Outlook

2022 EDITION

Long-term perspective on markets and economies

Rob Lovelace on the year ahead

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Capital Group

As we head into a new year, it's clear in hindsight that the market downturn of 2020 was short-lived and entirely related to the COVID-19 outbreak. In my view, that means the powerful upswing in equity prices since then is simply a continuation of the bull market we've seen over the past decade. Market leadership today is essentially the same as it was before the pandemic. The largest gains are concentrated in a small number of companies — mostly U.S.-based, internet-related businesses. Even outside the U.S., the winners primarily have been tech-focused companies benefiting from the same powerful tailwinds surrounding the growth of e-commerce, cloud computing and interactive media.

This continuation of pre-pandemic trends means investors should be mindful of the risks inherent in the latter days of a long bull market. In particular, the ongoing war between inflation and deflation could define markets in the years ahead. Looking ahead, the risks are clearly defined: Global economic growth is slowing, especially in China. Central bankers have started a gradual reduction in monetary stimulus measures. And valuations are elevated across the board, from stocks to bonds to real estate.

Against this challenging backdrop, however, we are optimistic about an environment that is ideally suited to selective investing grounded in bottom-up, fundamental research. Our equity and fixed income analysts around the world are uncovering many interesting new investment opportunities. In addition, our long-term investment horizon allows us to take advantage of market dislocations and invest in companies that we believe will prosper over a period of years.

With these thoughts in mind, I hope you enjoy reading and sharing our 2022 Outlook.

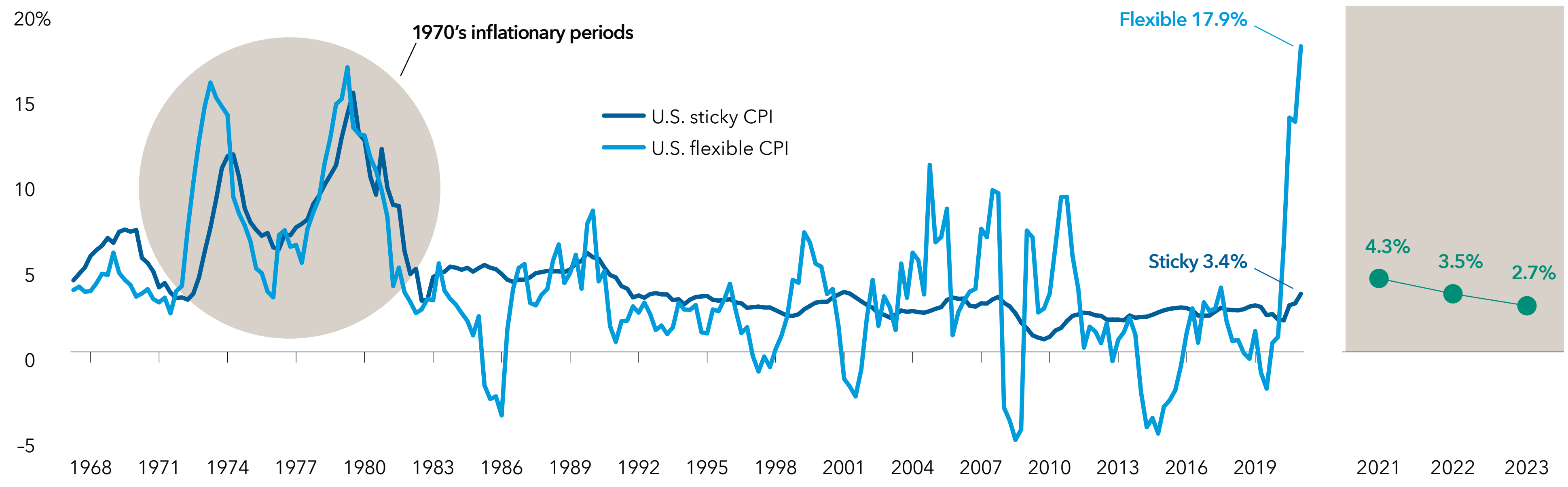
Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Expect strong but slowing economic growth in 2022

International Monetary Fund (IMF) and Federal Reserve views	Capital Group views
Robust global growth should continue in 2022 The world economy should expand at a pace of 4.9%, according to IMF forecasts, driven by an ongoing recovery from the COVID-19 pandemic, pent-up demand and strong corporate earnings. The IMF calls for 5.2% growth in the U.S. and 4.3% in Europe.	**U.S. and European economies should grow at solid rates in 2022** "U.S. economic growth should be solid, in the range of 2.5% to 3.0%, but hampered by emerging COVID variants, waning stimulus and inflationary headwinds," says Capital Group economist Darrell Spence. The major European economies may grow significantly faster, in the 4.0% to 5.0% range, as the eurozone enjoys a delayed but now strong COVID rebound, adds Capital's European economist Robert Lind.
China's economy to grow at a healthy rate The world's second largest economy is expected to grow at an annualized rate of 5.6% (IMF), supported by increased global trade activity, renewed government stimulus measures and a recovery in the real estate sector.	**China's economy should markedly decelerate** "Investors should prepare for a rough patch," says Capital Group's Asia economist Stephen Green. "China's economy is slowing and credit is tightening in the real estate sector. I think GDP growth will be considerably lower than the consensus forecast of 5.6%."
High inflation expected to fade over time Central bank officials expect high inflation rates, driven by COVID-related distortions, to ease in the coming quarters but they have become less certain on the timing. The U.S. Federal Reserve said in December that it expects inflation to move closer to its 2% goal by 2023.	**High inflation should persist longer than expected** Inflation levels should remain elevated through late 2022, fueled by labor shortages and broken supply chains. "Consumer prices will eventually return to normal, but that process may take longer than Fed officials are expecting," says Capital Group fixed income portfolio manager Ritchie Tuazon.

Sources: Capital Group, International Monetary Fund, U.S. Federal Reserve, European Central Bank, Bank of England.

