April/May 2025

Global Market Pulse

Euro based

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

Market Insights Team

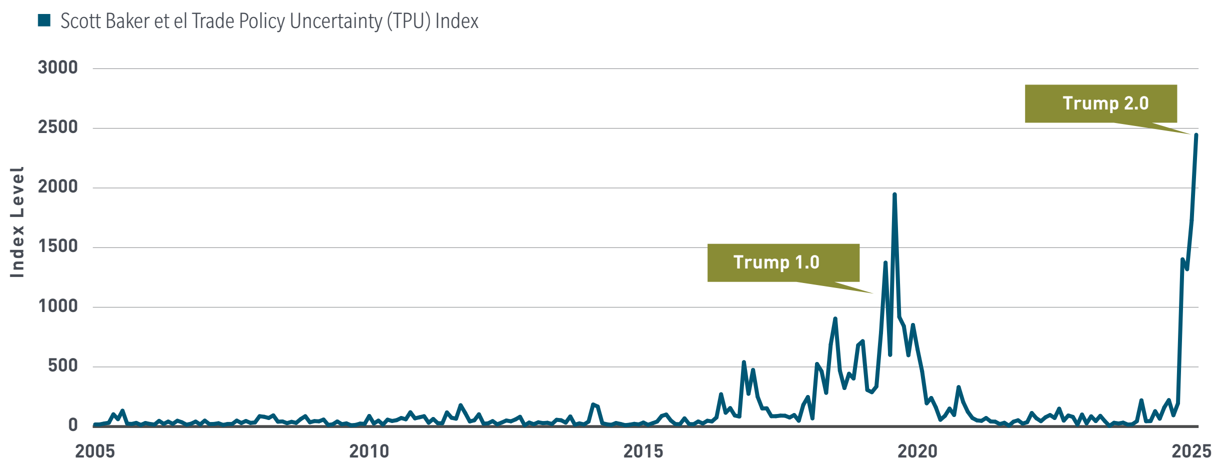
KEY TAKEAWAYS

- While we don't expect a recession, shifts in US economic policy have weakened the growth outlook as volatile US policymaking ramps up global uncertainty.
- US exceptionalism is ebbing as European and US economic growth expectations converge, leading to a weaker dollar and lower appetite for US assets while reviving demand for European ones.
- Europe's defense buildup and a fresh focus on shoring up infrastructure may allow the EU economy to better weather any headwinds from US trade policy. China's efforts to boost domestic demand may do the same.
- The current uncertain environment could present active managers with opportunities to capitalize on global market dislocations.

Economy & Markets

Tariff Turbulence

TRADE POLICY UNCERTAINTY IS EXTREMELY ELEVATED



Source: Bloom, Baker and Davis. "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com. Monthly data from January 2005 through February 2025.

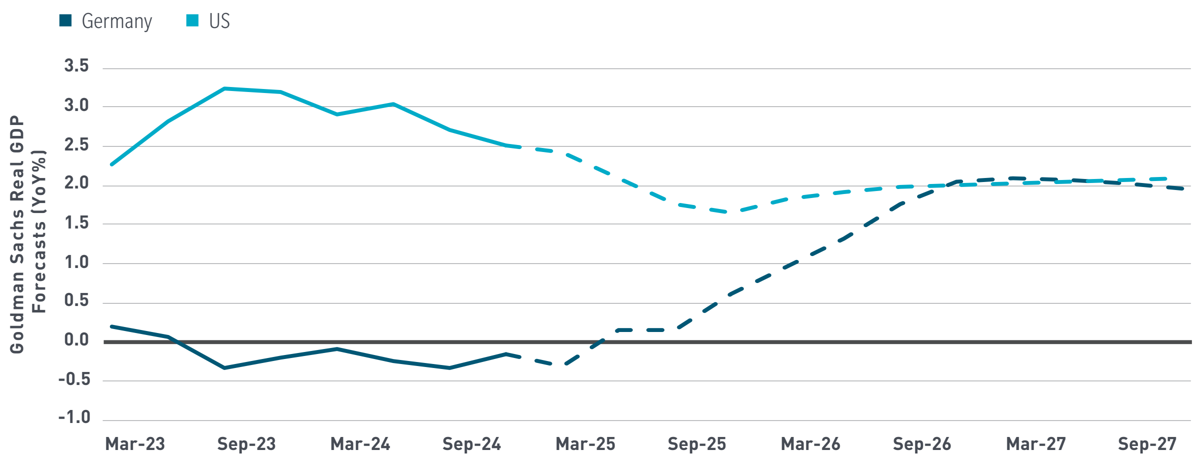
Policy uncertainty has dented investor sentiment

