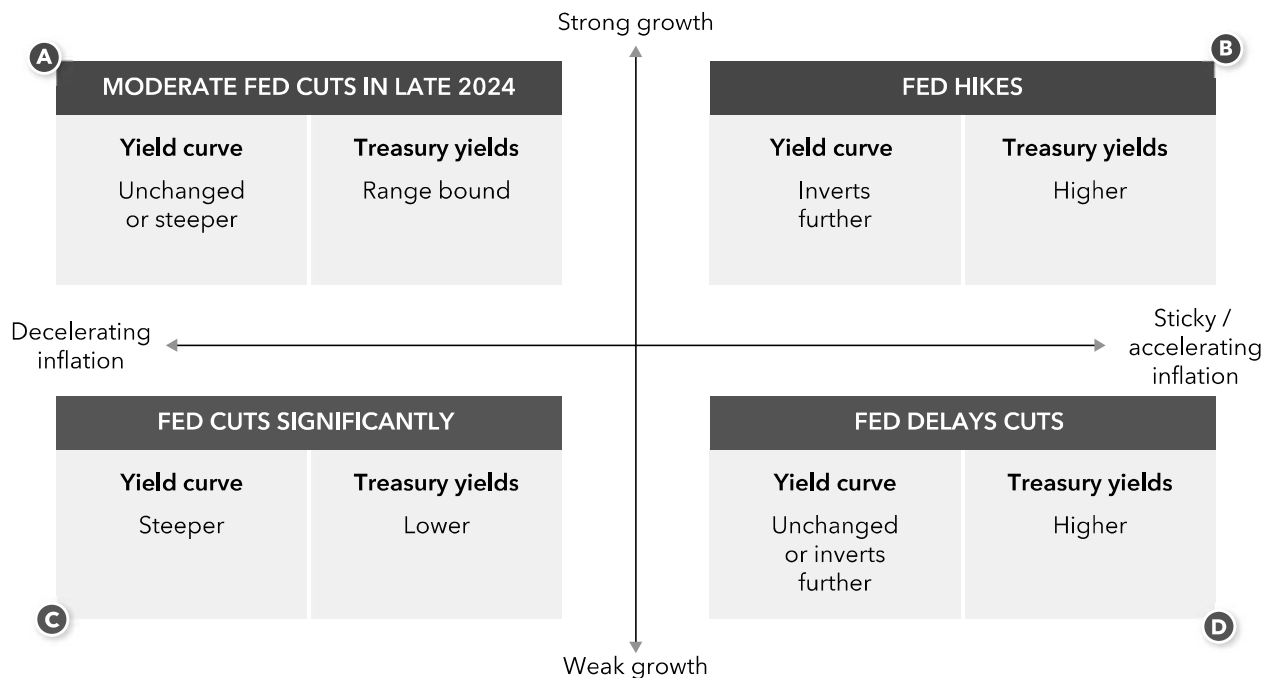
Fed pause or pivot: Bonds offer options to deal with uncertainty

Preparing bond portfolios for a range of outcomes may be prudent this year, as high yields and a likely end to the Federal Reserve’s rate-hiking cycle are bringing investors back to fixed income. The Fed’s commitment to data dependence could create uncertainty, meaning investors may want to remain flexible and invest selectively.

Despite continued volatility, Treasury yields are likely to remain range bound, given the robust economy and elevated deficit offset by the Fed’s bias to cut rates. What could break rates out of their current range is a sharp economic slowdown prompting deeper cuts or, conversely, a dramatic upswing in inflation forcing a pivot back to hikes by the Fed.

“It appears likely that we will get fewer rate cuts this year than the Fed had forecast in March. However, there seems to be a high bar for rate hikes so there is a limit to how high yields could rise. Conversely, there is plenty of room to come down if the economy hits a rough patch,” says portfolio manager Tim Ng.

Within rates, positioning for a steeper yield curve – a scenario where long-term Treasury yields increase more or fall less in relation to short-term yields – is a high conviction view of many members of the fixed income team.



Source: Capital Group. As of May 31, 2024.

