Long-term perspective on markets and economies
2019 Midyear Outlook

Key takeaways:

**MACRO**

The expansion gets extra innings.

*Recession? What recession?* What a difference six months makes. The U.S. Fed’s policy pivot and lower-for-longer rates are extending the life of this economic cycle.

*But late-cycle conditions are mounting.* Rising wages will put pressure on profits, plus a flood of corporate debt could pose problems when the tide turns.

**EQUITY**

Consider upgrading your equity portfolio.

*Stocks may have room to run, but be ready for a bumpy ride.* Investors should expect more late-cycle volatility. It’s not too early to prepare portfolios for rougher seas ahead.

*Not all dividends are equal — or sustainable.* Companies that binge on debt to cover share buybacks and dividends are susceptible to dividend cuts when times get tough.

*If you think all the best stocks are in the U.S., think again.* Over the last decade, most of the top 50 stocks were non-U.S., even though the U.S. index did better overall. It’s about selecting companies, not indices.

**FIXED INCOME**

It’s time to revisit your bond allocation.

*Morningstar U.S. splits out the core.* For years we’ve highlighted the hidden risks in the U.S. intermediate bond category for U.S. funds. Morningstar’s decision to divide U.S. intermediate into Core and Core-Plus highlights the importance of identifying strategies with different risk profiles and lower correlation to equities.

*Look beyond high yield for enhanced income.* Right now, emerging markets bonds are sweet spots for income seekers.
Pivot point: Central banks let markets fly higher.

What a difference six months makes. The most consequential change in the global financial markets since our last Outlook report was the U.S. Federal Reserve’s decision to stop raising interest rates. In a major policy shift, Fed officials hit the pause button in January, prompting investors to conclude that the central bank will keep rates steady this year. The Bank of Canada followed suit in the face of a weakening economy.

Other central banks around the world have echoed that dovish tone. The European Central Bank revived a previously halted stimulus plan and indicated that negative interest rates would remain in place through the end of 2019. China ramped up its stimulus efforts. And Japan, the world champion of quantitative easing, forged ahead with its massive and long-running asset purchase program.

These moves helped to fuel a powerful first-quarter rally in global equities. Technology and consumer tech stocks led the way, including Apple, Microsoft and Amazon. A setback in U.S.-China trade talks tempered equity gains somewhat, but from a monetary policy standpoint, the stage has been set for potentially solid returns ahead. At the very least, central banks aren’t expected to get in the way.

Sources: MSCI, RIMES, Standard & Poor’s. As of 5/31/19. Total returns indexed to 100 at the S&P 500 market trough on 12/24/18. Based on U.S. dollars.
Lower-for-longer rates extend the cycle.

History shows that U.S. long-term rates can remain low for extended periods

![Graph showing U.S. long-term government bond yields with notable periods of low rates]

Turns out, fears that rising rates would soon put an end to the cycle were greatly exaggerated. After climbing in the fourth quarter of 2018, longer term interest rates have declined, thanks in part to the Federal Reserve’s policy turnaround.

Rates are low by historical standards and could remain so, even if the Fed resumes its hikes later this year.

That’s because muted global growth, low government bond yields abroad and international trade disputes should weigh on long-term interest rates.

While inflation pressures are building in the U.S., inflation on the whole remains mild. This means the 10-year-old expansion seems likely to continue into 2020.

Lower rates also are supportive of earnings growth, suggesting stocks could appreciate in the second half of the year. However, given elevated valuations, ongoing trade disputes and rising volatility, investors may want to approach equity markets with caution. With respect to bonds, focus more on credit risk than rates. Reaching for yield late in the cycle may prevent bond portfolios from providing stability when the next downturn occurs.

But make no mistake, late-cycle conditions are mounting.


"Whether it’s rising wages or a tight labour market, the economy continues to exhibit late-cycle characteristics," adds Spence. These are likely to become more pronounced, placing stress on companies and the economy. The U.S. unemployment rate stood at 3.6% in April, a number not seen since December 1969. Such low unemployment typically translates into rising wages.

But while higher wages tend to encourage stronger consumer spending, rising labour costs inevitably pressure profit margins and trigger market volatility. "And the potential for escalation of the U.S.-China trade dispute is a clear risk to growth," adds Spence.

Under the circumstances, the Fed’s decision to not raise rates and the ensuing stock market rebound may be regarded as an opportunity to position for a tougher environment down the road.

Beware of companies spending more than they earn.

