February/March 2025

Global Market Pulse

USD based

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

Market Insights Team

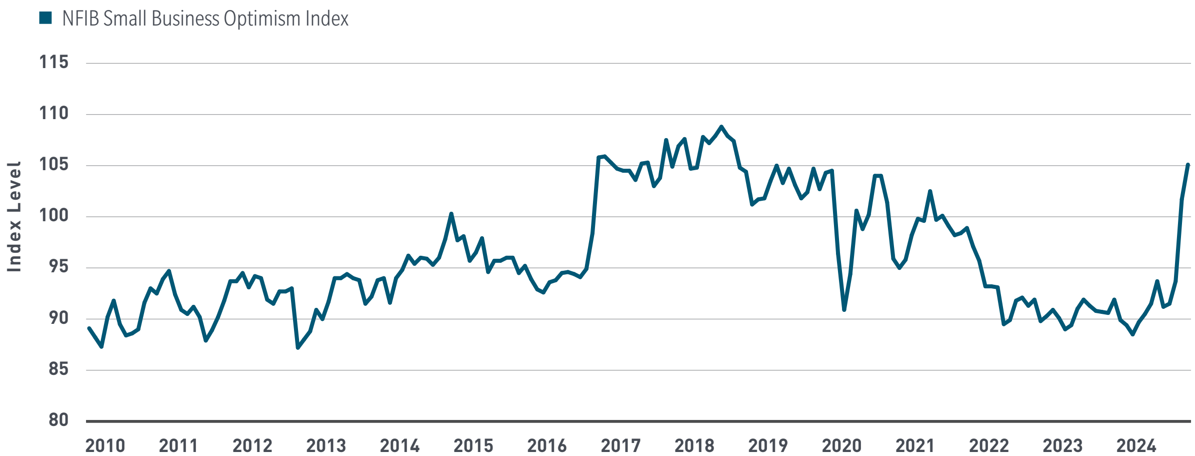
KEY TAKEAWAYS

- A less burdensome regulatory environment and the potential for lower taxes are two reasons for surging US small business optimism.
- We're entering a period of central bank bifurcation as the direction, pace and degree of policy rate decisions could vary greatly, offering opportunities in sovereign bond selection.
- While Chinese policy makers have cut interest rates and announced stimulus plans, consumers and businesses likely need a significant fiscal boost to stem the tide of slowing credit growth and domestic demand.
- In fixed income, European duration and credit remain more attractive than in the US while value and midcap seem well positioned in US equities.

Economy & Markets

US Small Business Optimism

SMALL BUSINESS OPTIMISM IS ON THE RISE



Source: Bloomberg, National Federation of Independent Business. Monthly data from 31 January 2010 to 31 December 2024. NFIB Small Business Optimism Index surveys small business owners for their outlooks on the economy, sales, hiring, inflation and uncertainty, among others, to gauge business conditions for this segment of the US economy.

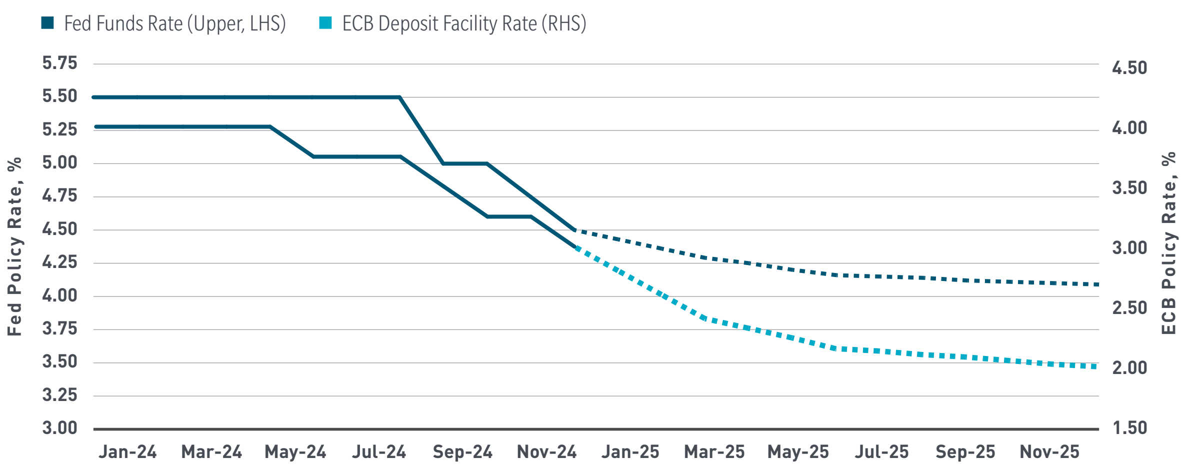
US SMID-cap companies could benefit the most from policy shifts.

