CAPITAL GROUP℠

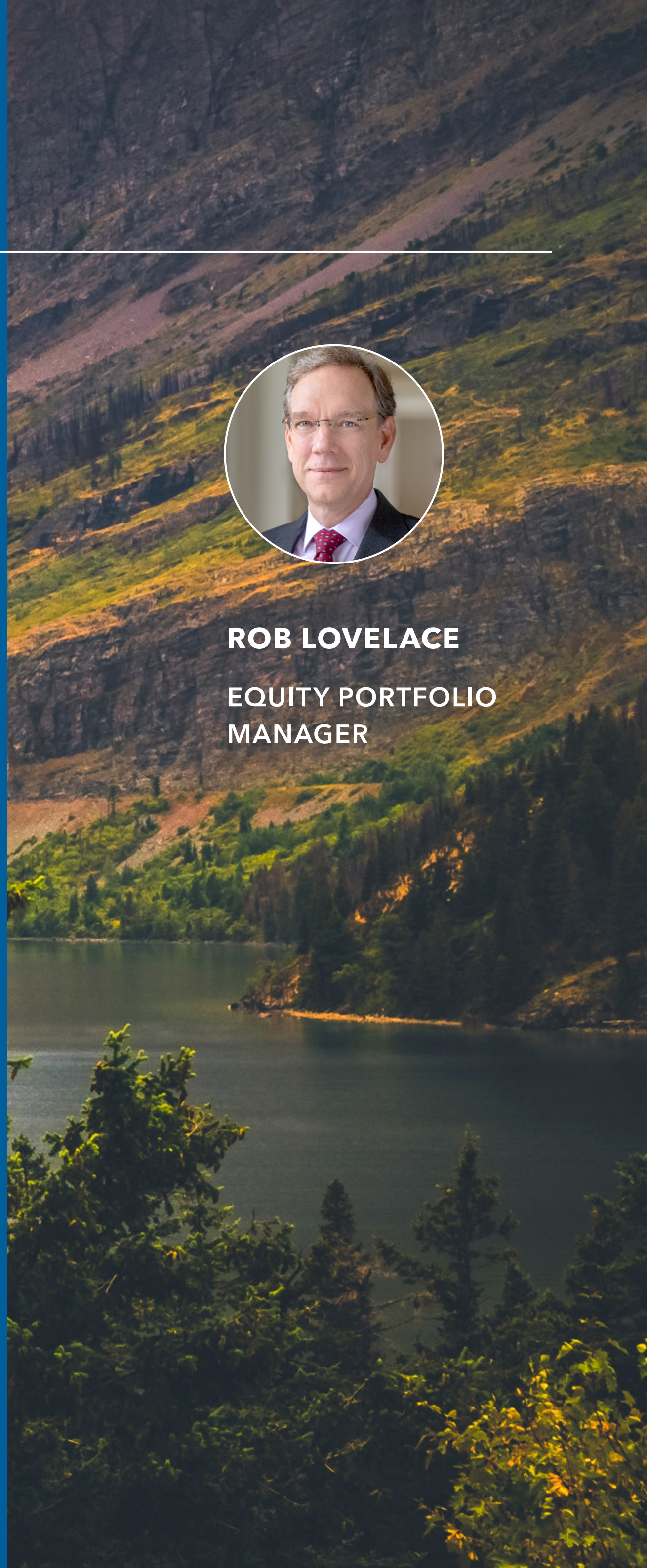
Guide to market recoveries

How to stay focused on long-term success

2020 edition

This material is a marketing communication

"During major market downturns, we need to focus on how much will be the same and what's permanently changed. The analogy we use is to look across the valley and see the other side. It was a much different situation during the 2008 financial crisis because we couldn't see the other side of the valley and how we were going to reach it. But this time is different, and that gives me hope."



ROB LOVELACE

EQUITY PORTFOLIO MANAGER

Statements attributed to an individual represent the opinions of that individual as of the date published and do not necessarily reflect the opinions of Capital Group or its affiliates. The information provided is not intended to be comprehensive or to provide advice.

Staying focused on long-term investment success

If market declines make you nervous, you're not alone – especially now, when COVID-19 and its economic impact are fueling feelings of uncertainty.

But while bear markets can be extraordinarily difficult, they also can be moments of great opportunity. Investors who find the courage and conviction to stick to their long-term plan are often rewarded as markets bounce back.

To help put recent markets into perspective, we outline three facts about market recoveries and three mistakes that investors should avoid.

