Outlook

MIDYEAR ISSUE JUNE 2021

CAPITAL GROUP®

Long-term perspective on markets and economies

2021 Midyear Outlook

Get ready to boom, zoom and consume.

Major economies come roaring back. Effective vaccines, record government support and pent-up consumer demand are fueling a historic turnaround for the global economy. The surprising pace of growth caused the International Monetary Fund to more than double its 2021 U.S. GDP estimate to 6.4%, from 3.1% six months ago.

Concerns about inflation and rate hikes seem exaggerated. Inflation should spike in coming months as stimulus-induced demand meets COVID-restricted supply, says economist Darrell Spence. But as stimulus wanes and the economy fully reopens, inflation should return to around 2% annualized. Rate hikes seem likely in 2023.

Value or growth? Balance them both.

Value stocks get a booster shot. "Vaccine day" on November 9, 2020, marked a turning point for cyclically sensitive stocks in the financial, energy and travel sectors. Those companies that used the crisis to innovate and improve operations should be well-positioned as the economy reopens.

Long-term growth trends are alive and well. Even after the acceleration in all things digital during the pandemic, there are still long runways for growth in cloud services, digital payments, streaming entertainment and more – all powered by semiconductors.

Dividends make a comeback, in the U.S. and abroad. As of May 31, 2021, 76 of the 242 U.S. companies that cut dividends in 2020 have already reinstated them, according to Wolfe Research. And if you think the highest dividends are in the U.S., think again. The number of international companies with greater than 3% yield is more than double those in the U.S.

Whether yields rise or fall, core strength matters.

Core bonds can still deliver in a rising rate environment. Over the past three decades, investors have seen many rate hikes and yield spikes. Even during the five sharpest 10-year yield spikes over that time frame, the core bond benchmark remained positive over the next two years. Seeking resilience? Then stay the course with core bonds.

It's a good time to diversify your bond portfolio. If you're seeking higher income, consider looking beyond just high-yield corporate bonds to include emerging markets and securitized debt in your portfolio. By blending higher income sectors, you can potentially capture much of the yield while reducing overall risk.

Tax hikes on your mind? Municipal bonds can help. With higher income taxes under consideration, tax-exempt municipals appear even more attractive. Pockets of value remain as over $1 trillion of stimulus has boosted muni fundamentals.

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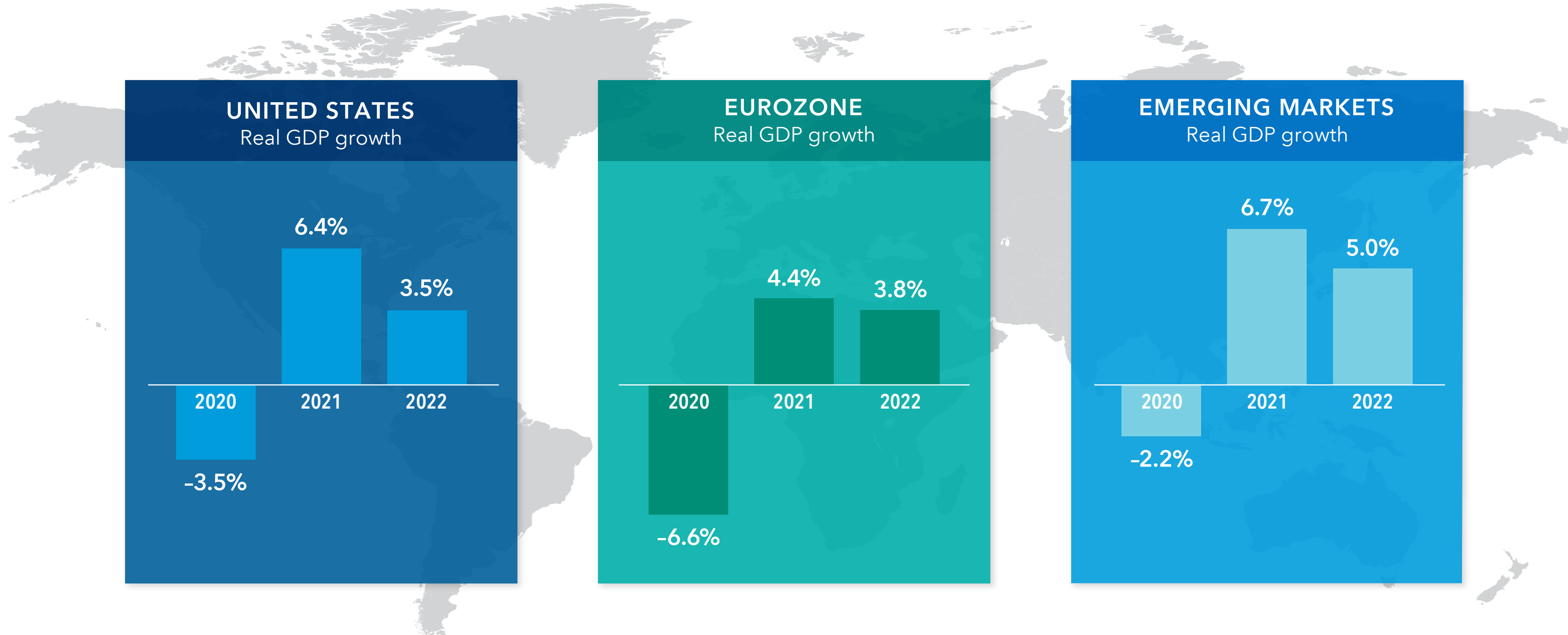
*Source: Marketing Support: The Advisor View, June 2020. FUSE Research survey of more than 700 advisors identifying the "most-read thought leaders."

The boom heard 'round the world: Major economies come roaring back



Remember that iconic photo depicting the end of World War II, with sailors kissing nurses in New York's Times Square? While we may not see quite that much exuberance this year, pandemic storm clouds are lifting, and people are excited to get back to life. To be sure, there are still hurdles to overcome, since COVID continues to spread in many countries.

But here's what you can expect: With vaccinations rising and restrictions lifting, major economies around the world should experience robust growth for the remainder of the year and into 2022, according to the International Monetary Fund (IMF).

In fact, the IMF revised its growth estimates significantly higher and expects the U.S. economy will expand 6.4% in 2021, powered by trillions of dollars of government stimulus and pent-up consumer demand. That's more than double a January estimate of 3.1% after U.S. household income growth soared to a record 21.1% this March.

"The recovery always came down to whether there would be enough stimulus to sustain us through the shutdowns," says Capital Group U.S. economist Darrell Spence. "And with the vaccine rollout compressing the time between stimulus and the functional end of COVID, we could see even stronger growth than the market expects today."

Source: International Monetary Fund, *World Economic Outlook* Database, April 2021. GDP figures for 2021 and 2022 are forecasts.