High inflation should persist in 2022, but we're not returning to the 1970s



Inflation is like chewing gum. It's sticky and flexible, and you definitely don't want to step in it.

For the past 30 years, investors haven't had to worry much about stepping in it. That changed last summer when COVID-related distortions caused prices for some consumer goods to skyrocket. Today, the biggest questions for investors are how high will it go and how long will it last?

Adding to the uncertainty is that there are two types of inflation. Sticky inflation tends to have longer staying power. Sticky categories include rent, insurance and medical expenses. Flexible inflation – affecting items such as food, energy and cars – has risen much faster in recent months but many believe it won't last.

"The upside risk is in the sticky components," says fixed income portfolio manager Ritchie Tuazon. "Those are the categories that will drive inflation in 2022, so that's what investors need to keep an eye on."

While Tuazon expects inflation to eventually return to normal levels, he also thinks it makes sense to guard against the threat of sustained higher prices through investments in Treasury Inflation-Protected Securities, dividend-paying stocks and companies with pricing power.

Those strategies may not fully shield investors from inflation, but they may at least help to keep it from completely gumming up their portfolios.

Sources: Federal Reserve Bank of Atlanta, Refinitiv Datastream. Sticky and flexible prices reflect the Atlanta Federal Reserve sticky and flexible consumer price indexes (CPI). If price changes for a particular CPI component occur less than every 4.3 months, that component is a "sticky-price" good. Goods that change prices more frequently are "flexible-price" goods. Historic data is through November 2021. Projections for 2021–2023 are from IMF and as of October 2021.

Stocks and bonds have done well in various inflation environments

If you're worried that higher inflation is here to stay, keep three things in mind.

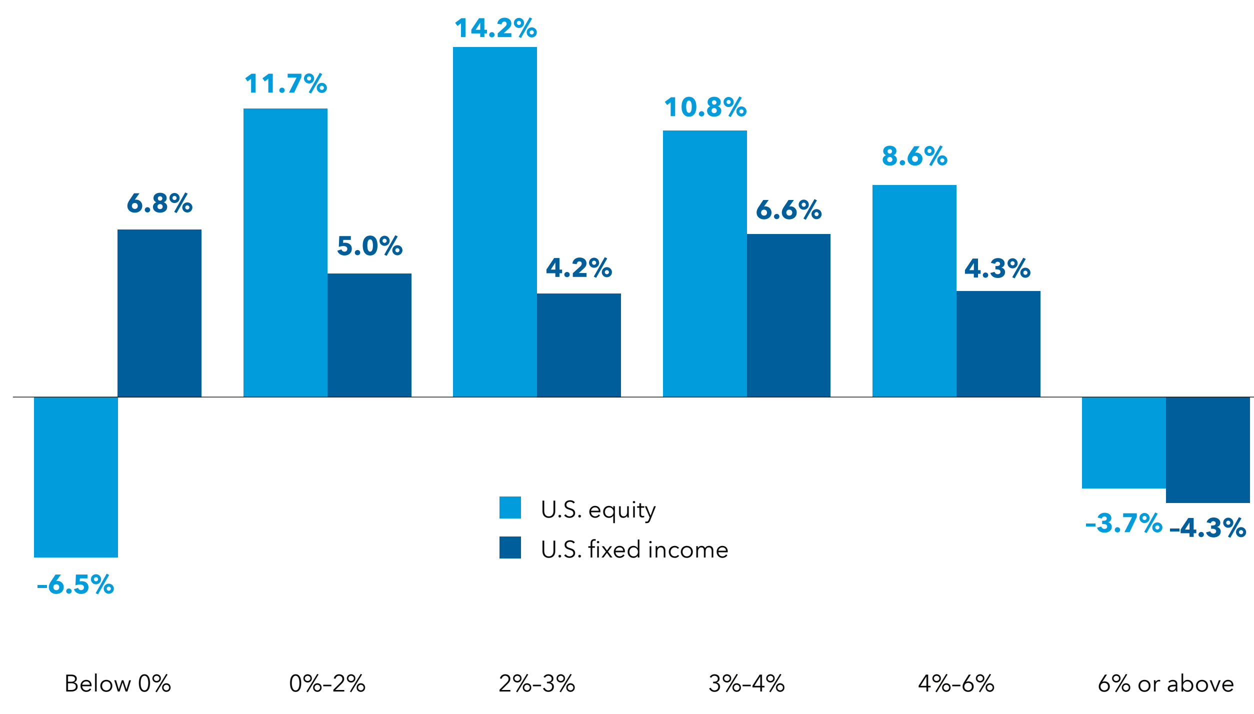
First, some inflation can be healthy for companies. It allows them to raise prices and enhance profitability in ways they may not have been able in recent years. It also helps banks and commodity-linked companies that have struggled in a low inflation, low interest rate world.

Second, even during times of higher inflation, stocks and bonds have generally provided solid returns as shown in the chart. It's mostly at the extremes – when inflation is above 6% or negative – that financial assets have tended to struggle.

Third, sustained periods of elevated inflation are rare. People of a certain age will remember the ultra-high inflation of the 1970s. In hindsight, it's clear that was a unique period. Deflationary pressures have often been more difficult to tame, as students of the Great Depression will attest.

Over the past 100 years, U.S. inflation has stayed below 5% the vast majority of the time. More recently, in the aftermath of the 2007–2009 financial crisis, inflation has struggled to reach the Fed's 2% goal despite unprecedented stimulus measures and historically low interest rates.

Average annual returns at different inflation rates (1970–2021)



Sources: Capital Group, Bloomberg Index Services Ltd., Morningstar, Standard & Poor's. As of 11/30/21. All returns are inflation-adjusted real returns. U.S. equity returns represented by the Standard & Poor's 500 Composite Index. U.S. fixed income represented by Ibbotson Associates SBBI U.S. Intermediate-Term Government Bond Index from 1/1/70–12/31/75, and Bloomberg U.S. Aggregate Bond Index from 1/1/76–11/30/21. Inflation rates are defined by the rolling 12-month returns of the Ibbotson Associates SBBI U.S. Inflation Index.

