2026 MIDYEAR EDITION

Outlook

Long-term perspective on markets and economies

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Marketing communication

2026 **Midyear Outlook**

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

Robert Lovelace
Chair of Capital International, Inc.

As we reach the midpoint of 2026, a recognisable 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 indices.

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 defence 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 US. 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.

Global growth hinges on conflict resolution, pace of AI rollout

Variable	Global growth	US 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) vs. consensus	In line	Mixed	Above	Below	In line	In line
Summary of CSR view	Global growth is slowing but resilient as the US and Iran continue to work towards a resolution in the Middle East.	The economy continues to hold up as strong AI support helps offset high energy costs. The labour market shows signs of stability.	We expect slightly stronger euro-area growth and inflation. The ECB is likely to hike rates in 2026. Less fiscal tightening in the UK 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 US 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 Middle East conflict, 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 US 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 stabilisation 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, look for a weak housing market and slowing exports to weigh on China's economy while Japan also remains sluggish.

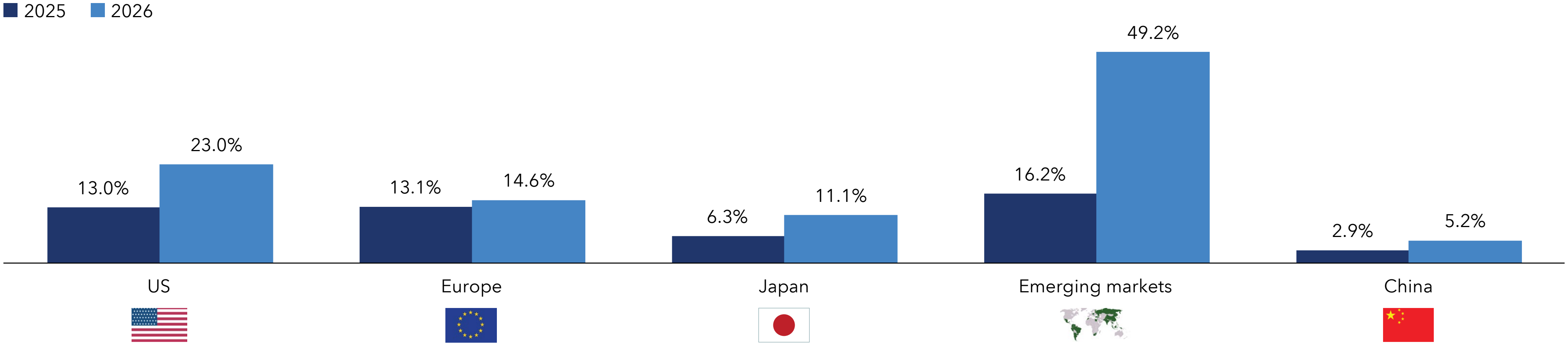
Forecasts are for illustrative purposes only.

Sources: Capital Group, Bloomberg. As at 31 May 2026. Consensus figures are based on mean Bloomberg consensus estimates for US CPI change in 2026 ("US inflation") and 2026 year-over-year GDP growth for the world ("global growth"), the United States ("US 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 categorised by high inflation coinciding with slow economic growth (GDP) and high unemployment. ECB: European Central Bank. BoE: Bank of England. DXY: US 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 US$19.8 billion, fuelled by surging demand for weight loss and diabetes drugs. In the energy sector, companies such as ExxonMobil, Shell and TotalEnergies have seen increased profits as the Iran conflict sent 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."

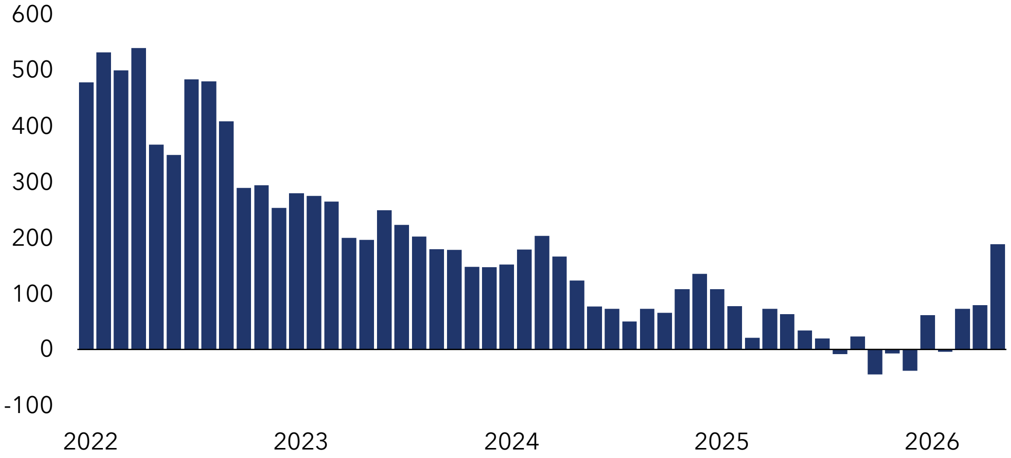
Forecasts are for illustrative purposes only.

Sources: Capital Group, S&P Global, MSCI, FactSet. 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 (US), 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 at 31 May 2026.

The labour market may guide the Fed's next moves

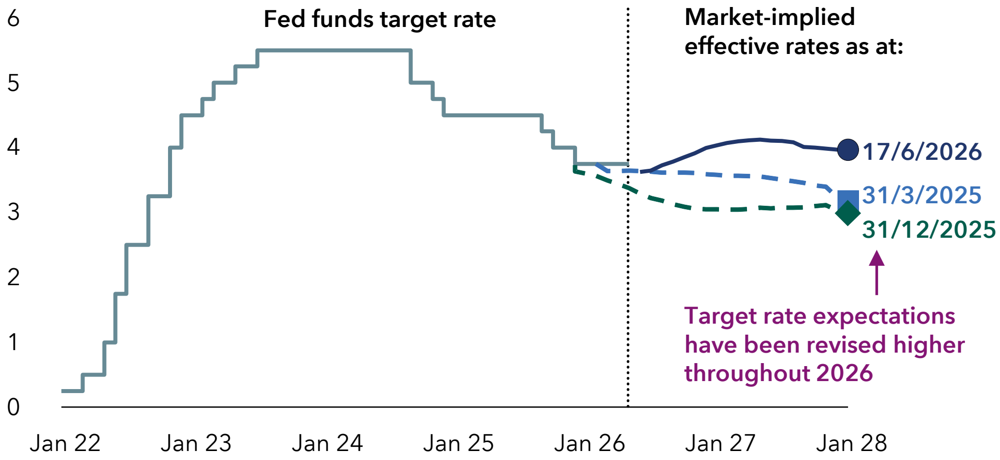
Labour markets have stabilised after decelerating

Rolling three-month average nonfarm payrolls (thousands)



The Fed has room to respond

Fed funds actual vs. market-implied (%)



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

Labour markets are weaker than they were a few years ago but steady overall, says Chitrang Purani, fixed income portfolio manager. "The war has kept 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.

Purani believes policymakers will remain patient. "The labour market has been stable with slower job growth offset by slower labour force expansion – but if this balance were to shift towards 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.

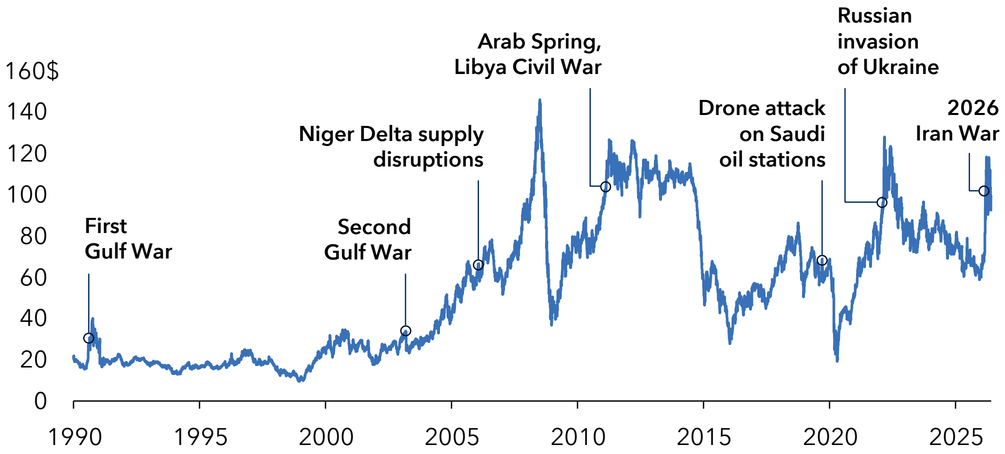
Past results are not a guarantee of future results.
Sources: Capital Group, Bureau of Labor Statistics. April and May 2026 are preliminary figures and subject to change. Latest data available is May 2026 as at 5 June 2026.

