

Outlook

2025 EDITION



Long-term
perspective on
markets and
economies



We've seen this movie before

As we head into a new year, I can't help but notice parallels with the past. It feels like we've seen this movie before. The United States will have a different president in 2025, but he looks familiar. Markets have rallied ahead of the new administration and its proposed economic policies, much as they did after the 2016 election. The U.S. economy remains strong, leading the world at a time when others are stumbling. Instead of falling into recession, as many predicted a year ago, we're headed *Back to the Future* in more ways than one.

While that plotline is hopeful, we must acknowledge the troubles we face today, bringing with them echoes of the past. Much like the Cold War-era, U.S. leadership is being challenged. Conflicts in Ukraine and the Middle East, as well as tensions with China, threaten to disrupt the world. Populist movements are gaining momentum, fueling a potential reversal of free-trade policies.



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Instead of falling into recession, as many predicted a year ago, we're headed *Back to the Future* in more ways than one.

Martin Romo
Chief Investment Officer
Capital Group

We don't know how these events will play out, but we do know that macro uncertainty is oftentimes associated with market volatility. It happened in 2024 as markets soared to record highs and then tumbled over the summer amid fears the U.S. economy might stall. Current U.S. equity valuations are high, and prudent investors should be prepared for the possibility of a correction. That's why we believe it's important to take a long-term approach to investing, seeking to achieve a balance between growth of capital and capital preservation.

There are reasons to be optimistic about the investment outlook – whether it's advancements in artificial intelligence or innovations in health care – but we must also be prepared for a downturn. In addition to stocks, bonds will play an important role as the normalization of interest rates returns us to a time when fixed income can provide a measure of income, diversification and ballast against stock market volatility. The risks referred to above are not going away, which is why we put an emphasis on fundamental research, conducted by our portfolio managers and analysts around the world.

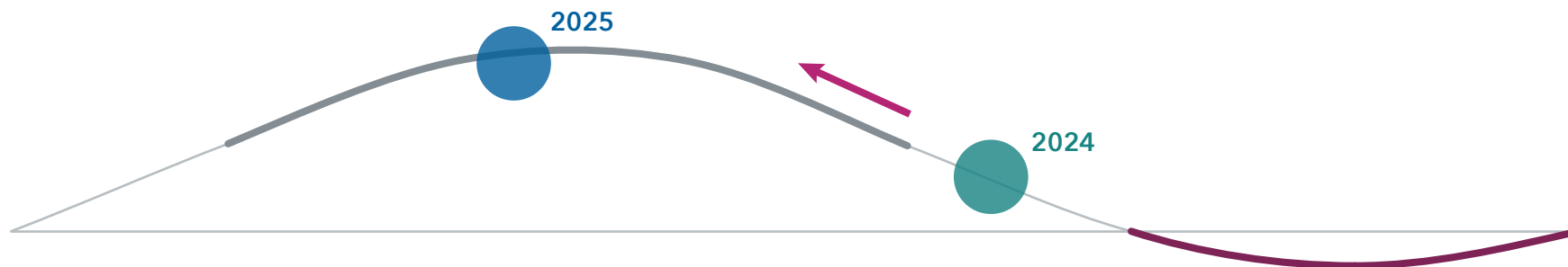
The message I leave you with is a familiar one: Stay invested but maintain a risk-aware approach. When faced with market gyrations or geopolitical uncertainty, the biggest mistake investors can make is to retreat to the sidelines. The opposite is also true. Don't rush in at market peaks. Successful investing is a long-term endeavor. Focus on your goals and don't let the daily noise distract you.

Against that backdrop, I invite you to read and share our 2025 Outlook report.

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

Welcome to the Benjamin Button economy

The U.S. business cycle appears to be aging in reverse



Annualized total returns of U.S. stocks by stage of business cycle

14.8%	14.0%	8.9%	-9.4%
Early	Mid	Late	Recession
Economic activity accelerates Hours worked rise Central bank eases	Profit margins peak Employment improves Credit demand picks up	Labor markets tighten Profit margins contract Central bank tightens	Economic activity declines Credit contracts Unemployment rises

What does the U.S. economy have in common with the 2008 movie *The Curious Case of Benjamin Button*? Film buffs will remember that the title character, played by Brad Pitt, ages in reverse, from old man to young child.

“The U.S. economy is going through a similar transition,” says Capital Group economist Jared Franz. “Instead of moving through the typical four-stage business cycle that has defined the post-World War II era, the economy appears to be shifting from late-cycle back to mid-cycle, conveniently avoiding a recession.”

A mid-cycle economy is generally characterized by rising corporate profits, accelerating credit demand, softening cost pressures and a shift toward neutral monetary policy. “We’ve seen all four of those in 2024,” Franz notes.

“Going forward, I believe we are headed for a multiyear expansion period, perhaps fending off a recession until 2028.”

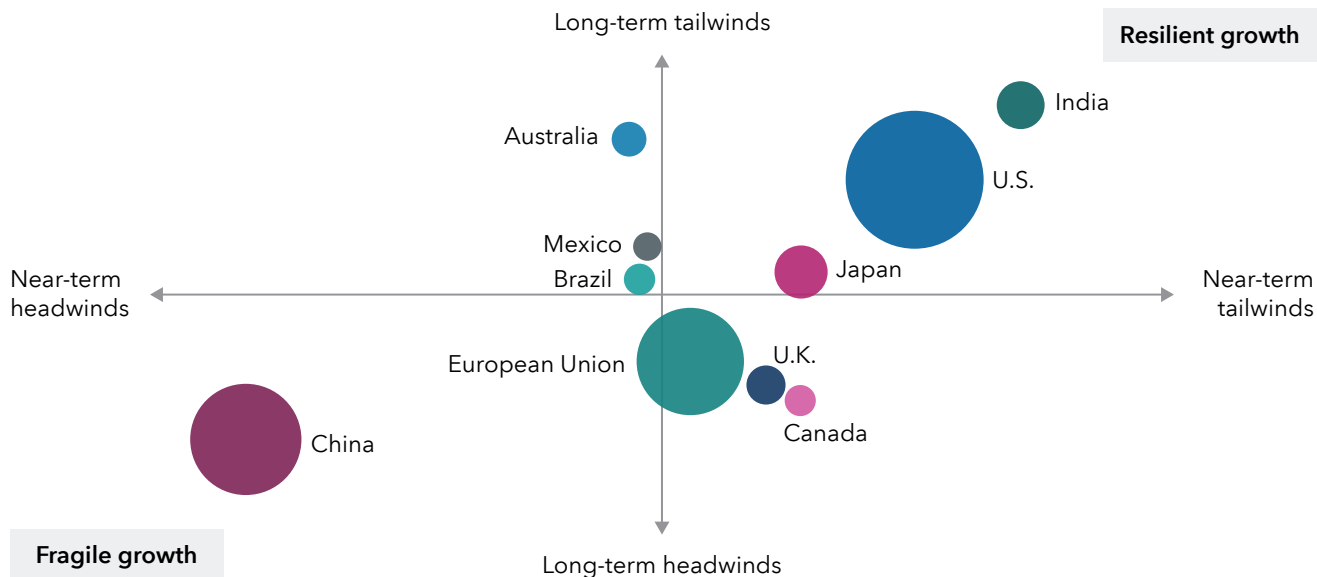
Historically speaking, mid-cycle periods have provided a favorable backdrop for equities, generating returns averaging 14% a year. That’s based on a Capital Group analysis of economic cycles and returns dating back to 1973.

As always, it’s important to acknowledge that past results are not predictive of results in future periods. “But if the U.S. economy continues to grow at a strong rate of 2.5% to 3.0%, in my estimation,” Franz says, “that could provide a healthy tailwind for markets.”

Sources: Capital Group, MSCI. Positions within the business cycle are forward-looking estimates by Capital Group economists as of December 2023 (2024 bubble) and September 2024 (2025 bubble). The views of individual portfolio managers and analysts may differ. Returns data is monthly from December 1973 to August 2024. Data is Datastream U.S. Total Market Index from December 31, 1973 through December 31, 1994, and MSCI USA Index data thereafter. Returns data reflects all completed cycle stages through October 31, 2024. Past results are not predictive of results in future periods.

Global growth increasingly dependent on resilient U.S.

Healthy U.S. economy remains a cornerstone of global growth



The world's major economies are headed down divergent paths in 2025, and America's role as the chief driver of global growth figures to expand even further.

With U.S. labor markets healthy, profit growth solid and business investment picking up, the International Monetary Fund (IMF) raised its 2025 forecast for U.S. economic growth to 2.2%. That projection offsets downward revisions for other advanced economies, including the largest economies in Europe.

"I tend to think about the world in terms of tailwinds and headwinds," says Capital Group portfolio manager Rob Lovelace. "The U.S. has plenty of tailwinds at the economic level, industry level and company level. While

Japan is picking up some tailwinds, I think both Europe and China are facing real headwinds at the moment."

That doesn't mean he's investing only in U.S. companies. "European companies get a majority of their revenue outside Europe, primarily in the U.S. and then China," Lovelace adds.

Can U.S. strength lift up the world? The IMF is predicting robust economic growth of 6.5% in India as that country benefits from efforts by U.S. companies and others to diversify supply chains. And surging demand for semiconductors and other technology driven by the artificial intelligence boom is bolstering growth in other Asian markets.

