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Market Pulse

Top-down and
asset allocation
perspectives
over the next
12 months

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KEY TAKEAWAYS

- Global growth is recovering, especially in Europe and pockets of emerging markets, potentially supporting risk assets.
- We believe the US Federal Reserve will continue to base policy decisions on economic data and not be influenced by the increasing political pressure to respond in a way that benefits one party or the other.
- US consumer spending growth remains positive, driven by an overall willingness to borrow and significant household net wealth. The slowdown in the rate of spending growth bears watching.
- While unemployment rates have been rising on the East Coast, states have strong balance sheets driven by unspent COVID relief money that could provide needed support.

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The *Market Pulse* leverages the firm's intellectual capital to provide perspective on broad market dynamics that are top of mind for asset allocators. We celebrate the rich diversity of opinion within our investment team and are proud to have talented investors who may implement portfolio positions and express different or nuanced views to those contained here, which are aligned to their specific investment philosophy, risk budget and entrusted duty to allocate our client's capital responsibly.

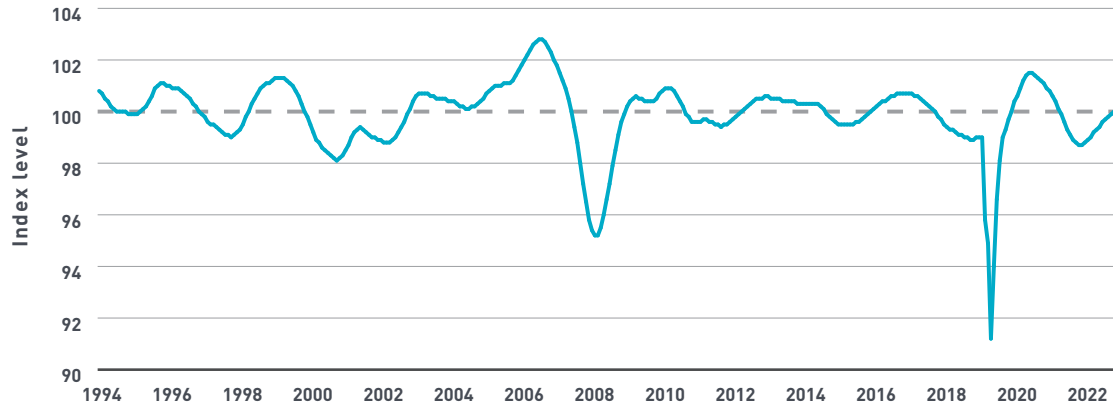
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Economy & Markets

Global Growth

THE GLOBAL GROWTH OUTLOOK HAS RECOVERED

OECD Composite Leading Indicators



Source: OECD, Monthly data from 30 April 1994 to 29 February 2024.
A reading above 100 that is rising predicts expansion, above 100 and falling a downturn, below 100 and falling a slowdown, and below 100 and rising a recovery.

Fears of a Global Recession Have Receded

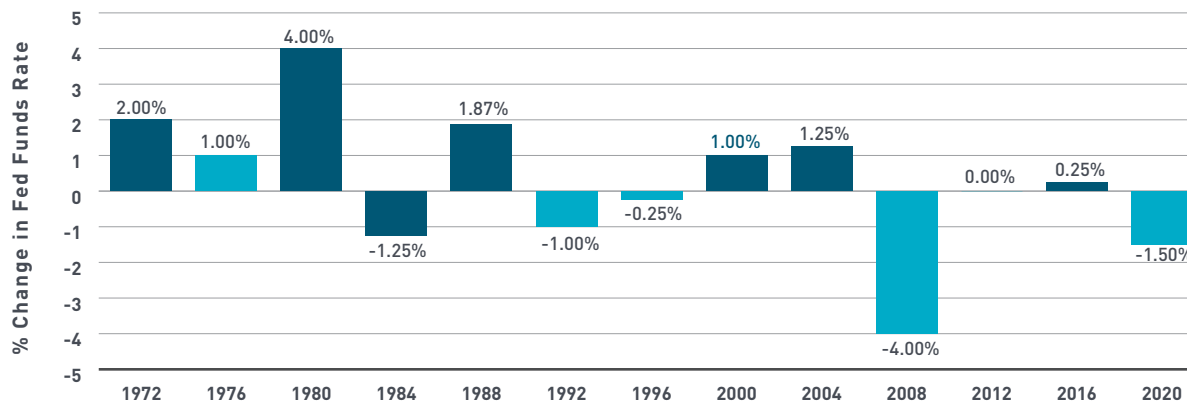
MFS PERSPECTIVE

- We are now observing a recovery in the growth outlook in many places, including the UK, the eurozone, Asia, and Brazil, among others.
- A stronger global growth outlook tends to be supportive of risky assets, especially in non-dollar markets.

