World Markets Review — November 2016
Global stocks rose amid market optimism for Donald Trump’s ascendancy to the U.S. presidency and signs of accelerating U.S. economic growth. Several key indexes hit record highs on expectations of market-friendly policies under the new administration. Financial stocks rallied as global interest rates moved higher. Bonds fell sharply and the dollar advanced against the euro, the yen and most other currencies.

Index Returns

<table>
<thead>
<tr>
<th>Index</th>
<th>U.S. dollar %</th>
<th>Local currency %</th>
<th>U.S. dollar %</th>
<th>Local currency %</th>
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<tr>
<td>MSCI World</td>
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<td>MSCI Pacific ex Japan</td>
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<td>2.6</td>
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<tr>
<td>Bloomberg Barclays U.S. Aggregate</td>
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MSCI index returns reflect net dividends. Source: RIMES

North America
U.S. stocks rallied after the surprise U.S. presidential election result, which brightened prospects for tax cuts, infrastructure spending and an easier regulatory environment. The Standard & Poor’s 500 Composite Index rose 4%, the Dow Jones Industrial Average increased 6% and the Nasdaq composite index climbed 3%.

Expectations for higher interest rates and lower regulation pushed financials stocks higher. Shares of Bank of America, JPMorgan Chase and Wells Fargo all surged as higher interest rates are expected to boost net margins. Similarly, Berkshire Hathaway climbed 9%.

The growing probability of increased infrastructure spending and deregulation lifted the industrials and materials sectors. General Electric, Caterpillar and General Dynamics shares rose on speculation that businesses may increase capital spending in 2017 due to the loosening of government regulations. Shares of freight rail operator Union Pacific swelled as the new U.S president is expected to adopt policies that are friendlier to railroads and coal, among the key industries the company serves.

Stronger economic growth expectations helped companies in the consumer discretionary sector. Shares of restaurant operators McDonald’s, Starbucks and Darden increased as investors became more optimistic on consumer spending. Walt Disney shares rose more than 6% after the entertainment company’s CEO expressed an upbeat outlook for the company over the next several years. Shares of Home Depot and Target also rose.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.
After struggling in recent months, health care stocks bounced back as both the President-elect and lawmakers have pledged to reform existing health care laws and programs. Shares of Celgene, Bristol-Myers Squibb and Merck rose on the belief that drug companies will not be as heavily scrutinized under the incoming administration. Meanwhile, Medtronic shares fell 11% after the medical device maker reported weak earnings. The higher yielding, rate-sensitive utilities and real estate sectors remained under pressure as inflation and growth expectations built momentum. Shares of electric utility companies Nextera Energy, Duke Energy and Southern fell more than 6% on concerns over the impact of higher interest rates on the companies’ borrowing and spending. Real estate investment trusts Ventas, Welltower and AvalonBay Communities also struggled.

Uncertainty before and after the election led to lower mergers-and-acquisitions activity. However, a tie-up between General Electric’s oil and gas business and oilfield services company Baker Hughes was proposed ahead of the election. The deal would create the world’s second-largest oil and gas services business. Also in the energy sector, Tesoro acquired Western Refining for $4.1 billion in a move to grow its fuel refining capabilities. Shares of Tesoro rose modestly following the news.

U.S. economic data was generally positive. Third-quarter gross domestic product was revised up to a 3.2% annualized gain. Third-quarter labor productivity improved sharply. Payroll employment rose 161,000 in October, while wages continued to rise and the unemployment rate fell below 5%. October retail sales increased and new home construction reached a nine-year high, but new home sales were down modestly as mortgage rates increased. Durable goods orders jumped and capital expenditures rose. Meanwhile, minutes from the Fed’s November meeting indicated that an increase in the federal funds target range was likely to occur soon.

