

THE INSIDE VIEW

**Portfolio perspectives and practical applications
for asset allocators.**

WEBCAST SUMMARY

Markets in Motion: Shifts Transforming Economies and Markets

Understanding the structural shifts in today's rapidly evolving economic landscape is critical for long-term portfolio success. We believe the totality of these shifts have ushered in a new regime. Investors today are operating in an environment of higher interest rates, increased inflation and more variable economic growth. Alongside disrupted trade relationships and expansionary fiscal policies, investors are facing a unique economic and market environment that is creating a more complex investment landscape that may also offer opportunities to position portfolios for success in the next regime. For asset allocators, understanding what you own and why you own it is more important than ever.

It's important to first define a regime shift, which we see as a significant, structural, and secular change in how economies and markets operate. This does not mean the principles of economics and markets no longer apply, but rather that prior trends have abruptly shifted and as a result may require investors to rethink how they structure their asset allocations on a going-forward basis. Notable historical examples of regime shifts include the Bretton Woods agreement in 1944, delinking from the gold standard in 1971 and China's ascension to the World Trade Organization in the early 2000s. While the "pre-COVID" regime was characterized by low interest rates, low inflation, modest economic growth and a relatively stable global trade system, today's environment features higher rates, higher inflation, less consistent growth and a major rewiring of global trade relationships.

In this webcast, we explore tariffs, the US-China relationship, reindustrialization, artificial intelligence (AI) and implications for asset allocation.

Tariffs

Equity and credit markets have largely looked through any negative impact from tariffs, with equity markets reaching all-time highs and spreads near cycle lows. So why have markets shrugged off tariff concerns? While evident to most, the math behind tariffs is sometimes misunderstood and often misreported in the mainstream media. Tariffs are applied to the wholesale price of imported goods rather than retail prices that consumers pay, which means that a 10 percent tariff, even if entirely passed onto the consumer, will impact retail prices by far less than 10 percent. Companies may also choose to absorb the higher costs, or at least a portion of them. In addition, companies can recalibrate supply chains to adapt to tariffs and further reduce the overall effect on consumer prices.

FEATURING



Jonathan Hubbard,
CFA

Lead Asset Allocation
Strategist



Kim Hyland
Co-Head of Global
Institutional



Kevin Dwan
Equity Portfolio
Manager

WEBCAST SUMMARY

Markets in Motion: Shifts Transforming Economies and Markets



Markets seem confident tariffs will not cause the economic calamity that was initially feared.

US-China Relationship

Ongoing trade tensions and tariff negotiations between major economies can have long-term implications for investors and global supply chains. Considering the size and economic positioning of supply chains in China's economy, there has been significant focus on where tariff and non-tariff negotiations will settle between the US and China. While tariff rate negotiations have captured the headlines, we believe it's more appropriate to recognize that the US-China relationship is in a long-term renegotiation of how the world's two largest economies will interact. Some of these tensions are driven by a system-level of competition between China's centralized economy and the US's decentralized ones, where inherent conflicts, such as Chinese state-owned enterprises benefiting from zero cost of capital, contrasts with the market-driven cost of capital in the US. This polarization has become increasingly evident in recent years. A constructive dialogue between the two nations is essential for coexistence, given current levels of cross-dependency.

Reindustrialization

Another key feature in this new regime is the expectation of reindustrialization with potential for real economic growth through more domestic manufacturing by countries that had previously deindustrialized. Factories that initially moved overseas to take advantage of cheap labor have now modernized, creating opportunities for skilled workforces to manage advanced robotics as these operations are reshored. While the US is a focal point for reindustrialization, there are also opportunities for other countries and regions of the world that have experienced deindustrialization, such as Japan and certain countries in Europe.

Artificial Intelligence

Rapid advancements in technology and AI have not only supported equity market optimism recently but have also resulted in the further concentration in US equity indices, considering that AI industry leaders are largely based in the US. While AI has the potential for significant productivity gains, the build out of capacity will require high levels of investment in fixed assets, and technology companies may become more like capital goods companies, with more volatile cash flows as capital expenditure requirements to remain competitive rise.

Implications for Asset Allocation

With these key factors in mind, we believe the alpha component of asset returns will become increasingly important as investors navigate macroeconomic changes.

