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# Midyear Outlook in 5 charts

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At the midpoint of 2026, a recognizable theme has emerged. In the first few months of the year, stocks have reached a series of new highs in the face of daunting world events. Market volatility – triggered by wars in the Middle East and Ukraine, higher oil prices, elevated inflation, nervous consumers and concerns about a potential AI bubble – has not derailed key market indexes.

Whether that resilience holds depends on how these same forces evolve. Geopolitical tension and the midterm elections in the United States continue to add uncertainty. At the same time, the buildout of AI infrastructure remains a powerful tailwind. With innovative drug development, healthcare companies are enjoying rapid sales growth. Meanwhile, bonds are protecting against downside risk and helping smooth the ride for investors during periods of heightened market volatility.

We highlight five charts that help explain our outlook for the rest of 2026 and beyond, focusing on what’s driving markets today and where opportunities may lie ahead.

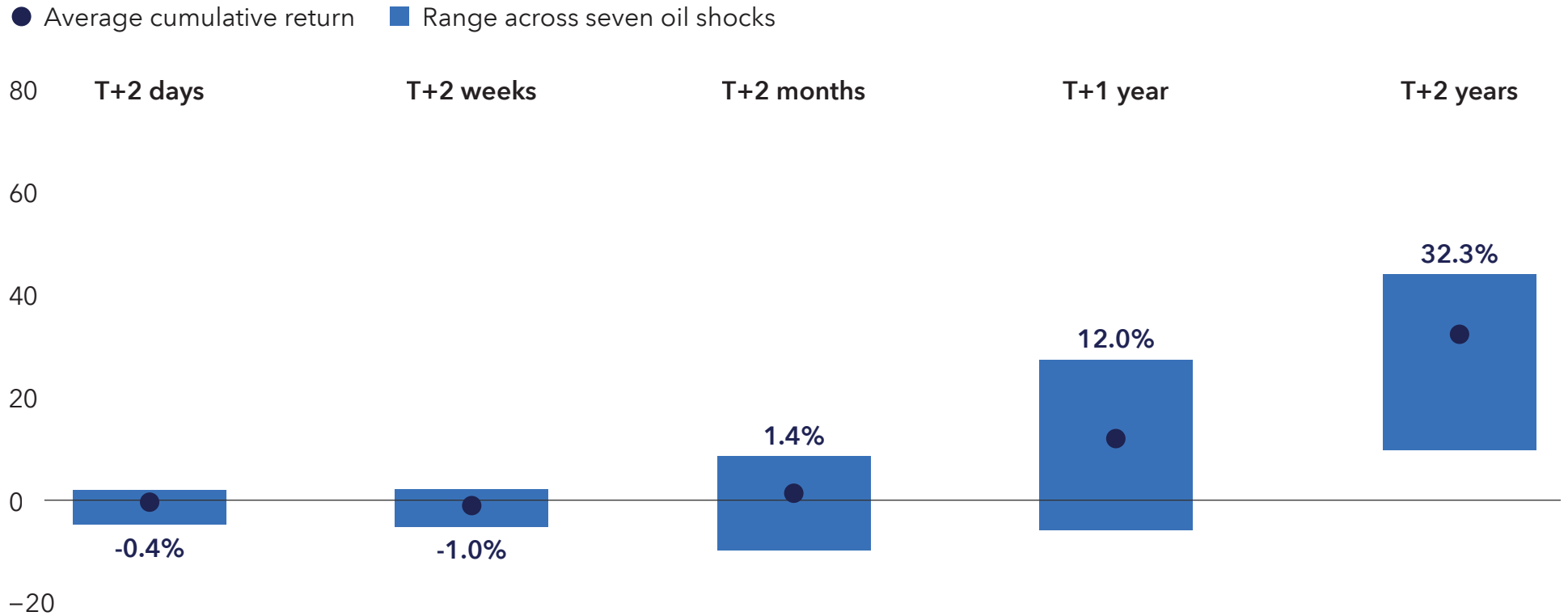
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# 1

## Market selloffs tied to oil supply shocks have been short-lived

Oil shocks are common sources of market volatility, yet stocks have historically climbed higher

S&P 500 Index returns following geopolitical-related oil supply disruptions, 1990-2024



The Iran war is a stark reminder that the world still runs on oil. When supply is threatened, the impact of higher oil prices spreads quickly to businesses, consumers, and global markets.

