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WEBINARS

Bond market opportunities in 2023

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This is where all of the approved questions will appear

Ask your question here

Ask a question

Navigating volatility and finding opportunity



Macro



Markets



Actionable ideas

The risk of recession looms

Inflation and monetary tightness may persist, hampering global growth

Key drivers

Capital Group view*



High inflation

- Inflation may have peaked, but broad-based pressures could delay its decline to central bank targets
- Stickier categories holding up inflation have been prolonging monetary policy tightening



Uncertain monetary policy

- Monetary policymakers may be constrained on easing to combat recession if inflation's decline stalls
- The impact of tighter financial conditions is weighing on sentiment and activity
- The market is pricing in a terminal fed funds rate of around 5% in the first half of 2023



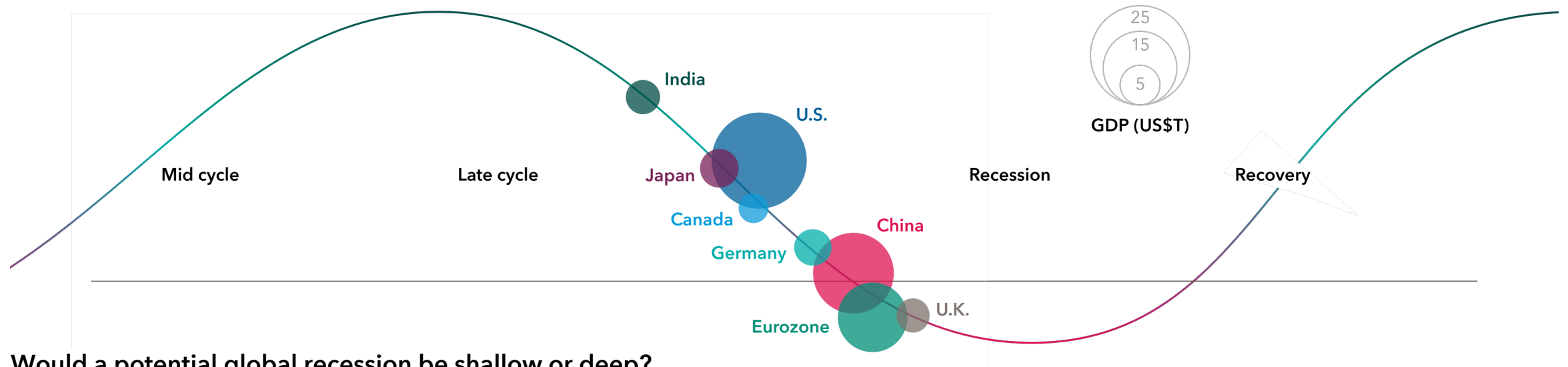
Risk of recession

- Geopolitical and policy pressures likely lead to further deterioration in global financial conditions
- Probability of a recession in coming quarters is likely higher than consensus suggests
- As recession nears, we anticipate that credit spreads will widen as earnings expectations decline

*Based on Capital Strategy Research (CSR) Group view. The views of individual portfolio managers and analysts may differ.
Source: Capital Group. As of 11/15/22.

The global economy is largely late-cycle

Obstacles to growth loom, recession may be on the horizon



Would a potential global recession be shallow or deep?

Reasons it might be shallow

- Strong labor market dynamics
- Wage growth to help sustain consumers
- Central banks in strong position to reverse course
- U.S. corporate fundamentals appear solid

Reasons it might be deep

- High inflation/Commodity prices
- Tighter monetary policy
- A weak Chinese economy
- High cost of credit could hamper recovery

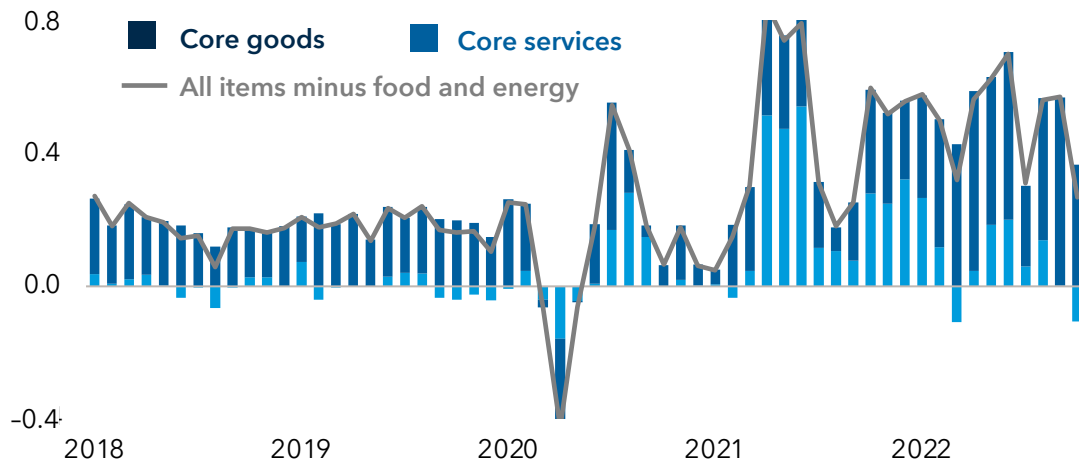
Sources: Capital Group, FactSet. GDP data are in USD and are the latest available through 9/30/22. Country positions within the business cycle are forward-looking estimates by Capital Group economists as of November 2022.

Inflation remains elevated. Is the Fed's action working?

Inflation appears somewhat stubborn, but market concern looks muted

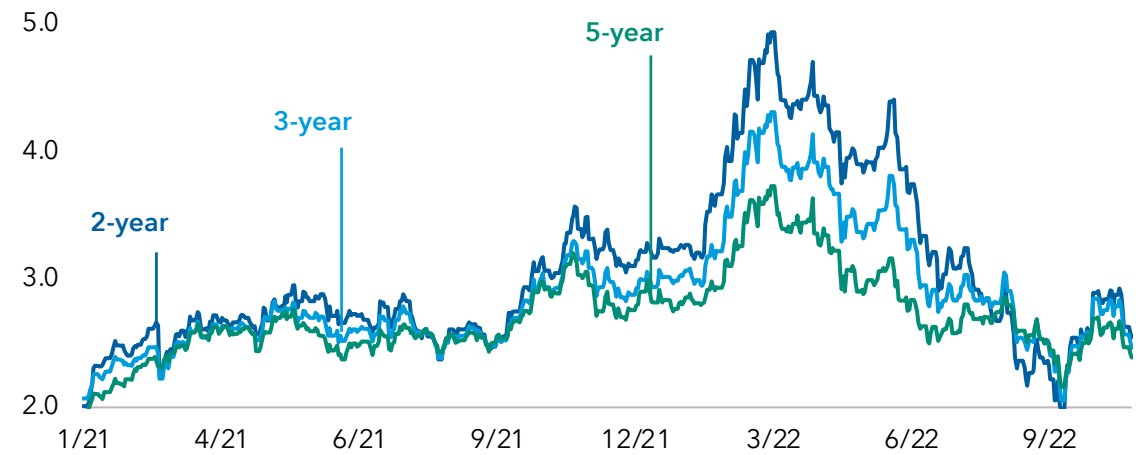
More stubborn service inflation has taken over¹

