Outlook

2024 EDITION

Long-term perspective on markets and economies

Prepare for changes in the investing climate

Martin Romo
Chairman and Chief Investment Officer, Capital Group
Portfolio manager, Capital Group U.S. Equity Fund™ (Canada)

Heading into 2024, it's difficult to remember another time when the outlook was so uncertain. Recession or expansion? Inflation or deflation? Higher interest rates or lower? Take your pick and you will find a pundit arguing for each scenario as if it was a foregone conclusion.

As a long-term investor, I prefer to focus on larger trends, events that may shape not just the next year, but the next decade or more. I like to use the analogy of the weather report vs. climate change. While many others are concerned about the near-term weather forecast, I am looking for signs of large-scale climate change – events and trends that have the potential to change companies, industries, economies and the world.

Along those lines, here are some questions we are asking today: How will rapid advancements in artificial intelligence alter the way companies do business? And which companies are positioned to win the AI race? Will electricity, wind and solar power displace fossil fuels as our primary source of energy? And how long will that process take? In the bond market, with U.S. Treasury yields near 16-year highs, are we at the start of a historic opportunity as real income returns to the fixed income universe?

On the other hand, we must be wary of gathering storm clouds. Will rising government debt levels lead to lower economic growth rates? How might worsening tensions between the U.S. and China affect global trade? What is the risk that wars in Ukraine and Israel will spill into wider fields of conflict? And, in a pivotal election year, will market volatility keep nervous investors on the sidelines?

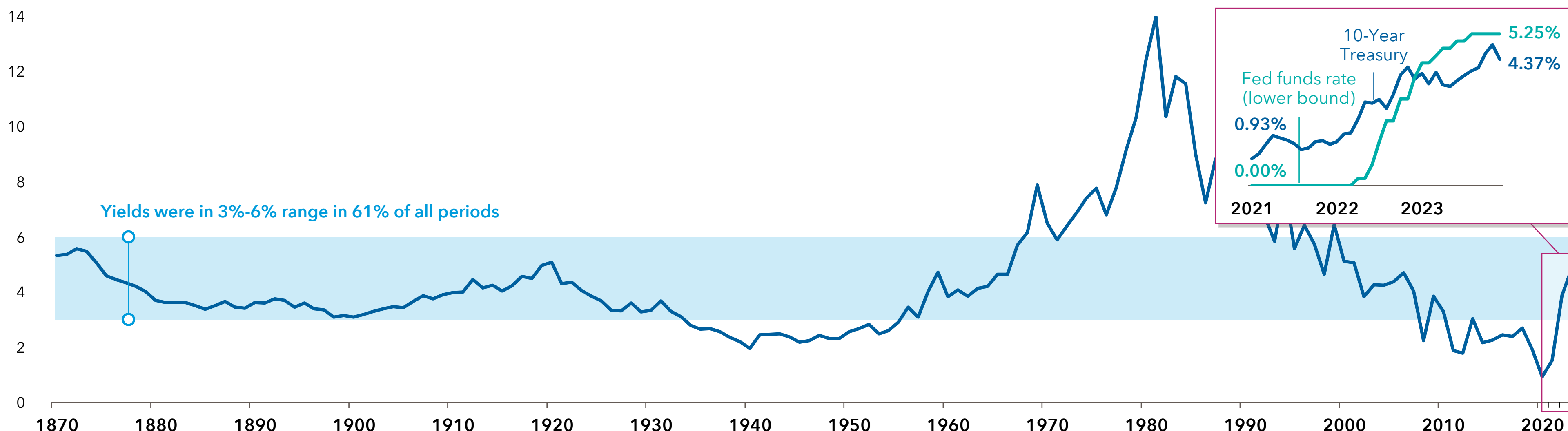
We don't pretend to have all the answers, but it's our job to explore them through exhaustive bottom-up, fundamental research. Events on the level of climate change bring a high degree of volatility, but also unprecedented opportunities. That's prime time for active investing.

Against this backdrop, I invite you to read and share our 2024 Outlook report.

Back to the "old normal"? A return to higher rates

U.S. long-term rates today are within the range of historical norms

U.S. long-term government bond yield (%)



The U.S. Federal Reserve's mission to tame inflation without widespread economic pain just got trickier. The U.S.10-year Treasury yield, which underpins borrowing costs for much of the economy, has risen sharply.

Will high rates stick around or will growth deteriorate, forcing the Fed to slash borrowing costs? "I'm optimistic that consumers will continue to carry the economy, even as rates remain higher for an extended period," says fixed income portfolio manager Pramod Atluri.

That's partly because wages and home values remain above pre-pandemic levels, which has helped support consumer spending. Federal spending has also buffeted the economy, the flip side of which has been a rising deficit now close to 8% of U.S. GDP.

Looking into 2024, Atluri believes yields may remain at levels considered normal prior to the global financial crisis and hover in the range of 3.5% to 5.5%.

While the run-up in rates could weigh on markets, investors will likely adjust. When 10-year rates were 4.0% to 6.0%, the average annual return since 1976 for the S&P 500 Index was 10.41%, while the Bloomberg U.S. Aggregate Bond Index returned 6.55%.*

*Capital Group, Bloomberg Index Services Ltd., Standard & Poor's, U.S. Federal Reserve. Returns shown from December 31, 1976 to November 30, 2023. Returns are in USD.

Sources: Federal Reserve, Robert Shiller. Data for 1871–1961 represents average monthly U.S. long-term government bond yields compiled by Robert Shiller. Data for 1962–2022 represents 10-year Treasury yields, as of December 31 each year within the period. Data for 2023 is as of November 30, 2023. Past results are not predictive of results in future periods.

Rolling recessions may limit likelihood of broad downturn

Why didn't the U.S. fall into recession in 2023, as so many pundits predicted?

The recession did happen, just not all at once. Over the past year and a half, different economic sectors experienced downturns at different times – a phenomenon economists call a "rolling recession." Thanks to this rare event, it's possible the U.S. won't experience a traditional recession before the end of this year or even the next, despite the burden of high inflation and rising interest rates.

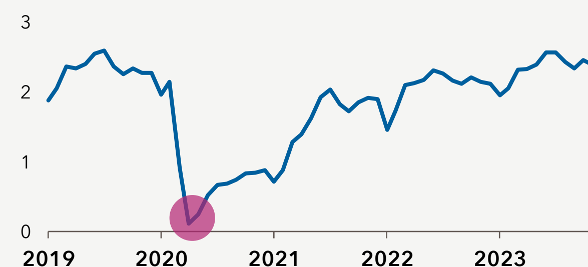
For example, residential housing contracted sharply after the Federal Reserve started aggressively raising interest rates. At one point in 2022, existing home sales tumbled nearly 40%. Now there are signs that the housing market is recovering. The chart illustrates several sector-based examples.

If these contractions and recoveries continue, the U.S. could avoid the most widely predicted recession in history, says Capital Group economist Jared Franz. Citing a strong labour market and resilient consumer spending, Franz believes the U.S. economy could grow at an annualized rate of roughly 2% in 2024.

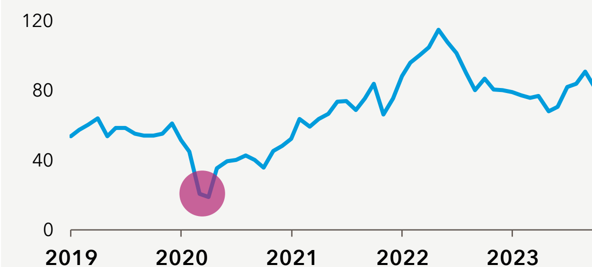
"This has been Godot's recession – we've all been waiting for it," adds Chris Buchbinder, a portfolio manager for Capital Group U.S. Equity Fund™ (Canada). "But in my view, the probability of a severe downturn is now well below 50%."

