Financial Investigator Seminar

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14 November 2024

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Marketing communication

CAPITAL GROUP™

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Resilience amid divergence

Diverging cycle and structural dynamics might drive policy and market outlook

Key drivers

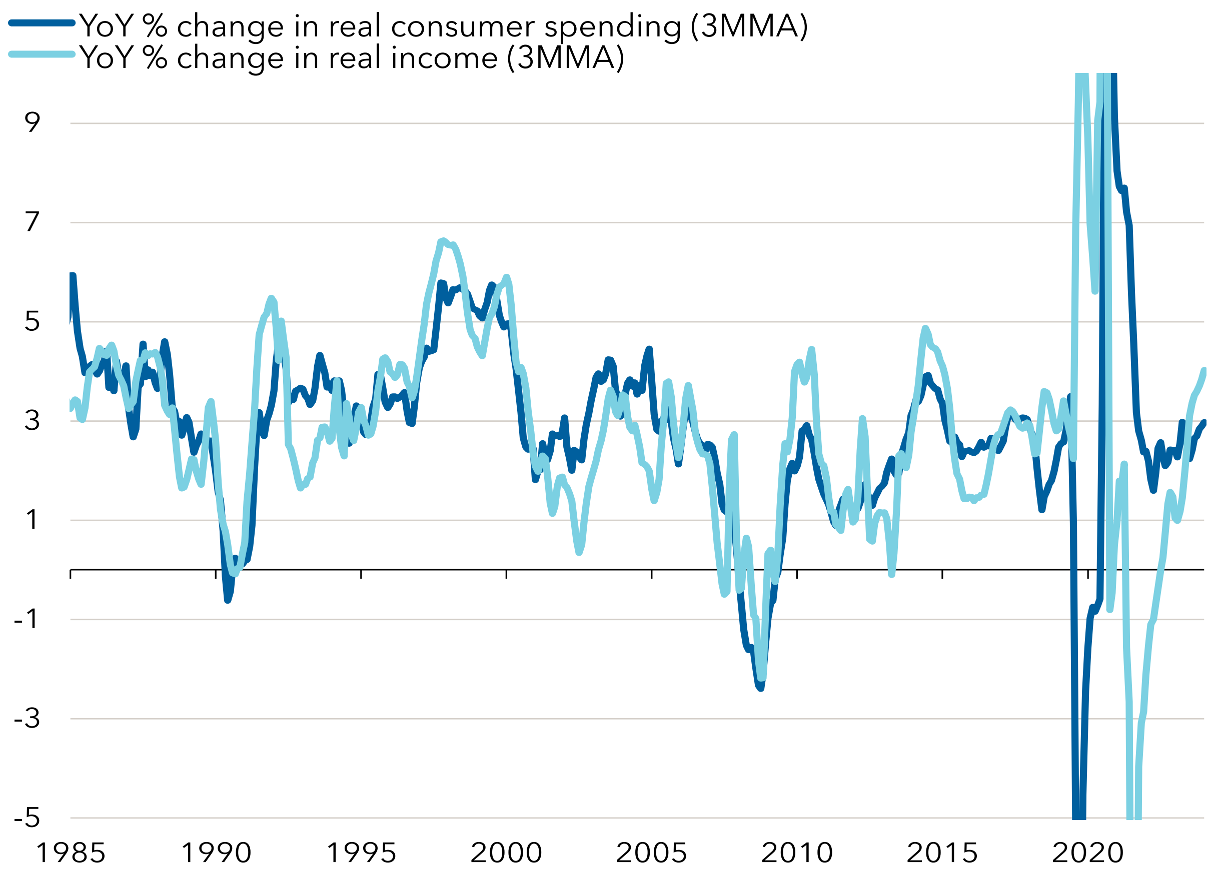
Key drivers	Resilience & divergence	Cycle divergence drives near-term monetary policy outlook	Structural divergence likely drives long-term asset prices
Capital Group view*	• Resiliency varies across countries: India, the US, Japan, Australia and Indonesia are showing cyclical resilience. China, the EU and the UK are showing weakness. • India, Indonesia, the US and Japan are anticipated to have structural resilience whereas China, the EU and the UK will have structural weakness.	• The Fed began its rate-cutting cycle in September. Significant disinflation has also left the Fed with additional capacity to cut rates. • The Bank of England has recently cut rates by another 25bps to 4.75%, whereas the ECB delivered its third 25bps cut of the year as inflation neared its 2% target.	• In a divergent world, a wedge persists between structurally stronger and weaker economies. • Divergence might lead to dispersion in interest rates and credit spreads across economies. • Growth and real rates might be higher for longer in structurally stronger economies. • Credit spreads likely to be wider in less resilient economies.

As at October 2024.
*Based on Capital Strategy Research (CSR) Group view. The views of individual portfolio managers and analysts may differ. Fed: US Federal Reserve. EU: European Union. ECB: European Central Bank. Bps: basis points.

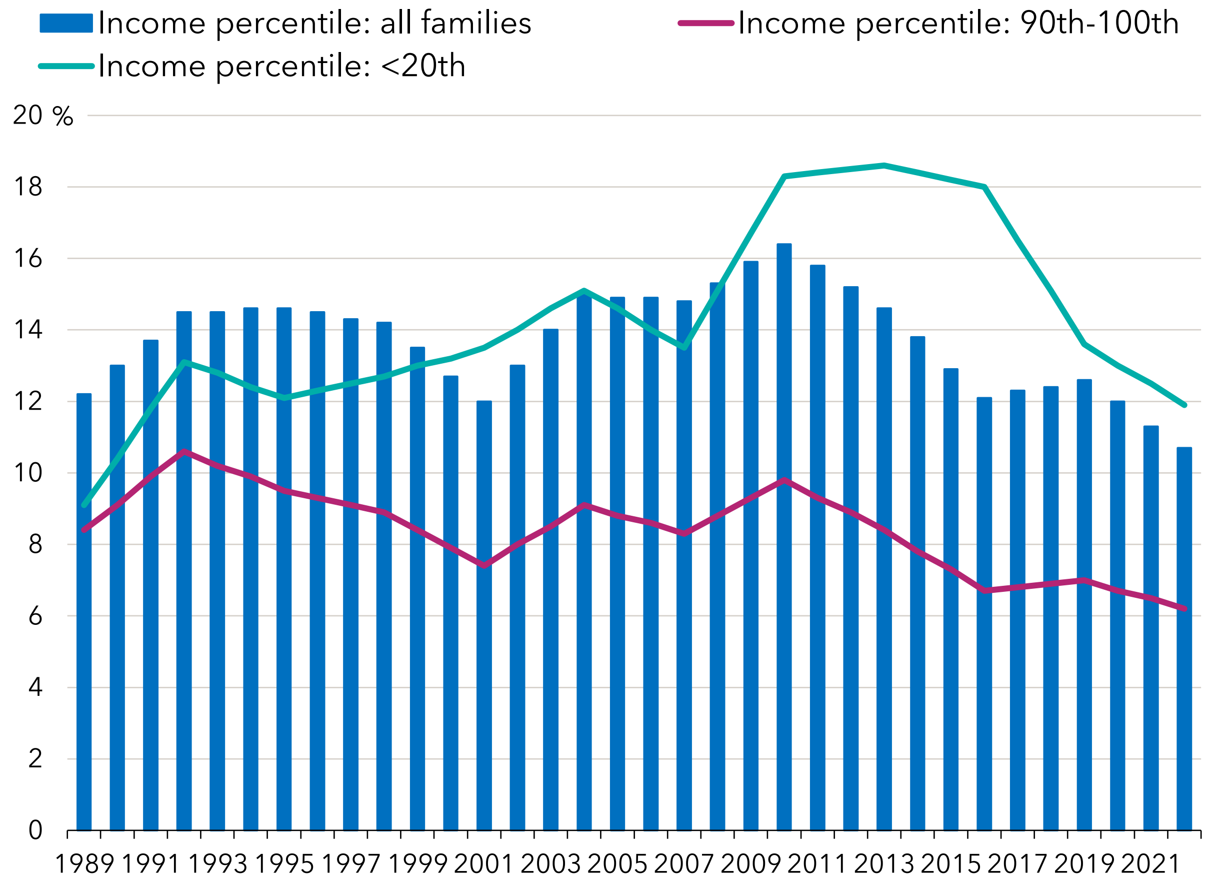
The economy is less rate sensitive

Leverage has fallen across all cohorts, indicating real incomes are higher and more durable spending

US real income growth has strengthened as inflation has cooled and job growth remained healthy[1]



Leverage ratio for different income groups[2]