When geopolitical shocks don't result in prolonged physical supply outages, markets have bounced back quickly. Across seven oil supply shocks since

the First Gulf War in the 1990s to Russia's invasion of Ukraine in 2022, equities fell on average by 1% two weeks following the disruption, then rose 1.4% a month later, 12% a year later and 32.3% over the next two years.

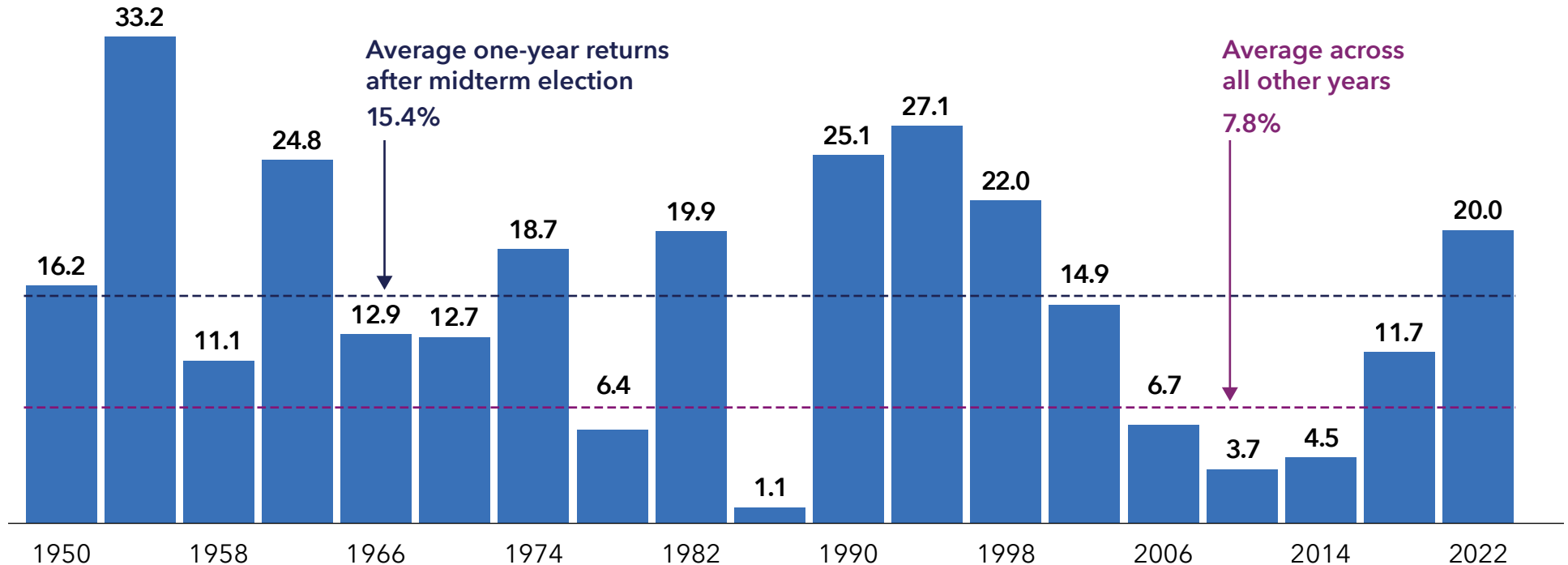
It highlights that markets are forward-looking and may already be anticipating a resolution to the present crisis.