Mini-recessions, and recoveries, have rolled across different industries and sectors

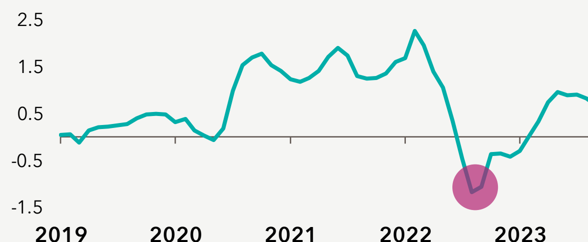
Travel
Travelers through TSA checkpoints (millions)



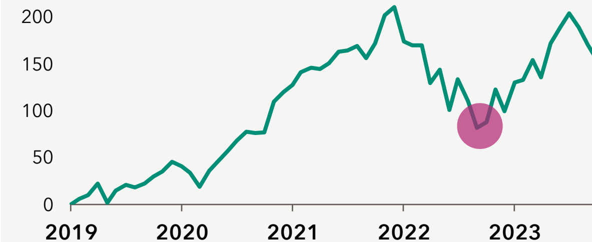
Oil
WTI crude oil spot price (USD per barrel)



Housing
S&P CoreLogic Case-Shiller 20-City Composite Home Price Index (month-over-month % change)



Semiconductors
Philadelphia Stock Exchange Semiconductor Index cumulative return (%)

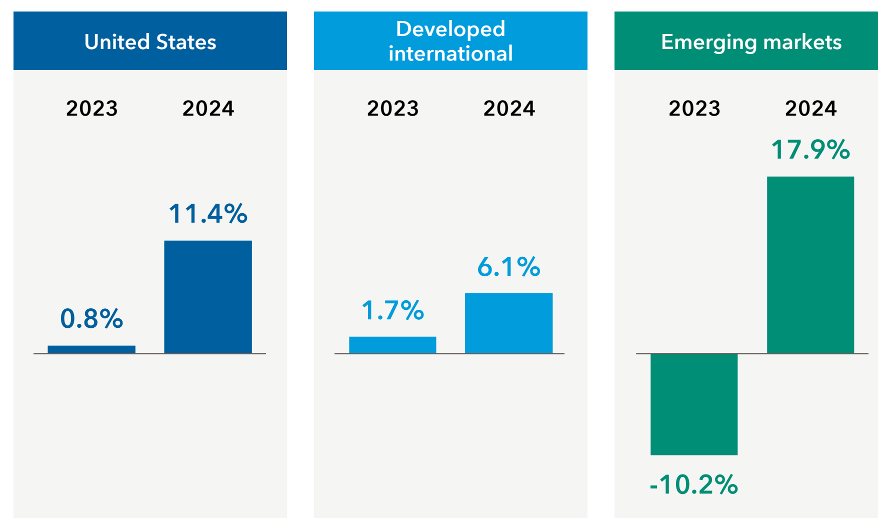


Sources: Travel: Transportation Security Agency (TSA), U.S. Department of Homeland Security. Data is a 30-day moving average. As of November 30, 2023. Oil: Refinitiv. As of November 30, 2023. Housing: Standard & Poor's. Latest available monthly data is September 2023, as of November 30, 2023. Semiconductors: Philadelphia Stock Exchange; returns are in USD. As of November 30, 2023. Data represents cumulative price return since January 1, 2019. Past results are not predictive of results in future periods.

Look for corporate earnings to rebound in 2024

Solid earnings growth expected across major markets

Estimated annual earnings growth



But economic indicators offer a mixed outlook

The Conference Board Leading Economic Index

▲ Positive ◆ Neutral ▼ Negative

	Indicator		Indicator
▲	New unemployment claims	▲	New residential building permits
◆	Average manufacturing hours worked	▲	S&P 500 Index
▲	Manufacturers' new orders (consumer goods)	▼	Leading Credit Index
◆	Manufacturers' new orders (producers)	▼	Interest rate spread
▼	ISM New Orders Index (from customers)	▼	Consumer expectations

Investors are getting mixed signals about the direction of the economy. But when it comes to stock prices, one of the metrics that matters most is corporate earnings.

In the U.S., Wall Street analysts expect earnings for companies in the S&P 500 Index to rise more than 11% in 2024, based on consensus data compiled by FactSet. That's along with an expected 6.1% earnings boost in international markets and a robust 18% gain in emerging markets.

Given that 2023 was a difficult year, it's logical to expect an earnings rebound in 2024, which could provide a runway for stocks to head higher. But there are several risks that could result in substantial earnings revisions, including sluggish consumer spending in the face of persistent inflation, slowing economic growth in Europe and China, and rising geopolitical risk from the wars in Ukraine and Israel.

What's the risk that earnings expectations are too high?

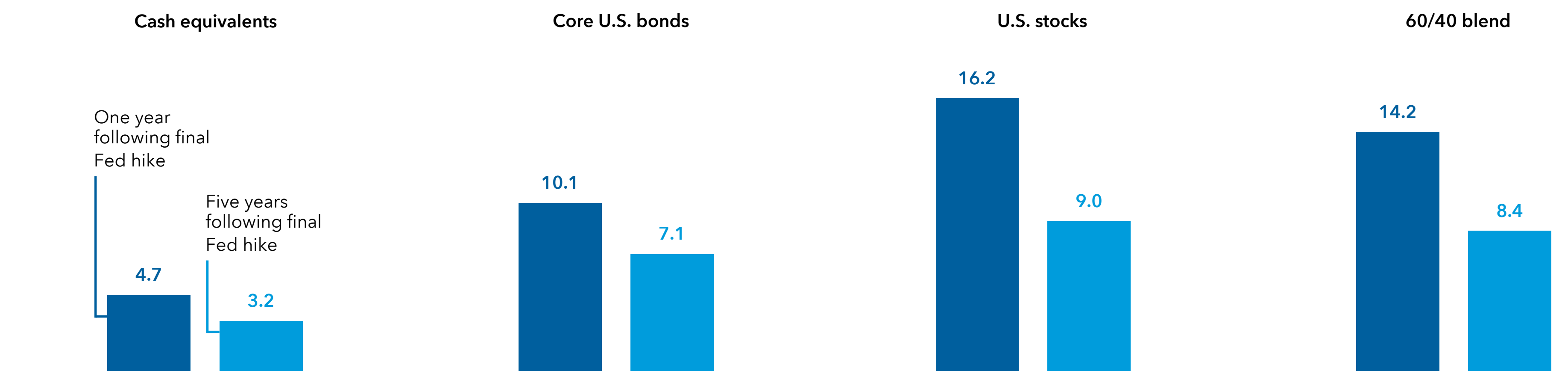
"I don't think it's going to be a terrible year for corporate earnings, but I think we're more likely to see 6% to 8% growth in the U.S.," says Capital Group economist Jared Franz, "and potentially higher in some emerging markets."

Sources (left chart): Capital Group, FactSet, MSCI, Standard & Poor's. Estimated annual earnings growth is represented by the mean consensus earnings per share estimates for the years ending December 2023 and December 2024, respectively, across the S&P 500 Index (U.S.), MSCI EAFE Index (developed international) and MSCI Emerging Markets Index (emerging markets). Estimates are as of November 30, 2023. Source (right chart): The Conference Board. The table shows the 10 components of The Conference Board Leading Economic Index and indicates if each is expected to have a positive, neutral, or negative impact on U.S. economic growth, based on current levels and six-month trends, as of October 31, 2023.

A window of opportunity for moving cash off the sidelines

After Fed hikes ended, stocks and bonds have historically outpaced cash

Average annual return (%)



The investor exodus from stock and bond markets into cash over the last few years is understandable. However, investors who are still on the sidelines may miss out on a historic window of opportunity to position portfolios for long-term success.

With the Federal Reserve in the midst of an aggressive rate-hiking cycle, yields on money market funds and cash equivalents rose to attractive levels. What's more, the speed of the rate increases at times rattled stock and bond markets.

But with inflation easing more quickly than anticipated, the Fed paused further hikes for the second consecutive meeting in October, signaling the central bank may be near the end of its tightening cycle. Historically this has provided a favourable time for investors to redeploy cash into stock and bond investments.

Following the last four tightening cycles, stocks, bonds and a blended hypothetical 60/40 portfolio (60% stocks, 40% bonds) sharply outpaced U.S. 3-month Treasury bill returns in the first year after the last Fed hike. Conversely, the 3-month Treasury yield, Widely regarded as a proxy for cash-equivalent investments, rapidly declined an average 2.5% in the 18 months* after the last Fed hike.

