FALL 2017

CAPITAL GROUP® | PRIVATE CLIENT SERVICES

Quarterly • Insights

Aircraft makers fly high as demand from the developing world soars.

ANALYST PERSPECTIVES
Examining the latest advancements in pharmaceuticals

CLIENT PROFILE
A best-selling author reveals how to write an effective story

LIFE ENHANCEMENTS
Uncovering techniques to make time fly … or slow it down

AUTHOR INTERVIEW
Insights designed to help you see yourself the way others do

IT'S IMPORTANT TO ALWAYS BE WATCHFUL AND AWARE THAT MARKET CORRECTIONS CAN COME AT ANY TIME, AND OFTEN FOR UNEXPECTED REASONS.

Making Your Best Better

If you've followed the news with any regularity in recent months, you're probably overwhelmed by all the "bad stuff" that seems to be happening in our world today. We've seen escalating tensions with North Korea, political upheaval in Europe, conflict and gridlock in Washington, and horrific tragedies caused by weather and natural disasters, just to name a few.

Not surprisingly, we've had numerous clients ask why the global equity markets have done so well this year despite all that's going on. A major reason is that we're experiencing synchronous global growth. What's especially unusual is that not a single OECD-member country is in recession. This, in turn, has led to earnings expansion for companies across a wide range of sectors, translating into impressive equity market returns.

As some of our most tenured managers at the firm regularly point out, the world is actually in better shape today than it has ever been. The standard of living has improved across the board, even in the remotest regions of the emerging markets. We've arguably seen more advancements and innovations in the past generation than in the previous 200 years. And while it might not be apparent from following the media, we're living in a relatively peaceful state around the world.

That said, it's important to always be watchful and aware that market corrections can come at any time, and often for unexpected reasons. Should the situation with North Korea take an unexpected turn, for instance, the market impact will likely be more pronounced. Indeed, volatility for both stocks and bonds has been surprisingly low. It's almost unprecedented that we haven't seen a more significant pullback for equities in more than a year.

We talk more about how we build portfolios that are designed to both meet your goals and withstand unexpected market shocks on page 14. In this issue, we also discuss some of the interesting investment trends uncovered by Capital Group analysts, including continued growth in the aerospace industry, the rapid rise of streaming entertainment services and recent advancements in the pharmaceutical industry.

Finally, I'm sure you've heard the saying "Time flies," which seems to especially be true as one grows older. But does it really fly? We explore this topic in an intriguing article on page 16. And if you're one of the overwhelming number of people who've always wanted to write a book, you'll find tips for getting that done from one of our clients – best-selling author Warren Adler. Among his biggest hits: *The War of the Roses*, which was turned into a major motion picture. He shares his advice on how to write at any age on page 12.

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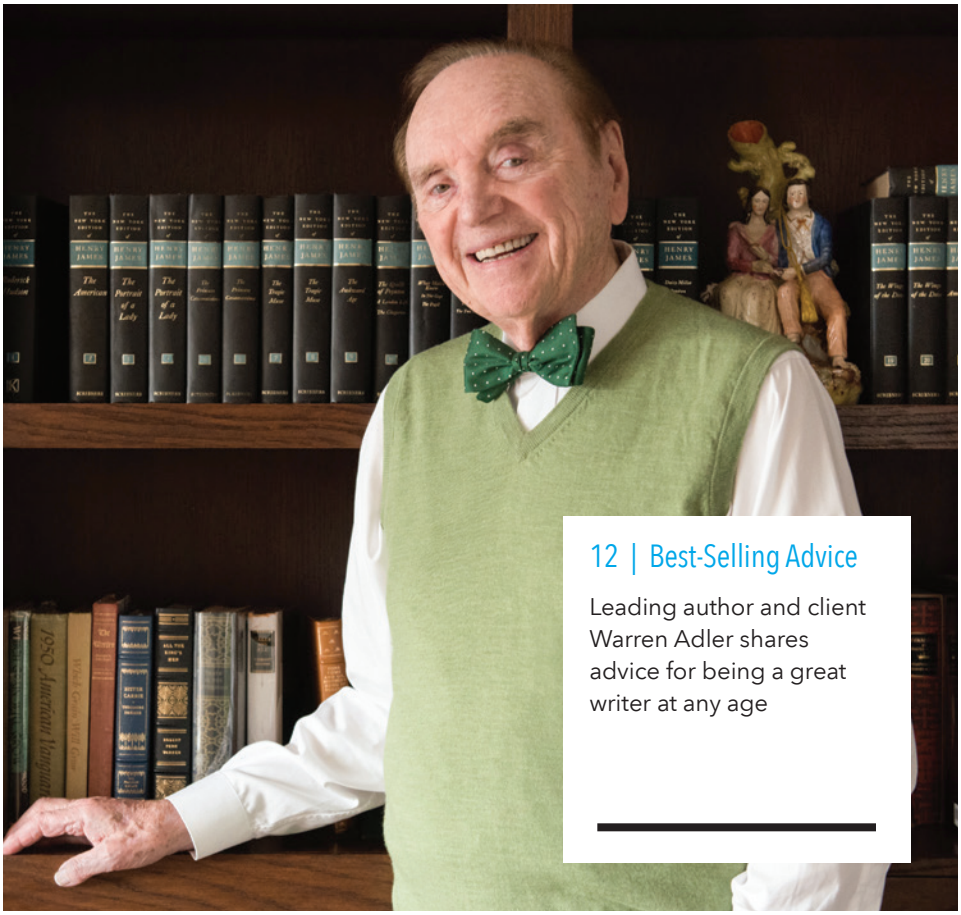


IN THIS ISSUE

At right: North Korean soldier at a military parade in Pyongyang.

DESPITE GEOPOLITICAL TENSIONS, WIDESPREAD ECONOMIC GROWTH CARRIES MARKETS HIGHER

Of the many terms that are commonly invoked to describe a bull market, "sedate" is not often among them. But this year's forceful advance in global equities has been accompanied by remarkably low volatility, as economic progress around the world has outweighed anxiety over U.S. political friction with North Korea. Gains have been especially pronounced overseas, as sturdier economies in Europe and the emerging markets raise the prospect that these regions are finally latching on to sustainable recoveries.

Global equities are being driven by economic growth, with the world's major economies expanding simultaneously for the first time in a decade. Global manufacturing activity, earnings growth and retail sales all have risen from last year.

Europe is flashing its brightest economic signs in years as it rebounds from an extended period of subpar results. That is shown through a notable increase in the number of companies issuing positive earnings surprises. To be sure, many eurozone countries remain burdened by high joblessness and government debt. But the Continent's recovery from the 2008 financial crisis lags far behind the U.S.'s pace, leaving room for substantial improvement in the coming years.

On the political front, the election of a centrist president in France, combined with Angela Merkel's re-election to a fourth term as German chancellor, has for the moment eased concerns about voter populism undermining Europe's common currency and economic integration. But both countries are also prime examples of how voter disaffection with the postwar political establishment is likely to cast a shadow over economic decision-making for some time. In Germany, a far-right party won seats in Parliament for the first time in more than 60 years. In France, President Emmanuel Macron is facing stiff resistance to his plan for reforming labor laws.

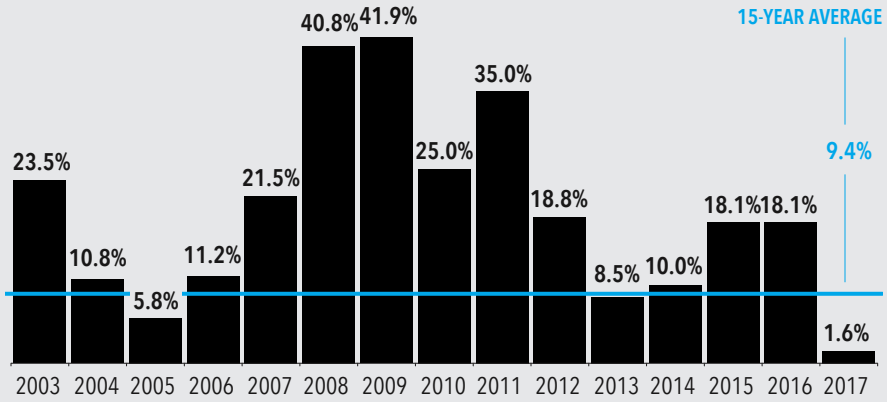
The U.S. economy remains a pillar of consistency.