MFS PERSPECTIVE

- Investors have grown increasingly concerned over the growth outlook, both at the US and the global level, from the fallout from the ongoing trade war.
- Until calm is restored on trade policy, volatility is likely to stay elevated, presenting active managers with opportunities to capitalize on global dislocations.

US – Germany Growth Divergence

GROWTH EXPECTATIONS IN THE US ARE BEING REVISED DOWN BUT ARE BEING REVISED UP ELSEWHERE



Source: Goldman Sachs. Quarterly data from 31 March 2023 through 31 December 2024. Data from March 2025 onwards (represented by the dashed lines) are forecasts.

US exceptionalism is being questioned

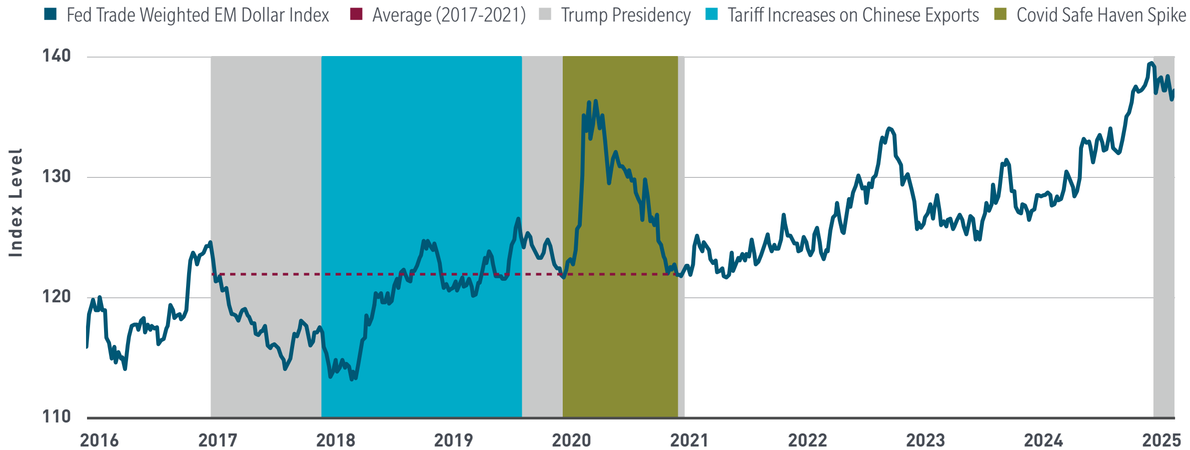
MFS PERSPECTIVE

- The US appears to be slowing moderately but fears of an imminent recession may be overdone.
- At the same time, European growth expectations are being revised up, mainly reflecting the impact of Germany's fiscal bazooka.
- We are observing a re-convergence of growth expectations, benefiting the rest of the world.

Economy & Markets

US Dollar vs. EM Currencies

CAN HISTORY REPEAT? THE DOLLAR DIDN'T APPRECIATE MUCH AGAINST EM DURING TRUMP 1.0



Source: Bloomberg. Weekly data from 1 January 2016 through 21 March 2025. Average is from 27 January 2017 to 15 January 2021. The US Fed Trade Weighted Nominal Emerging Market Economies Dollar Index measures the weighted average of the foreign exchange value of the US dollar against a subset of the broad index currencies

