Outlook

2025 MIDYEAR EDITION

CAPITAL GROUP®

Long-term perspective on markets and economies

2025 **Midyear Outlook**

As we reach the midpoint of 2025, the change we've witnessed since the start of the year is staggering and has translated into a high level of market volatility. So much has happened so quickly, it feels a bit like the title of the Oscar-winning movie *Everything Everywhere All at Once*. We are living in interesting times, and they are different from anything I've seen in my 35 years at Capital Group.

We are in the middle of a fundamental restructuring of the geopolitical order that we've known since the end of World War II – politically, militarily and economically. The integrated global system we've come to rely on over the past several decades is rapidly changing and may look very different going forward. We can't assume this system will survive in the years ahead, whether that means the end of multinational military alliances, the abandonment of long-held agreements between trading partners, or the redrawing of complex supply chains that have dominated global trade.

"We are in the middle of a fundamental restructuring of the geopolitical order.

Jody Jonsson
Vice Chair and Portfolio Manager
Capital Group

At the moment, investors don't know how these events will play out, and that's why the financial markets are having a difficult time finding a clear direction. Volatility rose sharply in the first half of the year as tariff-induced trade wars and real wars dampened the global outlook. This lack of clarity is affecting the decisions of investors and company managements alike. It's become much harder to determine where to invest, over what period and what types of returns to expect. In my view, that has led directly to the stock market correction we saw earlier this year, as well as higher yields on U.S. Treasury bonds and a decline in the value of the U.S. dollar.

We must keep in mind, however, that we started the year at a point of extremely high U.S. equity valuations. One could argue a correction was overdue. There was a lot of good news baked into the market after the presidential election. Recent trade deals involving the U.S., U.K. and China are encouraging signs that some of the uncertainty could be resolved in the second half of the year. And that may help us envision a framework for the future.

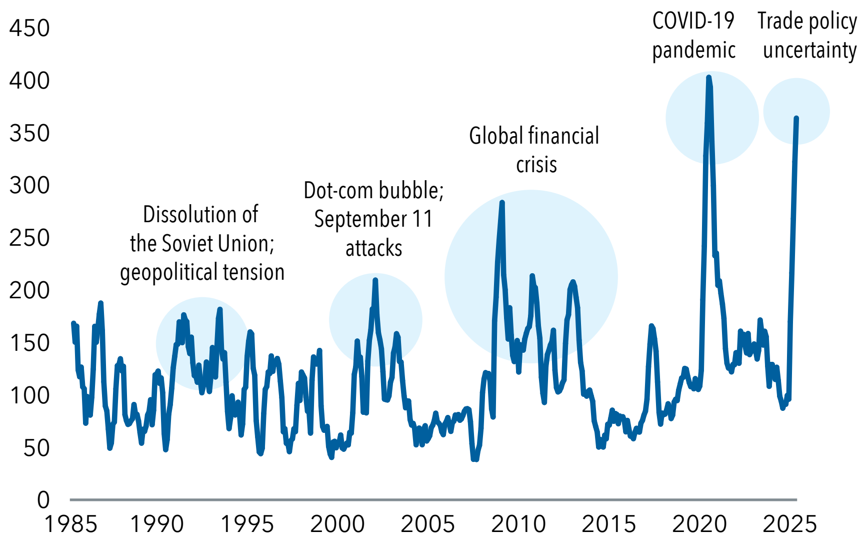
In the meantime, you've heard this message from Capital Group many times before, but it bears repeating: Volatility presents opportunity for fundamental, bottom-up investors. It's our job to identify compelling investment themes in this or any market environment. In these pages, we offer you an overview of those opportunities as we see them.

With that in mind, I invite you to read and share our 2025 Midyear Outlook report.

Economic outlook: Higher uncertainty and lower growth

Policy uncertainty has weighed on markets

Bloomberg U.S. Economic Policy Uncertainty Index

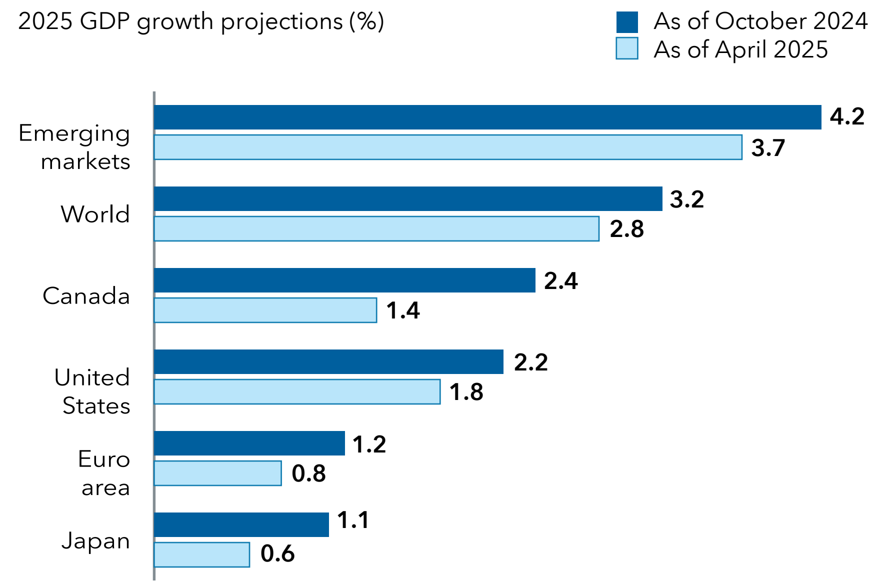


There are many ways to describe the outlook for the U.S. and world economies. But at the midpoint of 2025, one word has risen to the top of the lexicon: uncertainty.

A lack of clarity over U.S. trade policy – with rising tariffs at the center of the storm – has delivered a severe shock to the global economy. For the first time since 2022, U.S. gross domestic product (GDP) in the first quarter declined. Some companies stopped issuing forward guidance. Capital expenditures have been delayed. Cargo volumes have plummeted at major ports. And hiring has slowed.

Growth projections have been revised downward

2025 GDP growth projections (%)



As policy uncertainty rises, global economic growth projections are falling. Downward revisions already have been issued for the U.S., Europe, Japan and many emerging markets, based on the latest available figures from the International Monetary Fund. Recent limited trade deals involving the U.S., U.K. and China are encouraging, but much remains to be done.

"Many companies are hitting the pause button because they don't know what the rules are going to be a week, a month or a year from now," Capital Group economist Darrell Spence explains. "Even if some tariffs are ultimately lowered or rescinded, this pause effect is going to have an impact. Whether that pushes us into a recession or not remains an open question, but it raises the risk significantly."

Sources: Capital Group, Bloomberg Index Services Ltd. Figures reflect the six-month moving average of the Bloomberg Economic Policy Uncertainty Index between June 30, 1985, and May 31, 2025. Index values are based on keywords and headlines from news articles.

Source: International Monetary Fund, *World Economic Outlook, April 2025*. Reflects latest IMF projections as of May 31, 2025. Real GDP is adjusted for inflation, providing a more accurate measure of economic growth.

4 scenarios for a changing global landscape

A global trade war and shifting political alliances could slow growth, boost inflation and raise the risk of a recession. On the other hand, markets could respond positively to swift and successful trade negotiations.

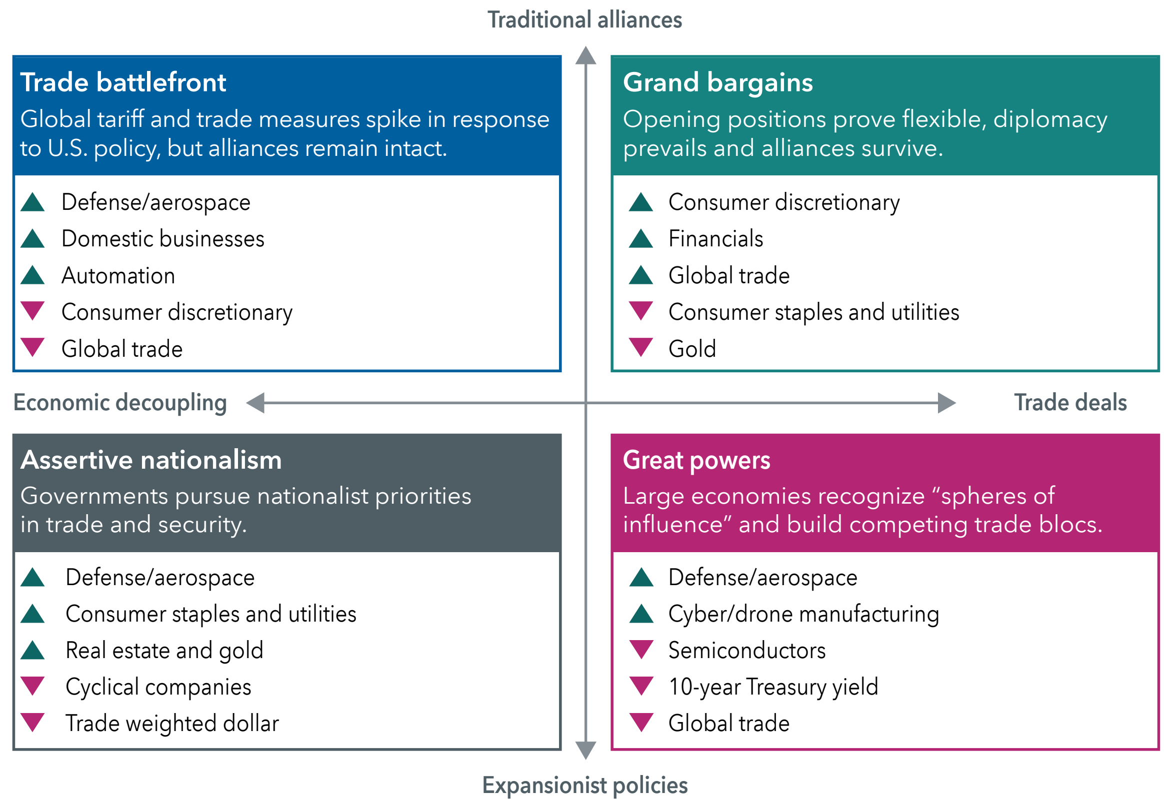
Capital Group's Night Watch team – a group of economists, political analysts and portfolio managers – explores these and other possibilities using scenario analysis. Rather than make predictions, they identify a range of outcomes, then connect them to investment implications.

