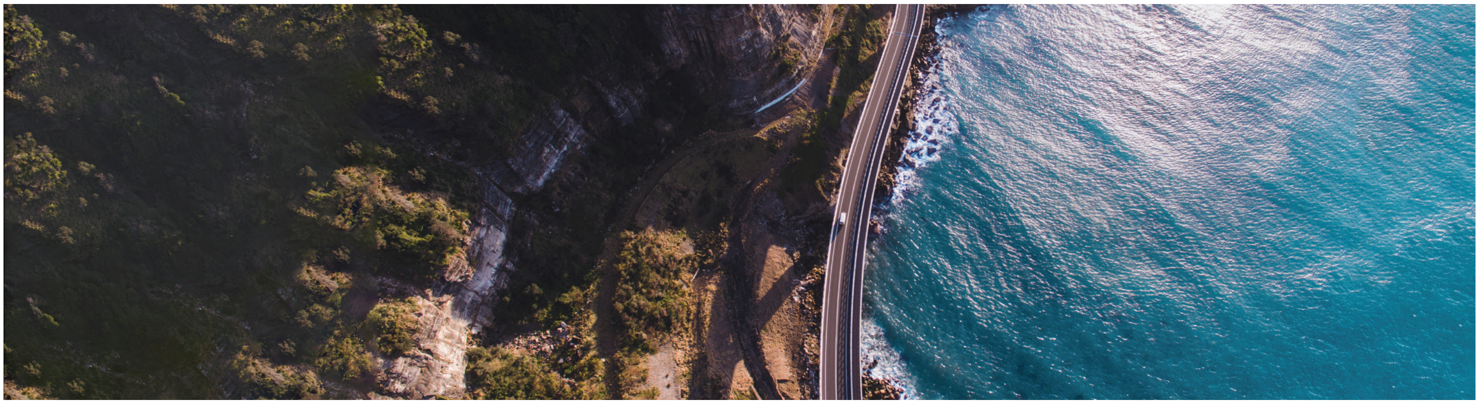
Portfolio construction

What now? Prioritize client goals



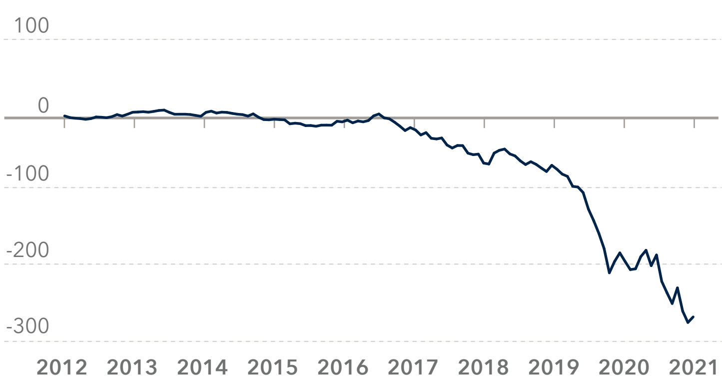
Over the last decade, many client portfolios have benefited from significant growth allocations amid a strong bull market and unprecedented quantitative easing. But now many financial professionals are facing a tough choice: Is it time to shift from growth to value? Growth stocks are typically assessed based on their growth potential while value stocks are often considered to offer value based on lower valuations relative to their perceived worth. It may be time to rethink the growth-versus-value framework.

Value returns in 2022 | Style rotation in bear markets

The growth-led market rally over the last decade appeared to reverse in the first six months of 2022, with value significantly outpacing growth stocks through recent market volatility. There are many reasons to believe that value could be set for sustained strength over time; some value and defensive stocks have tended to hold up better in this stage of the economic cycle. Dividend-paying stocks and sectors such as financials, industrials, energy and consumer staples seem likely to benefit from higher inflation; companies in these sectors typically have generated greater cash flow, which could be beneficial in a rising interest rate environment. Yet, instead of allocating according to style, we base model portfolio construction on client objectives as well as bottom-up research done by underlying fund managers. Here's why:

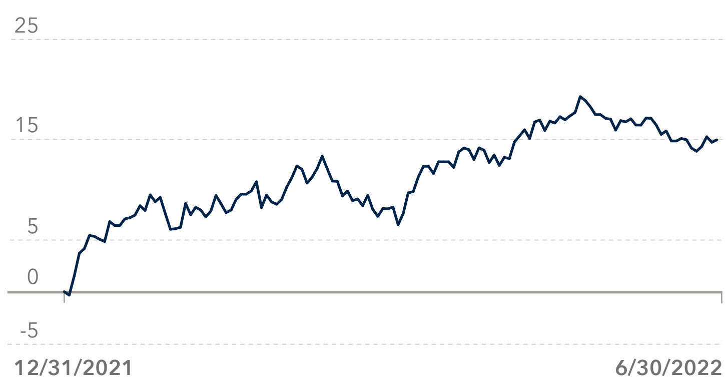
Value stocks significantly lagged growth over the last decade

Excess returns for Russell 1000 Value Index versus Russell 1000 Growth Index (%)



Value may be making a comeback in 2022

Excess returns for Russell 1000 Value Index versus Russell 1000 Growth Index (%)



Sources: Capital Group, Factset as of June 30, 2022

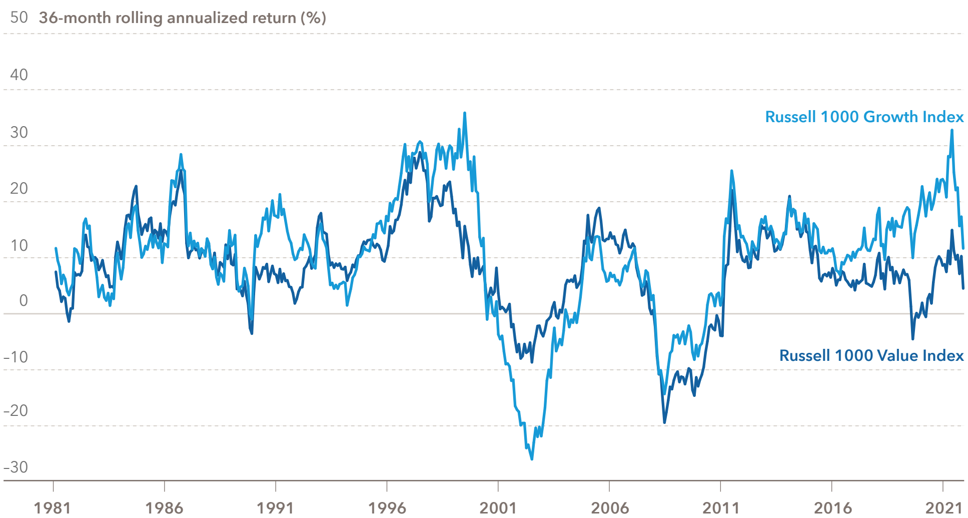
Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

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.

> "Market volatility brings client goals into focus. We encourage financial professionals to reinforce long term investment thinking and, when needed, adjust portfolios to bring exposures in line with client objectives."
>
> – ANDREW MOLINET
> Portfolio consultant

Historical style rotations | Hard to time

Growth- or value-led market returns over decades



Sources: Capital Group, Factset as of June 30, 2022

Early signs of a value comeback in 2022 don't necessarily mean that investors should shift to value stocks in general, based on top-down assessments of the broader style category and its expected overall behavior in the current environment. The growth-versus-value framework may be far less useful than it might seem. For one thing, style rotations are difficult to predict. This includes relatively short periods following the 2007–2009 Global Financial Crisis when value stocks started to rally but petered out. Rather than using a growth-versus-value framework when choosing strategies to help pursue investment objectives, we suggest focusing on flexible underlying funds managed by portfolio managers who take an active, bottom-up approach to research.