Source: Capital Group. Country positions are forward-looking estimates by Capital Group economists as of December 2024 and include a mix of quantitative and qualitative characteristics (in USD). Long-term tailwinds and headwinds are based on structural factors such as debt, demographics and innovation. Near-term tailwinds and headwinds are based on cyclical factors such as labor, housing, spending, investment and financial stability. Circles represent individual economies. Circle sizes approximate the relative value of each economy and are used for illustrative purposes only.

Where to invest in a rate cutting cycle

The Federal Reserve’s rate cutting cycle could be a powerful tailwind for investors in what is shaping up to be a healthy environment for both stock and bond markets.

Against a backdrop of slowing inflation, generally healthy consumer spending and strong corporate profit growth, the U.S. economy is on track for continued expansion. President-elect Donald Trump’s policy priorities could further bolster growth in the coming months. Among these are regulatory reform, tax cuts and increased defense spending.

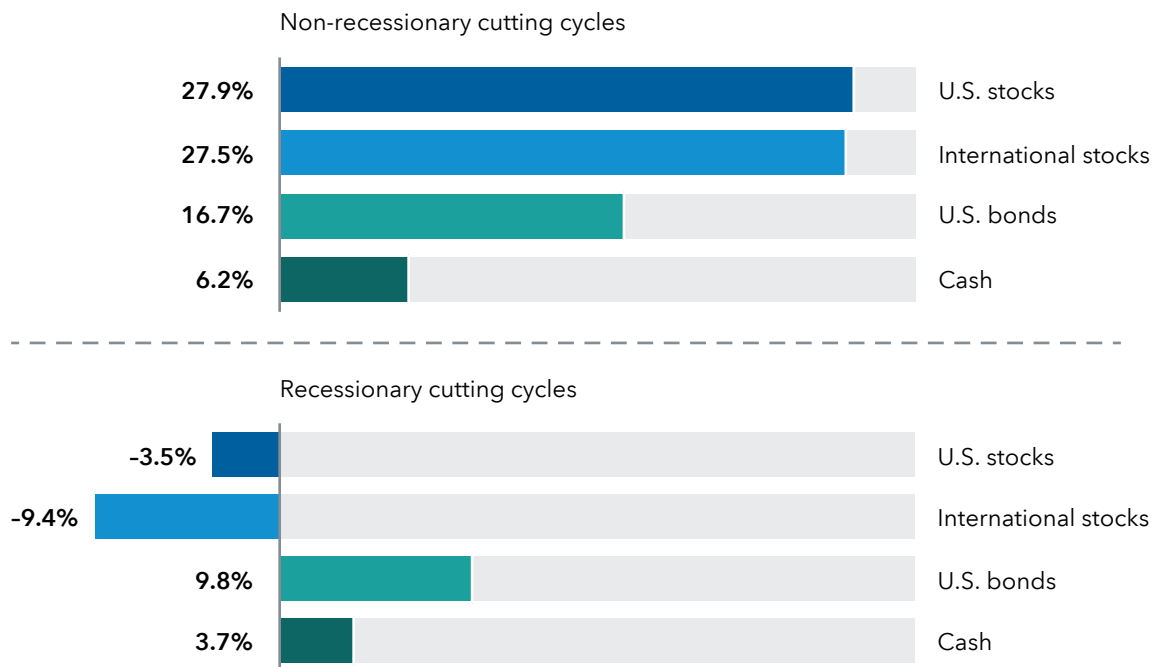
Rate cuts when the economy is growing have been a boon for investors in both stocks and bonds. Of the seven cutting cycles since 1984, three occurred outside a recession. During those non-recessionary cycles, the S&P 500 Index averaged a 27.9% return from the first cut to the last, with most sectors posting double-digit gains.

What about when cutting cycles precede a recession? Stocks have not fared well but U.S. bond returns have been strong in all rate easing cycles, outpacing cash equivalent investments.

Will this turn out to be the fourth easing cycle outside a recession? Fixed income portfolio manager John Queen believes any surprise to economic growth over the next year could be to the upside. “The Fed is cutting rates because it wants to, not because it has to,” he explains.

Rate cuts have boosted stocks and bonds in a healthy economy

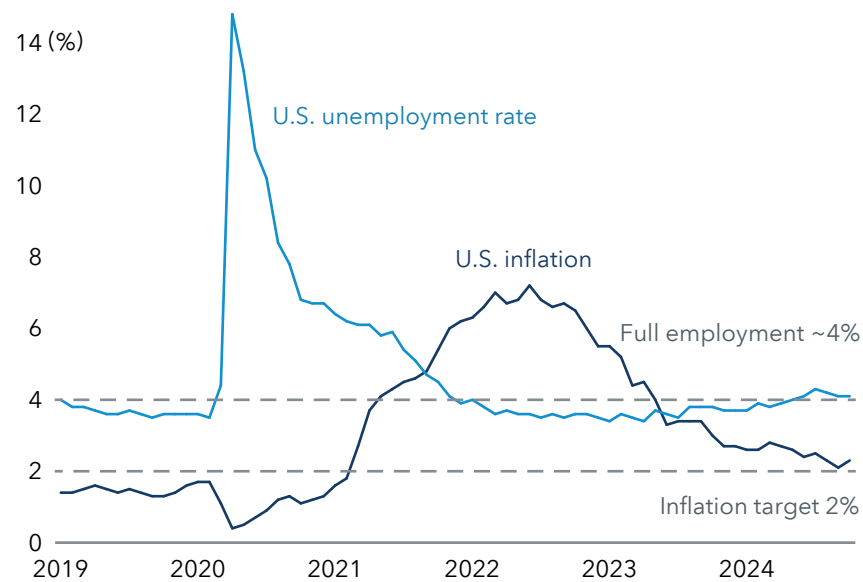
Average annualized returns across past seven Fed easing cycles



Sources: Capital Group, Bloomberg Index Services Ltd., Morningstar, Standard & Poor’s. Return calculations reflect annualized total returns over periods in which the U.S. Federal Reserve had stopped raising rates and began to actively cut rates, measured from the peak federal funds rate target to the the lowest federal funds rate target for each cycle. Specific easing cycles include: August 1984 to August 1986 (non-recessionary), May 1989 to September 1992 (recessionary), February 1995 to January 1996 (non-recessionary), March 1997 to November 1998 (non-recessionary), May 2000 to June 2003 (recessionary), June 2006 to December 2008 (recessionary), and December 2018 to March 2020 (recessionary). Benchmarks used are the S&P 500 Index (U.S. stocks), MSCI World ex USA Index (international stocks), Bloomberg U.S. Aggregate Index (U.S. bonds) and the average investment rate of 3-month U.S. Treasury Bills (cash). As of November 30, 2024. Past results are not predictive of results in future periods.

Fed plots a return to normal

Inflation and unemployment have normalized

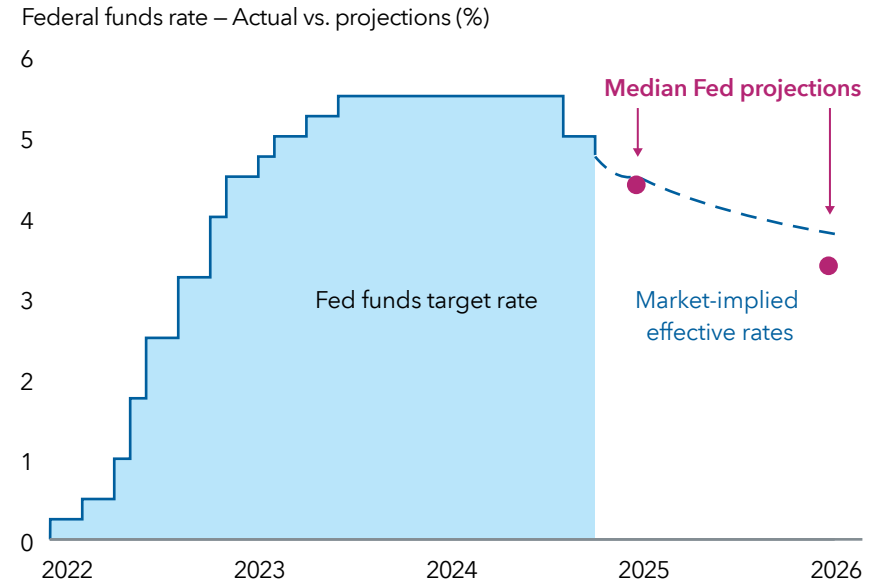


The Federal Reserve has largely accomplished its goal. Inflation is easing, and labor markets are strong. The next step is fine-tuning interest rates to keep the economy on an even keel.

“The Fed will no longer be as center stage,” says portfolio manager Pramod Atluri. Markets will shift their focus to economic growth, corporate earnings, and the changing political and regulatory landscape.

Trumponomics 2.0 policy priorities of tax cuts, tariffs and deregulation might be supportive of U.S. economic growth and risk assets. They could also lead to a stronger dollar, higher inflation and elevated interest rates.

