2017 Outlook

Investment Insights

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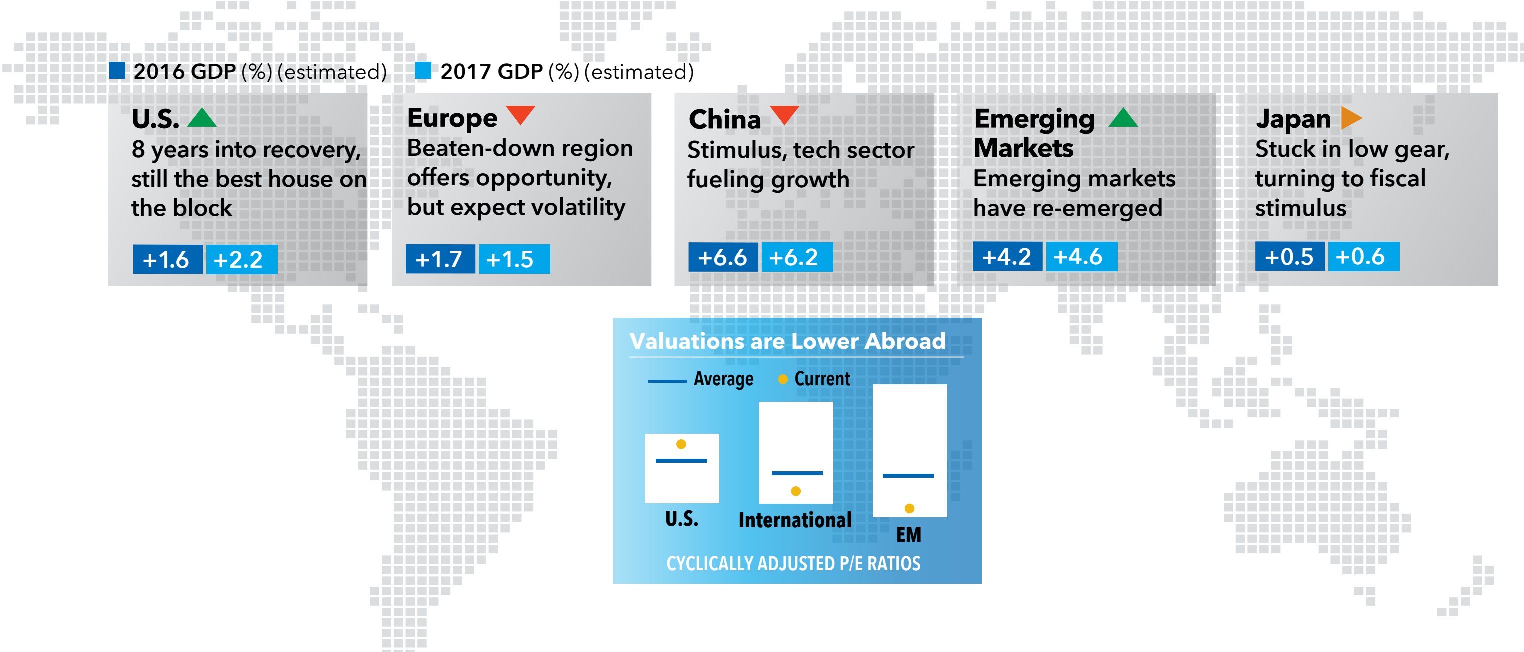
Political, Economic Uncertainty Signal a World in Transition

Amid Shifting Political Landscape and Muted Growth, Should Investors Reset Their Expectations?

"The U.S. election and the Brexit vote have raised questions about global trade. In addition, historically low interest rates globally have driven up asset prices. As a result as you think about winners and losers across various industries and regions clarity is in short supply. In spite of this, there are a lot of interesting things happening at individual companies."

Martin Romo, Portfolio Manager

Global growth continues at a weak pace, but the U.S. and some emerging markets are bright spots



Sources: International Monetary Fund, World Economic Outlook Database, October 2016; MSCI; RIMES; Thomson Reuters Datastream. Cyclically adjusted P/E ratios are the index price divided by the average of the previous 10 years of inflation-adjusted earnings for the 10 years ended 11/30/16.

- Investors enter 2017 facing a world in transition. The result of the U.S. presidential election – and the earlier Brexit vote in the U.K. – in part reflect potential populist sentiment that appears to be challenging the decades-long march of globalization.
- The uncertainty brought on by this political shift, paired with muted economic growth across much of the world, leaves many economies vulnerable to shocks. What's more, recognizing that aggressive central bank stimulus may have reached its limits, investors must consider the potential consequences of years of such policies.
- That said, the global economy continues along its low-growth path, but there are a number of bright spots. In the U.S., despite the political uncertainty, a strengthening consumer is driving stronger growth. A large fiscal stimulus under the new administration could well provide another boost to the U.S. economy. Valuations in many areas of the U.S. market appear stretched, but with a pickup in earnings, the market may not remain so expensive.
- Europe remains highly challenged, with uncertainty about the future of the European Union, low growth and high unemployment. Yet many companies are rising above regional woes and valuations appear relatively compelling.
- China's economy continues to grow, supported by aggressive stimulus and a healthier property market. And in many emerging markets the rebound that began in 2016 appears to have momentum, supported by higher commodities prices and China's turnaround.

