Midyear Outlook

Investment Insights

July 2016

Look for Opportunity Through the Fog of Uncertainty.

AMERICAN FUNDS®

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No doubt, the world's markets spent the first half of 2016 on rocky ground. Investors have been confronted with the British vote to leave the European Union ("Brexit"), a "growth scare" in the U.S., the economic deceleration in China and the introduction of negative interest rates in some markets. Nevertheless, the global economy is expected to remain on a path to growth – albeit very slow growth.

Looking ahead to the second half of 2016, market volatility is likely to remain elevated. What are the longer term implications of the Brexit vote? Can the resilient U.S. economy continue on its growth path? Will Chinese consumption remain healthy as the world's second-largest economy continues to slow? Potential opportunity will likely arise for disciplined, active investors who can look past the near-term macroeconomic clouds toward individual companies with bright prospects.

Seek Growth Amid Volatility

"I need my portfolio to grow but worry about world events. How do I get growth in the current environment?"

U.S. page 2

Setting pace for the global economy

Strong employment and wage growth support consumer health as construction and housing gain momentum. But given that companies in many areas of the market are fully valued, selectivity is important.

International pages 4, 5

Down, but not out

In light of the Brexit vote, the path forward for Europe is uncertain. Select companies are rising above regional challenges.

Emerging Markets pages 3, 6

More volatility, more value?

The near-term outlook for some developing markets has brightened thanks to a turnaround in commodities prices. However, China's deceleration continues to pressure many regions and volatility is likely to remain elevated.

Pursue Sustainable Income

"I rely on my investments to produce income but low stock and bond yields present a big challenge. What's the right approach to income generation in today's market?"

Dividends page 7

Dividends take center stage

The expected pace of interest rate hikes is relatively slow, rekindling demand for quality dividend-oriented equities. Look for global companies that can sustain and increase their dividends in a slow-growth world.

Bonds page 8

Lower for longer

With the Federal Reserve approaching future interest rate hikes with caution, and global growth slowing, the "lower for longer" scenario remains intact. Bonds continue to provide important diversification.

Munis page 9

Attractive yield opportunities

Choppy waters for stock markets barely register as a ripple in munis. Revenue bonds may offer a particularly attractive source of income and capital preservation. Should munis be a bigger part of your portfolio?

Cover: London, United Kingdom

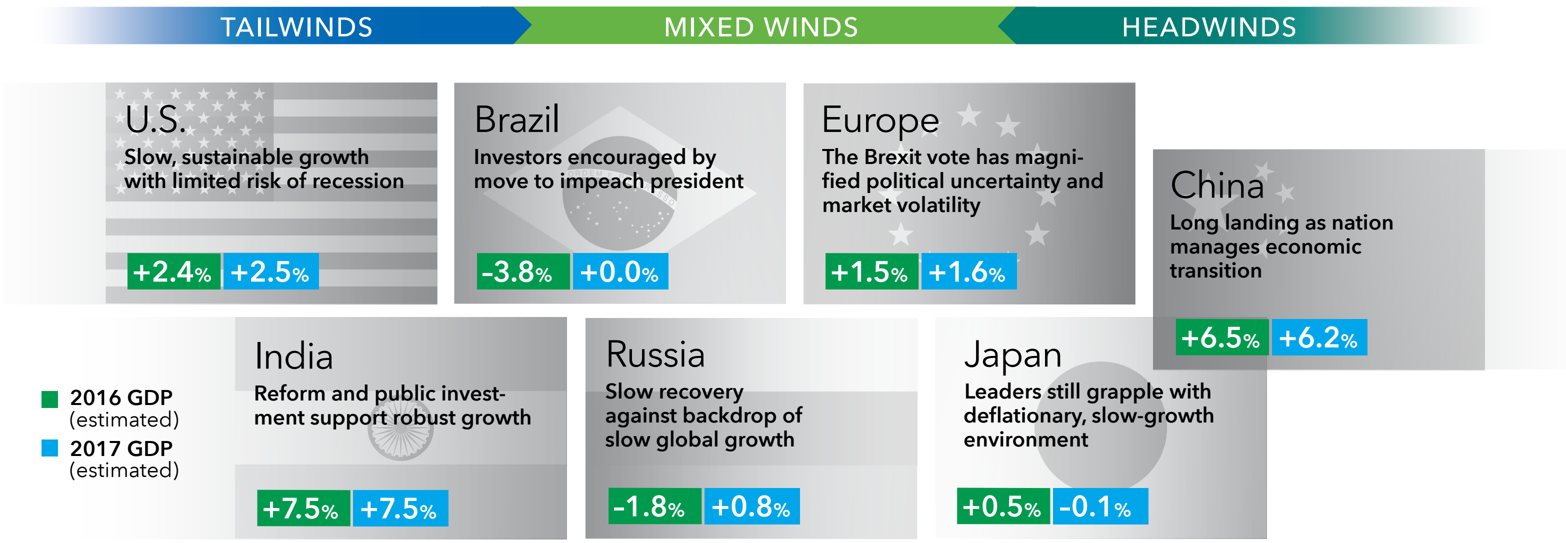
Amid Volatility, Global Economy on Track for Slow Growth

Tremors From Brexit Are Likely to Keep the World's Markets on Edge

"This is a very unusual time. We are seeing things that many of us never imagined would come to pass, like Japan experimenting with negative interest rates. We've seen a difficult period in emerging markets and many had given up on those markets. But that can be a catalyst for change, and in some markets a new dawn may be coming. More recently, we've seen British voters approve a proposal to leave the European Union. Despite all the uncertainty on a macroeconomic level, there is a lot going on at the company level and I think there are a lot of interesting opportunities."

Carl Kawaja, Portfolio Manager

Some areas of the global economy have slowed while others are getting "less bad"



Source: International Monetary Fund. Estimated data are as of April 2016.

