



Quarter highlights

- Curve positioning was the largest detractor from relative results, although duration positioning was modestly positive.
- Sector/industry allocation was also additive to relative results. In a quarter when credit spreads narrowed, the fund held out-of-benchmark holdings in securitized bonds and smaller positions in Treasuries.
- Security selection had a neutral impact on relative returns.

Market review

The U.S. bond market rebounded in the fourth quarter, boosted by the shift in narrative from the Federal Reserve (Fed) and further reductions in inflation. After several interest rate hikes in the first half of the year, the Fed held rates steady and moved to a more dovish stance. It ended the year indicating three possible rate cuts in 2024. Against this backdrop, all major U.S. fixed income sectors posted strong gains, and the Bloomberg U.S. Aggregate Index returned 6.82%.

Gross domestic product rose 4.9% on an annualized basis in the third quarter, a fifth consecutive quarterly GDP gain and the fastest growth since 2021. Consumer spending – which makes up around two-thirds of the U.S. economy – rose 3.1%. Meanwhile, inflation continued to improve without a significant increase in unemployment. The Consumer Price Index rose an annualized 3.4% in December, down from 6.5% at the end of 2022, while core inflation, which excludes food and energy, fell to a two-and-a-half year low of 3.9% from 5.7% the prior December.

U.S. Treasury yields fell across the curve in the fourth quarter. The 10-year Treasury ended the year at 3.88%, down by 69 basis points (bps) over the fourth quarter, while the two-year Treasury fell 80 bps to end the year at 4.25%, slightly softening the inversion of the curve. With these moves, the Bloomberg U.S. Treasury Index rose 5.7% for the quarter, and the Bloomberg U.S. Treasury Inflation-Protected Securities Index returned 4.7%.

Credit markets were an area of strength for U.S. fixed income as markets priced in a soft landing and fundamentals and technicals were largely supportive. The Bloomberg U.S. Corporate Investment Grade Index returned 8.5% while the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index returned 7.2%. Investment-grade (AAA/Aaa and AA/Aa) and high-yield spreads narrowed by 22 bps and 71 bps, respectively. Issuance was slower than average for recent years in both markets. Elsewhere, municipal bonds and securitized debt also advanced. The Bloomberg U.S. Municipal Bond Index returned 7.9%, and the Bloomberg U.S. Mortgage-Backed Securities Index returned 7.5%.

Portfolio review

During a quarter with significant volatility in fixed income markets, curve positioning was the largest detractor from relative results. In contrast, duration positioning had a positive impact overall. The fund had a long duration than its benchmark, the Bloomberg U.S. Government/Credit (1-3 years, ex BBB) Index, when yields fell sharply in November before shifting to a shorter duration stance in mid-December.

Sector/industry allocation was also additive to relative results. The fund held out-of-benchmark holdings in agency mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities helped on a relative basis and smaller positions in Treasuries. This positioning was helpful as spreads tightened over the quarter. A lower-than-index exposure to investment-grade corporate bonds was a slight detractor.

Security selection had a neutral impact on relative returns.

Long-term perspective

The fund has an investment approach designed to provide some income while preserving capital, by investing in bonds with shorter maturities. It seeks to generate slightly higher yields than those typically offered by money market funds (an investment in this fund entails additional investment risks that are not present with money market funds), with less volatility than is typical for intermediate and longer term bond funds. Its investment focus is on

Figures shown are past results and are not predictive of results in future periods.

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

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U.S. Treasury and U.S. government agency bonds. Other significant holdings include investment-grade debt with an emphasis on high-quality (AAA/Aaa and AA/Aa) corporate bonds, as well as mortgage-related and asset-backed securities.

Figures shown are past results and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. For current information and month-end results, visit capitalgroup.com.

Class F-2 share returns for periods ended 12/31/23

| | Total returns (%) | | | Average annual total returns (%) | | | |
|--|-------------------|------|--------|----------------------------------|---------|----------|-------------------------------|
| | QTD | YTD | 1 year | 3 years | 5 years | 10 years | Fund lifetime (Since 10/2/06) |
| Short-Term Bond Fund of America | 2.51 | 4.22 | 4.22 | -0.04 | 1.37 | 1.15 | 1.57 |
| Bloomberg U.S. Government/Credit (1-3 years, ex BBB) Index | 2.64 | 4.48 | 4.48 | 0.00 | 1.41 | 1.18 | — |

Fund expense ratio: 0.40%[†]

[†]The expense ratio is as of the fund's prospectus available at the time of publication.

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.

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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. The use of derivatives involves a variety of risks, which may be different from, or greater than, the risks associated with investing in traditional securities, such as stocks and bonds.

Portfolios are managed, so holdings will change. Certain fixed income and/or cash and equivalents holdings may be held through mutual funds managed by the investment adviser or its affiliates that are not offered to the public.

Investment results assume all distributions are reinvested and reflect applicable fees and expenses. When applicable, results reflect fee waivers and/or expense reimbursements, without which they would have been lower. Refer to capitalgroup.com for more information.

Class F-2 shares were first offered on August 1, 2008. Class F-2 share results prior to the date of first sale are hypothetical based on the original share class results without a sales charge, adjusted for typical estimated expenses. Results for certain funds with an inception date after August 1, 2008, also include hypothetical returns because those funds' Class F-2 shares sold after the funds' date of first offering. Refer to capitalgroup.com for more information on specific expense adjustments and the actual dates of first sale.

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.

Bloomberg U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market. **Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index** covers the universe of fixed-rate, non-investment-grade debt. The index limits the maximum exposure of any one issuer to 2%.

Bloomberg U.S. Treasury Index includes public obligations of the U.S. Treasury, i.e. U.S. government bonds. Certain Treasury bills are excluded by a maturity constraint. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. **Bloomberg U.S. Treasury Inflation-Protected Securities (TIPS) Index** consists of investment-grade, fixed-rate, publicly placed, dollar-denominated and non-convertible inflation-protected securities issued by the U.S. Treasury that have at least one year remaining to maturity and have at least \$250 million par amount outstanding. **Bloomberg U.S. Corporate Investment Grade Index** represents the universe of investment-grade, publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity and quality requirements.

Bloomberg U.S. Government/Credit 1-3 Years ex BBB Index is a market value-weighted index that tracks the total return results of fixed-rate, publicly placed, dollar-denominated obligations issued by the U.S. Treasury, U.S. government agencies, quasi-federal corporations, corporate or foreign debt guaranteed by the U.S. government, and U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity and quality requirements, with maturities of one to three years, excluding BBB-rated securities.

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Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Widely used as a measure of inflation, the CPI is computed by the U.S. Department of Labor, Bureau of Labor Statistics. **Core inflation (Core CPI)** is a measure of price changes faced by urban consumers, excluding food and energy. Core CPI is computerized by the U.S. Department of Labor, Bureau of Labor Statistics. **Bloomberg U.S. Mortgage Backed Securities Index** is a market-value-weighted index that covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). **Bloomberg U.S. Municipal Bond Index** is a market-value-weighted index designed to represent the long-term investment-grade tax-exempt bond market. This index is unmanaged, and its results include reinvested distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

The market index is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index. There have been periods when the fund has lagged the index.

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