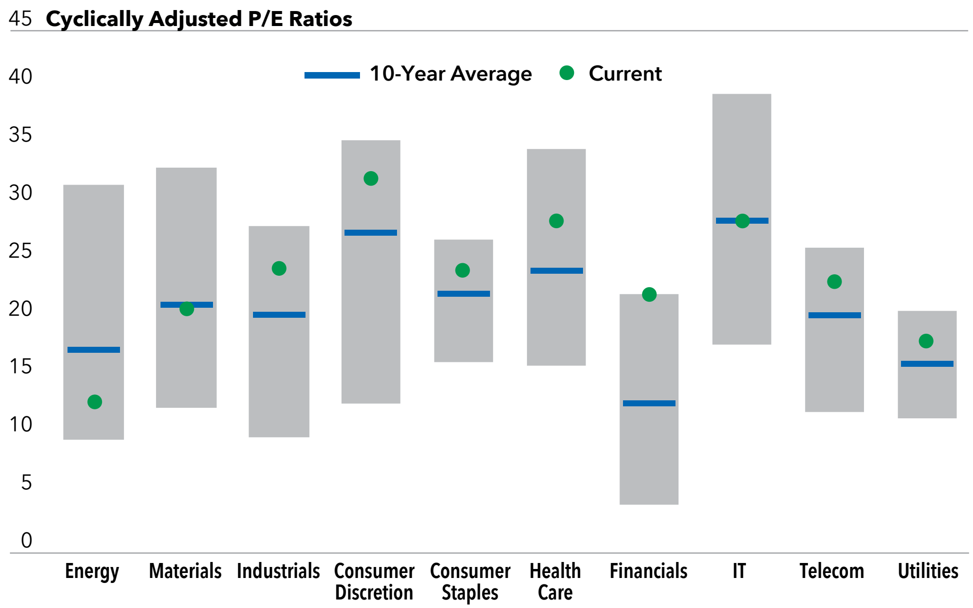
With Election Behind Us, U.S. Consumer Leads Recovery Onward

The American Expansion Is Strengthening; but After a Lengthy Run, Selective Investing Is Critical

"With the presidential election behind us, I think the economy is more likely to accelerate than decelerate. But we remain in a low-return environment and stocks are fully valued. I want to stay involved in the innovative technology companies that are remaking the world. With the oil price stabilizing, I also am interested in certain energy and industrial companies."

Mike Kerr, Portfolio Manager

Valuations in most areas of the U.S. market are above their long-term averages



Consumer health offsetting industrial weakness

Average hourly earnings	+2.5%
Unemployment	4.6%
Household debt service ratio	10.0%
Capital goods orders	0.2%

Source: U.S. Bureau of Economic Analysis, U.S. Commerce Department, MSCI, RIMES, Thomson Reuters Datastream as of 11/30/16. Cyclically adjusted P/E ratios are the index price divided by the average of the previous 10 years of inflation-adjusted earnings for the 10 years ended 11/30/16. Average hourly earnings and unemployment rate as of 11/30/16. Household debt service ratio represents ratio of debt to household net worth as of 6/30/16. Capital goods orders include non-military capital goods excluding aircraft as of 10/31/16.

- Uncertainty over the direction of the Trump administration may linger for months. But questions about the future of trade policy may be partially offset by prospects for lower corporate taxes and other business-friendly policies.
- With the election behind us, the U.S. expansion, well into its seventh year, continues to show age is just a number. With no obvious signs of excesses in the economy, look for continued growth in 2017, driven by a strengthening consumer. The U.S. remains a tale of two economies – with consumer health partly offset by relatively weak, albeit recovering, industrial activity – so expect modest growth.
- After years of gains, most U.S. stocks appear fully valued. As of September 30, 2016, the cyclically adjusted price-to-earnings ratio for the MSCI USA Index was 24.1, above the index's long-term average. That said, the prospect of tax cuts and infrastructure spending by the Trump administration could provide a tailwind for corporate earnings. However, with equities priced for a solid year, selective investing is essential.

With proven growth at a premium, look for innovative companies that are transforming the business landscape. For example, online retailer Amazon is changing the way consumers shop and internet search giant Google is among the pioneers of driverless cars. In addition, select companies in oil exploration and servicing, like Chevron and Schlumberger, may offer long-term value potential.

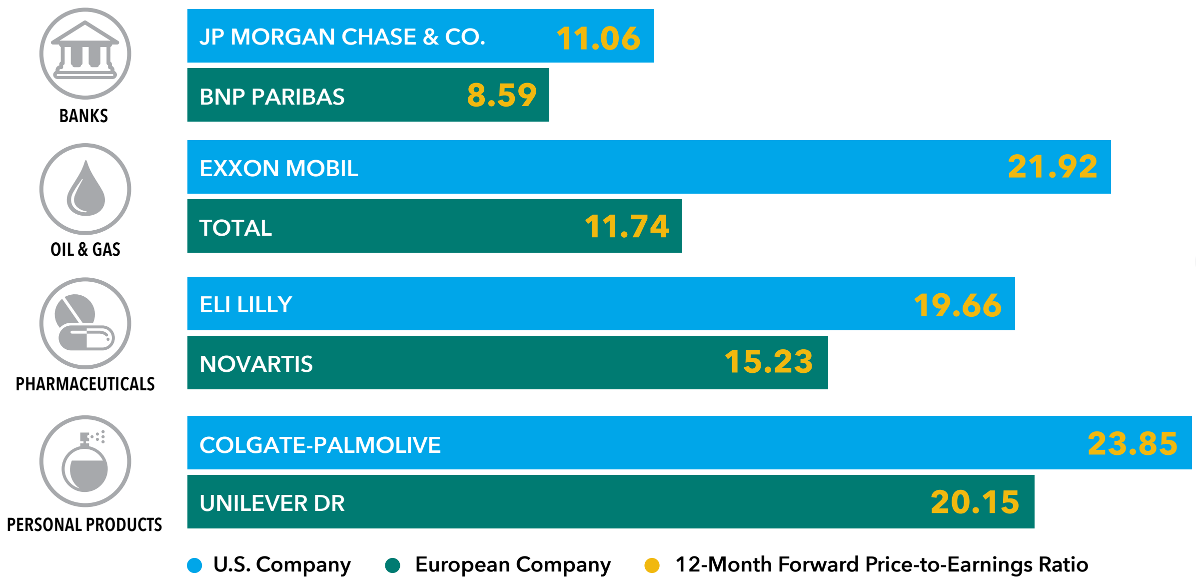
After Wave of Setbacks, Europe Is Still Playing Catch-Up

Political and Economic Uncertainty Blanket the Landscape, but Some Companies Are Thriving

"Europe faces a great deal of political and economic uncertainty. But if the euro holds together, the European market's valuation differential with the U.S. is not justifiable. When you get political stability, share prices can improve very quickly. We will get much more clarity on this in the coming months."

