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GLOBAL EQUITIES

10 investment themes for 2022

Investors are facing a market in transition. For years it's been a one-way street, paved by cheap financing and led by U.S. tech stocks. But now as central banks reduce stimulus and inflation heats up, we could see a shift in market leadership and a broadening of opportunities, along with higher volatility.

Despite some near-term challenges, we believe there is unprecedented innovation transforming industries around the world. That's why we asked our investment team to highlight 10 themes they are focusing on today.

Some of these are within industries under pressure or facing headwinds. But we invest in companies, not industries. It's our job to analyze individual businesses, talk with management and invest in a select group of companies we believe are most likely to prosper in the years ahead.

Here are 10 investment themes for 2022:

1. Pricing power

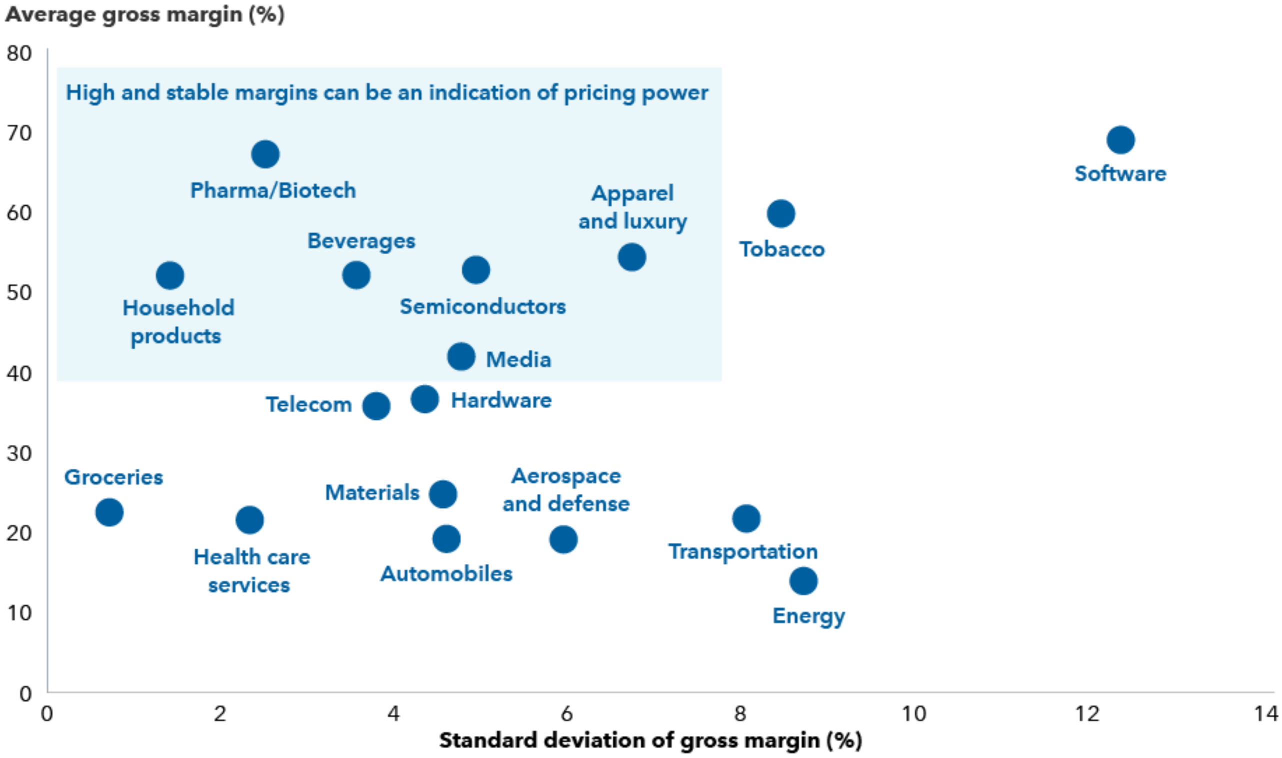
Diana Wagner, equity portfolio manager, Washington Mutual Investors Fund℠

I believe inflation will linger in the months ahead, making it the biggest risk investors face in 2022. That's why I am focused on uncovering companies with pricing power that can protect their profit margins by passing those costs along to customers.