Sources: Capital Group, Bloomberg, S&P Global. Geopolitical shocks include: Gulf War (8/1990), Second Gulf War (3/2003), Niger Delta supply disruptions (2/2006), Arab Spring, Libya Civil War (2/2011), Hormuz closure risk, Iran sanctions (12/2011), Drone attack on Saudi installations (9/2019), Russian invasion of Ukraine (2/2022). Event dates are aligned to the nearest observable market price ("T"). If a shock occurs on a non-trading day, the prior trading day is used as the start date. Horizon returns are measured using the first available trading day on or after the stated calendar horizon (e.g. "T+2 days"). Figures reflect total returns. As of May 31, 2026. Past results are not predictive of results in future periods.

## Markets have rebounded sharply after midterm elections

History shows markets strengthened once election-related uncertainty lifted

S&P 500 Index price return one year after midterm election



As most people know, the party in power tends to lose ground in the midterm. Leading up to the election, that uncertainty can stir market volatility. But once the results are decided, markets tend to rally. In fact, the average return in the year after a midterm election year is 15.4%, which is roughly double all other years.

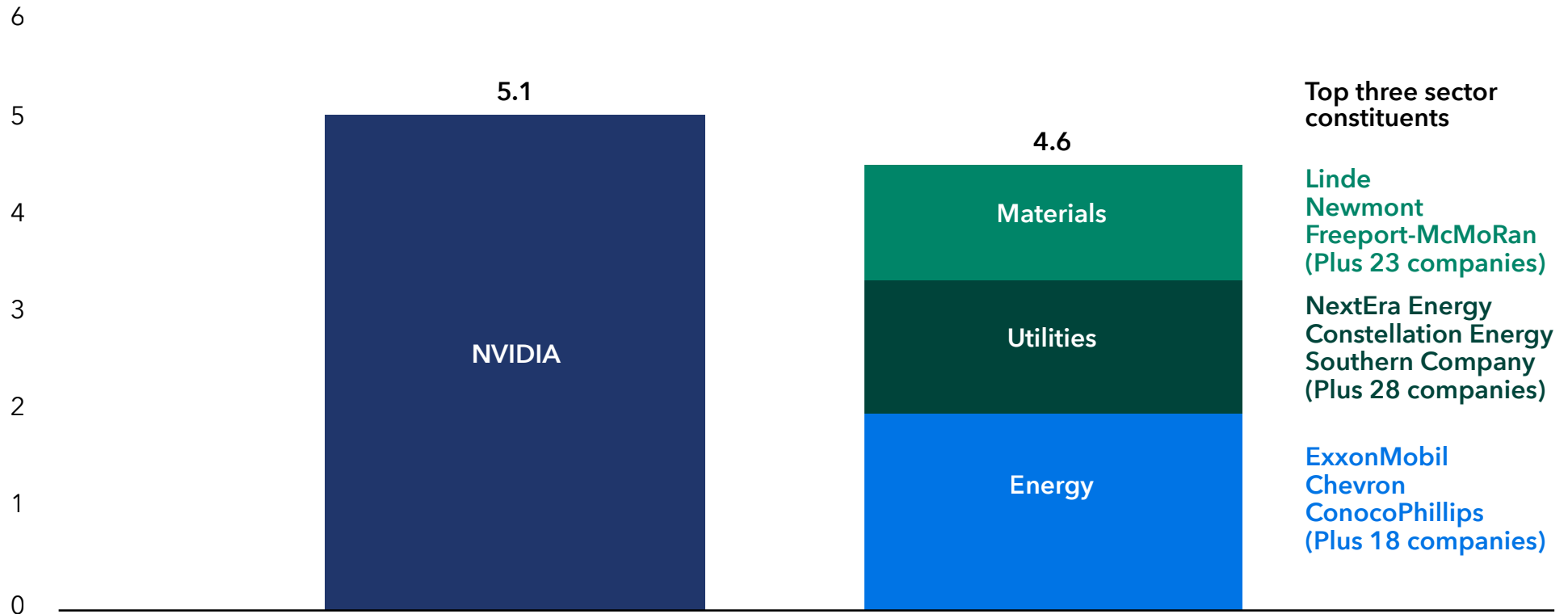
Every cycle is different, though, and elections are just one of many factors influencing market returns. So far, the competing forces of rising corporate earnings, the Iran war and a powerful rally in AI stocks are driving market activity, but that could change as investors turn their attention to what is likely to be a polarized election.