In bond markets, the Bloomberg Barclays U.S. Aggregate Index lost 2.4%. Yields moved higher, hurting bond prices, as Trump’s win shifted market expectations toward stronger growth, higher inflation and a more hawkish Federal Reserve. The yield on the benchmark 10-year Treasury note rose 53 basis points to 2.37%. Investment-grade corporates declined by 2.7%, while high-yield corporates lost 0.5%. Investment-grade corporate spreads to Treasuries tightened 3 basis points to end the month at 129 basis points. Rising yields drove down Treasury Inflation-Protected Securities prices, which fell by 1.9%. However, strengthened inflation expectations helped them to outperform the broader Treasuries market. Municipal bonds lost 3.7%. Abbott Labs sold one of the year’s largest offerings, consisting of $15.1 billion in bonds. Just over half the deal consisted of long-maturity tranches, with 10-, 20- and 30-year coupons of 3.75%, 4.75% and 4.90%, respectively. Proceeds will be used to fund the company’s $25 billion acquisition of St. Jude Medical.

Europe
European stocks declined modestly, pressured by rising political risk ahead of a pivotal Italian referendum on constitutional reform. Heightened concerns about the December 4 ballot initiative dampened investor sentiment as many polls indicated that the ambitious reform measure would fail. Italian Prime Minister Matteo Renzi vowed to resign if voters don’t approve his plan to streamline government. Overall, the MSCI Europe Index lost 1% and the euro slipped 3% against the dollar.

Renzi urged Italian voters to approve the referendum, which would reduce the size and power of the Senate, among other proposals. The controversial reforms were championed by Renzi as a way to end political gridlock and form a more stable government. However, opponents called it a power grab that would weaken the democratic process and could lead to the rise of extremist leaders. Italian stocks were essentially flat.

Political risk worries rose throughout Europe after the unexpected election of Donald Trump to the U.S. presidency and Great Britain’s vote in June to leave the European Union. Several European countries are holding key elections in 2017, including Germany and France. On Dec. 1, French President François Hollande said he will
not seek a second term in office, forcing the ruling Socialist Party to select a new candidate ahead of elections in April and May. It was the first time since 1958 that a French president has declined to seek re-election.

Utilities stocks suffered the biggest declines, losing 9% as rising global interest rates hurt “bond proxy” sectors with high dividend yields. Shares of National Grid, Europe’s largest utility company, fell more than 12%. Telecommunications stocks also lost ground, declining 7% in aggregate. Vodafone shares fell sharply during the month. The U.K.-based mobile phone giant reported a net loss of €5 billion for the first six months of its fiscal year, largely due to fierce competition in India’s rapidly evolving wireless market.

Consumer staples stocks lost 5%, hurt by the shift away from high dividend payers and investor concerns that the incoming U.S. administration may seek to restrict international trade. Nestlé shares declined about 5% for the month, even as the global food giant made headlines for the development of a new technology that promises to significantly reduce the use of sugar in chocolate and other confectionery products. Elsewhere in the sector, shares of British American Tobacco slipped 6%.

Financial stocks enjoyed the biggest gains, rising 3% amid sharply higher global interest rates. Shares of UBS, Prudential and Barclays posted double-digit increases as lenders and other market participants looked forward to a likely December rate hike by the Federal Reserve. Stocks in the materials sector rose about 2%, fueled by expectations of new fiscal stimulus programs in the U.S. and elsewhere that may raise demand for raw materials. Shares of mining giant Glencore climbed nearly 12%.

In fixed income markets, European sovereign debt prices declined as interest rates moved higher. The Fed’s expected rate hike and the European Central Bank’s October decision to leave rates unchanged contributed to global bond market weakness. The yield on Germany’s benchmark 10-year note rose 10 basis points to 0.27%. Meanwhile, the euro fell sharply against the dollar, hitting a low of $1.06 on November 23, adding to market speculation that euro-dollar parity may be reached before the end of the year.

Asia-Pacific

Japanese equities rose – leading all developed-world equity markets – as a weakening yen and optimism about the U.S. and Chinese economies boosted exporters. Overall, the MSCI Pacific Index rose 5%, powered by Japan’s 6% gain. The yen fell 8% against the U.S. dollar.