Where are the excesses today – and what are the risks? You might find them on the bloated balance sheets of companies that have been on a debt binge. At the close of 2018, non-financial corporate sector borrowing stood at 46.7% of U.S. GDP, a record high.

Much of this cheap debt has been used to fund dividends, share buybacks, and mergers and acquisitions. Since 2013, dividends and buybacks have generally exceeded free cash flow levels. Debt issuance has covered the shortfall. In many cases, this strategy has artificially inflated earnings per share growth, driving up stock prices.

Such financial engineering cannot continue indefinitely. Many companies will need to go on a debt diet – either because of rising rates or tighter credit conditions – and dividends, buybacks and M&A will need to be reduced. This will pressure stock valuations and potentially trigger a wave of debt write-offs.

But without a catalyst such as higher interest rates or slower economic growth, these excesses will continue to build, leading to elevated market volatility down the road.

**Dividends and buybacks have exceeded free cash flow levels since 2013**

**Source:** Capital Group. Universe is made up of 2,902 non-financial U.S.-based companies that represent more than 98% of the U.S. public equity market. As of 12/31/18.
Not all dividend payers are equal—or sustainable.

After 40 years investing in dividend-paying companies, Joyce Gordon knows a thing or two about identifying those most likely to sustain their payments in a downturn.

“One lesson I learned is to pay close attention to companies with too much debt,” says Gordon, a portfolio manager for Capital Group Capital Income Builder™ (Canada) and Capital Group U.S. Equity Fund™ (Canada). “Those with significant debt face numerous challenges. For example, they may feel pressure to cut their dividend to maintain an investment-grade credit rating.”

When you look at pairs of companies across different industries you can see those with a lower credit rating and lower interest coverage ratio might be more likely to cut their dividends when times get tough.

For example, Nestlé, with a manageable debt burden, hasn’t done so in decades. Conversely, more highly leveraged Kraft Heinz recently cut its dividend. “That’s why it’s so important to look beyond simple dividend yield and do the research on whether companies can sustain them,” Gordon says. “The longer this expansion goes on, the more attention I pay to company debt.”

<table>
<thead>
<tr>
<th>Company</th>
<th>Dividend yield</th>
<th>Interest coverage ratio</th>
<th>Credit rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daimler</td>
<td>7.0%</td>
<td>14.2x</td>
<td>A</td>
</tr>
<tr>
<td>Ford Motor</td>
<td>6.3</td>
<td>2.5</td>
<td>BBB</td>
</tr>
<tr>
<td>Nestlé</td>
<td>2.5</td>
<td>18.9</td>
<td>AA–</td>
</tr>
<tr>
<td>Kraft Heinz</td>
<td>5.8</td>
<td>4.5</td>
<td>BBB</td>
</tr>
<tr>
<td>ExxonMobil</td>
<td>4.9</td>
<td>15.2</td>
<td>AA+</td>
</tr>
<tr>
<td>Valero Energy</td>
<td>5.1</td>
<td>8.4</td>
<td>BBB</td>
</tr>
<tr>
<td>Procter &amp; Gamble</td>
<td>2.9</td>
<td>29.2</td>
<td>AA–</td>
</tr>
<tr>
<td>Clorox</td>
<td>2.6</td>
<td>14.2</td>
<td>BBB+</td>
</tr>
</tbody>
</table>

**Companies with manageable debt may be more able to maintain dividends**

**SOURCE:** FactSet. Interest coverage ratio as of 12/31/18. Dividend yield and credit ratings as of 5/31/19. If credit ratings between Moody’s and S&P credit rating agencies differ, the more conservative measure has been used. The interest coverage ratio is used to determine how easily a company can pay their interest expenses on outstanding debt. The ratio is calculated by dividing a company’s earnings before interest and taxes by the company’s interest expenses for the same period. Based on U.S. dollars.
Health care has innovation in its DNA.

Innovation is a topic that gets portfolio manager Anne-Marie Peterson excited about coming to work every day. “Innovation improves people’s lives and drives growth and opportunity for companies,” says Peterson.

Consider, for example, rapid innovation in health care. Advances in genomics have decreased the cost of sequencing a set of human genes from US$100 million in 2006 to about US$1,000 today. Therapies derived from genetic testing have the potential to extend lives and generate billions of dollars in revenue. U.S. drugmakers AbbVie and Merck, the maker of blockbuster immunotherapy treatment Keytruda, have invested millions of dollars to develop genetic-based treatments for various cancers.

