American Century Investments®

FOURTH QUARTER 2015 – INTRODUCTION

China- and Fed-Related Volatility Opens Opportunities for Active Managers

Market volatility stemming from China's economic slowdown and uncertainty about Federal Reserve (Fed) interest rate policy ties closely to four themes we outlined during the past year: 1) global divergence between the U.S. and the rest of the world in economic growth rates and central bank policies; 2) normalization—more two-way market risk and higher interest rates as the Fed withdraws monetary stimulus; 3) more volatility as markets normalize, and 4) increased opportunities for active investment managers to add value with security selection as market volatility rises.

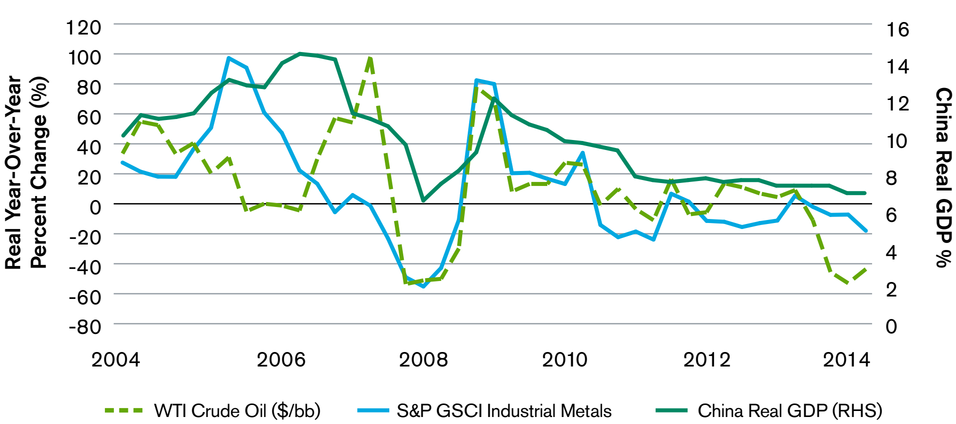
We survived an eventful summer. Investors faced an unsettling confluence of factors, including sudden, sharp market reactions to China's economic slowdown and currency devaluation, questions about when the Fed would finally start raising short-term interest rates and by how much, and big swings in the price of crude oil, which tested previous lows, then sharply rebounded. Equity markets declined globally.

China, the world's second-largest economy after the U.S., was central in the summertime market swings. Chinese economic growth, as measured by 12-month changes in real gross domestic product (GDP)[1], has slowed from the 10-14% range through the middle of the last decade to approximately 7% this year. This had a deflationary impact on commodities, including crude oil and metals prices (graphed below), and on the GDP growth of emerging markets that rely on China for exports and imports.

Meanwhile, the Fed has fostered uncertainty and volatility by postponing rate normalization. This has disrupted capital market movements and financial plans and put the Fed and its deliberations in the macroeconomic foreground, forcing everyone to watch, wait, and wonder. As suggested last quarter, we believe the Fed should start raising rates. Among other considerations, it would help provide reassurance that economic conditions are OK and apt to improve, which we think is the case. We do not expect China's slowdown to change the U.S. economy's moderate growth pace significantly in the near term. Global growth is weaker than in the U.S., but there are signs of improvement in key developed areas like Europe and Japan.

A market environment in which volatility is being driven as much by sentiment as by fundamentals opens opportunities for active investment managers to find fundamentally solid issuers whose securities have been impacted by adverse headlines. In their *Insights* this quarter, our discipline CIOs discuss the roles of China and volatility in their markets in terms of opportunities, risks, and reassurance.

Impact of China's Economic Slowdown on Commodities



Data from 12/31/2004 to 6/30/2015. Source: Bloomberg, FactSet.

G. David MacEwen
Co-Chief Investment Officer

Victor Zhang
Co-Chief Investment Officer

[1] Real GDP is a measure of the total economic output in goods and services for an economy, adjusted for inflation.

[2] The S&P GSCI® Industrial Metals Index measures the industrial metals price movements within the commodity market. It is a component of the broader S&P GSCI Index, a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

Generally, as interest rates rise, bond values will decline. The opposite is true when interest rates decline.

Diversification does not assure a profit nor does it protect against loss of principal.

The opinions expressed are those of G. David MacEwen and Victor Zhang and are no guarantee of the future performance of any American Century Investments portfolio.

For educational use only. This information is not intended to serve as investment advice.