

5 keys to investing in 2025





Rob Lovelace

is an equity portfolio manager with 39 years of investment industry experience.* He is chair of Capital International, Inc., and is a manager for New Perspective Fund® and Capital Group New Geography Equity ETF.

As we embark on a new year, the investment landscape in 2025 is rapidly evolving, presenting challenges and opportunities for investors.

The global economic outlook is improving, particularly in the United States. Investors from around the world are attracted to the U.S. given its many advantages, including an entrepreneurial spirit, access to capital and the kind of robust infrastructure needed to support growth.

This environment has fostered incredible innovation, especially related to artificial intelligence and drug discovery. We call them megatrends, and they have started to create opportunities in a host of other areas, from industrial companies to the energy sector.

Despite persistent anxiety among investors, in my view the long-term outlook remains bright. Whether I'm talking with young entrepreneurs or experienced leaders of established companies, I've found there is genuine excitement about the future. The investment landscape will continue to evolve. Staying focused on the fundamentals with a multi-year horizon will be key to successfully navigating these changes.

With that in mind, I invite you to read and share this report, where we highlight five critical takeaways to consider as you evaluate your investments. And although it's called *5 keys to investing in 2025*, each of these themes should have a lasting impact for years to come.

*Years of experience for all investment professionals are as of December 31, 2024.



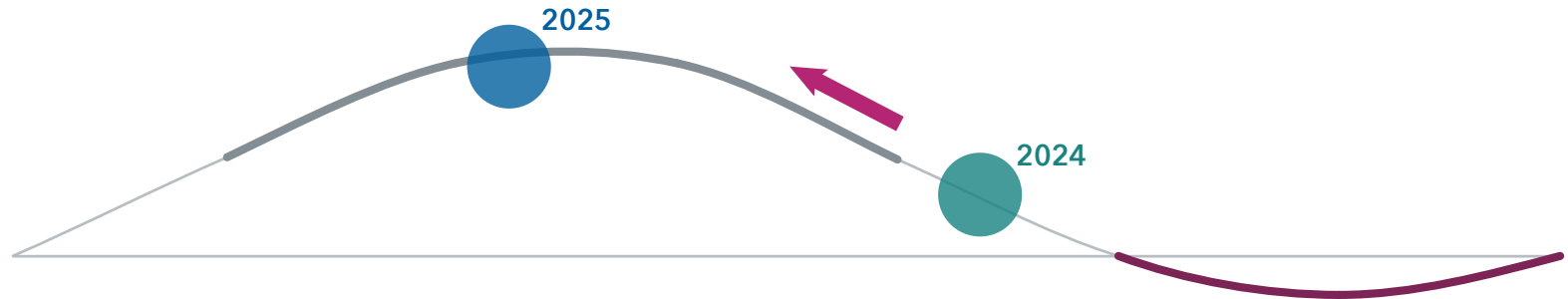
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1 | Welcome to the Benjamin Button economy



Jared Franz
is an economist with 19
years of investment industry
experience.

The U.S. business cycle appears to be aging in reverse



Annualized total returns of U.S. stocks by stage of business cycle

14.8%

Early

Economic activity accelerates
Hours worked rises
Central bank eases

14.0%

Mid

Profit margins peak
Employment improves
Credit demand picks up

8.9%

Late

Labor markets tighten
Profit margins contract
Central bank tightens

-9.4%

Recession

Economic activity declines
Credit contracts
Unemployment rises

If you're a fan of Brad Pitt movies or Capital Group's *2025 Outlook* report, you're probably familiar with the concept of aging in reverse. And while the Benjamin Button character is a work of fiction, the reversal of the U.S. business cycle has very real implications for investors.

"Instead of moving through the typical four-stage cycle that has defined the post-World War II era, the U.S. economy appears to be shifting from late-cycle back to mid-cycle," says Capital Group economist Jared Franz.

The U.S. economy is benefiting from rising corporate profits, accelerating credit demand, softening cost pressures and a shift toward neutral monetary policy. "We saw all four of those in 2024," Franz notes. "Going forward, I believe the U.S. is

headed for a multi-year expansion period, perhaps fending off a recession until 2028."

This also provides a favorable backdrop for stocks. Based on an analysis of returns during previous business cycles, we found that stocks posted a robust 14% return during the mid-cycle stage. This is notably higher than returns during a late-cycle environment. The move back to mid-cycle also effectively postpones the start of the next recession – periods when stock returns have historically been their worst.

Sources: Capital Group, MSCI. Positions within the business cycle are forward-looking estimates by Capital Group economists as of December 2023 (2024 bubble) and December 2024 (2025 bubble). The views of individual portfolio managers and analysts may differ. Returns data is monthly from December 1973 to August 2024 and includes all completed cycle stages through November 30, 2024. Data is Datastream U.S. Total Market Index from December 31, 1973 through December 31, 1994 and MSCI USA Index data thereafter. Past results are not predictive of results in future periods.

