Capital Ideas™
Investment insights from Capital Group

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5 keys to investing in 2024

1. Elections come and go, but results last a lifetime
2. Cash might not be as attractive as you think
3. Innovation is alive and well, but diversification matters
4. The comeback story in bonds may just be getting started
5. There are always reasons not to invest, but markets have been resilient

What a difference a year makes. At the start of 2023, market pessimism was widespread, investors braced for a recession, and many expected another down year in stocks. Instead, the economy proved remarkably resilient, inflation declined at a rapid pace, and U.S. stocks, as represented by the S&P 500 Index, soared 26.3%. Talk about surprises.

History has shown that the economy and markets seem to always find ways to surprise investors. Whatever is in store for investors in the year ahead, here are five keys to keeping your long-term plans on track.

1. Elections come and go, but results last a lifetime

Political news is sure to dominate the headlines in 2024. More than half of the world's population is heading to the polls, from Taiwan to South Africa. And with debates raging over immigration, international policy and social issues, the U.S. presidential election is set to be particularly contentious.

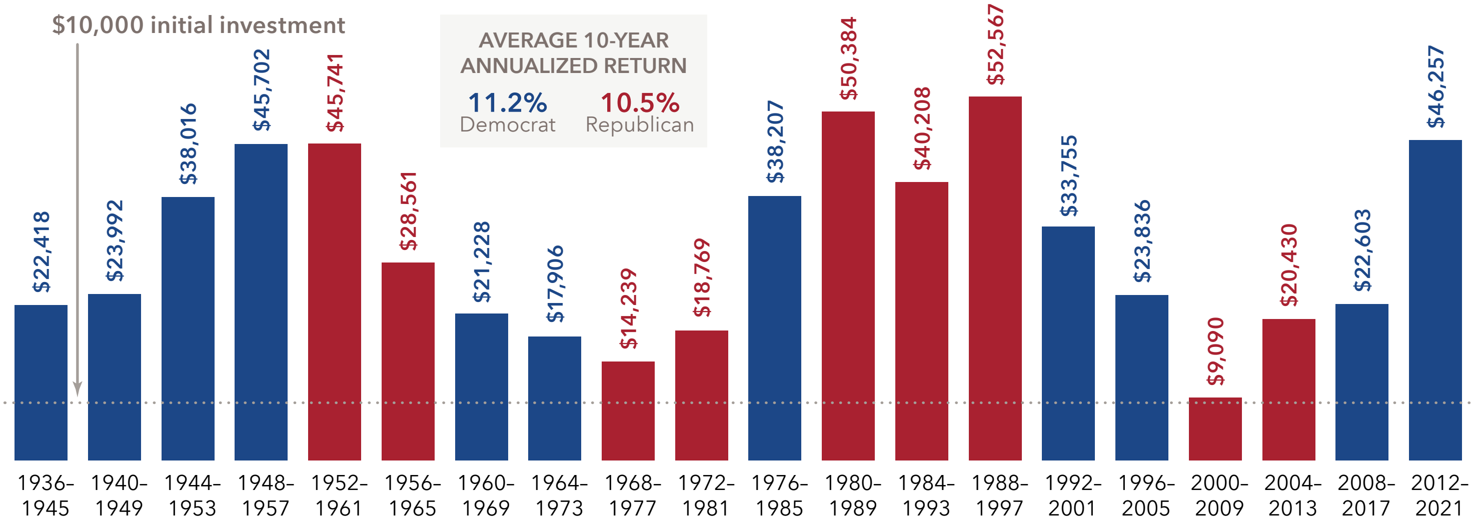
Election uncertainty will likely trigger higher market volatility, particularly during the primary season. The good news: Volatility can often generate opportunities for patient investors.

> "High-quality companies frequently get caught in political crosshairs, which can create a buying opportunity," says equity portfolio manager Rob Lovelace. "But I typically try to look beyond the election cycle and aim for an average holding period in my portfolios of around eight years — essentially two presidential terms."

Investors may have strong convictions about which candidate or political party will steer the country in the right direction, but historically the party that prevails has had little impact on long-term market returns. Since 1936, the 10-year annualized return of U.S. stocks (as measured by the S&P 500 Index) made at the start of an election year was 11.2% when a Democrat won and 10.5% in years a Republican prevailed.