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

Market selloffs tied to oil supply shocks have been short-lived

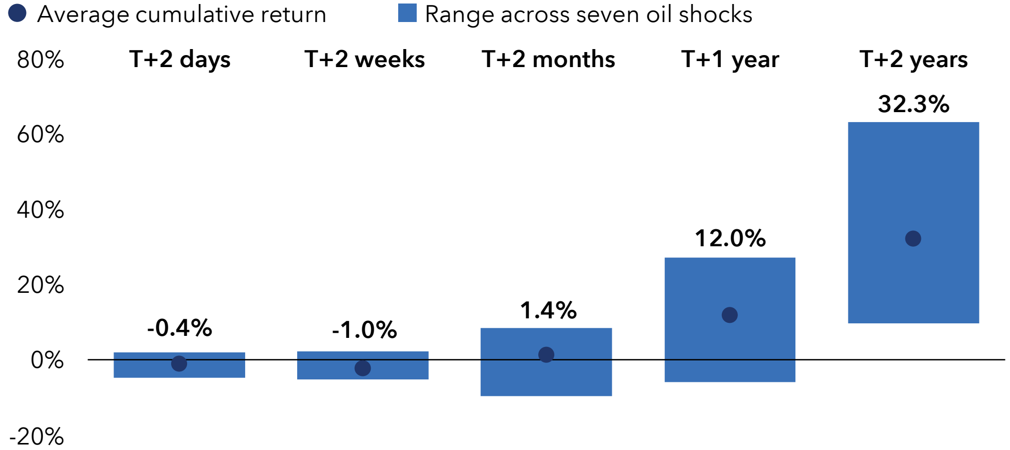
Conflict has often triggered spikes in oil prices

Daily brent crude price (USD per barrel)



But US stocks have recovered relatively quickly

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



The Iran war has been 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 petrol 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 conflict drags on," says equity portfolio manager Paul Benjamin. "A persistent conflict would trigger weaker equities, a stronger US dollar and widening credit spreads."

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.

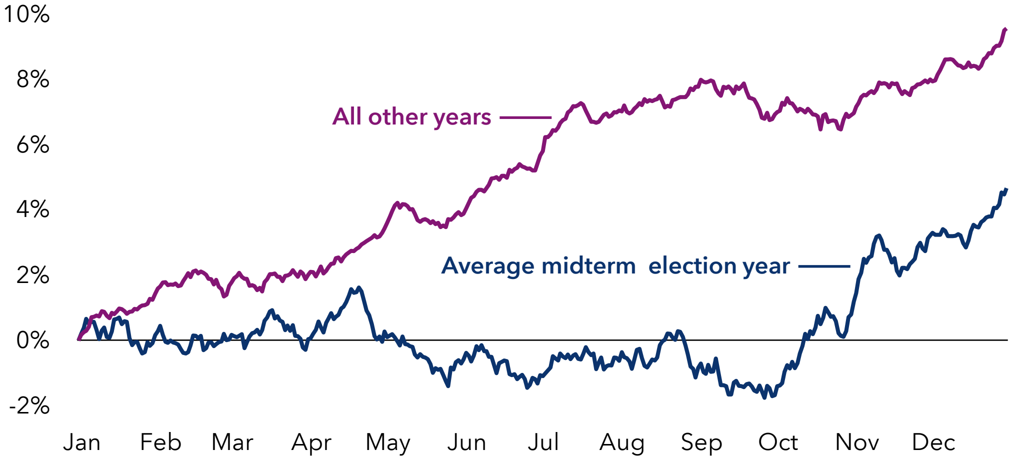
Past results are not a guarantee of future results.
Sources: Capital Group, Bloomberg. Figures reflect daily settlement prices between 01 January 1990, and 31 May 2026. Event dates are aligned to the nearest observable market price. If an event occurs on a nontrading day, the prior trading day is used as the start date.

Sources: Capital Group, S&P Global, Bloomberg. 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 at 31 May 2026.

US midterm elections: Volatility, then stocks have rallied

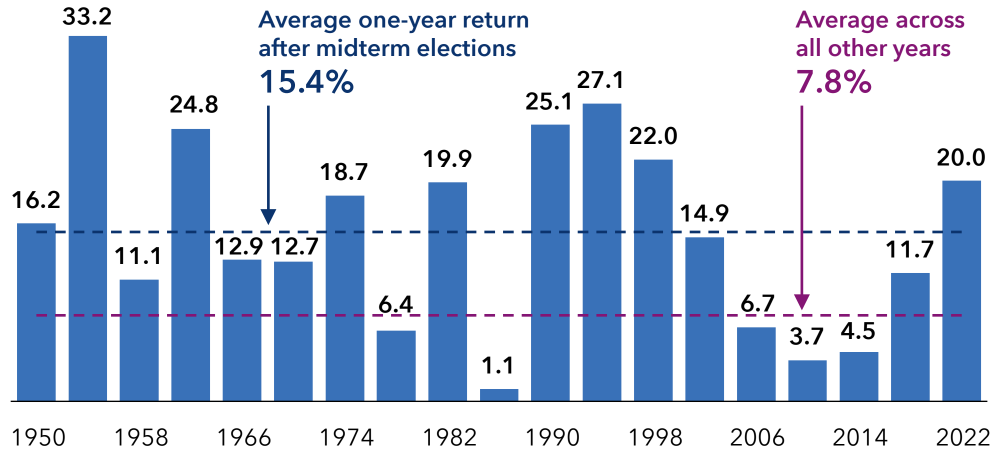
Stock returns have been muted before election day

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



But post-election rebounds have been strong

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



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 US 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 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."

Past results are not a guarantee of future results.
Sources: Capital Group, S&P Global, RIMES. Average cumulative price return trajectories for the S&P 500 Index during US midterm election years and non-midterm election years. Each point on the lines represents the average year-to-date return as at that particular month and day and is calculated using daily price returns from 01 January 1931, to 31 December 2025.

Sources: Capital Group, S&P Global, RIMES. 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 at 31 December 2025. Price returns exclude the reinvestment of dividends and capital distributions.

Index investors face elevated concentration risk

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

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.

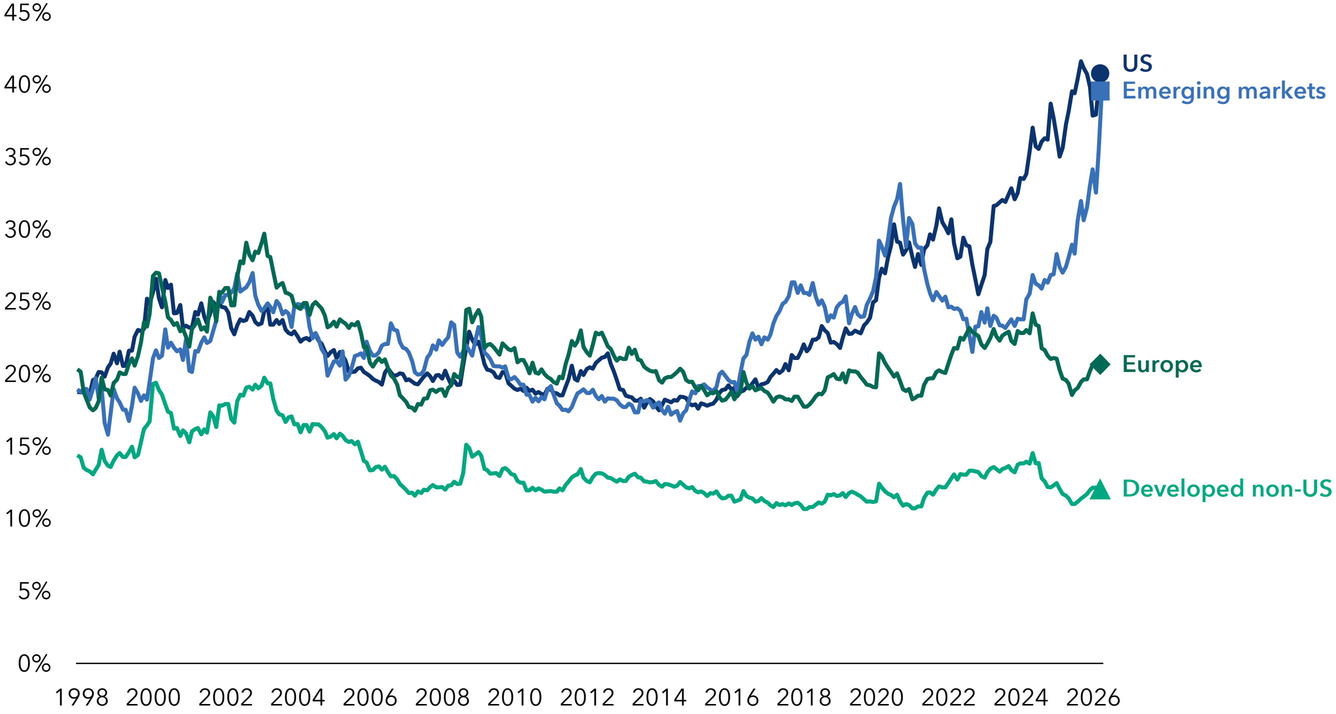
"I'm excited about the incredible advances in AI and the investment opportunities they represent," says equity portfolio manager Martin Romo. "At the same time, I'm uneasy that the largest companies in the United States and Asia, as well as the companies with the strongest returns, are all driven by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

US and emerging market stock indices have grown more top-heavy

Percentage of market capitalisation in top 10 companies



Past results are not a guarantee of future results. Company examples are for illustrative purposes only.

