Outlook

JANUARY **2019**

CAPITAL GROUP®

Long-term perspective on markets and economies

2019 Outlook summary

If you are feeling particularly uncertain about investing heading into 2019, you're not alone. With major economies entering late-cycle territory, volatility rising, monetary policy tightening and a trade war brewing, you may be wondering how to position your portfolio. This outlook can help you navigate through near-term challenges toward long-term investment success.

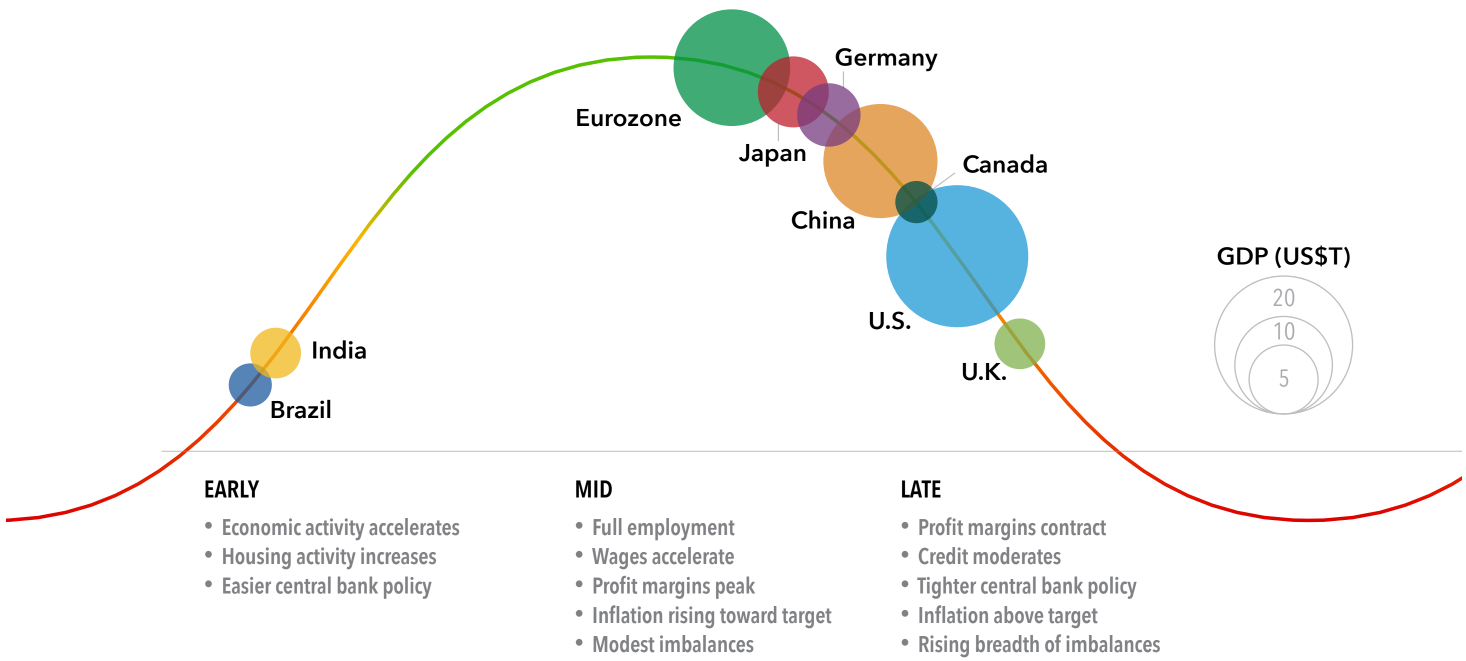
	INSIGHTS	IMPLICATIONS	ACTIONS
Macro perspectives	**Prepare for the 3 T's of volatility.** Tightening: U.S. Fed rate hikes and removal of quantitative easing will continue to unsettle markets in 2019. Trade: China and Europe are slowing more than expected, and tariffs are causing pain. Too much debt: Countries and companies have gorged on cheap debt, which can backfire when economies slow.	The U.S. economy is late cycle, but still experiencing solid growth. We may see extra innings here. China is the story to watch in 2019 as the world's second-largest economy slows and the trade dispute with the U.S. evolves. Europe will be messy in 2019, marked by Brexit, Italian politics and new ECB leadership.	**Stay balanced** ☐ Expect more volatility in 2019 and be prepared for a busy calendar of events in global trade and politics. ☐ Ensure portfolios are broadly diversified to weather market ups and downs.
Equity opportunities	**Smart companies adapt and thrive.** Amid the uncertainty, select companies will find ways to take advantage of the environment, whether it's rising rates or trade skirmishes. International equities as a group may continue to disappoint. But select companies will stand out as diamonds in the rough.	Investors should manage expectations for U.S. equity returns given today's higher valuations. Growth investors: Look for companies with long runways and large addressable markets. Defensive investors: Focus on firms with solid balance sheets that can avoid dividend cuts.	**Stay flexible** ☐ Choose managers that can reach across borders and asset classes to find attractive opportunities. ☐ Avoid the temptation to reduce non-U.S. allocations after years of relatively disappointing returns.
Fixed income opportunities	**It's time for bonds to provide balance.** Getting your core fixed income right is always important. But it's absolutely critical in a late-cycle environment. Rising U.S. rates are breathing life back into bond income after years of rock-bottom yields.	All eyes are on interest rates, but don't overlook credit risk. Safe-haven bonds are increasingly attractive in a rising-rate environment. Hard-hit emerging markets debt may offer opportunities for investors who can take a long-term view.	**Stay alert to risk** ☐ Upgrade your core bond allocation. ☐ Diversify your portfolio income. ☐ Own munis for more than just tax-free income.

A clearer picture: Major economies reach late cycle

U.S. economy, among first to reach late cycle, continues to lead the pack

"We are presumably late in the game, but there is always the possibility of extra innings. These cycles can go on for a long time. It all depends on the fundamentals."

DON O'NEAL
PORTFOLIO MANAGER



SOURCES: Capital Group, FactSet. GDP data are in USD and are latest available through 9/30/18. Country positions within the business cycle are forward-looking estimates by Capital Group economists.

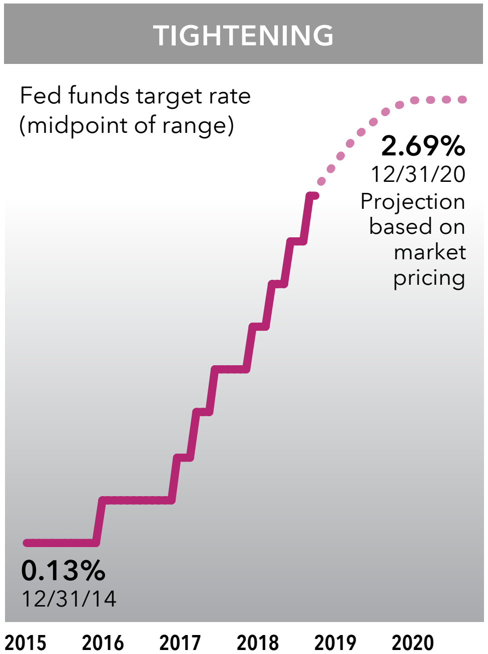
Looking out into 2019, major economies are headed down divergent growth paths — in sharp contrast to the synchronized global growth at the start of 2018. As the U.S. hums along at a healthy rate, growth is slowing notably in China and Europe. This divergence adds a measure of uncertainty to the global economic picture. Nevertheless, the International Monetary Fund is projecting a reasonably solid 3.7% global growth rate in 2019.

