



CAPITAL GROUP® | AMERICAN FUNDS®

# 2020 Outlook



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

# 2020 Outlook: Key takeaways

## MACRO

### **Stay balanced this election year.**

Patient investors can do well in election years.

The key: It's better to stay invested than sit on the sidelines.

Recession in 2020? Not if the consumer stays strong.

## EQUITY

### **Consider upgrading your equity portfolio.**

It's not too soon to prepare portfolios for rougher seas ahead.

Look for sustainable dividends, not just "value" investments.

If you think all the best stocks are in the U.S., think again.

## FIXED INCOME

### **Consider upgrading your bond portfolio.**

It may be time to revisit your bond allocation.

Consider complements to high-yield corporates.

Muni bonds continue to offer good relative value.



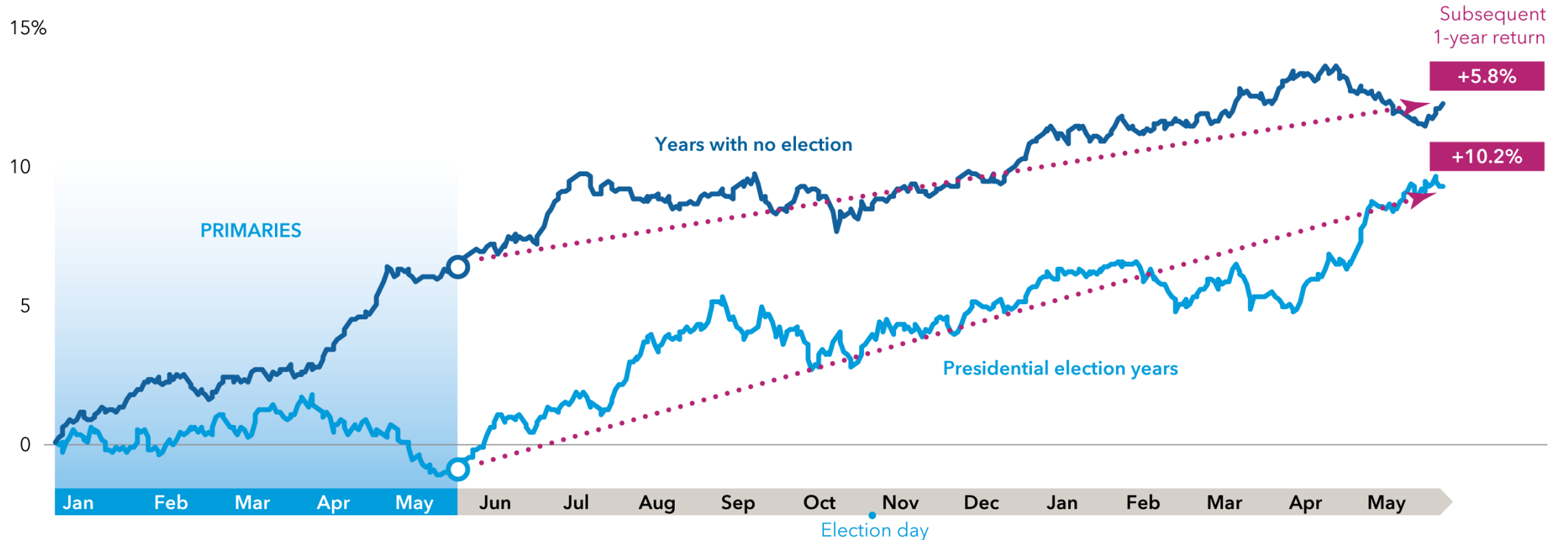
# Stay balanced this election year

Macroeconomic perspectives

