

March–April 2026

# Market Pulse

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

Market  
Insights  
Team

## KEY TAKEAWAYS

- This year's rotation away from megacap tech to value and cyclical sectors has broadened investment opportunities. Non-US equities have been beneficiaries amid structural reforms in Europe and Japan, while Asia's emerging markets have been bolstered by the AI boom. Non-US stocks continue to trade at sizable valuation discounts to those in the US. In the US, our preference is for value and mid-cap stocks over growth.
- With tariff-induced inflation mostly behind us, we expect the Fed to focus on the employment component of its dual mandate.
- Despite challenging valuations, we remain overweight US investment grade corporates thanks to strong fundamentals such as improved profit margins and free cash flow.

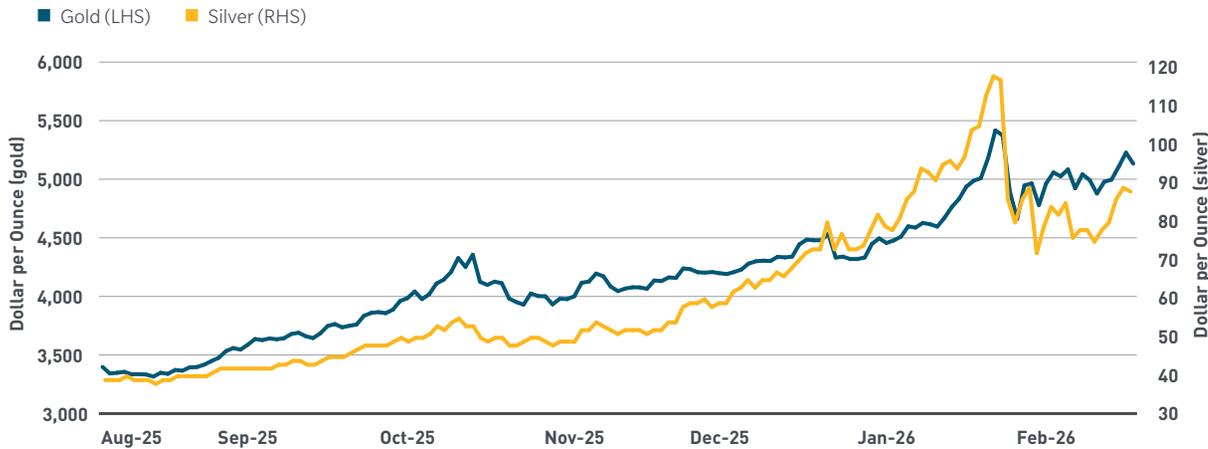
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# Economy & Markets

## NEAR-TERM CORRECTION RISKS FOR PRECIOUS METALS



Source: Bloomberg. Daily data from 29 July 2025 to 12 February 2026.

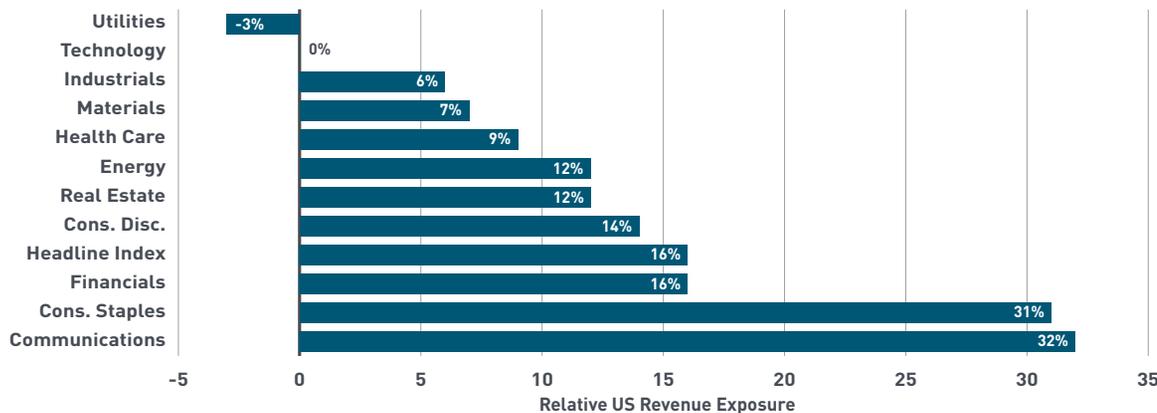
## Recent Price Action Suggests Some Speculative Activity