Strong economy could lead to elevated interest rates



The impact of fiscal policies makes the Fed outlook more muddled, particularly with ongoing economic resilience. “Interest rates don’t appear very restrictive to economic growth,” explains Atluri. “Absent a recession, the Fed may cut less than previously expected before the election.”

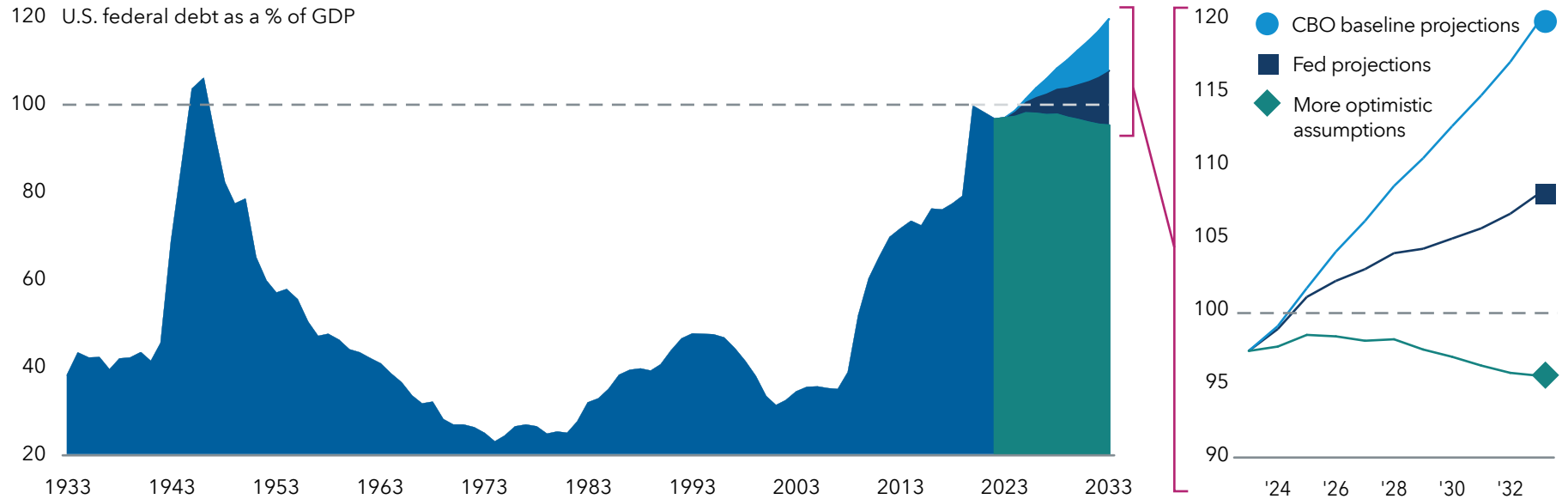
Moreover, Atluri isn’t convinced that Trump tariffs will be punitive enough to lead to low growth and high inflation. Despite tariffs, inflation did not accelerate under Trump’s first presidency. “It wound up being a solid growth environment with inflation well contained.” All that said, we could see elevated volatility in interest rates and financial markets broadly as investors calibrate the direction of policy.

Sources: Capital Group, Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, PandemicOversight.gov. Inflation measured by year-over-year change in the personal consumption expenditures price index. Full employment above refers to the unemployment rate that is considered to be the lowest possible without accelerating inflation; the actual figure is theoretical, and 4% is used as an example. As of October 31, 2024.

Sources: Capital Group, Bloomberg, Federal Reserve. Fed funds target rate reflects the upper bound of the Federal Open Markets Committee’s (FOMC) target range for overnight lending among U.S. banks. Median Fed projections are as of September 18, 2024. Latest data available as of November 30, 2024.

U.S. government debt: Are we at a tipping point?

Debt could surpass 100% of GDP for the first time since World War II



How high is too high? That’s the pivotal question as concerns over U.S. government debt levels rise to the fore among the public and investors. Total U.S. debt exceeded \$29 trillion in the fourth quarter of 2024, or approaching 100% of gross domestic product (GDP). And the Congressional Budget Office has forecast it will continue to soar well into the future.

Much depends, however, on the assumptions embedded in those forecasts. For instance, if interest rates wind up being slightly lower, inflation slightly higher, or the economy slightly better, that could drastically change the debt picture for the better. The reverse is also true. All of which makes assessing debt sustainability a challenge.

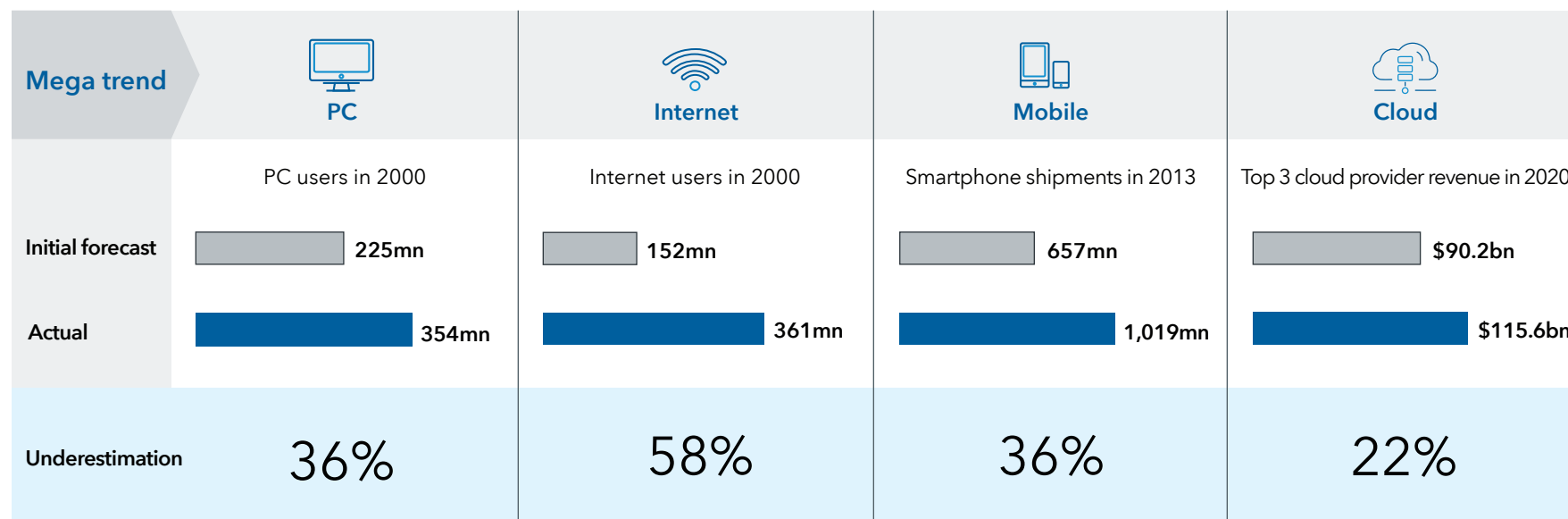
Under one scenario where the U.S. economy grows at a rate marginally above its historical average, debt levels could decline over the next decade. So, is it a problem or not?

“My answer is, it will become a problem when it becomes a problem,” says Capital Group economist Darrell Spence. “That is, when foreign and domestic investors decide they no longer want to own U.S. Treasuries. It’s difficult to know when that day will arrive, but a ‘wake-up’ call from investors could make policymakers take notice.”

Sources: Capital Group, Congressional Budget Office (CBO). CBO projections as of June 2024. Debt figures refer to U.S. government debt held by the public. Gross domestic product measures the value of the final goods and services produced in the U.S. Fed projections scenario assumes that the 10-year Treasury yield is at the Fed’s terminal dot plot plus a basis point term premium. The slightly more optimistic macro assumptions scenario assumes a slightly higher path for inflation and productivity than the CBO, and a flat 4% path for 10-year yields.

Artificial intelligence may be overhyped AND bigger than you think

We tend to overestimate the near term and underestimate the long term



Are technology giants overspending on artificial intelligence, or will the technology be more impactful than any of us expect? The answer could be both.

That's because we tend to overestimate mega trends in the short term while underestimating them in the longer term. Consider that early estimates for the size of personal computer, mobile phone, internet and cloud computing markets combined fell short by an average 38%. Could AI market estimates fall even shorter?

"What is remarkable about AI is its broad potential utility," equity portfolio manager Mark Casey says. "Because it can take on a multitude of human tasks, I consider the AI market to be unknowably massive."

