2015 Outlook

Investment Insights

January 2015

Seek Global Growth and Sustainable Income.

AMERICAN FUNDS®

From Capital Group

Multiple Perspectives. One Approach.®

A Near-Term View Can Complement a Long-Term Perspective

Geopolitical unrest, instability in Russia, rising rates, plunging oil prices, a mixed growth picture, the threat of Ebola: the list of headwinds around the world is long as we end 2014 and enter the new year. Yet 2015 will surely present meaningful opportunity for investors in need of growth and sustainable income.

Our *2015 Outlook* offers an overview of the global economy, capital markets and select asset classes. For investors, the economic and market climate bear heavily on investment decisions. That certainly holds true for us at Capital. That said, we take care to place today's conditions in a longer term context and we believe investors should:

Keep a long-term orientation

Rather than reacting to headlines, we pursue a long-term approach to investing, seeking to stay invested through full business and market cycles. To that end, investment professionals' compensation is closely tied to results over four- and eight-year time periods.

Know what you own

We believe that in 2015 the ability to be selective about which securities to own and which to avoid will be crucial. Fundamental analysis and a worldwide research organization facilitate that selectivity and enable us to help investors pursue their objectives.

Understand that domicile has its limits

Evaluating economies and markets geographically is useful. But rather than focusing simply on where a company is headquartered, we believe it is also important to look closely at where it operates and receives its revenue.

Recognize the value of advice

Our funds and strategies are built around common investor objectives such as capital preservation and current income. We also offer our funds through advisors because we believe those who receive guidance achieve better outcomes.

2015 Outlook: Pursue Global Growth and Sustainable Income

As global recovery progresses, opportunity and risk vary across the investment landscape

Seek Global Growth

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

U.S.

page 2

Solid growth, but expect volatility

Accelerating growth, an improving employment picture and benign inflation provide a favorable backdrop for continued investment. But after five years of solid gains, investors should temper expectations.

International

page 4

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 6

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.

Pursue Sustainable Income

"I rely on my investments to produce income but low stock and bond yields present a big challenge. What's the right approach to income generation in today's market?"

Dividends

page 8

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.

Bonds

page 10

Interest rates likely to grind higher

With the Fed signaling a rate increase, the bond market faces a challenging road ahead. But bonds can continue to provide needed diversification in uncertain times.

Munis

page 11

Tax-exempt yields offer relative value

Even if rates rise, the vast credit market should still be a source of compelling income and capital preservation opportunities for selective investors.

U.S. Stocks May Still Represent Value for Selective Investors

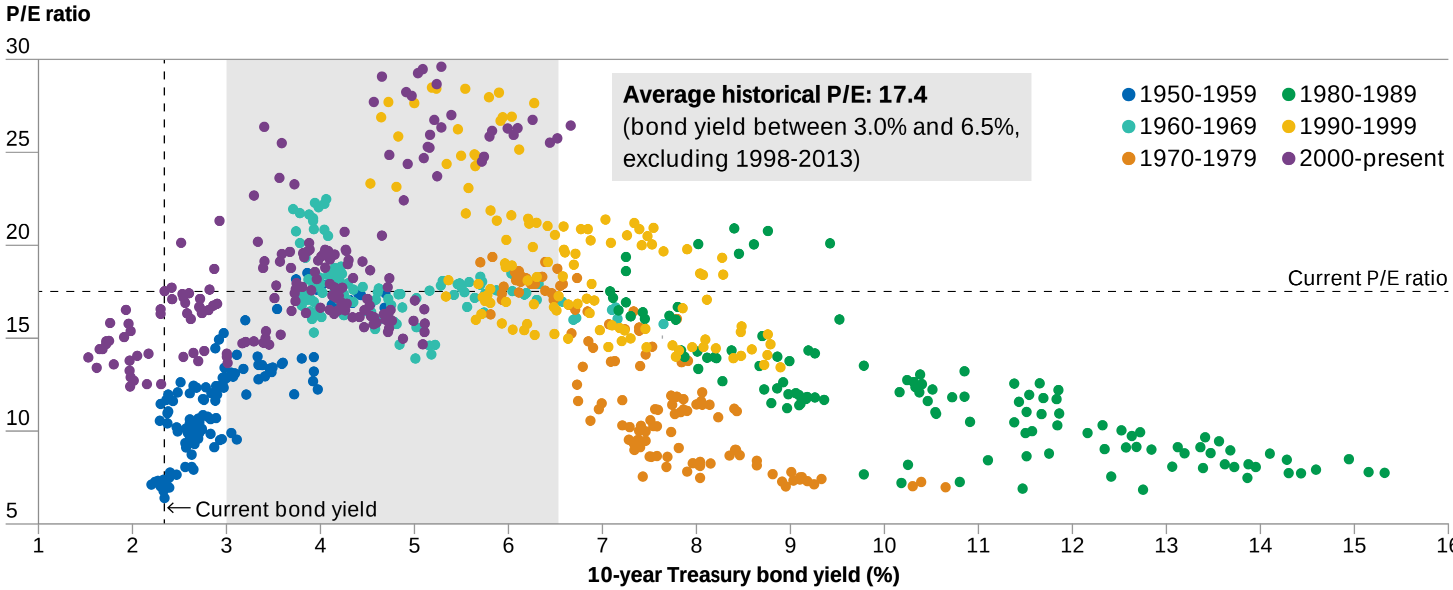
After years of strong gains, equity valuations are generally in line with long-term averages

"The market upcycle has gone on for a long time without a significant correction. But the U.S. economy continues to improve and corporate earnings have accelerated a bit. As a result, it really comes down to company fundamentals."