### MFS PERSPECTIVE

- The recent and rapid surge in gold and silver prices has exposed them to short-term risks of a downward correction.
- Concerns about Fed independence increased demand for safe-haven assets, but nominating Kevin Warsh as Fed Chair could restore trust and reduce interest in defensive assets in the near term.

## MID-CAPS EARN A GREATER SHARE OF REVENUE DOMESTICALLY

■ Mid Cap US Revenue Exposure Relative to Large Cap



Source: Geographic revenue data sourced from FactSet on 17 February 2026. Based on last twelve-month revenue. Large Cap = S&P 500 Index. Mid Cap = S&P Mid Cap 400 Index.

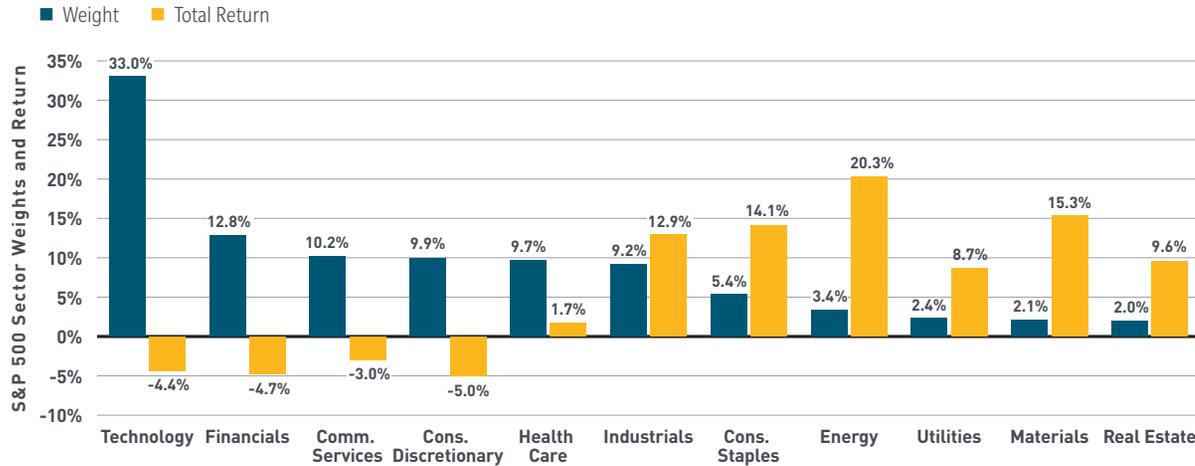
## Across Sectors, US Revenue Exposure Higher in Mid-Caps

### MFS PERSPECTIVE

- With US PMIs firming and the manufacturing PMI reaching a level not seen since 2022, the US economy may re-accelerate in 2026.
- That bodes well for mid-caps, which derive a greater share of their revenue domestically.
- Mid-caps are more heavily weighted to cyclical sectors, which should benefit if US growth accelerates.