The factors that have long paced the U.S economy – job gains, low inflation and robust consumer sentiment – remain firmly rooted. Manufacturing activity has reached a 13-year high, while a tighter job market should help to underpin wage improvement. Meanwhile, U.S. multinationals have gotten a boost from the yearlong weakening of the U.S. dollar, which has made U.S. exports cheaper abroad. Capital Group's U.S. economics team expects corporate profit growth to be very strong the remainder of the year. Beyond that, the potential for lower tax rates in 2018 could further boost U.S. growth.

One of the biggest questions surrounding the U.S. economy is its durability. Now in its ninth year, the economic expansion is the third longest on record. Valuations remain extended, and the virtual absence of market fluctuations may hint at the sort of investor complacency that has set the stage for past corrections.

GLOBAL STOCK VOLATILITY IS AT A MULTI-DECADE LOW

As shown, the portion of trading days when the MSCI World Index has fluctuated more than 1% this year is far below the long-term average.



Source: Capital Group and Morningstar Direct

However, the U.S. is not exhibiting the stresses and structural imbalances that typically precede economic contractions, according to a Capital Group analysis. Despite the length of the current expansion, the U.S. appears to be midway through its current economic cycle, with no hint of imminent recession.

The path ahead will depend partially on moves by the Federal Reserve as the era of ultraloose monetary policy draws to a close. The central bank is proceeding with a plan to shrink the size of its bond portfolio, the final step in withdrawing its unprecedented stimulus efforts after the financial crisis. Stocks and bonds thus far have reacted calmly to the plan, which the Fed telegraphed well in advance. The central bank is also expected to raise short-term interest rates in December; this would be the fifth rate hike since late 2015. We believe the Fed will proceed gingerly in lifting rates. Beyond the U.S., attention will be focused on the European Central Bank, which may announce plans to wind down its own bond-buying program as the Continent's economy gathers steam.

Of course, markets are always susceptible to exogenous shocks that are difficult to predict with any certainty, such as the U.S.'s political showdown with North Korea. Thus far, the stock market has taken the acrimonious rhetoric between the countries in stride, but a further aggravation in relations could weigh on stock prices.

Growth in the developed world is stoking emerging markets.

The combination of economic reforms and cheap currencies has propelled equities in the emerging markets. Even after this year's rally, valuations in the developing world remain relatively attractive. China has done especially well, thanks to rising exports and domestic infrastructure spending. Chinese growth hit a better-than-expected 6.9% in the second quarter, prompting the International Monetary Fund to raise its estimate for the year to 6.7% from 6.2%. The IMF also pushed up its average growth forecast for the following three years. China has made progress in other key areas, such as stanching capital outflows, which spiked earlier in the year.

However, Beijing is still grappling with worrisome debt levels despite undertaking a series of measures to tighten credit. The use of leverage has popped up across the board in recent years, including the debt of governments, corporations and, increasingly, consumers as they pay up for expensive housing. The country's economic prospects look promising for the rest of this year amid positive momentum in both manufacturing and services, according to Capital Group's on-the-ground research in China. But the longer-term outlook is somewhat hazy, as burdensome

government debt loads could crowd out more productive spending, stir inflation and compress future growth.

As global equities have climbed this year, our portfolio managers have adjusted their holdings to take advantage of opportunities. For example, positions in some large technology companies were trimmed amid a powerful rally in the sector.

Managers also have taken profits in some companies that have been successful in corporate turnaround efforts, as well as those whose shares have jumped in response to acquisition offers from competitors. Our team has deployed some of that capital into selected stocks within various industries, including utilities, telecommunications and energy pipeline companies. We also have added to positions within biotechnology as that industry makes progress in developing innovative drugs to address numerous medical conditions.

Members of Capital Group's China regulatory, operational, accounting and governance research team pictured at the Shanghai Stock Exchange on a recent trip across Asia. From left-to-right, Susan Dietz-Henderson, Lisa Martinez, Elizabeth Mooney and Tracy Wang.

Bonds had positive returns as U.S. economic growth remained moderate.

Bond yields finished the quarter largely where they began it, as a modest run-up late in the period offset a decline before that. Yields jumped following the presidential election last year amid expectations that the Republican-led Congress and White House would quickly pass infrastructure spending and other pro-growth measures. However, yields have declined through much of 2017 as the prospects for immediate action have faded.

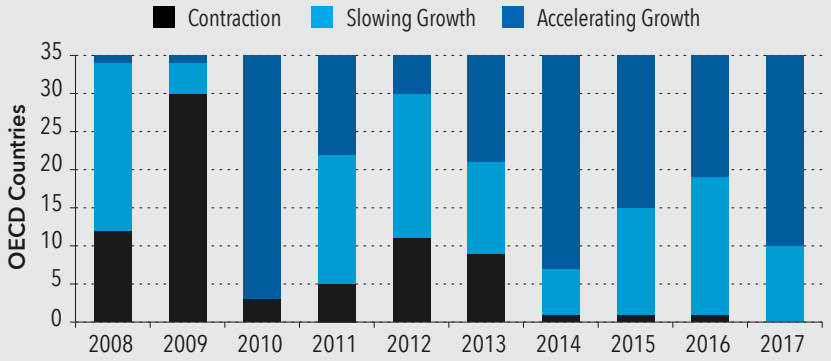
The Capital Group Private Client Services bond team has made slight adjustments to portfolios based on developments in the economy and financial markets. Among taxable portfolios, our fixed income managers continue to favor asset-backed securities that reflect consumer payments on credit cards and car loans. Compared with Treasury bonds, these securities have tended to offer incremental yield without introducing unnecessary volatility to client portfolios. Delinquencies on these assets have tended to be low during periods of strong economic growth and robust job gains.

As for municipal portfolios, we continue to favor revenue bonds, which are backed by cash streams from specific infrastructure projects, over so-called general obligation securities backed by the general credit of a municipality. Managers have increased exposure to select areas, including single family housing securities that often are guaranteed by housing entities such as Fannie Mae and Freddie Mac. These securities have tended to offer a combination of safety and attractive yields. Managers also have found value in so-called dirt bonds, which help to finance the construction of projects such as shopping malls and strip malls.

Our fixed-income team will closely follow the process as the Federal Reserve moves to reduce the size of its bond portfolio. Any disruption in the market could provide opportunities for managers to pick up attractively priced securities with promising long-term potential. Regardless of economic or market conditions, fixed income remains a fundamental component of client portfolios, as bonds have the potential to provide income while serving as a counterweight to stocks, which tend to be more volatile in periods of economic uncertainty. ■

ECONOMIC GROWTH IS POSITIVE AROUND THE WORLD

Major economies are expanding simultaneously for the first time in years.



Source: OECD. Contraction represents countries with negative GDP growth. Slowing growth represents countries with positive GDP growth that has declined year-over-year. Accelerating growth represents countries with positive GDP growth that has increased year-over-year.

Q&A

FIXED-INCOME PORTFOLIO MANAGER

MARK MARINELLA

31 YEARS IN PROFESSION

4 YEARS WITH CAPITAL GROUP

Mark Marinella is a fixed income portfolio manager in our Los Angeles office, specializing in municipal bonds. In this interview, he analyzes some of the political and economic forces affecting the municipal market, and discusses some of the areas where he is finding opportunities.

Bonds have done well this year as yields have generally declined. What's been driving the market?