Four potential outcomes have emerged: a trade battlefront, characterized by significant tariffs and other protectionist measures; grand bargains, the most benign scenario; the return of great powers; and assertive nationalism.

"Negotiations are under way, but given their complexity and the vast number of trading partners, I do not expect a speedy resolution," says international policy analyst Tom Cooney. "It took years to build the post-war order, and it could be several more before a new geopolitical order stabilizes."

This scenario analysis can help portfolio managers position their holdings for different outcomes – whether that means shifting to more defensive investments or pivoting to new opportunities created by ongoing market volatility.

Global realignment: A world in transition



Source: Capital Group. Scenarios reflect analysis of Capital Group's Night Watch team as of April 2025, and are not predictive of future outcomes.

Decoding tariffs: Assessing the market and economic impacts

Low, temporary impact → **High, persistent impact**

Negotiating
Create leverage through economic pressure to achieve policy outcomes

Potential countries and regions affected
China, Mexico, Canada, EU, Japan, Latin America

Potential industries affected
Autos, steel, agriculture, consumer electronics, defense, energy, semiconductors

Rebalancing
Reduce trade deficits and boost domestic production

Potential countries and regions affected
China, EU, Japan, South Korea, Vietnam, India, Mexico, Canada, Brazil

Potential industries affected
Autos, steel, agriculture, chemicals, consumer electronics, pharma, luxury, defense, energy, oil

Decoupling
Shift supply chains and reduce reliance on certain countries

Potential countries and regions affected
China

Potential industries affected
Tech, energy, industrials, pharma, biotech, aircraft

Funding
Generate revenue to fund domestic budget priorities

Potential countries and regions affected
May be a broadly applied universal tariff

Potential industries affected
Consumer goods, autos, industrials

With tariffs taking center stage in the global economy, it's important for investors to understand that not all trade barriers are created equal. With that in mind, our research indicates that tariffs generally are used for four purposes that may have differing impacts in the years ahead.

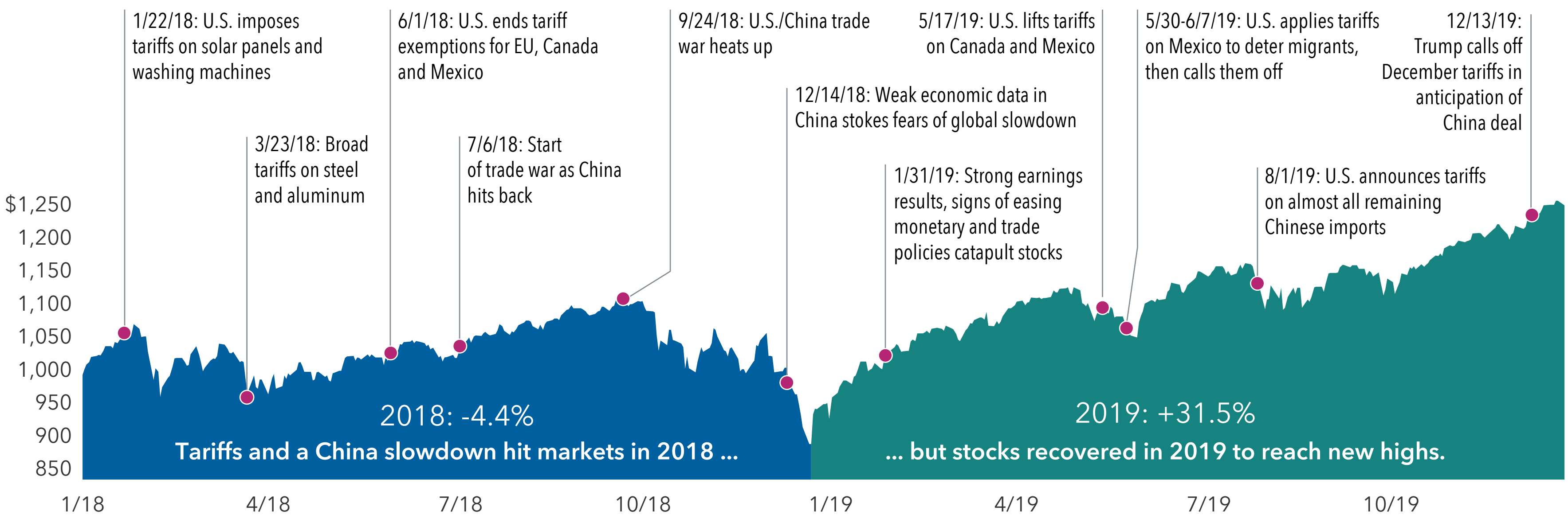
1. **Negotiating:** President Trump has made it clear that some tariffs are meant to pressure other countries to assist with his policy goals, such as curbing illegal immigration and the cross-border flow of illicit drugs. These measures may be temporary.
2. **Rebalancing:** Reciprocal tariffs are intended to restore balance with other trading partners, such as Europe, Japan and Mexico. The primary goal is to lower the U.S. trade deficit.
3. **Decoupling:** Part of the motivation for tariffs is to reduce dependence on single-source supply chains, such as China. This type of tariff is aimed at bringing some manufacturing back to the United States.
4. **Funding:** Some tariffs are designed as a way to raise revenue and potentially offset the impact of other policy objectives, including tax cuts.

"These motivations will have an important role in determining how the story plays out," says Capital Group economist Jared Franz. "Tariffs used for negotiating purposes are unlikely to persist, while those that are part of a larger decoupling process could be here to stay."

Source: Capital Group. As of March 5, 2025.

Markets recovered from trade uncertainty in Trump's first term

Value of $1k hypothetical initial investment in S&P 500 Index



Painful market disruptions triggered by tariffs aren't exactly new.

In 2018, during President Trump's first term in office, a series of new tariffs launched against China sparked a trade war that whipsawed markets and dominated headlines, much like today.

How did stocks react? Fears of a global economic slowdown and higher inflation sent the S&P 500 Index down 4.4% in 2018. But as trade deals were announced and consumer spending remained steady, the index recovered sharply in 2019, rising 31.5%.

The world has changed since that initial round of tariffs. The rapid development of artificial intelligence, war in Ukraine and the Middle East, and the greatest inflation shock in decades are having profound implications for the economy. While we don't know what next year will bring, midterm elections could shift Trump's focus to more bread-and-butter issues that fuel economic optimism. Moreover, tariff deals with major trading partners could boost markets.

"Trump's first term shows the outcome can vary significantly from the initial headlines," says equity portfolio manager Martin Jacobs. "As someone who believes the market tends to go up far more than it goes down, I am not discouraged by this year's volatility. I view the dislocation as an opportunity to invest in great companies and multiyear investment trends where I have conviction, setting up the portfolios I manage for years to come."

Sources: Capital Group, Bureau of Labor Statistics, Peterson Institute for International Economics, Standard & Poor's. Value of hypothetical investment in the S&P 500 reflects the total return of the index over the period from January 1, 2018, to December 31, 2019. The S&P 500 Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks. Past results are not predictive of results in future periods.

When will the Fed rush in?

Here's one pause borrowers could do without: the Federal Reserve's hold on interest rates. But until policymakers have economic data on the impacts of President Trump's trade policy, interest rates will likely remain range bound.