It's a good time for balance and bottom-up security selection

Stock valuations are above their 15-year averages

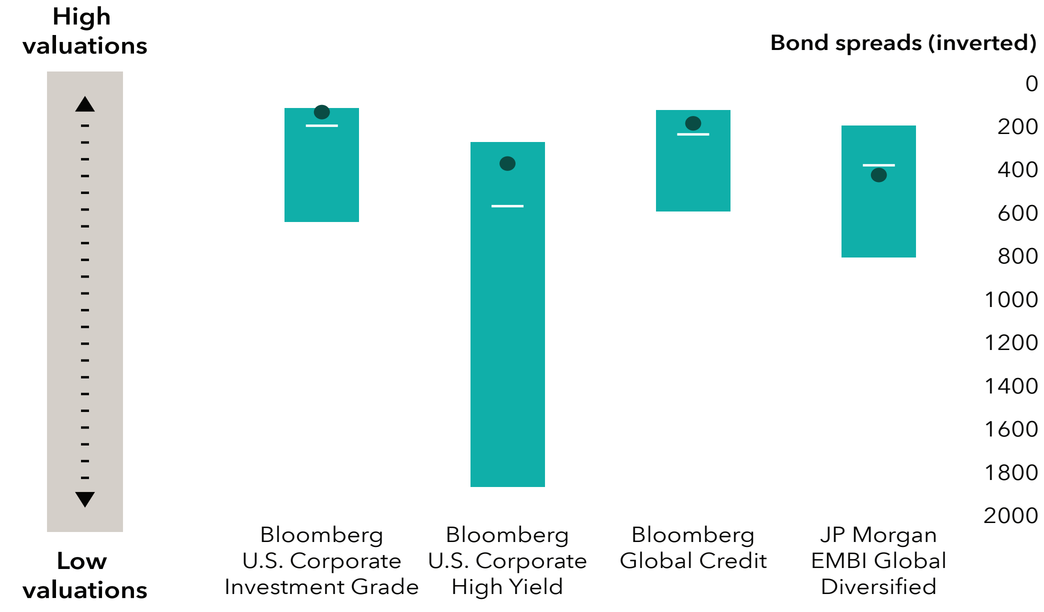
Equity forward P/E ratios

25
23
21
19
17
15
13
11
9
7
5

15-year range
Current
15-year average

S&P 500
MSCI EAFE
MSCI Emerging Markets
MSCI ACWI Small Cap

Credit spreads are as tight as they've been in 30 years



Whether you're in the market for steaks or stocks, today everything appears to be expensive. Thanks to low interest rates, accommodative central bank policy and the reopening of economies, most classes of stocks and bonds have gotten pricey.

Most equity markets around the world have been strong in the post-pandemic period. While company earnings have generally been solid, price-to-earnings ratios for U.S., developed international and emerging markets were all above their 15-year averages as of November 30, 2021.

Similarly, in corporate bond markets, valuations have soared as investors' search for yield has driven credit spreads (the premium investors receive for taking on risk) to 30-year lows.

With growth slowing and cheap stocks and bonds hard to come by, security selection is more important than ever. "Given all the potential risks in today's environment, I am looking to strike a balance in my portfolios, seeking exposure to pricing power, sustainable growth and rising dividends," says equity portfolio manager Diana Wagner.

Fixed income portfolio manager Damien McCann agrees. "Because of the lack of screaming value out there, I am being highly selective in the investment grade and high-yield bond sectors and trying to balance appropriate risk with opportunity."

Sources: Bloomberg Index Services Ltd., IBES, J.P. Morgan, MSCI, Refinitiv Datastream, RIMES, Standard & Poor's. As of 11/30/21. Bond spreads are the risk premium that investors receive for taking credit risk, and are calculated as the difference between bond yields and the risk-free rate.

Get ready for some volatility in this midterm election year

Capital Group political economist Matt Miller believes 2022 could be one of the more consequential midterm elections in U.S. history.

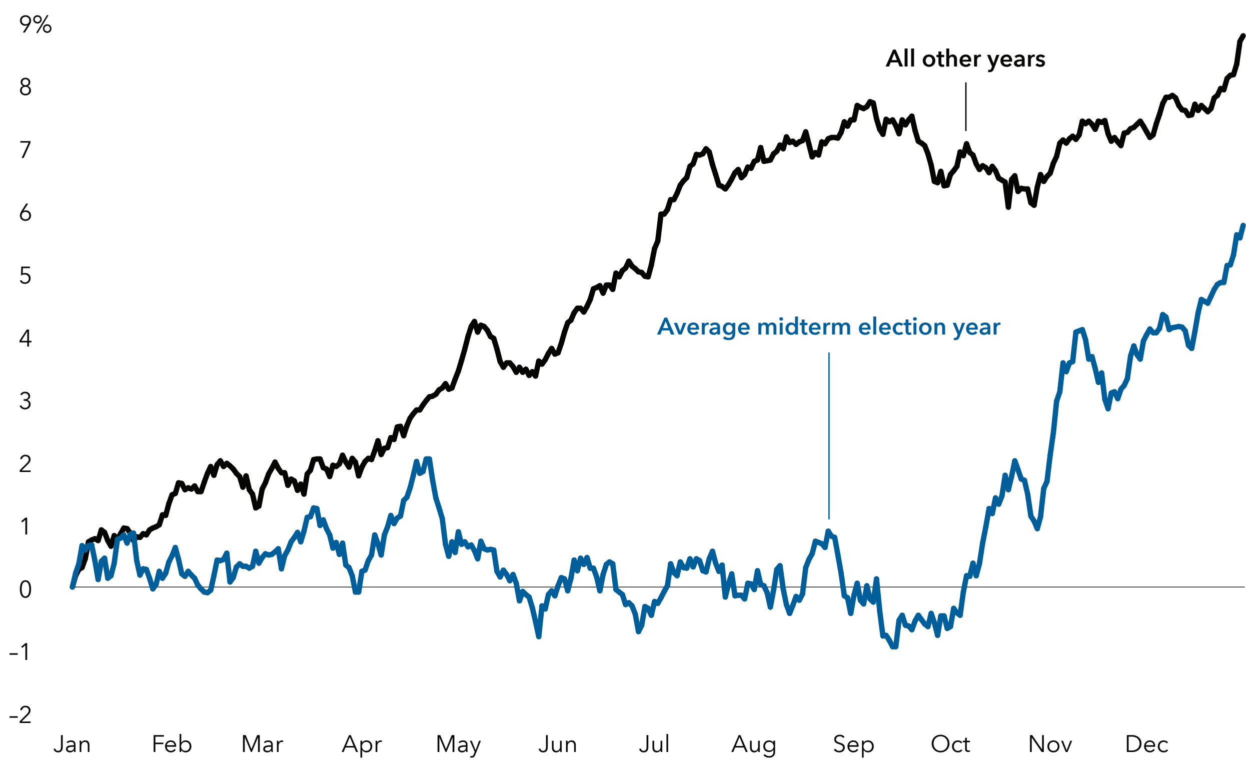
"While the election is still nearly a year away – and that's a lifetime in politics – history suggests we will see a backlash against the party in power that will result in Republicans taking back control of the House and potentially the Senate," Miller says.

