

Capital Ideas™

WEBINARS

# 2024 Outlook

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- CE credit quiz
- Webinar slides (PDF)
- Report (PDF)
- Reference materials

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- Stay on the webinar for at least **50 minutes**
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- Allow up to **10 days** to process credit

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• LIVE 00:33:07 / 01:05:00

### Ask the speaker

No questions yet. Be the first to ask one!

This is where all of the approved questions will appear

Ask your question here

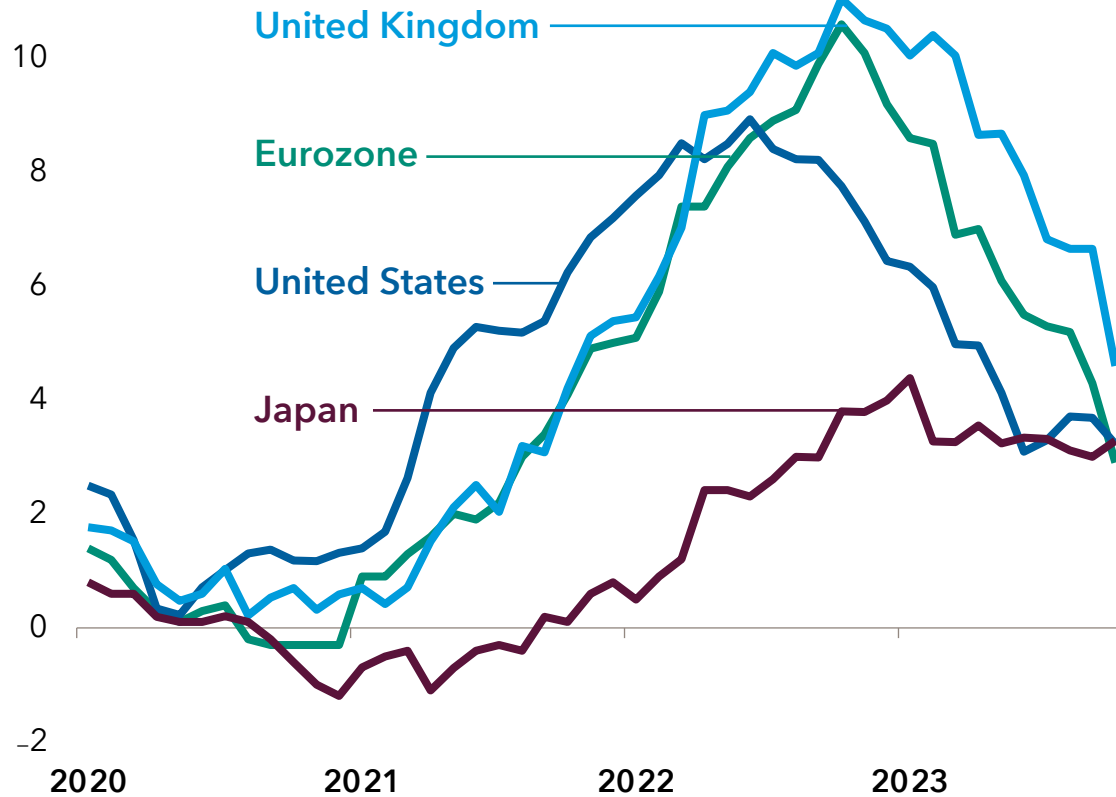


Ask a question

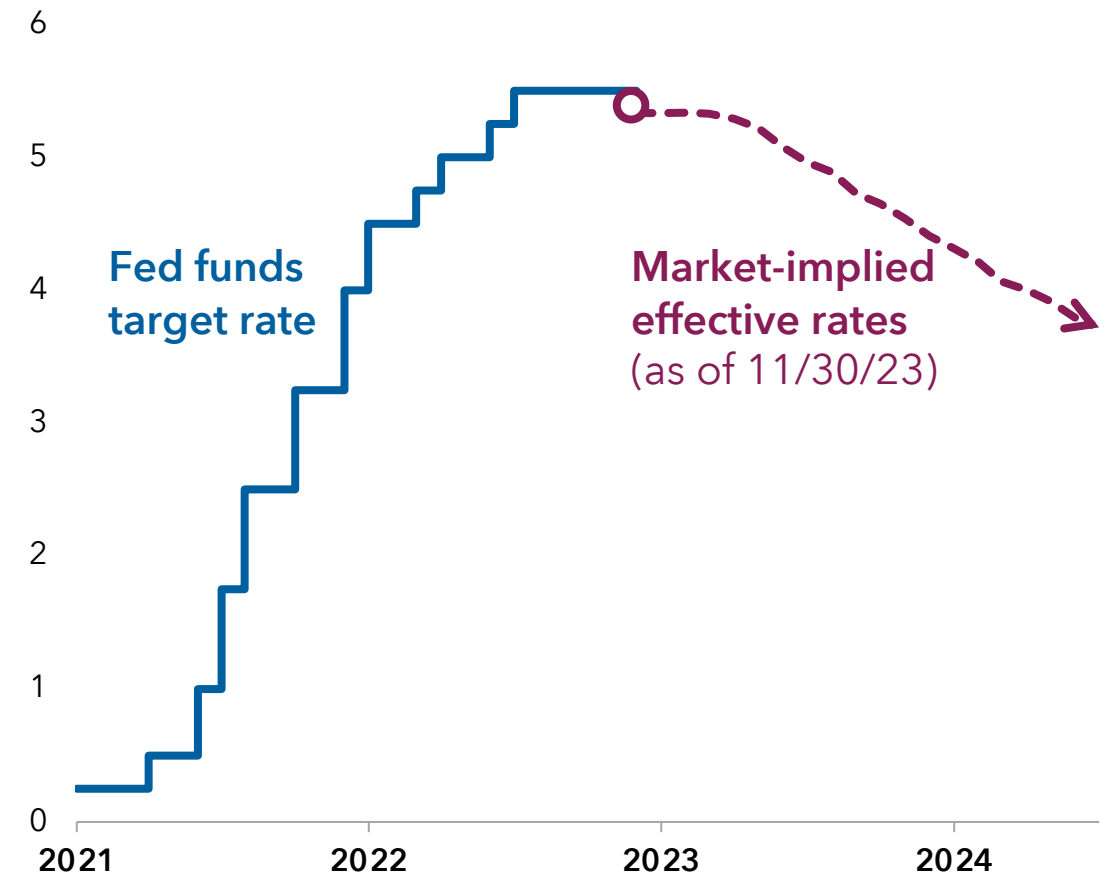
# Inflation has slowed, but is the Fed done hiking rates?