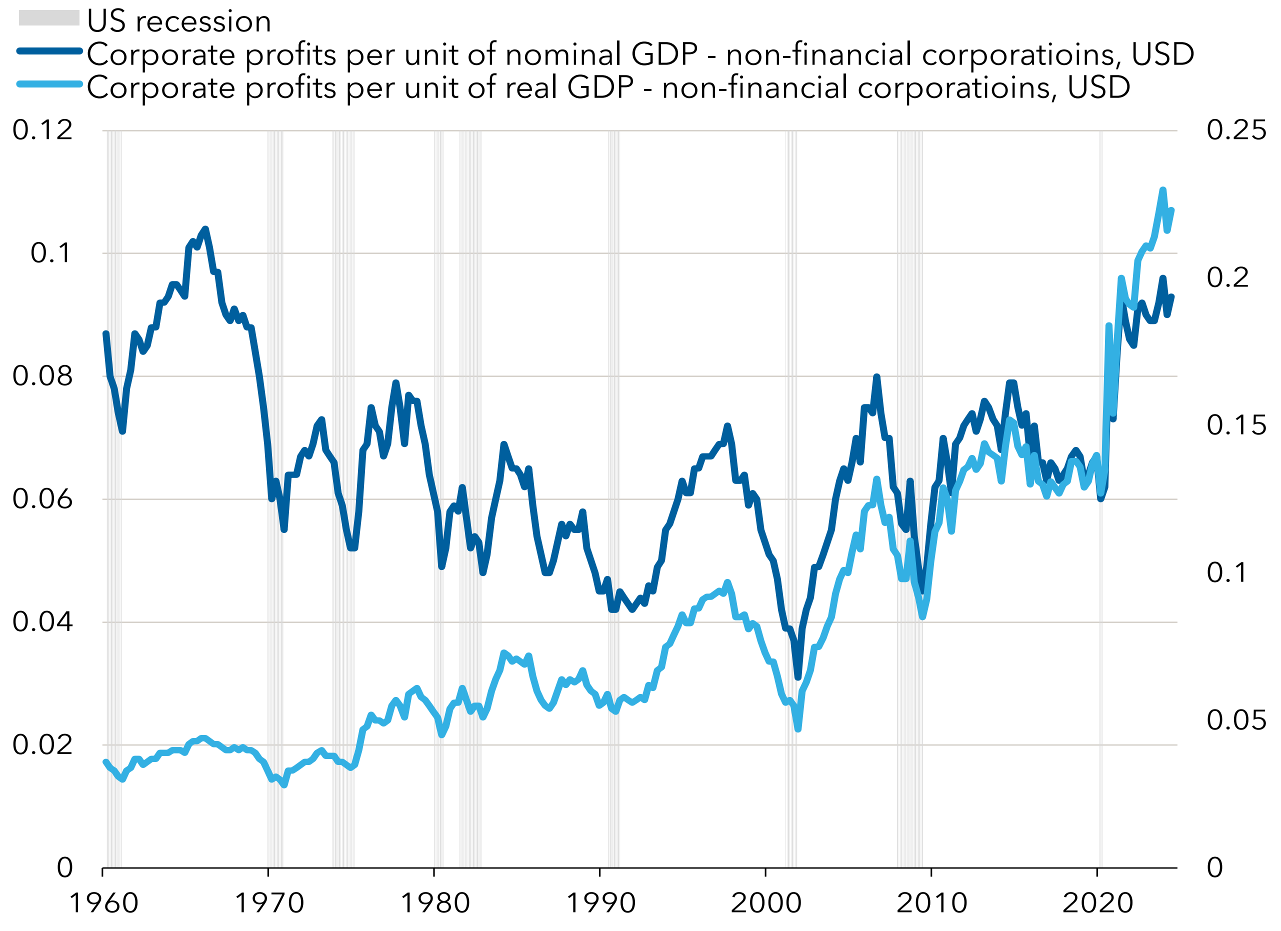


1.Data as at 15 September 2024. Source: LSEG Datastream
2.Data as at 30 December 2022. Source: Federal Reserve Board, Haver, Capital Strategy Research, Capital Group

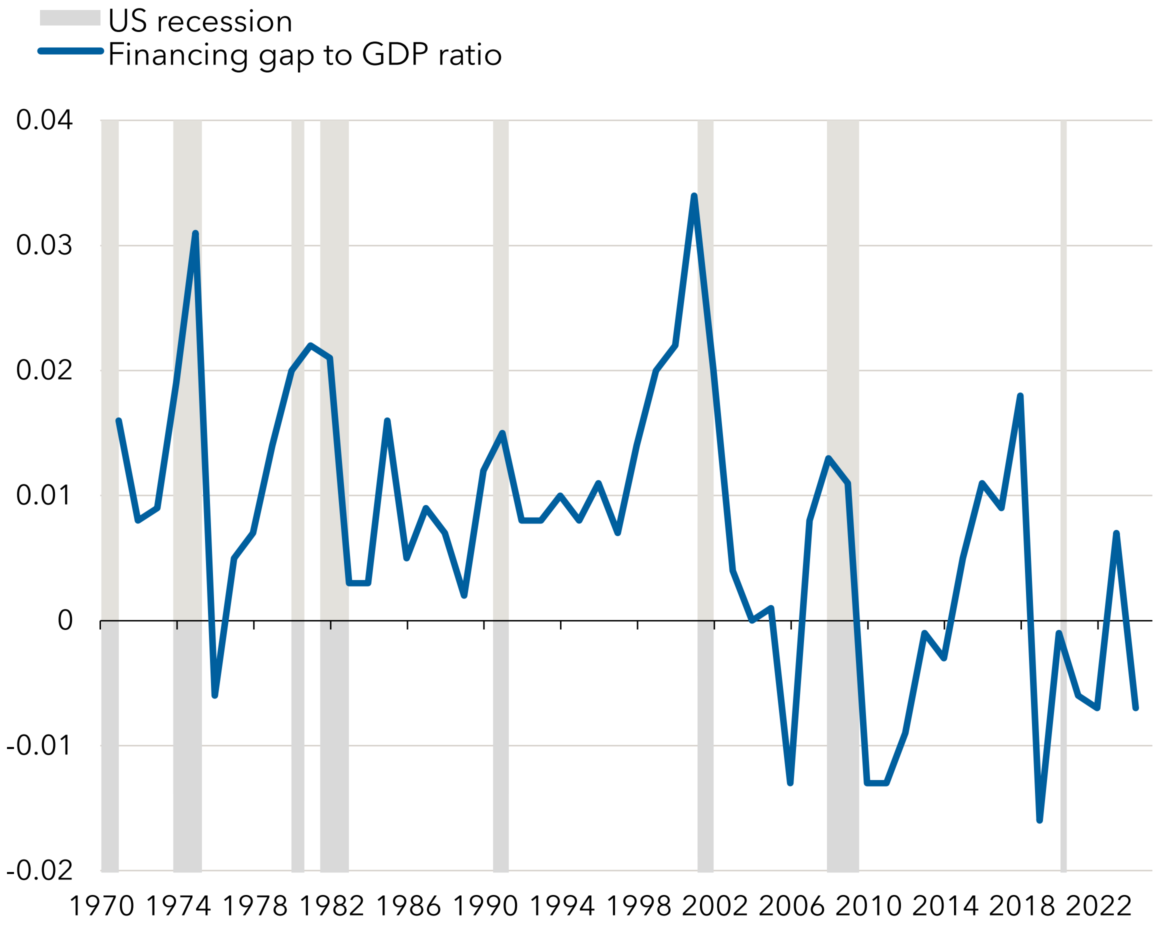
Many of the signals suggest the US has returned to mid cycle

Profit margins appear to be peaking and the financing gap to GDP remains negative

Profit margins[1]



Financing gap to GDP ratio[2]



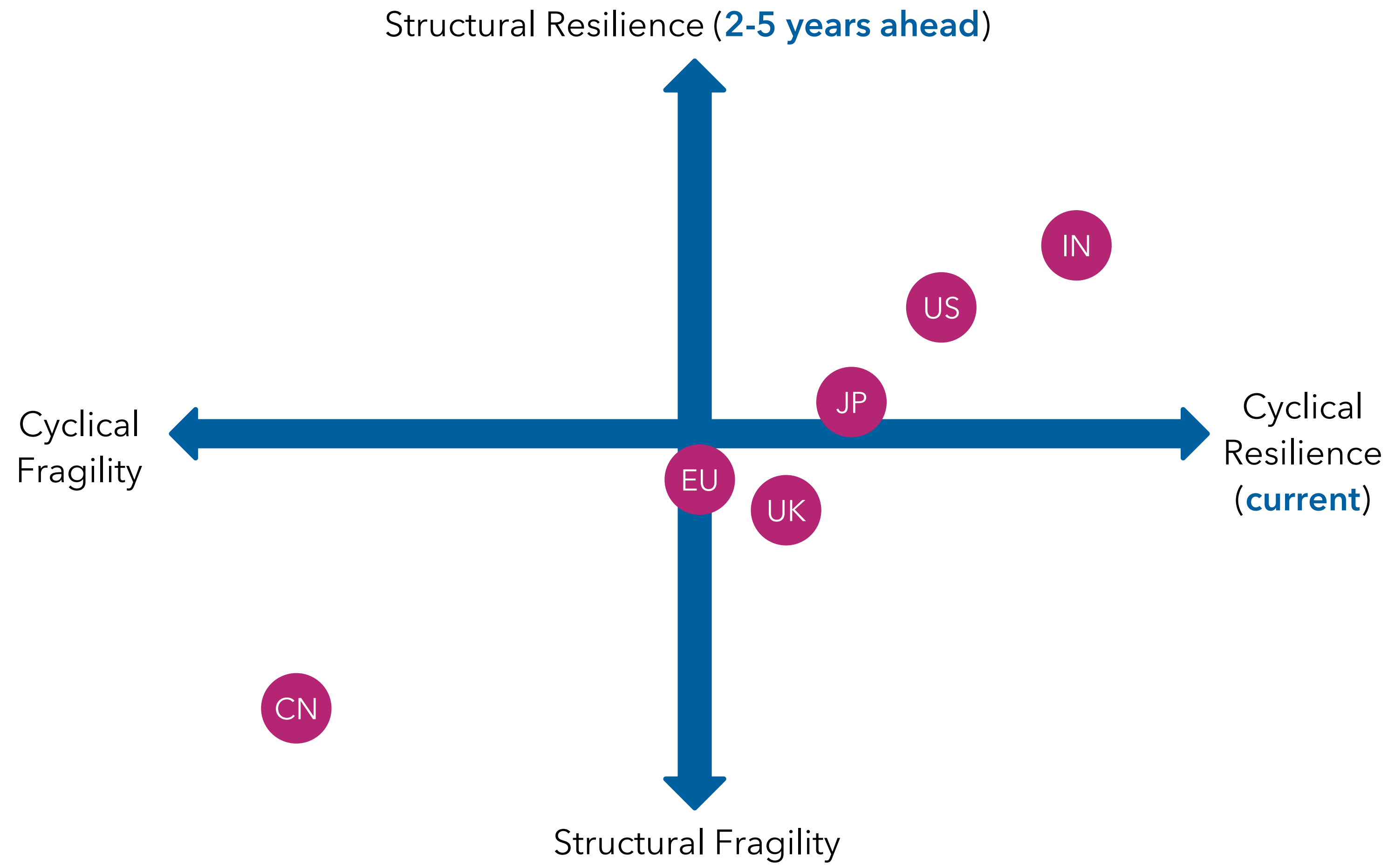
1.Data as at 30 June 2024. Source: Bureau of Economic Analysis, Haver, Capital Strategy Research, Capital Group
2.Data as at 31 December 2023. Source: Haver, Capital Strategy Research, Capital Group

US is resilient both cyclically and structurally

Structural fragilities remain in EU, UK and China

Reformers
- Lower short rates
- Higher long rates
- Weak nominal growth
- Pro-growth reforms
- Reduced imbalances
- Tightening credit spreads