Sector landscape | Changing more than you may think

Sector weights in growth and value indexes have changed considerably over recent decades. For example, health care had virtually no weighting in the Russell 1000 Value Index in 1992. By June 2022, health care was the second-largest sector in the index. Meanwhile, information technology jumped from 6.5% of the Russell 1000 Growth Index in 1992 to almost 44% in 2022. We believe that disruptive forces such as digitization and the growth of intangible assets, including brand, customer loyalty, and research and development, require a bottom-up approach to assessing the intrinsic value of a company, rather than purely categorizing stocks and sectors as growth or value. We suggest funds and model portfolios comprised of funds overseen by portfolio managers who focus on long-term company-specific opportunities regardless of which style is currently in favor.

Changing sector weights in growth and value indexes over decades

Top 5 value sectors

Sector weights in the Russell 1000 Value Index (%)	as of 6/30/92	as of 6/30/22
Consumer discretionary	18.5 1	1 19.5 (Financials)
Utilities	18.4 2	6.0
Health care	0.6	2 17.2
Financials	15.2 3	3 9.9 (Industrials)
Information technology	13.1 4	4 9.0
Industrials	12.8 5	9.9
Communication services (formerly telecommunication services)	3.1	5 8.8

Top 5 growth sectors

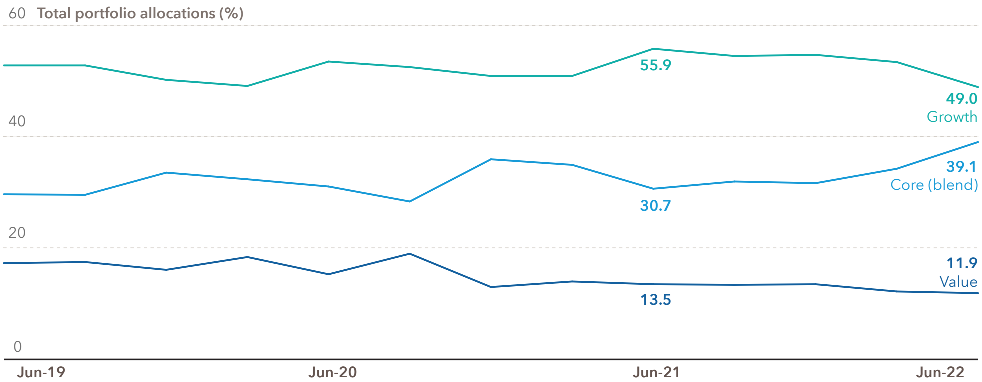
Sector weights in the Russell 1000 Growth Index (%)	as of 6/30/92	as of 6/30/22
Consumer staples	28.5 1	5.9
Health care	23.9 2	1 43.6 (Information technology)
Consumer discretionary	15.8 3	2 15.5
Industrials	13.2 4	3 12.3 (Health care)
Communication services (formerly telecommunication services)	0.5	4 8.1
Information technology	6.5 5	5 7.1 (Industrials)

Sources: Capital Group, Morningstar as of June 30, 2022

> **"Our growth models remain flexible.** While the models are strategic in nature, underlying fund managers continue to respond to the changing market environment in real time via bottom-up investment convictions."
>
> **– STANLEY MOY**
> **Multi-asset investment product manager**

Underlying fund flexibility

Allocations in American Funds Growth Model Portfolio



This chart shows style allocation changes in our growth model portfolio based on Morningstar style analysis of underlying funds in the model. According to Morningstar, core (blend) allocations in American Funds® Growth Model Portfolio have risen considerably in the last 12 months, as of June 30, 2022, while growth allocations have decreased. This is a reflection of Capital's focus on growth as an objective (capital appreciation), rather than growth as an allocation style. Recent changes in this model's core (blend) and growth allocations stem from underlying fund flexibility and our portfolio managers' ability to seek opportunities outside the growth style category.

Source: Morningstar. Morningstar data shown for each style allocation category – growth, core (blend) and value – is the weighted average of Morningstar's style allocation analysis for each underlying fund in the American Funds Growth Model Portfolio. Morningstar's style analysis can be used to observe how consistent a fund's style may be over time, although American Funds does not consider consistency of style to be a limiting factor in the way its funds invest. American Funds selects holdings in its mutual funds with the sole purpose of accomplishing a fund's stated objective rather than adhering to a specific Morningstar style box classification.

