SUMMER 2018

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Quarterly • Insights

India's youth are driving progress and economic growth.

ANALYST PERSPECTIVES
Recurring revenue and stability in tough times make trash attractive

ESTATE PLANNING
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A look at several must-see destinations around the world this summer

AUTHOR INTERVIEW
How to sharpen your mind, stay healthy and reverse memory loss

WE BUILD PORTFOLIOS FOR THE LONG TERM, WITH AN APPROPRIATE CUSHION TO HELP CLIENTS RIDE OUT CHALLENGING TIMES.

A Better Approach Than a "Crystal Ball"

Is the current strong economy too good to be true? When will the next recession hit? Is the bull market over, or does it have more room to run? And is now the time to tweak your portfolio, since some of the so-called experts on TV seem to suggest we're likely to see continued market turbulence?

These are among the questions I'm hearing more frequently from clients. It's not all that surprising. After all, following several years of straight-up positive returns for both stocks and bonds, recent volatility has left some on edge.

In each issue of *Quarterly Insights*, we bring you the latest perspectives from our investment team, and you'll find their views on the economy in various articles throughout this edition. But the bottom line is this: Yes, the current strong economy will eventually weaken; that's as sure as night and day. However, pinpointing the timing is impossible. We certainly will have another bear market someday, though as yet no one has come up with a crystal ball to reveal the exact date.

So what's an investor to do? First, just as we do for our clients, set an asset allocation designed for your specific goals and risk tolerance. We build portfolios for the long term, with an appropriate cushion to help clients ride out challenging times.

Beyond that, portfolio managers make changes in real time based on where our research leads them. For instance, for some time now our bond managers have been reducing duration, and therefore the impact of rising rates, in anticipation of increased hikes from the Federal Reserve. They've also focused on revenue-generating issues like toll roads, which you can learn more about on page 6.

At the same time, our global equity managers can shift between U.S. and international holdings as values and opportunities dictate. They also have the ability to move into more stable sectors if they feel that will provide a greater cushion in anticipation of a more difficult environment. (The waste management industry is but one example. As you'll see in the article on page 8, there's a lot of recurring cash flow in trash!)

Helping clients navigate uncertain times like these is what we do every day, both with their investments and in all other areas of their financial lives. For instance, proper estate planning is key, especially given the new tax law. On page 12, we discuss some of the recent changes we've been monitoring. And when it comes to planning your estate, appointing a corporate trustee can bring both expertise and greater peace of mind to a very important responsibility. You can read more about that in our client profile on page 14.

Finally, it does no good to have great wealth if you don't have a sharp mind and health to go along with it. To that end, our guest author has advice for keeping your brain supercharged and enhancing your memory at any age. You'll find the interview with John Medina on page 18, where he offers highlights from his latest book, *Brain Rules for Aging Well: 10 Principles for Aging Staying Vital, Happy, and Sharp*.

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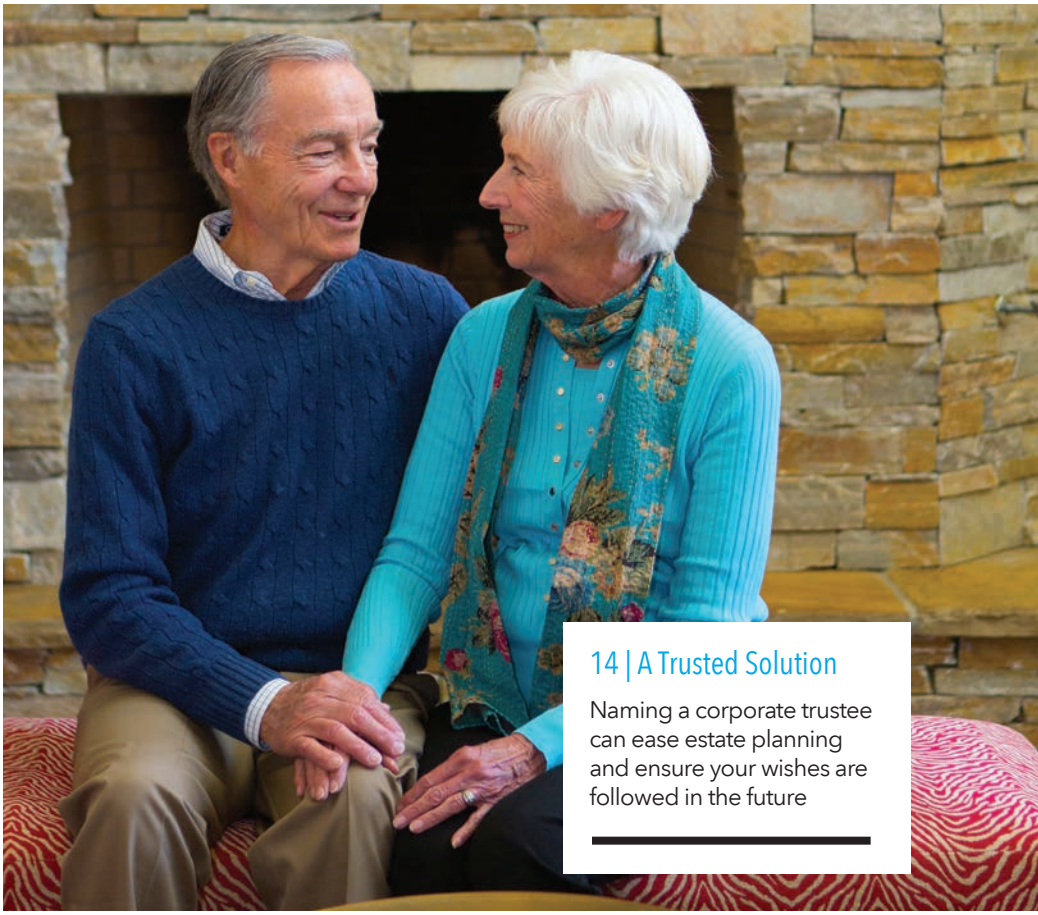


IN THIS ISSUE

Above: Workers at a Chinese semiconductor fabrication plant install chips on circuit boards for export around the world.

Despite Trade Friction, UNDERLYING STRENGTHS Are Propelling the Global Economy

Corporate profits are soaring globally. So is consumer confidence. And the U.S. economic expansion keeps charging ahead. Yet all of these have taken a back seat to the dominant story line of the second quarter: the boiling tensions over global trade sparked by President Trump's planned tariffs on China and other countries. The protectionist drive has raised fears of potential harm to companies worldwide. And while there's no doubt that a trade skirmish could have serious consequences, the heavy focus on tariffs has arguably diverted attention from the many positives of the global economy, particularly here in the U.S., which has been riding a crest of energy stirred by last year's tax package.

The combination of tax cuts and heightened government spending will add a cumulative $285 billion in fiscal stimulus to a U.S. economy that was already enjoying a self-reinforcing loop, according to Capital Group projections. Ongoing gains in employment and wages have buttressed consumer sentiment and retail spending. As important, that vitality is finally being matched by a long-awaited pickup in business spending. After a prolonged stretch of lukewarm outlays on factories and other big-ticket items, U.S. companies have stepped up capital expenditures this year. All of these forces are reflected in broad corporate earnings, with S&P 500 companies notching their strongest gains in seven years.

GDP is expected to jump, with the International Monetary Fund predicting it could reach 2.9% this year. At 109 months and counting, the current expansion far exceeds the 60-month

average of the postwar era, trailing only the 120-month advance of the 1990s. It's rare for growth to accelerate in the late stages of an economic cycle. However, the fact that most economic pistons are firing at once suggests the upturn is likely to extend into at least next year.

A similar dynamic could be underway in the equity market, where the latest cyclical bull run trails only the 1990s rally as the longest on record since 1928. The S&P 500 has surged more than 300% since the advance kicked off in early 2009. Part of that gain, however, reflects a rebound from the global financial crisis, when share prices shed more than half their value, so equities have run up from extreme lows. By contrast, the S&P 500 jumped more than 400% during the 1990s cyclical bull market.

After surging in the opening weeks of the year, the technology sector was scuffed by fears of a regulatory backlash to digital privacy issues. But the sell-off proved to be only a flesh wound, as share prices rebounded in the second quarter amid robust earnings. Beyond that, the energy sector rallied powerfully as the jump in crude oil prices benefited exploration and servicing companies.

In contrast, there's been broad weakness this year in defensive sectors and dividend-paying industries such as consumer staples, telecom and utilities, which have tended to fall out of favor when economic prospects brighten. In addition to market dynamics, big consumer-staples companies are grappling with longer-term challenges, according to a Capital Group analysis. These include both the steamroller effect of Amazon.com and fierce competition from smaller rivals that have gained market share through inexpensive digital marketing campaigns.