This possibility isn't lost on Democrats. In the months ahead, they will likely continue to push for ambitious new spending programs as well as higher taxes for corporations and wealthy individuals. However, expect these progressive goals to be tempered by the political reality of the party's slender majorities in the House and Senate.

Still, political uncertainty often has a noticeable short-term effect on markets. An analysis of more than 90 years of equity returns reveals that stocks tend to have lower average returns and higher volatility for the first several months of midterm election years. As results at the polls become more predictable, this trend often reverses and markets have tended to return to their normal upward trajectory. But these are just averages, so investors shouldn't try to time an entry point into the market.

Midterm elections – and politics as a whole – generate a lot of noise. Prudent investors would be wise to look past the short-term highs and lows and maintain a long-term focus.

S&P 500 Index average returns since 1931



Sources: Capital Group, RIMES, Standard & Poor's. The chart shows the average trajectory of equity returns throughout midterm election years compared to non-midterm election years. Each point on the lines represents the average year-to-date return as of that particular month and day, and is calculated using daily price returns from 1/1/31–11/30/21.

Pricing power helps companies fight inflation

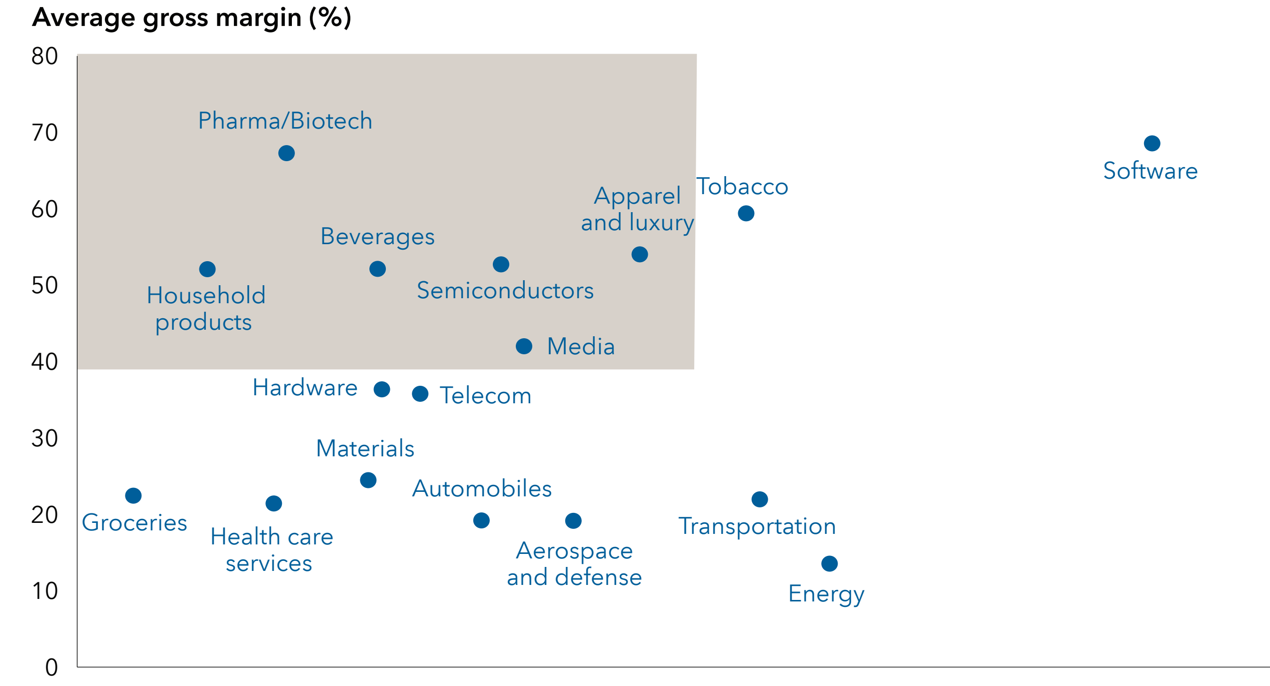
Inflation is so unsettling to investors because it can erode company profits and, ultimately, investor returns. But there are ways to fight it: Companies with pricing power can help protect their profit margins by passing those costs along to customers.