Sources: Capital Group, RIMES, S&P Global. Calculations use Election Day as the starting date in all election years, and November 5 as a proxy for the starting date in other years. Only midterm election years are shown in the chart. As of December 31, 2025. Price returns exclude the reinvestment of dividends and capital distributions. Past results are not predictive of results in future periods.

# 3 | Physical economy stocks are poised for a comeback

A comparison to NVIDIA suggests potential value in major sectors

Market cap (USD trillions)



We may be living in an AI world, but that's no reason for investors to ignore old economy companies.

NVIDIA's market capitalization has climbed to \$5.1 trillion, as of May 31, 2026, driven by massive spending to build data centers. To put that in perspective, NVIDIA's market cap is larger than the combined value of three major sectors

in the S&P 500 Index: energy, utilities and materials. This means investors could have a broader opportunity set, beyond big tech, into the companies supplying the tools that make AI possible, for example, Caterpillar's power generation equipment used in data centers.

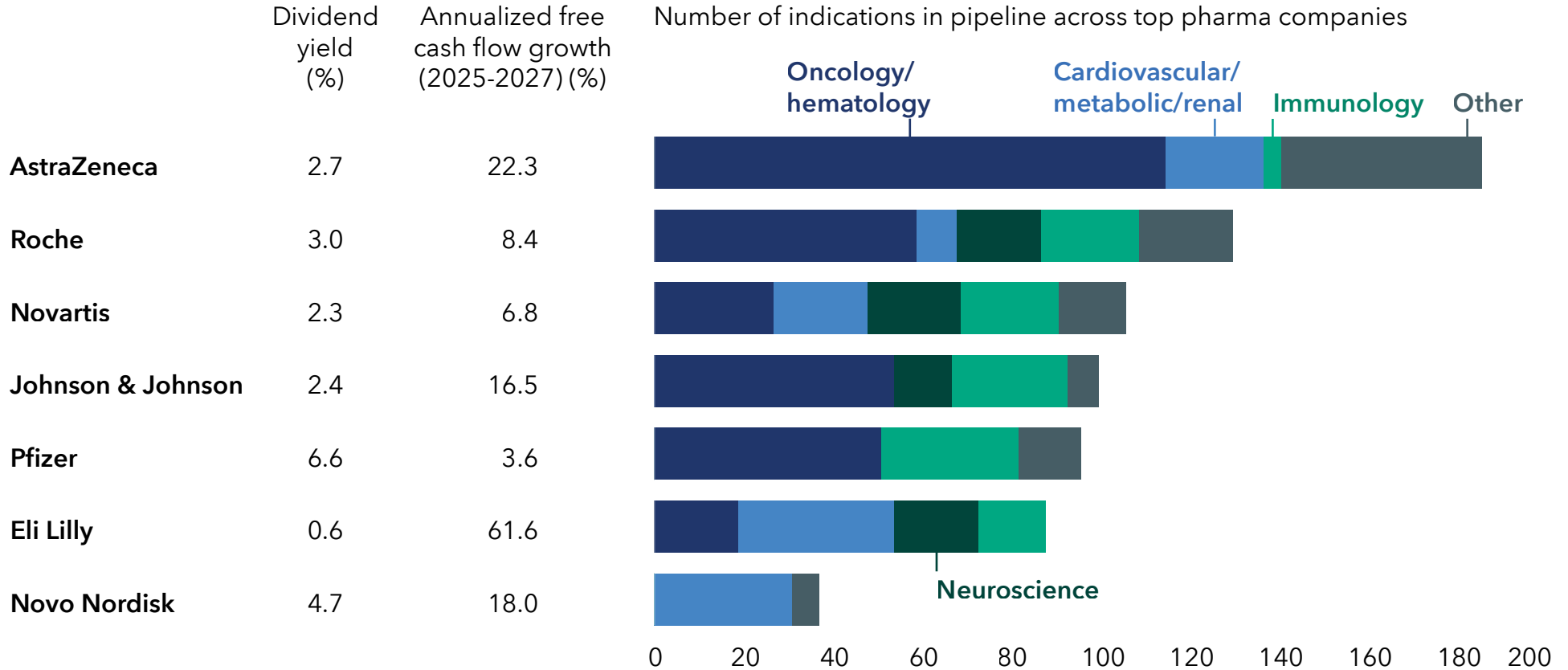
Energy and utilities also offer opportunities to diversify portfolios while providing steady dividends and exposure to AI.