DESPITE TRADE FRICTION, THE GLOBAL ECONOMY REMAINS HEALTHY, WITH SYNCHRONIZED GROWTH THROUGHOUT MUCH OF THE WORLD.

The equity market faces challenges, of course, including a quicker pace of rate hikes as the Federal Reserve seeks to inoculate the economy from budding inflationary pressures. Several indicators suggest price increases could tick up this year, albeit from low levels. As expected, the central bank raised interest rates in June as part of its effort to finesse a soft landing. And though the Fed is raising rates gradually, policymakers indicated that two more hikes are likely this year rather than the single move they had previously signaled.

The cumulative effect of inflationary forces and Fed tightening could begin to weigh on the U.S. late next year and into 2020. Beyond that, some economic and financial imbalances have begun to emerge, according to research by Capital Group economists. For example, student and auto loans have jumped notably. Government and nonfinancial corporate debt also have reached worrisome levels.

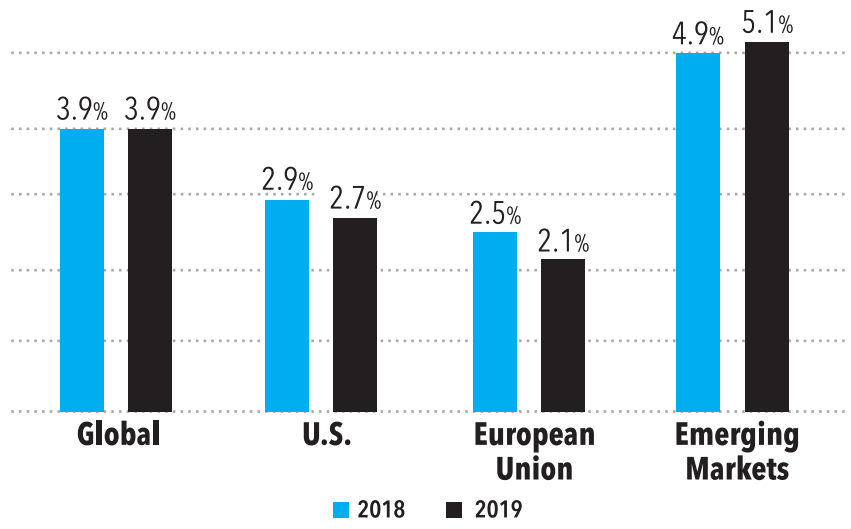
Trade frictions are a big unknown.

The uncertainty caused by the U.S.'s imposition of tariffs and subsequent retaliation by other countries has hung over the markets, and the trade fracas appears unlikely to be resolved any time soon. The U.S. announced levies on $50 billion worth of Chinese goods in June and signaled that it may target considerably more. That came on the heels of tariffs placed on steel and aluminum imports from U.S. allies, including the European Union and Canada. The U.S. has also threatened to slap duties on European automobiles.

The tariffs are small compared with the $18 trillion U.S. economy, and likely to shave no more than three-tenths of a percentage point from GDP, according to a Capital Group analysis. However, the tussle aggravates economic uncertainty, and an extended showdown could induce companies to delay decision-making or put off investments if management teams are unsure about where to locate production facilities or establish supply chains.

Despite the trade friction, the global economy remains healthy overall, with synchronized growth throughout much of the world. In China, the global upturn is helping to propel wage expansion and export activity. GDP is likely to slow slightly from the past couple of years as China implements some restrictive measures to moderate growth, including a clampdown

GDP IS GROWING AROUND THE WORLD



Source: International Monetary Fund (IMF) World Economic Outlook, as of April 2018.

on shadow banking and a throttling back on local government debt issuance to fund infrastructure. But the housing market remains strong and there are no signs of a slowdown ahead.

After a pickup in 2017, growth has eased in Europe: The rise in the euro late in the year and early in 2018 lashed export-dependent multinational companies. Other factors took a bite out of growth, including inclement weather, a flu epidemic that struck with unexpected force and fear of potentially slower growth in 2019. Political turmoil also unsettled the market when an anti-establishment government took control in Italy. That renewed fears of populist sentiment undermining eurozone growth and eroding support for the euro common currency.

However, the outlook for Europe remains positive as the Continent continues to recover from the financial crisis. The weakening of the euro against the dollar since mid-April should slowly lift the fortunes of exporters. The European Central Bank announced plans to phase out some of its easy-money policies, though it intends to retain its ultra-low interest rates for at least another year. (For a fuller discussion of Europe and the global economy, read the Q&A with global equity portfolio manager Gerald Du Manoir on page 5.

Our portfolio managers are attracted to industries with solid long-term fundamentals that are poised to do well regardless of the outlook for international trade or the global economy. One area of interest has been cell towers, on which wireless telecom providers hang their dishes. Mobile data consumption is expected to soar in coming years amid the introduction of 5G technology, the popularity of unlimited data plans and the rollout of new applications such as virtual reality and autonomous cars. Demand for cell-tower space is expected to rise alongside data consumption.

Managers have also found opportunity in the waste management industry. Regardless of economic conditions, businesses and homeowners always need garbage collection. Given that the average monthly trash bill is low compared with other common household expenses, customer retention has tended to be high, even in recessionary periods.

Economic resilience is also part of the appeal of custody banks, which offer specialized financial products such as asset management for individuals, and record-keeping and back-office services for institutions. Like other financial companies, custody banks stand to benefit from a near-term rise in interest rates. But because they don't have loan operations like traditional commercial banks, custody institutions have tended to have much lower exposure to potential credit losses when the economy weakens.

Long-term interest rates remain subdued.

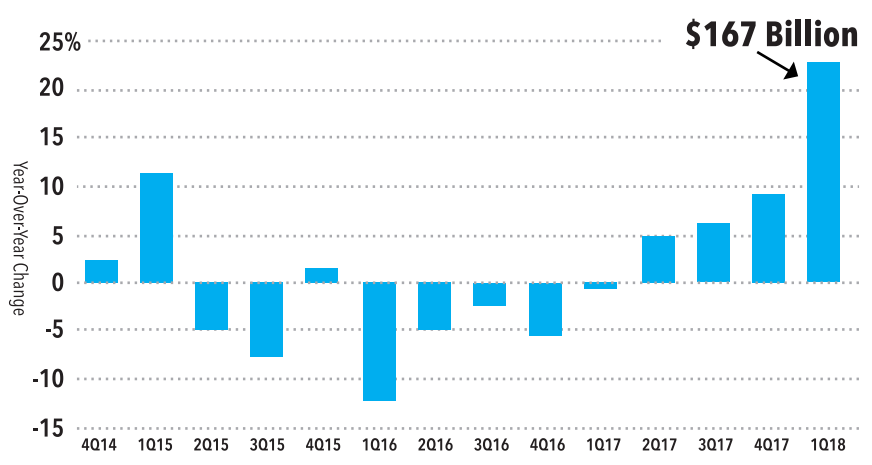
A jump in long-term interest rates caused jitters in the bond market early in the quarter, as resurgent growth pushed the 10-year Treasury yield above 3% for the first time since 2014. But wariness over international trade and the geopolitical convulsions in Europe dampened bond yields, and the 10-year Treasury finished the quarter at 2.86%.

The yield curve, which measures the differential between rates on short-term and long-term bonds, remained very narrow during the quarter. That raised fears of a so-called inversion, which has often presaged equity market downturns. Though this remains a concern, the yield curve may be a less reliable indicator today because of forces that include the effect of bond-purchase programs outside the U.S.

As for municipal bonds, their after-tax income and diversification potential remain favorable. Though swings in interest rates may cause volatility, credit fundamentals are solid across most sectors. Our analysts do extensive research to identify promising investments. One area of interest within the muni market is toll roads. State and local governments, sometimes in conjunction with private entities, issue these bonds for roadway construction and maintenance. Such securities tend to have investment-grade ratings and can offer attractive yields. (For more details on why we find toll roads to be attractive fixed-income investments, see the story on page 6.)

Even with interest rates drifting up, bonds remain a fundamental element of well-balanced portfolios. They can generate income, have low volatility and offer diversification from equities.

CAPEX SPENDING IN THE U.S. IS ON THE RISE



Source: Factset. Data represent year-over-year percentage change for S&P 500 companies as of March 31, 2018.

Q&A

EQUITY PORTFOLIO MANAGER

GERALD DU MANOIR

28 YEARS IN PROFESSION

27 YEARS WITH CAPITAL GROUP

Gerald Du Manoir is a global equity portfolio manager for Capital Group Private Client Services, based in our Los Angeles office. In this interview, he shares his thoughts on global trade and the outlook for the international economy. He also discusses some of the long-range investment themes that he believes will propel economic growth and benefit specific industries in the coming years.