Companies with pricing power potential include consumer businesses with strong brand recognition, like beverage makers Keurig Dr Pepper and Coca-Cola; companies in the fast-growing video games segment, like Microsoft and Tencent; and companies providing essential services, like Pfizer and UnitedHealth.

Semiconductor companies with proprietary chip designs, like Broadcom, or Dutch chip-equipment maker ASML, could also raise their prices in an inflationary environment.

Some industries have a greater potential for pricing power



Sources: Capital Group, FactSet, MSCI. Reflects select industries within the MSCI World Index. Average and standard deviation of gross margins are calculated for the five-year period ending 12/31/21. Average gross margin is net sales less the cost of goods sold and is shown as a percentage of net sales. Standard deviation is a common measure of absolute volatility that tells how returns over time have varied from the mean. A lower number signifies lower volatility.

With slowing growth, rising inflation and other uncertainties, 2022 may seem like a daunting environment. But I'm optimistic that an active portfolio of select companies with strong pricing power may help investors thrive in the year ahead.

Go deeper:

- Pricing power can help companies fight inflation
- 5 keys to investing in 2022
- A disciplined approach to growth and income investing

2. Tech trifecta

Mark Casey, equity portfolio manager, The Growth Fund of America®

If pricing power is a key to fighting inflation, then the semiconductor industry is in a strong position. Supply chain disruptions have chip prices skyrocketing, pressuring manufacturers that increasingly depend on them. Anyone who tried to find a PlayStation 5 last Christmas knows what I mean.

Even after these supply chain issues fade, I see no end to the world's growing appetite for semiconductors. Today a new car uses as many as 3,000 chips, and that number is growing with each new model.

Semiconductors are the backbone for cloud technologies that companies worldwide are using to power their business. I believe we are still in the early innings of the cloud transition. For example, makers of CPUs, like Advanced Micro Devices; DRAM chipmaker Samsung; and ST Microelectronics, which develops microcontrollers, could all see demand for their products multiply for years.

Demand for semiconductors is soaring, along with prices

Value of chip content per unit (USD)	High-end smartphone	Automobile	Data center server
2015	$100	$310	$1,620
2020	$170	$460	$2,810
2025 (estimated)	$275	$690	$5,600

Sources: Capital Group, Applied Materials. All figures are in USD.

If chips are the backbone of the cloud, then software is the brains. Today, software is driving advancements not only in e-commerce and finance but also health care, education, transportation, construction and even agriculture. It's been a tough year in the market for many software-as-a-service (SaaS) companies. But my job is to look past today's volatility to understand fundamental growth dynamics that may lead to long-term returns.

Go deeper:

- Storm cloud: Look past turbulence in software stocks
- Semiconductors could be the new oil: Here’s why
- 5 technology trends to watch
- A flexible approach to growth investing

3. Dividend comeback

Caroline Randall, equity portfolio manager, Capital Income Builder®

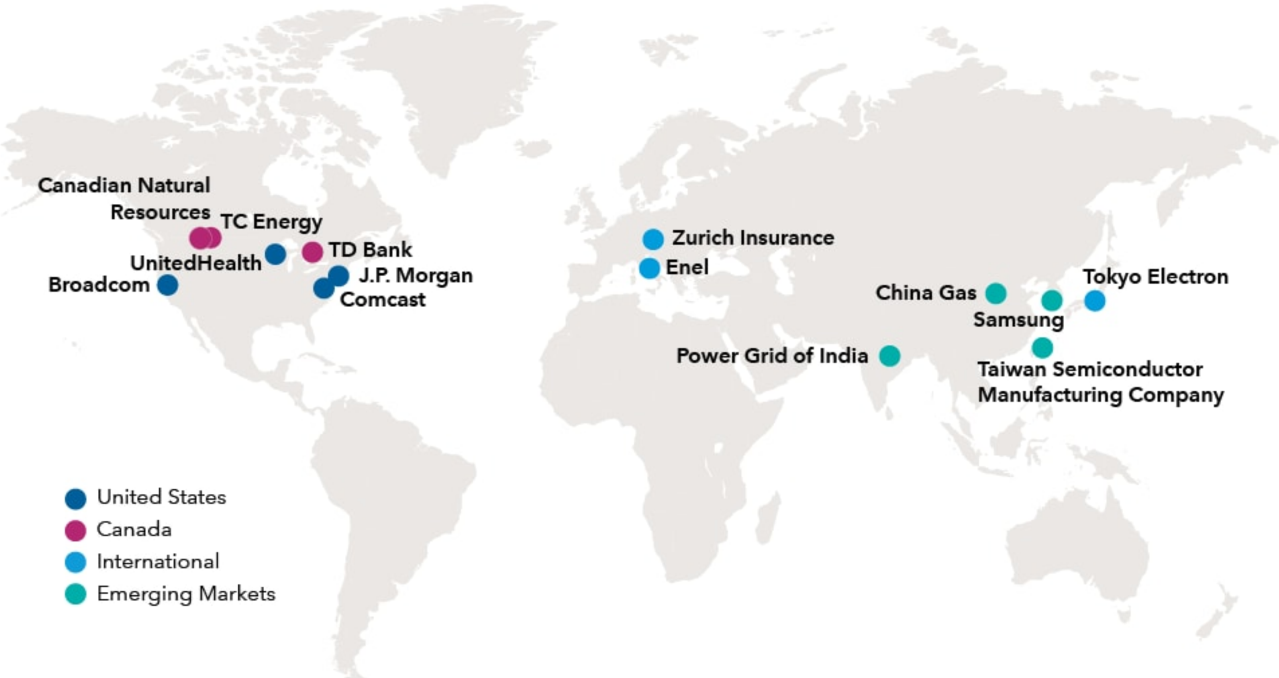
Companies are shifting from dividend zeros to dividend heroes.