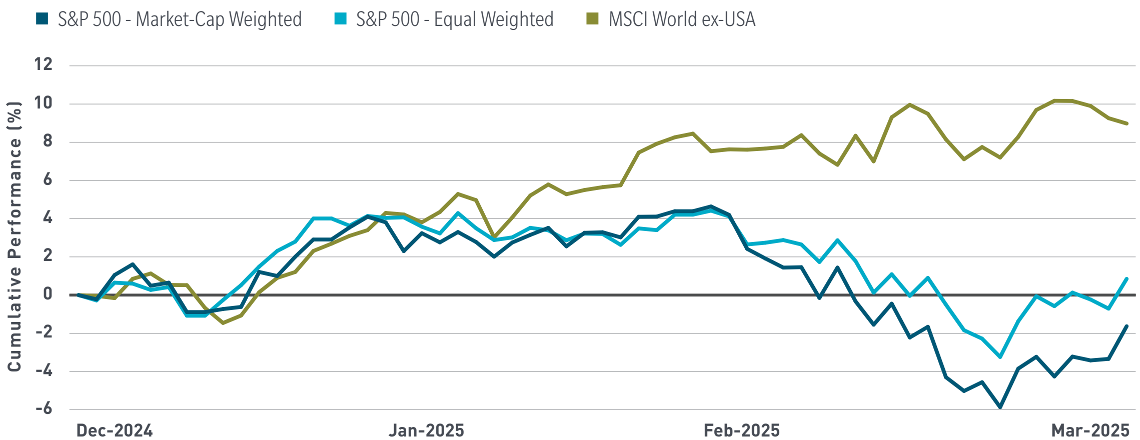
The case for a strong dollar is being challenged

MFS PERSPECTIVE

- Contrary to expectations, the dollar has weakened in the face of the ongoing trade war.
- The noise surrounding tariffs has hurt the appetite for USD assets, opening the door for a rebound in the EUR and many EM currencies.
- We're no longer bullish on the US dollar.

US vs. Non-US Equity

LARGE-CAPS DRIVING US EQUITY WEAKNESS WHILE THE REST OF THE WORLD IS PLAYING CATCH-UP



Source: Bloomberg. Daily Data from 1 January 2025 to 24 March 2025. Returns are in USD and gross for S&P 500 and net for MSCI World ex USA.

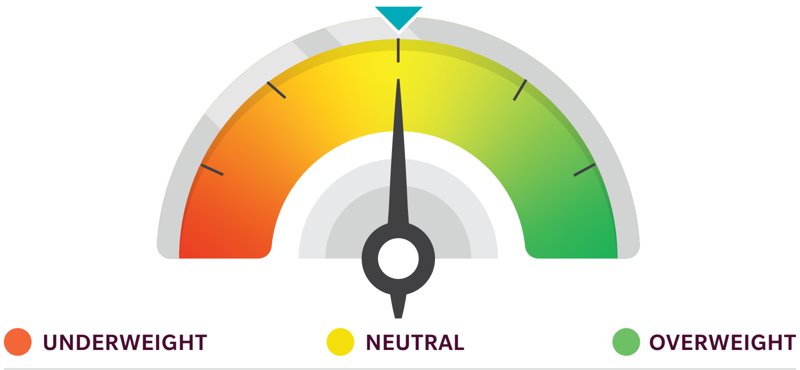
Non-US benefits from converging economic growth expectations

MFS PERSPECTIVE

- Momentum in US equities has rolled over, with the most expensive stocks suffering the most.
- US equities are pricing in the potential impact of Trump 2.0 on the growth outlook while non-US markets are benefiting from European fiscal stimulus and macro stabilization in China.

Global Developed Equity - US
Euro based

US



- While we have an idea of the Trump Administration's desired destination of smaller government, reduced debt and a stronger industrial base, the path to get there remains uncertain and is unlikely to be smooth.
- Concerns are centered on slowing growth and rising prices, and how the administration sequences its policy agenda while preventing the economic "detox" from turning cold turkey.
- Investors bracing for a slower-growth environment in 2025 should focus on valuation and resilient, durable and defensive businesses and increasing dispersion.
- USD no longer a tailwind for EUR investors.