## Inflation: Still elevated, but falling

12 YOY change in CPI (%)



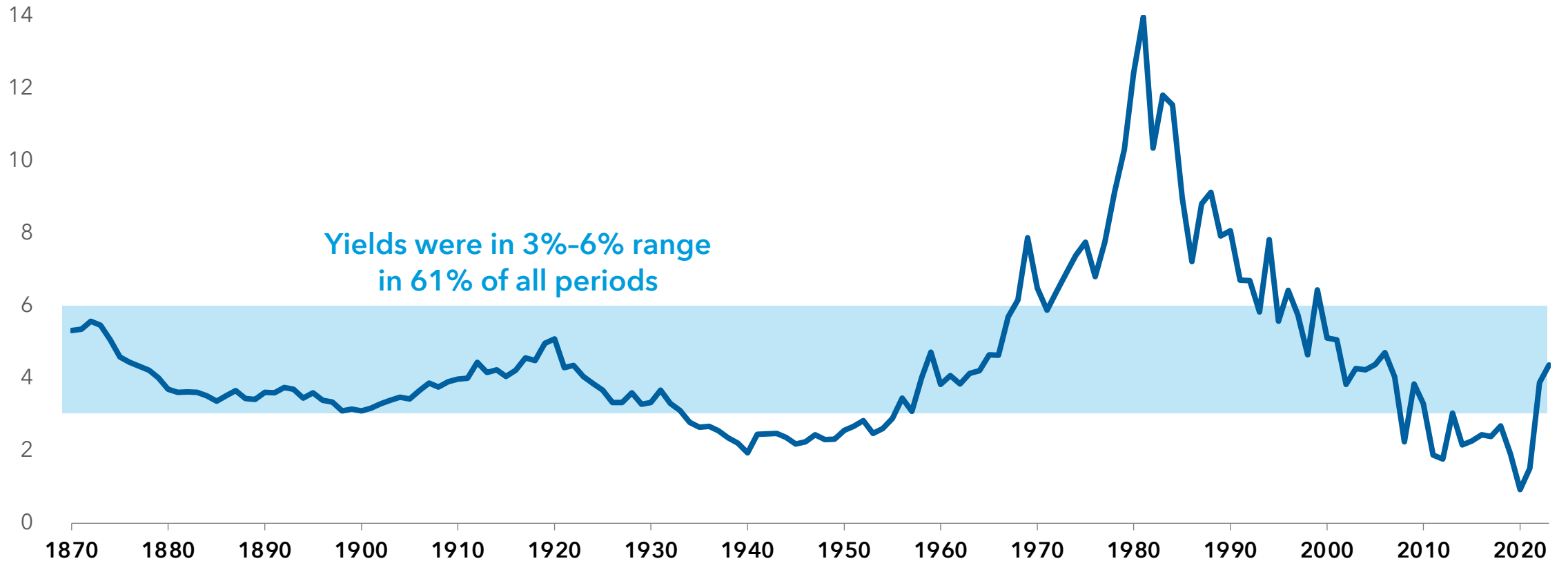
## Federal Funds rate – Actual vs. market implied (%)



Sources: (Left chart:) Capital Group, Bureau of Labor Statistics, Eurostat, FactSet, Japanese Statistics Bureau & Statistics Center, UK Office for National Statistics. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Data as of October 31, 2023. (Right Chart:) Sources: Capital Group, Bloomberg Index Services Ltd., Refinitiv Datastream, U.S. Federal Reserve. Fed funds target rate reflects the upper bound of the Federal Open Markets Committee's (FOMC) target range for overnight lending among U.S. banks. As of November 30, 2023. Market-implied effective rates are estimates of what the fed funds rate could be in the future and are calculated using fed fund rate futures market data.

# Back to the "old normal"? A return to higher rates

U.S. long-term government bond yield (%)



Sources: Federal Reserve, Robert Shiller. Data for 1871-1961 represents average monthly U.S. long-term government bond yields compiled by Robert Shiller. Data for 1962-2022 represents 10-year Treasury yields, as of December 31 each year within the period. Data for 2023 is as of November 30, 2023. Past results are not predictive of results in future periods.