Chris Buchbinder, Portfolio Manager

Interest rates ranging between 3% and 6.5% have supported higher average S&P 500 valuations

(1950–2014)



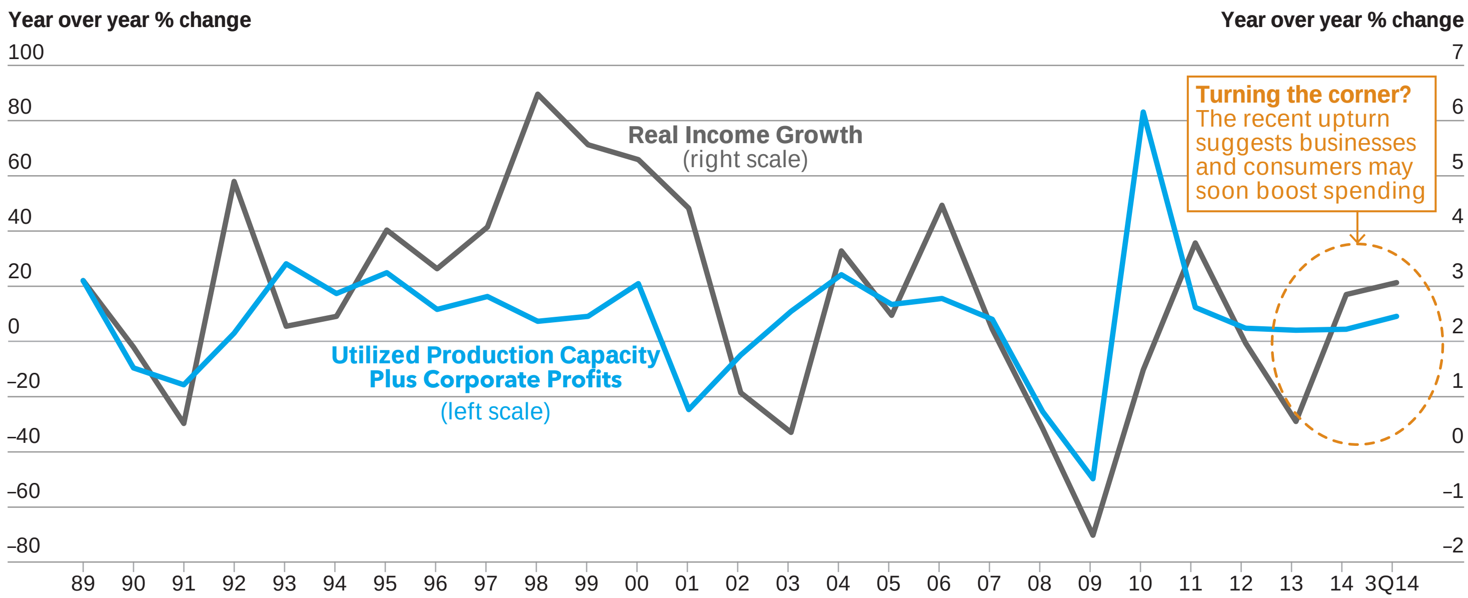
Sources: Standard & Poor's, Federal Reserve, as of November 30, 2014. Data from published sources calculated internally by Capital Group. Average price-to-earnings ratios calculated monthly using trailing four quarters of operating earnings per share.

- After five years of solid gains, U.S. equities appear to be fairly valued. As of November 30, 2014, the trailing price-to-earnings ratio for the S&P 500 was 17.5, slightly above the long-term average for the index.
- However, as you can see in the chart, periods when the 10-year Treasury yield ranged between 3% and 6.5% have tended to support higher valuations.
- Recently the 10-year Treasury yield was 2.3%, partly as a result of quantitative easing by the Federal Reserve and aggressive stimulus programs in various markets abroad. Absent these policies, we believe rates would be in a range more supportive of higher valuations, given that the economy now appears to be growing well, but not exhibiting inflationary pressure.
- Of course, as rates start to normalize, not all companies prospects will be the same. Going forward, selective stock investing, driven by fundamental research, will be essential.

U.S. Consumers, Companies May Be Ready to Open Up Their Wallets

A pickup in spending could propel GDP growth higher

Underlying drivers of consumption and business spending have turned up



Sources: U.S. Bureau of Economic Analysis and Federal Reserve. Real income growth is wages/salaries, other labor income, proprietors' income and transfer payments minus tax payments for social insurance.

- There are signs that both personal spending and business investment may be set to pick up speed, developments that could bolster corporate earnings.
- The primary driver of consumer spending is real, or inflation adjusted, income growth. With employment increasing and wage growth starting to accelerate, income is now growing over 3.0% in real terms, as you can see in the chart. If inflation remains muted, real income growth could accelerate further, which could provide the impetus for stronger consumer spending growth.
- Historically, business investment has been driven by a combination of profit growth and rising capacity utilization, the rate at which the economy is using its full production capacity.
- After spiking and significantly dropping off at the start of the recent recovery, the combined growth rate of company profits and capacity utilization has begun to turn up, suggesting businesses may soon boost investment in equipment and software.

Areas of the market where earnings growth could drive multiple expansion and bolster stock prices over the long term include consumer discretionary companies and the pharmaceutical and biotechnology fields. Netflix, a leading subscription video-on-demand service, has seen its subscriber base rise in recent quarters. Biotechnology companies like Gilead Sciences have invested heavily in research and development, leading to new therapies and expanded product pipelines.

Hopes for Economic Growth Deflate in Europe

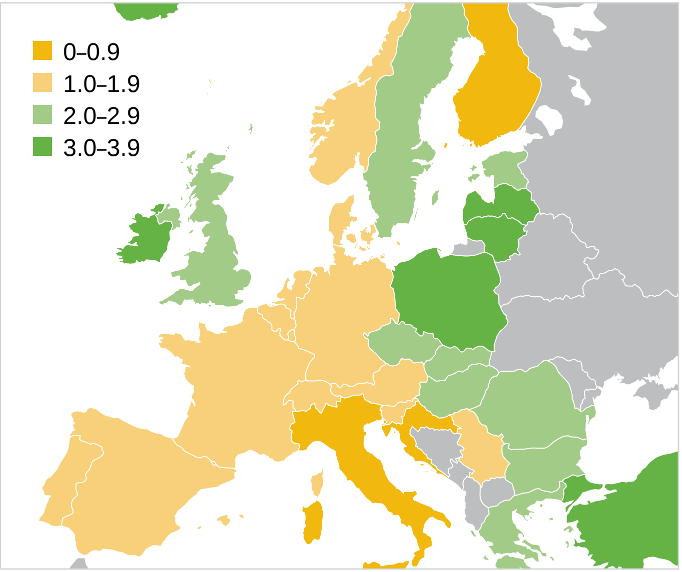
But exporters are well-positioned to import revenue and profits

"I think the valuations in Europe are reasonably attractive. On top of that, a weak euro is a tailwind for exporters. Overseas revenue for European businesses is nearly two-thirds of the total revenue in Europe, so a depreciating euro should support earnings and add to profitability."