"I'm not ready to believe we are headed into a period of sustained inflation," says equity portfolio manager Diana Wagner. "But I do believe rising costs will linger in the months ahead, making it the biggest risk investors face in 2022. That's why I am so focused on uncovering companies with pricing power."

Take Netflix. A string of hits like "Squid Game" and seemingly insatiable viewer demand have enabled the streaming giant to raise subscription fees four times over the past 10 years.

High and stable margins can be an indication of pricing power. Companies with pricing power potential include consumer businesses with strong brand recognition, like beverage makers Keurig Dr Pepper and Coca-Cola; companies in industries with favorable supply and demand dynamics, like semiconductor and chip equipment makers Taiwan Semiconductor Manufacturing Company (TSMC) and ASML; and businesses that provide essential services, like health care giants Pfizer and UnitedHealth Group.

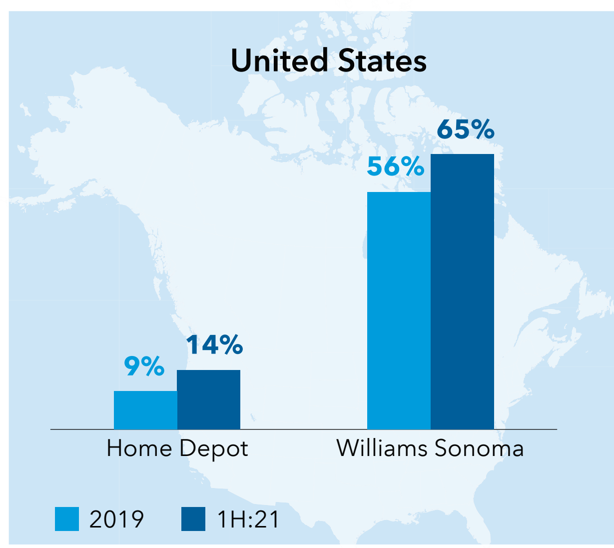
High and stable margins can be an indication of pricing power

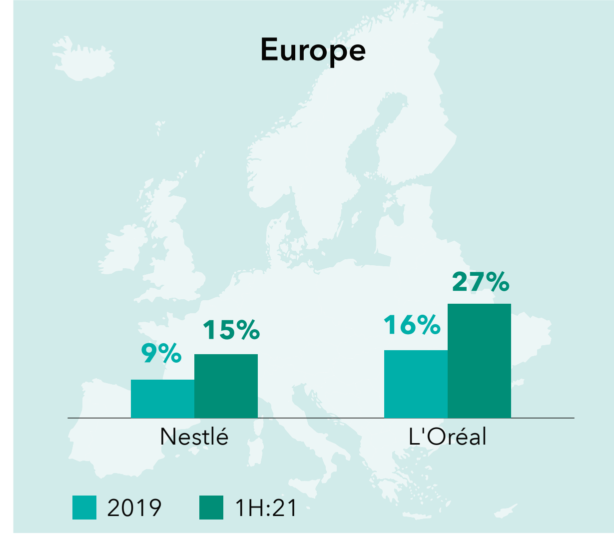


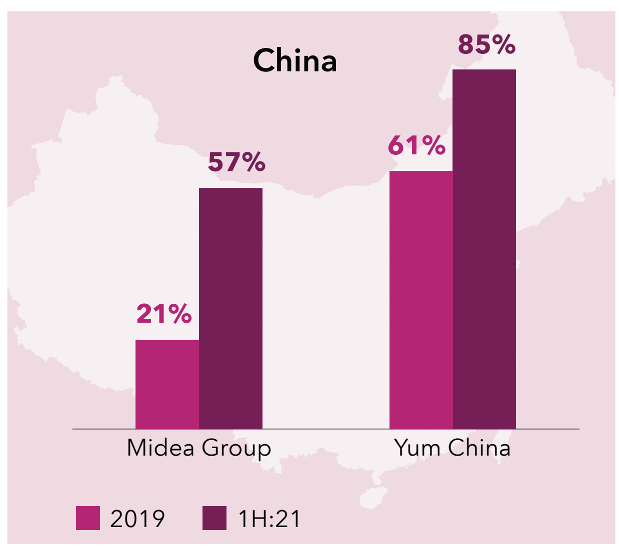
Sources: Capital Group, FactSet, MSCI. Reflects select industries within the MSCI World Index. Average and standard deviation of gross margins are calculated for the five-year period ending 9/30/21. Average gross margin is net sales less the cost of goods sold and is shown as a percentage of net sales. Standard deviation is a common measure of absolute volatility that tells how returns over time have varied from the mean. A lower number signifies lower volatility.

Beyond big tech: The digital revolution goes global

E-commerce as a % of total sales







The digital revolution has moved far beyond the turf of the U.S. tech giants.

Across industries companies are adopting new technology to improve business, transform the way we live and create opportunity for investors. "I don't think these opportunities are yet fully understood by the market," says equity portfolio manager Greg Wendt.

Global spending on digital transformation is expected to rise from $1.3 trillion in 2020 to $2.4 trillion in 2024, according to Statista. Old economy companies across sectors are investing in technology to reinvent and revitalize their businesses through automation, cyber sales and machine learning.

Retailers like Home Depot and Williams Sonoma have integrated brick-and-mortar stores with their web presence, enabling customers to buy online and pick up at the store. Personal care companies like L'Oréal in France and appliance maker Midea Group in China have also ramped up their digital adoption.

Not every company that embarks on a digital transformation will emerge as a long-term winner. The key, says Wendt, is to fully understand a company's digital strategy and its prospects for success.

"Some investors may think exclusively about consumer tech giants or cloud-based software providers," says Wendt, "but at Capital Group, we dig deeper across all industries to discover companies with the potential to benefit from a digital transformation."

Sources: Capital Group, company filings, company reports, FactSet. For Home Depot and Williams Sonoma, the full-year period refers to the 12 months ending on January 30 to align with the company's fiscal year (i.e., 2017 = February 2017–January 2018); 1H:21 refers to the period between February 2021–July 2021. All other periods correspond with calendar years. As of June 30, 2021.