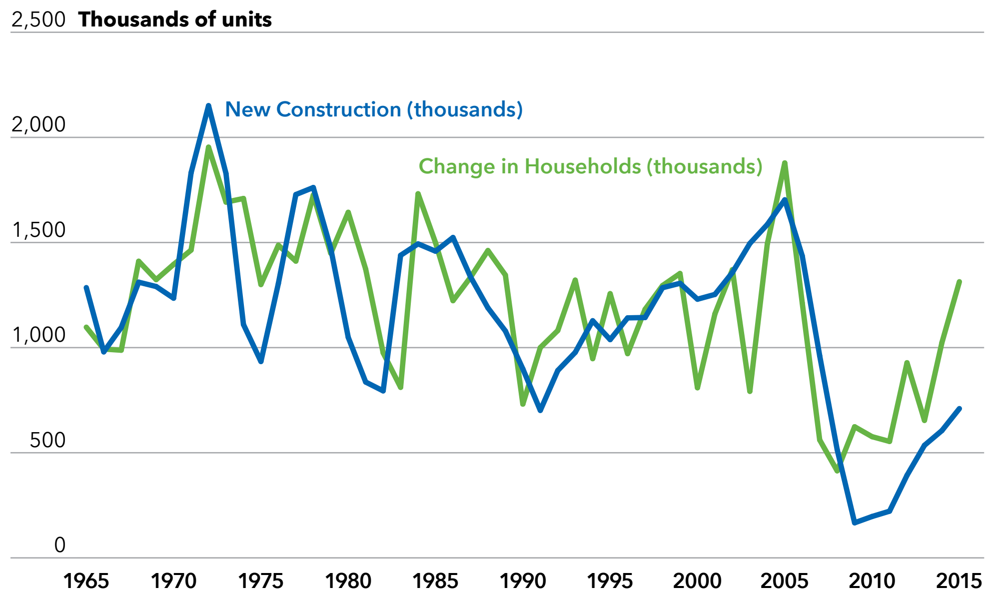
- Clarity may not be the first word that comes to mind when pondering the outlook for the global economy. Yet despite the cacophony in equity markets at the start of 2016, the path remains the same: very slow overall growth and muted-to-imperceptible inflation.
- To be sure, outlooks for country and regional economies vary considerably. Nowhere is this more apparent than with respect to the U.S. and China, the world's powerhouse economies. The U.S. again is demonstrating its resilience, as the American consumer flexes its muscles and there are bright spots in housing and industrial sectors. In contrast, China's transition toward more sustainable consumption-led growth proceeds along a bumpy path. While the risk that China might drag the global economy into recession has diminished, further deceleration in the world's second-largest economy and bouts of market turbulence in the months ahead are expected.
- In Europe, the Brexit vote has left investors uncertain about the future of the European Union (EU). And central banks in Europe and Japan have introduced negative interest rates to combat deflationary pressure. But select global companies are rising above regional economic challenges.
- Among the world's emerging economies, India continues to be a bright spot. Conditions appear to be getting "less bad" in Brazil, where the president faces an impeachment trial on corruption charges, and in Russia, as the oil producer adjusts to low energy prices.

The U.S. Continues to Set Pace for Global Economy

U.S. Housing, Industrials Get a Lift From the Young and Restless

> "People may postpone hitching up during uncertain times, but eventually hormones take over."
>
> **Warren Buffett**, CEO Berkshire Hathaway

Household formation is driving up home construction



Signs of a Ripple Effect

	U.S. wages, a key to home buying, are on the rise	+2.5%
	Construction employment at highest levels since 2008	6.6 million
	Housing is helping to lift U.S. industrials	61% of industries report expansion

Sources: U.S. Census Bureau (new construction and change in households), U.S. Bureau of Labor Statistics (wages and construction employment) and Institute for Supply Management (industries reporting expansion). New construction represents nonreplacement starts, or the number of new units beyond those built to replace destroyed units, calculated by Capital Group. Change in households represents demand for new housing units. Wages, which represent average hourly earnings, and construction jobs are as of May 31, 2016. Employees in the construction sector include those who work at the site of construction or in shops or yards at jobs and who are engaged in work ordinarily performed by members of the construction trades. Expansion of industries, calculated by Capital Group, represents the percentage of manufacturing industries, surveyed by the Institute for Supply Management, that reported growth as of March 31, 2016.

- The Great Recession forced many Americans to delay or scale back their dreams of home ownership, or even being able to live on their own. But that's changing. The number of households in the U.S. increased by 1.3 million in 2015, building on an upward trend that began in 2014. Household formation, as the demographers call it, may have reached a turning point.
- That could be an important factor in the continued strength of the housing market. Each year a number of houses are constructed to meet increasing demand. There were 710,000 of these "nonreplacement" starts in 2015, well below the number of household formations and the long-term average of 1.4 million starts. That suggests the potential for a significant boost in residential construction activity. In fact, partly due to housing, the industrial sector in the U.S. is showing signs of increased strength. At the end of the first quarter, the Institute for Supply Management's Manufacturing Index reported that activity is expanding in 61% of the 18 manufacturing sectors it surveys.

Housing can generate jobs and activity not only in construction, but in a wide range of industries, including durable goods makers and financial companies. Possible beneficiaries could include companies such as Wells Fargo, Newell Rubbermaid, Inc., Waste Management, Inc., The Home Depot, Whirlpool Corporation and the makers of large pickup trucks, whose sales have been highly correlated with home construction.

