



CAPITAL
GROUP®

Guide to **Market recoveries**

How to stay focused
on long-term success

2023 EDITION



“We are once again in uncertain territory. It’s precisely when the backdrop has looked so difficult that the markets have begun to recover. It’s hard to know when that turn will happen this cycle. But, based on prior experiences the market will turn eventually – and that should provide some solace.”



MARTIN ROMO
EQUITY PORTFOLIO
MANAGER

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Past results are not predictive of results in future periods.

Staying focused on long-term investment success

If market declines make you nervous, you're not alone. But while bear markets can be extraordinarily difficult, they also can be moments of opportunity. Investors who find the courage and conviction to stick to their long-term plans are often rewarded as markets bounce back.



This guide can help you regain confidence by providing:

3 Facts about market recoveries



3 Mistakes investors should avoid



3 Actions to consider in portfolios





3 facts about
market recoveries

Fact #1

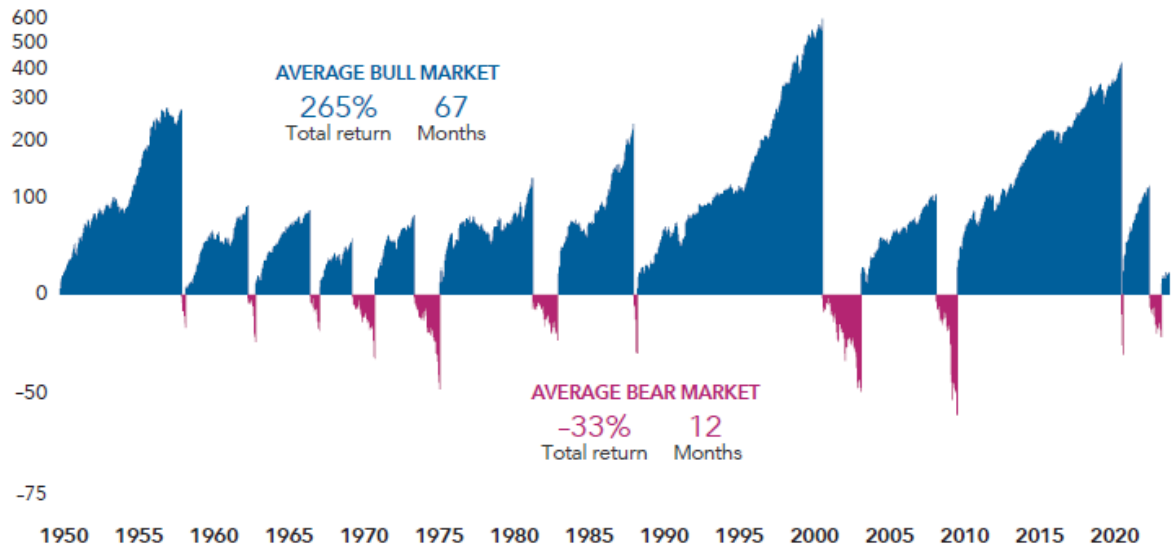
Recoveries have been much longer and stronger than downturns

The good news is bear markets have been relatively short compared to recoveries. They can feel like they last forever when we're in them, but in reality they are much less impactful compared to the long-term power of bull markets.

Although every market decline is unique, the average bear market since 1950 has lasted 12 months. The average bull market has been more than five times longer.

The difference in returns has been just as dramatic. But even though the average bull market has averaged a 265% gain, recoveries are rarely a smooth ride. Investors often face scary headlines, significant market volatility and additional equity declines along the way. But investors who are able to move past the noise and stick to their plans may be better positioned when the recovery eventually occurs.

Cumulative price return for U.S. bull and bear markets (%)



Sources: Capital Group, RIMES, Standard & Poor's. Includes daily returns in the S&P 500 Index from 6/13/49-6/30/23. The bull market that began on 10/12/22 is considered current and is not included in the "average bull market" calculations. Bear markets are peak-to-trough price declines of 20% or more in the S&P 500. Bull markets are all other periods. Returns are in USD and are shown on a logarithmic scale. Past results are not predictive of results in future periods.