3 facts about market recoveries

3 mistakes investors should avoid

3 facts about market recoveries

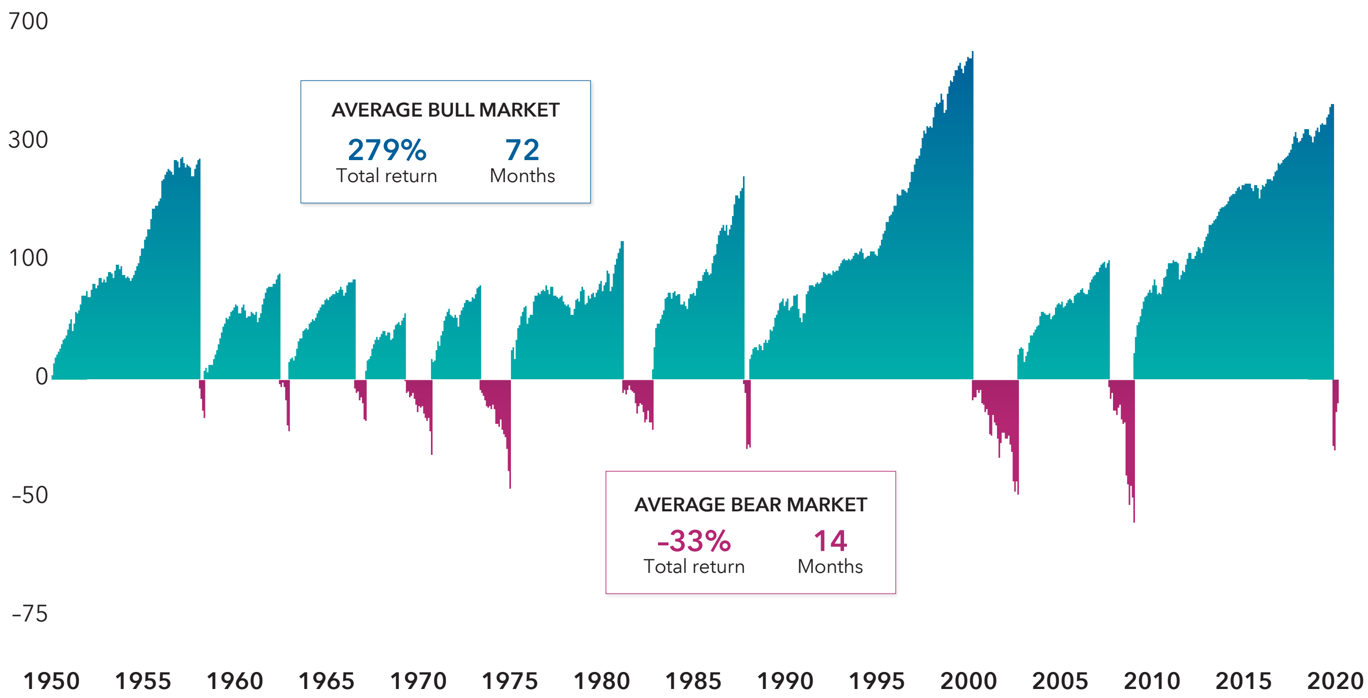
Fact #1:
Recoveries have been much longer and stronger than downturns

The good news is bear markets have been relatively short compared to recoveries. They can feel like they last forever when we're in them, but in reality they are much less impactful compared to the long-term power of bull markets.

Although every market decline is unique, in the US, the average bear market since 1950 has lasted 14 months. The average bull market has been more than five times longer.

The difference in returns has been just as dramatic. But even though the average bull market has averaged a 279% gain, recoveries are rarely a smooth ride. Investors often have to withstand scary headlines, significant market volatility and additional equity declines along the way. But investors who remain focused on the long term are often better equipped to look past the noise and stick to their plan.

S&P 500 cumulative price return for each bull and bear market (%)



Past results are not a guarantee of future results.
Sources: Capital Group, RIMES, Standard & Poor's. As at 31/5/20. The 2020 bear market is considered current as at 31/5/20 and is not included in the 'average bear market' calculations. All other bear market periods are peak-to-trough price declines of 20% or more in the S&P 500. Bull markets are all other periods. Returns shown on a logarithmic scale. Returns in USD.