Particularly in Europe, companies suspended dividends during the pandemic primarily due to political or regulatory pressure, but now many of them have surplus capital to redeploy as regular and catch-up dividends.

You might think the search for dividend income starts with companies that pay the highest yields. While these companies can be sound investments, a high dividend yield can also be a warning sign and potentially unsustainable.

Our research shows that since 2007, the highest yielding quintile of stocks had the lowest overall returns. We found the sweet spot to be the next bucket of dividend payers, those that yielded closer to 3%. This group included companies with more stable balance sheets and attractive dividend growth prospects.

Businesses across sectors and borders are raising their dividends



Sources: Capital Group, Refinitiv Eikon. As of 12/31/21.

This year, I'm focused on companies with strong underlying earnings growth that have demonstrated a commitment to raising their dividends over time. Increasing dividend payouts can be a signal of management's confidence in future earnings growth. Dividend growers historically have tended to generate greater returns than other dividend strategies, while also keeping up with the broader market. Dividend growth can also offer a measure of resilience against inflation and interest rate hikes – two of the biggest challenges we face this year.

Go deeper:

- Dividend growth: The secret sauce of long-term investing
- Navigating a new landscape of dividends
- An approach to building income

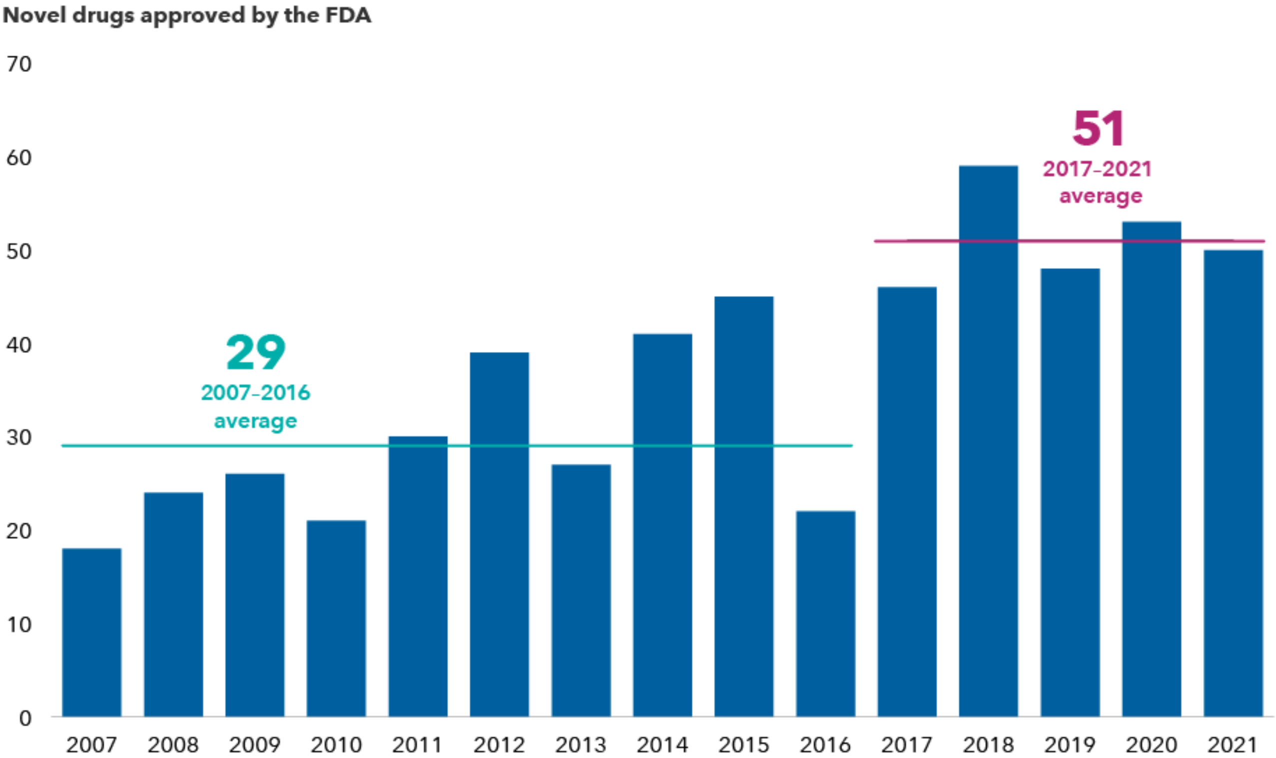
4. Health care innovation

Rich Wolf, equity portfolio manager, The New Economy Fund®

Life-changing drugs have been developed and approved faster than ever before. The COVID-19 mRNA vaccines from Pfizer and Moderna provide a powerful affirmation of the global nature of innovation.

Will that breakneck speed continue in 2022? With recent advancements in genomic and proteomic analysis and the launch of many new modalities of drugs, I believe it will. Today we have new therapies designed to engineer how the body recognizes and treats disease itself that have the potential to extend lives and generate billions of dollars in revenue for companies able to develop them successfully.

New drugs are coming to market faster than ever



Source: Food and Drug Administration. As of 12/31/21.

But it's not just drug discovery that excites me. A massive wave of innovation from health technology companies has led to improved diagnostics – both in the lab and at home. For example, Dexcom's continuous glucose monitor allow diabetics to continuously check their glucose levels and integrate that information directly to an insulin pump.

Companies like Exact Sciences and Illumina have developed liquid biopsy blood tests and genomic technologies that enable early detection of cancer and help in the research of complex diseases. In addition, as the technology improves, remote patient monitoring and home diagnostics are becoming part of the continuum of care.

Go deeper:

- [Medical miracle: Health care innovation saves the world]
- [Health care innovation reaches warp speed]