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

AI build-out may surpass China's industrial boom

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

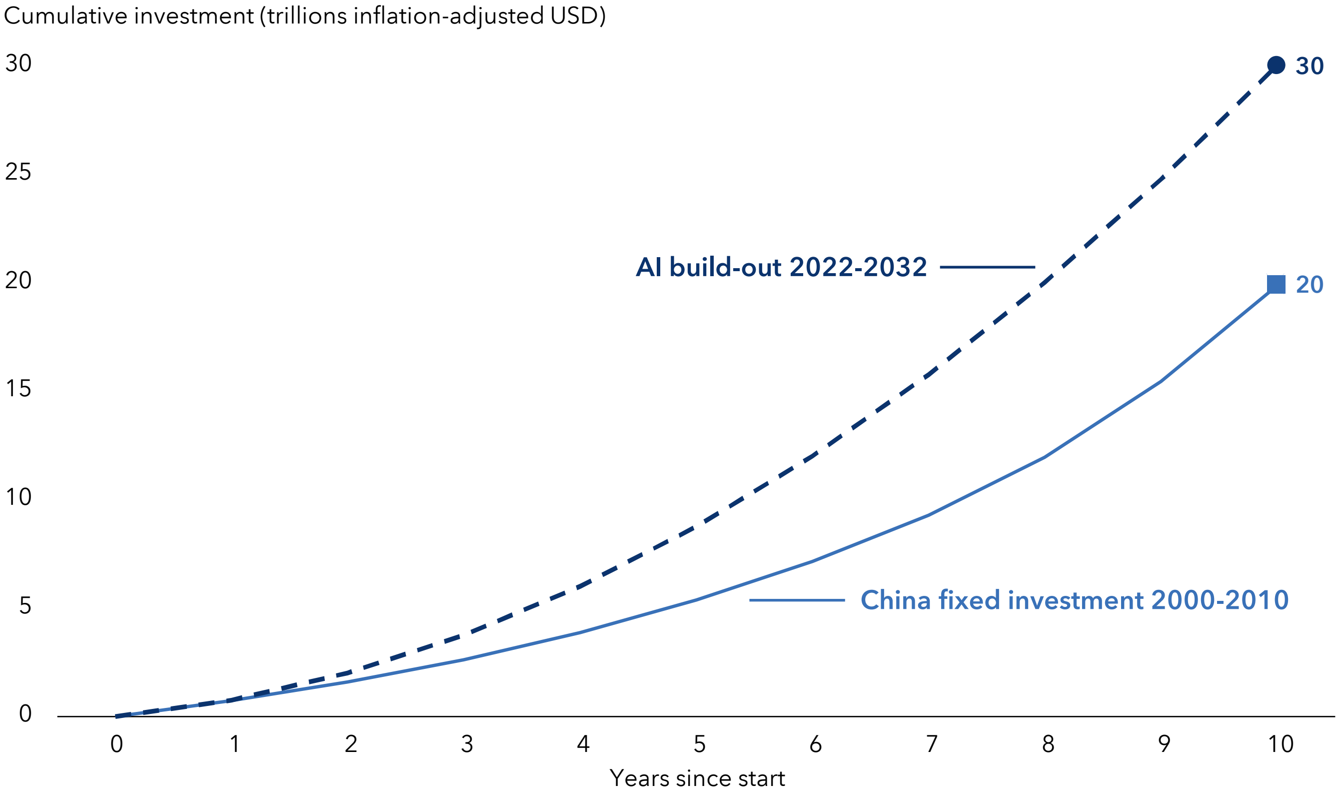
In the race for AI supremacy, tech giants are making capital investments at a scale and speed on track to surpass China's industrial boom of the early 2000s, considered by many to be the largest in modern history.

After joining the World Trade Organization in 2001, China invested about US$20 trillion to industrialise its economy over the following 10 years. "This reshaped global trade, commodities, inflation, labour markets and politics for a generation," explains US 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, labour 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



Figures presented are for illustrative scale only. Company examples are for illustrative purposes only.

Sources: Capital Group, Haver Analytics, Federal Reserve of St. Louis (FRED), 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 US Consumer Price Index (CPI) as at March 2026. AI build-out estimates assume annual spending ramps linearly from US$0.5T in 2022 to US$5.5T in 2032. Cumulative values are estimated using the trapezoidal method, which assumes linear change between observations and sums the average across intervals. As at 31 May 2026.

Physical economy stocks are poised for a comeback

We may be living in an AI world – NVIDIA's market capitalisation 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 centres is translating into historic revenue opportunities.

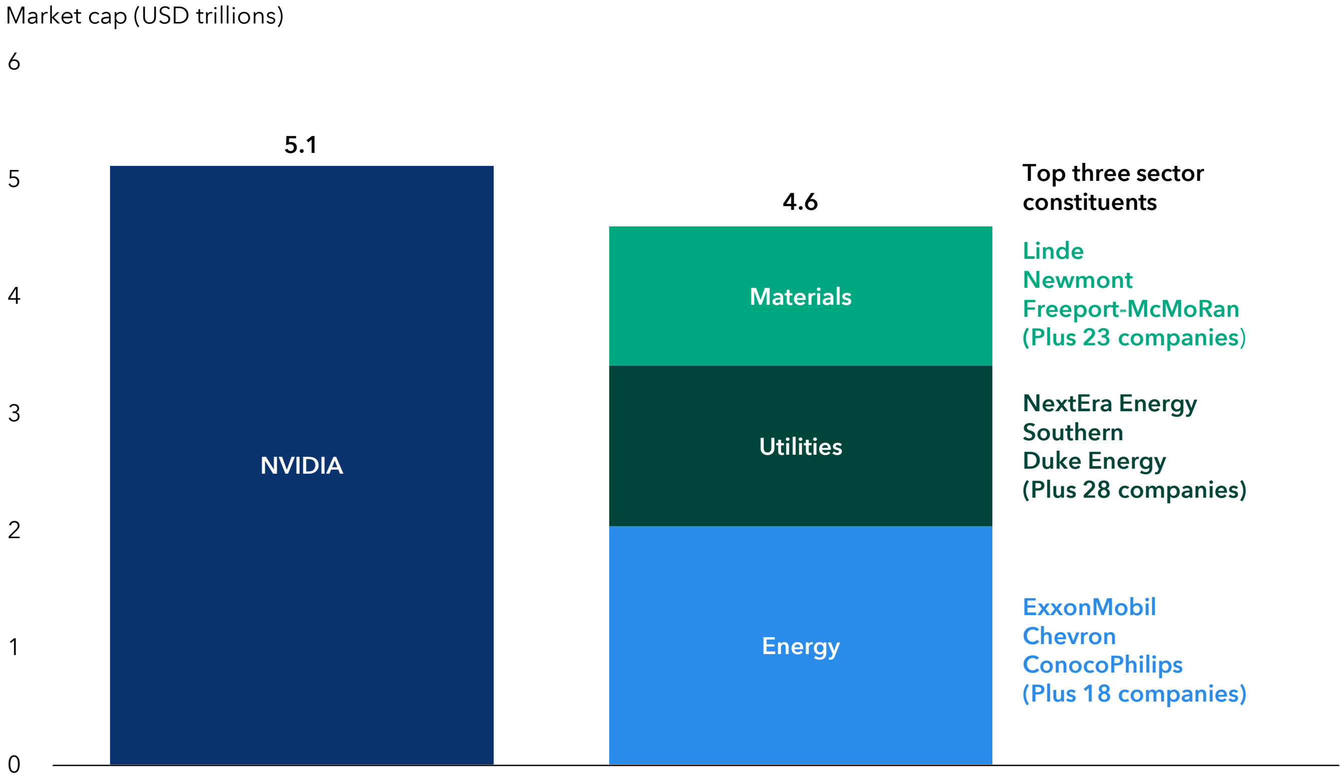
Demand for steel, copper, heavy construction services and power generation equipment has soared. For example, sales in Caterpillar's construction division jumped 38% in the first quarter.

"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 that 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 US$190 billion order backlog.

NVIDIA is now larger than three sectors in the S&P 500 Index



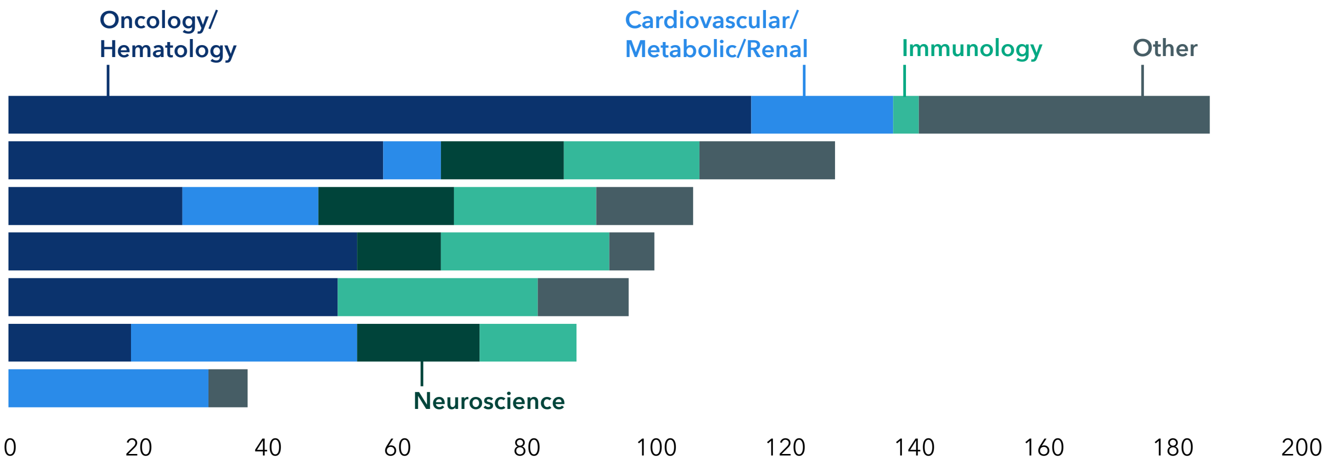
Sources: Capital Group, S&P Global, FactSet, RIMES. As at 31 May 2026. Companies shown are the three largest in their respective sectors within the S&P 500 Index. Caterpillar is the S&P 500 Index industrials' sector largest company by market capitalisation.