Red, blue and you: Politics don't matter much for investors

10-year growth of hypothetical $10k investment made in the S&P 500 Index at start of election year (USD)



Sources: Capital Group, Standard & Poor's. Each 10-year period begins on January 1 of the first year shown and ends on December 31 of the tenth year. For example, the first period covers January 1, 1936, through December 31, 1945. Figures shown are past results and are not predictive of results in future periods.

2. Cash might not be as attractive as you think

Investors went from risk averse to loss averse in 2023. Fearful investors shifted billions of dollars into cash and cash-equivalent instruments. It is natural to look for safety when uncertainty is high. And attractive rates on money market funds and cash equivalents may feel reassuring. But cash might not be as attractive as you think when you consider the opportunity cost.

Investors need look no further than their fourth quarter 2023 statements to see that staying on the sidelines comes with its own risks. The S&P 500 Index, a broad measure of U.S. stocks, advanced 11.69% for the three months ended December 31, 2023, and the Bloomberg U.S. Aggregate Index, a broad measure of the U.S. bond market, rose 6.82%.

Investors still on the sidelines could be missing out on future opportunities and putting their long-term goals at risk. "I believe we're on the cusp of a major transition where long-term investors can find attractive investment opportunities in stocks and bonds," says Mike Gitlin, president and chief executive officer of Capital Group.

3. Innovation is alive and well, but diversification matters

Breakthroughs in artificial intelligence (AI) have captivated the world and sent share prices soaring for a handful of mega-cap tech companies. Some of these leading-edge firms will likely continue to be at the forefront of innovation as AI applications roll out across the economy, impacting the way we live and work. NVIDIA, for example, designs powerful computer chips needed to run AI applications, and Microsoft co-owns the popular AI app ChatGPT. But their recent successes have resulted in a U.S. stock market that's more concentrated than it was in the dot-com era.

As of December 2023, the 10 largest companies in the S&P 500 accounted for 30.9% of the market capitalization compared with a 26.6% weighting for the 10 largest companies in March 2000.

With such a small number of U.S. tech stocks generating a sizable portion of overall market returns, the potential benefits of diversification weren't obvious last year. But broad diversification across regions and industries remains a hallmark of portfolios positioned to help investors pursue their objectives through market cycles.

"Given the level of economic uncertainty heading into this year, I believe diversification is as essential as ever," says Lawrence Kymisis, a portfolio manager for EuroPacific Growth Fund®. "And I believe there are promising investment opportunities among U.S. tech leaders, as well as dividend payers and leading global companies."

Indeed, Europe and Asia are home to pioneers in other industries, from aerospace to factory automation. For example, France's Safran, the world's top producer of narrow-body aircraft engines, is developing engines in partnership with General Electric that could reduce emissions by 20%. In Japan, SMC is a leader in robotic equipment components and semiconductor production.

4. The comeback story in bonds may just be getting started

Bonds have recently failed to offer the relative stability and diversification investors have grown to expect. In 2022, bonds declined in tandem with stocks for a full calendar year for the first time in 45 years. Bond market volatility continued for much of 2023.

But the picture has brightened considerably in recent months. With inflation falling faster than expected, the Federal Reserve has indicated it is done raising interest rates – news that triggered a fourth-quarter rally across bond markets. The end of a tightening cycle has historically been a good time to own bonds.

What's more, given that yields have risen significantly across credit sectors – and that any slowdown in the economy could trigger rate cuts – bonds could be the comeback story of 2024.

"Bonds may soon return to their basic roles of offering income and diversification from equity market downturns," says Oliver Edmunds, a portfolio manager for CGCB – Capital Group Core Bond ETF .