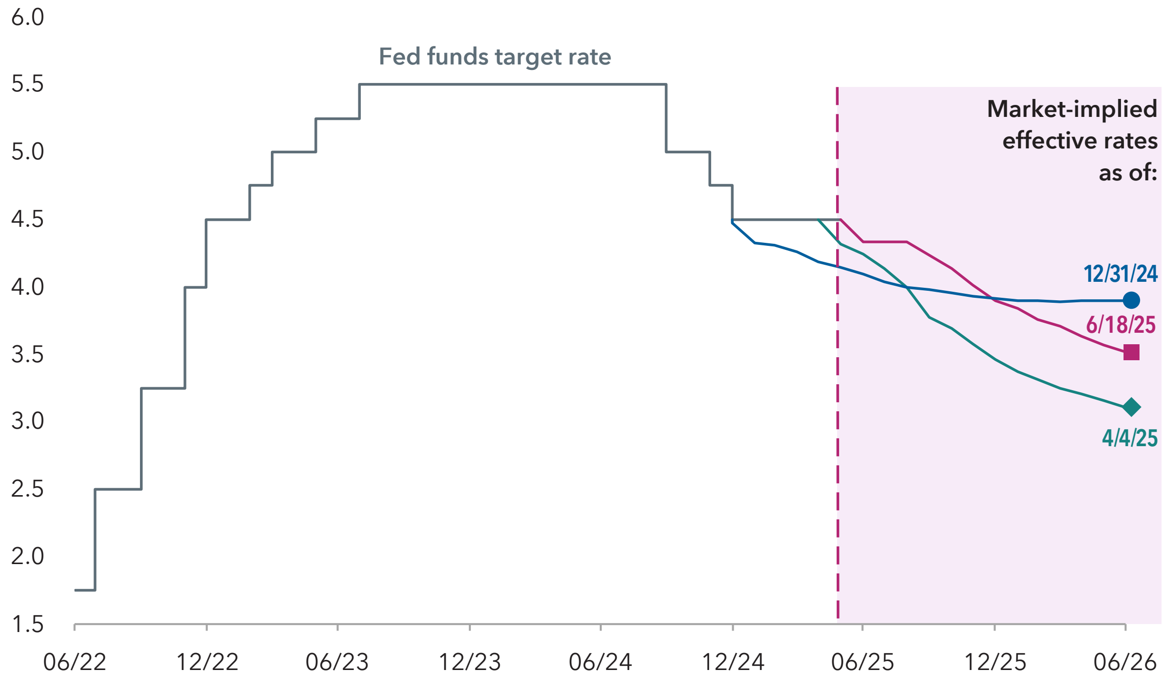
"As long as labor markets don't materially weaken, the Fed has good reason to remain patient with inflation remaining above target," says portfolio manager Chitrang Purani. "I believe a year-end policy rate of around 3.8% seems fair, given the balance of risks."

Even if tariffs are watered down through negotiations, the de-globalization shift and ongoing uncertainties are likely to weigh on economic growth in the near term, according to Purani. In addition to rate cuts, the Fed can step in to provide liquidity if bond market functioning is impaired, as they did in the early days of the COVID-19 pandemic.

"Meanwhile, policy-induced volatility, Moody's downgrade of the U.S. government credit rating and ongoing deficit concerns raise questions about the status of Treasuries as one of the world's safest investments. Investors may demand higher premiums to hold Treasuries," Purani explains.

Investors have pulled back on rate cut expectations

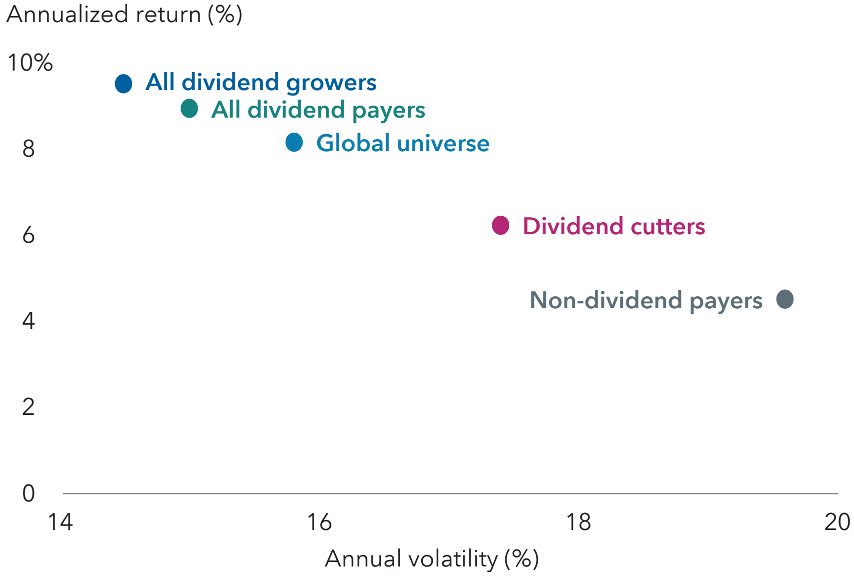
Federal funds rate actual vs. market implied (%)



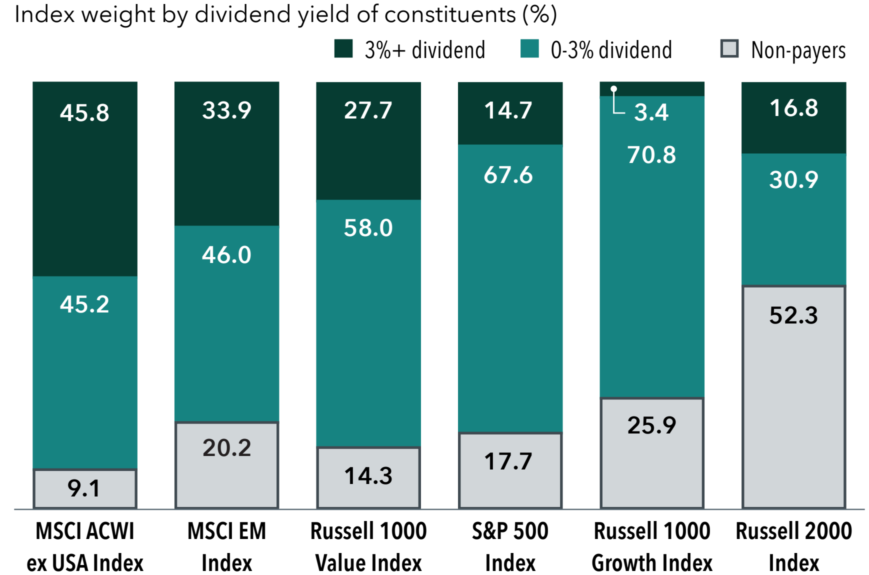
Sources: Capital Group, Bloomberg Index Services Ltd., U.S. Federal Reserve. Fed funds target rate reflects the upper bound of the Federal Open Markets Committee's (FOMC) target range for overnight lending among U.S. banks. As of June 18, 2025.

When volatility is high, dividends can cushion the blow

Dividend growers have outpaced the broader market



Non-U.S. markets offer more dividend opportunities



After years of being overshadowed by growth and tech stocks, dividend-paying stocks are back in the spotlight.

Dividend payers have historically provided a measure of stability during market declines but have also provided positive returns when markets have advanced. What's more, companies with a history of growing dividends have generated higher returns and lower volatility than both the broader equity market and the wider universe of dividend payers.

"With global trade evolving, we may be in for a bumpy road," says equity portfolio manager Steve Watson. "Consistent dividend growth signals a company's managers are disciplined at capital allocation and confident about future business prospects."

Dividend growers can be found among utilities, financials and telecom companies. For example, CenterPoint Energy in the U.S., which has forecast strong demand for energy in its markets, has increased its dividend steadily over the past five years. Dutch telecom company KPN, which has grown its dividend for a decade, is less susceptible to tariffs. Canadian insurer Intact Financial has increased its dividend every year since 2004.

With tariff negotiations likely to linger for months, dividend growers could provide portfolios with a measure of stability when markets become volatile.

Sources: (Left chart:) Capital Group, Compustat, MSCI, Worldscope. Data from December 31, 1989, through December 31, 2024. Returns are weighted averages of total returns in USD for a global universe of companies including the 1,000 largest in the S&P BMI Global Indices for North America (50%), Europe (25%), Japan (10%), and 500 largest in Emerging Markets (10%) and Pacific ex Japan (5%) from December 1989 to December 2004. MSCI IMI regional indexes used thereafter with same company counts and weights; universe is rebalanced quarterly. Dividend payers and non-payers are defined by prior quarter dividend payouts; growers are those with trailing 12-month dividends per share growth on an annual basis. Volatility equals the annualized standard deviation of monthly total returns. Past results are not predictive of results in future periods. (Right chart:) Capital Group, FactSet, MSCI. As of May 31, 2025.

Sharp market selloffs can put leading companies on sale

During pandemic, many industries felt uninvestable but bounced back strongly

Industry	Pre-COVID peak	COVID trough	Decline (peak to trough)	One year from bottom	Five years from bottom	Company examples
Energy equipment and services	1/6/20	3/18/20	–68.9%	144.7%	291.3%	Schlumberger, Baker Hughes, Halliburton
Consumer finance	1/22/20	3/23/20	–54.9%	145.6%	295.8%	Discover, Capital One, American Express
Aerospace and defense	2/12/20	3/23/20	–51.4%	68.2%	225.6%	Boeing, Safran, GE Aerospace, Airbus
Hotels, restaurants and leisure	1/17/20	3/18/20	–46.8%	101.3%	149.1%	Royal Caribbean, Carnival, MGM Resorts, Darden Restaurants
Automobiles	2/4/20	3/23/20	–38.9%	200.2%	218.5%	Tesla, Ford, Mercedes-Benz
MSCI All Country World Index	2/12/20	3/23/20	–33.7%	77.0%	137.7%	

Markets tend to overreact to near-term volatility and punish strong companies along with the weak – throwing out the proverbial baby with the bathwater. This dynamic can present long-term opportunity for patient investors.