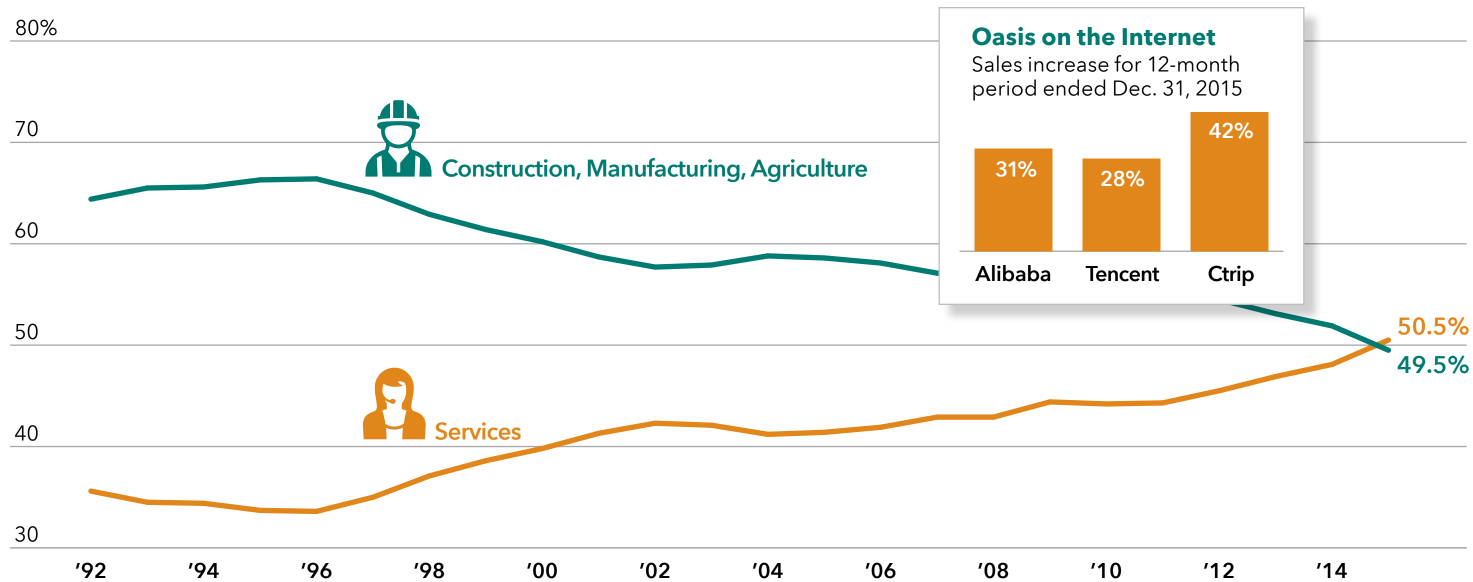
As Growth Slows, China's Economy Reaches Inflection Point

China Poised for "Long Landing" as Economy Rebalances

"I expect China's GDP to grow in the range of 3% to 4% this year, although the official figures are above 6%. While China faces serious challenges, I think they can avoid a hard landing. My sense is China will gradually solve its problems and its economy will bounce back. Looking out through 2025, it would be reasonable to expect China's economy to grow at an average annual rate of 5% to 6%."

Stephen Green, Economist

Services are now majority of GDP and some firms are benefiting



Sources: Thomson Reuters Datastream (construction, manufacturing, agriculture and services as a percentage of gross domestic product) and FactSet (increase in sales).

- It's no secret storm clouds are hovering over China's economy. The government must tackle large chunks of industrial overcapacity, a real estate glut and bad debts on bank balance sheets. During this difficult and multiyear transition to a consumption-led economy, there is an encouraging sign that China is on the right path: the services sector now makes up a majority of the country's gross domestic product, having surpassed construction, manufacturing and agriculture.
- China is at a critical juncture after years of hyper growth, and the country's leadership has pledged to keep the economy growing at a steady, albeit slower, rate. Recently, policymakers have sought to stimulate growth by easing restrictions on property purchases, freeing up bank lending and funding new infrastructure projects. It appears these measures are helping to sustain the economy. China reported first-quarter GDP growth of 6.7%, in line with the government's plan to grow the economy between 6.5% and 7% over the longer term.

The Chinese consumer is still showing signs of life despite sluggish household wage growth. For example, Alibaba, Ctrip and Tencent are all maintaining strong sales growth as consumers go online for a range of products and services. While slower overall growth may curtail consumption, there will be selective opportunities for long-term investors, especially in areas such as e-commerce, tourism and health care.

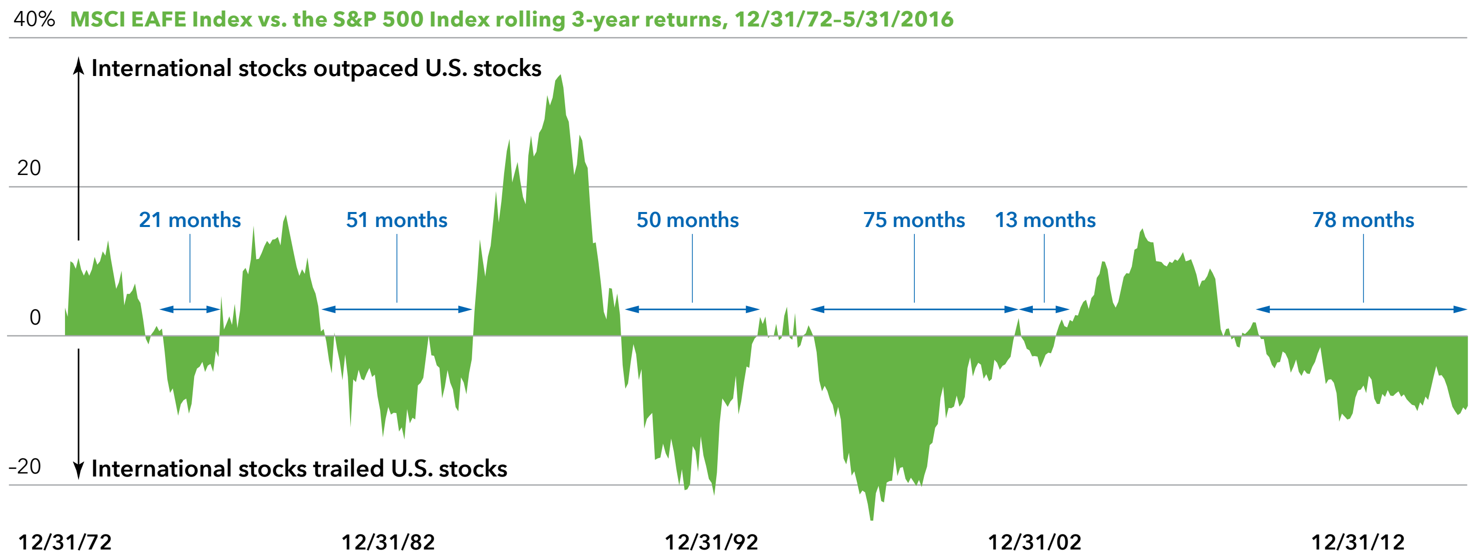
International Equities: Down but Not Out