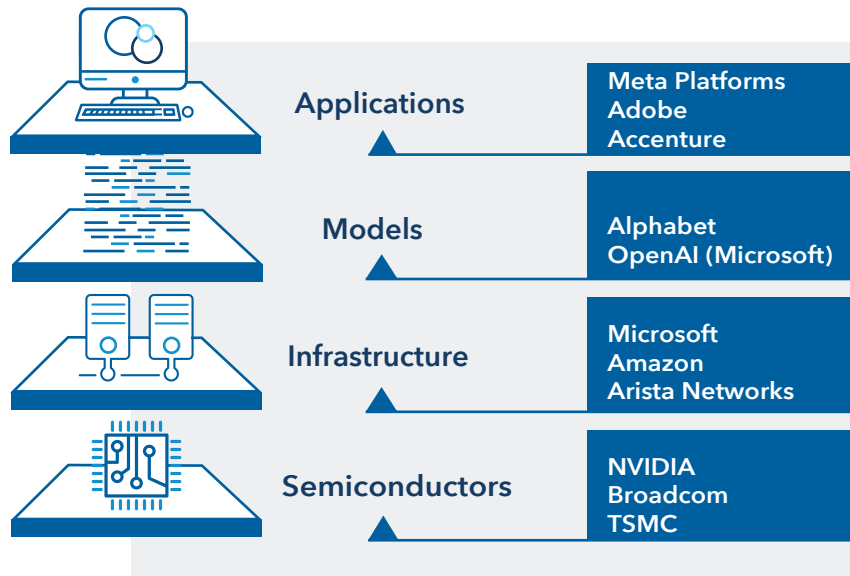
Tech giants Amazon, Alphabet, Meta and Microsoft are expected to collectively spend \$500 billion over the next three years in a race for dominance. Will there be overcapacity? "There might be overinvestment, but capital expenditure sprees are a feature, not a bug, of technological change," says U.S. economist Jared Franz. "We need time for experimentation for enterprises to determine how to use AI for competitive advantage. And so we'll probably have an AI winter before the gains on investment are fully realized."

Of course, as with any new technology, there will be winners and losers. Remember when Apple was chasing Blackberry for dominance of smartphones? "That's why we're actively seeking to identify the former and avoid the latter," says Casey.

Source: Morgan Stanley AI Guidebook: Fourth Edition, January 23, 2024. Initial forecast dates were February 1996 for PC and internet users; January 2010 for smartphone shipments; and March 2017 for cloud revenue. Capital expenditure (capex) is money invested for acquisitions, upgrades, renovations and adoption. It can be tangible (i.e., real estate) or intangible (i.e., licenses, software).

AI opportunities in tech stack and its supply chain

AI opportunity stacking up across four tech layers



When and where will the multibillion dollar AI spending spree pay off for investors?

The answer is likely in the four-layer technology stack that enables AI workloads, as well as the supply chain needed for AI infrastructure.

The AI stack starts with semiconductors and includes cloud infrastructure, large language models such as Chat GPT, and applications for end users. Chipmakers like NVIDIA and ASML operate at one level while tech giants like Alphabet, Microsoft and Amazon seek to dominate multiple layers.

“There will be successful companies at each layer of the stack, and certain companies are trying to launch successful products at two or even three

AI supply chain boosts old economy companies

Industry	Demand	Potential beneficiaries
 Mining	Construction materials	Freeport-McMoRan, BHP, Glencore, First Quantum
 Utilities	Power demand	Constellation Energy
 Industrials	Capital equipment	Modine, Vertiv, Eaton, ABB, Schneider Electric

layers,” says equity portfolio manager Mark Casey. “The question is, which companies will execute best – and which will stumble. That’s what I am focused on.”

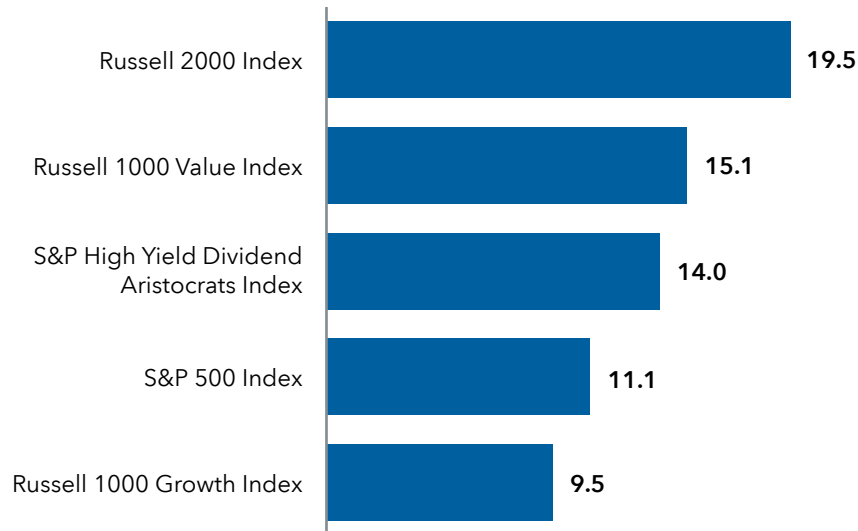
The AI supply chain is also driving capital spending. The build-out requires vast physical resources, including copper, capital equipment and a lot of electricity. Soaring demand for these resources has been a boon for old economy utility, industrial and mining companies. “The four so-called hyperscalers – Alphabet, Amazon, Meta and Microsoft – are spending about half of their capex budget on technology and half on buying land, constructing as many data centers as possible near reliable power and locking in long-term contracts with energy suppliers,” Casey says. “That should provide investment opportunity for years.”

Source: Capital Group interpretation of technology stack that enables AI to operate. Companies listed are examples of businesses that are among leaders of market share in each segment. Hyperscalers are large-scale cloud service providers that offer computing power and storage to organizations and individuals globally. As of November 30, 2024.

Broadening market shines spotlight on dividend payers

Market gains have recently extended beyond tech

Cumulative returns (%) since June 30, 2024



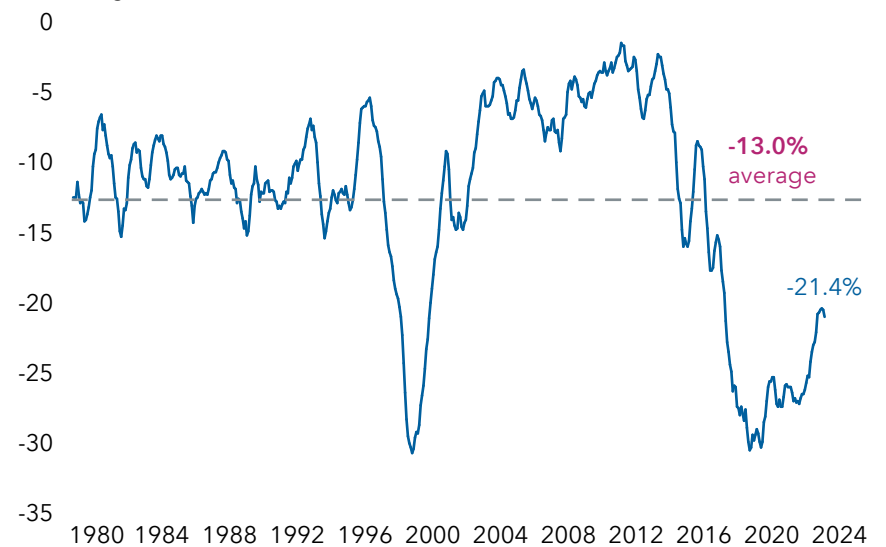
The iron grip that the largest U.S. tech companies have held over market returns has shown signs of loosening. Market participation broadened beyond the tech sector in the second half of 2024, as dividend payers, value-oriented stocks and and small-cap companies generated strong gains.

While investors should not overemphasize short-term trends, conditions appear favorable for broader market participation to continue, boosted by incoming President-elect Donald Trump’s business-friendly policy agenda. Priorities include easing regulations for banks, energy and health care companies, as well as increasing defense spending. The U.S. commerce department recently tapped global defense contractor BAE Systems in November to provide semiconductors used in jets and satellites.

Sources: Capital Group, FactSet. As of November 30, 2024. Past results are not predictive of results in future periods.

Dividend payers remain relatively cheap

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



These priorities could strengthen free cash flows for a range of dividend-paying companies, enabling them to boost payments. In addition, long-term trends such as electric vehicle adoption moving manufacturing onshore in the U.S. and AI data center construction will boost electricity demand. For example, CenterPoint Energy is forecasting strong demand for electricity and natural gas in Texas in 2025.

“I am looking for opportunities to invest in dividend payers that have been left behind by the market,” says equity portfolio manager Cheryl Frank. “These include forgotten pharma, or drugmakers that have been ignored amid the market focus on weight loss treatments, as well as utilities and select banks and defense companies.”

Sources: Capital Group, Goldman Sachs. As of October 31, 2024. High-dividend stocks refer to the cohort of stocks in the S&P 500 Index with the highest quintile dividend yield (sector-neutral) relative to the broad S&P 500 Index. Line represents smoothed six-month average. P/E ratio = price-to-earnings ratio. Past results are not predictive of results in future periods.

Go small: The outlook is brightening for undervalued small caps

How low can you go? Small-cap stocks, those with market capitalizations of roughly \$6 billion or less, have been trading near their cheapest valuations in more than 20 years relative to large companies. The historically low valuations are due to a tough period of higher interest rates, along with market euphoria for U.S. technology giants.