Investment options

- Consider objective-based model portfolios that reflect active investment decisions across underlying funds. This can be especially critical at a time of significant volatility, and market and sector rotations.
- Focus on the strength and flexibility of underlying funds rather than a growth-versus-value framework.

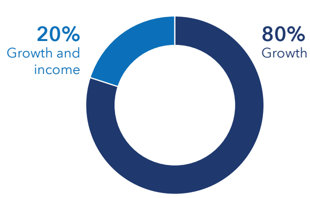
Stay focused on client goals

American Funds models remain committed to their long-term objectives. The Portfolio Solutions Committee (PSC) regularly evaluates strategic allocations in model portfolios and assesses possible reallocations relative to long-term goals. For example, the PSC increased global flexibility in growth models in 2020 and market-cap diversification in 2021. As of June 30, 2022, the PSC decided that existing growth model allocations were appropriate to pursue long-term growth objectives and did not recommend any allocation changes. The team continues to actively monitor allocations.

Examples of objective-based model portfolio construction

American Funds® Growth Model Portfolio

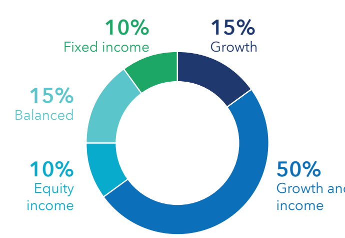
15% SMALLCAP World Fund
10% The New Economy Fund
25% The Growth Fund of America
10% New Perspective Fund
20% AMCAP Fund
20% Fundamental Investors



Source: Capital Group, as of June 30, 2022

American Funds® Growth and Income Model Portfolio

8% SMALLCAP World Fund
7% The Growth Fund of America
20% The Capital World Growth and Income Fund
20% The Investment Company of America
10% Washington Mutual Investors Fund
10% Capital Income Builder
15% American Balanced Fund
5% American Funds Strategic Bond Fund
5% The Bond Fund of America



Model and fund options

American Funds® Model Portfolios invest in funds such as The Growth Fund of America®, which aims to achieve its growth-of-capital objective regardless of which style is in favor. Models also invest in growth-and-income, dividend-oriented funds such as Washington Mutual Investors Fund, depending on model objectives. We offer portfolio consultations to discuss which model or individual investment strategies may best fit your client's long-term goals.

Capital Group offers a wide range of model portfolios, mutual funds, ETFs and separately managed accounts to pursue specific client goals. Here are some examples:

Growth:

The Growth Fund of America
Capital Group Growth ETF
Capital Group U.S. Flexible Growth SMA

Global growth:

New Perspective Fund®
Capital Group Global Growth Equity ETF

Dividend-focused:

Washington Mutual Investors Fund
American Mutual Fund®
Capital Group Dividend Value ETF
Capital Group U.S. Income and Growth SMA

Global dividend:

Capital World Growth and Income Fund®
Capital Group World Dividend Growers SMA

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.

The model portfolios' risks are directly related to the risks of the individual funds as described herein.

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.

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

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.

Model portfolios are provided to financial intermediaries who may or may not recommend them to clients. The 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. Rebalancing approaches may differ depending on where the account is held. 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.

Russell 1000 Index is a market capitalization-weighted index that represents the top 1,000 stocks in the U.S. equity market by market capitalization.

Russell 1000 Growth Index is a market capitalization-weighted index that represents the large-cap growth segment of the U.S. equity market and includes stocks from the Russell 1000 Index that have higher price-to-book ratios and higher expected growth values.

Russell 1000 Value Index is a market capitalization-weighted index that represents the large-cap value segment of the U.S. equity market and includes stocks from the Russell 1000 Index that have lower price-to-book ratios and lower expected growth values.

These indexes are unmanaged, and their results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

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