Fact #2

After large declines, markets have recovered relatively quickly

We don't know exactly what the next recovery will look like, but historically stocks have often recovered sharply following steep downturns. We tracked the 18 biggest market declines since the Great Depression, and in each case the S&P 500 was higher five years later. Returns over those five-year periods averaged more than 18% per year.

Returns have often been strongest after the sharpest declines, bouncing back quickly from market bottoms. The first year following the five biggest bear markets since 1929 averaged 70.9%, underscoring the importance of staying invested and avoiding the urge to abandon stocks during market volatility. While these have been the average returns during these recoveries, each one has differed, and it's quite possible any future recovery could be more muted.

Five biggest market declines and subsequent five-year periods (1929-2023)

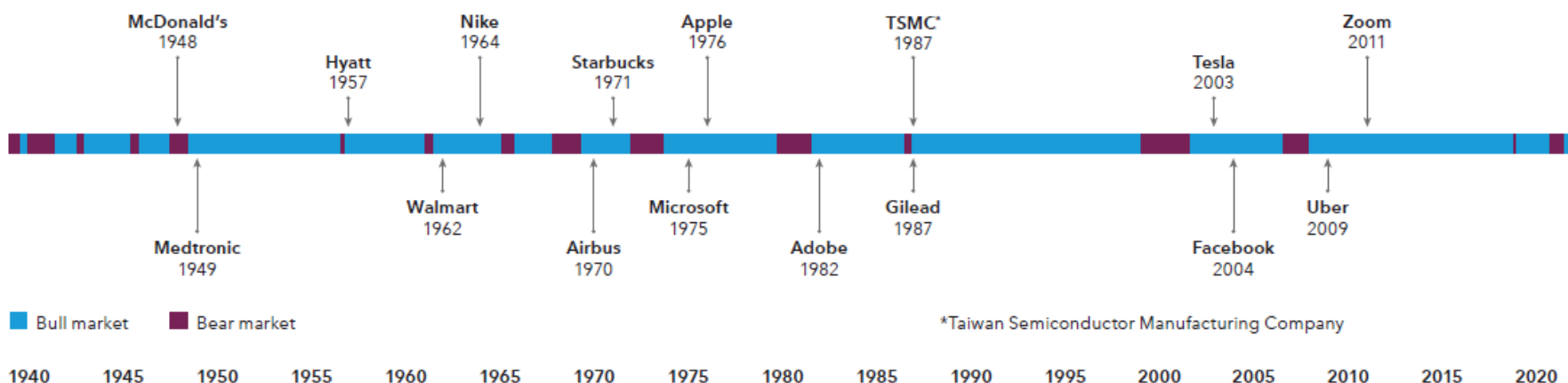
Periods of decline	Decline	S&P 500 12-month returns					Average annual total return for the 5-year period
		1st year after low	2nd year	3rd year	4th year	5th year	
9/7/29-6/1/32	-86.2%	137.6%	0.5%	6.4%	56.7%	16.5%	35.9%
3/6/37-4/28/42	-60.0	64.3	9.0	31.1	32.2	-19.9	20.0
1/11/73-10/3/74	-48.2	44.4	26.0	-2.9	11.8	12.8	17.4
3/24/00-10/9/02	-49.1	36.2	9.9	8.5	15.1	18.1	17.2
10/9/07-3/9/09	-56.8	72.3	18.1	6.1	15.7	23.6	25.3
Average		70.9	12.7	9.8	26.3	10.2	23.1

Sources: Capital Group, RIMES, Standard & Poor's. As of 6/30/23. Market downturns are based on the five largest declines in the S&P 500's value (excluding dividends and/or distributions) with 100% recovery after each decline. The return for each of the five years after a low is a 12-month return based on the date of the low. The percentage decline is based on the index value of the unmanaged S&P 500, excluding dividends and/or distributions. The average annual total returns include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or taxes. Investors cannot invest directly in an index. Past results are not predictive of results in future periods.

