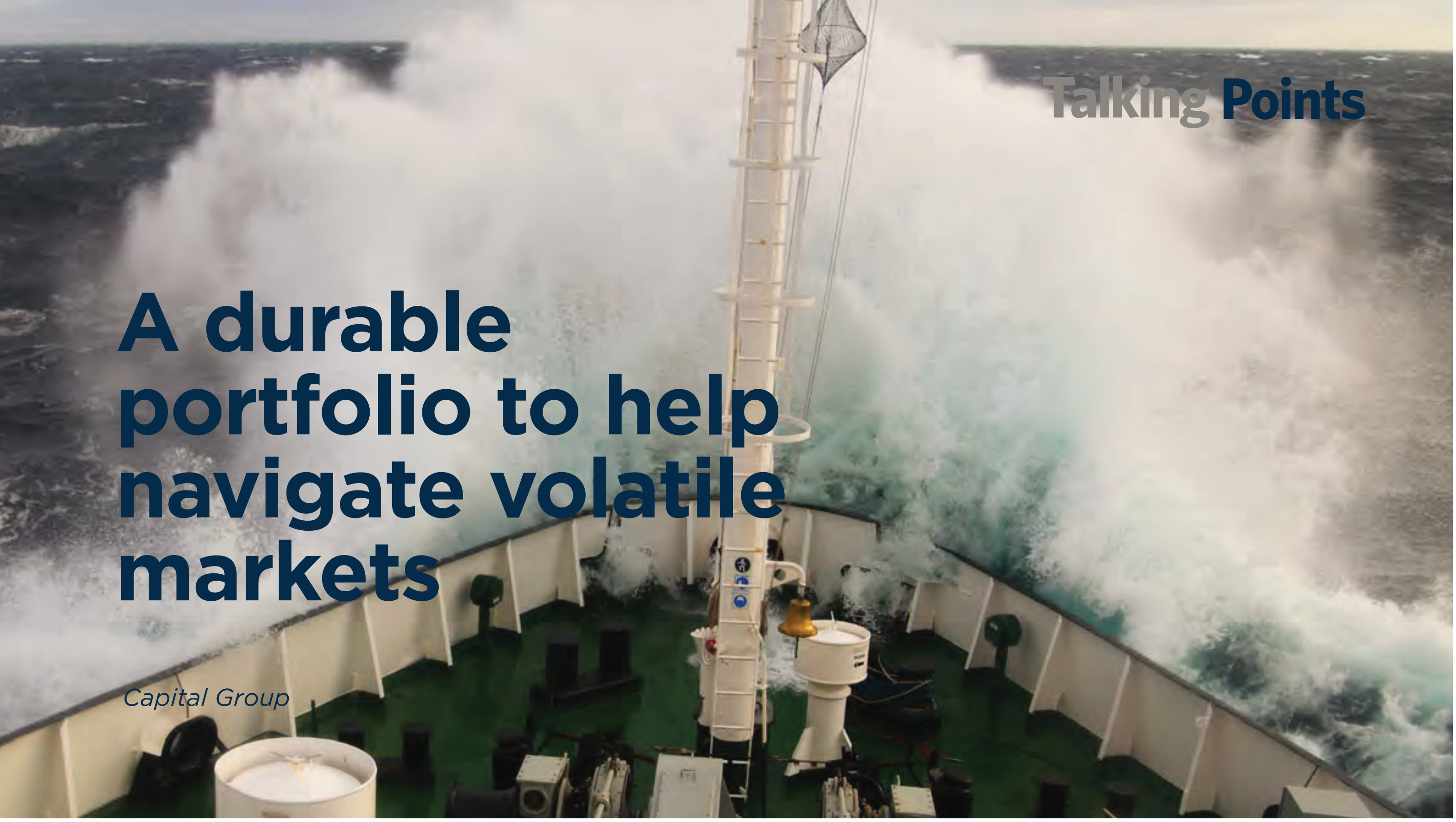


Talking Points

A durable portfolio to help navigate volatile markets

Capital Group

Russia's invasion of Ukraine has sent shockwaves through the world. In addition to the tragic impact on the Ukrainian people, the conflict has potentially significant economic impacts. The sanctions that have been put in place against Russia – coupled with the highly unpredictable situation – have resulted in considerable market volatility.