Higher inflation? Yes, but it is likely temporary

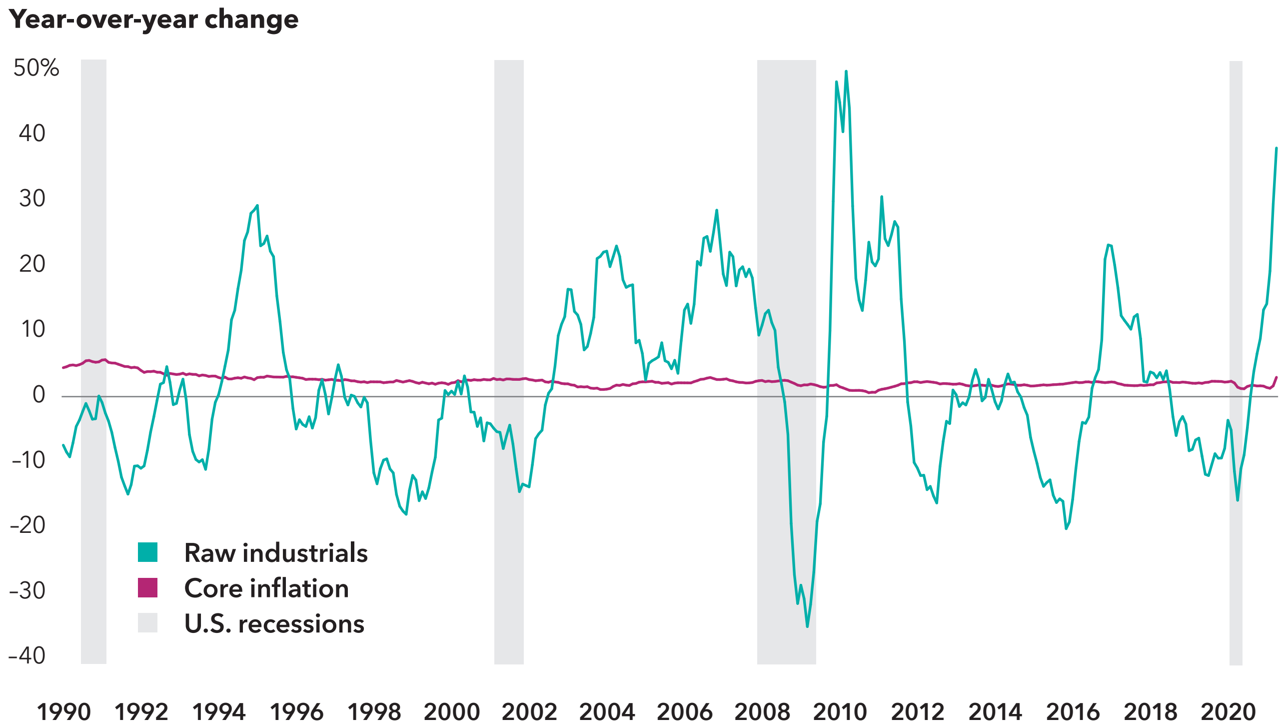
If you're trying to buy lumber or a used car, you probably feel like inflation is out of control. Indeed, a reawakening of the U.S. economy – boosted by pent-up demand and unprecedented government stimulus – has stoked investor fears of higher inflation. But those fears may be overblown amid ongoing weakness in the labor market and the slowing pace of vaccinations, says Capital Group economist Darrell Spence.

Despite higher prices for some raw materials and consumer products, signs of broader price inflation appear to be mostly short term in nature and unlikely to produce sustained, long-term inflationary pressures.

If history is any guide, sharp increases in prices for raw industrial materials – copper, cotton, rubber, tallow and zinc, among others – generally do not have much impact on the Consumer Price Index (excluding food and energy), the most widely used gauge of long-term inflation.

"Inflation should spike in coming months as stimulus-induced demand meets COVID-restricted supply," Spence explains. "This is the process of the U.S. economy trying to find a new equilibrium. As stimulus wanes and the economy fully reopens, inflation should return to pre-pandemic levels of around 2% annualized."

Price volatility of industrial materials has rarely impacted broad inflation



Sources: Capital Group, Bureau of Labor Statistics. As of 4/30/21. Core inflation represented by the Consumer Price Index, excluding food and energy. Raw industrials represented by the CRB Raw Industrials Price Index, which includes burlap, copper scrap, cotton, hides, lead scrap, print cloth, rosin, rubber, steel scrap, tallow, tin, wool tops and zinc. Gray bars represent U.S. recessions.

Don't be too concerned about Fed rate hikes

Inflation fears go hand in hand with rate hike fears. Both are exaggerated in the view of Capital Group's rates team.

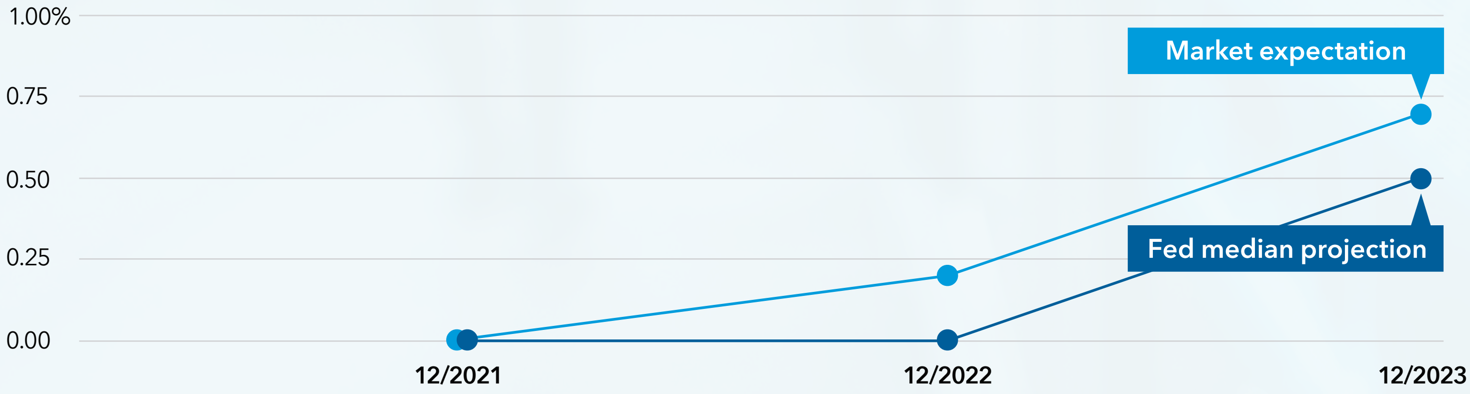
Market jitters over short-term inflationary pressures have moved up expectations for a rate increase to 2022. "That's likely earlier than anticipated given the Fed's stated desire to let inflation run hot and get the U.S. economy back to full employment," says Pramod Atluri, a portfolio manager with The Bond Fund of America®.

Before launching the first hike since 2018, the Fed is likely to take the following important steps: 1) announce that it will reduce, or taper, its bond-buying activities, 2) begin tapering, 3) end tapering and 4) signal that a rate hike is coming. That schedule will take time, and Fed officials have made it clear that they will remain patient.

As Fed Chair Jerome Powell recently noted, "Our expectation is that these high inflation readings that we're seeing now will start to abate." In other words: The Fed remains patient. A rate hike is probably at least 18 months away.