MFS PERSPECTIVE

- Small-business optimism soared after Trump's election amid expectations of a less onerous regulatory environment.
- Medium-sized firms bear the highest regulatory cost burden and could benefit the most.
- Prospects for steady, or even lower, corporate taxes are also supportive.

Monetary Policy

MONETARY POLICY BIFURCATION



Source: Bloomberg. Monthly data from January 2024 through December 2024 (data as of 17 January 2025). Implied policy rates for the Fed Funds Rate are based on Fed Funds Futures monthly contracts, adjusted by 0.125% to reflect upper-bound Fed funds, and implied policy rates for the ECB Deposit Facility Rate are based on Overnight Index Swaps from December 2024 to December 2025. Dashed lines represent forward looking market expectations.

Global monetary policy is becoming unsynchronized

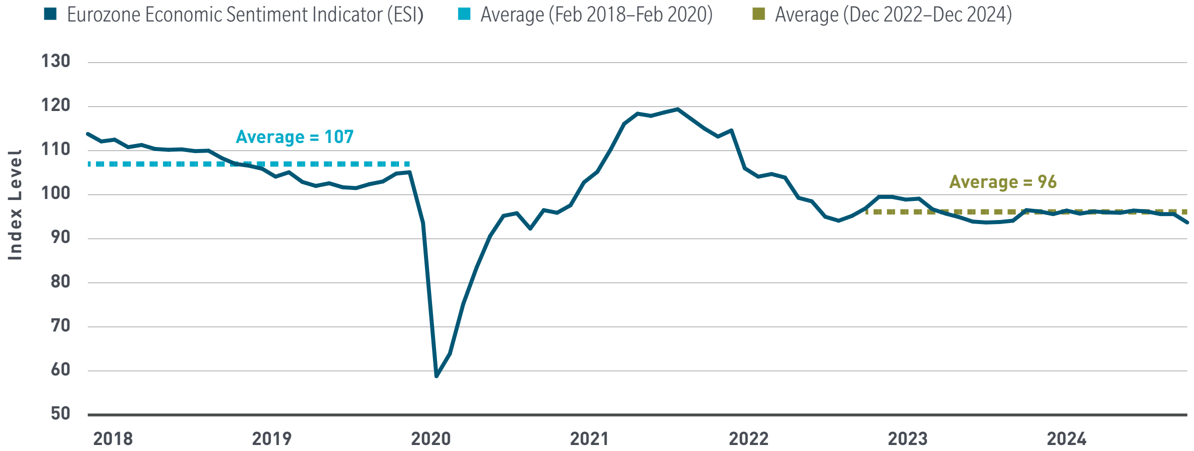
MFS PERSPECTIVE

- While the Fed has turned cautious, the ECB remains committed to easing steadily.
- This divergence has significant implications for global markets, including relative value, duration positioning and currency moves.
- As a result, we are more constructive on EUR duration.

Economy & Markets

European Sentiment

EUROZONE BUSINESS AND CONSUMER SENTIMENT WEAK



Source: Bloomberg. Monthly data from 28 February 2018 to 31 December 2024. The Economic Sentiment Indicator is calculated from the European Commission's Business and Consumer Surveys. It is constructed from the following indicators: the industrial confidence indicator (40%), the service confidence indicator (30%), the consumer confidence indicator (20%), the construction confidence indicator (5%), and the retail trade confidence indicator (5%).

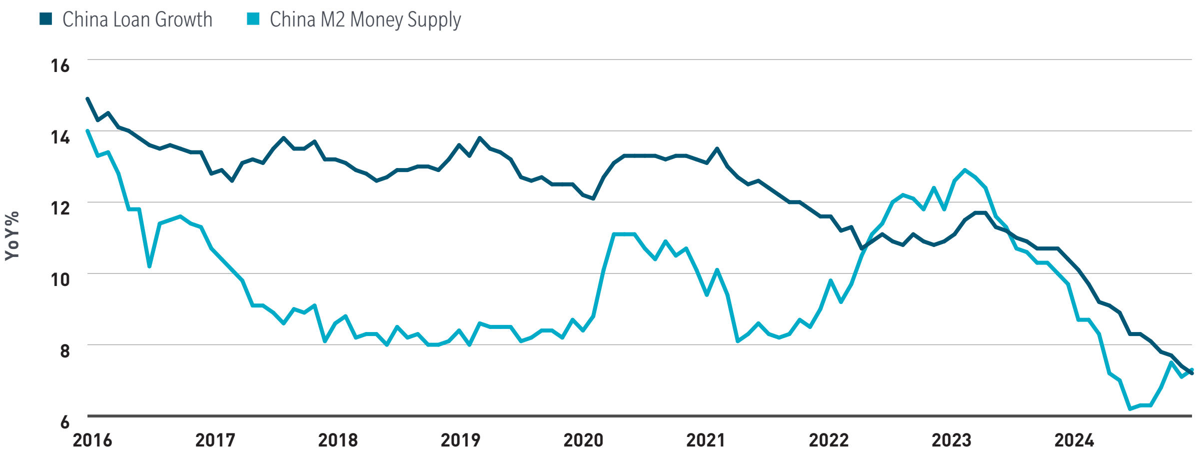
Slowing growth, political division and the prospect of US tariffs hurt.