At the start of the year, we were looking at a global economy that was recovering from the Omicron COVID-19 variant. Activity was picking up; we were seeing a recovery in consumer spending and business investment. Yet we are now facing an environment of significantly higher commodity prices, which could persist for longer than many would anticipate. It will likely raise inflation and reduce economic growth, posing a challenging problem for policy-makers.

Yet, while the short-to-medium term might seem uncertain, over longer periods of time, stocks have tended to move steadily higher. History tells us that stock market declines are an inevitable part of investing, but an important perspective to keep in mind is that market corrections (defined as a decline of 10% or more), bear markets (an extended decline of 20% or more) and other challenging patches haven't lasted forever.

Market downturns happen frequently but don't last forever

Standard & Poor's 500 Composite Index (1952 - 2021)

Size of decline	-5% or more	-10% or more	-15% or more	-20% or more
Average frequency[*]	About three times per year	About once per year	About once every three years	About once every six years
Average length[†]	43 days	110 days	251 days	370 days
Last occurrence	October 2021	September 2020	March 2020	March 2020

As at 31 December 2021. Sources: Capital Group, Standard & Poor's

[*] *Assumes 50% recovery of lost value*

[†] *Measure market high to market low*

Using the Standard & Poor's 500 Composite Index as a representative index for the market, data from 1951-2021 shows that it has typically dipped at least 10% about once a year, and 20% or more about every six years. While past results are not predictive of future results, each downturn has been followed by a recovery and a new market high.

It's always important to maintain a long-term perspective, but especially when markets are declining. Although stocks rise and fall in the short term, they've tended to reward investors over longer periods of time.