How to invest in China: Carefully and in select areas like pharmaceuticals

There's no way to sugarcoat it: Risks to investing in China have risen. Heavy government intervention in the country's internet-related sectors, an everchanging regulatory environment and a slowing economy have investors on edge. Some have even asked: Is China still investable?

Clearly, certain companies and industries will face heightened uncertainty in the near term, clouding their investment prospects. But there remain plenty of attractive long-term opportunities on a stock-by-stock basis, especially in business areas more aligned with the government's strategic priorities.

The biopharma sector is one example. Party officials have sought to improve access to quality health care and foster an environment that will allow local firms to flourish. Regulatory reforms have drastically improved the landscape for both foreign and domestic companies and have helped China conform to global standards. This hasn't gone unnoticed. Health care has attracted a flood of venture capital in recent years. And many Chinese-born scientists have returned to the country after working at U.S. biotech firms and universities.

"Authorities have been pushing policies that encourage and incentivize domestic companies to compete with global companies. In that sense, biopharma is a little different than other industries in China that have been flagged as the next potential targets in line for heightened regulatory scrutiny," says investment analyst Laura Nelson Carney.

Multinationals partnering with local China firms

	Market cap (billions)	Revenue from China (%)
AstraZeneca	$170	20%
Pfizer	301	9%
Eli Lilly	238	5%
Novartis	196	5%

China firms partnering with multinationals

	Market cap (billions)
BeiGene	$32
Zai Lab	7
Legend Biotech	7
HUTCHMED	6

Sources: Capital Group, company filings, RIMES. Market value as of 11/30/21. Revenue from China are approximations based on most recently available company filings as of 6/30/21.

Dividends are staging a comeback of global proportions

Businesses across sectors and borders are raising their dividends

Many companies are shifting from dividend zeros to dividend heroes.

That's according to equity portfolio manager Caroline Randall. "These were companies that suspended dividends during the pandemic due to political pressure. And today many have surplus capital to be redeployed as regular and catch-up dividends."

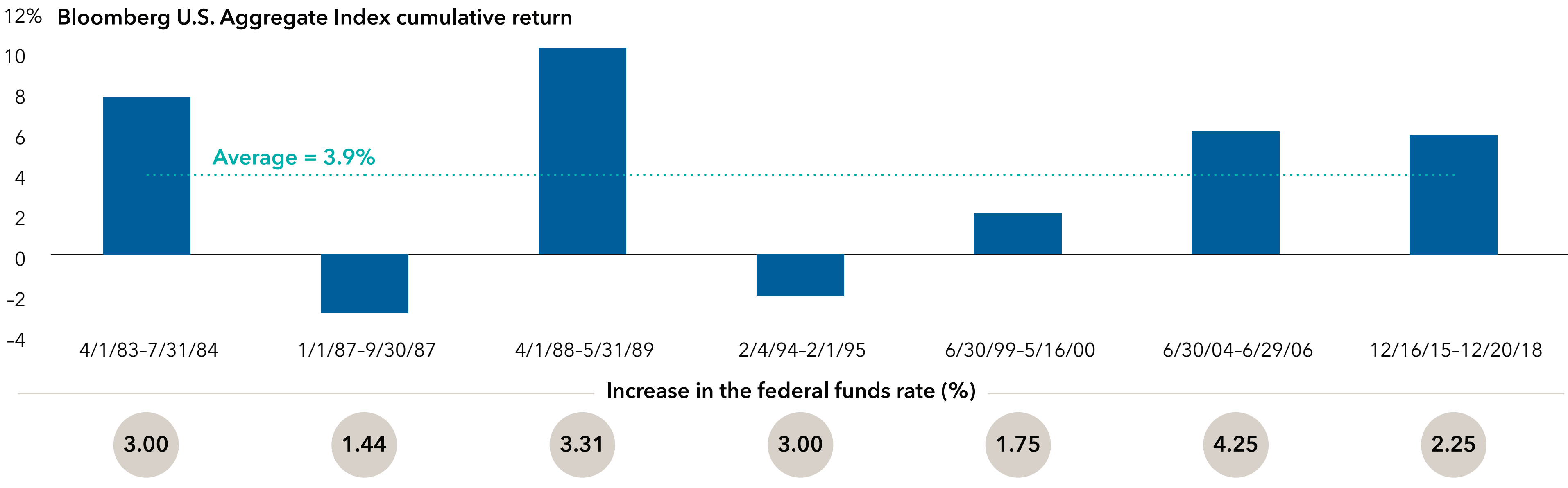
With global economies coming back slowly and inflation rising, Randall is focusing not on the highest yielders, but on those companies with strong underlying earnings growth that have demonstrated a capacity and commitment to raise dividends over time.

Dividend growers historically have tended to generate greater returns than other dividend strategies, while also keeping up relatively well with the broader market. "Because it is reflective of stronger earnings, dividend growth can also offer a measure of resilience against interest rate hikes," Randall adds.

A broad range of companies with a history of paying meaningful and growing dividends can be found in markets around the world. Among these are chip makers Broadcom and Taiwan Semiconductor Manufacturing, financials such as Zurich Insurance Group and TD Bank, utilities such as electricity and gas provider Enel, and telecommunications conglomerate Comcast.

Sources: Capital Group, Refinitiv Eikon. As of 10/31/21.

Bonds can still do well in rising rate environments



Markets expect rate hikes to begin in 2022. That makes some investors nervous. However, the Federal Reserve's communications and desire not to disrupt markets suggests a measured hiking approach, like last time around. Longer term bond yields are likely to rise at a modest pace, with persistent demand from sources such as non-U.S. investors and pension funds.

But what do rising rates mean for bonds? Consider the last seven hiking periods. The core bond benchmark, the Bloomberg U.S. Aggregate Index, declined in only two of those periods and averaged a nearly 4% return. Those two periods, with low single-digit losses, were also a far cry from the double-digit corrections stocks often experience.