Elections

FEDERAL FUNDS RATE MOVES DURING ELECTION YEARS

■ Republican victory ■ Democrat victory



Source: Bloomberg, Federal Reserve. Annual data from 31 December 1972 to 31 December 2020. Fed Funds Rate is the upper target. % change in Fed Funds Rate = fed funds rate at the end of the year minus fed funds rate at the beginning of the year for each election year.

Election Years Do Not Dictate Fed Policy

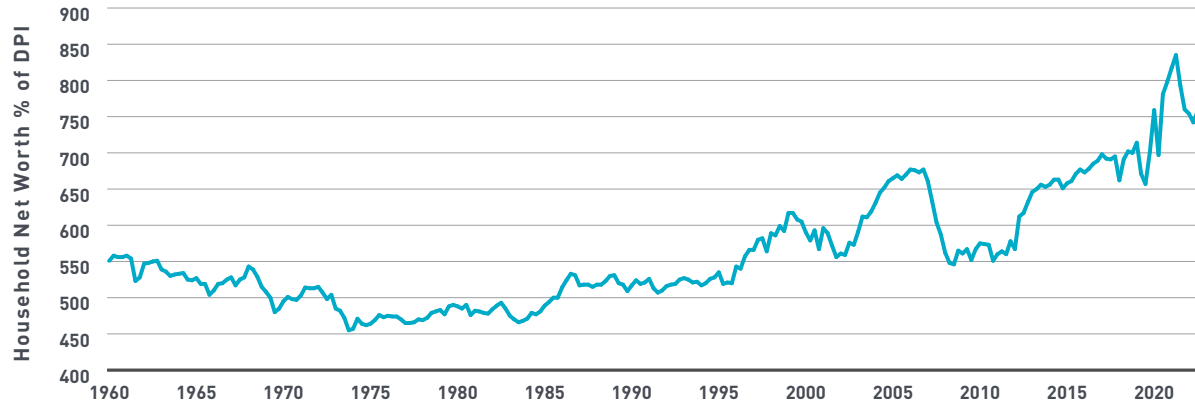
MFS PERSPECTIVE

- While there has been much commentary on whether the political landscape will influence future Fed policy, history shows the Fed acts independently.
- The Fed has both eased and tightened during election years, and the change was often part of a multi-year effort driven by the economic backdrop.

Economy & Markets

Consumer Health

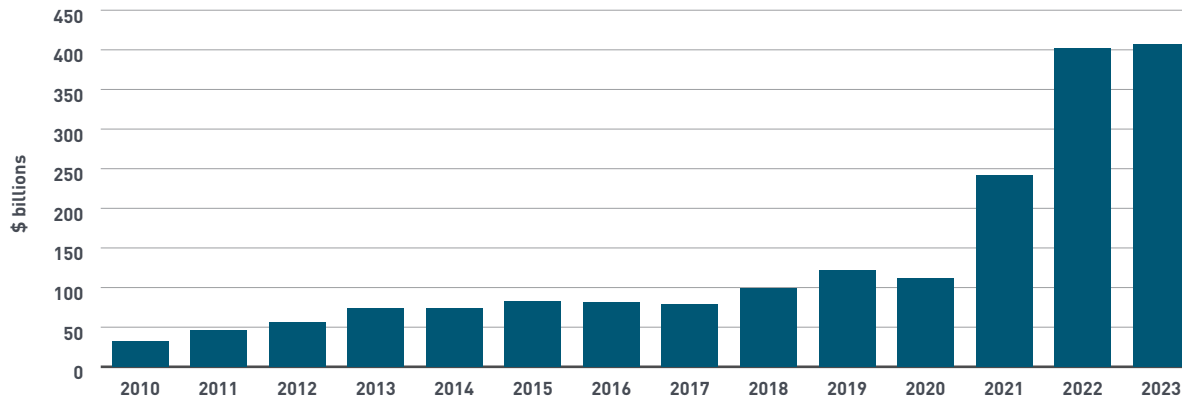
CONSUMER NET WORTH NEAR ALL-TIME HIGHS



Source: Federal Reserve, Financial Accounts of the United States. Household Net Worth = total balance sheet assets minus total liabilities of households and nonprofit organizations. DPI = disposable personal income. Quarterly data from 31 March 1960 to 31 December 2023.

State Finances

STATE BALANCE SHEETS HAVE GROWN SIGNIFICANTLY



Source: NASBO Survey of States Fall 2023. Annual data from 2010 to 2023. States' total balance include rainy day funds and general funds ending balances.