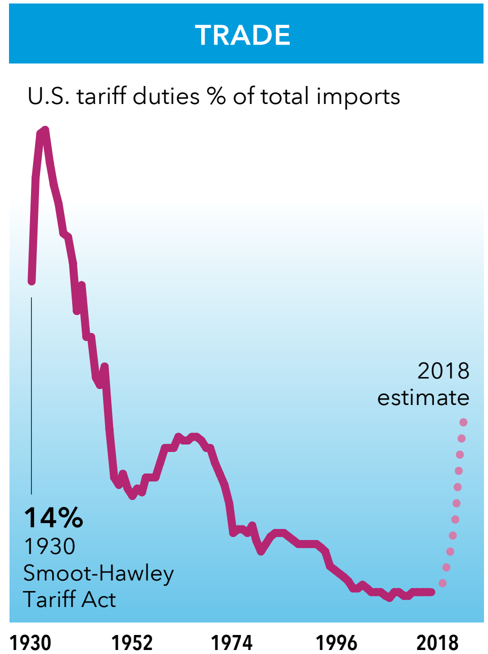
Yet, one question keeps surfacing for investors: Where are we in the business cycle? With unemployment at its lowest level in 49 years, wage growth accelerating, inflation pressures mounting and the Federal Reserve tightening policy, the U.S. has entered late-cycle territory. Most developed economies appear to be in or near late cycle, but emerging markets are more mixed. In China — where government policy heavily influences the economy — decelerating credit, capital outflows and a weaker currency also indicate the cycle is late stage.

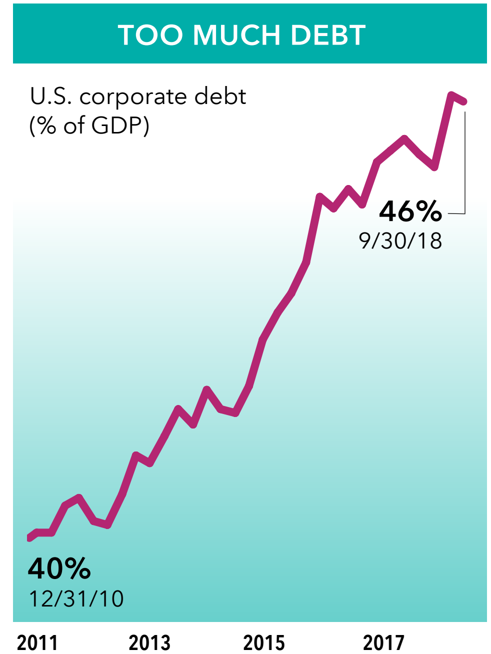
Smart companies adapt to evolving conditions. Software maker Microsoft's subscription model provides relatively steady revenue streams across economic cycles and its Azure business is tapping into exploding demand for cloud computing services. Advances in driverless car technology are driving new opportunities for tech giant Alphabet as well as old-line automaker General Motors.

Don't let U.S. market volatility derail your investment plan

Expect three T's – tightening, trade and too much debt – to unsettle markets in 2019







SOURCES: Bloomberg, Federal Reserve, Peterson Institute for International Economics, Thomson Reuters. Fed funds target rate projections based on pricing in the futures markets as of 11/30/18.

After years of relative calm, market volatility is back with a vengeance. What's driving it? There are many factors, but the three T's are among the most impactful: tightening, trade tensions and too much debt. Those powerful forces are combining to disrupt global markets at times and put investors on edge. Expect it to continue, and potentially intensify, in 2019 as interest rates move higher, global trade disputes mount and debt levels rise.

The U.S. Federal Reserve's tighter monetary policy is reverberating around the world. Reacting to a strong U.S. economy, a tight labor market and moderately rising inflation, the Fed is expected to continue raising short-term interest rates in 2019. This is happening at a time when government, corporate and consumer debt are all dramatically on the rise. It was one thing to borrow when rates were at historically low levels; it's a whole different environment today.

At the same time, global trade has taken center stage as the U.S., China, Europe and others seek to rewrite the rules of world commerce in their favor. It's important to note that these trade skirmishes may continue for a long time. It's a highly fluid situation that we will be monitoring closely throughout the year.

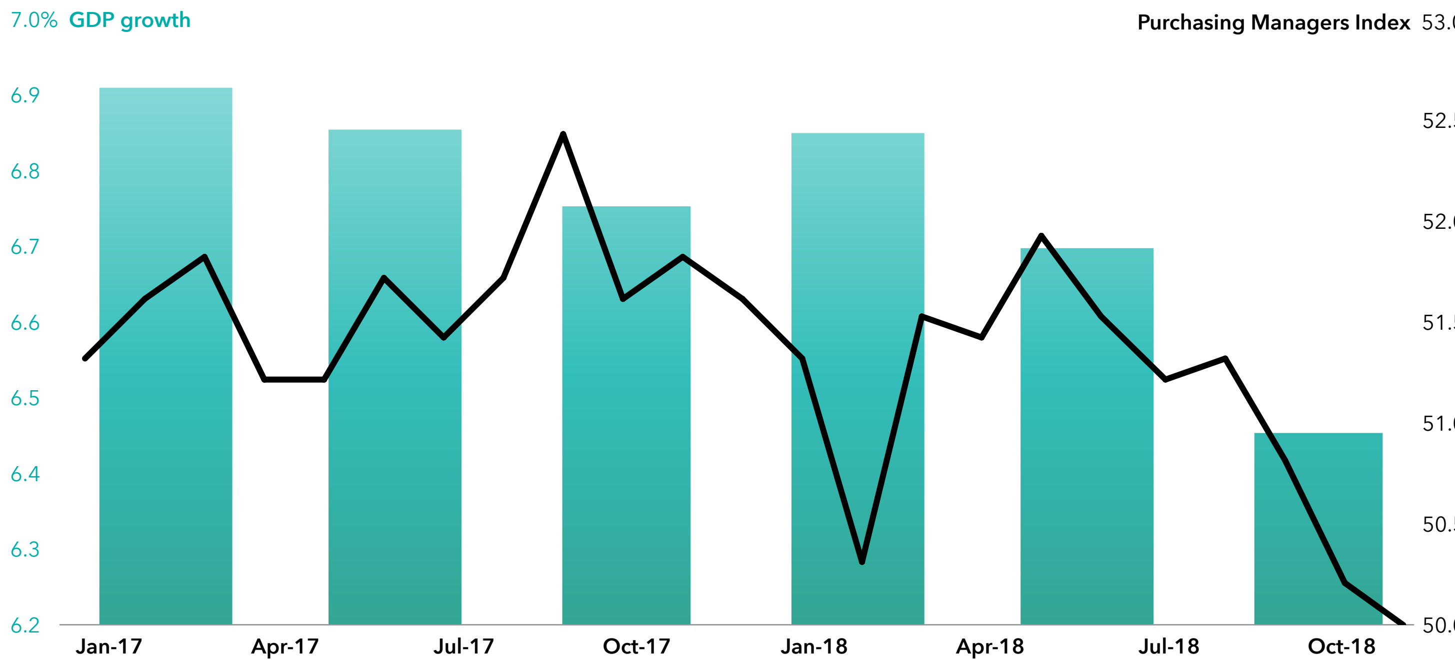
China's slowing economy is the story to watch in 2019

Much depends on the path taken by the world's second largest economy

"From my travels around the country and analysis of our proprietary data, it's clear that China's economy is continuing to decelerate. Additionally, investors should expect more political uncertainty as the country's leadership takes a nationalist turn amid worsening trade relations with the U.S."

