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Global Market Pulse

USD based

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

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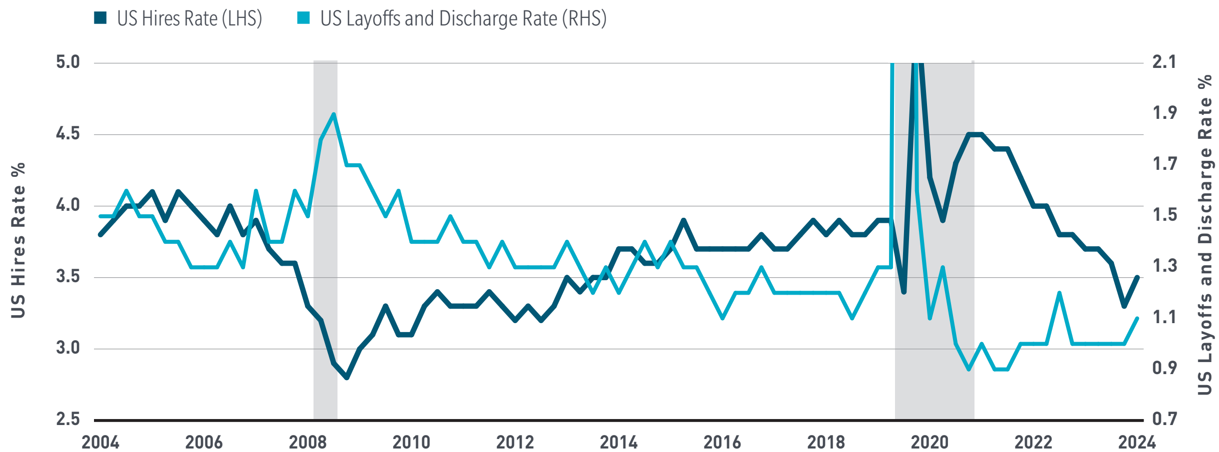
KEY TAKEAWAYS

- The US labour market is weakening amid reduced hiring but has yet to see an alarming rise in layoffs, though a rise in pink slips could derail expectations for a soft landing.
- Strong and resilient US profit margins underpin American economic resilience, although a sharp downturn would likely necessitate the need for layoffs and signal a worse economic outcome.
- Against a backdrop of flagging domestic consumption, Chinese companies are cutting export prices to boost market share in both intermediate and finished goods, undermining producers in the rest of the world.
- Duration and credit are more attractive in Europe than the United States. Global policy easing and potential USD weakness are supportive for local currency EMD.

Economy & Markets

US Labour

HIRING HAS SLOWED, BUT LAYOFFS REMAIN LOW



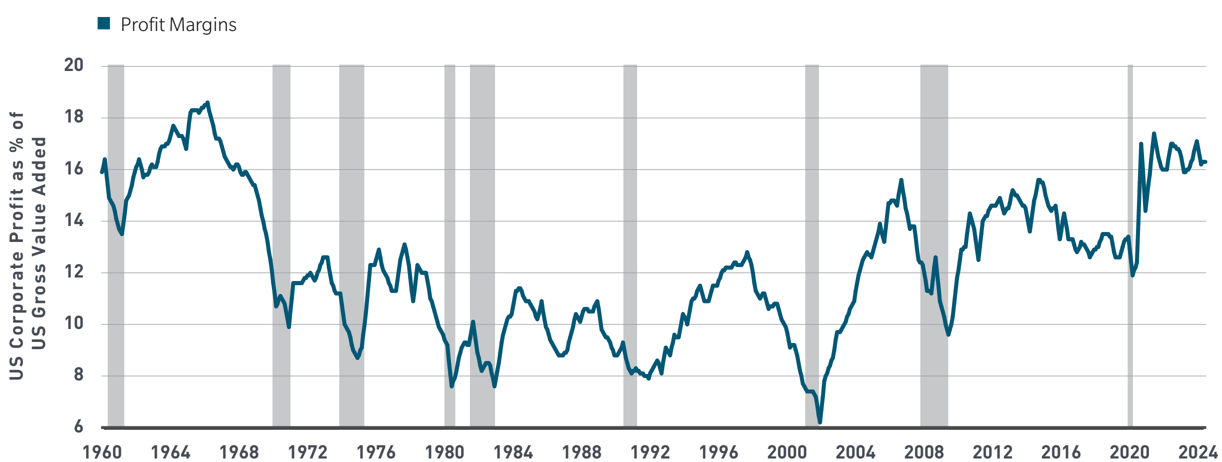
Source: Bloomberg. Quarterly data from 30 September 2004 to 31 July 2024 (latest available). Shaded areas = US recessions.