Sources: Capital Group, FactSet, RIMES, S&P Global. As of May 31, 2026. Companies shown are the three largest in their respective sectors within the S&P 500 Index. Caterpillar is the S&P 500 Index industrials sector's largest company by market capitalization.

# 4

## Innovation and income: Healthcare’s powerful combination

### Robust drug pipelines and free cash flow support long-term return potential



Deep pipelines provide pharmaceutical companies with a powerful growth engine and reduce reliance on any single product. Many also generate healthy free cash flow, allowing them to return capital to shareholders through dividends or strengthen pipelines through targeted acquisitions.

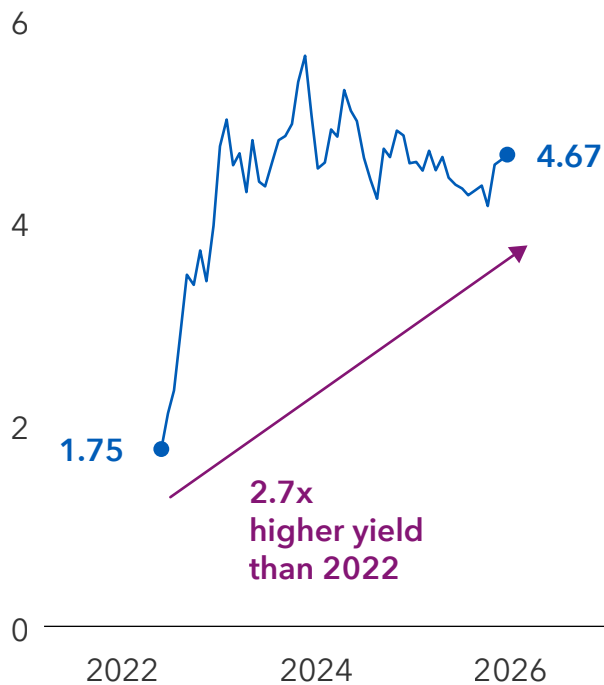
AstraZeneca, for example, has a well-established range of oncology franchises. To drive future growth potential, it has assets targeting everything from heart disease, chronic kidney problems to metabolic conditions. The combination of innovation-led of innovation-led growth and dividend defensiveness can potentially enhance portfolio resilience while still offering compelling upside.

Sources: Capital Group, Bloomberg, MSCI, RIMES, company reports. Dividend yield is represented by the forward 12-month dividend yield based on latest consensus figures and company announcements. Free cash flow growth is annualized based on 2026 and 2027 consensus estimates. Pipeline figures based on data available from individual company webpages and includes drugs in Phase 1 to 3 of clinical trials or in the filing stage. Pharmaceutical companies listed represent seven of the largest constituents of the MSCI All Country World Pharmaceuticals Index. Pipelines up to date as of calendar Q1 2026 financial reporting except for Eli Lilly, which is as of calendar year 2025. As of May 31, 2026.

