

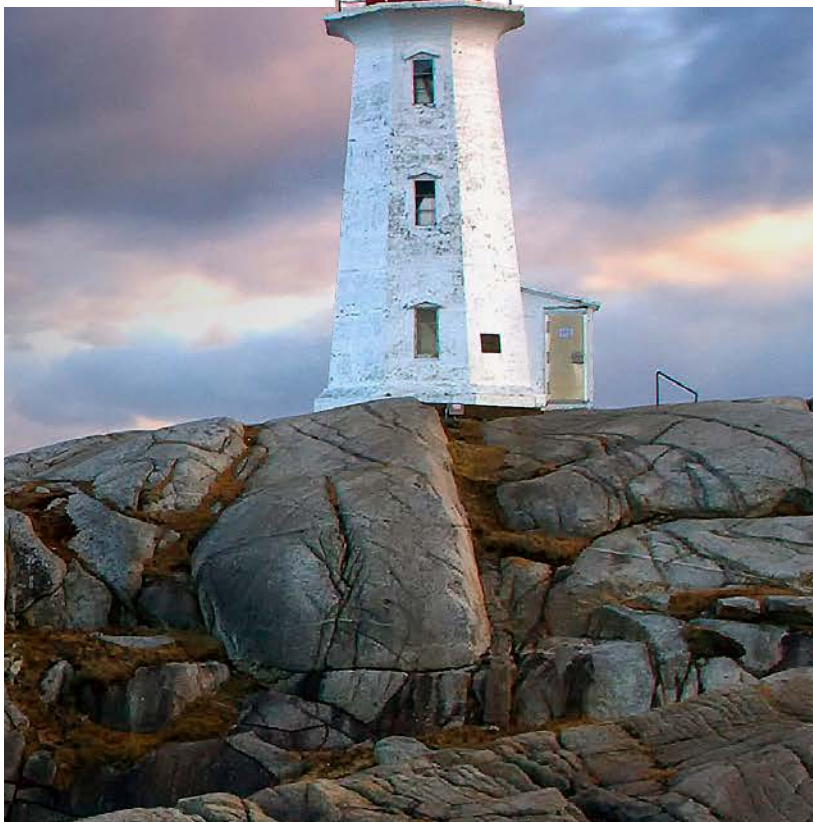
2026 MIDYEAR EDITION

Outlook

Long-term
perspective on markets
and economies



CAPITAL
GROUP®





“Despite a challenging geopolitical environment and apprehension about the path of global economic growth, many companies are doing well.

Rob Lovelace
Chair of Capital International, Inc.

As we reach the midpoint of 2026, a recognizable theme has emerged. In the first few months of the year, stocks have reached a series of new highs in the face of daunting world events. Market volatility – triggered by wars in the Middle East and Ukraine, fluctuating oil prices, elevated inflation, nervous consumers and concerns about a potential AI bubble – has so far failed to derail the upward march of key market indexes.

Are investors not focused on world events, or is there something else going on here? To answer that question, we need to look at corporate earnings. Despite a challenging geopolitical environment and apprehension about the path of global economic growth, many companies are doing well. Revenues are rising (in aggregate), profitability is improving, and buybacks are soaring. Stock prices reflect those trends.







For all the talk of market concentration, it’s not just the well-known large-cap technology stocks driving the advance. With higher interest rates, banks are generating better profit margins. With innovative drug development, healthcare companies are enjoying rapid sales growth. With increased spending on defense and infrastructure, stocks in Europe, Asia and emerging markets are gaining ground. In fixed income markets, bonds are doing their job protecting against downside risk and helping smooth the ride for investors during periods of heightened market volatility.

In my view, adding up the pluses and minuses around the world, there are enough pluses to support the market’s general upward trajectory. The question then comes down to the multiple. What are investors willing to pay for these earnings? There is room for disagreement here, and many smart investors are questioning today’s valuations, particularly in the U.S. But at the end of the day, I’d rather see a market that is paying up for solid earnings than a market that is rising without that fundamental underpinning.

As the remainder of the year unfolds, rather than focusing too much on front-page news, we hope you’ll explore the equity and fixed income investment themes covered over the next 20 pages. With that, I invite you to read and share our 2026 Midyear Outlook.

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

Global growth hinges on war resolution, pace of AI rollout

| Variable |  Global growth |  U.S. economy |  European economy |  Fed policy |  Inflation |  Currency |
|---|---|--|--|---|---|--|
| Consensus | 2.9% | 2.1% | 1.2% | 3.75%-4.0% | 3.5% | USD weaker |
| Capital Strategy Research (CSR) views vs. consensus | In line | Mixed | Above | Below | In line | In line |
| Summary of CSR view | Global growth is slowing but resilient as the U.S. and Iran work toward a resolution to the war in the Middle East. | The economy continues to hold up as strong AI support helps offset high energy costs. The labor market shows signs of stability. | We expect slightly stronger euro-area growth and inflation. The ECB is likely to hike rates in 2026. Look for less fiscal tightening in the U.K. and France. | CSR views the prospect of rate hikes as less likely than the market may be pricing in. Look for the Fed to move cautiously. | The inflation picture looks stickier beneath the surface as high oil prices, geopolitics and tariffs continue to pressure prices. | The U.S. dollar may face downward pressure as its interest rate advantage relative to other economies continues to narrow. |

Global economic growth is coming under pressure due to the Iran war, rising oil prices and ongoing trade disputes, but one powerful engine is more than making up for it: AI-related investment spending.

The artificial intelligence boom is so massive that even if activity in all other sectors fell to zero, economic growth would remain in positive territory, especially in the United States, says Capital Group economist Darrell Spence.

“I remain on the cautious side when it comes to the outlook for U.S. growth,” Spence explains, “but it remains possible that GDP could be significantly higher than expected – in the range of 2.5% or more. That’s how much the AI arms race is overshadowing every other area of the economy.”

Much, of course, depends on stabilization in the Middle East, mounting inflationary pressures, weakening consumer fundamentals, and whether the AI boom marches on or fizzles out. There is a tug of war between these economic forces, and it could be a while before a clear winner emerges, Spence adds.

Elsewhere, Europe is facing a stagflationary shock before year-end, as higher energy prices weigh on activity, says economist Beth Beckett. “I do expect a much smaller shock than we saw in 2022, thanks in part to stronger manufacturing activity and looser fiscal policy in Germany.”

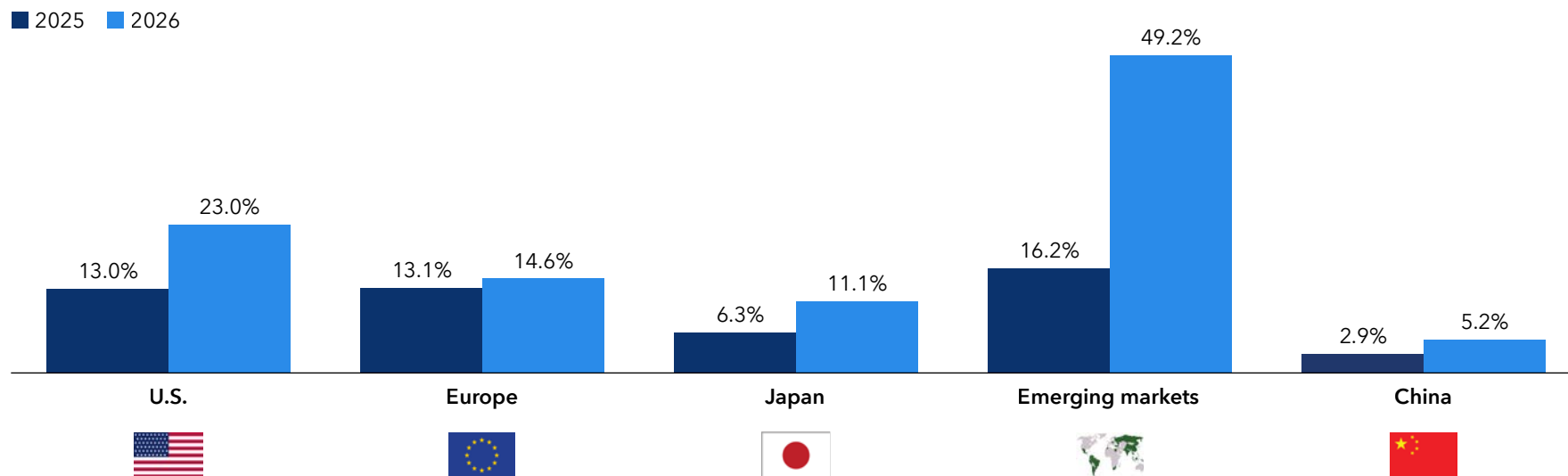
In Asia, China’s economy appears to be stabilizing as corporate profits, housing and exports all improve, while Japan remains sluggish.

Sources: Capital Group, Bloomberg. As of May 31, 2026. Consensus figures are based on mean Bloomberg consensus estimates for U.S. CPI change in 2026 (“U.S. inflation”) and 2026 year-over-year GDP growth for the world (“global growth”), the United States (“U.S. economy”) and the European Union (“European economy”). Consensus figures for “Fed policy” are based on the implied federal funds target range based on futures pricing for December 2026. Consensus “currency” figure is based on DXY futures pricing through December 2026. The views of individual portfolio managers and analysts may differ from Capital Strategy Research (CSR) views. Stagflationary: economic environment categorized by high inflation coinciding with slow economic growth (GDP) and high unemployment. ECB: European Central Bank. DXY: U.S. Dollar Index.

Robust earnings growth may fuel stock market gains

Earnings growth is expected to rise across several markets

Estimated annual earnings growth across select global benchmarks



Why does the stock market keep hitting new highs when the world seems to be falling apart? The simple answer: Corporate earnings are on a tear. This is partially explained by the many companies benefiting from massive AI spending, but it's not all about AI.

