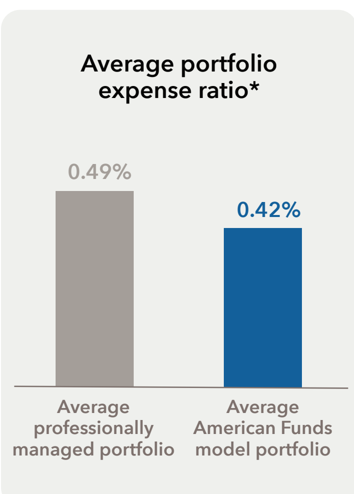
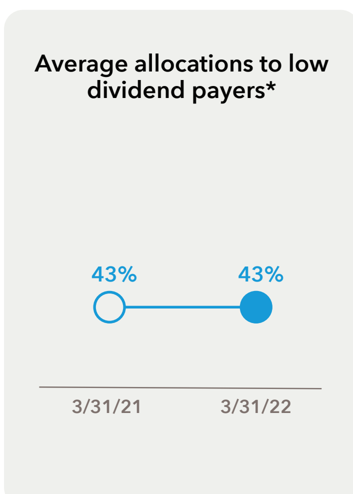
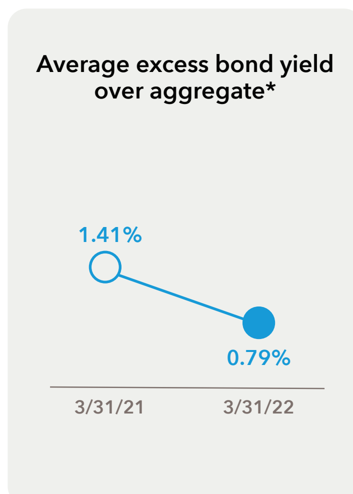
## Portfolio construction
Where do multi-asset portfolios stand?

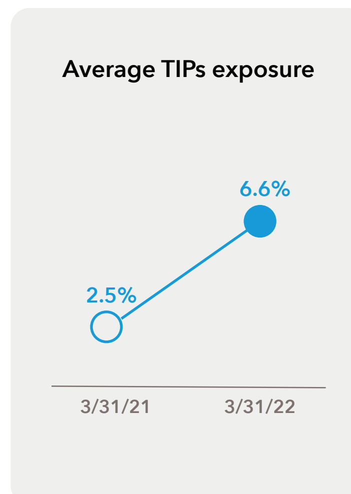
## Multi-asset portfolio construction trends

Markets have witnessed a rotation from growth to value stocks in the last year as investors have grappled with concerns about higher inflation, tighter monetary policy and increased potential for market volatility and geopolitical risk. How have portfolios changed in this complex environment? The Capital Group Portfolio Consulting and Analytics team reviewed 479 professionally managed portfolios from January 1 through March 31, 2022. Here's what the team discovered:



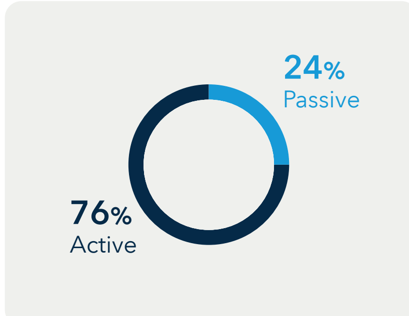

*Average expense ratio for American Funds model portfolio is the average of F-2 share class gross expense ratios for American Funds Global Growth, Growth, Moderate Growth, Growth and Income, Moderate Growth and Income, Conservative Growth and Income, Retirement Income – Enhanced, Retirement Income – Moderate, Retirement Income – Conservative, Conservative Income and Preservation model portfolios as of March 31, 2022. Low dividend payers are defined as companies paying a dividend of less than 0.7%. Excess yield represents 12-month yield of the fixed income sleeve of the average advisor portfolio minus the 12-month yield of an ETF vehicle that tracks the Bloomberg Aggregate Index and is net of fees. TIPs are Treasury Inflation-Protected Securities.

