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When to invest? History suggests opportunity to redeploy cash

KEY TAKEAWAYS

1. **Holding excess cash has had an opportunity cost** when the Fed is cutting interest rates
2. **Equities and fixed income sharply outpaced cash** in long-term periods after hikes

❶ **Holding excess cash has had an opportunity cost** when the Fed is cutting

Cash equivalents, such as certificates of deposits and money market mutual funds, may offer liquidity with low levels of risk and, in times of rising rates and sharp economic volatility such as what was seen in 2022, a somewhat attractive yield and strong relative total returns. These periods do not last forever. With the Fed having pivoted to cuts, the rate-hiking cycle appears to be over. Looking to history, holding excess cash may not be investors' best option at this time.

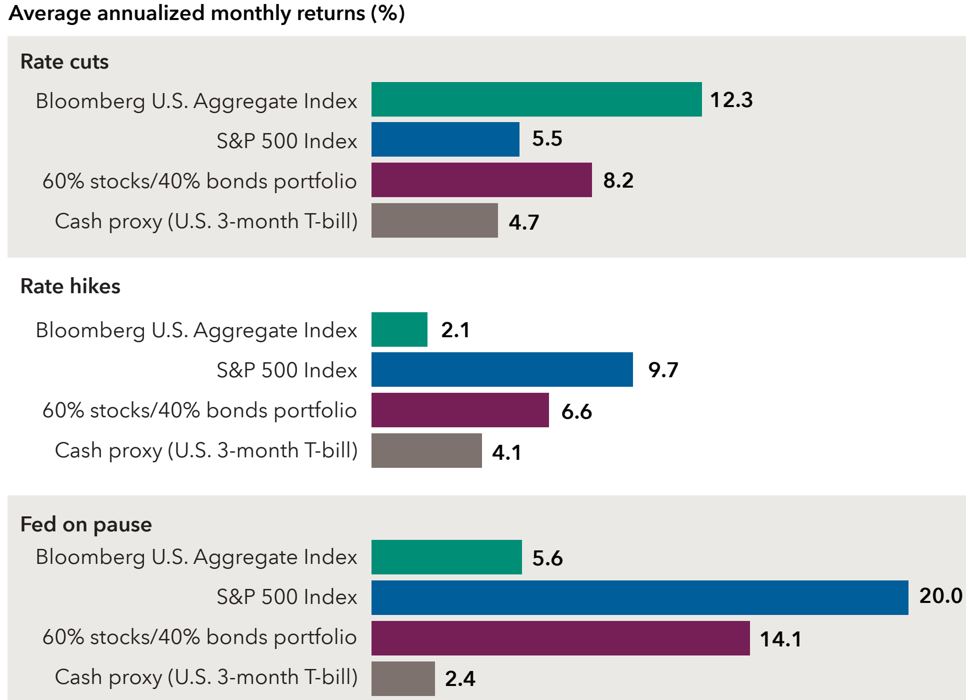
- In periods when the Fed is cutting rates, the cash-like average annualized monthly return was just 4.7% – notably lower than a 60/40 portfolio's 8.2% average return.
- While there have been recent periods of better returns from cash, being invested has proven to be the best long-term strategy. A 60/40 portfolio has outpaced cash 86% of the time.*
- It's not too late to get invested: Even after the first cut, bond yields have continued to fall across the Treasury curve. Two-year Treasury yields fell an average of 70 basis points in the 100 business days following the first cut in the last seven rate-cutting cycles, from May 1984 through December 2019.

*Based on a rolling monthly three-year basis over 40 years as of 9/30/24.

Past results are not predictive of results in future periods.

Stocks, bonds and a 60/40 portfolio all outpaced the cash proxy outside Fed-hiking regimes over 40 years

Average annualized monthly returns (%)



Sources: Capital Group, Bloomberg. As of 9/30/24. Based on average monthly returns data for periods of rate hikes, rate cuts and periods when rates held steady from September 1984 onward. Cash proxy is represented by Morningstar USTREAS Treasury Bill Auction Average 3 Month Index.