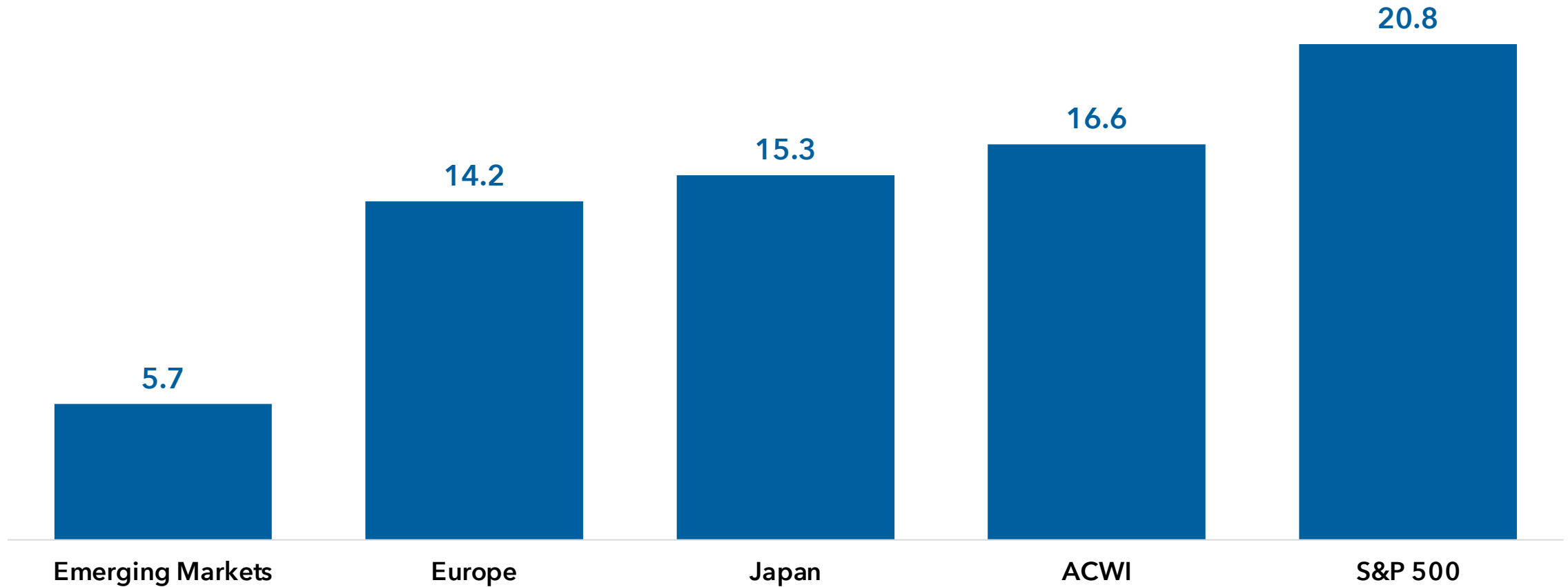
# POLL QUESTION

## Where in the world is this lighthouse?



# After a strong year, what's next for stocks in 2024?

2023 returns across global equity benchmarks (YTD %)



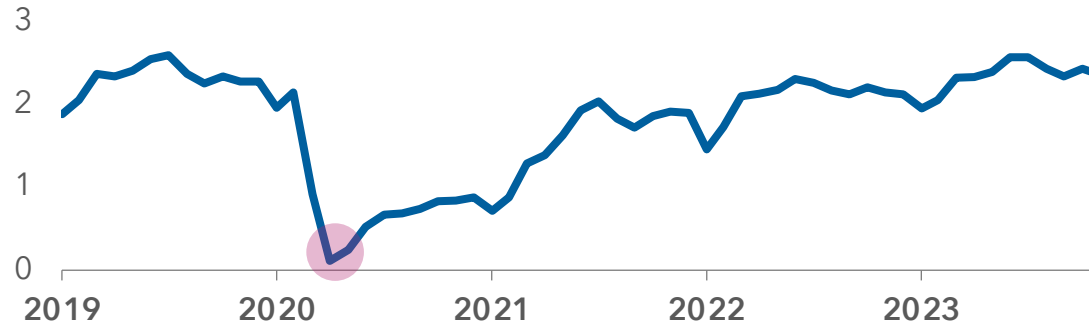
Sources: Capital Group, RIMES. Returns represent the year-to-date total return in U.S. dollars for the S&P 500 Index (S&P 500), MSCI All Country World Index (ACWI), MSCI Japan Index (Japan), MSCI Europe Index (Europe) and MSCI Emerging Markets Index (Emerging markets). As of November 30, 2023.



# Rolling recessions may limit likelihood of broad downturn

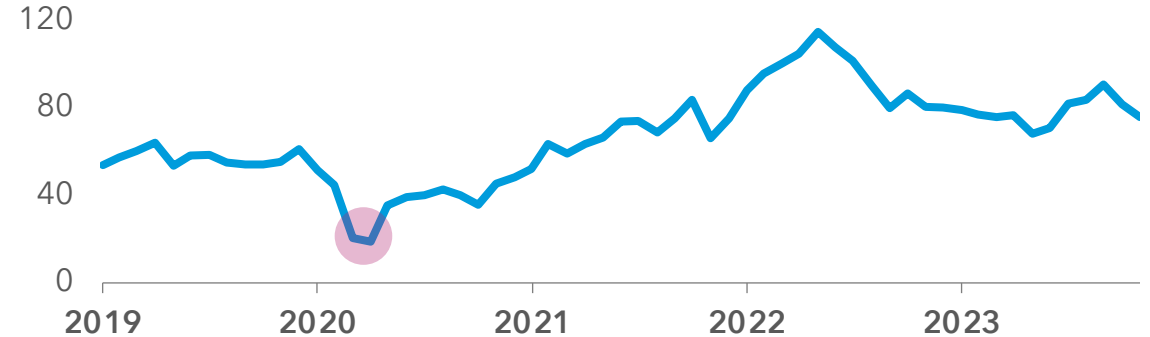
## Travel

Travelers through TSA checkpoints (millions)