Andrew Suzman, Portfolio Manager

Compared with U.S. counterparts, some European companies are attractively valued



International stocks have trailed U.S. equities since the Global Financial Crisis

Source: RIMES, Thomson Reuters Datastream as of 11/30/16.
*MSCI EAFE Index vs. the S&P 500 Index rolling 3-year returns as of 11/30/16.

- Deflationary pressures, weak economic growth and mounting political risks are weighing on the outlook for the European economy. Negative interest rates are slamming the banking sector and corporate earnings, although improving, remain stuck in low gear.
- Meanwhile, political uncertainty is growing throughout the region as the U.K.'s June 23 vote to leave the European Union and Trump's rise to the U.S. presidency may bolster support for nationalist, anti-immigration movements. EU stability is rapidly becoming the biggest new threat to Europe's uneasy recovery from the 2008–09 financial crisis.
- The rate of economic growth in the euro zone is likely to be lower on average than it has been in the past. Previous expectations for annualized growth of 2% to 2.5% are now giving way to more pessimistic forecasts of 1% to 1.5%. That kind of anemic growth leaves Europe vulnerable to outside shocks, such as further slowing of China's economy or a potential recession in the United States.

Select European companies are overcoming regional challenges. The currency depreciation brought on by the U.K.'s Brexit vote has been a tailwind for exporters, including select luxury retailers. For example, a devalued pound is making Burberry coats and scarves less expensive for overseas buyers. Health care companies with innovative therapies have also fared well. Swiss-based Novartis has seen increasing sales of its heart drug, Entresto.

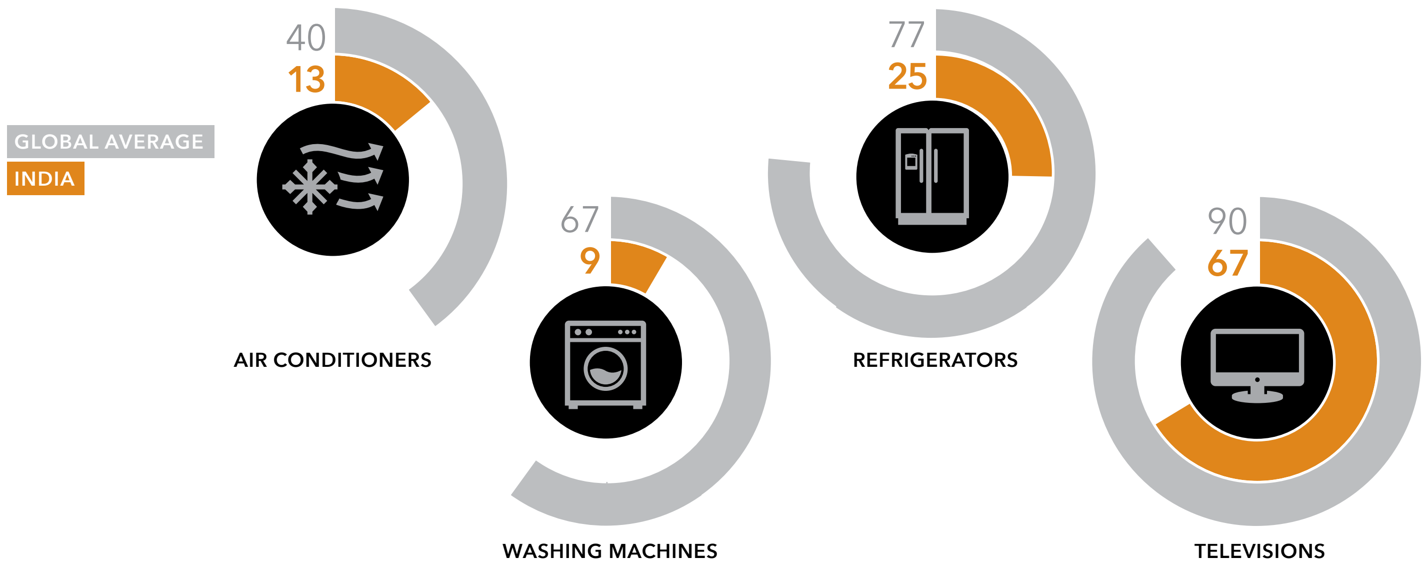
India Rising: Developing Nation Buys Into Consumption Society

Modernization of the Asian Nation Is Moving Rapidly, and May Only Be Getting Started

"India has a lot going for it in terms of favorable demographics, the possibility of a downward trend in inflation and a substantial reform agenda. If reforms are forthcoming, its economy could really take off, similar to the way China's did."

Nick Grace, Portfolio Manager

Households that own durable goods (%), as of 2015



Source: Euromonitor International. Data are based on possession rate, which is a measure of how many of the population units used (e.g., households) own at least one unit of a certain product, as defined by Euromonitor.

- India embarked on a journey about 25 years ago, opening its doors to globalization and world markets. Since then, the country has become one of the most important components of the global economy. India's growth has overtaken that of fellow Asian giant China. One of the key components of the country's economic growth is brisk consumer spending, which propelled growth in India's economy to 7.3% for the 12 months ended September 30.
- When it comes to being an economic powerhouse, India may just be getting started. The chart above shows the country still lags much of the world in owning items such as refrigerators and air conditioners. But modernization is progressing at a relatively rapid rate. Under Prime Minister Narendra Modi, highways, airports and railways are being improved, which could provide opportunities for companies and boost the economy.