Our rates team expects four actions from the Fed prior to a rate increase

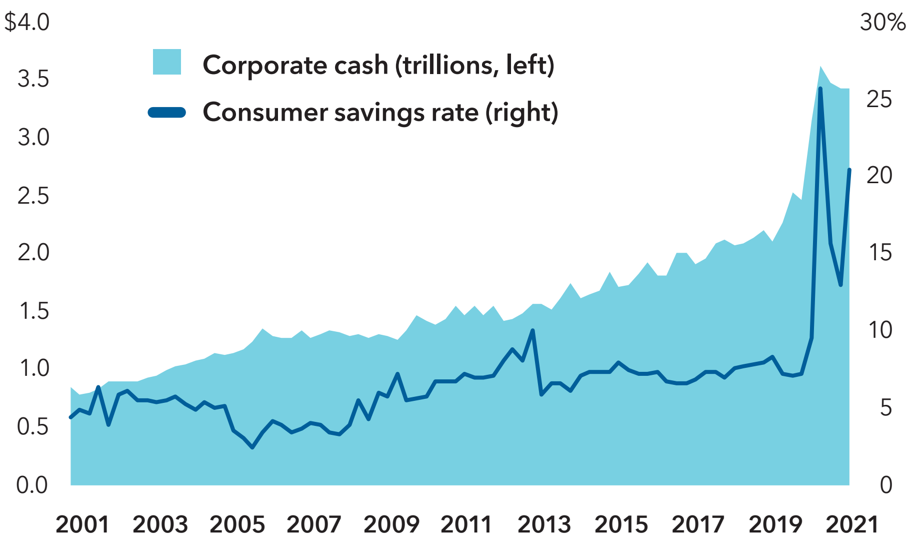
Expected Fed funds rate



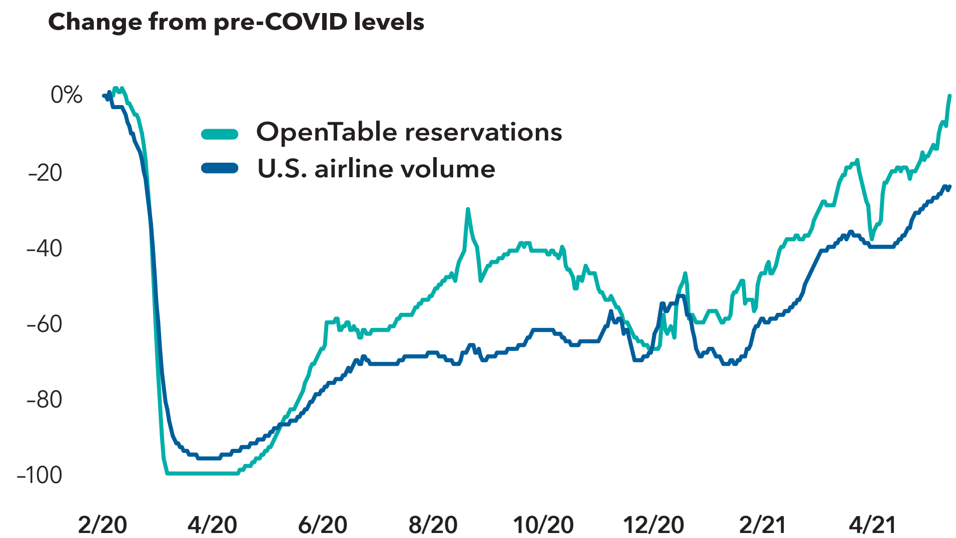
Sources: Capital Group, Bloomberg, Federal Reserve. Expectations reflect the lower bound of the Fed funds target range. As of 6/16/21.

U.S. outlook: Boom, zoom and consume

Consumers have trillions tucked under their mattresses ...



... and they're scheduling long-delayed vacations



American consumers and companies have been sitting on a cash stash. Now they're starting to spend it.

Signs that more Americans are ready to take that long-delayed vacation or go out to dinner are accelerating. Bookings on U.S. cruise lines have exceeded pre-pandemic levels, even though sailing restrictions, with some exceptions, had yet to be lifted as of June 2021. Bookings for domestic air travel and reservations placed through online service OpenTable have also experienced strong rebounds.

"Our memories are marked by experiences and connectedness with other human beings, so I think travel and dining out will come roaring back," says equity portfolio manager Hilda Applbaum. "But the market has anticipated this. The question is, 'Have any of these companies become even stronger because of COVID?'"

Cruise lines like Royal Caribbean have adopted strict protocols to limit the spread of illness when sailing resumes. Companies like Hilton are buying more properties and streamlining operations. In food service, Darden, a multi-brand restaurant operator, adopted pickup service, online ordering and contactless payments.

"Some companies have used the crisis to innovate and improve their business," says Applbaum. "I try to invest in those that are positioned to surpass the competition when the reopening picks up speed."

Sources: (Left chart) Bureau of Economic Analysis, Federal Reserve, Refinitiv Datastream. Corporate cash is as of 12/31/20 and is in USD. Savings rate is expressed as a percent of disposable income on a quarterly basis and is as of 3/31/21. (Right chart) OpenTable, Transportation Security Administration. Airline volume represents number of U.S. passengers screened by TSA and uses 2/18/20 as the pre-COVID baseline. All data uses seven-day smoothed averages. As of 5/31/21.

Value or growth? Balance them both

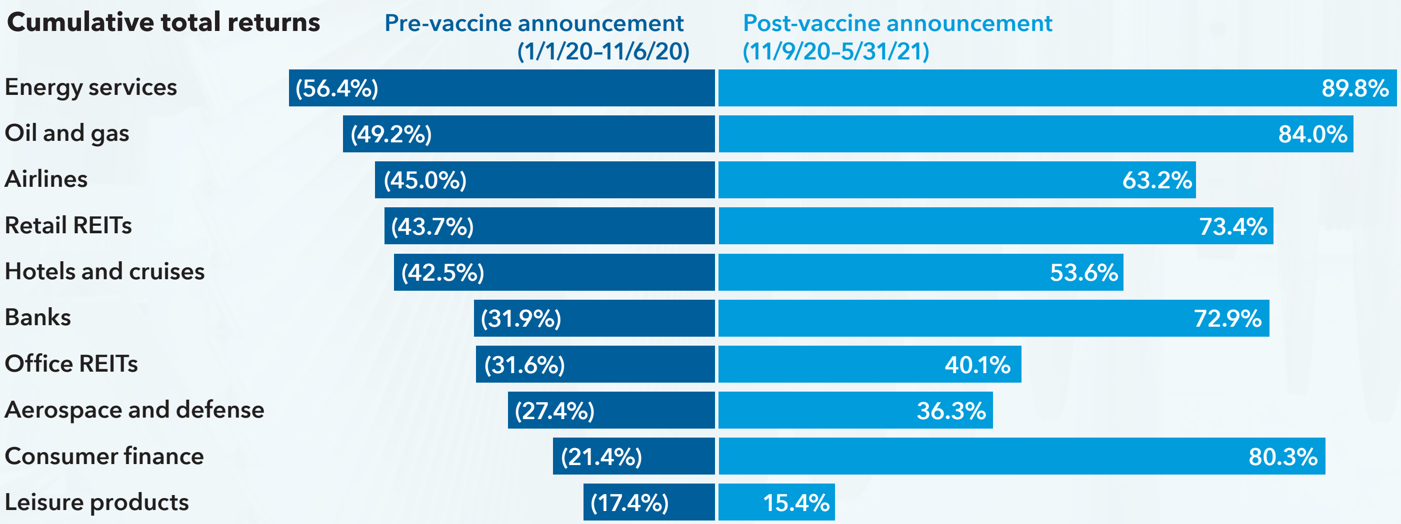
Value stocks got a booster shot on "vaccine day." After news came out November 9, 2020, that a COVID-19 vaccine was found to be highly effective, many of the industries that suffered the most during the pandemic – airlines, hotels and commercial real estate, to name a few – enjoyed strong rebounds.

So, is it time to shift from growth to value stocks? Not so fast. "There can be growing companies that are cheap and cheap companies that grow, so value and growth are not in opposition," says equity portfolio manager Martin Romo. "We are in a target rich environment with opportunities to invest in companies that are rapidly growing as well as classic cyclicals."

The pandemic forced a range of behavioral changes for consumers and companies alike. "Traditional, old-economy businesses and fast-growing digital ones are using the pandemic as an opportunity to adapt by using data, technology and analytics to build a much stronger competitive position."

Specialty retailer Williams-Sonoma, for example, saw online traffic surpass physical store sales and took the opportunity to renegotiate lease agreements on physical stores. Snack food manufacturer Mondelez, which spent billions of advertising dollars on TV, is now getting a 25% greater return with online ads. Meanwhile, Netflix became the largest content creator in the world last year.

A rotation to cyclical companies began on November 9, or "vaccine day"



Sources: RIMES, Standard & Poor's. Industries listed are the 10 worst performing industries within the S&P 500 Index from 1/1/20–11/6/20. Returns are in USD. 11/6/20 was the last business day before the Pfizer-BioNTech COVID-19 vaccine was revealed to have more than 90% efficacy in global trials.