Stagnaters
- Lower short rates
- Lower long rates
- Weak nominal growth
- More leverage
- Less financial stability
- Wider credit spreads



Growers
- Higher short rates
- Higher long rates
- Strong nominal growth
- Inflation
- Less leverage
- Financial stability
- Tighter credit spreads

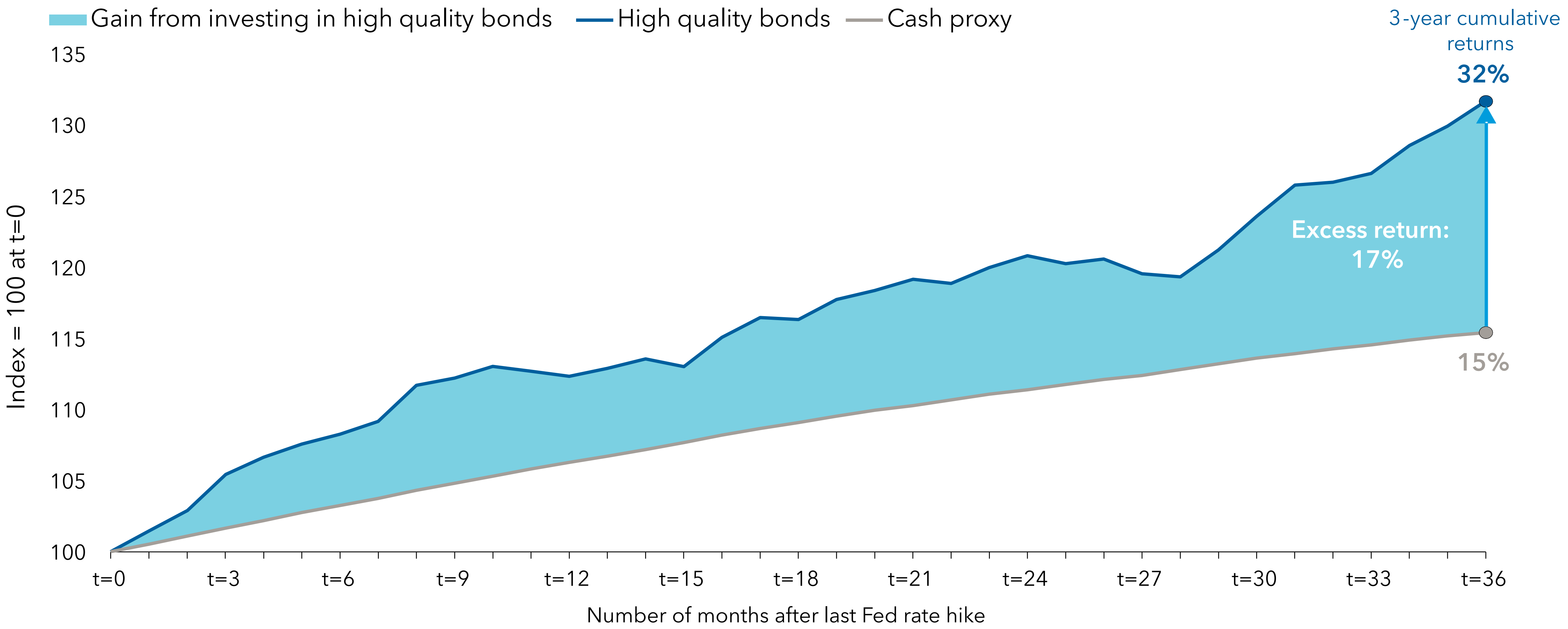
Pretenders
- Higher short rates
- Lower long rates
- Slowing nominal growth
- Financial cracks
- Growing imbalances
- Widening credit spreads

For illustrative purposes only.
Information as at 31 October 2024.
*Absolute and relative position of each country based on CSR analyst input and underpinned by empirical data.
Source: CSR, CSR: Capital Strategy Research
CN: China, EU: European Union, UK: United Kingdom, JP: Japan, US: United States, ID: Indonesia, IN: India

What happens once policy rates peak?

High quality bonds have benefited from falling yields

Average cumulative return from investing at the peak of the Fed Funds Rate in previous hiking cycles



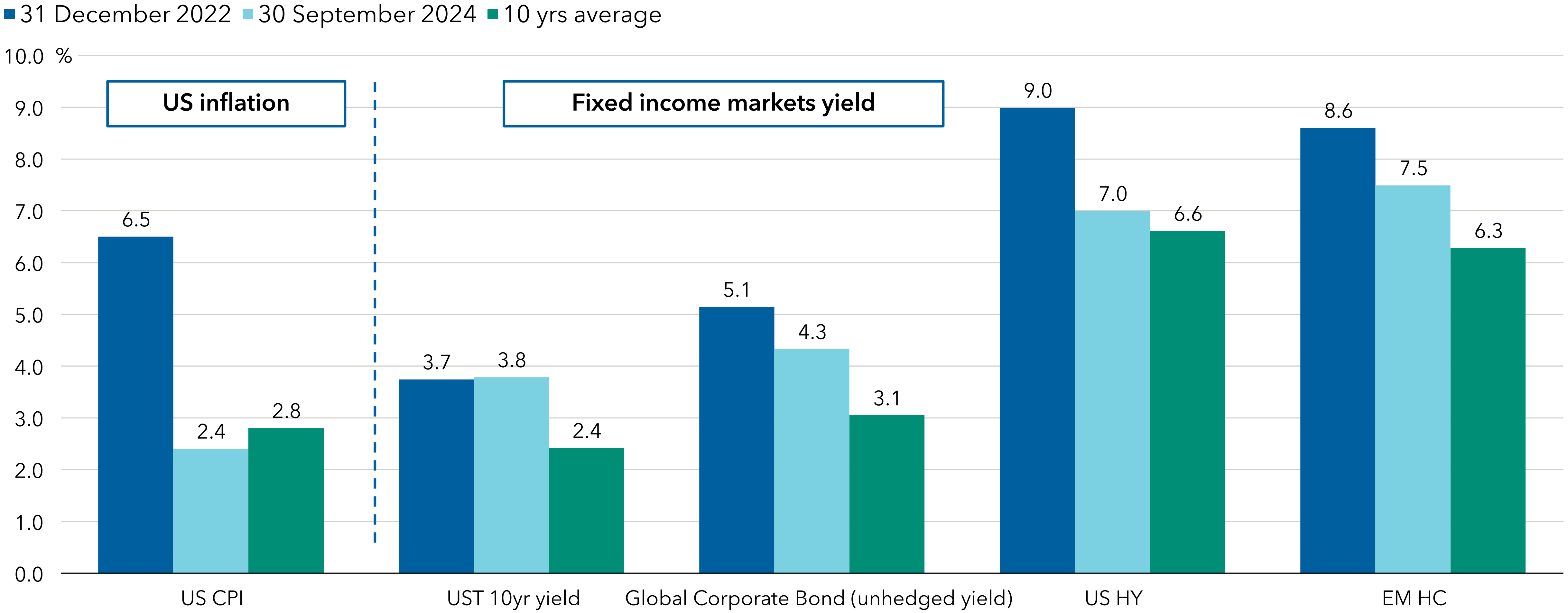
Past results are not a guarantee of future results.

High quality bonds: Bloomberg US Corporate Bond Index, Cash proxy: JPMorgan USD Three-month Cash Index

Rate cycles captured 1988-89, 1994-95, 1999-2000, 2004-06, 2015-18. Source: Bloomberg

Fixed income markets remain attractive

Yields have dropped compared to the start of 2023, and inflation is significantly lower



Past results are not a guarantee of future results.

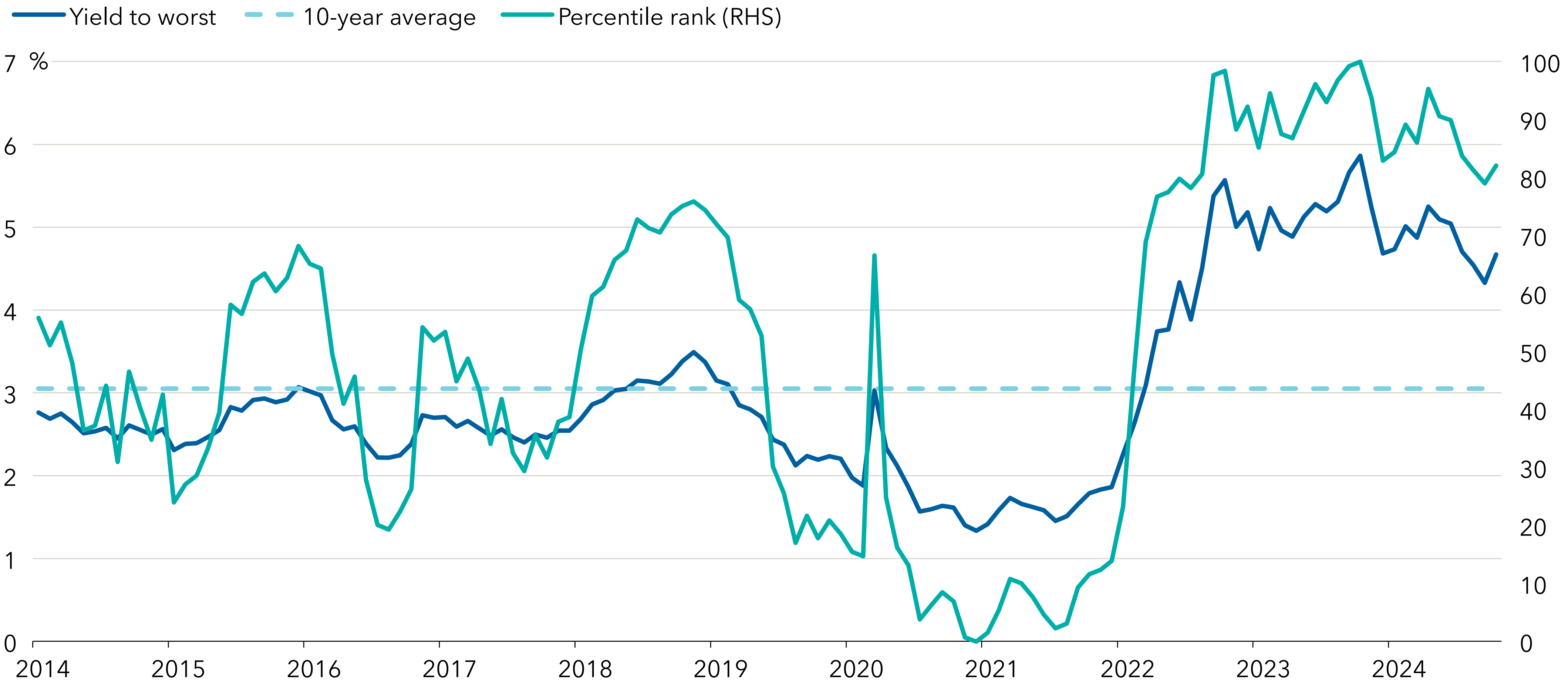
Data as at 30 September 2024. Source: Bloomberg. Index: 10-year US Treasuries, Bloomberg Global Aggregate Corporate Index, Bloomberg US High Yield 2% Issuer Cap Index and JPMorgan EMBI Global Diversified Index. US CPI is based on the latest available print for July 2024. CPI: Consumer Price Index. HY: High Yield: EM HC: Emerging Markets Hard Currency. UST: US Treasury.