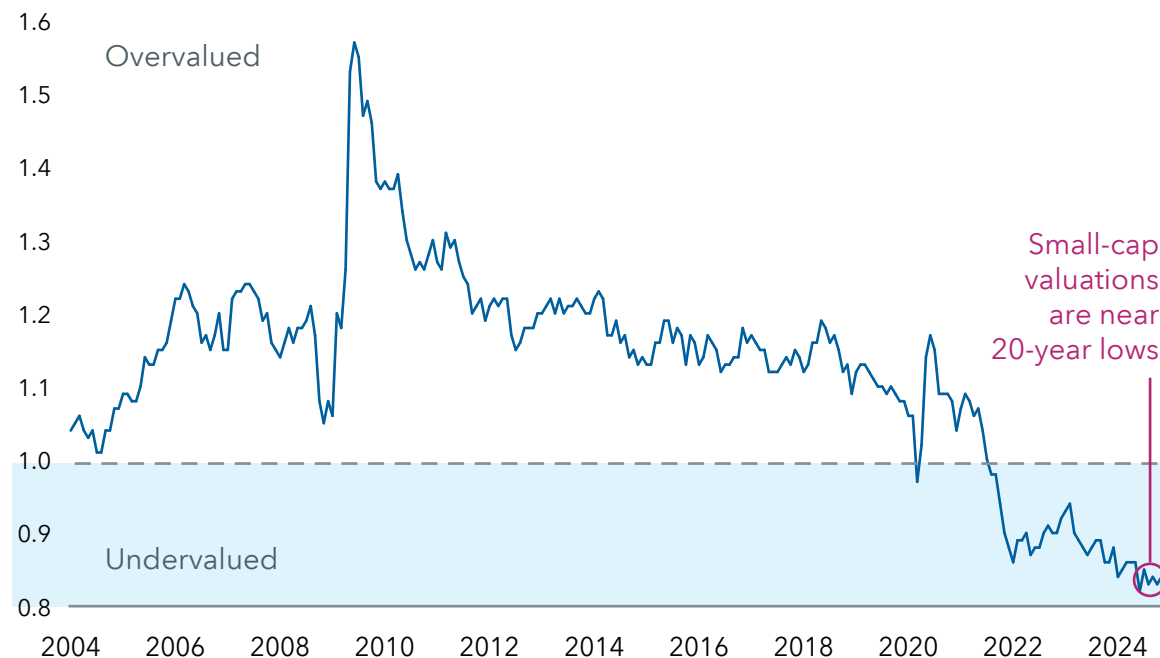
However, history suggests they can pack a punch. Small caps have outpaced large caps in about 70% of rolling three-year periods since 2000, according to MSCI data, making the asset class an important source of global equity returns.

“The valuation disconnect between small and larger stocks is one of the highest we’ve seen,” says portfolio manager Julian Abdey. “There are a lot of innovative companies reasonably priced relative to larger companies associated with well-known market themes. I believe certain small caps are poised for a comeback.”

Several catalysts could spur a turnaround. The reindustrialization of America stemming from deglobalization and the build-out of AI data centers are massive investments. Companies that make heating and ventilation systems, as well as those that build cooling systems, have seen rising demand for their offerings. What’s more, pro-growth, deregulatory policies expected from the incoming Trump administration could provide a further tailwind for U.S. small caps.

Valuations for global small caps are near multi-decade lows

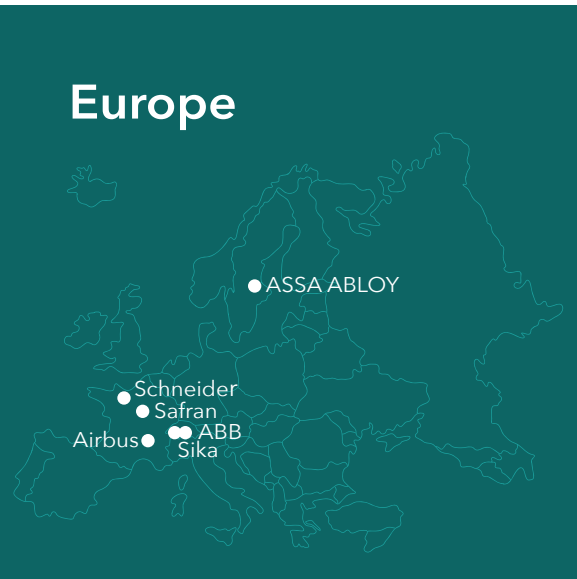
MSCI ACWI Small Cap Index P/E relative to MSCI ACWI Large Cap Index



Sources: Capital Group, FactSet, MSCI. As of November 30, 2024. P/E = price-to-earnings. The y-axis represents the ratio between the P/E of MSCI ACWI Small Cap Index and the P/E of the MSCI ACWI Large Cap Index. Small caps outpacing large caps in three-year rolling periods refers to MSCI ACWI Small Cap Index relative to MSCI ACWI Index for all three-year rolling periods ending between December 2000 and November 2024, calculated on a monthly basis.

Capex super-cycle boosts Europe’s industrial titans

Europe is not the key driver of success for European companies



Industry	Company examples	% of revenue by geography	
		Rest of world	Europe
Aerospace / Defense	Airbus (France)	60.7	39.3
	Safran (France)	57.0	43.0
Electrical equipment	Schneider Electric (France)	72.1	27.9
	ABB (Switzerland)	64.1	35.9
Building products	Sika (Switzerland)	69.4	30.6
	ASSA ABLOY (Sweden)	67.9	32.1

If there is one thing we’ve learned from U.S. tech giants, it’s that bigger really can be better when it comes to scale. But the potential competitive advantages of scale are not limited to the tech mega caps.

Global trends have laid the foundation for a capital expenditure super-cycle. The build-out of data centers, a rebound in global travel and new energy sources are creating growth opportunities for Europe’s industrial titans. To be sure, tariff proposals in the U.S. could pose headwinds for European companies so we are monitoring developments closely.

Air travel is now above pre-COVID levels, driving demand for new commercial aircraft. Airbus, one of only two major manufacturers of planes globally, has a backlog of orders stretching out a decade.

France-based Schneider Electric, a leader in the industry, has posted double-digit sales growth for the third quarter of 2024 from global data center build-out, which is fueling demand for specialized equipment.

Within construction, a growing preference for durable materials that boost energy efficiency and lower costs has created opportunity for chemicals makers, such as Switzerland’s Sika. Operating in a fragmented market, Sika is looking to gain market share by using size and scale to its advantage.

“These trends represent multi-decade investment opportunities, and we are only in the early innings,” says equity portfolio manager Lara Pellini. “Europe is home to some industrial powerhouses solidifying their foothold in areas ripe for potential long-term global growth.”

Sources: Capital Group, FactSet. Revenue by geography is estimated by FactSet based on most recently reported figures. As of November 30, 2024. Company examples cited are for illustrative purposes only and are not meant to be an investment recommendation.

Dig deeper to discover opportunities in emerging markets

Emerging market heavyweights India and China have charted very different courses over the last five years, with Indian equities outpacing their Chinese counterparts by a wide margin. Valuations reflect these divergent outcomes.

While each market offers compelling opportunities, they have their own distinct investment drivers and risks.

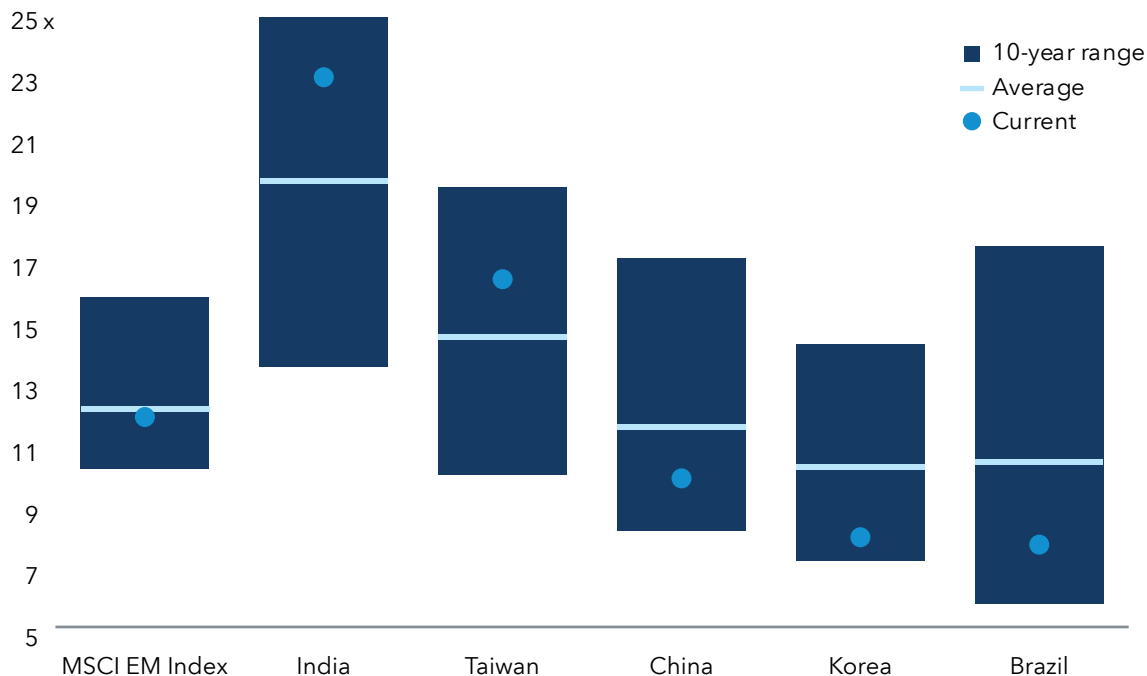
Surging smartphone penetration among India's large, youthful population has been a boon for telecom companies like Bharti Airtel, but with valuations lofty, selectivity is key.