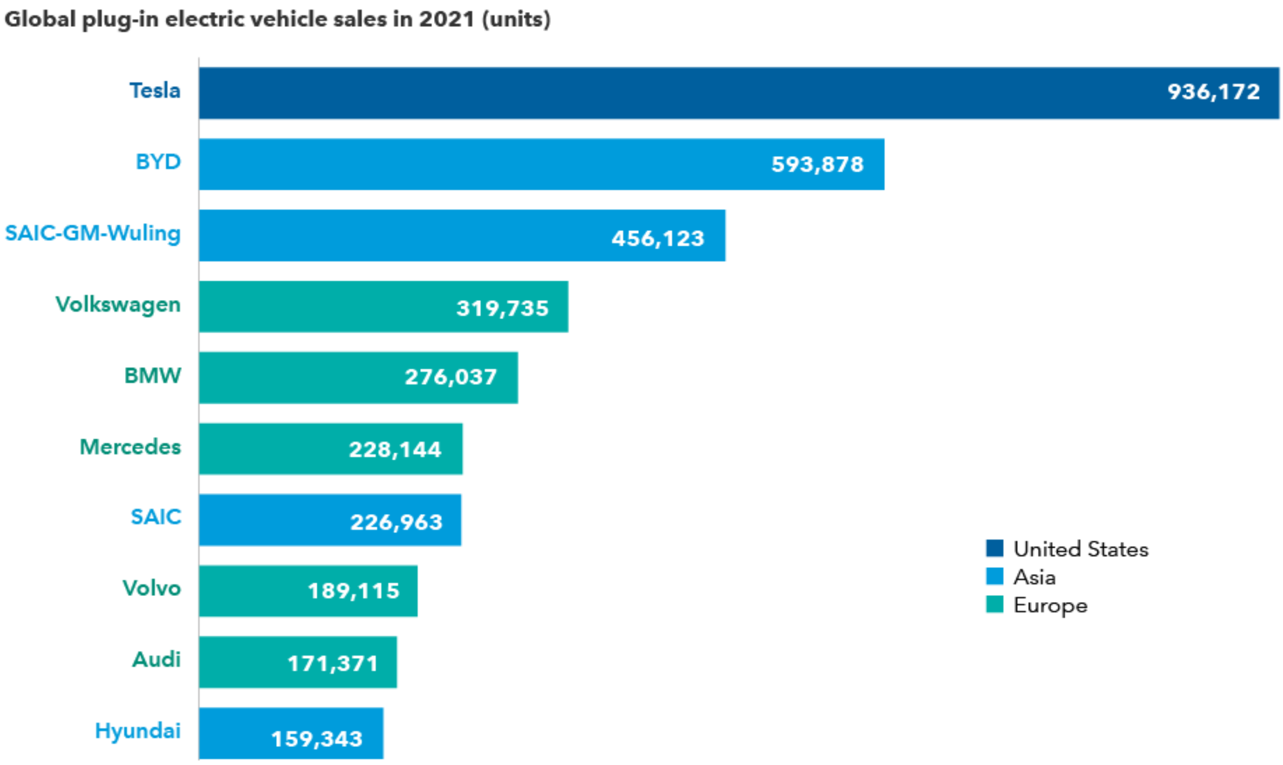
5. Transportation transformation

Kaitlyn Murphy, equity investment analyst covering automobile & components manufacturers

Ladies and gentlemen, start your batteries.

The adoption curve of electric vehicles (EVs) has steepened thanks in large part to government incentives and tighter emissions standards for gas-burning cars, particularly in China and Europe. The price of batteries, which can account for a third of a vehicle's cost, has also plunged. EV makers are now appealing to more consumers by introducing models with lower prices, better performance and longer range.

Tesla has raced ahead of global competition in EV sales



Sources: CleanTechnica, EV-Volumes.com, Statista. Estimates as of January 2022. SAIC-GM-Wuling is a joint venture based in China.

Although EVs are on the threshold of profitability, some will likely get there sooner than others. Tesla has been a clear leader, having briefly surpassed a market cap of $1 trillion in 2021. Companies quick to embrace structural change and rapidly adapt have a better chance of success over the long term, whether they are industry titans or startups. Innovative manufacturers can also differentiate themselves with their use of software, which allows for vehicles that can learn and improve, become safer and introduce more services over time.

Many believe the level of disruption in transportation will make it difficult for incumbents to survive, but don't count them out. At General Motors, CEO Mary Bara is disrupting the company from within. In addition to its pledge to go all-electric by 2035, the company has invested heavily in Cruise, its self-driving unit. I believe it will be one of the future leaders.

Go deeper:

- Beyond Tesla: Electric cars shift into the fast lane
- These 3 laws drive innovation and investment opportunity

6. China challenges and opportunities

Winnie Kwan, equity portfolio manager, New World Fund®

Risks to investing in China have risen due to macro and regulatory issues. Investors need to tread carefully with sectors such as property, education and gaming. However, I believe there are still compelling long-term, secular growth trends that make the country an attractive market on a stock-by-stock basis.

For example, China is positioned to dominate the global manufacturing supply chain for EVs and decarbonization solutions such as solar. Chinese manufacturers are producing high value-add parts at scale, including servo motors, electric drive trains and thermo management systems. A fast-growing home market for EVs is supportive of the supply chain development. China is already a dominating force in solar panel manufacturing, and it is increasingly leading in other parts of the supply chain such as invertors.

Automation is another growth area, driven by manufacturing upgrades and an aging population. Japanese and European companies have historically dominated production of precision parts and components in automation, but Chinese manufacturers are rapidly taking share.

Localization and import substitution continue to be big trends, not only in capital goods but in health care and medical technology equipment. At the same time, contract development and manufacturing organizations have become a sweet spot. These companies are partnering with multinationals on drug development, testing and manufacturing, often at lower prices and higher efficiency.