Bond opportunities in a higher rate world

Bond markets have navigated rough terrain in recent years as the Fed raised rates and yields moved higher. Nevertheless, sectors ranging from investment-grade corporate bonds to mortgage-backed securities (MBS) offer potential value.

As the economy has chugged along and demand from investors has remained strong, the spread, or yield differential, between credit assets and U.S. Treasuries has narrowed significantly. As such, the greater total return potential for bonds with credit risk comes not from possible spread tightening, but a decline in interest rates.

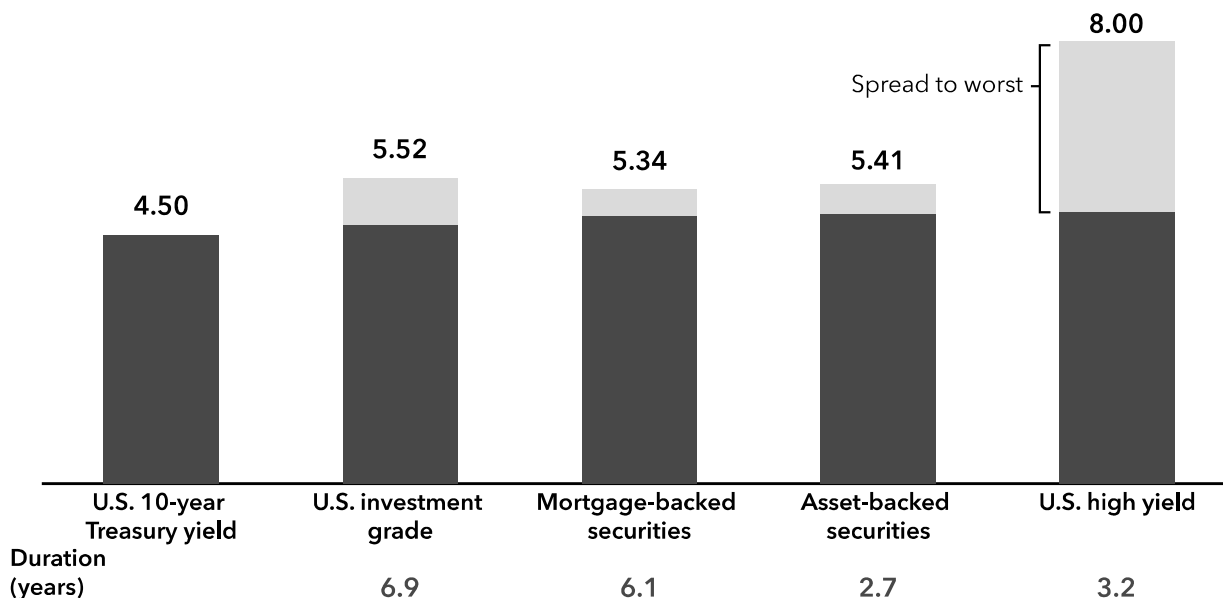
“Given the recent rally in corporate bond spreads, we are seeing better opportunities in higher quality sectors with attractive yields such as securitized credit and agency MBS,” says portfolio manager Vince Gonzales.

Within MBS, higher coupon mortgage bonds are particularly attractive. These bonds are unlikely to get refinanced ahead of their maturity given prevailing mortgage rates. Supply dynamics also work in their favor. Namely, home sales have slowed as homeowners choose to stay put to hold on to their pandemic-era mortgage rates.

“Exposure to agency MBS can help investors maintain a balanced portfolio alongside credit opportunities,” says Gonzales. History has shown that credit spreads have stayed at these levels for a long time, especially if the economic outlook points toward continued growth.