Britain's Vote to Leave EU Adds to Uncertainty, but Investors Should Take Long-Term View

"The departure of a major member of the European Union has never happened, so there is no precedent to provide insight into how the Brexit vote might play out. As a result, the outlook for U.K. markets, the economy and European growth overall is diminished."

Jens Søndergaard, Economist

U.S. equities have outpaced international markets since the 2008–09 financial crisis



Source: Capital Group, based on MSCI and S&P data. MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. MSCI data may not be redistributed or used as a basis for other indices or investment products. Standard & Poor's 500 Composite Index℠ and S&P 500® are service/trademarks owned by The McGraw-Hill Companies, Inc. Past results are not predictive of results in future periods.

- Investors have understandably become impatient with international equities, given years of lagging returns. June's Brexit vote is one more source of uncertainty on a long list of challenges. However, it's important to take a long-term view and understand that extended periods of trailing returns have often been followed by periods of higher relative returns.
- The chart shows that non-U.S. developed markets have lagged U.S. markets since the global financial crisis – but, prior to that, the reverse was true in several multiyear time periods. Understanding these trends is no substitute for fundamental, company-specific research, but it does reinforce the importance of maintaining a well-diversified portfolio.
- The outlook for the European economy remains clouded by high debt, stubbornly slow growth and political uncertainty. To jumpstart the economy the European Central Bank has launched aggressive stimulus measures, including the deployment of negative interest rates and a massive new bond-buying program.

Despite these well-known challenges, specific companies have risen above the regional issues. This includes European technology companies like ASML and health care companies like drug makers Novartis and GlaxoSmithKline. In addition, with interest rates falling into negative territory all over the continent, dividend-paying stocks have become more attractive on a relative basis.

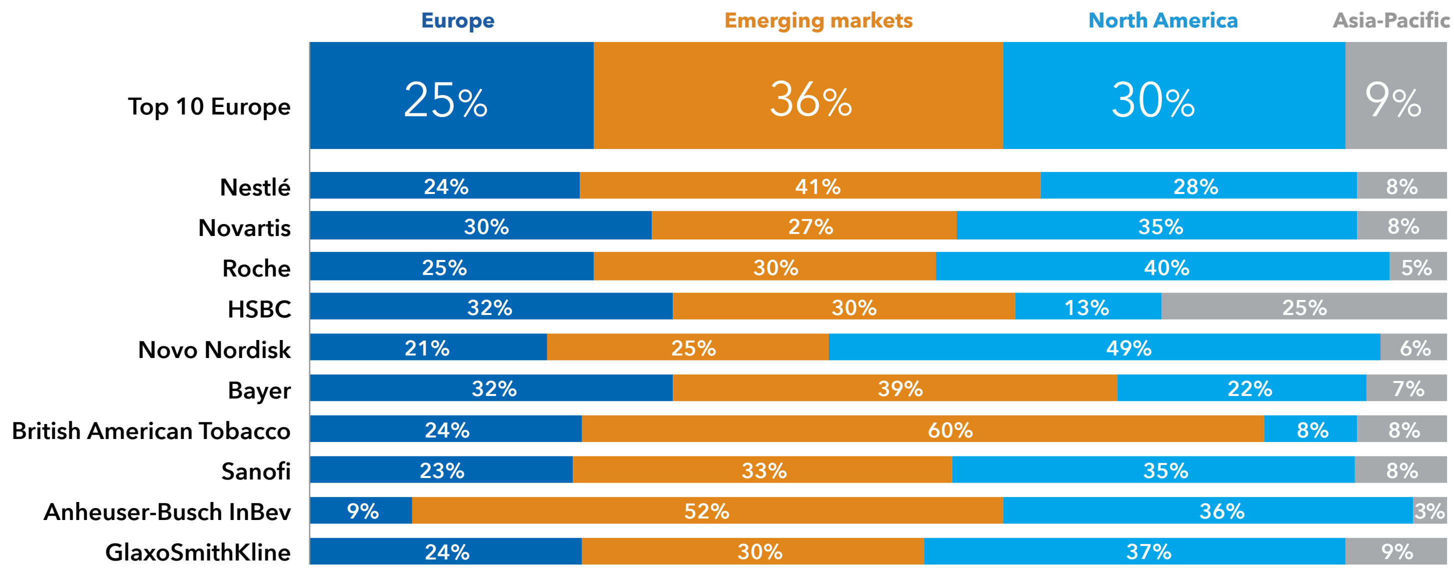
Investing in Europe Means Investing Globally

Individual Companies' Prospects Aren't Always Tied to Regional Economies

"If you look at Europe, it might surprise you to see that actually more than 50% of the revenue of the companies in the MSCI Europe Index comes from outside of Europe. I think part of that speaks to where growth has been in the world. Growth has been in the United States, growth has been in emerging markets, and those companies have very logically shifted toward that."