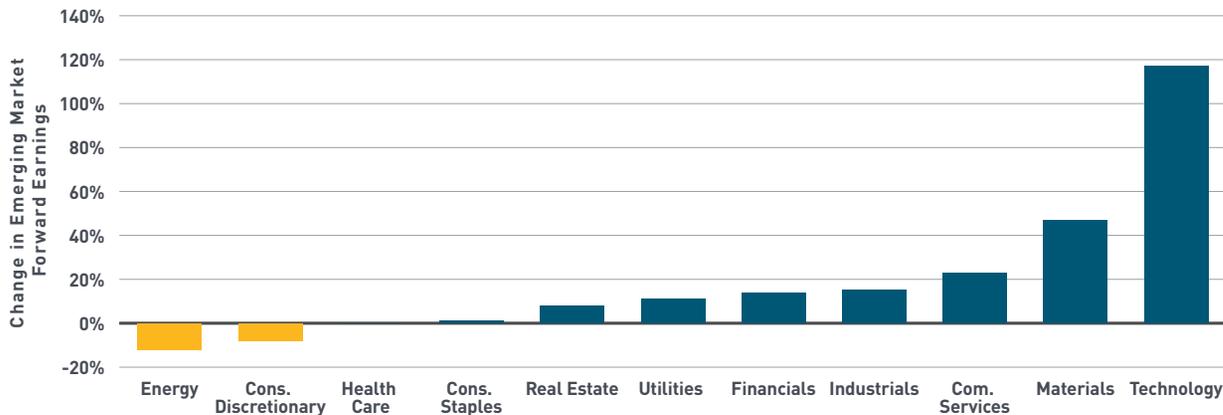
# Economy & Markets

## BROADENING PARTICIPATION UNDER THE HOOD OF THE S&P 500



Source: FactSet Market Aggregates, FactSet SPAR. Data as of 17 February 2026. YTD return is gross and in USD.

## UPWARD REVISIONS PERSIST IN EMERGING MARKET EARNINGS



Source: FactSet Market Aggregates. Monthly data as of 31 December 2024 to 31 December 2025. Forward = next-twelve months. Change in forward earnings = % increase/decrease in forward earnings estimates from 31 December 2024 to 31 December 2025 for each sector of MSCI Emerging Markets Index.

## Market Rotation Broadens Opportunity Beyond Recent Leaders

### MFS PERSPECTIVE

- In 2026, the market has seen a rotation from megacap tech stocks to value and cyclical sectors.
- While cap-weighted performance has been flat, the median stock has returned about 7%.
- As the earnings growth gap between megacap tech and the rest of the market shrinks, investors are seeing more widespread and varied opportunities.

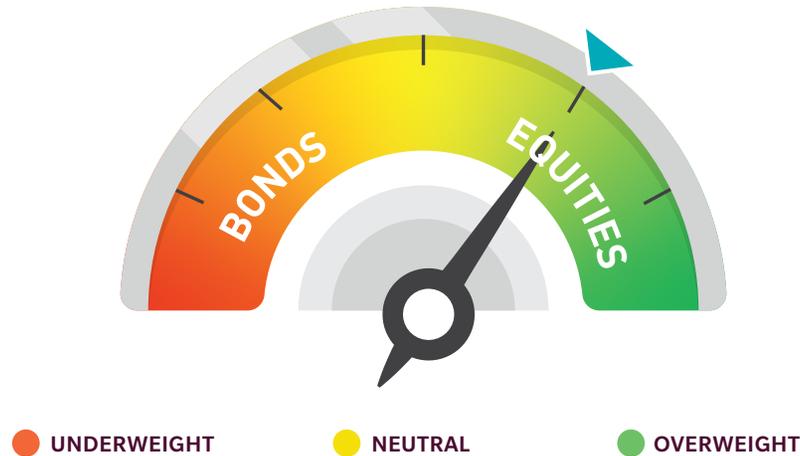
## Outside the US, EM Offer AI Exposure, Diversification, and Value

### MFS PERSPECTIVE

- EM broaden AI exposure via chips, hardware, power, and industrial supply chains.
- Firming economic growth and easing inflation in parts of EM support earnings breadth.
- EM trade at a discount to the US, offering diversification as markets turn more capital-intensive and leadership broadens beyond megacaps.