MFS PERSPECTIVE

- Sentiment has downshifted in the post-pandemic period and recently fell to its lowest level since the sovereign debt crisis.
- Political instability in Germany and France are contributing to the negative mood.
- Amid poor sentiment, even a modestly improved outlook could have outsized positive impact.

Chinese Economy

CHINA'S CREDIT GROWTH HAS SLOWED SIGNIFICANTLY



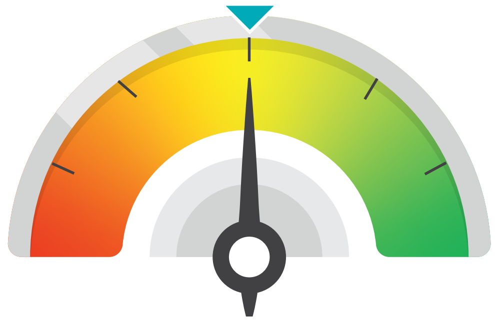
Source: Bloomberg. Monthly data from January 2016 through December 2024.

Constrained credit one of many economic headwinds

- Structural reforms are needed to address the troubled property sector, local government debt, deflationary risks and industrial overcapacity.
- Financing constraints are an impediment to domestic demand and private consumption.
- We remain cautious but believe selective investment opportunities can be found.

US Equity
USD based

US



- Expectations for pro-growth policies such as lower corporate taxes and a lighter regulatory burden have driven the latest multiple expansion.
- While valuations remain above long-term averages, earnings have been strong, the Fed is set to ease a bit further and recession signs are scant.
- We see opportunity in midcaps and value stocks.
- However, we're mindful of potential volatility from looming tariff threats.

MFS CONSIDERATIONS

LARGE CAP	SMALL/MID CAP	GROWTH	VALUE
▪ Most of the Mag 7 continue to top the list of earning contributors to the S&P 500, but interestingly, none are in the top 75 total returning stocks YTD. ▪ The earnings and profitability outlooks remain strong for large caps, with financials reporting outsized profits. ▪ The biggest risk to the large-cap story remains extended valuations.	▪ Midcaps have outperformed large and small caps so far YTD. ▪ Expectations for a lighter regulatory burden are supportive, as midcaps bear the highest regulatory costs per employee. ▪ The NTM P/E ratio for the Russell Midcap® Index (17x) looks attractive and is cheaper than its 5- and 10-year averages, and in line with longer-term averages.	▪ While the recent DeepSeek news raised uncertainty around US mega cap tech names that dominate the Russell 1000 Growth Index®, these companies have enviable business models, income statements and balance sheets. ▪ However, when you compare the current NTM P/E to averages over the last 10 to 25 years, you are faced with 25% to 50% premiums.	▪ Over the past month, large value stocks have outperformed their growth peers as Russell 1000® Value Index-heavy sectors such as energy, industrials and financials have outperformed, while the growth-linked technology sector is the worst performing. ▪ Nearshoring, electrification and Trump 2.0 are all supportive themes for value stocks.

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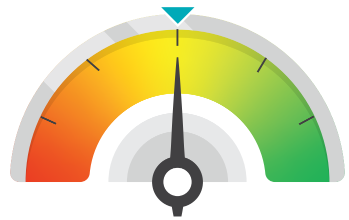
Global Developed Equity - Ex US
USD based

EUROPE EX UK

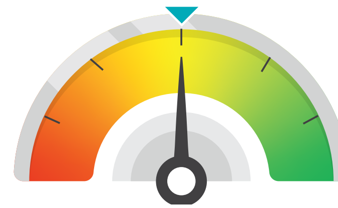
- Core Europe continues to struggle, driven by weak sentiment and political uncertainty.
- Valuations look reasonable and reflect the pessimistic outlook while the earnings outlook is decent.
- Tariff impacts are seen as limited.

