Quarterly Outlook

Investment Insights

April 2015

The U.S. Remains the Brightest Spot in the Global Economy.

CAPITAL GROUP®

Multiple Perspectives. One Approach.℠

This quarterly outlook provides continuing insights on several of the themes that were the focus of our 2015 Outlook: Seek Global Growth and Sustainable Income. We hope this added perspective on topics like conditions in Europe, slowing growth in China, weak oil prices and the impact of a strengthening U.S. dollar proves valuable as you seek to keep clients apprised of market conditions and committed to their investing objectives. As always, our near-term views are balanced by our strong belief that investors should:

- Keep a long-term perspective
- Know what they own
- Understand that building portfolios based on country of domicile has its limits
- Recognize the value of advice

Global Growth

"I need my portfolio to grow but worry about world events. How do I get growth in the current environment?"

North America page 1

The U.S. is a bright spot

While declining oil prices and household debt burdens are contributing to economic sluggishness in Canada, the U.S. is enjoying accelerating growth, an improving employment picture and benign inflation – a favourable backdrop for continued investment. However, careful stock selection matters.

International page 2

It's about companies, not countries

Europe and Japan face muted growth prospects, but currency weakness and falling energy prices could provide an earnings tailwind for attractively valued export-oriented businesses.

Emerging Markets page 3

Growth slows, but the base broadens

Returns may have lagged the developed market, but demographic and economic trends together with attractive valuations argue for selective long-term investment.

Sustainable Income

"With stock and bond yields so low, how should investors think about income in today's market?"

Dividends

Yield holds appeal even if rates rise

The global dividend opportunity continues to broaden, and although conventional wisdom suggests rising rates are bad for dividend stocks, a closer look shows growers and payers faring well when rates tick up.

Interest Rates

U.S. interest rates diverge from the rest

While other developed country central banks, including Canada's, are still keeping interest rates low to stimulate their economies, the U.S. Federal Reserve is signaling a rate increase as the U.S. economy recovers ahead of its peers.

Bonds

Bond markets will likely face headwinds

Bond markets face a challenging road ahead. However, bonds can continue to provide needed diversification in uncertain times. With higher interest rates in the U.S. likely in the next few months, maintaining shorter duration and well-diversified bond portfolios may help.

Cover: Times Square, New York

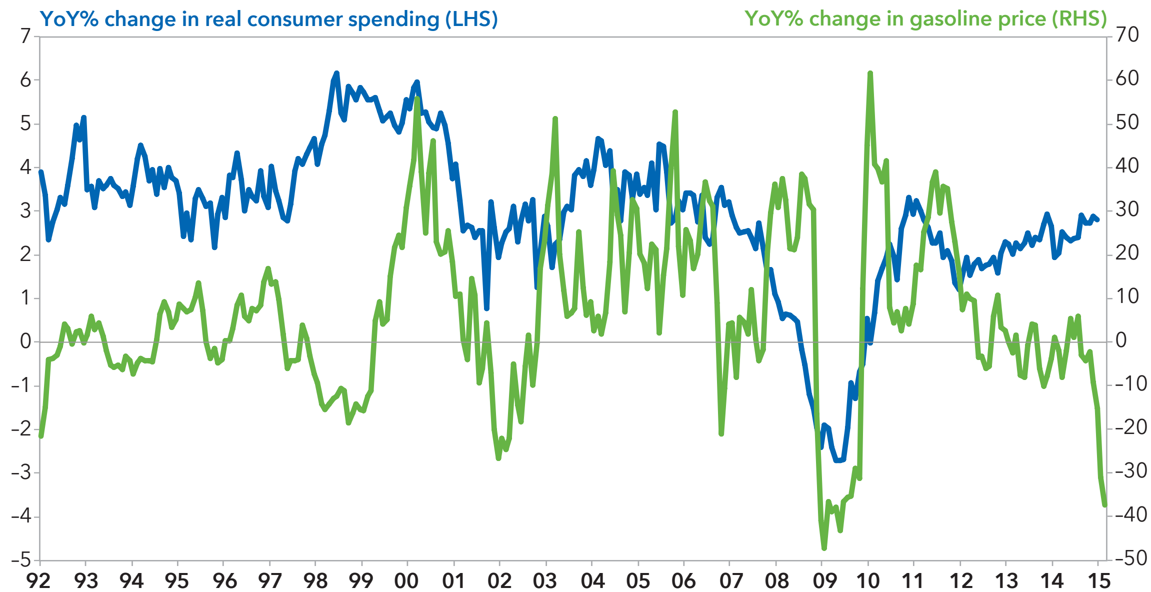
The U.S. Remains the Brightest Spot in the Global Economy