Global corporate bonds

On a yield basis global IG corporates look attractive

Global IG corporate yields have increased alongside higher government bond yields

Yield to worst and percentile rank

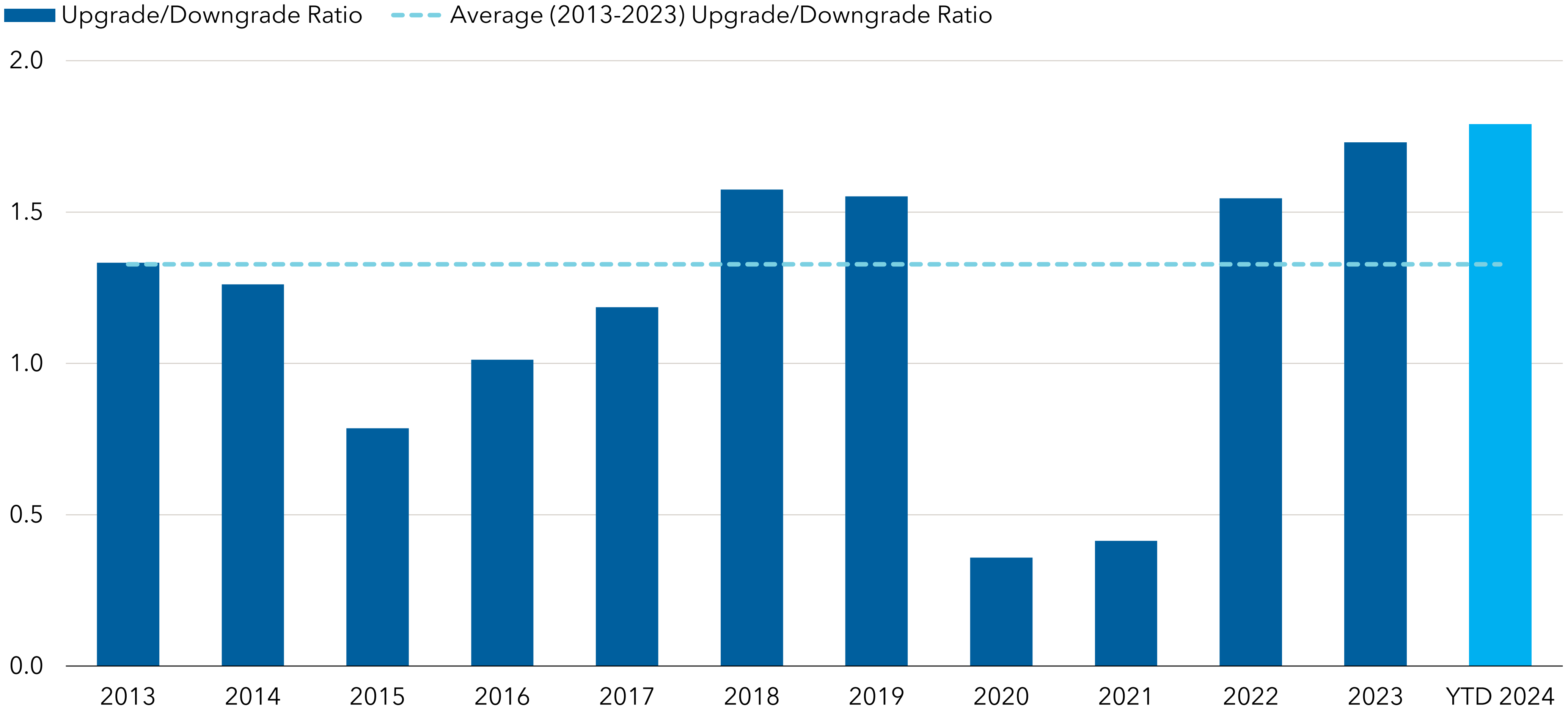


Past results are not a guarantee of future results.
Data as at 31 October 2024. Sources: Bloomberg, JP Morgan. Investment grade (IG) represented by the Bloomberg Global Aggregate Corporate Bond Index.

Credit rating upgrade momentum has picked up recently

Acceleration in rating upgrades while downgrade activity has remained subdued, within investment grade

Upgrade/downgrade ratio in global IG market

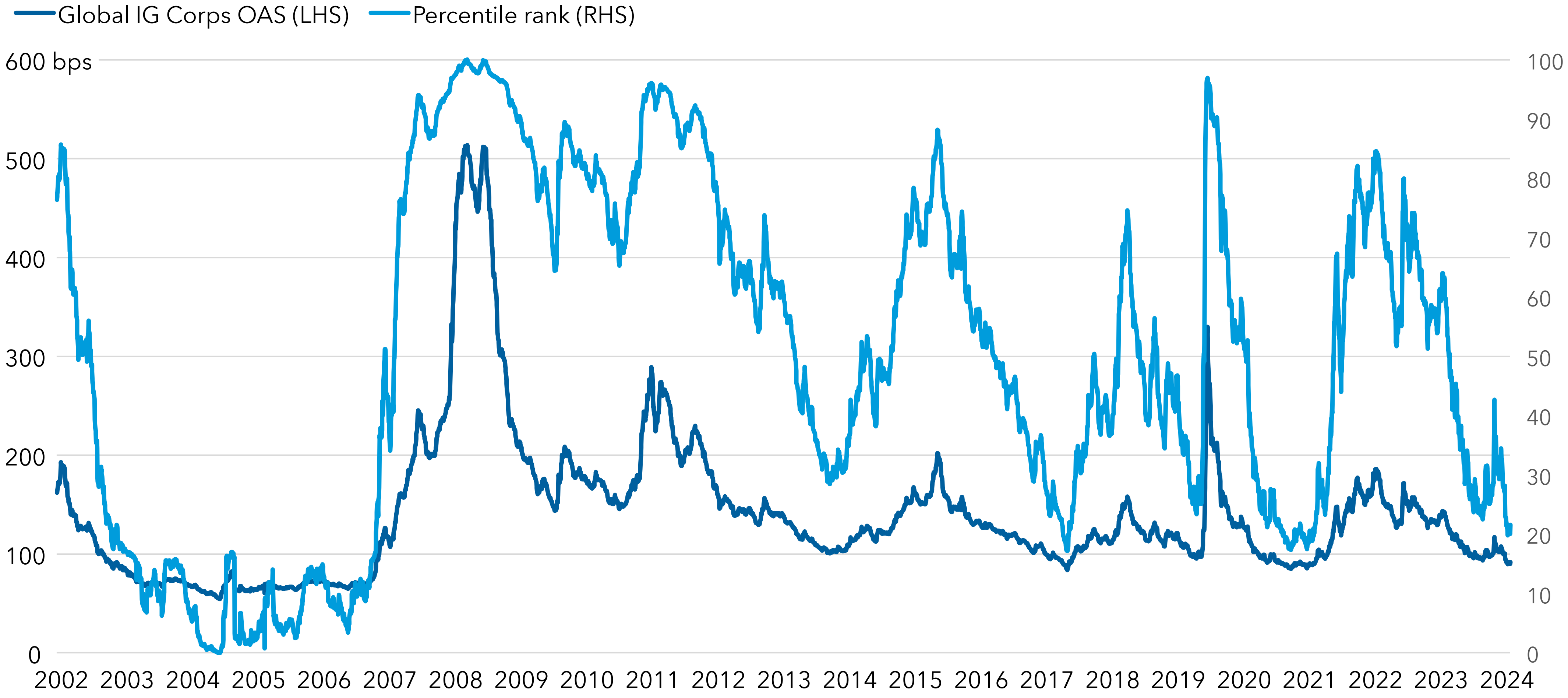


Data as at 30 September 2024. Sources: Bloomberg, Standard & Poor's. Ratio of upgrades to downgrades shown based on rating actions on a calendar year basis. IG: investment grade.

Global IG corporate spreads can stay tight for long periods

Catalyst is needed for spreads to move substantially wider

Global investment grade OAS and percentile rank since index inception



Past results are not a guarantee of future results.

