Volatility 2020: Weathering the storm

Recession watch

Volatility2020.com
MFGEBR-129-0420 8260-S76613
© 2020 Capital Group. All rights reserved.

Slides intended for exclusive use with webinar presentation. Not for distribution.
Figures shown are past results and are not predictive of results in future periods.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.
Global equity markets have powered through past viral outbreaks

MSCI ACWI index levels

Sources: Centers for Disease Control and Prevention, RIMES, MSCI. As of 3/9/20. Chart shown on a logarithmic scale. Total return index levels in USD, indexed to 100 on 12/31/2000. Disease labels are estimates of when the outbreak was first reported.
Stocks have typically been a leading indicator of the economy

Sources: Capital Group, U.S. Federal Reserve Board, Haver Analytics, National Bureau of Economic Research, Standard & Poor’s. Data reflect the average change in the S&P 500 Index and economic activity (using industrial production as a proxy) of all completed economic cycles from 1950 to 2019. The “cycle peak” refers to the highest level of economic activity in each cycle before the economy begins to contract. Both lines are indexed to 100 at each economic cycle peak, and also indexed to 0 “months before/after cycle peak” on the x-axis. The negative values (left of the cycle peak) reflect the average change in each line in the months leading up to the cycle peak. The positive values (right of the cycle peak) indicate the average changes after the cycle peak.
Virus-prone sectors have grown in economic importance recently

Sources: Capital Group, Haver Analytics. Industries included: wholesale trade; retail trade; arts, entertainment and recreation; hotels, airlines and food service. GDP data as of 9/30/19. Employment data as of 2/29/20.
A recession in 2020 could be above average in severity

Change in real GDP during previous U.S. recessions (%)

- Mar 2001: 0.2%
- Dec 1969: -0.2%
- Apr 1960: -0.8%
- Jul 1990: -1.4%
- Nov 1948: -1.7%
- Average: -1.9%
- Jul 1953: -2.0%
- Jan 1980: -2.2%
- Jun 2020 (estimate): -2.5%
- Jul 1981: -2.6%
- Nov 1973: -3.1%
- Aug 1957: -3.6%
- Dec 2007: -4.0%

Recessions are painful, but expansions have been powerful

50% Cumulative GDP growth (%)

Months
GDP growth
Net jobs added

AVERAGE EXPANSION
69
24.7%
12M

AVERAGE RECESSION
11
-1.8%
-1.9M

Sources: Capital Group, National Bureau of Economic Research, Refinitiv Datastream. As of 12/31/19. Since NBER announces recession start and end months, rather than exact dates, we have used month-end dates as a proxy for calculations of jobs added. Nearest quarter-end values used for GDP growth rates. GDP growth shown on a logarithmic scale.
Fed target rate is approaching policy rates in other countries

Source: Refinitiv Datastream. All data as of 3/16/2020.
Appetite for debt has altered corporate America’s credit profile

Size of BBB-rated corporate bond market has quadrupled to $2.9 trillion since 2008

Source: Bloomberg Index Services Ltd. As of 9/30/19. Includes all issuances within the Bloomberg Barclays U.S. Corporate and Bloomberg Barclays U.S. Corporate High Yield indexes. 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.
Core bond funds have provided diversification from equities

Cumulative returns (%) during recent market corrections exceeding 12%

<table>
<thead>
<tr>
<th>Event</th>
<th>Core Category Average</th>
<th>Core-Plus Category Average</th>
<th>Multisector Bond</th>
<th>S&amp;P 500 Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>FLASH CRASH</td>
<td>2.5</td>
<td>1.9</td>
<td>-0.8</td>
<td>-15.6</td>
</tr>
<tr>
<td>U.S. DEBT DOWNGRADE</td>
<td>3.9</td>
<td>2.3</td>
<td>-4.0</td>
<td>-18.6</td>
</tr>
<tr>
<td>OIL PRICE SHOCK</td>
<td>1.3</td>
<td>-0.3</td>
<td>-4.6</td>
<td>-12.7</td>
</tr>
<tr>
<td>GLOBAL SELLOFF</td>
<td>1.3</td>
<td>0.6</td>
<td>-1.6</td>
<td>-19.4</td>
</tr>
<tr>
<td>CORONAVIRUS CRISIS</td>
<td>0.7</td>
<td>-1.8</td>
<td>-7.1</td>
<td>-29.4</td>
</tr>
</tbody>
</table>

Source: Morningstar. Dates shown for market corrections are based on price declines of 10% or more (without dividends reinvested) in the unmanaged S&P 500 with at least 50% recovery persisting for more than one business day between declines for the earlier four periods shown. The most recent period is still in correction phase as of 3/16/20. The returns are based on total returns. The Core category contains portfolios that invest primarily in investment-grade U.S. fixed-income issues and hold less than 5% in below-investment-grade exposures. The Core-Plus category contains portfolios that invest primarily in investment-grade U.S. fixed-income issues but have greater flexibility than core offerings to hold non-core sectors such as corporate high yield, bank loan, emerging markets debt and non-U.S. currency exposures. The Multisector Bond category contains portfolios that seek income by diversifying their assets among several fixed-income sectors, usually U.S. government obligations, U.S. corporate bonds, foreign bonds and high-yield U.S. debt securities.
Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.

Standard & Poor’s 500 Composite Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks. The MSCI ACWI is a free float-adjusted market capitalization-weighted index that is designed to measure equity markets results in the global developed and emerging markets, consisting of more than 40 developed and emerging market country indexes.

Bloomberg® is a trademark of Bloomberg Finance L.P. (collectively with its affiliates, “Bloomberg”). Barclays® is a trademark of Barclays Bank Plc (collectively with its affiliates, “Barclays”), used under license. Neither Bloomberg nor Barclays approves or endorses this material, guarantees the accuracy or completeness of any information herein and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

©2020 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. You may not redistribute the MSCI data or use it as a basis for other indices or investment products.

Standard & Poor’s 500 Composite Index (“Index”) is a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by Capital Group. Copyright © 2020 S&P Dow Jones Indices LLC, a division of S&P Global, and/or its affiliates. All rights reserved. Redistribution or reproduction in whole or in part is prohibited without written permission of S&P Dow Jones Indices LLC.
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.

This content, developed by Capital Group, home of American Funds, should not be used as a primary basis for investment decisions and is not intended to serve as impartial investment or fiduciary advice.

All Capital Group trademarks mentioned are owned by The Capital Group Companies, Inc., an affiliated company or fund. All other company and product names mentioned are the property of their respective companies.

American Funds Distributors, Inc., member FINRA.

For Canada: American Funds are intended only for persons eligible to purchase U.S.-registered mutual funds. The Capital Ideas website is not intended for use outside the U.S. In Canada, please visit capitalgroup.com/ca for Capital Group insights.

This document and its contents are confidential and designed for the exclusive use of registered dealers and their representatives. Canadian securities legislation, including National Instrument 81-102, prohibits its distribution to investors, potential investors or the general public. It is not intended to be a sales communication, as defined in the Instrument, and has not been designed to comply with its requirements relating to sales communications. Unless otherwise indicated, the investment professionals featured do not manage Capital Group’s Canadian mutual funds.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made herein. We encourage you to consider these and other factors carefully before making any investment decisions, and we urge you to avoid placing undue reliance on forward-looking statements.

Capital Group funds and Capital International Asset Management (Canada), Inc. are part of Capital Group, a global investment management firm originating in Los Angeles, California in 1931.