Fixed income has done better than many people thought it would. Yields jumped after the November election on the expectation that a Republican-controlled White House and Congress would enact pro-growth policies that could push up inflation. But that has not occurred. We still have a roughly 2.5% growth rate in the U.S. European economies finally seem to be making a comeback, but nothing that suggests runaway growth. Inflation remains pretty well contained, and there's no pressure on rates to rise in any dramatic fashion.

What specific factors have helped municipal bonds?

In a nutshell, the outlook for the municipal sector has become much clearer. After the election, there was significant uncertainty on several fronts. First, there was a push in Washington for tax cuts and tax reform. That raised many questions, including whether there would be limits placed on the tax-exempt treatment of munis. However, that concern has receded as this year has unfolded. It's possible that some type of tax reduction may be enacted, but a broader and more ambitious tax reform package seems unlikely at this point.

It's somewhat the same story with infrastructure. There seemed to be a measure of bipartisan agreement after the election about boosting spending on roads, bridges and the like. Infrastructure development is important, but there were serious questions about how it would be paid for. Instead of the conventional system of issuing muni bonds, there was talk of going another route, such as private financing. That naturally unsettled the municipal market. But as we've seen, nothing much has happened to this point. Infrastructure hasn't yet gone beyond the discussion phase.

What's the current outlook?

Well, I've been doing this for 31 years, and when investors become extremely calm, as they are today, something comes along to shake the market a bit. You never know what it is, and I don't expect anything dramatic. But, for example, passage of a tax reform bill or an infrastructure bill could cause rates to edge up.

The Federal Reserve appears set to raise interest rates again in December, and the central bank has already announced it will begin shrinking its bond portfolio, which was built up after the 2008 financial crisis to boost the economy. The Fed has telegraphed its plan very well as to how and when it's going to reduce its balance sheet. But this has never been done before, so there is some degree of uncertainty. Also, if growth picks up in Europe and elsewhere, other countries could ease back on their own stimulus measures. Any of these things might put pressure on the market, both taxable and municipal.

Given your outlook, how are you positioning the portfolios you manage?

I've been moving to a slightly higher-quality tilt. I invest only in investment-grade securities. I'm not in any high-yield munis. But over the last few months, I've been reducing exposure to any lower-rated bonds. Given the level of calm in the marketplace and how tight valuations have become, I think it's better to be in high quality. The portfolios I manage are probably some of the most conservative in our fixed-income group.

What areas of the market do you favor at the moment?

One of the sectors I'm particularly fond of is single-family housing. This market has some of the highest-quality securities available. But there is some complexity to this sector, creating less demand for these securities. Not every investment organization has analysts that specialize in this sector. We do. We have dedicated analysts who take the time to dig underneath the mortgages that back these securities and understand how they work, so they feel comfortable with the cash flows. We are able to acquire high-quality securities at very attractive prices. This is one of the ways I've been going up in quality in portfolios.

Where else are you finding opportunities?

I am overweight in the hospital sector. I came in this year lightening my exposure because of uncertainty around the Affordable Care Act, but I believe in the sector. Part of the appeal is its complexity. There are many types of hospitals – local hospitals, national hospitals, Medicare- or Medicaid-heavy, etc. Some are very attractive, and some are not. But if you dig deeply and do your homework, you can uncover great opportunities. ■

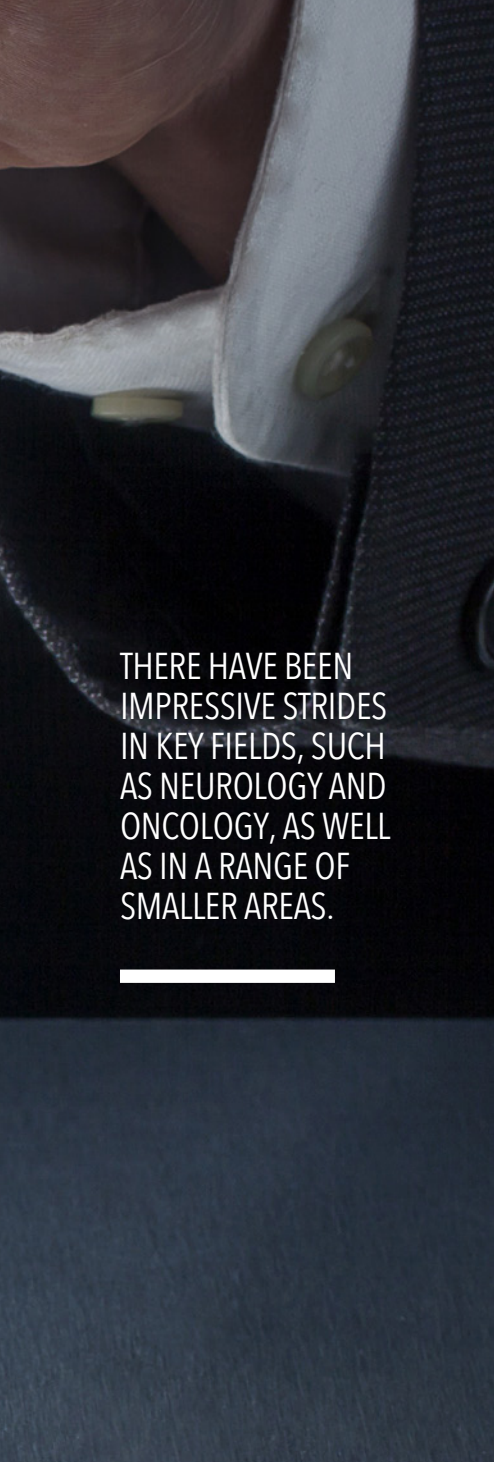
Scientific Advancement Is a Potent Prescription for the Drug Sector

CRAIG GORDON, MD

Craig is an equity analyst for Capital Research Global Investors, covering the pharmaceutical and biotechnology industries. Based in Los Angeles, he has 10 years of investment experience and has been with Capital Group since 2010.

There has been a lot of attention lately on drug prices, with pharmaceutical costs becoming a flashpoint in the national debate over health care. This is an important issue that is certain to remain in the public eye. But the heavy spotlight on pricing can obscure another significant trend in the pharmaceutical arena – the groundbreaking advances being made in drug development. For reasons ranging from scientific progress to competitive pressures, pharmaceutical and biotech companies are placing a high priority on innovation. That's resulting in life-altering treatments for patients and encouraging prospects for companies that can notch genuine medical breakthroughs.

The emphasis on innovation is something of a shift for the pharmaceutical business. Though research has always been a fundamental component of the industry, it's difficult to come up with blockbuster drugs. Too often, companies have relied more on raising the prices of existing



products than on producing new discoveries. That is changing as drugmakers are feeling pressure not only to price medications affordably but to prove they actually work. Much of this squeeze is coming from insurance companies, which are increasingly tying reimbursements to a treatment's efficacy and ability to reduce overall health care costs.

From an investment perspective, it's essential to distinguish between truly promising therapies and copycat products with little clinical potential. Though many companies claim to have pathbreaking science, few actually do. Before becoming an equity analyst a decade ago, I was a practicing physician who specialized in internal medicine and rheumatology. My medical training has given me valuable insight into the science underlying various treatments. Meanwhile, my work with patients in hospitals has provided an understanding of what doctors look for when prescribing new drugs, what insurance companies look for when paying for them and what risks patients are willing to take. The bottom line is that companies with inferior research and thin product pipelines will be challenged in this new era. By contrast, businesses with legitimate scientific accomplishments should enjoy robust product demand and strong pricing power.

Scientific advances are yielding a range of new medicines.

On the medical front, there have been impressive strides in key fields, such as neurology and oncology, as well as in a range of smaller areas. For example, there has been progress toward curing a blood disorder known as thalassemia that may have broader applicability in the treatment of sickle cell anemia. There have also been impressive accomplishments in fighting rare diseases, which strike as few as 10,000 patients, many of them children. It's heartwarming to read blogs where parents detail the recoveries of children who once had few viable options.