# Asset Allocation

Relative to investor's strategic asset allocation



We maintain our equity overweight, reflecting a stronger macro and market backdrop and the positive impact of pro-growth tax and regulatory policies. Meanwhile, fixed income remains attractive from a risk-adjusted return standpoint.

## MFS PERSPECTIVE

**1** The macro backdrop remains supportive of risky assets. The impact of tariffs appears muted, even though some risks persist. The main source of potential concern is a weakening labor market.

**2** US equities are buoyed by solid earnings, diminished tariff threats, and easier Fed policy. The valuation backdrop remains challenging, especially for US large caps, but there is a bullish case for mid-caps as well as global equities.

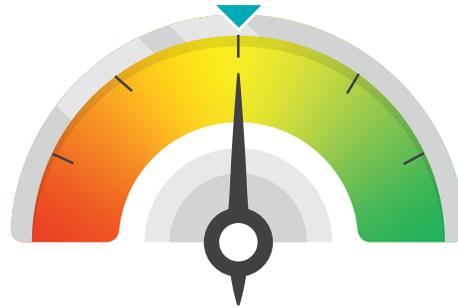
**3** While fixed income remains an attractive de-risking asset class, there are a few notable headwinds. The magnitude of future rate cuts remains uncertain, while a challenging fiscal landscape has undermined the appeal of long-dated government bonds.

**4** Given current narrow spreads, further compression is unlikely to be a major source of returns. Cracks in private credit have surfaced, but we think they are unlikely to pose a systemic risk for public markets. We favor an up-in-quality bias, given the challenging valuation backdrop.

**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

- US equities are in the midst of a rotation as cyclical and value stocks have outperformed in 2026.
- The macroeconomic backdrop remains supportive.
- Corporate earnings remain strong and have supported US equities.
- We continue to favor mid-cap stocks, as well as value over growth.

## MFS CONSIDERATIONS

LARGE CAP	SMALL/MID CAP	GROWTH	VALUE
<ul style="list-style-type: none"> <li>▪ After several years of megacap technology dominance, breadth has returned in 2026 with nearly two-thirds of S&amp;P 500 stocks outperforming the index.</li> <li>▪ Outsized earnings have supported large caps, but valuation and concentration remain risks.</li> </ul>	<ul style="list-style-type: none"> <li>▪ SMID companies should be beneficiaries of a broadening earnings environment.</li> <li>▪ The rotation and broadening of US markets has resulted in SMID-cap outperformance, as has a tailwind from deregulatory government policies.</li> <li>▪ We prefer mid-caps over small caps given their stronger balance sheets and profitability profiles.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Russell 1000® Growth Index has lagged as megacap technology names have underperformed due to monetization fears.</li> <li>▪ Software and AI-related stocks have experienced recent volatility tied to valuation, increasing capex and concerns over AI disruption.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cyclical value sectors have outperformed as investors rotate into sectors with greater earnings visibility.</li> <li>▪ Capex and infrastructure themes should continue to buoy value stocks.</li> </ul>

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# International Equity

## DEVELOPED INTERNATIONAL EQUITY



- Japan is undergoing a structural shift, with improving earnings momentum, higher shareholder returns, and renewed foreign flows.
- Europe benefits from fiscal support in infrastructure and defense, as well as improving earnings visibility.

## EMERGING MARKET EQUITY



- Asia ex-China industrial growth is at a multi-year high, supported by rising AI investment.
- LatAm elections could support reform, lower rates, and renewed global interest in regional equities.

## MFS CONSIDERATIONS

- Diversification beyond the US remains valuable as equity leadership broadens and return drivers become more region-specific rather than US-centric.
- Japan's pro-growth political mandate, including meaningful fiscal stimulus, supports reforms that reinforce earnings growth and capital discipline, strengthening the case for sustained equity returns.
- Ongoing fiscal spending in Europe is improving demand visibility, supporting industrial activity, order growth, and a more resilient earnings backdrop.
- Stocks in some of the largest EM countries are reaching new highs, with Taiwan and South Korea benefitting from growth in AI and Brazil from demand for raw materials.
- EM offer growth beyond the US cycle, with opportunities across Asian manufacturers and select commodity exporters linked to global supply chains and local demand.
- Stronger policy frameworks and deeper local investor bases are improving EM stability while supporting earnings growth, particularly in resource-led markets.