International trade has become a hot-button issue amid heightened friction between the United States and China. How do you see this playing out?

The U.S. is attempting to rebalance some of the rules of global trade – largely, those pertaining to intellectual property. The U.S. and China have debated these issues for years with little to show for it, and they need to be addressed. Trade wars are bad for many reasons, not the least of which is that they sometimes are symptoms of worse things to come. I don't think that's the situation today.

We are making progress in trade relations. The U.S. appears to be following a strategy of making aggressive public statements before quietly entering into back-channel negotiations in which it softens its stance. The U.S. used this tactic in both the NAFTA talks and in the announcement of global steel tariffs. That said, certain industries – especially capital-intensive industries such as steel and automobiles – may be affected by future tariffs or other restraints. As investors, we're being very careful around those.

What do you make of the economic picture in the U.S. and abroad?

The U.S. economy is enjoying reasonably good growth. The Federal Reserve is adjusting its interest rate policy, which was probably too loose for too long, and there's general consensus that more rate hikes will be coming given the strength in the economy.

As for Europe, it still looks healthy, with the caveat that conditions vary among countries and companies. Nations that are politically stable are doing pretty well. Corporate balance sheets are largely very healthy, especially for well-run companies that are global in nature. And households are doing pretty well in places such as France, Germany, Spain and the Benelux countries.

The outlook is not the same for countries with high levels of political uncertainty, such as Italy and Greece. We just did an investment trip to Italy, and in some ways it was a reminder of the structural hindrances to growth that still exist. In general, governments and public finances are not in great shape.

Did the strengthening euro in 2017 and early this year weigh on growth?

The value of the euro is very important for European companies because it determines how competitive their cost structure is relative to the rest of the world – namely, to Japan and China. It's really important for European suppliers doing business in China. Europe enjoyed a powerful 2017, due partially to the weakening of the euro in 2016. Growth has flashed some signs of slowing, especially in heavy industries. I am optimistic over the long term, but there will be periods in which order books are hampered by a rising euro.

What are some of the industries and investment themes you find to be compelling?

The first is the oil industry. The sharp drop in oil prices a few years ago ushered in a long period of low investment. Despite the rise of shale in the U.S., big producers around the world did not make the necessary capital expenditures to replenish their reserves. Production capability around the world was not maintained the way it should have been. With oil demand high and prices now recovering, companies that invested in their oil production and oil-servicing capabilities have an advantage.

We also need to recognize that alternative energy has become profitable and no longer requires the level of government subsidies that it did 15 years ago. There are companies with very big wind and solar operations that are well positioned amid the advent of alternative energy.

You have been interested in electronic data transmission and storage. What's the thesis here?

We are at a point where electronic connectivity is ubiquitous throughout the business world. It goes beyond cell phones and the "internet of things." There is an enormous need for computing power, for gathering and analyzing vast amounts of data, for storing that data and for accomplishing it all safely and securely. This creates opportunities for a range of hardware and software companies, as well as for those in cloud management and data mining.

Anything else you'd like to add?

The final theme I would mention is the move toward a worldwide consumer society. Living conditions are improving globally, and the middle class is expanding in developing economies. That's causing consumption patterns to shift from the meeting of basic human needs to people aspiring to better lifestyles. This is the case in China, which has roughly 1.4 billion people. If 10% of them are considered wealthy, that's 140 million people, which is larger than the entire population of Japan. If the ranks of the wealthy rise 10% a year, that's 14 million people, or nearly the entire population of the Netherlands. The sheer number of people entering consumer society is a powerful trend that will unfold over a number of years.

Improving Fundamentals Boost the Appeal of Toll Road Bonds

This will probably offer little solace to anyone who regularly sits in bumper-to-bumper traffic: Americans are driving more than ever, congestion keeps getting worse and federal highway spending has failed to mitigate the snarl. Los Angeles, where I live, has a reputation as the capital of gridlock. But bottlenecks afflict much of the country these days, and roadway infrastructure needs can be particularly acute in regions with booming population growth.

State and local governments have taken many steps to ease the logjams, one of the most visible being toll roads. This universe ranges from decades-old highways dotted with tollbooths to new routes that bypass neighborhood streets in developing areas. The toll sector also includes managed lanes, which are designated pay lanes on roadways that are otherwise free. Toll roads make up a relatively small portion of the nation's highway system, but they are an important funding source given the perpetual strain on state budgets and the diminishing impact of the federal gas tax, which hasn't been raised in a quarter-century.

Toll roads offer motorists a trade-off between time savings and cost. The roads that are most appealing to drivers – those with low costs relative to perceived benefits – can be attractive from an investment standpoint. Most facilities are publicly owned and operated in the 29 states where they exist, although it's common for municipalities to form partnerships with private entities that can design, build, operate and maintain the systems on their behalf. The municipal bonds

VIKAS MALHOTRA

Vikas is a fixed-income analyst who covers toll roads. Based in Los Angeles, he has seven years of investment industry experience and has been with Capital Group since 2016.

that fund roadway construction and maintenance tend to be tax-exempt with investment-grade ratings that can offer attractive yields. Their financial strength has been fortified in recent years as the improving economy has allowed many issuers to reduce leverage and boost liquidity.

Details matter a lot with toll road bonds.

Toll roads tend to be fairly straightforward businesses, with most revenue coming from the change that drivers toss into tollbooth baskets – or, more common nowadays, the dollars that are automatically deducted from their E-ZPass accounts. However, careful analysis and selectivity are essential because small details can make the difference between an economically sound project and a troubled one.

A project's financial viability depends on toll revenue that is sufficient to cover operating costs and debt service. Thus, it's important to analyze whether toll prices can be raised if need be, and by how much. It's also critical to assess whether a toll road is essential to a local area. Does it fill a specific need where commuters must travel between two points? Or is a municipality pursuing a road project in hopes of sparking future development?

Needless to say, the build-it-and-they-will-come model has far more question marks.

By their nature, new projects are often inherently riskier than existing roads with well-documented traffic patterns. Many are known for sporting overly optimistic revenue projections, in part because the traffic consultants making the estimates seek to curry favor with municipalities that give them repeat business. For start-up projects, I find it helpful to visit the sites, drive the roads and tour adjacent neighborhoods. This provides a firsthand look at traffic patterns, the viability of alternate routes and economic vibrancy, such as whether housing developments are sprouting nearby or national retailers are moving in.

Toll revenue shouldn't be diverted to unrelated programs.

It's equally important to understand the investor protections built into securities offerings. A well-funded toll road, for example, can be a tempting target for a cash-strapped local or state government looking to pay for unrelated programs. A bond's credit rating can be dented if a government entity places excessive leverage on a toll system or transfers large sums away from it to finance other projects. These transfers can occur at inopportune times, such as during recessions, when toll road usage tends to decline. Not only do cost-conscious drivers look to save money during these periods, but slower economic activity and reduced employment mean there are fewer cars on the regular roadways and less incentive for drivers to use toll roads.

I prefer "closed-lien" indentures that prohibit other government entities from dipping into toll revenue. I also look for toll authorities with wide leeway to set toll rates on their own, as this avoids the bureaucratic and political impediments that come with the need to seek approval from state or local overseers.

In recent years, there's been a growing trend toward managed lanes set aside for drivers willing to pay a toll. Managed lanes often seek to limit traffic flow to guarantee minimum speeds. I am generally cautious about these because they haven't been in existence long enough to have a proven financial history, especially during periods of economic weakness.

One of the unknowns surrounding toll roads is the potential impact of the Trump administration's infrastructure plans. The current proposal envisions $200 billion in federal spending combined with several times that amount in financing from the private sector or state and local governments. I believe it's unlikely that a major federal infrastructure plan will pass in the near term. However, I will follow developments closely because of their potential impact on the municipal market. Specifically, provisions to allow an expansion of tolls on national highways, to widen the use of private activity bonds and to increase the amount of federally subsidized loans available for infrastructure projects could affect municipal supply.

Overall, high-quality toll roads offer the potential for attractive risk-adjusted returns. These projects frequently price at yields that I believe can benefit client portfolios.

Above: Analyst Vikas Malhotra during a visit to Houston to investigate a potential toll road investment for client portfolios.

CASH IN TRASH

To gauge a community's economic vibrancy, you could spend a lot of time poring over local employment data and tax records. Or you could simply glance at neighborhood garbage bins. Are the plastic barrels that homeowners lug to the curb on collection day half-empty? Or are they filled to the brim, perhaps with overstuffed trash bags poking out from under their lids?