It’s not just the drugmakers making advances. “I am interested in companies that are arms dealers to the pharmaceutical industry, providing manufacturing and research,” says Peterson. Genetic testing equipment maker Illumina is a leader in sequencing technology, while Thermo Fisher Scientific provides research and manufacturing resources to a host of drug developers. Of course there are risks, such as the steep cost of research and development and public debate over drug pricing, so selective investing is essential.

Gene sequencing costs have fallen far quicker than the pace set by Moore’s Law

Moore’s Law
The observation made in 1965 by Intel co-founder Gordon Moore that the number of transistors on integrated circuits, or computing power, doubles every two years while the costs are halved.

Flatley’s Law
An analog to Moore’s Law, refers to the much more rapid advances and cost reductions in sequencing one human genome.

Source: National Human Genome Research Institute. Data as of 7/31/17.
Think the best stocks are in the U.S.? Think again.

While it’s true that international equities have lagged U.S. markets over the past decade, the index-based returns that most investors follow don’t tell the whole story. On a company-by-company basis, the picture is significantly different than you may think.

Since 2009, the top 50 companies with the best annual returns were overwhelmingly based outside the United States. In many of those years, 80% to 90% carried a non-U.S. address. That means if you had decided to ignore international equities, you would have missed a shot at many of the best opportunities.

In certain sectors, the U.S. is not the most dominant player. Many premiere luxury goods companies, such as LVMH and Kering, are found in Europe. (Think Louis Vuitton, Fendi and Gucci.) Japan is home to a number of cutting-edge robotics firms, including Murata and Fanuc. Big pharma has no shortage of innovative drug companies in Europe: AstraZeneca, Novartis, Novo Nordisk.

In addition, dividend-paying companies outside the U.S. tend to offer higher yields. All reasons to consider maintaining a healthy allocation to international stocks, even if you think U.S. markets will continue to lead the way.

What percentage of the top 50 stocks each year are non-U.S.?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>15.1%</td>
<td>2.1%</td>
<td>16.0%</td>
<td>32.4%</td>
<td>13.7%</td>
<td>1.4%</td>
<td>12.0%</td>
<td>21.8%</td>
<td>-4.4%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Non-U.S.</td>
<td>11.2%</td>
<td>-13.7%</td>
<td>16.8%</td>
<td>15.3%</td>
<td>-3.9%</td>
<td>-5.7%</td>
<td>4.5%</td>
<td>27.2%</td>
<td>-14.2%</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

Look past trade: China’s stock market is opening up.

Investor worries about China are ubiquitous. What are the implications of China’s slowing economy? Will a brewing trade war with the U.S. derail a fragile recovery from the global financial crisis? Could internal political strife result in a reversal of China’s ambitious reform efforts?

While those are important questions, there is a more relevant story unfolding for long-term investors. Trade disputes aside, the veil is lifting on China’s domestic stock market. More than 800 companies previously off limits to foreign ownership are expected to become available to investors outside of China during the next few years.

That is a stock picker’s dream come true. Even if only a small fraction of those companies wind up being viewed as attractive investment opportunities, the extensive research needed to identify them should be well worth the effort. Imagine finding the next Alibaba, Baidu or Tencent in that mix. The implications for investors are profound.

Despite sometimes daunting headlines, China’s stock market will continue to be driven by foreign capital inflows. Participating in this rapidly growing market will be paramount for investors seeking broad diversification and long-term growth of capital.

**Market value of Chinese equities**

- Total: $9.6T
- Available to foreign investors: $6.7T
- Unavailable to foreign investors: $2.9T

**MSCI Emerging Markets Index country weights**

- China: 46%
- Korea: 13%
- Taiwan: 11%
- Other: 9%

**EQUITY OPPORTUNITIES**

**Market value of Chinese equities**

<table>
<thead>
<tr>
<th>Market value of Chinese equities</th>
<th>MSCI Emerging Markets Index country weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total $9.6T</td>
<td>34% Taiwan</td>
</tr>
<tr>
<td>Available to foreign investors $6.7T</td>
<td>43% Other</td>
</tr>
<tr>
<td>Unavailable to foreign investors $2.9T</td>
<td>11% China</td>
</tr>
</tbody>
</table>

**Sources:** Capital Group, MSCI, RIMES. As of 3/31/19. Currently available investments include MSCI China IMI and MSCI China A Index. Currently unavailable investments include all other publicly traded Chinese equities, which are generally restricted to foreign investment. 2022 estimate of country weights assumes that A-share mid caps are added to the index, and A-share inclusion is increased to 100% by 2022.
Don’t overreact to a yield curve inversion.

