December 2024/January 2025

Global Market Pulse

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

Euro based

Market Insights Team

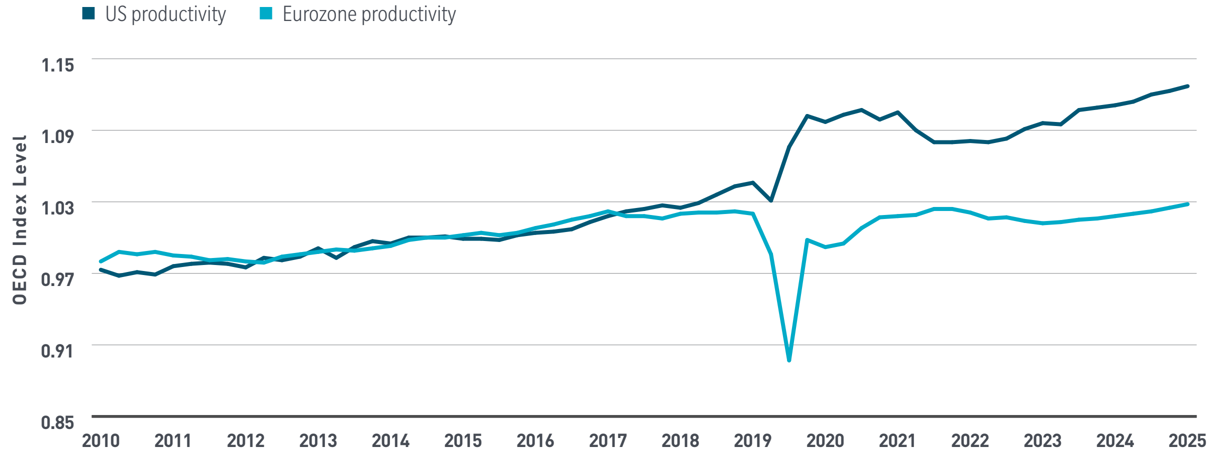
KEY TAKEAWAYS

- Higher productivity, a strengthening currency and higher real rates in the United States versus Europe signal diverging economic growth prospects and interest rate environments for the two regions.
- While the rise of mega-cap US stocks relative to their global peers has been the main feature of the past few years, lately US small caps have taken center stage as investors focus on deregulation, tariffs and a strong dollar.
- The US dollar continues its march higher, supported by expectations of President-elect Donald Trump's pro-growth policies.
- Over the next year, we favor duration and credit exposure in Europe more than in the US.

Economy & Markets

Diverging Productivity

WHILE PRODUCTIVITY HAS STALLED IN EUROPE, IT CONTINUES TO EXPAND IN THE US



Source: Bloomberg, OECD. Quarterly data from 31 December 2010 to 31 December 2025. Data from 31 December 2024 to 31 December 2025 are forecasts.

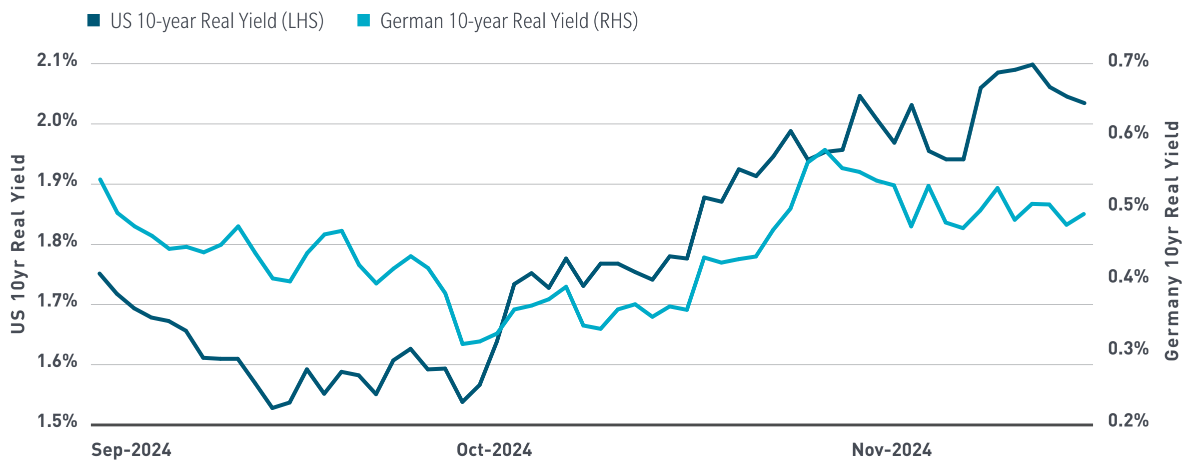
Poor productivity hampers European competitiveness