Oil price weakness and U.S. dollar strength only help the situation

“Where U.S. markets go will depend on earnings growth. We believe the best predictor of earnings growth is not the rate of economic growth, but the *change* in the rate of growth. Dollar strength and oil price declines are expected to accelerate economic activity in a range that history would imply can support moderate earnings growth. This environment suggests the potential for continued market growth.”

Darrell Spence, Economist

Real consumer spending benefits from lower gas prices, but the impact on areas of the market varies



Sources: Thomson Reuters Datastream; Capital Group. As of November 2014.

- The U.S. economy continues to fire on all cylinders. The job market continues to improve, which has supported a healthy growth rate in consumer income and a similar pace of growth in consumer spending. This is important because in the U.S., household spending accounts for 68% of the economy.
- The recent drop in gasoline prices essentially translates directly into an increase in consumers’ purchasing power. Our internal research indicates that the declines have the potential to add another 0.5%–1.0% to U.S. disposable income growth, which would push U.S. consumer spending up and help boost GDP growth going forward.
- Our research also shows that some areas of consumer discretionary tend to benefit when there is a drop in gasoline prices. Apparel, jewelry and recreation – and in particular gambling – tend to accelerate. Food – even meals out – appears less affected by movements in energy prices.

A broad array of businesses – from clothing companies including Nike, to Internet retailers such as Amazon – have exposure to the improving health of the U.S. consumer. Select firms in a variety of these areas may benefit as falling gasoline prices put more money in shoppers’ wallets.

Things Are Looking More Positive in Europe

Continued improvement in sentiment could produce meaningful sales growth for many companies

"I think there is a reasonable and compelling case to be made for investing in Europe. Things look bad in Greece and Ukraine. But if the situation in either place goes from total abject chaos to something a bit more stable, the valuation gap will narrow."

Andrew Suzman, Portfolio Manager

There is a potential operating leverage opportunity for European-domiciled businesses

Aerospace & Defense

	Boeing (U.S.)	Airbus (France)
EBIT Margin	8.8%	4.9%
Forward P/E	17.5x	16.9x
Yield	1.9%	2.0%

Hypermarkets

	Target (U.S.)	Carrefour (France)
EBIT Margin	6.6%	3.1%
Forward P/E	16.8x	16.5x
Yield	2.7%	2.2%

Home Improvement Retailing

	Home Depot (U.S.)	Kingfisher (U.K.)
EBIT Margin	12.6%	6.0%
Forward P/E	21.7x	15.7x
Yield	1.6%	2.7%