# Patient investors can do well in election years

Volatility during primaries is often followed by strong returns

S&P 500 Index average cumulative returns since 1932

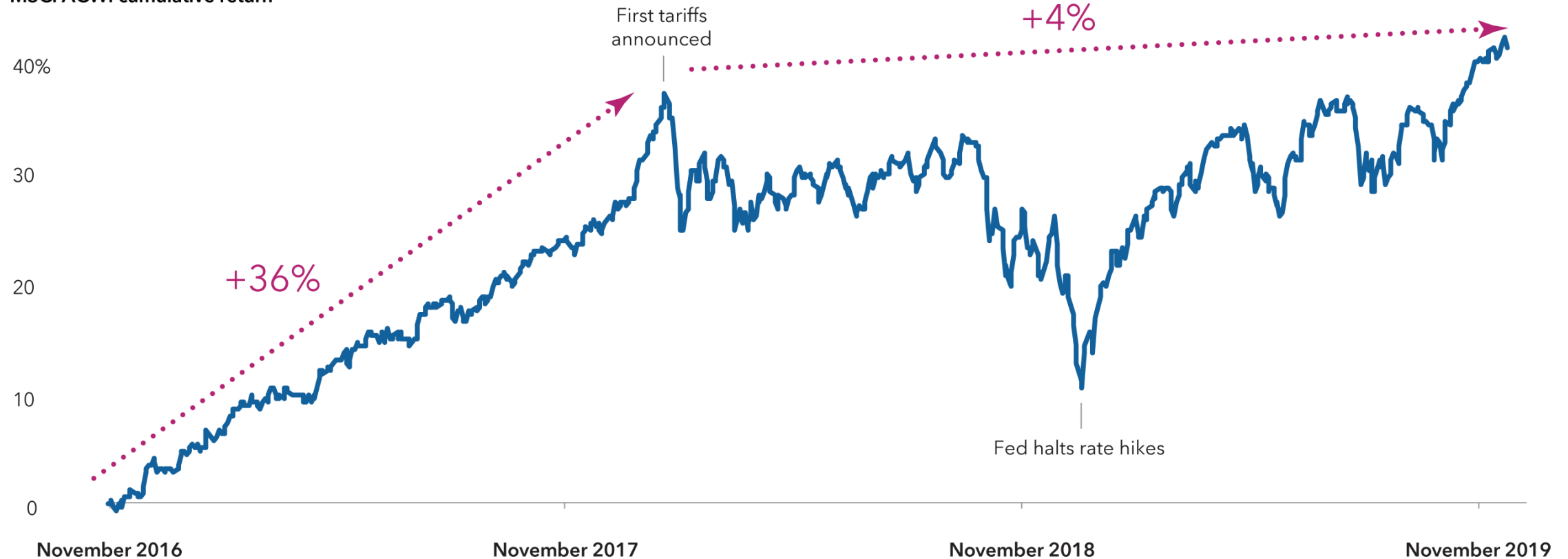


Sources: Capital Group, RIMES, Standard & Poor's. Includes all daily price returns from 1/1/32–11/30/19. Years without an election exclude all years with either a presidential or midterm election. Subsequent one-year return calculation begins on May 31 each year, a proxy for the end of primaries. Standard & Poor's 500 Composite Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks. Returns are in USD.

# Policy and trade uncertainty drive global slowdown

Global stocks have been flat since the trade war began

MSCI ACWI cumulative return



Sources: MSCI, RIMES. As of 11/30/19. Returns are cumulative since the U.S. presidential election on 11/8/16. Returns are in USD.