Resilient economy has supported tight spreads over Treasuries

Yield to worst (%)

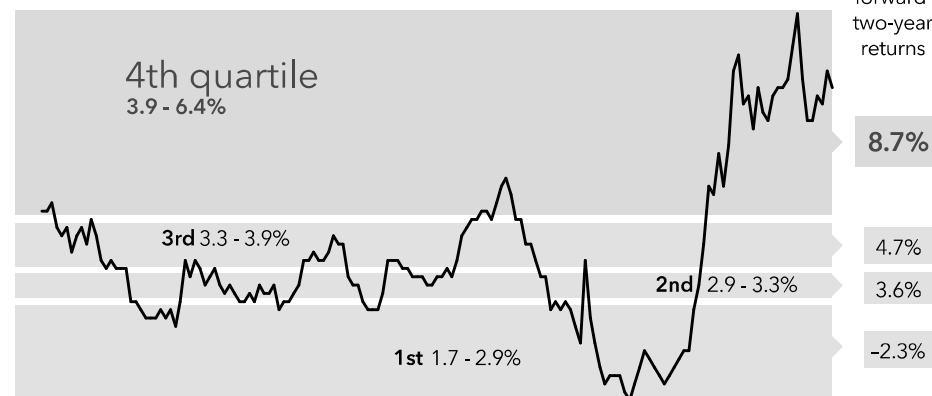


Sources: Capital Group, Bloomberg Index Services Ltd. Yield to worst is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting. Spread to worst is the difference between the yield to worst of a bond and yield to worst of its benchmark yield curve. Indexes used are the Bloomberg U.S. Corporate Investment Grade Index (U.S. investment grade), Bloomberg U.S. Mortgage-Backed Securities (MBS) Index (mortgage-backed securities), Bloomberg U.S. Asset-Backed Securities Index (asset-backed securities) and the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index (U.S. high yield). As of May 31, 2024. Past results are not predictive of results in future periods.

Healthy fundamentals support corporate bonds

History suggests strong return potential given current starting yields for investment-grade and high-yield bonds

Bloomberg U.S. Corporate Investment Grade Index – Yield to worst (%)



2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024

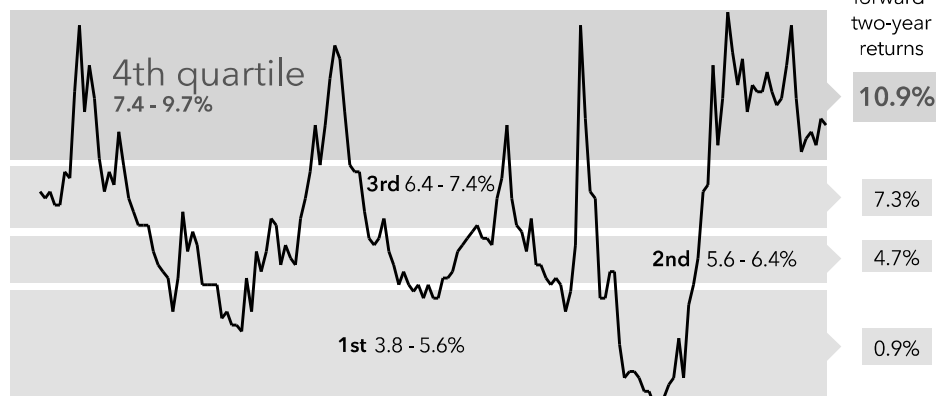
Steady consumer spending and economic growth translate to solid income potential for corporate investment-grade (BBB/Baa and above) and high-yield bonds in 2024.

Corporate issuers have largely avoided the impact of high financing costs because most refinanced their debt during the pandemic when rates were near zero. A strong consumer also enabled businesses to increase prices for goods and services. Earnings growth will likely continue to remain positive through 2024 and 2025.

But so long as the yield on the 10-year U.S. Treasury stays near 5%, risks remain that economic cracks could develop. This is especially true if companies are forced to renew their debt at higher costs, a process expected to begin over the next two years.

Risks tied to high rates warrant a cautious approach, especially when it comes to lower rated bonds. "In high yield, there are attractive opportunities in certain defensive sectors such as energy, which have strong

Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index – Yield to worst (%)



2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024

balance sheets and can withstand higher rates and weaker economic growth," says portfolio manager David Daigle.

Bonds now offer the highest income potential in 23 years, which might explain why spreads remain so narrow. "Starting bond yields are a good indicator of future annualized return, and today's levels are attractive by long-term standards," Daigle concludes.

Sources: Capital Group, Bloomberg Index Services Ltd. Data as of May 31, 2024. Average forward two-year returns are annualized, based on each quartile of starting yield to worst. Past results are not predictive of results in future periods.