Contributions to core Consumer Price Index MoM (%)



Inflation expectations have fallen from peak²

Treasury Inflation-Protected Securities breakeven rates (%)



How quickly inflation declines depends on if it's more structural or cyclical

Arguments for structural inflation (5%)

- Labor markets are tight/mismatches persist
- Rental prices are rising and persistent
- Rolling supply chain problems
- Geopolitical uncertainty/deglobalization

Argument for cyclical inflation (2%)

- Goods prices are coming down
- Bottlenecks are becoming unclogged
- Monetary policy is tightening
- Fiscal policy is tightening

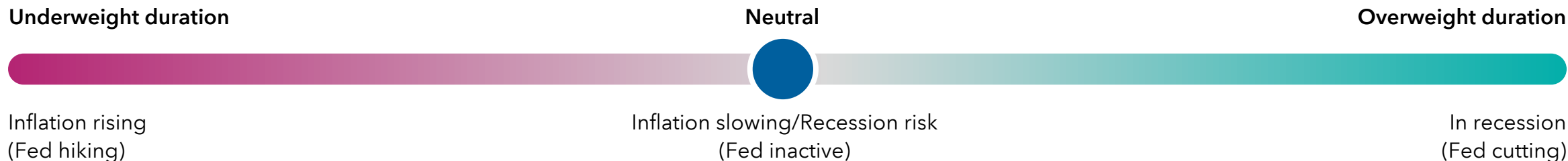
¹Sources: Capital Group, Bureau of Labor Statistics. As of 10/31/22. The Consumer Price Index measures the overall change in consumer prices based on a representative basket of goods and services over time. MoM (month-over-month) refers to the percent change from the previous month.

²Source: Bloomberg. As of 11/15/22. Breakeven rates are the difference in yield between inflation-protected and nominal debt of the same maturity.

Interest rate risk is becoming better balanced

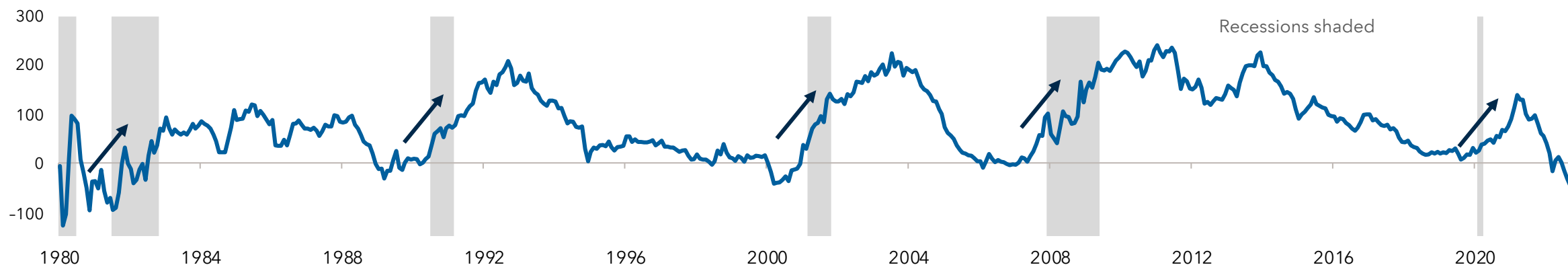
History suggests opportunities in parts of the yield curve

Interest rate risk is becoming more balanced following a year of aggressive rate hikes



A more balanced view amid risk of recession suggests an opportunity in yield curve positioning

Spread between 3-year and 10-year Treasury yields, bps



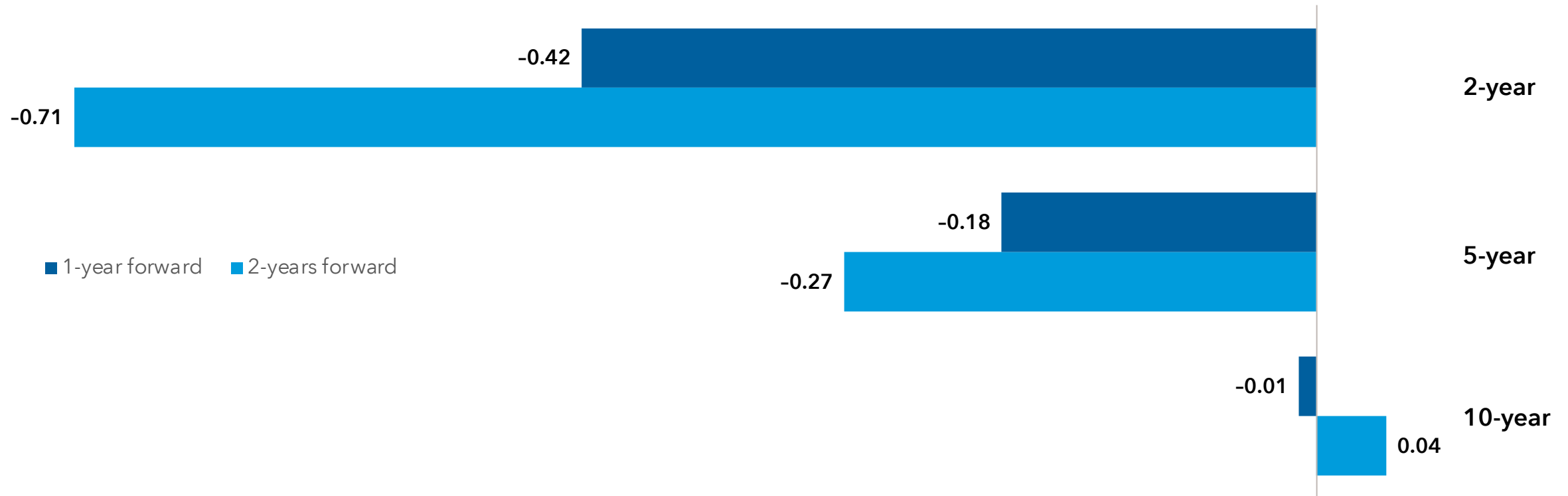
We anticipate yield curve steepening as recession nears

Sources: Capital Group, Bloomberg, Refinitiv Datastream. As of 10/31/22. Duration is a measure of interest rate risk.

Bond prices already appear to reflect the Fed's plans

Markets do not expect higher yields over the next few years

Change in Treasury yields (%)



Source: Bloomberg. As of 11/15/22. Change in yield based on forward interest rate contract pricing. Past results are not predictive of results in future periods.