Core bond funds provide a critical function in a balanced portfolio. First, they offer diversification from equities. That is especially important at a time when the stock market is hitting new highs.

Uncertainties, such as slowing global growth, an unknown COVID trajectory and a weaker Chinese economy, could result in heightened volatility. Active core bond managers can work to identify bonds with maturities that could hold up relatively well should rates drift higher. They can also invest in Treasury Inflation-Protected Securities to combat rising prices. It is important as ever to maintain a strong core bond allocation.

Sources: Bloomberg Index Services Ltd., Morningstar. As of 11/30/21. Daily results for the index are not available prior to 1994. For those earlier periods, returns were calculated from the closest month-end to the day of the first hike through the closest month-end to the day of the final hike.

With many bonds priced for perfection, selective investing across sectors is key

Income seekers can find opportunities across bond sectors

Sector (ascending order of rate risk)	Fundamentals	Yield	Reasons to consider
U.S. high-yield corporates	✓	4.7	Improving credit quality trend, low near-term default rate expected
Securitized (ABS/MBS/CMBS)	=	1.9	Strong housing and consumer credit demand market
Emerging markets debt	=	5.2	Provides non-dollar and/or developed market diversification
U.S. investment-grade corporates	✓	2.3	Could provide some relative resilience in an equity correction

Finding opportunities for value in today's bond markets isn't easy. Valuations are soaring. Persistently low yields have driven some investors to take on greater risk in search of income. Yet when looking for income across bond sectors, not all options are equally attractive. Even though credit spreads – the premium investors are paid for taking on credit risk over U.S. Treasuries – are very tight, a research-driven approach can help differentiate among sectors and securities.

Take high-yield and investment-grade bonds. For an investor concerned with rising interest rates, high yield could appear a better choice: Its duration – a measure of sensitivity to interest rate risk – is lower than that of investment-grade corporates. The latter have seen their duration profile rise in recent years.

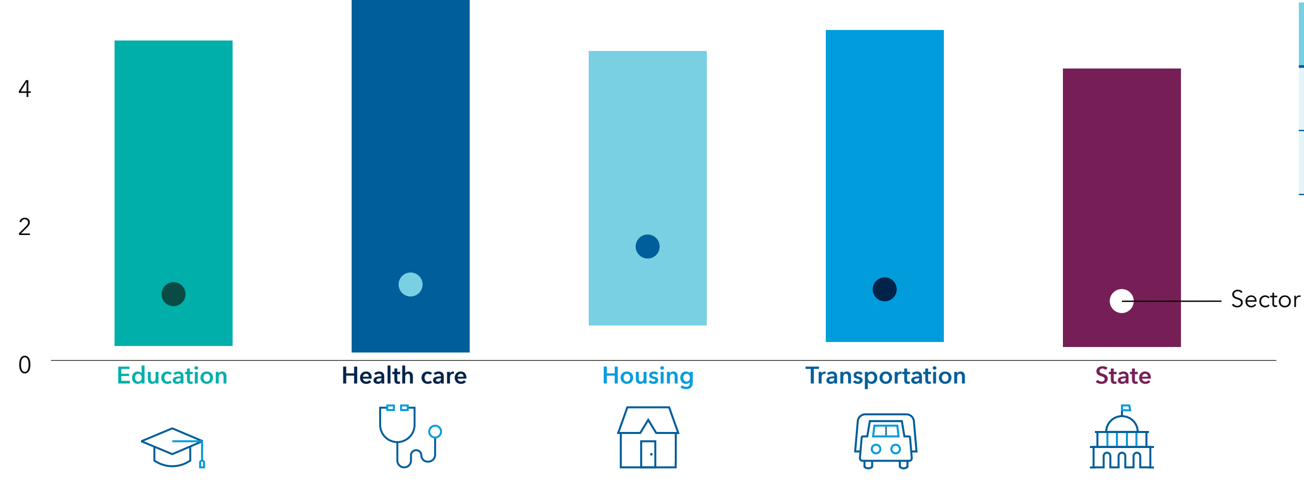
High-yield corporate bonds have also improved in credit quality, with their highest quality BB-rated bond portion growing recently. This means that even with credit spreads approaching historically tight levels, there may be some upside for select bonds within the sector. Of course, high yield also contains more credit risk, broadly speaking, so it might not be appropriate for investors looking for diversification from equities.

Considering all the varying attributes of income sectors and their specific bonds is necessary to achieve success in this environment. Flexibility to move from sector to sector when new opportunities arise is also key.

Sources: Capital Group, Bloomberg Index Services Ltd., Morningstar. As of 11/30/21. Sectors represented by Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index; Bloomberg Securitized ABS/MBS/CMBS Index; a 50%/50% blend of the JP Morgan EMBI Global/JP Morgan GBI-EM Global Diversified Indexes; and Bloomberg U.S. Corporate Investment Grade Index. Sectors above shown in ascending order of interest rate risk, where index durations were 4.2, 4.6, 6.6 and 8.6 years, respectively. Yield shown is yield to worst. ABS/MBS/CMBS are asset-backed securities, mortgage-backed securities and commercial mortgage-backed securities, respectively.

Taxes on your mind? Muni bonds can help

Yields vary across municipal bond sectors, pointing to opportunities for selective investors



Municipal market yields (%)

	Pretax	Tax-equivalent
Investment grade	1.1	1.9
High yield	3.1	5.2

For municipal bond investors, all eyes have been on Capitol Hill. Questions around tax policies and infrastructure spending could persist – even if legislative compromises on these hot-button issues are enacted in the near term.

Whether or not you think further tax hikes are likely, municipals still offer decent tax-advantaged yields for investors in the top income tax bracket. And the exemptions offered by this asset class would only become more valuable with higher taxes.