For instance, in the healthcare sector, Eli Lilly's first-quarter sales rose 56% to \$19.8 billion, fueled by surging demand for weight loss and diabetes drugs. In the energy sector, companies such as ExxonMobil, Shell and TotalEnergies are pumping up their profits as the Iran conflict sends oil prices sharply higher. Meanwhile, Apple reported blockbuster earnings in April, not due to any AI-related news, but because iPhone 17 sales skyrocketed.

Looking forward, consensus earnings estimates are on the rise – particularly in emerging markets where they are expected to grow 49.2% in aggregate this year. That is largely due to the positive impact the AI boom is having on chip-related companies such as Taiwan Semiconductor Manufacturing Company (TSMC), Samsung and SK hynix.

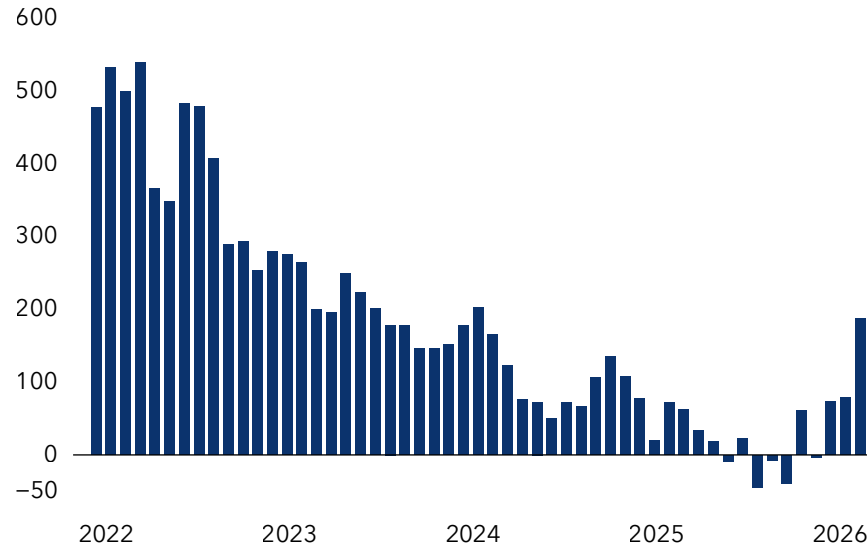
"When I look at the market going forward, the key element is this underpinning of strong corporate earnings," says equity portfolio manager Rob Lovelace. "This growth has been evident for the last three years, and it doesn't look like it's slowing down."

Sources: Capital Group, FactSet, MSCI, S&P Global. Estimated annual earnings growth is represented by the mean industry analyst consensus earnings per share estimates for the year ending December 2026 across the S&P 500 Index (U.S.), the MSCI Europe Index (Europe), the MSCI Japan Index (Japan), the MSCI EM Index (Emerging markets) and the MSCI China Index (China). Earnings growth represented in USD. Estimates are as of May 31, 2026.

The labor market may guide the Fed's next moves

Labor markets have stabilized after decelerating

Rolling three-month average nonfarm payrolls (thousands)



Even as war-driven inflation has remained elevated, the job market may hold the key to the Federal Reserve's policy decisions.

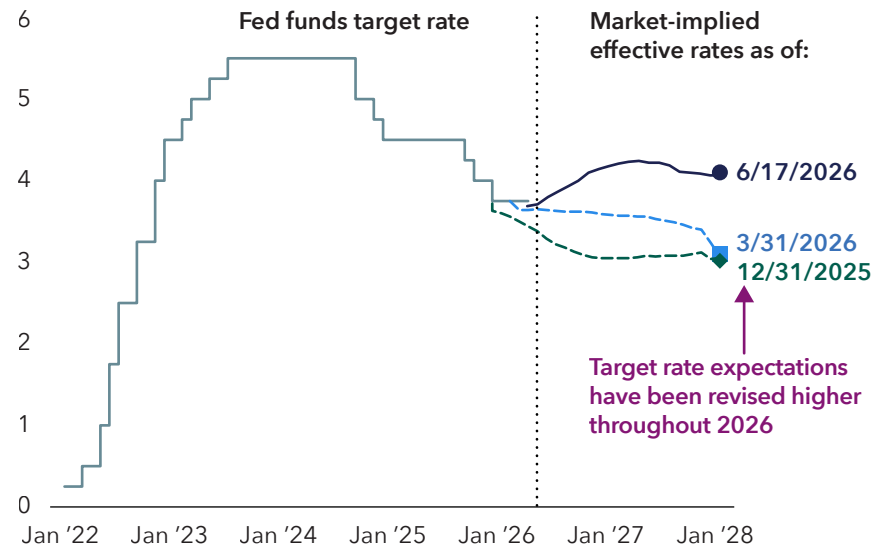
Labor markets are weaker than they were a few years ago but steady overall, says Chitrang Purani, bond manager. "The war is keeping inflation above the Fed's 2% target and is likely to weigh on non-AI business investment as well as consumer demand. That combination increases the risk of a more pronounced slowdown in growth."

Consumer spending has shown resilience, but middle- and low-income households may be more fragile than in the past, given savings have fallen and real wage growth appears to be moderating.

Sources: Capital Group, Bureau of Labor Statistics. April and May 2026 are preliminary figures and subject to change. Latest data available is May 2026 as of June 5, 2026.

The Fed has room to respond

Fed funds actual vs. market implied (%)



Purani believes policymakers will remain patient. "The labor market has been stable with slower job growth offset by slower labor force expansion – but if this balance were to shift toward a rising unemployment rate, the Fed will likely look past near-term inflation risks."

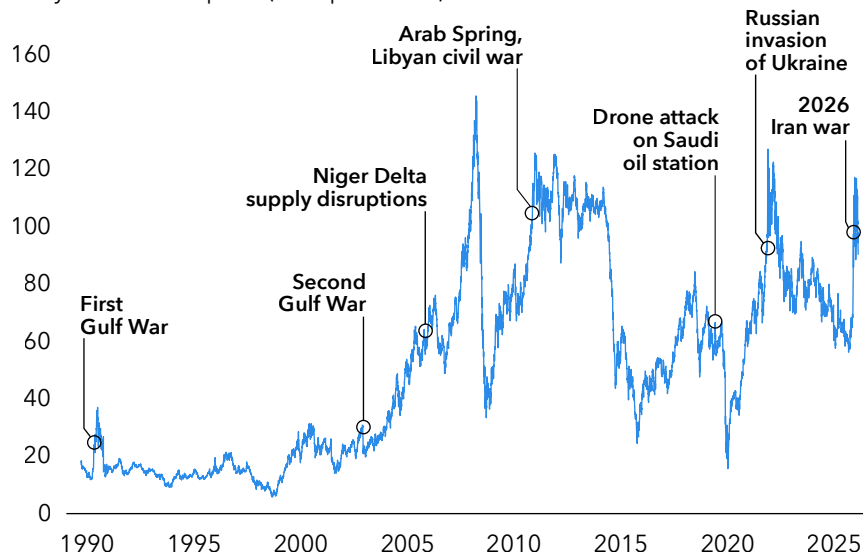
The composition of the Fed may also affect how it responds. New Fed Chair Kevin Warsh may resist rate increases – leaving the hurdle to hike rates higher than the market is pricing.

Sources: Capital Group, Bloomberg, U.S. Federal Reserve. Fed funds target rate reflects the upper bound of the Federal Open Markets Committee's (FOMC) target range for overnight lending among U.S. banks. As of June 17, 2026.

Market sell offs tied to oil supply shocks have been short-lived

Conflict has often triggered spikes in oil prices

Daily Brent crude price (USD per barrel)



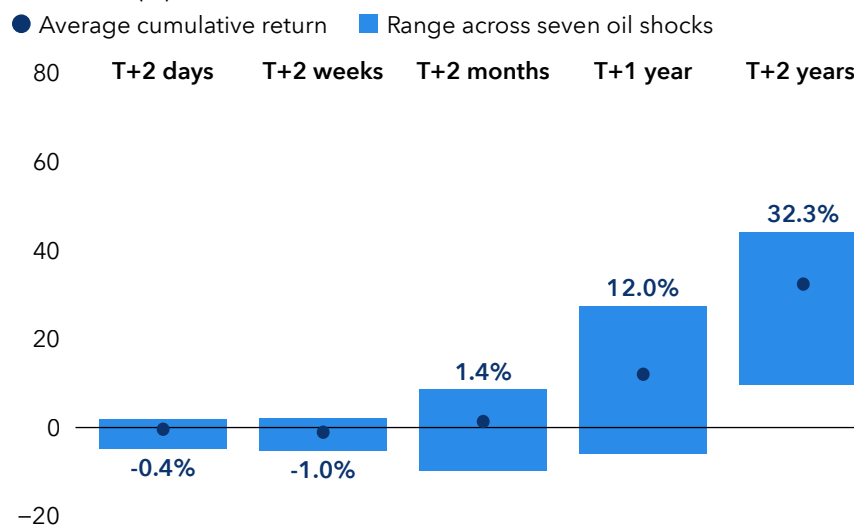
The Iran war is a stark reminder that the world still runs on oil. When supply is threatened, the impact of higher oil prices spreads quickly to businesses, consumers and global markets.

About one-fifth of the world's oil supply moves through the Strait of Hormuz, so any disruption there is almost immediately reflected in fuel prices. Even in the United States, the world's largest oil producer, the price of gasoline at the pump has jumped nearly 42% since the war started.

"There are very real economic risks, and the costs would only compound as the war drags on," says equity portfolio manager Paul Benjamin. "A persistent conflict would trigger weaker equities, a stronger U.S. dollar and widening credit spreads."

But U.S. stocks have recovered relatively quickly

S&P 500 Index returns following geopolitical-related oil supply disruptions 1990-2024 (%)



Over the past two decades, stock markets have generally bounced back from geopolitical shocks because they haven't resulted in prolonged physical supply outages. Across seven oil supply shocks since the First Gulf War in the 1990s to Russia's invasion of Ukraine in 2022, equities fell on average by 1% two weeks following the disruption, then rose 1.4% a month later, 12% a year later and 32.3% over the next two years.