Rob Lovelace, Portfolio Manager

Europe's 10 largest companies generate most of their revenue in overseas markets



Sources: MSCI and RIMES. Revenue exposure of the top 10 companies in the MSCI Europe Index shown is based on market capitalization, as of December 31, 2015. MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. MSCI data may not be redistributed or used as a basis for other indices or investment products.

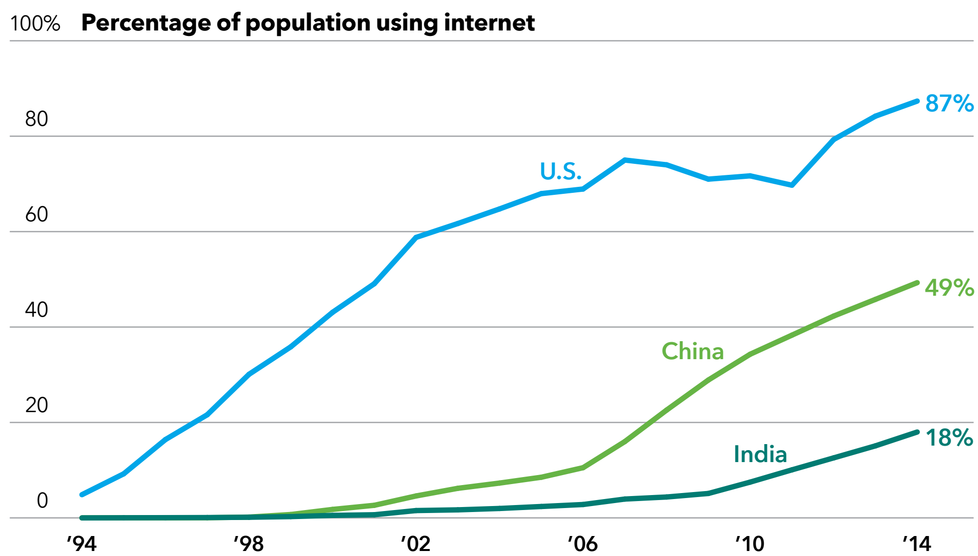
- The British vote to exit the European Union complicates an already cloudy picture for the European economy. Ongoing political uncertainty, anemic growth and the introduction of negative interest rates certainly present serious risks to the region. But an unclear economic outlook doesn't necessarily translate into an unfavorable outlook for companies.
- In today's globalized economy, many large- and mid-sized European companies have global operations, with customers, suppliers and production facilities located in countries around the world. In fact, a look at the top 10 companies represented by the MSCI Europe Index shows that most generate more revenue from North America and emerging markets than they do from Europe. On average, the 10 companies generate a quarter of their revenues in Europe. A look at the MSCI U.K. Index reveals a similar picture. Companies represented by the index generate some 70% of their revenue outside the U.K.
- What's more, any weakening of the British pound or euro currency could provide a boost to export-oriented businesses domiciled in the U.K. or Europe. A weak currency makes exporters more competitive as they seek to sell products in markets abroad and boosts the value of the revenue generated overseas.

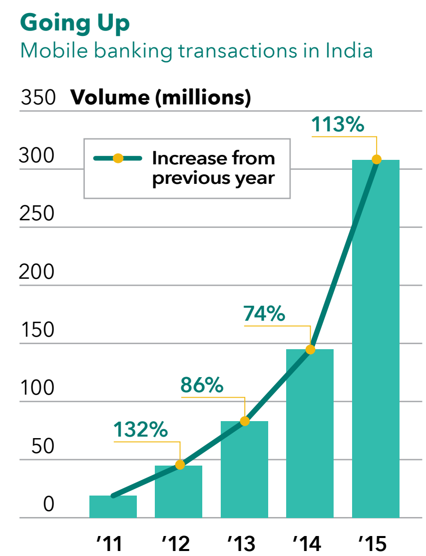
Consumers Getting More Connected in the Developing World

Amid Uneven Growth, Select Areas of Opportunity in India and Other Markets

> "Over the next five years, 65 million new people will enter into the workforce. This generation is comfortable with technology and have a higher propensity to take risk and consume. They are doing everything online. Banks have no choice but to go digital – it represents a big opportunity."
>
> **Anirudha Dutta**, India Affairs Specialist

Long runway ahead: India's internet penetration growth looks promising





Sources: Thomson Reuters Datastream (internet penetration growth) and Reserve Bank of India, Bankwise Volumes in Electronic Clearing Service, National Electronic Fund Transfer and Real Time Gross Settlement Mobile Transactions monthly reports, 2011–2015 (mobile banking transactions).

- Many emerging markets have struggled in recent years and continue to face macro headwinds that make for a challenging investment environment. Despite the issues facing developing countries, technological innovation is providing a tailwind in many emerging markets. India is one such place. It has been less affected by China's slowdown. And India's swelling population makes it a ripe opportunity for consumer- and technology-oriented companies, especially since those in the workforce between the ages of 25 and 29 earn more than the national average.
- Growing internet adoption rates in the developing world have beneficial implications, particularly in countries where consumer spending power is growing. Chinese e-commerce companies, such as Alibaba and JD.com, have benefited from a sharp increase in internet connections and the proliferation of mobile phones. India, with its fast-growing economy and youthful population, isn't far behind. Among those companies looking to capitalize is Amazon, which has made a significant investment to support its rapid growth and improve its customer service.

More people getting connected is a promising development for Indian banks. And change is happening rapidly. Today, approximately 75% of transactions are conducted through digital channels, rather than ATMs and branches. Examples of companies that may benefit from this ongoing shift include HDFC Bank and ICICI Bank. Other examples include telecom operators Bharti Airtel and Vodafone.