Arguably, uncovering attractive opportunities in the $4 trillion municipal market has become more difficult. Yields have declined amid strong demand from investors. A remarkable turnaround in fundamentals has also made many bonds quite expensive. As the impact of over $1 trillion in pandemic-era stimulus continues to be felt, strong economic growth should leave fundamentals on solid ground for the medium term.

With bond-by-bond research, however, selective investors can still find value. Consider the transportation sector: Some issues have actually yielded 5%, even though the average has been just 1%. Intriguingly, this sector could also receive a boost as the Biden administration's ambitious infrastructure plan comes to fruition.

Looking ahead, volatility among U.S. Treasuries could (as it often has) spill over into munis – perhaps as Fed rate hikes become a less distant prospect. Market setbacks could have a silver lining: the opportunity to invest in bonds offering higher tax-exempt yields.

Source: Bloomberg Index Services Ltd. As of 11/30/21. Yield ranges and averages based on respective index sectors within the Bloomberg Municipal Bond Index. Proxies for taxable-equivalent yields: Bloomberg Municipal Bond Index (IG muni market) and Bloomberg Municipal High Yield Index (HY muni market). Taxable-equivalent yield assumes the top federal marginal tax rate for 2021 of 37%, plus the 3.8% Medicare tax.

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.

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. Small-company stocks entail additional risks, and they can fluctuate in price more than larger company stocks.

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. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds. Income from municipal bonds may be subject to state or local income taxes and/or the federal alternative minimum tax. Also, certain other income (such as distributions from gains on the sale of certain bonds purchased at less than par value, for The Tax-Exempt Bond Fund of America), as well as capital gains distributions, may be taxable. While not directly correlated to changes in interest rates, the values of inflation linked bonds generally fluctuate in response to changes in real interest rates and may experience greater losses than other debt securities with similar durations. 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.

The 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.

Bloomberg U.S. Aggregate Bond 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 specified maturity, liquidity and quality requirements. Bloomberg Global Credit Index represents the universe of global investment grade and high-yield credit securities. Bloomberg U.S. Corporate High Yield Index covers the universe of fixed-rate, non-investment-grade debt. Bloomberg U.S. Corporate 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 High Yield Municipal Bond Index is a market value-weighted index composed of municipal bonds rated below BBB/Baa. Bloomberg Securitized ABS/MBS/CMBS Index tracks agency mortgage-backed pass-through securities guaranteed by Ginnie Mae, Fannie Mae and Freddie Mac, as well as investment-grade debt, asset-backed securities and investment-grade commercial mortgage-backed securities.

Ibbotson Associates SBBI U.S. Intermediate-Term Government Bond Index is a measure of the U.S. government bond market. Ibbotson Associates SBBI U.S. Inflation Index 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.

The 50%/50% JP Morgan EMBI Global/JP Morgan GBI-EM Global Diversified blends the JP Morgan EMBI Global Index with the JP Morgan GBI-EM Global Diversified Index by weighting their cumulative total returns at 50% each. This assumes the blend is rebalanced monthly. JP Morgan Emerging Markets Bond Index (EMBI) Global Index is a uniquely weighted emerging markets debt benchmark that tracks total returns for U.S. dollar-denominated bonds issued by emerging markets sovereign and quasi-sovereign entities. JP Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified Index covers the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

MSCI ACWI is a free float-adjusted market capitalization-weighted index designed to measure equity market results in the global developed and emerging markets, consisting of more than 40 developed and emerging market country indexes. MSCI All Country World 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 EAFE (Europe, Australasia, Far East) Index is a free float-adjusted market capitalization-weighted index designed to measure developed equity market results, excluding the United States and Canada. MSCI Emerging Markets Index captures large- and mid-cap representation across 27 Emerging Markets (EM) countries. MSCI World Index is a free float-adjusted market capitalization-weighted index designed to measure equity market results of developed markets. The index consists of more than 20 developed market country indexes, including the United States.

Standard & Poor's 500 Composite Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks.

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2022 Outlook: Investment implications and strategies to consider

Themes	U.S. equity Pricing power and rising dividends can fight inflation	Global/International equity Digital revolution goes global	Taxable fixed income Maintain balance with bonds	Tax-exempt fixed income Taxes on your mind? Munis can help
Investment implications	With U.S. economic growth slowing and equity valuations rising, selective investing is more important than ever. To help blunt inflation's impact, look for companies with pricing power and the capacity to raise dividends.	The digital revolution has expanded beyond the turf of U.S. tech giants as leading consumer companies across Europe and Asia transform their businesses. Many European companies are restoring and growing their dividend payments.	Amid looming uncertainties and soaring equity prices, core bond funds have the potential to provide balance even if interest rates rise modestly. In expensive bond income sectors, selectivity and flexibility are key.	Questions around tax changes, infrastructure spending and Fed policy could persist, but selective investors can still find value in the $4 trillion muni market.
Select investments to consider	**The Growth Fund of America®** A – AGTHX; F-2 – GFFFX; F-3 – GAFFX; R-6 – RGAGX **Washington Mutual Investors Fund℠** A – AWSHX; F-2 – WMFFX; F-3 – FWMIX; R-6 – RWMGX	**SMALLCAP World Fund®** A – SMCWX; F-2 – SMCFX; F-3 – SFCWX; R-6 – RLLGX **New World Fund®** A – NEWFX; F-2 – NFFFX; F-3 – FNWFX; R-6 – RNWGX **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 Multi-Sector Income Fund℠** A - MIAQX; F-2 - MIAYX; F-3 - MIAZX; R-6 - RMDUX	**The Tax-Exempt Bond Fund of America®** A – AFTEX; F-2 – TEAFX; F-3 – TFEBX
Separately managed account (SMA) strategies	Capital Group U.S. Flexible Growth℠ Capital Group U.S. Income and Growth℠	Capital Group International Equity℠		Capital Group Intermediate Municipal℠

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

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