Spring 2025

MFS® Commentary

In this issue

For the latest news and views on world economies and financial markets, visit mfs.com

Investment Insight

Six Key Themes for 2025

As we look forward in 2025, a number of key themes are expected to shape economic and market conditions. Many consequential shifts are in the cards, such as impact of trade policies, the ongoing US productivity shock, growing monetary policy divergence or transformational scientific advancements.

The impact of Trump 2.0

Substantial policy changes are anticipated, including low taxes and extensive deregulation, which may lead to higher economic growth. Investors are starting to anticipate higher growth, inflation and interest rates. The prospect for tariffs could trigger higher inflation, also keeping interest rates high. Trump's tax plan is expected to modestly increase the deficit by $3 trillion over the next decade. However, deregulation, potential tariff revenues and the prospect of leaner government could act as a counterbalance.

Corporate profits remain strong

US company profits — sales minus costs — are near their highs, and they could stay elevated for a few reasons. First, many companies refinanced their debt in 2020 through 2022 when interest rates were near zero, lowering their debt costs. Second, the Tax Cuts and Jobs Act of 2017 lowered corporate tax rates to 21%. Third, massive government spending has supported companies and consumer spending. More fiscal stimulus is expected under the new administration. Finally, technology — think AI — could result in higher productivity, which helps keep costs down.

The downside of a hot economy

In 2024, many economists called for a recession. However, a new economic path has emerged where accelerating growth is driven by a resilient labor market, improved productivity and strong consumer spending. Unfortunately, if robust economic growth and inflation persist, the US Federal Reserve is likely to keep interest rates high. Higher interest rates could pressure wages, raise borrowing costs and adversely affect residential and commercial real estate.

China's economic headwinds

China has many economic challenges, including a highly distressed property sector, local government debt, risk of deflation, industrial overcapacity and adverse demographics. The emergence of a strong middle class and a solid social safety net were the keys to a more sustainable, consumption-driven economy. However, progress has been slow on this front, and an aging population may make this more difficult to achieve. The Chinese government is trying to revive the economy through a broad policy package, but we remain skeptical on the Chinese economy.

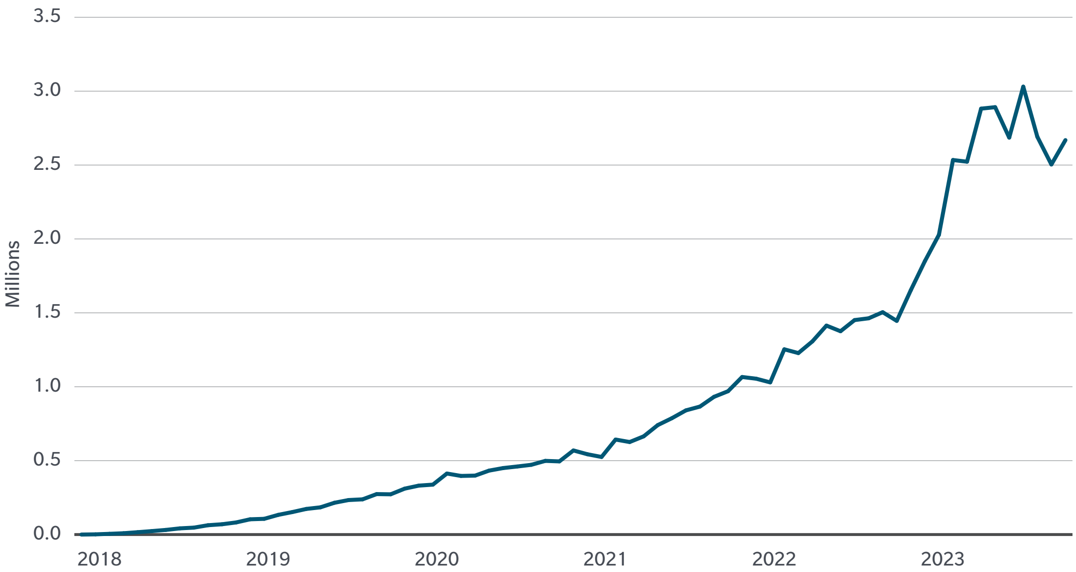
Diverging central bank policies

While the US is experiencing strong economic growth, countries like Germany, France and China are facing significant growth headwinds. While most central banks around the globe are expected to continue cutting interest rates going forward, the magnitude and the speed of rate cuts is likely to be quite different. Some central banks, like the Fed, will target a neutral rate — the rate that would prevail if the economy were at full employment and stable inflation. Others, like the European Central Bank, may cut rates more aggressively.