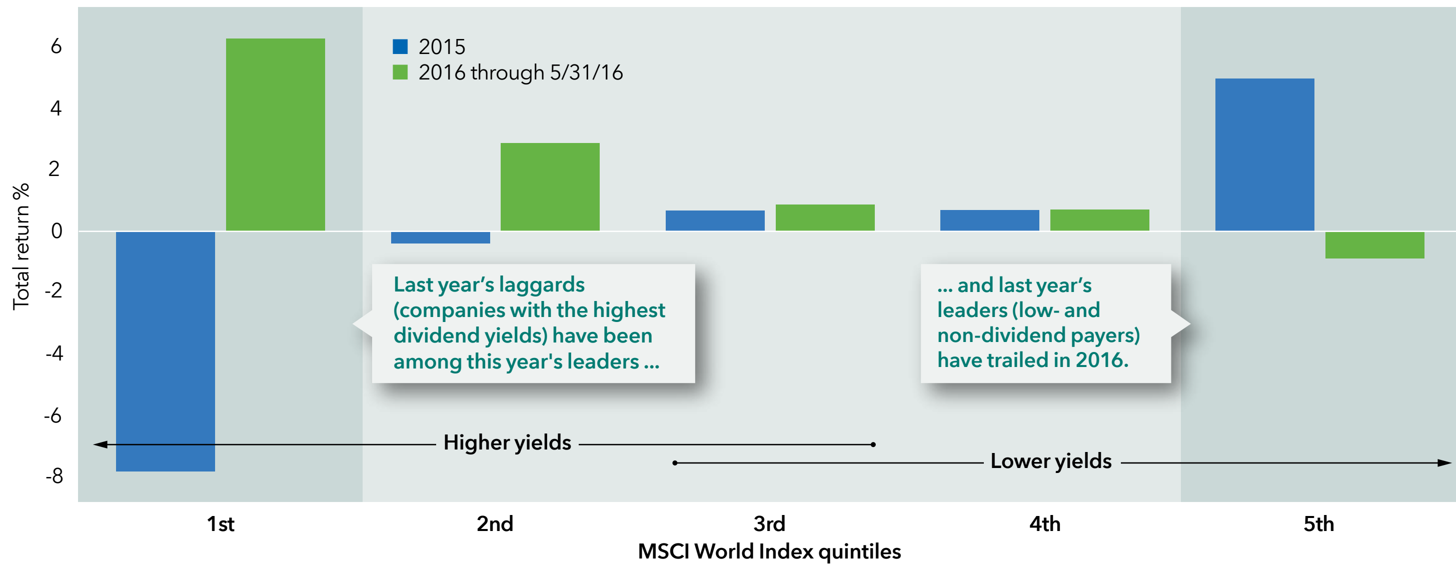
In a Low Growth World, Dividends Take Center Stage

Against a Volatile Backdrop, Investors Have Turned Their Attention to Dividends

"We know from experience that dividend-focused investing has been beneficial to committed long-term investors and continue to believe in the importance of dividends."

Andrew Suzman, Portfolio Manager

In a reversal from 2015, higher dividend payers have outpaced nonpayers and the broader market



Source: FactSet. Companies constituting the MSCI World Index were ranked by dividend yield and divided into quintiles, or 20% of the index. Highest dividend payers represent the 20% of companies with the highest yields; conversely, lowest dividend payers and nonpayers represent the 20% of companies with the lowest or no yields. Dividend yield ranges are as follows: For 2015, highest dividend payers are those companies with a dividend yield of 3.6% or higher and lowest payers are those with yields of 1.1% and below; for 2016, highest dividend payers are companies with a dividend yield of 3.8% or higher and lowest payers are those with yields of 0.9% and below. Results reflect reinvestment of dividends. Past results are not predictive of results in future periods. The index is unmanaged and, therefore, has no expenses.

- At the start of the year, global equity markets picked up right where they left off in 2015. Volatility was pronounced and returns were generally downbeat.
- But it's the details that can make a world of difference. Last year, investors focused on growth companies – in particular, the so-called FANGs, or Facebook, Amazon, Netflix and Google. The chart shows that in 2015 those companies within the MSCI World Index that were among the highest dividend payers recorded the worst declines.

Thus far in 2016, however, dividend-paying companies have come back into favor amid a "growth scare" in the U.S. The chart shows that during the first quarter of 2016, companies with the highest dividend yields produced a 6.3% total return, whereas companies with the lowest dividend yields and nonpayers posted a –0.9% return.

- The sharp reversal may suggest that investors are recognizing the importance of dividends in a low-growth environment.

While global stock markets face a number of challenges, solid dividend opportunities may be a compelling reason for investors to maintain broad global diversification. Companies across a range of industries and geographies have paid steady and significant dividends. Among these are European drugmaker Novartis; German industrial conglomerate Siemens; and Japanese automaker Toyota.