It's a good reminder that markets are forward-looking and may already be anticipating a resolution to the present crisis.

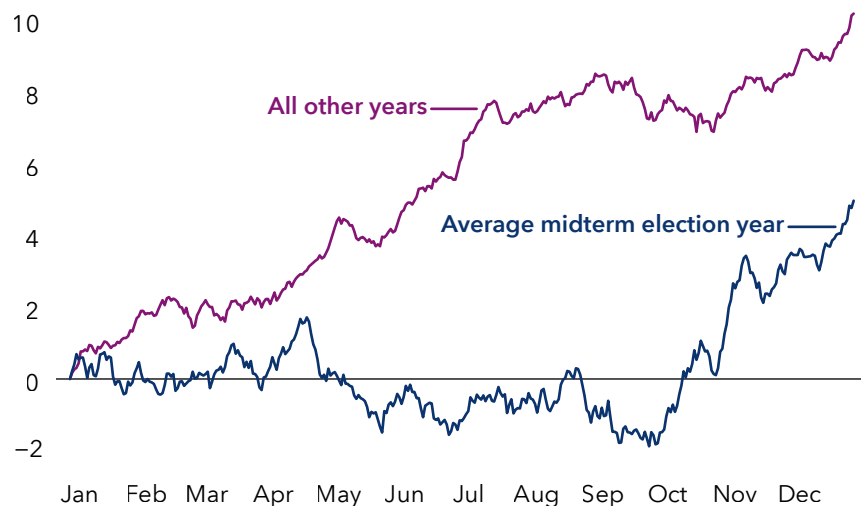
Sources: Capital Group, Bloomberg. Figures reflect daily settlement prices between January 1, 1990, and May 31, 2026. Event dates are aligned to the nearest observable market price. If an event occurs on a non-trading day, the prior trading day is used as the start date.

Sources: Capital Group, Bloomberg, S&P Global. Geopolitical shocks include: Gulf War (8/1990), Second Gulf War (3/2003), Niger Delta supply disruptions (2/2006), Arab Spring, Libya Civil War (2/2011), Hormuz closure risk, Iran sanctions (12/2011), drone attack on Saudi installations (9/2019), Russian invasion of Ukraine (2/2022). Event dates are aligned to the nearest observable market price ("T"). If a shock occurs on a non-trading day, the prior trading day is used as the start date. Horizon returns are measured using the first available trading day on or after the stated calendar horizon (e.g., "T+2 days"). Figures reflect total returns. As of May 31, 2026. Past results are not predictive of results in future periods.

Midterm elections: Volatility, then stocks have rallied

Stock returns have been muted before election day

S&P 500 Index average returns since 1931 (%)



With everything happening in the world – from wars in the Middle East and Ukraine to concerns about an AI bubble – investors may not be focused on the U.S. midterm elections yet. But this pivotal contest is just months away, and it could have a noticeable effect on the stock market, if history is any guide.

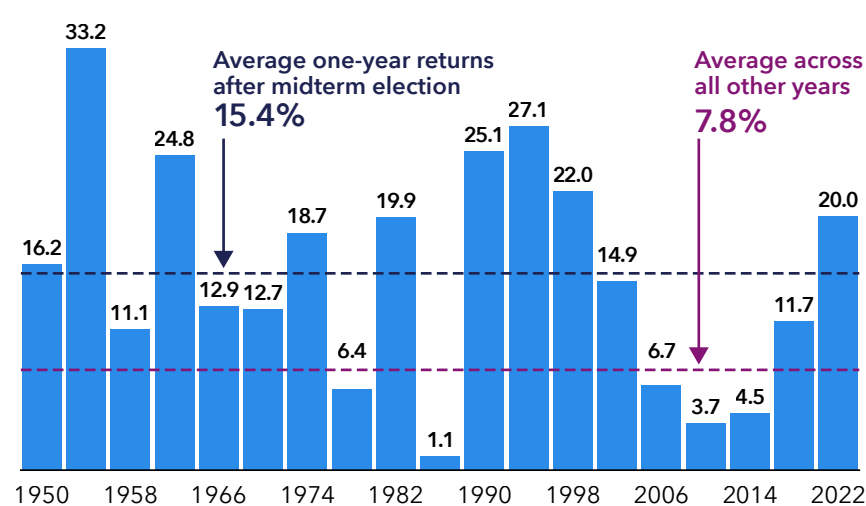
To gauge the impact, Capital Group examined more than 90 years of S&P 500 Index data, and it turns out that stocks do exhibit some unique characteristics during midterm election years. Market volatility tends to rise, returns tend to be muted and, once the outcome is known, stocks tend to rally.

So far, the competing forces of rising corporate earnings, the Iran war and a powerful rally in AI stocks are driving market activity but that could change

Sources: Capital Group, RIMES, S&P Global. Average cumulative price return trajectories for the S&P 500 Index during midterm election years and non-midterm election years. Each point on the lines represents the average year-to-date return as of that particular month and day and is calculated using daily price returns from January 1, 1931, to December 31, 2025. Price returns exclude the reinvestment of dividends and capital distributions. Past results are not predictive of results in future periods.

But post-election rebounds have been strong

S&P 500 Index price return one year after midterm election



as investors turn their attention to what is likely to be a rancorous election. The silver lining is that returns have tended to be strong during the full year following midterm elections, averaging 15.4% since 1950.

Still, for long-term investors, these short-term moves don't normally mean much.

"There may be bumps in the road," says equity portfolio manager Chris Buchbinder, "and investors should brace for short-term volatility, but I don't expect election results to be a huge driver of investment outcomes one way or the other."

Sources: Capital Group, RIMES, S&P Global. Calculations use Election Day as the starting date in all election years and November 5 as a proxy for the starting date in other years. Only midterm election years are shown in the chart. As of December 31, 2025. Price returns exclude the reinvestment of dividends and capital distributions. Past results are not predictive of results in future periods.

Index investors face elevated concentration risk

Investors in index strategies may be exposed to more risk than they realize.

While cyclical growth has been challenged by the Iran war, inflation and uncertainty, artificial intelligence has provided the most compelling secular growth opportunity in today's market.

Enthusiasm for AI has sent shares of chipmakers like Broadcom, Micron Technology and NVIDIA soaring. While other tech giants in AI development – Microsoft, Alphabet, Amazon and Meta – have recorded subpar returns, they remain among the largest weightings in the S&P 500 Index. These conditions have pushed market concentration to unprecedented levels.

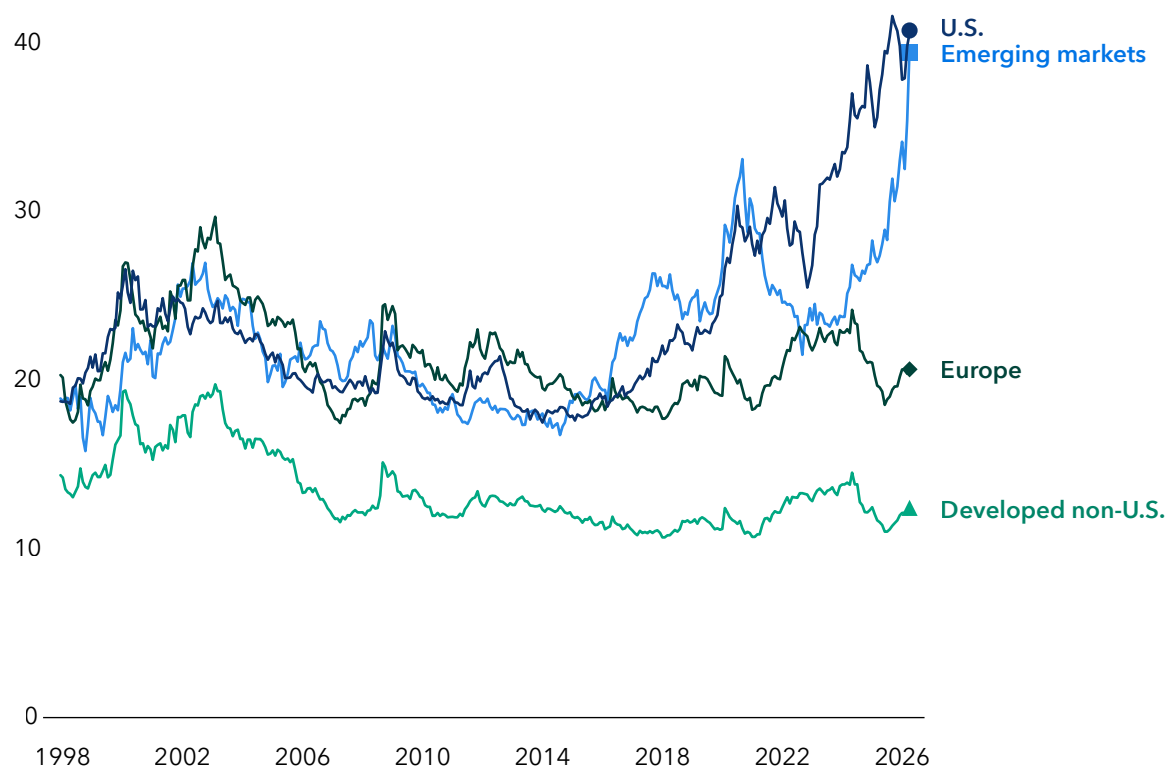
"I'm excited about the incredible advances in AI and the investment opportunities they represent," says equity portfolio manager Martin Romo. "At the same time, I'm uneasy that the largest companies in the United States and Asia, as well as the companies with the strongest returns, are all driven by a single fundamental driver – artificial intelligence."

The question is not whether to invest in these companies, but how much. "It always comes back to balance. Careful stock selection, flexible positioning, and diversification can improve long-term outcomes for investors," Romo adds.

Investors should consider opportunities across sectors such as healthcare, energy and industrials, while also thinking globally rather than on one dynamic region like the U.S.