# To counter slowdown, central banks go lower for even longer

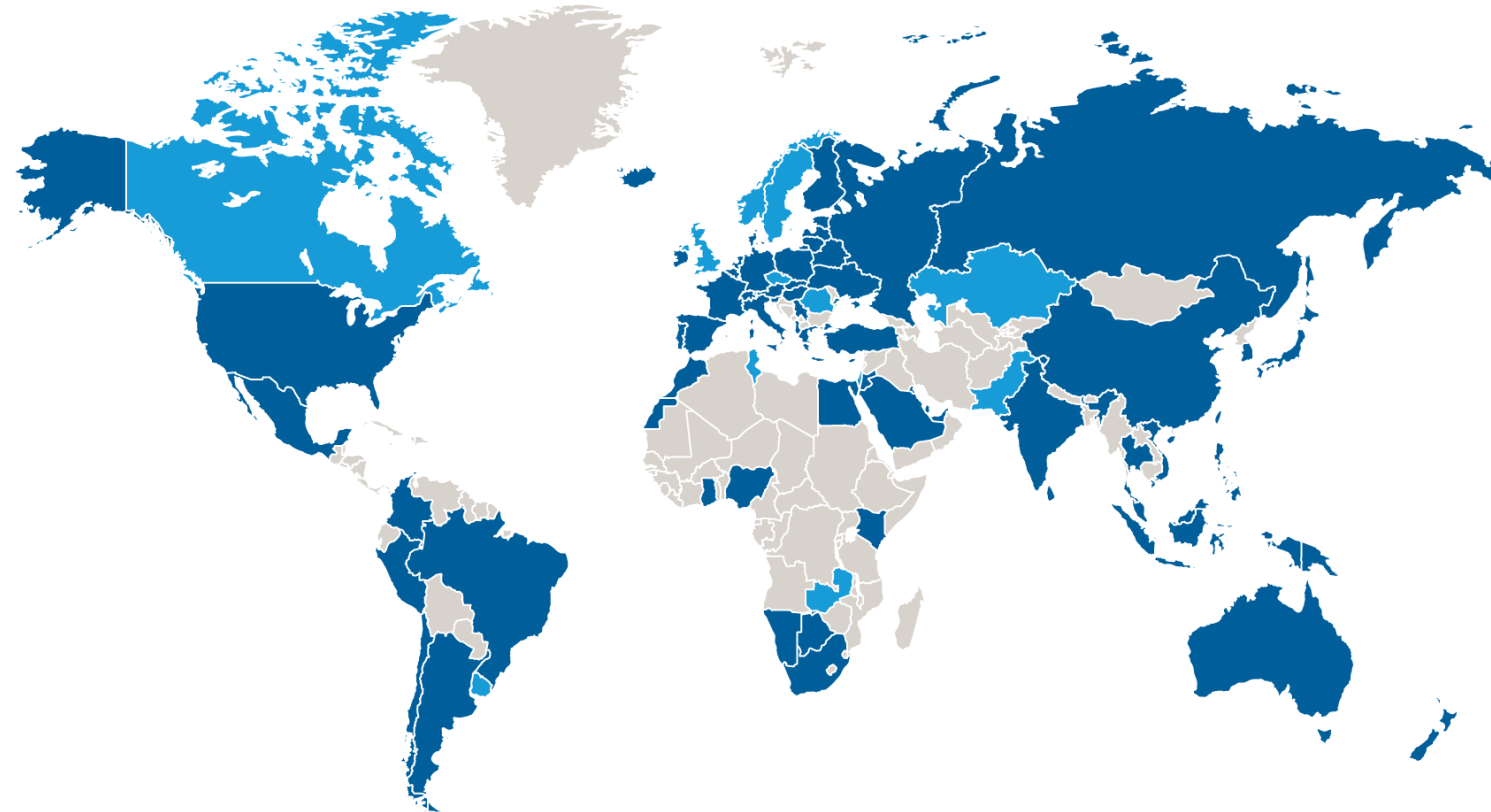
Major central banks ease monetary policy to boost growth and avoid recession

## Latest central bank action

■ Cut ■ Hike

## 10-year yield

U.S.	■	1.78
Canada	■	1.46
Italy	■	1.24
U.K.	■	0.70
Japan	■	-0.08
France	■	-0.08
Germany	■	-0.35



Sources: FactSet, Refinitiv Datastream. As of 11/30/19. Yields are 10-year sovereign bond yields.