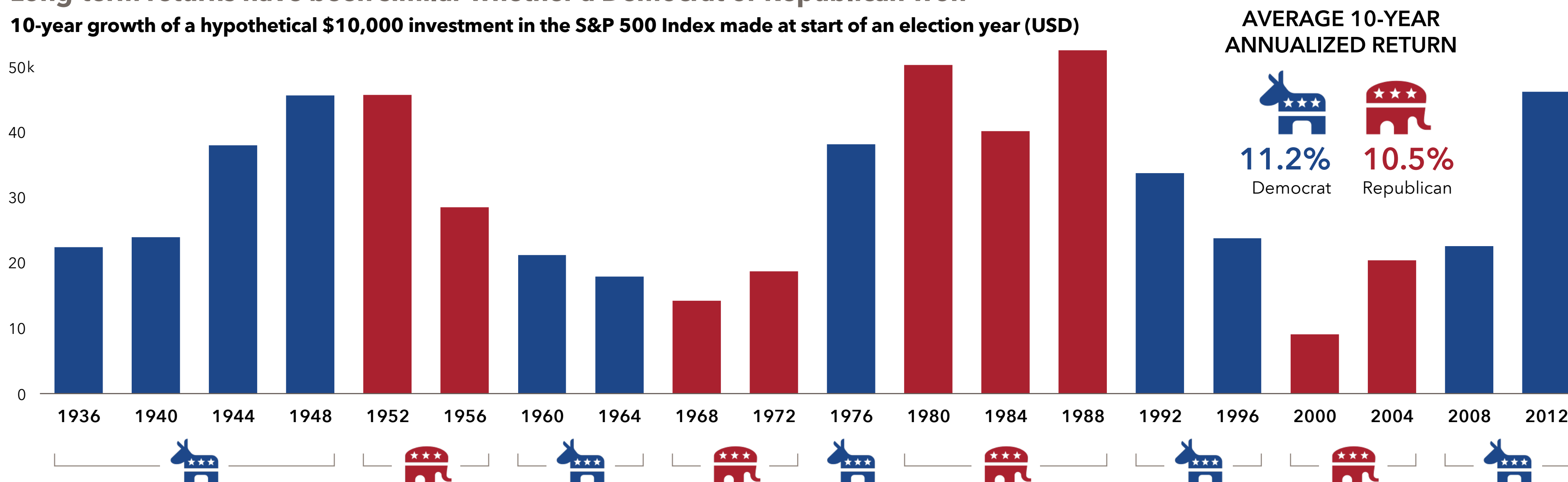
A similar dynamic has occurred in Canada, where both Canadian and global stocks and bonds have on average outpaced Canadian 3-month treasuries following Bank of Canada rate hikes over the last 30 years.

"I believe we're on the cusp of a major transition where long-term investors can find attractive investment opportunities in stocks and bonds," says Mike Gitlin, president and chief executive officer of Capital Group.

*Based on an average of the four most recent cycles, which began on March 1, 1995, June 1, 2000, July 1, 2006, and January 1, 2019, respectively.

Sources: Capital Group, Morningstar. Chart represents the average returns in USD across respective sector proxies in a forward extending window starting in the month of the last Fed hike in the last four transition cycles from 1995 to 2018, with data through June 30, 2023. Benchmarks represent U.S. 3-month T-bill (cash), Bloomberg U.S. Aggregate Bond Index (core bonds), S&P 500 Index (U.S. stocks) and a blend of 60% of the S&P 500 Index and 40% of the Bloomberg U.S. Aggregate Bond Index (60/40 blend). Past results are not predictive of results in future periods.

Red, blue and you: Investing through U.S. election uncertainty



With the U.S. presidential election less than a year away, investors are feeling anxious about how markets will react.

"Several key issues will certainly be top of mind for voters, including international policy, the impact of inflation and numerous important social issues," says political economist Matt Miller. "But a lot can change between now and November."

Equity portfolio manager Rob Lovelace, who has invested through many election cycles in his 37-year career, believes the added uncertainty can provide attractive investment opportunities.

"When everyone is worried that a new government policy is going to hurt a sector, that concern is usually overblown," Lovelace says. "High-quality companies often get caught in political crosshairs, which can create a buying opportunity. But I typically try to look beyond the election cycle and aim for an average holding period in my portfolios of around eight years – essentially two presidential terms."

While markets can be volatile in election years, which political party takes the White House has had little impact for long-term investors. Since 1936, the 10-year annualized return of U.S. stocks (as measured by the S&P 500 Index) made at the start of an election year was 11.2% when a Democrat won and 10.5% in years a Republican prevailed.

Sources: Capital Group, Standard & Poor's. Each 10-year period begins on January 1 of the first year shown and ends on December 31 of the tenth year. For example, the first period listed (1936) covers January 1, 1936, to December 31, 1945. Figures shown are past results and are not predictive of results in future periods. This hypothetical illustration is for informational purposes only and is not intended to provide tax, legal or financial advice. Returns are in USD.

With artificial intelligence, separate the hype from real opportunity

Major advancements in artificial intelligence (AI) captured the market's attention in 2023, driving up stock prices for a handful of Big Tech companies. But the beneficiaries of AI's ascent aren't only to be found in the tech world.

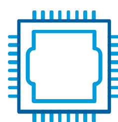
AI-driven applications are spawning innovation across many industries, including pharmaceuticals, banking and even fast food. McDonald's is using AI to make its drive-through order systems faster. Pfizer is employing AI to accelerate the development of new drugs. And JPMorgan Chase is unleashing AI bots to detect identity theft.

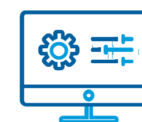
These companies join more obvious beneficiaries, such as NVIDIA, which designs powerful computer chips needed to run AI applications, and Microsoft, co-owner of the popular AI app ChatGPT.

The challenge for investors will be to separate the hype from reality amid the expected exponential growth of AI systems over the next decade.

"When I think about investing in AI, I do have a degree of caution," says Don O'Neal, a portfolio manager for Capital Group U.S. Equity Fund™ (Canada). "The hype reminds me of internet stocks in the late 1990s, although I don't think it's that pervasive in AI. I think AI is going to have a huge impact on society, but we're still trying to identify the profit pools. There's a lot of work yet to be done."

AI's impact will be felt across sectors and industries





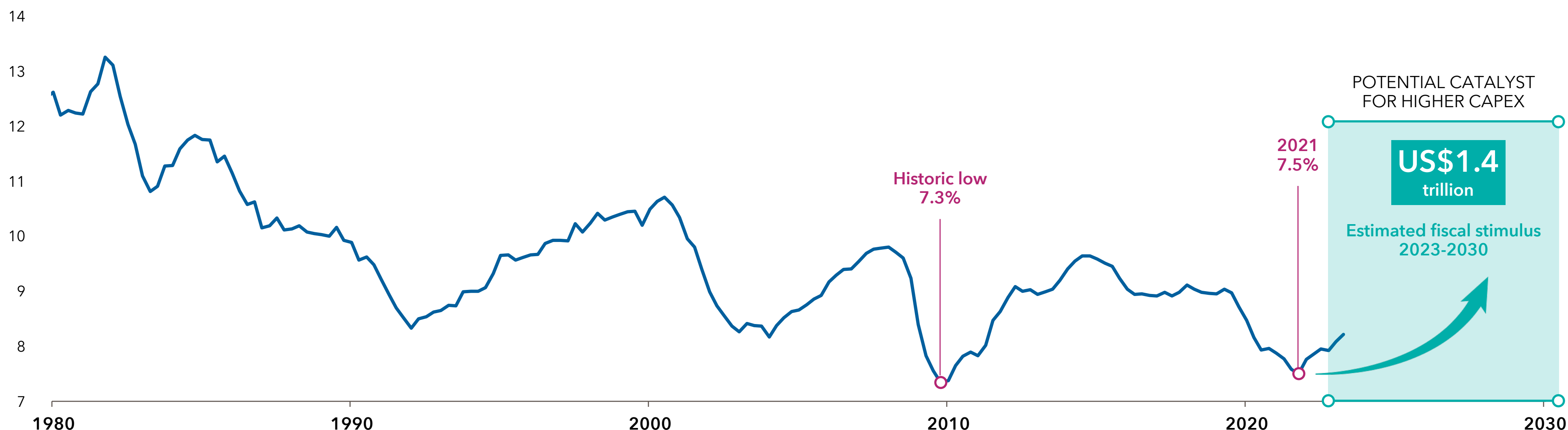
Semiconductor chips & equipment	Cloud computing/ AI software	AI applications
ASML	Microsoft	Tech and telecom
Applied Materials	Amazon	Financial services
NVIDIA	Google	Health care/pharma
TSMC		Legal/professional services
Broadcom		Automotive and assembly

Source: Capital Group. TSMC refers to Taiwan Semiconductor Manufacturing Company. As of November 30, 2023.

Made in the USA: Capital spending boom could spark a U.S. manufacturing revival

After years of underinvestment, capital spending is set to recover

Capital expenditures as a percent of U.S. gross domestic product (%)



A tidal wave of cash is headed directly at U.S. industry, with the potential to galvanize the capital investment cycle and reshape U.S. manufacturing and energy industries.