Past results are not predictive of results in future periods.

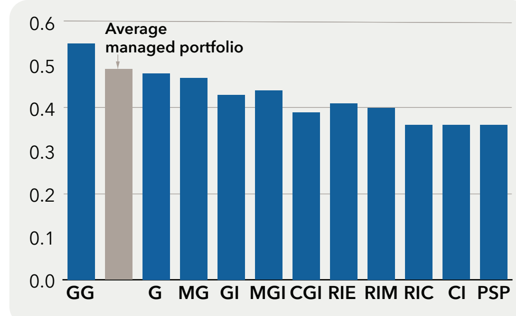
Many advisors who outsource model portfolio construction use passive investments to help minimize portfolio fees. But this may not always be the case. In fact, our analysis showed that even though the average portfolio allocated 24% to passive funds, the fee for this average portfolio was 0.49% compared with 0.42% for the average fully actively-managed American Funds model portfolio.

## Active or passive: That depends on client goals

**Allocation to active and passive funds in an average professionally managed portfolio**




**Expense ratios[1,2] for average professionally managed portfolio versus American Funds® Model Portfolios**

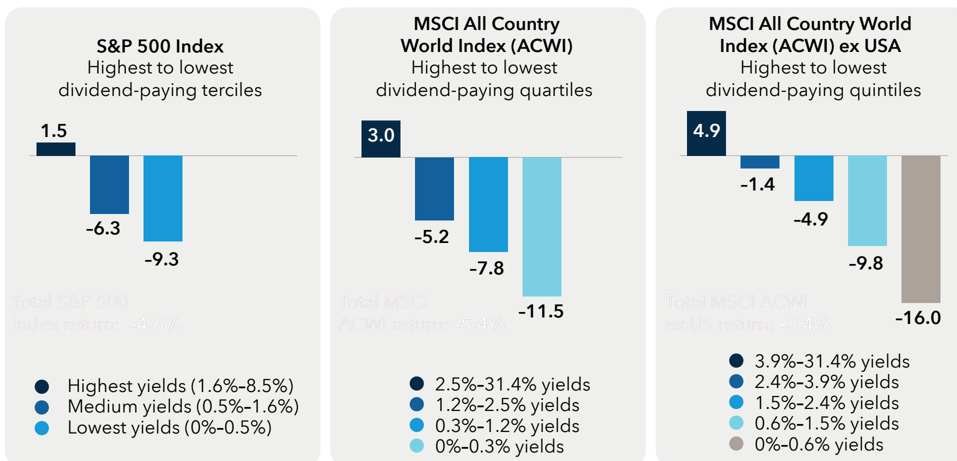



Source: Capital Group, F-2 share class gross expense ratios as March 31, 2022. American Funds model portfolios are represented as follows: GG (American Funds® Global Growth Model Portfolio), G (American Funds® Growth Model Portfolio), MG (American Funds® Moderate Growth Model Portfolio, GI (American Funds® Growth and Income Model Portfolio), MGI (American Funds® Moderate Growth and Income Model Portfolio), CGI (American Funds® Conservative Growth and Income Model Portfolio), RIE (American Funds® Retirement Income Model Portfolio – Enhanced), RIM (American Funds® Retirement Income Model Portfolio – Moderate), RIC (American Funds® Retirement Income Model Portfolio – Conservative), CI (American Funds® Conservative Income Model Portfolio), PSP (American Funds® Preservation Model Portfolio).

Dividend payers can provide a measure of downside protection during difficult markets and income in the face of inflationary pressures. Yet many financial professionals continue to focus on low dividend payers, according to our analysis. We suggest focusing on dividend payers with the potential for sustainable dividend growth. Changing market dynamics and sector rotations can provide opportunities on a company-by-company basis, including firms in sectors that have not traditionally paid dividends.

## Consider new sources of yield

**Higher dividend payers provided relatively safe harbor in early 2022 (Jan. 1-March 31, 2022)**




Source: Factset, as of March 31, 2022. Dividend yield terciles/quartiles/quintiles are listed from highest to lowest dividend-payers for the S&P 500 (terciles), MSCI ACWI (quartiles) and MSCI ACWI ex US (quintiles).

