

What the downgrade means to your American Funds investments

On Friday, August 5, 2011, Standard & Poor's (S&P) downgraded the United States' long-term credit rating from AAA to AA+.

Entities that issue debt, including the U.S. Treasury, are assigned a credit rating by rating agencies such as S&P, Moody's and Fitch. Generally speaking, a credit rating is a rating agency's assessment of an issuer's creditworthiness or ability to repay its debt. A rating agency can change an issuer's credit rating depending on its assessment of various factors, including the amount of debt owed by the issuer and the issuer's current and future resources to repay the debt.

A double-A (AA) rating indicates that a rating agency believes the government's ability to repay its debt is very strong. According to S&P's description, a double-A rating differs from a triple-A (AAA) rating only to a small degree. The United States continues to hold a triple-A rating from Moody's and Fitch, the highest rating available.

Downgrade questions

Q: Will the funds be forced to sell U.S. government securities now that the United States' credit rating has been downgraded? If not, will they be able to continue to buy such securities?

A: All of the funds, including U.S. Government Securities FundSM and American Funds Insurance Series U.S. Government/AAA-Rated Securities FundSM, can continue to hold U.S. government securities they currently own and may purchase additional U.S. government debt obligations.

Q: What will be the impact on investments as a result of the downgrade?

A: We are likely to see continued volatility in the stock markets globally that may be partially attributable to the downgrade. It is also possible that the yields on U.S. Treasury and agency securities and other securities tied to the U.S. government will rise and bond prices will decline over time, although many other factors (including supply and demand) also affect yields and bond prices.

Q: What is the impact to the American Funds Money Market Fund[®] and American Funds Insurance Series Cash Management FundSM as a result of the downgrade?

A: S&P only downgraded the United States' long-term credit rating. S&P affirmed the government's short-term credit rating of A-1+, the highest short-term rating. The fund can continue to hold and invest in short-term U.S. debt obligations.

Q: If the other rating agencies also downgrade the United States, what will be the impact to the funds?

A: Thus far, Moody's and Fitch have not indicated that they intend to downgrade the United States' credit rating. Were they to do so, the funds could continue to hold U.S. government securities they currently own and may purchase additional U.S. government debt obligations. Impacts to the markets and the value of government and other securities from their actions (or further downgrade by S&P) likely will be similar to those following the S&P downgrade.

General questions

Q: How are the investment professionals at American Funds reacting to the effect of the rating downgrade?

A: As with any event, whether a political crisis, a natural disaster or economic problems, our investment professionals are closely monitoring any potential short-term impact, while focusing on understanding the potential long-term consequences an event like this may have on the broader market, macro environment, industry sectors, issuers and individual securities.

Q: Given the market volatility, should investors consider moving out of stocks and bonds entirely?

A: If your financial objectives have not changed, then it generally is not prudent to overreact to short-term events. Most individuals invest to reach long-term goals such as retirement or paying for college. During periods of uncertainty and potentially increased market volatility, it can be very difficult to stay focused on long-term goals. But investors who move to the sidelines run the risk of missing any rebound. In any period of heightened concern, the best thing an individual can do is talk to his or her financial adviser about their goals and the diversification of their portfolios.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Investors should carefully consider the investment objectives, risks, charges and expenses of the American Funds and American Funds Insurance Series[®]. This and other important information is contained in the prospectuses and summary prospectuses for the American Funds and the American Funds Insurance Series, which can be obtained from a financial professional and should be read carefully before investing.