EBIT = Earnings before interest and taxes P/E = Price-to-earnings ratio

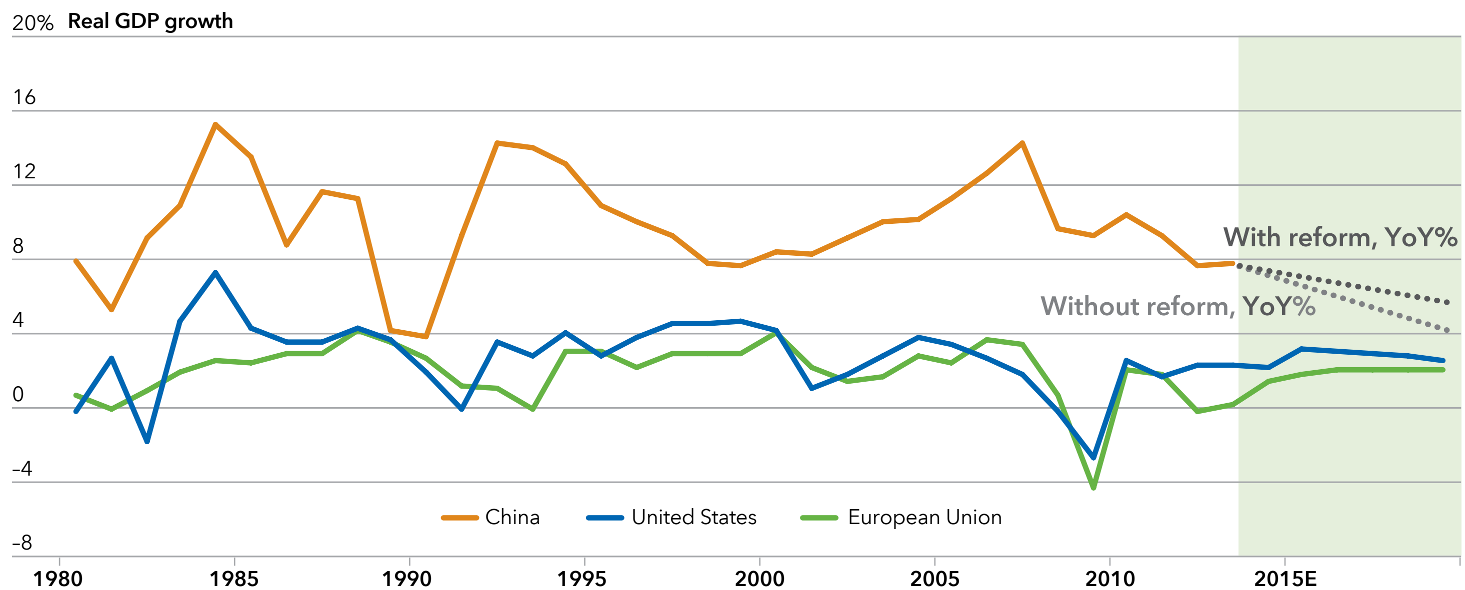
Sources: Thomson Reuters Datastream, FactSet, Bloomberg. As of February 28, 2015.

- Europe is showing signs of improvement, despite unaddressed structural issues. But many companies domiciled in the region continue to trade at a discount to U.S. peers due to lower operating margins (EBIT). Margins remain low because of some high fixed costs, including labor, and anemic revenue growth emanating from the region. But larger fixed costs mean that operating leverage tends to be higher in Europe than in other regions.
- EBIT margins of the STOXX Europe 600 Index have yet to surpass prior period peaks, while the EBIT margins of the S&P 500 continue to expand, reaching new highs in 2014. The difference in EBIT margins between the two indices is near its widest level in the last 10 years. There is also a disparity between the valuation of S&P 500 companies and those in the STOXX Europe 600 Index.
- Operating leverage can be powerful when an economic environment is improving and can result in rapid earnings estimate revisions, as well as multiple expansion. The European Central Bank's quantitative easing program, a pickup in business activity in the euro zone, or any positive news out of Greece or the Ukraine could produce meaningful sales growth for many companies that have large business exposure within the EU. As potential European sales growth occurs, investors could quickly close the valuation gap between European- and U.S.-domiciled companies.

China: Slower Growth Doesn't Mean Slow Growth

It's the "new normal"… and now economic reforms are essential

Future growth will depend on the government enacting difficult and challenging reforms



Source: International Monetary Fund, Capital Group.
Shaded area of the chart represents estimates.

- After three decades of tremendous expansion, China is entering into a period of more "normal" economic growth. But this slowdown needs to be kept in perspective: China is expected to continue to have stronger growth than the average Organisation for Economic Co-operation and Development (OECD) country.
- Future growth in the country will be largely dependent on the execution of reforms aimed at reducing investment and boosting services, which will allow China to have a smooth deleveraging cycle over coming years. Accelerated credit growth, considered a major threat to the economy in 2014, has showed signs of slowing, as has the growth in the shadow banking sector.
- Throughout 2015 we should begin to see more substantial reform delivery, especially in state-owned enterprises and in local finances. Anti-corruption measures are also likely to remain in place, which could continue to be a headwind to branded luxury-goods makers and casino operators.