A rise in yields uncovers fresh opportunities across markets

Investors are seeing more income potential in bonds

Yields of key fixed income markets (%)

	Recent low	11/15/22	Change
U.S. Aggregate Index	1.02	4.69	+3.67
Investment-grade corporates	1.74	5.48	+3.74
High-yield corporates	3.53	8.71	+5.18
Emerging markets debt	4.36	7.91	+3.55
Municipal bonds	0.86	3.88	+3.02

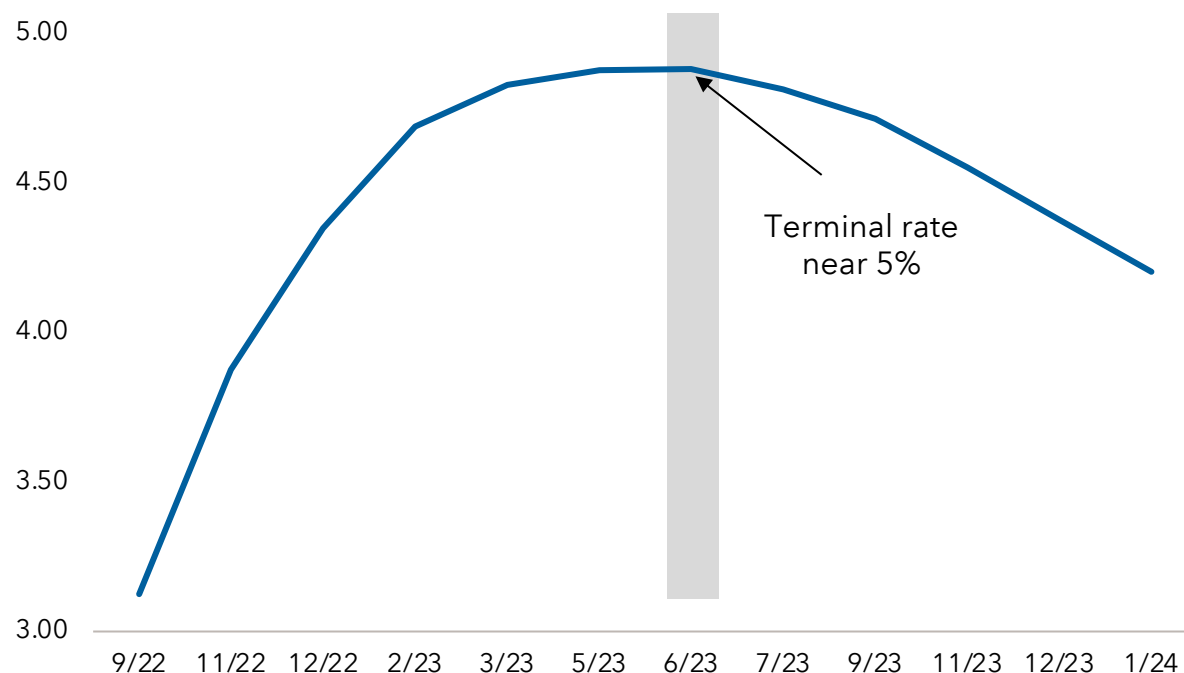
Sources: Bloomberg, Bloomberg Index Services Ltd., JPMorgan. As of 11/15/22. Sector yields above include Bloomberg U.S. Aggregate Index, Bloomberg U.S. Corporate Investment Grade Index, Bloomberg U.S. Corporate High Yield Index, 50% J.P. Morgan EMBI Global Diversified Index/50% J.P. Morgan GBI-EM Global Diversified Index blend and Bloomberg Municipal Bond Index. Period of time considered from 2020 to present. Dates for recent lows from top to bottom in chart shown are: 8/4/20, 12/31/20, 7/6/21, 1/4/21 and 7/27/21. Yields shown are yield to worst. 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. "Change" figures may not reconcile due to rounding. Past results are not predictive of results in future periods.

Plan A: Consider disciplined dollar cost averaging

Don't time the market – consider dollar cost averaging starting today

Markets predict fed funds peak in June 2023

Market implied fed funds rate, %



Historically, bond investing starting 6 months prior to the rate peak has provided strong returns

Final hike	Bloomberg U.S. Aggregate Index	
	Dollar cost average return (first 12 mths)	Annualized total return over 5 years
6/29/2006	4.5%	5.9%
5/16/2000	5.3%	7.2%
2/1/1995	7.7%	6.8%
2/24/1989	10.2%	10.6%
9/4/1987	7.0%	9.6%
5/15/1981	3.3%	15.6%

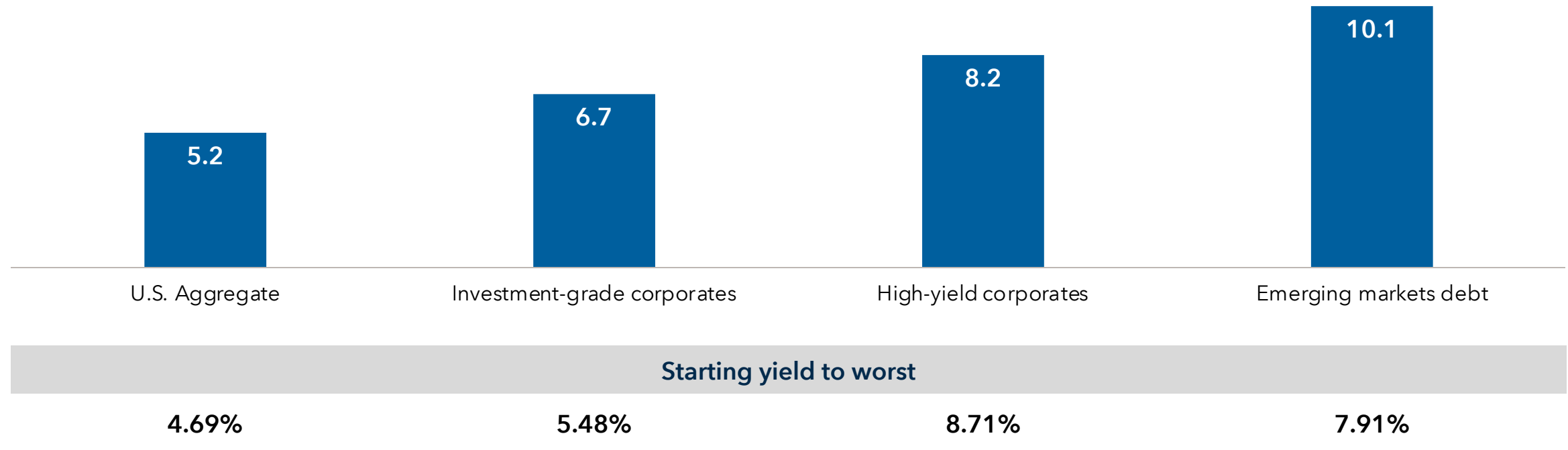
Investing at this stage in the cycle has historically led to strong long-term returns

Sources: Capital Group, Bloomberg. Monthly returns as of 10/31/22. Left chart based on futures markets pricing as of 11/15/22. Right chart shows date of the last hike in all Fed hiking periods since 1980, excluding the 2018 peak which does not yet have five years of data. Hypothetical twelve-month dollar cost average return is the total return for a level monthly investment for 12 months starting six months prior to each last rate hike. The five-year return annualizes the total return for that first 12 months plus four more years, assuming no additional investment after that first year. Past results are not predictive of results in future periods.