Fact #3

Many leading companies were born during market recoveries

Notable companies, by year they were founded



Many companies got their start during periods of uncertainty and have gone on to become household names.

To highlight just a few: McDonald's emerged in 1948 following a downturn caused by the U.S. government's demobilization from a wartime economy. Walmart came along 14 years later, around the time of the "Flash Crash

of 1962" – a period when the S&P 500 Index declined 27%. Airbus, Microsoft and Starbucks were founded during the stagflation era of the 1970s, a decade marked by two recessions and one of the worst bear markets in U.S. history. Not long after, Steve Jobs walked into his garage and started a small computer company called Apple.

History has shown that strong businesses find a way to survive and even thrive when times are tough. Those that can adapt to difficult conditions and become stronger have often made attractive long-term investments.

Bottom-up, fundamental research is key to separating companies that may lead a market recovery, and those more likely to be left behind.

Source: Capital Group. As of 6/30/23. Bear markets are peak-to-trough price declines of 20% or more in the S&P 500. Bull markets are all other periods.



3 mistakes investors
should avoid

Mistake #1

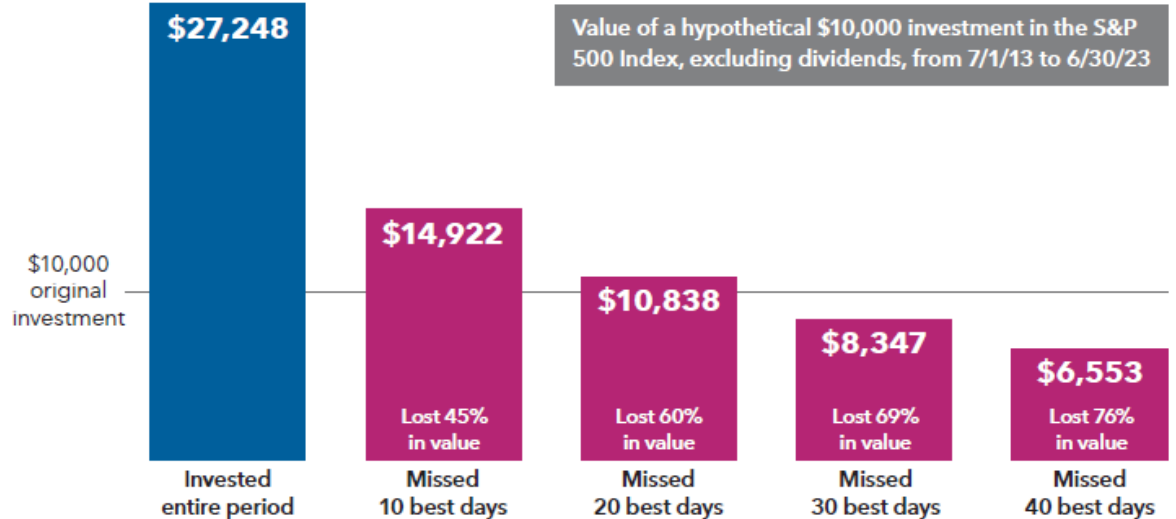
Trying to time markets

It's time, not timing, that matters in investing. Taking your money out of the market on the way down means that if you don't get back in at exactly the right time, you can't capture the full benefit of any recovery.

Consider this example of a hypothetical \$10k investment in the S&P 500 Index made on July 1, 2013, and held for 10 years. Staying invested through the two bear markets during that period may have been tough, but this patient investor's portfolio would have nearly tripled. If that investor had instead tried to time the market and missed even some of the best days, it would have significantly hurt their long-term results – and the more missed "good" days, the more missed opportunities.

Investors who are more hesitant to put all of their excess capital to work at once may want to consider dollar cost averaging in volatile markets. Dollar cost averaging during a decline allows you to purchase more shares at a lower average cost, and when markets eventually rise, those extra shares can enhance your portfolio's value.