The US Consumer is a Key Driver of Robust Growth

MFS PERSPECTIVE

- The persisting resilience of the US consumer has helped solidify the case for a soft landing.
- Overall net worth levels, the strong labor market, and residual excess savings from the Covid windfall have all been contributing factors to the strong health of the consumer.

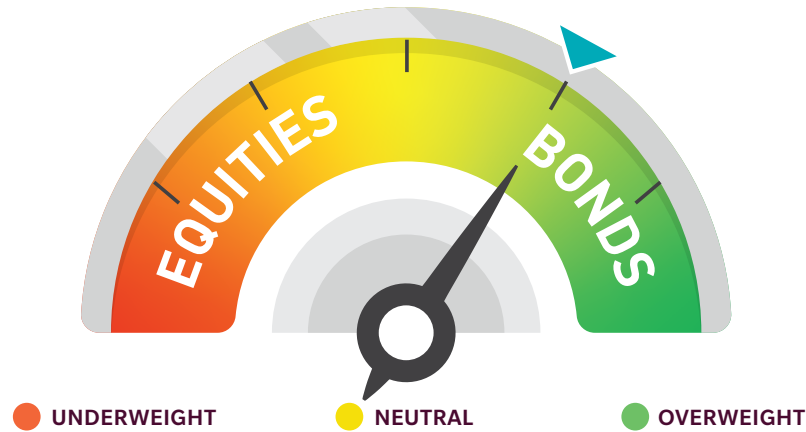
State Finances Appear Healthy

MFS PERSPECTIVE

- In aggregate, state general and rainy-day funds have grown significantly since 2019 as income growth has led to higher tax receipts.
- Many states have pandemic related funds that are yet to be earmarked or paid out.
- This is a healthy sign for the economy and creates an appealing backdrop for municipal bond investors.

Asset Allocation

Relative to investor's strategic asset allocation



A more favorable economic backdrop suggests a move closer to a neutral portfolio positioning, with a slight bias toward fixed income due to the risk adjusted appeal.

MFS PERSPECTIVE

1 The overall macro landscape continues to be favorable, with the case for a soft landing getting stronger, inflation decelerating, and some policy easing expected in the second half of the year, all of which is generally positive for both stocks and bonds.

2 US equities remain dominant year to date, but several of the largest European equities have seen a significant rally. Emerging Market equities remain a distant third, but are still in positive territory.

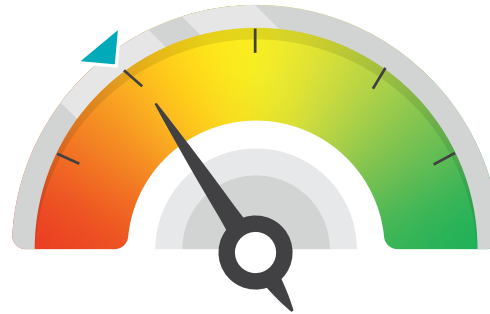
3 Fixed income continues to offer meaningful yields across the risk spectrum, but credit spread compression is unlikely to be a significant contributor to return. However, the all-in yields supported by the underlying rates component means the income is back in fixed income.

4 High-beta stocks drove the rally to date, but we remain convinced that greater breadth and greater attention to individual company fundamentals will provide our investors with the opportunity to add alpha across our investment platform.

Approach and methodology: The *Market Pulse* provides an outlook over a 12 month investment horizon for major asset classes as well as considerations of the prevailing market conditions. Views are driven by both quantitative and qualitative inputs including, but are not limited to, macro-economic data, valuations, fundamentals and technical variables.

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US Equity



● UNDERWEIGHT
 ● NEUTRAL
 ● OVERWEIGHT

- Equity performance has begun to broaden with the S&P 500 equal-weighted index closely tracking the S&P 500 cap-weighted index over the last month.
- Around 80% of S&P 500 constituents are now trading above their 200-day moving average compared to a 10-year average of around 63%.
- Index concentration remains high, although there has been significant divergence at the top.

MFS CONSIDERATIONS

LARGE CAP	SMALL/MID CAP	GROWTH	VALUE
<ul style="list-style-type: none"> ▪ To date, only four of the Magnificent Seven have outperformed the S&P 500 compared to 2023 when all seven outperformed. Under the surface, significant rotations are underway. 	<ul style="list-style-type: none"> ▪ US small caps have done little year to date and remain far behind large-cap counterparts, particularly growth. Recession risks continue to recede, which could be a tailwind for more economically sensitive parts of the market. ▪ Mid caps are better positioned than small caps, with cheaper valuations and lower funding needs in a higher rate environment. 	<ul style="list-style-type: none"> ▪ The Russell 1000® Growth Index has risen unabated since the lows in October 2023, bringing its forward PE to nearly 28x relative to its 10-year average of under 23x. ▪ Exposure to lower beta and growth-at-reasonable-prices strategies appear prudent in the current market environment. 	<ul style="list-style-type: none"> ▪ A near-term, broad-based economic slowdown appears unlikely, easing some concerns around cyclical value companies. We see opportunity in high-quality financial services and industrial companies.