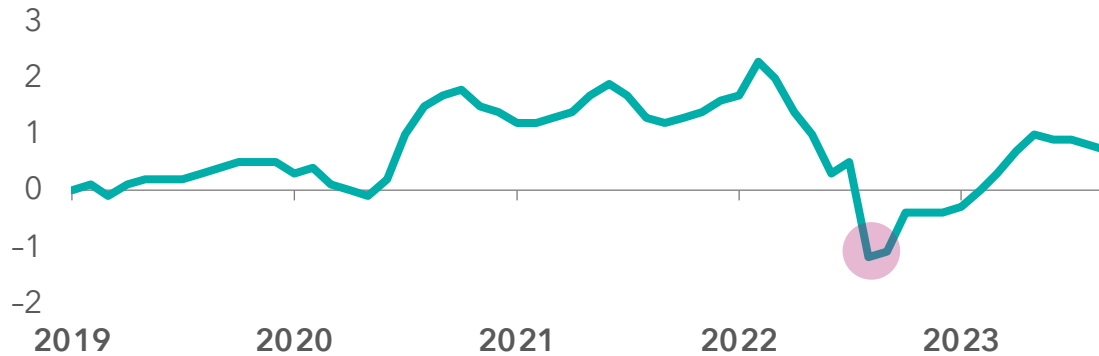
## Oil

WTI crude oil spot price (USD per barrel)



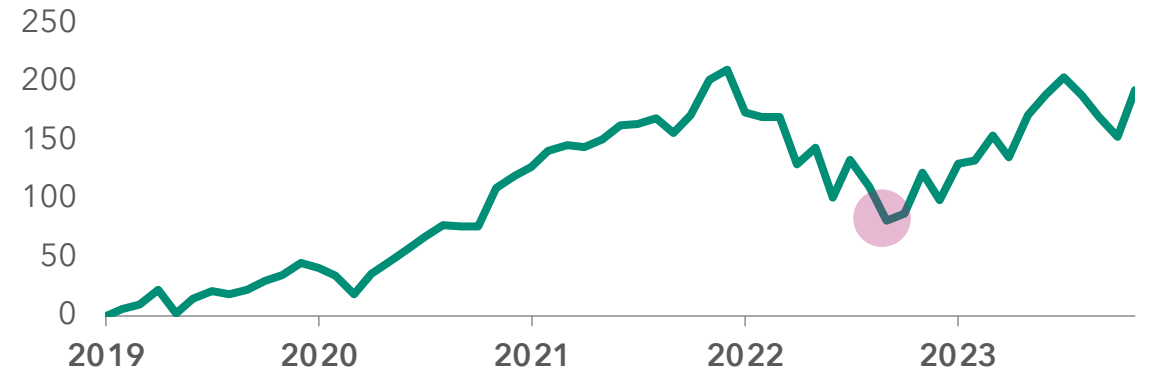
## Housing

S&P CoreLogic Case-Shiller 20-City Composite Home Price Index (month-over-month % change)



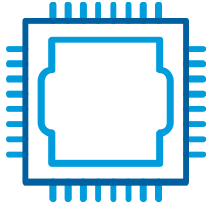
## Semiconductors

Philadelphia Stock Exchange Semiconductor Index cumulative return (%)



Sources: Travel: Transportation Security Agency (TSA), U.S. Department of Homeland Security. Data is a 30-day moving average. As of November 30, 2023. Oil: Refinitiv. As of November 30, 2023. Housing: Standard & Poor's. Latest available monthly data is September 2023, as of November 30, 2023. Semiconductors: Philadelphia Stock Exchange. As of November 30, 2023. Data represents cumulative price return since January 1, 2019. Markers indicate recent low points and to illustrate that a recovery may have already begun in these four sectors. Past results are not predictive of results in future periods.

# AI's impact will be felt across sectors and industries



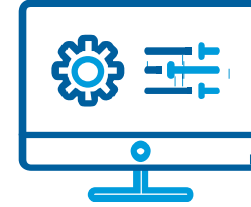
## Semiconductor chips and equipment

ASML  
Applied Materials  
NVIDIA  
TSMC  
Broadcom



## Cloud computing/ AI software

Microsoft  
Amazon  
Google



## AI application

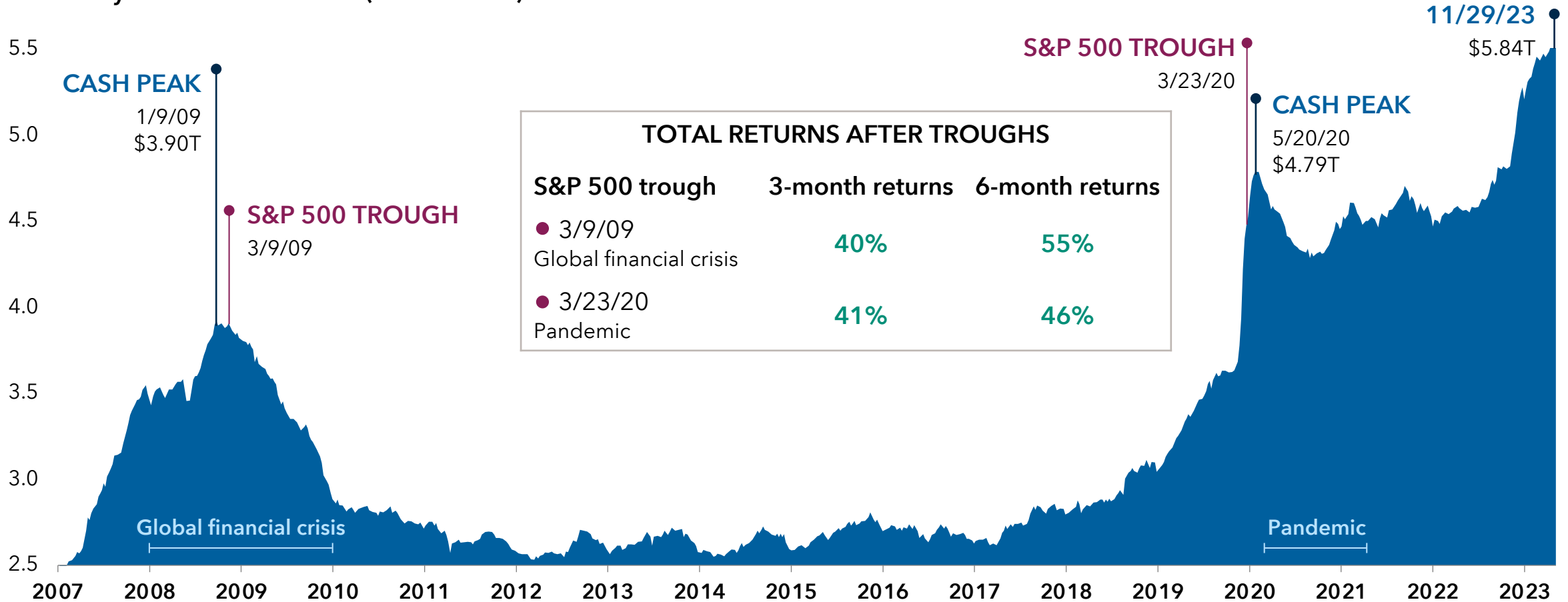
Tech and telecom  
Financial services  
Health care/pharma  
Legal/professional services  
Automotive and assembly