Mark Denning, Portfolio Manager

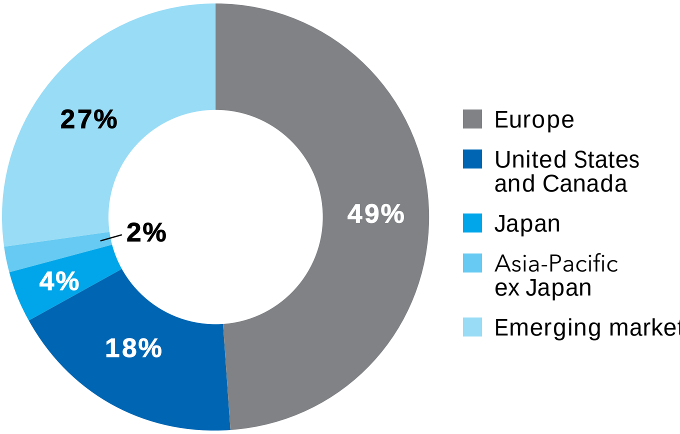
Growth is expected to be weak and uneven ...

Projected annual percent change in GDP, 2015



... but companies may benefit from growth elsewhere

MSCI Europe Index by revenue



Sources: Left chart – IMF. As of October 2014.
Right chart – MSCI. As of December 31, 2013.

- Economic conditions in the euro area remain challenging and Ukraine/Russia hostilities continue to pose a major risk to the region. Output and investment remain anemic and growth is expected to be weak and uneven across countries.
- The macroeconomic view on Europe is very different from a view of the markets. This is because companies in Europe are largely export-oriented, so their fortunes are tied as much to the U.S. and China as they are to Europe.
- Export-oriented businesses stand to benefit from currency declines that should accompany more accommoda-tive monetary policy. A weak currency makes exporters more competitive and boosts the value of the revenue these companies generate overseas.
- Many European businesses also offer attractive dividend yields, meaning that investors can get paid to wait for an economic recovery to materialize and company earnings to improve.

Valuations in Japan Have Rarely Looked This Compelling

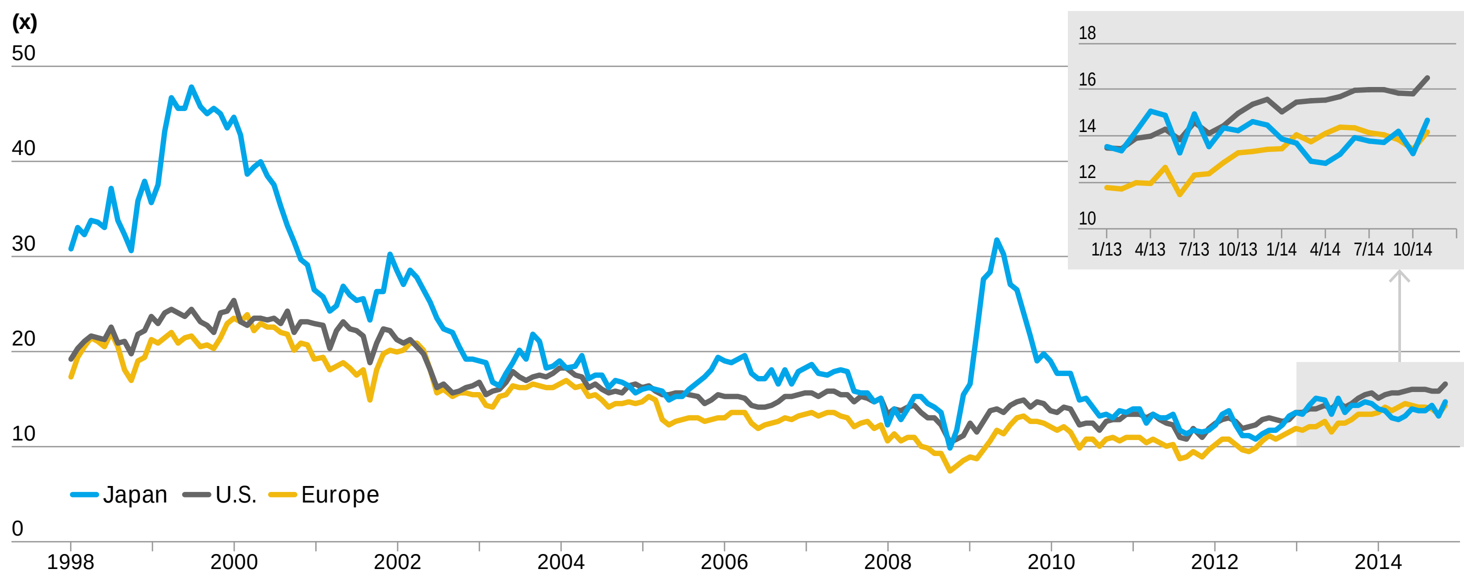
Despite a focus on corporate governance, markets remain skeptical of Abenomics

"The Japanese market recently traded at a lower valuation than the U.S. or the European markets for the first time in memory. You have dividend yields that are comparable, bond yields that are at the lower end and a government that's serious about trying to generate inflation. This could have a big improvement on returns."

Lisa Thompson, Portfolio Manager

Valuations reflect low expectations for Japanese businesses

Forward 12-month price-to-earnings ratio



Source: Rimes. As of November 30, 2014.

- Market expectations for businesses in Japan are extremely low, as reflected by valuations. Currently, Japanese equities seem attractively valued on a global, historical, and absolute basis, presenting attractive opportunities for discerning investors.
- The markets may be doubtful, but there are reasons for optimism. Japan's core consumer prices continue to rise and inflation is moving steadily higher toward the Bank of Japan's 2% price target. The return of inflation has boosted business sentiment to levels not seen since the real estate bubble burst in the early 1990s.
- Also notable has been Japanese businesses focus on enhancing shareholder value. Historically returns on equity for the nation's businesses have been the worst in the developed world, but Prime Minister Shinzo Abe's administration has made improving corporate governance a key part of his economic reform plan.

Despite their respective challenges, Europe and Japan are home to many established companies doing business in markets around the world. Among these are auto makers, pharmaceutical companies, such as Novartis and AstraZeneca, and capital goods manufacturers. Export-oriented businesses can see significant earnings improvement as a result of a weak local currency.