U.S. and emerging market stock indexes have grown more top-heavy

Percentage of market capitalization in top 10 companies



Sources: Capital Group, FactSet, MSCI, S&P Global. Figures represent the index concentration of the top 10 companies by market capitalization across the S&P 500 Index (U.S.), the MSCI Europe Index (Europe), the MSCI World ex USA Index (Developed non-U.S.) and the MSCI EM Index (Emerging markets). Data shown is monthly, from January 30, 1998, through May 31, 2026.

AI build-out may surpass China’s industrial boom

The artificial intelligence phenomenon may be far bigger than you think.

In the race for AI supremacy, tech giants are making capital investments at a scale and speed on track to surpass China’s industrial boom of the early 2000s, considered by many to be the largest in modern history.

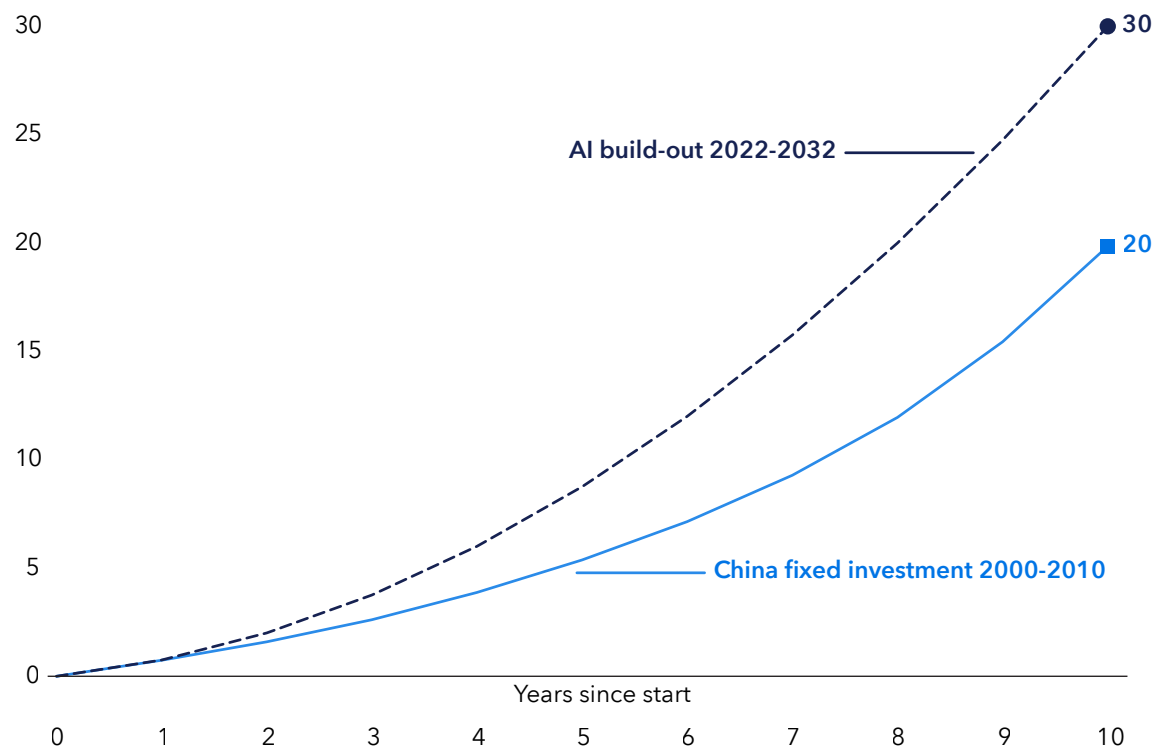
After joining the World Trade Organization in 2001, China invested about \$20 trillion to industrialize its economy over the following 10 years. “This reshaped global trade, commodities, inflation, labor markets and politics for a generation,” explains U.S. economist Jared Franz. Today’s AI investment appears to be comparable in size and potential impact.

“The AI debate should not be framed as a tech sector cycle or a question about whether NVIDIA’s valuation is justified,” Franz says. “The pace of investment and advancement suggests AI may have a lasting effect on GDP growth, power demand, capital allocation, labor markets and asset prices across every sector.”

Historic spending by hyperscalers Amazon, Alphabet, Meta, Microsoft and Oracle has translated into soaring demand for the offerings of semiconductor makers NVIDIA and Broadcom, as well as semiconductor foundries like TSMC. “AI is potentially the highest impact technology in a generation and the most significant force in the economy,” says equity portfolio manager Mark Casey.

AI investment is on pace to exceed China’s 10-year industrial boom

Cumulative investment (trillions inflation-adjusted USD)



Sources: Capital Group, Federal Reserve of St. Louis (FRED), Haver Analytics, National Bureau of Statistics of China. Hyperscalers are large-scale cloud service providers that offer computing power and storage to organizations and individuals globally. Values are adjusted for inflation using the U.S. Consumer Price Index (CPI) as of March 2026. AI build-out estimates assume annual spending ramps linearly from \$0.5T in 2022 to \$5.5T in 2032. Cumulative values are estimated using the trapezoidal method, which assumes linear change between observations and sums the average across intervals. Figures presented are for illustrative scale only. As of May 31, 2026.

Physical economy stocks are poised for a comeback

We may be living in an AI world – NVIDIA’s market capitalization is larger than three entire sectors – but that’s no reason for investors to ignore old economy companies.

For starters, the tidal wave of cash being poured into the build-out of data centers is translating into historic revenue opportunities.

Demand for steel, copper, heavy construction services and power generation equipment has soared. For example, sales in Caterpillar’s construction division jumped 38% in the first quarter.

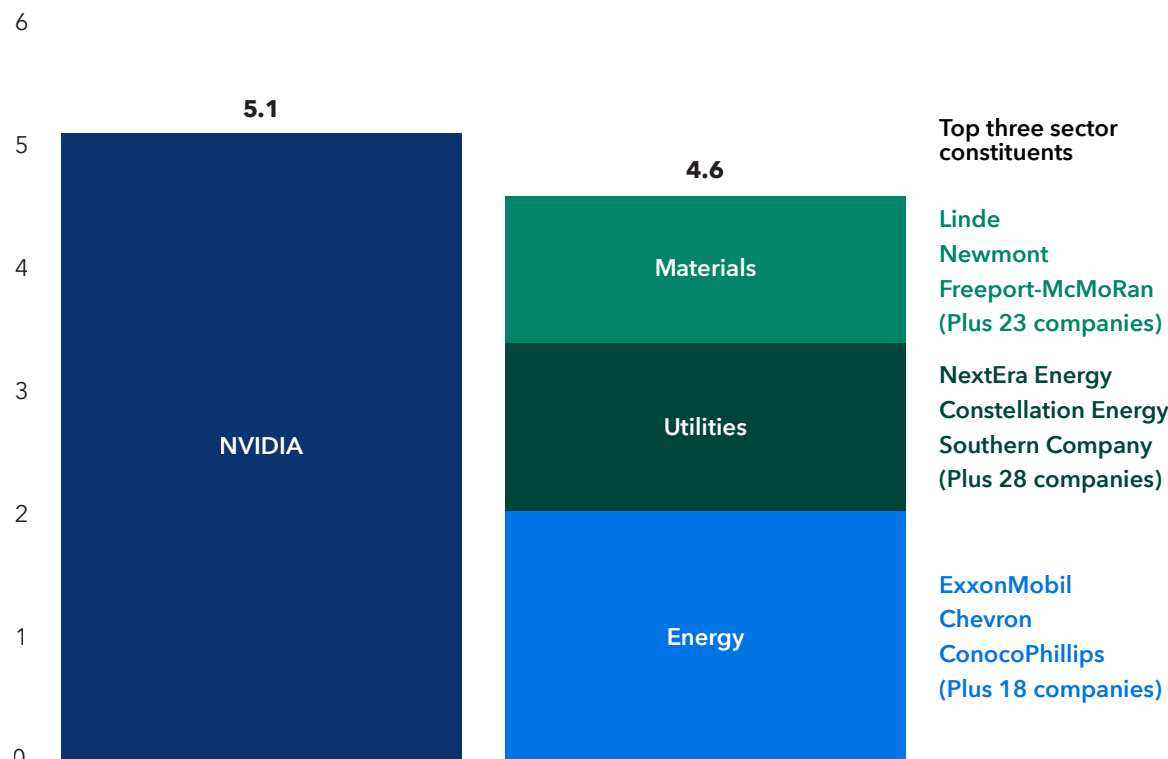
“Pick-and-shovel companies, both the semiconductor supply chain and the infrastructure developers, are where I see the clearest opportunity,” says equity portfolio manager Chris Buchbinder. “I expect this cycle to last longer than perhaps the market believes.”

Some areas of the market associated with physical goods and services posted strong gains early in the year because of their perceived insulation from AI disruption. “One focus of mine has been companies that I believe are largely immune to AI,” Buchbinder says. “Consider, for example, Royal Caribbean. It’s unlikely that we’re going to have AI replacing cruise ships.”

Among industrials, jet engine maker GE Aerospace entered the year with a \$190 billion order backlog.