Innovation and income: Healthcare's powerful combination

Robust pipelines are paired with strong cash flow generation

	Dividend yield (%)	Annualised free cash flow growth 2025-2027 (%)
AstraZeneca	2.7	22.3
Roche	3.0	8.4
Novartis	2.3	6.8
Johnson & Johnson	2.4	16.5
Pfizer	6.6	3.6
Eli Lilly	0.6	61.6
Novo Nordisk	4.7	18.0

Number of indications in pipeline across top pharma companies



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.

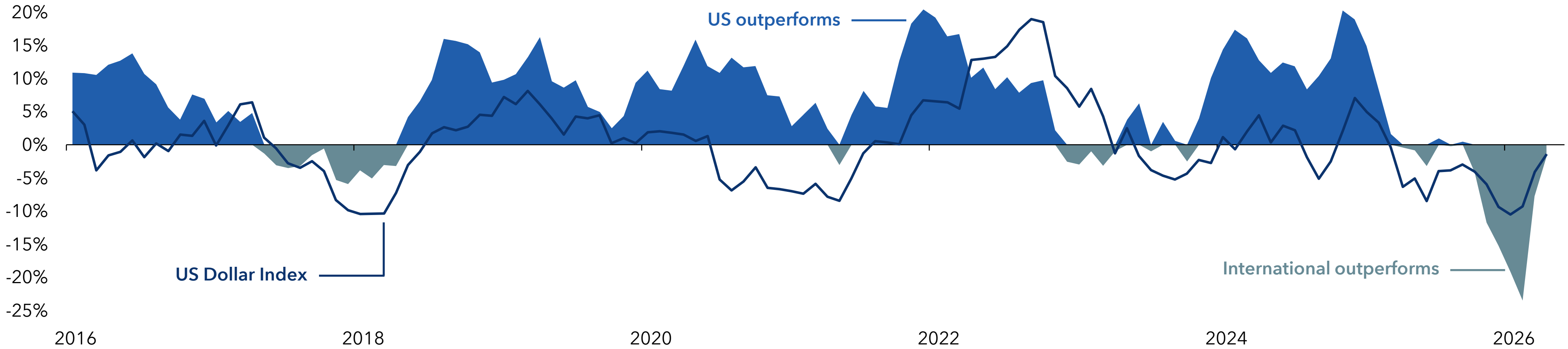
Past results are not a guarantee of future results. Company examples are for illustrative purposes only.

Sources: Capital Group, MSCI, RIMES, Bloomberg, company reports. Dividend yield is represented by the forward 12-month dividend yield based on latest consensus figures and company announcements. 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 at calendar Q1 2026 financial reporting except for Eli Lilly, which is as at calendar year 2025. As at 31 May 2026.

Investing outside the US can continue to pay off

Non-US stocks have led US 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, stocks outside the US are enjoying their time in the sun. The powerful rally in non-US markets that started in 2025 has continued, driven by attractive valuations, a weak US dollar and strong corporate earnings.

For anyone who thought the 2025 results were a temporary blip, markets outside the US are demonstrating their resilience in 2026. On a year-to-date basis as at 31 May, 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 US and non-US markets traded leadership positions every few years.

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

Diversification doesn't mean compromising on quality. "Many of these non-US companies – Airbus, ASML, AstraZeneca, Safran and TSMC – are leaders in their industries," Watson adds. "They just happen to be headquartered somewhere else."

Past results are not a guarantee of future results.
Sources: Capital Group, Intercontinental Exchange (ICE), MSCI, S&P Global. US 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 at 31 May 2026.

Europe's policy shift could drive an industrial lift

Across Europe, the forces of change are building.

Years of subdued growth and fragile supply chains have exposed the limits of the old economic model. In response to recent geopolitical shocks and energy volatility, policymakers have shifted course. Germany is leading with substantial, multi-year spending plans running to 2036, focused on modernising transport, digitising industry and reducing structural costs.

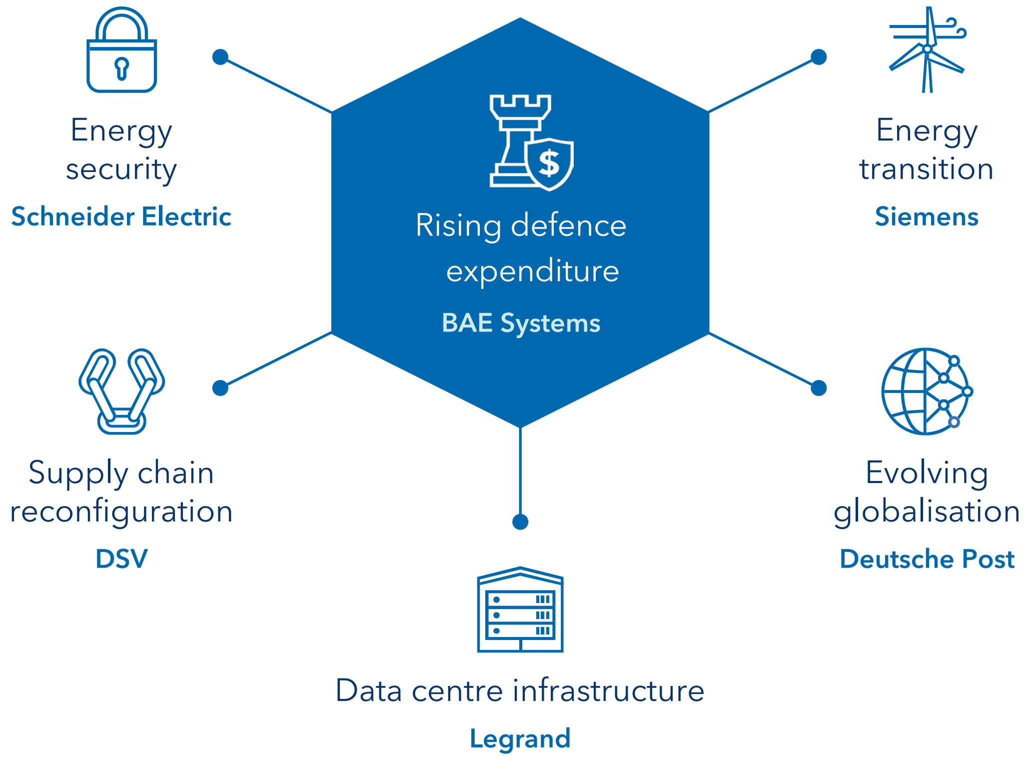
For industrial companies, this marks a potential turning point. Demand will increasingly be driven by long-term structural investments, not just by cyclical recovery. Electrification, automation, and the energy transition are set to unlock new growth opportunities, while efforts to de-risk supply chains should encourage more localised production.

Energy lies at the heart of this shift. Although recent tensions have raised oil prices, there is limited tolerance for sustained higher energy costs. The focus is therefore on securing supply, stabilising prices and accelerating investment in alternative energy systems. This could herald a multi-year expansion of power infrastructure, grids and electrification.

Utilities, like Engie, appear well positioned. Regulated frameworks can often pass through higher input costs, while also potentially benefiting from increased capital investment tied to infrastructure upgrades.

Despite renewed short-term macro pressures, the longer-term outlook for Europe's industrial renewal remains compelling.

Europe's defence shift could boost industrials more broadly



Company examples are shown for illustrative purposes only.
Source: Capital Group

Japan opportunities emerge as policy priorities shift

After last year's landslide victory for Sanae Takaichi's Liberal Democratic Party, the prime minister is looking to pull Japan further out of deflation. Her capacity to survive political churn has increased – and stable leadership has historically coincided with strong Japanese equity returns.