STEPHEN GREEN

CAPITAL GROUP ECONOMIST



SOURCES: National Bureau of Statistics of China, Thomson Reuters. Quarterly GDP data as of 9/30/18. Monthly PMI data as of 11/30/18.

You may be worried about rising interest rates in the U.S., political instability in Europe or deflationary pressures in Japan. Those deserve to be on the top 10 list of investor concerns for 2019. But consider this for No. 1: China's slowing economy and the impact it has everywhere else, particularly on other emerging nations that supply the raw materials needed to support China's growth. A disruptive trade dispute with the U.S. won't help matters.

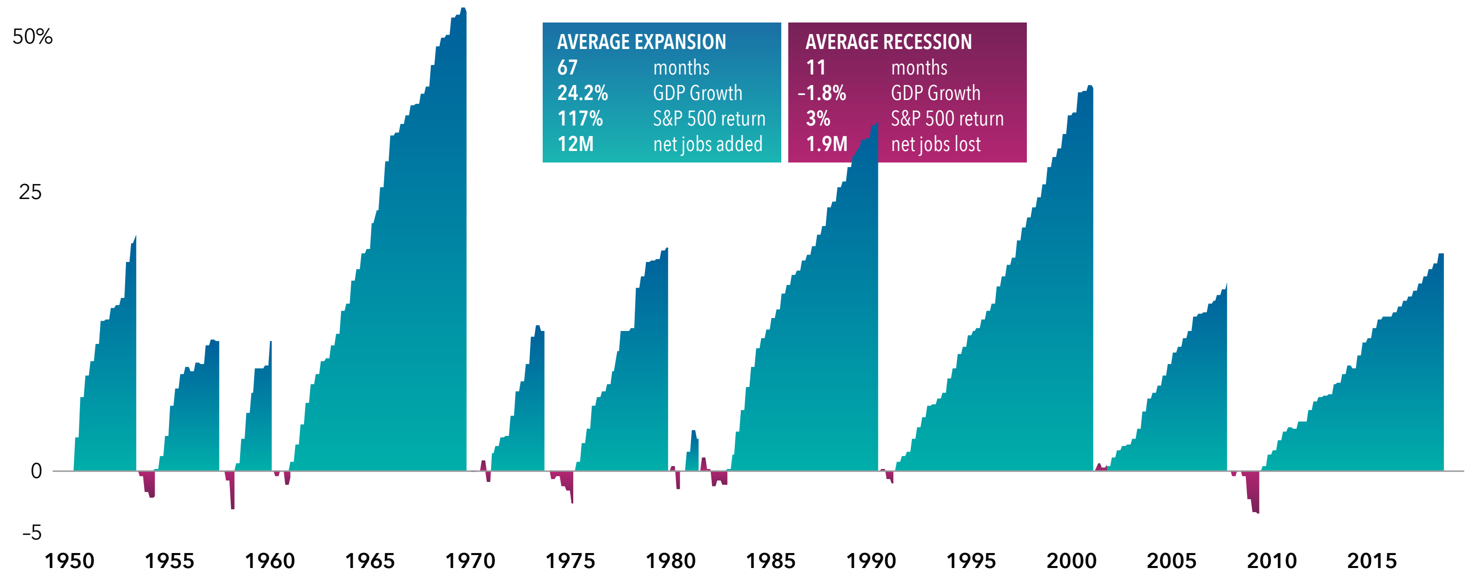
China's economy is still growing at a decent clip: 6.5% annualized, according to the official numbers. However, that's a far cry from double-digit growth just a few years ago, and there are signs of more trouble ahead. Consumer spending, manufacturing, credit growth and the housing market are all showing signs of weakness heading into the new year. If these trends continue, China's economic struggles could export more volatility to other parts of the world.

As usual, selectivity is the key to investing in China's (or any other) stock market. Despite macroeconomic headwinds, Alibaba, Tencent and Ctrip are all growing at a rapid pace as China's relatively young population adopts mobile e-commerce like cash never even existed. While Chinese stocks had a tough 2018, the long-term demographic trends present a compelling story for these three well-positioned internet giants.

Recessions are painful but expansions have been powerful

Expansions have been considerably longer and stronger than recessions

Cumulative U.S. GDP growth for each expansion and recession (%)



SOURCES: Capital Group, National Bureau of Economic Research, Thomson Reuters. As of 9/30/18. Month-end values used for S&P 500 returns. Nearest quarter-end values used for GDP growth rates. GDP growth shown on a logarithmic scale.

Recessions feel horrible; there's no doubt about that. Companies pull back. People lose jobs. Stocks often decline, sometimes sharply. But how bad are recessions really? How often do they come around? And how much damage do they inflict, relative to more prosperous expansionary periods? Taking a step back and looking at the big picture can be helpful, especially nine years into the current U.S. economic expansion.

Since 1950, the U.S. has been in recession during only 13.5% of all months. Many of those months included positive equity returns. And some of the strongest rallies occurred as stocks bounced back from those recessionary periods. The lesson? Trying to time the market to avoid recessions can cause investors to miss some of the biggest rallies, and end up with lower overall returns than those who stayed fully invested in good times and bad.

Is the U.S. overdue for a recession? Capital Group economists don't think so. "We have not yet seen a build up of imbalances that typically cause a recession," says Capital Group economist Jared Franz. "But I expect the risk of a recession will rise throughout the year." The current expansion has been characterized by one of the slowest average economic growth rates in U.S. history, which generally has prevented major imbalances from materializing.

What happens in the market a year after midterm elections?

Politics may dominate the headlines, but company fundamentals drive share prices

S&P 500 average cumulative return since 1930

SOURCE: Capital Group, RIMES, Standard & Poor's. Includes all daily price returns from 1/1/30 to 11/30/18. Endpoints represent average cumulative return through 11/5/18.

Markets hate uncertainty, especially political uncertainty. But the key question is: What happens after the voting is over? If history is any indication, investors don't retreat in the aftermath of U.S. midterm elections, such as the one completed in November. Even when the majority party changes in the Senate or House, it doesn't appear to bother U.S. stocks at all.

Since 1950, U.S. stocks have always generated positive returns in the year following a midterm election. That may or may not be the case in 2019. But for investors with a long-term perspective, it's worth noting that markets have a dynamic capacity to ignore political noise and move to the beat of their own drummer. More often than not, the drummer is company fundamentals — including strong corporate earnings, improving profitability and sound fiscal management.

The political environment isn't irrelevant. Some companies can win or lose at the ballot box. For example, certain health care stocks rallied the day after the 2018 midterm elections as investors surmised that the new Democratic Party majority in the House will do everything in its power to protect the Affordable Care Act. Among the biggest gainers: Anthem, Cigna and UnitedHealth.