NVIDIA is now larger than three market sectors

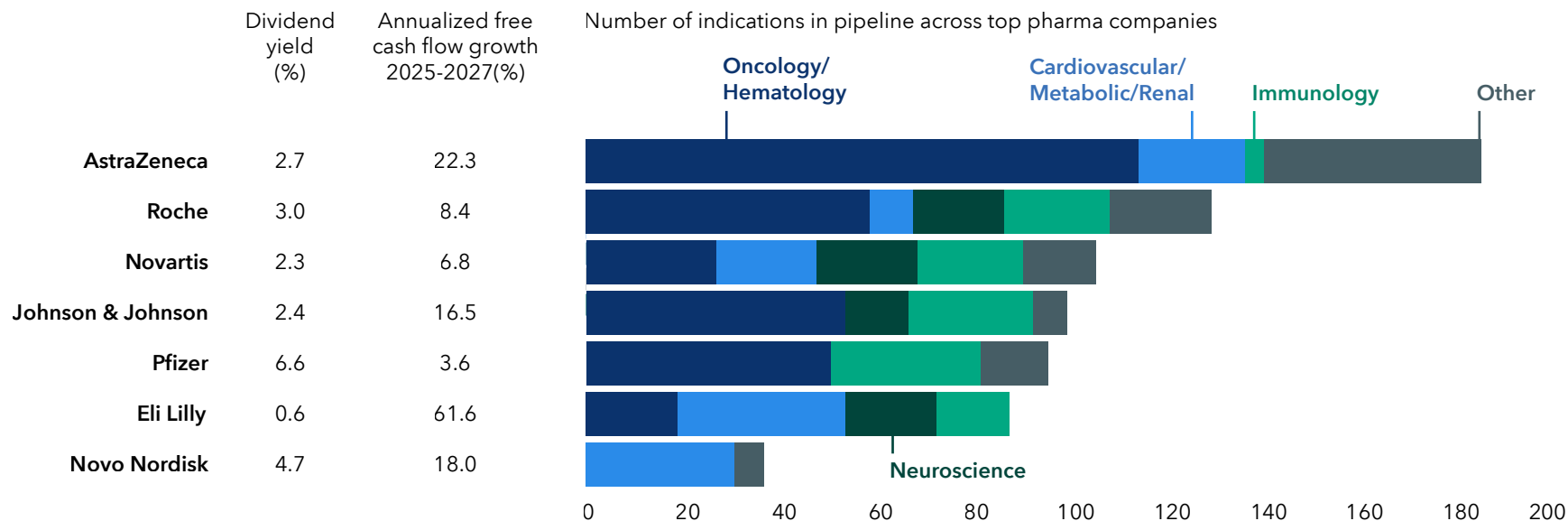
Market cap (USD trillions)



Sources: Capital Group, FactSet, RIMES, S&P Global. As of May 31, 2026. Companies shown are the three largest in their respective sectors within the S&P 500 Index. Caterpillar is the S&P 500 Index industrials sector’s largest company by market capitalization.

Innovation and income: Healthcare’s powerful combination

Robust pipelines are paired with strong cash flow generation



At a time when long-term growth feels harder to find, the seeds of drug discovery are bearing fruit.

Deep pipelines provide pharmaceutical companies with a powerful growth engine and reduce reliance on any single product. Many also generate healthy free cash flow, allowing them to return capital to shareholders through dividends or strengthen pipelines through targeted acquisitions.

AstraZeneca, for example, has a well-established range of oncology franchises. To drive future growth potential, it has assets targeting heart disease, chronic kidney problems and metabolic conditions.

However, much of this potential remains underappreciated by the market.

The same is true of its China business. “China accounts for around 13% of sales,” notes equity portfolio manager Noriko Chen. “We’re excited by the innovation emerging there. With its scale and deep partnerships, AstraZeneca can fund both its pipeline and a healthy dividend, which may make the business more durable than the market assumes.

“Pharma companies have shown discipline with their cash, investing in growth but not at the expense of income,” Noriko adds. “Many focus on progressive dividends, and yields are attractive; Roche and Novo Nordisk for example, both yield more than 3%.”

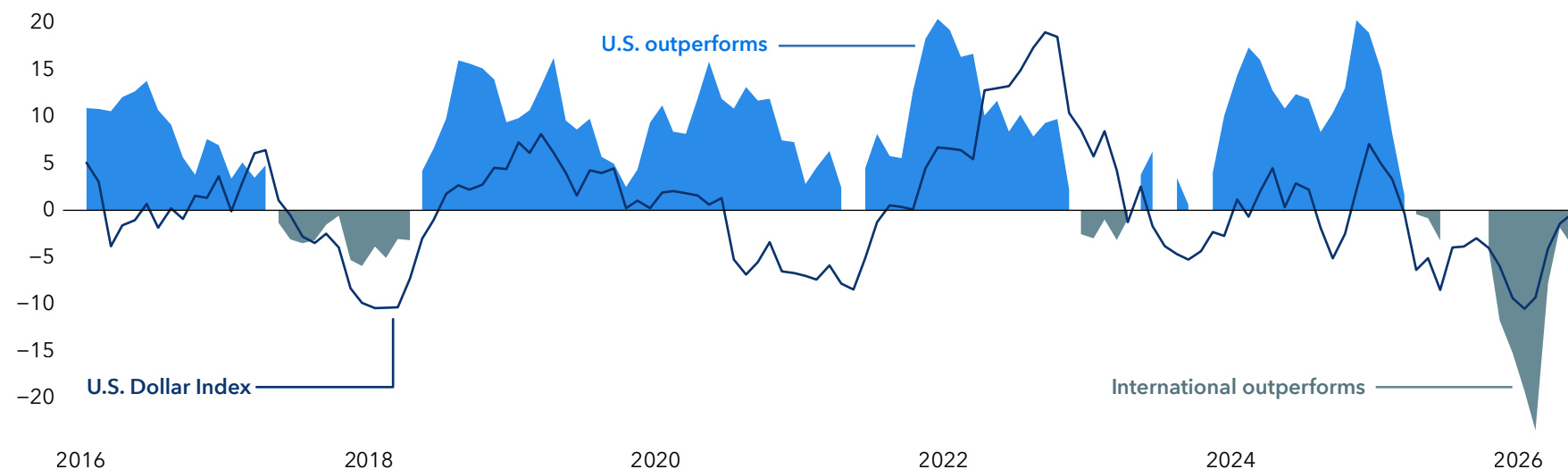
The combination of innovation-led growth and dividend defensiveness can potentially enhance portfolio resilience while still offering compelling upside.

Sources: Capital Group, Bloomberg, MSCI, RIMES, company reports. Dividend yield is represented by the forward 12-month dividend yield based on latest consensus figures and company announcements. Free cash flow growth is annualized based on 2026 and 2027 consensus estimates. Pipeline figures based on data available from individual company webpages and includes drugs in Phase 1 to 3 of clinical trials or in the filing stage. Pharmaceutical companies listed represent seven of the largest constituents of the MSCI All Country World Pharmaceuticals Index. Pipelines up to date as of calendar Q1 2026 financial reporting except for Eli Lilly, which is as of calendar year 2025. As of May 31, 2026.

Investing outside the U.S. can continue to pay off

Non-U.S. stocks have led U.S. shares since the start of 2025

Relative return comparison: S&P 500 Index vs. MSCI All Country World ex USA Index rolling one-year returns (%)



After more than a decade in the wilderness, international and emerging markets stocks are enjoying their time in the sun. The powerful rally in non-U.S. markets that started in 2025 has continued, driven by attractive valuations, a weak dollar and strong corporate earnings.

For anyone who thought the 2025 results were a head fake, markets outside the U.S. are demonstrating their resilience in 2026. On a year-to-date basis as of May 31, the MSCI All Country World ex USA Index gained 14%, compared to roughly 11% for the S&P 500 Index.

This shift in investor sentiment has essentially taken us back to the future – recalling a time when U.S. and non-U.S. markets traded leadership positions every few years.

“I see it as a return to the norm, when U.S. and non-U.S. markets would pass the baton back and forth,” says equity portfolio manager Steve Watson. “There are just so many fantastic companies outside the U.S. trading at attractive valuations. I think there’s a good chance that the strength we’re seeing in international and emerging markets still has room to run.”

International diversification doesn’t mean compromising on quality either. “Many of these non-U.S. companies – Airbus, ASML, AstraZeneca, Safran and TSMC – are leaders in their industries,” Watson adds. “They just happen to be headquartered somewhere else.”

Sources: Capital Group, Intercontinental Exchange (ICE), MSCI, S&P Global. U.S. relative returns are represented by the S&P 500 Index; international returns are represented by the MSCI All Country World ex USA Index. Relative returns are measured on a rolling one-year monthly total return basis in USD. As of May 31, 2026. Past results are not predictive of results in future periods.

Look beyond magnificence to the Emergent Seven

Emerging markets today resemble U.S. markets in one important way: Just as the Magnificent Seven – Alphabet, Amazon, Apple, Tesla, Meta, Microsoft and NVIDIA – lead the S&P 500 Index, seven companies that play a key role in the artificial intelligence revolution have come to dominate emerging markets.

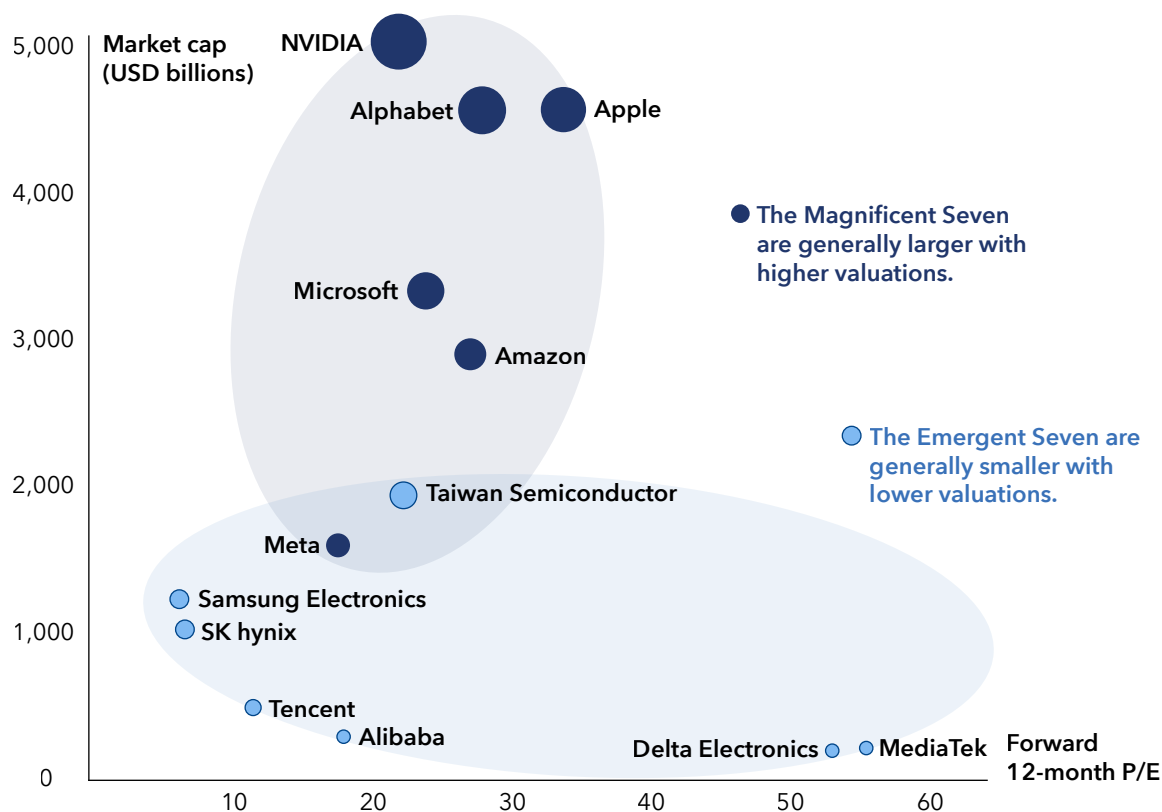
The top seven companies by market capitalization in the MSCI Emerging Markets Index are all tech, making up 36% of the index. At Capital we refer to them as the “Emergent” Seven. They have smaller market capitalizations and lower valuations than many of their U.S. counterparts.