Slower hiring, not job losses, pushed unemployment up.

- Post-pandemic labour hoarding is potentially driving today's declining hire rate.
- Strong margins and profitability are not typically associated with accelerating layoffs.
- While unemployment rates are likely to tick up, there is no impetus for a rapid deterioration.

US Profits

PROFIT MARGINS SHOW NO SIGNS OF WEAKNESS



Source: Bloomberg. Quarterly data converted to monthly data using linear interpolation from 30 June 1958 to 30 June 2024. US Corporate Profits With IVA and CCA as % of US Gross Value Added of Nonfinancial Corporate Business. Shaded areas = US recessions.

The US corporate sector remains a source of macro strength.

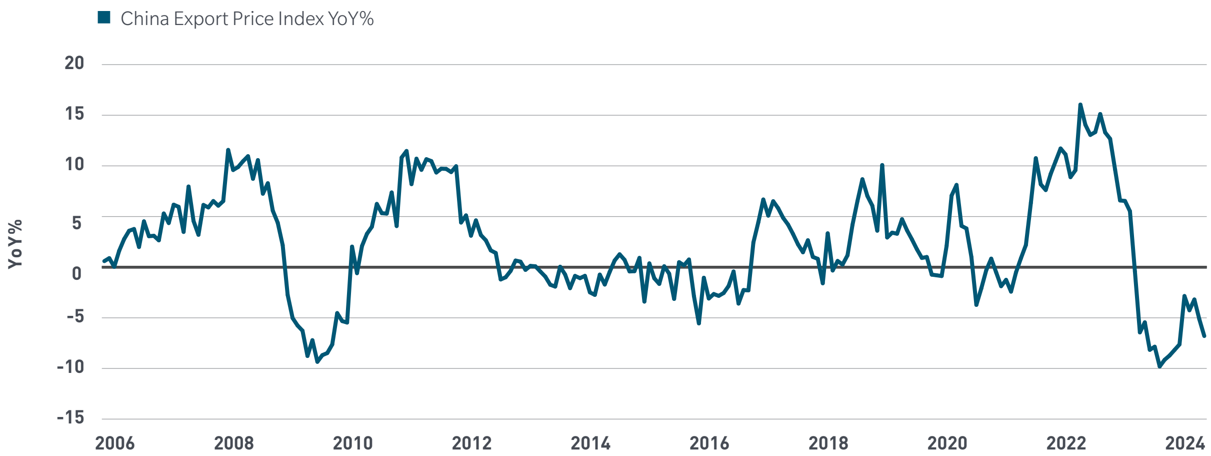
MFS PERSPECTIVE

- The robust health of US corporates, particularly persistently elevated profit margins, bolsters the case for a soft landing.
- While recession risks remain, owing to the weaker labor market, there is no indication that the profitability of US companies is subject to major downside risks.

Economy & Markets

Chinese Deflation

CHINESE EXPORT PRICES REMAIN DEFLATIONARY



Source: Haver Analytics. Monthly data from 31 January 2006 to 31 July 2024.