# Consider upgrading your equity portfolio

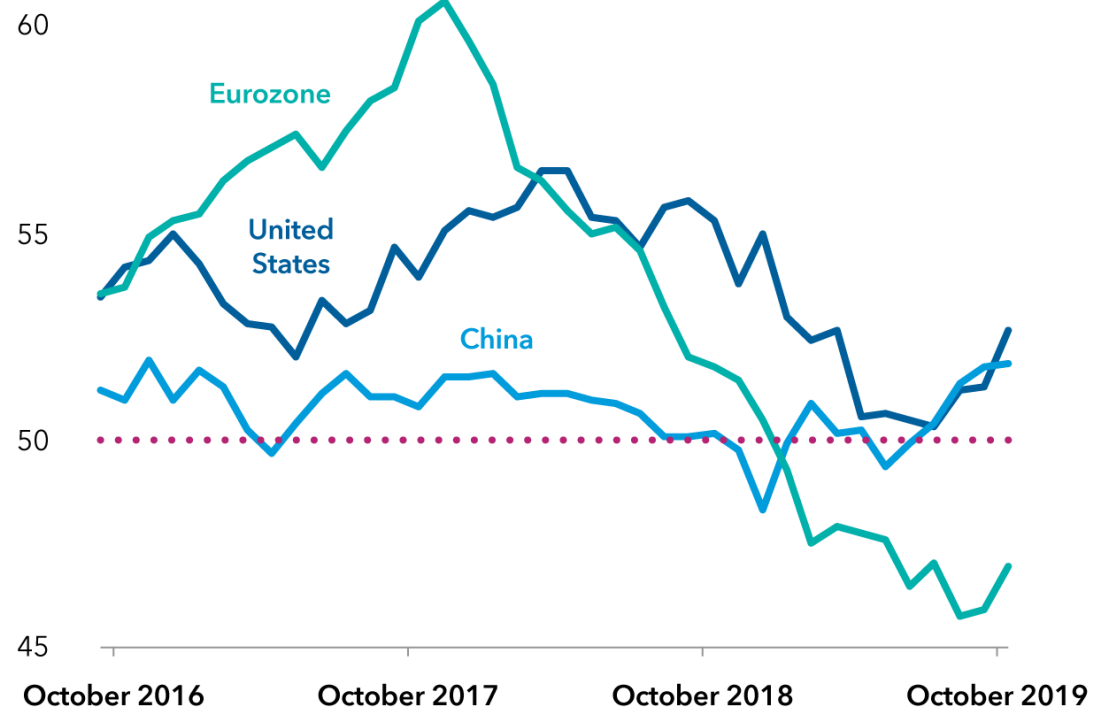
Equity opportunities



# Is a recession likely in 2020? Not if the consumer holds up

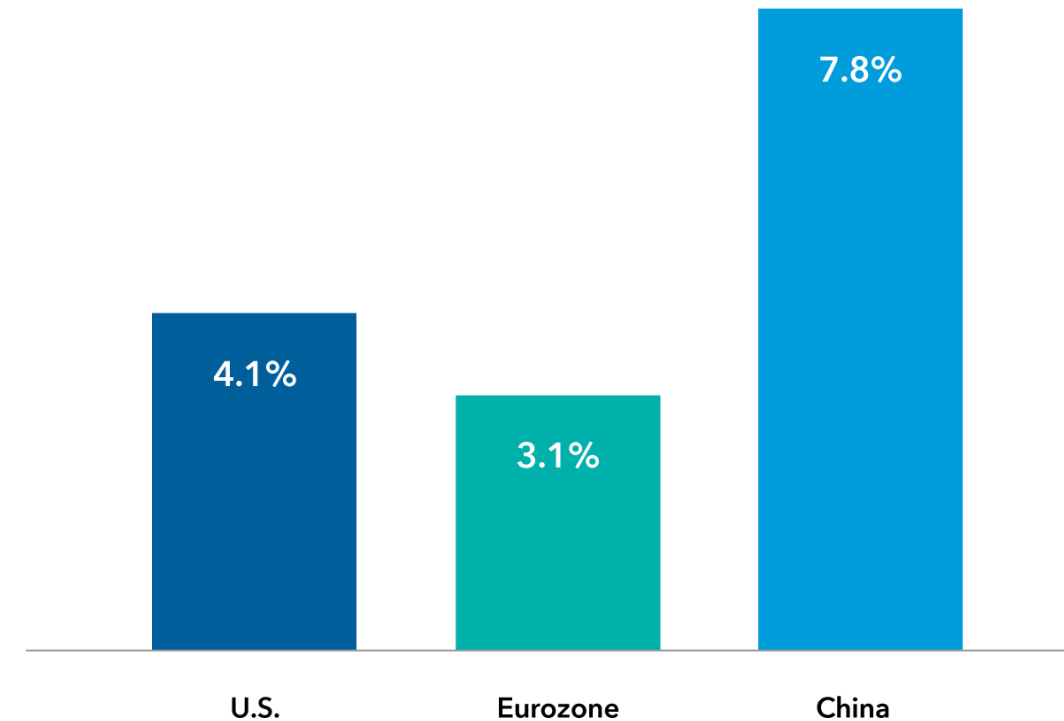
Manufacturing has slowed across major economies ...