An inverted U.S. Treasury yield curve is one of the most widely cited recession indicators, but is it really cause for immediate concern? Probably not. While the measure’s consistency can’t be denied — an inversion has preceded every U.S. recession over the past 50 years — its lead time has been significant. The 16-month average between inversion and the onset of a recession has left time for equity markets to continue their rally. Over the last three cycles, stocks averaged a 37% return from the point of inversion until the subsequent market peak.

The closely watched U.S. two-year/10-year curve hasn’t inverted yet, and as the Fed takes a more dovish tone it may not for some time.

The takeaway for investors? An inverted yield curve does not cause a recession, but is just another sign of a late economic cycle. So instead of using it as a reason to panic, investors should think of it as a gentle reminder to check that their portfolios are well diversified and their core bond holdings limit excess risk. During a late cycle it is especially critical to determine if the type of bonds within one’s portfolio are providing diversification from equities and the right level of balance.

Markets have continued to rally after previous yield curve inversions

Sources: U.S. National Bureau of Economic Research, Standard & Poor’s, Thomson Reuters. As of 5/31/19. S&P 500 chart shown on a logarithmic scale. Returns after inversion are the total return from inversion until the S&P 500 pre-recession peak during each cycle. Based on U.S. dollars.
A fresh perspective on diversification in equity allocation.

Investors face an evolving set of risks as they age: the young worry about insufficient long-term appreciation, while retirees generally fear short-term volatility and downside risk.

It’s something to think about when evaluating equities within a portfolio. In addition to considering “how much,” it’s important to also consider “what kind.” Not all equities are equal. Different kinds of equities offer a range of characteristics – beyond just risk and return.

When an investor is many years away from a specific goal, equities can take a more aggressive, growth-orientated approach. As years pass and the goal approaches, the character of equities within the portfolio can evolve, taking on a more defensive, equity-income posture.

The chart illustrates how equity allocation can be re-characterized over time, in order to pursue investor objectives.

SOURCE: Capital Group.
A US$1.6T bond category shake-up: The core splits.

The hunt for yield has led to an uncomfortable truth: Many strategies regarded as core fixed income are not what they seem.

For years, we’ve cautioned investors to ensure their core bond fund isn’t overemphasizing income at the expense of equity diversification. Turns out we weren’t the only ones concerned by unintentional risk in core.

In April, U.S. Morningstar split its US$1.6 trillion Intermediate-Term bond category — home to most funds chosen for core fixed income allocations — in two. Going forward, funds with less than 5% of their portfolio rated below investment grade are in the new Intermediate Core category. The new Intermediate Core-Plus category will be home to most of the other funds, many of which seek higher income and show high equity correlation due to greater exposure to high yield.

Morningstar’s decision should help U.S. investors more easily distinguish strategies that may be vulnerable in stock market declines from those which offer a balance of the four key roles of fixed income: diversification from equities, income, capital preservation and inflation protection. Arguably, core should be the largest fixed income allocation in a balanced portfolio for many investors. Greater clarity around core is, therefore, a real win for all investors – especially in a late-cycle environment.

### When you need core most: cumulative returns (%) during recent market corrections*

<table>
<thead>
<tr>
<th>Event</th>
<th>Intermediate Core category average</th>
<th>Intermediate Core-Plus category average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flash Crash</td>
<td>2.5%</td>
<td>1.9%</td>
</tr>
<tr>
<td>U.S. Debt Downgrade</td>
<td>3.9</td>
<td>2.3</td>
</tr>
<tr>
<td>China Slowdown</td>
<td></td>
<td>1.3</td>
</tr>
<tr>
<td>Oil Price Shock</td>
<td>-0.1</td>
<td>-0.7</td>
</tr>
<tr>
<td>U.S. Inflation/Rate Scare</td>
<td>-0.3</td>
<td>-0.9</td>
</tr>
<tr>
<td>Global Selloff</td>
<td>1.3</td>
<td>0.6</td>
</tr>
</tbody>
</table>

**S&P 500 INDEX**

<table>
<thead>
<tr>
<th>Event</th>
<th>Returns (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flash Crash</td>
<td>-15.6</td>
</tr>
<tr>
<td>U.S. Debt Downgrade</td>
<td>-18.6</td>
</tr>
<tr>
<td>China Slowdown</td>
<td>-11.9</td>
</tr>
<tr>
<td>Oil Price Shock</td>
<td>-12.7</td>
</tr>
<tr>
<td>U.S. Inflation/Rate Scare</td>
<td>-10.1</td>
</tr>
<tr>
<td>Global Selloff</td>
<td>-19.4</td>
</tr>
</tbody>
</table>

*Dates shown for market corrections are based on price declines of 10% or more (without dividends reinvested) in the S&P 500 with at least 50% recovery between declines.