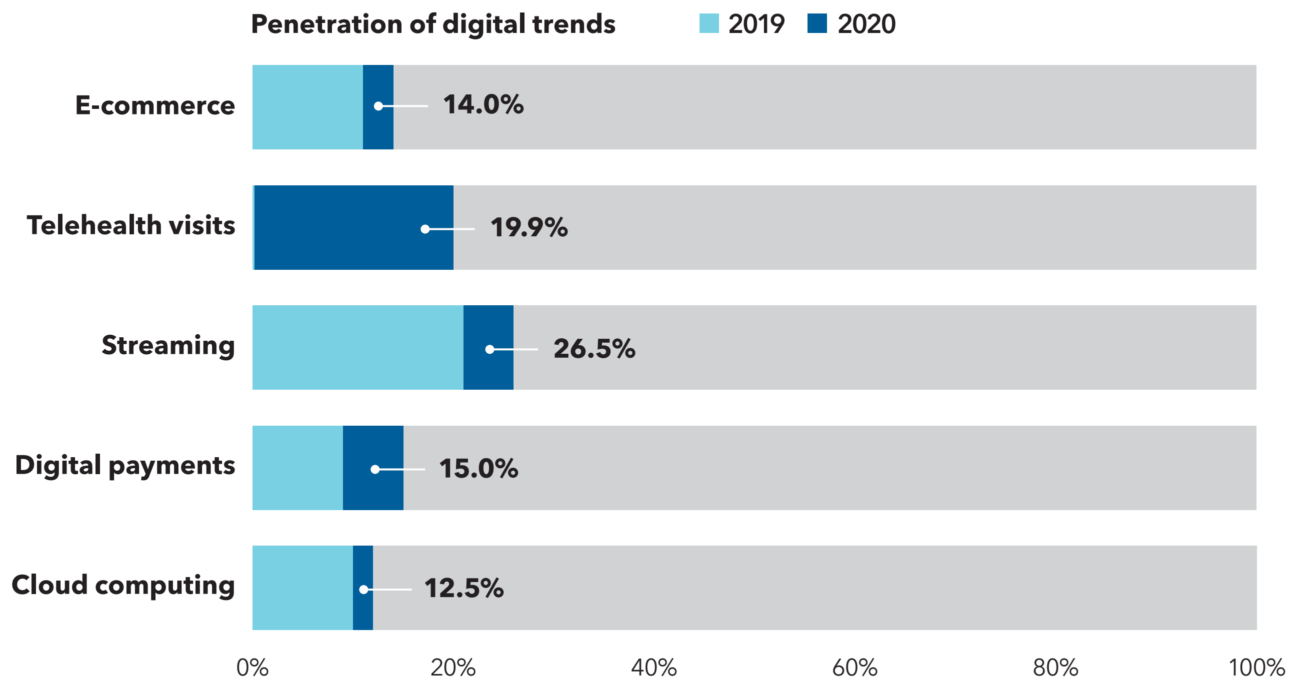
The great digital acceleration still has room to run

In a matter of months, COVID-19 jumpstarted years of change in the way we live and work – and the way companies operate. "Some companies saw their business models accelerate three or four years in 2020," says equity portfolio manager Chris Buchbinder.

Digital payment technology, which accounted for 9% of total U.S. payments in 2019, accounted for 15% in 2020 – a 66% increase. Telemedicine, or online appointments, accounted for a fraction of total doctor visits prior to the pandemic, but about 20% of all visits in the early months of 2020. Will these behavioral shifts prove to be lasting and persistent?

Many of the front-runners in these businesses saw their stock prices soar in 2020, but more recently they have languished. Still, the growth trends remain strong. Cloud services like Amazon Web Services and Microsoft's Azure have seen demand for their services rise, as have Mastercard and PayPal for their digital payment services. Some traditional retailers, like Williams-Sonoma and Target, have shifted to focus on their e-commerce.

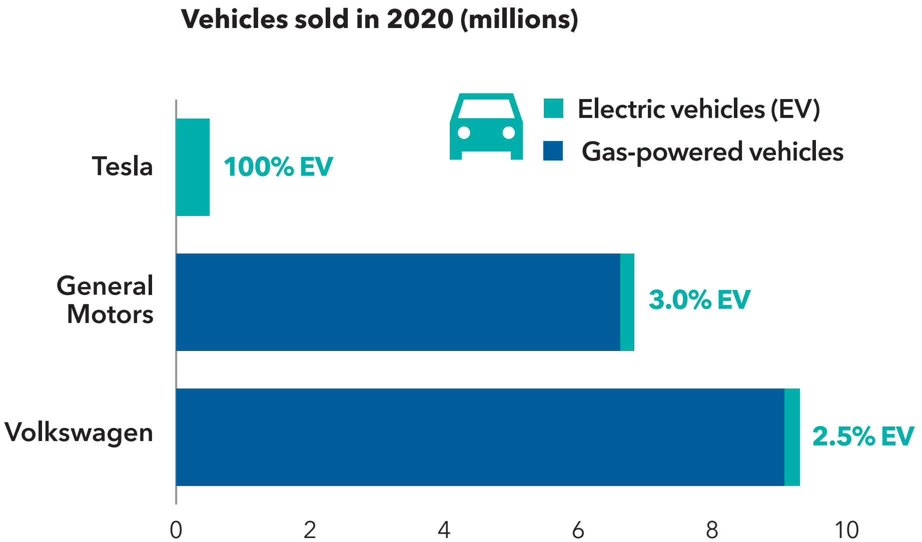
"Growth may slow a bit in some areas, but I don't believe we'll see a reversal of these trends," says Buchbinder. "For instance, many of the streaming companies are releasing new movies through their services at the same time they are in general release. When people physically return to theaters, will this practice stop? I don't think so."



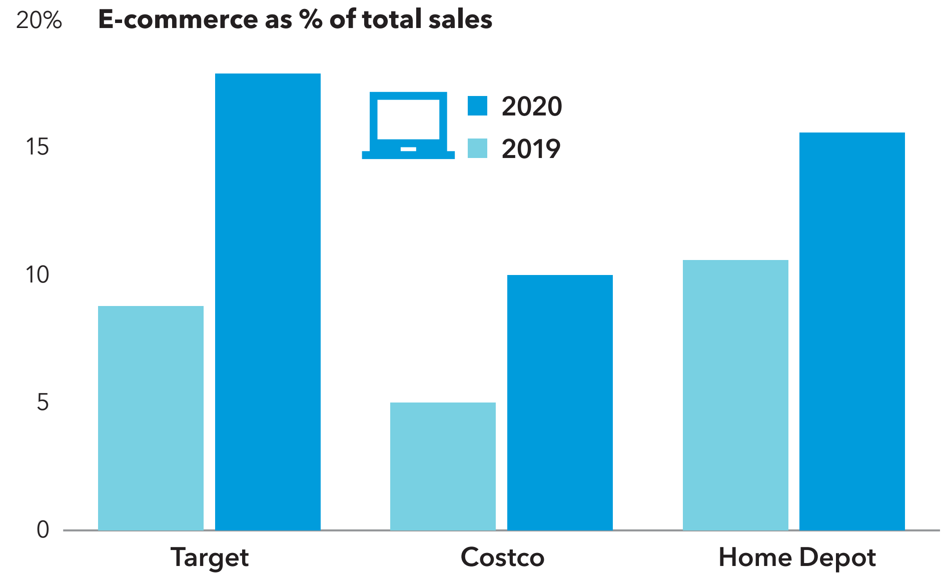
Sources: E-commerce = % of total U.S. retail sales (U.S. Census Bureau); telehealth visits = % of total primary care visits that were not in-person visits (U.S. Department of Health & Human Services, as of June 2020); streaming = % of time spent watching TV on streaming content (Nielsen, as of 3Q, 2020); digital payments = % of payments made with digital wallets (Statista); cloud computing = % of total IT spend on public cloud computing (Capital Group, IDC).

Defying disruption, established companies adapt and thrive

The electric vehicle race is just getting started



Many traditional retailers have stepped up their digital game



Given the spectacular gains of relatively new, tech-savvy companies over the past decade, it's understandable when those high flyers dominate the headlines. But investors shouldn't forget about old guard companies that have the resources to compete and aren't afraid to learn from their upstart competition.

Examples are everywhere – from retailers like Target, Costco and Home Depot ramping up their digital operations to take on Amazon, to auto giants General Motors and Volkswagen challenging Tesla in electric vehicles. Among the more ambitious moves, GM is planning to launch an EV version of the formerly gas-guzzling Hummer this fall.