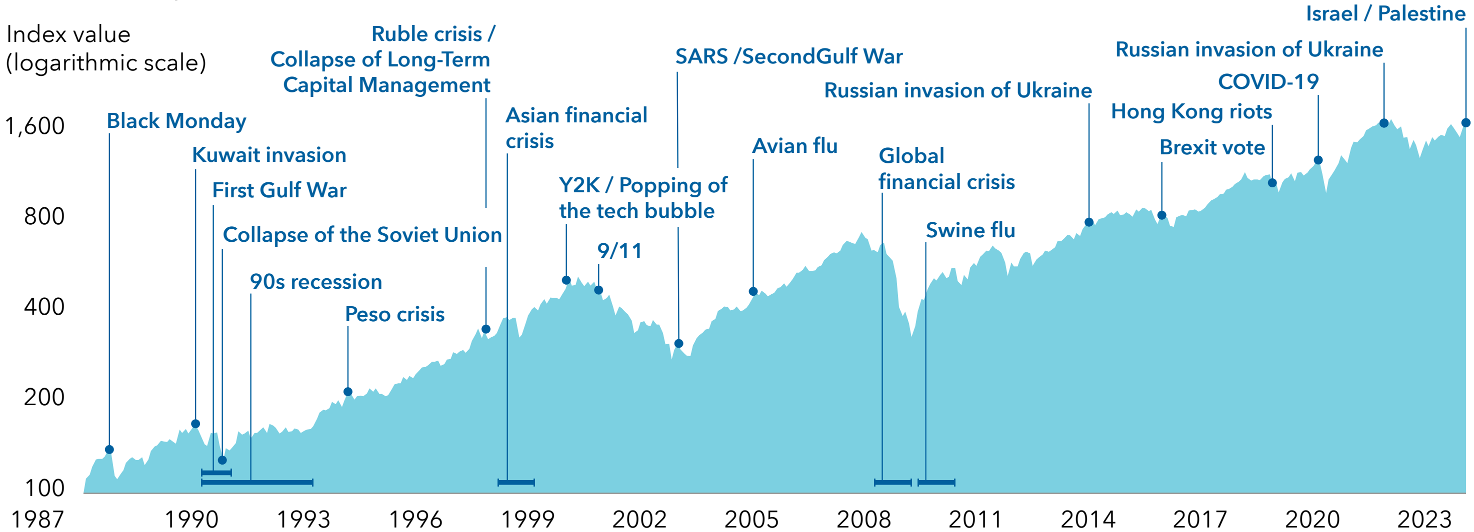
5. There are always reasons not to invest, but markets have been resilient

"In my 25 years in the investment business, I have never known a good time to invest. There are always a dozen good reasons why it makes sense to wait," said Graham Holloway, the late chairman of American Funds Distributors. "Today is no exception … interest rates, the president, constant strife in the Middle East, excessive government regulations and a Congress that is more a part of the problem than part of the solution. A cautious person might be tempted not to invest under those circumstances – unless he wanted to take advantage of an opportunity."

Those words could have been said yesterday, but they were spoken in May 1981, another time of uncertainty in markets. News drives turbulence in the short term, but company fundamentals drive markets in the long term.

Market disturbances are inevitable and frequent

MSCI All Country World Index



Sources: MSCI, RIMES. As of December 31, 2023. Data is indexed to 100 on January 1, 1987, based on the MSCI All Country World Index from January 1, 1987, through December 31, 1987, the MSCI World Index with gross returns from January 1, 1988, through December 31, 2000, and the MSCI ACWI with net returns thereafter. Shown on a logarithmic scale. Past results are not predictive of results in future periods.

5 keys for investors in 2024

1. **Elections come and go, but results last a lifetime.** Shifting political fortunes trigger short-term market volatility, but historically have had little impact on long-term returns. To go deeper, download our Guide to investing in an election year at **guidetoelections.com**
2. **Cash might not be as attractive as you think.** Investors need look no further than their fourth quarter 2023 statements to see that staying on the sidelines comes with its own risks.
3. **Innovation is alive and well, but diversification matters.** Investment opportunities can surface among leading global companies as well as U.S. tech leaders and dividend payers.
4. **The comeback story in bonds may just be getting started.** The end of a Fed tightening cycle has historically been a good time to own bonds.
5. **There are always reasons not to invest, but markets have been resilient.** A cautious person might be tempted not to invest when news headlines are discouraging, unless they want to take advantage of an opportunity.

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. These risks may be heightened in connection with investments in developing countries.

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

Bloomberg U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market.

MSCI World Index is a free float-adjusted market capitalization-weighted index designed to measure equity market results of developed markets. The index consists of more than 20 developed market country indexes, including the United States.

MSCI All Country World Index (ACWI) is a free float-adjusted market capitalization-weighted index that is designed to measure equity market results in the global developed and emerging markets, consisting of more than 40 developed and emerging market country indexes.

The S&P 500 Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks.

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