Go deeper:

- What I learned on a trip through China
- What does heightened China risk mean for investors?
- China's economy risks a sharp slowdown in growth
- The growth potential of emerging markets

7. Media disruption

Martin Romo, equity portfolio manager, The Investment Company of America®

This January, three blockbuster deals announced over a matter of days highlighted the swift change of pace in the industry.

If all three are finalized – Microsoft's bid for gaming giant Activision Blizzard among them – it would amount to more than $90 billion in M&A activity centered on video games, the fastest-growing segment of the media sector.

Driven in part by a pandemic-era gaming boom, the media landscape is fundamentally transforming the way people communicate and entertain themselves. That makes interactive games all the more valuable to the likes of Microsoft, Sony and many others.

It's a testament to how powerful and alluring video games have become. The $200 billion gaming industry provides compelling entertainment at a reasonable cost, and it's already surpassed the movie industry in terms of annual gross revenue. Fundamentally, I think that growth is likely to continue and even accelerate in the years ahead.

The disruption also extends to other segments of the media and entertainment world. Netflix, the clear leader in streaming video, is encountering fierce competition from Amazon and Apple, as well as old guard companies like Disney. In the social media space, TikTok, which has attracted young viewers thanks to the power of its short-form videos, is proving to be a formidable challenger to Facebook parent Meta Platforms.

Go deeper:

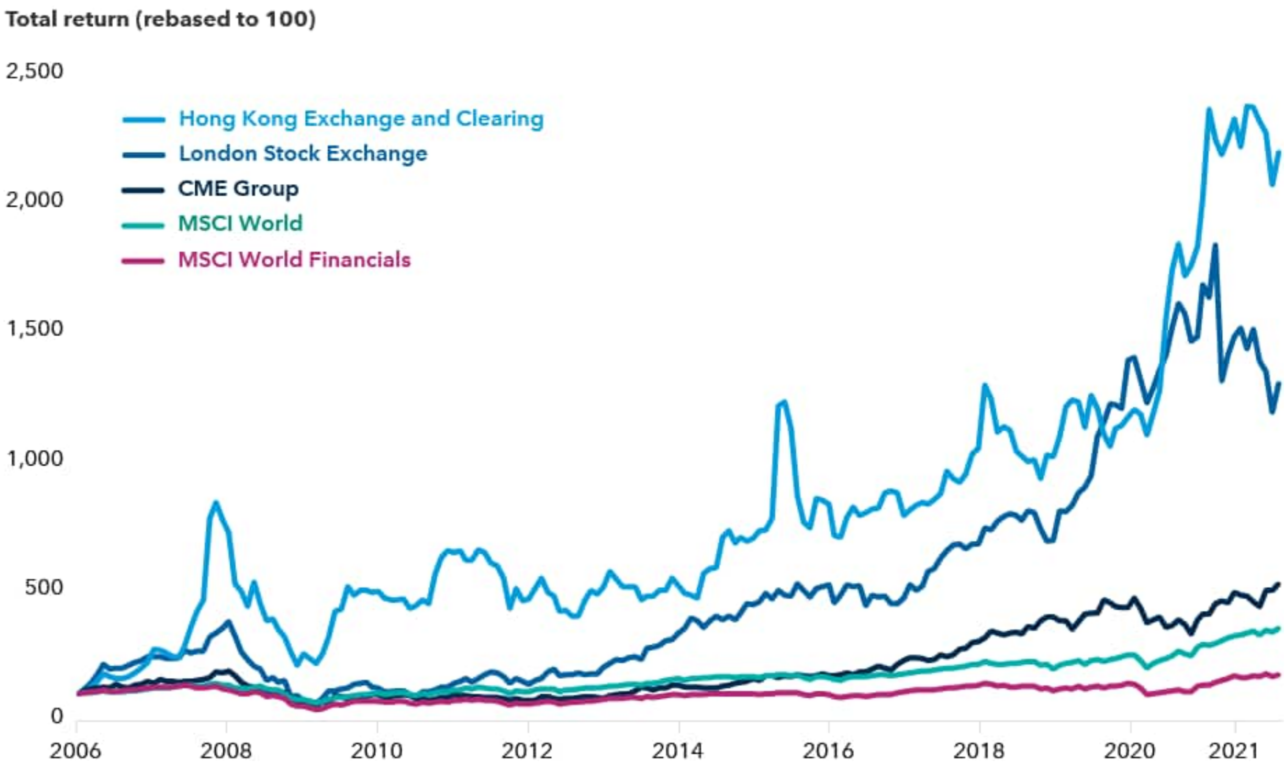
- The future of media: Game on!
- 5 predictions for the future of media
- game competition is heating up