During the pandemic-induced bear market in 2020, for example, stocks across a range of industries suffered double-digit losses. "With travel and leisure activities halted, cruise lines like Royal Caribbean were priced as if no one would ever book passage again," recalls equity portfolio manager Chris Buchbinder. "This turned out be an excellent investment opportunity for those who recognized that global travel would one day bounce back," he says.

After plummeting more than 83% in the depths of COVID-19, Royal Caribbean rebounded strongly, advancing more than 1,000% in the five years since.

Such powerful turnarounds don't come along every day of course. "When markets were whipsawed by tariff news in the first half of the year, it provided an opportunity to invest in health care companies developing GLP-1 weight loss therapies," Buchbinder adds.

Semiconductor companies are another area of opportunity, given the long runway of potential growth for AI infrastructure. "The key when great companies go on sale is you have to be prepared to weather some anxiety near term." Not all companies will have such powerful recoveries, which is why fundamental research is essential.

Sources: Capital Group, MSCI. Industries shown represent GICS industries within the MSCI All Country World Index. Company examples are among the largest companies within each respective industry. As of May 31, 2025. Energy equipment and services is represented by the MSCI ACWI Energy Equipment and Services Index; Consumer finance is represented by the MSCI ACWI Consumer Finance Index; Aerospace is represented by the MSCI ACWI Aerospace and Defense Index; Hotels, restaurants and leisure is represented by the MSCI ACWI Hotels, Restaurants and Leisure Index; Automobiles is represented by the MSCI ACWI Automobiles Index. Past results are not predictive of results in future periods.

Security takes center stage in a world in transition

As the U.S. and other nations reconsider trade relationships and geopolitical alliances, governments around the world are taking steps to prioritize security, which could boost business for a range of companies, large and small.

Security starts with national defense. "There has been a recognition in Europe, Japan and elsewhere that they must become more self-sufficient in terms of their own defense," says equity portfolio manager Samir Parekh. In the first quarter of 2025, Germany disclosed plans for aggressive fiscal stimulus focused primarily on defense and infrastructure spending. In December 2024, Japan's cabinet approved a 9.4% increase in its defense budget.

"The push for security extends beyond defense to the need for reliable energy sources and stable infrastructure and supply chains," Parekh adds.

The U.S. and Europe are both seeking to expand sources of traditional energy, as well as pursuing development of nuclear power and other alternatives.

Along with these goals, the focus on supply chain and infrastructure security could represent growth opportunities for industrials. For example, global giants like Mitsubishi Heavy Industries in Japan, Siemens Energy in Germany and GE Vernova in the U.S. offer products across these categories, including power generation, grid modernization, defense systems and cybersecurity.

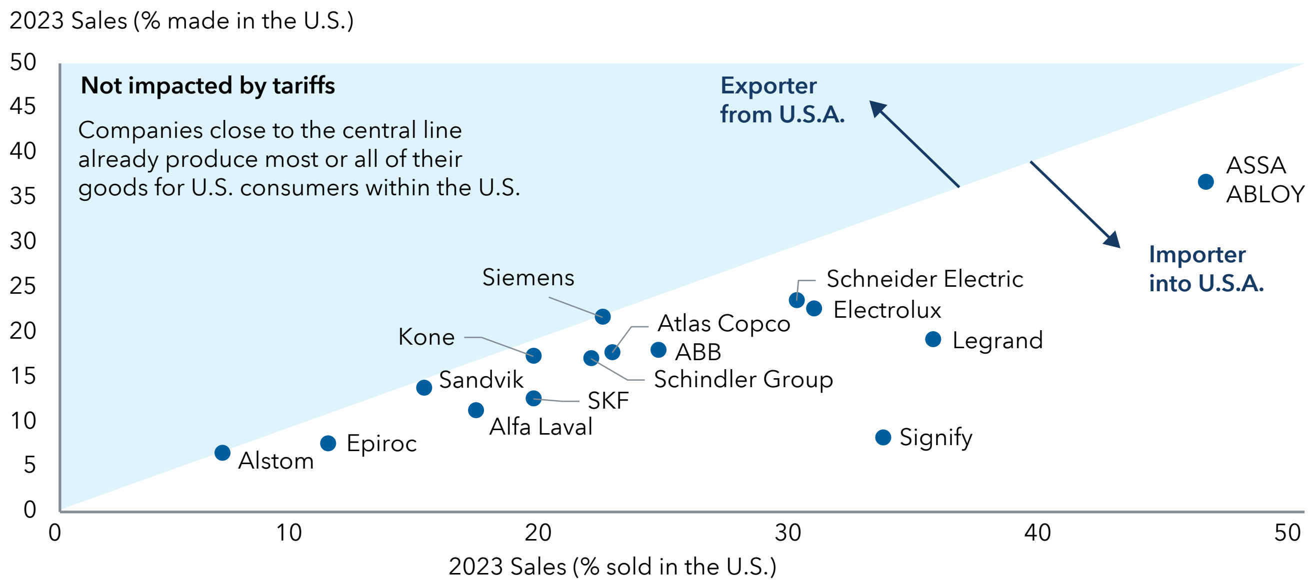
Push for security opens opportunity across four dimensions

National security	Energy security	Supply chain security	Tech security
RTX	**TotalEnergies**	**Linde**	**Apple**
Safran	**GE Vernova**	**Schneider Electric**	**Motorola Solutions**
Lockheed Martin	**Iberdrola**	**Mitsubishi Heavy Industries**	**Axon Enterprise**

Sources: Capital Group, FactSet. Companies shown are among the largest constituents of their respective sub-industries within the MSCI All Country World Index and are meant to serve as examples of potential beneficiaries from investment across the various security applications listed. The MSCI All Country World Index (ACWI) captures large- and mid-cap representation across developed markets and emerging markets countries. As of May 20, 2025.

Multinationals go multi-local as globalization changes course

Many multinationals have already shifted some production to the U.S.



Rising tariffs and brewing trade wars sound like a daunting environment for multinational companies. They would seem to be the most heavily impacted by the current headwinds affecting global trade. However, the reality is, many multinationals are well positioned for it – simply because they've navigated choppy trade waters for years.

"Many multinationals are developing a 'multi-local' approach to business, moving closer to customers in the countries where they operate," says Capital Group equity portfolio manager Jody Jonsson. "They are finding ways to adapt and succeed regardless of the environment."

In the latest example, German industrials giant Siemens opened a $190 million electrical equipment manufacturing plant this year in Fort Worth, Texas.

U.S. companies known for building their products overseas are taking the same approach. Apple recently announced it would spend $500 billion on new U.S.-based manufacturing facilities over the next four years.

That's one way to get around U.S. tariffs.

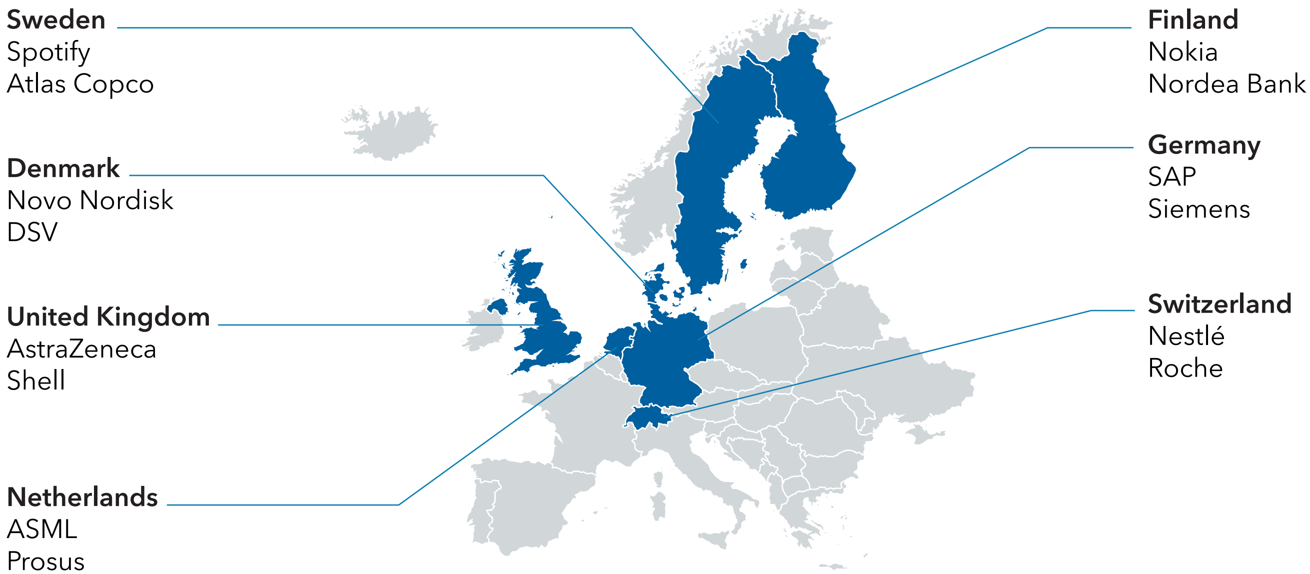
"You would think domestically oriented companies are ideally positioned in this kind of trade environment," Jonsson adds. "And some of them are. But we've also seen that globally diversified, multinational companies have the flexibility, resources and management expertise to compete very effectively, even when the ground is shifting beneath their feet."