As you'd expect, jam-packed containers are a sign of a good economy. As employment and consumer spending expand, so does the amount of trash that residents and businesses generate. That's the case today as the U.S. economy picks up steam, and it's one of several factors propelling the companies that cart away this refuse. The waste management business doesn't generate a lot of buzz, but it's a $60 billion industry with promising long-term fundamentals that include dependable customer retention and solid pricing power.

From an investment perspective, part of the industry's appeal lies in its economic resilience. In addition to benefiting from economic growth, the garbage business is relatively sturdy during recessions. Though the industry has expanded at a modest 2% to 4% a year, consumers usually don't cancel trash collection when the economy softens, as can happen with more-discretionary items, such as restaurant meals and gym memberships. The average tab for monthly garbage pickup is far less than those for electricity, heating or cable TV. As a result, waste management stocks tend to hold up better than the general market during periods of equity volatility.

SUJIT CHAKRAVARTHY

Sujit is an equity analyst who covers the solid waste industry. Based in San Francisco, he has 16 years of investment industry experience and has been with Capital Group since 2017.

One of the keys to choosing waste management investments is selectivity. The business models of the leading companies are similar, but the markets in which they operate are distinct, and those differences can have a significant effect on the bottom line. It's important to determine whether a hauler's routes are clustered in cities, which are packed with customers but also loaded with companies vying for their business. In general, the most attractive companies tend to be highly concentrated in rural and suburban areas, which are far less competitive.

Organic growth is overtaking mergers in driving results.

One of the major themes in the trash business over the past decade has been merger activity. The industry has long been dotted with scores of mom-and-pop haulers with local franchise deals and a handful of trucks. Though that's still the case in many areas, the industry has undergone a wave of consolidation, with larger operators gobbling up smaller ones. The three largest companies now control about half the U.S. market, with private haulers and municipalities each making up about 25% of the rest. Leading companies have efficiencies of scale and, depending on their markets, pricing power to offset inflation and drive earnings.

Though mergers will continue given the hundreds of small companies still scattered around the country, past consolidation makes acquisitions likely to play less of a role in coming years. Instead, the ability to notch organic growth will assume greater importance. Thus, it's essential to identify companies with disciplined management and sensible growth strategies.

Another way that companies differentiate themselves is by operating their own landfills. Given the generally low barriers to entry in the trash industry – new entrants need little more than a truck and some workers – established companies can face pressure in the collection portion of their businesses. Still, whoever picks up the trash needs somewhere to dispose of it. Companies with landfills, which are scarce and highly regulated, have a big advantage in pricing.

Recycling is experiencing severe growing pains.

Perhaps the most overarching dynamic in the trash business over the past two decades has been recycling. Environmental concerns have driven a national push toward conservation, with municipalities cajoling residents to recycle and forcing haulers to reduce the amount of waste dumped in landfills. I'm a strong believer that recycling and conservation are essential in helping to protect the environment.

However, recycling is confronting significant obstacles and appears to have hit at least a temporary plateau. Garbage companies, which derive revenue from selling commodities recovered from the waste stream, have been jolted in recent years by widely fluctuating commodities prices. Consumer habits have also created a dilemma. The reluctance of homeowners to sort their waste causes contamination. For example, there are often so many plastic bags in the recycling stream that it's difficult to remove them all. Contamination is one reason that China, which was once an enthusiastic buyer of corrugated paper and other detritus, has slashed what it accepts from the U.S. That's led to a glut of materials and fear that the underlying latticework of the recycling business might need an overhaul.

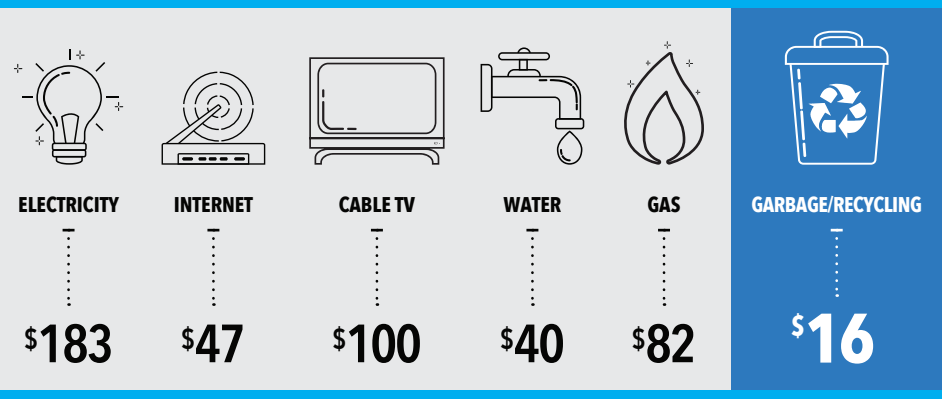
WASTE MANAGEMENT STOCKS TEND TO HOLD UP BETTER THAN THE GENERAL MARKET DURING PERIODS OF EQUITY VOLATILITY.

These forces have driven up processing costs for waste management companies just as their recycling revenue has sagged. Over the long term, however, companies could benefit because municipalities are likely to let companies implement recycling-related fees, which should smooth profits and reduce earnings volatility.

Beyond recycling, I'm keeping an eye on other challenges in the trash industry. In the near term, labor costs could weigh on earnings if companies have to boost salaries to attract workers. In the longer term, industry growth is partly dependent on household formation and general consumption trends, so companies aren't immune to deep economic jolts. Finally, the industry's modest growth rate can cause waste company stocks to lag in the early stages of an economic upturn, when the market prizes sectors with more-explosive growth.

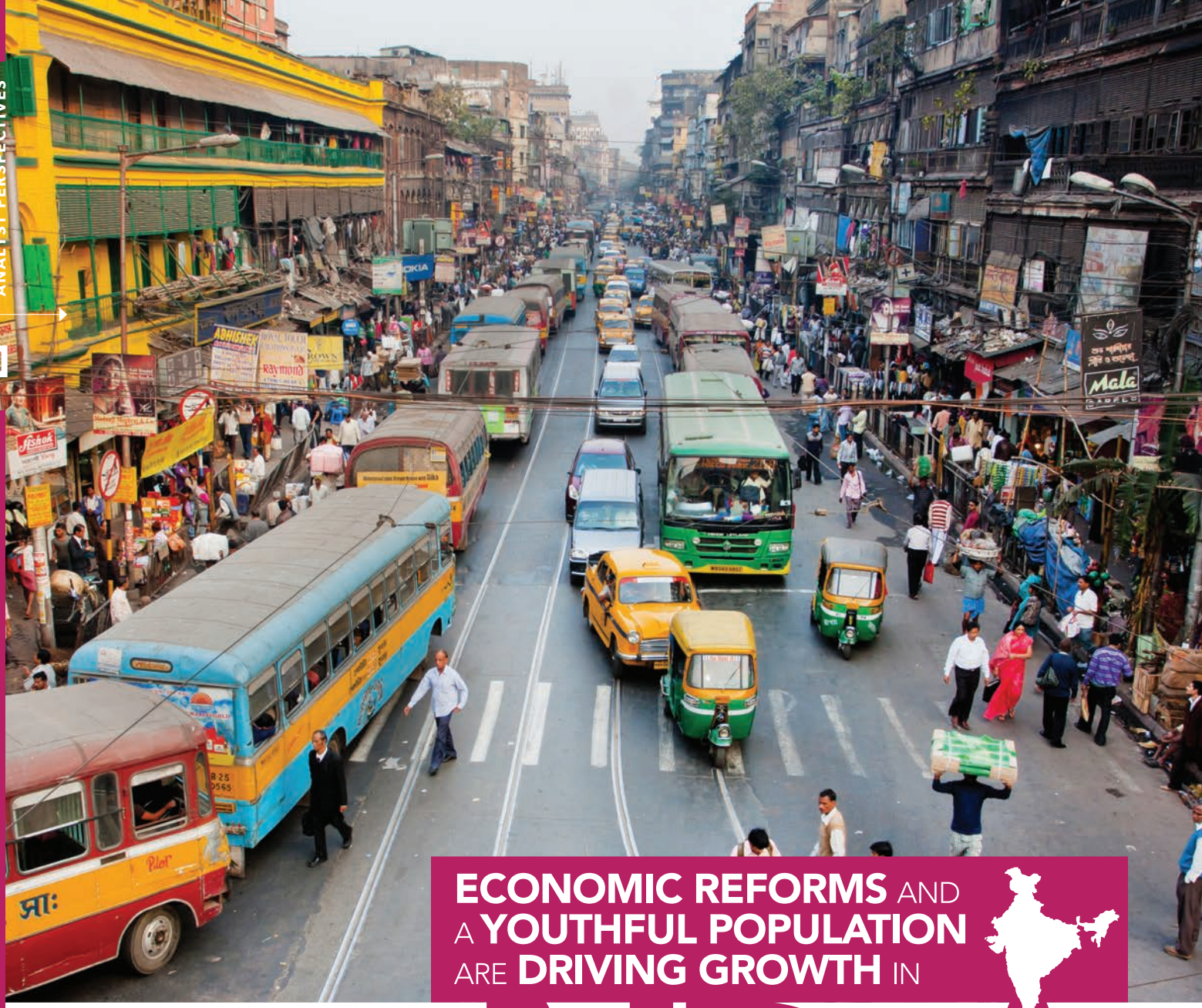
Nevertheless, I believe the industry has many factors going its way, especially today with the U.S. in an advanced stage of the economic cycle. The outlook is bright for companies with market dominance and well-conceived growth plans.