MFS CONSIDERATIONS

LARGE CAP	SMALL/MID CAP	GROWTH	VALUE
▪ Given high uncertainty, we continue to favor large caps over SMIDs. ▪ Multiples remain elevated and are a potential headwind in the face of growth and inflation concerns. ▪ However, earnings expectations, despite softening, remain in the double digits. ▪ As the growth tide retreats, identifying winners and losers increases in importance.	▪ SMID caps are likely to be more impacted by slowing US growth and rising prices. ▪ Inflationary concerns may keep rates higher, a further headwind. ▪ Deregulation and tax cuts are likely to be supportive for SMID caps, but their extent and timeframe remains uncertain.	▪ Growth stock momentum has stalled, placing greater focus on the style's durability. ▪ Mega-cap tech will continue to drive index returns, but we are seeing greater divergence in performance. ▪ The opportunity cost of not owning the Magnificent Seven has decreased as the group's growth and valuation profile is converging with the Russell 1000® Growth Index.	▪ Value has outperformed, led by defensives. ▪ We continue to believe that cyclicals, despite some valuation cushion, will be more impacted by growth concerns. ▪ Given current circumstances, we prefer more defensive, higher-quality value stocks. ▪ Higher-yielding value stocks are benefiting from falling rates.

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Global Developed Equity - Ex US
Euro based

EUROPE EX UK

- German fiscal stimulus and Europe-wide defense spending has changed the landscape significantly.
- Stocks have responded positively and rerated, but valuations remain undemanding as growth and sentiment improve.

UK

- Valuations remain very undemanding.
- The UK is expected to face fewer US tariff risks than others.
- Economic growth remains scarce, though UK equity earnings are derived mostly overseas.

JAPAN

- Real wages continue to grow as the economy reflates.
- Valuations remain attractive with ongoing opportunities for balance sheet reform.
- Foreign investor enthusiasm appears to have peaked due to a stronger JPY.

MFS CONSIDERATIONS

Europe ex UK

- We expect some near-term consolidation as the positive news is absorbed.
- We expect to see flows continue to support European equities as investors rebalance from being very underweight the region, albeit at a slower pace going forward.

UK

- An improving Europe may bolster the UK as relations with the continent strengthen amid geopolitical shifts.
- The UK market delivers a healthy dividend and increasing buyback activity.
- Tighter fiscal policy remains a concern.

Japan

- Earnings revisions remain positive.
- Rising rates remain a concern.
- Domestically oriented stocks should benefit from a stronger local economy and a slowing US economy.

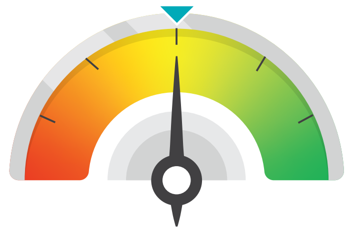
UNDERWEIGHT | NEUTRAL | OVERWEIGHT

Emerging Markets
Euro based

EM EQUITY

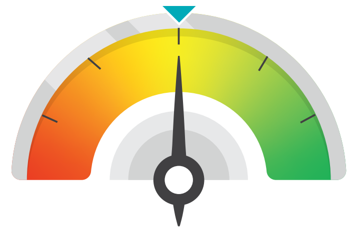
- USD strength is expected to be an ongoing headwind, along with rising trade tensions.
- China's stimulus measures have stabilized markets. However, uncertainty remains about their economic impact, amid concerns that tariffs could further weaken the manufacturing sector.

EM DEBT – HARD CURRENCY



- Fundamentals have deteriorated recently, mainly reflecting higher fiscal risks, but technicals remain robust.
- The valuation backdrop remains favorable on a total-yield basis, despite tight spreads.

EM DEBT – LOCAL CURRENCY



- Global policy easing, progress towards disinflation and relatively high real rates are positive drivers.
- Sensitive to macro shifts, EMFX has weakened against the EUR after the recent eurozone fiscal moves.