Seeking to support local supply chains, expand clean energy and boost the U.S. semiconductor industry, the U.S. government has committed US$1.4 trillion over the next seven years for capital projects.

This investment translates into revenue and earnings growth potential for companies with the capacity and flexibility to undertake these expansive projects, including upgrading the U.S. power grid and building manufacturing facilities, says equity portfolio manager Anne-Marie Peterson. "Many industrial firms have been in a figurative desert for years," Peterson explains. "This level of investment can potentially transform them from sleepy cyclicals to growth businesses."

The stimulus will also likely have a multiplier effect throughout the economy as new facilities will create job prospects and other potential benefits. While much of the money has yet to be spent, the trend toward energy efficiency, localizing supply chains and infrastructure improvements is already generating opportunity. Air conditioning maker Carrier Global saw demand for its energy efficient systems surge in 2023 as many countries experienced periods of record-high temperatures.

Among capital equipment companies, Caterpillar reported robust orders in the second quarter of 2023 for its construction equipment, partly driven by federal infrastructure spending.

Sources: Capital Group, St. Louis Federal Reserve. Data from January 1, 1980 to June 30, 2023. Capital expenditures include private nonresidential equipment and structures and exclude energy.

Out-of-favour dividend payers poised to offer diversification, income

With investors swept up in the artificial intelligence fervour, valuations for dividend-paying stocks have quietly drifted toward multi-decade lows compared to the broader market.

With economic growth expected to moderate in 2024, and the potential for recession lingering, dividends may take a more prominent role in driving total returns for investors.

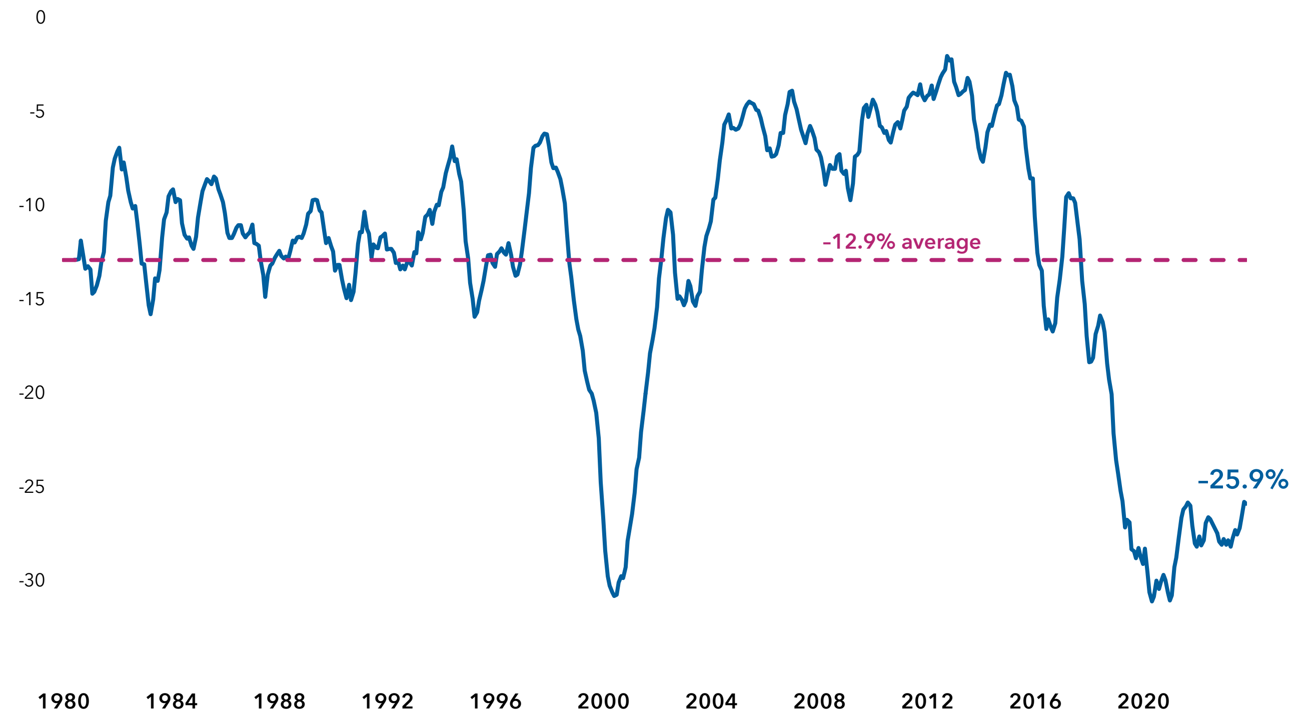
"It is difficult to know when a cycle will turn, so investors may want to look for companies with growth potential but also businesses that pay dividends, which can help mitigate market volatility," says equity portfolio manager Diana Wagner. "Valuation is important, but it is essential to distinguish between real values and companies with deteriorating business prospects."

Select dividend payers across a variety of industries are adopting strategies to drive demand for their offerings. For example, retail pharmacy CVS Health is launching a new division that will work with drugmakers to produce biosimilar versions of leading therapies that will make them more affordable. Beverage maker Keurig Dr Pepper has a history of relatively stable demand through business cycles for brands like Canada Dry and Snapple. Within the more challenged tobacco industry, Philip Morris International has acquired Swedish Match to tap into demand for smokeless tobacco offerings.

For investors concerned about the risks of concentrating their portfolios in a handful of tech giants with similar businesses, dividend payers can offer diversification as well as income.

Valuations for high-dividend payers are far below the market average

P/E of high dividend stocks vs. S&P 500 Index (%)



Sources: Capital Group, Goldman Sachs. As of November 28, 2023. High-dividend stocks refer to the cohort of stocks in the S&P 500 Index with the highest quintile dividend yield (sector-neutral) within the index. Line represents smoothed six-month average. P/E ratio = price-to-earnings ratio. Past results are not predictive of results in future periods.

Europe's trailblazers prove there's no monopoly on innovation

Think all innovation comes from U.S. tech? Think again. While U.S. technology giants may be dominating the headlines with their breakthroughs in artificial intelligence, Europe is home to many businesses making advancements across a range of industries.

AstraZeneca, the British-Swedish COVID vaccine developer and maker of lung cancer treatment Tagrisso, has invested aggressively in research and development, resulting in a deep pipeline of oncological and rare disease therapies in late-stage development.

Swiss multinational specialty chemical company Sika appears poised to benefit from more stringent emissions regulations and higher infrastructure investment in developed economies with its energy-efficient, durable construction materials.

Innovation will also be key in solving sustainability challenges in the aerospace industry, according to Michael Cohen, a portfolio manager for Capital Group International Equity Fund™ (Canada). "Stricter requirements on emissions means airlines are incentivized to order the newest, most efficient planes, creating a tailwind for manufacturers employing leading-edge technology," he says.

France's Safran, the world's top producer of narrow-body aircraft engines, through its partnership with General Electric, is developing engines that could reduce emissions by 20%.

While the U.S. remains an important engine for innovation, investors should look to Europe and beyond for investment opportunities that can provide diversification to portfolios.

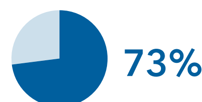
European companies are innovating across industries

AstraZeneca
Pharmaceuticals

Cambridge, United Kingdom

$198.7B
Market cap

$280B
Estimated TAM



73%

Revenue outside Europe

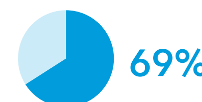
- 167 projects in current pipeline
- AI-enabled predictive tools have reduced drug manufacturing time by 50%
- Offerings span oncology, renal, cardiovascular and immunology, among others

Sika
Chemicals

Baar, Switzerland

$43.8B
Market cap

$122B
Estimated TAM



69%

Revenue outside Europe

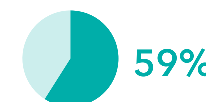
- Proprietary concrete recycling process could reduce waste by 30 million tons every year
- Expects to increase its penetration of the construction chemicals market by 2.5x-4.0x by 2050
- 30 largest competitors represent 55% of market share, presenting opportunity for consolidation

Safran
Aerospace & Defence

Paris, France

$75.1B
Market cap

$748B
Estimated TAM



59%

Revenue outside Europe

- Top supplier of narrow-body plane engines, helicopter engines and aircraft cabin interiors
- Global flight hours are projected to increase by 60% between 2023-2032
- Developing jet engines projected to be 20% more fuel efficient than current models by 2035

Sources: Capital Group, Aviation Week Intelligence Network, company reports, FactSet, Global Market Insights, MSCI. Values in USD. Companies above serve as examples of European companies across selected industries with geographically diversified revenue bases; each of the selected companies is among the top 10 largest companies by market value for their respective industries within the MSCI Europe Index. Geographic revenue percentages represent estimates from FactSet based on most recently reported company figures, as of November 30, 2023. "TAM" represents total addressable market. Data as of November 30, 2023.