Bond markets have also witnessed rotations in recent months as investors absorbed the shift toward more hawkish monetary policy in the U.S. and expectations for sustained inflationary pressures. Financial professionals increased allocations to TIPs over the last year, according to our analysis of actual portfolios. Many investors have also embraced shorter-duration bonds given anticipated rate hikes. We encourage clients to make sure that fixed income allocations are providing an appropriate balance of income, equity diversification, capital preservation and inflation protection relative to client goals.

## Think flexibly about bond sector rotation

**Annual bond sector returns have varied dramatically since the Global Financial Crisis**

Cumulative returns

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 YTD | Annualized returns 2008-2022 YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Best | 5.2 | 58.8 | 14.9 | 13.6 | 17.4 | 7.4 | 7.5 | 1.2 | 17.1 | 10.3 | 0.0 | 15.0 | 11.0 | 6.0 | -3.0 | 7.3 |
| | 4.9 | 29.8 | 12.2 | 8.2 | 15.8 | -1.5 | 7.4 | 0.6 | 10.2 | 7.5 | -1.3 | 14.5 | 9.9 | 5.3 | -4.8 | 5.2 |
| | -2.4 | 18.7 | 9.0 | 7.8 | 9.8 | -2.0 | 6.0 | -0.7 | 6.1 | 6.4 | -2.1 | 14.3 | 7.5 | -1.0 | -5.9 | 4.8 |
| | -12.0 | 11.4 | 6.5 | 7.4 | 7.0 | -5.3 | 3.6 | -1.4 | 4.7 | 3.5 | -2.5 | 8.7 | 7.0 | -1.5 | -7.7 | 3.9 |
| Worst | -25.9 | 5.9 | 6.3 | 5.0 | 4.2 | -8.6 | 2.5 | -4.4 | 2.7 | 3.0 | -4.3 | 8.4 | 5.3 | -1.8 | -10.0 | 3.4 |

U.S. HY • U.S. IG Corp • EMD • U.S. Agg • TIPS

Sources: Capital Group, Factset. Returns shown are cumulative 1-year returns. U.S. HY represents Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index; U.S. IG Corp represents Bloomberg U.S. Corporate Investment Grade Index; EMD represents JPMorgan EMBI Global Diversified Index; U.S. Agg represents Bloomberg U.S. Aggregate Index, TIPs represents Bloomberg U.S. Treasury Inflation-Protected Securities (TIPs) Index. 2022 year-to-date figures are as of March 31, 2022.

"In our model portfolio construction process, we favor flexible funds, such as American Funds Multi-Sector Income Fund℠ and American Funds Strategic Bond Fund℠, which can quickly move across fixed income asset classes or change characteristics such as duration or inflation-linked bond positioning. This dynamic approach allows us to respond appropriately for market situations like the current conditions."

–SAMIR MATHUR
Chairman of the Portfolio Solutions Committee

## Challenge

Meeting long-term goals through periods of market volatility, style and sector rotations.

## Potential solutions

- Not all dividend-focused funds are alike. Consider funds, such as Capital Income Builder® and The Income Fund of America®, that seek to balance equity-paying dividends and quality fixed income. For an equity-based approach, consider dividend-focused funds such as American Mutual Fund® and Washington Mutual Investors Fund℠.
- In a challenging interest rate environment, it can be tempting to reach for yield. Instead, focus on multi-sector funds that aim to limit volatility without meaningfully reducing income, such as American Funds Multi-Sector Income Fund. For the goal of high income, American High-Income Trust® aims to take a well-researched, diversified approach to high yield investing. Additionally, The Bond Fund of America® seeks to provide high-quality bond exposure and diversification.
- Consider objective-based model portfolios, such as American Funds growth-and-income and income-oriented portfolios, that allocate to dividend payers and flexible bond funds.