Plan B: Investing at current yields has led to strong returns

Historically, at these levels, longer term returns have been attractive

5-year forward return expectations (%)



Sources: Capital Group, Bloomberg, JPMorgan. Yields as of 11/15/22 and monthly returns as of 10/31/22. Data goes back to 2000 for all sectors except for emerging markets, which goes back to 2003. Based on average monthly returns for each sector when in a +/- 0.30% range of yield to worst. Sector yields above include Bloomberg U.S. Aggregate Index, Bloomberg U.S. Investment Grade Corporates Index, Bloomberg U.S. Corporate High Yield Index and 50% J.P. Morgan EMBI Global Diversified Index/50% J.P. Morgan GBI-EM Global Diversified Index blend. Past results are not predictive of results in future periods.

Plan C: Sitting on the sidelines? Probably not a great option

You could miss an opportunity by doing nothing

Dollar cost average ¹	Investing at today's yields ²	Sitting in cash alternative ²
Average 5-year return Bloomberg U.S. Aggregate Index	Average 5-year forward return Bloomberg U.S. Aggregate	Average 5-year forward return prime money market funds
9.3%	5.2%	2.1%

By not extending duration and being invested in active fixed income, you may:

- Lose purchasing power amid elevated inflation
- Forgo attractive bond income opportunities
- Miss rebalancing opportunity provided by diversification

Remember: It's time in the market, not timing the market.

Sources: Capital Group, Bloomberg, Morningstar. Yields tested as of 11/15/22. Monthly returns as of 10/31/22.

¹Analysis considers all Fed hiking periods since 1980, excluding the 2018 peak which does not yet have five years of data. Analysis averages the five-year returns of a hypothetical 12-month level investment starting six months prior to rate peak for historic hiking periods.

²Returns data analyzed from 2000 to present. Five-year forward return when yield to worst was +/- 30 basis points from the yield as 11/15/22. Money market analysis considers the average return of the current constituents of the Morningstar U.S. Prime Money Market Category. Yields tested in money market analysis are U.S. Treasury 3-month Bill Money Market yield.

Past results are not predictive of results in future periods.

Bank loans are popular but pose risks

High-yield bonds are more attractive in today's market

	<div><div>● Strong</div><div>● Moderate</div><div>● Relative strength</div><div>● Weak</div></div>	
	Bank loans	High-yield corporates
Diversified market	●	●
Higher yielding sector	●	●
Impact of rising rates on borrowers	●	●
Fundamentals	●	●
Liquidity	●	●

Source: Capital Group. As of 9/30/22.

Emerging markets central banks proactively hiked rates

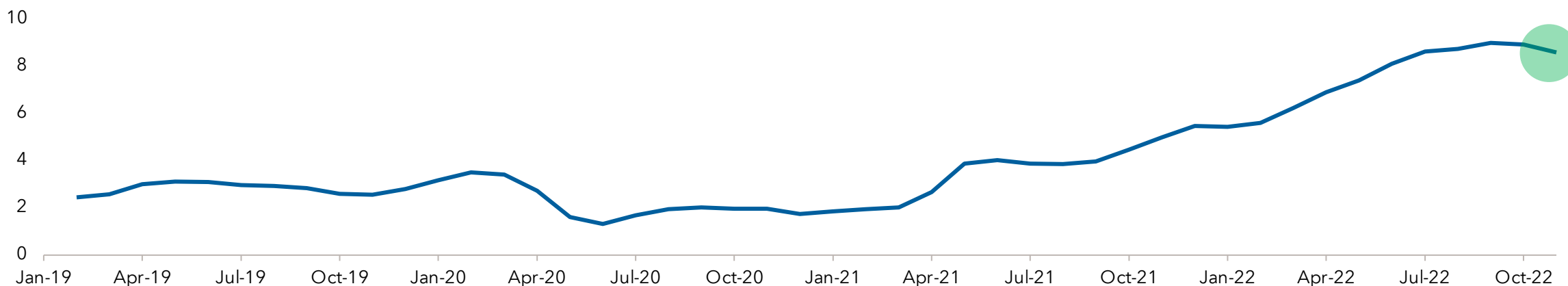
Inflation appears to be stabilizing across select EM countries

EM have aggressively hiked policy rates¹

Sovereign	Brazil	Chile	Peru	Colombia	Mexico	Czech Republic	Poland	Hungary	Romania
12/31/20	2.00	0.50	0.25	1.75	4.00	0.25	0.10	0.60	1.25
11/15/22	13.75	11.25	7.25	11.00	10.00	7.00	6.75	13.00	6.75
Change	11.75	10.75	7.00	9.25	6.00	6.75	6.65	12.40	5.50

Inflation may roll over, easing pressure on consumers and central banks²

YoY inflation rate, %



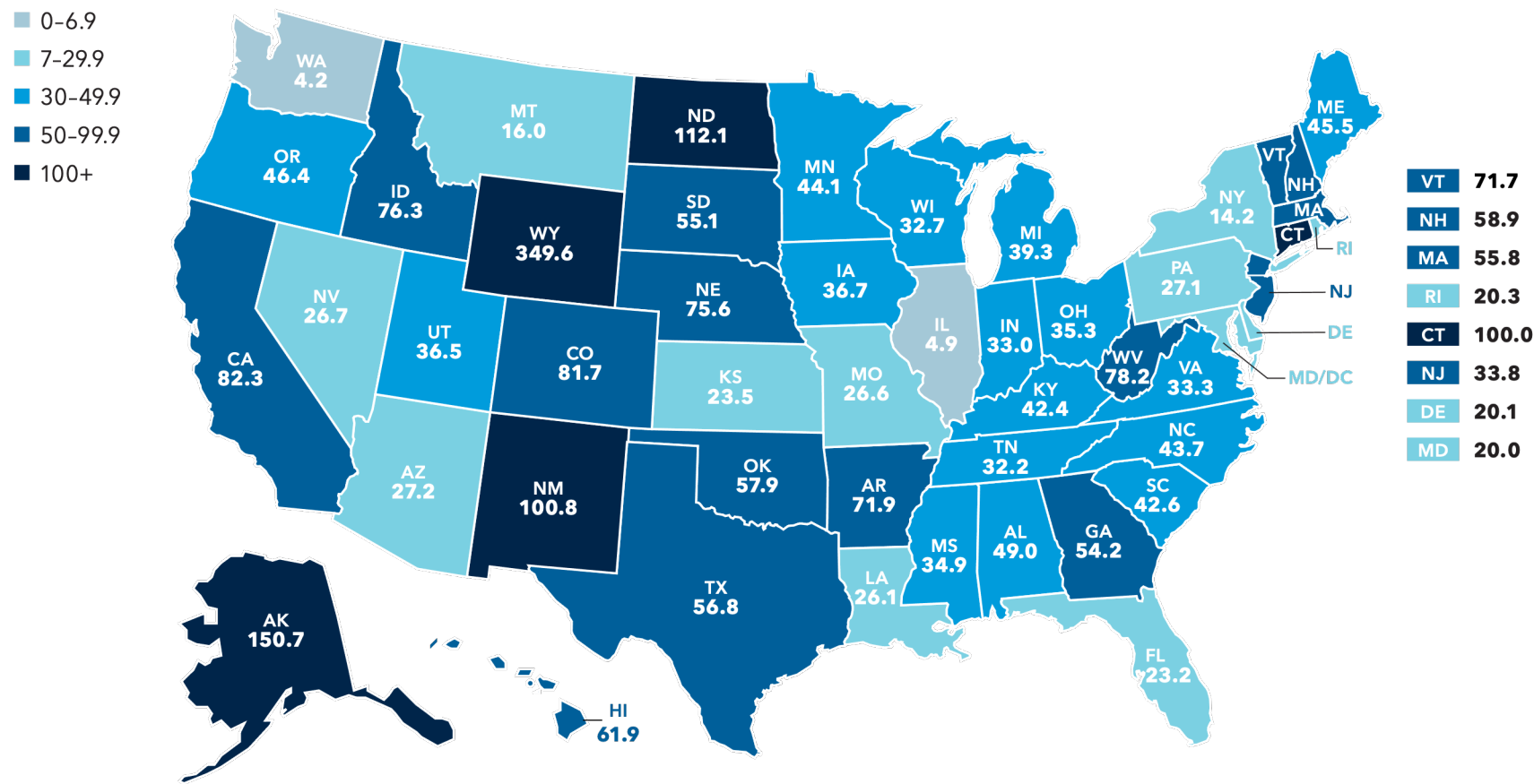
¹Sources: Bloomberg, JPMorgan, Morningstar. As of 11/15/22.