Will corporate reform in Japan unlock value for investors?

In Japan the prospect of real corporate reforms and a renewed focus on shareholders have long seemed just beyond the horizon. After many false starts, will this time be different?

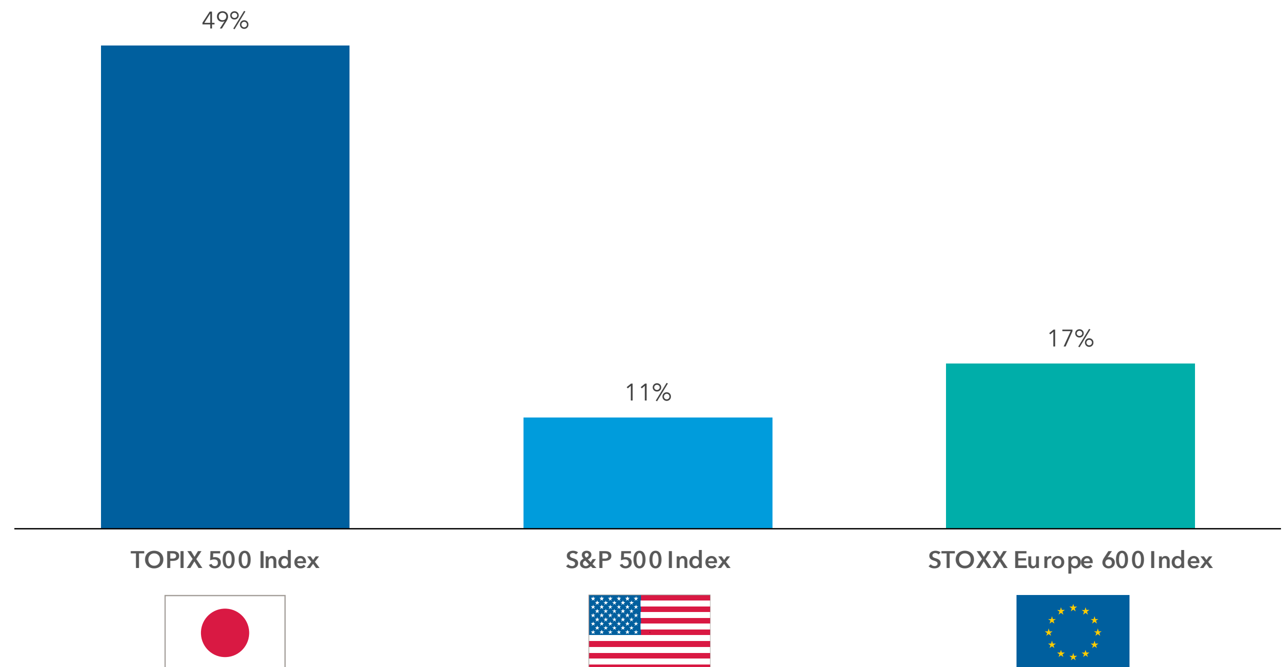
Japanese companies have been known for hoarding cash and subpar governance. To accelerate reforms, the government and the Tokyo Stock Exchange are urging firms to improve profitability and boost stock valuations by reducing cash on balance sheets and shedding underperforming businesses. About half of Japanese companies have positive net cash positions, while a third have price-to-book values lower than the value of their underlying assets.

Investors have noticed. In 2023, Japanese equities rose to highs not seen since the late 1980s. "I'm more positive on Japan than I've been over the past two decades," says Eu-Gene Cheah, a portfolio manager for Capital Group International Equity Fund™ (Canada). "I'm taking a measured approach to investing, but more aggressive steps could signal a true paradigm shift."

Many Japanese companies are prominent innovators in factory automation and niche technologies. For instance, SMC is a leader in robotic equipment components and semiconductor production, while TDK is among the largest manufacturers of high-end electric vehicle batteries. Sustained reforms could unlock opportunities across industries.

Japan Inc. is flush with cash

Percentage of index constituents with positive net cash positions



Sources: Capital Group, FactSet, Standard & Poor's, STOXX, TOPIX. As of November 30, 2023. Net cash reflects the difference between the cash and short-term securities reported on a company's balance sheet and its outstanding debt. Price-to-book value is a financial metric used to compare the book value of a company with its market capitalization.

Emerging markets: Coming out of China's shadow

Is it time for emerging markets other than China to grab more of the spotlight? The setup looks attractive, and opportunities are growing in countries such as India, Indonesia and Mexico. Why? Infrastructure growth is accelerating, government balance sheets are stronger, and supply chain shifts are boosting regional economies.

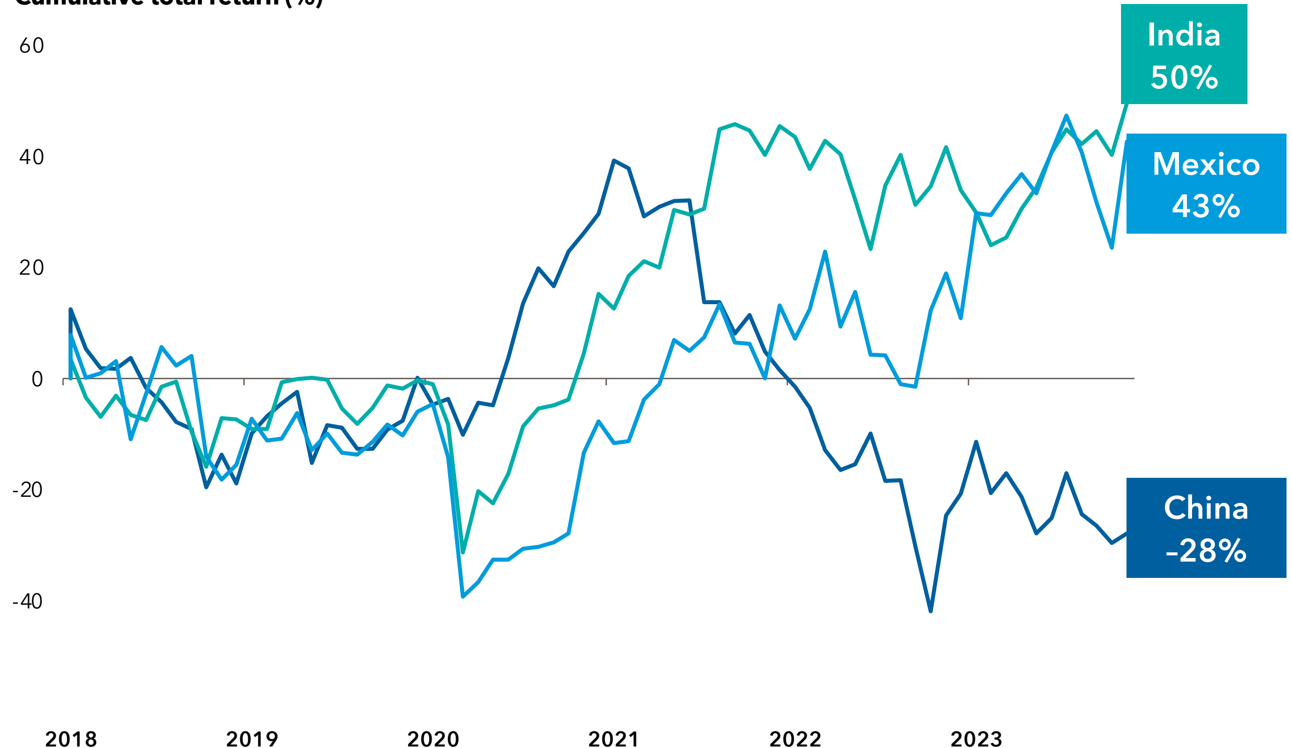
Take India. New roads, housing developments and industrial parks have left parts of the country unrecognizable from just a few years ago. Indonesia is attracting foreign investment to build out the electric vehicle supply chain. And Mexico is becoming a reshoring hub.

"Despite China's slowing economy, I think durable trends – such as the reconstruction of supply chains, demographic shifts and the energy transition – could add more depth to emerging markets than we have seen in the past," says portfolio manager Brad Freer.

Investment opportunities range from banks to airplane component makers to real estate developers to mining and consumer-related companies. Meanwhile, the rapid expansion of mobile-based technology platforms is tapping into demand for consumer services.

