October/November 2025

Global Market Pulse

Euro based

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

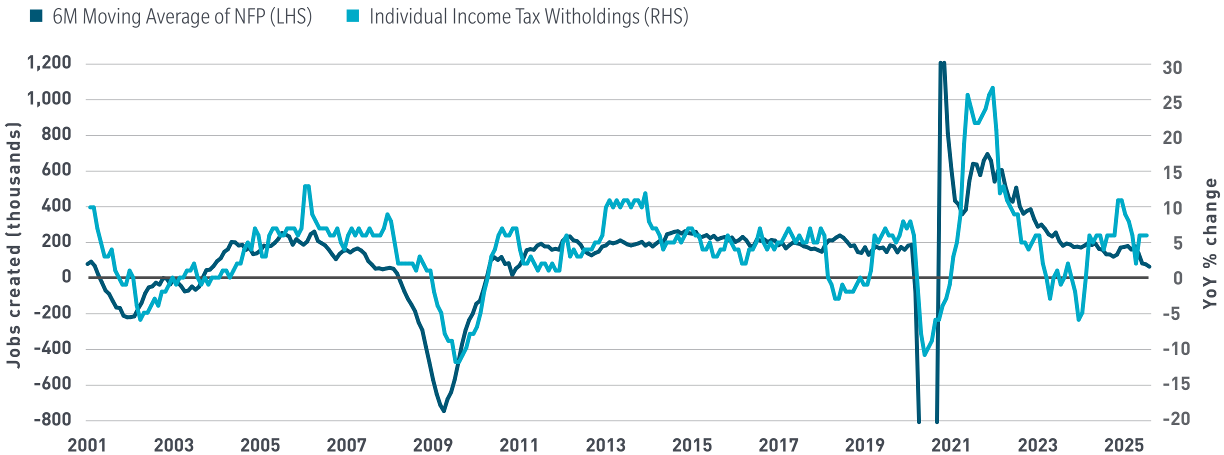
Market Insights Team

KEY TAKEAWAYS

- Amid earnings expectations in Europe converging with those in the US, the continent's favorable valuation backdrop, and a shift to looser fiscal policy, European equities look compelling. An upbeat view for Japan supports our belief that non-US markets should outperform US markets in coming quarters.
- While headlines suggest doom and gloom in the US labor market, alternative measures paint a more resilient picture.
- Emerging market debt has proven remarkably resilient during Trump 2.0, with a weaker dollar supportive of local currency bonds.
- The outlook for US duration has brightened with the Fed resuming its easing cycle, while the end of the ECB cycle makes European duration less attractive.

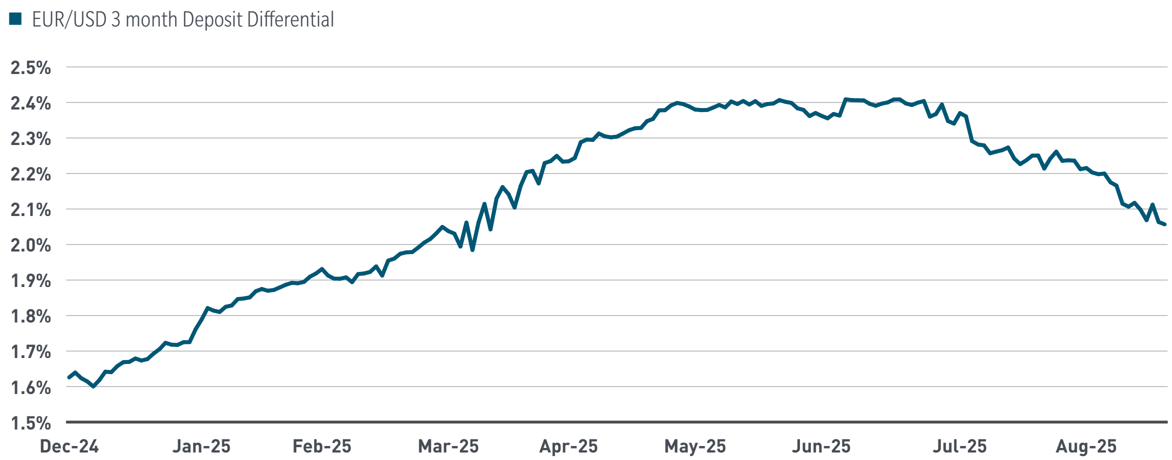
Economy & Markets

JOBS CREATION HAS SLOWED, BUT INCOME TAX RECEIPTS REMAIN STRONG



Source: Bloomberg, BLS, US Treasury. Monthly data from 31 January 2001 to 31 August 2025. Individual tax witholdings calculated as the year over year change in the rolling 20-day sum of individual income tax witholdings.