²Reflects year-over-year CPI for J.P. Morgan GBI-EM Global Diversified countries excluding Turkey. Weightings based on current index weight. As of 11/15/22.

Opportunities are looking brighter in municipal bonds

State reserve levels are the highest in 40 years, but selectivity is crucial

Days each state could run on savings alone, 2022 estimates



Sources: Capital Group, Pew Charitable Trusts, National Association of State Budget Officers. Data is reported by each state for its fiscal year, which ends June 30 in all but four states: New York (March 31), Texas (August 31), Alabama (September 30) and Michigan (September 30).

Actionable ideas



Consider
moving some
cash to short-
term bonds



Fortify
your core



Seek selective
credit
exposures



Look to munis for
after-tax income
and resilience

The four roles of fixed income remain critical

How to think about fixed income in portfolio construction



**Diversification
from equities**

When stocks struggle, owning bonds with a low correlation to equities can result in lower portfolio volatility.



Income

Providing dependable income is a central function of a bond allocation.



**Capital
preservation**

A fixed income allocation should help protect principal in most market environments.



**Inflation
protection**

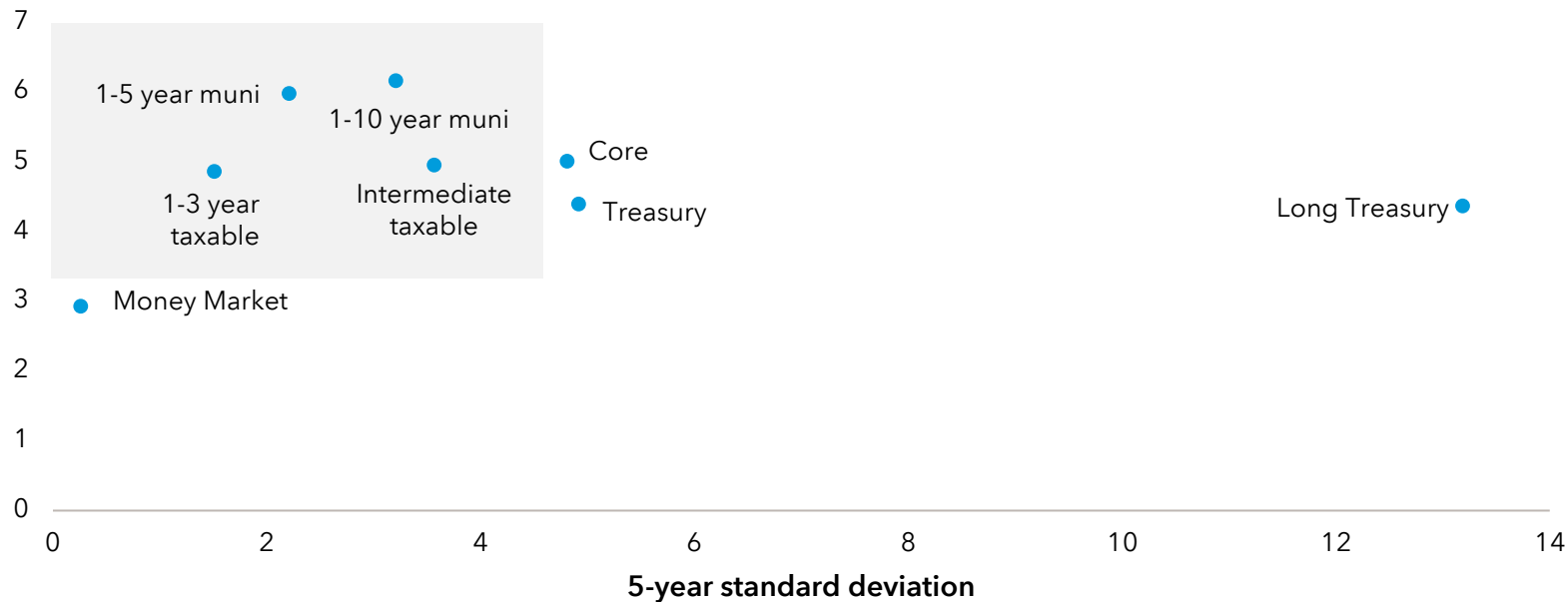
Bonds directly linked to the Consumer Price Index can help to protect purchasing power.

1. Consider moving some cash to short-term bonds

Investors had \$4.6 trillion in money market funds in 2022. Consider a shorter duration bond fund instead

Short-term bonds: Improved yield, modest risk

Tax-equivalent yield (%)



High-quality, shorter duration bond funds have:

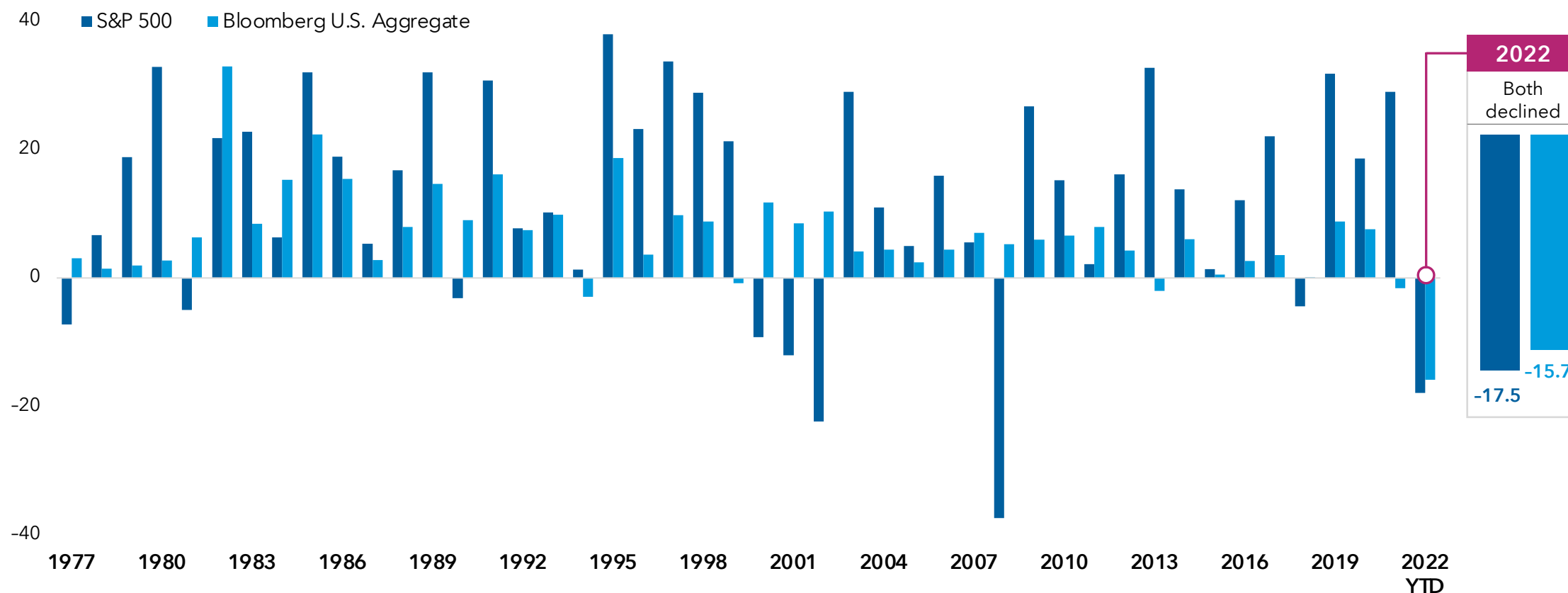
- The potential to provide additional yield and dampen the effect of inflation
- A track record of strong capital preservation

Note: Cash and money market accounts may offer certain benefits such as FDIC insurance whereas there is a risk of loss when investing in bond funds.

Sources: Bloomberg Index Services Ltd., Morningstar. As of 10/31/22. Money Market: Morningstar Prime Money Market Category average. 1-3-year taxable: Bloomberg U.S. Aggregate 1-3 Year Index, Intermediate taxable: Bloomberg U.S. Aggregate Intermediate Index, 1-5 year muni: Bloomberg Municipal Short 1-5 year Index, 1-10 year muni: Bloomberg Municipal Short-Intermediate 1-10 year Index, Core: Bloomberg U.S. Aggregate Index, Treasury: Bloomberg U.S. Treasury Index, Long Treasury: Bloomberg U.S. Long Treasury Index. Yields for indexes are yield to worst. Money market yield is 7-day SEC yield. Taxable-equivalent-rate assumptions are based on a federal marginal tax rate of 37%, the 2022 rate. In addition, we have applied the 3.8% Medicare tax. Past results are not predictive of results in future periods. 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.

2. Fortify your core

Bonds should diversify from equities again as yields plateau

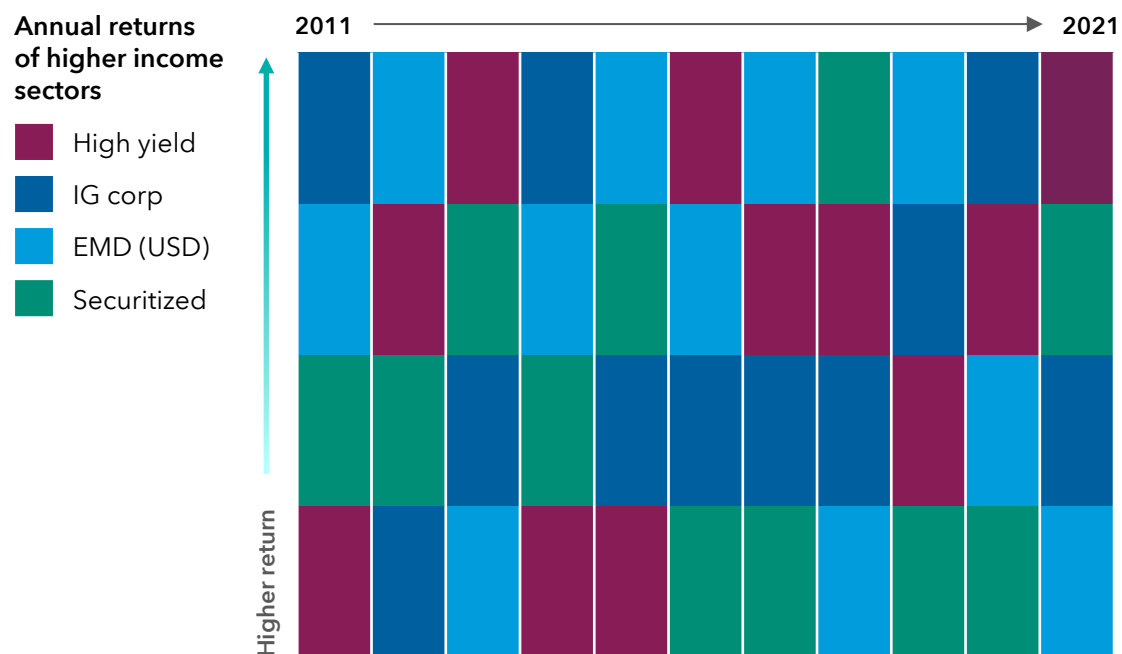


Sources: Capital Group, Bloomberg Index Services Ltd., Standard & Poor's. Returns above reflect annual total returns for all years except 2022, which reflects the year-to-date total return for both indexes. As of October 31, 2022. Past results are not predictive of results in future periods.