Fact #2:
After large declines, markets have recovered relatively quickly

We don't know exactly what the next recovery will look like, but history shows us that stocks have often recovered sharply following steep downturns. We tracked the 18 biggest US market declines since the Great Depression, and in each case the S&P 500 was higher five years later. Returns over those five-year periods averaged more than 18% per year.

Returns have often been strongest after the steepest declines, bouncing back quickly from market bottoms. The first year following the five biggest US bear markets over the last 90 years averaged 71%, underscoring the importance of staying invested and avoiding the urge to abandon stocks during market volatility. While these have been the average returns during these recoveries, each one has differed, and it's quite possible any future recovery could be more muted.

Five biggest US market declines and subsequent five-year periods 1929–2019

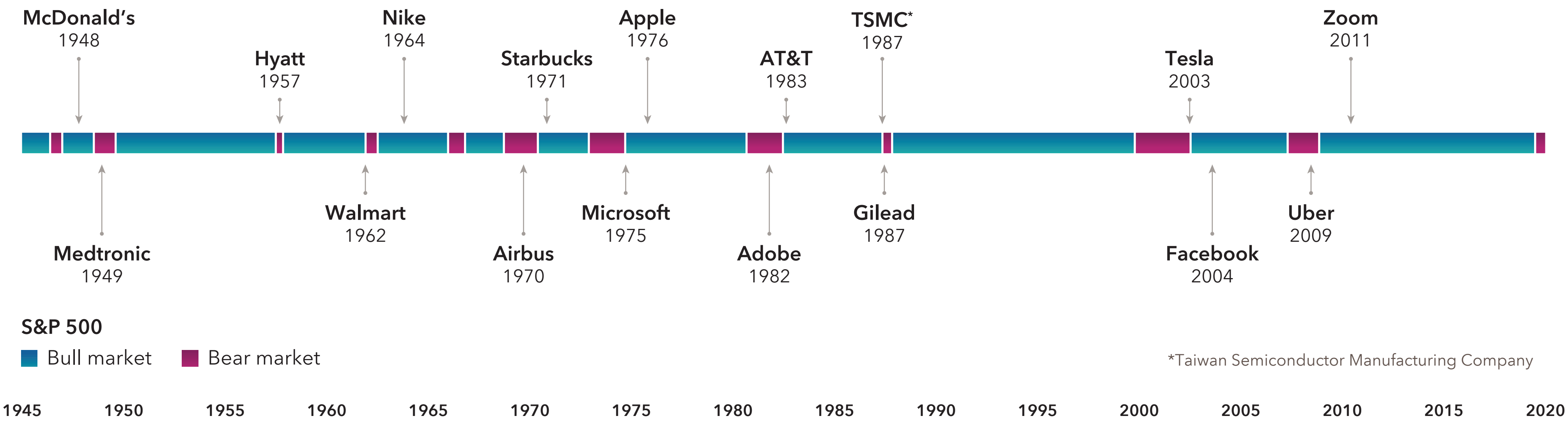
		S&P 500 12-month returns (Positive periods (23); Negative periods (2))					
Periods of decline	Decline	1st year after low	2nd year	3rd year	4th year	5th year	Average annual total return for the 5-year period
7/9/29–1/6/32	–86.2%	137.6%	0.5%	6.4%	56.7%	16.5%	35.9%
6/3/37–28/4/42	–60.0	64.3	9.0	31.1	32.2	-19.9	20.0
11/1/73–3/10/74	–48.2	44.4	26.0	-2.9	11.8	12.8	17.4
24/3/00–9/10/02	–49.1	36.2	9.9	8.5	15.1	18.1	17.2
9/10/07–9/3/09	–56.8	72.3	18.1	6.1	15.7	23.6	25.3
Average		70.9	12.7	9.8	26.3	10.2	23.1

Past results are not a guarantee of future results.

Sources: Capital Group, RIMES, Standard & Poor's. As of 30/4/20. Market downturns are based on the five largest declines in the S&P 500's value (excluding dividends and/or distributions) with 50% recovery after each decline. The return for each of the five years after a low is a 12-month return based on the date of the low. The percentage decline is based on the index value of the unmanaged S&P 500, excluding dividends and/or distributions. The average annual total returns include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or taxes. Investors cannot invest directly in an index. Past results are not predictive of results in future periods.

Fact #3:
Tough times have created some of the world's leading companies

Notable companies, by year they were founded



Many companies got their start during periods of uncertainty and have gone on to become household names.