# 5 | Bonds hit a sweet spot for income and diversification

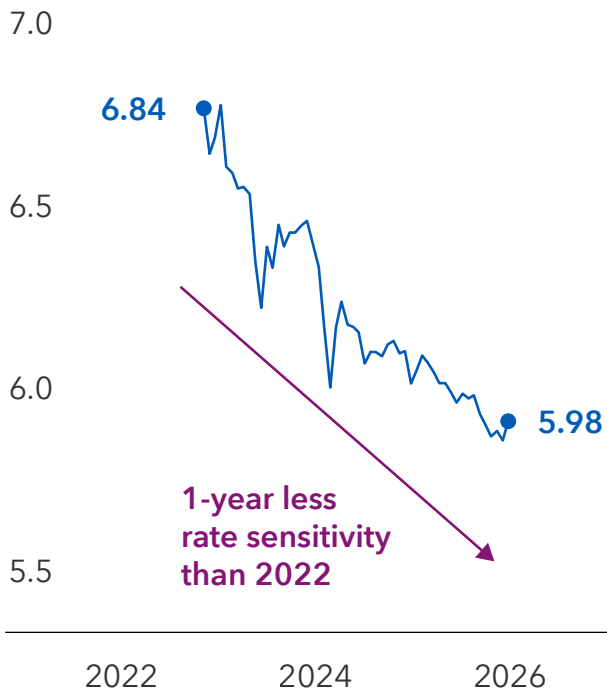
## Higher return potential

Bloomberg U.S. Agg. yield to worst (%)



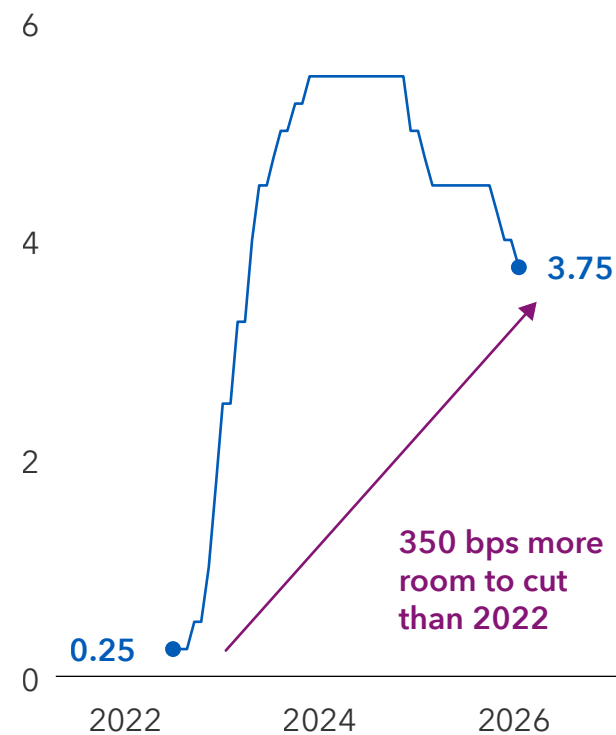
## Less interest rate risk

Bloomberg U.S. Agg. duration (years)



## Stronger diversification from equities

Fed funds rate (%)



Bonds have reclaimed their role in portfolios, offering stronger return potential and better diversification at a time when investors need both.

Starting yields of roughly 4.5% to 5% for the Bloomberg U.S. Aggregate Index provide a solid baseline return expectation and have historically been a good guide to future returns. That income also helps cushion portfolios amid uncertainty around growth and inflation.

This is a sharp contrast to 2022, when yields were below 2% and policy flexibility was limited. Bonds today are less sensitive to interest rate risks. Moreover, bonds may provide stronger diversification in equity selloffs, given the Federal Reserve has ample room to cut interest rates.

Sources: Capital Group, Bloomberg. As of May 31, 2026. Duration is a measure of a bond's price sensitivity to interest rate changes, expressed in years. Yield to worst is the lowest possible annualized return an investor could receive, assuming no default and that the bond is called, put or held to maturity. Fed funds target rate reflects upper bound of range.

# Midyear Outlook in 5 charts



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**S&P 500 Index** tracks the stocks of around 500 primarily large-cap, U.S. based companies.

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