Emerging Markets Valuations Look Attractive Given Growth Prospects

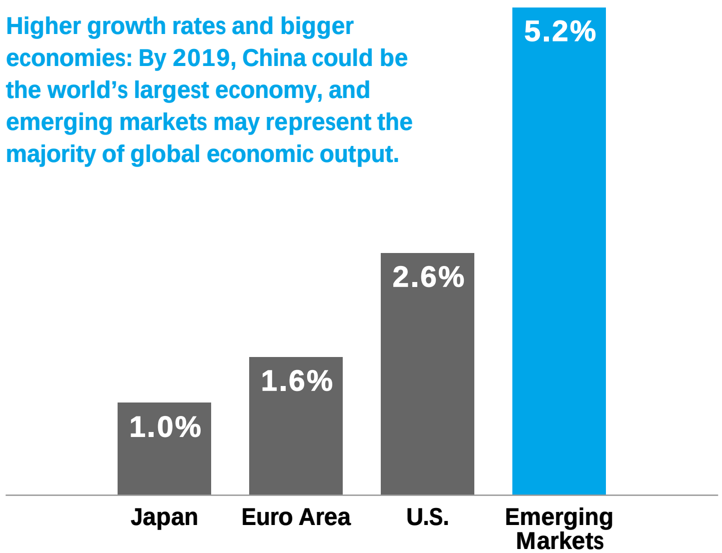
Stock returns have lagged, but outlook suggests a brighter future for earnings growth

"Despite the fact that some companies' stocks have not fared so well lately – including certain Chinese firms – in many instances, my longer term investment convictions remain intact."

Rob Lovelace, Portfolio Manager

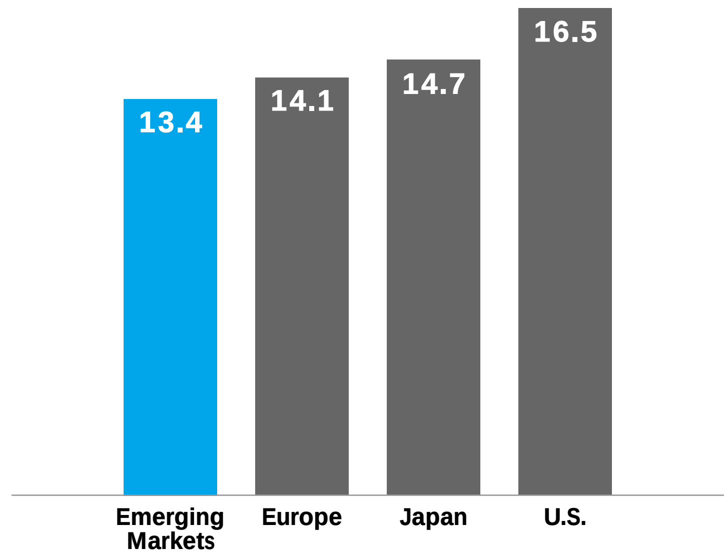
EM growth is expected to outpace …

Real GDP growth (2019 forecasts)



… and yet current stock valuations look relatively low

12-month forward price-to-earnings ratio (as of 11/30/14)



Sources: Left chart – International Monetary Fund (World Economic Outlook, 9/30/14). 2019 economic data is forecast real GDP growth; Emerging markets data refers to the IMF's "Emerging Markets and Developing Economies" category. Right chart – MSCI and Capital Group. Forward valuations data are from respective MSCI indexes; emerging markets analysis excludes larger state-owned enterprises.

- Prospects for individual economies vary, but, as can be seen in the chart, overall developing-country growth is expected to outpace over coming years.
- Market and currency volatility may trend higher, though broad investor sentiment is likely to be more resilient in countries undergoing constructive political and regulatory reforms.
- Certainly, revenues among some emerging markets companies and certain multinationals (in Europe, particularly) have faced headwinds amid moderating growth in China and other developing-country economies.
- However, various metrics (such as forward price-to-earnings, above) indicate that developing-country stock valuations have become relatively attractive – especially when you factor in an improving economic backdrop that may boost earnings growth.

People Power Just One Part of Today’s Emerging Growth Story

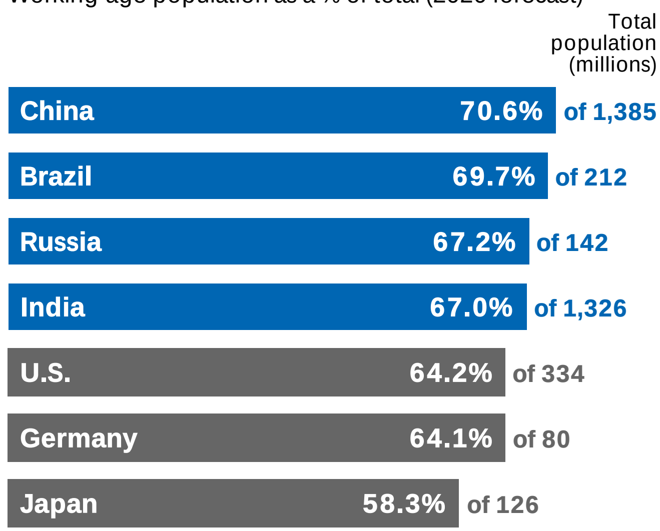
Demographics and consumption are the key

“India has a lot going for it in terms of favorable demographics, the possibility of a downward trend in inflation, and a substantial reform agenda. If reforms are forthcoming, its economy could really take off, similar to the way China’s did.”

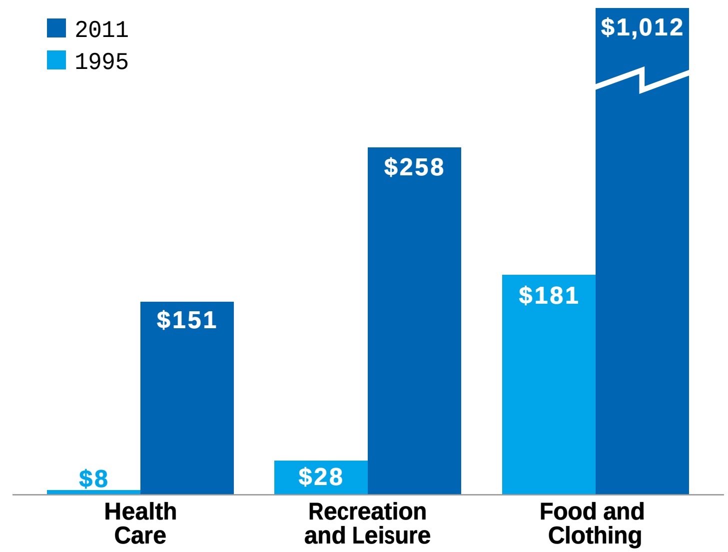
Nick Grace, Portfolio Manager

If China’s any guide, demographic advantages bode well for demand growth (and the firms that meet it)

Working-age population as a % of total (2020 forecast)



Per capita spending in China



Sources: Left chart – U.S. Census Bureau (2020 population estimates as of December 2013). Right chart – CEIC, National Bureau of Statistics of the People’s Republic of China, Deutsche Bank.