In the entertainment industry, one of the more interesting battles is shaping up between Disney and Netflix for video streaming supremacy. Virtually overnight, Disney+ became a juggernaut in the business, attracting 100 million subscribers. Netflix remains No. 1 in the world, but Disney is gaining fast as fans flock to see their favorite movies from the Star Wars franchise, Marvel Studios and Pixar.

"One investment theme that will be interesting to watch this year is whether the empire strikes back – whether these legacy companies can innovate and execute in a fiercely competitive environment," says Capital Group portfolio manager Carl Kawaja. "I would not count out the incumbents."

Sources: Capital Group, company financials, FactSet. General Motors sales includes SAIC-GM-Wuling joint venture. Target and Costco reflect fiscal year 2020 and 2019 sales. Home Depot reflects fourth quarter 2020 and fourth quarter 2019 sales.

Chips ahoy! Semiconductors will be everywhere and in everything

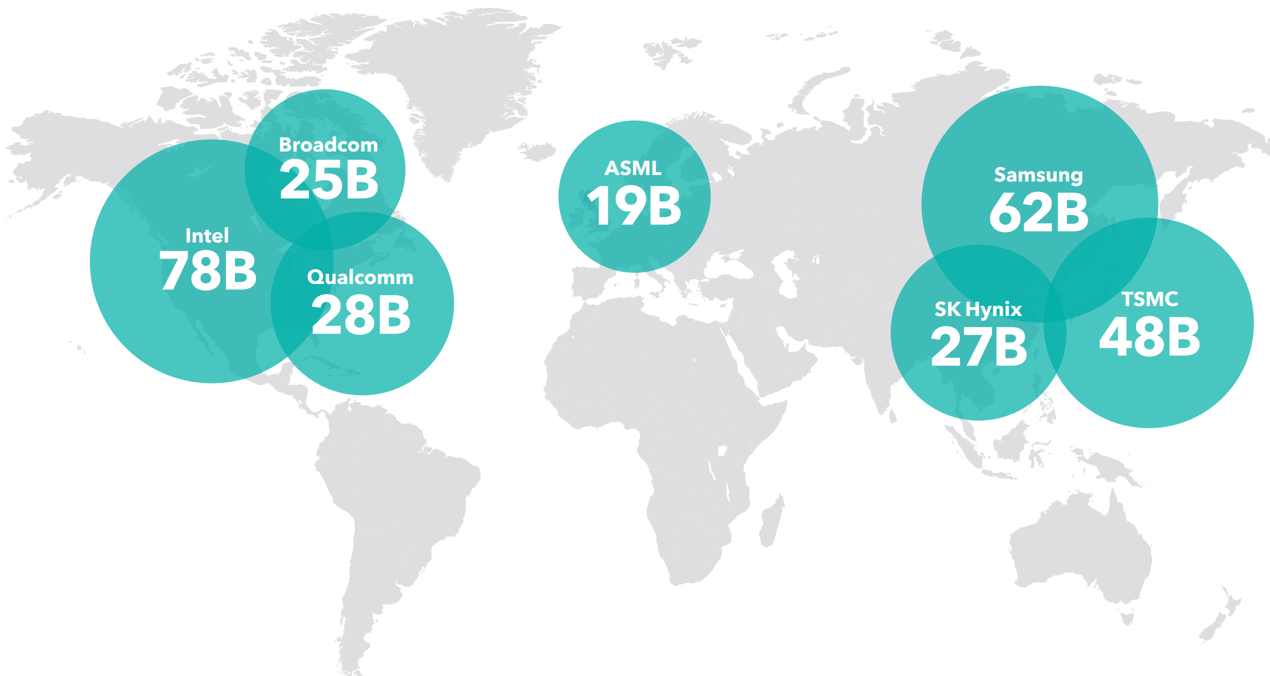
How important are semiconductors to the global economy? Responding to a worldwide chip shortage, the Biden administration vowed to spend $50 billion on semiconductor research and development aimed at improving the global supply chain and bringing some chip manufacturing back to the U.S.

Simply put, chips may be the new oil. As such, the semiconductor industry is expected to power the next decade of economic growth, much like oil fueled the rise of the industrial age. Chips are used in a vast array of products, from smartphones and servers to cars, televisions and even washing machines.

By various estimates, global semiconductor sales could double from about $450 billion today to nearly $1 trillion over the next 10 years. The world's largest chipmakers are spending billions to meet the surge in demand. Some have essentially gained a monopoly over key aspects of the business. Dutch manufacturer ASML, for example, builds high-tech, one-of-a-kind lithography equipment that other companies use to make advanced chips.

"The world has come to appreciate just how important the large semiconductor companies are – for so many different industries," says Capital Group portfolio manager Andrew Suzman.

Revenue reported within the semiconductor industry (USD)



Sources: Capital Group, FactSet. Companies selected from the MSCI ACWI Semiconductor Index (plus sales from Samsung's semiconductor division) based on highest 12-month revenue reported in each company's most recent financial statement, as of 4/30/21. Samsung is not listed as a semiconductor company, but their semiconductor division would have the second highest revenue if it was a standalone semiconductor company.

Medical miracle: Health care innovation saves the world

We just witnessed a modern medical miracle.

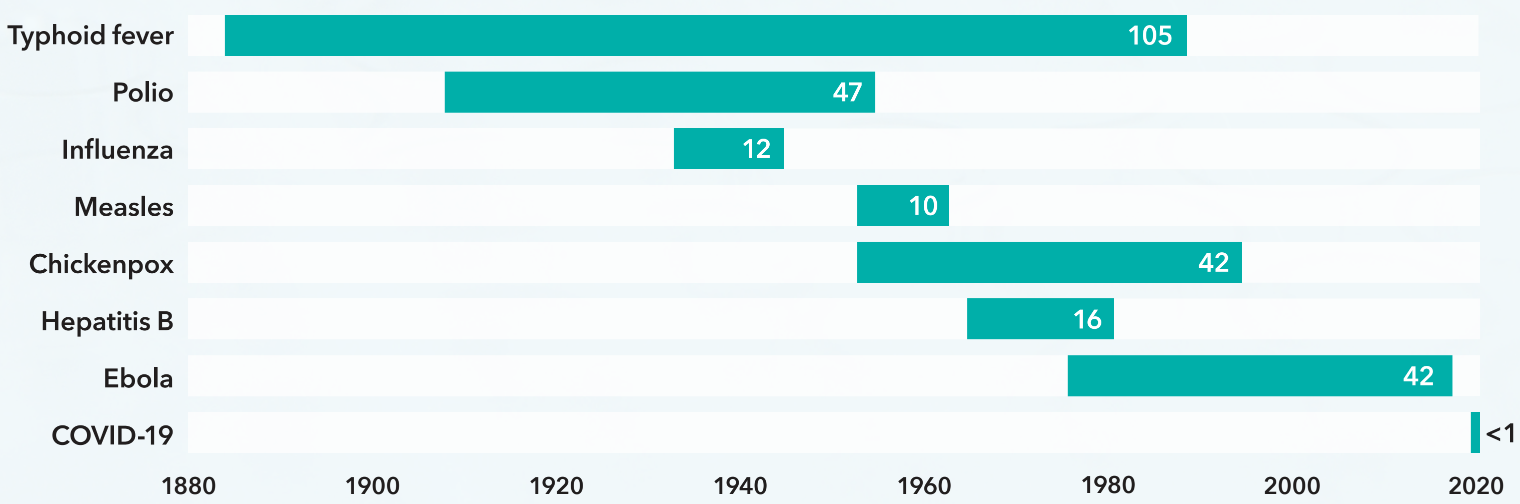
Several drug developers brought COVID-19 vaccines from initial trials to people's arms in a matter of months – a process typically measured in years or decades. "It's no exaggeration to call these vaccines one of the greatest scientific accomplishments in our lifetimes," says health care analyst Laura Nelson Carney.

And in an age marked by global competition and rivalry, these advances also represented remarkable worldwide cooperation. Shortly after Chinese scientists published the virus's genome, Pfizer and BioNTech were the first to receive U.S. approval for a vaccine.