NARROWING RATE DIFFERENTIAL LOWERS USD HEDGING COSTS FOR NON-US INVESTORS



Source: Bloomberg. Daily data from 31 December 2024 to 17 September 2025. Differential between 3 month deposit rate in EUR and USD.

Slower job growth worries markets, but tax data shows strength

MFS PERSPECTIVE

- Weak summer hiring data and revisions put non-farm payrolls below their breakeven rate.
- The slowdown partly reflects lower immigration; falling labor supply is feeding into lower levels of job creation.
- However, growth in income tax withholding is 2% above the long-term average, showing fewer signs of labor force weakness.

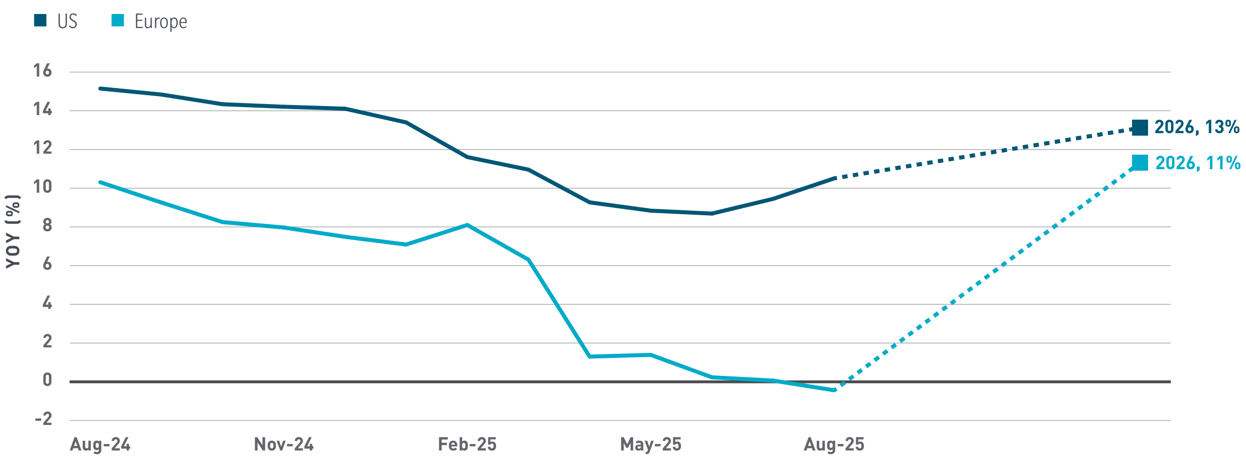
Narrowing US/European interest rate differential

MFS PERSPECTIVE

- With the European Central Bank easing cycle likely complete and the Fed cycle just restarting, the dollar's interest rate differential over those in the eurozone has narrowed.
- If EUR-based investors fear a weaker dollar, the tighter spread makes it less expensive to hedge their USD-denominated exposures.

Economy & Markets

EARNINGS GROWTH CONVERGES



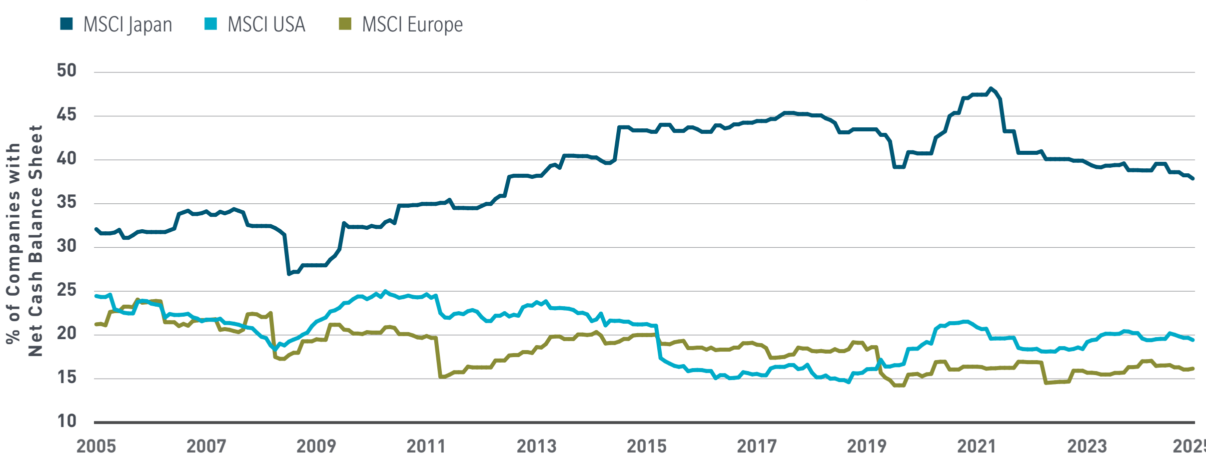
Source: FactSet Market Aggregates. Monthly data as of 30 August 2024 to 29 August 2025. Earnings per share based on consensus estimates for 2025 and 2026. US = S&P 500, Europe = MSCI Europe. US earnings per share in USD, Europe earnings per share in EUR.