Over the next decade, about 150 million people will enter India's workforce. That's about the size of the entire U.S. working population. A swelling labor force makes it likely India will continue to be a massive market for consumer companies around the world. For example, Korean personal electronics and appliance maker Samsung and Japan's Sony Corp. have operations in India.

In Emerging Markets, a Tech-Tonic Shift Is Taking Place

The New Face of Emerging Markets Looks a Lot More Tech, and a Lot Less Commodities

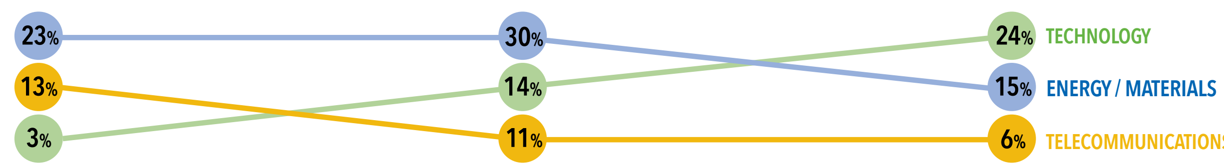
"During the next 10 years, developing countries are expected to add about a billion people to the middle class and above. These emerging economies will account for nearly half of total global consumption. I believe that is going to have a transformational impact on the world's economy."

Noriko Chen, Portfolio Manager

A new breed of companies is helping to drive growth in the developing world

10 Largest Companies by Market Capitalization in the MSCI Emerging Markets Index

1996	2006	2016
Telekom Malaysia	Gazprom	Samsung Electronics
Eletrobras	Samsung Electronics	Taiwan Semiconductor Mfg
Telekomunikasi Indonesia	Petrobras	Tencent
Telebras	China Mobile	Alibaba
Tenaga Nasional	Taiwan Semiconductor Mfg	China Mobile
Malayan Banking	America Movil	Naspers
Telmex Telefonos Mex	Lukoil Holding	China Construction Bk
De Beers Cons'D Mines	Hon Hai Precision Ind	Baidu
Cathay Life Insurance	Kookmin Bank	ICBC
Sime Darby	Petrochina	Hon Hai Precision Ind



Sources: MSCI, RIMES as of 11/30/16. Top holdings are as of 12/31/96, 12/31/06 and 11/30/16.

- Emerging markets are bouncing back after a tough stretch the past few years. Currencies have strengthened, commodity prices have stabilized and global interest rates remain low. Conditions appear to be "less bad" in Brazil, where a new government is pursuing fiscal reforms, and in Russia, where economic growth appears set to resume amid stronger oil prices and prudent central bank policies. However, some believe the election of Donald Trump in the U.S. may impact global trade.
- Times have changed in emerging markets. As the chart shows, materials and energy companies used to be key components of developing markets, but the focus has shifted to technology and consumer companies that are benefiting from rapid adoption of mobile phones, increasing internet use and rising wealth. Growing populations will continue to shape consumption habits. Consider that most of the world's 2 billion millennials (those born from 1980 to 2000) are living in emerging markets.

EM valuations look attractive compared with developed markets, and earnings in aggregate are forecast to grow. Our research suggests a focus on companies that stand to benefit from increasing internet penetration rates and rising wealth in developing countries, such as Asian technology firms, Indian banks or U.S. technology companies operating in emerging markets.

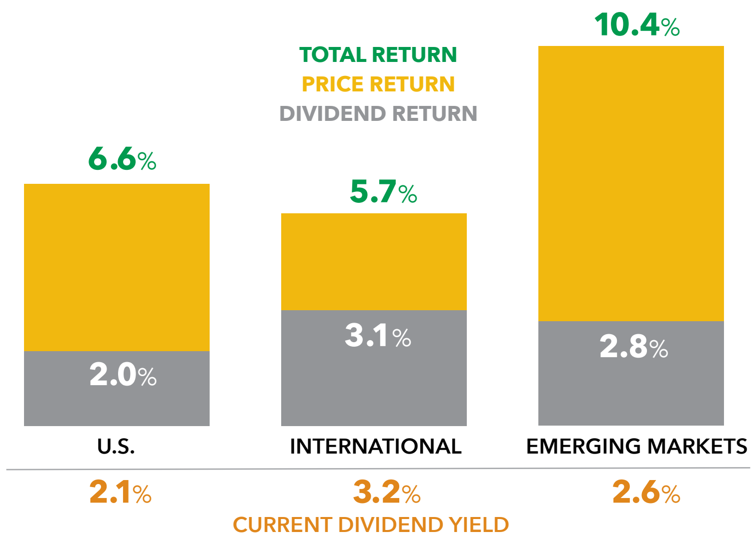
Dividend Income Is Hard to Find. Consider Searching Overseas

A Wide Range of Companies Abroad Pay Significant Dividends, but Be Mindful of the Risks

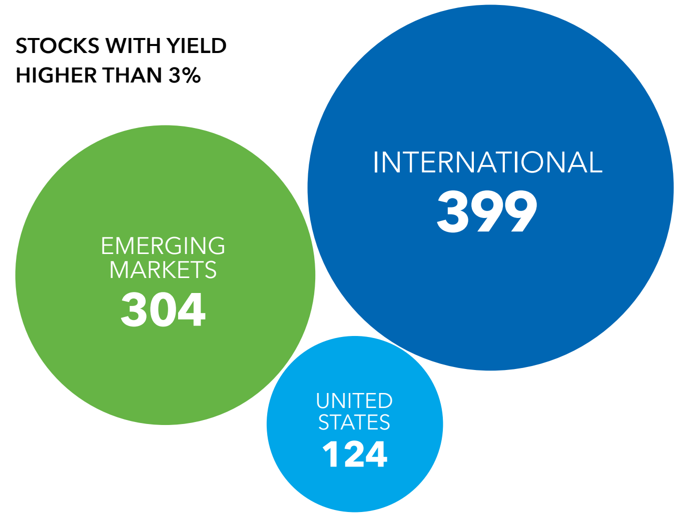
"We do find higher dividend yields outside the U.S. Also, the U.S. equity market has done better than a lot of other markets over the last five to six years, so the valuations of dividend-paying companies in other places are looking more attractive in certain cases."