MFS PERSPECTIVE

- Productivity, measured as output per employee, is a component of future economic growth and profitability.
- The widening gap between the eurozone and US illustrates the challenges facing Europe.
- Wage growth and living standards tend to lag in less productive economies.

Interest Rate Divergence

INCREASING DIVERGENCE BETWEEN US AND EUROPEAN REAL RATES



Source: Bloomberg. Daily data from 2 September 2024 to 20 November 2024.

Higher US Treasury yields reflect improved growth prospects

MFS PERSPECTIVE

- Higher real rates typically signal improved growth expectations, but they can also reflect a deteriorating fiscal outlook.
- Expectations for faster growth have driven US yields higher since the election.
- Eurozone growth risks are skewed to the downside, resulting in downward pressure on rates.

Economy & Markets

Dollar Outlook

THE US DOLLAR IS SHOWING STRENGTH

Source: Bloomberg. Daily data from 30 October 2023 to 18 November 2024.

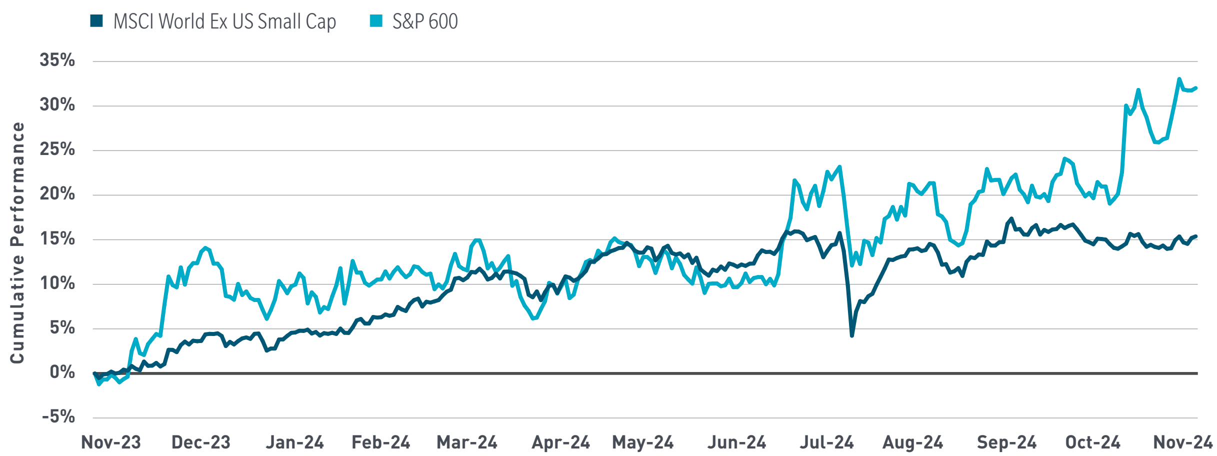
Several dynamics are coming together to bolster the dollar

MFS PERSPECTIVE

- With pro-growth policies on the horizon, the dollar continues to strengthen as US economic growth is expected to improve.
- Still-sticky inflation may slow the pace of US rate cuts while other central banks continue easing, widening rate differentials, boosting the dollar.
- A strong USD can create opportunities in international equities.

US Equity

US COMPANIES SEPARATE FROM THEIR NON-US COUNTERPARTS



Source: FactSet Daily data from 20 November 2023 to 29 November 2024. Returns are net and in USD.