High income is not all about high yield. Think EM.

U.S. corporate high yield has been on a tear so far in 2019. Fundamentals remain broadly supportive of the near-term outlook. But amid elevated valuations, this may not be the best time to add exposure.

In comparison to high yield, emerging markets bonds have offered similar yields — with the bonus of better equity diversification.

Emerging markets debt offers a nice balance of yield and modest equity correlation, even among higher quality issuers. For investors, the trade-off here comes in the shape of greater potential volatility due to currency and interest rate moves. And – as underscored by unrest in Venezuela and Argentina – political, fiscal and monetary policy developments can quickly unsettle markets.

With that in mind, a laser focus on country fundamentals is critical. Select emerging markets currencies could appreciate against the U.S. dollar as prospects for tighter monetary policy in the U.S. and other developed markets recede. This possibility, in combination with higher yields, suggest local currency bonds should continue to offer fertile ground for selective investors in coming months.

Emerging markets debt balances credit quality, yield and diversification potential

## 2019 Midyear Outlook

### Themes

<table>
<thead>
<tr>
<th>North American equity</th>
<th>The expansion gets extra innings, but it’s not too soon to consider upgrading portfolios.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global/international equity</td>
<td>Think the best stocks are in the U.S.? Think again. Select companies around the world are creating value.</td>
</tr>
<tr>
<td>Emerging markets</td>
<td>EM debt can offer a balance of yield and modest equity correlation, even among higher quality issuers.</td>
</tr>
<tr>
<td>Fixed income</td>
<td>To achieve the right risk-reward approach, it’s essential to know what you own in core bond portfolios.</td>
</tr>
</tbody>
</table>

### Key takeaways

- Rate pauses from the U.S. Fed and the Bank of Canada helped fuel a stock market rebound and may be regarded as an opportunity to position for a tougher environment down the road.
- International companies are the leaders in some sectors, such as luxury and pharma.
- Select currencies could appreciate against the U.S. dollar as monetary policy eases. Local currency bonds could be fertile ground for selective investors. For equities, invest in companies, not countries.
- In a late-cycle environment, true core fixed income is essential to diversified portfolios.

### Select investments to consider

- **Capital Group U.S. Equity Fund™ (Canada)**
  - A - CIF 847; F - CIF 827
- **Capital Group Canadian Focused Equity Fund™ (Canada)**
  - A - CIF 849; F - CIF 829
- **Capital Group Global Equity Fund™ (Canada)**
  - A - CIF 843; F - CIF 823
- **Capital Group International Equity Fund™ (Canada)**
  - A - CIF 846; F - CIF 826
- **Capital Group Capital Income Builder™ (Canada)**
  - A - CIF 143; F - CIF 123
  - AH - CIF 8243; FH - CIF 8223
- **Capital Group Global Balanced Fund™ (Canada)**
  - A - CIF 840; F - CIF 820
- **Capital Group Emerging Markets Total Opportunities Fund™ (Canada)**
  - A - CIF 842; F - CIF 822
- **Capital Group Canadian Core Plus Fixed Income Fund™ (Canada)**
  - A - CIF 841; F - CIF 821
- **Capital Group World Bond Fund™ (Canada)**
  - A - CIF 140; F - CIF 120;
  - AH - CIF 8240; FH - CIF 8220
- **Capital Group Emerging Markets Total Opportunities Fund™ (Canada)**
  - A - CIF 842; F - CIF 822

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.

The S&P 500 is a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by Capital Group. Copyright © 2019 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 are prohibited without written permission of S&P Dow Jones Indices LLC.

© 2019 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; (3) does not constitute investment advice offered by Morningstar; and (4) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from this information. Past performance is no guarantee of future results.

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 licence. 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.

FundSERV codes shown are for Series A, F, AH and FH units. FundSERV codes for Series D, T4 and F4 units can be found on our website: capitalgroup.com/ca.
Joyce E. Gordon is an equity portfolio manager at Capital Group, and manages on Capital Group Capital Income Builder™ (Canada) and Capital Group U.S. Equity Fund™ (Canada). She has 38 years of investment experience and has been with Capital Group for 43 years. Earlier in her career, as an equity investment analyst at Capital, she covered thrifts, banking, and paper & forest products companies. She holds an MBA and a bachelor’s degree in business finance from the University of Southern California. Joyce is based in Los Angeles.