And don't discount China as a whole. A deep selloff has created select opportunities to invest in innovative companies that have dominant market share in their home country, generate copious cash flows and trade at appealing valuations.

Returns among large EMs have diverged post-COVID



Sources: MSCI, RIMES. Returns reflect MSCI India Index, MSCI Mexico Index and MSCI China Index in U.S. dollars. Five-year time period shown to reflect returns pre- and post-COVID. Data as of November 30, 2023. Past results are not predictive of results in future periods.

Corporate and mortgage bonds offer compelling income opportunities

Despite an uncertain economic outlook creating potential headwinds, high starting yields combined with a confluence of supportive factors currently underpin agency mortgage-backed securities (MBS) and investment-grade corporate bonds (rated BBB/Baa and above).

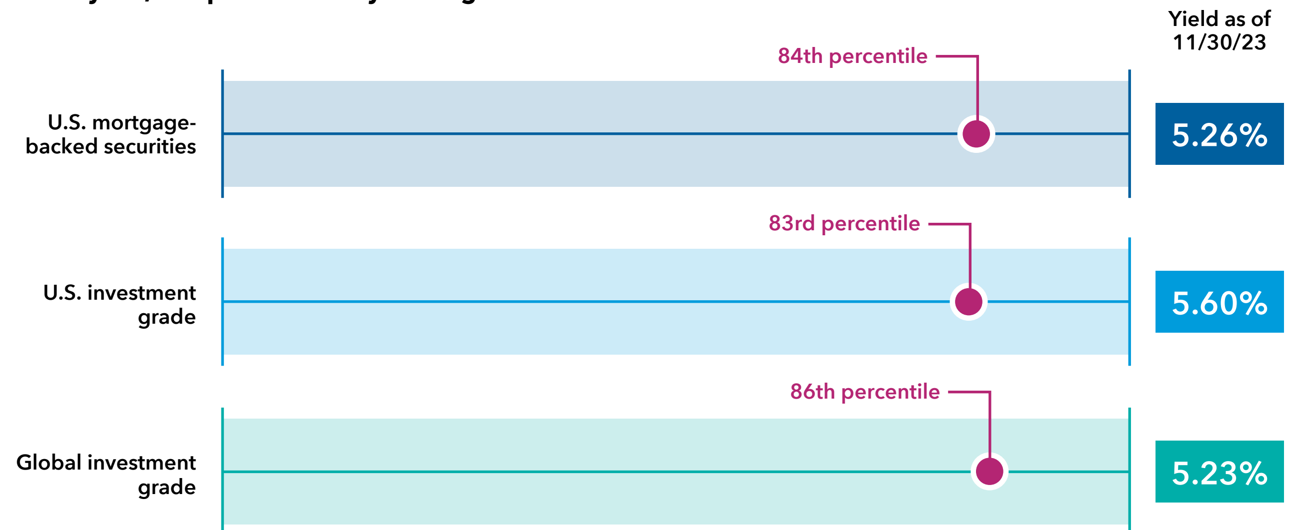
Higher coupon MBS look appealing as the expected conclusion of the Fed's hiking cycle looms. Volatility is likely to decline, and valuations today are at levels not seen since April 2020. Housing inventory and affordability are approaching all-time lows in the U.S., which should dampen MBS supply and support near-term valuations.

"As securities that carry an implicit U.S. government guarantee, agency MBS can be an outstanding way of adding income to a portfolio without taking credit risk that correlates with equities and other assets," says fixed income portfolio manager David Betanzos.

Investment-grade corporate bonds are supported by strong balance sheets and low refinancing needs. In a modest growth environment, investors could earn the coupon without too much downside risk. If the economy slows and Treasury yields rally, the sector's longer duration would mean potential price appreciation, which could offset any widening in spreads.

Yields are near 20-year highs

Latest yield, as a percent of 20-year range



Sources: Capital Group, Bloomberg Index Services Ltd. Indices used are the Bloomberg U.S. MBS: Agency Fixed Rate MBS Index (U.S. mortgage-backed securities), Bloomberg U.S. Corporate Investment Grade Index (U.S. investment grade) and the Bloomberg Global Aggregate Corporate Index (global investment grade). Includes daily yields for the 20-year period ending November 30, 2023.

Healthy income potential in high yield

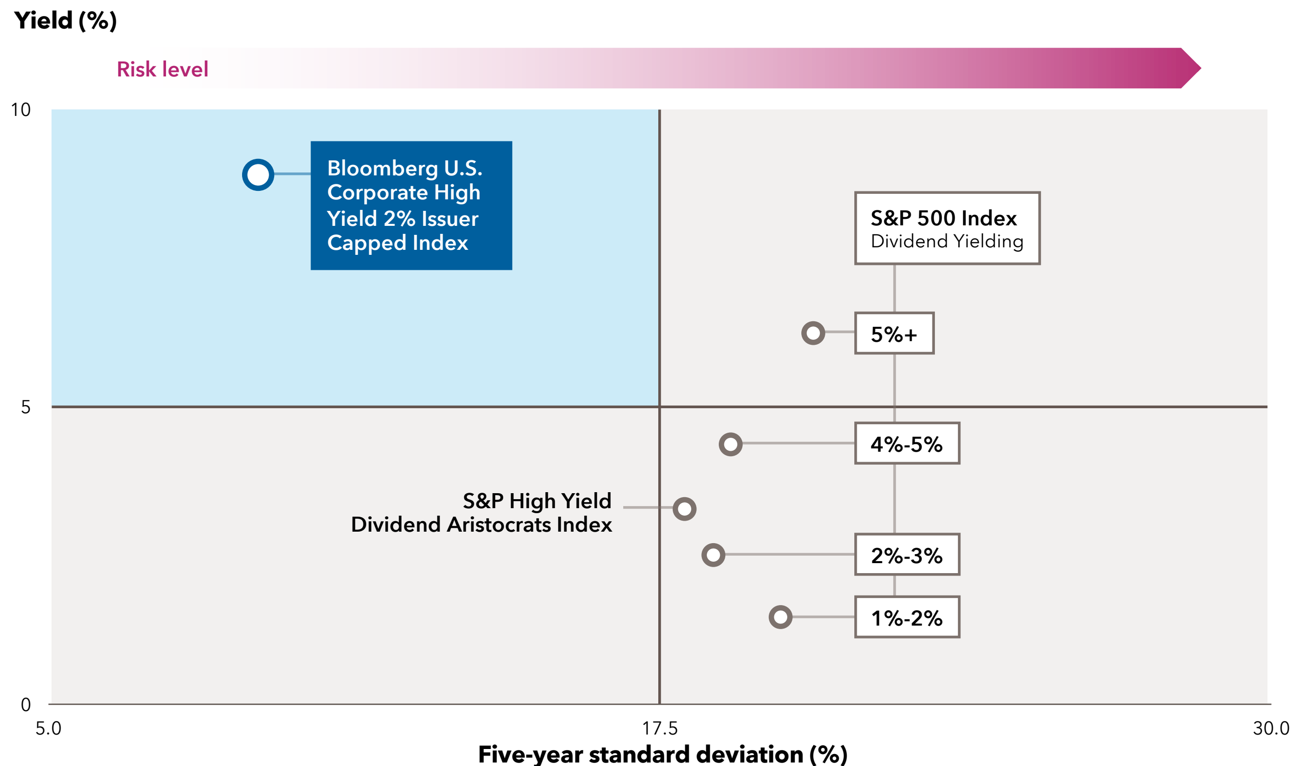
Amid the fuss about where rates are going, you could have easily missed the healthy returns that high-yield bonds posted in 2023. The lesson: High-yield bonds (BB/Ba rated and below) can offer powerful income potential.

Despite the risk of a decline in earnings growth and lower cash flows for many companies in 2024 – especially those with leveraged balance sheets – high-yield bonds have historically done well as long as economic growth remains positive. Even if spreads to U.S. Treasuries widen, with yields around 9%, the income component can support positive returns. The asset class can be used as part of an equity or bond allocation, since it shares characteristics of both.

The refinancing needs of many companies rated high yield have caught the attention of markets, but most don't hit a "maturity wall" until 2026, says fixed income portfolio manager Tom Chow. Moreover, the overall credit profile of the sector has improved as riskier companies have turned to private credit for funding.

"Investors have priced in an uptick in default rates to be in the 4% to 5% range in 2024," says Chow. "It really is about credit selection," he adds, noting technology companies with high recurring revenues and large equity cushions are attractive while issuers rated CCC-and-below require a more selective approach.