Taiwan Semiconductor, Samsung Electronics and SK hynix are common names, but lesser known companies MediaTek and Delta Electronics are also asserting leadership. Tencent and Alibaba have access to the largest market in the world by operating in China.

Investors focused on U.S. equities may not fully grasp the scope of these opportunities. As equity portfolio manager Brad Freer puts it, “It’s becoming clear that TSMC, Samsung and SK hynix are every bit as important as a U.S. semiconductor maker like Micron Technology.”

Overall, the Emergent Seven stocks represent a broader shift to higher value sectors within emerging markets. Investors just need to look across the globe for potential long-term compounders on par with U.S. companies.

As in the U.S., seven tech stocks dominate emerging market returns

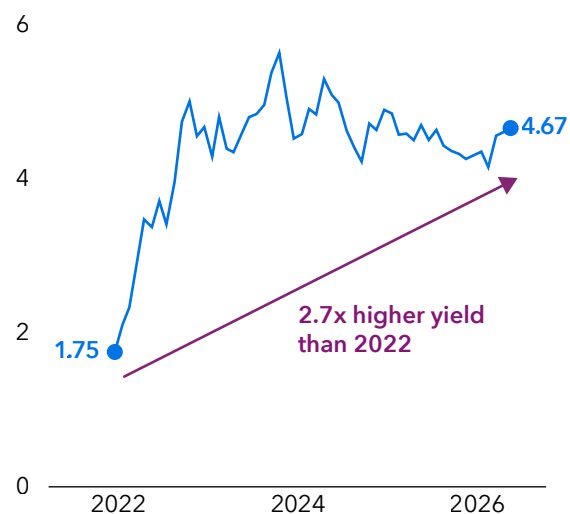


Sources: Capital Group, FactSet, MSCI, RIMES. Emergent Seven represents the seven largest companies in the MSCI Emerging Markets Index: TSMC, Samsung Electronics, SK hynix, Tencent, Alibaba, MediaTek and Delta Electronics. The Magnificent Seven refers to a group of seven dominant U.S.-based technology companies: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla. The forward 12-month price-to-earnings (P/E) ratio is calculated by dividing each company’s current share price by the mean industry analyst consensus estimate of its earnings per share over the next 12 months. Tesla’s forward 12-month P/E of 220x places it outside of the graph axis and is thus excluded above. As of May 31, 2026.

Bonds hit a sweet spot for income and diversification

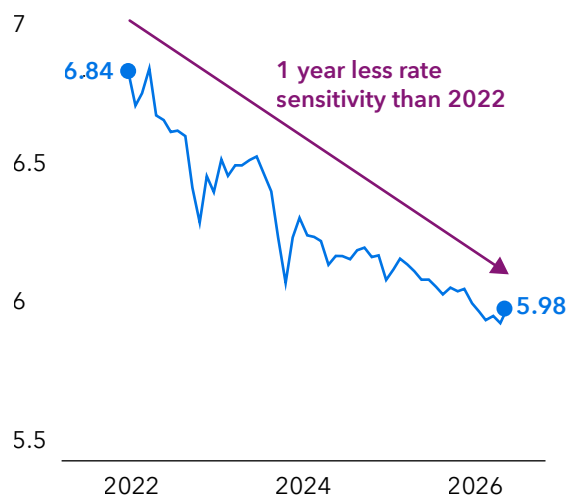
Higher return potential

Bloomberg U.S. Agg. yield to worst (%)



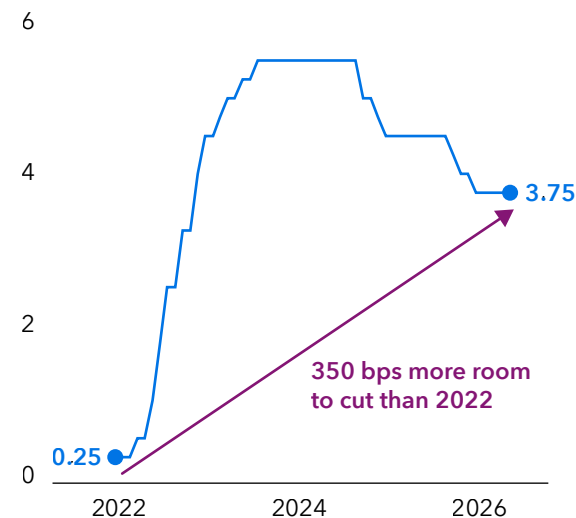
Less interest rate risk

Bloomberg U.S. Agg. duration (years)



Stronger diversification from equities

Fed funds rate (%)



Bonds have reclaimed their role in portfolios, offering stronger return potential and better diversification at a time when investors need both.

Starting yields of roughly 4.5% to 5% for the benchmark Bloomberg U.S. Aggregate Index provide a solid baseline return expectation and have historically correlated with subsequent forward returns. That higher income can also help support returns even as the war in Iran adds uncertainty to growth and inflation.

“The U.S. economy may well remain resilient,” says bond manager Pramod Atluri. “Either way, investors can be in high-quality bonds without giving up attractive yield. That’s a stark contrast to the beginning of 2022, when yields were below 2% and the Fed had limited room to cut.”

Higher income potential can also help buffer price volatility. In the unlikely scenario interest rates climb 100 bps, the income from bonds could largely offset the resulting price decline over a year. Importantly, duration in core indices has declined since 2022, reducing sensitivity to interest rate moves.

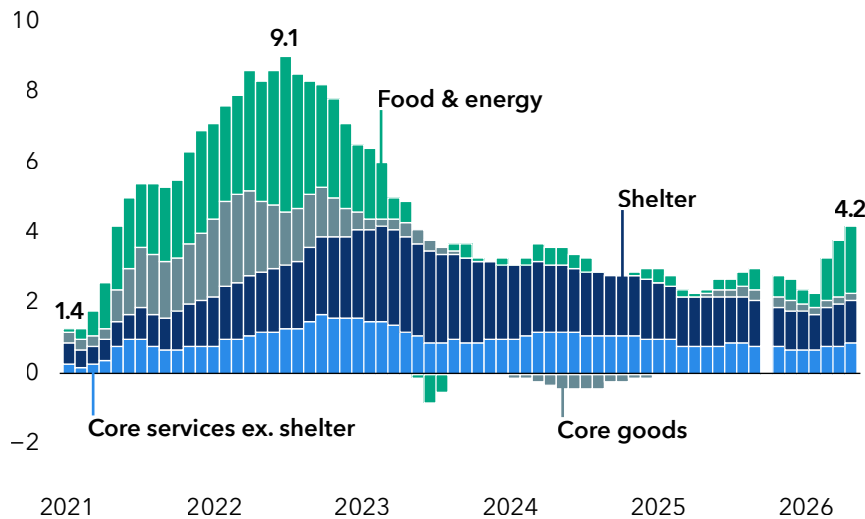
The ability of bonds to provide diversification in a growth shock should be greater, given the Fed could lower interest rates by as much as 350 bps. While some market participants may look to cash as an alternative to reduce volatility in a hypothetical 60/40 portfolio, history suggests the trade-off is particularly unfavorable today. Investors could forgo roughly 1.4% in annual returns, with only a limited reduction in volatility, by allocating 40% to cash over a five-year period.

Sources: Capital Group, Bloomberg. As of May 31, 2026. Duration is a measure of a bond’s price sensitivity to interest rate changes, expressed in years. Yield to worst is the lowest possible annualized return an investor could receive, assuming no default and that the bond is called, put or held to maturity. Fed funds target rate reflects upper bound of range. A 60/40 portfolio consists of roughly 60% stocks and 40% bonds. Past results are not predictive of results in future periods.

Rate fears create an opening to extend duration

Core inflation holds steady amid high energy prices

Year-over-year growth (%)



Inflation concerns tied to the Iran war have pushed yields upward, creating room for a reversal if pressures ease or growth risks build.