MFS CONSIDERATIONS

- Against an uncertain international backdrop, selectivity is important.
- Valuations remain undemanding, and further Chinese stimulus should be supportive for SE Asia.
- Uncertainty is likely to continue until the tariff picture becomes clear.

- EM debt has shown remarkable resilience since the US election, contrary to initial concerns.
- With total yield valuation still compelling, EMD remains attractive
- Given significant risks, country selection will be key.

- A more tactical asset class by nature given its higher volatility, mainly reflecting the currency risk. Recent increases in the euro leave us cautious for now.
- High local rates and fading EM inflation impulse will provide a buffer to currency volatility

UNDERWEIGHT NEUTRAL OVERWEIGHT

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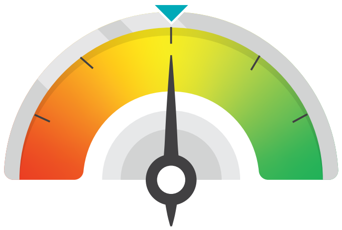
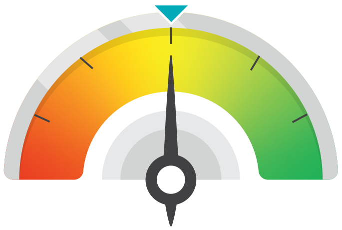
Global Fixed Income
Euro based

USD DURATION



- Disinflation uncertainty, combined with downside risks to growth, have complicated the rate outlook.
- While not our base case, significant deterioration in the US labor market may demand further Fed action, benefiting duration.

EURO DURATION*



- Modifications to the German debt brake sent bund yields higher on expectations of higher growth and issuance.
- Defense and infrastructure–related spending should be a tailwind for growth.
- ECB rate cut odds have diminished.

MFS CONSIDERATIONS

- The risk to rates is now well balanced.
- We have moved to a neutral stance on duration, reflecting the elevated level of uncertainty.

- The increasing fiscal impulse has softened the case for duration.
- The recent selloff has left yields near multi-decade highs.
- A weaker outlook, but compelling valuation, leaves us neutral overall.

UNDERWEIGHT NEUTRAL OVERWEIGHT

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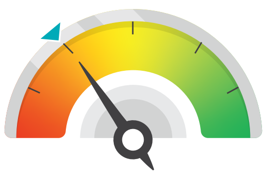
Global Fixed Income
Euro based

US IG CORP

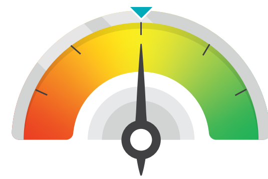


- The macro backdrop remains broadly positive, fundamentals remain respectable after recent margin and free cash flow improvements.
- However, spread valuation is challenging, making overall valuations less attractive than other fixed income sectors.

US HIGH YIELD

- Fundamentals are robust, helped by historically low levels of leverage and strong free cash flow generation.
- Other positive drivers include low default rate projections, attractive breakeven yield valuation and a supportive macro outlook.

EURO IG CORP



- Sound fundamentals and robust technicals are supportive of tight valuations.
- The recently announced German fiscal package should benefit sectors such as defense and utilities.

EURO HIGH YIELD

- The macro backdrop and strong fundamentals, including favorable net leverage, are supportive.
- Breakeven yields remain attractive.
- Appetite for riskier assets in the region is likely to benefit from the ongoing ECB easing cycle.

MFS CONSIDERATIONS

US IG Corp
- While the outlook for total returns remains constructive, the risk/reward is not as compelling as for other asset classes, mainly reflecting the tight valuation, which keeps us cautious.

US High Yield
- The risk/reward may be attractive for investors who may consider deploying credit risk exposure.
- While we are not concerned about the maturity wall, spread valuation looks stretched, so security selection is key.

Euro IG Corp
- While yield valuations remain compelling, spreads have tightened recently and are now tighter than their US counterparts for the first time in several years, diminishing their relative appeal.

Euro High Yield
- The asset class has shown resilience and remains attractive for the investor with high risk tolerance.
- Security selection remains key given the dispersion of fundamental stories at the security level.

UNDERWEIGHT | NEUTRAL | OVERWEIGHT

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