UK



- Rising yields have not been driven by growth but by inflation and fiscal doubts.
- The weak pound has been a tailwind for FTSE 100 earnings, less so for small- and midcaps.
- Slow growth and easing inflation could spur further rate cuts.

JAPAN



- Domestic demand remains strong on the back of rising wages.
- Equity markets are likely to respond to the changing trajectory of rates.
- High cash balances, small payout ratios and low equity allocations provide room to equitize.

MFS CONSIDERATIONS

- We expect German industrial production to continue to struggle in the face of stiff Chinese competition.
- Potential catalysts for European re-rating include a Ukrainian peace deal, German fiscal stimulus and improving Chinese consumption.

- A commitment to fiscal tightening from the UK government could see rate-sensitive sectors perform well.
- Consumer confidence remains low, but falling rates could improve consumption.

- BOJ policy normalization could be a risk if rates rise faster than expected.
- Regulators continue to drive corporate reform, supporting shareholders.

UNDERWEIGHT NEUTRAL OVERWEIGHT

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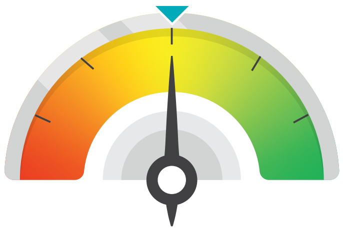
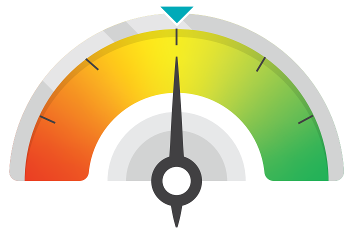
Emerging Markets
USD based

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

- The stronger outlook for the USD under Trump 2.0 presents a major challenge.
- Global policy easing, disinflation and high real rates all act as positive drivers.
- Sensitivity to global factors will require close monitoring.

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.

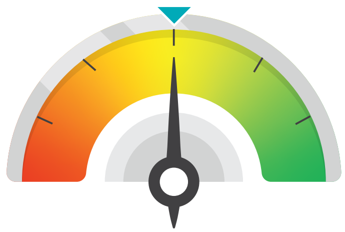
- EM debt has shown remarkable resilience since the US election, contrary to initial concerns.
- With total yield valuation still compelling, EMD remains attractive
- Given significant risks, country selection will be key.

- A more tactical asset class by nature, given the higher volatility involved, it may continue to be vulnerable to a tougher global backdrop.
- Until we are comfortable that the strong dollar run is over, we will maintain a cautious bias.

UNDERWEIGHT NEUTRAL OVERWEIGHT

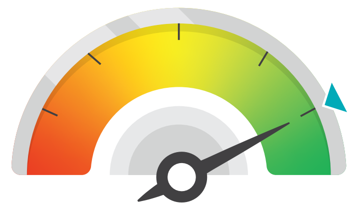
Global Fixed Income
USD based

USD DURATION



- Disinflation uncertainty, resilient economic growth and the potential inflationary effects of Trump 2.0 may limit the room for future Fed rate cuts, reducing duration's appeal.
- Major deterioration in the labor market may demand further Fed action, but that's not our base case.

EURO DURATION*



- Amid ongoing ECB rate cuts, a moderating inflation trajectory and a challenging growth backdrop, the stars appear aligned for long duration in the eurozone.
- Core eurozone economies face major growth headwinds, both in Germany and in France.

MFS CONSIDERATIONS

- Rate risks are no longer skewed to the downside.
- While Fed market pricing may appear too conservative, we have moved to a neutral duration stance, reflecting renewed inflation concerns.

- With the balance of risks skewed towards accelerated ECB policy easing, the case for long duration is compelling.

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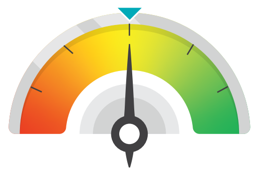
Global Fixed Income
USD based

US IG CORP

- Amid a probable soft landing, the macro backdrop remains positive. Fundamentals remain strong after recent margin and free cash flow improvements.
- However, spread valuations remain challenging, making IG less attractive than other sectors.

US HIGH YIELD



- Fundamentals remain 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, a friendly macro environment and robust technicals are supportive.
- The ECB easing cycle is likely to boost investor sentiment.
- While the spread valuation backdrop has become more challenging, it's cheaper than in the US.

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 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

- Based on our assessment of fundamentals, valuation and technicals, we believe this is one of the most attractive opportunities across global fixed income.

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.

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