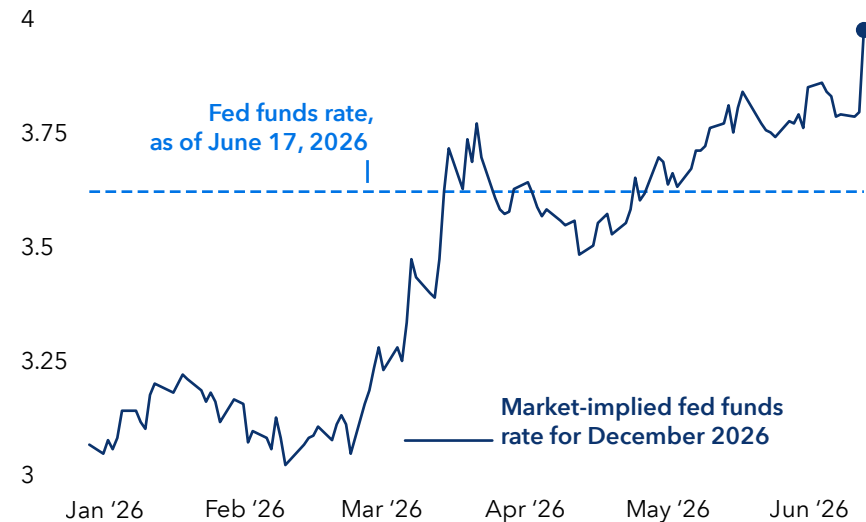
While headline inflation figures may tick higher, core inflation has remained steady, contained by reduced consumer savings and tepid wage growth. Muted money supply and credit growth also point to less underlying momentum, reducing the likelihood of a sustained inflation cycle. This should allow the Fed to prioritize the employment side of its mandate.

A Fed that remains on pause is more likely than an interest rate hike over the next several quarters, according to portfolio manager Ritchie Tuazon. “When the market gets nervous about hikes, that’s usually a favorable time to extend

Sources: Capital Group, Bloomberg, Bureau of Labor Statistics. Data shown is CPI for all items. October 2025 CPI data is unavailable due to the U.S. government shutdown. Latest data available is May 2026 as of June 10, 2026.

Markets expect rate hikes, but we see a patient Fed

Actual fed funds rate vs. market-implied rate (%)



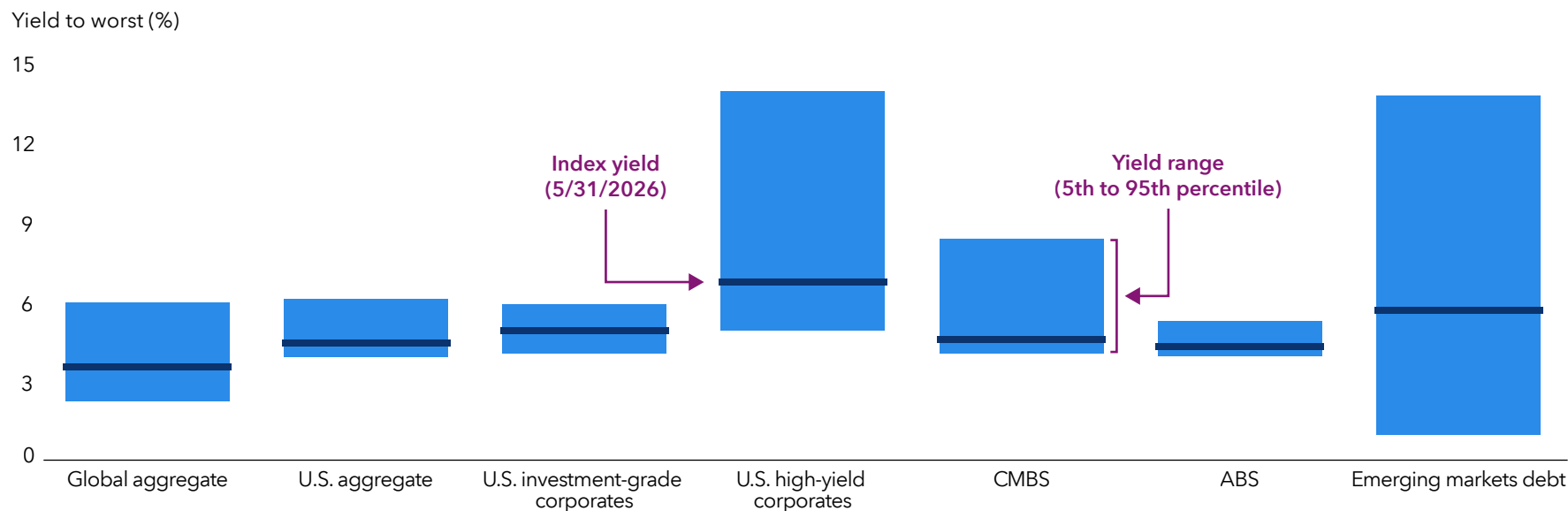
duration,” he adds. Owning duration, which is usually measured in years, can benefit a portfolio by capturing price appreciation from falling rates. The position also serves as a potential hedge against further economic softening.

Longer term forces such as artificial intelligence may also support lower rates across a range of outcomes. Strong productivity gains could help dampen inflation, while potential disruption to labor markets or risk sentiment could accelerate the need for a Fed response.

Sources: Capital Group, Bloomberg. As of June 17, 2026. The federal funds rate shown is the midpoint of the upper and lower bounds of the Federal Reserve’s target range for the federal funds rate. Market-implied federal funds rates are derived from federal funds futures pricing and reflect market expectations. These expectations are subject to change and may differ from actual Federal Reserve decisions.

Credit opportunities remain despite narrow spreads

Key credit sectors offer attractive yield



A resilient U.S. economy, strong corporate balance sheets and attractive yields should support most credit sectors, though tight valuations reinforce the case for a flexible, multi-sector approach to income.

Companies have generally operated conservatively amid high interest rates and rolling concerns about an economic slowdown, most recently tied to the Iran war, says Damien McCann, bond manager. “A sustained rise in oil prices may dampen growth, but resilient consumer spending and significant investments in AI infrastructure should help keep U.S. economic growth positive.”

Credit spreads reflect a broadly favorable environment and the higher quality of today’s high-yield market. “I am still finding plenty of good

investments across the broad credit market,” adds McCann. “Moreover, we remain in a period of elevated yields relative to history, which is a strong setup for income seeking investors.”

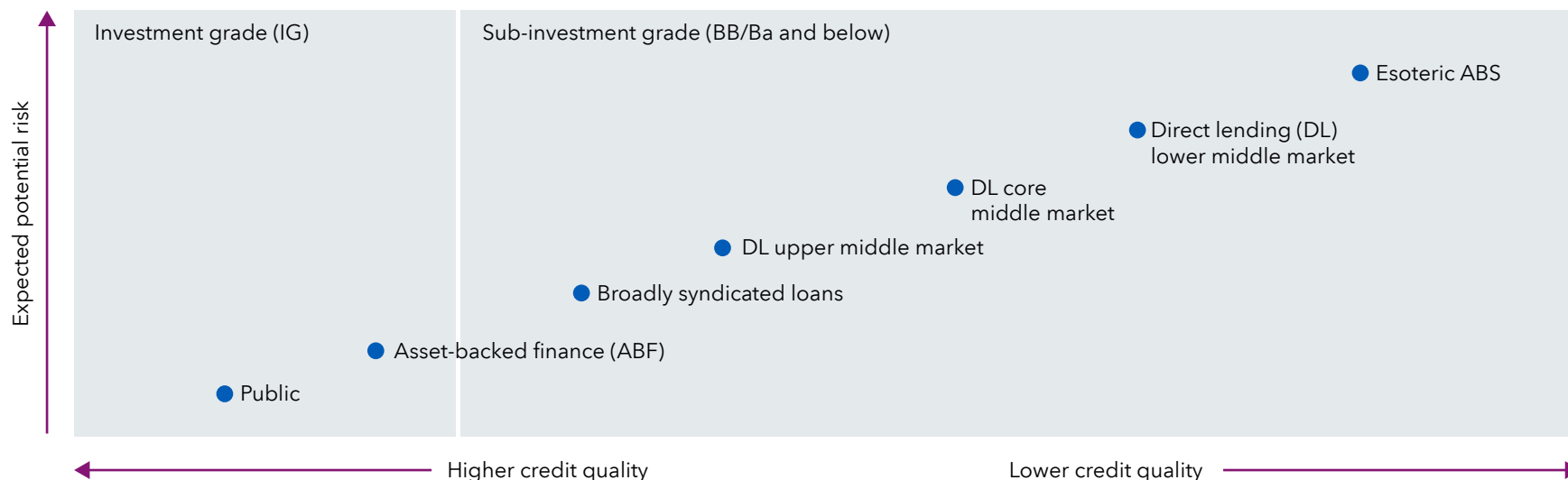
Differing yields and spreads present opportunities across and within investment-grade corporate bonds (BBB/Baa and above), high-yield bonds, emerging market debt and securitized credit such as commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS). That dispersion stems from varying fundamentals and sensitivity to economic conditions. A diversified approach can help provide steady income potential and relative stability, while targeted investments in bonds offering incremental yield, including certain AI-related debt issuance, could help enhance returns.

Sources: Capital Group, Bloomberg, JPMorgan. As of May 31, 2026. Global aggregate is the Bloomberg Global Aggregate Index. U.S. aggregate is the Bloomberg U.S. Aggregate Index. U.S. investment-grade corporates is the Bloomberg U.S. Corporate Investment Grade Index. U.S. high-yield corporates is the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index. CMBS is the Bloomberg CMBS: Erisa Eligible Index. ABS is the Bloomberg U.S. ABS Index. Emerging markets debt is the J.P. Morgan GBI-EM Global Diversified Index. Past results are not predictive of results in future periods.

Private credit: Why quality matters

Private credit spans a broad range of risks

2026 credit spectrum



Concerns in private credit about withdrawals, rising defaults and potential AI-related disruption are reinforcing a selective approach to opportunities in a sector that will likely continue to grow.

“The bad press may create a feeling there’s something like the global financial crisis brewing,” says portfolio manager Sandro Lazzarini. “I don’t think that’s where private credit is.”

Recent scrutiny has centered on certain segments of direct lending, where nonbank lenders provide capital directly to businesses. But private credit is not a monolith. It spans a spectrum of sub-asset classes with varying levels of risk, giving investors room to be selective.

