

Quarter highlights

- Interest rate positioning detracted overall. While a short duration position helped, curve positioning hurt. In a quarter where the yield curve inverted further, the managers were positioned for the curve to steep.
- Sector allocation was also a slight detractor on a relative basis.
- Security selection was the largest contributor to relative returns, due to robust selection among mortgage-backed securities.

Market review

The U.S. bond market declined in the first quarter, as inflation remained persistent, leading investors to walk back their expectations for rate cuts from the Federal Reserve (Fed). The Fed held rates steady and maintained its projection of three possible rate cuts in 2024. Against this backdrop, most major U.S. fixed income sectors declined. High-yield bonds were the only outlier, returning 1.5%, according to the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index. The Bloomberg U.S. Aggregate Index fell by 0.8%.

Gross domestic product (GDP) rose 3.4% in the fourth quarter of 2023, a sixth consecutive quarterly GDP gain. Consumer spending - which makes up around two-thirds of the U.S. economy - rose through February 2024, while inflation remained relatively flat and unemployment grew slightly. The Consumer Price Index rose an annualized 3.2% in February, down from 3.4% at the end of 2023, but up 0.1% from January 2024. Core inflation, which excludes food and energy, fell to 3.8% from 3.9% at year-end.

U.S. Treasury yields rose across the curve in the first quarter. The 10-year Treasury ended the quarter at 4.20%, up by 32 basis points (bps) from the fourth quarter of 2023, while the 2-year Treasury rose 37 bps to end the quarter at 4.62%, slightly increasing the inversion of the curve. With these moves, the Bloomberg U.S. Treasury Index declined approximately 1.0% for the quarter, and the Bloomberg U.S. Treasury Inflation-Protected Securities Index fell 0.1%.

Corporate high-yield bonds were an area of strength for U.S. fixed income as fundamentals and technicals were largely supportive. High-yield bonds returned 1.5%. Meanwhile, the Bloomberg U.S. Corporate Investment Grade Index was relatively flat, falling by 0.4%, while investment-grade and high-yield spreads narrowed by 9 bps and 24 bps, respectively. Issuance was higher than average for recent quarters in both markets. Elsewhere, municipal bonds and securitized debt also declined. The Bloomberg U.S. Municipal Bond Index returned -0.4%, and the Bloomberg U.S. Mortgage Backed Securities Index returned -1.0%.

Portfolio review

On balance, interest rate positioning detracted. While the fund's short duration position compared with the index was helpful during a quarter when bond yields moved higher, curve positioning had a negative impact on relative results. The managers were positioned for the yield curve to steepen, with above-index holdings in the 2- and 5-year parts of the curve and below-index positions in 10-years-and-out maturities. This was a drag on results as the yield curve inverted further during the quarter, with shorter dated yields rising more than those on longer dated bonds.

Sector allocation was also a slight detractor on a relative basis. This was mainly due to a below-index exposure to nominal Treasuries, although a modest allocation to Treasury Inflation-Protected Securities and holdings of cash were beneficial.

Security selection was the largest contributor to relative returns, due to robust selection among mortgage-backed securities.

Long-term perspective

The fund invests primarily in debt obligations that are guaranteed or sponsored by the federal government. These include Treasury bonds and notes, the direct debt of federal agencies and a variety of agency mortgage-backed obligations. A fundamental component of the fund's investment strategy has been to maintain a high-quality portfolio to serve as a hedge against economic uncertainties that could impact other portions of fund investors' individual portfolios.

Figures shown are past results and are not predictive of results in future periods.

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

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Figures shown are past results 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.

Class F-2 share returns for periods ended 3/31/24

	Total returns (%)			Average annual total returns (%)			
	QTD	YTD	1 year	3 years	5 years	10 years	Fund lifetime (Since 10/17/85)
U.S. Government Securities Fund	-1.13	-1.13	-0.87	-2.40	0.52	1.31	5.01
Bloomberg U.S. Government/Mortgage-Backed Securities Index	-0.98	-0.98	0.61	-2.76	-0.17	1.09	–

Fund expense ratio: 0.36%[†]

[†] The expense ratio is as of the fund's prospectus available at the time of publication.

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.

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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 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. Investments in mortgage-related securities involve additional risks, such as prepayment risk, as more fully described in the prospectus. Fund shares of U.S. Government Securities Fund are not guaranteed by the U.S. government.

Portfolios are managed, so holdings will change. Certain fixed income and/or cash and equivalents holdings may be held through 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. Refer to capitalgroup.com for more information.

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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. Treasury Index includes public obligations of the U.S. Treasury, i.e. U.S. government bonds. Certain Treasury bills are excluded by a maturity constraint. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. **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. **Bloomberg U.S. Government/Mortgage-Backed Securities Index** is a market value-weighted index that covers fixed-rate, publicly placed, dollar-denominated obligations issued by the U.S. Treasury, U.S. government agencies, quasi-federal corporations, corporate or foreign debt guaranteed by the U.S. government, and the mortgage-backed pass-through securities of Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. **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.

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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. Widely used as a measure of inflation, the CPI is computed by the U.S. Department of Labor, Bureau of Labor Statistics. **Core inflation (Core CPI)** is a measure of price changes faced by urban consumers, excluding food and energy. Core CPI is computerized by the U.S. Department of Labor, Bureau of Labor Statistics. **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). **Bloomberg U.S. Municipal Bond Index** is a market-value-weighted index designed to represent the long-term investment-grade tax-exempt bond market. This index is unmanaged, and its results include reinvested distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

The market index is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index. There have been periods when the fund has lagged the index.

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