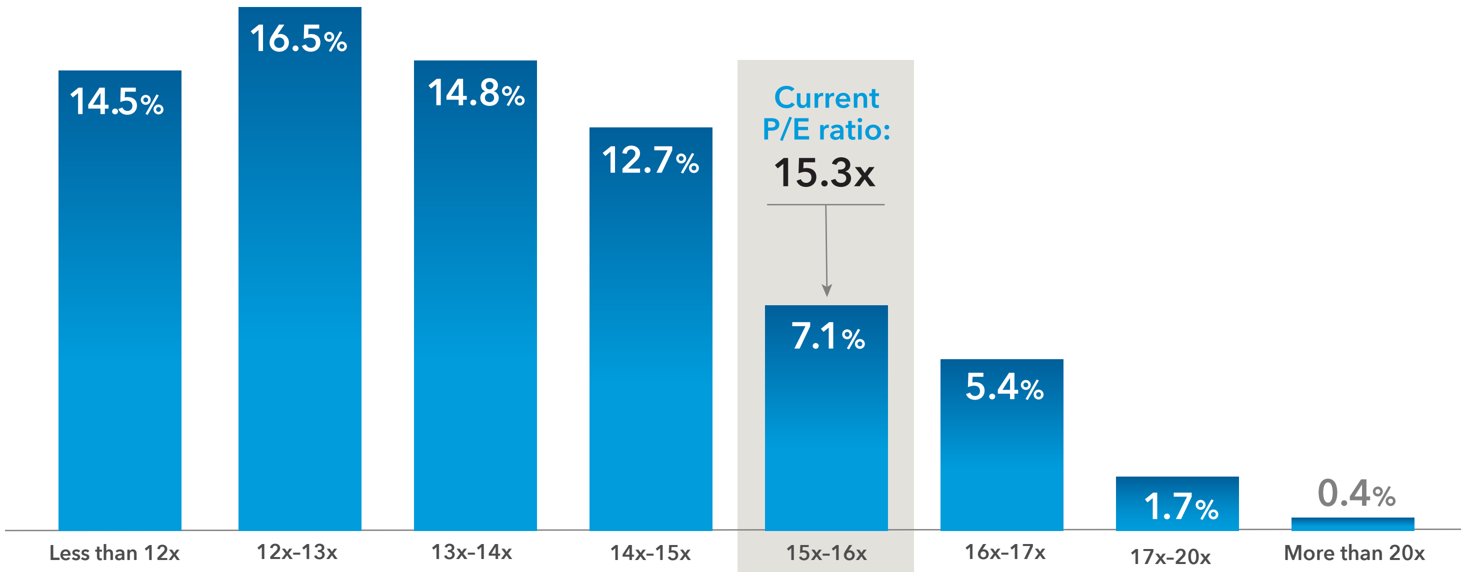
What will the next five years bring for U.S. equity investors?

Moderate your expectations: When stocks are pricey, future returns have been muted

"I look at earnings, stock valuations and interest rates, and I don't see how the overall market can generate more than single-digit returns over the next few years. There are still opportunities, but at this stage selectivity is critical."

GREG JOHNSON
PORTFOLIO MANAGER

Future equity returns tend to contract as P/E ratios rise



SOURCES: Standard & Poor's, Thomson Reuters. Chart shows the average subsequent five-year S&P 500 total return by forward price-to-earnings ratio, using monthly data from 1/31/85 to 11/30/18. Current P/E ratio as of 11/30/18. Based in USD.

There's just no getting around it. U.S. stocks have gotten expensive. Even after bouts of unsettling volatility in 2018, the Standard & Poor's 500 Composite Index has advanced 400% since the March 2009 start of the bull market. Although company earnings in recent years have soared along with stock prices, valuations have expanded considerably.

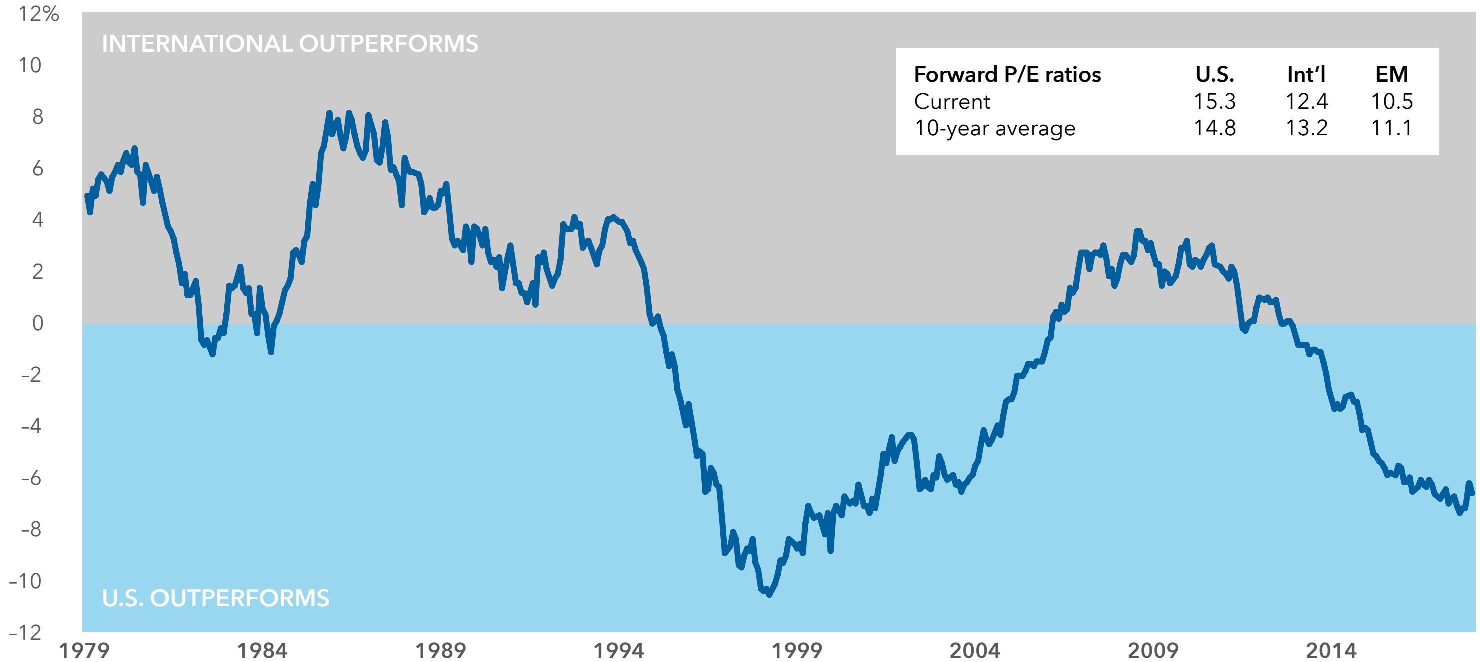
As of November 30, the forward price-to-earnings (P/E) ratio for the S&P stood at 15.3 – hardly nosebleed territory, but elevated by historical standards. And while past results are not predictive, history suggests that investors may want to temper expectations for returns going forward. That said, a small handful of innovative technology and consumer companies have driven much of the market return (online retailer Amazon has soared about 2,700% since the end of the last bear market) leaving valuations in other areas of the market at more modest levels. Of course, given that many other companies have more modest growth prospects and the likelihood of elevated volatility, selective investing will be critical.

Rejuvenated pipelines with potential blockbuster drugs may help biopharma and pharmaceutical stocks power forward, especially after years of negative headlines focused on drug pricing have tamped down share prices. For example, biopharma companies Abbvie and Gilead Sciences have a number of cancer therapies in late-stage development.