Sources: Capital Group, Redburn. Data based on internal company estimates as of 2023 sales. As of December 31, 2023.

Europe: New catalysts and surprising innovation

Global Innovation Index 2024 rankings

Rank	Economy	Score
1	Switzerland	67.5
2	Sweden	64.5
3	United States	62.4
4	Singapore	61.2
5	United Kingdom	61.0
6	Republic of Korea	60.9
7	Finland	59.4
8	Netherlands	58.8
9	Germany	58.1
10	Denmark	57.1



Has Europe reached a turning point? With geopolitics in the spotlight, European governments have taken bold steps to strengthen their collective security and economic capacity in response to a potential global realignment.

Germany relaxed its fiscal rules, unveiling a €1 trillion stimulus package. The increase in government spending could trigger a stronger industrial cycle over the next three years, with a potential boost for defense, building materials and infrastructure companies – industries more heavily represented in European indexes than the S&P 500 Index.

However, Europe is not solely reliant on old economy industries. In fact, the latest global rankings show that seven of the top 10 countries for innovation are European.

European pharmaceutical companies have long been associated with groundbreaking treatments. Novo Nordisk was the first to launch GLP-1 treatments for diabetes and weight loss, while U.K.-based AstraZeneca has a pioneering oncology franchise. France's EssilorLuxottica, owner of Ray-Ban and other eyewear brands, is developing its own smart glasses.

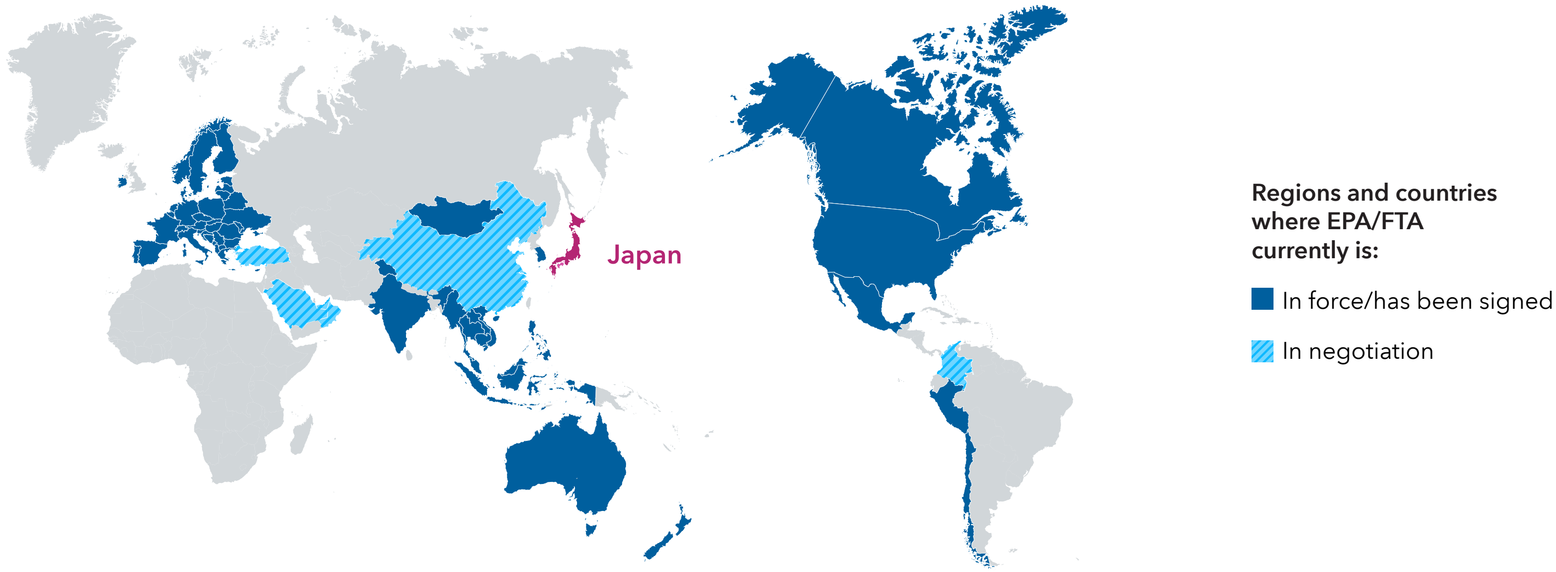
"EssilorLuxottica recently launched Nuance Audio, a line of smart glasses that seamlessly integrate advanced hearing aid technology into stylish eyewear," notes equity portfolio manager Lara Pellini.

It may take until 2026 for growth to meaningfully pick up in Europe, given uncertainty around tariffs. But a regulatory environment that is more pro-investment could mark a decisive break with the past.

Sources: United Nations World Intellectual Property Organization, MSCI. Companies listed are the two largest by weighting per country within the MSCI Europe Index. The Global Innovation Index 2024 takes the pulse of innovation against a background of steady but slow global economic growth, shrinking innovation finance and sluggish productivity. It reveals the most innovative economies in the world, ranking the innovation performance of around 130 economies while highlighting innovation strengths and weaknesses. The MSCI Europe Index captures large- and mid-cap representation across developed market countries in Europe. As of April 30, 2025.

Japan forges path as free trade powerhouse

Japan well positioned as trade skirmishes continue



As the U.S. steps back from unfettered free trade, Japan is well positioned to emerge as a global leader.

The country's average tariff rate was among the world's lowest entering 2025, highlighting the potential for productive negotiations amid escalating trade war fears.

Over recent years, Japan has signed multiple economic partnership and free trade agreements, with blocs including the European Union as well as Asia-Pacific nations. Japan also struck trade and digital agreements with the U.S. during President Trump's first term, and the two countries collaborate in areas such as 5G technology, space exploration and medical research.

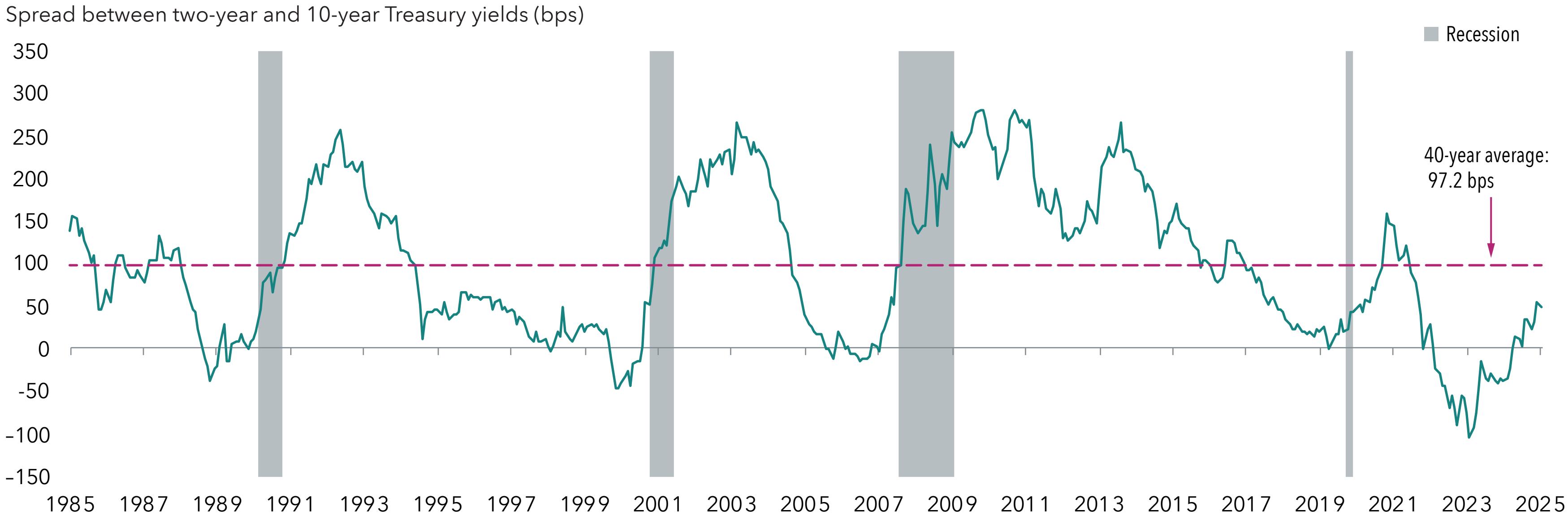
What's more, leading Japanese companies are building manufacturing facilities in the U.S., supporting one of the key goals of the Trump administration. For example, air conditioning and refrigeration manufacturer Daikin opened a plant in Houston. "Japanese companies have announced about $1 trillion of investment in the U.S., and I expect more in the coming months," says Japan economist Anne Vandenabeele.

That's not to say there are no risks. Japan remains a prominent exporter, with 20% of its goods going to the U.S., of which 30% are automobiles." The longer higher tariffs last, the greater the risk they could derail the ongoing reflation of Japan's economy," adds Vandenabeele.