2 | Industrial renaissance is fueling a new era of growth



Lara Pellini

is an equity portfolio manager with 23 years of investment industry experience. She is a manager for The New Economy Fund.®

From the American heartland to the arid desert, an industrial renaissance is underway. Capex projects are popping up across the U.S., boosting local economies and creating opportunities for select companies.

TSMC's \$65 billion build-out of a semiconductor production facility in Arizona is one notable example. It is expected to create thousands of manufacturing and construction jobs. But for every megaproject, there are dozens that remain under the radar. Eli Lilly, for example, is investing \$4.5 billion to create a new drug development and manufacturing center that could bring hundreds of jobs to Indiana.

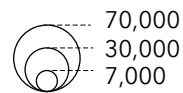
To be sure, this activity is happening outside America, too. The build-out of data centers, rising travel demand and the

development of new energy sources are creating growth opportunities for Europe's industrial titans. In emerging markets, the near-shoring movement is leading to a rewiring of supply chains and the construction of new trade hubs.

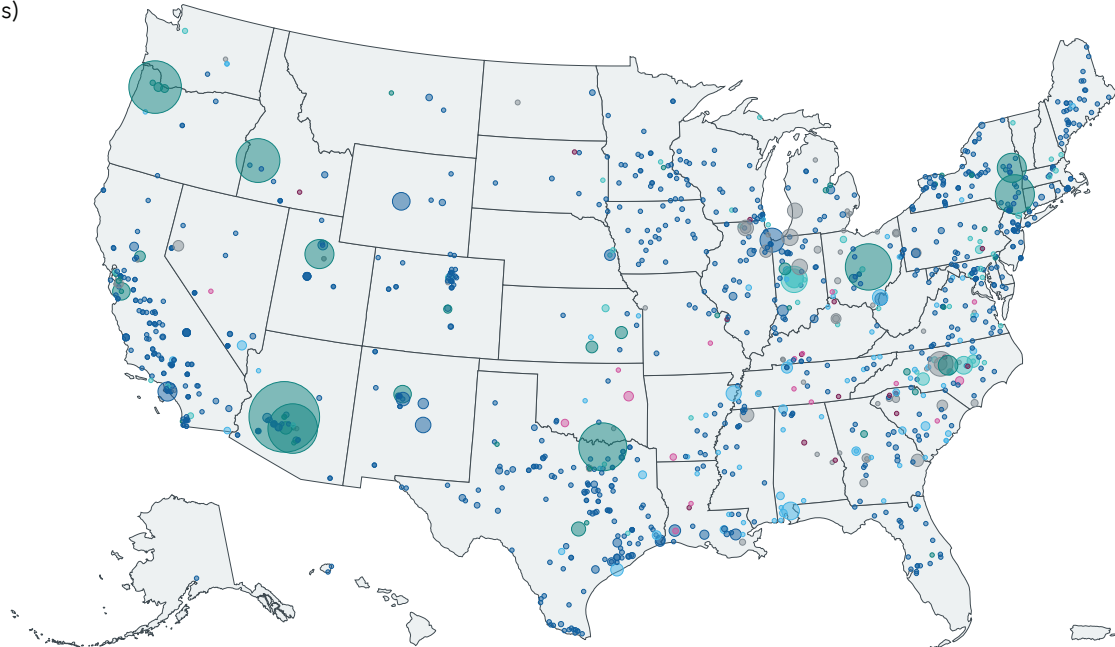
"These trends represent multi-decade investment opportunities, and we are only in the early innings," says equity portfolio manager Lara Pellini. "Industrial powerhouses in the U.S. and Europe are solidifying their foothold in areas ripe for long-term global growth."

Investing in America: Grassroots manufacturing has surged

Investment (est. USD millions)



- Automobiles
- Energy
- Mining
- Industrials
- Health care
- Consumer staples
- Semiconductors



Sources: Capital Group, AreaDevelopment.com, Clean Investment Monitor, U.S. Census Bureau, Whitehouse.gov, company reports. Map markers reflect current and upcoming projects that have been announced as of November 30, 2024. Data reflect a sample of infrastructure and manufacturing investments across the U.S., and estimated investment amounts are expected to occur over various timelines. Capital expenditure (capex) is money invested for acquisitions, upgrades, renovations and adoption. It can be tangible (i.e., real estate) or intangible (i.e., licenses, software).

5 KEYS TO INVESTING IN 2025

3 | AI megatrend could boost stocks for years



Mark Casey is an equity portfolio manager with 24 years of investment industry experience. He is a manager for The Growth Fund of America® and Capital Group Growth ETF.