To highlight just a few: McDonald's emerged in 1948 following a downturn caused by the US government's demobilisation from a wartime economy. Walmart came along 14 years later, around the time of the "Flash Crash of 1962" – a period when the S&P 500 composite index declined 27%. Airbus, Microsoft and Starbucks were founded during the stagflation era of the 1970s, a decade marked by two recessions and one of the worst bear markets in US history. Not long after that, Steve Jobs walked into his garage and started a small computer company called Apple.

History has shown that strong businesses find a way to survive, and even thrive, in volatile markets and difficult economic conditions. Companies that are able to adapt and grow in tough times often present attractive long-term investment opportunities. Bottom-up, fundamental research is the key to separating these resilient companies from those likely to be left behind.

Past results are not a guarantee of future results. This information has been provided solely for informational purposes and is not an offer, or solicitation of an offer, or a recommendation to buy or sell any security or instrument listed herein.

Source: Capital Group, Standard & Poor's. As at 31/5/20. The 2020 bear market is considered current as at 31/5/20. All other bear market periods are peak-to-trough price declines of 20% or more in the S&P 500. Bull markets are all other periods.

3 mistakes investors should avoid

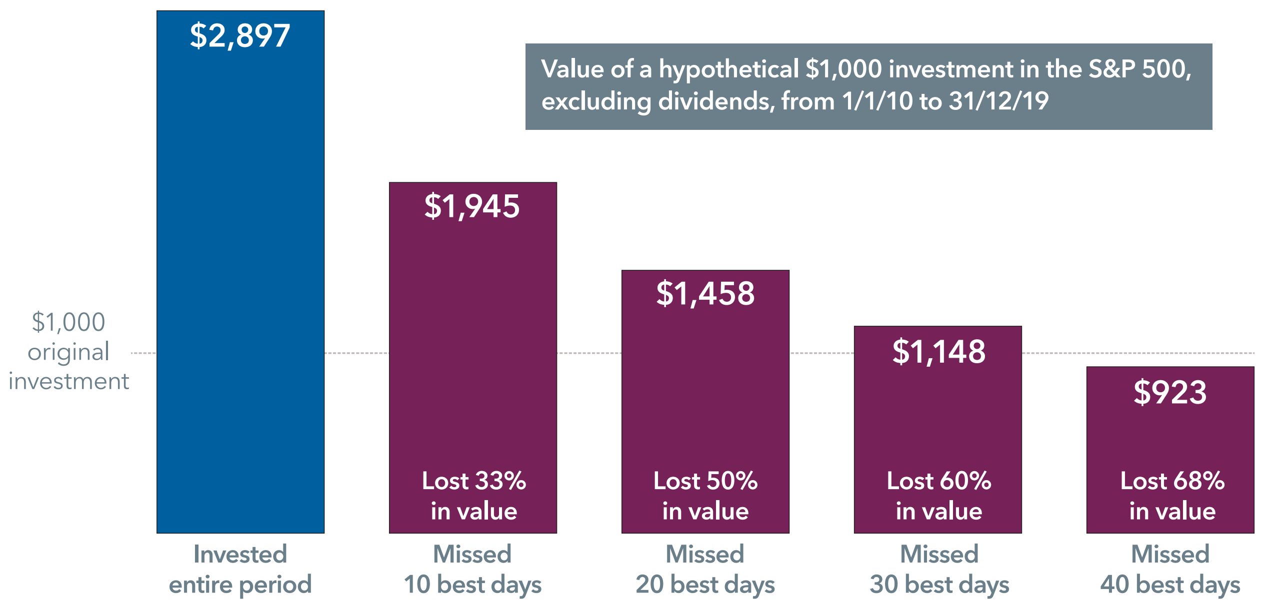
Mistake #1:
Trying to time markets

It's time, not timing, that matters in investing. Taking your money out of the market on the way down means that if you don't get back in at exactly the right time, you can't capture the full benefit of any recovery.

Consider this example of a hypothetical investor who sold stocks during the market downturn of 2008–2009, and then tried to time the US market, jumping back in when it showed signs of improvement. Missing even the 10 best days of the recovery would have significantly hurt that investor's long-term results – and the more missed "good" days, the more missed opportunities.

Investors who are more hesitant to put all of their excess capital to work at once may want to consider dollar cost averaging in volatile markets. Dollar cost averaging during a decline allows you to purchase more shares at a lower average cost, and when markets eventually rise, those extra shares can enhance your portfolio's value.