Missing just a few of the market's best days can hurt investment returns



Sources: RIMES, Standard & Poor's. As of 6/30/23. Values in USD. Regular investing does not ensure a profit or protect against loss. Investors should consider their willingness to keep investing when share prices are declining. Past results are not predictive of results in future periods.

Mistake #2

Assuming today's negative headlines make it a bad time to invest

Today's economic and geopolitical challenges may seem unprecedented, but a look through history shows that there have always been reasons not to invest. Despite the negative headlines, the market's long-term trend has always been higher. In fact, great investment opportunities often emerge when investors are feeling most pessimistic.

Here's what would have happened (*in terms of dollar amounts and average annual total returns*) to a hypothetical \$10,000 investment in the S&P 500 Index on these historic days:



Pearl Harbor was bombed (December 7, 1941)

- 10 years later:
\$44,855 | 16.2%
- As of 6/30/23:
\$78,516,793 | 11.6%

The Soviets launched Sputnik, vaulting into space ahead of the U.S. (October 4, 1957)

- 10 years later:
\$31,387 | 12.1%
- As of 6/30/23:
\$7,234,391 | 10.5%



President Kennedy was assassinated (November 22, 1963)

- 10 years later:
\$19,729 | 7.0%
- As of 6/30/23:
\$3,617,572 | 10.4%

President Nixon resigned (August 9, 1974)

- 10 years later:
\$33,517 | 12.9%
- As of 6/30/23:
\$2,197,189 | 11.7%



The Dow Jones Industrial Average dropped a record 22% in one day (October 19, 1987)

- 10 years later:
\$56,514 | 18.9%
- As of 6/30/23:
\$429,060 | 11.1%

Lehman Brothers declares bankruptcy (September 15, 2008)

- 10 years later:
\$30,193 | 11.7%
- As of 6/30/23:
\$50,257 | 11.5%

Source: Capital Group. The S&P 500 is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index. Past results are not predictive of results in future periods.

Mistake #3

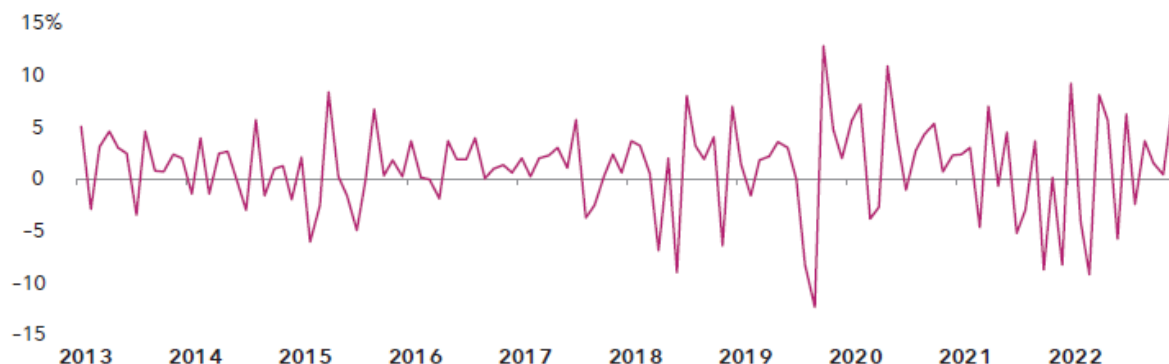
Focusing too much on the short term

Market volatility is especially uncomfortable when you focus on short-term ups and downs. Instead, extend your time horizon to focus on the long-term growth of your investments and the progress you've made toward your goals.