Joyce Gordon, Portfolio Manager

Dividends have played a key role in global equity returns



The world is a fertile hunting ground for yield



Sources: MSCI, Capital Group, RIMES as of 11/30/16. Market returns are average annual returns for the 15 years ended 11/30/16.

- Dividends have historically played a significant role in driving total returns for equity investors. In fact, since 2001, dividends have accounted for more than half of average annual total returns in developed international markets.
- Given the expectation for low to moderate global growth in 2017 and beyond, dividends may take on even greater importance than they have since the start of the 21st century.
- To be sure, strong demand for dividend income has driven valuations for many traditional dividend payers in the U.S., such as utilities and consumer staples, high above long-term averages.
- For investors willing to look beyond U.S. borders, however, there are a significant number of companies in both developed and emerging markets with dividend yields greater than 3%. Keep in mind, many of today's higher dividend payers are in more economically sensitive areas than traditional dividend payers. Given the risks, selectivity is key.

There is a broad range of companies paying substantial dividends in developed and developing markets around the world. Among these are European financials such as Barclays and Prudential, telecoms such as China Mobil and Verizon, tech companies including Taiwan Semiconductor and IBM, and oil and gas firms like Royal Dutch Shell in the U.K., Enbridge in Canada and Chevron in the U.S.

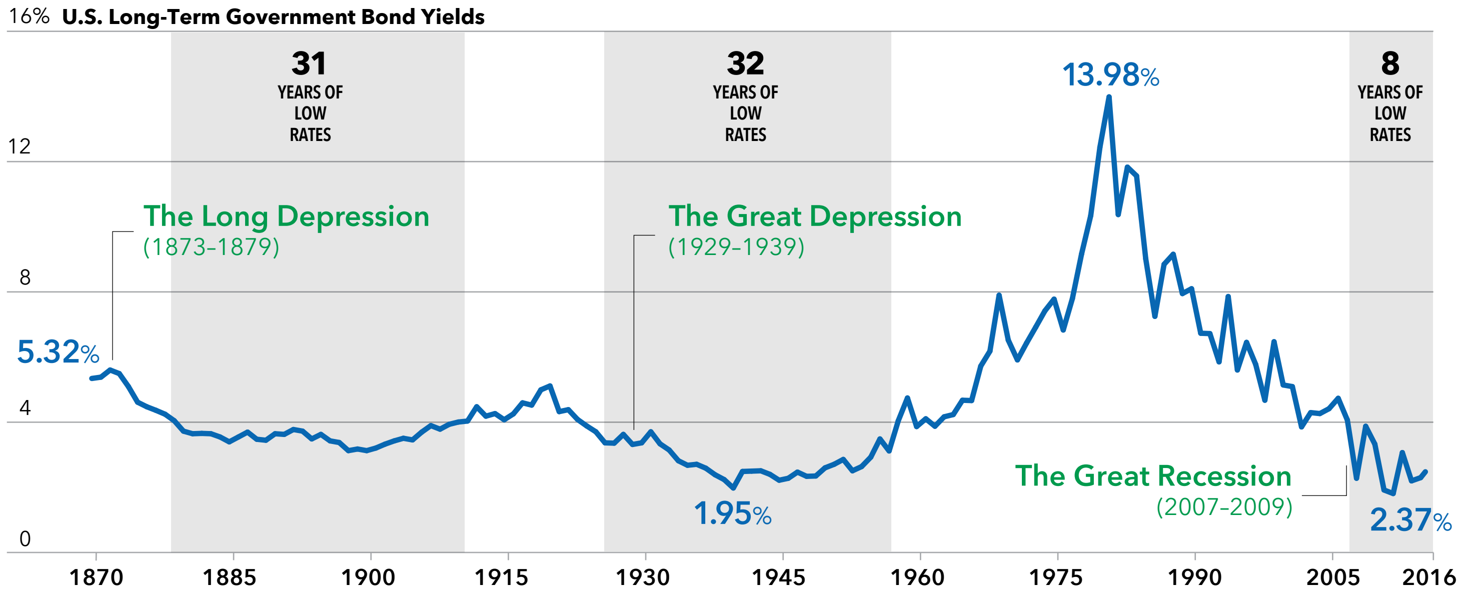
Sure, Rates Have Been Low for a Long Time. Expect More of the Same

Against a Backdrop of Weak Global Growth, Rates Can Stay Low for Much Longer

"Interest rates are low because growth and inflation in the U.S. have been relatively tame, and foreign central banks continue to buy bonds, pushing down global yields. In order to see significantly higher yields, we probably need to see both a hawkish Fed and high inflation. The probability of both of those things happening seems low."

Ritchie Tuazon, Portfolio Manager

In the past, extended periods of low rates have been common



Sources: Federal Reserve, Robert Shiller, Thomson Reuters Datastream. Data for 1876–1961 represents average monthly U.S. long-term government bond yields compiled by Robert Shiller. Data for 1962–2015 represents 10-year Treasury yields, as of December 31 each year within the period. Data for 2016 is as of November 30.

- Rates drifted higher after the U.S. presidential election, as Trump's emphasis on infrastructure spending and tax cuts could lead to a higher budget deficit and higher inflation. Despite the rise, rates remain relatively low by historical standards and appear poised to remain so for some time.
- Even if the Fed does continue to slowly hike rates, it could have a relatively modest impact on long-term yields if other factors, like global demand for Treasuries, persist in holding them down. Central bankers may also prefer to allow the economy and inflation to "run hot" for a while rather than tighten policy more aggressively.
- Although this 8-year period of low rates might seem long, history has shown that low-rate periods can carry on for much longer.