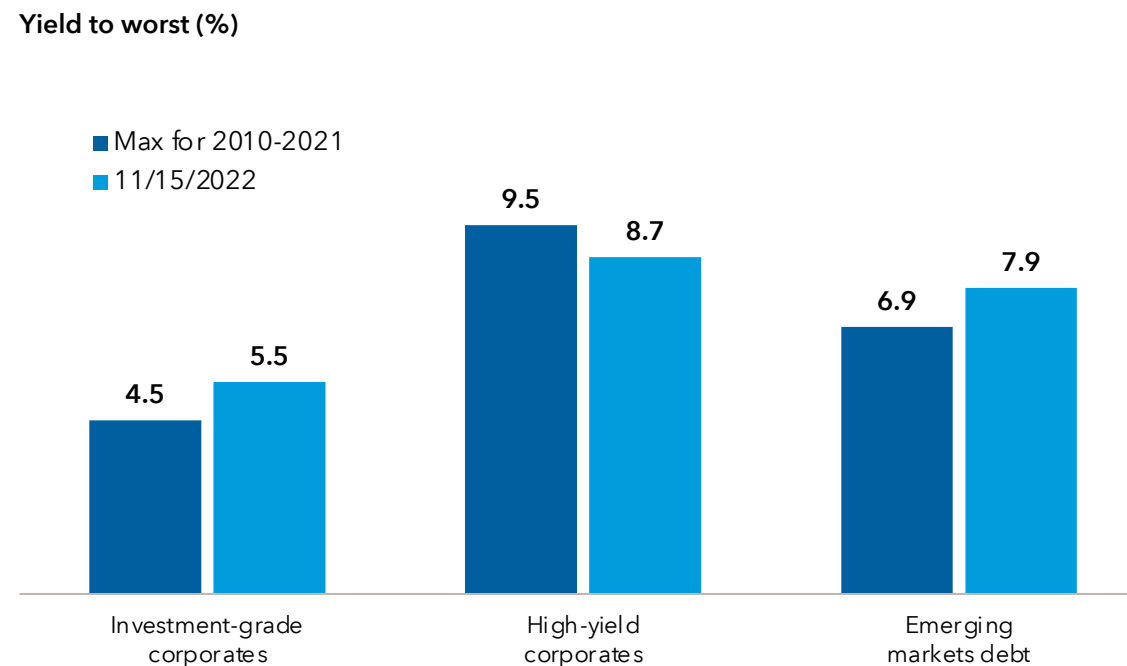
3. Seek selective credit exposures

Research is needed to unearth the best opportunities

No single higher income sector consistently posted the highest return every year¹



Higher income sector yields are near or above highs since 2010²



¹Source: Morningstar. As of 12/31/21. Sectors shown represented by Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index, Bloomberg U.S. Corporate Investment Grade Index, J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified and 80% Bloomberg CMBS Ex AAA Index/20% Bloomberg ABS Ex AAA Index, respectively.

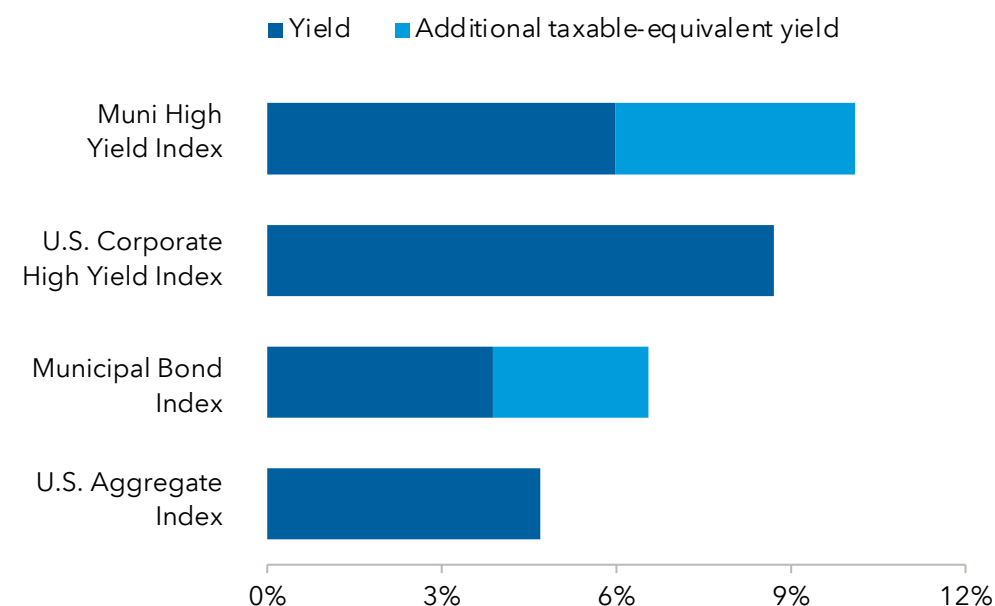
²Sources: Bloomberg Index Services Ltd., JP Morgan. Sector yields as of 11/15/22 and include Bloomberg U.S. Corporate Investment Grade Index, Bloomberg U.S. Corporate High Yield Index and 50% J.P. Morgan EMBI Global Index/50% J.P. Morgan GBI-EM Global Diversified Index blend. Dates for maximum yields shown within the 2010-2021 period for each sector (from left to right) were 3/31/10, 9/30/11 and 1/29/10.

Past results are not predictive of results in future periods.

4. Look to munis for after-tax income and resilience

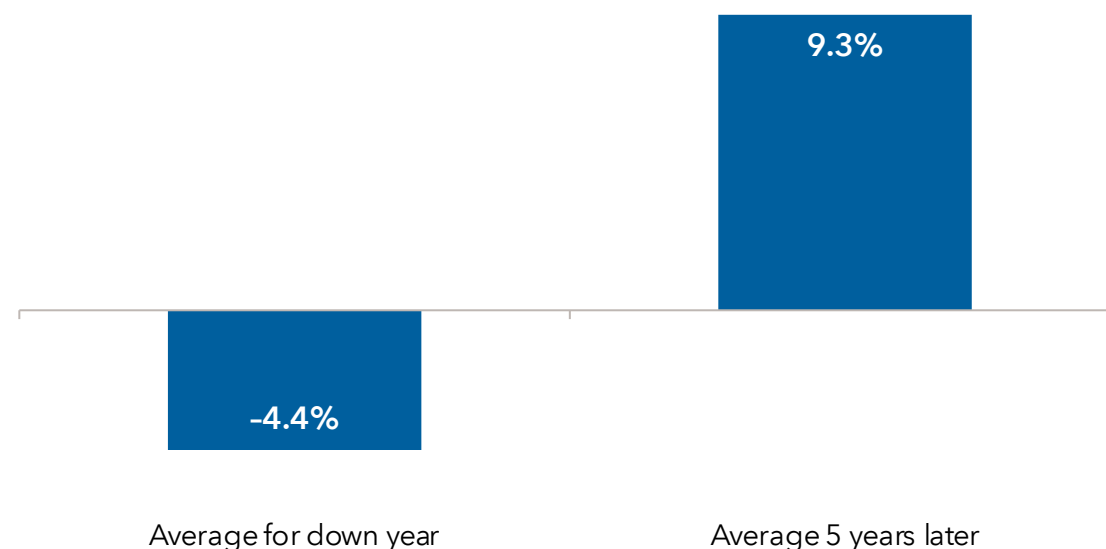
Yields have risen and history suggests stronger returns ahead

Taxable yields have risen but after-tax muni yields outpaced them



Five years following a down year, munis have demonstrated strength

Municipal Bond Index annualized returns since 1980



Sources: Capital Group, Bloomberg, Bloomberg Index Services Ltd. Yields as of 11/15/22. Returns as of 10/31/22. Yields shown are yield to worst. Indexes shown are Bloomberg indices. Average down years consider full calendar years, so 2022 results are not included. Tax-equivalent yield = tax-free municipal bond yield / 1 - tax rate. (Based on a federal marginal tax rate of 37%, the top 2022 rate. In addition, we have applied the 3.8% Medicare tax.) Past results are not predictive of results in future periods.