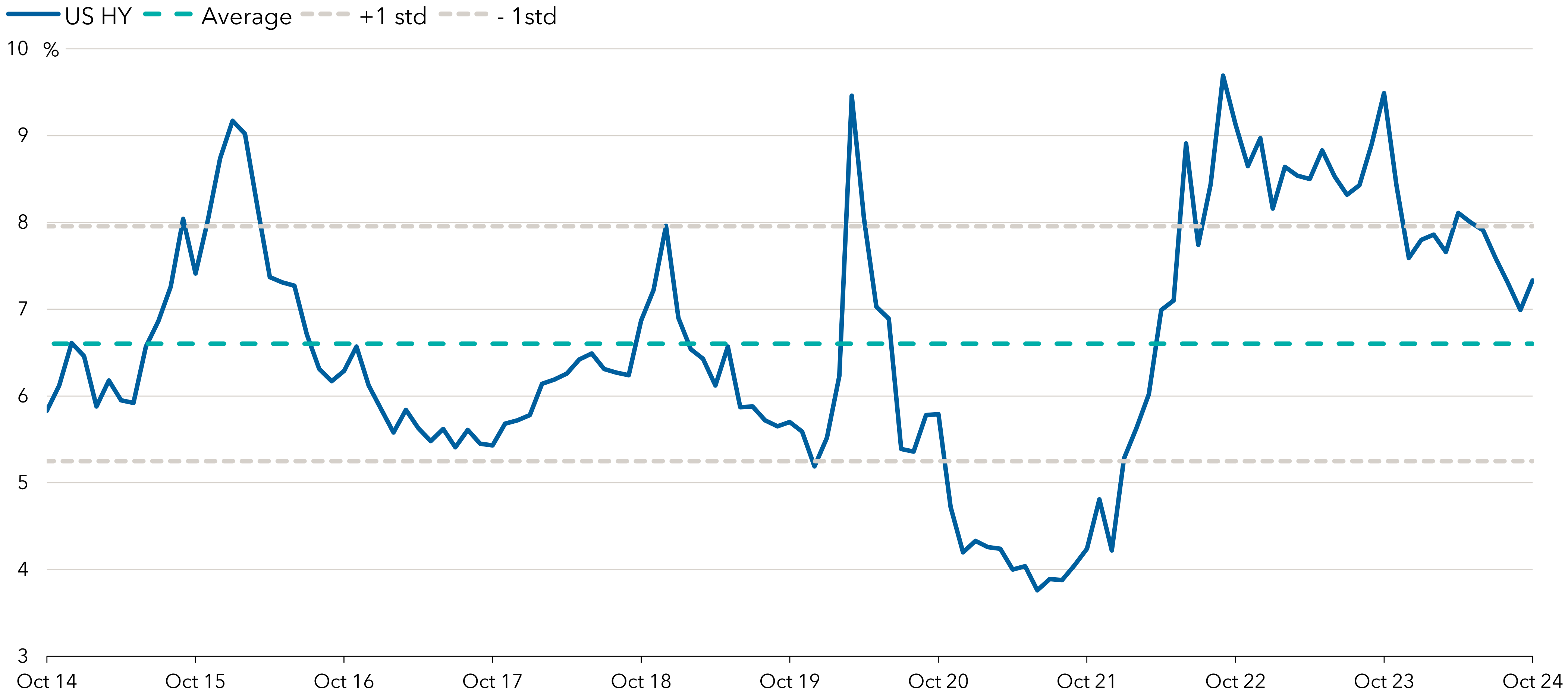
Data as at 31 October 2024. Index inception date is 29 September 2000, spread data is available from 17 September 2002. Source: Bloomberg Global Aggregate Corporate Bond Index. OAS: Option-adjusted spread. IG: investment grade. bps: basis points

High yield

High yield offers value relative to its history

Yields remain above their long-term average

Historical US HY yield-to-worst (%) comparison



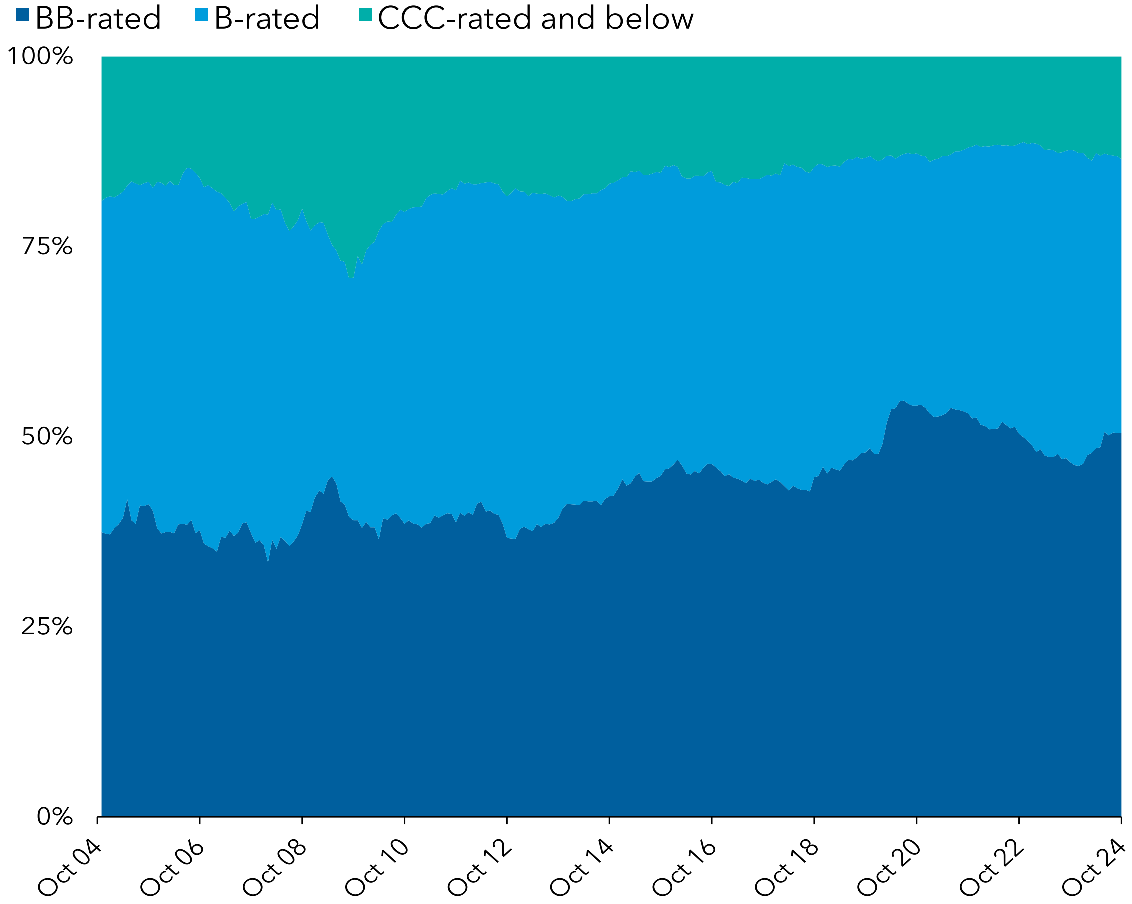
Past results are not a guarantee of future results.

Data as at 31 October 2024. US high yield (HY) represented by the Bloomberg US High Yield 2% Issuer Cap Index. Source: Bloomberg. Average and standard deviation (std) figures are since Jan 2011.

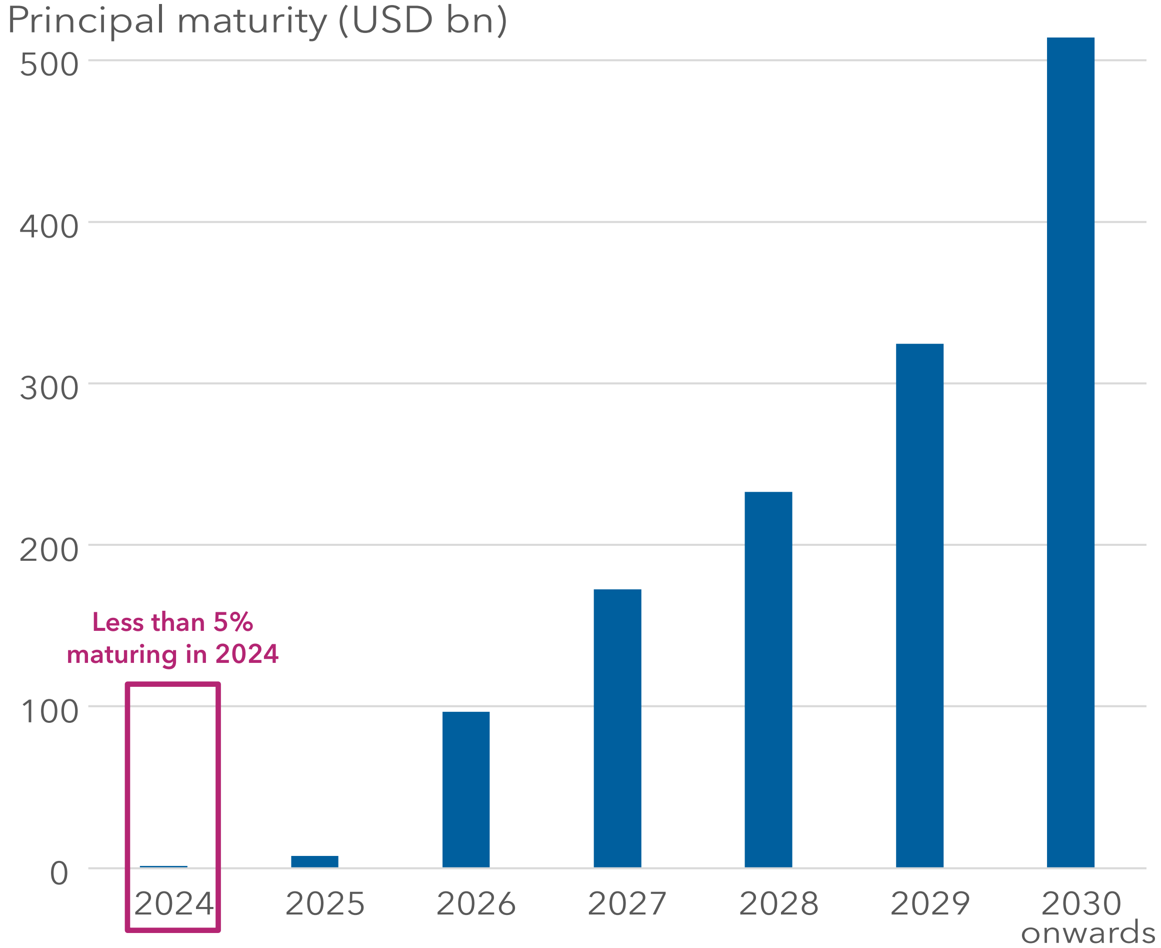
US high yield market remains attractive

US high yield sector shows improving average credit quality and manageable maturity wall

Underlying quality of the HY market continues to improve



… and high yield market maturity profile relatively benign in the near term



Past results are not a guarantee of future results.