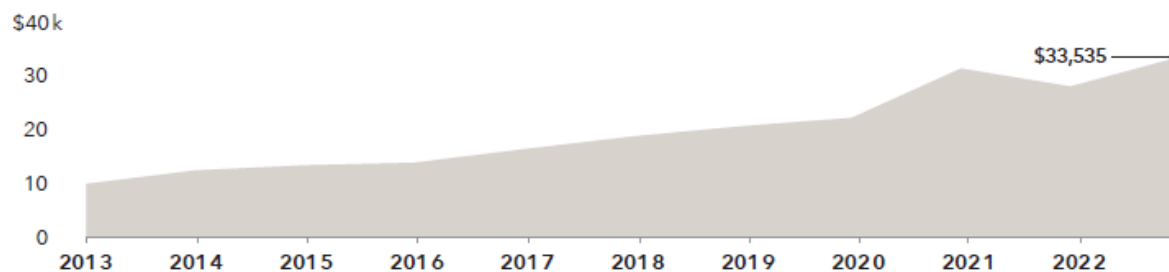
Consider the two charts to the right, which represent contrasting perspectives of the same hypothetical investment. The short-term view is one that many investors have of their portfolios – tracing returns over short periods of time. The long-term view plots the same exact investment over the same period, but shows annual change in the portfolio value invested instead. With this perspective, the short-term fluctuations of the first chart have smoothed out over time, and the picture of a growing portfolio becomes clearer.

Remember that bear markets don't last forever. Maintaining a long-term perspective can help keep investors focused on the goals that matter most.

Short-term view: Monthly returns are volatile



Long-term view: Portfolio grows smoothly over time



Source: Standard & Poor's. Short-term view represents the S&P 500 Index and reflects monthly return percentages from 6/30/13 through 6/30/23. Long-term view represented by a hypothetical \$10,000 initial investment in the same index from 6/30/13 through 6/30/23.



3 actions to consider
in portfolios

Action #1

Run a portfolio checkup

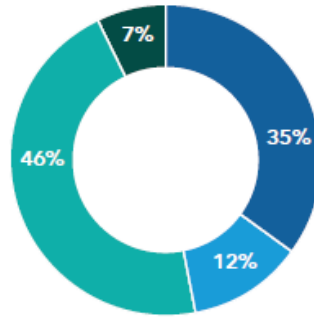
When markets are choppy, investors often shift assets from stocks and bonds into the perceived safe haven of cash and cash alternatives. With money market assets reaching a record level of \$5.4 trillion (as of June 30, 2023), many investors' portfolios may have become misaligned with their long-term goals.

To get back on track, investors may want to examine their portfolios to ensure they are well-diversified and in line with investment objectives. Risk averse investors might consider allocating some cash to dividend-paying stocks, which can provide income and capital appreciation potential, and select short- and intermediate-term bonds. More opportunistic investors can also seek opportunities to invest in durable growth trends, such as health care innovation and multinational companies positioned to withstand economic uncertainty.

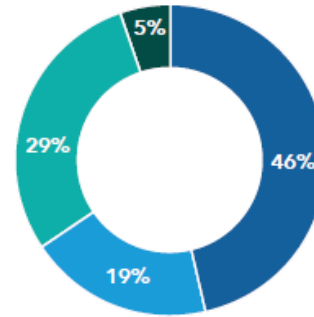
Capital Group can help. We offer financial professionals the opportunity to conduct an in-depth analysis with our team of portfolio consultants. To set up a consultation, please reach out to your Capital Group representative or call (800) 421-9900.

Sample allocations

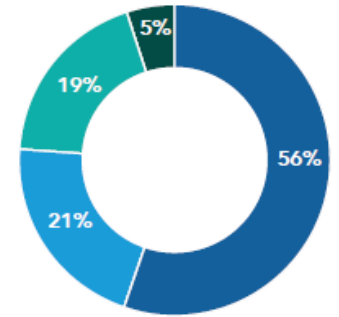
American Funds®
Conservative Growth and
Income Portfolio



American Funds®
Moderate Growth and
Income Portfolio



American Funds®
Growth and Income
Portfolio



■ U.S. equity ■ Non-U.S. equity ■ Fixed income ■ Cash & equivalents

Check with your home office for product availability

Source: Capital Group. Portfolio holdings are based on holdings of the underlying American Funds as of 6/30/23. Data may not total 100% due to rounding. Cash and equivalents includes short-term securities, accrued income and other assets less liabilities. It may also include investments in money market or similar funds managed by the investment adviser or its affiliates that are not offered to the public.