8. Future of financials

Emme Kozloff, equity investment analyst covering global capital market infrastructure providers and U.S. and European discount brokers

Rising rates may be good for banks, but today the financials sector encompasses a broader set of opportunities than traditional banks and insurers. Among these are exchanges, data providers and asset managers. Financial exchanges that focus on equity trading may even benefit from increased volume during volatile markets.

Financial exchanges have outpaced the broader market



Sources: MSCI, RIMES. Returns rebased to 100 on 12/31/05. As of 12/31/21.

I believe several trends will drive growth in financial exchanges. One is the modernization of fixed income trading, which is moving out of the horse-and-buggy era. As fixed income – by far the largest asset class in the world – moves to digital trading, exchanges like Tradeweb could see their sales volumes soar.

Another driver of growth is the voracious appetite for data analytics. London Stock Exchange, known primarily for its equity exchanges, and Standard & Poor's, known largely as a ratings agency and index creator, have built robust analytics offerings. Likewise, only a third of NASDAQ's revenue comes from trading with much of the rest coming from its data services segment. I don't think the market fully appreciates just how diversified many of these companies are.

You've got to look really closely at each of these companies to understand what assets they own and where those offerings fit into the business cycle.

Go deeper:

- In the money: Financial exchanges hit the sweet spot
- A prudent approach to international investing

9. ESG everywhere

Rob Lovelace, vice chair and president of Capital Group and equity portfolio manager, New Perspective Fund®

Environmental, social and governance investing, or ESG, is everywhere, and it's only going to get more important.

At Capital Group, we have fully integrated ESG principles into our investment process, and it's a part of every investment decision we make. We don't think of ESG as just an exclusion process. We think of it as identifying companies that are doing the right thing and supporting those in transition, such as oil companies shifting toward clean energy.

This effort extends far beyond the energy sector. For example, buildings pump more carbon dioxide into the atmosphere than the entire transport sector. One of the most effective ways to reduce greenhouse gas emissions is to improve air conditioning and heating efficiency. Regulations that require the replacement of older systems with more energy-efficient products in Europe and elsewhere could underpin a long-term tailwind for HVAC companies like Daikin and Carrier.

I understand there is some trepidation about how our industry will implement ESG concepts. People are worried about new government regulations, additional rules or expanded disclosure requirements. But I would say: This is important. While there's a lot to learn, I believe we should approach it with a sense of optimism and enthusiasm.

Go deeper:

- 4 investment opportunities for a net-zero future
- The future of ESG investing depends on deep analysis
- Rob Lovelace on the year ahead

10. Flexible fixed income

Damien McCann, fixed income portfolio manager, American Funds Multi-Sector Income Fund℠

Inflation is running hot – and that's cooling bond returns. Speculation about the Federal Reserve's path and pace of interest rate hikes has pressured bond prices.

The good news? High inflation is partially a response to extraordinary consumer demand. The economy is doing well. People have jobs and cash – and they want to spend it. What's more, many companies have strong balance sheets and are positioned for growth.

In my mind, this means there are solid investment opportunities in corporate bonds. The post-pandemic economy may benefit casinos and cruise lines as demand returns. Energy prices have jumped, which could help both midstream and exploration and production companies.

On the other hand, I think that rising labor costs and shortages could crimp growth for consumer-oriented retail companies. Restaurants may also feel the pinch.

The relative value between higher income bond sectors such as investment grade (rated BBB/Baa and above), high yield, emerging markets and securitized debt is always changing. I'm focused on identifying which of these offer the most attractive investment opportunities for income-seeking investors. Recently, the underlying strength in the economy and the shorter interest duration in high yield and securitized debt have made those sectors more attractive.

I take a flexible, diversified approach to allocating among these different income sectors based on market conditions and investment insights. This could help create a more resilient income and return stream for investors.

Go deeper:

- 2022 fixed income outlook
- Can TIPS help your portfolio amid high inflation?
- The long unwinding road: Our take on Fed tapering and inflation

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CME Group is the world's largest financial derivatives exchange.

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