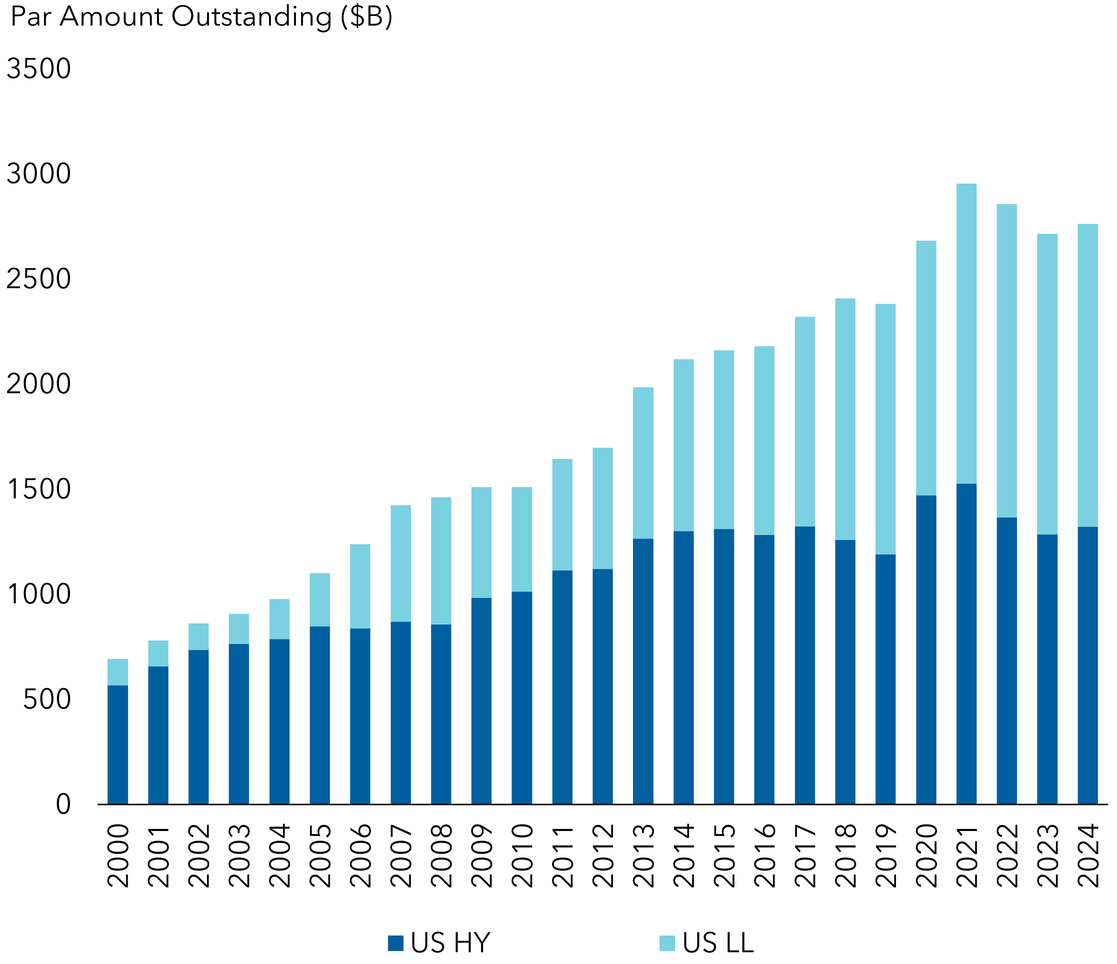
LHS Chart: data as at 30 October 2024. Source: Barclays. As represented by Bloomberg US High Yield Bond Index 2% Issuer Cap.

RHS Chart: data as at 5 November 2024. Source: Bloomberg. As represented by the Bloomberg US High Yield Bond Index 2% Issuer Cap.

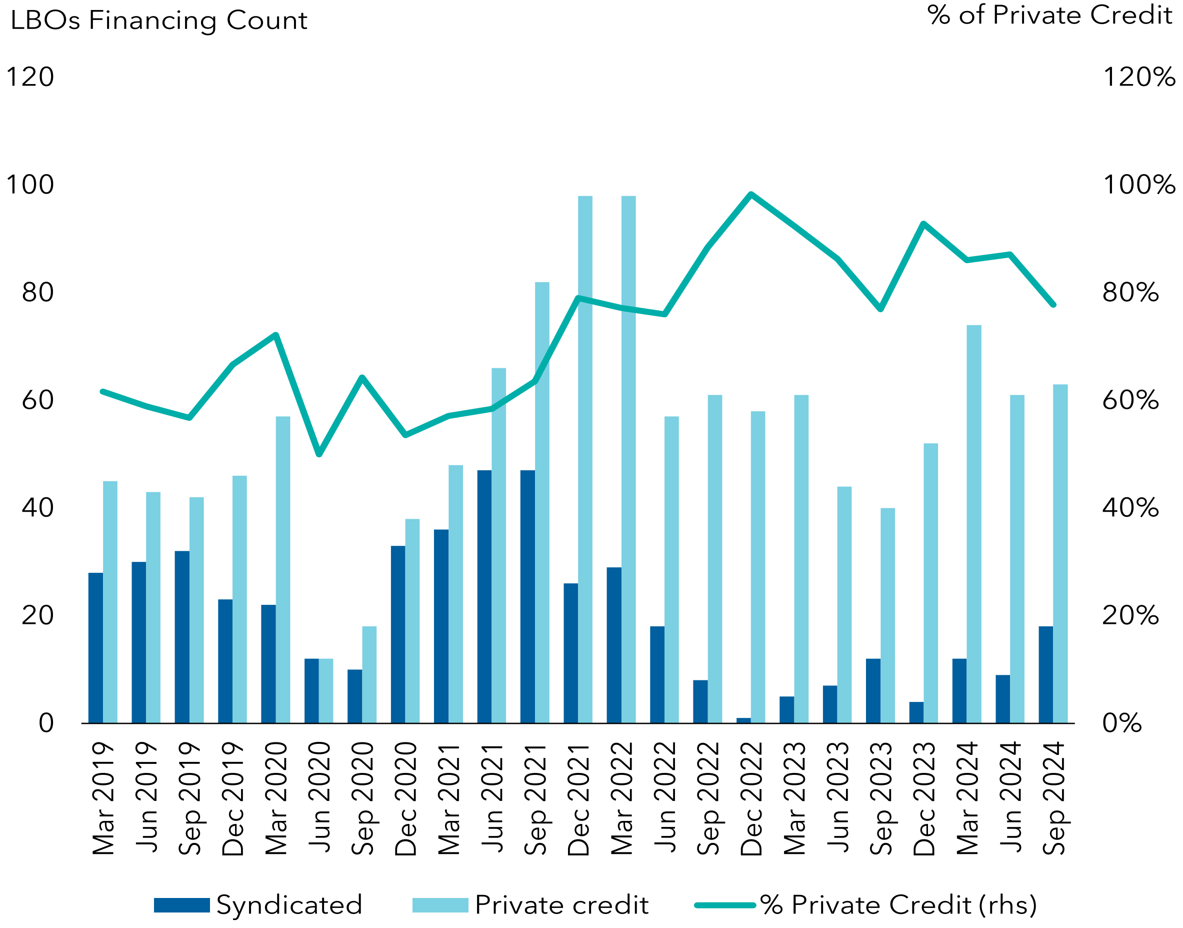
Current backdrop is supportive of spreads

Size of the high yield market remains flat vs levered loans and private credit

Aggregate size of the HY market is essentially flat



… and private credit markets continue to grow faster than HY and LL



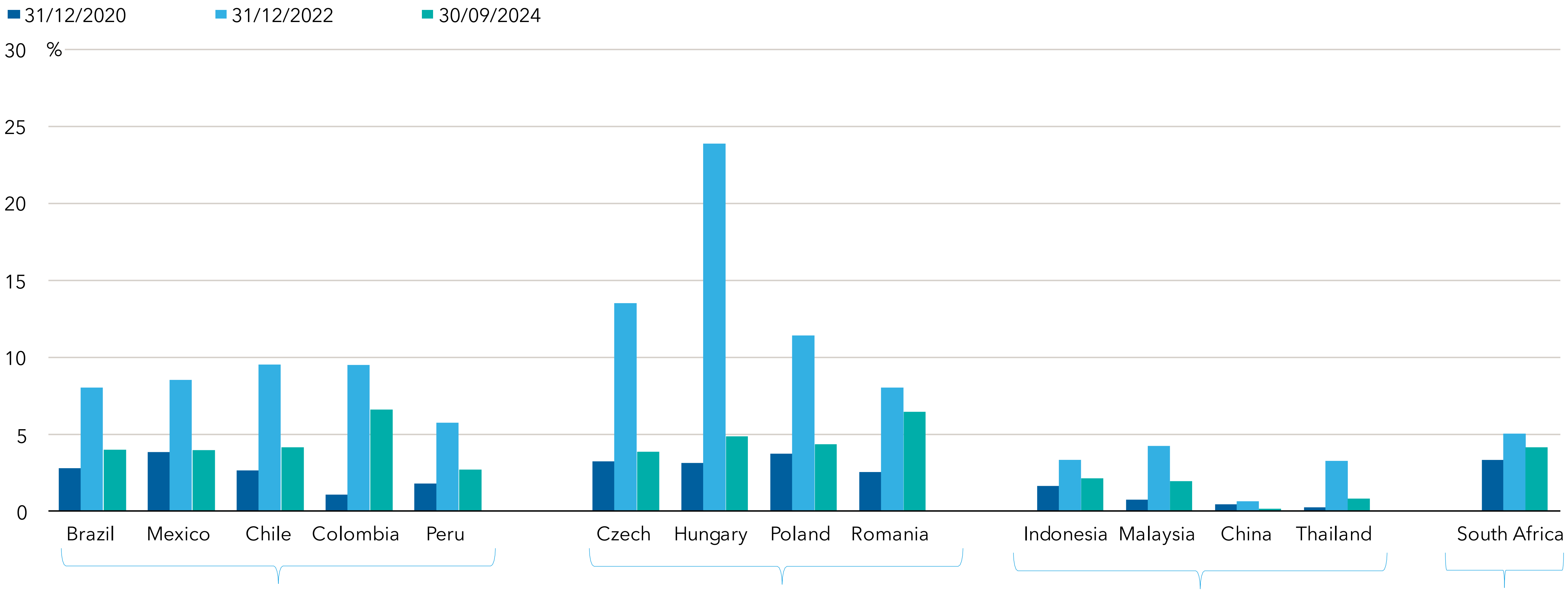
Past results are not a guarantee of future results.