Japan’s economy grew at a faster-than-expected rate in the third quarter. Gross domestic product rose by an annualized 2.2%, supported by higher net exports. The GDP figure added to some other modestly positive economic data for October. Industrial output climbed for the third consecutive month, while household spending and retail sales fell less than anticipated. The unemployment rate stood at a 21-year low. However, wage growth remained sluggish and core consumer prices (excluding fresh food) fell for the eighth consecutive month. The Bank of Japan faced the first major test of its new “yield curve control” policy unveiled in September. After yields drifted upward, the bank announced it would buy unlimited amounts of shorter-maturity government debt at fixed rates. Although there were no sellers, the action was enough to send yields lower.

Financials was the top-returning sector, with shares of major banks rising on expectations of higher interest rates and looser financial regulations in the U.S. following Trump’s victory. The three largest banks – Mizuho, Mitsubishi UFJ and Sumitomo Mitsui Financial Group – also reported better-than-expected results for the most recent quarter. Tokio Marine Holdings was among several insurers that advanced as the company raised its full-year profit forecast. Major exporters such as Toyota Motor and Hitachi benefited from the weaker yen. Telecommunication services was the worst-returning sector as shares of wireless providers like NTT DoCoMo and KDDI slid.

Australian equities rose 3%, with miners such as BHP Billiton and Rio Tinto benefiting from a rebound in metals prices. Higher bond yields boosted shares of Australia’s three largest banks, whose lending margins have been pressured by low interest rates. In contrast, supermarket chain Woolworths slid after the head of its troubled
Big W discount retailer division unexpectedly quit. Among Hong Kong–listed companies, insurer AIA fell after China restricted Chinese mainlanders' purchases of certain insurance policies that had become a popular way to evade capital controls. Gaming companies rose amid reports of higher traffic to Macau casinos.

Emerging Markets

**Emerging markets stocks came under pressure** as the dollar surged and anticipation also grew that the Federal Reserve would raise interest rates in December. After rallying for most of the year, the MSCI Emerging Markets Investable Market Index declined 5%, but materials-related stocks did benefit from surging industrial commodity prices. Several currencies plumbed new lows against the dollar, including the Indian rupee, Mexican peso and Turkish lira.

**Latin American stocks were the hardest hit.** Mexican stocks tumbled 13% and the peso slid 8% against the dollar due to fears U.S. trade policy could change under a Trump administration and hurt exports. Mexico sends 80% of its manufactured goods to the U.S. In Brazil, stocks sank 11%. The government trimmed its already-weak growth forecasts for next year, while members of President Michel Temer’s administration faced corruption allegations. Shares of state-owned oil giant Petrobras dropped 9% after it missed profit estimates, but shares of miner Vale soared 16% as iron ore prices climbed.

**Stocks in India slid 8%,** hurt by the government’s surprise move to pull 86% of the country’s currency from circulation as part of an effort to curb tax evasion. Investors worried the recall will stunt economic growth and slow consumer spending. Mortgage lender Housing Development Finance Corporation and automotive giant Tata Motors both declined by double-digits. The rupee fell 2% against the dollar.

**Overall, Asian markets sold off.** Indonesian stocks sank 12% amid slowing economic growth and concerns about the pace of infrastructure spending. Shares of conglomerate Astra International fell 12%. The MSCI China IMI lost 1%, with investors appearing to take profits on technology companies Tencent and Alibaba after a strong run for both stocks in the last few months. Search engine provider Baidu also fell.

**South Korean stocks declined 3%,** weighed down by a stagnant economy and a political corruption scandal that ensnared President Park Geun-hye. She offered to resign from office amid mass protests and potential impeachment proceedings. Shares of Samsung Electronics, under pressure from ceasing production of its fire-prone Galaxy Note 7 smartphone and demands from an activist investor, did gain in a late-month rally after proposing corporate governance changes and increases to dividend payments.