There has also been significant headway in how drugs are delivered. Doctors have long relied on injectable proteins and pills. Now we have therapies that leverage ribonucleic acid, or RNA, which is a sort of middleman between DNA and protein and gene therapies.

The emphasis on innovation is likely to spur consolidation throughout the world of pharmaceuticals and biotech as large companies, some with sparse research pipelines and a need to broaden product offerings, pursue competitors with cutting-edge therapies. Gilead Sciences recently announced an $11 billion plan to buy Kite Pharma, which has an emerging immuno-therapy treatment targeting certain forms of cancer. The deal sent an unmistakable message about the value being placed on up-and-coming therapies.

Companies are moderating price hikes to avoid the glare of the spotlight.

Until mid-2015, health care stocks overall, especially biotech and pharmaceutical companies, enjoyed a five-year rally that was driven partially by medical advances in diseases such as hepatitis C, but even more so by price hikes. Sentiment turned against the sector in a heartbeat that summer as disappointing earnings at a leading company and fewer blowout numbers at others were exacerbated by political consternation over drug prices. Drug-related shares have turned up this year, partly as a reaction to Republicans' tightened grip on Congress, which has reduced the odds of new regulation.

Pharmaceutical companies have also made a conscious effort to turn down the political temperature by restraining price hikes. Most net cost increases (after rebating) recently have been in the low to mid-single digits. Previously, jumps of 10% or more were common. The drop in negative headlines has reduced the immediate impetus for elected officials to press for stricter regulation.

That said, companies that come up with new or better treatments will have leeway on pricing power. Regulators in the U.S. and other countries are trying to encourage drug applications that clearly improve the standard of care, and they are much less likely to target the prices of innovative treatments. Likewise, insurers will be forced to cover genuine medical breakthroughs.

Drug development is by its nature uncertain. Blockbuster drugs are rare; much-hyped therapies sometimes fail to produce results in clinical trial; and even promising therapies run into unforeseen obstacles. I believe there will be many winners and losers in this evolving era, making it essential to identify true innovation. I look for businesses with core competitive strengths, such as research-driven business models and the first-mover advantage. There is exciting progress being made in areas such as gene therapy and immuno-oncology. Scientific breakthroughs will help both the patients who benefit from those treatments and the companies that produce them. ■

With Emerging Markets as a Tailwind, Aircraft Makers Take Flight

TODD SALIGMAN

Todd is an analyst who covers airlines and the aerospace industry. Based in Los Angeles, he has nine years of investment experience and has been with Capital Group since 2012.

For most of us, boarding an airplane couldn't be more routine. Find your seat, hoist your carry-on into the overhead bin, and buckle up for takeoff. But in China and other emerging markets, this process isn't always so commonplace. Many people are flying for the first time and are unfamiliar with these procedures. In my travels as an aviation industry analyst, I've seen passengers prop luggage on their laps until a flight attendant pointed out the overhead racks. Other times people have walked to the restroom as the plane zoomed down the runway during takeoff, unaware of the "fasten seat belt" light.

On a personal level, it's heartwarming to see people's wonderment at this new experience. From an investment perspective, the surge of new fliers illustrates an important trend: rising economic growth across Asia and other emerging markets is lifting ever-more people into the middle class. As was the case decades earlier in the U.S. and Europe, one of the first luxuries people choose to splurge on is air travel.

This dynamic is driving the growth of aircraft manufacturers and components makers. As more people fly, more planes are needed to transport them. This is evident from the waiting lists for new aircraft – in other words, for planes that airlines have ordered but manufacturers haven't yet built. The current backlog is eight years, which is lengthy by historical standards. For this and other reasons, I believe that aircraft and components makers have a long runway ahead of them.

On-the-ground research provides a unique perspective.

My optimism stems partly from research trips I've taken to Asia and other places, where I meet with company executives and aviation experts to glean insights into local trends and business conditions. The best way to gauge the dynamics of a market is to visit and interact with people across the spectrum, including suppliers, purchasing managers and end users. I even hop into the cockpits of jets (sometimes with our portfolio managers tagging along) to look over

the controls and talk with the pilots about their experience with the aircraft.

Many times, I am one of the few Western investors present – for example, when I recently attended air shows in Singapore and Zhuhai, China. In the course of my travels, I've piloted a flight simulator in Dublin and spent a night on an aircraft carrier in San Diego, watching F-18 flight operations. I think this type of up-close research provides a unique advantage in evaluating the outlook for an industry and understanding the below-the-surface forces that are likely to affect its future.

THE GLOBAL AIRLINE INDUSTRY IS THE HEALTHIEST IT'S EVER BEEN.

The rest of the world is discovering air travel.

Though it's easy for those of us in the developed world to take jet travel for granted, only 15% of the global population has ever been on an airplane. That number is rising as growing consumer income affords more leisure travel. After climbing an average of about 5% annually over the past few decades, global air traffic growth has averaged closer to an annual 6.5% in the past three years. So far in 2017, it's up 8%, with air travel in China alone jumping 15%.

The aerospace industry is also benefiting from strong demand for fuel-efficient aircraft. Through most of the postwar era, new planes were about 5% more efficient than the models they replaced. Thanks to steady technological advancements, models rolling off the assembly line today have 15% to 20% greater fuel economy. That's significant considering that fuel makes up more than one-quarter of an airline's costs.

While there are many parts suppliers and components makers, the industry is dominated at the top by behemoths Boeing and Airbus. The duopoly nature of the industry provides some stability and supply discipline.

This comes at a time when the global airline industry is the healthiest it's ever been. The sector has historically been plagued by chronic overcapacity, high fixed costs and volatile demand. Major U.S. airlines have made significant progress through a mix of industry consolidation, ongoing cost management and improved labor relations. Still, I remain wary of legacy airlines and instead favor a small number of ultra-low-cost competitors. In addition to their tight cost controls and potential for market share gains, these airlines can charge for ancillary services such as reserved seats, priority boarding and extra legroom.

To be sure, the aircraft business faces obstacles. Aside from the ever-present risk of terrorism, either isolationist policies or a full-blown trade war between the U.S. and China could discourage international travel. And, of course, the cyclical factors that have boosted air travel, such as the global economic upturn and low fuel prices, will naturally gyrate over time. Nevertheless, I believe the global embrace of travel is so fundamental that it will withstand economic fluctuations.

In the near term, I see the likeliest obstacle as something mundane: supply-chain constraints. The aerospace industry is steadily ramping up production, pressuring components makers to add capacity and turn out an increasing number of parts. Technological glitches or worker shortages could throw off assembly schedules.

Still, I believe the industry's glide path is long. The appeal of travel, especially to international destinations, is only likely to grow as China and other emerging markets continue to expand. For many of these travelers, once they've made a trip, venturing far from home is likely to become a lifelong interest. ■

Equity portfolio manager Cheryl Frank and Capital Group airline analyst Todd Saligman in the cockpit of a Boeing 737 simulator while on a research trip to Dublin, Ireland.

CHANGING CHANNELS

How the Rise of Streaming Video Is Transforming the Entertainment World

JIM KANG

Jim is an equity analyst with research responsibility for advertising, casinos and gaming, newspapers and broadcasting companies. Based in Los Angeles, he has 30 years of investment experience and has been with Capital Group since 1988.

There have been many turning points over the years in how the world consumes entertainment. The introduction of TV rescripted American leisure time, and the advent of cable decades later put hundreds of channels within reach. But as groundbreaking as those changes were, it took years for them to catch on widely. Fast-forward to the present day, and it's clear that one of the most dominant trends in the entertainment business – streaming video – not only is altering the media landscape but doing so at a remarkably swift pace.

In just the past few months, progress in content quality, availability and speed of delivery has broadened the appeal of streaming to such a degree that it may eventually eclipse traditional broadcast and cable TV in key ways. Streaming video is offered over the internet, with generally low prices and no need for cable-style set-top boxes. Not surprisingly, the proliferation of services has prompted many consumers to dump cable. Such cord cutting has, in turn, forced cable and satellite operators to rush out "skinny bundles" with fewer channels and lower fees than conventional monthly packages. These slimmed-down offerings have helped with customer retention but have sparked a wave of "cord shaving" as subscribers opt for lower-priced plans.

