Portfolio construction
Why dividends matter more than you think

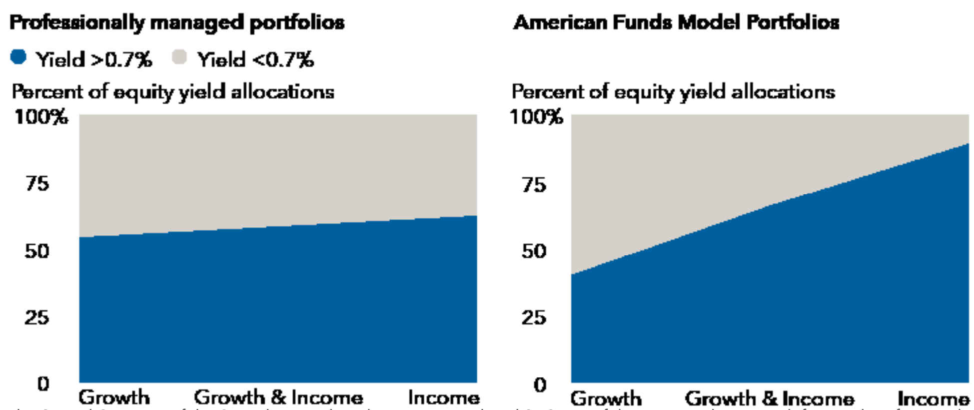
Does your portfolio have enough dividend exposure?

Companies that offer higher dividends and more sustainable dividend growth can provide significant downside protection and help guard against inflation. Yet the Capital Group Portfolio Consulting and Analytics team found that most portfolios showed a minimal increase in higher dividend payers as portfolios became more conservative. Here's why we think it's time to take a close look at dividends.

Most income-focused portfolios managed by financial professionals have limited exposure to dividend payers based on our analysis. We suggest rethinking this and recommend increasing dividend allocations for certain client goals. For example, American Funds Model Portfolios have significantly higher allocations to substantial dividend payers in growth & income and income portfolios.

Limited exposure to dividend payers for income goals versus American Funds® Model Portfolios

Equity yield exposure



The Capital Group Portfolio Consulting and Analytics team analyzed 2,127 portfolios in consultation with financial professionals from January 1, 2021 to December 31, 2021. During these consultations, portfolio objectives were discussed and aligned to the American Funds Model Portfolio objectives. The American Funds Model Portfolios include a suite of models with objectives ranging from growth and growth & income to income and preservation.

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. For an investment offered through a group annuity, some of this information may differ and can be obtained from a financial professional.

If used after March 31, 2022, this material must be accompanied by the most recent American Funds quarterly statistical update.

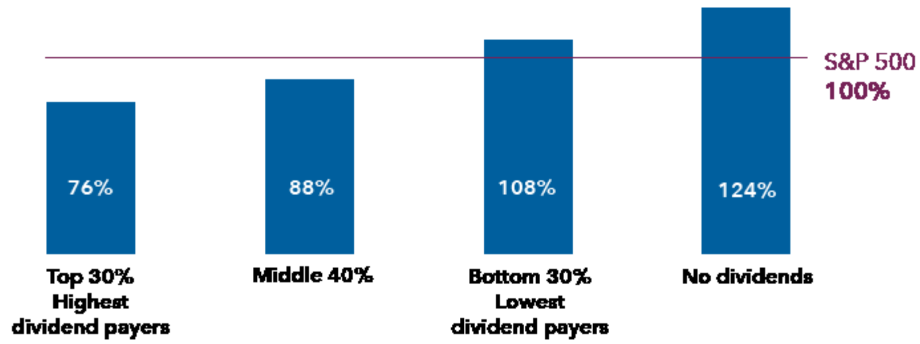
American Funds Distributors, Inc., member FINRA.

This content, developed by Capital Group, home of American Funds, should not be used as a primary basis for investment decisions and is not intended to serve as impartial investment or fiduciary advice.

High-dividend paying stocks have historically offered more downside protection compared to low and non-dividend payers, according to data from Fama and French. Higher dividend payers have shown more attractive 30-year downside capture, losing significantly less than the S&P 500 Index than lower dividend payers. In general, dividends can be a sign of stability for companies, with many firms recently reinstating dividends after dramatically cutting them in 2020.