Data as at 30 October 2024. Source: JP Morgan

Emerging markets

Inflation in EM countries

Inflation declines faster to central bank targets in some Latin America countries



Latin America
Inflation is under control and within the acceptable range set by central banks

Eastern Europe
Relatively higher inflation may necessitate tighter monetary policies to prevent overheating and maintain price stability

Asia
Inflation is generally low and falling, which could support lower interest rates and potentially stimulate economic growth

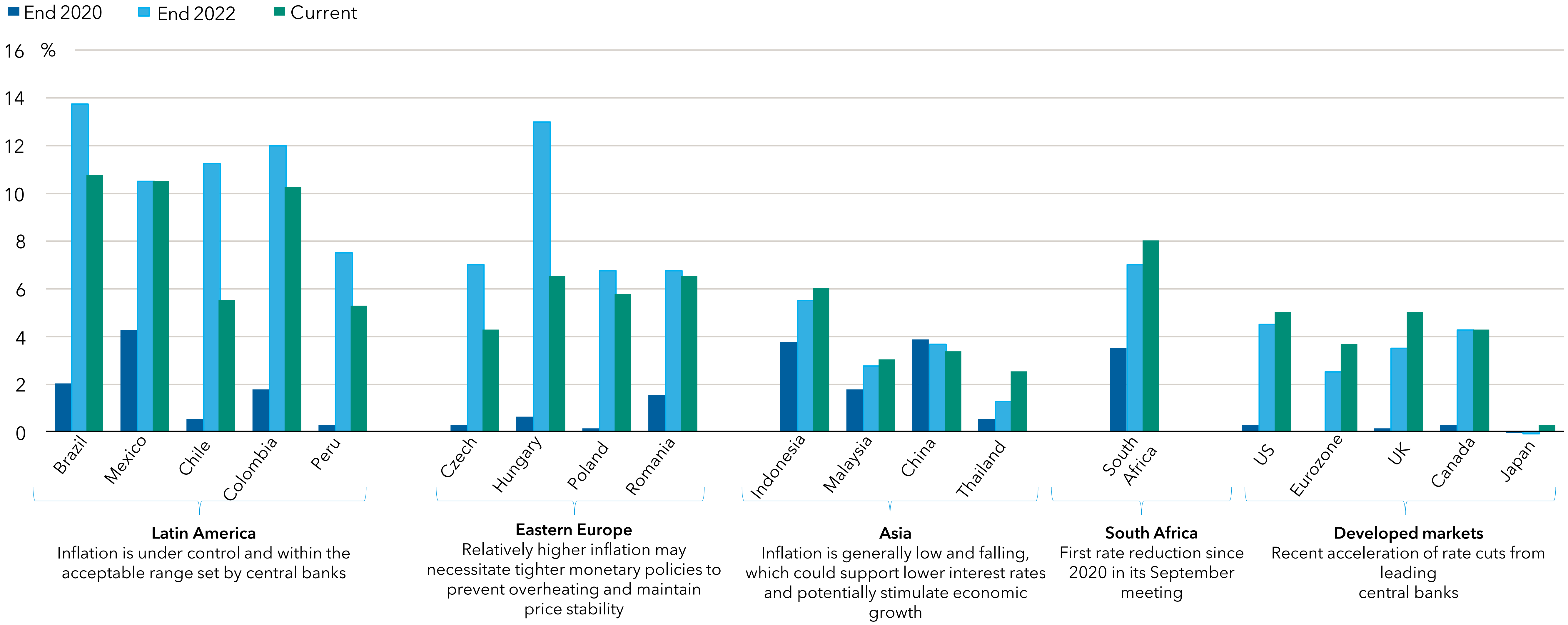
South Africa
First rate reduction since 2020 in its September meeting

As at 30 September 2024. Source: Bloomberg

EM monetary policy ahead of those in developed markets

Monetary policy in EM has been more orthodox than DM

Policy interest rates (%)



As at 30 September 2024. EM: emerging markets. DM: developed markets. Source: Bloomberg

EM debt valuations: US dollar yields above local yields

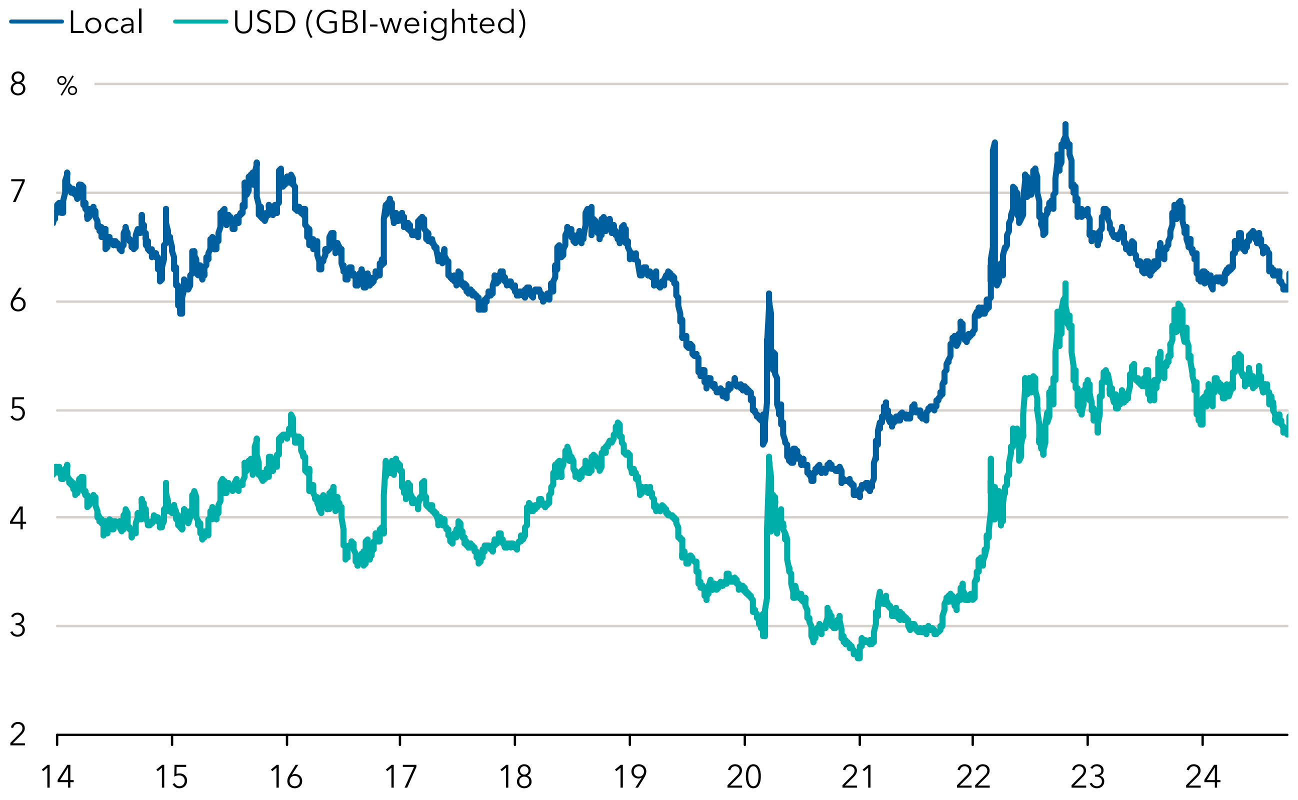
Like-for-like, local currency bonds continue to outyield USD debt

Yields appear higher for hard currency debt[1]…

EM benchmark yields

…But not after adjusting for local index country composition[2]

EM benchmark yields



Past results are not a guarantee of future results. Emerging markets are volatile and may suffer from liquidity problems.

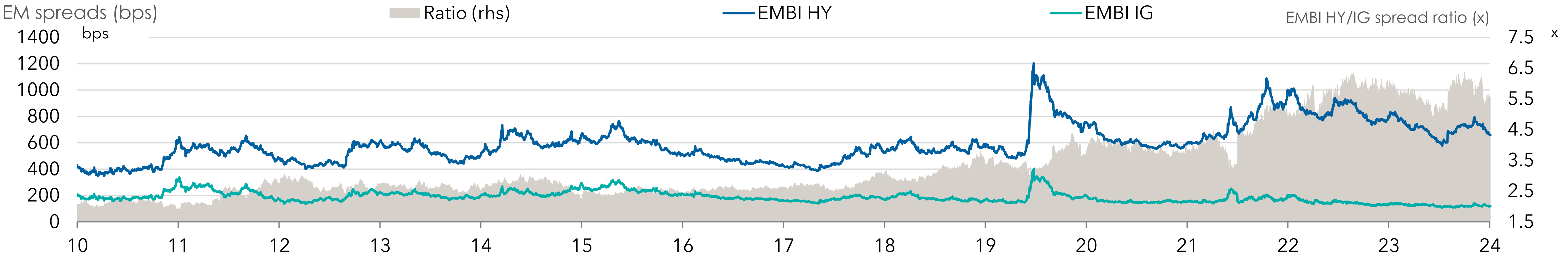
Data from 1 January 2014 to 30 September 2024. Source: Bloomberg. EM: emerging markets.

1. USD EM debt: JP Morgan EMBI Global Diversified Index, Local EM debt: JP Morgan GBI EM Global Diversified Index.
2. USD (GBI-weighted) – EMBI Global Diversified adjusted for GBI EM country weightings.