It's unclear how these dynamics will play out over time, but some trends are already emerging. One of the biggest is that media giants, which previously relied solely on cable distribution, are pursuing the once-unthinkable path of selling directly to consumers. Companies of all sorts – content creators, satellite services, non-entertainment businesses and even cable operators – are already in or expected to enter the streaming

STREAMING SERVICES HAVE EXISTED FOR MORE THAN A DECADE, BUT THEY HAVE ACHIEVED MAINSTREAM ATTENTION IN THE PAST COUPLE OF YEARS.

game. Their individual strategies vary, but the common logic is that long-term success depends on aggressively building market share in the near term.

From an investment perspective, there are risks, but also meaningful opportunities, for many of these businesses. TV and film studios, for example, are seeing increased demand for programming. Cable companies are grappling with cord cutting but benefiting from broadband subscriptions. Behemoths such as Amazon and Google are trying to drive sales of nonmedia products and services. Broadband services and cell phone makers, meanwhile, stand to gain as users stream TV and movies on mobile devices.

Moreover, significant mergers recently have swept through the media world, and more may follow. The emerging crop of entertainment Goliaths view it as essential to control their own content because that's the only way to ensure that popular shows will run on their platforms. That gives big players, especially those not in the traditional entertainment industry, an incentive to create their own programming by acquiring TV and film producers. My colleagues and I are spending a lot of time analyzing potential winners and losers to determine the most promising investments. The streaming phenomenon touches on a range of portfolio holdings in both the technology and entertainment industries, and it will be important to understand the rapidly shifting dynamics.

Streaming is being propelled by demographics and ease of use.

Streaming services have existed for more than a decade, but they have achieved mainstream attention in the past couple of years. A number of factors have driven this shift, including improved broadband quality, competitors' desire to emulate the success of Netflix and a backlash against lofty cable prices. Equally important, viewers prize ease of use. The portability of devices, combined with on-demand features, allows consumers to watch programming whenever and wherever they like. This is especially true of millennials, who were reared on YouTube videos and have little allegiance to cable providers.

The popularity of streaming springs in part from a simple fact: while the typical cable package bulges with nearly 200 channels, the average consumer only watches about 15. A milestone in streaming's evolution came in early 2015 when Dish Network launched Sling TV, a small suite of popular channels offered for a very low monthly fee. Competitors followed, including Sony's PlayStation Vue, AT&T's DirecTV Now and Google's YouTube TV. Content companies such as HBO, Showtime and CBS all have online direct-to-consumer offerings.

Though the sheer number of platforms and TV shows is dizzying, the onslaught of streaming options has been a boon for consumers. In effect, viewers can re-create the traditional cable package by stringing together a handful of online services. While monthly cable bills average about $80, subscribing to a fairly well-rounded collection of streaming sites can cost half that amount.

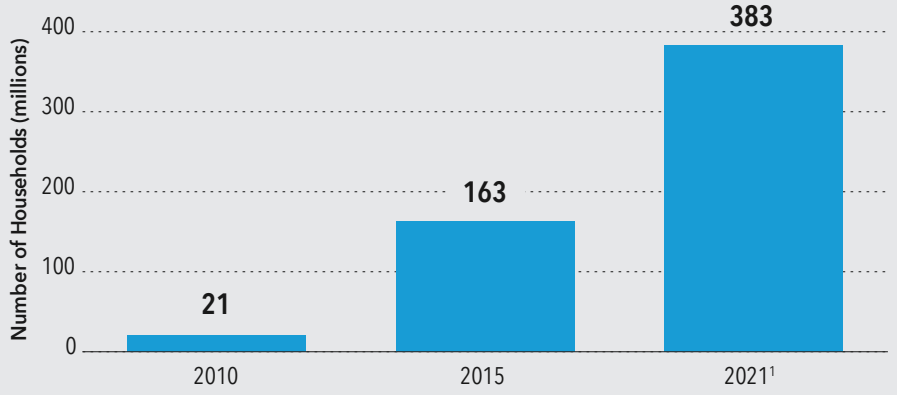
Despite the risks facing streaming services, the long-term outlook is encouraging.

Certainly, there are potential pitfalls for companies in the streaming marketplace. For example, old-fashioned cable packages typically are "sticky," meaning consumers have to go out of their way to cancel service, including returning the set-top box to the cable operator. Streaming services, by contrast, are much easier to dump after, say, a consumer has binge-watched a handful of favorite shows. As for cable companies, they will continue to be pressured by cord shaving. Even TV studios, which are churning out a record number of shows in the medium's current "golden age," could be hurt if the number of programs outpaces the time viewers have to watch them – a dynamic known as "peak TV."

Still, the ascendance of streaming is likely to persist as leading companies roll out new offerings. For example, Disney plans to launch a pair of streaming services and Apple has earmarked more than $1 billion for original video content. Facebook and Google are also pursuing ambitious plans for programming. There's no doubt that streaming has become a very competitive business. But companies that match effective distribution with quality programming and name-brand recognition stand to do very well in this new era. ■

A PICTURE OF GROWTH IN STREAMING VIDEO

Viewership of popular streaming services has grown steadily in recent years and is projected to surge even further in the future.



Source: Statista. Chart illustrates the number of subscription video on demand households worldwide in 2010 and 2015, as well as a forecast for 2021.

HOW TO BE A WRITER AT ANY AGE

Warren Adler has devoted his life to writing, penning 50-plus novels and more than 100 short stories in his nearly 90 years. Perhaps his best-known work is *The War of the Roses*, a dark comedy about a rancorous divorce that became a hit movie starring Michael Douglas and Kathleen Turner.

Throughout his career – starting long before storytelling paid the bills – Adler woke up every day at 5 a.m. to compose a handful of pages before heading to his day job. So after decades of best-sellers, financial success and professional acclaim, how does Adler spend his mornings nowadays? Just as he always has – by rising early to sit at his computer and bang out a few pages.

The Brooklyn native, who has been a client of Capital Group Private Client Services since 1995, began writing at age 15 and majored in English at New York University. He went on to study creative writing at the New School in Manhattan alongside classmates such as William Styron and Mario Puzo. Adler toiled at a variety of jobs before his literary success, including turns as a journalist, radio station owner and founder of a public relations firm.

He often speaks to aspiring authors about the craft of writing, stressing that it's possible to get started at any age. Considering that Adler's first novel wasn't published until he was 46, his career bears that out. A recent survey found more than 80% of Americans believe they have a book inside them. If you're one of them, here are some of Adler's expert tips to get the process started.

Be disciplined and follow a routine.

There is no magic elixir for the creative process. If Thomas Edison was right that genius is 1% inspiration and 99% perspiration, the odds can feel even steeper to an aspiring writer. Regardless of genre, it takes enormous preparation and soul-searching before pen is ever applied to paper. Discipline is essential, Adler advises. Whether it requires an alarm clock sounding in the predawn hours or a late-night ritual after everyone else is asleep, write on a regular schedule. "You can't just wait for inspiration to arrive on the scene," he says. "You've got to make it a habit, or you just won't do it."

Many authors follow this formula, working at a predetermined time and targeting a set number of pages, says Adler, who himself aims for exactly five pages a day. "I'll stop in the middle of a sentence if I have to," he explains.

To write fiction, comb your memory.

Creative writing, of course, is all about the imagination – but a novelist still must call upon personal experiences, Adler says. Though the plot of a book doesn't have to parallel the author's real life, there is ample fodder to be drawn from actual events. The concept for The War of the Roses, for example, sprang from a dinner party conversation with a man who said he and his wife were sharing their home during a venomous breakup. "I said to myself, 'Boy, is that a story. How do you live with someone you hate?'" Adler recalls.