China's huge domestic consumer market could receive a boost from more government stimulus, providing opportunities for well-positioned online businesses. According to portfolio manager Chris Thomsen, "Companies like Tencent and NetEase have dominant positions, strong cash flows and quality management teams." But the risks to investing in China remain elevated given ongoing friction with the U.S. and the trade priorities of the incoming Trump administration.

Taiwan Semiconductor Manufacturing Company, the global leader in advanced chip fabrication, and Korea's memory chip giants Samsung and SK hynix are scrambling to keep up with demand for advanced semiconductors used in artificial intelligence applications. Meanwhile, realignment of global supply chains is presenting opportunities in Brazil, Mexico and Indonesia.

Some emerging markets are attractively valued relative to history

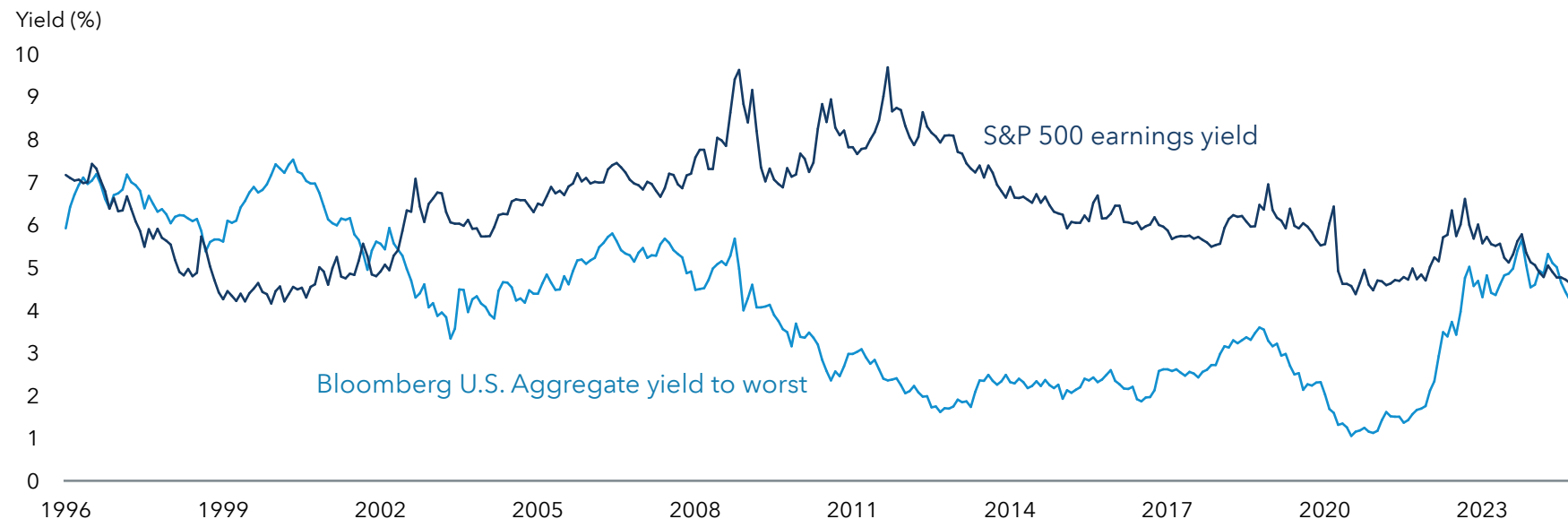
Forward price-to-earnings ratios across five largest emerging markets



Sources: Capital Group, MSCI, RIMES. Countries are represented by their respective MSCI index and are the five largest countries by index weight within the MSCI Emerging Markets Index. The forward P/E ratio (or forward price-to-earnings ratio) divides the current share price of a company by the estimated future ("forward") earnings per share (EPS) of that company. For valuation purposes, a forward P/E ratio is typically considered more relevant than a historical P/E ratio. As of November 30, 2024.

Bond income potential may have staying power

Bond yields have surpassed the S&P 500 Index earnings yield



The era of TINA or “there is no alternative” to stocks may be over. Income opportunities from bonds are near the best in decades, and investors now have more options.

After years of lagging, the yield on the Bloomberg U.S. Aggregate Index is higher than the S&P 500 Index earnings yield as of November 30, 2024. In addition to reclaiming their traditional role of providing income, bonds can help lower the overall risk in a portfolio.

The Federal Reserve’s historic campaign to combat inflation lifted rates and, by extension, yields across bond sectors. Historically, starting yields have been good indicators of long-term annualized returns.

With the Fed on a cutting cycle, yields are expected to gradually decline over the next year, says portfolio manager Vince Gonzales. However, potential inflationary impulses stemming from the prospect of higher fiscal deficits and tariffs may keep the 10-year and 30-year U.S. Treasury yields elevated.

“In today’s rate environment, investors can capture a healthy level of income within high-quality bonds,” explains Gonzales. “Security selection may be a driver of return, with attractive opportunities in agency mortgage bonds and securitized credit.”

What’s more, with inflation trending lower, the Fed has room to be responsive to potential challenges in labor markets and boost bond returns via additional rate cuts.

Sources: Bloomberg Index Services Ltd., FactSet, Standard & Poor’s. As of November 30, 2024. Earnings yield is equal to the forward expected earnings-per-share divided by the share price. Yield to worst is the lowest yield that can be realized by either calling or putting on one of the available call/put dates or holding a bond to maturity. Past results are not predictive of results in future periods.

Bonds should offer balance in the years ahead

Whether it's the calm before the storm or clear skies ahead, bonds can help investors navigate potential equity market volatility in 2025.

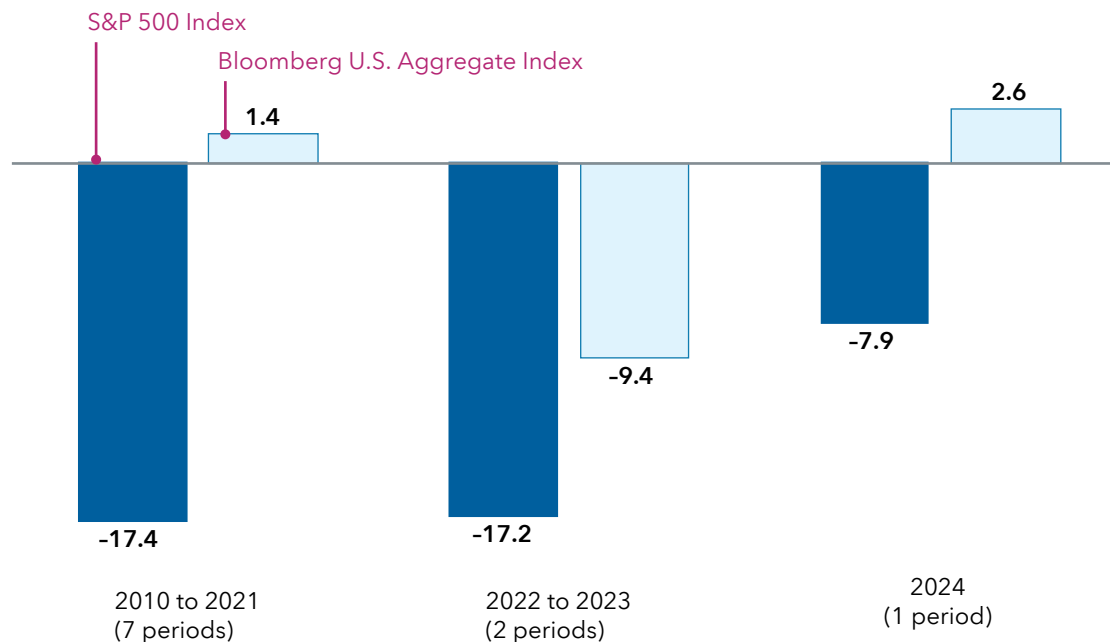
"The Federal Reserve is focused on supporting labor markets now that inflation is near target," says portfolio manager Tim Ng. "All else equal, lower policy rates should be positive for risk markets and the economy." Nevertheless, investors are likely to appreciate bonds most for the stability they can provide when stocks decline.

"Bonds are in a position to offer diversification benefits again given higher yields and a supportive Fed," Ng says. For example, when the S&P 500 Index plunged 7.9% from mid-July to early August 2024, the Bloomberg U.S. Aggregate Index posted a 2.6% gain. While there are no guarantees that will happen again, it's a good reminder of the important role high-quality bonds can play as part of a diversified portfolio.

The Fed has ample room to cut rates even faster – more than current market expectations – if a growth shock occurs or recession risk escalates. Those rate cuts can help lead bonds to appreciate and offer diversification from equity markets. Historically, periods of rate cuts have led to strong returns for high-quality core bonds since bond prices rise as yields fall.