Manufacturing PMI



but consumption has been solid

Retail sales growth (YoY)

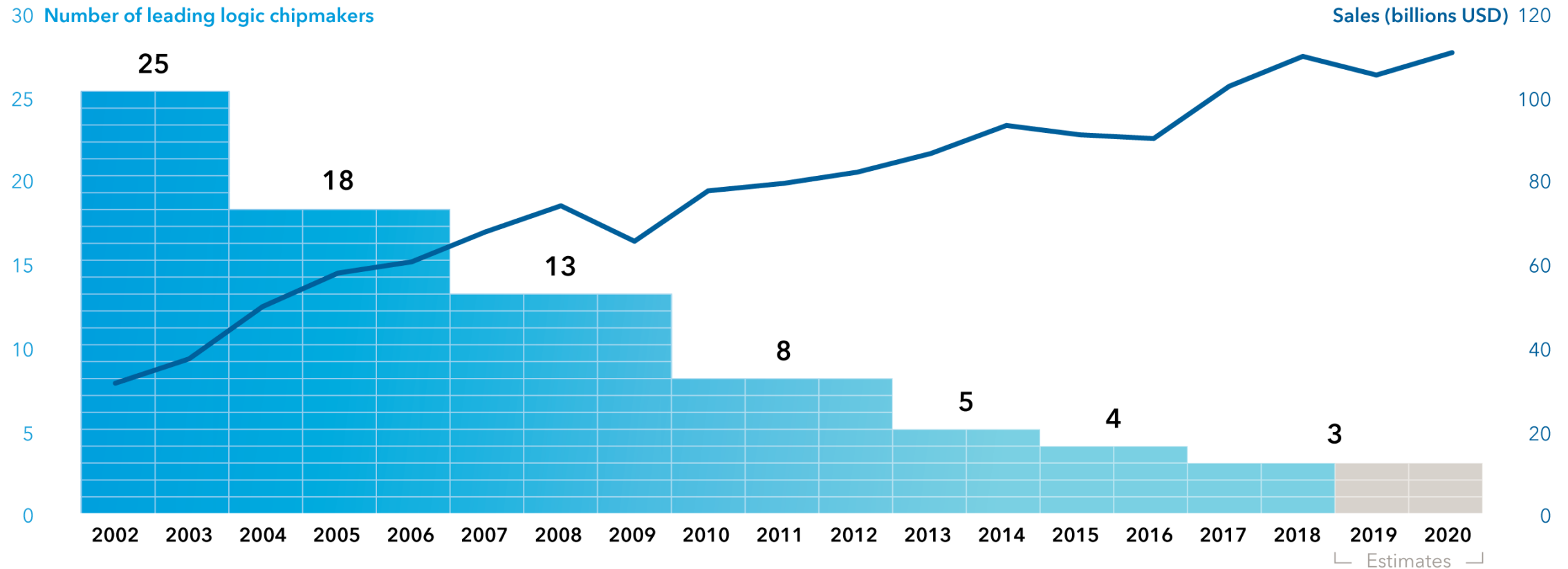


Sources: FactSet, Markit, Refinitiv Datastream. PMI as of 11/30/19. Retail sales as of 9/30/19.