Missing just a few of the market's best days can hurt investment returns



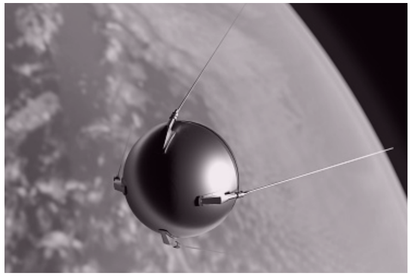
Past results are not a guarantee of future results.
Sources: RIMES, Standard & Poor's. As of 31/12/19. Values in USD. Investors cannot invest directly in an index.

Mistake #2:
Assuming today's negative headlines make it a bad time to invest

Today's economic and geopolitical challenges may seem unprecedented, but a look through history shows that there have always been reasons not to invest. Despite the negative headlines, the market's long-term trend has always been higher.

Great investment opportunities often emerge when investors are feeling most pessimistic. The coronavirus outbreak may be unlike anything we have faced before, but uncertainty is nothing new to the market, which has been resilient over time.

Here's what would have happened (in terms of dollar amounts and average annual total returns) to a hypothetical $10,000 investment in the S&P 500 Index on these historic days:



Pearl Harbour was bombed. (December 7, 1941)

- 10 years later: $44,855 | 16.2%
- As of 12/31/19: $53,826,691 | 11.6%

The Soviets launched Sputnik, vaulting into space ahead of the US (October 4, 1957)

- 10 years later: $31,387 | 12.1%
- As of 12/31/19: $4,959,491 | 10.5%

President Kennedy was assassinated. (November 22, 1963)

- 10 years later: $19,729 | 7.0%
- As of 12/31/19: $2,480,003 | 10.3%

President Nixon resigned. (August 9, 1974)

- 10 years later: $33,517 | 12.9%
- As of 12/31/19: $1,506,269 | 11.7%

The Dow Jones Industrial Average dropped a record 22% in one day. (October 19, 1987)

- 10 years later: $56,514 | 18.9%
- As of 12/31/19: $294,140 | 11.1%

Lehman Brothers declares bankruptcy. (September 15, 2008)

- 10 years later: $30,193 | 11.7%
- As of 12/31/19: $34,453 | 11.6%

Past results are not a guarantee of future results. Examples provided for illustrative purposes only.
Source: Capital Group. Indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

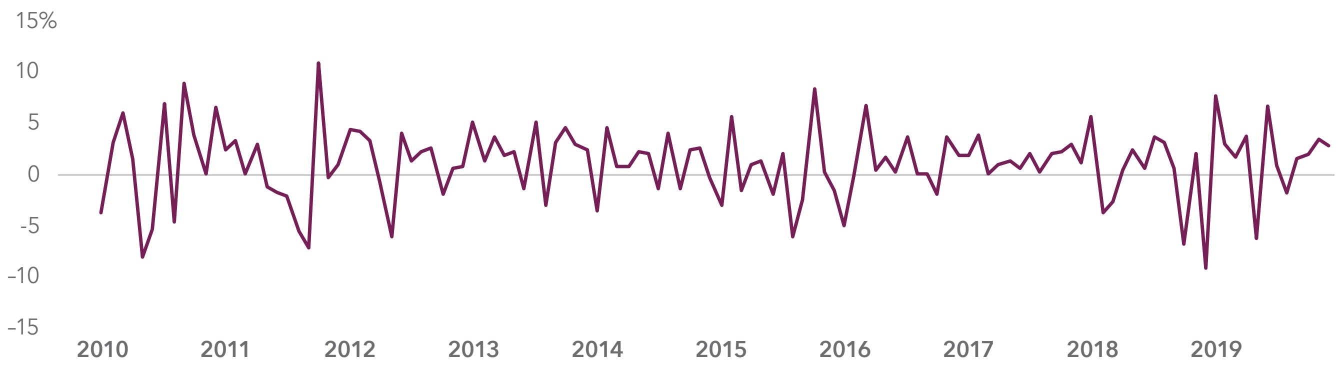
Mistake #3:
Focusing too much on the short term

Market volatility is especially uncomfortable when you focus on short-term ups and downs. Instead, extend your time horizon to focus on the long-term growth of your investments and the progress you've made toward your goals.