- An unprecedented acceleration in the rise in living standards has been fueled by favorable demographics (above). Newer factors are becoming significant as emerging markets mature.
- The shift toward much greater discretionary consumer spending witnessed in China (above) is continuing to unfold in a number of emerging economies.
- Emerging markets have reached a critical size. They now account for significant proportions of the world’s total stock market capitalization, economic output and population. Against this backdrop, some firms have emerged as world leaders, while thoughtful economic stewardship and maturing capital markets are creating a more supportive environment in which many businesses may thrive.

A broad array of global companies – from European autos to Chinese internet firms such as Baidu, and Indian banks to global port operators such as Philippines-based International Container Terminal Services – have exposure to the evolving buying habits of EM consumers. Select firms in a variety of these areas may benefit from the billions reaching for a better life.

Dividend-Oriented Investors Should Not Fear Rising Rates

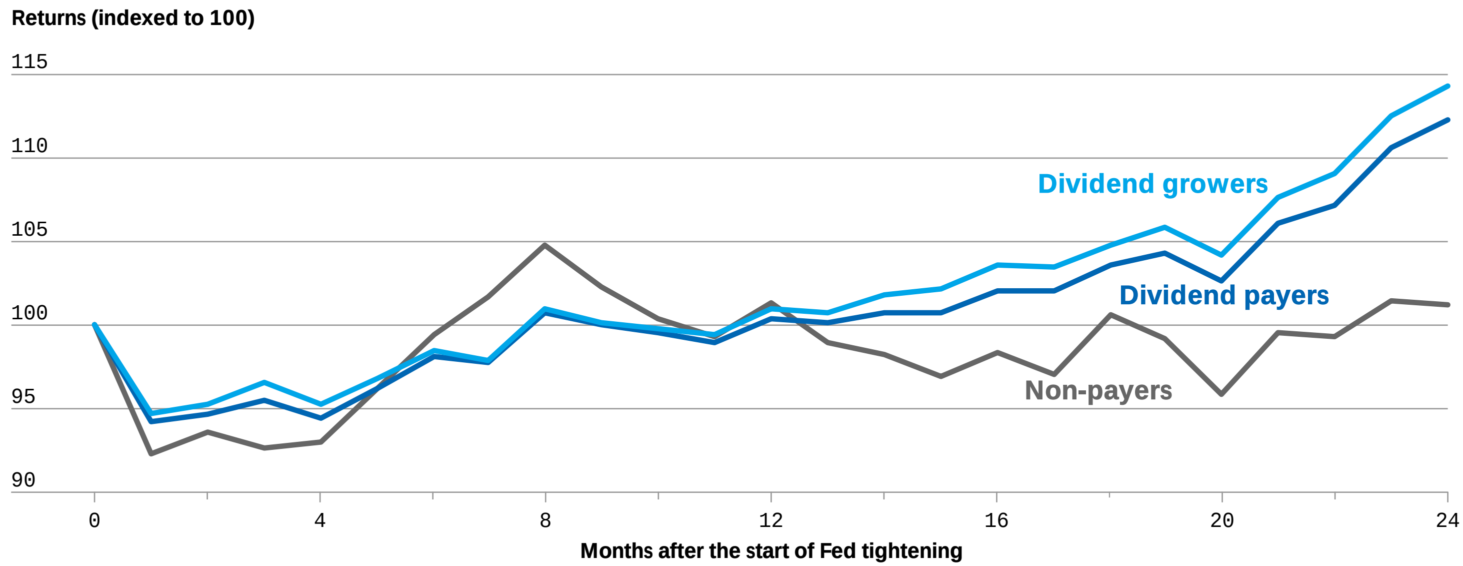
Rising rates have historically been good for dividends

"If there is a backup in rates due to a strong economy, it's very likely that the companies that are lower-yielding but with the prospect for higher levels of dividend growth will benefit because they will generate more revenue, more profits and more free cash to support higher dividend payments."

Ted Samuels, Portfolio Manager

Dividend growers in particular have generally outpaced following rate hikes

Subsequent 24-month returns following the start of a Fed tightening period (January 31, 1972–September 30, 2013)



Source: Capital Group; Ned Davis Research, Inc. © 2011 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All rights reserved. Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers, refer to www.ndr.com/vendorinfo. The chart is based on an equal-weighted geometric average of the historical total return of dividend-paying and non-dividend-paying stocks. Dividend growers, payers, and non-payers are sub-components of the S&P 500 Index. The categories are created using actual annual dividends to identify dividend-paying stocks and are rebalanced annually. The dividend policy for each stock is determined on a rolling 12-month basis. The periods shown do not represent the full history of the S&P 500 Index. Start of tightening cycle determined as of the end of any month during which the Federal Reserve first raised the target fed funds rate following a period of stable or declining interest rates; periods measure the 24 months following 1/31/1973, 9/30/1977, 9/30/1980, 9/30/1987, 2/28/1994, 7/31/1999 and 7/31/2004.

- It may seem logical to think that higher interest rates would erode the attractiveness of dividend-paying stocks, but data on certain dividend-paying companies tells a different story. Contrary to popular belief, U.S. companies that paid and grew their dividends following a rate hike significantly outpaced non-dividend-paying stocks over the subsequent two-year period.
- If rates were to rise, adding companies that pay and have the capacity to grow their dividends has the potential to benefit an investor's portfolio.