## Playing offense: Consider companies with pricing power

Semiconductor logic: Fewer companies plus soaring demand equals pricing power

30 Number of leading logic chipmakers

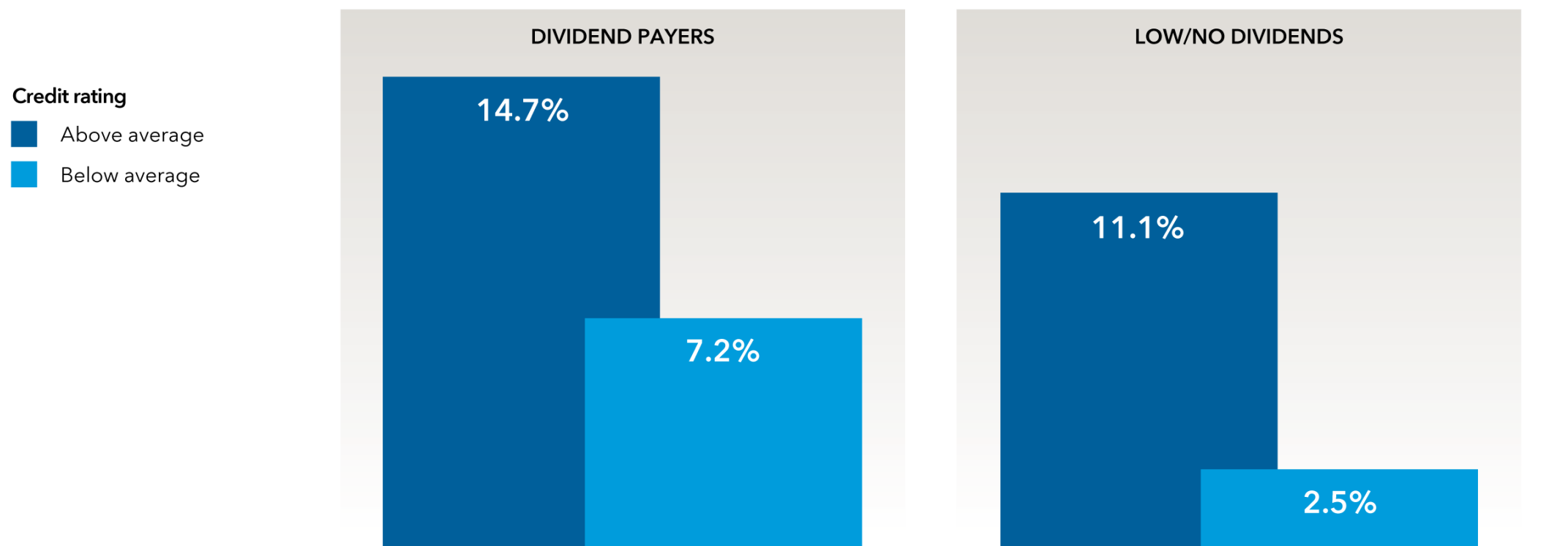


Sources: Capital Group, Intel, Statista, Inc., World Semiconductor Trade Statistics. Number of companies represents semiconductor companies capable of manufacturing the smallest chips available in each period. 2019 and 2020 are estimates.