Potential for better downside capture

30-year downside capture* across dividend buckets



Data based on annual returns from 12/31/1991–11/30/21 for a set of 3,358 companies as of 11/30/21. This universe of companies has varied during the 30-year period. Sources: Dartmouth – Fama/French, Morningstar

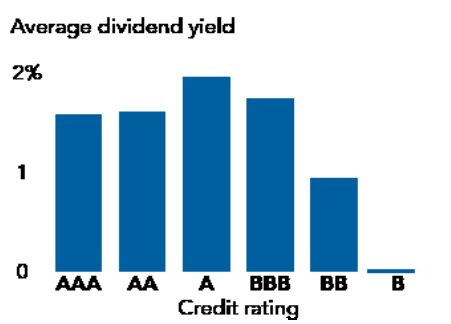
*Downside capture ratio measures how a fund fared relative to the index during market declines. A downside capture ratio less than a 100 indicates that a fund lost less than the index for a given period; a ratio greater than 100 indicates the fund lost more than the index.

Using dividends as a source of income has the the potential to improve the credit quality of your investments. While higher-yielding fixed income investments typically take on greater credit risk, equity investments tend to see increased yields from more highly rated companies. We take a bottom-up, fundamental approach to evaluating the quality of dividend-paying companies and the sustainability of dividend yields.

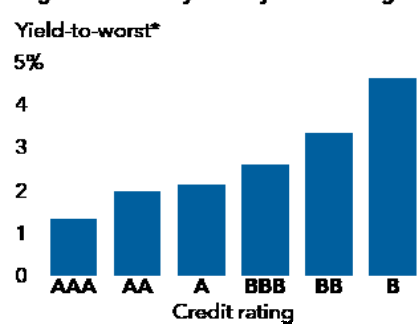
Quality matters

Equity and fixed income yields based on credit quality

S&P 500 Index dividend yield by credit rating



Bloomberg U.S. Credit and U.S. Corporate High Yield Index yields by credit rating*



Data as of 12/31/21. Sources: Bloomberg/Factset.

* Yield-to-worst is the lowest yield that can be realized by either calling or putting on one of the available call/put dates, or holding a bond to maturity. Yield-to-worst figures are a weighted average of the yield-to-worst for each credit grouping. The credit groupings are based on U.S. corporate bonds within the Bloomberg U.S. Credit and the Bloomberg U.S. Corporate High Yield indexes. 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.

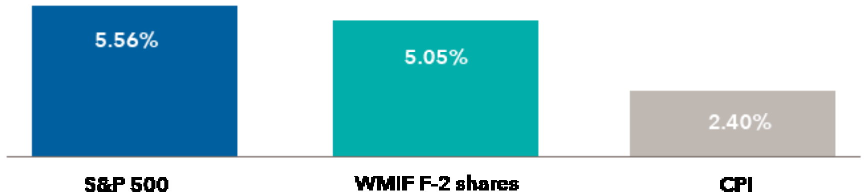
> "Capital Group takes a nuanced approach to asset allocation with a recharacterization of both equity and fixed income securities as portfolio objectives change. Shifting to higher dividend payers can have a significant impact on your portfolio, offering potential for better downside capture, increased inflation protection and diversified income sources."
>
> –MIA YAMMINE
> Portfolio consultant

Figures shown are past results for Class F-2 shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. For current information and month-end results, visit capitalgroup.com.

Dividend income growth may help protect against rising inflation. Over the last 30 years, the dividend growth rates of both the S&P 500 and Washington Mutual Investors Fund (WMIF) – a high-quality dividend focused strategy – have significantly outpaced the Consumer Price Index (CPI). During the period of high, rising inflation from 1965–1982, CPI averaged 6.6% per year; WMIF averaged 8.7% annual dividend growth while the S&P 500 averaged 5.9%. Dividend growth can signal management's commitment to rigorous capital allocation.

Inflation protection over the long run

30-year average annual dividend growth for the S&P 500 Index and Washington Mutual Investors Fund[SM] (WMIF) versus the Consumer Price Index (CPI)



Data from 12/31/91 through 12/31/21. Source: Capital Group

Higher quality fixed income sectors may not necessarily provide sufficient income as yields have trended lower over time. Dividends can significantly improve the yield profile of a portfolio. Using the equity sleeve to accomplish part of a portfolio's income goal leaves room for fixed income to meet other objectives. For example, in an income distribution portfolio, fixed income can also contribute to capital preservation and inflation protection goals, as well as income.

Equity income opportunities amid lower bond yields

S&P 500 dividend yield vs. MSCI All Country World Index (ACWI) vs. 10-year U.S. Treasury yield (2002–2021)

Data as of December 31, 2021. Source: Factset

> "Because [dividend payers] are committed to setting aside some proportion of their earnings for investors, they tend to have better discipline and may be less likely to make some ill-advised acquisition."
>
> –JOYCE GORDON
> Portfolio Manager

Challenge

Insufficient dividend exposure to meet clients' income and preservation goals.