Diversification from equities appears to have returned for high-quality bonds

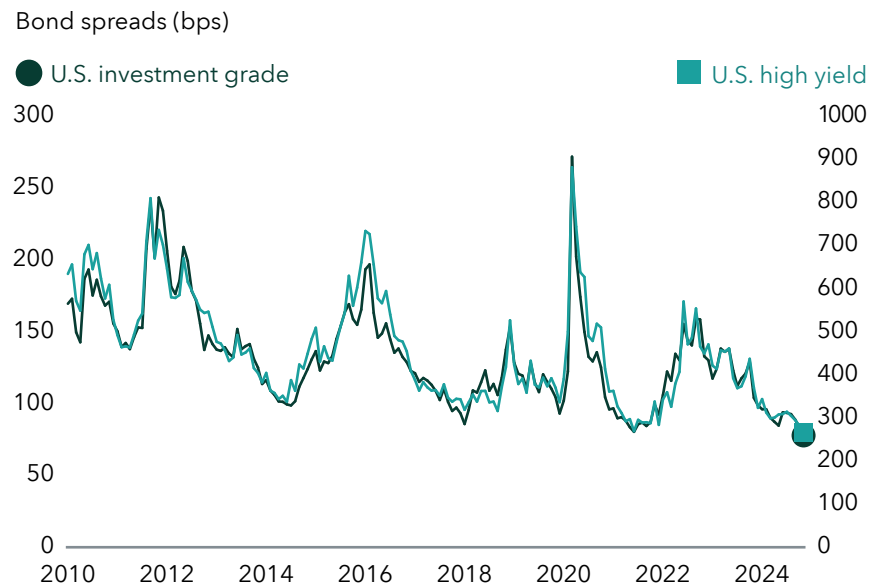
Average total returns during periods of equity volatility (%)



Sources: Capital Group, Morningstar. Periods of equity volatility from 2010 to 2023 are based on price declines of 10% or more (without dividends reinvested) in the S&P 500 Index with at least 75% recovery. Period of volatility during 2024 refers to July 15, 2024 through August 4, 2024. Data for 2024 as of November 30. Past results are not predictive of results in future periods.

Economic tailwinds support corporate and high-yield bonds

Valuations reflect positive economic outlook

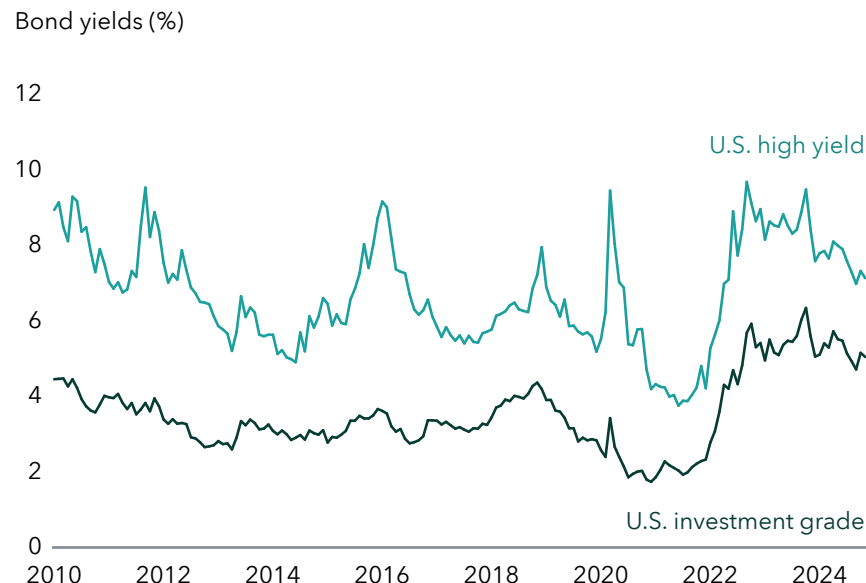


Economic growth accompanied by interest rate cuts may offer a favorable tailwind for corporate bonds across the ratings spectrum. Combined with attractive yields, corporate investment-grade (BBB/Baa and above) and high-yield bonds may benefit income-seeking investors.

Companies broadly reported healthy earnings and operated their businesses conservatively over the past few years amid concerns of a recession, says portfolio manager David Daigle. “Although there are weak spots emerging, Fed rate cuts may help mitigate the pace of a potential economic slowdown.”

Despite stable corporate fundamentals, security selection remains an important driver of returns. “Inflation has been challenging for lower income

High starting yields can offer attractive entry points



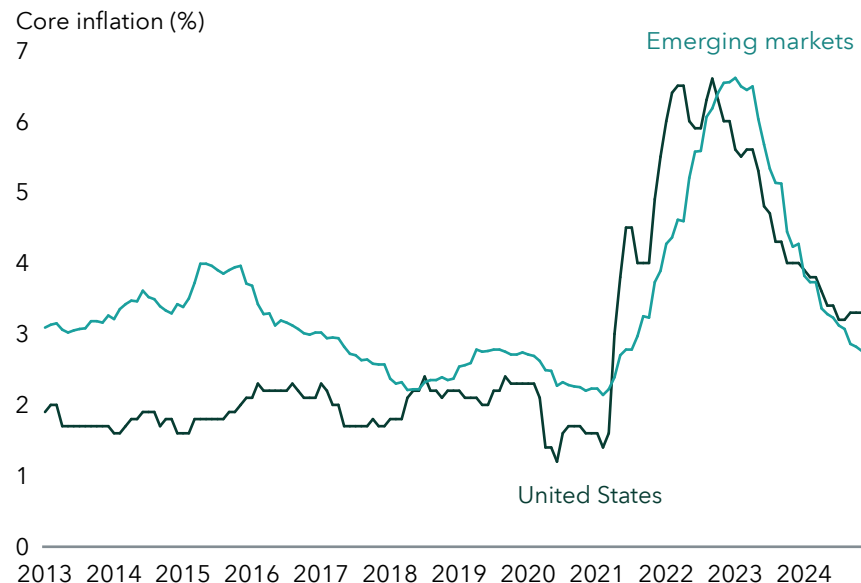
consumers, so certain retailers and consumer cyclical businesses may run into trouble,” Daigle adds. “I think economic growth may slow a year from today, so it’s important to identify which businesses could be most impacted.”

Credit spreads largely reflect a benign economic outlook, but investors can still benefit from the higher yields offered by corporate investment-grade and high-yield bonds compared to U.S. Treasuries. Historically, starting yields have been a good indicator of long-term return expectations. “Income potential remains strong relative to history, and exposure to these sectors should be considered as part of an overall diversified portfolio,” Daigle says.

Sources: Capital Group, Bloomberg Index Services Ltd. U.S. high yield refers to the Bloomberg U.S. High Yield 2% Issuer Capped Index. U.S. investment grade refers to the Bloomberg U.S. Corporate Investment Grade Index. As of November 30, 2024. Past results are not predictive of results in future periods.

Emerging markets debt shows resilience

Emerging markets inflation is trending down

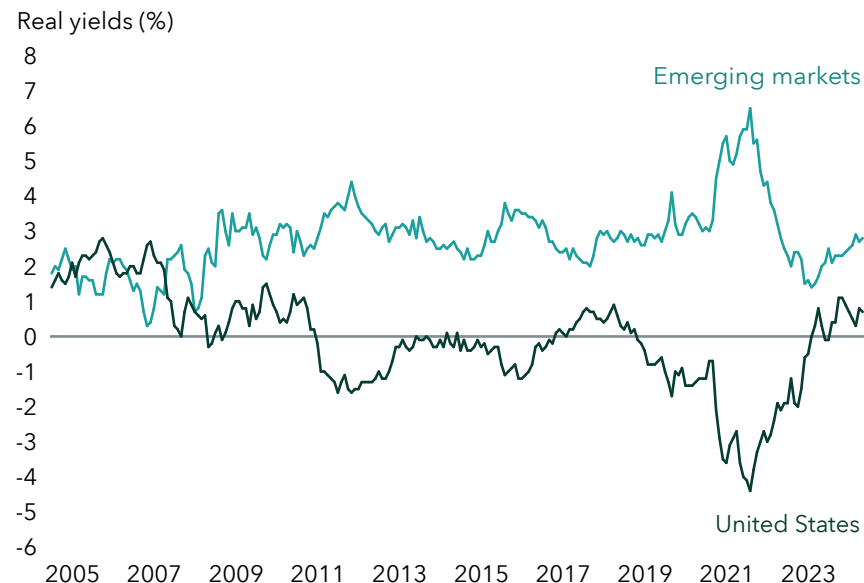


Trump 2.0 raises uncertainty for emerging markets (EM), but Fed easing (although perhaps less so now) in a strong U.S. economy remains supportive for risk assets. Moreover, EMs are now more resilient than they were in 2016.

“Many major EMs have tools at their disposal – better reserves, positive real rates with room to ease, fewer imbalances than developed markets and fair-to-undervalued exchange rates. There’s policy flexibility to weather the storm if needed,” says portfolio manager Kirstie Spence. External balances are generally strong outside less established economies while inflation is mostly on a downward trend amid continued restrictive monetary policy stances. Fiscal indicators are largely considered weak spots, but most major EMs have

Sources: Bloomberg, JP Morgan. As of November 30, 2024. Emerging markets inflation is a weighted average of official inflation measures of each individual country within the JPM Government Bond Emerging Markets Index (excluding Argentina and Turkey), using the same weights as applied to each country within the index. United States inflation refers to Consumer Price Index, excluding food and energy.