# Playing defense? Try upgrading with higher quality dividends

Dividend payers with higher credit ratings have led the market since late 2018

Cumulative returns (9/20/2018-11/30/19)



Sources: Capital Group, FactSet, Morningstar. Includes all stocks in the S&P 500 Index for the entire period of 9/20/18–11/30/19. 9/20/18 was the market peak in 2018. “Low/no dividends” category includes all companies with a dividend yield less than or equal to 0.5%. Credit ratings are based on the lower of S&P and Moody’s rating. “Above average” includes credit ratings A or higher. “Below average” includes credit ratings A– or lower. Companies with no credit rating are included in the “Below average” category. Companies without debt are included in the “Above average” category. Returns are in USD.

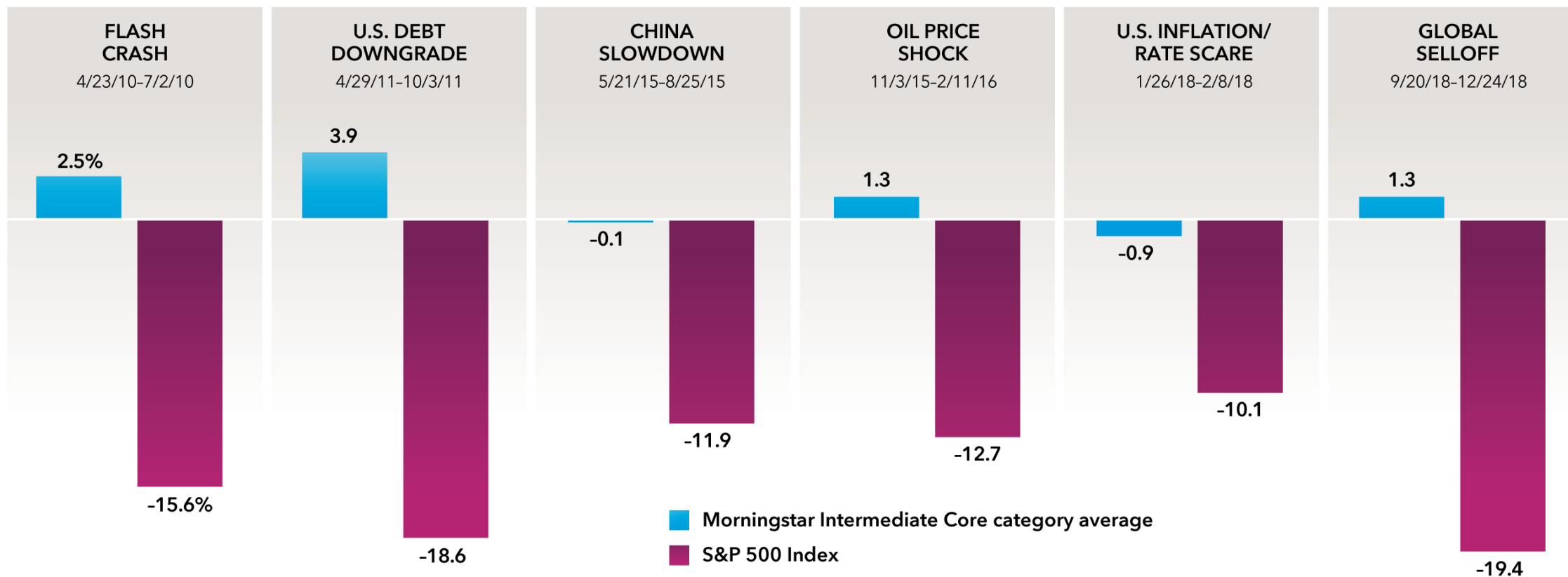


# Consider upgrading your bond portfolio

Fixed income opportunities

## Core fixed income can offer balance when you need it most

When you need core most: Cumulative returns (%) during recent market corrections\*



Sources: Capital Group, Morningstar, Standard & Poor's.

\*Dates shown for market corrections are based on price declines of 10% or more (without dividends reinvested) in the unmanaged S&P 500 with at least 50% recovery persisting for more than one business day between declines. The returns are based on total returns in USD.