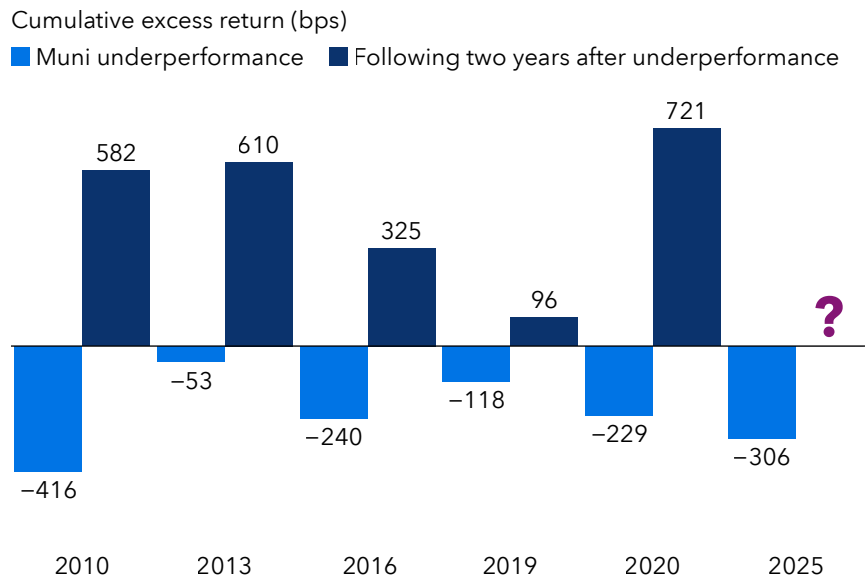
An “up-in-quality” bias may allow investors to capture better risk-adjusted income while the broader market faces late-cycle pressure. In direct lending, a focus on upper middle market companies may provide reduced default risk as larger companies are more able to absorb elevated financing costs amid higher-for-longer interest rates.

Asset-backed finance offers another avenue to improve resilience in a world where corporate earnings may become more uneven. Because these loans are backed by hard collateral like equipment or mortgages, lenders typically hold a senior claim on the underlying asset in the event of default. That structure can support a higher recovery rate than traditional corporate lending, public or private.

For illustrative purposes only. Esoteric ABS: a subset backed by less traditional collateral that aims for higher yields than comparably rated corporate debt instruments and other structured securities.

Historical trends and U.S. resilience favor municipal bonds

After challenging years, munis have bounced back

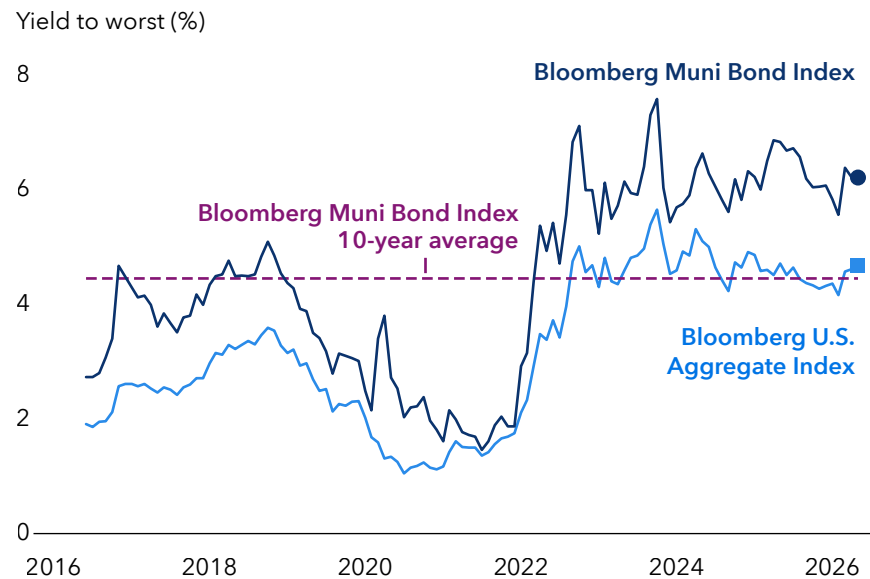


At the midpoint of 2026, municipal bonds stand out for what they avoid: direct exposure to geopolitical shocks. Today their appeal lies in a notable after-tax yield advantage and income streams from U.S. state and local government-related issuers.

“Munis provide exposure to parts of the U.S. economy that are somewhat insulated from geopolitical volatility. Relative to other segments of fixed income, fundamentals and prospects are solid,” says Ivan Mirabelli, portfolio manager. “Munis also tend to exhibit higher quality and longer duration, limiting credit risk and adding equity diversification potential.” After a year in which munis underperformed their taxable counterparts in 2025, history suggests munis may be poised for a rebound.

Sources: Capital Group, Bloomberg. Data shown is the last five calendar years in which the Bloomberg U.S. Aggregate Index outpaced the Bloomberg Municipal Bond Index. As of December 31, 2025. Past results are not predictive of results in future periods.

Tax-equivalent yields can offer a notable advantage



Many of our muni managers find prepaid gas compelling. These are bonds backed by large financial institutions issued by public energy authorities to lock in energy prices. Large supply has lifted yields without perceived credit risk, providing a unique environment for active managers. Housing bonds issued by municipals are intriguing as well, including community capital bonds and planned amortization class (PAC) bonds.

When compared to taxable bonds, munis offer investors significant after-tax yield potential. At the highest federal income tax level, the tax-equivalent yield for the Bloomberg Municipal Bond Index yield exceeded that of the Bloomberg U.S. Aggregate Index by 1.54% at the end of May 2026.

Sources: Capital Group, Bloomberg. As of May 31, 2026. Tax-equivalent yield calculation is yield to worst divided by [1-(federal tax rate)]. The federal tax rate of 40.8% reflects the highest income tax rate of 37% and Medicare tax rate of 3.8%, respectively. Past results are not predictive of results in future periods.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses or summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.

Investing outside the United States involves risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be heightened in connection with investments in developing countries.

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. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds. Income from municipal bonds may be subject to state or local income taxes and/or the federal alternative minimum tax. Certain other income, as well as capital gain distributions, may be taxable. While not directly correlated to changes in interest rates, the values of inflation-linked bonds generally fluctuate in response to changes in real interest rates and may experience greater losses than other debt securities with similar durations. The use of derivatives involves a variety of risks, which may be different from, or greater than, the risks associated with investing in traditional cash securities, such as stocks and bonds. Investments in mortgage-related securities involve additional risks, such as prepayment risk.

Nondiversified funds have the ability to invest a larger percentage of assets in the securities of a smaller number of issuers than a diversified fund. As a result, poor results by a single issuer could adversely affect fund results more than if the fund were invested in a larger number of issuers. See the applicable prospectus for details.

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. If agency ratings differ, the security will be considered to have received the highest of those ratings, consistent with the fund's investment policies.

GDP (gross domestic product) measures the monetary value of final goods and services produced in a country in a given period. It counts all the output generated within the borders of a country.

The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

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.

Bloomberg U.S. Aggregate Index represents the U.S. investment-grade, fixed-rate bond market. **Bloomberg Global Aggregate Index** represents the global investment-grade, fixed-rate bond market. **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 specific maturity, liquidity and quality requirements. **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. Asset-Backed Securities Index** is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. **Bloomberg CMBS (Commercial Mortgage-Backed Securities): Erisa Eligible Index** measures the market of U.S. agency and U.S. non-agency conduit and fusion CMBS deals with a minimum current deal size of \$300mn. **Bloomberg Municipal Bond Index** is a market value-weighted index designed to represent the long-term investment-grade tax-exempt bond market.

JP Morgan Government Bond Index – Emerging Markets (GBI-EM) Global Diversified covers the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

MSCI All Country World ex USA Index is designed to measure equity market results in the global developed and emerging markets, excluding the United States. **MSCI China Index** captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g., ADRs). **MSCI Emerging Markets (EM) Index** captures large- and mid-cap representation across 24 emerging markets (EM) countries. **MSCI Europe Index** captures large- and mid-cap representation across Developed Market (DM) countries in Europe. **MSCI Japan Index** captures

the large- and mid-cap sections of the Japanese market. **MSCI World ex USA Index** is designed to measure equity market results of developed markets. The index consists of more than 20 developed market country indexes, excluding the United States. **MSCI All Country World Pharmaceuticals Index** is composed of large- and mid-cap stocks across 23 Developed Market countries that are classified in the pharmaceuticals industry group according to the Global Industry Classification Standard (GICS®).

S&P 500 Index tracks the stocks of around 500 primarily large-cap, U.S.-based companies.

U.S. Dollar Index is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.

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Capital Client Group, Inc.

2026 Midyear Outlook

Equity themes

| Themes | Dynamic growth | Defend with dividends | Diversify with international |
|-------------------------|---|--|--|
| | AI build-out may surpass China's industrial boom | Leading drugmakers offer a powerful combination of income and innovation | Investing outside the U.S. can continue to pay off |
| Investment implications | The pace of investment and speed of advancement in AI technology suggests it may have a lasting effect on GDP growth, power demand, capital allocation and labor markets. | Select pharmaceutical companies have generated healthy free cash flow, providing support for dividends and allowing them to expand pipelines through acquisitions. | The powerful rally in non-U.S. markets that started in 2025 may continue, supported by attractive valuations, a weak dollar and strong corporate earnings. |

Fixed income themes

| Diversify for ballast | Dynamic approach to income | Defend with munis |
|---|--|--|
| Bonds are providing income again, with higher return potential | Don't let tight credit spreads distract from opportunity | Munis after-tax income is above 10-year average |
| High-quality core, core-plus and municipal bonds may help provide balance amid heightened economic uncertainties and record-high equity valuations. | Intentional exposure to credit and other high-income sectors may provide relatively strong yields amid healthy fundamentals. | Munis offer some stability amid geopolitical shocks, attractive after-tax income, and high-quality long duration exposure that helps diversify portfolios. |



Voted #1
for thought leadership by advisors since 2019*

*Source: FUSE Research, Marketing Support: The Advisor View, April 2026, May 2025, June 2024, May 2023, July 2021, June 2020; Fund Intelligence, February 2020. FUSE surveys 500-1,000 advisors identifying the "most-read thought leaders." Survey was not conducted in 2022. Capital Group did not compensate Fuse Research Network for the ratings and comments in this material.