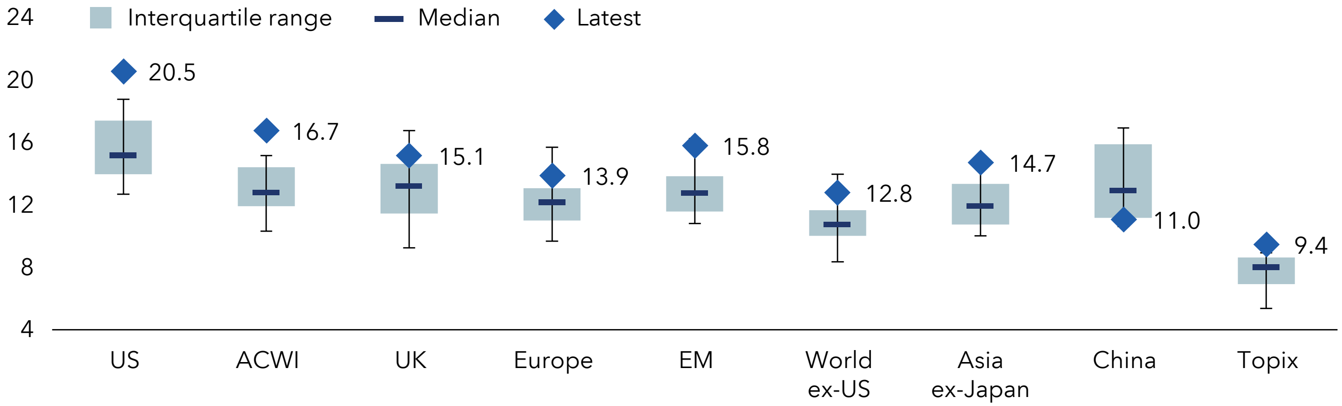
Against this backdrop, policy priorities are shifting from short-term stimulus toward medium- to long-term growth. Takaichi's government has established 17 priority areas, designed to address vulnerabilities while fostering growth. As resources are allocated along these lines, they are likely to form a foundation for investment opportunities.

According to economist Ann Vandenabeele, however, narrowing this list is key to ongoing reflation. "This state-led growth strategy will need to focus on fewer than 17 industries to maximise competitive breakthroughs and avoid diluting spending," she says. "There needs to be renewed commitment to policies that promote organic growth: corporate governance and efficiency, and labour market flexibility."

Meanwhile, Japanese portfolio manager Akira Horiguchi says Japan's return on equity is expected to finally break the 10% ceiling in 2027. "Thanks to corporate reform, Japan's historically low ROE has seen steady improvement, from 8.8% in FY23 to 9.7% in the most recent fiscal year," he says. "Japan's earnings per share growth has been among the strongest in developed markets, but ROE improvement has been modest because companies allowed cash to accumulate on balance sheets. The pace of ROE improvement is gathering momentum as companies adopt more comprehensive shareholder return plans and I see this continuing to accelerate."

Japan's ROE low compared to peers but close to breaking historical ceiling

Distribution of monthly ROE over the past 20 years (based on annual forecasts)



Priority investment areas

Technology	Supply chains	Energy resilience	Life sciences	National security
• AI and semiconductors • Quantum technologies • Digital and cybersecurity • Information and communications technology • Content industries	• Shipbuilding • Materials • Port and logistics infrastructure	• Resources, energy security, and Green Transformation • Fusion energy • Disaster prevention and mitigation • Marine and ocean industries	• Synthetic biology and biotechnology • FoodTech • Medical innovation	• Aerospace and space industries • Defence and space technologies

Past results are not a guarantee of future results.
Sources: Tokyo Stock Exchange, Datastream. As at 30 April 2026.

Look beyond magnificence to the Emergent Seven

Emerging markets today resemble US 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.

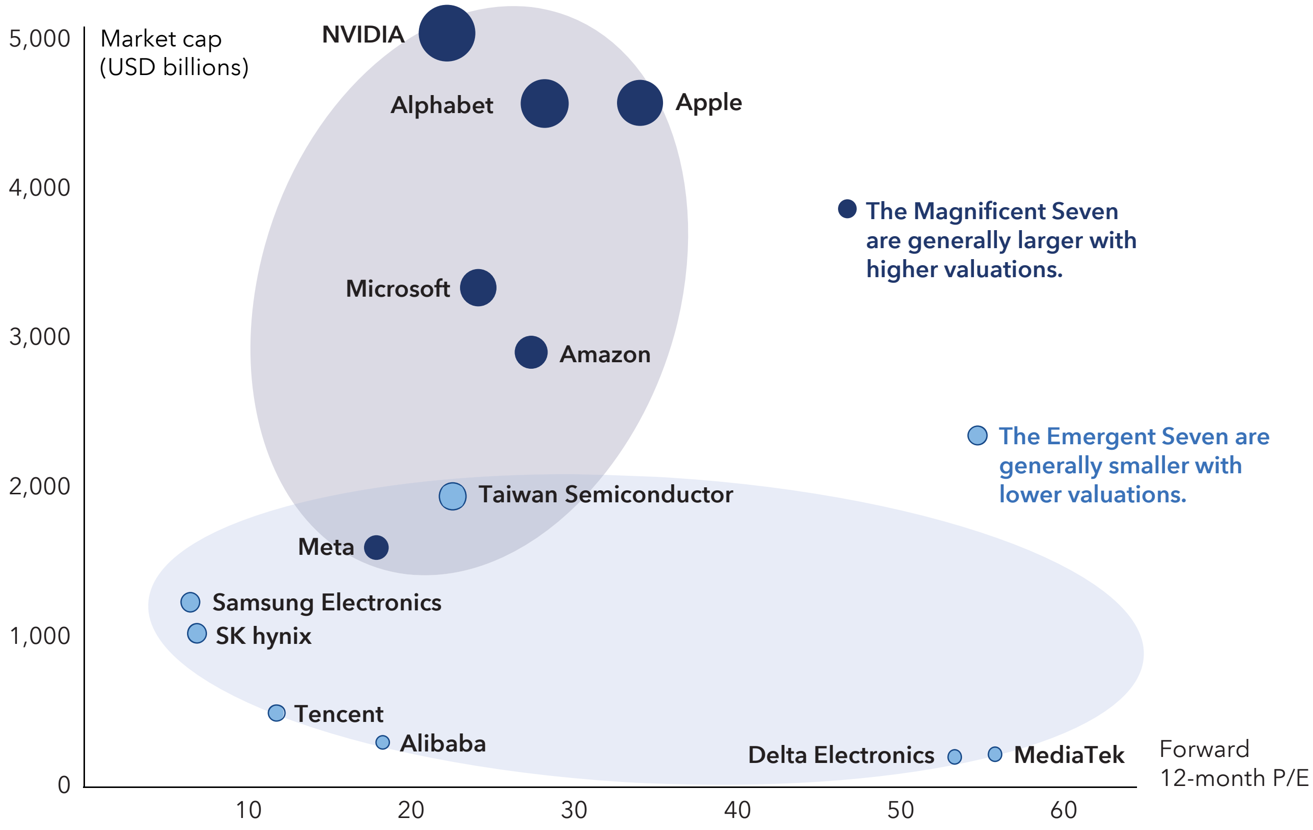
The top seven companies by market capitalisation in the MSCI Emerging Markets Index are all tech, making up 36% of the index. At Capital, we refer to them as the "Emergent" Seven. They have smaller market capitalisations and lower valuations than many of their US counterparts.

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 US 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 US 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 US companies.

As in the US, seven tech stocks dominate emerging market returns

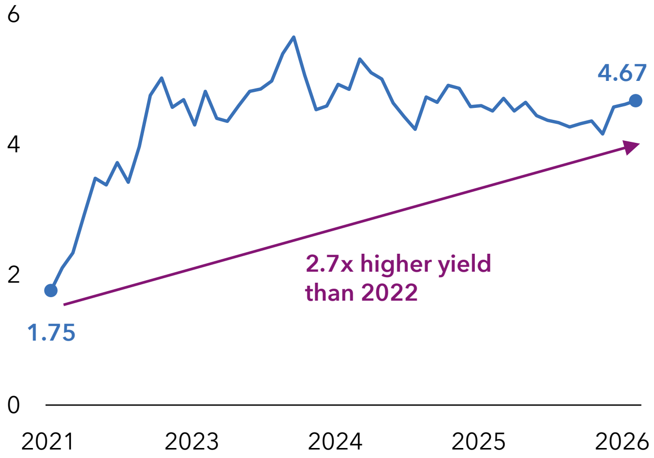


Sources: Capital Group, MSCI, RIMES, FactSet. Emergent Seven represents the seven largest companies in the MSCI Emerging Markets Index: Taiwan Semiconductor Manufacturing, Samsung Electronics, SK hynix, Tencent, Alibaba, MediaTek and Delta Electronics. The Magnificent Seven refers to a group of seven dominant US-based technology companies: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla. The forward 12-month price-to-earnings (P/E) ratio divides the current share price of a company by the estimated future earnings per share of that company. Tesla's forward 12-month P/E of 220x places it outside of the graph axis and is thus excluded above. As at 31 May 2026.