Artificial intelligence has captured the minds of the public and investors, conjuring up images of a futuristic world completely reshaped by intelligent machines. Overhyped? Probably. Even more opportunities ahead? Also probably true.

That's because we tend to overestimate megatrends in the short term while underestimating them in the longer term. With some megatrends, such as smartphones or driverless cars, we could reasonably create estimates based on known quantities like global populations or number of cars.

"But how do we measure the value of better intelligence?" equity portfolio manager Mark Casey asks. "One of the most interesting things about AI is that it's hard to predict how big it will become."

Because it can take on a multitude of human tasks, I consider the AI market to be unknowably massive."

Outside of its tech applications, AI will also create opportunities in some unexpected places. The build-out of data centers requires vast physical resources, including copper, capital equipment and a lot of electricity. Soaring demand for these resources has been a boon for old economy industries including utilities, industrials and mining companies.

Investors tend to underestimate the long-term impact of new technology

Megatrend	PC	Internet	Mobile	Cloud	AI
	PC users in 2000	Internet users in 2000	Smartphone shipments in 2013	Top 3 cloud provider revenue in 2020	AI market size
Initial forecast	225mn	152mn	657mn	\$90.2bn	\$1.8 trillion
Actual	354mn	361mn	1,019mn	\$115.6bn	?
Underestimation	36%	58%	36%	22%	?

Sources: Morgan Stanley AI Guidebook: Fourth Edition, January 23, 2024; Next Move Strategy Consulting, Statista. Initial forecast dates were February 1996 for PC and internet users; January 2010 for smartphone shipments; March 2017 for cloud revenue; and January 2023 for AI market size.

4 | Drug discovery is creating a golden age of health care



Cheryl Frank is an equity portfolio manager with 27 years of investment industry experience. She is a manager for American Mutual Fund® and Capital Group Conservative Equity ETF.

Pharmaceutical companies will be under the microscope in 2025.

Following last year's U.S. election, uncertainty over the industry's regulatory outlook sparked a slump in health care stocks, further pressuring a sector that had lagged throughout the year. But following the sell-off, many companies are trading at attractive valuations, creating opportunities for investors with a long-term approach.

"That includes forgotten pharma, or drugmakers that don't offer weight loss treatments," according to equity portfolio manager Cheryl Frank. "I am looking for opportunities to invest in dividend payers that have been left behind by the market."

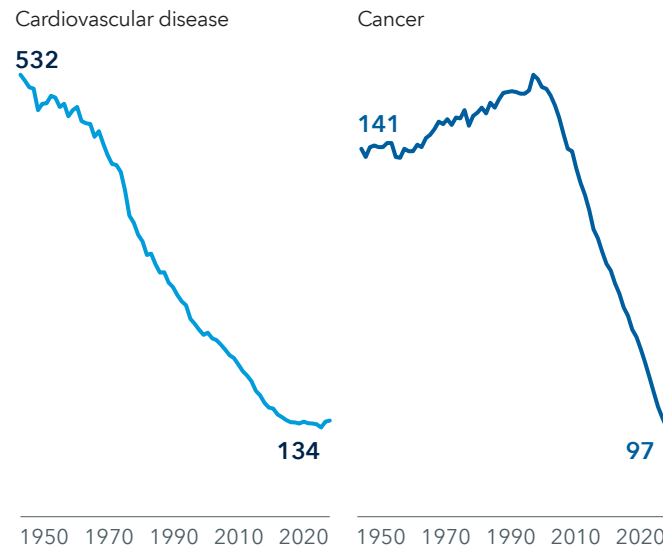
While weight loss drugs, such as GLP-1s, tend to capture the spotlight, advances are being made on many other fronts. The largest pharmaceutical companies have more than two hundred drugs in their pipelines.

As these companies tackle some of the world's most debilitating ailments, patients have experienced lower mortality rates and longer life expectancies. Over the next decade, we could see cures for conditions such as ALS, sickle cell and muscular dystrophy.

Risks are always present when investing in biotech and pharma companies, but we could be at the start of a golden age of health care – for patients and for investors.

Leading pharma and biotech companies are treating diseases and increasing life expectancies

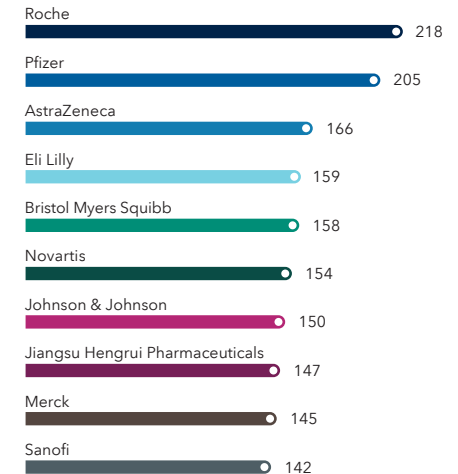
Mortality rate (per 100k population)



Life expectancy (years)



Pharmaceuticals, by # of drugs in pipeline



Sources: Our World in Data, Statista, World Health Organization. 2021 is the most recently available mortality rate data. 2023 is the most recently available life expectancy data. Pipeline data is as of November 30, 2024.