Are we at peak pessimism on international equities?

Relative return gap between U.S. and international stocks is near widest level in 14 years

Rolling 10-year relative returns



Forward P/E ratios	U.S.	Int'l	EM
Current	15.3	12.4	10.5
10-year average	14.8	13.2	11.1

SOURCES: MSCI, RIMES, Standard & Poor's, Thomson Reuters. As of 11/30/18. Annualized 10-year price return of S&P 500 Index versus the MSCI World ex USA Index.

Stop us if you've heard this one before: Equity valuations outside the United States look incredibly attractive on a historical basis. They have looked that way for a while and the gap is widening. The relative outperformance of U.S. stocks compared with their international bretheren is near the highest level in about 14 years. The trend has accelerated as a brewing global trade war and a strong U.S. dollar weighed on international assets.

For nearly a decade, international and emerging markets have lagged the U.S., and lagged badly. There is no sugarcoating it. "I just don't believe that condition is permanent," says Capital Group portfolio manager Andrew Suzman. "It will reverse at some point. If you believe in the power of diversification, now is not the time to capitulate on international investing. Now is the time to look for opportunities in places where other investors are running away."

Outside the U.S., in nearly every sector, there are comparable companies trading at lower valuations. Classic examples include Airbus versus Boeing, and Adidas versus Nike, but there are many more. Samsung trades at 6 times forward earnings, a level virtually unheard of among U.S. tech giants. These are companies with strong balance sheets and long runways, trading at a discount partly due to their address. A good hunting ground for value-minded investors.

Playing offense? Look for companies with long runways

Secular growth stories are taking off across industries around the world

CLOUD COMPUTING

When it comes to potential growth of cloud computing demand, the sky's the limit

Total estimate cloud services spending

2017	$153B
2021	$302.5B

Cloud infrastructure-as-service annual growth rate: 15.2%

IT budgets shifting to cloud by 2022: 28%

Companies: Amazon (AWS), Microsoft

BIOPHARMACEUTICALS

The future of the war on cancer? Prognosis excellent

Total biologics revenue

2018	$150B
2023	$250B

Expected annual growth rate: 10%-15%

Immunotherapies in Phase I – II trials: 300+

Average years of development time before FDA approval: 14

Companies: Abbvie, Gilead, Novartis

GLOBAL AIR TRAVEL

Soaring demand for air travel in Asia could keep aircraft makers busy for years

Air passenger traffic

2018	4B
By 2036	7.8B

First-time passengers in Asia last year: 100M

Aerospace order backlog: >13,000

Years to fulfill backlog: 8+

Companies: Airbus, Boeing

SOURCES: Gartner (growth of cloud computing market, IT budget data); Wikibon's 2018 True Private Cloud Forecast and Market Shares (infrastructure-as-a-service growth rate); IMS (biologics growth rate and revenue forecast); phrma.org (average development time for FDA approval); International Air Transport Association (air passenger traffic); Capital Group, Boeing, Airbus. Values in USD.

It often pays to think big. Technological advancements and shifting demographics are transforming global industries, creating massive new markets for innovative and nimble companies. Consider cloud computing, software and services that run on the internet. In little more than 10 years, the cloud has grown rapidly, slashing infrastructure costs for companies and transforming business models. By 2021, cloud spending will rise to $300 billion, nearly double the $153 billion spent in 2017, according to industry researcher Gartner. The movement of IT workloads to the cloud is boosting demand for the services of Amazon Web Services and Microsoft's Azure, the two leaders in cloud computing services.

Advances in biotechnology are bringing us ever closer to a cure for cancer. Companies like Abbvie, the maker of rheumatoid arthritis drug HUMIRA®, and Gilead Sciences, developer of treatments for HIV and hepatitis C, have invested heavily in the development of potential cancer therapies. Barriers to entry are high in biologics, which cost billions to develop and many years of trials and approvals to get to market.

It's human nature: we want to travel. In 2017 more than 100 million people in Asia boarded a plane for the first time, reflecting rising affluence in the region. Worldwide, air passenger traffic is expected to reach 7.8 billion by 2036, sending demand soaring for new aircraft. Boeing and Airbus, effectively a duopoly, have backlogs totaling more than 13,000 planes, or eight years of production.

Playing defense? Seek firms that can maintain dividends

Select companies and sectors have held up better during market declines

"I look for companies that can maintain their dividends if conditions deteriorate. That often means companies with strong balance sheets and good cash flows. I also look for good visibility into a company's future earnings."

ALAN BERRO
PORTFOLIO MANAGER

Through seven declines, some sectors have finished above the overall market

SECTOR SCORECARD

SECTOR	S&P 500 ABOVE	S&P 500 BELOW	DIVIDEND YIELD (%)	1987 (32.9)	1990 (18.7)	1998 (19.2)	2000-02 (47.4)	2007-09 (55.3)	2010 (15.6)	2011 (18.6)
CONSUMER STAPLES	7	0	2.8	Above	Above	Above	Above	Above	Above	Above
UTILITIES	7	0	3.3	Above	Above	Above	Above	Above	Above	Above
HEALTH CARE	6	1	1.5	Below	Above	Above	Above	Above	Above	Above
TELECOMMUNICATION SERVICES*	6	1	5.3	Above	Above	Above	Below	Above	Above	Above
ENERGY	4	3	3.1	Below	Above	Above	Above	Above	Below	Below
CONSUMER DISCRETIONARY	2	5	1.3	Below	Below	Below	Above	Below	Below	Above
FINANCIALS	2	5	1.8	Above	Below	Below	Above	Below	Below	Below
INFORMATION TECHNOLOGY	2	5	1.5	Below	Below	Below	Below	Above	Below	Above
MATERIALS	2	5	2.0	Below	Below	Above	Above	Below	Below	Below
INDUSTRIALS	1	6	2.0	Below	Below	Below	Above	Below	Below	Below

Above S&P 500 / Below S&P 500

SOURCES: Capital Group, FactSet. Includes the last seven periods that the S&P 500 declined by more than 15% on a total return basis. Sector returns for 1987 are equally weighted, using index constituents from 1989, the earliest available. Dividend yield as of 11/30/18.

*The telecommunication services sector dividend yield is as of 9/24/18. After this date the sector was renamed communication services and its company composition was materially changed.

It's a truism of investing: Market downturns are inevitable. But while they can be unnerving, a closer look at seven major market declines shows that broad market index results don't tell the whole story.

Through each of the declines, some sectors held up better than others. Even when the S&P 500 plummeted 55.3% in 2007-09 during the sell-off of the global financial crisis, consumer staples lost about 29% and health care fell 38%. Small comfort to be sure, but while history is not predictive of future returns, the record shows that selectivity and diversification can help add resilience to a portfolio when markets are sliding.

Many of the areas that have held up during prior declines have paid meaningful dividends. Dividends offer steady return potential when stock prices are volatile and can be a hallmark of a disciplined, conservative management team. But not all dividend payers are equal. The key is to identify companies with strong balance sheets, good cash flows and the discipline to maintain dividend payments during declines.

A broad range of companies across sectors and industries pay meaningful dividends. Among these are: Home Depot and Philip Morris-parent Altria in the retail/consumer products sector; Microsoft, Broadcom and Intel in the technology sector; health services provider UnitedHealth, medical device maker Abbott Laboratories and drugmakers Merck, Abbvie and Gilead Services in the health care sector and ConocoPhillips and Exxon Mobil in the energy sector.