Source: Capital Group. TSMC refers to Taiwan Semiconductor Manufacturing Company. Companies listed are for illustrative purposes only. As of November 30, 2023.



# Mountains of cash on the sidelines can be a bullish signal

ICI Money Market Fund Assets (USD trillions)

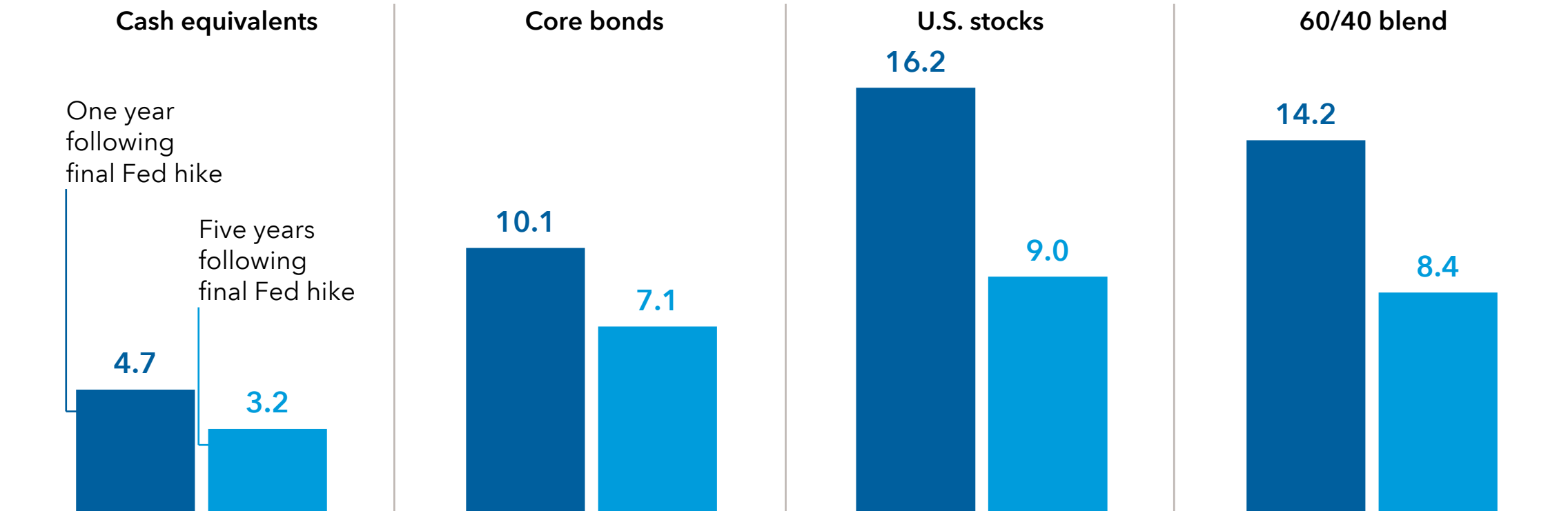


Sources: Capital Group, Investment Company Institute (ICI), Standard & Poor's. "Cash peak" refers to peak levels of assets held in U.S. money market funds as reported by the ICI. S&P troughs reflect the date of the lowest value in the S&P 500 Index before a subsequent recovery. You could lose money by investing in a money market fund. Although money market funds seek to preserve the value of your investment at \$1.00 per share, they cannot guarantee they will do so. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time. As of November 29, 2023. Past results are not predictive of results in future periods.

