American Funds Mortgage Fund®

Class F-2 shares
Quarterly review
2Q 2024

CAPITAL GROUP® | AMERICAN FUNDS®

Quarter highlights

- Security selection among mortgage-backed securities helped lift relative returns over the quarter.
- Sector allocation was neutral overall.
- On balance, interest rate positioning detracted in a volatile quarter for rates. Curve positioning detracted, while duration positioning helped modestly.

Market review

In the second quarter, fixed income markets were generally positive despite higher yields as the Federal Reserve pushed back its expectations for rate cuts. Below-investment-grade (BB/Ba and below) debt was a notable exception, with both high-yield corporate bonds and municipals delivering the strongest results for the quarter. The Bloomberg U.S. Aggregate Index increased by 0.1%.

Gross domestic product rose 1.4% in its latest reading as of the first quarter of 2024, a seventh consecutive quarterly GDP gain. Inflation declined slightly, and unemployment rose marginally. The Consumer Price Index rose at an annualized 3.0% in June, down from 3.5% at the end of March 2024, and the lowest level in a year. Core inflation, which excludes food and energy, fell to 3.3% from 3.8% in March.

U.S. Treasury yields rose across the curve in the second quarter. The 10-year Treasury ended the quarter at 4.40%, up by 20 basis points (bps) from the first quarter of 2024, while the 2-year Treasury rose 14 bps to end the quarter at 4.76%, slightly softening the inversion of the yield curve. The Bloomberg U.S. Treasury Index increased 0.1% for the quarter, and the Bloomberg U.S. Treasury Inflation-Protected Securities Index grew 0.8%.

Corporate high-yield bonds were an area of strength for U.S. fixed income as fundamentals and technicals were largely supportive. The Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index returned 1.1% for the quarter. The Bloomberg U.S. Corporate Investment Grade Index did not fare as well, falling by 0.1%. High-yield spreads widened by 10 bps and investment-grade (BBB/Baa and above) spreads widened by 4 bps. Issuance was down slightly from the previous quarter in both markets. Elsewhere, municipal bonds and securitized debt also remained relatively flat for the quarter. The Bloomberg U.S. Mortgage Backed Securities Index returned 0.1%.

Portfolio review

Security selection among mortgage-backed securities helped lift relative returns over the quarter.

Sector allocation was neutral overall. While a non-benchmark holding of collateralized mortgage obligations helped, the fund's cash holdings weighed on overall returns.

On balance, interest rate positioning detracted in a volatile quarter for rates. Curve positioning detracted. The fund was positioned for the yield curve to steepen, with an overweight to shorter maturities against an underweight to longer ones. While the curve steepened at the end of the quarter, the extent was not enough to offset the drag in income potential associated with a steepening bias (when the curve is inverted).

In contrast, duration positioning helped modestly. The fund started the quarter with a neutral duration position compared with the index but moved longer duration as rates moved higher in April. This long duration stance helped the fund capture the downward movement in yields later in the quarter.

Long-term perspective

The fund aims to provide income and preserve capital by investing primarily in mortgage-related securities that are guaranteed or sponsored by the U.S. government. The portfolio managers seek to deliver higher returns than those available on U.S. Treasury bonds, through holding a diversified mix of issuers, maturities and yields. Backed by Capital Group's extensive research, the portfolio managers invest with an eye to both current market yields and future market conditions.

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

continued on back

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 6/30/24

	Total returns (%)			Average annual total returns (%)			
	QTD	YTD	1 year	3 years	5 years	10 years	Fund lifetime (Since 11/1/10)
American Funds Mortgage Fund	0.07	–1.14	1.82	–2.43	–0.03	1.16	1.58
Bloomberg U.S. Mortgage Backed Securities Index	0.07	–0.98	2.12	–2.92	–0.76	0.89	–

Fund expense ratio: 0.40%†

† 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.

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 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. Investments in mortgage-related securities involve additional risks, such as prepayment risk, as more fully described in the prospectus. 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.

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.

Class F-2 shares were first offered on August 1, 2008. Class F-2 share results prior to the date of first sale are hypothetical based on the original share class results without a sales charge, adjusted for typical estimated expenses. Refer to **capitalgroup.com** for more information on specific expense adjustments and the actual dates of first sale.

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.

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. 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. 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.

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.

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.

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.

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.

Capital Client Group, Inc.