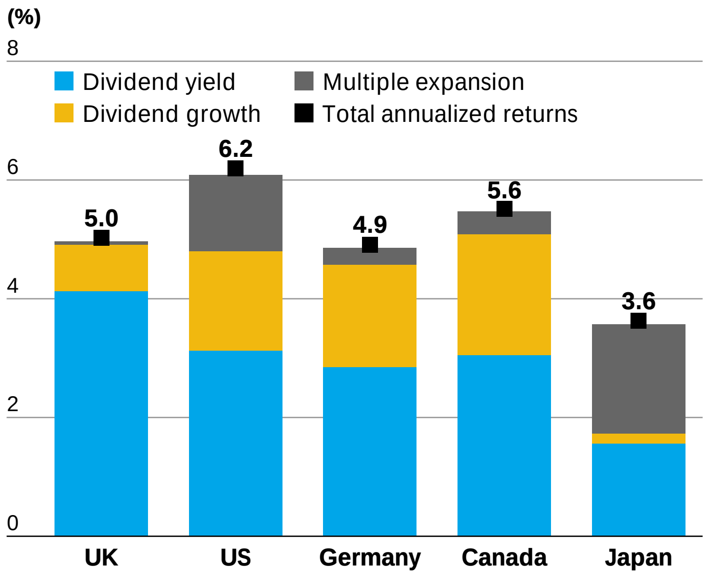
Businesses with recurring revenue from maintenance contracts and subscription services, including telecommunications and media companies like Verizon, as well as pharmaceutical companies with valuable drug franchises have generated significant free cash flow. Such companies can represent opportunities for sustainable and growing dividends.

The Search for Equity Income Goes Worldwide

Expansion of dividend culture offers a new dimension to international investing

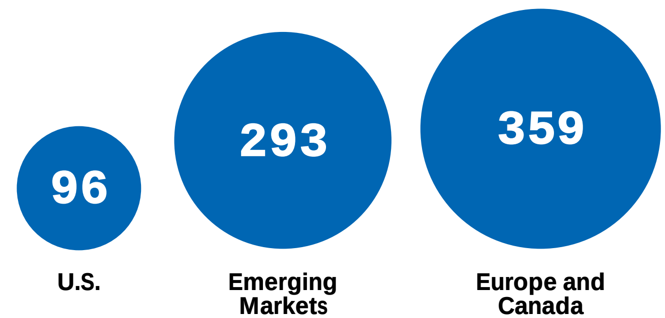
Dividends have driven global equity returns

Decomposition of real returns, 3Q 1983-3Q 2014



The world is fertile hunting ground for yield

Number of companies with a dividend yield >3%



Sources: Left chart – Société Générale. Based on 10-year rolling averages of MSCI index returns. Returns are adjusted for inflation and are denominated in local currency. Right chart – Capital Group, Rimes. As of November 30, 2014.

- Historically, dividend payments and dividend growth have been a significant component of total return in developed markets. According to Société Générale, since 1973, more than 75% of rolling 10-year market returns in the U.S. were attributable to dividend yield and dividend growth. In some markets, these two factors accounted for nearly all of the positive real returns for investors.
- With uneven and more modest economic growth expected in 2015, dividends are likely to make up an even greater portion of total return than they have in recent years, allowing investors to get paid while they wait for more favorable economic conditions.
- A growing number of companies globally have recently initiated or raised their dividends, providing opportunities for investors willing to look beyond the U.S. for income opportunities.
- Emerging markets businesses have been embracing a dividend culture. More than 90% of companies in emerging markets paid a dividend and for the 15 years ended December 31, 2013, dividends accounted for about 30% of the compound annual growth rate of the MSCI Emerging Markets Index, a percentage we expect to accelerate in the coming years.

Rates May Rise Gradually, But Will Likely Stay Low for Longer

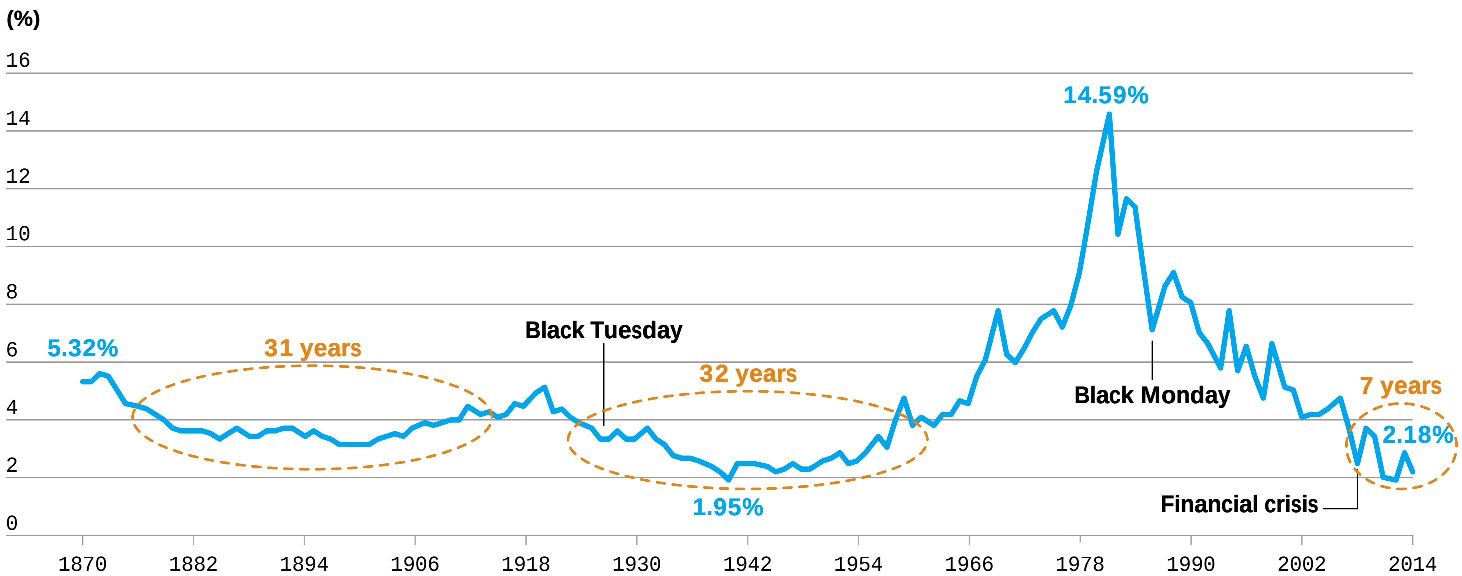
Bond market faces challenges as Fed looks to tighten monetary policy in 2015

"It is important to stay invested in bonds, even if you think rates are going up. Bonds can provide a measure of protection in times of trouble and uncertainty."

John Smet, Portfolio Manager

Interest rates can stay low for a long time

10-year Treasury yields



Source: Datastream. As of November 2014.