Lifestyle pharmaceuticals

Obesity presents a significant health care challenge. GLP-1 drugs, first created to combat type-2 diabetes, are an effective weight loss option and may have implications for both human life and the economy. Rapid adoption of GLP-1s has already boosted revenue growth for the GLP-1 drug manufacturers and this treatment could effect consumer spending patterns impacting many industries including health care, fitness, food and beverage, clothing, wealth management and perhaps even transportation.

Exhibit 1: Total GLP-1 Prescription Count



Source: Bloomberg Intelligence. Monthly data as of 1 January 2018 to 30 November 2023.

The development and adoption of these drugs are still underway. As with any disruptive technology or discovery, determining who the long-term winners will be and having the conviction to hold them through periods of disruption requires deep fundamental research, intellectual curiosity and discipline.

Why it matters

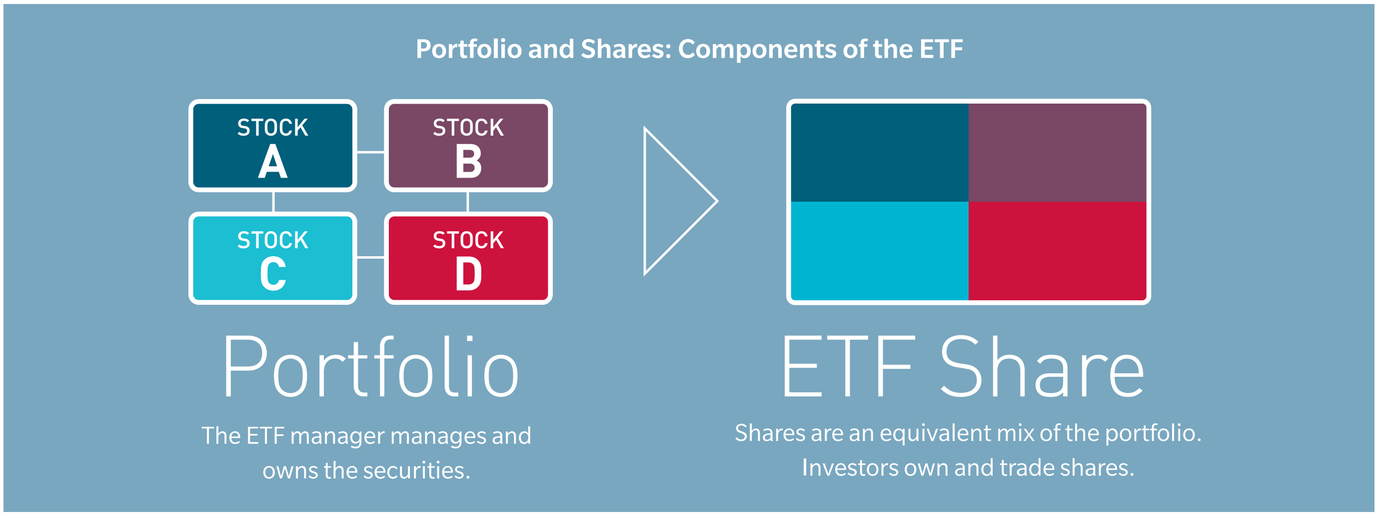
These themes may have ramifications for the US market environment and for global markets. In an environment of uncertainty, we believe that active managers, who buy and sell securities based on the long-term prospects of a company or government are better positioned to navigate changing market and economic dynamics such as the one discussed above.

Investor Education

Exploring Exchange-Traded Funds (ETFs) and Their Potential Benefits

ETFs came to market in the early 1990s and have grown in popularity over the last 10 years, reflecting their unique structure that combines the benefits of a mutual fund with the trading flexibility of a stock. ETFs own a collection of securities like stocks or bonds and investor can purchase shares of an ETF (see exhibit 2). These shares represent a proportional interest of the ETF's portfolio of securities.

Exhibit 2: Components of the ETF



In addition to its unique structure, ETFs could also offer:

Tax efficiency: ETFs generally generate a lower level of capital gains distributions because of their unique structure. Buying and selling ETF shares are specific to an individual investor rather than all shareholders. It's important to remember ETF shares sold for a gain may be subject to capital gains tax just like other investments.

Trading flexibility: Like stocks, ETF shares can be bought or sold throughout the day on a stock exchange or through a brokerage firm at prices that can change during the day.