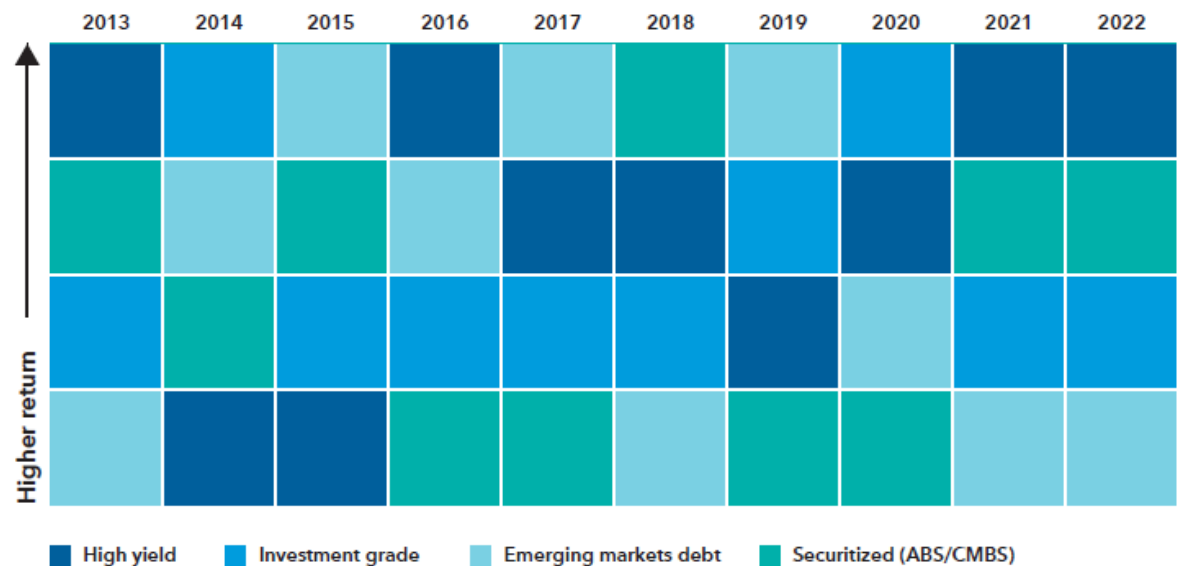
Action #2

Review your bond portfolio

A fixed income allocation may help to soften short-term market noise during periods of volatility and help investors focus on longer term goals. When redeploying cash held during turmoil, consider three steps for bond portfolios:

- **Upgrade your core:** A core bond allocation can provide resilience amid equity instability, while active, research-driven investing seeks to add potential upside when equities recover.
- **Selectively pursue enhanced income:** When stocks thrive, credit often does too. But consider a flexible, income-driven bond fund that can adjust based on shifting market conditions. Since 2008, the average annual difference between returns of the highest and lowest sectors (of the four represented in the chart) was stark at 13.2%.
- **Consider short-term bonds:** Following a deep market correction, pivoting from the ultra-safe nature of cash may be daunting. Short-term bonds offer anxious investors an allocation which seeks to keep capital preservation in mind with stronger income potential than cash alternatives.

Annual returns of higher income sectors



Sources: Capital Group, Bloomberg. Data as of 12/31/22. High yield represents Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index; investment grade (BBB/Baa and above) represents Bloomberg U.S. Corporate Investment Grade Index; emerging markets debt represents J.P. Morgan EMBI Global Diversified Index; securitized (ABS/CMBS) represents 80% Bloomberg CMBS ex AAA Index/20% Bloomberg ABS ex AAA Index. Highest and lowest return difference statistic calculated using the best-to-worst returns spread each year from 2008–2022 for high yield, investment-grade corporates, emerging markets debt and securitized. Past results are not predictive of results in future periods.