Fiction writers face an inherent challenge in creating multifaceted characters with richly textured lives. To achieve emotional resonance, Adler suggests writers sketch out moments from their own lives. These scenes aren't intended to be published or even read by others. Instead, they provide something of a test run – a writing exercise designed to spur recollections and the emotions they evoked.

"YOU CAN'T BECOME A SUCCESSFUL WRITER UNLESS YOU'RE TOTALLY DEDICATED TO IT."

- WARREN ADLER

"If you want to write deep literary fiction, where the characters and plot require a lot of insight, you have to have a great memory," Adler believes. "This would be a great way to jump-start that memory."

On a more prosaic level, he suggests writing at least 100 pages before shelving a book idea. It's easy to become discouraged during the process or feel trapped by what might seem like dead-end subplots. But stick with it. Allow an idea to germinate in your mind, and the real story eventually will bubble to the surface, Adler advises.

"Let the characters work out their own destiny," he says. "These creatures of your imagination will become very real to you and they will work out their own path."

Be honest – really honest – when undertaking a memoir.

If you're more intrigued by writing the story of your own life, you're not alone. Interest in memoir writing has grown in recent years among various age groups. However, it takes much more than an inventory of facts or a catalog of triumphs to fashion a compelling tale, Adler insists. An autobiography must be sincere and authentic. Recount your struggles, missteps and shortcomings – even personal transgressions.

"Find the real truth of what your life has been all about," Adler says. "If you censor it, or worry you'll hurt people's feelings and don't tell the real story, it'll be a lousy memoir."

Self-evaluation and the disclosure of vulnerabilities or ethical lapses can be embarrassing. But they're necessary.

"Most of my friends who have written memoirs complain to me that their kids aren't even interested in reading them," Adler observes. "Nobody wants to really reveal themselves, but the most successful memoirs are those that tell the absolute truth."

Consider the option of self-publishing.

As for getting your story into print, the world is changing – a lot. Publishing used to entail the humbling process of shopping a manuscript to potential agents and trying any trick imaginable to get your work into their hands. Adler's first book, Undertow, was published after a client at the PR firm he owned sought publicity for his own book. Adler agreed on the condition that his book also be published.

The digital era has made self-publishing easier and more respectable than ever. Adler went this route a number of years ago and now self-publishes all his work. "On the internet nothing will go out of print," he reasons.

Above all else, Adler insists, believe in yourself and stay focused.

"You can't become a successful writer unless you're totally dedicated to it," he says. "You can't be casual about it." ■

Preparing for a Market Correction

Regardless of When It Might Occur

SANDRA S. MORELLI

Sandra is a regional director and portfolio specialist based in our Atlanta office. She has more than 30 years of investment experience and has been with Capital Group since 2009.

One of the most notable aspects of the current bull market has been its remarkable tranquility. At eight years and counting, this advance has been one of the smoothest on record, with few extended sell-offs and record-low volatility. Still, there is always a risk that the market will change direction quickly and with little warning. Investors were reminded of this recently by the escalating tensions with North Korea and the expected economic impact of the Texas and Florida hurricanes. Though stocks have largely maintained their balance as of this writing, these events have nevertheless reinforced the fact that pullbacks can strike at any moment.

Given the length of this bull market, the thought of a correction can be unsettling. Keep in mind, however, that periodic setbacks are both natural and necessary for long-running market advances. For investors, it's important to keep these fluctuations in perspective. The best way to do that is to ensure you have the proper long-term asset allocation strategy based on your time horizon, risk tolerance, risk capacity and personal financial goals. That way you can stick with your portfolio's objectives even during intermittent turbulence.

In addition, it's important to build portfolios using our wealth pyramid framing structure. We begin with a "base," which is made up of liquid funds that can support two years of spending. Next is "core capital," or the amount of money needed to endow an investor's lifestyle. Finally, any additional amount is considered "surplus," which can be earmarked for other goals, such as philanthropic giving or wealth transfer to future generations.

At Capital Group Private Client Services, once we have determined a client's goals, we can then design an appropriate strategic allocation tailored to each client's personal and financial circumstances – for example, having sufficient exposure to high-quality bonds

THE BEST STRATEGY IS TO ESTABLISH A THOUGHTFUL PORTFOLIO STRUCTURE CUSTOMIZED TO YOUR PERSONAL CIRCUMSTANCES AND STICK WITH IT.

with a low correlation to stocks. Arriving at an appropriate portfolio allocation requires an understanding of the right balance between a client's emotional tolerance for risk and the degree of risk they must take to accomplish their financial objectives.

While the allocation among stocks, bonds and other assets broadly defines the structure of individual portfolios, it's important to remember that our portfolio managers have the flexibility to make adjustments within the investment strategies themselves. For example, they have leeway to increase cash positions or tilt investment holdings depending on circumstances in the broad economy and specific industries, subject to client restrictions.

Avoid the urge to time the market.

Regardless of market conditions, the natural human instinct among investors is to make portfolio adjustments based on what they think will happen. This impulse isn't confined to periods when stock prices are falling – it's equally tempting when they are rising. Just as some investors are inclined to reduce equity exposure following a market decline, others are reluctant to increase stock investments during a rising market because they worry that a correction might occur. While the instinct to time the market is understandable in either case, it's potentially very costly. Selling near a market bottom "locks in" losses, and sitting on the sidelines during a subsequent recovery can cause an investor to miss out on meaningful gains.

In fact, history shows not only that it's impossible to predict short-term market moves, but that retreating from stocks at the wrong time can significantly damage long-term returns. For example, a hypothetical $1 invested in the S&P 500 index in 1926 would have grown to $6,035 by the end of 2016, despite the sometimes sharp bear markets along the way. Missing just the best 40 months would have lowered the ending value to $34.75.

Our analytics team studied a range of postwar environments to gauge whether economic signals were a reliable precursor to market declines. In other words, they assessed whether it was possible to time the market based on economic red flags. Looking back to 1946, we found that stocks appreciated in 81% of all rolling 12-month periods, including both weak and strong environments.

We then looked exclusively at challenging times, such as when inflation was high, gold prices were surging or unemployment was elevated. Surprisingly, we found that equity markets delivered overwhelmingly positive returns even during these tumultuous periods. Only recessions seemed to have a reliably dampening effect on stocks, but avoiding those periods would have required advance warning. Unfortunately, even the most highly regarded economists are notorious for their conflicting – and often incorrect – views about when recessions will materialize.

Half of market declines are relatively short-lived.

Separately, we analyzed the length and severity of down markets to gauge the effects on client portfolios. Our research shows there are two basic types of market declines: major pullbacks, which often correspond with a recession, and shorter-lived downturns that occur in the course of longer-lasting market rallies.

In the postwar period, the S&P 500 dropped 15% or more on 16 occasions. Half of those were relatively mild, lasting less than eight months. Nearly one-third of the time, the index was at a new high within 10 months of the previous peak.

As for major pullbacks, the median duration was 17 months, with a drop of more than 30%. As I mentioned earlier, these declines are associated with recessions. But market pullbacks are often a leading indicator – meaning they signal an upcoming recession rather than the other way around. I'd also point out that our research suggests the U.S. economy is not currently exhibiting any of the obvious excesses or imbalances that have foreshadowed economic contractions. And while there has been recent concern about high equity valuations, our research indicates that valuations themselves are not a dependable predictor of market weakness.