Complementary suite of fixed income ETFs

	Capital Group Short Duration Income	Capital Group Core Plus Income	Capital Group Municipal Income	Capital Group U.S. Multi-Sector Income
How it fits in a portfolio	Seeks a higher income profile than enhanced cash investments with structurally less interest rate exposure than a typical intermediate bond fund	Single solution core-plus bond allocation	Single solution core municipal bond allocation	Diversified option for a higher income-seeking bond allocation
Morningstar category	Short-Term Bond	Intermediate Core-Plus Bond	National Intermediate Muni	Multisector Bond
Benchmark	Bloomberg U.S. Government/Credit (1-3 years) Index	Bloomberg U.S. Aggregate Index	85%/15% Bloomberg 1-15 Year Blend (1-17 Year) Municipal Bond Index/Bloomberg 1-15 Year Blend (1-17 Year) High Yield Municipal Bond Index	Bloomberg U.S. Aggregate Index
Typical duration	Less than 2 years	+/- 2 years of benchmark	+/- 1 years of benchmark	+/- 2 years of benchmark
Typical high-yield allocation	Less than 5%	15%	15%	50%
Expense ratio	0.25%	0.34%	0.27%	0.39%
Portfolio managers/ median years industry experience	2 / 18 years	4 / 22 years	3 / 30 years	4 / 22 years
Fund launch date	October 25, 2022	February 22, 2022	October 25, 2022	October 25, 2022
Ticker	CGSD	CGCP	CGMU	CGMS

As of 11/15/22. Portfolio manager experience as of 12/31/21.
Expense ratios are as of each fund's prospectus available at the time of publication. The expense ratio is estimated.
Source: Capital Group.

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December

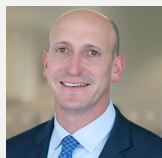
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2023 Outlook

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Jody Jonsson



Mike Gitlin

January

Thursday, January 26

Asset allocation for the year ahead

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Brad Vogt



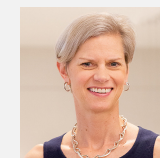
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2019



2020



2021



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*Source: Fund Intelligence, February 20, 2020. FUSE Research survey of nearly 600 advisors identifying the “most-read thought leaders.” Marketing Support: The Advisor View, June 2020. FUSE Research survey of more than 700 advisors identifying the “most-read thought leaders.” Marketing Support: The Advisor View, July 2021. FUSE Research survey of 720 financial advisors identifying the “most-read asset manager thought leaders.”

Important information

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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As nondiversified funds, Capital Group ETFs have the ability to invest a larger percentage of assets in securities of individual issuers than a diversified fund. As a result, a single issuer could adversely affect a fund's results more than if the fund invested a smaller percentage of assets in securities of that issuer. See the applicable prospectus for details.

For CGSD, CGCP, CGMS, investing outside the United States involves risks, such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in the prospectus. These risks may be heightened in connection with investments in developing countries.

For CGSD, CGCP, CGMU, CGMS, the return of principal for bond funds and for funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Investments in mortgage-related securities involve additional risks, such as prepayment risk, as more fully described in the prospectus.

For CGCP, CGMU, CGMS, higher yielding, higher risk bonds can fluctuate in price more than investment-grade bonds, so investors should maintain a long-term perspective.

For CGMU, income from municipal bonds may be subject to state or local income taxes and/or the federal alternative minimum tax. Certain other income, as well as capital gain distributions, may be taxable.

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Unlike mutual fund shares, investments in U.S. Treasuries are guaranteed by the U.S. government as to the payment of principal and interest. In addition, certificates of deposit (CDs) are FDIC-insured and, if held to maturity, offer a guaranteed return of principal.

Methodology for calculation of tax-equivalent yield:

Based on 2022 federal tax rates. Taxable equivalent rate assumptions are based on a federal marginal tax rate of 37%, the top 2022 rate. In addition, we have applied the 3.8% Medicare tax. Thus taxpayers in the highest tax bracket will face a combined 40.8% marginal tax rate on their investment income. The federal rates do not include an adjustment for the loss of personal exemptions and the phase-out of itemized deductions that are applicable to certain taxable income levels.

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

Important information

Bloomberg U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market. **Bloomberg Municipal Bond Index** is a market value-weighted index designed to represent the long-term investment-grade tax-exempt bond market. **Bloomberg U.S. Corporate High Yield Index** covers the universe of fixed-rate, non-investment-grade debt. **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 specified maturity, liquidity, and quality requirements. **Bloomberg High Yield Municipal Bond Index** is a market value-weighted index composed of municipal bonds rated below BBB/Baa. The **Bloomberg CMBS Ex AAA Index** tracks investment-grade commercial mortgage-backed securities excluding AAA-rated securities. **Bloomberg ABS Ex AAA Index** tracks investment-grade asset-backed securities excluding AAA-rated securities. **Bloomberg U.S. Government/Credit (1-3 years) Index** is a market value-weighted index that tracks the total return results of fixed-rate, publicly placed, dollar-denominated obligations issued by the U.S. Treasury, U.S. government agencies, quasi-federal corporations, corporate or foreign debt guaranteed by the U.S. government, and U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity and quality requirements, with maturities of one to three years. **85%/15% Bloomberg 1-15 Year Blend (1-17) Municipal Bond Index/Bloomberg 1-15 Year Blend (1-17) High Yield Municipal Bond Index** blends the Bloomberg 1-15 Year Blend (1-17) Municipal Bond Index with the Bloomberg 1-15 Year Blend (1-17) High Yield Municipal Bond Index by weighting their cumulative total returns at 85% and 15%, respectively. The blend is rebalanced monthly. Bloomberg 1-15 Year Blend (1-17) Municipal Bond Index consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from one year to 17 years. Bloomberg 1-15 Year Blend (1-17) High Yield Municipal Bond Index consists of a broad selection of below-investment-grade general obligation and revenue bonds of maturities ranging from one year to 17 years. **Bloomberg Municipal Short 1-5 Years Index** is a market value-weighted index that includes investment-grade tax-exempt bonds with maturities of one to five years. **Bloomberg Municipal Short-Intermediate 1-10 Years Index** is a market value-weighted index that includes investment-grade tax-exempt bonds with maturities of one to 10 years. **Bloomberg U.S. Treasury Index** includes public obligations of the U.S. Treasury with a remaining maturity of one year or more. **Bloomberg U.S. Long Treasury Index** includes public obligations of the U.S. Treasury with a remaining maturity of ten years or more. **Bloomberg U.S. Aggregate 1-3 Years Index** is a subcomponent of the Bloomberg U.S. Aggregate Index that only includes bonds with maturities of one to three years. **Bloomberg U.S. Aggregate Intermediate Index** is a subcomponent of the Bloomberg U.S. Aggregate Index that only includes bonds with maturities of one to 10 years.

The **J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified** is a uniquely weighted emerging market debt benchmark that tracks total returns for U.S. dollar-denominated bonds issued by emerging market sovereign and quasi-sovereign entities. **JP Morgan Government Bond Index – Emerging Markets Global Diversified** covers the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

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

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