TRASH PICKUP IS A CHEAP ESSENTIAL



The average monthly price of garbage collection is relatively minor compared to other typical household expenses, making it less likely to be cut when the economy weakens.

Source: Move.org.



ECONOMIC REFORMS AND A YOUTHFUL POPULATION ARE DRIVING GROWTH IN INDIA

ANIRUDHA DUTTA

Anirudha is an analyst based in Mumbai. He has 27 years of investment experience and has been with Capital Group since 2013.

Although it was overshadowed by events elsewhere in the world, India notched a quiet milestone in the past year. Ongoing reforms and a youthful workforce helped it become the fastest-growing major economy, surpassing even China, which has long been the pacesetter of the emerging world. As someone who has lived here all my life, I'm excited to see India evolving into an increasingly significant force in the global economy, with bright prospects ahead.

Of the country's many reasons for optimism, none is more important than demographics. India has one of the youngest populations in the world, with nearly

two-thirds of its citizens under the age of 35. At a time when many other countries are bracing for the ill effects of aging populaces, India is expecting a "demographic dividend" as a geyser of young people flood into the workforce.

Their impact is most apparent in consumer spending. Young people are coming of age in an India that is vastly different from their parents'. When I was a boy, my family waited years for a landline telephone to be installed in our house. By contrast, mobile technology is widespread today. My teen-age son can't imagine life without a cell phone. Meanwhile, the ubiquity of social media has provided a keyhole to the world, allowing 20-somethings to peer through for a glimpse at the lives of their global counterparts. The desire to emulate foreign lifestyles should benefit industries such as consumer products, financial services, health care and professional training.

India is undergoing a significant transformation.

One of the most important facts to realize about India is that it's made continual economic reforms over the past quarter-century, regardless of the political party in power. Though the scope and pace of reforms have varied from one government to the next, the overall trajectory has been clearly upward. Some of the most notable changes have come under the current prime minister, Narendra Modi, who was elected in 2014 on a pledge to reorder the economy, defang stifling bureaucracy and beat back the entrenched corruption that has constricted progress for decades.

Modi's first big move was to prune wasteful subsidies and use biometric identification to ensure proper delivery of social benefits. His second initiative came two years ago when he declared most of the nation's currency invalid and required citizens to exchange old cash for new bills. The goal was to blunt tax evasion, thwart counterfeiters and nudge people who subsisted in the vast underground economy to enter the modern financial system. A third move came last year when Modi rolled out the most sweeping tax overhaul in India's history: To simplify the tax structure and make it easier for companies to do business across the country, the prime minister introduced a national goods and services tax to replace a patchwork of state and federal levies.

Not surprisingly, the last two measures temporarily weighed on the economy, and took some of the shine off Modi's star. The currency swap, known as demonetization, would have been jarring under any circumstances, but it was carried out in an awkward way that made matters worse. The tax overhaul rattled small businesses, which represent a huge chunk of the country's economy. Many of these are cash-based operations with no computers, and they struggled to adapt to modern-day accounting.

Despite these and other reforms, critics have faulted Modi for not moving faster. His lofty campaign promises generated a swell of attention, and detractors were unhappy when the transformation they envisioned was slow in coming. They have been particularly irked by the minimal progress made in trimming the bureaucracy and privatizing state-owned enterprises, both of which have raised fears that India's vaunted makeover has been more cosmetic than structural.

India must continue to make progress.

Though I believe the criticism is overblown, India certainly continues to face challenges. Quality of life and human development – including health care, literacy, education and professional training – must be improved. The quality of education is high for those from well-off families, but too many children are illiterate and poorly educated, especially in the largely agrarian and historically impoverished northern part of the country. This has constrained growth and led to a skills shortage – a big concern given that India must create 1 million jobs a month just to absorb the number of young people pouring into the workforce.

Employment conditions are better in the cities, where many of the new jobs are being created. But urban areas lack proper infrastructure, including housing, transportation and water quality. Gender, religious and caste discrimination also remains a continuing thorn in India's side. All of these issues are being addressed, but much more needs to be done.

Even so, a sea change is underway in how India is run and business is conducted. For example, Modi has opened the door to greater foreign investment and helped millions of citizens – many of whom work off the books in the sprawling "informal" economy – to open their first bank accounts. Measures like these will pay off in coming years. With a solid foundation and commitment to reforms, India has an encouraging long-term outlook.

ESTATE PLANNING OPPORTUNITIES CREATED BY THE NEW TAX LAW

For high-net-worth individuals, the new tax act that was passed last year ushered in some of the most significant changes in more than three decades. Among the most consequential is a near-doubling of the combined estate and gift tax exemption, to $11.18 million (adjusted for inflation). This means that a married couple, with the benefit of two exemptions, could gift almost $22.4 million, or die with a taxable estate equal to almost that amount, without any gift or estate tax obligations.

However, these changes are only effective for the taxable years 2018-25. Absent further legislation to extend the final date, these exemption amounts will revert to $5 million (indexed for inflation) in 2026. What's more, no one can predict what possible interim changes could result from the outcome of the midterm and presidential elections taking place between now and 2020.

The increased exemption amounts are but one of the important estate and gift tax changes brought about by the new law. The others are a bit of a double-edged sword, with benefits that can be reaped and challenges that must be navigated. On the following page are six opportunities to consider and possible resulting action you may wish to discuss with your Investment Counselor and independent legal advisor.

STACEY DELICH-GOULD

Stacey Delich-Gould is part of our Wealth Advisory Group and helps clients and their legal experts form effective planning strategies. Prior to joining our organization, she was a practicing trust and estate attorney. Stacey works out of our New York office.

6 Tax Law Planning Opportunities

1. You may be overgiving to your kids and inadvertently leaving nothing for your spouse. Many clients have wills or revocable trusts that create a "credit shelter" trust, the size of which is equal to the amount that would be exempt from estate tax. The exact size of the credit shelter trust usually is expressed as a formula based on the current tax law, because the exact amount of the exemption changes and can be reduced by lifetime gifts. Any money remaining after the funding of the credit shelter trust is often then left either to a marital trust or outright to the surviving spouse. In this type of estate plan, the doubling of the exemption amounts can result in a very different scenario from what would have been the case last year and could even mean that nothing is left for the surviving spouse. Therefore, it is very important to review your estate plan to ensure that the changes from the tax act won't cause unintended consequences.

2. There may be a valuable opportunity to make additional gifts before the law sunsets. High-net-worth individuals with larger potential estates and surplus capital should explore whether the increased exemption amounts make additional gifting possible. Doing so now allows for additional tax-free growth of the gift during the rest of your life. Gifts can be made to individuals or family members either outright or through a trust. Assets placed in trust can also benefit from the generation-skipping tax exemption, which allows for more wealth to be built for succeeding generations of beneficiaries without triggering any additional estate or gift taxes.

3. Married individuals wishing to take advantage of the increased exemption levels while retaining access to their assets should consider a spousal lifetime access trust (SLAT). This is an irrevocable trust to which a spouse contributes property with a fair market value not exceeding his or her remaining estate and gift tax exemption. The noncreator spouse is a beneficiary of the trust; descendants may be additional beneficiaries. Thus, the property can be held to provide a safety net for the surviving spouse and beneficiaries or accumulated for the eventual benefit of the descendants. Upon the death of the creator spouse, the trust property is not subject to estate tax.

4. Be aware of clawback risk, and have a plan to deal with it. There is uncertainty about whether a gift that was covered by the gift tax exemption at the time it was made will be "clawed back" into the donor's estate if the estate tax exemption sunsets in 2026 as planned. Though Treasury officials have informally indicated that they intend to produce regulations clarifying that there will be no clawback, until that happens this is a possibility that should be considered. However, even if clawback occurs, the additional growth on those assets is likely to remain outside the estate, so there is a benefit in acting now.