All eyes are on rates, but don't overlook credit risk

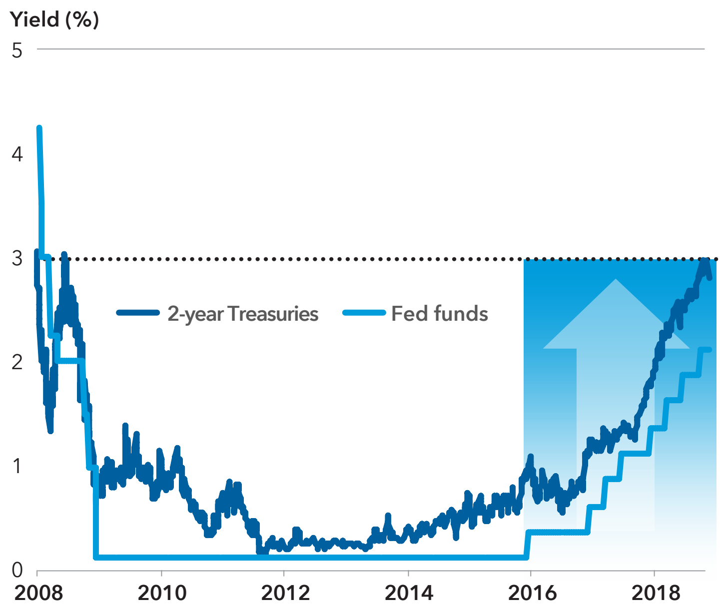
Markets have responded to Fed rate hikes, but credit spreads remain relatively tight

"Concerns about interest rate risk are often front and center for investors during a rate hike cycle. But it's important to note that while Treasury yields have already climbed, credit spreads remain relatively tight. Until valuations become more attractive, a degree of caution around credit seems appropriate."

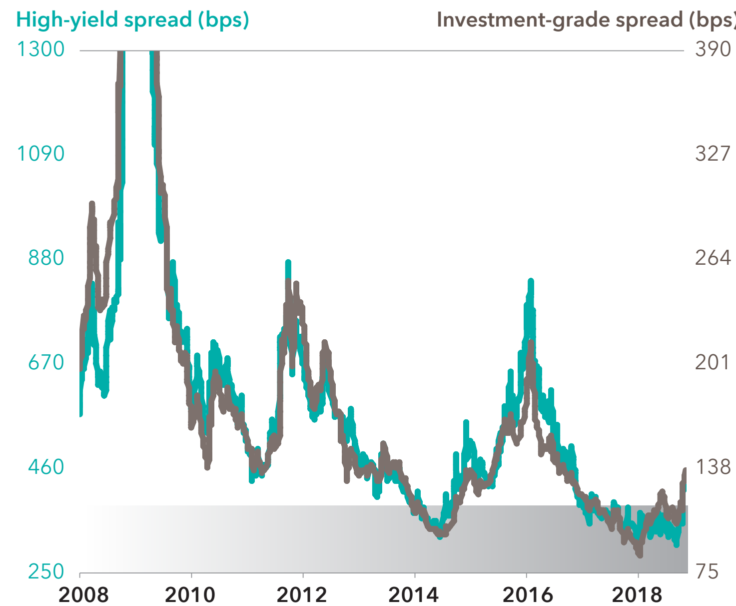
MIKE GITLIN

HEAD OF FIXED INCOME

U.S. interest rates



Credit spreads



SOURCES: Bloomberg Index Services, Ltd., Federal Reserve.

Midpoint of target range shown for Fed funds target rate. Rise in yields shown is from the date of the first Fed rate hike 12/14/15 to 11/30/18. The gray zone indicates high-yield credit spreads are in the tightest quartile, below 383 basis points.

Should bond investors fear the Fed? The prospect of rising yields as the Federal Reserve forges ahead with rate hikes may continue to spook some investors. But maybe it shouldn't.

While unemployment was around 4% for much of 2018, recent inflation has been weaker than widely anticipated. Late in 2018, market pricing indicated a single Fed hike is in the cards for 2019, although expectations have jumped around a lot amid volatility.

Crucially for bond investors, however, short-term Treasury yields already have climbed significantly.

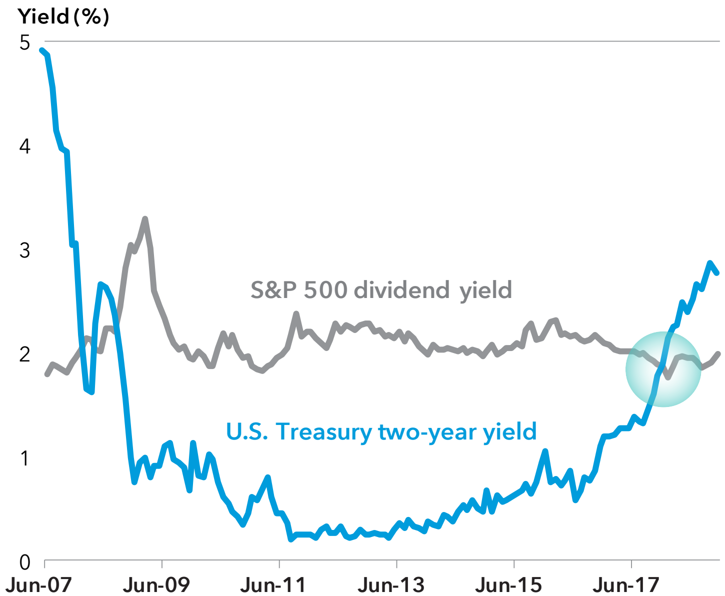
Credit markets are a whole other story. Spreads – the gap between the yield on credit and Treasuries – have remained narrow by historical standards. For bond investors, that means the compensation for taking on credit risk is relatively low, and the upside from here could be quite limited.

Corporate America has prospered, but we are in a late-cycle environment with rising debt burdens. Nearly 50% of investment-grade corporate bonds are BBB-rated. Unless credit valuations further ease, it's unlikely to be a good time for investors to take on excessive credit risk. And if you're looking to diversify portfolio income, high-income munis and emerging markets bonds may be worth a closer look.

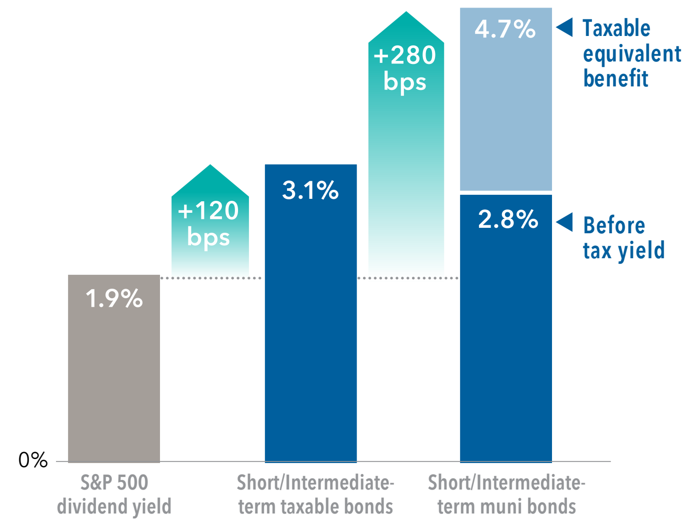
Short-term yields have become relatively attractive

Income seekers can now find fertile ground among high-quality bonds

The two-year Treasury out-yields S&P dividends[1]



High-quality short-/intermediate-term bond yields versus S&P 500 dividend yield[2]



Investment grade	100%	100%
Duration	3.1 years	3.8 years

SOURCES: Bloomberg Index Services, Ltd., Thomson Reuters. Taxable-equivalent yield: Based on a federal marginal tax rate of 37%, the top 2018 rate. In addition, we have applied the 3.8% Medicare tax. This comes to a combined 40.8% marginal tax rate on investment income for taxpayers in the highest tax bracket.