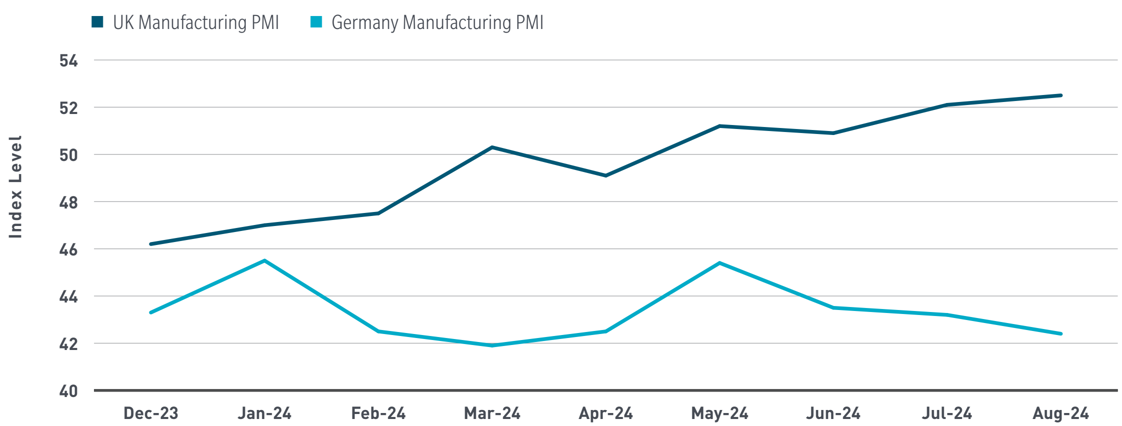
Chinese companies are slashing export prices.

MFS PERSPECTIVE

- China, once known for exporting lower-value goods, now competes in higher-value export markets.
- Given weak domestic demand, many companies have aggressively cut export prices to increase market share.
- This could further heighten trade tensions and lead to tariffs from affected countries.

European Economy

UK AND GERMAN MANUFACTURING ACTIVITY DIVERGE



Source: Bloomberg. Monthly data from 31 December 2023 to 31 August 2024.

UK activity is strengthening while Germany weakens.

MFS PERSPECTIVE

- Germany, by far the eurozone's largest economy, has faced pressure from weak demand from China and declining domestic new orders.
- UK manufacturing has shown surprising strength since mid-2023.
- Domestic demand has been a driver of a broad-based increase in UK output.

US Equity
USD based

US

- US equity markets, already strong year to date, rallied after the US Federal Reserve made the first of what is expected to be a series of cuts.
- With this initial 50 basis point cut, the Fed demonstrated it was not afraid to take aggressive action.
- Historically, equities have done well following the start of a rate cutting cycle as long as recession is avoided, which is the near-term base case in our soft-landing scenario.
- Investors have been aggressively buying equities with $34 billion in flows for the week ended September 18, the third-largest weekly rise this year.

MFS CONSIDERATIONS

LARGE CAP

- The S&P 500 continued to hit all-time highs in September after a successful earnings season where earnings jumped 13% on a year-over-year basis, exceeding expectations of 11%.
- Large caps have been able to defend their higher margins while lower leverage levels make them more defensive should the economy slow more than expected .

SMALL/MID CAP

- Small caps rallied sharply following the Fed's rate cut announcement.
- Small caps have been disproportionally punished in the higher rate environment given their heavy reliance on floating and short-term debt.
- While valuations look reasonable, the potential for a slowing economy could remain a headwind.

GROWTH

- Concentration (44% of the index in five stocks) and the AI theme continue to drive Russell 1000® Growth Index stocks.
- With multiples reflecting high expectations, investors may want to be increasingly discerning as stocks that miss expectations are likely to be punished, as we saw during the quarter.

VALUE

- Lower rates should help supported value-oriented sectors, including financial services, real estate and industrials.
- A soft-landing scenario would be supportive of value as rates ease, but growth remains intact.
- Value remains cheap relative to growth at 16 times next year's earnings versus 28 times for growth.

Global Developed Equity - Ex US
USD based

EUROPE EX UK

- Macro data remain mixed in light of political uncertainty, poor sentiment and growth challenges in Germany and France. The periphery is experiencing a stronger recovery.
- Further rate cuts and steady wage growth should support a recovery in domestic consumption, particularly for more rate-sensitive countries and sectors.

UK

- Growth is recovering and PMI data are improving.
- However, consumer confidence is slipping amid rising public debt and the new Labour government's "painful budget" rhetoric.
- The BOE remains cautious in cutting rates.

JAPAN

- Markets have settled down following recent yen-driven volatility.
- Real wages in Japan are improving and should be supportive of a recovery in domestic consumption.
- The Tokyo Stock Exchange continues to drive reforms targeted at governance and improved profitability.

MFS CONSIDERATIONS

Europe ex UK

- Valuations remain reasonable and a recovery in earnings offers some room for multiple expansion.
- A narrowing interest rate differential should strengthen the euro against the US dollar.