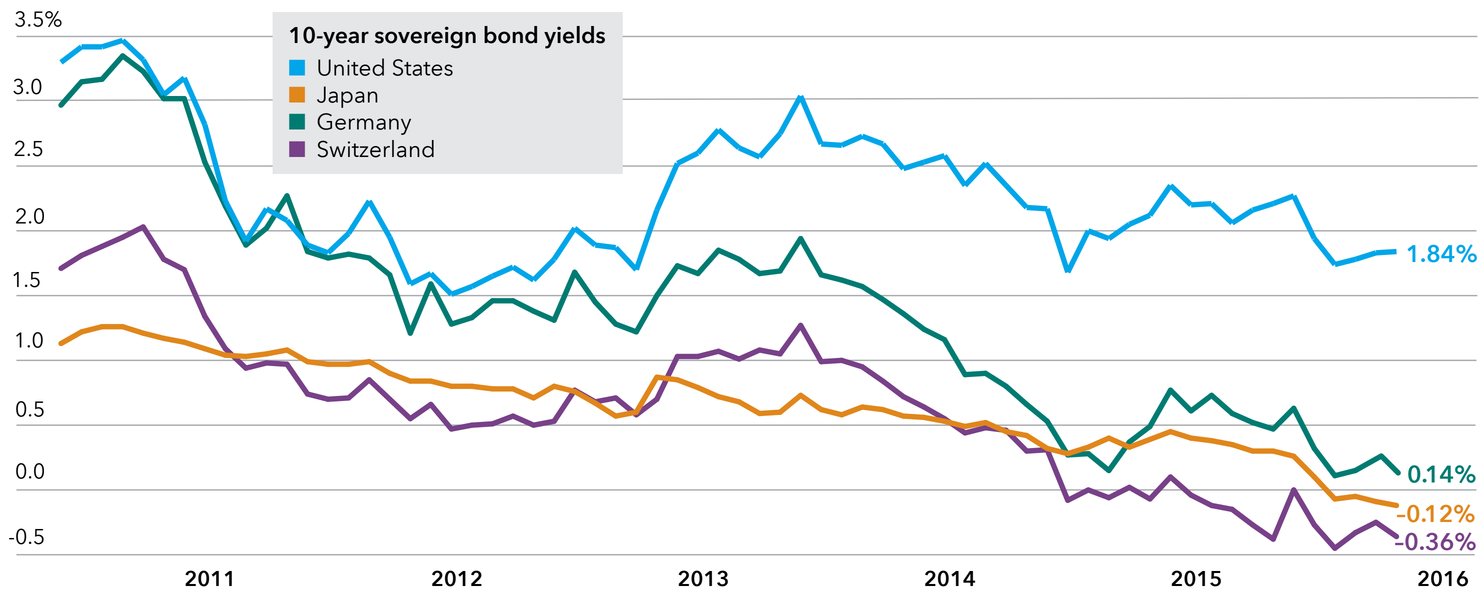
Extreme Temperatures Blanket the Bond Market

So You Think U.S. Interest Rates Are Low? Think Again.

"The Federal Reserve is more cautious now than it was in the fourth quarter of 2015, when it raised interest rates for the first time in nearly a decade. While the primary drivers of monetary policy will continue to be jobs and inflation, the Fed will pay close attention to market volatility and geopolitical events."

Wesley Phoa, Portfolio Manager

With sovereign yields below or near zero elsewhere, the U.S. is a relative high-rate haven



Source: FactSet. Yields are as of May 31, 2016.

- Central bank stimulus measures in Europe, Japan and elsewhere are putting enormous pressure on global bond yields. For example, 10-year government bonds in Germany, Switzerland and Japan are yielding near zero, while shorter term debt in those countries trades at negative yields. This ultra-low rate environment makes U.S. Treasury bonds, yielding roughly 1.8%, look attractive on a relative basis. The same concept applies to U.S. agency bonds and high-grade mortgage-backed securities.
- The "lower for longer" interest rate scenario in the U.S. remains very much intact. Although the Federal Reserve raised short-term rates for the first time in nearly a decade last December, recent turmoil in global financial markets and uneven growth in the U.S. economy make it highly unlikely that the Fed will hike rates aggressively this year. It is more probable that the central bank will follow a slow and cautious approach that will leave rates relatively low for years to come.

Meanwhile, other areas of the U.S. bond market are becoming more attractive. For fixed income investors seeking income, high-yield municipal bonds present compelling opportunities with lower volatility than U.S. equities. Keep in mind, however, that valuations on most bonds these days are relatively high, given a generally declining rate environment in recent years and strong demand for fixed income investments.

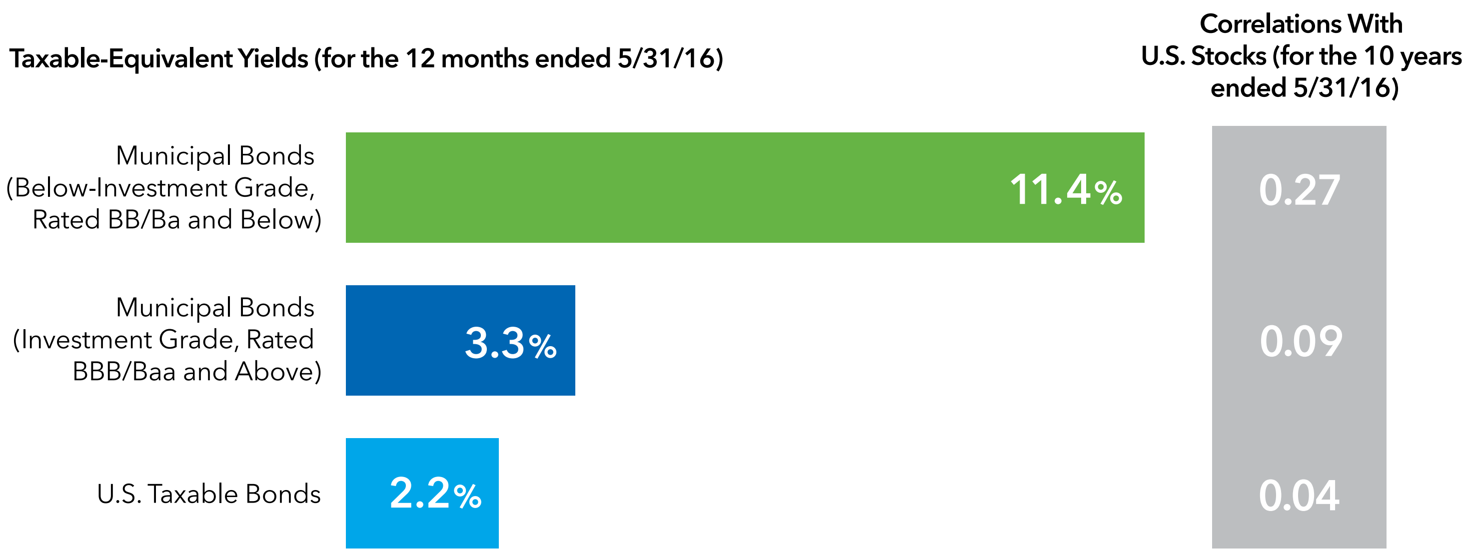
Seeking More in a Low-Yield World? Think Munis.