Sources: Bloomberg, Japanese Ministry of Finance, The Guardian, trade statistics. EPA: Economic Partnership Agreement. FTA: Free Trade Agreement. As of January 2025.

Opportunities within Treasuries as economic concerns mount

U.S. Treasury yield curve has begun to normalize



Amid the stock market swoon in April, tremors in the bond market influenced President Trump to pause tariffs. Other than that brief disruption, U.S. Treasury markets have been orderly, with interest rates rising.

Yields on the 10-year Treasury, arguably the most important interest rate in the world, reached 4.47% as of May 13, 2025. The upward march came even as yields on shorter dated Treasuries declined, steepening the yield curve.

“Investors are balancing concerns of higher inflation and a potential downturn, both stemming from a tariff policy that continues to evolve,” says fixed income portfolio manager Tim Ng. Expectations of a persistent U.S. federal budget deficit amid potential tax cuts and other spending plans also play a role in keeping long-term yields high.

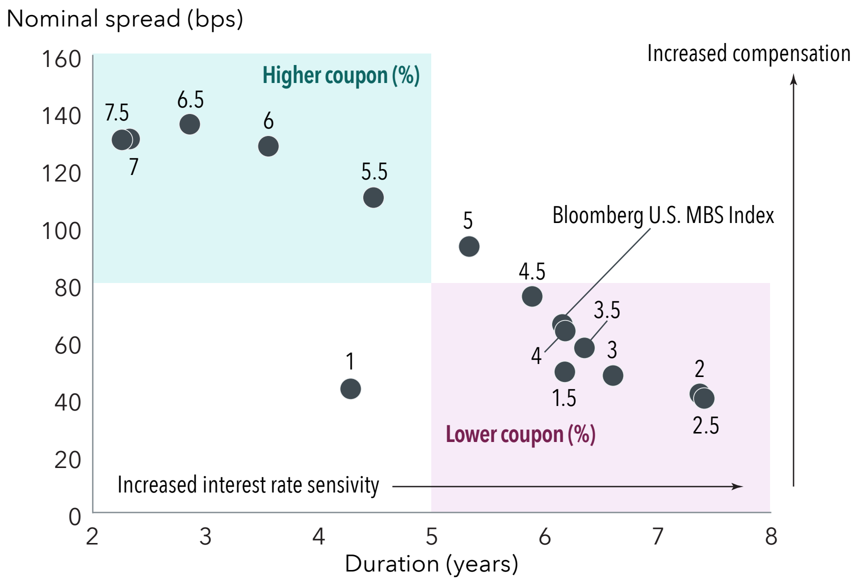
“There’s room for the curve to further steepen in several scenarios,” explains Ng, who is maintaining flexibility considering recent market swings. “While the worst of trade policy uncertainty may be behind us, I want to be positioned to take advantage of any major shifts in valuations.”

A diversified portfolio of bonds has provided relative stability during the policy-induced stock market volatility.* The return of this time-honored relationship, which disappeared in 2022 during the Fed’s rate-hiking spree, is crucial as Trump’s policy initiatives raise the risk of a recession.

Sources: Bloomberg, Refinitiv Datastream. The Bloomberg U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market. As of May 31, 2025. *When the S&P 500 Index fell 18.7% from the record high set on February 19, 2025, to the recent low on April 8, 2025, the Bloomberg U.S. Aggregate Index gained 1%.

Securitized assets offer strong opportunity for security selection

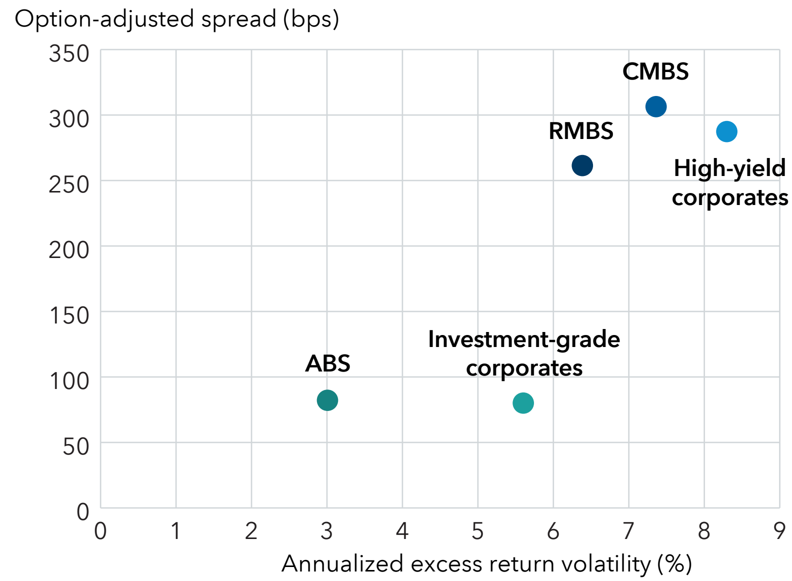
Compelling valuations in high-coupon MBS



Securitized assets, including agency mortgage-backed securities (MBS), could benefit portfolios given their higher quality and attractive nominal yields and spreads compared to corporate credit. The appeal of agency MBS is further bolstered by the sector's liquidity and relative resilience in past downturns.

Active coupon selection is an important factor in mortgage portfolios. Higher coupons offer compelling income opportunities with low sensitivity to rates even if interest rates and volatility remain elevated. In contrast, low coupons, which are more prevalent in the Bloomberg U.S. Mortgage-Backed Securities Index, have higher interest rate sensitivity and lower nominal spreads and yields.

Securitized assets rival corporate bonds



Many areas of securitized credit also look appealing, such as the senior tranches of subprime auto asset-backed securities (ABS). "The underlying loans have shorter maturities compared to mortgages, and lending standards have tightened over the past few years," says fixed income portfolio manager Xavier Goss.

Some commercial mortgage-backed securities (CMBS), particularly higher segments of the capital structure, also offer strong income with reasonable valuations. While some office properties still face challenges in the post-COVID era, multifamily housing, warehouses and other segments of the market have solid balance sheets, steady cash flows and strong demand.

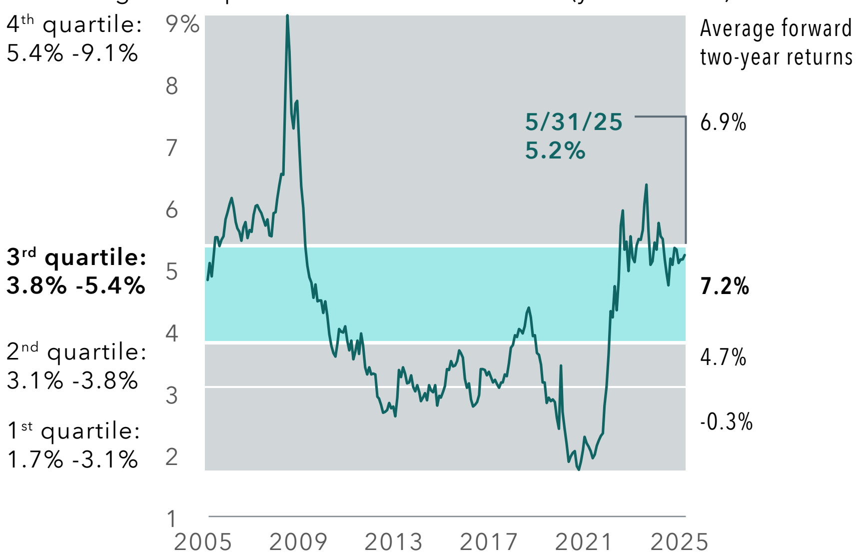
Source: Bloomberg U.S. Mortgage-Backed Securities Index. Coupon: Annual interest rate paid on a bond, based on the bond's face value. Duration: A measure of the sensitivity of the price of a fixed income investment to a change in interest rates. Nominal spread: the difference between the yield of a bond and the yield of a similar maturity Treasury bond. Nominal spread represents the zero-volatility spread. As of May 31, 2025.

Sources: Capital Group, Bloomberg. Bloomberg U.S. Corporate Investment Grade Index, Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index, Bloomberg Non-Agency Residential Mortgage-Backed Securities Index, Bloomberg ABS Index and Bloomberg CMBS Index. Option-adjusted spread is a yield-spread calculation used to value securities with embedded options. Values based on returns and volatility data between January 1, 2018, and December 31, 2024.