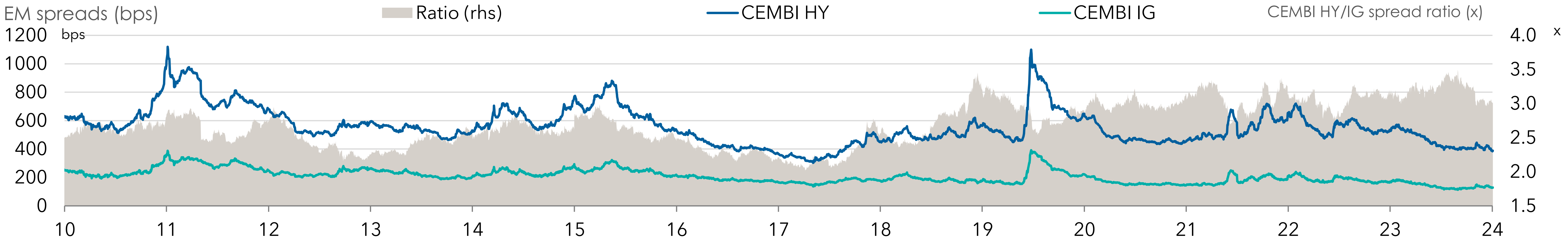
Value in parts of EM high yield sovereigns and corporates

Opportunities in hard currency EM debt despite relatively tight investment grade spreads

EMBI IG and HY spreads



CEMBI IG and HY spreads



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Data as at 30 September 2024. Source: Bloomberg.

EM currencies still appear undervalued relative to USD

Even after a strong 2023 for most EM currencies

FX valuations are at their cheapest levels in the past decade

EM FX (GBI-EM) vs. USD (01 January 2012 = 100)

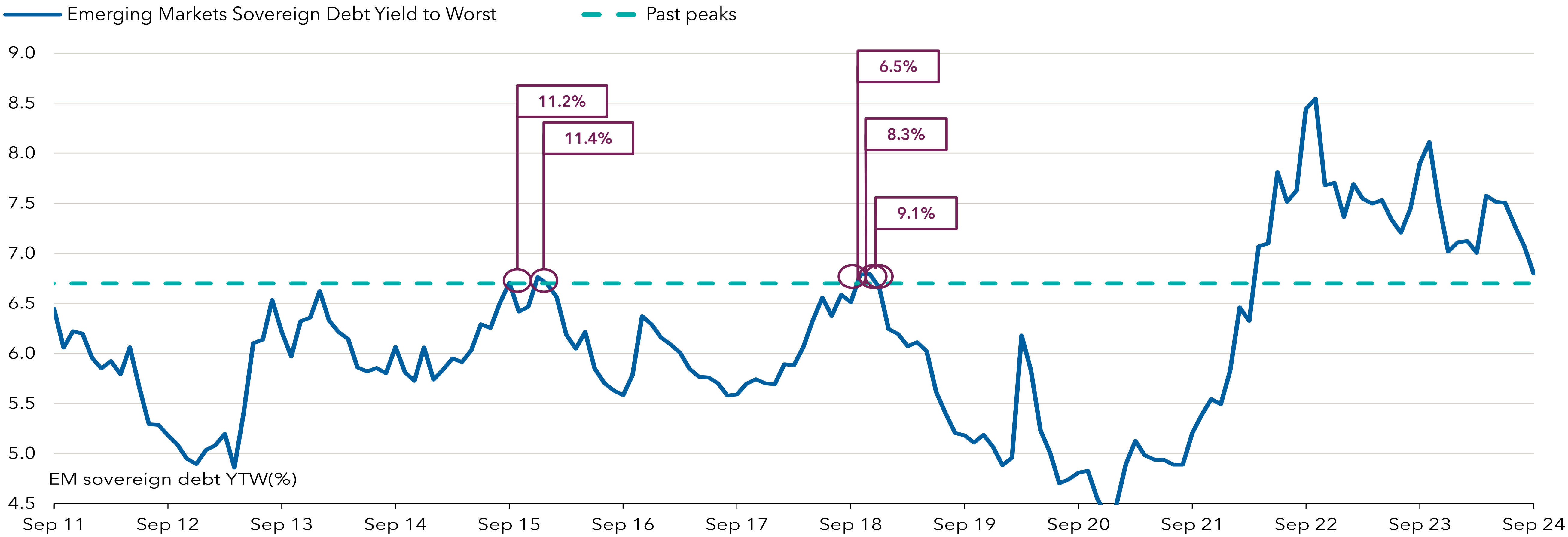
Past results are not a guarantee of future results. Emerging markets are volatile and may suffer from liquidity problems.

Data as at 30 September 2024. Source: Bloomberg. EM (emerging markets) represented by JP Morgan GBI-EM Global Diversified.

EM yields have risen and fundamentals appear stable

May indicate an attractive entry point

Medium term (2-year) forward return when EM yields peaked above 6.7%



Past results are not a guarantee of future results. Emerging markets are volatile and may suffer from liquidity problems

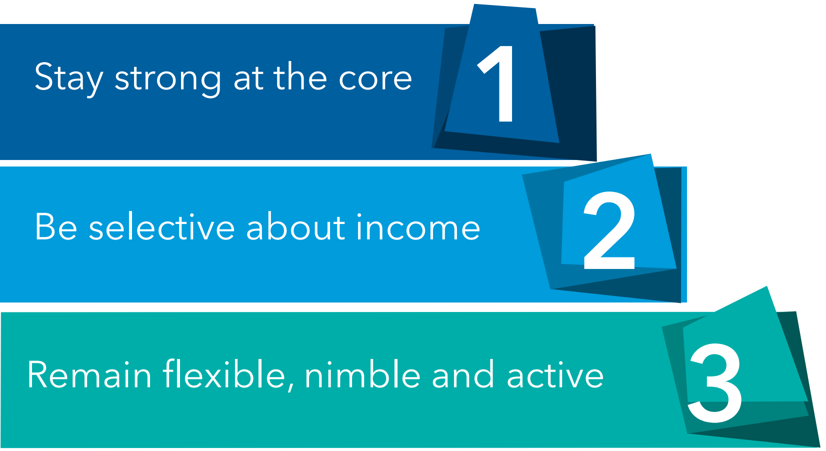
Data as at 30 September 2024 in USD terms. Yield-to-worst and forward returns callouts shown are for 50% JP Morgan EMBI Global Diversified Index / 50% JP Morgan GBI-EM Global Diversified Index. Callout dates for >6.7% yield shown: 30/9/15, 31/12/15, 31/10/18, 30/11/18 and 31/12/18. Forward returns based on annualised returns. Sources: Bloomberg, JP Morgan, Morningstar

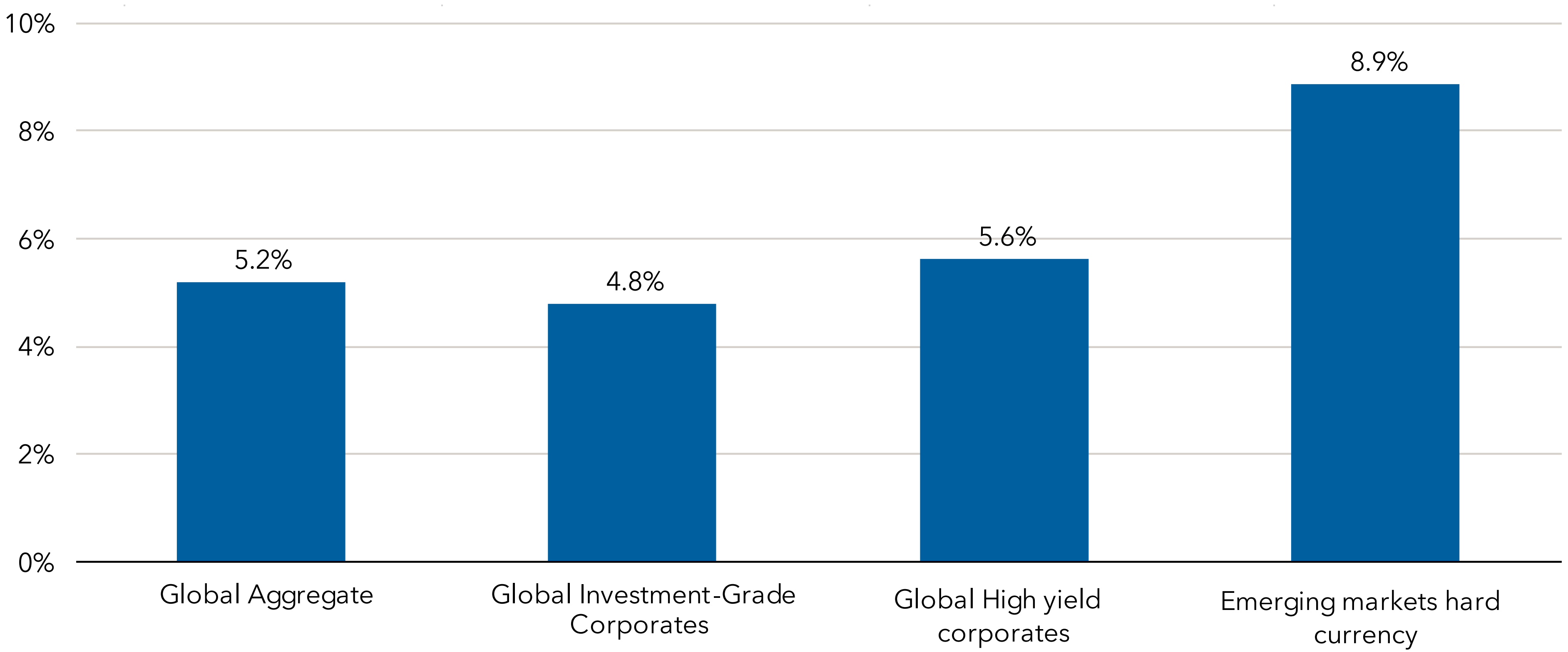
EM: emerging markets. YTW: yield-to-worst

Actionable ideas

Position your portfolios today while yields are attractive

Average five-year forward returns at recent yield levels (%)





	Global Aggregate	Global Investment-Grade Corporates	Global High yield corporates	Emerging markets hard currency
Starting yield to worst	**3.3%**	**4.3%**	**6.8%**	**7.5%**

Past results are not a guarantee of future results.
Yields and returns as at 30 September 2024 in USD terms. Sources: Capital Group, Bloomberg
Data goes back to 2002 for all sectors. Based on average monthly returns for each sector when in a +/- 0.30% range of yield to worst. Sector yields above from left to right are: Bloomberg Global Aggregate Index, Bloomberg Global Aggregate Corporate Index, Bloomberg Global High Yield Corporate Index and JP Morgan EMBI Global Diversified Index.

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