Emerging market monetary policies vary but yields remain attractive

While headline inflation has ticked up in several emerging markets recently, core inflation remains muted. This is thanks to aggressive action by central banks early in their inflation cycles.

Many emerging economies shifted toward easier monetary policies when inflation softened, but there are regional differences. While most Asian economies are not yet ready to reduce rates, with Indonesia recently raising rates, several Latin American and Eastern European countries are well into their easing cycles. Brazil has already eased rates significantly and is now expected to keep rates on hold for the foreseeable future or hike.

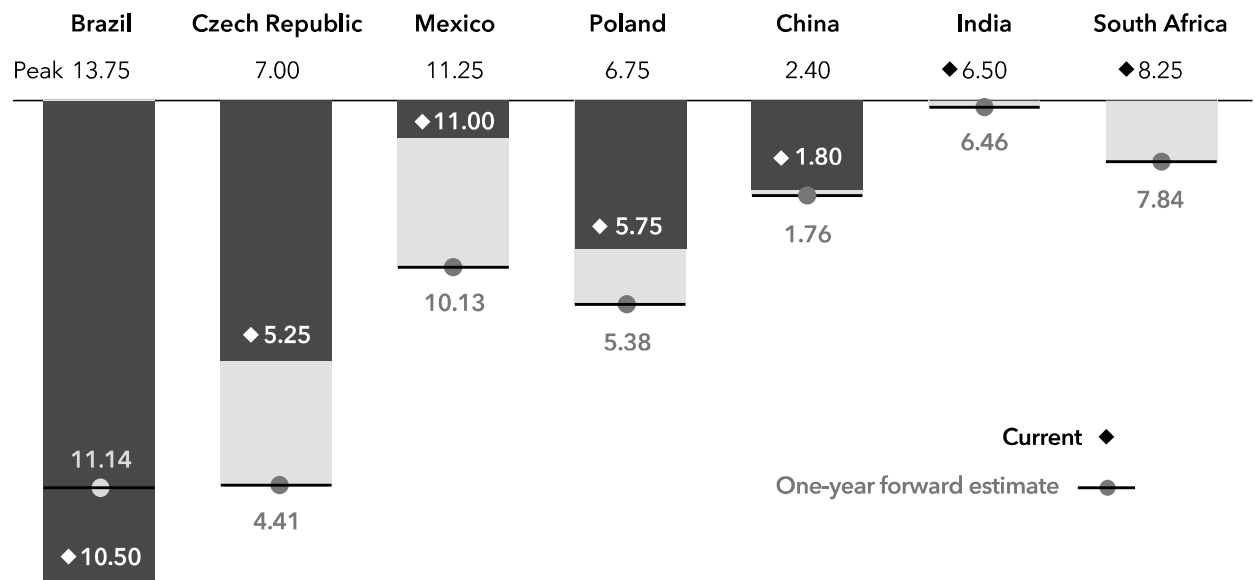
That said, sustained U.S. dollar strength and expectations of fewer interest rate cuts by the Federal Reserve this year have diminished the scope for further monetary easing. On the positive side, an improving global growth outlook is helping offset the impact from higher U.S. Treasury yields.

Economic growth rates for several developing economies continue to outpace their developed market counterparts, with largely similar fiscal deficits and mostly lower sovereign debt levels.

We remain largely constructive on emerging markets debt. "Valuations are reasonably attractive in local currency markets with high real rates," says portfolio manager Kirstie Spence. "In U.S. dollar-denominated debt there are opportunities in some higher yielding credits where wider spreads offer a valuation cushion. Select EM corporate bonds add diversification as well."