"It was developed by a Turkish couple leading a German company partnered with a U.S. multinational led by a Greek immigrant with a Scandinavian chief scientific officer," notes equity portfolio manager Richmond Wolf. "That is a great affirmation of the global nature of innovation today."

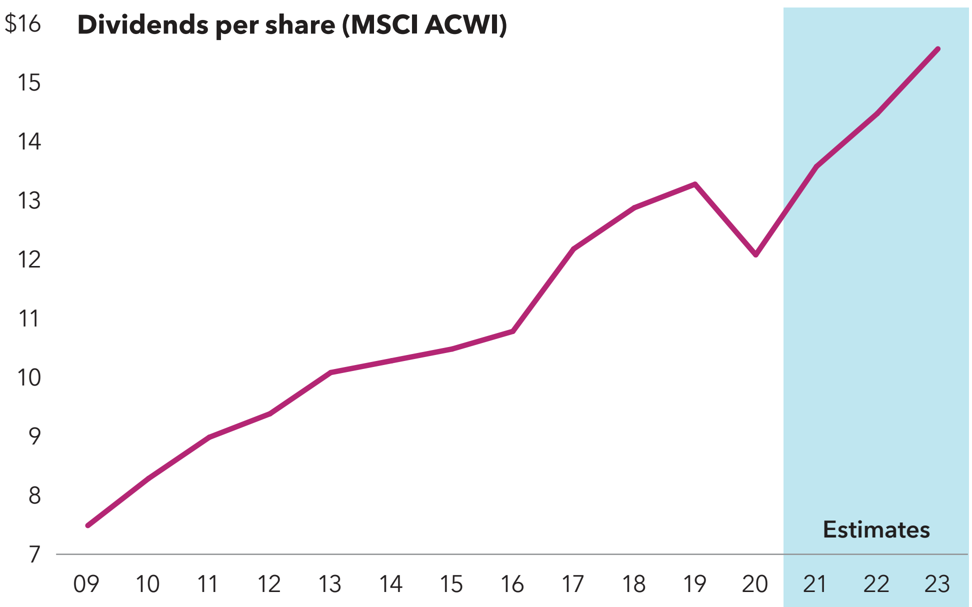
What do these breakthroughs mean for the future of drug development? In addition to mRNA COVID-19 vaccines developed by Moderna, Pfizer and others, a range of companies are developing gene-based therapies for other illnesses. Among them are BeiGene in China, which recently received U.S. FDA approval for its blood cancer treatment Brukinsa, and HUTCHMED, which will likely get FDA approval this year for a drug that targets neuroendocrine tumors.

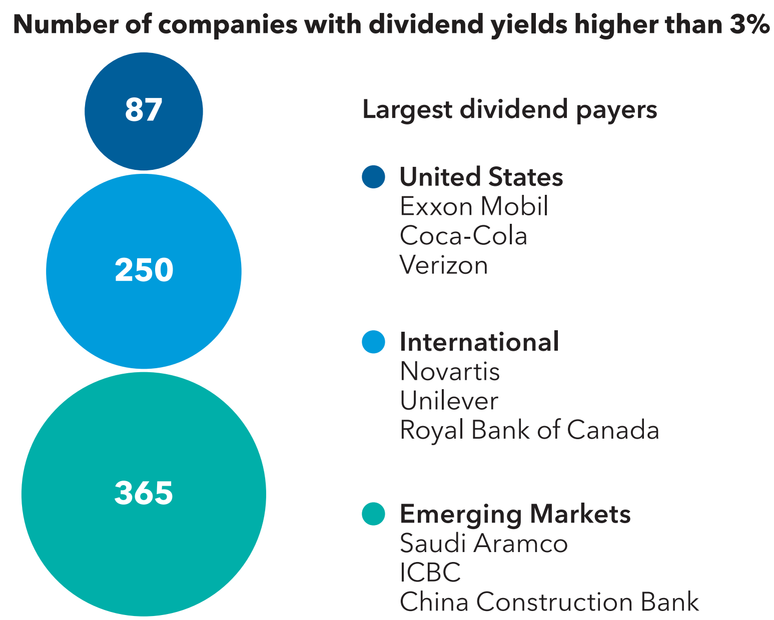
Timeline of previous vaccine development (years)



Sources: Capital Group, NIAID, Our World in Data. Date ranges represent the approximate time between the year the pathogenic agent was first linked to the disease and the year that its vaccine became licensed in the U.S.

Dividends make a comeback in the U.S. and abroad





Bright sunshine is breaking through the clouds that were hanging over the global dividend landscape.

As of May 31, 2021, 76 of the 242 U.S. companies that cut dividends in 2020 have already reinstated them, according to Wolfe Research. This trend has provided investment opportunities for investors with income needs.

Investors may be worried that inflationary pressures and rising interest rates will provide additional headwinds, but equity portfolio manager Caroline Randall says those fears could be overblown.

"Rising rates often spell danger for dividends, but I don't expect rates to rise until 2023," says Randall.

And if you think all the best dividend opportunities are in the U.S., think again. A broad range of business sectors that tend to pay higher dividends are seeing their prospects improve as economies reopen. Utilities like National Grid, Spain's Iberdrola and Italy's Enel are tapping into higher demand for electricity amid a shift to renewable energy sources. Novartis is seeing a rebound in its dermatology and ophthalmology divisions as health care consumption normalizes, and Coca-Cola and Pepsi are seeing an uptick in sales around the globe.

Sources: Capital Group, FactSet, MSCI, RIMES. 2021–2023 in the chart at left are estimates by FactSet. Both charts use the MSCI ACWI to represent global dividends and are as of 5/31/21.

Even if you worry about rising yields, core bonds have shown resilience

When yields rise, the value of bonds decline. No wonder bond math is spooking some investors at present. But if you're seeking resilience, then taking a longer term view and staying the course with core bonds still could make sense.

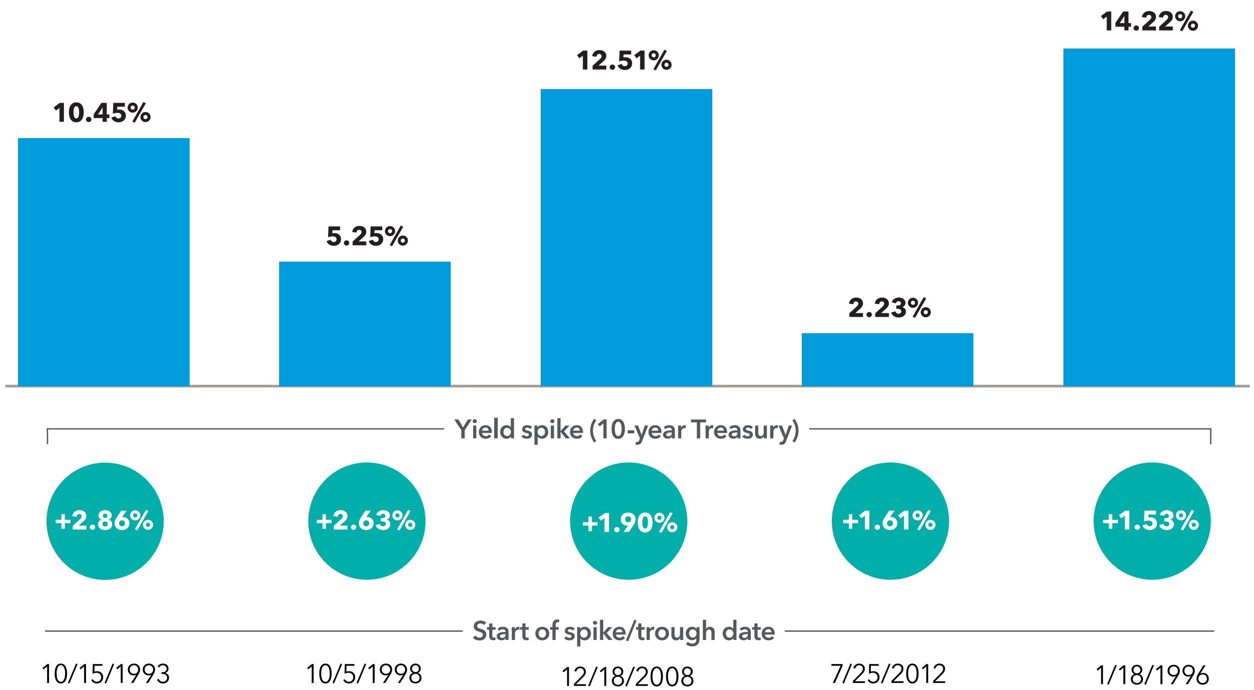
While the past is not a predictor of future results, consider the five sharpest 10-year yield spikes over the last three decades. What was the return of the core bond benchmark from when yields were lowest before those increases to two years later? Even in these five challenging periods, the total core bond return remained positive over this investment horizon.