Interest rates look poised to remain relatively low for an extended period. Central bankers around the world may err on the side of keeping policy accommodative, rather than risk recession. If rates do rise only slowly, downside risk to bond prices driven by rates will be limited. Despite monetary policymakers indicating that they are comfortable with inflation rising modestly above their usual target, the market expects inflation to remain low. As a result, Treasury Inflation-Protected Securities (TIPS) may represent good potential value.

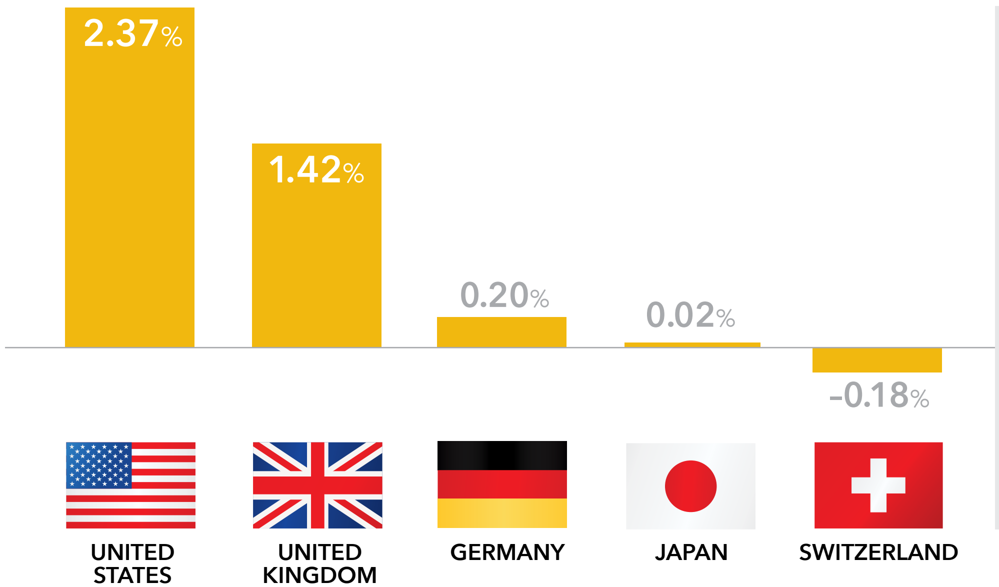
Believe It or Not, U.S. Rates Are Actually Relatively High

In a World of Near-Zero Sovereign Yields, the U.S. Is a Standout in the Developed World

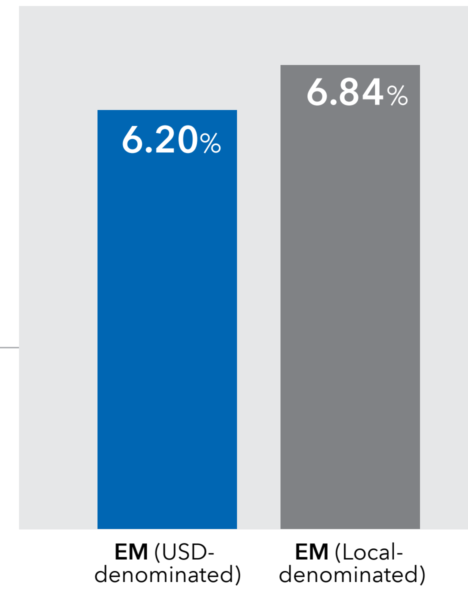
"If you're a saver in a country with negative interest rates, where do you go? You go to a place that's doing better, where rates are positive, like the U.S. or emerging markets."

Mark Brett, Portfolio Manager

U.S. yields are tops in the developed world …



… and emerging markets yields are even higher, but consider the risks.



Source: Thomson Reuters Datastream as of 11/30/16. Developed market yields represent 10-year government bond yields.

- Global investors searching for yield in a world of negative rates can look to the U.S. and U.K. for somewhat better alternatives. However, as hedging costs have risen in the latter part of 2016, the potential pickup in additional yield has begun to decline.
- In addition to searching for yield abroad, investors can also find opportunities in higher yielding sectors, if comfortable with a higher risk profile. Emerging markets debt could offer such an opportunity. Certain U.S. dollar-denominated bonds and local currency bonds appear attractive. Being selective is key.

For some time, investors have faced extremely low yields, and in 2016 they broadly plunged even lower. That may tempt some to accept higher risk profiles to boost income. However, prudent bond and sector selection is still necessary to seek capital preservation. Through U.S. credit exposure or emerging markets bonds, fund managers can rely on deep research to provide a yield boost, while aiming for relative safety.