European earnings growth is expected to close the gap with the US

MFS PERSPECTIVE

- In local currency terms, consensus earnings estimates for Europe are expected to improve appreciably into 2026.
- A narrowing of the earnings growth rate differential suggests the record US-Europe valuation discount may close.
- However, currency movements will influence both earnings and overall returns.

MORE ROOM FOR SHAREHOLDER-FRIENDLY ACTIONS IN JAPAN



Source: FactSet Portfolio Analysis. Data from 30 September 2005 through 29 August 2025. Net cash balance sheet defined as companies with a greater amount of cash than total debt. Cash values are in JPY.

Cash reserves suggest latitude for shareholder-focused moves

MFS PERSPECTIVE

- 2025 share buybacks in Japan have already surpassed 2024's record level.
- Cash balances for many Japanese companies remain high despite declining from post-Covid highs.
- Current cash levels suggest Japanese companies can continue to undertake both share buybacks and long-term growth initiatives.

Global Developed Equity - US
Euro based

US

UNDERWEIGHT NEUTRAL OVERWEIGHT

- The Fed has restarted its rate cutting cycle, providing additional support for US equities.
- Receding uncertainty has resulted in a risk-on rally with high beta names outperforming.
- Earnings revisions have inflected upwards amid waning uncertainty and the passage of pro-growth policies.
- Despite the recent rally in small caps, we continue to favor large caps, as well as value over growth.

MFS CONSIDERATIONS

LARGE CAP	SMALL/MID CAP	GROWTH	VALUE
▪ AI capex remains a significant growth driver for megacap technology. ▪ Valuations remain high and leadership narrow, amplifying downside risks if elevated earnings forecasts fail to live up to expectations.	▪ With rate cuts restarting, SMID stocks have rallied due to their higher sensitivity to borrowing costs. ▪ The US economy remains resilient and should provide support to SMID companies, as their earnings tend to be realized domestically. ▪ Valuations remain discounted relative to large caps.	▪ The relative earnings growth between megacap technology and the rest of the Russell 1000® Growth is expected to narrow further in 2026. ▪ Valuations remain stretched and will likely require earnings to come through to avoid corrections in the event of earnings misses. ▪ The AI trade remains the key driver of growth stock performance.	▪ Consumer cyclicals have outperformed amid resilient demand from affluent US consumers. ▪ Value stocks continue to trade at a deep discount relative to growth.

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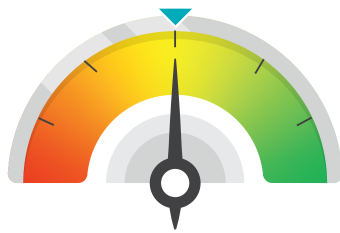
Global Developed Equity - Ex US
Euro based

EUROPE EX UK

- Consensus 2026 earnings growth of 11% may be optimistic, but a notable improvement from 2025 is expected.
- The improving earnings outlook implies the P-E ratio could fall further from undemanding levels.

UK



- Growing budget pressures may start to dent the resilience of the FTSE-100 as sentiment deteriorates amid rising policy risks.
- Inflation remains sticky, and growth could slow if real wages fall and unemployment rises.

JAPAN

- Equities continue to perform, buoyed by ongoing reform, which is driving improving profitability and sharpening capital allocation.
- A change in government has increased the potential for looser fiscal policy.

MFS CONSIDERATIONS

Europe ex UK

- Improving economic growth, if sustained, may drive an earnings recovery.
- The impact of Germany's fiscal push is expected to sustain well into 2026.
- However, a strong euro may prove a headwind for some companies.

UK

- However, the FTSE's UK exposure is low, and valuations remain undemanding.
- UK stocks may also benefit from international demand for value exposure in the face of higher growth and inflation.

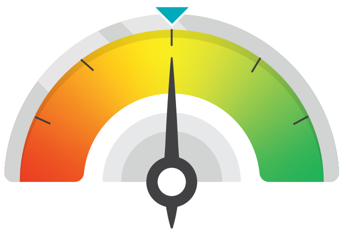
Japan

- Rising inflation and wages may have positive consequences for local consumption.
- Amid a more inflationary backdrop, local investors need to protect against eroding purchasing power, potentially spurring demand for equities over cash.