Bonds hit a sweet spot for income and diversification

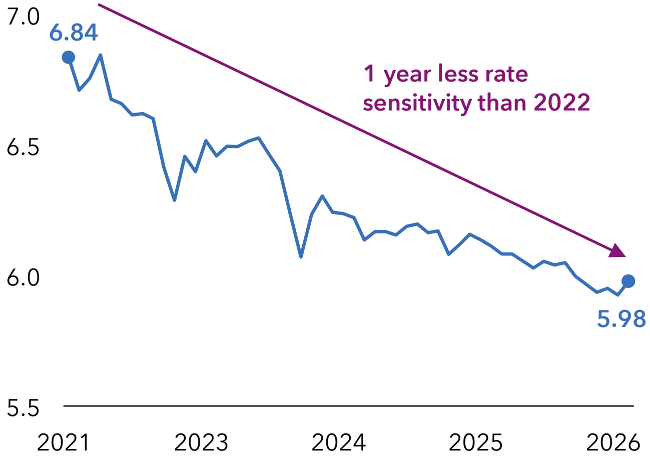
Higher return potential

Bloomberg US Agg. yield to worst (%)



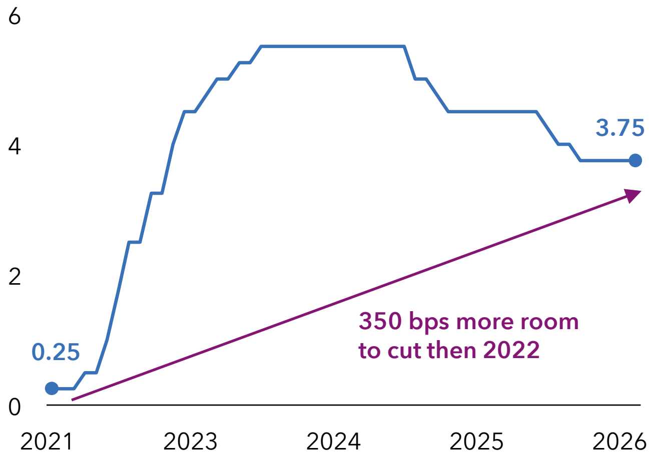
Less interest rate risk

Bloomberg US 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 US 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 conflict in the Middle East add uncertainty to growth and inflation.

“The US 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 unfavourable 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.

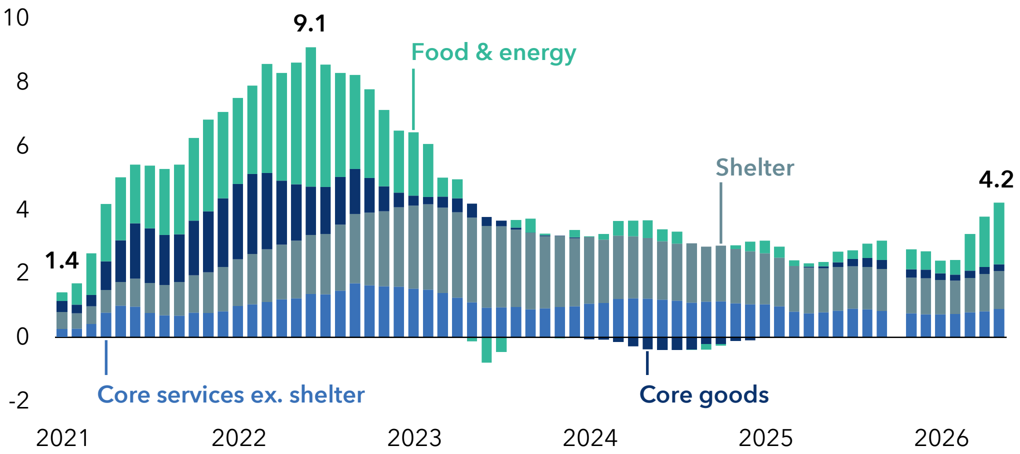
Past results are not a guarantee of future results.

Sources: Capital Group, Bloomberg. As at 31 May 2026. Duration is a measure of a bond’s price sensitivity to interest rate changes, expressed in years. Yield to worst is the lowest potential annualised 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.

Rate fears create an opening to extend duration

US core inflation holds steady amid high energy prices

Year-over-year growth (%)

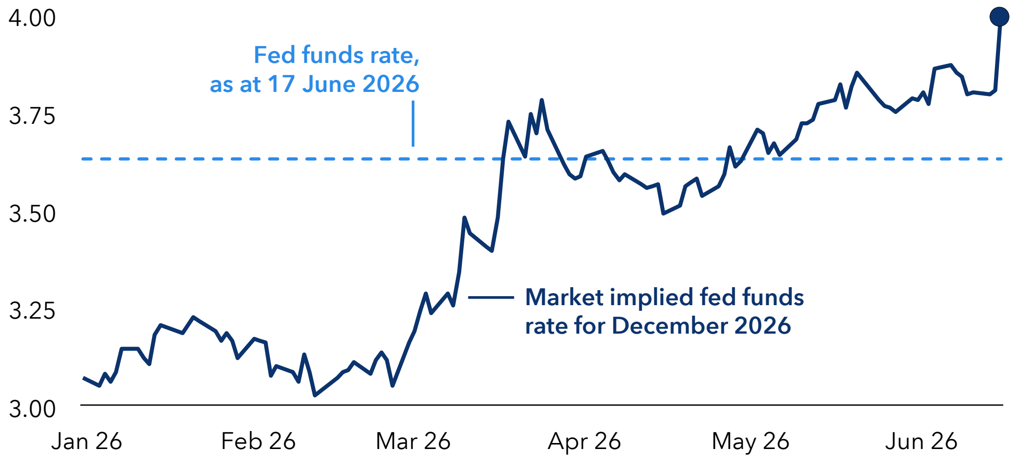


Inflation concerns tied to the Middle East conflict have pushed yields upward, creating room for a reversal if pressures ease or growth risks build.

While headline inflation figures in the US 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 prioritise the employment side of its mandate.

Markets expect rate hikes, but we see a patient Fed

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



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

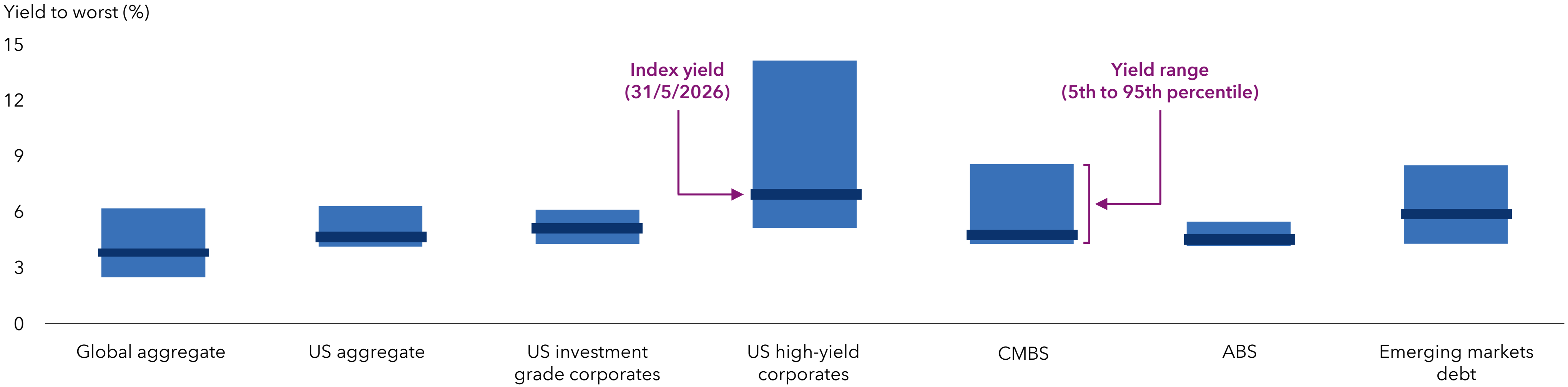
Longer-term forces such as artificial intelligence may also support lower rates across a range of outcomes. Strong productivity gains could help dampen inflation, while potential disruption to labour markets or risk sentiment could accelerate the need for a Fed response.

Past results are not a guarantee of future results.
Sources: Capital Group, Bureau of Labor Statistics, Bloomberg. Data shown is CPI for all items. October 2025 CPI data is unavailable due to the US government shutdown. Latest data available is May 2026 as at 10 June 2026.

Sources: Capital Group, Bloomberg. As at 17 June 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 US 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, fixed income portfolio manager. “A sustained rise in oil prices may dampen growth, but resilient consumer spending and significant investments in AI infrastructure should help keep US economic growth positive.”

Credit spreads reflect a broadly favourable environment and the higher quality of today’s high yield market. “I am still finding plenty of good investments across the broad credit market,” says McCann. “Moreover, we remain in a period of elevated yields relative to history, which is a strong setup for income seeking investors.”

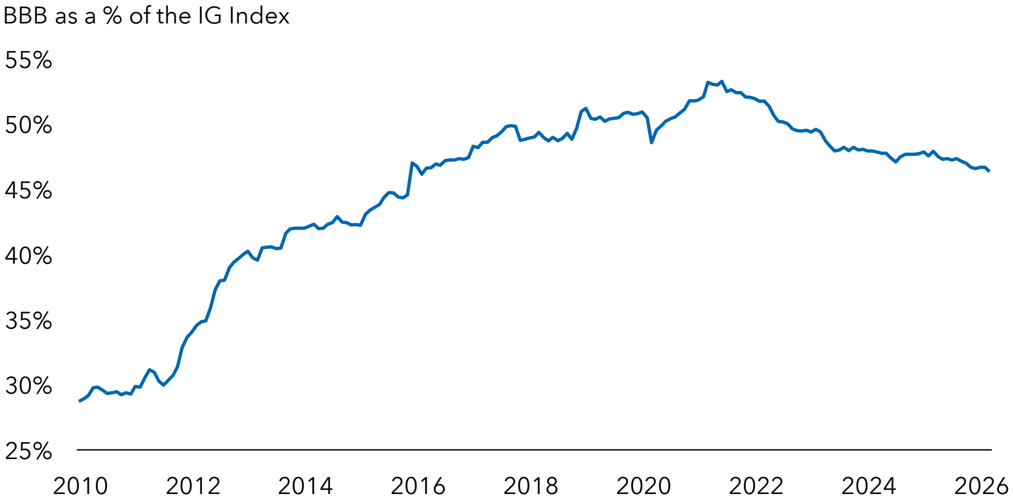
Differing yields and spreads present opportunities across and within investment-grade corporate bonds (BBB/Baa and above), high-yield bonds, emerging market debt and securitised credit such as commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS). That dispersion stems from varying 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.