5. Consider upstream gifting to minimize capital gains taxes. With the increased exemption amounts under the new law, very few individuals will ever be subject to estate or gift taxes. This may present an opportunity to think outside the traditional estate-planning box and look for ways to make use of the basis step-up that's normally granted at death now in order to minimize capital gains tax. For example, individuals with a net worth far below the increased exemption amount may determine that they are unlikely to ever use the entire exemption amount, but they may own an asset with a very low basis and lots of potential capital gain. In such a scenario, the individual may want to consider an upstream gift of the asset to an elderly parent or relative. The gift could be covered by the exemption, which the individual does not otherwise need. The asset would then get a basis step-up upon the death of the grantor, potentially allowing it to flow back to the child or a different heir with a new, stepped-up basis and a far lower built-in capital gain.

6. Don't forget the state-level piece of the pie. Many states have separate estate and inheritance tax systems that must be taken into account. For example, Connecticut, Illinois, Maryland, New Jersey, New York, Oregon, Pennsylvania and Washington, to name just a few, all have some form of separate estate and/or inheritance tax that is not affected by the federal law.

A Corporate Trustee Can Provide Peace of Mind in Estate Planning

When Gayle and John Hinchman set up a trust a few years ago, they could have gone the common route of asking a friend or relative to help oversee it. But because of the many duties involved in administering a trust, the couple decided not to designate an individual. Instead, they named a corporate trustee – in this case, Capital Group Private Client Services – given their long-standing relationship with Investment Counselor Eric Heer.

John, a retired investment banker, and Gayle, a human resources consultant, wanted to feel comfortable that the trust would be in good hands. The couple (pictured above) discussed their options and decided that having Capital as a co-trustee would allow Eric and his team to provide vital ongoing guidance and logistical support to the surviving spouse.

"Compared with naming your best friend as trustee, you've got a historical record and consistency with a corporate trustee," John says. "Plus, what happens when that person becomes ill or dies or doesn't want to do it anymore?"

People setting up trusts often tap loved ones to serve as trustees, on the assumption that family and friends are best positioned to carry out their long-term wishes. But there can be disadvantages to this approach. The most obvious are the time and knowledge required, which can be substantial. There is also the sometimes overlooked emotional component, as family members can be influenced by interpersonal dynamics that cloud their decision-making.

Corporate trustees perform a variety of tasks.

To avoid such pitfalls, some people opt to hire professionals. Among the most obvious advantages of this approach are expertise and experience. Corporate trustees have deep knowledge of the complexities of trust administration, as well as the ability to handle the numerous obligations that come with it. Depending on the specifics of each situation, these include recordkeeping,

safeguarding of assets, selection and oversight of investment management, preparation and filing of tax documents, and the doling out of distributions to beneficiaries. In many cases, individuals would have to hire outside specialists to fulfill each of these duties.

Corporate trustees also keep abreast of changes in tax and estate planning laws, including those of multiple states, and have the ability to establish trusts in different locations. For instance, we often administer trusts through our Reno office because Nevada offers flexibility, favorable tax treatment and strong financial protections.

Some families, like the Hinchmans, name a corporate trustee to serve alongside a spouse or child. That provides the individual with professional assistance while allowing the immediate family to retain control over how the trust is executed.

"There's a lot that has to be dealt with, and unless the individual has experience in everything – legal forms, tax forms, tax questions, investment questions – my impression is it would be quite a burden," John says.

Professionals bring an objective perspective.

Beyond administrative considerations, corporate trustees can help to defuse contentious family situations. People are often in different phases of their lives, with some being more personally mature or financially responsible, and it's not uncommon for beneficiaries to have disagreements or competing interests among themselves. Of course, individual and professional trustees both have a duty to fulfill the wishes of the grantor and to act in the best interests of all beneficiaries. But individuals can be susceptible to factors that sway their decision-making, such as pressure from family members or financial conflicts of interest.

"COMPARED WITH NAMING YOUR BEST FRIEND AS TRUSTEE, YOU'VE GOT A HISTORICAL RECORD AND CONSISTENCY WITH A CORPORATE TRUSTEE."
- JOHN HINCHMAN

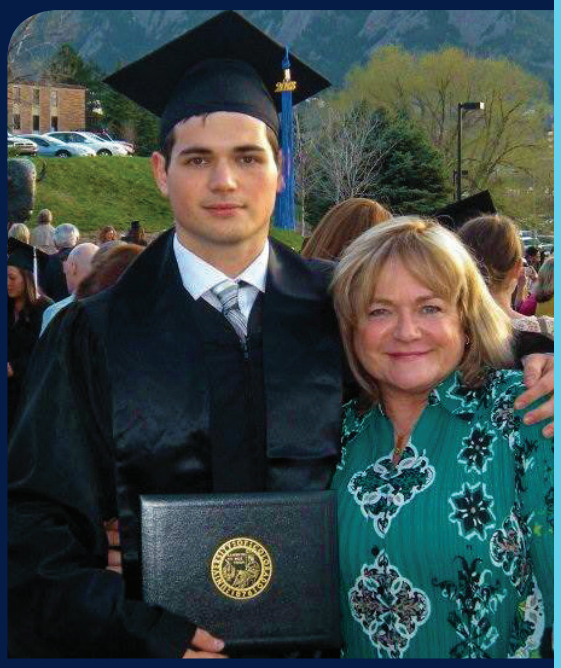
Corporate trustees, by contrast, are free of such emotional baggage – and this can be essential when handling delicate matters. For example, trustees often have discretion to deny distribution requests that conflict with the vision of the grantor or specific provisions of the trust. In other words, they can prevent beneficiaries from taking premature distributions that whittle their inheritances or excessive withdrawals that eat away at the amounts owed to others. A professional's ability to be impartial in such situations can be critical. In fact, parents sometimes voluntarily cede decision-making responsibilities to professionals to avoid clashes with their heirs.

Seek trustees that will treat beneficiaries like family.

Of course, the ultimate goal of any trust is to ensure that your loved ones have a solid financial foundation after you pass away. Having a trust in place can help to alleviate angst if the unexpected happens. That was the case for Michael D'Elia, whose father died of a heart attack several months before he was born.

Prior to his death, his dad established trusts at Capital Group Private Client Services for Michael and his siblings. This eased some of the pressure on Michael's mother during a trying time. Doug Turley, who has long served as D'Elia's personal Investment Counselor at the firm, provided financial guidance as Michael grew up. Turley also acted as a general sounding board for Michael during his teens and early 20s, providing occasional advice on topics such as choosing a college and pursuing a career.

Income from the trust was instrumental in helping Michael pay for college, and allowed the now-28-year-old to buy a house when he was young. It gave Michael a sense of assurance to know that he would be able to pay for school without taking on student debt.



Michael D'Elia and his mother, Tere, at his 2013 graduation from the University of Colorado, Boulder.

"I was able to go to college and focus 100% on my studies," Michael says. "I live the same life that most people do, but it is nice to know that, thanks to the trust, I have a fallback plan in case something goes wrong." Plus, Michael has Doug and the rest of his Capital team to call on at any time!

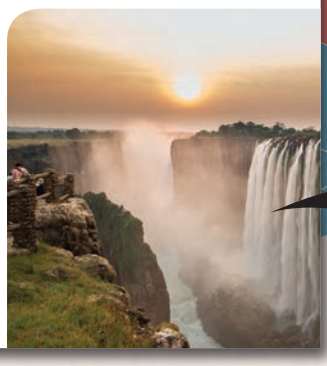
MUST-SEE SPOTS FOR YOUR SUMMER VACATION

Planning a trip outside the U.S. this summer? Travel publisher Lonely Planet has compiled a list of destinations it's crowned the best in the world. After culling the options, we selected five somewhat off-the-beaten-path places to consider adding to your itinerary if you'll be in Asia, Africa, South America, Europe or Australia in the coming months.

Victoria Falls

Scottish explorer David Livingstone christened Victoria Falls to honor his queen, but the genteel name doesn't do justice to the miraculous waterfall that crashes down at the intersection of Zambia and Zimbabwe. Given that the waterfall is twice the size of Niagara Falls and generates thick mists that douse sightseers, its local moniker, Mosi-oa-Tunya – "the smoke that thunders" – seems much more fitting. The water swells to its highest level in April, at the end of the rainy season, before subsiding around October and November, when it's possible to walk across some parts of the waterfall.