Solution

Focus on dividend-oriented funds and models

Consider dividend-focused funds like Washington Mutual Investors Fund (WMIF) and the Capital Group U.S. Income and Growth℠ SMA, as well as model portfolios that allocate to higher dividend payers for specific goals.

Figures shown are past results for Class F-2 shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. For current information and month-end results, visit capitalgroup.com.

WHAT THIS MEANS

Increase dividend exposure to pursue different goals, such as diversified income, downside capture and inflation protection. Consider funds like Washington Mutual Investors Fund and models that allocate to higher dividend payers as portfolios become more conservative.

Spotlight on Washington Mutual Investors Fund

Substantial dividend growth

WMIF has seen dividend income increases in 66 out of 68 years.*

Yield[1]

- Distribution rate: 1.60% as of February 28, 2022
- SEC yield: 1.50% as of February 28, 2022

The Capital Group U.S. Income and Growth SMA has a similar strategy to WMIF.

Attractive downside capture

- 5-year: 93%
- 10-year: 91%
- 30-year: 79%

Data as of December 31, 2021. Sources: Factset, Morningstar. Twelve-month distribution yield is the sum of a fund's total trailing 12-month interest and dividend payments divided by the last month's ending share price (NAV) plus any capital gains distributed over the same period.

*Based on hypothetical initial investment of $10,000 made on December 31, 1952. Washington Mutual Investors Fund was launched on July 31, 1952. The fund's annual dividend income (excluding special dividends) has increased 66 out of 68 years through 2021.

Underlying fund investment results for Class F-2 shares as of December 31, 2021

		Average annual total returns (%)[3]						
Fund name	Inception date	1 year	3 years	5 years	10 years	Lifetime	30-day SEC yield[1] (%) gross as of 2/28/22	Expense ratio[2] (%) gross
Washington Mutual Investors Fund℠	7/31/1952	28.76	20.47	15.41	14.47	12.26	1.50	0.38

This material must be preceded or accompanied by a prospectus or summary prospectus for the fund(s) being offered.

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.

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. You may not redistribute the MSCI data or use it as a basis for other indices or investment products.

Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg or Bloomberg's licensors own all proprietary rights in the Bloomberg Indices. Neither Bloomberg nor Bloomberg's licensors approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

Each S&P Index ("Index") shown is a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by Capital Group. Copyright © 2022 S&P Dow Jones Indices LLC, a division of S&P Global, and/or its affiliates. All rights reserved. Redistribution or reproduction in whole or in part is prohibited without written permission of S&P Dow Jones Indices LLC.

Statements attributed to an individual represent the opinions of that individual as of the date published and do not necessarily reflect the opinions of Capital Group or its affiliates. This information is intended to highlight issues and should not be considered advice, an endorsement or a recommendation.

All Capital Group trademarks mentioned are owned by The Capital Group Companies, Inc., an affiliated company or fund. All other company and product names mentioned are the property of their respective companies.

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.

Investment results assume all distributions are reinvested and reflect applicable fees and expenses.

When applicable, results reflect fee waivers and/or expense reimbursements, without which they would have been lower and net expenses higher. This information is provided in detail in the shareholder reports. For more information on fee waivers and expense reimbursements, visit capitalgroup.com.

[1]The SEC yield reflects the rate at which the fund is earning income on its current portfolio of securities while the distribution rate reflects the fund's past dividends paid to shareholders. Accordingly, the fund's SEC yield and distribution rate may differ.

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

[3]Certain share classes were offered after the inception dates of some funds. Results for these shares prior to the dates of first sale are hypothetical based on the original share class results without a sales charge, adjusted for typical estimated expenses.

- Class F-2 were first offered on 8/1/2008.

Results for certain funds with an inception date after the share class inception also include hypothetical returns because those funds' shares sold after the funds' date of first offering. View dates of first sale and specific expense adjustment information at capitalgroup.com[4]Returns for less than one year are not annualized, but calculated as cumulative total returns.

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.

American Funds Distributors, Inc., member FINRA.

This content, developed by Capital Group, home of American Funds, should not be used as a primary basis for investment decisions and is not intended to serve as impartial investment or fiduciary advice.

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.

The Bloomberg U.S. Credit Index is a market-value weighted index that tracks the total return results of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity and quality requirements. To qualify, bonds must be SEC-registered and must be an investment grade security.

The Bloomberg U.S. Corporate High Yield Index covers the universe of fixed-rate and non-investment-grade debt.

 © 2022 Capital Group. All rights reserved.