

# MFS Digest

August 2024

## Key Market Themes and Investment Insights

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**Soft landing odds increase** The likelihood of a Goldilocks scenario playing out is increasing. Economic growth and labor data remain not too hot but not too cold. [Market Pulse](#)

**The role of fixed income in a positively correlated world** The correlation between bonds and equities is very high and not likely to correct anytime soon. So what's the solution? More fixed income. [The Big Mac on Fixed Income Allocation](#)

**Global equity returns expected to dip** Our long-term nominal total return expectation for global equities is 3.7%, modestly lower than our January outlook of 4.5%. [MFS Long-Term Capital Markets Expectations](#)

**What to do amid political uncertainty?** We believe that altering your investment strategy based on election outcomes is unwise because markets can react in unexpected ways. [Monthly Equity Market Topics](#)

**Rate cuts won't be panacea for broken businesses** As investors gear up for potential rate cuts from the US Federal Reserve, Rob Almeida asks if they are asking themselves the right questions. [Investors Are Seeking the Right Answers to the Wrong Questions](#)

**Those who have, spend. Those who don't, borrow . . . then spend** Consumers are the backbone of the US economy and have been the primary source of economic growth for nearly a century. The question is, can recent forces continue to fuel consumption in the future? [Boomer, Consumer!](#)

### Economic outlook

The pace of economic growth slowed modestly in the first half of 2024 but slowdown helped quell a bout of stubborn inflation during the first few months of the year, allowing the disinflationary trend to resume. Some developed market central banks have begun cutting rates and more are expected to follow as 2024 progresses. In the United States, the Fed is expected to begin cutting rates in September, with perhaps one or two more cuts before the end of the year. The European Central Bank, the Bank of Canada, the Swiss National Bank and Sweden's Riksbank have all trimmed rates, and most other central bank are expected to before year-end. The exception is Japan, where the Bank of Japan has begun normalizing its extraordinarily accommodative monetary policy after warding off years of deflation. Narrowing interest rate differentials could weaken the strong US dollar, giving emerging markets a boost.



## Fixed Income

### Rates

While a soft landing and potential rate cuts would generally be supportive of long duration, these are already partially reflected in market prices. The macro environment remains supportive amid progress on disinflation. The case for long duration in the eurozone is particularly compelling amid an unsettled political landscape.

### Credit

The macro backdrop remains positive, but US investment-grade fundamentals have weakened. US high-yield fundamentals remain robust, helped by low levels of leverage and strong earnings. In Europe, IG is supported by robust fundamentals, a favorable macro environment and strong technicals. Euro high yield is supported by improving economic growth and strong fundamentals.

### Munis

Amid expectations of a decline in cash rates, fundamentals, including state finances, remain robust. Longer-duration and high-yield municipals look attractive on a relative basis given a supportive growth environment and the shape of the municipal yield curve.



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