Munis Remain Hard to Ignore for Income Seekers

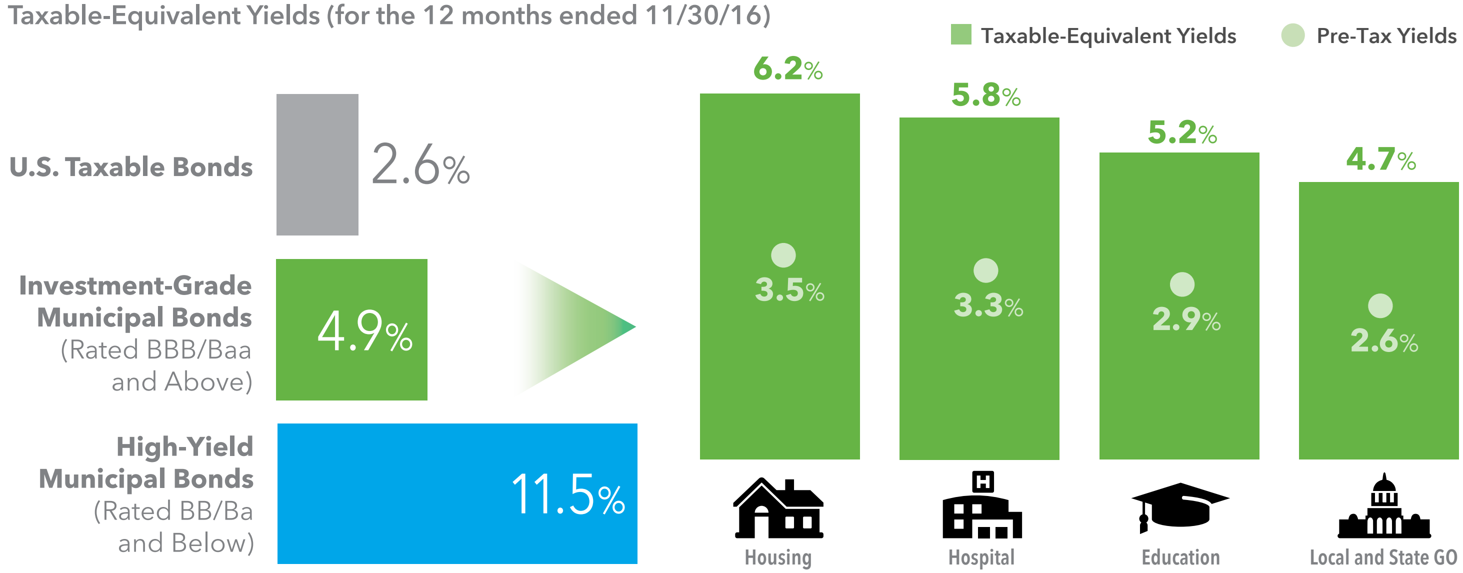
Diverse Credits, Favorable Yield and Diversification Potential for Stock-Heavy Portfolios

"The Trump agenda for tax reform and infrastructure – by itself – seems unlikely to have a dramatic impact on munis in 2017. Still, I expect returns will moderate overall and largely track the direction of Treasury bond prices. Also, volatility around distressed credits could create sizable return potential in certain pockets of the high-yield muni market."

Chad Rach, Portfolio Manager

Twice as much yield as taxable bonds is hard to ignore in a lower-for-longer world

Taxable-Equivalent Yields (for the 12 months ended 11/30/16)



Source: Bloomberg Index Services Ltd. as of 11/30/16. Sector yields are for sectors within the Bloomberg Barclays Municipal Bond Index, which is a broad measure of investment-grade municipal bonds.

- In 2017, returns for munis are unlikely to reach the heights of recent years. For income-seeking investors, however, munis remain unmissable. While bonds from Puerto Rico and Chicago have been in the headlines for the wrong reasons, it's worth remembering that most bonds in the $3.7 trillion market are unaffected by state and local government finances.
- Revenue bonds – such as those linked to hospitals, schools or toll roads – account for more than two-thirds of the investable universe. For this type of municipal bond, the credit fundamentals of the corporate or nongovernmental issuer are what matter. So it's deep bond-by-bond research that helps investors uncover the best opportunities.

In a low-yield world, the after-tax income potential of munis remains compelling. Investors comfortable with more volatility should consider high-yield munis; they've tended to be less correlated to stocks than taxable bonds – making them a great source of diversification, as well as income.

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. Methodology for calculation of taxable-equivalent yield: Based on 2015 federal tax rates. For the year 2016, there will be an Unearned Income Medicare Contribution Tax of 3.8% that applies to net investment income for taxpayers whose modified adjusted gross income exceeds $200,000 (for single filers) and $250,000 (for married filing jointly). Thus taxpayers in the highest tax bracket will face a combined 43.4% 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. Index proxies for below-investment-grade and investment-grade munis are Bloomberg Barclays Municipal High Yield Index and Bloomberg Barclays Municipal Bond Index, respectively; U.S. taxable bonds represented by Bloomberg Barclays U.S. Aggregate Index. The indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in indexes.

Portfolio Strategies for 2017

There are a number of ways investors can act on the insights in this *2017 Outlook*. Below are sample asset allocations for investors to consider depending on their time horizon and risk tolerance.

U.S. Equity

Make U.S. equities a core holding in your portfolio.

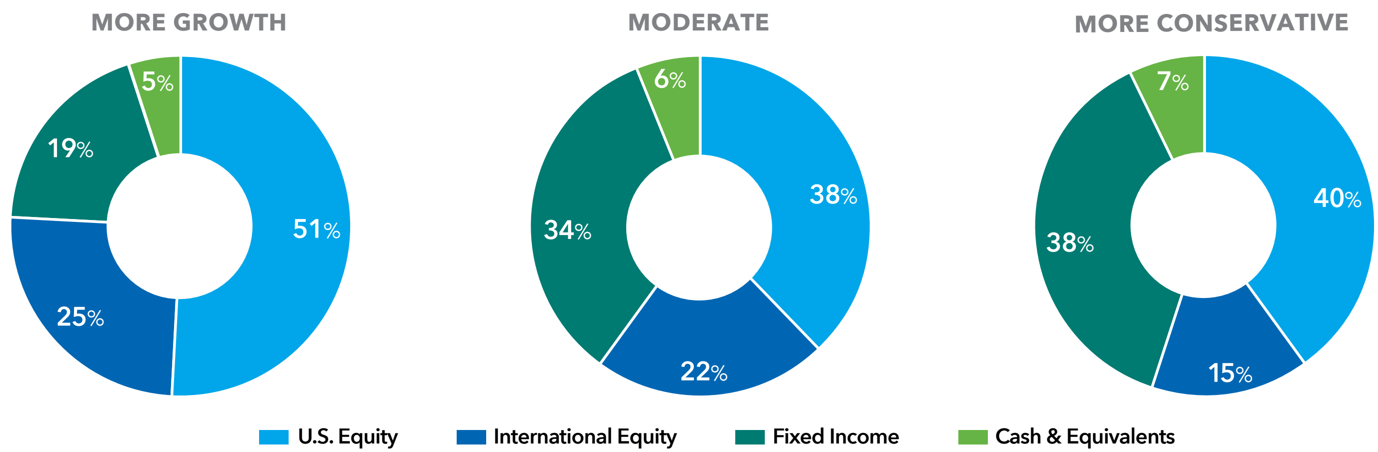
International Equity

Gain enough exposure to take advantage of opportunities.