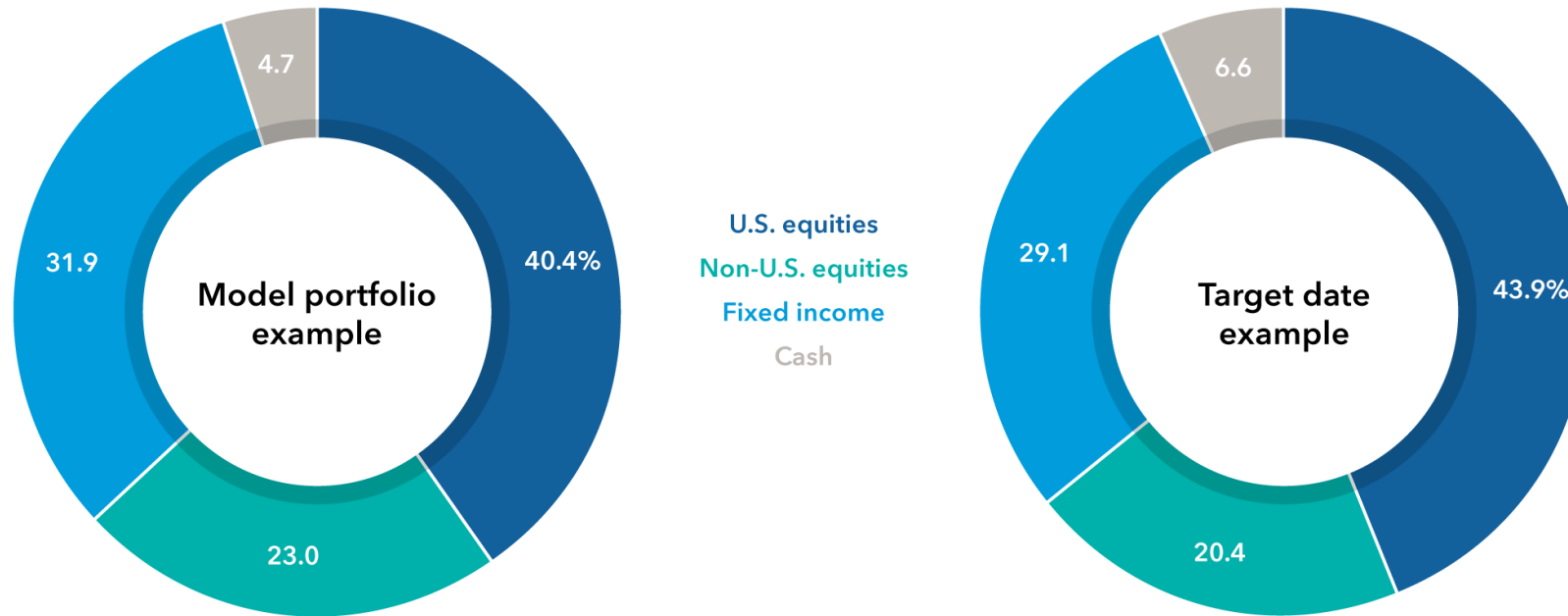


Putting these ideas  
to work in portfolios



# What's the best portfolio allocation for your objectives?

## Sample portfolio allocations



Source: Capital Group. As of 9/30/19. The model portfolio example is American Funds Moderate Growth and Income Model Portfolio<sup>SM</sup>. The target date example is American Funds 2030 Target Date Retirement Fund<sup>®</sup>. Although the target date funds are managed for investors on a projected retirement date time frame, the funds' allocation strategy does not guarantee that investors' retirement goals will be met. American Funds investment professionals manage the target date fund's portfolio, moving it from a more growth-oriented strategy to a more income-oriented focus as the fund gets closer to its target date. The target date is the year in which an investor is assumed to retire and begin taking withdrawals. Investment professionals continue to manage each fund for 30 years after it reaches its target date. Changes in the equity allocation within the underlying equity-income and balanced funds may affect the overall equity exposure in the target date funds.