UK

- A broadening of global earnings and an easing in tech leadership should support UK equities on a relative basis.
- UK equity valuations remain undemanding on a forward-looking basis.

Japan

- Despite the recent turmoil, Japanese equities offer opportunities, though investors, in our view, should be selective rather than seek broad market exposure.

● UNDERWEIGHT ● NEUTRAL ● OVERWEIGHT

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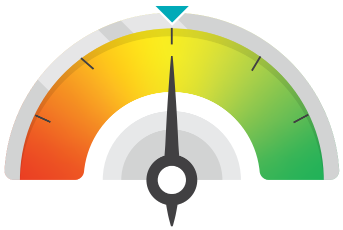
Emerging Markets
USD based

EM EQUITY



- PBOC has announced a raft of monetary stimulus measures for the housing and stock markets, injecting additional liquidity.
- Slowly recovering global trade and an improving growth outlook in EM Ex China is supporting earnings improvement.
- India (21%) and Taiwan (18%) have become increasingly important in the MSCI EM index.

EM DEBT – HARD CURRENCY

- Fundamentals have deteriorated somewhat recently, mainly reflecting higher fiscal risks.
- The spread valuation backdrop has become more challenging.
- However, a potential weakening of the US dollar could act as a supportive driver.

EM DEBT – LOCAL CURRENCY

- Global policy easing, progress towards disinflation and relatively high level of real rates all act as positive drivers.
- However, the asset class is highly sensitive to global factors, so close monitoring of the international backdrop is a must.

MFS CONSIDERATIONS

EM Equity

- Chinese developments are positive but further fiscal support may be required to revive credit demand.
- A positive view on India, stable commodity prices and improving global trade (particularly the semiconductor cycle) are supportive of earnings improvement.

EM Debt – Hard Currency

- While valuation is still compelling, especially on a total yield basis, EMD remains exposed to global risks, including uncertainty over geopolitics and China's structural headwinds.
- We have turned more cautious in the near term.

EM Debt – Local Currency

- While a more tactical asset class by nature, given the higher volatility involved, we believe that the global macro backdrop has turned more supportive, especially given potential downside risks to the US dollar.

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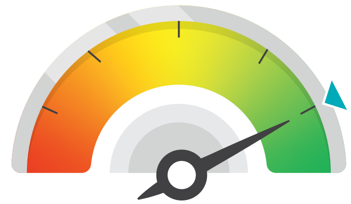
Global Fixed Income
USD based

USD DURATION

- A soft landing and progress towards disinflation, along with aggressive Fed rate cuts, are generally supportive of long duration, although this is already partly reflected in market prices.
- Looking ahead, the key driver will continue to be Fed signals on the pace and magnitude of policy easing.

EURO DURATION*



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

MFS CONSIDERATIONS

- Now that the yield curve is no longer inverted, we believe it is likely to steepen further, which will help support the relative attractiveness of the long end.
- In our view, with the balance of risks skewed towards accelerated ECB policy easing, the case for long duration is compelling.

UNDERWEIGHT NEUTRAL OVERWEIGHT

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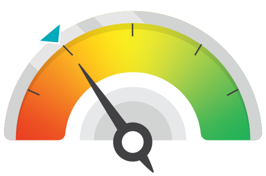
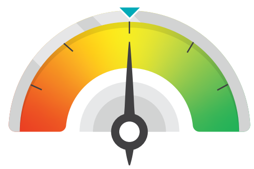
Global Fixed Income
USD based

US IG CORP



- The macro backdrop remains positive, including the high probability of a soft landing, but asset class fundamentals are no longer showing signs of strength.
- In particular, we have observed a pick-up in net leverage combined with a worsening of free cash flow.

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

- Supported by sound fundamentals, a favorable 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.
- Risk appetite towards riskier assets in the region is likely to benefit from the ongoing ECB easing cycle.

MFS CONSIDERATIONS

US IG CORP

- While total yields remain fairly attractive, we have turned more cautious in the near term, mainly reflecting a more challenging spread valuation picture.

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

- The stars are aligned for EUR IG, in our view, with the asset class featuring as one of the most attractive opportunities across global fixed income.

EURO HIGH YIELD

- The asset class has shown strong resilience and remains attractive for the fixed income 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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