We see particularly attractive opportunities in the following areas:

- **International developed and emerging equities** offer good relative value and opportunity for profit margin expansion.
- **US small and mid-cap companies**, which are more domestically focused than large caps, present interesting opportunities as reindustrialization takes place.
- **Fixed income** now offers meaningful yield across asset categories, but investor expectations should be on the carry rather than capital appreciation from significant rate declines at the longer end of the curve.

Looking Ahead

We believe the current market environment favors alpha generation through stock picking rather than relying on broad market gains. Active management through stock selection and a deep understanding of fundamental, macroeconomic and geopolitical dynamics will continue to be crucial for navigating this complex investment environment.

WEBCAST SUMMARY

Markets in Motion: Shifts Transforming Economies and Markets

The views expressed are those of the speaker and are subject to change at any time. These views are for informational purposes only and should not be relied on as a recommendation to purchase any security or as an offer of securities or investment advice. No forecast can be guaranteed. Past performance is no guarantee of future results.

Unless otherwise indicated, logos and product and service names are trademarks of MFS® and its affiliates and may be registered in certain countries.

Distributed by: U.S. - MFS Institutional Advisors, Inc. ("MFSI"), MFS Investment Management and MFS Fund Distributors, Inc., Member SIPC.; Latin America - MFS International Ltd.; Canada - MFS Investment Management Canada Limited. No securities commission or similar regulatory authority in Canada has reviewed this communication; Note to UK and Switzerland readers: Issued in the UK and Switzerland by MFS International (U.K.) Limited ("MIL UK"), a private limited company registered in England and Wales with the company number 03062718, and authorised and regulated in the conduct of investment business by the UK Financial Conduct Authority. MIL UK, an indirect subsidiary of MFS®, has its registered office at One Carter Lane, London, EC4V 5ER. Note to Europe (ex UK and Switzerland) readers: Issued in Europe by MFS Investment Management (Lux) S.à r.l. (MFS Lux) - authorized under Luxembourg law as a management company for Funds domiciled in Luxembourg and which both provide products and investment services to institutional investors and is registered office is at S.a r.l. 4 Rue Albert Borschette, Luxembourg L-1246. Tel: 352 2826 12800. For readers in Saudi Arabia, Kuwait, Oman, and UAE (excluding the DIFC and ADGM) and Bahrain readers. In Qatar strictly for sophisticated investors and high net worth individuals only. In Bahrain, for sophisticated institutions only: The information contained in this document is intended strictly for professional investors. The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of MFS international U.K. Ltd ("MIL UK"). The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public. The information contained in this document, may contain statements that are not purely historical in nature but are "forward-looking statements". These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser. Please note that any materials sent by the issuer (MIL UK) have been sent electronically from offshore.

South Africa: This document, and the information contained is not intended and does not constitute, a public offer of securities in South Africa and accordingly should not be construed as such. This document is not for general circulation to the public in South Africa. This document has not been approved by the Financial Sector Conduct Authority and neither MFS International (U.K.) Limited nor its funds are registered for public sale in South Africa.

This material shall not be circulated or distributed to any person other than to professional investors (as permitted by local regulations) and should not be relied upon or distributed to persons where such reliance or distribution would be contrary to local regulation; Singapore - MFS International Singapore Pte. Ltd. (CRN 201228809M); Australia/New Zealand - MFS International Australia Pty Ltd ("MFS Australia") (ABN 68 607 579 537) holds an Australian financial services licence number 485343. MFS Australia is regulated by the Australian Securities and Investments Commission.; Hong Kong - MFS International (Hong Kong) Limited ("MIL HK"), a private limited company licensed and regulated by the Hong Kong Securities and Futures Commission (the "SFC"). MIL HK is approved to engage in dealing in securities and asset management regulated activities and may provide certain investment services to "professional investors" as defined in the Securities and Futures Ordinance ("SFO").; For Professional Investors in China - MFS Financial Management Consulting (Shanghai) Co., Ltd. 2801-12, 28th Floor, 100 Century Avenue, Shanghai World Financial Center, Shanghai Pilot Free Trade Zone, 200120, China, a Chinese limited liability company registered to provide financial management consulting services.; Japan - MFS Investment Management K.K., is registered as a Financial Instruments Business Operator, Kanto Local Finance Bureau (FIBO) No.312, a member of the Investment Trust Association, Japan and the Japan Investment Advisers Association. As fees to be borne by investors vary depending upon circumstances such as products, services, investment period and market conditions, the total amount nor the calculation methods cannot be disclosed in advance.