Looking forward, the Fed has indicated it will be patient when it comes to scaling back bond purchases and raising interest rates. This suggests a further rise in bond yields could be gradual.

Whether bond yields rise or fall, a strong core allocation strives to deliver the four roles of fixed income: capital preservation, inflation protection, income and diversification from equities. The core benchmark's average three-year correlation to the Standard & Poor's 500 Composite Index has been 0.16.* This suggests a level of potential diversification that could come in very handy if there are setbacks to the recovery.

The core bond benchmark has notched gains following the five sharpest yield spikes over the past three decades

Two-year total returns: Bloomberg Barclays U.S. Aggregate Index



Sources: Capital Group, Bloomberg Index Services Ltd., Federal Reserve Bank of St. Louis. Periods were determined by considering the 10-year Treasury constant maturity rate measured daily over the 30 years ending 5/15/2021. Yield increase period end dates are: 11/7/1994, 1/20/2000, 6/10/2009, 12/31/2013 and 7/5/1996, respectively.

*Average three-year correlation calculated monthly from the inception of the Bloomberg Barclays U.S. Aggregate Index, 12/31/1975 through 5/31/2021.

It’s a good time to diversify your bond portfolio

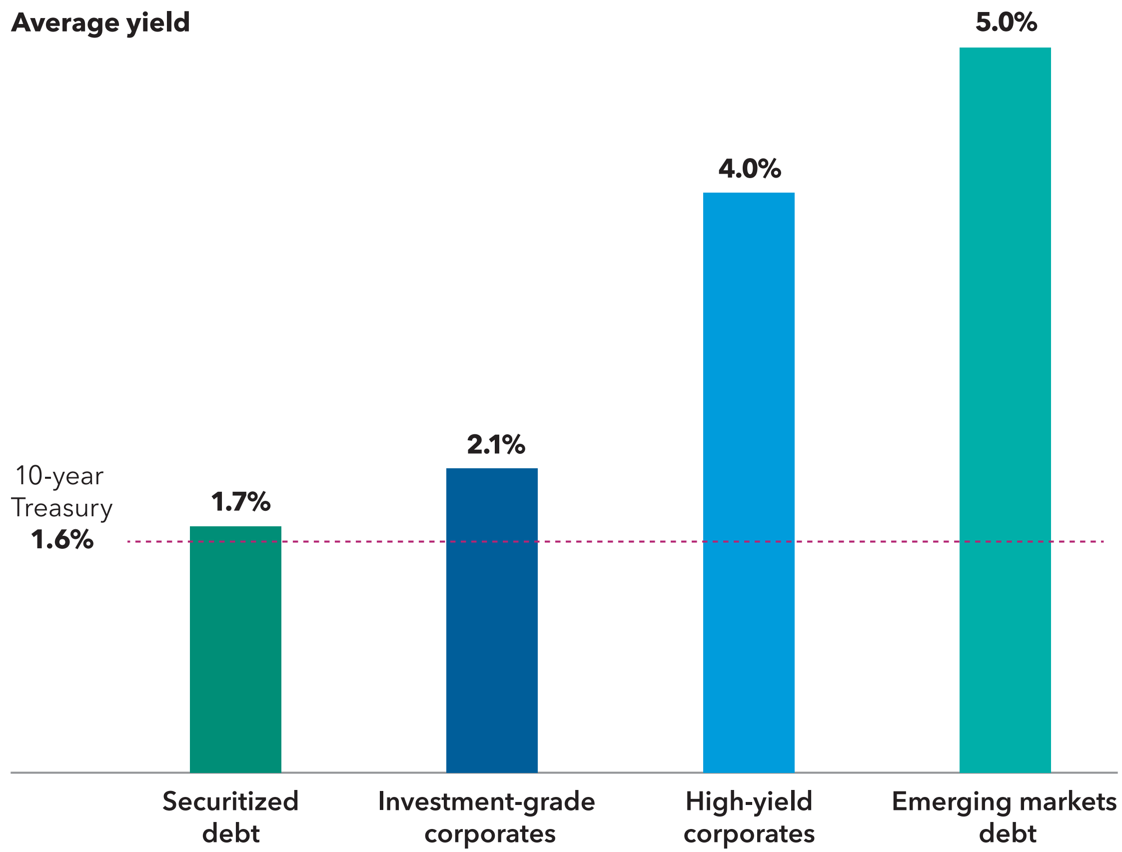
As the economy revs up, corporate America is ready to help consumers put money to work buying cars and other goods and services. As a result, corporate default rates should continue to fall from the pandemic’s peak.

Fewer defaults may provide a boost to corporate bonds, particularly those in the high-yield sector, which includes names such as Ford and Kraft Heinz. However, it could also tempt investors to court risk, especially as interest rates remain near historic lows.

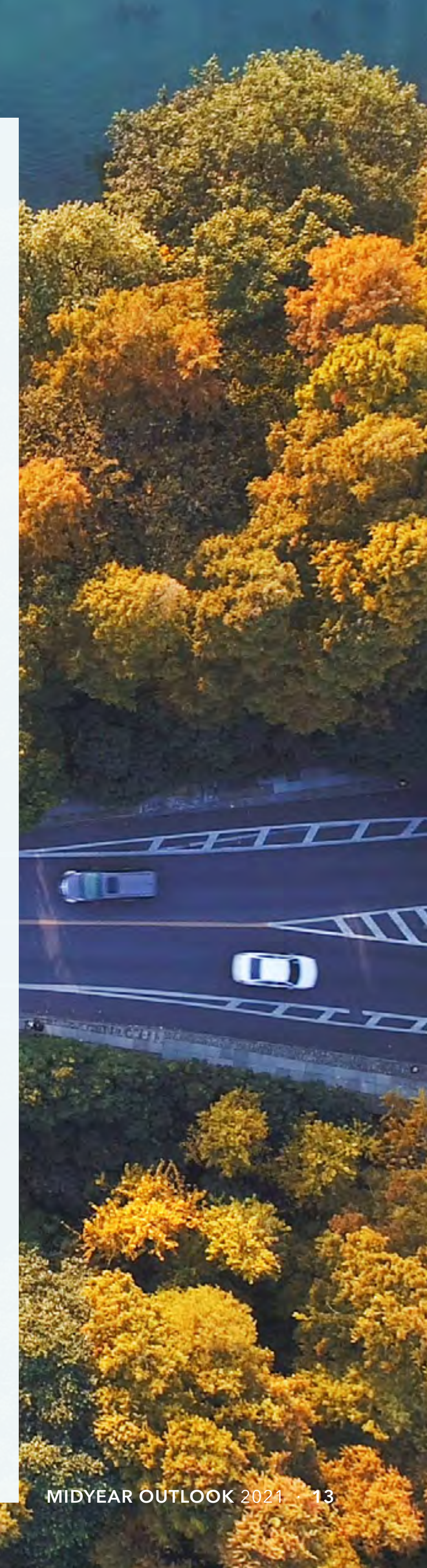
Investors may instead want to keep their income options open as exposure to emerging markets bonds and securitized debt can also help support income needs. By blending higher income sectors, investors can potentially capture much of the yield and reduce the overall volatility of their portfolio.