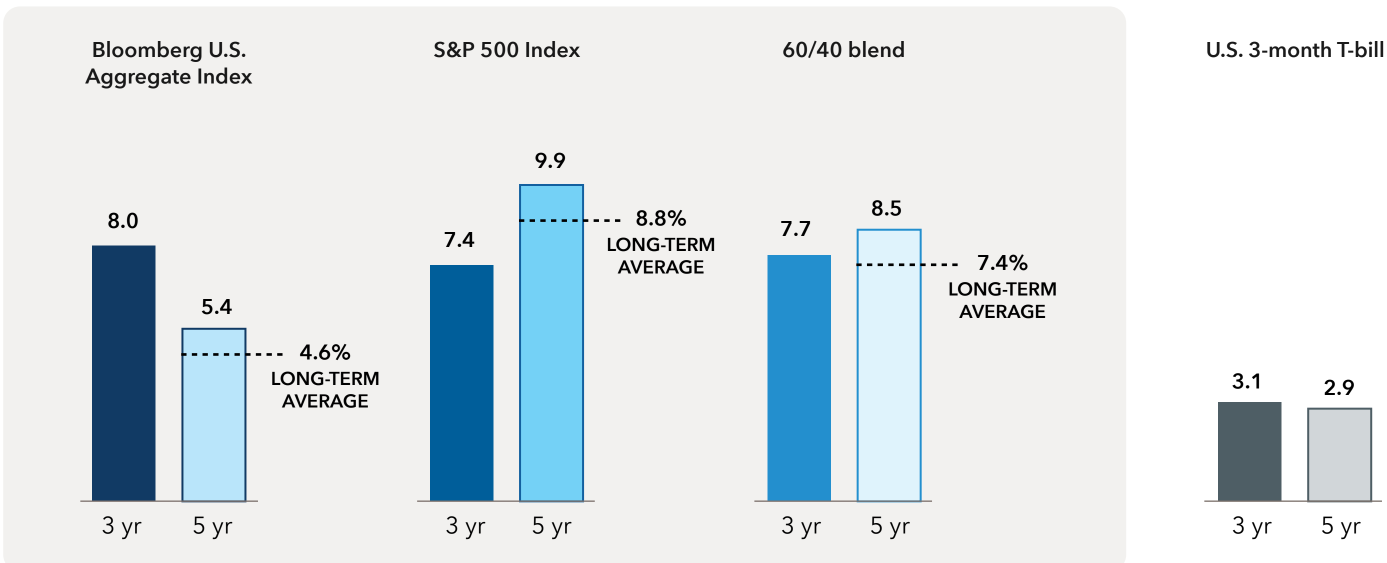
❷ **Equities and fixed income sharply outpaced cash** in long-term periods after hikes

The end of an interest-rate-hiking cycle has presented a strong opportunity for investors to redeploy cash. As explained above, change happens quickly. Investors attempting to time the market could be left with weaker returns.

- Stocks, bonds and a blended hypothetical 60/40 portfolio (60% stocks, 40% bonds) sharply outpaced U.S. 3-month T-bill returns in 3- and 5-year periods that followed the final hike. The 60/40 portfolio returns were 7.7% and 8.5% compared to 3.1% and 2.9% for cash-like returns over those periods, respectively.
- Five-year annualized returns also exceeded long-term average returns for these asset classes.

After Fed hikes ended, long-term results outpaced cash and historic averages

Returns following the final Fed hike cycle (%)



Sources: Capital Group, Morningstar. Chart represents the average returns across respective sector proxies starting in the month of the last Fed hike in the last four transition cycles from 1995 to 2018 with data through September 30, 2024. Long-term averages represented by the average 5-year annualized rolling monthly returns from 1995.

Past results are not predictive of results in future periods.

The hypothetical 60/40 blend represents 60% S&P 500 Index and 40% Bloomberg U.S. Aggregate Index.

Cash refers to cash equivalents such as certificates of deposits and money market mutual funds. The proxy for cash used for analyses in this discussion is the Morningstar USTREAS Treasury Bill Auction Average 3 Month Index.

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.

Unlike stocks and non-U.S. government bonds, investments in U.S. Treasuries are guaranteed by the U.S. government as to the payment of principal and interest.

The 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 (BBB/Baa and above) fixed-rate bond market.

S&P 500 Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks. This index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

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