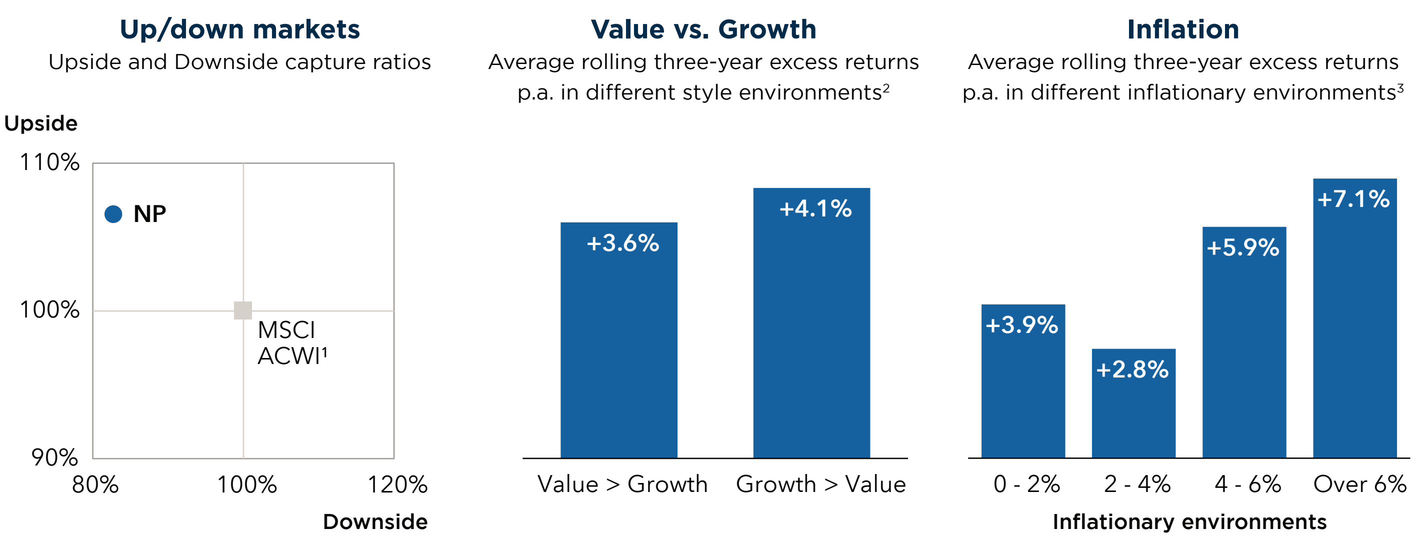
A track record of resilience

The PPS Global Equity Fund is based on the Capital Group New Perspective Strategy*, which across its 48-year history has successfully invested through change. Over its lifetime, it has navigated the 1970s energy crisis, various inflationary environments, unprecedented swings in exchange rates, seismic shifts in the structure of the global economy, multiple recessions and financial bubbles, unparalleled monetary policy experiments and the COVID-19 global health pandemic.

Throughout these periods of significant market upheaval, the portfolio has demonstrated long-term resilience and consistency in its excess return generation.

New Perspective Strategy's excess returns across a variety of market environments

Since inception in 1973



Past results are not a guarantee of future results.
As at 31 December 2021. Returns in US$ terms. Results shown for the Capital Group New Perspective Composite (NP) (inception: 31 March 1973) are asset-weighted and based on initial weights and monthly returns. Relative returns calculated geometrically for the Capital Group New Perspective Composite, compared with MSCI All Country World Index (ACWI) (with net dividends reinvested) from 30 September 2011; previously MSCI World (with net dividends reinvested). Gross of management fees and expenses. Sources: Capital Group and MSCI, unless otherwise specified.

1. MSCI ACWI (with net dividends reinvested) from 30 September 2011; previously MSCI World (with net dividends reinvested).
2. Relative return of MSCI ACWI World Growth and MSCI ACWI World Value (with net dividends reinvested) used to determine when "value outperforms growth" and "growth outperforms value" from 30 September 2011; previously MSCI World (Growth and Value).
3. Based on US inflation rates using the IA SBBI US Inflation index.

Source: CFA Institute

Chart 1 – Up/down markets: positive excess returns

Since inception, and over three-, five-, 10- and 15-year time periods, the strategy has consistently captured more than 100% of the upside when equity markets are rising. This means it has outpaced the MSCI ACWI index when markets have rallied in those periods. Importantly, it has also shown resilience in down markets, capturing less than 100% of the downside when global markets declined, offering investors some relative downside protection when markets fell in the same periods.

Chart 2 – Different style-driven environments: positive excess returns

The portfolio is a core, flexible strategy that has outpaced the global equity market during every major prolonged style-driven market cycle since 1975. The exception to this was the three-year period in the mid-1980s, which was primarily due to the portfolio being underexposed to Japanese-listed companies at the height of the Japanese equity bubble, rather than any type of style-driven market environment. Overall, the strategy has delivered attractive long-term excess returns in both value-driven and growth-driven markets.

Chart 3 – Different inflationary environments: positive excess returns

Although it has never been constructed based on a single, top-down view of inflation, the strategy has often outpaced global markets across different inflationary environments, from deflation to low inflation to high inflation.
With economic growth in 2022 likely to be slower than 2021 and inflation expected to remain at elevated levels – in part due to increasing geopolitical uncertainties – the result could be a different environment to the narrow market, (primarily driven by large-cap growth stocks,) of the past few years.

A long-term approach for uncertain markets

While the extent of the latest developments in Russia and Ukraine remains unclear, it is worth remembering the importance of portfolio diversification and a long-term perspective.

One of the New Perspective strategy's most distinguishing and enduring features is the consistency and resilience of return generation in different market environments over the longer term. The strategy has historically outpaced global equity markets through up and down markets, during prolonged style-driven cycles and in different inflationary environments. This has been achieved by a deliberately well-balanced portfolio rather than one based on a small number of top-down binary outcomes. The portfolio maintains a long-term investment horizon and a structurally flexible approach.

We believe these characteristics will be particularly relevant for investors looking for guidance through volatile markets, such as those we have witnessed so far in 2022.

***Please note the strategy performance does not in any way reflect the performance of the PPS Global Equity Fund.**

CAPITAL GROUP SM