Attractive real yields support emerging markets debt



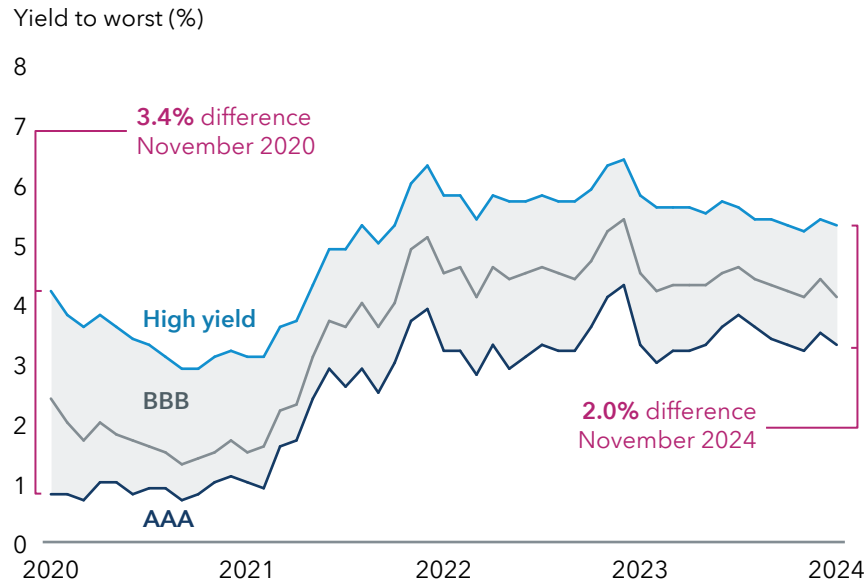
lengthened the maturity profile of their debt and are issuing more in local currency.

A less dovish Fed might keep pressure on central banks in less developed EM economies to maintain higher interest rates domestically, especially countries wrestling with inflation and financial stability risks. In the more developed EM countries, particularly in Asia, central banks have become more confident in moving ahead of the Fed due to the absence of systemic pressure on financial systems and the development of deeper and more liquid local markets.

Sources: Bloomberg, JP Morgan. As of November 30, 2024. Emerging markets refers to JPM Government Bond Emerging Markets Index (JPM GBI-EM Index), and excludes Argentina and Turkey. United States refers to the 5-year U.S. Treasury Index. Past results are not predictive of results in future periods.

Income opportunity shines for municipal bond investors

Investors are being paid relatively less for more risk

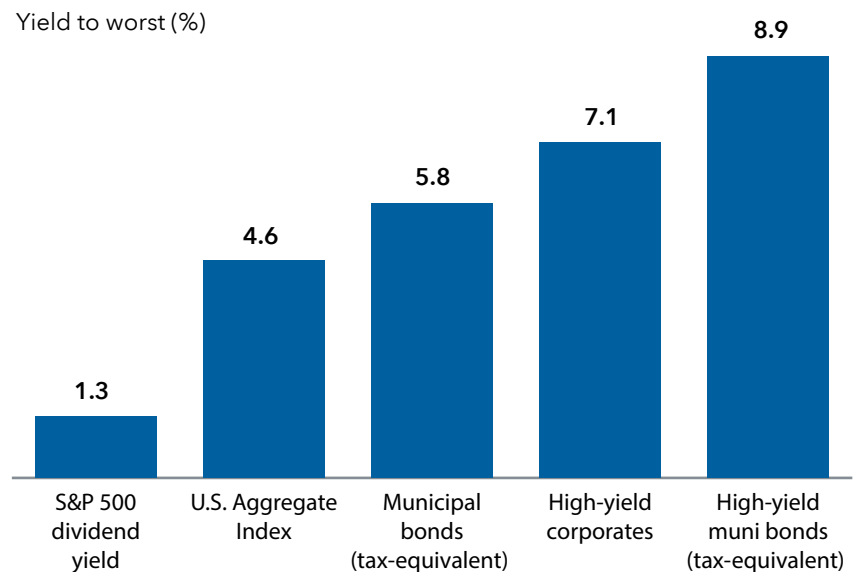


A solid economy and falling rates may be a boon for muni bonds as revenue collection across states, toll roads and other issuers should remain robust. Tax-exempt income also remains attractive compared to other bond sectors.

With yields contracting among credit quality bands, investors can avoid riskier bonds without giving up much income. “We have identified certain issuers that could provide resilience should the economy hit a rough patch because they offer critical services, such as waste companies,” says Jerry Solomon, portfolio manager.

In an environment of lofty valuations, selectivity is key. “I see good opportunities in charter school bonds, where we use research to identify attractive characteristics like academic strength,” Solomon adds. “I’m cautious

Munis offer strong income potential



on tobacco settlement bonds because their payments are linked to tobacco consumption, which has been declining.”

Selectivity is important as monetary policy evolves. “We expect the muni curve to normalize from its current state of inversion,” notes Solomon. As that occurs, longer term bond yields would move back to being higher than shorter term yields.

While income potential appears solid across bond sectors, it looks particularly strong for muni investors in the highest tax bracket. As new leadership takes root in Washington, tax policy could shift on the margins. But munis are likely to remain attractive to tax-sensitive investors.

Source: Bloomberg. Data as of November 30, 2024. AAA represents the Bloomberg Municipal AAA Index, which is a subset of AAA bonds from the Bloomberg Municipal Bond Index; BBB represents the Bloomberg Municipal BAA Index, which is a subset of BBB bonds from the Bloomberg Municipal Bond Index; and high yield represents the Bloomberg High Yield Municipal Bond Index. Past results are not predictive of results in future periods.

Sources: Bloomberg, Bloomberg Index Services Ltd., Standard & Poor’s. Data as of November 30, 2024. Fixed income sectors represented by Bloomberg U.S. Aggregate Index, Bloomberg Municipal Bond Index, Bloomberg U.S. High Yield 2% Issuer Capped Index and Bloomberg Municipal High Yield Index. Tax-equivalent yield: Highest tax rate assumes the 3.8% Medicare tax and the top federal marginal tax rate for 2024 of 37% and excludes state and local taxes.

Investors should carefully consider investment objectives, risks, charges and expenses.

Investing outside the United States involves risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be heightened in connection with investments in developing countries.

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

The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

Bloomberg U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market. **Bloomberg U.S. Corporate Investment Grade Index** represents the universe of investment-grade, publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specific maturity, liquidity and quality requirements. **Bloomberg U.S. High Yield 2% Issuer Capped Index** covers the universe of fixed-rate, non-investment-grade debt. The index limits the maximum exposure of any one issuer to 2%. **Bloomberg Municipal Bond Index** is a market value-weighted index designed to represent the long-term investment-grade tax-exempt bond market. **Bloomberg Municipal High Yield Index** is a market value-weighted index composed of municipal bonds rated below BBB/Baa.

Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. **Core CPI** excludes food and energy prices.

Datastream U.S. Total Market Index measures the results of the U.S. equity market, including large-, mid- and small-capitalization stocks.

JP Morgan Government Bond Index (GBI) – Emerging Markets (EM) Global Diversified covers the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

MSCI Emerging Markets Index captures large- and mid-cap representation across 27 emerging markets (EM) countries. **MSCI All Country World (ACWI) ex USA Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market results in the global developed and emerging markets, excluding the United States. The index consists of more than 40 developed and emerging market country indexes. The **MSCI ACWI Large Cap Index** captures large cap representation across 23 developed markets and 24 emerging markets countries. **MSCI ACWI Small Cap Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market results of smaller capitalization companies in both developed and emerging markets. **MSCI USA Index** is a free float-adjusted, market capitalization-weighted index designed to measure the performance of the large- and mid-cap segments of the U.S. market. **MSCI Brazil Index** is designed to measure the performance of the large- and mid-cap segments of the Brazilian market. **MSCI China Index** captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g., ADRs). **MSCI India Index** is designed to measure the performance of the large- and mid-cap segments of the Indian market. The index covers approximately 85% of the Indian equity universe. **MSCI Korea Index** is designed to measure the performance of the large- and mid-cap segments of the South Korean market. **MSCI Taiwan Index** is designed to measure the performance of the large- and mid-cap segments of the Taiwan market.

Russell 1000 Growth Index measures the results of the large-cap growth segment of the U.S. equity universe. **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. **Russell 2000 Index** measures the performance of 2,000 small-cap stocks.

S&P 500 Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks. **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.

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Investment implications and strategies to consider

Themes	Selective growth and dividend opportunities	International equity opportunities	Core bond opportunities	Credit opportunities
	AI build-out leads a broadening market	U.S. strength driving opportunity for companies around the globe	Bonds can provide strength should volatility strike	Bond income is back
Investment implications	AI spending sprees spark opportunity across the tech stack while old economy companies build out infrastructure. Strong cash flows and attractive valuations point to opportunities across the dividend landscape.	A wave of global trends is laying the foundation for a capital expenditure super-cycle, driving opportunity for European industrial giants.	Bonds typically offer strong income opportunities and a measure of protection from equity market swings.	Steady income potential is possible as yields stabilize at elevated levels.



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*Source: Marketing Support: The Advisor View, June 2024, May 2023, July 2021, June 2020; Fund Intelligence, February 2020. FUSE Research surveys of 500-1,000 advisors identifying the “most-read thought leaders.” Survey was not conducted in 2022.