Fixed Income

Use bonds to dampen volatility, but don't chase yield.

SAMPLE ALLOCATIONS



This option is characterized by a higher allocation to equity with strong growth potential, and is most appropriate for investors who can withstand volatility over a long investment horizon. The sample asset allocation is based on American Funds Growth and Income Portfolio℠ as of 9/30/16.

This option is a strategy to consider for investors approaching retirement and offers exposure to a mix of global stocks and bonds with the potential for less volatility than a growth portfolio. The sample asset allocation is based on American Funds Balanced Portfolio℠ as of 9/30/16.

This option provides exposure to a diverse mix of stocks from dividend-paying companies and fixed income securities. With a heavier allocation to bonds, it is most appropriate for investors in retirement who seek income and lower volatility than the other allocations. The sample asset allocation is based on American Funds Income Portfolio℠ as of 9/30/16.

2017 Outlook: Navigating a World in Transition

	U.S.	Global/International	Emerging Markets	Municipal Bonds	Taxable Bonds
Headwinds	• Equity valuations are stretched • Corporate debt levels are elevated • Still relatively weak external environment	• Stubbornly slow growth and deflationary pressures • Chronic government debt levels • Political risk amplified by populist sentiment	• Prospect of further rate hikes by U.S. Federal Reserve • Rising populism and political instability in some areas	• New administration could focus on tax-policy changes • Abrupt rise in Treasury yields could trigger volatility • Pension liabilities weigh on state, local governments	• More aggressive Fed tightening could trigger volatility • Global shocks could weigh on high-yield, EM bonds • Further earnings erosion could impact corporate bond market
Tailwinds	• With wage growth accelerating and household debt near multiyear lows, consumer health is solid • Inventories are at healthy levels • Business and consumer confidence is upbeat	• Easy monetary policy • German economy growing and France showing signs of improvement • Attractive valuations relative to the U.S.	• Shift toward supportive fiscal policies in some nations • Moderating dollar strength • Firmer prices for oil and other commodities	• Lower-for-longer scenario still supportive of bond prices • Yield advantage prized by U.S., international investors • Volatility could create attractive entry points	• Highly accommodative monetary policy across major global economies • Stabilizing energy prices
Key takeaways	The U.S. continues to lead the global economy, but most companies are fully valued. Look for proven growth among disruptive innovators.	Europe remains challenged by political uncertainty and weak growth, but valuations are compelling, and a number of multinational companies are thriving.	The turnaround in emerging markets continues, supported by firming commodities prices and fiscal reforms. Earnings growth looks promising.	Diverse and attractive yield opportunities remain, though return potential may moderate and volatility could rise.	The "lower for longer" scenario remains intact and bonds continue to play an important risk-dampening role in portfolios.
Investments to consider Ticker symbols	**The Investment Company of America®** A – AIVSX; C – AICCX; F-2 – ICAFX; R-3 - RICCX; R-6 - RICGX **The Growth Fund of America®** A – AGTHX; C – GFACX; F-2 – ARMFX; R-3 - RGACX; R-6 - RGAGX **American Mutual Fund®** A – AMRMX; C – AMFCX; F-2 – AMRFX; R-3 - RMFCX; R-6 - RMFGX **American Balanced Fund®** A – ABALX; C – BALCX; F-2 – AMBFX; R-3 - RLBCX; R-6 - RLBGX	**Capital Income Builder®** A – CAIBX; C – CIBCX; F-2 – CAIFX ; R-3 - RIRCX; R-6 - RIRGX **EuroPacific Growth Fund®** A – AEPGX; C – AEPCX; F-2 – AEPFX; R-3 - RERCX; R-6 - RERGX **New Perspective Fund®** A – ANWPX; C – NPFCX; F-2 – ANWFX; R-3 - RNPCX; R-6 - RNPGX	**New World Fund®** A – NEWFX; C – NEWCX; F-2 – NFFFX; R-3 - RNWCX; R-6 - RNWGX	**American High-Income Municipal Bond Fund®** A – AMHIX; C – AHICX; F-2 – AHMFX **The Tax-Exempt Bond Fund of America®** A – AFTEX; C – TEBCX; F-2 – TEAFX	**The Bond Fund of America®** A – ABNDX; C – BFACX; F-2 – ABNFX; R-3 - RBFCX; R-6 - RBFGX **American Funds Emerging Markets Bond Fund℠** A – EBNAX; C – EBNCX; F-2 – EBNFX; R-3 - REGCX; R-6 - REGGX **American Funds Strategic Bond Fund℠** A – ANBAX; C – ANBCX; F-2 – ANBFX; R-3 - RANCX; R-6 - RANGX

In addition to the above funds, we also offer all of the American Funds and a number of Separately Managed Account strategies, including the **Capital Group International Equity SMA**, **Global Equity SMA** and **World Dividend Growers SMA**, available through select broker-dealers.

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

Investing outside the United States involves risks such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in fund prospectuses. These risks may be heightened in connection with investments in developing countries. 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 underlying bond holdings. Bond prices and a bond fund's share price will generally move in the opposite direction of interest rates. For tax-exempt bond funds, income may be subject to state or local income taxes. Income may also be subject to the federal alternative minimum tax (except for The Tax-Exempt Bond Fund of America). Certain other income, as well as capital gain distributions, may be taxable. 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. Market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

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