Beyond the cascading waters, the area offers abundant wildlife, with leopards, hippos and antelopes roaming across the two countries' national parks, which bookend the waterfall. For those seeking further adventure, there's hiking, kayaking, river surfing and bungee jumping.



Torres del Paine

Committed hikers in search of rugged terrain and captivating landscapes may be drawn to this national park on the southern tip of Chile's Patagonia region. Torres del Paine (pronounced "PIE-nay" and translated as "towers of blue") draws its name from three massive granite peaks that jut from a mountain range encompassing awe-inspiring vistas, pristine lakes and fearsome ice glaciers.

Torres del Paine offers some of the best hiking in South America. The park has a variety of well-marked paths for all experience levels: guide-led nature walks of a few hours, the popular five-day "W" trek and the full-circuit "O" trek, which takes eight or nine days. The wildlife includes foxes, pumas and guanacos, which are distant cousins of llamas and alpacas.

Temples of Angkor

Of all Lonely Planet's recommendations, this constellation of religious structures in northwestern Cambodia was the highest ranked by a sizable margin. Angkor, which means "city" in Sanskrit, was the capital of the ancient Khmer dynasty. A succession of rulers presided over the region from the 9th to 15th centuries, erecting hundreds of temples across a 150-square-mile radius. Though many of the edifices have been eroded over time, others have been carefully restored, and they stand as testament to the religious, architectural and artistic richness of the era.

The pre-eminent temple is Angkor Wat, which took an estimated 300,000 workers 35 years to build in the 12th century. Constructed as a Hindu shrine but later converted to a Buddhist temple, it's one of the world's largest religious monuments, distinguished by its elaborate bas-relief carvings. A nearby temple, Ta Prohm, was used as a location in the 2001 movie *Lara Croft: Tomb Raider*.

Bay of Kotor

The small town of Kotor in Montenegro may be the ideal spot for travelers who want the majesty of the scenic outdoors – and the option to stop for a latte while meandering through a picture-postcard medieval town. The bay, known locally as Boka, sits at the foot of a mountain range; a series of towns run along it, each boasting a number of Roman Catholic and Orthodox Christian churches.

Just off the Adriatic Sea, the area has moderate temperatures and a decidedly maritime feel. Kotor offers cobblestoned town squares, an assortment of restaurants that overlook the water, and a bevy of tour operators peddling boat trips that provide a fuller exploration of the nearby communities.

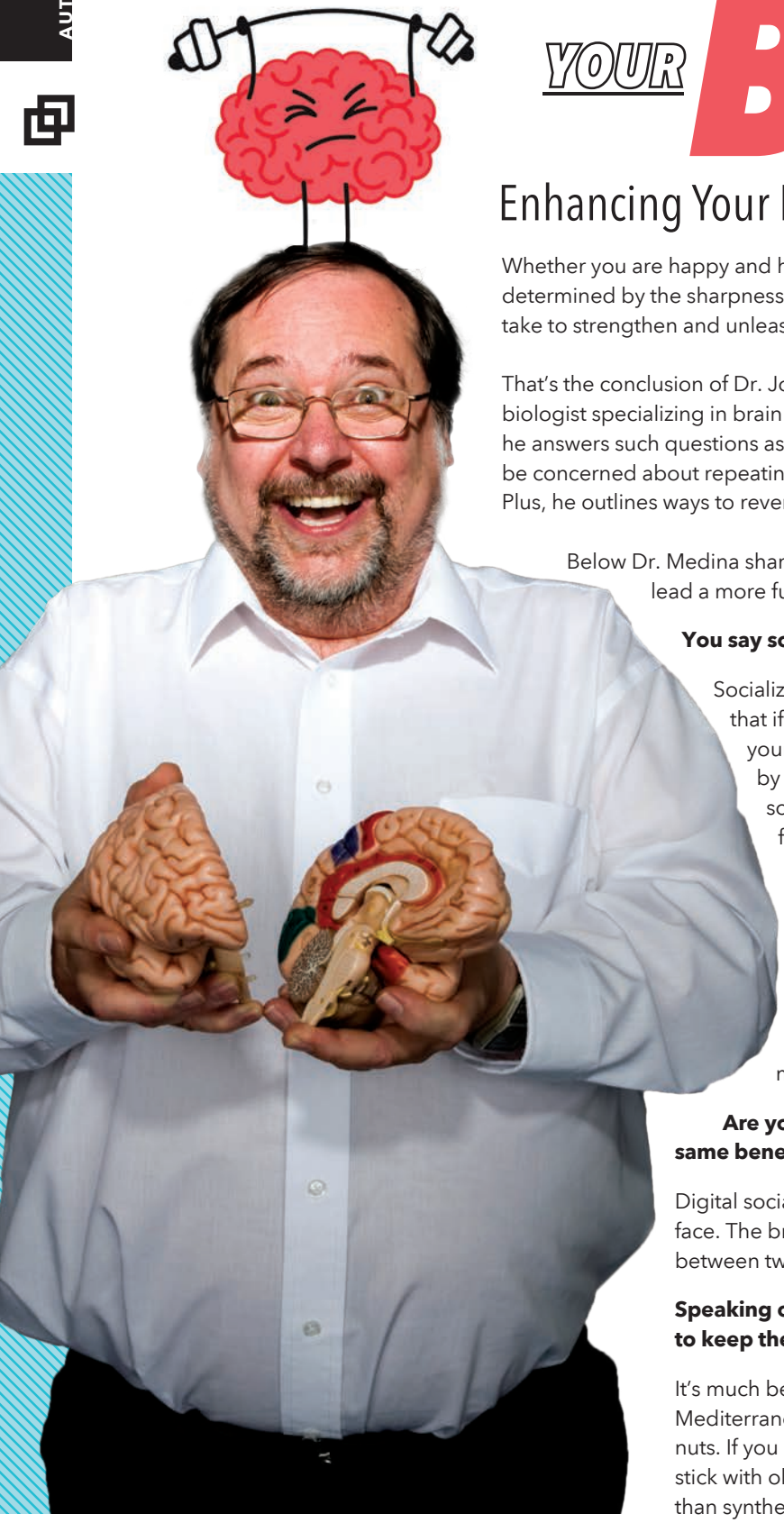
Museum of Old and New Art

Despite its unimaginative name, this site is like no other – and not just because it's situated on a peninsula near a Tasmanian town that was once a penal colony. MONA, as it's known, eschews many of the traditions that have long bound museums: Not only does it juxtapose ancient and contemporary works in thought-provoking fashion, there are no signs explaining them (allowing visitors to experience the art free of the didactic overtones that characterize some other galleries).

This private museum was founded by mathematician and high-stakes gambler David Walsh, who lives on the grounds. Walsh's fondness for tennis explains the presence of a tennis court that comes into view as people disembark from the ferries that typically transport visitors to the site. The building's iconoclastic exterior is both foreboding and intriguing; the verdant landscape encircling the museum is as compelling as the fine art within it. There's also a working vineyard that predates the museum. MONA's glass-encased restaurant affords a sweeping panorama of the water and nearby hillsides, as well as a 10,000-bottle international wine collection to satisfy all tastes.

SUPERCHARGE YOUR BRAIN

Enhancing Your Memory and Mind at Any Age



Whether you are happy and healthy – and even how long you will live – is largely determined by the sharpness of your mind. Fortunately, there are some simple steps you can take to strengthen and unleash the power of your brain, regardless of your age.

That's the conclusion of Dr. John Medina, a bestselling author and developmental molecular biologist specializing in brain research. In his latest book, *Brain Rules for Aging Well,* he answers such questions as why it's so common to lose your keys, when you should be concerned about repeating the same stories and how to make the most of every day. Plus, he outlines ways to reverse memory loss and even slow down the aging process.

Below Dr. Medina shares some tricks for how we can all increase our gray matter and lead a more fulfilling life.

You say socialization is the best vitamin for the brain. How so?

Socialization is really interaction with people you like. Research shows that if you regularly hang out with those you enjoy being around, your rate of cognitive decline – even in older age – goes down by 70%. In other words, you basically arrest it. That's why I call socialization a cognitive vitamin. Every time you're with a good friend that you're comfortable with, your stress levels go down. That's important because stress hormones are enemies of aging. Socialization also helps to reduce loneliness. Research tells us that the lonelier you are, the more you increase what we call systemic inflammation. As the name implies, this is a condition that causes inflammation across your entire cardiovascular system and can erode parts of the brain. It's the reason that lonelier people get heart attacks and strokes more frequently.

Are you referring to in-person socialization, or can you get the same benefit through texting and emails?

Digital socialization does work but isn't as helpful. It's better to be face-to-face. The brain is so sensitive it can even detect micro air pressure changes between two people as they're talking. You don't get that from texting.