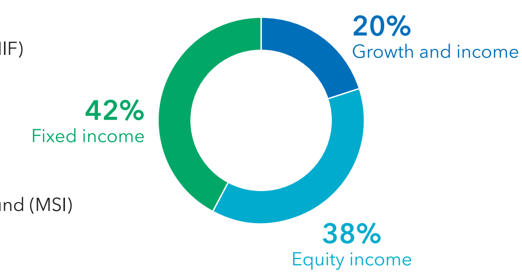
"High current income is the primary objective for the American Funds Conservative Growth and Income Model Portfolio; long-term growth of capital is the secondary objective. The growth and income building blocks WMIF and AMF have a dual purpose of seeking to provide yield and appreciation from broad equity exposure. Equity-income funds such as CIB and IFA play a similar role, with some latitude to provide flexibility at the equity/fixed income asset class level. The use of AHIT aims to reinforce the higher income focus of the model. MSI offers an expanded opportunity set to provide flexibility to lean into and out of credit sectors. BFA complements the core plus funds and seeks to provide equity diversification."

–STANLEY MOY
Capital Group multi-asset investment product manager

## Objective-based model portfolio construction

**American Funds Conservative Growth and Income Model Portfolio**

- 10% American Mutual Fund (AMF)
- 10% Washington Mutual Investors Fund (WMIF)
- 19% Capital Income Builder (CIB)
- 19% The Income Fund of America (IFA)
- 16% The Bond Fund of America (BFA)
- 10% American High-Income Trust (AHIT)
- 16% American Funds Multi-Sector Income Fund (MSI)




Source: Capital Group, as of March 31, 2022.

The use of derivatives involves a variety of risks, which may be different from, or greater than, the risks associated with investing in traditional securities, such as stocks and bonds.

Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds.

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.

American Funds Strategic Bond Fund may engage in frequent and active trading of its portfolio securities, which may involve correspondingly greater transaction costs, adversely affecting the fund's results.

Investing outside the United States involves risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be heightened in connection with investments in developing countries.

There may have been periods when the results lagged the index(es). The indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

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Portfolios are managed, so holdings will change. Certain fixed income and/or cash and equivalents holdings may be held through individual mutual funds managed by the investment adviser or its affiliates that are not offered to the public.

[1]Expense ratios are as of each fund's prospectus available at the time of publication.

[2]Expense ratio for the model is the weighted average of the underlying funds' gross expense ratios as of their most recent prospectuses.

Model portfolios are provided to financial intermediaries who may or may not recommend them to clients. These portfolios consist of an allocation of funds for investors to consider and are not intended to be investment recommendations. The portfolios are asset allocations designed for individuals with different time horizons, investment objectives, and risk profiles. Allocations may change and may not achieve investment objectives. If a cash allocation is not reflected in a model, the intermediary may choose to add one. Capital Group does not have investment discretion or authority over investment allocations in client accounts. Investors should talk to their financial professional for information on other investment alternatives that may be available. In making investment decisions, investors should consider their other assets, income, and investments. Visit capitalgroup.com for current allocations.

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

The MSCI All Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market results in the global developed and emerging markets, consisting of more than 40 developed and emerging market country indexes. Results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter.

MSCI All Country World ex USA Index is a free float–adjusted market capitalization weighted index that is designed to measure equity market results in the global developed and emerging markets, excluding the United States. The index consists of more than 40 developed and emerging market country indexes. Results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter.

Bloomberg U.S. Aggregate Index represents the U.S. investment–grade fixed–rate bond market.

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 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 U.S. Treasury Inflation Protected Securities (TIPS) Index consists of investment-grade, fixed-rate, publicly placed, dollar-denominated and non-convertible inflation-protected securities issued by the U.S. Treasury that have at least one year remaining to maturity, and have at least $250 million par amount outstanding.

The J.P. Morgan Emerging Market Bond Index (EMBI) Global Diversified is a uniquely weighted emerging market debt benchmark that tracks total returns for U.S. dollar denominated bonds issued by emerging market sovereign and quasi-sovereign entities.