Policy variations across emerging markets can create investment opportunities

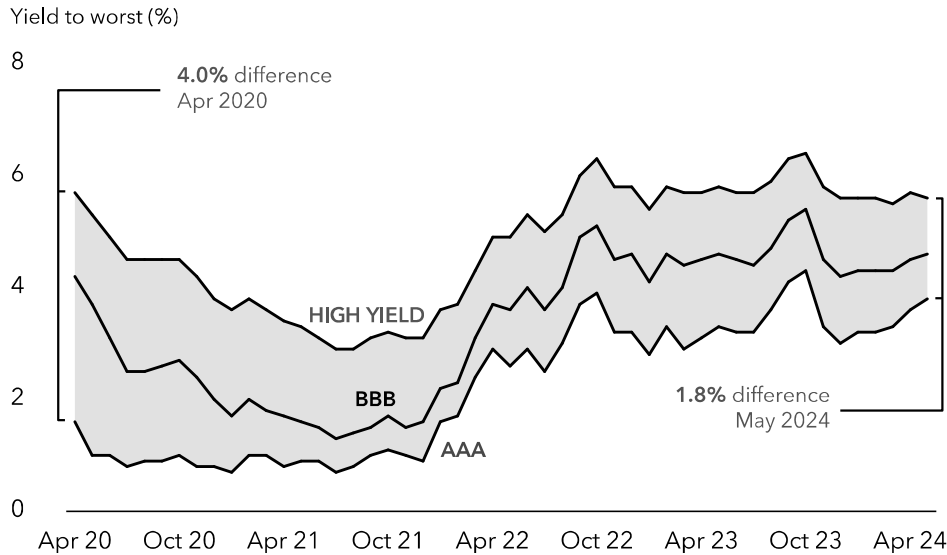
Policy rates (%)



Source: Bloomberg. As of May 31, 2024. One-year forward estimates are based on market implied policy rates. Peak policy rate is highest since January 2020. The policy rate referenced for China is the People's Bank of China (PBoC) 7-day reverse repo rate.

Delayed rate cuts may not be so bad for municipal bond investors

Investors are being paid relatively less for more risk



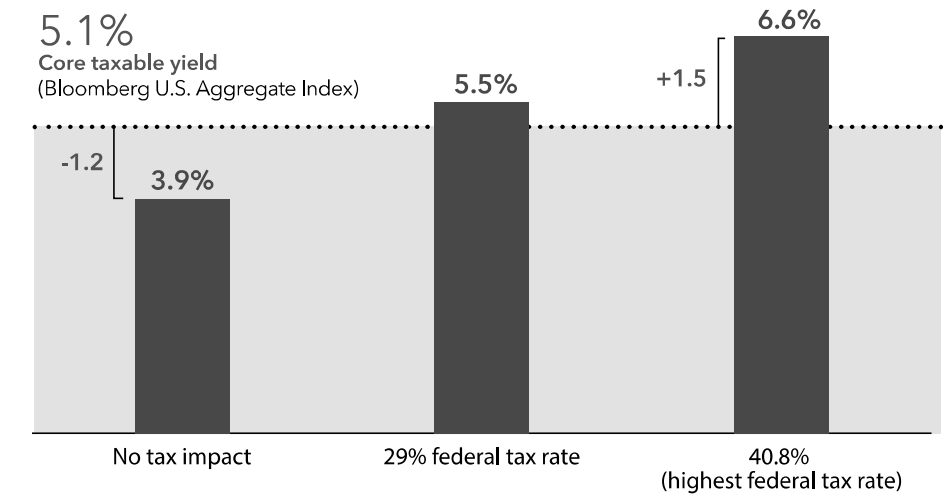
Municipal bond investors frustrated by the Fed's delayed rate cuts might want to consider the bright side of stable interest rates: attractive income. For those in moderate to high income tax brackets, the muni market offers compelling after-tax yields. At the highest bracket, the tax-equivalent yield for the Bloomberg Municipal Bond Index was 6.6% in May, compared to 5.1% for the taxable Bloomberg U.S. Aggregate Index.

Investors don't have to sacrifice quality for attractive income. That's because the difference in yields between high- and low-rated bonds has compressed. "Many of our portfolios lean relatively higher quality, which may provide better resilience should the economy weaken," says portfolio manager Mark Marinella. Fundamentals remain strong among states and other general obligation issuers, but bonds supported by revenue-generating projects are often more attractive.