Certainly, none of this inoculates the market from a sudden or sharp decline. Exogenous shocks such as geopolitical events and policy miscues can spark pullbacks. But history shows that it's impossible to predict corrections with reliable accuracy. As always, the best strategy is to establish a thoughtful portfolio structure customized to your personal circumstances and stick with it through the inevitable gyrations in the market. ■

HOW EQUITIES HAVE DONE IN VARIOUS SCENARIOS

Over Rolling 12-Month Periods When …	FREQUENCY OF STOCK GAINS	FREQUENCY OF STOCK LOSSES
Inflation was greater than 5%	64%	36%
There was deflation	75%	25%
Gold prices rose more than 20% (since 1970)	87%	13%
Unemployment was above 7% (since 1948)	82%	18%
Fed funds rate rose 1% or more (since 1954)	82%	18%
We were in a recession (since 1947)	53%	47%
All 12-month periods (1946-2016)	81%	19%

Inflation – Source: IA SBBI U.S. Inflation Index; time period: 1946–2016. Deflation – Source: IA SBBI U.S. Inflation Index; time period: 1946–2016. Gold – Source: S&P GSCI Gold Spot; time period: 1977–2016. Unemployment – Source: Bureau of Labor Statistics; Time period: 1948–2016. Federal Funds Rate – Source: The Federal Reserve; time period: 1954–2016. Recessions – Source: Bureau of Economic Analysis; year-over-year decline by quarter; time period: 1947–2016. Past results are no guarantee of future results. Equity results are represented by the S&P 500 Index from 1946-1969 and a blend of 70% S&P 500 Index/30% MSCI EAFE Index from 1970-2016.

WHY TIME FLIES

... AND HOW TO SLOW IT DOWN

RESEARCH SHOWS PEOPLE CAN ALTER THEIR AWARENESS AND PERCEPTION OF TIME. HERE ARE A FEW KEYS TO UNDERSTANDING TIME AND MAKING THE MOST OF IT.

Think back to your summer vacation. Regardless of how long it lasted, chances are it felt like time sped by and you were heading home before you knew it. Contrast that with how the clock slows to a seeming crawl when you're caught in traffic or stuck in a meeting. Of course, time doesn't actually have variable speeds. Each minute is, factually speaking, the same length as every other. But it often doesn't feel that way, either when you're in the middle of an experience or looking back on it years later.

These differing perceptions are evident in the countless – and often contradictory – adages that have sprung up about time over the years. Time flies, but it also drags and occasionally stands still. The days are long, but the years are short. And though time is on our side, we're nonetheless in a race against it. That last perception frequently sets in as we age. Though time seems to meander at a leisurely pace in childhood, the years now may feel like they're galloping by.

Ever since the writings of fourth-century philosopher St. Augustine, scholars have sought to understand how human beings perceive the passage of time. Modern-day research shows the way we experience and interpret events – and especially how we record them in our long-term memories – can have profound effects on both our day-to-day lives and our long-term happiness.

"Time is the most precious thing we have," says Jean Paul Zogby, author of *The Power of Time Perception: Control the Speed of Time to Make Every Second Count*. "It affects how we see things, how we experience things, how we look at our lives in general and how fulfilling our lives are."

Though it's impossible to turn back the clock or fast-forward to the future, research shows people can alter their

awareness and perception of time. Here are a few keys to understanding time and making the most of it.

If you're bored, do something – even if you don't like it.

It's easy to grasp why time flies when you're having fun. Whether it's dinner with friends or getting lost in a good book, you're engrossed in an activity and not paying attention to the ticking of the clock. In short, losing track of time has the mental effect of making it pass more swiftly.

But what if you're performing a tedious or unenjoyable task and wish time would go faster? The same principle applies. Research suggests that focusing solely on the activity itself – in other words, avoiding distractions such as checking your watch or even daydreaming about something fun – can make time seem to pass more quickly.

Add novelty to your daily routine.

On the other hand, if it feels as though your days are a blur and life is rushing by, do something new. Research shows that novel experiences tend to slow the perception of time. This even extends to something routine, such as shopping in a new grocery store. A fresh experience – even just wandering down an unfamiliar cereal aisle – tends to be more memorable than subsequent visits, when you know precisely where the oatmeal is shelved.

Compare that with a rote task done every day, such as the morning ritual of getting ready for work. Have you ever left the house only to have trouble remembering whether you fed the cat? The routine nature of daily occurrences creates less of a mental impression, making it feel as though time is hurrying by.

The antidote, researchers say, is to change up routines, both large and small. Take a different route home at the end of the day. If you're stymied as to why the holidays are approaching so quickly, celebrate them a little differently. And even if you love your annual vacation spot, avoid going to the same place year after year.

"As you get older, you've got to decide to stop and slow things down and really savor the good things in life," says Ronald Riggio, a psychology professor at Claremont McKenna College who studies the perception of time. "Try to do as many new things as you can to make new memories. Those are the things you're going to remember."

Double down on new pursuits as you get older.

Introducing novelty is especially critical for those who feel as though time is accelerating as we age. Several factors cause this perception, but one of the biggest is the repetitive nature of adult life and the corresponding dearth of fresh experiences. Children do many more things for the first time than adults do, and they have more time-related milestones, such as moving from one grade to the next. By contrast, the sheer number of items on the average adult's to-do list, combined with a general sense of time pressure, can make it seem like life is hurtling by.

IF IT FEELS AS THOUGH YOUR DAYS ARE A BLUR AND LIFE IS RUSHING BY, DO SOMETHING NEW.

New experiences not only stretch the subjective speed of time in the present but tend to elongate it in your memory as well. Essentially, our brains tend to permanently record distinctive experiences while discarding the unremarkable ones, according to Zogby. Even fun experiences that may seem to fly by at the time form an indelible impression that, when recalled fondly years later, effectively slows down in our memories.

"Our brain tends to retrospectively shrink empty or routine minutes, hours and days, while expanding action-packed and interesting ones," Zogby says. "If your life is now nothing but a constant routine, when you look back at those years they will seem short. Introducing novelty in your life will give you richer memories and make your life seem longer." ■

TIPS FOR SLOWING DOWN TIME

- #1 LIVE IN THE MOMENT
- #2 BECOME ABSORBED IN AN ACTIVITY
- #3 ENGAGE IN HIGH-ENERGY HOBBIES SUCH AS SPORTS AND SOCIAL INTERACTIONS
- #4 EMBARK ON NOVEL EXPERIENCES, SUCH AS STUDYING A FOREIGN LANGUAGE
- #5 ENJOY THE FEELING OF ANTICIPATION WHEN PLANNING A VACATION
- #6 BOOST ALERTNESS WITH SLEEP, EXERCISE AND PROPER NUTRITION
- #7 AVOID THE FEELING OF NOT HAVING ENOUGH TIME TO ACCOMPLISH GOALS
- #8 CULTIVATE THE FEELING OF AWE, ESPECIALLY FOR SIMPLE PLEASURES SUCH AS NATURE

Source: *The Power of Time Perception: Control the Speed of Time to Make Every Second Count.*

Gaining Insight to Become More Self-Aware

Do you ever wonder how other people *really* feel about you? Does it seem like all of your social media friends lead a more exciting and glamorous life than you do? If so, you're not alone. In fact, organizational psychologist and best-selling author Tasha Eurich says most people fall into the same boat because they lack enough self-awareness.

The good news, she says, is that it's possible to overcome this gap, and doing so can have a profound impact on your life. She outlines her findings and strategies in a new book, *Insight: Why We're Not as Self-Aware as We Think, and How Seeing Ourselves Clearly Helps Us Succeed at Work and in Life*.

Below she discusses how everyone can become more self-aware, and she reveals why today's young people, in particular, should heed her advice.

How do you define self-awareness?

I spent almost a year with my research team weighing and analyzing all the different ways that top thinkers and researchers define self-awareness. One of the startling things we discovered is that everybody seems to have a different definition. So we came up with two elements that make up self-awareness overall. One is what we call internal self-awareness, which is essentially knowing who you are, what you value, what you're passionate about and what you want to accomplish. The second is external self-awareness. In a nutshell, that means having clarity about how other people see you. Interestingly, we found that these two types of self-knowledge are independent. This means you can really believe that you see yourself clearly, yet the people around you might not agree. On the other hand, sometimes people are too focused on what other people think and don't do the work to understand what they really want.

You call self-awareness the meta-skill of the 21st century. Why is that?