Credit selection is key as long-term fundamentals can be challenging, particularly for many low-quality issuers. The global diversity in emerging markets bonds today also calls for deep credit analysis. Understanding why a specific bond pays a higher yield can help investors determine which ones may provide durable, long-term income.

Seek opportunities across higher income sectors



Sources: Bloomberg Index Services Ltd., J.P. Morgan, RIMES. As of 5/31/21. Bloomberg Barclays U.S. Securitized Index represents the universe of mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities. Bloomberg Barclays U.S. Corporate Investment Grade Index represents the universe of investment grade, publicly issued U.S. corporate and specified foreign debentures and secured notes. Bloomberg Barclays U.S. Corporate High Yield Index covers the universe of fixed-rate, non-investment-grade debt. J.P. Morgan EMBI Global Diversified Index represents dollar-denominated emerging markets debt.



For income seekers, a $1 trillion boost may help municipal bonds shine

Tax hikes on your mind? If so, municipal bonds should be front and center in your thinking. Tax exemptions offered by this asset class will become even more valuable – if higher tax proposals are enacted.

Corporate tax hikes would likely increase demand for muni bonds. Banks and insurers ditched over $150 billion in munis from their balance sheets after taxes were slashed in 2018. Tax hikes may, therefore, rekindle corporate America's appetite for munis.

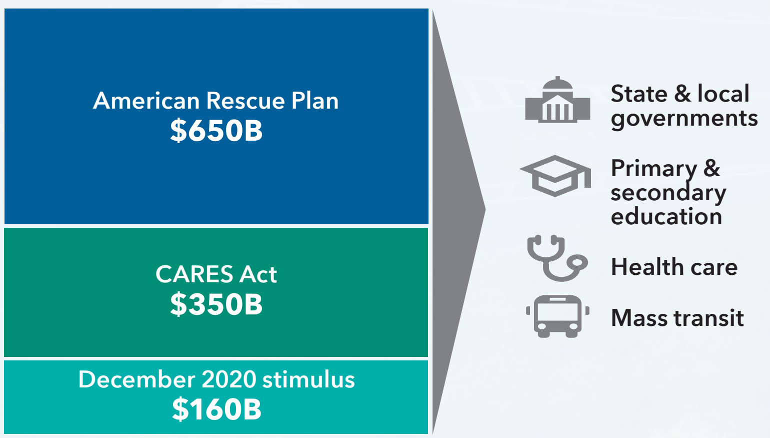
Taxes aren't the only fiscal measure to hold sway over munis. More than $1 trillion of stimulus has prompted a remarkable turnaround in pandemic-era fundamentals. Looking forward, stronger economic growth should put fundamentals on solid ground for the medium term.

Some of the most attractive opportunities are in health care and transportation, and among high-yield issuers. These areas include pockets of value where higher yields appear to compensate for the risks entailed.

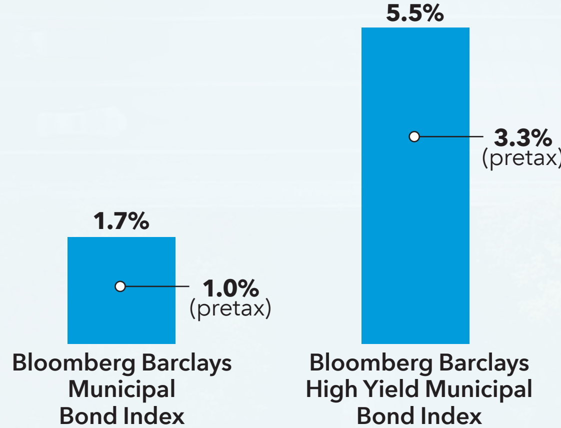
In today's low rate world, tax-exempt income is king – particularly for those in upper tax brackets. That said, income seekers should be prepared: Interest rate volatility may cause some turbulence should the U.S. economy take off in the coming months.

With a long-term perspective, however, any near-term setbacks to the municipal bond market can have a silver lining: the opportunity to invest at more favorable valuations and seek higher tax-exempt yields.

Top four beneficiaries of $1.2T in muni-related stimulus



Tax-equivalent yields (%)*



Sources: Capital Group, Bloomberg Index Services Ltd, J.P. Morgan. As of 5/31/21. Taxable-equivalent yield of a municipal bond investment is used to assess its attractiveness relative to taxable bonds. Put simply, it's the answer to the question: What yield would a taxable bond have to offer in order for it to offer the same amount as this municipal bond investment, after tax?

*Assumes the top federal marginal tax rate for 2021 of 37%, plus the 3.8% Medicare tax.

2021 Midyear Outlook: Investment implications and funds to consider

Themes	U.S. equity	Global/International equity	Taxable fixed income	Tax-exempt fixed income
	Value or growth? Balance them both.	**Think all the best companies are in the U.S.? Think again.**	**Stay the course in fixed income.**	**With tax hikes possible, municipal bonds remain compelling.**
Investment implications	Pent-up consumer demand is providing a tailwind for cyclical stocks in hard hit areas of the market. After the acceleration in all things digital during the pandemic, there are still long runways for growth in cloud services, digital payments and streaming entertainment.	Some European and Asian companies are among the world's leading innovators. For income-focused investors, dividends are making a comeback in markets around the world.	With a patient Fed likely to keep rates range-bound, investors should not fear bonds. High-quality core bonds can aim to provide ballast for equity-heavy portfolios. For investors with income needs, it's a good time to diversify across bond sectors.	Massive fiscal stimulus has prompted a remarkable turnaround in muni fundamentals. Income seekers can still find pockets of value, and exemptions for the asset class will be even more valuable – if taxes are raised.
Select investments to consider	**The Growth Fund of America®** A – AGTHX; F-2 – GFFFX; F-3 – GAFFX; R-6 – RGAGX **American Mutual Fund®** A – AMRMX; F-2 – AMRFX; F-3 – AFMFX; R-6 – RMFGX **Washington Mutual Investors Fund℠** A – AWSHX; F-2 – WMFFX; F-3 – FWMIX; R-6 – RWMGX	**New Perspective Fund®** A – ANWPX; F-2 – ANWFX; F-3 – FNPFX; R-6 – RNPGX **New World Fund®** A – NEWFX; F-2 – NFFFX; F-3 – FNWFX; R-6 – RNWGX **American Funds International Vantage Fund℠** A – AIVBX; F-2 – AIVFX; F-3 – AIVGX; R-6 – RIVGX	**The Bond Fund of America®** A – ABNDX; F-2 – ABNFX; F-3 – BFFAX; R-6 – RBFGX **American Funds Strategic Bond Fund℠** A – ANBAX; F-2 – ANBFX; F-3 – ANBGX; R-6 – RANGX **American Funds Multi-Sector Income Fund℠** A - MIAQX; F-2 - MIAYX; F-3 - MIAZX; R-6 - RMDUX	**Limited Term Tax-Exempt Bond Fund of America®** A – LTEBX; F-2 – LTEFX; F-3 – FLTEX **The Tax-Exempt Bond Fund of America®** A – AFTEX; F-2 – TEAFX; F-3 – TFEBX **American High-Income Municipal Bond Fund®** A – AMHIX; F-2 – AHMFX; F-3 – HIMFX

For high net worth investors, consider our separately managed account (SMA) strategies, which include our Capital Group U.S. Income and Growth,℠ Capital Group Global Growth℠ and Capital Group International Equity,℠ which are similar strategies to American Mutual Fund, New Perspective Fund and American Funds International Vantage Fund, respectively.

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.

Investing outside the United States involves risks, such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in the prospectus. Small company stocks entail additional risks, and they can fluctuate in price more than larger company stocks. 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. Also, certain other income (such as distributions from gains on the sale of certain bonds purchased at less than par value, for The Tax-Exempt Bond Fund of America), as well as capital gains distributions, may be taxable. 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.

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

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