Action #3

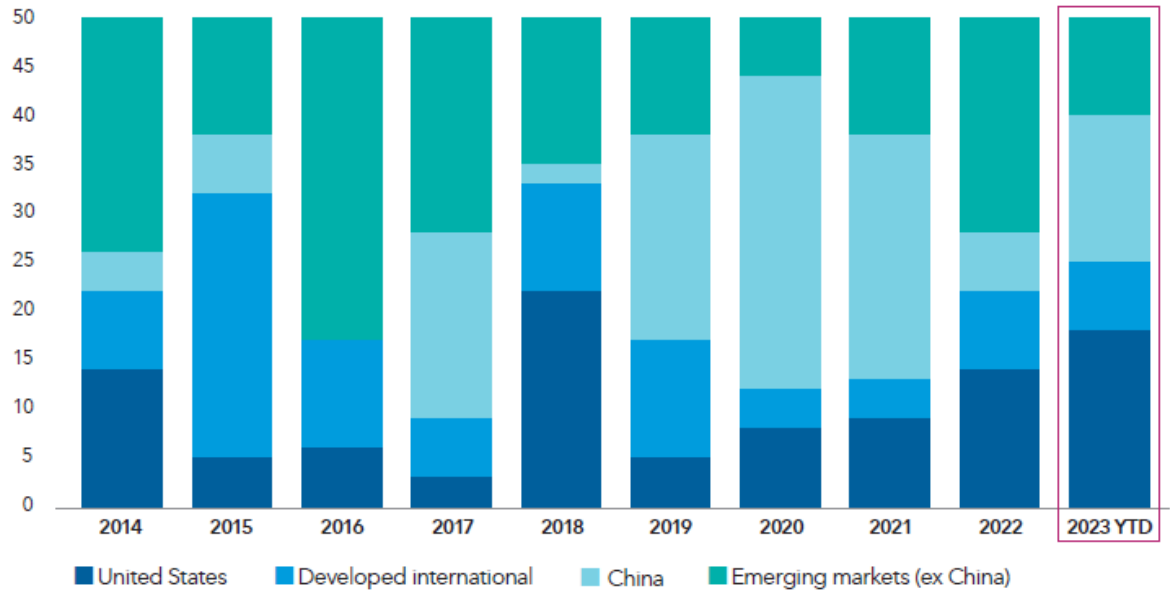
Expand your horizons beyond borders

In uncertain times, it can be natural to narrow your perspective and focus where you're most comfortable. But if you can broaden your horizons, you may be able to benefit from the growth potential of great companies in a variety of industries and markets.

And even if you think U.S. markets have bottomed and are poised for a strong recovery, don't assume all the best stocks will come from America. Over the last prolonged bull market, the S&P 500 Index soundly outpaced its international peers, but more than three quarters of the top-returning stocks each year were from companies based on foreign soil.

Investors seeking additional global or international exposure may want to consider funds with flexible mandates which allow their managers to choose from the best companies, no matter where they are located.

Number of the top 50 stocks each year by company location



Source: MSCI, RIMES. 2023 data as of 6/30/23. Returns in U.S. dollars. Top 50 stocks are the companies with the highest total returns in the MSCI ACWI each year.

Guide to market recoveries

How to stay focused on long-term success

3 facts about market recoveries	3 mistakes investors should avoid	3 actions to consider in portfolios
<ul style="list-style-type: none">• Recoveries have been much longer and stronger than downturns• After large declines, markets have recovered relatively quickly• Many leading companies were born during market recoveries	<ul style="list-style-type: none">• Trying to time markets• Assuming today's negative headlines make it a bad time to invest• Focusing too much on the short term	<ul style="list-style-type: none">• Run a portfolio checkup• Review your bond portfolio• Expand your horizons beyond borders

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.

Allocations may not achieve investment objectives. The portfolios' risks are related to the risks of the underlying funds as described herein, in proportion to their allocations.

The return of principal for bond funds and for funds with significant underlying bond holdings is not guaranteed. Investments are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds. 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.

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