# A window of opportunity for moving cash off the sidelines?

After Fed hikes end, stocks and bonds have historically outpaced cash

Average annual total returns (%)

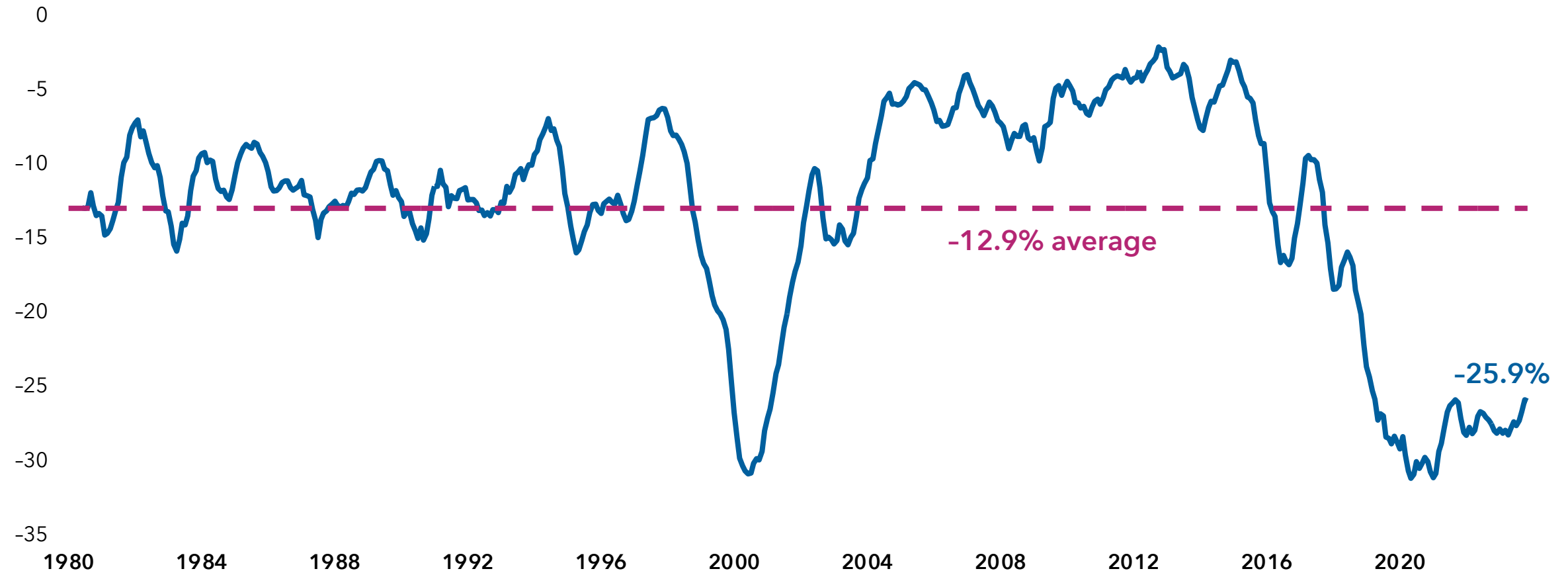


Sources: Capital Group, Morningstar. Chart represents the average returns across respective sector proxies in a forward extending window starting in the month of the last Fed hike in the last four transition cycles from 1995 to 2018 with data through June 30, 2023. Benchmarks represent U.S. 3-month T-bill (cash), Bloomberg U.S. Aggregate Index (core bonds), S&P 500 Index (U.S. stocks) and a blend of 60% of the S&P 500 Index and 40% of the Bloomberg U.S. Aggregate Index (60/40 blend). Past results are not predictive of results in future periods.



# Out-of-favor dividend payers poised to offer diversification, income?

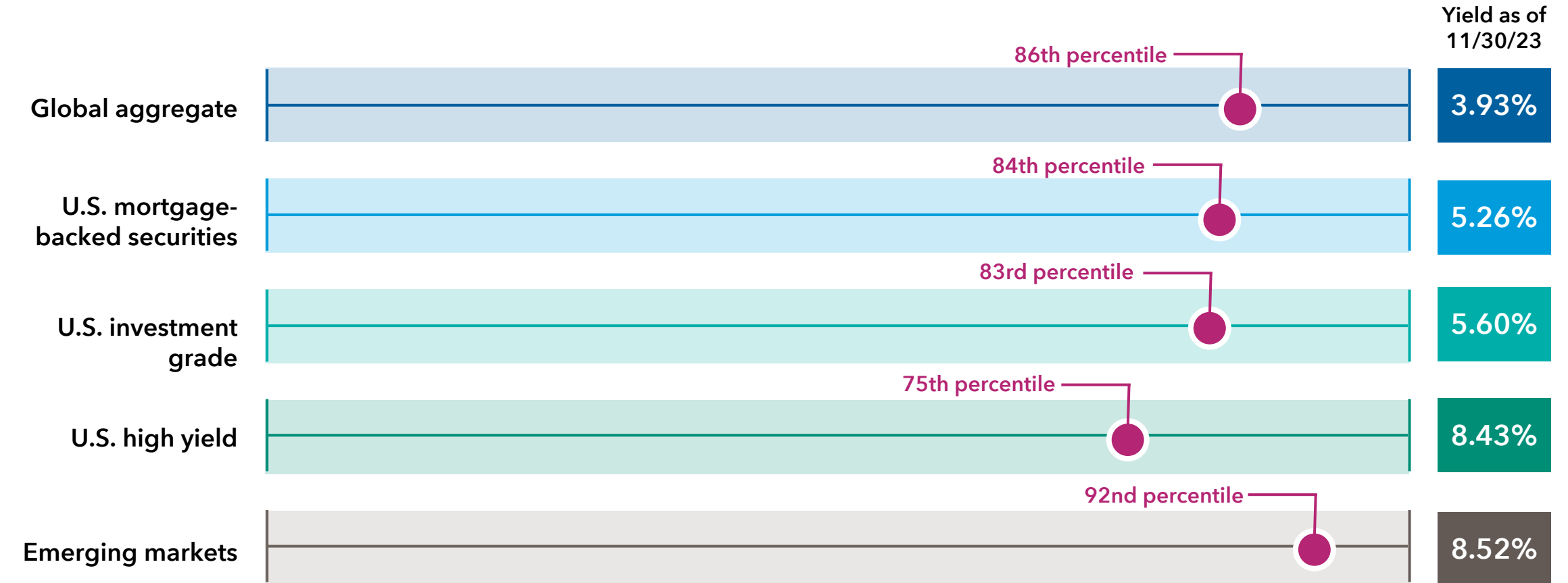
P/E of high dividend stocks vs. S&P 500 (%)



Sources: Capital Group, Goldman Sachs. As of November 28, 2023. High dividend stocks refer to the cohort of stocks in the S&P 500 Index with the highest quintile dividend yield (sector-neutral) relative to the broad S&P 500 Index. Line represents smoothed six-month average. P/E ratio = price-to-earnings ratio. Past results are not predictive of results in future periods.