Anne-Marie Peterson is an equity portfolio manager at Capital Group. As an equity investment analyst, she covers U.S. retail. She has 24 years of investment experience and has been with Capital Group for 14 years. Earlier in her career at Capital, her coverage included U.S. small-cap specialty retail companies and restaurants. Prior to joining Capital, she was a senior retail analyst for Thomas Weisel Partners. Before that, she was a research associate for Montgomery Securities. She holds a bachelor’s degree in economics from the University of California, Irvine. She also holds the Chartered Financial Analyst® designation. Anne-Marie is based in San Francisco.

Darrell R. Spence is an economist at Capital Group. He has 26 years of investment industry experience, all with Capital Group. He holds a bachelor’s degree with honours in economics from Occidental College graduating cum laude, and is a member of Phi Beta Kappa and Omicron Delta Epsilon. He also holds the Chartered Financial Analyst® designation and is a member of the National Association for Business Economics. Darrell is based in Los Angeles.
Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed; their values change frequently and past performance may not be repeated.

Unless otherwise indicated, the investment professionals featured do not manage Capital Group’s Canadian mutual funds.

References to particular companies or securities are included for informational or illustrative purposes only and should not be considered as an endorsement by Capital Group. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds, investment advice nor as a recommendation to buy or sell. The statements expressed herein are informed opinions, speak only to the stated period, and are subject to change at any time based on market or other conditions. Additionally, in The Capital System, differences of opinion are common, and the opinions expressed by an individual do not necessarily reflect the views of other investment professionals.

Statements attributed to an individual represent the opinions of that individual as of the date published and do not necessarily reflect the opinions of Capital Group or its affiliates. This information is intended to highlight issues and not to be comprehensive or to provide advice.

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.

For informational purposes only; not intended to provide tax, legal or financial advice. We assume no liability for any inaccurate, delayed or incomplete information, nor for any actions taken in reliance thereon. The information contained herein has been supplied without verification and may be subject to change. Capital Group funds are available in Canada through registered dealers. For your individual situation, please consult your financial and tax advisors.

Capital Group information as of December 31, 2018.

*Compensation paid to our investment professionals is heavily influenced by results over one-, three-, five- and eight-year periods, with increasing weight placed on each succeeding measurement period to encourage a long-term investment approach.

5 ways Capital Group is different

1. **We’re aligned with investors:** Capital Group’s investment philosophy, incentives and ownership structure are aligned with investor success. Collectively, Capital Group associates are significant investors in the company’s investment offerings. Our portfolio managers’ compensation emphasizes results over longer periods.*

2. **We’re built to last:** Capital Group was founded in 1931 by Jonathan Bell Lovelace, who focused on fundamental research and integrity. Today, we remain an independent, conservatively managed private firm whose sole business is investment management.

3. **Our investment process is designed to produce consistent long-term results for investors:** Our proprietary approach to investing, called The Capital System™, offers the best of both worlds: high conviction of an individual and diversification of a team.

4. **We share economies of scale with investors:** We leverage our size and scale to offer lower fees and devote greater resources to research.

5. **Our global research provides proprietary insights:** With 408 investment professionals in 12 offices around the world, few firms can match the scale and scope of our proprietary research effort.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Unless otherwise indicated, the investment professionals featured do not manage Capital Group’s Canadian mutual funds.

References to particular companies or securities are included for informational or illustrative purposes only and should not be considered as an endorsement by Capital Group. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds, investment advice nor as a recommendation to buy or sell. The statements expressed herein are informed opinions, speak only to the stated period, and are subject to change at any time based on market or other conditions. Additionally, in The Capital System, differences of opinion are common, and the opinions expressed by an individual do not necessarily reflect the views of other investment professionals.

Statements attributed to an individual represent the opinions of that individual as of the date published and do not necessarily reflect the opinions of Capital Group or its affiliates. This information is intended to highlight issues and not to be comprehensive or to provide advice.

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.

For informational purposes only; not intended to provide tax, legal or financial advice. We assume no liability for any inaccurate, delayed or incomplete information, nor for any actions taken in reliance thereon. The information contained herein has been supplied without verification and may be subject to change. Capital Group funds are available in Canada through registered dealers. For your individual situation, please consult your financial and tax advisors.

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. 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.