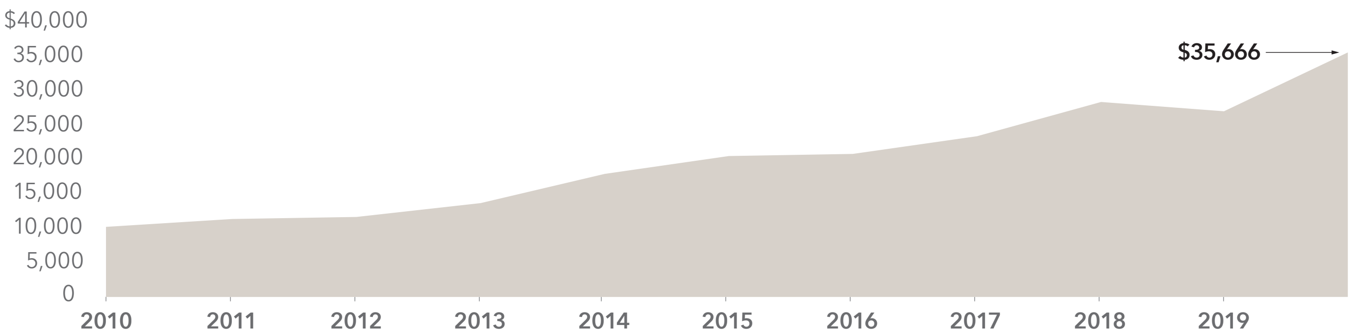
Consider the two charts to the right which represent contrasting perspectives of the same hypothetical investment. The short-term view is one that many investors have of their portfolios – tracing returns over short periods of time. The long-term view plots the same exact investment over the same period, but shows annual change in the portfolio value invested instead. With this perspective, the short-term fluctuations of the first chart have smoothed out over time, and the picture of a growing portfolio becomes clearer.

Remember that bear markets don't last forever. Maintaining a long-term perspective can help keep investors focused on the goals that matter most.

Short-term view: Monthly returns are volatile



Long-term view: Portfolio grows smoothly over time



Past results are not a guarantee of future results

Source: Standard & Poor's. Short-term view shown by Standard & Poor's 500 Composite Index and reflected in monthly return percentages from 31/12/09 through 31/12/19. Long-term view represented by a hypothetical $10,000 initial investment in the same index from 31/12/09 through 31/12/19. The market index is unmanaged and, therefore, has no expenses. For illustrative purposes only. Investors cannot invest directly in an index.

The information provided is intended to highlight issues and not to be comprehensive or to provide advice. Statements attributed to an individual represent the opinions of that individual as of the date published and do not necessarily reflect the opinions of Capital Group or its affiliates.

Risk factors you should consider before investing:

- **This material is not intended to provide investment advice or be considered a personal recommendation.**
- **The value of investments and income from them can go down as well as up and you may lose some or all of your initial investment.**
- **Past results are not a guide to future results.**
- **If the currency in which you invest strengthens against the currency in which the underlying investments of the fund are made, the value of your investment will decrease.**
- **Depending on the strategy, risks may be associated with investing in fixed income, emerging markets and/or high-yield securities; emerging markets are volatile and may suffer from liquidity problems.**

While Capital Group uses reasonable efforts to obtain information from third-party sources which it believes to be reliable, Capital Group makes no representation or warranty as to the accuracy, reliability or completeness of the information. The information provided is of a general nature and does not take into account your objectives, financial situation or needs. Before acting on any of the information you should consider its appropriateness, having regard to your own objectives, financial situation and needs.

This communication is issued by Capital International Management Company Sàrl ("CIMC"), 37A avenue J.F. Kennedy, L-1855 Luxembourg, unless otherwise specified, and is distributed for information purposes only. CIMC is regulated by the Commission de Surveillance du Secteur Financier ("CSSF" – Financial Regulator of Luxembourg) and is a subsidiary of the Capital Group Companies, Inc. (Capital Group).

In the UK, this communication is issued by Capital International Limited (authorised and regulated by the UK Financial Conduct Authority), a subsidiary of the Capital Group Companies, Inc. (Capital Group).

In Switzerland, this communication is issued by Capital International Sàrl (authorised and regulated by the Swiss Financial Market Supervisory Authority FINMA), a subsidiary of the Capital Group Companies, Inc.

In Asia ex Japan, this communication is issued by Capital International, Inc., a member of Capital Group, a company incorporated in California, United States of America. The liability of members is limited.

In Australia, this communication is issued by Capital Group Investment Management Limited (ACN 164 174 501 AFSL No. 443 118), a member of Capital Group, located at Level 18, 56 Pitt Street, Sydney NSW 2000 Australia.