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# Fixed Income

DURATION	MUNICIPALS	SECURITIZED (MBS)	US INV-GRADE CORP	US HIGH YIELD	EMERGING MARKET DEBT
 <ul style="list-style-type: none"> <li>While the timing of rate cuts has been pushed back, investors expect two more in 2026.</li> <li>In a low-hire/low-fire labor market, the Fed will be biased toward preventing further labor market deterioration.</li> <li>Recent CPI prints have been mild, but ongoing tariff changes may undermine that.</li> </ul>	 <ul style="list-style-type: none"> <li>Tax-adjusted yields are favorable, while fundamentals, including state finances, remain solid.</li> <li>Strong investor demand in the face of elevated supply has kept the market in balance, allowing yields to rally.</li> <li>Munis are one of the strongest performing segments of US fixed income year-to-date.</li> </ul>	 <ul style="list-style-type: none"> <li>The agency MBS market remains supported by solid fundamentals and declining rate volatility.</li> <li>The Trump administration's directive to the GSEs to buy \$200 billion in MBS has drastically tightened spreads.</li> <li>Increased supply and refinancing activity may weigh on spreads if activity picks up.</li> </ul>	 <ul style="list-style-type: none"> <li>Fundamentals remain respectable due to recent margin and free cash flow improvements.</li> <li>Spreads remain near historical tights.</li> <li>Robust fund flows have helped support rich valuations; however, escalating issuance to fund the AI buildout could challenge technicals later in the year.</li> </ul>	 <ul style="list-style-type: none"> <li>While fundamentals are robust, leverage and interest coverage remain near long-term averages.</li> <li>Other positive drivers include low default rate projections, strong fund flows, and a supportive macro outlook.</li> <li>However, spreads are currently at their tightest levels since 2007.</li> </ul>	 <ul style="list-style-type: none"> <li>Positive fund flows support tight valuations.</li> <li>Yields, like fundamentals, have weakened but remain attractive relative to longer-term history.</li> <li>A weaker dollar environment has helped boost emerging market debt returns over the past year.</li> </ul>

## MFS CONSIDERATIONS

<ul style="list-style-type: none"> <li>We remain neutral on Treasuries, though duration can help bolster portfolios if labor markets weaken.</li> <li>Amid increased focus on labor data, payrolls and jobless claims will be key data points to monitor.</li> </ul>	<ul style="list-style-type: none"> <li>We are upgrading municipals to neutral on strong market technicals with a preference for higher-quality fixed income.</li> <li>Municipals could be a great defensive asset for investors focused on tax efficiency and downside protection.</li> </ul>	<ul style="list-style-type: none"> <li>We are downgrading MBS given tight valuations and challenging technicals.</li> <li>Agency MBS continue to provide diversification and defensive advantages for certain investors.</li> </ul>	<ul style="list-style-type: none"> <li>We remain favorable toward US IG, preferring higher quality asset classes with spreads tight everywhere.</li> <li>IG corporate yields remain elevated above their 10-year average, which should continue to support investor demand.</li> </ul>	<ul style="list-style-type: none"> <li>With spreads richly valued, the risk/return proposition leaves us underweight.</li> <li>We prefer sectors such as financials while steering away from secularly challenged industries.</li> <li>Dispersion is low, so security selection is key.</li> </ul>	<ul style="list-style-type: none"> <li>We remain neutral on EMD given our defensive bias but prefer EM to high yield.</li> <li>Heightened global risks make sovereign credit selection paramount.</li> <li>However, EM has been resilient in the face of elevated geopolitical risks and trade uncertainty.</li> </ul>
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