**Elsewhere, South African stocks sank** amid heightened worries that Africa’s most industrialized nation will lose its investment-grade rating from top credit rating agencies. Fitch lowered its outlook on South Africa to negative from stable, citing sluggish economic growth and political turmoil within President Jacob Zuma’s party. The MSCI South Africa IMI slumped 8%, and the rand weakened 4% against the dollar. Turkish stocks plunged 15% and the lira dropped 10%. With the lira trading at record lows, Turkey’s central bank unexpectedly raised interest rates following several cuts earlier this year to help boost economic growth. Turkey’s economy has been challenged by military conflicts in the region and more authoritarian rule stemming from the failed July coup attempt.

**Russian equities bucked the selloff in emerging markets,** fueled by rising oil prices and the prospects of a better relationship with top U.S. officials. During his campaign, Trump indicated he would take a new approach to working with Russia and its president Vladimir Putin. Russia has faced international trade sanctions since 2014 over its role in stoking the conflict in Ukraine. Overall, the MSCI Russia IMI rose 5%. Sberbank, Russia’s biggest lender, was a leading gainer. The bank reported its third-quarter profit more than doubled from a year ago.

**Prices for emerging markets bonds plunged amid the global rout in bonds.** U.S. dollar–denominated bonds, as measured by the J.P. Morgan EMBI Global index, fell 4.2%; local currency debt, as measured by the J.P. Morgan GBI-EM Global Diversified index, lost 7% in dollar terms. Developing-country debt was hammered by the stronger dollar and fears of slowing global trade. Bonds issued by Mexico and Turkey were notably hard hit.
Developed market returns are in local currency and include net dividends. Emerging markets returns are in U.S. dollars.

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Barclays Global Aggregate Index represents the global investment-grade fixed income markets. This index is unmanaged, and its results include reinvested distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes. This index was not in existence as of the date Class A shares became available; therefore, lifetime results are not shown.

Barclays U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market. 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.

Dow Jones Industrial Average is a price-weighted index of 30 component common stocks, the components of which are determined by the Averages Committee, which is composed of the managing editor of The Wall Street Journal, the head of Dow Jones Indexes research and the head of CME Group research.

J.P. Morgan Emerging Markets Bond Index Global measures total returns for foreign-currency-denominated emerging markets bonds.

J.P. Morgan Emerging Markets Bond Index Global Diversified measures total returns for foreign-currency-denominated emerging markets bonds, employing limits on the weight of countries with large debt stocks.

MSCI EAFE® (Europe, Australasia, Far East) Index is a free float-adjusted market capitalization weighted index that is designed to measure developed equity market results, excluding the United States and Canada. Results reflect dividends net of withholding taxes. 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.

MSCI Emerging Markets Investable Markets Index includes large, mid-cap and small-cap segments, targeting a coverage range of close to 99% of the free-float-adjusted market capitalization of more than 20 emerging equity markets. Results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter.

MSCI Europe Index is a free float-adjusted market capitalization weighted index that is designed to measure developed equity market results across 15 developed markets countries in Europe. Results reflect dividends net of withholding taxes. 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.

MSCI Japan Index is a free-float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of Japan. Results reflect dividends net of withholding taxes. 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.

MSCI Pacific ex Japan is a free-float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of the developed markets in the Pacific region, excluding Japan. It consists of Australia, Hong Kong, New Zealand and Singapore. Results reflect dividends net of withholding taxes. 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.

MSCI United Kingdom Index is a free float-adjusted market capitalization weighted index that is designed to measure the results of the U.K. market. Results reflect dividends net of withholding taxes. 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.

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market results of developed markets. The index consists of more than 20 developed market country indexes, including the United States. Results reflect dividends net of withholding taxes. 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.

Nasdaq Composite is an unmanaged index representing the companies traded on the Nasdaq stock market and the National Market System.

S&P/TSX Composite Index is an unmanaged market capitalization weighted index of stocks traded in the Canadian markets.

S&P 500 Index is a market capitalization-weighted index based on the results of 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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