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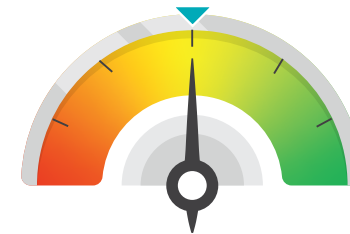
International Equity

DEVELOPED INTERNATIONAL EQUITY



- Developed international equities have begun to show momentum with 11 European stocks leading the way.
- Dubbed the “GRANOLAS” by Goldman Sachs, they are drawing comparisons to the Magnificent 7 in the US.

EMERGING MARKET EQUITY



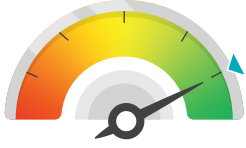





- Emerging market equities continue to trade sideways, although there are significant pockets of opportunity for security selection across countries.
- Despite a bounce off its January lows, Chinese equities continue to be a drag on the overall EM market.

MFS CONSIDERATIONS

- The GRANOLAs mentioned above include luxury goods makers as well as pharmaceutical manufacturers, which are benefiting from the growth in GLP-1 drugs.
- Strength in Japan equities have been the biggest driver to gains. Japan remains the largest country weight in the MSCI EAFE index at more than 23%. In March, Japan abandoned its negative interest rate policy as growth and inflation picked up, the potential start of a new economic regime.
- India’s economy, as well as its stock market, have been on a steady growth trajectory over the past three years as it benefits from changing global trade flows and a growing domestic consumer base.
- Other pockets of Asia including Taiwan have benefited from increased demand for semiconductor supply chain components as AI-related demand remains robust.

● UNDERWEIGHT ● NEUTRAL ● OVERWEIGHT

Fixed Income

UST/DURATION	MUNICIPALS	SECURITIZED (MBS)	US INV-GRADE CORP	US HIGH YIELD	EMERGING MARKET DEBT
 <ul style="list-style-type: none"> The macro-fundamentals, including the disinflation story and the prospects for future rate cuts, are supportive of long duration, especially after the Fed's recent dovish signals. 	 <ul style="list-style-type: none"> Municipals' fundamentals, including state finances, remain robust and may provide some protection in the event of a growth shock. The expected decline in cash rates may be supportive of inflows back into the asset class this year. 	 <ul style="list-style-type: none"> Prospects for agency MBS appear robust in view of the strong fundamentals and the potential recovery of the housing sector. The expected decline in rate volatility is also likely to be supportive in the period ahead. 	 <ul style="list-style-type: none"> The US macro backdrop remains supportive, but fundamentals continue to weaken somewhat, especially cash flows. While total yields remain fairly attractive, support from rate cuts is needed for future returns to be above average, especially given the spread valuation. 	 <ul style="list-style-type: none"> US HY fundamentals continue to be resilient, mainly helped by low levels of leverage by historical standards and strong earnings. Other positive factors include low default rate projections, healthy breakeven yields, and an upgraded macro outlook. 	 <ul style="list-style-type: none"> EMD fundamentals continue to improve, mainly reflecting stronger EM growth prospects. The likely weakening of the US dollar may also act as a supportive driver. EMD valuation remains attractive, although mainly driven by weaker credits.

MFS CONSIDERATIONS

<ul style="list-style-type: none"> The yield curve is likely to steepen in the period ahead, which will help support the relative attractiveness of the long end. TIPS are less attractive than nominal bonds given inflation dynamics. 	<ul style="list-style-type: none"> The longer duration of munis is likely to be more supportive for expected returns going forward, given the coming rate cuts. Long term, one of the key features of munis is their attractive risk-adjusted returns. 	<ul style="list-style-type: none"> Agency MBS offer diversification and defensive benefits as well as attractive spreads over treasuries. 	<ul style="list-style-type: none"> We have turned more cautious toward US IG in the near term, reflecting the eroding fundamentals and the more challenging spread valuation backdrop. 	<ul style="list-style-type: none"> The risk-reward is fairly attractive for US HY investors with a high-risk tolerance who may consider deploying credit risk exposure. While we're not concerned about the maturity wall, spread valuation looks stretched, so security selection is key. 	<ul style="list-style-type: none"> EMD presents one of the biggest opportunities in fixed income in the period ahead, but robust sovereign credit selection is paramount.
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● UNDERWEIGHT
 ● NEUTRAL
 ● OVERWEIGHT

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