Source: Bloomberg. Data as of May 31, 2024. AAA represents the Bloomberg Municipal AAA Index, which is a subset of AAA bonds from the Bloomberg Municipal Bond Index; BBB represents the Bloomberg Municipal BAA Index, which is a subset of BBB bonds from the Bloomberg Municipal Bond Index; and high yield represents the Bloomberg High Yield Municipal Bond Index. Past results are not predictive of results in future periods.

Muni income could surpass taxable bonds

Core muni (Bloomberg Municipal Bond Index) tax-equivalent yield (%)



"You can more easily track and monitor revenue bonds, whereas general obligation bonds issued by states and municipalities can be subject to political risk," he notes.

Investors nervous about an extended delay in cuts could rebuild a bond allocation starting with shorter term maturities. "I expect the muni yield curve to normalize following the Treasury curve, which could provide investors a strong signal for when to add more interest rate exposure," he adds.

Sources: Capital Group, Bloomberg Index Services Ltd. As of May 31, 2024. The after-tax (or tax-equivalent) yield of a municipal bond investment is the yield a taxable bond would have to offer to equal the same amount as the tax-exempt bond. Tax-equivalent yield calculation is $\text{yield} / (1 - (\text{federal tax rate}))$. The federal tax rate consists of an income tax rate and Medicare tax rate of up to 37% and 3.8%, respectively.

Portfolio questions to consider

Given the insights in this outlook, here are key questions to consider when sitting down at midyear to assess portfolios with respect to investor goals.

SELECTIVE GROWTH

Is your growth allocation diversified across sectors in a highly concentrated U.S. equity market?

DIVIDENDS

Do you have adequate exposure to dividend payers to help mitigate potential market volatility?

GLOBAL/INTERNATIONAL

Are you taking advantage of company-specific opportunities as global economies and markets diverge?

RATES

Is your portfolio prepared for a range of outcomes with active interest rate exposure as the Fed considers cuts?

CREDIT

Does your fixed income have an intentional allocation to credit opportunities given today's higher yields?

"In objective-based **growth** portfolios, we are broadening exposure to a more diversified range of companies across regions and sectors.

In **income-oriented** portfolios, we are increasing allocations to both high dividend payers and dividend growers outside the U.S."

Samir Mathur, Chair of the Portfolio Solutions Committee

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses or 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.

Past results are not predictive of results in future periods.

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 2% Issuer Capped Index covers the universe of fixed-rate, non-investment-grade debt. The index limits the maximum exposure of any one issuer to 2%.

Bloomberg U.S. Asset-Backed Securities Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index only includes ABS.

Bloomberg U.S. Mortgage-Backed Securities Index is a market value-weighted index that covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC).

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.

Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. **Core CPI** excludes food and energy prices.

MSCI EAFE (Europe, Australasia, Far East) Index is a free float-adjusted, market capitalization-weighted index designed to measure developed equity market results, excluding the United States and Canada.

MSCI Emerging Markets Index captures large- and mid-cap representation across 27 emerging markets (EM) countries.

MSCI Europe Index is designed to measure developed equity market results across 15 developed countries in Europe.

MSCI Japan Index is a free float-adjusted, market capitalization-weighted index designed to measure the equity market results of Japan.

S&P 500 Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks.

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2024 Midyear Outlook

Investment implications



Themes	Selective growth and dividend opportunities The dividend landscape is expanding in unexpected ways	International equity opportunities Beyond U.S., a world of opportunity	Core bond opportunities Bonds can provide strength should economic growth slow	Credit opportunities Income is back in fixed income
Investment implications	Dividends are gaining favor with companies, widening the opportunity set for income-seeking investors. Tech giants are competing to dominate the AI landscape.	With market participation broadening beyond a small group of U.S. tech stocks, investors should consider looking not only in the U.S. but also Europe, Japan and India in the hunt for great companies.	Bonds typically offer strong income opportunities and a measure of protection from equity market swings.	Elevated yields set the stage for more income and may provide a buffer against bond market volatility.



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for thought leadership*

2019 2020 2021 2023

*Source: Marketing Support: The Advisor View, May 2023, July 2021, June 2020; Fund Intelligence, February 2020. FUSE Research surveys of 500-1,000 advisors identifying the “most-read thought leaders.” Survey was not conducted in 2022.

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