High yield offers income with less volatility than stocks

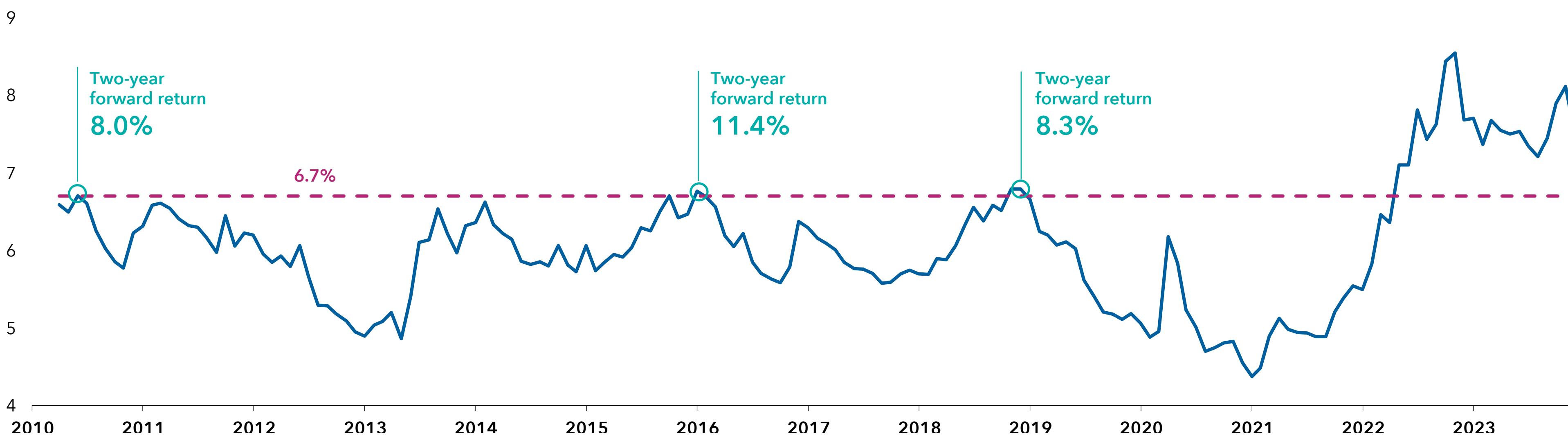


Sources: Bloomberg Index Services Ltd., Morningstar, Standard & Poor's. As of October 31, 2023. Yields are yield to worst for bond index and dividend yields for stock indices. Yield to worst is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting. S&P High Yield Dividend Aristocrats Index is designed to measure the performance of companies within the S&P Composite 1500® (which includes all the stocks in the S&P 500, S&P 400 and S&P 600) that have followed a managed-dividends policy of consistently increasing dividends every year for at least 20 years. Standard deviation (based on monthly returns) is a common measure of absolute volatility that tells how returns over time have varied from the mean. A lower number signifies lower volatility. Based in USD.

High starting yields, better fundamentals and falling rates should support EM debt

Current yields may indicate an attractive entry point

Emerging markets sovereign debt – Yield to worst (%)



Emerging market (EM) local currency bonds are less vulnerable to higher developed market rates than they once were. Many EM economies have seen improving economic trends. "On balance, the fiscal deficits of several EM countries have narrowed to or below pre-pandemic levels," says Kirstie Spence, a portfolio manager for Capital Group Multi-Sector Income Fund™ (Canada). Meanwhile, as inflation has been declining, EM central banks are starting to cut interest rates. Falling EM rates alongside decent fundamentals should support EM local currency bonds in 2024.

The hard currency, U.S. dollar-denominated bond market is divided between issuers rated investment grade (rated BBB/Baa and above) and high yield (rated BB/Ba and below). Spreads on some higher yielding, lower credit quality EM bonds have trended wider, but are being driven by factors specific to each credit, requiring case-by-case analysis. Investment-grade credits offer lower income but are supported by relatively strong fundamentals.

Spence favours a balanced approach to owning both hard and local currency issuers: A blended portfolio can benefit from the differentiated risk profiles and return drivers for each segment of the market.

Historically, two-year forward returns have been positive when yields reach 6.7% or higher. High starting yields offer a buffer against any volatility that the global macroeconomic and geopolitical environment might bring in 2024.

Sources: Bloomberg, JP Morgan, Morningstar. Data as of November 30, 2023. Yield-to-worst and forward return callouts shown are for 50% JP Morgan EMBI Global Diversified Index/50% JP Morgan GBI-EM Global Diversified Index. Yield to worst is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting. The forward returns in the chart refer to the average annualized two-year total return (in USD) of the benchmark starting on May 31, 2010, December 31, 2015, and November 30, 2018, respectively, which were the three dates that yields peaked above 6.7%. Past results are not predictive of results in future periods.

Investment professional biographies

Pramod Atluri is a fixed income portfolio manager at Capital Group. He has 24 years of investment industry experience and has been with Capital Group for seven years. Prior to joining Capital, Pramod was a portfolio manager at Fidelity Investments, where he also worked as a fixed income strategist and corporate bond analyst. Before that, he was a management consultant at McKinsey & Company. He holds an MBA from Harvard Business School and a bachelor's degree in biological chemistry from the University of Chicago, where he also completed the requirements for bachelor's degrees in economics and chemistry. He holds the Chartered Financial Analyst® designation. Pramod is based in Los Angeles.

David J. Betanzos is a fixed income portfolio manager at Capital Group. Earlier in his career at Capital he was a fixed income investment analyst and covered mortgage-backed securities. He has 23 years of investment industry experience and has been with Capital Group for 21 years. Prior to joining Capital, he was a portfolio strategist with Payden & Rygel Investment Management. He holds an MBA from the University of Chicago Booth School of Business and a bachelor's degree in business administration from the University of Washington. He also holds the Chartered Financial Analyst® designation. David is based in Los Angeles.

Christopher D. Buchbinder is a portfolio manager for Capital Group U.S. Equity Fund™ (Canada). He has 27 years of investment industry experience, all with Capital Group. Earlier in his career at Capital, as an equity investment analyst, he covered U.S. telecommunication services, autos and auto parts & equipment companies. He began his career as a participant in The Associates Program, a two-year series of work assignments in various areas of the Capital organization. He holds a bachelor's degree in economics and international relations from Brown University graduating cum laude. Chris is based in San Francisco.

Eu-Gene Cheah is a portfolio manager for Capital Group International Equity Fund™ (Canada). He has 25 years of investment industry experience, all with Capital Group. Earlier in his career at Capital, he was an equity investment analyst covering pharmaceutical and biotechnology companies globally. He was also a country analyst for Singapore. Before joining Capital, Eu-Gene was a physician in the U.K., where he was a Member of the Royal College of Physicians and a Fellow of the Royal College of Ophthalmologists. He holds an MBA with distinction from INSEAD, France, and a degree in clinical medicine from Oxford University, where he was a Rhodes Scholar. Eu-Gene is based in Singapore.

Tom Chow is a fixed income portfolio manager at Capital Group. He has 34 years of investment industry experience and has been with Capital Group for eight years. Prior to joining Capital, Tom was chief investment officer of corporate credit and senior vice president at Delaware Investment Advisers. Before that he was a high-yield and high-grade trader at SunAmerica/AIG, and was a portfolio manager, trader and senior securities analyst at Conseco Capital Management. He holds a bachelor's degree in business analysis with a minor in economics from Indiana University. He also holds the Chartered Financial Analyst® and Fellow of Life Management™ designations. Tom is based in Los Angeles.

Michael Cohen is a portfolio manager for Capital Group International Equity Fund™ (Canada). He has 32 years of investment industry experience and has been with Capital Group for 23 years. Earlier in his career, as an equity investment analyst at Capital, Michael covered European utilities companies, as well as companies domiciled in Israel. Before joining Capital, he was a research analyst with both Schroders and Salomon Brothers in London. He holds an MBA from the London Business School and a bachelor's degree in accounting and economics from Tel Aviv University. Michael is based in London.

Casey Dregits is a senior portfolio consultant at Capital Group. He has 20 years of industry experience, all with Capital Group. Earlier in his career at Capital, he was a senior advisory specialist. He holds a bachelor's degree in political science, history, and Germanic studies from Indiana University and an MBA. Casey also holds the Chartered Financial Analyst® designation and is a member of the CFA Society of Indianapolis. Casey is based in Indianapolis.