Past results are not a guarantee of future results.

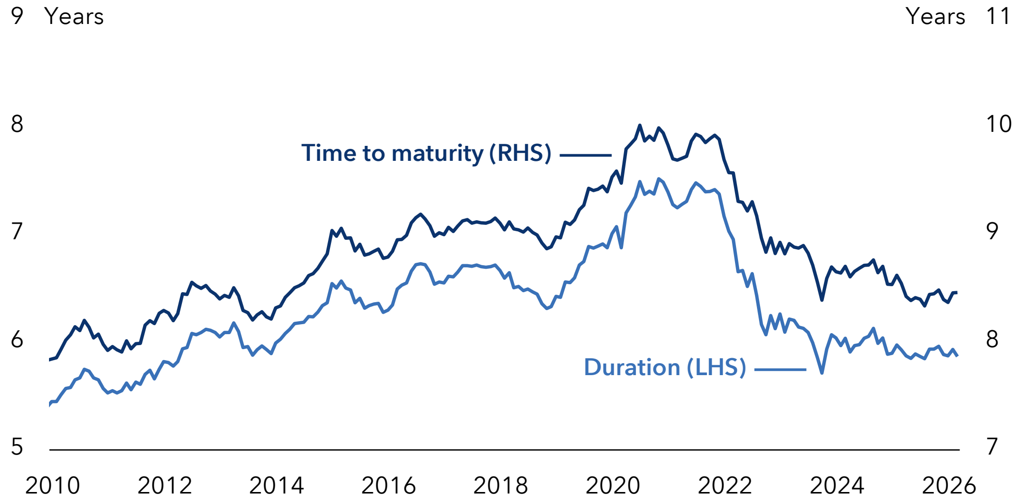
Sources: Capital Group, Bloomberg, JPMorgan. As at 31 May 2026. Global aggregate is the Bloomberg Global Aggregate Index. US investment-grade corporates is the Bloomberg Corporate Investment Grade Index. US high-yield corporates is the Bloomberg US Corporate High Yield 2% Issuer Capped Index, CMBS is the Bloomberg CMBS: Erisa Eligible Index, ABS is the Bloomberg ABS Index, Emerging markets debt is the J.P. Morgan Emerging Markets Bond Index Global (EMBI Global).

Structural improvements in IG help explain tighter spreads

IG credit quality has improved over time



Duration of the IG market has declined from recent highs



Despite an environment of heightened uncertainty, investment grade (IG) credit spreads remain close to historic tights. In isolation, these valuation levels may suggest limited upside but today's market differs meaningfully from prior periods.

First, the composition of the IG index has improved over time. Credit quality has strengthened, with the share of BBB-rated issuers declining from above 50% to around 45%. At the same time, interest rate sensitivity has fallen, reflecting both a shift in issuance away from ultra-long maturities and the natural roll-down of bonds issued during the low-rate period. The result is an investment grade market with a more balanced risk profile that can provide meaningful ballast to portfolios.

Underpinning the improvement in headline index numbers is a corporate sector with solid fundamentals. Leverage is in line with long-term averages and interest coverage ratios are healthy. Meanwhile, high starting yields continue to support strong demand for the asset class and help provide a strong buffer against mark-to-market volatility.

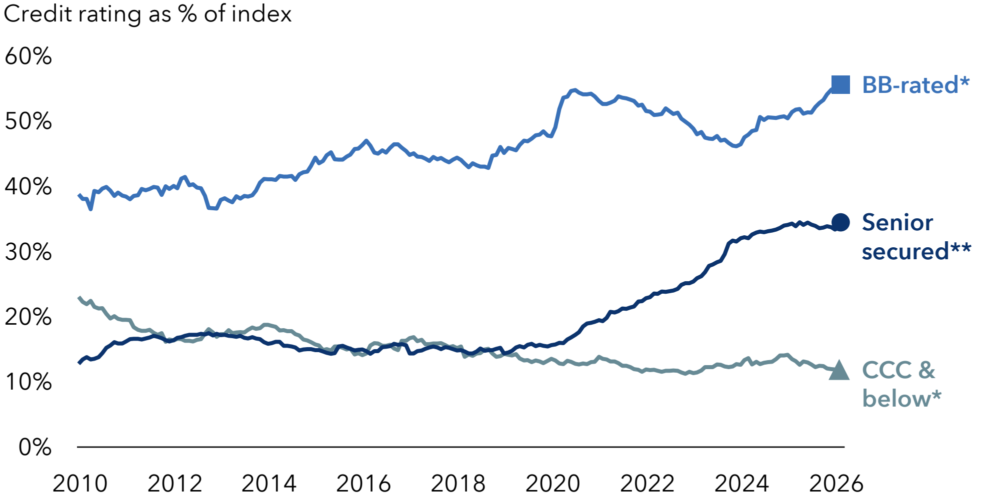
Taken together, these structural changes help explain why spreads are currently tight. Nonetheless, much of the relative value across industries and ratings cohorts has disappeared as spreads have ground tighter over the past two years. In this environment, security selection is more important than ever, and we continue to find opportunities at the issuer level.

Past results are not a guarantee of future results.
Source: Bloomberg. As at 31 March 2026. IG index represented by the Bloomberg Global Aggregate Corporate Index.

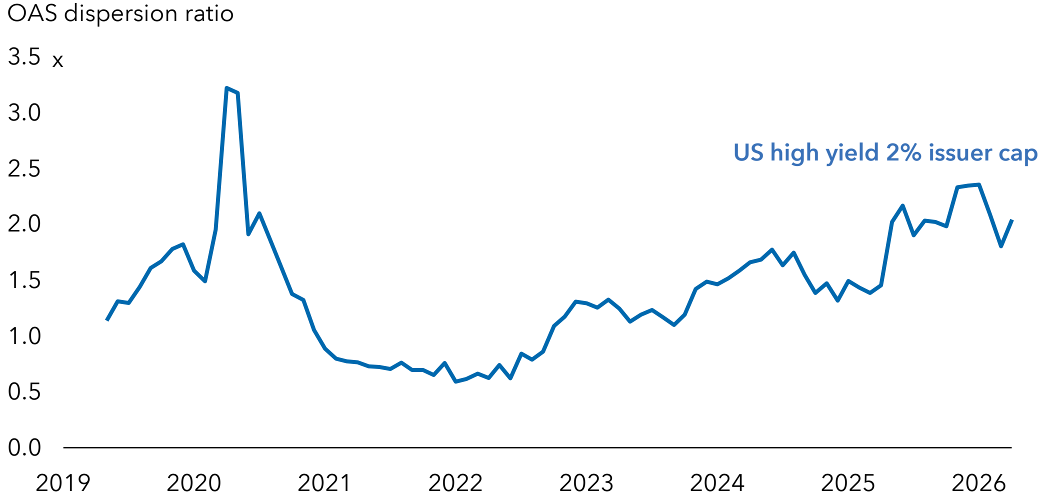
Past results are not a guarantee of future results.
Source: Bloomberg. As at 31 March 2026. IG universe represented by the Bloomberg Global Aggregate Corporate Index

High yield: The opportunity lies beneath the surface

Today's US high yield market is higher quality



Index spreads hide elevated dispersion at company level



At first glance, high yield markets look expensive. Index-level spreads sit near historically tight levels and it would be easy to conclude the opportunity has passed. But that view mistakes the surface for the substance.

Beneath the index level, the picture is more nuanced. Security-level spread dispersion is elevated relative to history, with over 600 names trading above the index average. This is not a market priced to perfection but one where selectivity could be richly rewarded.

This is possible because the asset class has profoundly changed. Today's high yield market bears little resemblance to the one that imploded during the Global Financial Crisis (GFC). BB-rated issuers now make up over 55% of the US index, CCC exposure has shrunk and duration sits near all-time lows. The result is lower equity beta and improved downside resilience. In the 2025 tariff-related sell-off, for example, US HY index captured just 17% of the equity drawdown. Compare that to 49% during the GFC and the structural shift becomes clear.

Fundamentals are equally supportive. Leverage ratios are stable, the maturity wall manageable, and upgrade-to-downgrade trends have been positive. Riskier borrowers have migrated to leveraged loans and private credit, leaving high yield with a cleaner composition. Since 2015, the high yield market has barely grown, while private credit has more than tripled.