[1] As of 11/30/18.

[2] As of 10/31/18. Indices shown are Bloomberg Barclays U.S. Government/ Credit (1-7 years, ex BBB) Index and Bloomberg Barclays Municipal Short-Intermediate 1-10 Years Index.

What a difference a year makes. It was late 2017 when – for the first time in almost a decade – the two-year U.S. Treasury yield rose above the Standard & Poor's 500 Index dividend yield.

Since then, bond income's comeback has gone from strength to strength. By late 2018, the two-year Treasury's yield advantage over the S&P 500 was 1%. Higher quality bonds are now a more compelling option for investors who had looked to equities for income.

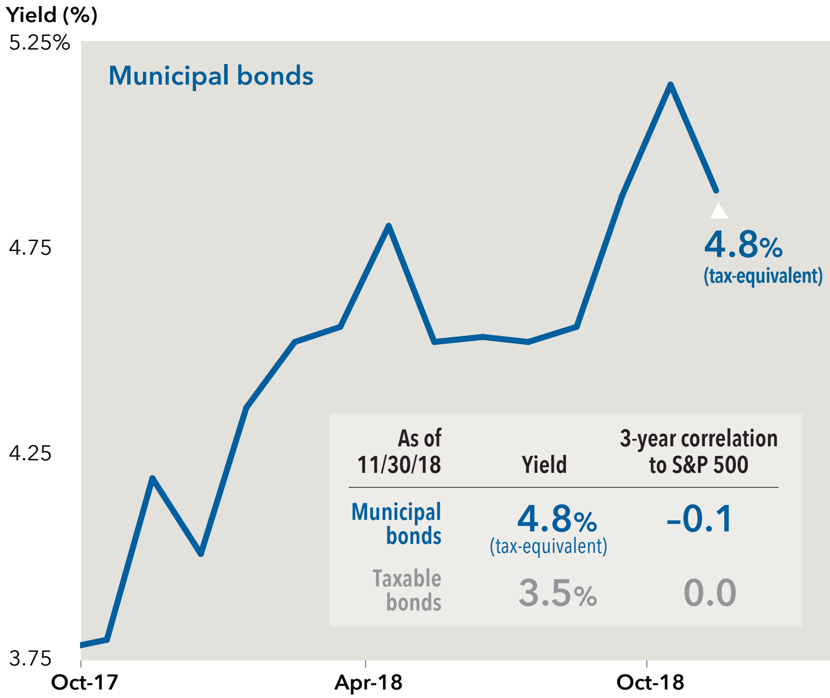
And for bond investors, too, this shift offers food for thought. A decade of low interest rates prompted some core bond funds to prioritize boosting income over equity diversification. "Reaching for yield," as this behavior is known, often entails heavy investment in credit, which tends to be very correlated with equities.

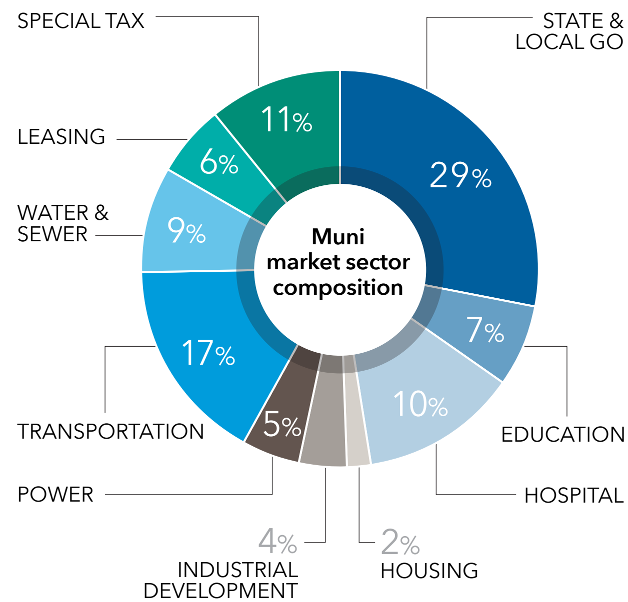
Now, taxable and muni bond funds can generate decent income without taking excessive credit risk and compromising equity diversification.

Ultra-low bond yields are in the rearview mirror. Core bond strategies that focus on higher quality bonds and avoid excessive credit risk can offer an attractive complement to income from equities. Balanced funds may appeal to investors who prefer a one-stop shop for equity and bond income.

Own munis for more than just tax-free income

Diverse opportunities and equity diversification add up to a powerful combo





SOURCES: Bloomberg Index Services, Ltd., RIMES, Thomson Reuters. As of 11/30/18.

Market proxies: Municipals (Bloomberg Barclays Municipal Bond Index); taxables (Bloomberg Barclays U.S. Aggregate Bond Index). Three-year correlations between returns for Standard & Poor's 500 Index and respective bond indexes.

Taxable-equivalent yield: Based on a federal marginal tax rate of 37%, the top 2018 rate. In addition, we have applied the 3.8% Medicare tax. This comes to a combined 40.8% marginal tax rate on investment income for taxpayers in the highest tax bracket.

Municipal bonds face a number of headwinds. Demand for muni bonds by banks has cooled meaningfully in the wake of U.S. tax reform. At the same time, market confidence is likely to remain fragile as prospects for further Fed rate hikes cast a long shadow.

Bond prices, therefore, could experience downward pressure. Near-term weakness aside, solid credit fundamentals suggest a decent longer term outlook.