Jared Franz is an economist at Capital Group, responsible for covering the United States. He has 17 years of investment industry experience and has been with Capital Group for eight years. Prior to joining Capital, Jared was head of international macroeconomic research at Hartford Investment Management Company. Before that, he was an international and U.S. economist at T. Rowe Price. He holds a PhD in economics from the University of Illinois at Chicago and a bachelor's degree in mathematics from Northwestern University and attended the U.S. Naval Academy. He is also a member of the Forecasters Club of New York, the National Association of Business Economics and elected member of Conference of Business Economists. Jared is based in Los Angeles.

Bradford F. Freer is an equity portfolio manager at Capital Group. Brad has 30 years of investment industry experience and has been with Capital Group for 29 years. Earlier in his career at Capital, he was an equity investment analyst covering multiple sectors as a generalist in both Australia and India. Before that he was an equities trader in both Singapore and Hong Kong. Brad was also a participant in The Associates Program, a two-year series of work assignments in various areas of the Capital organization. He holds a bachelor's degree in international relations from Connecticut College, as well as the Chartered Financial Analyst® designation. Brad is based in London.

Michael C. Gitlin is president and chief executive officer of Capital Group. He is also chair of the Capital Group Management Committee and serves on the Fixed Income Management Committee. Mike has 29 years of investment industry experience and has been with Capital Group for eight years. Earlier in his career at Capital, he was partner at Capital Fixed Income Investors with primary responsibility for leading the fixed income business. Prior to joining Capital, Mike was the head of fixed income at T. Rowe Price and, earlier, its global head of trading. Before that, he was head of U.S. equity sales for Citigroup Global Markets, where he also served as head of Asia-Pacific sales trading, head of Asia-Pacific cash equities and head of international cash equities. He also served as head of Asia-Pacific trading for Credit Suisse Asset Management and traded Japanese equities and bonds for George Weiss and Associates. He holds a bachelor's degree from Colgate University. Mike is based in Los Angeles.

Robert W. Lovelace is an equity portfolio manager and chair of Capital International, Inc. Rob has 37 years of investment industry experience, all with Capital Group. Earlier in his career, Rob was an equity investment analyst at Capital covering global mining & metals companies and companies domiciled in Mexico and the Philippines. He holds a bachelor's degree in mineral economics (geology) from Princeton University, graduating summa cum laude and Phi Beta Kappa. He also holds the Chartered Financial Analyst® designation. Rob is based in Los Angeles.

Matt Miller is a political economist and corporate affairs advisor at Capital Group. He has 37 years of industry experience and has been with Capital Group for eight years. Prior to joining Capital, Matt was a senior advisor at McKinsey & Company. Before that, he served as a senior advisor in the White House Office of Management and Budget and was a White House Fellow serving as special assistant to the chair of the Federal Communications Commission. He was also a columnist for The Washington Post; the host of National Public Radio's "Left, Right & Center" program; and a senior fellow at the Center for American Progress. He has authored two books on public policy and contributed to various national publications in the U.S. He holds a law degree from Columbia Law School, where he was a James Kent scholar, and a bachelor's degree in economics from Brown University, graduating magna cum laude. Matt is based in Los Angeles.

Samir Mathur is a solutions portfolio manager for Capital Group Monthly Income Portfolio™ (Canada). His focus is on fund-of-funds and multi-asset solutions. He is chair of the Portfolio Solutions Committee and the Global Solutions Committee. He has 30 years of investment industry experience and has been with Capital Group for 10 years. During his tenure at Capital, Samir has led the development of several fund-of-funds and model solutions. Prior to joining Capital, Samir was a managing director for the multi-asset trading and solutions group at Citigroup. Before that, he worked at Hewlett-Packard. He holds an MBA from University of California, Berkeley, a master's degree in computer science from University of Southern California and a bachelor's of technology degree from the Indian Institute of Technology, Delhi. Samir is based in New York.

Donald D. O'Neal is a portfolio manager for Capital Group U.S. Equity Fund™ (Canada). He has 37 years of investment industry experience, all with Capital Group. Earlier in his career, as an equity investment analyst at Capital, he covered chemical, environmental service and aerospace & defence companies. Don holds an MBA from Stanford Graduate School of Business and a bachelor's degree in nuclear engineering from the University of California, Los Angeles graduating summa cum laude. He also holds the Chartered Financial Analyst® designation. Don is based in San Francisco.

Anne-Marie Peterson is an equity portfolio manager at Capital Group. She has 28 years of investment industry experience and has been with Capital Group for 18 years. Earlier in her career at Capital, she was an equity investment analyst covering U.S. retail and restaurants. Prior to joining Capital, she was a partner and research analyst for Thomas Weisel Partners and before that, she was a research associate at Montgomery Securities. She holds a bachelor's degree in economics from the University of California, Irvine. She also holds the Chartered Financial Analyst® designation. Anne-Marie is based in San Francisco.

Martin Romo is chairman and chief investment officer of Capital Group and is a portfolio manager for Capital Group U.S. Equity Fund™ (Canada). He is president of Capital Research Company, Inc. and serves on the Capital Group Management Committee. Martin has 31 years of investment industry experience and has been with Capital Group for 30 years. Earlier in his career, as an equity investment analyst at Capital, he covered the global chemicals industry, mortgage and consumer financials, and select conglomerate companies. He holds an MBA from Stanford Graduate School of Business and a bachelor's degree in architecture from the University of California, Berkeley. Martin is based in San Francisco.

Kirstie Spence is a portfolio manager for Capital Group Multi-Sector Income Fund™ (Canada). She also serves on the Capital Group Management Committee. She has 27 years of investment industry experience, all with Capital Group. Earlier in her career at Capital, Kirstie was a fixed income investment analyst and her coverage included sovereign debt in emerging markets with a focus on Europe, the Middle East, Africa and Latin America, as well as European telecommunications as a credit analyst. Kirstie began her career at Capital as a participant in The Associates Program, a two-year series of work assignments in various areas of the organization. She holds a master's degree with honours in German and international relations from the University of St. Andrews, Scotland. Kirstie is based in London.

Diana Wagner is an equity portfolio manager at Capital Group. She has 26 years of investment industry experience and has been with Capital Group for 22 years. Earlier in her career as an equity investment analyst, she covered global semiconductor equipment and paper & forest products companies, as well as U.S. health care services. Prior to joining Capital, Diana was at ING Barings in London and at SBC Warburg in New York. She holds an MBA from Columbia Business School and a bachelor's degree in art history from Yale University. Diana is based in New York.

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2024 Outlook

Themes, implications and investments

Themes	U.S. equity opportunities	Global/international equity opportunities	Core bond opportunities	Credit opportunities
	Diversify stock allocations with dividends, select growth opportunities	**Europe's trailblazers prove there's no monopoly on innovation**	**Bonds should again provide ballast amid economic uncertainty**	**Income is back in fixed income**
Investment implications	As artificial intelligence rapidly advances, it's essential to separate hype from opportunity. And with uncertainty looming, look for dividends to play a greater role in portfolios.	U.S. tech giants may be garnering all the headlines, but Europe is home to many innovative companies making advancements across industries.	High-quality bonds typically offer strong income opportunities and a measure of protection from equity market swings.	Better economic outlook and higher yields set the stage for strong income and return potential.
Capital Group Funds (Canada)	**Capital Group U.S. Equity Fund™ (Canada)** A – CIF 847; F– CIF 827 **Capital Group Capital Income Builder™ (Canada)** A – CIF 143; F – CIF 123; AH – CIF 8243; FH – CIF 8223	**Capital Group Global Equity Fund™ (Canada)** A – CIF 843; F – CIF 823 **Capital Group International Equity Fund™ (Canada)** A – CIF 846; F – CIF 826	**Capital Group Canadian Core Plus Fixed Income Fund™ (Canada)** A – CIF 841; F – CIF 821 **Capital Group World Bond Fund™ (Canada)** A – CIF 140; F – CIF 120; AH – CIF 8240; FH – CIF 8220	**Capital Group Multi-Sector Income Fund™ (Canada)** A – CIF 544; F – CIF 524; A(US$) – CIF 7244; F(US$) – CIF 7224
Other Capital Group Funds (Canada) for portfolio diversification	**Capital Group Canadian Focused Equity Fund™ (Canada)** **Capital Group Emerging Markets Total Opportunities Fund™ (Canada)** **Capital Group Global Balanced Fund™ (Canada)** **Capital Group Monthly Income Portfolio™ (Canada)**			

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*Source: Marketing Support: The Advisor View, May 2023, July 2021, June 2020; Fund Intelligence, February 2020. FUSE Research surveys of 500-1,000 U.S. advisors identifying the "most-read thought leaders." Survey was not conducted in 2022.

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