Despite a slowdown in high-end spending, mass market consumption could continue to support overall growth. European and Japanese automakers and Chinese Internet firms could benefit from the evolving buying habits of consumers.

Quarterly Outlook: Global Growth and Sustainable Income

	North America	International	Emerging Markets	Bonds
Headwinds	• Consumers are no longer driving the Canadian economy, but businesses haven't picked up the slack • Canadian and U.S. stocks appear to be fairly valued • U.S. equities have had a long run without a correction • Low oil and gas prices eat away at margins for energy producers	• Structural underemployment • Slowing emerging markets demand • Political opposition to moral hazard • Deflation in Europe could impact asset prices	• Global credit cycle/interest-rate normalization and possible currency weakness • Geopolitical tensions, country-specific challenges may lead to volatile asset flows	• U.S. interest rates are likely headed higher in 2015 • U.S. Federal Reserve faces challenge of managing expectations • Canadian interest rates are linked to the outlook for oil prices • Valuations are high for most bonds • Bond fund outflows could further hurt prices
Tailwinds	• The U.S. economy is recovering well – employment, consumption, lending, and investment are all expanding • U.S. consumers and government have deleveraged their balance sheets • A weak Canadian dollar may help domestic exporters • Lower energy prices have boosted consumer purchasing power	• Political will to find a solution to sluggish economic growth • Currency weakness helping exporters • Industrial production and other leading indicators are starting to pick up in Europe	• Secular growth drivers remain in place • Political change and regulatory reform should bolster investor confidence in certain markets • Fiscal and trade imbalances are improving • Companies increasingly provide stable returns through dividends	• Interest rates relatively low in developed markets for now • Geopolitical unrest may spur flows into safe-haven assets • Rising demand for bonds from pension funds
Key takeaways	**U.S. and Canadian equities have room to rise, but economic headwinds and fewer mispriced opportunities put stock selection at a premium.**	**A weak economy does not necessarily mean weak companies.**	**Don't let China's slowing growth distract from the compelling valuations and fundamentals among emerging markets stocks.**	**Expect a more challenging and volatile bond market in 2015, but remember the important risk-dampening role that bonds can play in a diversified portfolio.**
Capital Group funds FundSERV codes	**Capital Group U.S. Equity Fund^{SM} (Canada)** A – CIF 847; F – CIF 827 **Capital Group Canadian Focused Equity Fund^{SM} (Canada)** A – CIF 849; F – CIF 829	**Capital Group Global Equity Fund^{SM} (Canada)** A – CIF 843; F – CIF 823 **Capital Group International Equity Fund^{SM} (Canada)** A – CIF 846; F – CIF 826	**Capital Group Emerging Markets Total Opportunities^{SM} Fund (Canada)** A – CIF 842; F – CIF 822	**Capital Group Canadian Core Plus Fixed Income Fund^{SM} (Canada)** A – CIF 841; F – CIF 821

The Capital Advantage

Since 1931, Capital Group has been singularly focused on delivering superior, consistent results for long-term investors using high-conviction portfolios, rigorous research and individual accountability.

Aligned with investor success

We base our decisions on a long-term perspective, which we believe aligns our goals with the interests of our clients. Our portfolio managers average 27 years of investment experience, including 22 years at our company, reflecting a career commitment to our long-term approach.[1]

The Capital System℠

Our investment process, The Capital System, combines individual accountability with teamwork. Each fund is divided into portions that are managed independently by investment professionals with diverse backgrounds, ages and investment approaches. An extensive global research effort is the backbone of our system.

Built to last

As a private firm with an independent charter and robust balance sheet, we invest in improving our capabilities through good markets and bad. With one of the highest retention rates in the industry,[2] we have some of the most experienced investment professionals, a deep bench and a commitment to sustaining our investment process over generations.

[1] Portfolio manager experience as of December 31, 2014.

[2] Source: Morningstar, for the American Funds, as of September 2012. American Funds are not available in Canada.