Corporate bonds show continued resilience

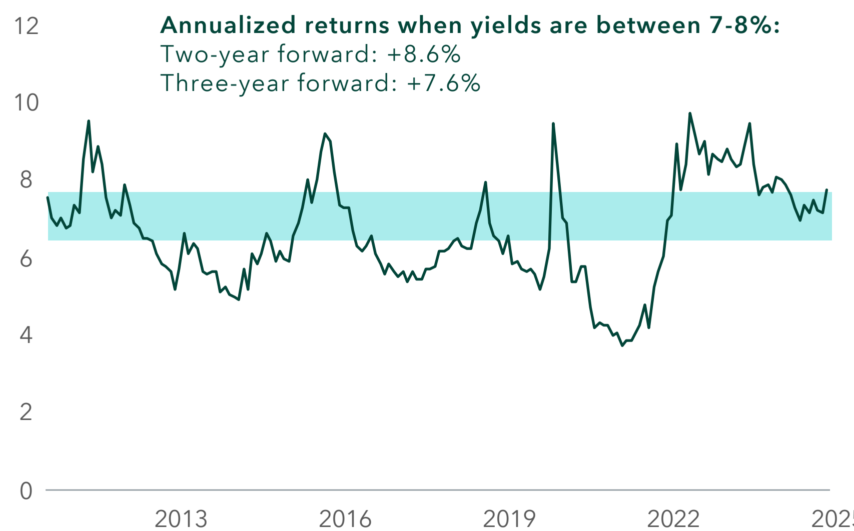
Corporate investment-grade bonds remain attractive

Bloomberg U.S. Corporate Investment Grade Index (yield to worst)



High-yield bonds posted strong returns at current yields

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



Healthy corporate fundamentals and attractive yields should help corporate investment-grade (BBB/Baa and above) and high-yield bonds weather potential headwinds to growth.

"Corporate earnings are reasonable, though rising costs and weaker consumer sentiment muddy the general economic outlook," says portfolio manager Tom Chow. "In periods of declining growth expectations, established entities with strong credit metrics, low refinancing risk and sizable equity cushions are better positioned to weather the storm and thus favored by investors," Chow explains.

Companies with non-cyclical businesses are improving their balance sheets. For example, certain investment-grade-rated pharmaceuticals, such as Amgen, are reducing debt following recent acquisitions. In high yield, telecom company Charter Communications has recurring revenue streams, which may be less affected by the economic cycle.

Today's starting yields for higher income sectors such as investment-grade, high-yield and emerging markets debt offer attractive entry points for long-term investors. Even if spreads to U.S. Treasuries widen to impact price, the income component should help support positive returns. Moreover, rate cuts we expect from the Federal Reserve later this year are tailwinds for bond returns, particularly for those with longer maturities.

We expect corporate defaults to remain low relative to the historical average of roughly 3%. "Many high-yield companies refinanced debt ahead of tariff-induced volatility, so a 'maturity wall' is not a major, imminent concern," Chow adds.

Sources: Capital Group, Bloomberg Index Services Ltd. Data as of May 31, 2025. Average forward two-year returns are annualized, based on each quartile of starting yield to worst. 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.

Source: Bloomberg Index Services Ltd. As of May 31, 2025. Average forward two-year and three-year returns are annualized.

Past results are not predictive of results in future periods.

Private credit offers diversification potential

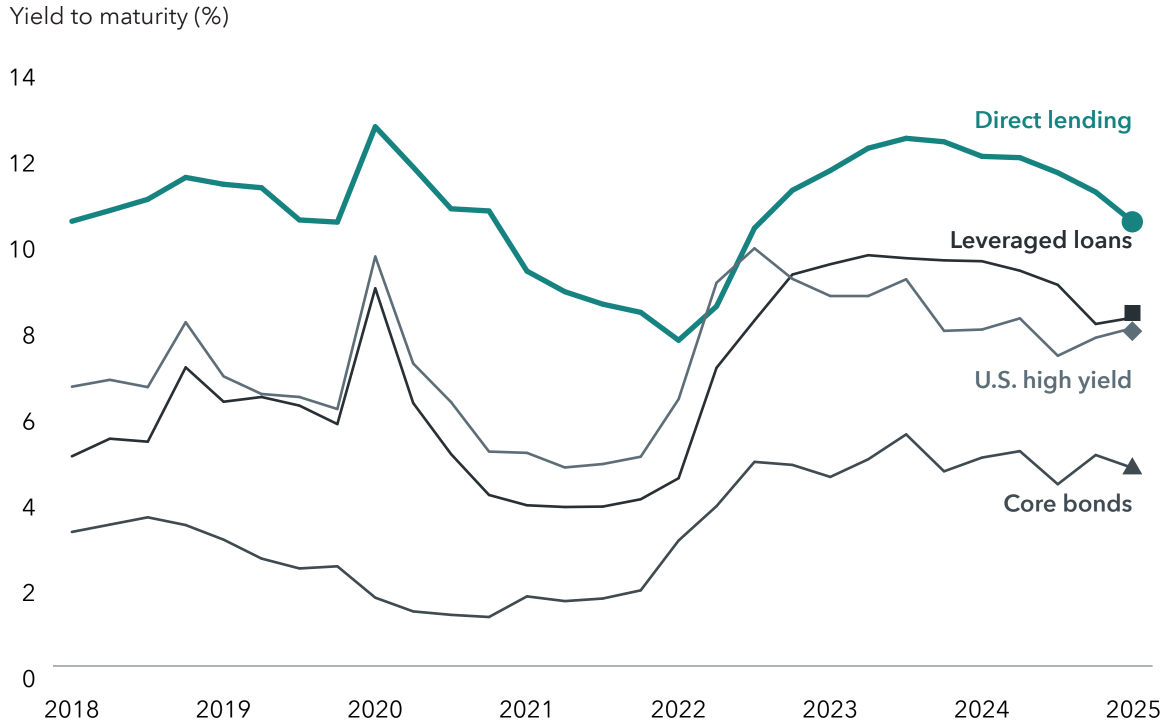
Once reserved for select investors, the $2 trillion private credit market has opened its doors.

What does this asset class offer? Historically, higher yields compared to publicly traded fixed income markets due to the additional return investors expect for holding less liquid assets (liquidity premium) and the higher risks associated with private credit. As more companies turn to private credit for their financing needs, it's an opportunity for individual investors to cast a wider net for diversification and income potential.

"The private credit market appears poised to grow, but these investments require rigorous due diligence and active risk management given the limited liquidity," says portfolio manager John Queen. "A blended approach that combines traditional bond investments with private credit may provide more balance for some investors."

Capital Group partners with KKR on private credit, with the latter a provider of direct lending to middle market companies and asset-based finance (ABF), where loans are secured by collateral. Within direct lending, spreads have compressed amid high demand and lower interest rates, but yields remain compelling. In today's uncertain economic environment, KKR is focused on lending to high-quality companies with a significant competitive moat. Meanwhile, the secured aspect of ABF is attractive today, where tariff-driven cost pressures are relevant.

Private credit generally offers higher yields than public markets



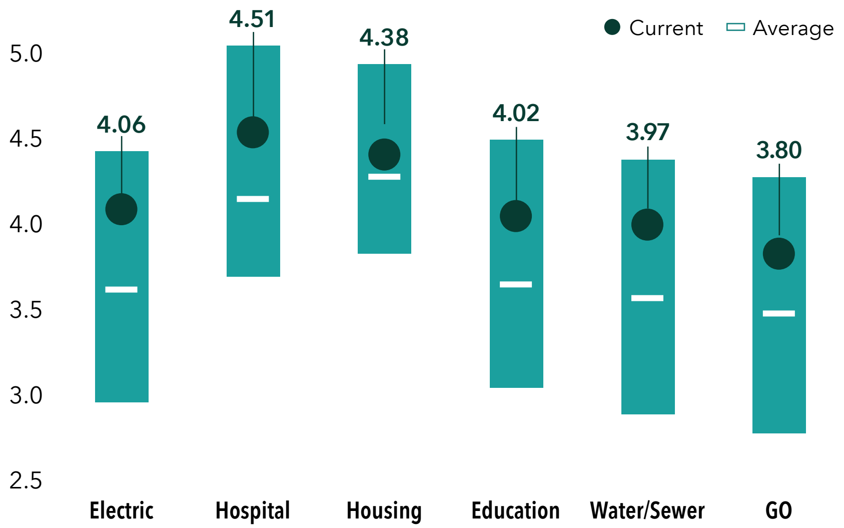
Sources: Bloomberg, Morningstar and Cliffwater. As of March 31, 2025. Direct lending represented by Cliffwater Direct Lending Index, leveraged loans by Morningstar LSTA US Leveraged Loan Index, U.S. high yield by Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index, and core bonds by Bloomberg U.S. Aggregate Index. KKR Credit Advisors (US) LLC serves as the sub-adviser with respect to the management of the fund's private credit assets. Capital Group ("the Adviser") and KKR are not affiliated. The two firms maintain an exclusive partnership to manage and deliver public-private investment solutions to investors. Investments in private credit and related strategies involve significant risks, including limited liquidity and potential loss of capital. These strategies may include exposure to low and unrated credit instruments, structured products, and derivatives, all of which carry heightened credit, market, valuation, and liquidity risks. Investors should consult with their financial professional when considering such strategies for their portfolios.

Past results are not predictive of results in future periods.