- We see more headwinds than tailwinds that could result in a volatile bond market, particularly as the U.S. moves to tighten monetary policy.
- Low interest rates and tightening credit spreads provided support for bond prices in 2014. That could change if the Fed raises interest rates for the first time since 2006.
- Rates are likely to move higher, though perhaps not as high or as fast as many investors expect. While the U.S. economy appears to be strengthening, signs of slowing growth in Asia and Europe could keep rates from climbing too fast.
- Expect flat returns to moderate losses in U.S. bonds, but there also will likely be periods of global economic weakness or geopolitical conflict that cause bonds to rally.
- With fewer attractive investment opportunities, security selection and downside protection will be key. Opportunities may arise in lesser known areas of the bond market, such as commercial mortgage-backed securities.
- Rising rates should not dissuade investors from participating in the fixed-income markets. Bonds are an important diversification tool that should help mitigate losses during stock market downturns and periods of economic uncertainty.

In a Market of Over 1 Million Muni Securities, Research Shines a Light

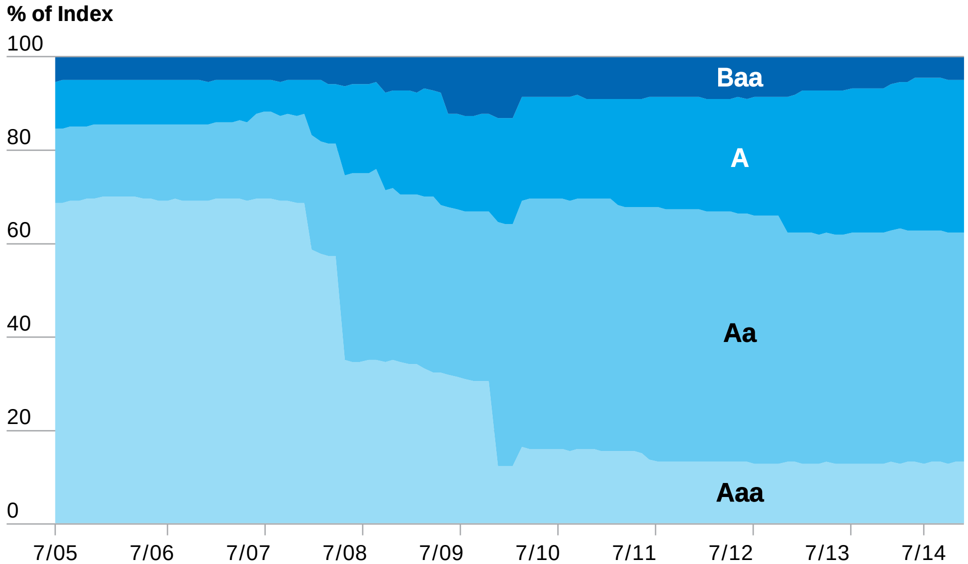
The market has changed, pricing now more reflective of underlying credit fundamentals and outlook

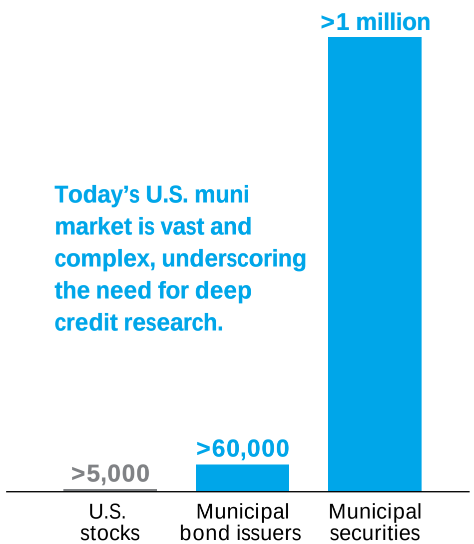
"Generally low default rates and stable fundamentals still argue the case for viewing munis as a safe haven. Even so, it has never been more crucial to understand the credit risk a bond entails. Research is key."

Karl Zeile, Portfolio Manager

"Triple-A" – from majority to minority in a few years

Barclays Municipal Index credit rating market structure (July 2005–November 2014)





Source: Left chart – Barclays Research. 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. Right chart – Estimates of muni bond market size vary; those presented are drawn from June 30, 2014, letter to Federal Reserve (in regard to its Notice of Proposed Rulemaking. 78 Fed Reg 7818. No 230), authored by 18 of the largest U.S. city municipalities. Number of U.S. stocks data from World Federation of Exchanges; refers only to stocks trading on major U.S. exchanges at the end of 2013.

- Municipal bonds generated among the highest returns of any fixed-income sector in 2014, but they continue to offer relative value – especially at longer maturities. For investors in higher tax brackets, return potential should be particularly favorable.
- The pace of issuance is expected to slow in 2015, which should offer a measure of support to muni bond prices – even if Treasury yields rise meaningfully.
- Though munis are still widely viewed as a safe-haven asset class, today's market is a vast and complex credit market (chart above) – making the case for a research-driven investment approach that emphasizes diversification.

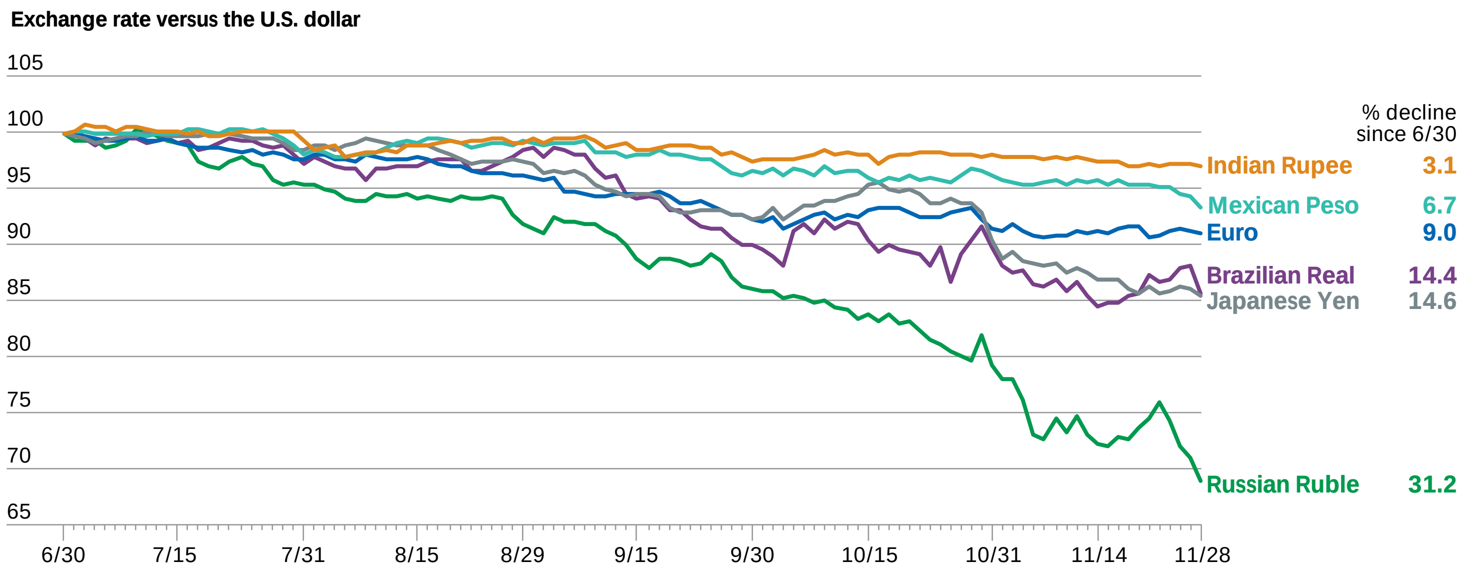
Rising Dollar Bodes Well for Non-U.S. Exporters