# Yields are near 20-year highs in many bond sectors

Latest yield, as a percent of 20-year range

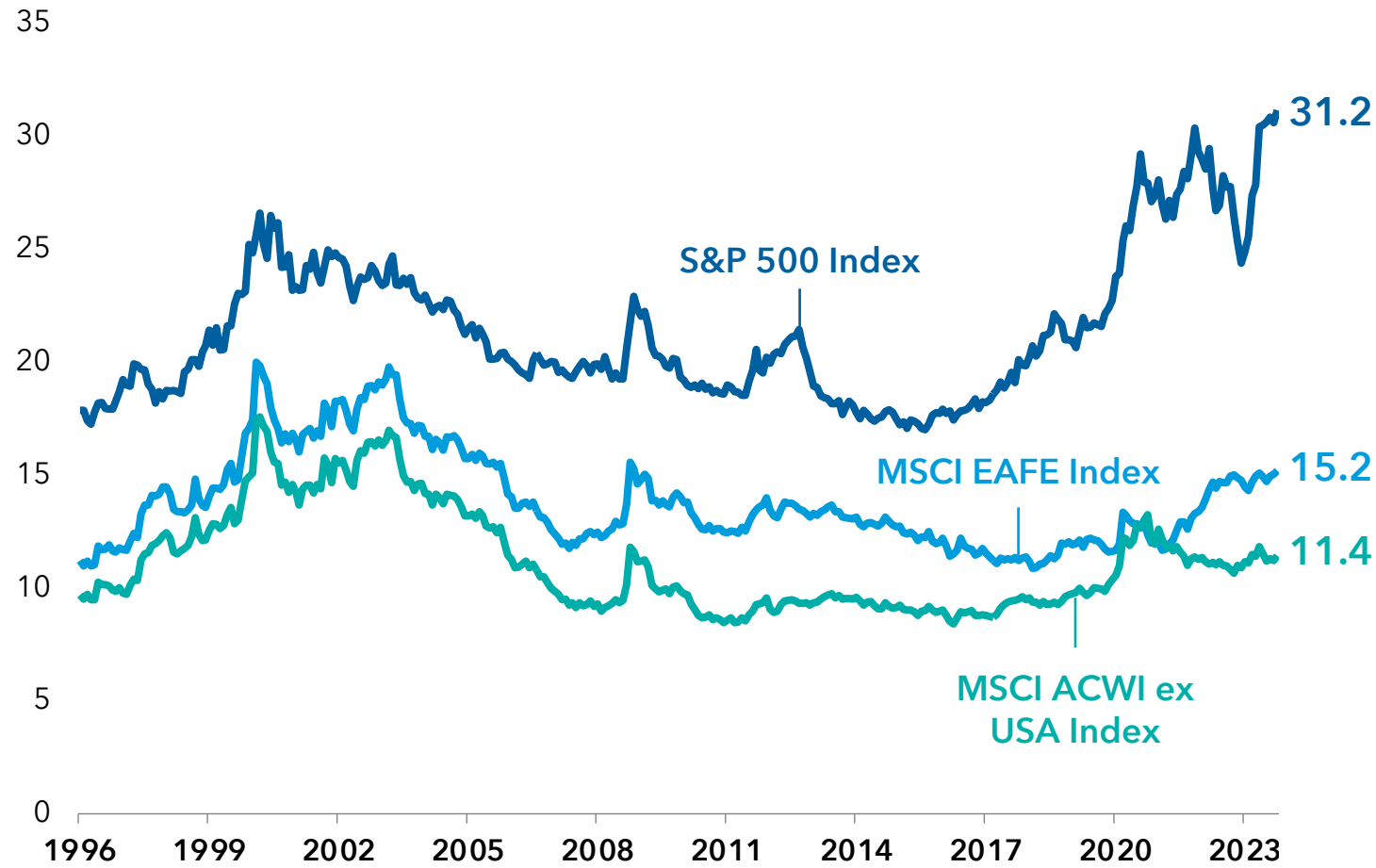


Sources: Capital Group, Bloomberg Index Services Ltd., J.P. Morgan. Indexes used are the Bloomberg Global Aggregate Index (global aggregate), Bloomberg U.S. MBS: Agency Fixed Rate MBS Index (U.S. mortgage-backed securities), Bloomberg U.S. Corporate Investment Grade Index (U.S. investment grade), Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index (U.S. high yield) and the J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified (emerging markets). As of November 30, 2023.



# Broad opportunities exist outside of top-heavy U.S. markets

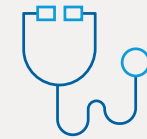
Percent of market cap in top 10 companies



## Examples of U.S. companies and their global counterparts



**Return to travel:**  
Boeing/Airbus



**Drug innovation:**  
Eli Lilly/Novo Nordisk






**Electrification:**  
Rockwell/Schneider







**Rising A/C demand**  
Carrier/Daikin Industries

Source: Capital Group, Morningstar. As of October 31, 2023. Past results are not predictive of results in future periods.