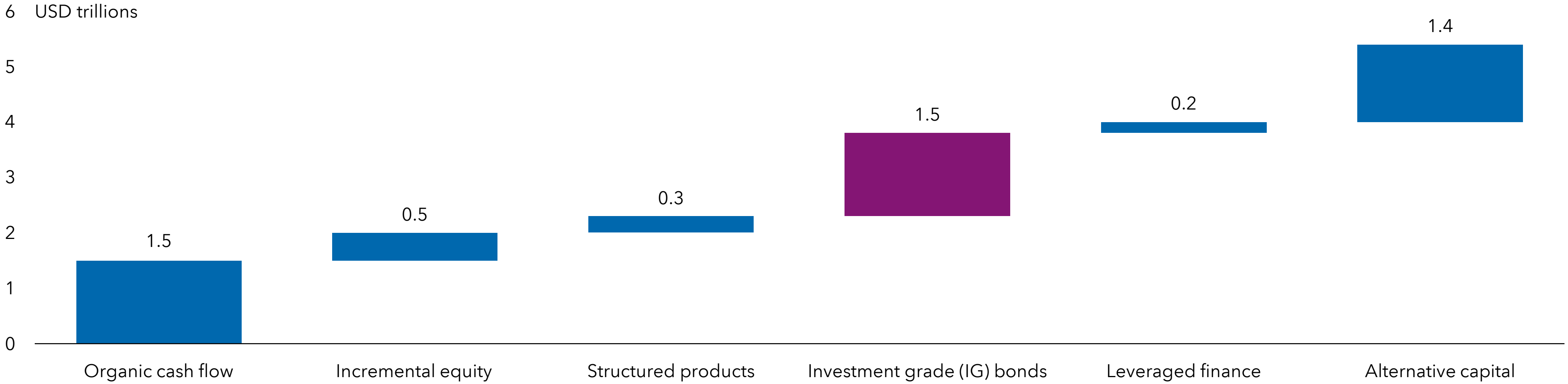
None of this guarantees returns. But dismissing high yield because of tight headline spreads risks missing one of fixed income's most compelling active opportunity sets.

Past results are not a guarantee of future results.
Sources: Barclays, JP Morgan. As at 31 March 2026. *US HY is represented by Bloomberg US High Yield Bond Index 2% Issuer. BB and CCC rated & below are sub-sets of this index. **Represented by JP Morgan High Yield Index. Senior secured bonds is a sub-set of this index.

Sources: Bloomberg, Barclays, Capital Group. As at 30 April 2026. US high yield represented by Bloomberg US High Yield Bond Index (2% issuer cap). Dispersion is defined as the standard deviation of option-adjusted spread (OAS) divided by the weighted average index OAS, winsorised at the 1% level, with extreme values capped at the 1st and 99th percentiles, using monthly data.

AI for bond investors: Not someone else's trade

AI/datacentre funding sources



When investors consider AI, they tend to think about equities: hyperscalers, chipmakers, eye-watering capex. Fixed income rarely enters the conversation and that is a mistake.

The potential implications of AI for bond markets are real and transformative. Government debt across developed markets has ballooned since the GFC, with investor unease manifesting in higher term premia and steeper curves. But what if technology could change this calculus?

If AI delivers even a fraction of expected productivity gains, economies could achieve higher growth without rising inflation. That is the holy grail for sovereigns: governments "grow out" of elevated debt burdens, flattening yield curves and reinforcing safe-haven status. History offers an instructive parallel. In the 1990s, forecasters dramatically underestimated the productivity impact of PCs. By 2000, US debt-to-GDP and the fiscal balance had significantly outperformed expectations.

The path forward for AI is unlikely to be linear. Upfront capex and supply-chain bottlenecks could steepen sovereign curves before productivity gains materialise. The US, with deep capital markets and rapid adoption, is better placed than Europe or Japan, where structural rigidities may slow the transition.

In credit markets, effects are already visible. AI-linked bond issuance is rising fast, with over US$500 billion projected for 2026. As the chart shows, IG credit issuance is expected to make up a significant part of overall funding for the ongoing data centre buildout.

Securitised structures backed by those data centres and fibre are broadening the investment universe, while AI agents challenge incumbents in software and insurance broking, creating new credit winners and losers.

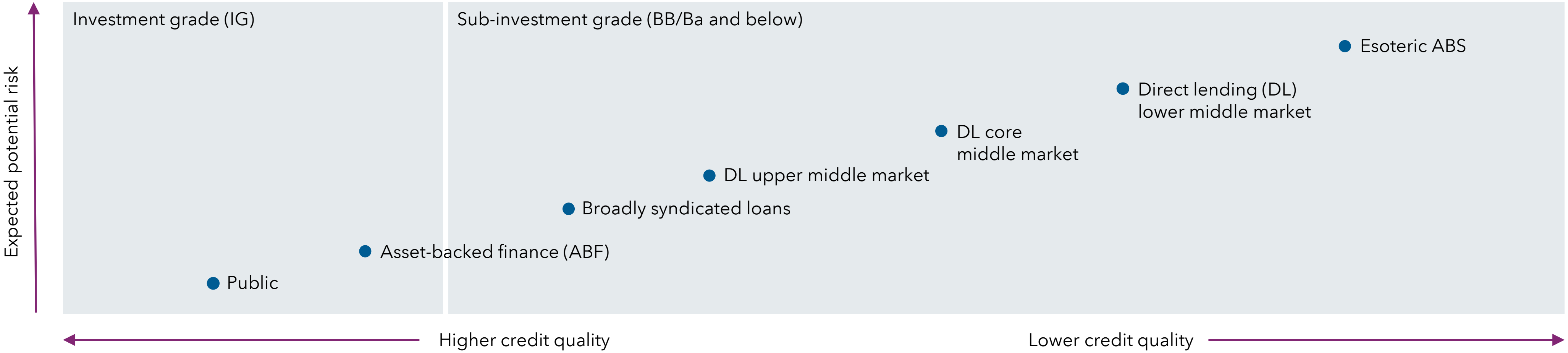
For fixed income investors, the takeaway is clear. This is not someone else's trade.

Past results are not a guarantee of future results.
Source: JP Morgan estimates. As at 31 December 2025. Assumes Permanent financing

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 centred 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.

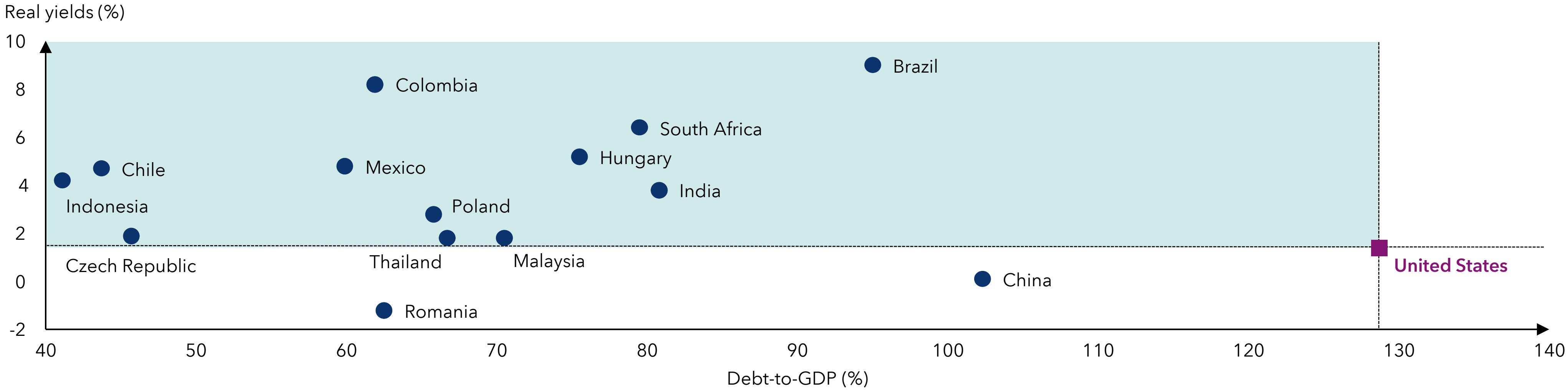
An “up-in-quality” bias may allow investors to capture better risk-adjusted income while the broader market faces late-cycle pressure. In direct lending, a focus on upper middle market companies may provide reduced default risk as larger companies are more able to absorb elevated financing costs amid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

Credible policy driving differentiated EM income opportunities

Emerging markets: Robust yields paired with healthy fundamentals



Higher yields in emerging markets are increasingly underpinned by policy discipline and balance sheet strength – not macro stress. The chart highlights countries, particularly in Latin America and Central and Eastern Europe, offering elevated real yields alongside moderate debt.

Markets such as Brazil, Mexico and Colombia illustrate this shift, where orthodox policy has rebuilt credibility and created attractive income opportunities. Inflation has fallen faster than policy rates, lifting real yields while fiscal positions remain manageable.

This income carry provides a buffer against global volatility, even as geopolitical risks and energy prices cloud the outlook. By contrast, developed markets combine higher debt levels with lower real yields, offering less insulation if growth slows or inflation remains sticky.

The benefits extend beyond sovereigns. Improved macro frameworks have supported stronger corporate balance sheets in emerging markets, contributing to healthier credit quality and more resilient cash flows.

As portfolio manager Kirstie Spence notes: "The opportunity set today is far more differentiated. In countries like Brazil and Mexico, high real yields reflect credible policy and improving fundamentals – not financial stress."

For investors, selectivity remains key: focusing on countries where income, policy credibility and balance sheet quality align.

Past results are not a guarantee of future results.
Source: Bloomberg, International Monetary Fund, JP Morgan. Real yields data as at 30 April 2026. Real yields represent JP Morgan GBI-EM Global Diversified Index yields minus core inflation. US real yields represent 5-year Treasury yields minus US core inflation. Debt as a percentage of GDP represents general government gross debt as a percent of GDP and is sourced from the IMF's World Economic Outlook report from October 2025.

All data as at 31 May 2026, unless otherwise specified.

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