UNDERWEIGHT NEUTRAL OVERWEIGHT

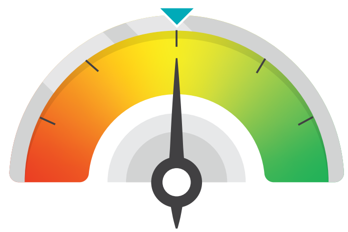
Emerging Markets
Euro based

EM EQUITY



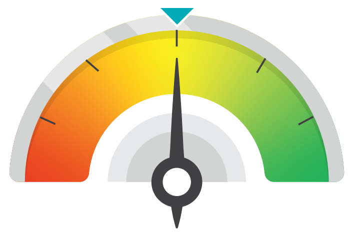
- Many emerging market economies remain healthy, with solid growth prospects, and in good fiscal shape.
- Valuations remain reasonable.
- Asia continues to benefit from ongoing AI capex and tech spend.

EM DEBT – HARD CURRENCY



- Despite tight spreads, the valuation backdrop remains favorable on a total-yield basis.
- Watch for the impact of global risks, ranging from Trump 2.0, to geopolitics, to China's structural headwinds.

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

- Ongoing USD weakness should be supportive for EM equities.
- However, China continues to face challenges with weak consumption and property woes.
- With wide dispersion between and within countries, investors should remain selective.

- Contrary to initial concerns, EM debt has shown remarkable resilience since the US election.
- Fund flows have been positive, supporting tight valuations.
- However, given significant risks, country selection will be key.

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

UNDERWEIGHT NEUTRAL OVERWEIGHT

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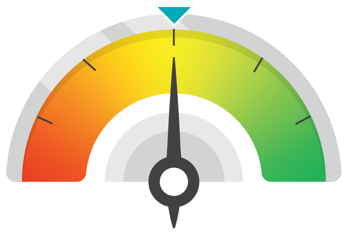
Global Fixed Income
Euro based

USD DURATION



- Slower economic growth and concerns around a weakening labor market have spurred the Fed to restart its rate-cutting cycle after a nine-month pause.
- However, it seems poised to look through hotter, tariff-induced price pressures from core goods.

EURO DURATION*

- The ECB has completed its cutting cycle, leaving current valuations uncompelling.
- Enthusiasm for fiscal spending packages in some countries is being offset by budget battles in others.
- Defense and infrastructure-related spending should be a tailwind to growth.

MFS CONSIDERATIONS

- Increased to neutral as the macro backdrop has shifted towards being duration supportive.
- Amid increased focus on labor data, NFP and jobless claims will be key data points to monitor.

- Reduced our rating, mainly reflecting mixed macro data and relative valuation to the US.
- If growth slows meaningfully, we believe the ECB will resume cutting and support duration.

UNDERWEIGHT NEUTRAL OVERWEIGHT

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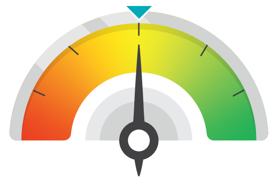
Global Fixed Income
Euro based

US IG CORP

- Fundamentals remain respectable due to recent margin and free cash flow improvements.
- Spreads remain near historical tights.
- Robust fund flows help support rich valuation.

US HIGH YIELD

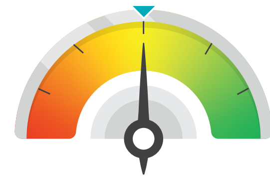


- Fundamentals are robust, helped by low levels of leverage and strong free cash flow generation.
- Other positive drivers include low default rate projections, strong fund flows and a supportive macro outlook.

EURO IG CORP

- Sound fundamentals and robust technicals are supportive of tight valuations.
- European fiscal expansion should benefit sectors such as defense and utilities.
- Spread valuations have compressed to near record tights.

EURO HIGH YIELD



- The macro backdrop and strong fundamentals, including favorable net leverage, are supportive.
- Breakeven yields remain attractive.
- Increasing European credit growth is a tailwind for spread valuations.

MFS CONSIDERATIONS

US IG Corp

- With the macro backdrop shifted towards rate cuts, we have increased our rating.
- Relative to high yield, IG credit's higher duration will be beneficial during a cutting cycle.
- With spreads tight, we have an up-in-quality bias.

US High Yield

- While the risk/reward proposition remains reasonable, we are neutral while looking to move credit up in quality with spreads richly valued.
- Dispersion is low, so security selection is key.

Euro IG Corp

- While yield valuations remain compelling, spreads have tightened recently and are close to their US counterparts.
- While the macro-outlook is less supportive, relative value can be found versus the US in sectors with better risk/reward profiles.

Euro High Yield

- Strong technicals and fundamentals are offset by an uncertain growth outlook and tight spreads, leaving us neutral.
- Security selection remains key given the dispersion of fundamental stories at the security level.

UNDERWEIGHT NEUTRAL OVERWEIGHT

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