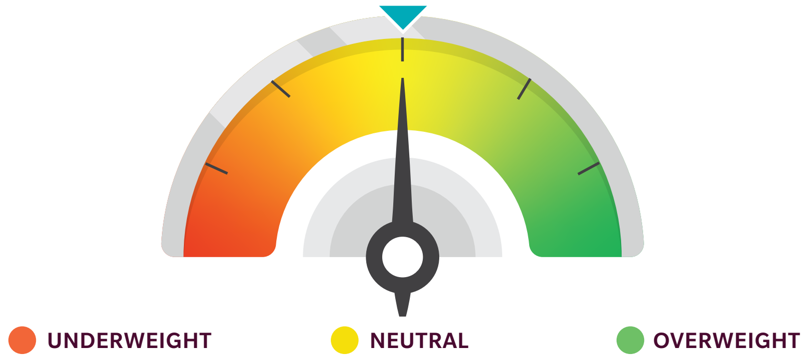
US small caps rallied on improved growth outlook and lower rates

MFS PERSPECTIVE

- Lower tariff exposure, given their domestic sales concentration, and reduced regulation should be earnings positive for US small caps.
- Small caps benefit more from rate cuts due to higher exposure to floating rates.
- Despite lower debt levels, non-US small caps could struggle in the face of slower growth outside the US.

Global Developed Equity - US
Euro based

US



- US equities rallied after the US election amid hopes for lower corporate taxes, a lighter regulatory burden and further pro-growth policies.
- November through January has historically been a strong period for equity performance and current conditions appear supportive.
- While valuations remain well above long-term averages and concentration remains a risk, support for equities such as earnings beats and investor inflows remain intact.
- In a modest broadening of the market, financials and industrials joined consumer discretionary and technology as the top performers over the past three months.

MFS CONSIDERATIONS

LARGE CAP	SMALL/MID CAP	GROWTH	VALUE
▪ S&P 500 valuations remain elevated at over 21 times NTM earnings and a P/S ratio of 3x. ▪ Earnings growth remained healthy at nearly 6% in Q3, the fifth consecutive quarter of growth, according to FactSet. ▪ Expectations of new tariffs and changing trade policies pose a significant risk to large caps through higher costs and potential retaliatory tariffs.	▪ The recent rally in Russell 2000® has elevated the PE ratio to 27 times NTM earnings, but positive economic and policy developments are supportive ▪ Small caps are becoming more appealing as sustained positive economic data point to a soft, or no, landing. ▪ As rates fall, small and midcaps should benefit from a lower cost of capital.	▪ Growth continues to lead the market higher, rising 31% on the year through late November. ▪ With high expectations reflected in multiples, investors may want to be increasingly discerning, considering the Russell 1000® Growth's lofty PE of 29 times NTM earnings.	▪ A recent rotation has resulted in strong performance in more value-oriented sectors, including financials, utilities and industrials. ▪ Healthy consumer finances and lower interest rates should continue to support financials. ▪ We don't see the same concentration or valuation risk in value-oriented equities that we see in growth-oriented ones.

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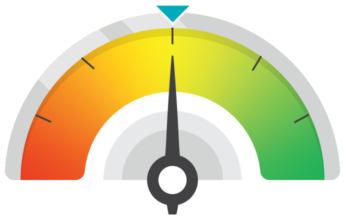
Global Developed Equity - Ex US
Euro based

EUROPE EX UK

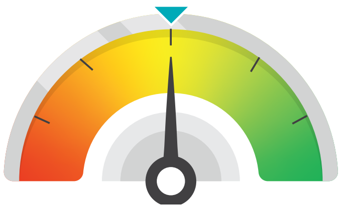
- Core Europe continues to struggle, driven by weak sentiment and political uncertainty.
- Valuations look very reasonable and reflect the negative outlook for the region.
- Growing interest rate and growth differentials imply continued euro weakness.

UK



- The recent Labour budget increased taxes and spending but offers no major increase in investment.
- Inflation is proving more stubborn than anticipated.
- PMIs surprised to the downside, particularly for the services sector.

JAPAN



- Despite yen weakness, the specter of tariffs is weighing on Japan's export sector.
- Domestic demand growth remains strong on the back of rising wages.
- Potential tax cuts could boost sentiment.

MFS CONSIDERATIONS

Europe ex UK

- We expect gains to be in line with dividends and earnings, with the latter being hurt by weak Chinese demand.
- Germany faces stiff competition from Chinese exports.
- Potential catalysts include a Ukrainian peace deal and German fiscal stimulus.

UK

- While we recognize that the macro environment remains challenging, our neutral bias mainly reflects a favorable valuation backdrop.