Munis may emerge strong amid volatility

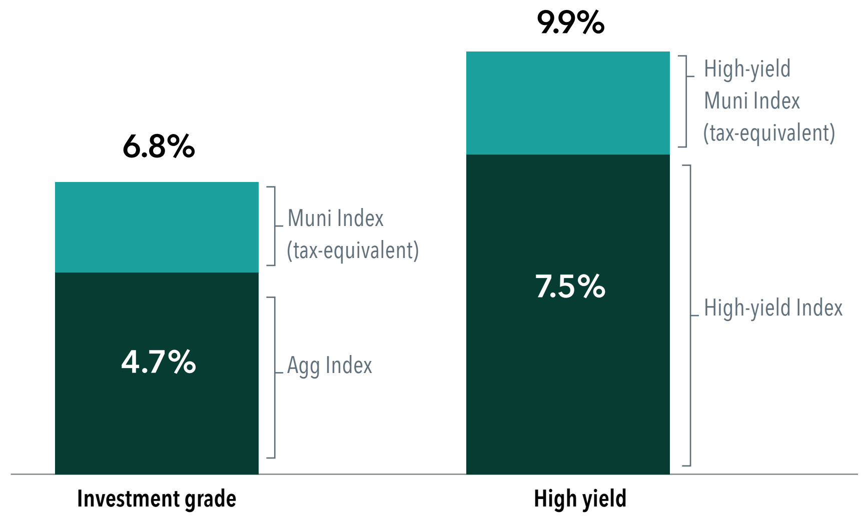
Potential bargains as valuations shift

Muni yields vs. two-year ranges across sectors (%)



Tax-exempt status a hallmark of munis

Yield to worst (%)



New leadership in Washington has shaken markets this year – and partially explains why municipal bonds lagged the broader taxable market. The Bloomberg Municipal Bond Index returned -1.03% vs. 3.18% for the Bloomberg U.S. Aggregate Index year to date through April.

"Although some policymakers have threatened to end the muni tax exemption, we believe it will ultimately remain in place. A seasonal start-of-the-year issuance glut that didn't meet demand has dissipated, so volatility may no longer disproportionally impact munis," says portfolio manager Lee Chu. "While the market dislocation was jarring, asset values retreated to more attractive entry points. Managers are leaning into security selection and pursuing issuers more likely to prove resilient."

Planned amortization class (PAC) bonds, which are affordable housing issuers that receive tax-exempt status, are one example. The defensive sector's AA-rated bonds provide yields in the same range as generic BBB-rated munis. We have exposure to PAC issuers located in states such as Missouri, where prices look attractive based on local real estate market fundamentals.

Elsewhere, the muni yield curve, which usually traces the Treasury yield curve, offers opportunity. "We have increased exposure to the long end of the muni curve because of its unusual dislocation," Chu notes.

Both investment-grade and high-yield municipal bonds can offer substantially more potential income to investors in higher tax brackets, when taking tax exemption into account.

Sources: Capital Group, Bloomberg Index Services Ltd. Current yields as of May 31, 2025. Average yield and two-year ranges are calculated from June 1, 2023, to May 31, 2025. Yields shown are tax-equivalent yields; the highest tax rate assumes the 3.8% Medicare tax and the top federal marginal tax rate for 2025 of 37%. GO is general obligation. Past results are not predictive of results in future periods.

Source: Bloomberg. Data as of May 31, 2025. Agg Index is the Bloomberg U.S. Aggregate Index, Muni Index is the Bloomberg Municipal Bond Index, High-yield Index is the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index and High-yield Muni Index is the Bloomberg Municipal High Yield Index. Tax-equivalent yield: Highest tax rate assumes the 3.8% Medicare tax and the top federal marginal tax rate for 2025 of 37%.

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 (also applies to **CGDG, CGGR, CGIE, CGNG, CGCP, CGSD, CGMS**).

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 (also applies to **CGCP, CGSD, CGMU, CGMS, CGHM**). Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds (also applies to **CGCP, CGMU, CGMS, CGHM**). Income from municipal bonds may be subject to state or local income taxes and/or the federal alternative minimum tax (also applies to **CGMU, CGHM**). Certain other income, as well as capital gain distributions, may be taxable. While not directly correlated to changes in interest rates, the values of inflation linked bonds generally fluctuate in response to changes in real interest rates and may experience greater losses than other debt securities with similar durations. 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 (also applies to **CGCP, CGSD, CGMS**). Investments in mortgage-related securities involve additional risks, such as prepayment risk, as more fully described in the prospectus (also applies to **CGCP, CGSD, CGMS**).

As nondiversified funds, **CGDG, CGGR, CGCV, CGIE, CGNG,CGSD, CGMU, CGMS, and CGHM** have the ability to invest a larger percentage of assets in the securities of a smaller number of issuers than a diversified fund. As a result, poor results by a single issuer could adversely affect fund results more than if the fund were invested in a larger number of issuers. See the applicable prospectus for details.

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. 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. 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 Municipal High Yield Index** is a market value-weighted index composed of municipal bonds rated below BBB/Baa. **Bloomberg U.S. Economic Policy Uncertainty Index** measures the level of uncertainty surrounding economic policy decisions in the United States and is calculated by counting the number of articles in newspapers that discuss economic policy uncertainty. **Bloomberg U.S. ABS (Asset-Backed Securities) Index** is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. **Bloomberg U.S. CMBS (Corporate Mortgage-Backed Securities) Investment Grade Index** measures the market of U.S. agency and U.S. non-agency conduit and fusion CMBS deals with a minimum current deal size of $300mn. **Bloomberg Non-Agency RMBS (Residential Mortgage-Backed Securities) Index** measures the market of mortgage-backed securities created by private entities that do not carry a government guarantee. Non-agency RMBS are divided into tranches of differing credit quality.

Cliffwater Direct Lending Index consists of private middle market loans and was created to measure private loan performance and to better understand its investment characteristics.

Morningstar LSTA US Leveraged Loan Index is a market-value weighted index designed to measure the performance of the U.S. leveraged loan market.

MSCI All Country World ex USA Index is a free float-adjusted market capitalization-weighted index designed to measure equity market results in the global developed and emerging markets, excluding the United States. The index consists of more than 40 developed and emerging market country indexes. **MSCI Emerging Markets Index** captures large- and mid-cap representation across 27 emerging markets (EM) countries.

Russell 1000 Growth Index measures the results of the large-cap growth segment of the U.S. equity universe. **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. **Russell 2000 Index** measures the performance of 2,000 small-cap stocks.

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.

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2025 **Midyear Outlook**

CAPITAL GROUP®

Investment implications and strategies to consider

Themes	Selective growth and dividend opportunities	International equity opportunities	Core bond opportunities	Credit opportunities
	World in transition opens opportunity for companies and investors	**New catalysts for growth emerge in Europe**	**Bonds can provide stability when stocks decline**	**Bond income is back**
Investment implications	Amid a shifting global landscape, governments prioritize security and multinational companies go multi-local. During bouts of volatility, dividends can cushion the blow.	Higher government spending in Europe may trigger a stronger industrial cycle, as global innovators pursue new growth opportunities.	Bonds typically offer strong income opportunities and a measure of protection from equity market swings.	Steady income potential is possible as yields stabilize at elevated levels.
Mutual funds	**Washington Mutual Investors Fund** A – AWSHX; F-2 – WMFFX; F-3 – FWMIX; R-6 – RWMGX **American Mutual Fund®** A – AMRMX; F-2 – AMRFX; F-3 – AFMFX; R-6 – RMFGX **The Growth Fund of America®** A – AGTHX; F-2 – GFFFX; F-3 – GAFFX; R-6 – RGAGX	**American Funds® International Vantage Fund** A – AIVBX; F-2 – AIVFX; F-3 – AIVGX; R-6 – RIVGX **New World Fund®** A – NEWFX; F-2 – NFFFX; F-3 – FNWFX; R-6 – RNWGX **New Perspective Fund®** A – ANWPX; F-2 – ANWFX; F-3 – FNPFX; R-6 – RNPGX	**The Bond Fund of America®** A – ABNDX; F-2 – ABNFX; F-3 – BFFAX; R-6 – RBFGX **American Funds® Strategic Bond Fund** A – ANBAX; F-2 – ANBFX; F-3 – ANBGX; R-6 – RANGX **The Tax-Exempt Bond Fund of America®** A – AFTEX; F-2 – TEAFX; F-3 – TFEBX	**American Funds® Multi-Sector Income Fund** A – MIAQX; F-2 – MIAYX; F-3 – MIAZX; R-6 – RMDUX **American High-Income Trust®** A – AHITX; F-2 – AHIFX; F-3 – HIGFX; R-6 – RITGX **American High-Income Municipal Bond Fund®** A – AMHIX; F-2 – AHMFX F-3 – HIMFX
Separately managed accounts (SMAs) New accounts may require more than four to eight weeks to be fully invested.	**Capital Group U.S. Income and Growth** **Capital Group U.S. Flexible Growth** **Capital Group U.S. Conservative Growth and Income**	**Capital Group International Equity** **Capital Group International Growth** **Capital Group World Dividend Growers**	**Capital Group Short Municipal** **Capital Group Intermediate Municipal** **Capital Group Long Municipal**	
Exchange traded funds (ETFs)	**Capital Group Dividend Value ETF** CGDV **Capital Group Growth ETF** CGGR **Capital Group Conservative Equity ETF** CGCV	**Capital Group International Equity ETF** CGIE **Capital Group Dividend Growers ETF** CGDG **Capital Group New Geography Equity ETF** CGNG	**Capital Group Core Plus Income ETF** CGCP **Capital Group Short Duration Income ETF** CGSD **Capital Group Municipal Income ETF** CGMU	**Capital Group U.S. Multi-Sector Income ETF** CGMS **Capital Group Municipal High-Income ETF** CGHM

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*Source: Marketing Support: The Advisor View, May 2025, June 2024, 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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