Quarter highlights

- Against the backdrop of a sizable decline in bond yields, the fund’s relatively short duration positioning was the largest detractor from relative results.

- Sector positioning was a drag on relative returns.

- Security selection among mortgage-backed pass-through securities had a negative impact on the fund’s overall relative returns.

- Curve positioning had the biggest positive impact on returns, due to the fund’s larger investments in two-to-five-year maturity bonds.

Market review

U.S. fixed income securities rallied as the breakdown of trade talks between the U.S. and China reignited global trade tensions, prompting investors to flee to the safety of government bonds. Additionally, slowing U.S. economic momentum and benign inflation resulted in growing speculation that the U.S. Federal Reserve would take a more dovish stance on monetary policy. Yields declined across the curve. The yield on the 10-year Treasury bond started the quarter around 2.5% but briefly fell below 2.0%, a level last seen in November 2016. In May, the yield for the two-year Treasury bond posted its largest one-month drop in a decade, and the yield curve between three-month and 10-year rates inverted to levels last seen prior to the start of the 2007 financial crisis.

Mortgage-backed securities rallied, but lagged U.S. Treasury bonds. Investment-grade (BBB/Baa and above) corporate bonds outpaced Treasuries, despite notably strong issuance in May when Bristol-Myers Squibb raised $19 billion to help fund its acquisition of Celgene and IBM raised $20 billion to fund its takeover of Red Hat. High-yield bonds rose but lagged Treasuries, primarily due to spread widening through May as investors favored lower risk assets given the selloff in stocks.

Economic data suggested that U.S. growth was slowing from the 3.1% annualized growth rate recorded in the first quarter of the year. In May, the Institute of Supply Managers’ survey of manufacturing activity marked the slowest rate of expansion since October 2016, although nonmanufacturing activity rose to a three-month high. Job growth also slowed, with the economy adding only 75,000 jobs in May, the weakest reading since February, although June’s reading was stronger than forecast.

As trade tensions rattled equity markets and U.S. economic growth slowed, speculation grew that the U.S. Federal Reserve would consider reducing rates. In its June meeting, the Fed kept rates unchanged, but appeared to shift toward a more dovish stance, suggesting the possibility of a rate cut in 2020. Fed chair Jerome “Jay” Powell cited uncertainties in the economic outlook and signaled that the Fed would “act as appropriate to sustain the expansion.”

Portfolio review

Against the backdrop of a sizable decline in bond yields, the fund’s relatively short duration positioning was the largest detractor from relative results.

Sector positioning was a drag on relative returns, due to the mix of interest rate and mortgage-related sectors. The fund’s investments in off-benchmark Treasury Inflation-Protected Securities had minimal impact on relative results through the quarter.

Security selection among mortgage-backed pass-through securities had a negative impact on the fund’s overall relative returns.

Curve positioning had the biggest positive impact on returns. Compared to the index, the fund held larger investments in two-to-five-year maturity bonds. As this area of the yield curve saw the steepest declines in yields over the quarter, this positioning boosted results.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.
Long-term perspective

The fund invests primarily in debt obligations that are guaranteed or sponsored by the federal government. These include Treasury bonds and notes, the direct debt of federal agencies and a variety of agency mortgage-backed obligations. A fundamental component of the fund’s investment strategy has been to maintain a high-quality portfolio to serve as a hedge against economic uncertainties that could impact other portions of fund investors’ individual portfolios.

Figures shown are past results and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. Fund results shown are at net asset value with all distributions reinvested. For current information and month-end results, visit americanfunds.com.

Class F–2 share returns for periods ended 6/30/19

<table>
<thead>
<tr>
<th></th>
<th>Total returns (%)</th>
<th>Average annual total returns (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>QTD</td>
<td>YTD</td>
</tr>
<tr>
<td>U.S. Government Securities Fund</td>
<td>2.47</td>
<td>4.51</td>
</tr>
<tr>
<td>Bloomberg Barclays U.S. Government/Mortgage–Backed Securities Index</td>
<td>2.57</td>
<td>4.75</td>
</tr>
</tbody>
</table>

Fund expense ratio: 0.39%†

†The expense ratio is as of the fund’s prospectus available at the time of publication.

The return of principal for bond funds and for funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Fund shares are not guaranteed by the U.S. government.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectus and summary prospectus, which can be obtained from a financial professional and should be read carefully before investing. American Funds Distributors, Inc., member FINRA.

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

Investment results assume all distributions are reinvested and reflect applicable fees and expenses. When applicable, investment results reflect fee waivers and/or expense reimbursements, without which results would have been lower. Please see americanfunds.com for more information.

Class F–2 shares were first offered on August 1, 2008. Class F–2 share results prior to the date of first sale are hypothetical based on Class A share results without a sales charge, adjusted for typical estimated expenses. Please see americanfunds.com for more information on specific expense adjustments and the actual dates of first sale.

Bond ratings, which typically range from AAA/Aaa (highest) to D (lowest), are assigned by credit rating agencies such as Standard & Poor’s, Moody’s and/or Fitch, as an indication of an issuer’s creditworthiness.

Bloomberg Barclays U.S. Government/Mortgage–Backed Securities Index is a market value-weighted index that covers fixed-rate, publicly placed, dollar-denominated obligations issued by the U.S. Treasury, U.S. government agencies, quasi–federal corporations, corporate or foreign debt guaranteed by the U.S. government, and the mortgage–backed pass–through securities of Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. Bloomberg® is a trademark of Bloomberg Finance L.P. (collectively with its affiliates, “Bloomberg”). Barclays® is a trademark of Barclays Bank Plc (collectively with its affiliates, “Barclays”), used under license. Neither Bloomberg nor Barclays approves or endorses this material, guarantees the accuracy or completeness of any information herein and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

The market index is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index. There have been periods when the fund has lagged the index.

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