Because there are so many outcomes that self-awareness creates at both work and in our personal lives. We know from the research that people who see themselves clearly are more successful at work. They get more promotions, they're more confident, and they're better communicators. On the personal side, they tend to have better, more fulfilling relationships,

and they raise more-mature children. It's kind of a secret weapon that not everyone chooses to work on but, in my view, should.

How can we become more internally self-aware?

At a high level, it's a matter of questioning the assumptions you make about yourself. For example, just because you've had a long career in a certain profession doesn't mean that particular job plays to your strengths or is what you really want to do. It's not that you should start second-guessing all of your choices. Rather, the most self-aware people have a curious, open-minded way of looking at themselves. My advice is to ask yourself "what" instead of "why" questions. For instance, rather than wondering why you're so unhappy, ask what patterns are making you most dissatisfied.

What about on the external side?

Here it's about discovering how other people see you. You learn that by getting feedback. But don't ask for feedback from everyone. You need to be strategic and smart about who you approach. For instance, people in power often don't get honest answers from those who work for them. You need to find someone who has your best interest at heart and who you're confident will tell you the truth. Have an in-depth conversation. Frankly, everyone should solicit more external feedback than they probably do.

According to your research, 95% of people think they're self-aware, but only 10% to 15% really are. Why is there such a big gap in perception?

We have a lot of blind spots on the internal side. We can't always access our emotions or even know what we're believing in a given moment. In a way, our wiring works against us. Plus, we get a distorted outside perspective. Look at social media and reality TV. We glorify a positive self-perception that often has no relationship with reality. Instead of getting real feedback, we post a selfie on Facebook and get 100 likes. What we don't know is selfies are really annoying to our friends. We're getting more self-absorbed and less self-aware.

Once you've gathered feedback and identified potential areas to improve, how easy is it to actually change yourself, particularly folks who are firmly set in their ways?

There are going to be times when we get feedback and are able to make a dramatic change. I've seen it happen. Other times you'll hear feedback and only be able to make a small change that still produces a benefit. For instance, if people say you talk too much in meetings, perhaps you can be more aware, stop interrupting or let others speak first. But there are times when the feedback will be about something that is so deeply woven into the fabric of who you are that change isn't possible. We must be realistic about this, have the energy to change where we can and realize that there are other ways to use feedback to become more effective. The key is getting the clarity you need to make the right choices. I call it a braver but wiser mindset. Be willing to muster the courage and energy it takes to see yourself differently and collect data about how you show up to others. I also have a quiz you can take and then send to a friend to compare notes on my website (insight-book.com).

You observe that many millennials are raised to have high self-esteem and believe they can do no wrong. You call it the "feel-good effect."

This is coming from someone on the older end of the millennial spectrum who has seen the data. I think the self-esteem movement has been one of the most detrimental paradigms to our success, happiness and effectiveness. Feeling good doesn't make you more effective. There's a lot of evidence that people with high self-esteem tend to be more aggressive, are more likely to commit crimes, are less effective in professional settings and tend to be socially awkward. Now, I'm not saying you should feel bad about yourself. But the more powerful alternative to self-esteem is self-acceptance. Self-esteem is feeling great about yourself regardless of objective reality, whereas self-acceptance means seeing yourself for who you are and gently accepting that person. In my mind, we should be raising our children not to blindly think they're awesome but to realistically evaluate themselves, understand what their gifts are, acknowledge what's not perfect and accept and love themselves anyway. ■

SELF-AWARENESS TEST

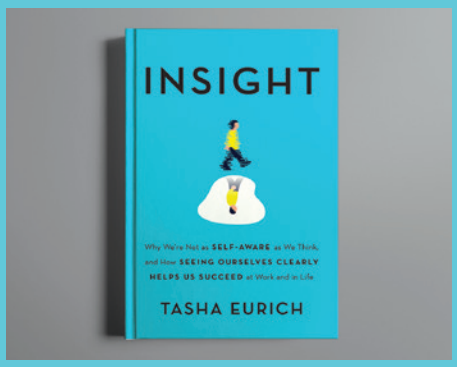
An important step to becoming more self-aware is understanding your strengths and weaknesses, according to author Tasha Eurich. Here are some questions to help you explore both:

YOUR STRENGTHS

1. In the past, what have you picked up easily without a lot of training?
2. What do you seem to do faster and better than other people?
3. What type of work makes you feel most productive?
4. What type of work do you feel the most proud of?
5. What have you accomplished that genuinely surprised you?

YOUR WEAKNESSES

1. What are your biggest failures, and what commonalities exist among them?
2. When have you been most disappointed with your performance?
3. What piece of constructive feedback have you heard from others most often?
4. What tasks and activities do you dread most?
5. What characteristics do your loved ones playfully tease you about?



OBSERVATIONS FROM CAPITAL GROUP ANALYSTS AROUND THE WORLD

THE STRENGTH OF THE U.S. DOLLAR IN RECENT YEARS HAS BEEN A HEADWIND FOR SOME MULTINATIONAL COMPANIES' REVENUES AND EARNINGS. HOWEVER, A WEAKENING DOLLAR IN 2017 HAS PROVIDED A TAILWIND TO CORPORATE SALES AND PROFITS.

The improving European economic environment has been one of the catalysts for the dollar's weakness. The spread between the 10-year U.S. Treasury bond yield and the euro area 10-year bond yield has narrowed as the dollar has declined, possibly signaling that businesses and investors alike see risks dissipating in Europe relative to the U.S. If Europe's economic improvement continues, spreads could narrow and the U.S. dollar could fall further, lending additional support to multinational companies' revenues and earnings.

ONCE THE MISSING LINK IN THE GLOBAL RECOVERY STORY, THE INDUSTRIAL SECTOR HAS BOUNCED BACK THIS YEAR, POWERED BY BIG INCREASES IN THE U.K., GERMANY AND FRANCE.

Increasing demand has acted as a tailwind for global manufacturing activity, while consumer spending has remained strong in many regions.

EMERGING MARKET EQUITIES HAVE SURGED MORE THAN 50% SINCE THEIR 2016 TROUGH, SUPPORTED BY A SUSTAINED STIMULUS PROGRAM IN CHINA AND MORE ROOM TO GROW.

Even after the recent rally, equities in the developing world (as measured by the MSCI Emerging Markets Index) have averaged only a 4.5% return over the past five years, compared with 15.4% in the U.S. for the S&P 500.

NOT ALL RETAILERS FACE GLOOM AND DOOM, BUT MANY CONTINUE TO STRUGGLE. THE EXPLOSION IN INTERNET COMMERCE HAS FORCED MANY BRICK-AND-MORTAR RETAILERS INTO SHRINKING THEIR PHYSICAL FOOTPRINTS AND/OR TRYING TO SHIFT MORE BUSINESS ONLINE.

Across many developed markets in recent years, there have been other unwelcome factors, such as anemic wage growth, altered consumer behavior since the Great Recession (e.g., consumers hooked on discounts and promotions) and the growing impact of millennials with both diminished brand loyalty and new consumption patterns. These factors are unlikely to subside soon, making it crucial for companies to adapt in order to stay in business.

PROSPECTS LOOK PARTICULARLY BRIGHT FOR INDIA, THE WORLD'S FASTEST-GROWING ECONOMY.

Prime Minister Narendra Modi is implementing reforms to ease the cost of doing business, modernizing India's infrastructure and opening the country to more foreign direct investment. The government also is backing technological innovations in the banking system. Mobile banking transactions, fueled by the proliferation of mobile phones and growing internet usage rates, are skyrocketing. India's private banks could be among the beneficiaries of a growing economy and mobile banking. Furthermore, India's young population and move to a more digital culture are attracting leading U.S. and Chinese technology companies, such as Amazon and Alibaba, which are expanding into the country or taking equity stakes in Indian start-ups.

◀ A close-up view of Big Ben's Great Clock at the Palace of Westminster in London. To see how you can speed up (or slow down) time, see our article on page 16.

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