Stronger greenback gives overseas firms a competitive edge in battle for American consumers

"Everybody thinks it's all about the Federal Reserve, but it's not. It's also about central banks in Europe, Japan and China. They are going in the opposite direction of the Fed and that's not likely to change anytime soon."

Mark Brett, Portfolio Manager

Recent weakness in local currencies is supportive of exporters in Europe, Japan and emerging markets



Source: RIMES. MSCI exchange rate indices versus the U.S. dollar, indexed to 100 since June 30, 2014, through November 30, 2014.

- The U.S. dollar has strengthened considerably against a broad spectrum of developed- and developing-country currencies. Some of the most pronounced shifts in relative value have been among the currencies of economies grappling with slowing growth, disinflation and deflation. Central banks in Europe and Japan have taken aggressive steps to boost growth including large-scale quantitative easing. Other currencies have been affected by elevated geopolitical tensions.
- A pick-up in U.S. economic activity and Treasury yields could support further dollar strengthening. While currency fluctuations can affect multinational companies in a variety of ways, some exporters outside the U.S. could benefit from a stronger dollar. That's because a stronger dollar increases the purchasing power of U.S. consumers with respect to imports, and can also boost profit margins for some European and Japanese exporters as they translate dollar revenues into more euros and yen.
- It should be noted, however, that a stronger dollar may act as a headwind on total returns for U.S. investors in international stock and local bond markets.

The American Funds Advantage

Since 1931, American Funds, part of Capital Group, has helped investors pursue long-term investment success. Our consistent approach – in combination with The Capital System℠ – has resulted in a superior long-term track record.

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 26 years of investment experience, including 21 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.

Superior long-term track record

Our equity funds have beaten their Lipper peer indexes in 90% of 10-year periods and 96% of 20-year periods. Our fixed-income funds have beaten their Lipper indexes in 56% of 10-year periods and 57% of 20-year periods.[2] Our fund management fees have been among the lowest in the industry.[3]

[1] Portfolio manager experience as of December 31, 2013.

[2] Based on Class A share results for rolling periods through December 31, 2013. Periods covered are the shorter of the fund's lifetime or since the comparable Lipper index inception date (except SMALLCAP World Fund, for which the Lipper average was used). Although Class A shares are available for purchase by retirement plans only in limited instances, their results reflect the investment management experience of the American Funds without retirement plan recordkeeping expenses. American Funds offers plan sponsors flexibility in how they pay for plan operating expenses (such as recordkeeping fees) through six distinct retirement plan share classes. Expenses differ for each share class, so results will vary.

[3] Based on management fees for the 20-year period ended December 31, 2013, versus comparable Lipper categories, excluding funds of funds.

2015 Outlook: Pursue Global Growth and Sustainable Income

	U.S.	International	Emerging Markets	Dividends	Bonds
Headwinds	• Stocks appear to be fairly valued, and the market has had a long run without a correction • Rates could rise faster than expected	• Structural underemployment • Slowing emerging markets demand • Political opposition to moral hazard • Weakness in European industrial production	• Global credit cycle/interest-rate normalization and possible currency weakness • Geopolitical tensions, country-specific challenges may lead to volatile asset flows	• Valuations appear lofty in some high-yielding sectors • Rising rates could hurt bond surrogates	• Interest rates likely headed higher in 2015 • Rates could rise faster than expected • Valuations are high for most bonds • Fed faces challenge of managing expectations
Tailwinds	• Economic growth picking up and employment picture brightening • Consumer health improving • Banks poised to expand lending • State and local governments no longer pose a fiscal drag	• Political will to find a solution to sluggish economic growth • Currency weakness helping exporters • Business and consumer confidence are improving	• Secular growth drivers remain in place • Political change and regulatory reform should bolster investor confidence in certain markets • Fiscal and trade imbalances are improving	• Low yields on fixed income • Payouts are low and cash is high, implying companies can grow dividends • Demographics driving need for income and yield	• Relatively low interest rates for now • Geopolitical unrest may spur safe-haven assets • Foreign buying of U.S. Treasuries • Rising demand for bonds from pension funds
Key takeaways	**U.S. equities have room to rise, but fewer mispriced investment 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.**	**With uneven global economic growth, dividends may account for a greater portion of total return in 2015.**	**Expect a more challenging and volatile bond market in 2015, but remember the important risk-dampening role that bonds play in a diversified portfolio.**
Investments to consider Ticker symbols	**AMCAP Fund®** A – AMCPX; C – AMPCX; F-1 – AMPFX; F-2 – AMCFX **American Mutual Fund®** A – AMRMX; C – AMFCX; F-1 – AMFFX; F-2 – AMRFX	**International Growth and Income Fund℠** A – IGAAX; C – IGICX; F-1 – IGIFX; F-2 – IGFFX	**New World Fund®** A – NEWFX; C – NEWCX; F-1 – NWFFX; F-2 – NFFFX	**Capital Income Builder®** A – CAIBX; C – CIBCX; F-1 – CIBFX; F-2 – CAIFX	**The Tax-Exempt Bond Fund of America®** A – AFTEX; C – TEBCX; F-1 – AFTFX; F-2 – TEAFX **Capital World Bond Fund®** A – CWBFX; C – CWBCX; F-1 – WBFFX; F-2 – BFWFX

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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