Speaking of vitamins, what are your thoughts on taking supplements to keep the brain healthy?

It's much better to just eat a balanced diet. Specifically, I recommend a Mediterranean diet, which means eating a ton of fruits, vegetables and nuts. If you eat meat, it needs to be chicken or fish. And if you use oil, stick with olive oil. This diet is so much more beneficial to your body than synthetic vitamin supplements, from my perspective. I often say that

America has the world's most expensive urine, since we eliminate so many of these supplements from our system. I'd rather see you eat a spear of broccoli than take a bunch of vitamins.

Why the Mediterranean diet?

Because we have medical research demonstrating it works. Your refrigerator should look like the produce section of a grocery store.

You recommend living with an "attitude of gratitude" and note how that helps to strengthen the brain, especially as we age.

As you get older, you have a high risk for certain types of depression, particularly if you have a medical ailment. Is there a way around it? Yes. There are two things you can do to change both your depression and anxiety levels. First, every night before you go to bed, write down three things for which you are grateful. But don't just jot them down as a list. Describe what made you happy and why you are grateful. Do that for a week and you'll start to see changes in your psychiatric profile. Second, identify someone who means a lot to you in your life and write a 300-word letter telling him or her why you're grateful and describing the impact he or she has had. If the person is still alive, go read the letter in person. Be sure to bring a bunch of tissues, though!

Why do these techniques help?

There are many reasons. One is because they force you to get out of your own self-centeredness. You forget about your needs, aches and pains for a small period of time and let somebody else become the center.

Despite the enhanced risk of depression, you assert that we actually become happier as we get older.

I know that sounds like a contradiction, but it's really not. The optimism is due to what is called selective memory. As we age, we succumb to optimism bias, meaning we focus our memories more on all the good things that have happened to us. While scientists like me are still trying to understand empirically why this happens, I have a theory. When we get into our 50s and 60s, for instance, we start to see the end of our life in the distance. That brings a recognition that our years on earth are getting fewer, and it can change our outlook. By the way, this bias tends to fade if you get a serious medical condition. That's why I noted earlier that aging puts you at a higher risk. Should that happen, be aware of this and start doing the gratitude exercises I mentioned earlier.

What's your best advice for improving one's memory and sharpening one's mind?

There are a couple of things you can do. One is to practice what we call productive engagement. That's where you have regular heated conversations with people you really like but who don't agree with you. You're basically engaging in an argument but are still good friends at the end of the day. Another tip is to read at least 3.5 hours per week. The more, the better. And here's one more: Learn to play an instrument you're not currently familiar with, down to reading the notes and understanding the theory behind it.

All of us have periodic moments of forgetfulness. How do we distinguish between momentary lapses and something more serious, like the onset of Alzheimer's or dementia?

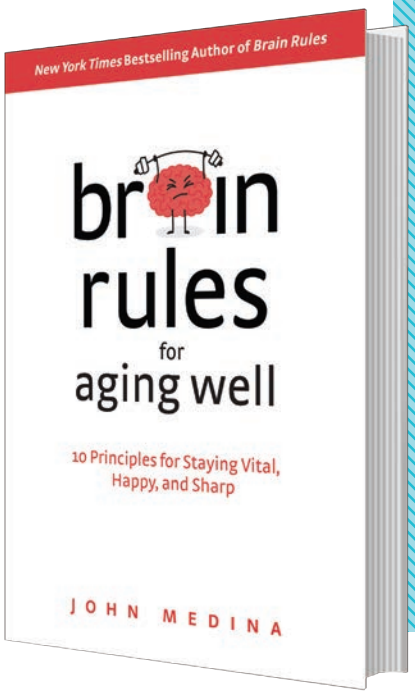
It's natural for our memories to naturally fade over time, but here's something to keep in mind: Have you ever gone down to the basement to fetch something and then completely forgotten what you were looking for when you got there? That's totally normal. Given time, the reason is likely to come back. But if you get down there and you don't know where you are and feel like you're constantly in a state of confusion, to where it's disrupting your life, that's when you need to seek additional help.

Are there ways to bring back your memory once it starts to fade?

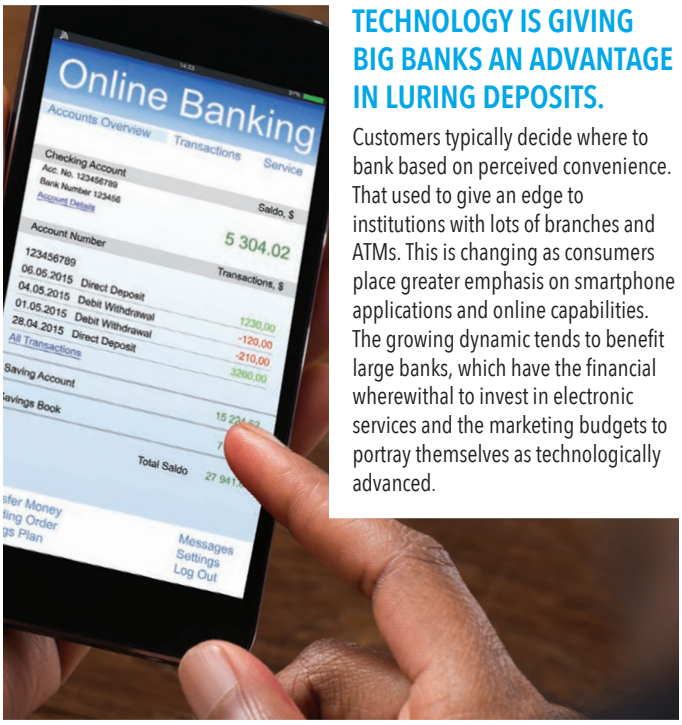
Believe it or not, one way is by reminiscing. Fill a room with what you might have had when you were between the ages of 15 and 29, including posters and books. Once in a while, go in there, and even eat food you had back then. This technique spikes your brain with dopamine and actually helps to improve your sense of fulfillment, your connectedness with others, your psychological health and even your tolerances of outsiders (especially those with perceived social differences).

BRAIN RULES FOR AGING WELL

1. Be a friend to others, and let others be a friend to you
2. Cultivate an attitude of gratitude
3. Mindfulness not only soothes but improves
4. Remember, it's never too late to learn – or to teach
5. Train your brain with video games
6. For clear thinking, get enough (but not too much) sleep
7. Never retire, and be sure to reminisce



OBSERVATIONS FROM CAPITAL GROUP ANALYSTS AROUND THE WORLD



TECHNOLOGY IS GIVING BIG BANKS AN ADVANTAGE IN LURING DEPOSITS.

Customers typically decide where to bank based on perceived convenience. That used to give an edge to institutions with lots of branches and ATMs. This is changing as consumers place greater emphasis on smartphone applications and online capabilities. The growing dynamic tends to benefit large banks, which have the financial wherewithal to invest in electronic services and the marketing budgets to portray themselves as technologically advanced.

THE EUROPEAN FINANCIAL SECTOR LOOKS APPEALING ON A RELATIVE VALUATION BASIS.

In recent years, many eurozone banks have struggled with strict regulations and a low-interest-rate environment. But economic improvement in Europe and the prospect of higher rates in the future make select banks relatively attractive from a valuation perspective.

INCREASED TRAVEL IS BOOSTING CHINA'S HOTEL INDUSTRY.

A vibrant job market and a growing appetite for leisure services are driving the country's domestic travel industry. Trips within China have risen at a 13% compound annual rate, and growth is expected to continue. That's benefiting the domestic hotel industry, especially the midscale segment as vacationers move up from budget offerings to sites with greater amenities.

THE CREDIT CARD BUSINESS IS ATTRACTIVE, BUT COMPETITION FOR CUSTOMERS IS RISING.

Credit card issuers are being forced to offer increasingly generous loyalty points for free travel or other perks. Many banks now give cash back of 2% or more, and larger amounts for purchases in specific categories, such as gas stations one month and grocery stores the next. Though card operations are quite profitable, the jousting for customers could squeeze margins.

THE OUTLOOK FOR THE HOME IMPROVEMENT BUSINESS LOOKS FAVORABLE.

Despite higher mortgage rates and a long economic upturn, soaring home prices, a surge in remodeling and limited inventory in the move-up market are likely to provide a continuing tailwind. Other factors benefiting home improvement retailers include an aging housing stock, rising household formation among millennials and ballooning apartment rental rates.

◀ Monks walk up the steps of the ancient Bayon temple in Angkor, Cambodia. The Temples of Angkor are ranked as the best spot in the world for vacationers. See some others on page 16.

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