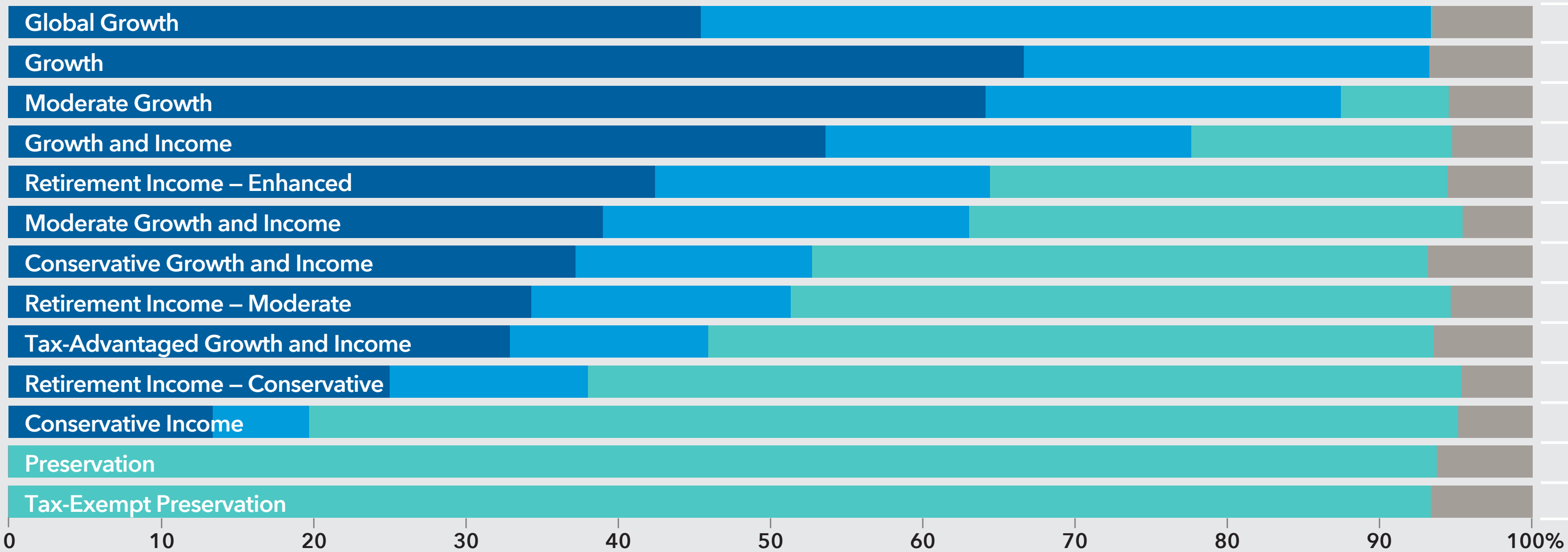
The silver lining of lower bond prices is higher yields. But munis aren't just about income. A low correlation to equities can make munis a good source of diversification at times of unsettled markets. Among diverse pockets of opportunity, hospital consolidation continues to spark attractive return potential. In contrast, the outlook for tobacco-settlement bonds is gloomy. Fundamentals have deteriorated as smoking rates hit all-time lows and regulation tightens.

Expect a bumpy ride in munis. Emphasizing higher quality and shorter maturity bonds makes sense amid high valuations. That approach can also help dampen volatility. Investors who are comfortable with interest rate risk – and don't believe rates will go through the roof – could find that market skittishness presents attractive entry points.

How to put these insights to work

The following asset allocation framework reflects the investment insights you've read about so far. The chart below shows the 13 American Funds® model portfolios, built by Capital Group's Portfolio Oversight Committee (POC), a team of seven veteran portfolio managers with an average of 30 years' investment experience.

Model portfolios: Asset allocation framework



	U.S. equity	Non-U.S. equity	Fixed income
Global Growth	45.4	47.9	0.1
Growth	66.6	26.6	0.0
Moderate Growth	64.1	23.3	7.1
Growth and Income	53.6	24.0	17.1
Retirement Income – Enhanced	42.4	22.0	30.0
Moderate Growth and Income	39.0	24.0	32.4
Conservative Growth and Income	37.2	15.5	40.4
Retirement Income – Moderate	34.3	17.0	43.3
Tax-Advantaged Growth and Income	32.9	13.0	47.6
Retirement Income – Conservative	25.0	13.0	57.3
Conservative Income	13.4	6.3	75.4
Preservation	0.0	0.0	93.7
Tax-Exempt Preservation	0.0	0.0	93.3

SOURCE: Capital Group. As of 9/30/18. After accounting for U.S. equities, non-U.S. equities and fixed income, the remaining assets are allocated to cash.

The models are actively monitored; allocations may change. Investment allocations may not achieve model objectives.

Stay balanced in portfolios: Market downturns last year were a reminder that volatility has long been part of normally functioning markets. Macroeconomic and political developments can cause turbulence in the short term, but company fundamentals drive markets in the long term. In 2019, investors should maintain broadly diversified portfolios that include a mix of stocks and bonds from around the world.

Stay flexible in equities: Maintain a core allocation to U.S. equities with a mix of growth and dividend-focused strategies. Resist the temptation to reduce exposure to non-U.S. companies despite years of lagging. Stay flexible, with managers that can reach beyond borders and asset classes in pursuit of the best opportunities.

Stay alert to risk in bonds: When equity markets are volatile, your bonds need to provide a measure of stability and capital preservation. Upgrade your core bond portfolios to ensure that they are not exposed to excess risk and can offer diversification from equities. Diversify your sources of income by considering high-income municipal bonds and emerging markets debt for enhanced income opportunities.

2019 Outlook

Themes	U.S. equity	International equity	Taxable fixed income	Tax-exempt fixed income
	Look for late-cycle winners.	**Look for diamonds in the rough.**	**Upgrade your core bond allocation.**	**Own munis for more than just tax-free income.**
Key takeaways	With the Fed tightening policy, debt levels elevated and tariffs starting to take a toll on companies, expect more volatility in 2019. Equity valuations remain stretched, so consider tempering return expectations.	China is slowing more than expected, a development we are following closely. Be prepared for a busy calendar of events in global trade and politics. Europe will look particularly messy, with European Parliament elections, a Brexit resolution pending and European Central Bank leadership set to change.	In a late-cycle economy, look for bonds that can provide relative stability, a measure of income and diversification from equities. While much attention has been paid to interest rate risk, credit risk is also important. Short-term yields have become relatively attractive.	Municipal bond after-tax yields have climbed and investors can find diverse opportunities for income.
Investment implications	For a growth orientation, look for companies with long runways and large addressable markets. For a defensive orientation, look for companies that can avoid dividend cuts.	After years of lackluster returns, resist the temptation to reduce exposure to non-U.S. companies. It's about companies, not countries.	Seek to upgrade core bond portfolios with strategies that offer solid income and capital preservation, and diversify your sources of income.	Consider shifting a portion of core bond portfolios to municipals and explore high-income muni bonds as an option for enhanced income.
Select investments to consider	**Washington Mutual Investors Fund℠** A – AWSHX; F-2 – WMFFX; F-3 – FWMIX; R-6 – RWMGX **American Mutual Fund®** A – AMRMX; F-2 – AMRFX; F-3 – AFMFX; R-6 – RMFGX **The Income Fund of America®** A – AMECX; F-2 – AMEFX; F-3 – FIFAX; R-6 – RIDGX **American Balanced Fund®** A – ABALX; F-2 – AMBFX; F-3 – AFMBX; R-6 – RLBGX	**New Perspective Fund®** A – ANWPX; F-2 – ANWFX; F-3 – FNPFX; R-6 – RNPGX **EuroPacific Growth Fund®** A – AEPGX; F-2 – AEPFX; F-3 – FEUPX; R-6 – RERGX **International Growth and Income Fund®** A – IGAAX; F-2 – IGFFX; F-3 – IGAIX; R-6 – RIGGX	**The Bond Fund of America®** A – ABNDX; F-2 – ABNFX; F-3 – BFFAX; R-6 – RBFGX **American Funds Strategic Bond Fund℠** A – ANBAX; F-2 – ANBFX; F-3 – ANBGX; R-6 – RANGX **American Funds Emerging Markets Bond Fund®** A – EBNAX; F-2 – EBNFX; F-3 – EBNGX; R-6 – REGGX	**The Tax-Exempt Bond Fund of America®** A – AFTEX; F-2 – TEAFX; F-3 – TFEBX **Limited Term Tax-Exempt Bond Fund of America®** A – LTEBX; F-2 – LTEFX; F-3 - FLTEX **American High-Income Municipal Bond Fund®** A – AMHIX; F-2 – AHMFX; F-3 - HIMFX

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

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