5 | There are always reasons not to invest



Graham Holloway

Past chairman of American Funds Distributors, now known as Capital Client Group, Inc.

Imagine going back in time to New Year's Day 2020 and learning in advance about the biggest events over the next five years. The COVID-19 pandemic. A steep bear market. Inflation above 9%. Wars in Ukraine and the Middle East. A trade war with China. Political uncertainty in the U.S.

With that knowledge of the outlook, would you want to invest in stocks? Probably not.

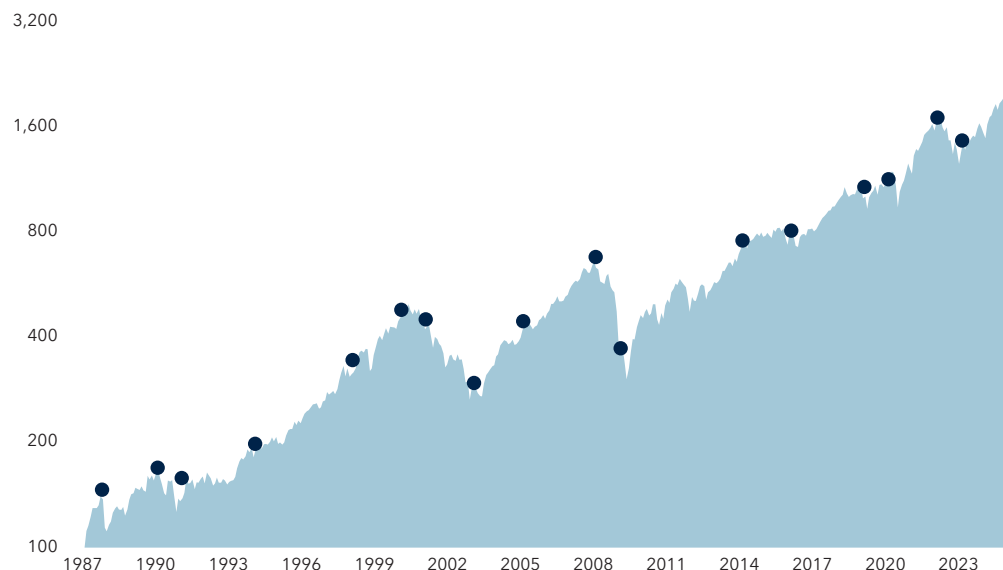
"In my 25 years in the mutual fund business, I have never known a good time to invest. There are always a dozen reasons why it makes sense to wait. We have a new president, strife in the Middle East, excessive government regulation, oppressive tax rates and a Congress that is more part of the problem than the solution," says former Capital Group executive Graham Holloway. Although that may sound like a reflection of the current environment, Holloway's quote is from 1981.

The point is there are always reasons not to invest, and that's no different today than it was in 2020 or 1981. But markets have been resilient over time. And investors have typically been rewarded for overlooking near-term uncertainty and keeping focus on their long-term investment goals.

So, going back to New Year's 2020, what would have happened if you ignored all the troubling events on the horizon and had stayed invested? Since then, the S&P 500 Index has risen more than 100%.

Markets have remained resilient in the face of turmoil and uncertainty

MSCI World Index



• Examples of market crises since 1987

- 1987 Black Monday
- 1990 Kuwait invasion
- First Gulf War
- 90's recession
- 1991 Collapse of the Soviet Union
- 1994 Peso crisis
- 1998 Ruble crisis
- Collapse of Long Term Capital Management
- Asian Financial Crisis
- Y2K
- 2000 Popping of the tech bubble
- 2001 9-11
- 2003 SARS
- Second Gulf War
- 2005 Avian Flu
- 2008 Global financial crisis
- 2009 Swine Flu
- 2014 Russian invasion of Ukraine
- 2016 Brexit vote
- 2019 Hong Kong riots
- 2020 COVID-19
- 2022 Russian invasion of Ukraine
- 2023 Israel-Hamas war

Sources: MSCI, RIMES. As of 12/31/24. Data is indexed to 100 on January 1, 1987. Shown on a logarithmic scale. Years listed refer to the starting year of each event. Past results are not predictive of results in future periods.

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3 AI megatrend could boost stocks for years

4 Drug discovery is creating a golden age of health care

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Voted #1

for thought leadership by advisors since 2019*

2019	2020	2021	2023	2024

*Source: Marketing Support: The Advisor View, 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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