Look Beyond the Headlines to Find Favorable Yields and Diversification Potential

"Valuations among municipal bonds are broadly higher than they were last year. Even so, our research is helping us to uncover attractive opportunities to invest in bonds at reasonable prices."

Karl Zeile, Portfolio Manager

Munis can serve as a source of meaningful income and diversification for stock-heavy portfolios



Sources: RIMES and Barclays Capital Indices, POINT. ©2016 Barclays Capital Inc. Used with permission. POINT is a registered trademark of Barclays Capital Inc. Taxable-equivalent U.S. bond yields, based on data from Barclays, and correlations with U.S. stocks measured using the S&P 500, based on data from both Barclays and RIMES, were calculated by Capital Group. Annualized correlations are for the 10-year period ended May 31, 2016. A correlation between zero and 0.4 can be regarded as low. Two asset classes with low correlation can help have a meaningful diversifying effect when held together in a portfolio.

- Puerto Rico, Chicago and Detroit – three places that have taken their fair share of knocks recently. For investors, however, there's so much more to the municipal bond market. Individual challenges have little impact on the financial health of the many thousands of other issuers of muni bonds.
- Indeed, most of the market is made up of revenue bonds, such as those linked to hospitals or toll roads. For this type of issue, the credit fundamentals of the corporate or nongovernmental issuer are crucial. In other words, uncovering the most compelling opportunities in a $3.7-trillion market requires deep bond-by-bond research.

Amid sluggish global growth, stock and taxable bond markets may be volatile. Muni bonds can add a measure of stability to portfolios while also offering favorable income potential. An active approach can help uncover overlooked opportunities in a vast market.

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 2015, 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 Barclays Municipal High Yield Index and Barclays Municipal Bond Index, respectively; U.S. taxable bonds and U.S. stocks represented by Barclays U.S. Aggregate Index and Standard & Poor's 500 Composite Index, respectively. The indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in indexes.

2016 Midyear Outlook: Look for Opportunity Through the Fog of Uncertainty

	U.S.	International	Emerging Markets	Municipal Bonds	Taxable Bonds
Headwinds	• With profit margins near all-time highs, generating earnings growth could be challenging • Weaker overseas demand and a relatively strong dollar could further dampen export activity • Tighter monetary policy likely will lead to increased volatility	• Heightened political uncertainty in Europe following the Brexit vote could set off higher market volatility • Structural underemployment • Muted emerging markets demand	• Repercussions of China's economic adjustment • Further currency weakness is possible, but may be relatively limited • Higher U.S. rates may prompt volatile asset flows	• Potential for modest rate increase in 2016 • Presidential election cycle could drive focus on tax policy changes	• Potential for modest rate increases in the second half of 2016 • Valuations are stretched in a number of key market sectors. • Fed faces challenge of managing rate increases
Tailwinds	• Labor market continues to strengthen • Relatively low energy and import prices still support consumer purchasing power • Inflation remains tame	• Competitive currencies helping exporters • After years of trailing the U.S. market, equity valuations in many developed markets appear relatively attractive	• Political change, economic reform support confidence in certain markets • Fiscal and trade imbalances are improving • Chinese monetary policy should benefit growth	• Generally strong municipal balance sheets • Relatively low level of new issuance in 2016 likely to be constructive for bond prices • Muni market is U.S.-focused and less susceptible to global volatility	• Relatively low interest rates for now • Geopolitical unrest may spur purchases of safe-haven assets • Foreign buying of U.S. Treasuries
Key takeaways	**With no obvious imbalances the U.S. economy should continue on a growth path, as housing and construction look to be strengthening.**	**Economic recovery may be tentative, and the path forward for Europe uncertain, but companies often adapt. Look for select franchises that can pivot to pockets of opportunity across markets.**	**As China decelerates, bright spots have emerged in some emerging markets. Volatility can offer opportunities to invest in leading securities at compelling valuations.**	**The municipal market offers compelling yield opportunities in a number of areas, as well as potential tax advantages and diversification.**	**The "lower for longer" scenario remains intact and bonds continue to play an important risk-dampening role in portfolios.**
Investments to consider Ticker symbols	**AMCAP Fund®** A – AMCPX; C – AMPCX; F-2 – AMCFX **American Balanced Fund®** A – ABALX; C – BALCX; F-2 – AMBFX	**Capital Income Builder®** A – CAIBX; C – CIBCX; F-2 – CAIFX **EuroPacific Growth Fund®** A – AEPGX; C – AEPCX; F-2 – AEPFX **New Perspective Fund®** A – ANWPX; C – NPFCX; F-2 – ANWFX	**New World Fund®** A – NEWFX; C – NEWCX; F-2 – NFFFX	**American High-Income Municipal Bond Fund®** A – AMHIX; C – AHICX; F-2 – AHMFX **Limited Term Tax-Exempt Bond Fund of America®** A – LTEBX; C – LTXCX; F-2 – LTEFX **The Tax-Exempt Bond Fund of America®** A – AFTEX; C – TEBCX; F-2 – TEAFX	**American Funds Inflation Linked Bond Fund®** A – BFIAX; C – BFICX; F-2 – BFIGX **The Bond Fund of America®** A – ABNDX; C – BFACX; F-2 – ABNFX **Capital World Bond Fund®** A – CWBFX; C – CWBCX; F-2 – BFWFX

We also offer 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.

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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