Japan

- Continued corporate governance reforms are supporting increased cash returns to shareholders
- Continuing dollar strength could weigh on returns for USD-based investors.
- The pace of Bank of Japan policy normalization could be a risk if faster than expected.

UNDERWEIGHT NEUTRAL OVERWEIGHT

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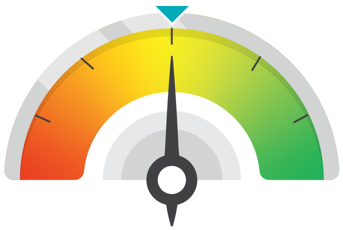
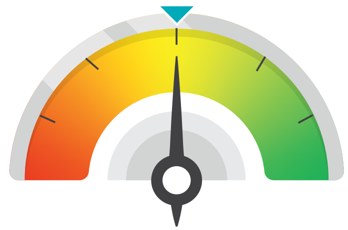
Emerging Markets
Euro based

EM EQUITY



- USD strength is expected to be an ongoing headwind as are rising trade tensions.
- China's recent policy announcements have provided stability, but more reform is needed to drive consumption.
- North Asia is facing a semiconductor slowdown, while India's long-term structural drivers remain intact.

EM DEBT – HARD CURRENCY



- Fundamentals have deteriorated recently, mainly reflecting greater fiscal risks.
- The valuation backdrop remains favorable on a total-yield basis, despite tight spreads.
- Technicals remain robust.
- Be mindful 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 all act as positive drivers.
- While the asset class is highly sensitive to global factors, its main source of risk comes from the strength of the US dollar, which is not relevant in EUR terms.
- Under Trump 2.0, EM currencies may outperform the EUR in the period ahead.

MFS CONSIDERATIONS

- Against an uncertain international backdrop, selectivity is especially important.
- Valuations remain undemanding and further Chinese stimulus will be supportive for SE Asia.

- Contrary to initial concerns, EM debt has shown remarkable resilience in the wake of the US election.
- With total yield valuation still compelling, EMD remains attractive.
- However, given significant risks, country selection will be key.

- A more tactical asset class by nature given its higher volatility, mainly reflecting the currency risk.
- But the combination of high local rates and robust prospects for EM FX in EUR terms makes it an attractive asset class for investors with high-risk appetites.

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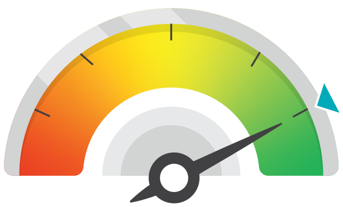
Global Fixed Income
Euro based

USD DURATION

- A soft landing, progress towards disinflation, along with further potential Fed rate cuts are generally supportive of long duration.
- However, the impact of Trump 2.0 may complicate the rate outlook given growing concern over the potential inflationary effects of the new policy mix.

EURO DURATION*



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

MFS CONSIDERATIONS

- The outlook for rates is no longer firmly skewed to the downside.
- While policy rate pricing appears too conservative, we've 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.

UNDERWEIGHT NEUTRAL OVERWEIGHT

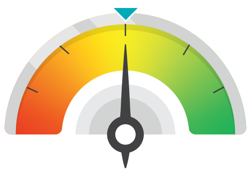
 *Euro duration is based off of the German Bund curve.

Global Fixed Income
Euro based

US IG CORP

- The macro backdrop remains positive, with a high probability of a soft landing. Fundamentals, while off post-COVID peaks, remain respectable, especially after recent margin and free cash flow improvements.
- However, spread valuations remain challenging, making overall valuations less attractive compared with other global fixed income 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 are supportive, as are a fixed income–friendly macro environment and robust technicals.
- The ECB easing cycle is likely to boost investor sentiment towards EUR credit.
- While the spread valuation backdrop has become more challenging, spreads remain cheaper than in the US.

EURO HIGH YIELD

- The macro backdrop and strong fundamentals, including favorable net leverage, support the asset class.
- Breakeven yields remain attractive.
- The 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 valuations, which keep us cautious.

US High Yield

- The risk/reward may be attractive for investors considering deploying credit risk exposure.
- While we are not concerned about a 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 that 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.

UNDERWEIGHT NEUTRAL OVERWEIGHT

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