# Options for a 40% fixed income allocation

	Weight
 CORE <b>The Bond Fund of America<sup>®</sup></b>	20%
 CORE PLUS <b>American Funds<sup>®</sup> Strategic Bond Fund</b>	10%
 MULTISECTOR <b>American Funds<sup>®</sup> Multi-Sector Income Fund</b>	10%

-  Diversification from equities
-  Income
-  Inflation protection
-  Capital preservation

Source: Capital Group. The allocation approach is hypothetical and for illustrative purposes only. We have identified which funds contribute to a particular role of fixed income based on the fund's investment strategies. The extent to which a fund contributes to a specified role depends on the portfolio's composition at any point in time. Allocations do not reflect an actual portfolio. Financial professionals should tailor client recommendations to their individual circumstances.

## Montauk Point Lighthouse



New York

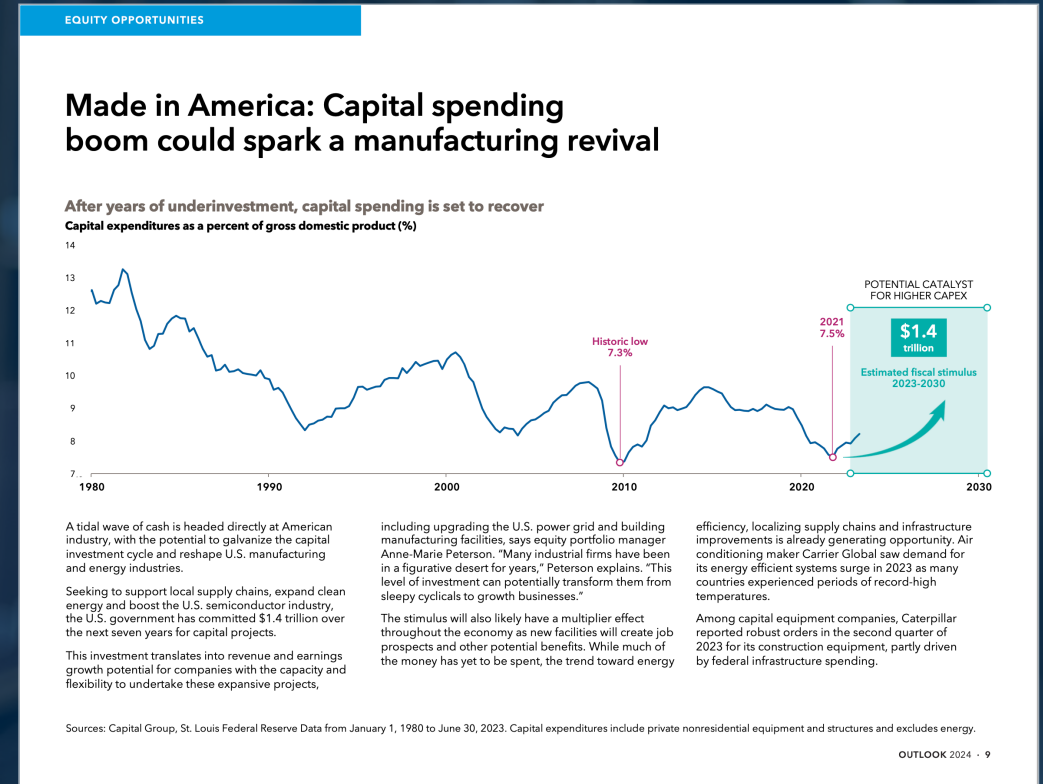


Montauk Point  
Lighthouse,  
Long Island,  
New York,  
United States

United States



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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 the prospectus. 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 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. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds. 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. The use of derivatives involves a variety of risks, which may be different from, or greater than, the risks associated with investing in traditional cash securities, such as stocks and bonds.

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. If agency ratings differ, a security will be considered to have received the highest of those ratings, consistent with applicable investment policies. Securities in the Unrated category have not been rated by a rating agency; however, the investment adviser performs its own credit analysis and assigns comparable ratings that are used for compliance with applicable investment policies.

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

**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 specific maturity, liquidity and quality requirements.

**Bloomberg Global Aggregate Index** represents the global 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. Mortgage Backed Securities Index** is a market value-weighted index that covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC).

# Important information (continued)

**JP Morgan Emerging Markets 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.

**MSCI All Country World Index (ACWI)** is a free float-adjusted market capitalization-weighted index designed to measure equity market results in the global developed and emerging markets, consisting of more than 40 developed and emerging market country indexes.

**MSCI All Country World ex USA Index** is a free float-adjusted market capitalization-weighted index 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.

**MSCI EAFE (Europe, Australasia, Far East) Index** is a free float-adjusted market capitalization-weighted index designed to measure developed equity market results, excluding the United States and Canada.

**MSCI Emerging Markets Index** captures large- and mid-cap representation across 27 emerging markets (EM) countries.

**MSCI Europe Index** is designed to measure developed equity market results across 15 developed countries in Europe.

**MSCI Japan Index** is a free float-adjusted market capitalization-weighted index designed to measure the equity market results of Japan.

**Philadelphia Stock Exchange Semiconductor Index** is a Philadelphia Stock Exchange capitalization-weighted index composed of the 30 largest U.S. companies primarily involved in the design, distribution, manufacture and sale of semiconductors.

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

**S&P CoreLogic Case-Shiller 20-City Composite Home Price Index** seeks to measure the value of residential real estate in 20 major U.S. metropolitan areas.

**60% S&P 500 Index/40%Bloomberg U.S. Aggregate Index** blends the S&P 500 with the Bloomberg U.S. Aggregate Index by weighting their cumulative total returns at 60% and 40%, respectively. This assumes the blend is rebalanced monthly.

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