Transparency: Most ETFs are required to publish their holdings daily.

Low minimums: You can buy as little as one share of an ETF.

About Active ETFs

For many years, ETFs were dominated by passive funds. However, over the past five years more and more active ETFs have been launched. Unlike passive managers that "buy the index," managers of active ETFs strive to outperform a benchmark over the long term. Why is this important? Because even small amounts of value, if any, created by outperforming a benchmark can add up over time due to compounding. Compounding is when earnings on an investment are reinvested and hopefully grow more.

Active managers aim to outperform by capitalizing on the security picking skills of their portfolio managers and research teams. They pick securities that they believe offer the best long-term potential to rise in value.

While first being known for their low expenses and passive exposure to broad markets, ETFs now encompass a wide range of styles and asset classes, offering more choices to investors. To learn about ETFs and the features of common investment vehicles, including ETFs, make sure to work with your financial advisor or investment professional.

Exchange-Traded Funds (ETFs) trade like stocks, are subject to investment risk and will fluctuate in market value. Shares of ETFs are bought and sold at market price, not NAV, and are not individually redeemed from the fund. The market price at the time of sale may be higher or lower than the fund's NAV, and any applicable brokerage commissions will reduce returns. There can be no guarantee that an active market for the funds will develop or be maintained. Actively managed ETFs differ from traditional ETFs in that they do not seek to replicate or to track a specific index. As such, the ability of an actively managed ETF to achieve its objective will depend on the effectiveness of the fund's portfolio manager.

Financial Basics

Four Ways to Use Your Tax Refund

This is the time of year when we start thinking about taxes. Making sure the government receives its dues by April 15 isn't fun, but that attitude shifts if we are anticipating a tax refund. According to the IRS, the average refund for 2023 was $3,167, which is not a trivial sum. The imagination can run wild coming up with ways to use extra money.

Whenever unexpected money appears, there is an impulse to splurge and have some fun. However, there are things you can do with your tax refund that are still satisfying but also help secure your financial future.

1. **Pay down high-interest debt.** As of January 2025, the average credit card interest rate was 24.37%,[1] which is high. Using your refund to pay down your balance will decrease the amount you pay in interest, potentially lowering your monthly payments, ultimately saving you money and freeing you to pursue your financial goals. The same is true of paying down other kinds of loans.
2. **Contribute to your retirement account.** If you haven't reached the limit for yearly contributions to your IRA or 401(k), talk to your financial advisor or investment professional about throwing your tax refund into your retirement pot. Every little bit helps to grow your retirement savings, and there are potential tax benefits.
3. **Create a rainy day fund.** Many Americans fall short on savings and wouldn't be able to handle a financial emergency such as a broken car. Putting your tax refund into a high-yield savings account, for example, could be a good start towards having an emergency fund. After a year, a high-yield savings account that yields 4% annual percentage yield (APY) could add about $120 to your average $3,000 refund. Add next year's refund to that and you'll soon have a nice-sized fund for a rainy day.
4. **Invest in career-building education.** "Education" doesn't have to mean a graduate degree or enrolling in a four-year program. Use your tax refund and learn a new skill to add to your resume or earn a professional certificate in your field of choice. Besides the sense of personal fulfillment, the potential for career advancement and a higher salary more than makes up for the dollar amount of your tax refund.

There are many more ways to "spend" extra money, whether it be a gift or your tax refund. However, using even part of these assets on one of the four ideas above will help you advance your financial goals.

Source: Bankrate, "Bankrate's 2025 Emergency Savings Report," January 23, 2025.

MFS® does not provide legal, tax, or accounting advice. This communication was written to support the promotion or marketing of the transaction(s) or matter(s) addressed. Clients of MFS should obtain their own independent tax and legal advice based on their particular circumstances.

Contact us

Website

mfs.com

MFS® TALK

1-800-637-8255
24 hours a day

Account service and literature

(Shareholders)
1-800-225-2606

(Financial advisors)
1-800-343-2829

Retirement plan services

1-800-637-1255

Mailing address

MFS Service Center, Inc.
P.O. Box 219341
Kansas City, MO 64121-9341

Overnight mail

MFS Service Center, Inc.
801 Pennsylvania Ave,
Suite 219341
Kansas City, MO 64105 -1307

Follow us

[1] Investopedia, "Average Credit Card Interest Rate for January 2025: 24.37% APR," January 12, 2025.

MFSE_FLY_1642756_3_25
53649.3